RADIO 2015:
THE YEAR AHEAD

Researched And Edited By
Bunzel Media Resources

Reed Bunzel, President

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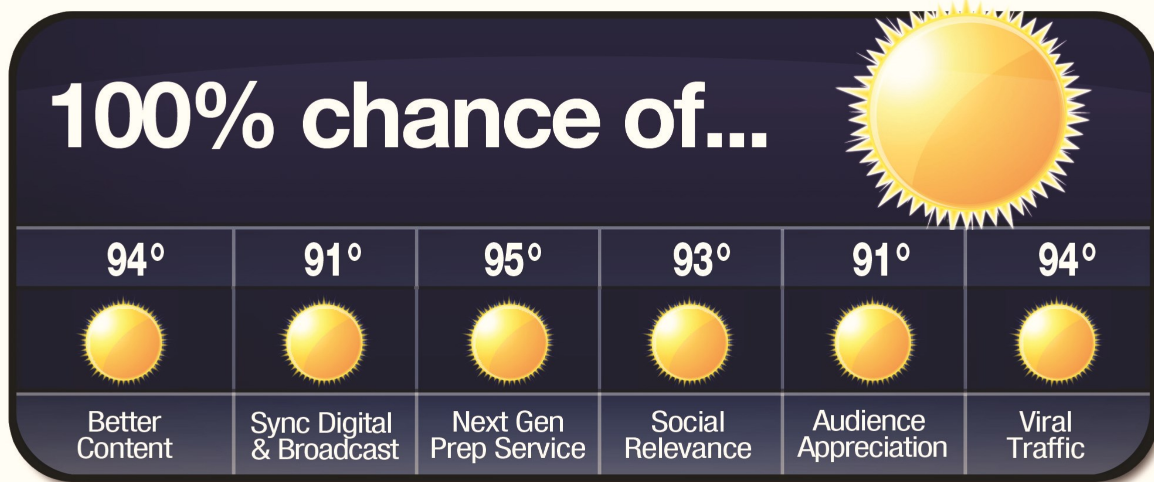

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A Word From The Editor

Dear Radio Broadcaster:

Welcome to **Radio 2015: The Year Ahead**. Over the last few months I've heard from many of you at companies of all sizes, operating in virtually every size market. You've asked me what this project is, what you can learn from it, and how it will help you improve your business and grow your revenue. You've told me you need solid data covering all aspects of the industry, as well as actionable information you can use in your daily operations. And most important, you've told me that you're tired of all the negativity and pessimism that has permeated the radio business today.

Radio 2015: The Year Ahead is designed to address all these questions and issues…and much more. It is a multi-layered project to help radio broadcasters successfully manage their businesses as traditional industry operations collide with new, disruptive technologies and emerging competitive forces. To that end, **Radio 2015** will help radio businesspeople make intelligent decisions and take hands-on control of their future by exposing them to new and innovative concepts that can be used immediately to generate revenue.

Radio: 2015 is a "media intelligence" platform designed to continuously present full-scale analysis and actionable information to radio professionals at every level of the business. It serves as a regenerative library of constantly updated material covering virtually all aspects of the radio business.

The main thrust of this project is a quarterly report that will feature exclusive (and original) reports on the following sectors of the radio business:

- General Economy
- Overall Media Economy
- Radio Revenues And Projections
- National Advertising Marketplace
- Local Advertising
- Station Operations
- Digital Sales
- Mergers and Acquisitions
- Programming/Research
- Digital Technology
- Consumer Trends/Behavior
- Social Media
- Legal/Regulatory Issues

I've always believed information and knowledge should be free, and that's why I'm making the entire **Radio 2015** report available to all members of this industry who want it. Each quarterly report is available on the Bunzel Media Resources website (www.BunzelMedia.com) as PDFs files that can be read on-screen and downloaded to your computer or mobile device. Each article also is available in HTML form on the website.

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(*A Word From The Editor*, continued)

Additionally, single or multiple copies of the report published in print form can be purchased for $75.00 through the website.

Radio is the oldest electronic communications medium, and its inherent strengths are numerous and well-documented. There's no question revenue growth has stagnated and the industry is facing competitive disruption on a scale never seen before—which means it's critical that radio operators are equipped with the highest quality information available.

That's what **Radio 2015: The Year Ahead** is all about. There's a lot of information packed into these pages, and I'm confident it will help you to make smart business decisions in the months ahead. Of course, radio is a highly complex business with many interchangeable parts—and this report only covers some of them. If we left something out, let me know...and we will do our best to report on it in the next edition of **Radio 2015.**

I greatly encourage you to let me know your thoughts about Radio 2015. Please email me or call my office to let me know what you're thinking....not just about the radio industry, but how my team and I can help improve the next volume of this report (**Radio 2015.2**, due in early April) to better help you on a day-to-day basis.

Finally, I want to thank Frank Murray and the team at Zocle for sponsoring this inaugural issue of Radio 2015. We couldn't have done it without all your encouragement and technical support. And, if anyone else wishes to become a sponsor of **Radio 2015**—so the radio industry can continue to benefit from this project—I am eager to speak with you. Just send me an email and I'll get right back to you.

Thank you, and best wishes for a happy, healthy, and prosperous 2015!

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Economic Indicators

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The price of oil has declined about 50% since its peak in mid-June, and could result in one of the biggest transfers of global wealth in history. Here's what to expect in 2015.

The U.S. Economy 11

Q3:14 GDP came in at 5%, indicating consumers and business are spending again. The job market is improving, auto sales are booming, and retail spending is growing steadily. All signs point to continued economic improvement, at least through the first half of 2015.

Gross Domestic Product 13

Gross Domestic Product (GDP) grew at an annual rate of 5.0% in the third quarter of last year, making Q3:14 the strongest quarter since the summer of 2003.

U.S. Employment 14

The Labor Department reported U.S. employers added 321,000 jobs in November, the largest increase since Jan 2012, while the unemployment rate remained unchanged at 5.8%. This expansion made 2014 the best year for job gains since 1999.

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Sales of existing homes and new housing starts fluctuated over the course of 2014, but sales were still up 2.1% vs. 2013...and homebuilders remain confident about the year ahead.

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Auto sales expanded faster in 2014 than analysts initially forecast. Vehicle sales likely topped 16.5 million for the year, and are expected to climb steadily to 17.4 million by 2017.

Consumer Confidence 20

"The consumer has hardly looked better. Job growth, income growth, and a sharp decline in gasoline prices over the last few months will conspire to keep a pretty decent underpinning on consumer confidence." —Jacob Oubina, RBC Capital Markets.

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Global Economy Hinges On Oil Prices In 2015

The overall global economy continued to expand in the final quarter of 2014, although with slightly less momentum than during the first half of the year. JPMorgan's Global All-Industry Output Index, released last month, fell to a seven-month low of 53.2 from October's 53.5, but has now held above the 50 mark—which divides economic growth from con-traction—for more than two years. [1]

"November saw global economic growth continue its gradual slowdown from the highs of the middle of the year," David Hensley, a director at JPMorgan, said in a research memo. "[This] implies global GDP will expand at a solid pace over the final quarter as a whole, albeit cooler than during the summer months." U.S. Q314 GDP growth came in at 5.0%, well above the worldwide average.

The Currency Of Oil

The most volatile factor in the economy, both global and domestic, is the plunge in the price of oil. Plummeting oil prices have resulted in lower gas prices at the pump, which is a significant boon to customers. This dramatic dive also is draining hundreds of billions of dollars from oil-rich exporters and companies, providing a much-needed boost for ailing economies in Europe and Japan—and for American consumers.

The price of oil has declined about 50% since its peak in mid-June and plunged further after OPEC (the Organization of the Petroleum Exporting Countries) voted to continue to pump at the same rate. As the *Washington Post* reports, this could result in one of the biggest transfers of wealth in history, potentially reshaping everything from talks over Iran's nuclear program to the Federal Reserve's policies to further rejuvenate the U.S. economy. [2]

As the *Post* points out, the question facing investors, oil companies, and policymakers is how low oil prices will go—and how long they will stay there. In mid-December, when this analysis was compiled, American motorists were saving $630 million a day on gasoline compared with what they paid at June prices, a rate that would turn into a $230 billion windfall if prices were to remain this low through 2015. The vast majority of those dollars will flow into the economy, with lower-income households living on tight budgets likely to use money not otherwise spent on gas to buy groceries, clothing, and other staples.

At current prices, the annual revenue of OPEC members would shrink by around $600 billion, money that will remain within the borders of the world's biggest oil importers—the U.S., China, and Japan. The size of the global economy will "easily be between 0.5%and 1.0% higher as a result of the decline in oil prices," Andrew Kenningham, senior global economist for London-based Capital Economics, wrote in a research note. [3]

The losers would include Russia, where the value of the ruble has been crumbling, and inflation has jumped to more than 8%; Iran, whose economy and government budget rely heavily on oil sales; and Venezuela, where dwindling oil revenue has heightened an economic crisis tied to fuel subsidies, price controls, and generous social programs.

All told, the 40% drop in the price of the international benchmark Brent-grade crude oil since June likely reduced annual revenue to oil producers worldwide by a whopping $1.5 trillion at the end of 2014. "Those losses are staggering," Edward Yardeni, president of Yardeni Research, wrote to investors in December.

Net Positive

Falling oil prices will result in a net positive for a world struggling with slowing growth, International Monetary Fund chief Christine Lagarde said in

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October, telling attendees of the *Wall Street Journal*'s CEO Council annual meeting, "This is good news for the global economy." [4] For the U.S., lower energy prices will help accelerate economic growth to a 3.5% pace next year, up from an October forecast of 3.1%, she said. But the Eurozone still faces high unemployment, wary consumers, and painfully weak economies that Lagarde said exposes the region to being defined as the "new mediocre"—an economy marked by slow growth, low inflation, and high unemployment.

Additionally, Japan slipped into recession in the third quarter, and emerging economies also have shown signs of trouble. China's gross domestic product grew by 7.3% in the third quarter from a year earlier, its slowest pace in more than five years, and India decelerated to 5.3% from 5.7% the prior quarter. [5] To break through this stagnation, reluctant political leaders need to adopt more job-friendly labor market reforms, aggressive and innovative monetary policy, and other structural reforms, Lagarde said.

"Our main job now is to help the global economy shift gears and overcome what has been so far a disappointing recovery—one that is brittle, uneven, and beset by risks," she told an audience at Georgetown University last fall. [6] "Growth-friendly, job-friendly, and environmental-friendly" monetary policies have helped support demand during the recovery, but more is needed on the reform side, on a country-by-country basis, to raise productivity, competitiveness, and employment," she explained.

Meanwhile, the European Central Bank has indicated it's going to keep interest rates unchanged at record lows. Bank president Mario Draghi last fall outlined plans to start buying covered bonds and asset-backed securities in order to encourage growth and boost inflation. The outlook in the Euro area remains "on the downside," he said. [7]

All told, the IMF now believes 2014 global growth averaged 3.3% and predicts 2015 growth should hit 3.8%, a decline of 0.1% for 2014 and 0.2% for 2015 from forecasts made last summer. "Overall, the global economy is weaker than we had envisaged even six months ago," IMF's Lagarde said. [8] "Only a modest pickup is foreseen for 2015 as the outlook for potential growth has been pared down."

U.S. Economic Growth Intertwined With Strong Global Economy

"Although we are seeing a strengthening recovery in the United States, the overall performance of the global economy continues to fall short of aspirations," Treasury Undersecretary for International Affairs Nathan Sheets said in a speech at the Brookings Institution last month. [9] Sheets outlined six pillars that define the U.S.'s "core policy agenda for the years ahead" to support "a growing and vibrant economy":

- *Strengthening and rebalancing global growth*. Noting the "persistent and deeper asymmetry in the international economic landscape," he called for policymakers to "work together toward mutually beneficial growth strategies," such as boosting demand.
- *Deepening engagement with such emerging-market giants* as China, India, Mexico, and Brazil.
- *Framing a resilient global financial system*. "To be sustained, growth must be built on a resilient financial foundation," he said.
- *Enhancing access to capital in developing countries*. "Expanding access to financial services for the over 2 billion unbanked people in the world promises to open new possibilities as the financial wherewithal in these populations grows," he observed.
- *Promoting open trade and investment*. "Increased U.S. access to foreign markets, and the consequent rise in exports of our goods and services, is an important source of job creation in the United States," he explained.
- *Enhancing U.S. leadership in the IMF*. Sheets said that without IMF quota and governance reforms, "emerging economies may well look outside the IMF and the international economic system, potentially undermining the Fund's ability to serve as a first responder for financial crises around the world, and also our national security and economic well-being."

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Jobs, Gas Prices To Fuel Economic Growth In 2015

By mid-December it was clear the U.S. economy was closing out its best year since the Great Recession began in November 2007. [1] The Labor Department reported private employers added 321,000 jobs in November, leaving the unemployment rate unchanged at 5.8% for the year. At the same time, hiring figures for the previous two months were revised upward by a combined 44,000 jobs: October's finally tally was 243,000 (vs. a preliminary report of 214,000), while September's gain was raised to 271,000 (from 256,000). Based on those numbers, many economists were saying 2014 probably turned in its best year for job gains since 1999.

In a separate report, the Institute for Supply Management said its index of services sector activity rose to 59.3 last month from 57.1 in October—just below a post-recession high hit in August. Any reading above 50 indicates an expansion in activity. Additional evidence of the economy's resilience was supported by the Fed's Beige Book, which found growth continued in October and November, with lower gasoline prices stimulating consumer spending.

Meanwhile, overall November automobile sales increased 5% to 1.3 million light vehicles, pushing the seasonally adjusted annualized rate to 17.2 million—the second month this year it topped 17 million, and well above the 16.3 million reported in November 2013. [2] *Automotive News* reports much of this surge was the result of timely Black Friday dealer promotions and dropping gas prices, leaving consumers with more money in their wallets.

As noted elsewhere in this section. U.S. Gross Domestic Product (GDP) for Q3:14 was 5.0%, considerably higher than economists initially expected. While many analysts still anticipate overall GDP for 2014 to fall in the 2.5% to 3.0% range, consumer spending began to pick up in the fourth quarter, so Q4:14 also should show strong GDP growth when final numbers are tallied.

Sales of existing homes and new housing starts fluctuated over the course of 2014, but sales were still up 2.1% vs. 2013, and homebuilders remain confident about the year ahead. "We are in a slow march back to normal," David Crowe, National Association of Home Builders chief economist, said in a statement. "As we head into 2015, the housing market should continue to recover at a steady, gradual pace."

Finally, consumer confidence kept marching toward pre-recession levels. The Thompson Reuters/University of Michigan index climbed to a more than seven-year high (88.8) in November as Americans' perceptions of their financial well-being improved heading into the holiday shopping season. At 88.8, that sentiment index was the highest since July 2007. Meanwhile, the Conference Board's consumer confidence index slipped slightly to 88.7, an almost identical number. Stronger job growth, cheaper fuel, and stock prices near all-time highs were seen as major contributors to consumers' brighter outlooks.

Business Outlook Improves

In its December 2014 U.S. Economic Health Tracker, Dun & Bradstreet said small business health has improved by nearly 5 index points in November vs. October, fueling a 3.6% improvement in overall U.S. business health for November, year-over-year. "This sustained momentum offers evidence to support our cautiously optimistic view of economic growth in the next year," the report said. [3]

"Nearly all performance indicators, from housing starts to business viability, are trending upward," said Paul Ballew, Chief Data & Analytics Officer at Dun & Bradstreet. "This sustained momentum offers evidence to support our cautiously optimistic view of economic growth in the next year."

Access to traditional lending remains somewhat

constricted, though small businesses increasingly manage to pay their creditors on time, D&B said. Restricted capital has caused businesses of all sizes to rely more heavily on credit cards, resulting in a slight uptick in delinquency in payments overall.

Ethan Harris, co-head of global economics research at Bank of America in New York, observed, "It's pretty impressive…[the increase in payrolls] is the kind of number you get in a booming economy." [4]

From factories to offices to retailers, employers also added considerably more payrolls in November, giving American consumers the bump in pay needed to drive solid in 2015. The breadth of industries hiring in the 4th quarter was the broadest since 1998, a sign the benefits of the expansion were rippling through the economy. Factory payrolls rose by the most in a year, professional/business services companies hired more new employees than in any month since November 2010, and financial firms grew their payrolls by the most since early 2012.

Paying It Forward

Fourth quarter expansion was driven by growth in the third quarter, helping produce its best six-month performance since 2003. As noted above, the Commerce Department reported gross domestic product (GDP) expanded at a seasonally adjusted annual rate of 5.0% in Q3:14, indicating economic growth has now surpassed 3% in four of the past five quarters, after rising slightly more than 2% through most of the five-year-old recovery.

According to the Commerce Dept., business investment increased at a solid 7.7% rate in the third quarter, though it slowed from the second quarter's 9.7%. Equipment spending increased 7.2%. Federal government outlays surged 10%—including a 16% jump for defense, after falling 0.9% in the second quarter.

The U.S. outlook remains "relatively positive," said David Stockton, a former director of economic research at the Federal Reserve and now a senior fellow at the Peterson Institute for International Economics. [5] He sees the economy expanding at about a 3% annual rate through the end of 2015, markedly faster than the 2.2% pace it has averaged since the end of the recession in June 2009. Still, the U.S. economy still could be hurt by weak economic performance abroad, as well as a stronger dollar and less monetary accommodation from the Federal Reserve, he said. [6]

The recovery won't fully hit full stride until wage growth accelerates sharply or the economy produces the kind of employment gains that rapidly shrinks the pool of some 18 million Americans who want a full-time job but can't find one. That's still very high by historical standards despite a big decline over the past few years. [7] Many economists think the U.S. is getting close to that point, but it's not there yet. "While the labor market is improving, I don't think anyone would argue that it's great," Stephen Stanley, chief economist at Amherst Pierpont Securities, told *MarketWatch*.

U.S. vs. The World

The solid performance by the U.S. contrasts with what's happening in much of the rest of the world. The Euro area's economy stagnated in the second quarter and is suffering from the softest inflation in five years, while a consumer-tax increase in Japan triggered its biggest economic contraction since 2009. [8] And China's economy, which helped bring advanced economies out of the recession in 2009, this year may undershoot the government's growth target of about 7.5% amid a property slump and the slowest expansion in factory output in five years.

"With all the talk about a recession in Japan, possible recession in the Eurozone and in Russia, the U.S. economy is looking much more attractive," Jennifer Lee, a senior economist at BMO Capital Markets, told *The New York Times*

Many economists believe the U.S. is breaking away from the rest of the world partly because it has made more progress in working off the debt-driven excesses that helped precipitate the worst recession since the Great Depression. [9] Among major economies, only the U.S. and Germany have reduced total public and private debt as a share of GDP since 2007, according to data compiled by the McKinsey Global Institute. "The U.S. is probably three-quarters of the way through its deleveraging process, maybe even more," Nariman Behravesh, chief economist at IHS Inc. told *Bloomberg*. [10] "Europe is probably not even at the half-way point and China is just starting. The internal dynamics of the U.S. economy are very strong, and we can withstand a lot of shocks."

"The fundamentals of the economy are stronger now," said Gus Faucher, senior economist at PNC Financial Services. "We don't have the same drag from government-spending cuts. Corporate balance sheets are pretty good. Households have less debt. The economy is adding 200,000 jobs a month." [11]

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Robust Q314 GDP Signals Strong Start For 2015

In what many economists are describing as the strongest growth in 11 years, U.S. Gross Domestic Product (GDP) grew at an annual rate of 5.0% in the third quarter of last year. The Commerce Department said that figure was up from a prior reading of 3.9% and an initial estimate of 3.5%. The revision was led by an upswing in investment by businesses, a powerful force for growth in most economic recoveries but one that has lagged in the latest rebound. [1] According to *The New York Times*, higher consumer spending (including increased outlays on health care) and a narrower trade balance contributed to the summer improvement. The gain makes Q3:14 the strongest quarter since the summer of 2003.

The even faster pace of growth stemmed from stronger consumer spending and business investment, while inventory investment also was revised higher, *MarketWatch* reported. [2] Consumer spending was revised up to 3.2% from 2.2%, led by purchases of durable goods, while spending on business fixed investment was revised to 7.7% from 5.1%. Additionally, spending on such structures as plants and office buildings was revised up to 4.8% from 1.1%, while spending on equipment was raised to 11.0% from 10.7%.

This latest gauge of economic expansion tops Q2:14's 4.6% GDP growth, which was a big bounce back from the first quarter's weather-related decline of 2.1%. The CNBC/Moody's Analytics rapid update of economists' GDP forecasts shows a median expectation of 3% percent growth for the fourth quarter, and a range of expectations from 2.2% to 4.2%. [3]

The even faster pace of growth stemmed from stronger consumer spending and business investment, *MarketWatch* said. [4] A number of economists point out that a November gain of 0.7% in real consumer spending was the strongest monthly gain since the cash-for-clunkers stimulus program in August 2009. Personal income rose 0.4% for the month.

"I'm looking for 2.7 to 3% in the fourth quarter," Mesirow Financial's chief economist, Diane Swonk, said in a statement "This is the strongest year since 2005. We keep waiting for 3%...and it looks like we got it." Swonk said this could be the first time in nine years that growth was 3% from fourth quarter to fourth quarter.

"The clear strengthening in activity toward the end of 2014 may prompt some Fed officials to consider whether they need to raise rates before the middle of 2015," Paul Dales, a senior U.S. economist for Capital Economics, wrote in a client note. [5] In a separate report, the government said inflation-adjusted personal spending rose faster than expected in November, pointing toward the possibility that consumption spending could rise even faster in the fourth quarter—possibly 4% annualized, Dales wrote. [6]

While consumers aren't clamoring to buy homes (see separate report, this section), the plunge in gas prices has put more money in consumers' pockets. This by itself is considered a negative for GDP but, as *Bloomberg* points out, consumers aren't putting their gas savings in the bank, but instead are spending it on other goods, which buoys personal consumption—and GDP.

Ward McCarthy, chief financial economist at Jefferies, told *MarketWatch* he's more optimistic for Q4:14 than some economists, and he expects growth to be around 4% for the quarter. That said, he's also keeping an eye on capital spending, noting that durable orders were a bit troubling. [7] "A lot of the weakness was defense," he said. "We've seen core orders, which is a good proxy for capex, decelerate significantly over the last couple of months...It suggests maybe we should be a little bit less optimistic about capex going forward. But these numbers are notorious for being the most volatile of the economic data releases."

Deutsche Bank's chief U.S. economist, Joseph LaVorgna, said a pickup in services spending is important. "That matters: If you look at this business cycle, it's the only one where services spending went negative, and part of that was health care." He said if it continues, it could lift consumption to a sustained 3.5 to 4%. LaVorgna said he expects another 4% percent-plus quarter. "I wouldn't rule out 5% percent in Q4; we haven't fully benefited from the oil collapse. Unless you were an energy producer, which is only about 9% of total business, the other 91% of businesses got a tax cut."

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Analysis: 2014 Was Best Employment Year Since 1999

The Labor Department reported U.S. employers added 321,000 jobs in November, the largest increase since January 2012, while the unemployment rate remained unchanged at 5.8% as more people entered the labor force in search of work. Hiring figures for the previous two months also were revised upward, as the government said 243,000 new jobs were created in October (up from a preliminary 214,000), while September's gain was raised to 271,000 from 256,000. Barring unforeseen circumstances, December was supposed to be in line with the trailing six-month average, making 2014 the best year for job gains since 1999.

Wage growth also accelerated, albeit slightly, as average hourly wages jumped 9 cents, or 0.4%, after two weak monthly readings, although the 12-month increase was little changed at 2.1%. Year-over-year wage increases have stuck to a tight range of 1.9% to 2.2% since 2012. The government report showed the amount of time people worked each week matched a post-recession high of 34.6 hours. Through the first 11 months of 2014 the economy has gained an average of 239,000 jobs a month, the fastest rate in at least 15 years.

Strength Even In Weakness

Economists had voiced dismay at October's initially weak payroll addition of 214,000, but after the upward revision to 243,000—and an unusually high number of seasonal jobs added during the month—many analysts said the raw job growth figure was the best on record for the month of October. In fact, 1.06 million seasonal and non-seasonal jobs were added in October; on a year-over-year basis, that growth of 2.03% was the best since 2006.

"The not-seasonally adjusted figures were fantastic," economists at SouthBay Research wrote in its monthly analysis, calling the jobs report "monster results." [1] If the adjustments had been unchanged, seasonally adjusted payrolls would have risen by 373,000, marking the strongest growth since 516,000 seasonally adjusted jobs were added in May 2010 as the government hired hundreds of thousands of temporary Census workers.

SouthBay said October's raw hiring was so strong for two reasons: 1) Layoffs were delayed by relatively mild weather in industries such as construction, and 2) Retail ramped up seasonal hiring earlier than normal to get ahead of what was expected to be a fairly good holiday shopping season.

Low Wage Increases

Still, Labor Dept. reports continue to show wages are rising only slightly faster than the rate of inflation, fueling concerns that the employment market may not be as strong as it seems. "We are adding jobs, but it is still a wage-less recovery," Elise Gould, an economist with the Economic Policy Institute, told *The New York Times*. [2] Noting that average hourly earnings rose only 0.1% in October after no gain in September, she observed, "The economy may be growing, but not enough for workers to feel the effects in their paychecks."

Nonetheless, a number of analysts are increasingly upbeat about the future. The number of people who are leaving the labor market has fallen, while the average number of hours worked ticked up. Additionally, a survey of households found that more than 683,000 people had been hired into a new job in November. "Labor force participation actually rose" to 62.8%, said Carl Tannenbaum, chief economist at the Northern Trust Company.

Analyzing The Under- Over

A broader measure of unemployment is the so-called "underemployment rate," a gauge that counts the unemployed, workers settling for part-time jobs, and people who have given up the search. The November report indicated the fewest Americans since October 2008 are working part-time for economic reasons, while more reported doing so voluntarily. This is welcome news for Federal Reserve officials, who have indicated this

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"underutilization" as one reason to stay cautious as they prepare to raise record-low interest rates.

The underemployment rate dropped to 11.4% in November, the lowest level since September 2008. Additionally, the share of jobless who've been unemployed for more than 27 weeks dropped to 30.7%, the lowest reading since June 2009.

"We are absorbing slack more quickly—the participation rate held steady, and the labor force rose," PNC Financial Services chief economist Stuart Hoffman told *Bloomberg News*. [3] "We're far from where the Fed wants us to be, but I think we're getting there and we probably even picked up the pace on our long journey back to our strong labor market. The better economy and the better job market helped stabilize the participation rate probably more than the end of unemployment benefits."

Some analysts view the underemployment rate and its close cousin, the participation rate, as indications that Americans are still having difficulty finding adequate employment. In November the rate was 62.8%, indicating that slightly more than one-third of the total population 16-plus was not in the work force. As *MarketWatch* points out, however, part of the "participation rate" story is simply demographic. [4] A Federal Reserve report attributes half of the rate decline to the aging of the baby-boom generation. Increased longevity, better health, and a collapse of retirement wealth caused by the Great Recession has led more Boomers to work longer, but this group is still retiring in great numbers. As a result, the nonparticipation rate has expanded.

Additionally, most economic models that take demographics into account project an ongoing decline of women's participation in the labor force. Women's participation began climbing when they started to enter the workforce in the 1950s and, after a half-century of growth, eventually peaked at 60.3% in April 2000.

"Women have begun to depart the labor force in a way that's similar to men," Mark Hamrick, Washington DC bureau chief of Bankrate.com told MarketWatch. [5] But it's not just economic factors that are causing their departure, he says, noting that the ratio of job losses due to the recession among men vs. women were 2.6 to 1, in part because women held more jobs in less cyclical, services-related industries. (Male labor participation for men aged 16 years and older was 69.1% in September, down from 69.2% in August.)

The Long View

So…what lies ahead? As indicated by the November job figures, hiring is reaching levels not seen since before the recession, and more companies increasingly say they plan to hire more permanent workers.

"After experiencing incremental improvements over the past few years, the U.S. labor market is nearing a tipping point," says Matt Ferguson, CEO of software firm CareerBuilder and author of "The Talent Equation." [6]

Other recent data support this trend: 34% of employers added full-time, permanent staff in the third quarter of 2014, up from 28% for the same period in 2013, according to CareerBuilder. Plus, companies don't always fill job openings. "Hiring intentions need to be viewed in the context that the economy is always changing," says BankRate.com's Mark Hamrick. "There are so many risks and things could change very rapidly."

With this in mind, 2015 should see continued payroll increases and a slow but steady decline in the unemployment rate. Low gas prices, robust auto sales, improved retail spending, and continued GDP growth should ease both consumers' and business owners' concerns about spending. This, in turn, should lead to the addition of new jobs, as well as an uptick in wages. Of course, as with everything that touches on global and national economics, fortunes can change with the flap of a butterfly's wings. At this point, however, all indicators point to more of the same over the coming six months.

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Home Sales Should Grow Slowly, Steadily In 2015

Overall housing starts, which largely include apartments and other multi-family dwellings, slipped 1.6% in November vs. October to a seasonally adjusted annual rate of 1.028 million units. The Commerce Department reported in December that builders began construction at a seasonally adjusted annual rate of 1.03 million homes and apartments, the third consecutive month above the 1 million mark. Within that total, construction of new single-family homes fell 5.4% in November (vs. October) to an annual rate of 677,000, offset by a 6.7% rise in the more volatile apartment sector. Applications for building permits also were down in November, falling 5.2% to a seasonally adjusted annual rate of 1.04 million.

"We are in a slow march back to normal," David Crowe, National Association of Home Builders chief economist, said in a statement. "As we head into 2015, the housing market should continue to recover at a steady, gradual pace."

"[NAHB] members in many markets across the country have seen their businesses improve over the course of the year, and we expect builders to remain confident in 2015," added NAHB Chairman Kevin Kelly, a homebuilder and developer from Wilmington, DE.

Despite a drop in existing home purchases, overall sales were up 2.1% from a year ago. [1] The National Association of Realtors said November's drop doesn't signal the start of a weakening trend and actually is partly attributable to low inventories—which hit an eight-month low. Sales also were helped by mortgage rates consistently below 4% and unemployment at the lowest level in six years.

Mortgage rates have steadily declined over the last 12 months, lending support to the housing market. The average 30-year, fixed-rate mortgage was 3.87% in the week ended January 2, down from 4.53% at the start of 2014, according to data from Freddie Mac.

"We all think the combination of the price increases from the builders and that shock of the move in rates so quickly chilled the market," Toll Brothers CEO Douglas Yearley said in a December earnings call. [2] "From the summer of 2013 until late summer of 2014, business was good, but business was flat. We've seen some signs of pretty significant improvement since the end of the summer. [Home] buyers are still a little bit skittish, and we're working through this recovery. As we've said, it's going to be a bit bumpy."

Housing "will get back in tune in 2015 with these continued low mortgage rates and more job growth," Stuart Hoffman, chief economist at PNC Financial Services Group, told *Bloomberg News*. [3] "I don't see any fundamental weakening going on here; it's just more of the very slow back-and-forth in housing improvement."

"The housing market may still be improving, but it is doing so with two steps forward and one back," added Joel Naroff, chief economist at Naroff Economic Advisors.

Home Values Rose In 2014, But Slowly

U.S. home values rose at a slower pace in the second half of 2014 than in the first, finishing up an average 6% for the year vs. 2013. Cumulatively, U.S. homes will be worth $27.5 trillion at the end of 2014, a 6.7% increase overall, according to the latest data from real estate firm Zillow. [4] The cumulative increase in home values was slightly smaller than the 8% recorded in 2013, signaling lower gains—and expectations—in 2015. "Looking at the total value of the U.S. housing stock proves just how huge and important the sector is to the overall economy,' said Zillow chief economist Stan Humphries. "As we look ahead at 2015 and beyond, housing will play a bigger role in the broader economic recovery," he explained.

"As the job market improves and more households form, more people will search for homes

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"An improving job market goes hand-in-hand with a rise in builder confidence. As employment increases and those with jobs feel more secure about their own economic situation, they are more likely to feel comfortable about buying a home."
— NAHB Chief Economist David Crowe

to buy and rent," he added. "Housing is well positioned to continue the great strides already made this year." Humphries predicted that, as more homes come on the market, growth in home values is expected to slow to 2.4% through 2015.

In the major U.S. markets, home values were up the most year-over-year in Miami, with growth of 13.6%. They aso were up 12.8% in Atlanta, 11.9% in Houston, 11.9% in Orlando, and 11.5% in Las Vegas. Values were higher than November 2013 in almost every major U.S. metro, and national rents were up 3.4% in November vs. a year ago, to $1,342. Values were higher than November 2013 in almost every major U.S. metro and national rents were up in November from a year ago by 3.4% to $1,342.

Meanwhile, the NAHB said its index of builder confidence declined slightly from 58 to 57 in December, but has held above the 50-point threshold—the level that indicates a majority of builders see conditions as generally positive—for six straight months. [5] Builder confidence retreated in three of the four U.S. regions, with the Northeast showing the biggest drop. The Midwest and South also declined, while the West jumped to its highest level since December 2005.

"An improving job market goes hand-in-hand with a rise in builder confidence," NAHB Chief Economist David Crowe said in a statement. "As employment increases and those with jobs feel more secure about their own economic situation, they are more likely to feel comfortable about buying a home."

Echoing this sentiment, Rick Lafferty, president/ CEO of Lafferty Communities, said, "We're going into next year anticipating a resurgence in our construction activity."

The Year Ahead

Looking ahead to 2015, the sector faces other headwinds. As reported by the *Wall Street Journal*, mortgage lending standards remain tight in the wake of the recession, with lower-rated borrowers having difficulty getting home loans. [6] Also, steady gains in prices have put new homes out of reach for many, despite a recent easing in mortgage rates. Still, many economists and builders are optimistic the improvement in the broader economy soon will translate into increased demand for new housing.

"A fundamental issue continues to be first-time home buyers, whose outlook is improving along with the economy," says Jeff Taylor, managing partner at loan processor Digital Risk. [7] Household formation, a key ingredient for a healthy housing market, is running at about 500,000 a year, well below the more than one million that is considered ideal.

"With mortgage credit conditions remaining very tight and housing affordability somewhat challenged for first-time home buyers, all net new household formations are continuing to go into rentals," Ted Wieseman, an economist at Morgan Stanley, told the *Wall Street Journal*. [8]

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Auto Industry Continues To Drive U.S. Economy

U.S. auto sales shifted into overdrive in 2014, fueled by increasing consumer confidence, inexpensive financing, and tempting dealer incentives. Overall November automobile sales—the last available before going to press—increased 5% to 1.3 million light vehicles. That pushed the seasonally adjusted annualized selling rate to 17.2 million, well above the 16.3 million reported in November 2013. *Automotive News* reported much of this surge was the result of timely Black Friday dealer promotions and dropping gas prices, leaving consumers with more money in their wallets. [1]

According to IHS Automotive, annualized sales expanded faster than many analysts initially expected and, when the final numbers are tallied, total vehicle sales likely topped 16.5 million for the year—and are expected to climb steadily to 17.4 million by 2017. [2] Low interest rates, moderate fuel prices, and new models packed with internet-connected dashboards and fuel-saving engines lured buyers to showrooms and should continue to do so as long as financing terms remain affordable. As a result, automakers are increasing production to keep up with demand.

"The recovery's positive spirit leads to people making big-ticket purchases, whereas they had been hesitant in the past," says Henner Lehne, IHS senior director of global light-vehicle forecasting. [3] "The housing market is improving, there's a good business climate, and you have credit availability."

"It's a much healthier market today," Jesse Toprak, chief analyst at Cars.com, recently told *Automotive News*. [4] "It shows us that the fundamentals are strong and consumer demand is strong." By Toprak's calculations, this likely will be the first year in which the average transaction price tops $30,000, while at the same time average dealership's sales volume is 20% higher than it was in 2006 and 77% higher than during the recession of 2009.

Business Cycle Should Remain Robust

One more indicator of strong future sales was the upbeat mood of industry analysts who gathered at the Center for Automotive Research's annual Management Briefing Seminars last September. The general consensus was that approximately 17 million new cars and trucks will be sold annually in the coming years, a number that should remain consistent through 2018 as consumer confidence improves and buyers look to replace old cars. [5] Itay Michaeli, director of Citi Investment Research and Analysis, told the *Detroit News* the industry was in a business cycle that should remain strong at least through 2018. That's the year tight fuel economy regulations go into effect, and that could drive prices up.

Steve Szakaly, chief economist at the National Automobile Dealers Association, last fall said he sees no sign of a change in this robust buying pattern, telling the *Wall Street Journal* that sales could rise even higher in 2015 will be even better. [6] Still, there are some warning flags waving on the horizon: vehicle inventories are growing while used-car prices are sagging, and auto makers are adding more production capacity. Additionally, heavier reliance on subprime auto loans raises questions about whether the 17-million-plus sales pace is being artificially inflated by cheap loans.

To this end, The *Detroit Free Press* in November identified three high-risk issues that could come

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back to haunt automakers: [7]

- The average length of a new car loan is now 67 months, the second-longest ever, according to Edmunds.com;
- Leasing once again accounts for more than 25% of all new vehicle transactions, the highest level since the Great Recession; and
- Auto finance companies, banks, and credit unions are approving more subprime loans to people with checkered credit histories.

The risk is that, after two or three years, the resale value of a car falls below the balance of the loan. As Morgan Stanley analyst Adam Jonas observes, easier credit could be helping sales now but may lead to problems in the years ahead. In a research note he said the increasing use of six- and seven-year loans is a "disturbing trend" that could cause consumers to wait longer between auto purchases.

That said, "If you look at the marco-economic fundamentals, they're all flashing green," Emily Kolinski Morris, Ford's chief economist, said last fall, She pointed to robust manufacturing, new housing strength, and rising employment as reasons for continued optimism.

GM's U.S. sales chief, Kurt McNeil, agrees, explaining that energy prices, business investment, and consumer confidence "are in good shape" and should fuel demand for the remainder of this year.

Cool And Fun Again

While the pace of sales is news itself, there's something else going on. Jeff Schuster, an analyst with LMC Automotive, says the auto industry is literally pulling the economy "along with it" – and in some cases it's doing it with vehicles that had been slow-movers during the recession. As *Bloomberg* notes, the most bullish indicator in the car world is the fact that Americans are buying fun vehicles again—cars and trucks that aren't all that pragmatic. And General Motors, for all its recall problems, is perhaps the best example of this.

Even as it was climbing out of bankruptcy, GM ramped up production of its Chevrolet Corvette and greenlighted an overhaul of its swanky Cadillac Escalade. Neither vehicle is aimed at the heart of the market, and they're never going to be considered practical investments for most of the 34 buyers a minute who drove off in a new car. As *Bloomberg* says, the heart of America's car industry will always be small SUVs, tough pickups, and smart sedans. But when more Americans are buying cars just because they're cool and fun drive, it's a very good sign.

November Year-Over-Year Performance, By Automaker

November 2014 results among the major U.S. and foreign automakers (all vs. the same month in 2013):

- Fiat Chrysler sales jumped 20% to 172,217 units, led by gains ranging from 27% to 31% at the key Jeep, Ram, and Chrysler brands. All five Chrysler Group brands recorded increases as the company extended its string of consecutive year-over-year increases to 56 months.
- General Motors sales increased 6% to 225,818 units. Pickups fueled the gain, as the Chevy Silverado/GMC Sierra duo sold 16,595 units and the Chevy Colorado/GMC Canyon combined for another 3,210.
- Ford sales fell 2% to 186,334 light vehicles, largely because of the retooling of the F-150 pickup, whose sales fell 6,452. On the other hand, the Lincoln brand rose 21% for the month.
- Toyota sales gained 3% percent on strong truck sales, notably the Toyota 4Runner and Highlander.
- American Honda sales rose 5% with the Honda CR-V crossover jumping 38% to 32,378 units—outselling Accord and Civic.
- Nissan North America lost 3% for the month, largely because Infiniti was off 13% and Altima sales slipped 7%.
- Hyundai-Kia sales fell 3%, ending the South Korean duo's eight-month string of gains. Still, the company is up 3% so far this year.
- Volkswagen sales rose 10% for a second straight month as the company posted its second positive numbers this year.

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Gas, Jobs Lead To Higher Consumer Confidence

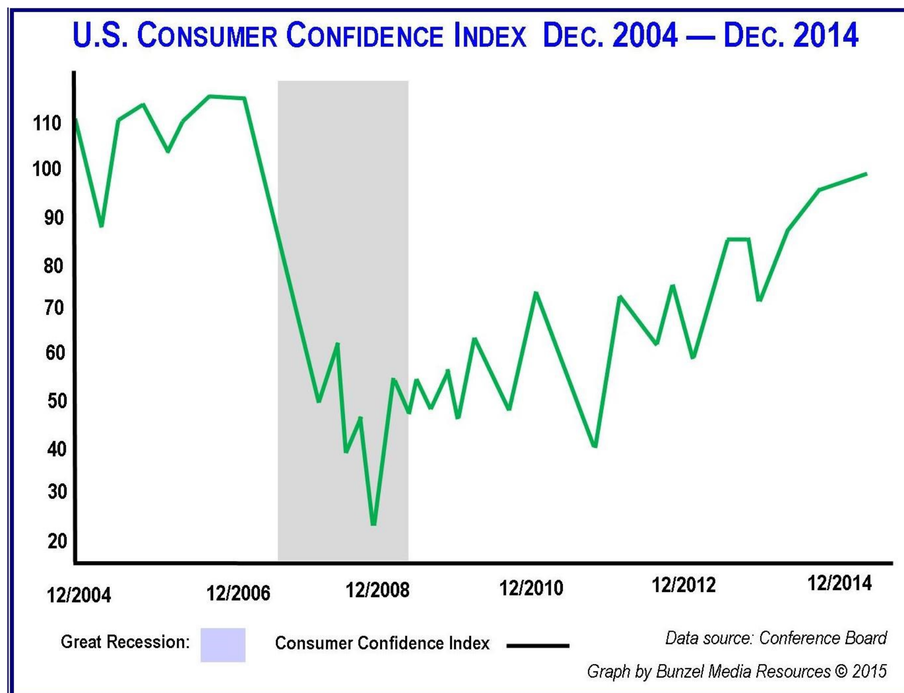
The consumer confidence index is a fickle thing. Essentially it's a reactive gauge of socio-economic issues that measures consumer perception of past events and how they might affect future behavior. Because of its perceptual nature, and the rapidly changing events on the national and global landscape, these indices are known to vacillate wildly and unpredictably, depending on human reaction to specific influencers. Example: A case of Ebola dominates a news cycle, deflates consumers' personal outlook, and pushes the index down—despite the fact that he or she likely will suffer no consequences from that incident.

Add to that the fact that there are two distinct consumer confidence indices, compiled through different methodologies and polling different individuals, and confusion really can set in. One index can show confidence is up, and the other will show just the opposite. This is what happened in November, as the two major indices—compiled separately by The Conference Board and Thompson Reuters/University of Michigan—showed conflicting results.

A Tale Of Two Indices

The TR/UM consumer confidence index for November climbed to a more than seven-year high as Americans' views of their financial well-being improved ahead of the holiday shopping season. At 88.8, that sentiment index was the highest since July 2007, rising from from 86.9 in October. Stronger job growth, cheaper fuel, and stock prices near all-time highs boosted household spirits as the busiest time of the year for retailers got underway. Bigger wage gains would give an extra lift to consumers and probably sustain spending, which accounts for almost 70% of the economy.

"Consumers are increasingly upbeat," Chris Rupkey, chief financial economist at Bank of Tokyo-Mitsubishi UFJ Ltd. in New York, told *Bloomberg News* [1] "The extreme drop in gasoline prices at the pump, which acts as a tax cut, is putting more dollars in consumers' pockets."



By contrast, The Conference Board's Consumer Confidence Index declined to 88.7 in November, a substantial drop from a revised 94.1 reading in October. Confidence retreated in November, primarily due to reduced optimism in the short-term outlook," Lynn Franco, director of economic indicators at The Conference Board, said in a statement. [2] "Consumers were somewhat less positive about current

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business conditions and the present state of the job market. Moreover, their optimism in the short-term outlook in both areas has waned. However, income expectations were virtually unchanged and gas prices remain low, which should help boost holiday sales." Those figures will be released later this month (January 2015).

Then there's the Bloomberg Consumer Comfort Index, which climbed to 40.7 in late November from 38.5 in October. Greater wage gains would help propel sentiment further and lay the groundwork for more spending. An improving employment picture and lower fuel costs are "brightening consumer views," said Gary Langer, president of Langer Research Associates, which produces the data for *Bloomberg*. Still, "the recovery has lacked sustained momentum, held back by the stagnant wages and continued weakness in retail sales," he noted. [3]

Highly Confident

Anyway you measure it, consumer confidence is significantly higher at the start of 2015 than it was a year ago, for several reasons. Most significant is the price of gasoline, which has been dropping steadily for months, with the price for a gallon of regular recently slipping below $2 in some U.S. markets. Fatter wallets from gas savings alone will go a long way toward pumping up consumer spending in the coming months.

Also, a strengthening job market drives a measurable increase in consumer spending. "With labor market slack continuing to decline rapidly, we expect consumer moods to remain on an improving trajectory in the months ahead, reinforcing strengthening U.S. growth trends," said Gennadiy Goldberg, U.S. strategist at TD Securities.

As a result, consumers' collective view of the economy has been edging higher since last spring. "Improved economic expectations have the potential to reinvigorate personal financial optimism that is the key driving force behind large discretionary expenditures, especially those involving debt," the TR/UM survey's chief economist, Richard Curtin, said in a news release. "Needless to say, it will take repeated and cumulative gains to reverse the impact of stagnant incomes on spending."

Economy Remains Intact

"Confidence is very volatile; it can bounce around from month to month," says Ryan Sweet, a senior economist at Moody's Analytics Inc. [4] "It doesn't really change the consumer landscape. Confidence will continue to rise as we get more job growth, which will sustain more income."

"The consumer has hardly looked better," said Jacob Oubina, senior U.S. economist at RBC Capital Markets. [5] "Job growth, income growth, and a sharp decline in gasoline prices over the last few months will conspire to keep a pretty decent underpinning on consumer confidence."

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THE RADIO ECONOMY

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Total revenues for the U.S. radio industry slipped 1% in 2014, with national and local spot dollars down 3% for the year. Meanwhile, 2015 revenues will be flat to down 1% for the year, depending on a range of economic factors.

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What would radio's annual growth look like if Pandora's revenues were included in the overall industry analysis rather than summarily excluded?

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A number of radio's most reliable advertisers (and revenue categories) are shifting dollars to digital media, but many companies understand the power of radio—and its ability to generate strong ROI.

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Grocery & Convenience Stores 37

Health Care Services 38

Insurance Companies 39

Television/Networks/Cable 40

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Radio Revenues: Flat To Down 1% For 2015

Total revenues for the U.S. radio industry slipped 1% in 2014, with national and local spot dollars down 3% for the year while digital dollars increased 12% and off-air revenue was up 12%. That's according to Bunzel Media Resources, which says FY:14 combined spot dollars totaled $13.616 billion, compared with $14.054.0 billion in 2013, while digital delivered $995 million for the year vs. $889 million in 2013 and off-air was $1.782 billion vs. $1.584 billion in FY:13.

At the same time, Bunzel Media Resources forecasts 2015 revenues to be flat to down 1% for the coming year, depending on such economic factors as the price of gasoline, stronger employment and wage growth, improving GDP, and continued strength of a robust automobile market. While global oil prices could have an impact on GDP around the world, all indications are that U.S. consumers will spend any dollars they save at the pump on other goods and services, pouring billions into the U.S. economy. Advertisers and agencies are expected to take advantage of this spending by ramping up their budgets accordingly. Note: most analysts usually forecast ad spending to rise generally at the same pace as overall GDP.

BMR expects digital spending in radio to grow another 10% to 12% in 2015, a figure that will be lower than a widely anticipated 15% increase in overall digital ad spend for the year. Meanwhile, off-air revenue should increase at the same pace as it has in the last few years.

"Based on a thorough analysis of economic factors, 2014 looked a lot like 20013—and 2015 will be more of the same," Bunzel Media Resources President Reed Bunzel says. "The radio industry seems to be stuck in a holding pattern, but considering the disruptive nature of digital in the overall media ecosystem, flat-to-slightly-down growth is not such a bad thing. Print continues to be the whipping boy of digital revenue distribution, and the television cable/sector is poised to experience its own version of this shift, albeit smaller, as video migrates to new delivery platforms."

Bunzel says radio actually remains a strong reach medium that continues to deliver healthy margins for operators who have the resources to be

Annual Revenue (in millions)

Year	Network	Spot	Digital	Off-Air	Total (%+/-)
2014	$1,073.0	13,616.0	995.0	1,782.0	17,466 (-1.0%)
2013	1,122.0	14,054.0	889.0	1,584.0	17,649 (—)
2012	1,163.0	14,205.0	767.0	1,510.0	17,645 (+1.4%)
2011	1,136.0	14,060.0	709.0	1,491.0	17,396

Note: Line-up of reporting stations may change from year to year.
Source: AM/FM radio revenue figures are from an RAB analysis of Miller Kaplan Arase LLP data. All totals and +/-% are vs. previous full-year data.
Pandora revenues are from Pandora quarterly reports.
All projected revenues figures forecast by Bunzel Media Resources © 2015

innovative and visionary. "Strong operators have always known that people are the backbone of the radio industry," he continues. "Those broadcasters who have the wherewithal to invest in great on-air talent, salespeople, programmers, and marketers will achieve the kind of margins that have made this business strong over the years. That said, we must move past the notion of 'preserving core business' and embrace digital as a way to truly diversify our assets. There is great value in diversity, and those companies that are dedicated to new ideas will experience growth in this disruptive environment.

Bunzel Media Resources points to these 10 factors (summarized previously) that are likely to affect radio revenues in the year ahead.

- The overall global economy continued to expand in the final quarter of 2014, although with slightly less momentum than during the first half of the year. JPMorgan's Global All-Industry Output Index, released last month, fell to a seven -month low of 53.2 from October's 53.5, but has now held above the 50 mark—which divides economic growth from contraction—for more than two years.
- The Labor Department reported private employers added 321,000 jobs in November, leaving the unemployment rate unchanged at 5.8% for the year. Based on those numbers and upward revisions for several other months, many economists were saying 2014 probably turned in its best year for job gains since 1999.
- In what may have been the strongest quarterly growth in 11 years, U.S. GDP grew at an annual rate of 5.0% in Q3"14, the strongest quarter since the summer of 2003.
- Despite a drop in home sales in the second half of 2014, overall sales still were up 2.1% from a year ago. The National Association of Realtors said the drop was partly attributable to low inventories, while mortgage rates are consistently below 4% and unemployment is at its lowest level in six years.
- According to IHS Automotive, annualized sales expanded faster than analysts initially expected and, when the final numbers are tallied, total vehicle sales likely topped 16.5 million for the year—and are expected to climb steadily to 17.4 million by 2017.
- Stronger job growth, cheaper fuel, and stock prices near all-time highs boosted consumer confidence, give a lift to retailers and probably fueling a period of sustained consumer spending, which accounts for almost 70% of the economy.
- MagnaGlobal says total U.S. ad spend should grow 2.7% to $169.5 billion in 2015. *eMarketer* predicts the figure actually will be $189.06 billion (31.9% of the global ad market), while Pivotal Research senior research analyst Brian Wieser forecasts overall growth of 2.5% in U.S. ad spend this year. London-based ad service/publishing company WARC says the U.S. should post 4.4% growth, to reach total spend of $174 billion, finally overtaking 2007's pre-recession peak.
- Oil slipped to $53.19 per barrel on January 2, 2015, less than half of the $109 price exactly one year earlier.
- Holiday retail sales were approximately 4.1% higher in 2014 than in 2013, according to the National Retail Federation. A separate report from MasterCard said this figure was closer to 5.5%, indicating consumers are opening their wallets just a bit wider than they did a year ago.

In any event, radio listening—in all its various forms—is strong and robust in 2015. As the revenue chart on the previous page clearly indicates, it is not on a severe downward spiral, as many media pundits might have us believe.

Of course, geopolitical factors and other issues can shift economic indicators almost overnight. Bunzel Media Resources reserves the right to revise these projections if and when circumstances warrant. We invite you to check back in when we release our revised forecast in **Radio 2015.2**—*coming in April*.

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Opening Pandora's Revenue Box

As national advertisers and agencies increasingly lump radio in with all audio in a category now known as "audio activation," it would be an interesting exercise to see what radio's revenue picture would look like if ad dollars from pure-play digital streaming were included in the industry's overall numbers. While this certainly will be deemed heresy by many terrestrial radio purists, Bunzel Media Resources spoke with a number of executives who suggested—*on very deep background*—that such an analysis actually would provide a positive outlook for radio, rather than the "flat-to-down" scenario that seems to dog the AM/FM radio business.

"The traditional radio industry's obsession with Pandora is disheartening and, to some extent, even a bit disgusting," media analyst Gordon Borrell told BMR on the record. "They should embrace the Pandoras because they have brought new life into the audio industry. Unfortunately, they have put it in a box and said "they're not us, so they must be the enemy." What if Pandora was just another radio station in L.A.? Of course they would fight with it, but they might invite Pandora to their damned radio conference."

And Wells Fargo senior analyst Marci Ryvicker observes, "I don't know how people from my community would look at that [analysis], but my community doesn't really look at radio that much anymore. It's an interesting concept, and could actually help."

With that spirit in mind, the chart below—revised from the revenue table on page 23 suggests what that analysis would look like, incorporating only Pandora's full year advertising figures for desktop and mobile listening:

"While it's clear that AM/FM radio companies and Pandora distribute content on two totally separate platforms, they both serve music listeners in much the same way," BMR's Reed Bunzel says. "They both offer a broad range of music to their audiences, and they both run commercials to sell their advertisers' products. While it can be debated whether one service targets its users more efficiently than the other, or one platform uses human curation more than the other, they serve similar functions in the minds of consumers."

Furthermore, since national advertisers now often include all audio delivery in an overall bucket that includes terrestrial and digital delivery, it makes sense to at least acknowledge—rather than fight—each other's presence in the media landscape. As Madison Avenue increasingly looks at all radio as audio, and as Pandora continues to make inroads on Main Street U.S.A., traditional radio cannot ignore digital streaming while streaming its own AM/FM content and trying to sell digital services to advertisers.

Annual Revenue (in millions)

Year	Network	Spot	Digital	Off-Air	Total (%+/-)	Pandora	Total w/Pandora (%+/-)
2014	$1,073.0	13,616.0	995.0	1,782.0	17,466 (-1.0%)	715.0	18,181 (+0.8%)
2013	1,122.0	14,054.0	889.0	1,584.0	17,649 (—)	375.2	18,024 (+0.7%)
2012	1,163.0	14,205.0	767.0	1,510.0	17,645 (+1.4%)	240.0	17,885 (+2.1%)
2011	1,136.0	14,060.0	709.0	1,491.0	17,396	120.0	17,516

Note: Line-up of reporting stations may change from year to year.
Source: AM/FM radio figures are from an RAB analysis of Miller Kaplan Arase LLP data. All totals and +/-% are vs. previous full-year data.
Pandora revenues from Pandora quarterly reports.
All projected revenues figures forecast by Bunzel Media Resources © 2015

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Radio Scorecard: Hits And Misses In Q314

Radio's scorecard for the third quarter of 2014—the last quarter for which revenue data was available—indicates some hits and misses among the publicly traded radio companies.

The week before Thanksgiving the Radio Advertising Bureau reported Q3 2014 revenues were down 2% vs. the same period last year, while total year-to-date dollars through the first nine months of the year slipped 1% from the prior year. National and local spot revenues were down 3% for both Q3 and YTD, while digital revenues jumped 11% and 12%, respectively. As the following data and narrative indicate, four public groups posted results that were below that Q3 industry average, while the others posted either outright increases, or decreases smaller than the -2% mean.

Those companies whose revenues increased vs. the same quarter in 2013 are marked with ▲, while those that were down received this symbol: ▼. Keep in mind that some companies are highly diversified, operating not only in radio but other media, as well.

While the focus of **Radio 2015** primarily is terrestrial radio, many financial analysts and investors watch all segments of the greater audio business. Because of this specific interest, as well as the growing reality of cross-platform disruption in all media, this scorecard includes quarterly financial figures for Pandora Media and Sirius XM.

Beasley Broadcasting ▼

Net revenues were down 5% for Q3, from $13.7 million during the quarter in 2013 vs. $13.0 million in 2014. The company said the decline primarily reflected lower advertising revenue at the company's Wilmington and Greenville-New Bern-Jacksonville markets, which more than offset net revenue increases in Las Vegas and Ft. Myers. Station operating income for the quarter fell 20%, from $4.5 million in Q3:13 to $3.6 million in Q3:14. Despite lower advertising spending in the quarter, Caroline Beasley, the company's CFO, said, "The radio advertising market generally remains healthy…I would emphasize that the third quarter was a transition period."

"We don't believe third quarter operating results from continuing operations reflect the strength, ratings, and local relevance of our platform," Beasley Chairman/CEO George Beasley said when quarterly results were announced in November. "The lower level of reported net revenue from continuing operations is temporarily mis-matched with certain expenses that will be better amortized across the company's larger revenue base once we complete the asset exchange with CBS Radio." That exchange was finalized December 1.

"Throughout Beasley Broadcast Group's 53-year history, we have actively managed our station portfolio with the goal of serving the local communities where we operate, diversifying our operations, managing risk and improving financial results," Beasley continued. "The asset exchange with CBS Radio addresses these strategic objectives."

CBS Radio ▲

Despite persistent weak ad trends, CBS Corp. CEO Les Moonves reported it's radio division posted a 2% Q3:14 revenue increase, in line with the company's overall growth rate during the quarter. Overall, the

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company reported quarterly revenues of $3.37 billion, a 2% increase that largely was driven by a 4% increase in content licensing and distribution revenues from higher international and domestic licensing of TV programming. Advertising revenues grew 2%, fueled by the broadcast of *Thursday Night Football* and political advertising.

"Our third quarter growth reflects the success of our efforts to create and monetize our premium content," CEO Les Moonves said when results were reported in November. "We are also capitalizing on growing consumer demand by expanding into emerging platforms. This includes the recent launch of CBS All Access, which allows our 'super fans' to watch CBS wherever they are. At the same time, we are returning more value to shareholders than ever before, and we continue to have great confidence in our future as a content company in this ever-expanding marketplace."

With about 50% of CBS' revenue coming from advertising, it's clear Moonves sees cross-platform diversification as a driving force in growing the company's revenues. This push is abundantly clear in the radio division, which now maintains a strong digital creative and sales team, operates a digital streaming platform (www.radio.com), and digitally based email marketing programs.

Cumulus Media ▼

On a pro forma basis, Q3:14 net revenues were virtually flat vs. the same quarter the prior year: $313.9 million vs. $314.0 million in Q3:13. Broadcast advertising revenue decreased $12.5 million, primarily because of ongoing weakness in several large local markets that began in the second quarter. On an actual basis, net revenue increased $51.4 million (19.6%) to $313.9 million, compared to $262.5 million in Q3:13. The increase was primarily attributable to the addition of Westwood One. Pro forma adjusted EBITDA came in at $97.5 million, a drop of over 18%.

National spot advertising was generally flat year-over-year, and network advertising continued to see disruption following the acquisition of Westwood One in December 2013. Digital advertising revenue increased $6.7 million vs. the prior year, primarily due to increased Rdio user generation activity and other digital commerce. Political advertising revenue increased by $2.9 million, while license fees and other revenue increased by $2.8 million.

"We have been working our way through a generational shift among morning talent," Cumulus Chairman/CEO Lew Dickey said in a quarterly call. Noting a number of changes in on-air personnel, he explained that transitions in New York and Washington DC were primarily responsible for the EBITDA decline. "It has been a tough year, but we're starting to see a light at the end of the tunnel. We're beginning to see positive ratings traction in the new shows that have been in place the longest."

Emmis Communications ▼

Emmis' radio net revenues for its second fiscal quarter including June-August were up 15%, from $41.2 million in 2013 to $47.6 million in 2014. This includes reported revenue from New York's WBLS 107.5 FM and WLIB 1190 AM, which Emmis began operating pursuant to a Local Marketing Agreement in March of last year. On a pro forma basis, however—assuming results for WBLS and WLIB were included in the same quarter of the prior year and consistent with Miller Kaplan reporting—the company's radio net revenues would have been down 1.7%. This compares favorably to Emmis' local radio market revenues, which were down 5.1% during the same period.

"While the summer months were challenging for the radio industry, our employees once again delivered revenue share gains," Emmis President/CEO Jeff Smulyan said in early October. "Pacings have improved, looking much stronger for the fall than the summer. Momentum is continuing to build for NextRadio, the Emmis-led industry initiative to make FM broadcast radio available on smartphones and tablets. Average time spent listening per NextRadio session is 50% higher than the radio broadcasting industry average, and as we have gained significant broadcaster involvement and increased listener satisfaction, we are seeing increased interest from other carriers, handset makers and automakers."

Entercom Communications ▲

Net revenues grew 1% to $99.8 million, while station operating income fell 3% to $30.6 million and station

Notes: EBITDA is an accounting measure calculated using a company's net earnings, before interest expenses, taxes, depreciation and amortization are subtracted.

OIBDAN is a non-GAAP financial measure referring to operating income (loss) before certain unusual and/or non-cash charges, depreciation and amortization, loss (gain) on sale of operating assets and non-cash compensation expense.

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expenses increased 3% to $69.2 million. Adjusted EBITDA decreased 7% to $24.3 million, and adjusted net income per share decreased 5% to $0.19.

"Our performance accelerated during the third quarter, highlighted by a robust September, during which revenues were up 7%," CEO David Field said. "Excluding political revenues, September was up 5%, and overall third quarter revenues were up 1.4%, overcoming a weak August. Operating expenses increased in line with our guidance, up 3%. As we've discussed on prior calls, our cost increases are primarily due to our ramping investment in our new SmartReach Digital business unit. Excluding SmartReach, our core station operating expenses were up just 1%.

Looking ahead to 2015, Field said, "We feel very good about our cost trajectory as we continue to do a good job of making smart and prudent decisions about expenses. Organizationally we continue to focus our efforts on working to enhance our value to listeners and customers and to increase our growth potential for the future. To that end, we believe our competitive position, sales execution, and capabilities have all significantly improved over the past year and should enable enhanced performance in the year ahead."

In December Entercom announced it was purchasing Lincoln Financial Services' 15 radio stations in Atlanta, Denver, Miami, and San Diego for $105 million.

Entravision —

Third quarter revenue increased 8% to $62.3 million, which pushed overall net income to $8.057 million in third quarter vs. a loss of $21.4 million in Q3:13. Radio revenue was flat at $18 million, with television up 4% to $41 million and digital media, broken out for the first time with the acquisition of Pulpo last summer, coming in at $2.9 million. Q3 results largely were driven by continued growth in retransmission fees, political advertising, and the 2014 World Cup. Collectively, these segments generated solid year-over-year growth in consolidated adjusted EBITDA as well as earnings per share and free cash flow.

"We also furthered our transition from traditional broadcaster to an integrated multi-platform company, complete with expanded digital capabilities and marketing," Chairman/CEO Walter Ulloa said. "This has allowed us to strengthen our ability to target and deliver Latino consumers to advertisers across TV, radio, online, social, and mobile.

"Our radio station group outperformed the broader industry, which is estimated to have declined 1% during the third quarter," Ulloa continued. "Our local revenue was down 2% in the third quarter while national revenue increased 5%. The split between local and national revenues was 68% local to 32% national during the third quarter. On a core basis, excluding political advertising, total core radio revenue was down 1%, with core local revenue down 3% and core national revenue up 1% over the third quarter of last year."

iHeartMedia ▲

iHeartMedia, which changed its name from Clear Channel Media & Entertainment during the third quarter of 2014, reported a 1% increase in Q3 radio-oriented revenue in Q3:14. Total revenues were $830.5 million, a 7% bump vs. the $823.8 reported in Q313. The company said revenue increased for national broadcast radio, including events national syndication. Political dollars also were higher, as was revenue from the traffic and weather businesses. These gains partially offset decreases in IHM's core local broadcast radio revenues.

Operating expenses increased $2 million during the third quarter of 2014 vs. the same period in 2013 primarily due to higher compensation expense, including commissions, as well as higher spending on revenue and efficiency initiatives. These increases were partially offset by lower direct expenses as a result of previous efficiency initiatives.

"We were pleased to continue to grow overall revenues while tightly managing our expenses through operating efficiencies to generate a 9% growth in OIBDAN this quarter," iHM President/ Chief Financial Officer Rich Bressler said in a statement. "We delivered year-over-year increases in revenues and OIBDAN at iHeartMedia and… continued to build our financial flexibility with three successful debt refinancing activities during the third quarter. [This] further extended our runway, enabling us to keep focusing on our operations and growth."

"This quarter we became 'iHeartMedia' to better reflect who we are today," IHM Chairman/CEO Bob Pittman said in the same statement. "We are a one-of -a-kind multi-platform media company that delivers unparalleled reach, scale, and impact while continuing to provide the most live entertainment — with more content and more events in more places on more devices—to the industry's most engaged audiences, wherever they are."

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Journal Communications ▲

Journal reported overall third quarter revenue increased 8.5% to $105 million, as radio and television growth offset a 5% decline in publishing. Operating earnings increased $4 million or 40% to $14 million. Radio revenue increased 5.1% to $21.6 million, with local ad revenue (minus political) up 3.3% to $18.5 million, led by automotive and medical advertising. National spot advertising was down 1.6%.

"We were pleased to record a second straight quarter of growth with revenue up just over 5% or about $1 million and digital up over 30%," said President/COO Andre Fernandez. "As with television, local performance on radio remains mixed with as many local markets up as were down. National was down only 2% in radio, which is much improved since the first quarter's 18% decline, and we hope for continued improved. Auto is an example on an improving trend on radio, up 4% in the quarter with the entire growth in auto coming from local."

"Our focused broadcast sales efforts grew both television and radio revenue—excluding retrans-mission and political—by approximately 3% and drove television and radio digital revenue up 22% and 31%, respectively," noted Chairman/CEO Steven Smith. "Publishing experienced a soft quarter due to lower retail and classified spending and circulation volume declines. A publishing expense reduction initiative in the fourth quarter will create a lower expense base in the business going forward.

Radio One ▼

Revenues slid 5% in the third quarter on what CEO Alfred Liggins referred to as a "perfect storm" of market conditions. The company's Q3 revenues fell to $112.2 million vs. $118.4 million in the same period in 2013. Liggins blamed a combination of "weak market revenues, soft ratings in our four largest markets, and political revenues that were less than anticipated" for a very soft quarter. Station operating income was approximately $38.6 million, a decrease of 13.8% from the same period in 2013, while operating income was $19.6 million vs. $21.8 million for Q3:13

"We had some ratings challenges in Washington, Baltimore, and Atlanta, in addition to a new competitor in Houston," Liggins explained. "Management has taken steps to remedy these issues, including a format change in Houston from News to Classic Hip-hop. Outside our top-four markets, radio revenues for the third quarter were +1.5% against a flat market."

In mid-November Liggins said overall Q4:14 radio revenue was currently pacing -1.9%, but predicted positive momentum going into 2015. Company-owned Reach Media also experienced a weak third quarter, but was performing better in 4th quarter, consistent with the radio division.

Saga Communications ▲

Saga's net revenues increased 4.4% to $34.4 million vs. $32.9 million for the same period in 2013, while station operating expense was $26.4 million compared to $23.6 million in Q313. The $2.8 million increase was primarily due to an accrual attributable to the Saga's expectations of entering into license agreements in the fourth quarter of 2014.

Operating income from continuing operations was $18.2 million, while net income for the period was $10.5 million and free cash flow was $14.3 million. Station operating expense was $72.8 million.

"I'm really pleased with the revenue," Saga CEO Ed Christian said during a quarterly call. "Certainly this is still a challenging marketplace, and any up is good, any up is a good up. We are watching market changes occur in the business and, while we are doing a great job in relationship building with our advertisers, our national revenue is lacking. We recognize the need to try to rebuild that area of our business; that's an important thing for us now. We definitely need to rebalance and focus on agency and national business and our larger markets. And we're beginning steps to facilitate this."

Salem Communications ▲

Salem reported quarterly net revenue increased 19.0% to $69.6 million vs. $58.5 million in Q3:13. Total operating expenses increased 22.7% to $60.8 million compared with $49.5 million the prior year, while operating income decreased 1.4% to $8.8 million vs. $9.0 million. Net income slipped to $3.7 million, or $0.14 net income per diluted share, from $5.3 million, or $0.21 net income per diluted share, in the prior year.

A diversified company with interests in broadcasting, publishing, and digital services, the company's net broadcast revenue increased 2.1% to $47.0 million from $46.0 million, while station operating income fell 5.3% to $14.4 million from $15.2 million. Salem's internet and eCommerce

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revenue was up 54.5% for the quarter, while publishing revenue grew 164.7%, largely because of acquisitions.

"Salem occupies a distinct and influential space in the media landscape," CEO Edward Atsinger said during a quarterly conference call. "We strive to be the preeminent trusted provider of audio, video and text, providing Christian-themed content and conservative views, analysis and commentary. As one of the few media companies that has an integrated multimedia platform, all parts of which serve the same target audience, we can leverage that audience across divisional activities. And we're able to consistently get good results from that targeted cross-multimedia platform."

That said, Atsinger noted that "It has not been a good year for the radio industry in general, and softness continued into the third quarter. Yet our radio revenues grew by 2.1%." Noting the diversified nature of the company, he observed that, "Our revenue is a mix very close to 1/3 block programming, 1/3 niche radio advertising, and 1/3 internet and publishing. We like the synergies of our integrated platform, and we're not done…we will continue to look for opportunities."

Spanish Broadcasting ▼

Third quarter consolidated revenues totaled $36.3 million compared to $41.1 million for the same prior year period, a 12% decrease. Excluding special event revenues and political sales for the respective periods, the company's consolidated revenues totaled $33.6 million compared to $37 million for the same prior year period, resulting in a decrease of 9%. Radio revenues were down 8% primarily due to decreases in national, local, and barter sales, which were offset by an increase in network sales. Consolidated OIBDA totaled $9.3 million vs. to $11.3 million for Q3:13, representing a 17% decrease of $2 million. Radio OIBDA was down by $1.4 million, mainly due to the decrease in revenues of $2.7 million, partially offset by the decrease in station operating expenses of $1.3 million.

"During the third quarter, we continued to make progress in supporting our strong station brands, growing our radio network business and strengthening our digital platforms," COO Albert Rodriguez said in a conference call. "Even though the advertising market softened in line with trends across our industry, we believe the recent weakness in the ad market is temporary and we're continuing to make the necessary strategic investments in our business to position our company for growth over the long term."

Rodriguez noted that the key determination of the company's future success revolves around its ability to leverage content across a wider distribution platform. "We believe the investments we're making in our business will ultimately lead to returns in the form of a larger national following and increased access to a greater pool of advertising revenues with a higher margin potential," he observed.

Townsquare Media ▲

On a pro forma basis, Townsquare Media—which went public last July—reported a 7.1% increase in net revenue, with a 1.9% jump in local advertising and a 43.2% gain in "other." On an actual basis, net revenue increased $27.9 million, or 41.7%, to $94.7 million vs. $66.9 million in the same period last year. Local advertising net revenue increased $21.4 million, or 37.1%, to $79.0 million, while "Other Media and Entertainment" net revenue increased $6.5 million, or 70.5%, to $15.8 million. These increases were primarily attributable to acquisitions made during the second half of 2013, including certain assets of Peak II Holding, Cumulus Media Inc. and certain live events.

"We are pleased to announce solid results in the third quarter in line with guidance," Chairman/CEO Steven Price said. "We continue to be pleased with the performance that has been delivered by our diversified revenue strategy."

In a move designed to strengthen Townsquare's commitment to live entertainment, the company in early November acquired WE Fest, largely considered the world's largest country music and camping festival. "This addition to our portfolio of music festivals positions Townsquare Media as one of the leading country music festival owners in the United States," Dhruv Prasad, the company's EVP/ Live Events, commented. "We look forward to continuing to grow the audience at WE Fest, along with the operating leadership team of the festival."

Univision Radio ▼

The company's Q314 radio revenue dropped 12.3% to $78.9 million vs. $90.0 million in the same quarter in 2013. The company said the 2014 FIFA World Cup had a negative impact on net advertising revenue by an estimated $1.9 million for the quarter. In fact, CEO Randy Falco said the lower radio revenue partially offset gains in other operating divisions, with the overall revenues—driven by gains in TV

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and digital—growing 5.2% to $728.9 million.

As a multi-platform company, Falco stressed the company's overall brand rather than segmented profits or losses. "Our strategy of providing a Univision-branded experience to our audience everywhere continues to differentiate Univision's position in a very competitive and rapidly changing media environment," he said in a conference call. "Today, we have 16 broadcast, cable, and digital networks that are expanding our reach and connecting us with a young, tech-savvy, and politically and economically influential audience.

"Coupled with our content spanning across entertainment, sports, news, and music, many of our offerings continue to attract audiences who are not only younger than our competitors', but also watch live and are frequently engaged with us across linear, digital, and social platforms," he added.

Non-Broadcast Radio Companies

Pandora Media ▲

Total third quarter revenue increased 42% to $239.6 million vs. $171.3 million in Q3:13, while mobile ad revenue increased 56% to $151.7 million, accounting for 78% of total ad revenue. Local advertising revenue was up 118% to $41.8 million. Q3 subscription and other revenue was $45.3 million, an increase of 25% over $36.3 million, while end-of-period paid subscribers totaled 3.53 million, an increase of 12% year-over-year. Pandora claimed its share of total U.S. audio listening—including AM/FM radio—was 9.06%, an increase from 7.77% at the same time last year.

"Our investment in penetrating the local radio advertising market is paying off," CFO Michael Herring said in a quarterly conference call in October. "Local advertising revenue reached approximately 22% of total ad revenue; we now have 109 local sellers in 37 markets and an inside sales force that addresses another 150-plus DMAs. We intend to invest to extend our market share for the foreseeable future."

At the same time, Pandora reported a dramatic slowdown in the addition of new listeners, which CEO Brian McAndrews addressed in the same call. "In an increasingly competitive environment, driving monthly active user growth will be more challenging, particularly given our already significant market position," he said. "Looking ahead, expecting monthly active user growth at historic levels is not realistic. That said, we continue to believe in the long-term opportunity to grow our audience in excess of 100 million monthly active users in the U.S., as growing smartphone penetration, connected autos, and other devices accelerates the transition of the 250 million weekly U.S. radio listeners to internet radio."

SiriusXM ▲

Sirius experienced a steady rise in its subscriber base, driven by healthy growth in new vehicle sales in the U.S. The company's overall subscriber base increased 5% year over year to 26.7 million, and the self-pay subscriber base went up nearly 7% to 22 million. During the quarter, the company added a total of 432,817 subscribers, including 379,598 self-pay subscribers. Net income more than doubled to $136 million, from $63 million in Q3:13. Quarterly total operating expenses were $763.1 million, up 12.7% vs. Q3:13. While operating income was up 3% to $294 million. Advertising revenues were $25.3 million, up 15.5% year over year. Sirius posted record Q3 adjusted EBITDA growth of 29%, to $381 million.

"Sirius XM turned in an excellent third quarter that puts us another step closer to achieving all of our financial and operating goals for the year," CEO Jim Meyer said. "We now expect net additions of approximately $4.15 billion of revenue, and approximately $1.12 billion of free cash flow this year. Our new car penetration rate in the third quarter was 71.5%, up about 2.8% from last year's third quarter. We finished the third quarter with approximately 68 million factory enabled vehicles in operation, which equates to about 28% of the vehicles on the road."

"Our revenues increased 10% in the quarter driven by subscriber growth, revenue from connected vehicle services, and ARPU growth," EVP/CFO David Frear commented. "Adjusted EBITDA grew nearly 29% to a record 381 million, and adjusted EBITDA margin jumped from 30.7% to 36%."

The company should release its 2015 full-year guidance in February.

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Radio's Top Advertising Categories

The Automotive Sector

Auto Dealers/Dealer Groups/Manufacturers

As noted elsewhere in this report, U.S. auto sales shifted into overdrive in 2014, driven by increasing consumer confidence, inexpensive financing, and tempting dealer incentives. In fact, IHS Automotive says annualized sales expanded faster than analysts initially expected and, when the final numbers are tallied, total vehicle sales should have topped 16.4 million for the year—and are expected to climb steadily to 17.4 million by 2017. [1] Globally, auto sales will climb 2.9% in 2015 to 85.7 million from 83.3 million last year, with China leading the growth with an increase of 1.9 million light vehicle sales.

Summary:

Late in the third quarter several major auto brands revealed plans to increase their marketing budgets this year to support busy model launch schedules. Audi's 2015 marketing spend is expected to grow by about 10% compared to 2014 levels, focusing primarily on such high-profile TV events as the Super Bowl and the Emmy Awards. Meanwhile, Chevrolet said the brand plans to boost its marketing outlay to support five vehicle launches planned for 2015, and Lincoln announced it will increase its marketing spending an unspecified amount next year.

A major challenge facing auto executives is incorporating the ever-changing array of digital media in marketing plans in a way that's consistent across those mediums. Consumers are starting to push back against the growth in online advertising, and a tool from Google that blocks online ads has been downloaded more than 200 million times. "People are taking a stand," Vinay Shahani, VP/ marketing at Volkswagen of America, explains. Consumers are saying, "We want to get the content the way we want it and we don't want to listen to what you have to say as an advertiser."

Still, a study conducted by C+R Research for Cars.com suggests traditional legacy media are facing an uphill road when it comes to consumers' perspectives on which advertising most helps them shop for a new automobile. [2] Specifically, spot television, radio, and direct response were found to be the least trustworthy or helpful sources of information, and therefore the least likely to drive consideration.

As noted by *MediaPost*, the study suggests online sources have influence early in the buying process, while offline advertising drives influence later. Respondents reported they favor independent sites because they offer side-by-side comparisons of vehicles and dealerships.

"Consumers can be overwhelmed by automotive content, but rather than tune it all out, they're selecting the pieces that are most valuable to them, effectively curating their own car buying experience," said Simon Tiffen, senior manager of advertiser insights at Cars.com.

Against this backdrop, Automotive Q3 radio spot spending was down modestly (-4%) vs. the same period last year. The majority of the top advertisers within the category cut spending by mere single digit percentages and retained the same rankings as Q3:13. Those automakers that added dollars were #5 Chevrolet Dealer Association (+20%) and #6 Fiat Chrysler Automobiles (+26%), with #2 Ford Dealer Association and #10 Lexus Dealer Association both down double digits (-28% and -13%, respectively). Toyota Dealer Association led all automotive spenders in Q3:14, despite being down 4%. Category spending year-to-date was down -2%.

Auto Parts/Service

According to recent data from Polk, consumers are keeping their vehicles an average of 11.4 years, which means a lot more car maintenance. With this in mind, advertisers in this category have committed 8% more to spot radio in the first three quarters of 2014, despite a 3% decline in Q3 radio advertising, led by O'Reilly Auto Parts (Q3 +24%, YTD +16%) and Advance Auto Parts (Q3 +27%, YTD +235%).

Note: *All category ad spend figures were supplied by the Radio Advertising Bureau, and the brief narratives detailing top advertisers were adapted from RAB materials. Source for advertising figures is Miller Kaplan Arase LLP: X-Ray Markets. Revenue growth rates are based on the 40 market X-Ray pool and may not be fully indicative of the industry results as a whole.*

All year-to-date (YTD) figures are for the nine months from January through September, 2014.

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The Beverage Sector

This category lost its radio fizz in Q2:14 (-23%), and continued to taste flat after Q3 figures were released. That said, PepsiCo continued its reign as radio's beverage spending leader and upped its spot advertising commitment 2% in Q3:14. This increase was not enough to offset prior quarter decreases, with Pepsi's year-to-date spending down 12%. Ranked at #2, Coca-Cola reduced its Q3 spot activity by double digits (-20%), but ended the three-quarter period flat vs. 2013 comps.

Summary:

After several years of either weak growth or declines, U.S. beverage volume sales increased 2.2% in the first half of 2014, the most recent figures available from Beverage Marketing Corporation.[3] The largest single liquid-refreshment beverage type—carbonated soft drinks—continued to shrink, as BMS reported volume was 1% lower in H1:14 than in the first half of 2013. Though its share of beverage volume remained formidable, its steady erosion continues.

The soda segment, typically a mainstay of the beverage industry, took some hits largely because of a growing move toward health consciousness. [4] As a result, soda's share of the U.S. beverage consumption fell to 23.6% in 2013, compared with 29.6% in 1998. The changing industry dynamic is also weighing on Coca-Cola's performance. In Q2:14, Coke's volumes grew only 3% year-over-year, as compared to a long-term target range of 4%-5%. Also, beverage sales volume for Pepsi increased only 1% year-over-year in Q2:14.

According to a *Wall Street Journal* report, PepsiCo, Coca-Cola, and Dr Pepper/Snapple have established goals together to reduce the calories in their beverage offerings by 20% over the next decade. [5] The soda giants plan to do this through a heavy promotion of lower-calorie drinks, bottled water, and by marketing smaller SKUs of soda products. They also have designed their marketing and distribution efforts to help steer customers to zero or low calorie drinks, or to smaller-sized portions. Additionally, the companies will offer calorie counts on all points of sales, including retail coolers in mini-marts, self-service soda fountains, and the three million vending machines across the country.

Several beverage categories did perform well, however, lifting the overall beverage market. Bottled water, bolstered by both a large retail component, and the smaller imported and domestic sparkling segments, grew faster than the overall market. Meanwhile, ready-to-drink coffee accelerated rapidly, and the volume of energy drink sales increased by 5.5% through the first half of 2014. [6] Overall, the H1 uptick was expected to continue through the end of 2014 and into this year. (Final numbers for 2014 won't be available until March.)

Finally, the Beer Institute reported total production in October, the last month for which data was available, was 14.35 million barrels, a 0.5% increase over the 14.28 million barrels produced in the same period in 2013. [7] Year to date through August '14 total production was down 0.5%, or 657,000 barrels.

The Retail Picture

Retail (Including Department and Discount Stores, and Home Improvement)

While three of the top five advertisers in this category increased their Q3 spending, it was not enough to offset the decline registered since Q1 of 2014. Walmart continued its reign as the lead retailer for the quarter and year-to-date, but still posted significant double-digit ad spend declines of 39% and 47%, respectively. Target was a close second with a 59% increase for the quarter but ended the three-quarter period slightly down (3%) vs. same time period comps. Third quarter advertisers that ranked #3 through #5 were Macy's (down 6%), Simon Malls (+161%), and TJ Maxx (+43%).

Throughout the summer months, Home Improvement advertisers increased spot radio 6% in Q3 and 7% YTD. An increase of nearly 300% earned Benjamin Moore Paint's position as the #1 top Q3 spender, lifting it up to #2 YTD. Each of the remaining top five category advertisers increased their radio spending in the quarter:

Advertiser	*Q3 '14*	*YTD '14*
Menards Building Supply	+4%	+3%
Renewal/Andersen Windows	+356%	+131%
Home Depot	+83%	+12%
Rhino Shield	+30%	+15%

Collectively, these five advertisers increased spending 104% and represent 15% of Q3 category spending.

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Specialty Retail

Advertisers that sell specific product lines continue to boost their spot radio presence to communicate sales and special offerings as indicated by 3% increases for the quarter and YTD. Leading the Specialty Retail sector was national advertiser Michaels, which scored a sizable uptick of over 600% for Q3 and 400% YTD. Old Navy also boosted spending for the quarter and YTD, up 28% and 39%, respectively.

Summary:

Last fall the National Retail Federation forecast U.S. holiday retail sales in November and December (excluding autos, gas and restaurant sales) would increase 4.1% to $616.9 billion, vs. 2013's actual 3.1% increase during that same period. [8] Holiday sales on average have grown 2.9% over the past 10 years (including 2014's estimates) and were expected to represent approximately 19.2% of the retail industry's annual sales of $3.2 trillion. If the NRF projection was on target it would be the first time since 2011 that holiday sales increased more than 4%.

"While expectations for sales growth are upbeat, it goes without saying there still remains some uneasiness and anxiety among consumers when it comes to their purchase decisions," said NRF President/CEO Matthew Shay. "Recognizing the need to keep household budgets in line, we expect shoppers will be extremely price sensitive as they have been for quite some time. Retailers will respond by differentiating themselves and touting price, value and exclusivity."

While consumer confidence was unstable during the first part of 2014, it settled into a more optimistic tone in the third quarter as key economic indicators caused shoppers to open their wallets a bit more. According to NRF, retailers were expected to hire between 725,000 and 800,000 seasonal workers for the just-concluded holiday shopping season, potentially more than the 768,000 they actually hired during the 2013 holiday season. Seasonal employment in 2013 increased 14% over the previous holiday season.

"In the grand scheme of things, consumers are in a much better place than they were this time last year," NRF Chief Economist Jack Kleinhenz said in a statement. "The extra spending power could very well translate into solid holiday sales growth for retailers; however, shoppers will still be deliberate with their purchases, while hunting for hard-to-pass-up bargains."

While the NRF typically waits until after the holiday season to provide an annual projection for the coming year, Kleinhenz did issue a broadly worded overview that pointed to a somewhat optimistic forecast for the retail sector in 2015. "While the economy got set back considerably in several other recessions, the financial crisis that brought down the economy (from late 2007 to mid-2009) probably hit every corner of the economy more so than what we had realized or occurred in other recessions," he said. "We had a setback in the first part of 2014. But it's certainly picked up and offset a large amount of the downturn that occurred in the first quarter."

Still, Kleinhenz said he expected 2014 to end with about 3% overall GDP growth. He said solid employment gains, stronger spending by businesses, an improving housing market, and improving personal income growth have set the national economy up for the year ahead. "The outlook is good going into 2015," he observed. "The economy is improving, and the consumer will continue to be a major contributor."

The Restaurant Sector

Restaurant advertisers cooked up much healthier spot advertising dollars in Q3 following two bland quarters in the first half of 2014. Quarterly revenue was down just 4% against same period last year, while YTD spending was off 11%, vs. the 16% decrease registered at the half. Category super-spender McDonald's lagged just 3% behind its 2013 spending levels for Q3 and YTD, but Subway was a disappointment, with 27% drops for both periods.

On a more positive note, radio saw increased spot revenue from a number of national radio advertisers, including (in rank order based on Q3 spending):

Advertiser	*Q3 '14*	*YTD '14*
Dunkin Donuts	+5%	+2%
Wendy's	+19%	-3%
Chipotle Mexican Grill	+11%	0%
Jack in the Box	+89%	-3%
Jimmy Johns	+24%	+11%
Bonefish Grill	+59%	-40%
Buffalo Wild Wings	+8%	+1%

Summary

Driven by strong same-store sales and customer

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traffic levels, as well as a more optimistic outlook among restaurant operators, the National Restaurant Association's Restaurant Performance Index (RPI) was virtually flat in September, the last month for which index figures were available. The RPI—a monthly composite index that tracks the health of the U.S. restaurant industry and the outlook of its operators—stood at 101 in September, down 0.9% from August. [9]

"The September decline in the RPI was due in large part to a dampened outlook among restaurant operators for business conditions in the months ahead," said Hudson Riehle, SVP/Research and Knowledge Group for the National Restaurant Association. "Restaurant operators remain unimpressed about the direction of the economy, with elevated food costs remaining at the top of their list of challenges."

Still, restaurant industry performance improved in October, surpassing September's strong results and representing its best month in nearly three years, according to the latest Restaurant Industry Snapshot from TDn2K's Black Box Intelligence and People Report. [10]

As reported by *Nation's Restaurant News*, October same-store sales grew 2.8% during the month, a 0.7% improvement compared with the growth rate reported for September. Additionally, the industry achieved positive growth in the vital same-store traffic indicator for the first time since February 2012, underscoring the strength of October's performance.

"[This] has become a good year for the restaurant industry when it comes to same-store sales," said Victor Fernandez, executive director of insight and knowledge for TDn2K, parent company of Black Box Intelligence and People Report.

Overall, restaurant operators appear to be cautiously optimistic about sales growth in the months ahead. Almost half (45%) say they expect to have higher sales in six months (compared to the same period in the previous year), down slightly from 47% who reported similarly last month. By contrast, only 5% of restaurant operators expect their sales volume in six months to be lower than it was during the same period in the previous year, down from 13% last month.

According to *Nation's Restaurant News*, a majority of restaurant operators say they are planning to make capital expenditures in this coming summer. Additionally, 59% say they plan to make a capital expenditure for equipment, expansion or remodeling through the first quarter.

Communications And Cellular

The third quarter held relatively steady with last year's strong spot radio investment, leading this category to retain its #2 spending rank behind Auto Dealers/Dealer Groups/Manufacturers. Year-to-date, however, the category dropped from #2 in 2013 into #3 in a near tie with Financial Services.

Activity within the category was volatile through September. AT&T outspent all competitors by a wide margin for the nine-month period, and was up 5% YTD vs. 2013, while its Q3 comps were down 10%. T-Mobile retained a solid second place YTD, even though the company cut spending 10% for the nine-month period and 20% in Q3. Meanwhile, Verizon ranked third through September (+18%), but down 36% for the third quarter. MetroPCS was #4 in the category and up 72% through September, but declined 47% in Q3, and Sprint jumped to the #3 spot for Q3 on a 40% increase, but was #5 through September, with a 48% cutback.

Summary

Despite the massive growth in fiber-to-home networking, wireless networks are expected to provide a major impetus to the telecom industry in the year to come. The primary reason for this is a major intra-industry shift that has taken place in the U.S. high-speed internet broadband market. For the first time in the 65-year long history of the cable TV industry, broadband customer count surpassed the TV viewers count. According to a recent report by the Leichtman Research Group (LRG), the top nine cable TV operators accounted for a total of 49.915 million broadband subscribers vs. 49.91 million video subscribers, at the end of Q2:14.

As noted by many analysts, a severe spectrum crunch and slowing smartphone adoption are compelling wireless operators to seek other options to raise revenues. Furthermore, growing demand for technically superior products has been the silver lining for the telecommunication industry in an otherwise tough environment. The cloud-managed WiFi market has become a major growth driver for telecom operators, as an increasing number of large and mid-sized enterprises are adopting this technology.

At the end of 2014 AT&T and Verizon Wireless

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commanded 34% and 31% share of the total number of U.S. wireless subscribers, respectively. Sprint, T Mobile and U.S. Cellular's market share ratios to that of AT&T, the market leader, are less than 50%, indicating that the three carriers could be marginal cash traps. [11]

Interestingly, connected cars (see the Impact Issues section elsewhere in this report) offer telecom carriers an opportunity to expand their wireless revenues. AT&T Inc. (12) has been the most successful and dominant U.S. carrier to tap the connected car market, leaving its rival Verizon behind in the race. Recent surveys indicate car buyers increasingly are demanding in-car connectivity, and the service is becoming an important factor when it comes to car- buying decisions. Almost half the car owners were willing to switch manufacturers for a connected car, while 72% of car buyers were willing to wait for their auto manufacturer to provide the service, according to an AT&T Drive Studio and Ericson survey. [12]

Of the four major wireless carriers operating in the market, AT&T is in the pole position, with eight auto manufacturer deals, while Verizon has four, Sprint has two, and T-Mobile has only one. The market for connected cars reached $8 billion in 2013, and is expected to become a $20 billion industry by 2018, according to Reuters.

Banking And Financial Services

Spot radio revenue for this category was down 9% for both the third quarter and year-to-date. The category ranks second in a near tie with #3 Communications/Cellular in the quarter and ranks third based on cumulative spending YTD.

MasterCard was the only major account to increase spending in Q3 (+14%), which moved it from 4th in its category last year to the #1 spot in Q3:14. (YTD, however, MasterCard was down 20%.) Despite diminished Q3 activity overall, several Financial Services advertisers were up on YTD comps: JPMorgan Chase (#1, up 41%); American Express (#3, up over four-fold); Navy Federal Credit Union (#4, up 3%); and Fortune Builders (#8, up 137%; also up 77% in Q3).

Summary

As financial institutions plan for 2015, key banking executives are examining new ways to grow revenues and meet the needs of an increasingly demanding consumer. As Jim Marous, partner at The Financial Brand and publisher of the *Digital Banking Report,* noted in October, the focus of most bank and credit unions since the financial crisis has been on managing risk, cutting costs, and meeting regulatory requirements. [13] While these are laudable initiatives, many bank executives believe it is time to shift gears, moving forward to create a new vision of revenue growth focused on an enhanced customer experience.

In its annual survey of financial services execs, KPMG last year found a fundamental need for change on a strategic, operational, and structural level in order to compete now and in the future. As Marous pointed out in his analysis, despite continued regulatory constraints and rising costs, there's a recognition that strategic priorities need to be better aligned and that investment in technology is needed to provide a better customer experience.

The KPMG research found that, as banks search for revenue growth, they are combining older strategies with newer opportunities. For example:

> "Increasing capital requirements have lead many of the larger banks to focus on traditional sources of revenue, such as asset and wealth management. For smaller institutions, the focus should also be on engagement and cross-selling initiatives, which leverage an established consumer base while providing the potential for growth in credit cards, mortgages, and even underserved markets. While acquiring new households and entering new markets may make sense for some institutions, organic growth is the primary focus for the near term."

One surprising factor uncovered by the KPMG research is that banks are also recognizing the potential revenue opportunity of the unbanked and under-banked population segments. In fact, these customer groups more than doubled in survey responses from 2013.

According to the FDIC, 8.2% of U.S. households (about 10 million households and 17 million adults) are unbanked, and 20.1% of U.S. households (about 24 million households and 51 million adults) are under-banked. [14] Beyond the size of these segments, another reason for the increasing interest in these segments is that unbanked and under-banked households spend more money on fees than other customer segments, including fees for check cashing services, overdrafts, and non-home-bank ATMs.

As banks search for growth opportunities, they

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continue to look for areas of new opportunity as well as build upon existing ones. According to KPMG, increasing regulatory capital requirements have led many banks to focus on business areas that are less capital-intensive, such as asset and wealth management. [15] One out of three (32%) of executives polled in the survey said they expect this area to be a main driver of growth over the next three years. This theme is further validated in a recent study conducted by Fidelity Investments, which found 55% of bank executives are looking for revenue growth from wealth management to grow 25% or more in the next five years.

The KPMG study also determined that the next transformative stage for financial institutions will be driven by customer demand. "To meet the needs of today's customer, banks will need to make the leap from a multichannel to an omnichannel approach," the study says. "This will provide customers with a seamless experience that delivers tailored advice, products, and services. It's an opportunity to really understand the customer, streamline systems, and focus attention on the most profitable channels."

One more thing: Mobile technologies, including mobile payment platforms, increasingly are becoming a priority for banks. More than a third of those execs surveyed by KPMG said enabling mobile payments is a key IT-related investment goal, although many banks are taking a wait-and-see approach to follow their customers' lead. Many customers are simply reluctant to use mobile banking services because of security issues, and see no actual benefit to mobile over existing methods for banking.

Grocery/Convenience Stores

Spot spending in this category declined 17% in Q3:14 because of double-digit belt-tightening among all of the top 10 chains—except for Fresh & Easy Neighborhood Market (#6), which was up 152%. Spending across the first three quarters was down 13%, affected primarily by category leader Safeway's 20% cut, while #2 Kroger was virtually flat (-2%) and #3 Publix Supermarkets was up 2%.

Summary

For decades U.S. consumers purchased almost all their grocery goods at a single location, either because of a store's broad selection or its location. In the last few years, however, this trend has slipped as consumers increasingly are splitting their grocery bills across multiple channels—in some cases as many as five. As a result, traditional supermarkets are losing market share, according to a report issued by Jones Lang LaSalle, a professional services and investment management company specializing in real estate. [16]

That report predicts that by 2018, traditional supermarkets' share of grocery dollars will have shrunk to a little more than 37%, as consumers spend more of their time and dollars in fresh format (Whole Foods and others) and limited-assortment stores (Trader Joe's, Aldi, etc.), supercenters, and on eCommerce. Fresh-format stores will see the most aggressive gains via sales growth, since 75% of consumers surveyed for the report prioritize fresh produce as a major drive of where they shop. Plus, Millennials and Boomers are focusing more on healthy eating choices and creatively prepared meals.

That said, major grocery chains today still capture a huge share of U.S. grocery dollars. According to an analysis published last fall in the *Washington Post*, Kroger—the nation's largest chain—generated $98.4 billion from its fleet of 2,640 stores. Safeway pulled in $36.1 billion, and Publix earned $28 billion. [17] Trader Joe's is the emblem of success in the limited assortment category, pulling down $1,723 in sales per square foot, compared to $552 per square foot at Publix or $496 at Kroger.

CSP.net reports the supermarket business is in the early stages of a massive shakeup, with competition coming from many directions to carve off customers. [18] Again, such stores as Whole Foods and Fresh Market are luring customers who prefer natural, organic foods, while Wal-Mart and Target are using their massive footprints and low prices to offer a vast assortment of items that appeal to a price-conscious grocery shopper.

New Stores

According to retail and merchandising consultant Willard Bishop, convenience stores and dollar stores top the list of the outlets planning the greatest number of new stores—approximately 11,200 and 7,850, respectively. As a result, C-store sales are forecast to grow 12.7% through 2018, while store count will increase by 7.1%. Dollar store sales will grow 31.2%% through 2018, and store count will increase by 28.9%.

The grocery industry is a very narrow-margin business, which means that just a small shift of customers from one store to another can wreak havoc on the bottom line. This is but one reason analysts

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expect to see more major grocers consolidate; already in the past several years Kroger has acquired Harris-Teeter, and Safeway merged with Albertsons. [19] As competition heats up, expect more of the same.

Health Care Services

This category, which includes hospitals and medical/personal image clinics, increased its spot radio spending 4% in Q3 and 6% YTD vs. same period comps in 2013. Ideal Image, which increased spending 1% and 2% in Q3 and YTD respectively, continued as category leader, and outspent the next largest advertiser by nearly five to one in the quarter. Lasik Plus and American Laser Center also continued to spend significantly on radio, with considerable increases YTD vs. almost no activity over the same period in 2013.

Summary

The massive U.S. health-care industry experienced a revenue rebound in the second quarter of 2014, a strong indication that spending at hospitals and medical offices is helping to boost U.S. economic growth to its highest level in eight years. As the *Wall Street Journal* reported in September, the Commerce Department reported in its Quarterly Services Survey that hospital revenue rose 2.8% from the first quarter and revenue at physician offices jumped 4.1%. Total revenue at healthcare and social assistance firms rose 3% in Q2 vs. Q1, showing modest acceleration in health spending. According to the Kaiser Family Foundation, this largely was due to more people being insured under the Affordable Care Act and the recovering economy putting some upward pressure on healthcare costs. [20]

Many economists had predicted the rollout of the ACA last year would lead to higher healthcare spending, as millions of Americans obtained insurance coverage and began using it. The Centers for Medicare and Medicaid Services in September projected healthcare spending would grow 5.6% in 2014, up from an estimated 3.9% in 2013. [21] Historically, nonprofit hospitals were posting revenue growth of 7% or more in years prior to the recession. [22]

As more and more consumers understand their healthcare options, hospital admissions are falling, leaving those institutions scrambling for ways to attract revenue-generating patients while also controlling spending. As *Advertising Age* reported last October, many are turning to search, mobile, and social for cost-effective marketing that reaches the growing number of consumers who look online for health-care information. "The consumer-to-patient journey is largely a digital journey at their moment of need," Mayo Clinic CMO John Weston said. "If I were diagnosed with something tomorrow, one of the first things I would do is go online."

Marketers traditionally have used a broad mix of radio, television, print, and out-of-home ads to build brand awareness, but search-engine marketing has becoming a more significant part of hospitals' marketing plans. *Ad Age* says TV and newspapers still reap the largest hospital ad budgets, but search is at the forefront of many campaigns. "Return on investment is on the top of everybody's agenda," observed Cleveland Clinic CMO Paul Matsen, who noted that digital's measurability helps marketers defend their budgets.

Employers should expect to see a modest reduction in premium costs for most group health care benefit plans in 2015, but should also expect a sharp increase in prescription drug coverage costs. That's according to a report by benefits consulting firm Segal Group Inc. [23], which says average healthcare benefit cost increases for active group and pre-Medicare retiree coverage are projected to range between 6.2% and 10.4%, depending on the plan type, reflecting flat-to-moderate reductions in cost trend rates in 2014. The report also predicts an average 8.6% rise in prescription coverage costs in 2015, compared with an average 6.3% increase last year.

Despite Walmart's announcement last fall that it would eliminate health care coverage for approximately 30,000 part-time employees, most employers will not reduce the number of health care plans or the scope of coverage they offer to their employees in 2015. According to a survey by San Francisco-based benefits consultant Benz Communications, [24] 39% of more than 330 employers said they intend to maintain their current selection of group health insurance plans in the coming plan year without reducing the breadth of covered procedures and treatments, or increasing employees' share of total premium costs.

Still, as reported by *Business Insider*, an additional 16% of employers say they do plan on some reduction in the number of plans they offer to employees this year in order to mitigate anticipated cost increases expected to result from the health care law's implementation. Additionally, a small percentage say they plan to scale down on the number of full-time workers they employ in order to

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reduce their exposure to the reform law's coverage mandate.

The survey also revealed limited interest among employers in the concept of moving their active employee health benefits program onto private health insurance exchanges. One-third (32%) of employers said a switch to exchange-based health benefits was possible within 3-5 years, while 55% said they would "never" offer health benefits through an exchange.

"Our survey findings indicate that employers want to continue playing a key role in providing benefits for their employees," Brian Klepper, CEO of the National Business Coalition on Health, said in a statement. "One of the problems with private exchanges, especially those developed by consultants, is that there's an obvious conflict of interest."

Insurance Companies

The Insurance category is one of the brighter segments in national advertising, with a 1% increase vs. Q3 2013 and a 7% gain YTD. GEICO continues to lead ad spending despite showing a small dip (-4%) for both the quarter and nine-month period compared with respective prior-year periods. Meanwhile, a number of insurers substantially increased their radio coverage in Q3, including:

Advertiser	*Q3 '14*	*YTD '14*
Allstate Insurance	+40%	0%
American Family Insurance	+11%	-7%
Farmers Insurance	+66%	+143%
State Farm Insurance	+11%	-21%
AAA Auto Insurance	+30%	+28%
AARP Insurance	+190%	+64%

Summary

"Fifteen minutes could save you 15% or more on your car insurance."

There's a reason GEICO has used this marketing line for decades: the process of buying automobile insurance is not fun. In fact, most consumers find it even less fun than the process of actually buying a car. But virtually all Americans carry some kind of insurance—homeowners, rental, auto, life, umbrella coverage—making the insurance industry a trillion-dollar business in the U.S.

It's also very competitive, with most major insurance providers spending billions of dollars each year trying to lure new customers through their virtual doors. The aforementioned GEICO, plus Allstate, State Farm, and Farmers Insurance all invest a sizeable amount of money in radio advertising each year, and for a reason: it works.

Still, a major shift is underway in the balance of consumer purchasing power, one that will necessitate multi-layered thinking about market segmentation, operational impacts, and other factors. According to a study from Ernst & Young titled "EY Insurance Business Pulse 2013-2015," the rise of social media tools is changing the way companies (and agencies) communicate directly and personally with consumers, and can improve the speed and scope of internal communication and contribute to operational flexibility. [25]

In fact, as insurance customers become more empowered, more demanding, and more likely to switch providers, marketing—both through such traditional channels as radio and also via newer, digital platforms—will play a critical role in helping insurers attain their growth objectives. As a result, insurance marketers need to expand their thinking, particularly with respect to digital transformation. [26]

A recent survey conducted by Accenture found many insurance CMOs are struggling through a "crisis of confidence." Facing a volatile market where competition is coming from new rivals, new customers are scarce, and existing customers are increasingly fickle, only 53% of survey respondents are confident they can meet the performance objectives of their organizations. This was the lowest level of confidence of any of the industries surveyed. These executives also appear to be challenged to embrace digital transformation: Only 19% believe that their companies will be viewed as digital businesses five years from now.

As noted in an industry assessment from Property/Casualty 360, insurance marketers say that improving customer retention and loyalty is their most important business issue. [27] Despite this realization, insurance marketers are not keeping pace with the market and technology trends that call for a new approach to the customer experience. Doing so requires a number of strategic and tactical initiatives.

As the Property/Casualty 360 summary notes, insurance marketers must come to terms with a digital future, coupled with marketing driven by traditional media. To achieve a successful digital transformation, insurance executives will have to collaborate more effectively with each other. They will need to bring in external partners to broaden the expertise at their disposal and expand their range of

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offerings. As the study says, "The CMO who understands the brand, the customers, and the products better than anyone is a natural leader for this journey."

*Editor's note: For the purposes of this **Radio 2015** summary, the "Insurance" category includes property, casualty, and loss, but not Health Care. That business segment is covered by its own summary.*

TV/Networks/Cable Providers

As both the television and cable industry begin to experience audience erosion and a shift in ad spending to digital platforms (sound familiar?), ad spend in this category was down 12% for the quarter and 9% YTD vs. the same periods in 2013. Comcast Xfinity continued to lead this segment by a significant margin but still was down 6% in Q3 and 9% for the first three quarters. Pending FCC approval, the company is expected to merge with Time Warner Cable, which was down 73% and 20% for the same periods, respectively.

Radio did see increased Q3:14 volume from both ABC-TV (+37%) and NBC-TV (+39%), although spending from all the major networks was down through the first nine months of the year.

Summary

Back in October snack food giant Mondelez International announced it would increase its video advertising on YouTube, joining Allstate insurance and other major marketers in shifting parts of their ad budgets from traditional TV to digital media. As a result, many analysts have proclaimed that the digital video revolution has arrived, and potentially could take a major bite out of the $78 billion U.S. television advertising market, as dollars follow viewers online.

Meanwhile, Omnicom in October advised marketers to move anywhere from 10% to 25% of TV ad dollars to online video—not welcome news to network and cable execs. [28] As reported by the *Wall Street Journal*, Omnicom CEO Daryl Simm was squarely at the center of that advice, overseeing roughly $54.4 billion in advertising spending around the globe and advises advertisers such as PepsiCo, Visa, McDonald's and Apple.

"Online video ad spending is growing at a considerably faster pace than overall media budgets have been growing," Simm told the *Journal*. "We have the TV partnerships that offer full episodes online, we have the Hulu type places that also offer full episodes of network TV shows, and we have partnerships with the premium video providers of the world such as AOL, Yahoo and YouTube. So TV money is traveling to all of those other alternatives."

"Consumers are consuming more online video year over year, and they're consuming more content year over year," Bonin Bough, VP/global media, told the *Chicago Tribune* in October. [29] "It's very difficult to feed that voracious appetite with the current economics that we have around video content creation. This is no longer a world of TV vs. online video. We see this as a world of video."

Disregarding the exodus of dollars from TV to digital platforms, network television and cable programmers are locked in a heightened competitive battle for viewers' eyes. Brian Wieser, senior research analyst of the Pivotal Research Group, said the national TV upfront market in May 2014 was "unambiguously weak" not only for broadcast, but for cable. [30] He estimates upfront broadcast ad spend dropped nearly 8%, while cable slipped 5%. In total, national TV was down 6% vs. the 2013 upfronts.

In the ongoing fragmentation of media that has already transformed the newspaper and music industries, the television business is the biggest and perhaps last traditional media giant to be dramatically affected. That's the word from *Entrepreneur* magazine contributor Kevin Bobowski, who says, "Netflix and Hulu are eroding the base of this powerful TV industry, while YouTube and Vimeo are destabilizing it." [31]

The advertising implications will be enormous as this industry is disrupted, Bobowski says, noting that "billions of dollars of advertising and marketing dollars will be unleashed on nascent but growing digital video platforms. This migration of ad dollars is already happening in a steady trickle, but should the television studios' stranglehold on the video audience break, that trickle may become a flood."

New data from Nielsen illustrates that reaching radio listeners—who tend to be TV viewers when they're away from their televisions—can have a dramatic effect on viewership when the program airs. [32] Since radio reaches more than 90% of all Americans on a weekly basis, it has the ability to reach a significant amount of viewers in a short period of time. Radio also can maintain and increase the reach of an ad campaign even when a network reduces the on-air TV portion of the campaign and amplifies the radio campaign.

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MERGERS AND ACQUISITIONS

Top Deals Of 2014 42

According to BIA/Kelsey, Emmis Communications' $131 million acquisition of YMF's New York stations was the largest radio deal of 2014. Here's a look at the top merger and acquisition activity of last year...

Market Conditions 43

The station-trading marketplace his shrunk considerably since the days of "irrational exuberance" in the late 1990s and early '00s. Over the past 18-24 months, however, the radio industry has seen a number of notable deals, measured in terms of market size, number of stations, and purchase price.

The Economics Of Cash Flow 46

"Low supply and increased demand puts upward pressure on pricing, and cash flow multiples definitely have eased up from their bottom of several years ago," says Media Services Group's George Reed. Here's a look at the current reality of station prices.

The Color Of Money 48

No two radio transactions are the same—and neither are the financial structures behind those deals. Market size, facility strength, operator expertise, cash flow, and access to capital all play a role in determining how a deal is financed.

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Emmis' New York Buy Was Top Deal Of 2014

According to BIA/Kelsey, slightly more radio stations changed hands in 2014 than in 2013, although the dollar value of the deals was slightly lower. Through December 10, 881 properties (including the Entercom-Lincoln Financial Services deal) found new owners in 2014, for a total $921.177 million, vs. 804 stations that sold for a cumulative $987.7 million during the same period a year earlier. These figures do not include the nine stations Larry Wilson's Alpha Media announced it was purchasing from Access 1 in Shreveport, LA and Tyler-Longview, TX for an undisclosed sum.

The largest deal in 2014 dollar-wise was Emmis Communications' purchase of YMF's WBLS-FM and WLIB-AM in New York for $131 million in cash (see chart, below). As a result of the purchase, which included a Local Marketing Agreement that took effect in March, Emmis' net revenues for its second fiscal quarter (June-August) were up 15%, from $41.2 million in 2013 to $47.6 million in 2014.

The Number Two radio deal in 2014 was Steel City Media's $105.5 million acquisition of four Wilks Broadcast Group's stations in Kansas City. The four licenses will be held by MGTF Media and, unlike Steel City's Pittsburgh stations—which are owned by Saul Frischling and his sons Gregg, Michael, and Todd—the KC stations will be owned by just the sons. MGTF is an acronym for their first names (plus the F in Frischling).

The third-largest deal of the year, of course, was Entercom's acquisition of Lincoln Financial Services' 15 radio stations in four markets for $105 million plus working capital. That deal is expected to close in the second quarter of 2015.

Top Ten Radio Station Deals: January – December 2014

Month Acquired	# of Stations	Price (000s)	Buyer	Seller
February	2	$131,000	Emmis Communications	YMF Media
June	4	$105,500	MGTF Media Company	Wilks Broadcast Group
December	15	$105,000	Entercom	Lincoln Financial Media
May	9	$72,000	Midwest Communications	South Central Comm
May	48	$66,500	Digity LLC	Three Eagles Comm
April	19	$57,000	Alpha Media	Main Line Bcstg
June	2	$50,000	Connoisseur Media	Qantum Comm
November	1	$12,950	Family Stations Inc	ABC/Disney
October	1	$12,500	Davidzon Radio	Blackstrap Broadcasting
January	1	$11,270	Riviera Broadcasting	Trumper Comm III

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Market Conditions: Slow Growth, Solid Margins

While much attention to (and criticism of) radio focuses on its flat to slightly down revenue growth over the last several years, the industry generally produces respectable profit margins. Depending on the operator, markets, stations, and content, radio actually remains a modestly lucrative business that performs better than many other established industries. It certainly can yield a stronger return than most financial instruments today, including Treasury bills, money market funds, and savings accounts, and has the added advantage of scarcity dictated by a federal license.

It's this emphasis on dependable margins that, possibly more than any other factor, is guiding merger and acquisition activity today. The marketplace slowed considerably in the years following the recession of 2007-2009, but over the past 18-24 months the industry has seen a number of notable deals, measured in terms of market size and purchase price. [See BIA/Kelsey chart, previous page.] While the market has not returned to the volume and cash flow multiples of a decade ago (and likely never will), committed buyers are actively seeking quality properties because of the aforementioned margins, scarcity, and solid balance sheets.

"Radio may not be a super robust growth business anymore, but it is a steady cash flow producer," says Larry Patrick, president of Patrick Communications. "Look at Dean Goodman's Digity Radio: it's a prime example of a strong radio operation. He's not telling investors he's going to have 5% or 10% growth. Nor is he going to have a lot of what radio views as 'core business.' But he knows that radio stations, if managed well, can produce a 30% return year-in and year-out. Even through all these bad times, the best companies have consistently done that. Radio may not have great growth, but it has high margins and consistent cash flow."

Patrick points to his own Legend Communications in Wyoming as an example. "Our stations generate 30% to 35% margins annually with only 2-3% revenue growth," he says. "Our digital has jumped year after year and is now hundreds of thousands of dollars in little towns in Wyoming. If we can do that, others can, too."

"This is a great free cash flow business, with margins higher than in most other businesses," Media Services Group's George Reed observes. "Plus, the business most of us are in is different from the business that iHeartMedia and Cumulus are in. The major market guys are driven by transactional business and cost-cutting, and national advertising plays a significant role. But in the mid-sized and small markets, none of those things really come into focus. While the headlines are all about national spot dollars being down and flat revenues, the story is very different outside the top 50 markets. That's where we're seeing more activity these days. It's a different business from selling a national platform to major ad agencies on Madison Avenue."

One reason for this is the role of media in "small town America." "In many small markets the local radio operator may be the only viable game in town," Reed explains. "In many cases there's no other radio signal and the newspaper's role has been diminished over the last several years. A lot of operators see that as an opportunity, because when they're serving the local community they're a part of the community. Then, when they fold in some of the digital opportunities that are beginning to emerge, and if they concentrate on real live and local, it's not hard to build a robust business."

Good But Not Great

The station trading business clearly isn't like it was a decade ago, with high cash flow multiples

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boosting prices, but it's also not stone dead as it was four years ago when business dropped off a cliff. Today there's a reasonable amount of activity across a wide range of players, from CBS' trade with Beasley and Entercom's just-announced purchase of Lincoln Financial, to smaller clusters being formed or expanded.

"It's far from super-heated, but I would call it active," says Media Service Group's Eddie Esserman.

What's missing in the current M&A equation, Esserman says, is the 35-40 year-old GM or GSM who wants to buy his own station. "That person is largely absent from the landscape today," he observes. "Still, current operators and former operators who sat out the last few years are eager to either expand their companies or get back in. Also in play are operators who are looking at strategic geographic partners that may emerge because of such normal life cycle events as deaths, retirement, bankruptcies, divorce, and disinterested offspring."

The poster child for re-entry is Larry Wilson, who sold Citadel Communications to Forstmann Little in 2001 and remained on the sidelines for most of the following decade. He formed Alpha Broadcasting in 2009 when he combined stations from Rose City Radio and CBS Radio, and then formed L&L Broadcasting to roll up additional properties. The two companies merged last summer under the Alpha Media banner. [Please see page 125 for an exclusive Q&A with Larry Wilson.]

"Part of what gives me hope and faith in radio are the people who are staying in it, and particularly those who are coming back," says Larry Patrick. "Larry Wilson is one of the most respected people in this business. So is Duke Wright: he has steadily acquired stations and he's grown in Michigan, Wisconsin, and Indiana. He's below the radar, but he has a lot of stations and he's doing well with them. Then there's Jeff Warshaw, who is a brilliant dealmaker and operator, and he has lots of innovative ideas. Townsquare has invested heavily in radio, and now they're buying digital and venues and festivals because they know that branded entertainment is pretty good. These are all smart operators, and they're finding smart money."

So what are these buyers looking for? "Mid-size market, cash flowing clusters," George Reed replies. "If I had a dozen of them I could sell them all. One of the challenges in this business right now is there's not a lot of that kind of inventory. But there are buyers for them."

Independent broker Todd Fowler, who ran the brokerage division for American Media Services, says he's seeing a lot more first time buyers and niche buyers, including sports-based, ethnic/ Hispanic, and regionalized buyers. Even car buyers and restaurant owners are investing in radio properties, and a night club owner in Panama City recently bought an AM/FM translator to deliver an additional revenue stream. In fact, there's been a surge of interest in translators over the last few years, Fowler says.

"It's a local medium and we have the protection of a federal license, which provides scarcity," Fowler says. "There are all kinds of tech threats from streaming and downloads and apps, but all in all it's a very healthy industry."

> "There is still great hope for those who see radio not as the device that gets the materials to people but rather as great content you can deliver in a lot of different ways. That's what is going to continue to make radio shine."
> —Larry Patrick, Patrick Communications

Radio Challenges

All that said, radio is not the darling of Wall Street as it was in the 1990s. As Larry Patrick notes, the business has been hit by a couple of "gut punches," including the bankruptcy and sale of Citadel and a number of companies being taken back by their lenders during the height of the financial crisis. "There is still great hope for those who see radio not as the device that gets the content to people but rather as great content you can deliver in a lot of different ways," he says. "That's what is going to continue to make radio shine. Whether it's a large city or a small town that is playing high school football, radio is still a huge part of that community."

"The pressures the big conglomerations have put upon the industry are not to be denied," says Frank Kalil, president of Kalil & Co. "But if you put them aside for a minute, and the business actually is good—and it can be great. We see folks developing fiercely loyal groups and followers, where the employees can't get to work soon enough and hate to leave at night."

There are three things that make a radio station healthy, Kalil says: 1) The signal itself, because all radio stations are not created equally; 2) Programming, which he maintains is designed not to fail rather than to succeed; and 3) Commercials. "Programming and commercials are two problems that can be remedied," he explains. "But they're very

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> "Radio is its own worst enemy. We have to be careful not to let radio slip into just another job category. The major successes in radio in years past got into it at age 15, and the draw was so great that most of us would work in it even if we didn't get paid. That's the atmosphere that needs to be recreated, rather than by finding new ways to cut out the fat."
> —Frank Kalil, Kalil & Co.

difficult to fix when you're carrying large debt and/or can't afford to have program directors for each station, much less a group of stations."

Pushing against these elements is a lack of talent development or, to be more precise, talent itself. "Radio is its own worst enemy," Kalil observes. "We have to be careful not to let radio slip into just another job category. The major successes in radio in years past got into it at age 15, and the draw was so great that most of us would work in it even if we didn't get paid. That's the atmosphere that needs to be created, rather than finding new ways to cut out the fat. We have to grow top line, not just the bottom line."

Diversification

One way to grow top line revenue is by diversifying outside the core comfort zone. No company has done this better than Townsquare Media, which built a portfolio of radio stations coupled with a digital publishing platform and live music events. "Those guys have so impressed me," says Larry Patrick. "They bought small Clear Channel stuff, they ran the core business well, and they have devoted a lot of time and energy to digital. Now they're buying these venues and festivals—not many companies understand that. More and more broadcasters are realizing this is a tough business to grow, but if you can capture a major festival, the dollars involved are pretty huge. We're going to see more traditional radio broadcasters looking at that sort of thing."

Another example of small market diversification is Tom Davis's Local Voice in Williamsburg, VA. "Tom has basically put the newspaper online and he uses his stations to send traffic to his digital products," says George Reed. "And it appears the model is working. Tom continues to fine-tune it, but he clearly demonstrates there are some opportunities in those areas for people who are willing to devote the time, effort, and resources to pursuing them."

Then there's Salem Media which, while its core assets remain its broadcast properties, has experienced solid growth from digital, publishing, and network platforms. While station operating income fell in the third quarter, the company's internet and eCommerce revenue was up 54.5%, and publishing revenue grew 164.7%, largely because of acquisitions.

Aside from diversification, many radio companies—both public and private—that are in good condition are those that held on to their financial powder, Patrick says. "Greater Media is in wonderful shape; they have deep pockets and they have been disciplined buyers. Another well-positioned company is Saga, which hasn't bought much lately and has very low debt. They're ready to go, Dean Goodman is ready to go, and Duke Wright is ready to go. Larry Wilson has a line to go, with the Stevens people out of Little Rock. They're all pretty disciplined, and they aren't going to make stupid deals."

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The Economics Of Cash Flow Multiples

At the peak of station trading activity in the late 1990s and early 2000s it wasn't uncommon for stations to sell in the 18- to 20-times cash flow range. That era was sparked by the passage of the Telecommunications Act in 1996, and the subsequent (and significant) expansion of ownership opportunities in most markets caused a feeding frenzy. As companies acquired, merged, and traded properties like baseball cards, prices were propelled by an enthusiasm not unlike the "irrational exuberance" then-Federal Reserve Chairman Alan Greenspan used to define the dot-com bubble. Except to most broadcasters and bankers, there seemed to be nothing irrational about it.

"In the early 2000s we were selling stations in Rochester, MN and Sioux Falls for over 17 times cash flow—and it was easy," Patrick Communications President Larry Patrick recalls. "But today's economics can't and don't work like that. You really can't borrow at ten times cash flow to buy a company." Patrick expects to see a few overleveraged companies crash at some point, but they will be replaced by companies run by smart operators, and new companies being built by veterans. Again, Larry Wilson comes to mind. "We're going to see guys who have been sitting on the sidelines, and also those who have new money," he says.

Upward Pressure

"Now that the economy has improved and a few of the lenders are back, the guys who have good clusters in good markets with solid cash flow and good bottom lines have no incentive to sell," says Media Services Group's George Reed. "Low supply and increased demand puts upward pressure on pricing, and cash flow multiples definitely have eased up from their bottom of several years ago."

Reed says most deals are getting done somewhere between 6 and 7 times cash flow, with a few "outliers" on both sides of those numbers. "I've seen a couple deals in the 5s and there are some in the 8s," he observes. "One thing that has changed this year is there's no longer downward pressure on the multiples; they're going to increase, albeit very slowly. In order to buy and grow good, solid assets, companies are going to have to pay a little more for them. Otherwise the seller won't turn them loose."

MSG's Eddie Esserman agrees, noting that multiples typically hover between 5 and 7 times cash flow. "You may see a deal in the low 7s, and some buyers might claim they got it in the 4s, but I don't believe that," he says. "Their 4s are my 5s. Certainly there are no teens or 20, and no tens. There are absolutely no double-digit multiples out there. For owners who are expecting to sell at 2001 prices for prices, it's like taking the ALS challenge: it's a splash of ice water. There is a growing realization that this is where the market is."

Veteran broker Frank Boyle says multiples are highest in the top 50 markets, where they range around 7.5, while the lowest are for AMs in any market and small market FMs, which tend to fetch around 4 to 4.5 times. "We're also seeing some stations valued at one time last year's net cash flow, a variation on the 1x to 2x annual revenue of days gone by," he says.

Independent broker Todd Fowler weighs in at around 5-7 times cash flow, depending on the market—although he says he recently sold a signal in Wichita based on population count.

The Many Faces Of Cash Flow

Kalil & Co. President Frank Kalil is a bit more bullish about multiples than his fellow brokers, saying the range is more like 7 to 10 times cash flow—depending on the calculation method. "Cash flow isn't carved in stone and handed down by Moses," he explains. "There's buyer's cash flow, seller's cash flow, trailing 12, this year's, next year's,

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"We talk about next year's budgets, but realistically, buyers are looking at trailing 12-month cash flow. There have been times where many people were buying stations on projected 12-, 24-, or 36-month forward cash flow—but those days are gone, probably forever. And that's not a bad thing."
—George Reed, Media Services Group

and average cash. Somewhere in there it's about a 7-10 times multiple. The irony is that, from an investment point of view, multiples should be higher, given the low interest rates."

So what version of cash flow most often enters into the final equation? "If you're trying to sell a story you're talking about forward cash flow, or some hybrid of six months forward and six months back," Reed says. "Realistically, buyers are looking at trailing 12-month cash flow. We talk about next year's budgets, etc., but realistically it's trailing 12. There have been times where many people were buying stations on projected 12-, 24-, or 36-month forward cash flow—but those days are gone, probably forever. And that's not a bad thing."

While pricing is defined in terms of cash flow multiples, stations ultimately are valued by the story a buyer tells him- or herself. As Reed explains, "Prospective buyers work out in their business plan what they intend to do with the radio assets. They usually draw up a worst case, best case, and probable case, then factor in their cost of capital. They factor in what their equity costs, and once they have that spreadsheet they know what they can afford to pay.

"Brokers like to talk about the multiples, but it's really just a short-cut to talk about what's really being done," Reed explains. "And that is a pretty sophisticated discounted cash flow multiple that spits out a purchase price at the end."

At this point in 2015 there's actually more demand for stations than there is supply, largely because most operators seem in no hurry to sell. "If you have a successful business with solid margins, why—absent some catalyst like death or divorce—would you part with it?" Reed says. "There are a lot of owners who know they could sell out for a good price, but then they're faced with two problems: Where can they invest the money that would produce a similar rate of return, and what are they personally going to do?"

While walking away with a pile of cash sounds like a good problem to have, reinvesting it wisely presents a very real challenge. "From an investment point of view, there's nowhere to put money today," Frank Kalil says. "People brag when they can get 2% in a dividend. It drives me nuts. There always exists a point at which you cannot keep cash, where you have to do something with it. There is so much cash on the sidelines right now, just sitting there, waiting to be put back in the game."

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The Color Of Money

No two radio transactions are the same—and neither are the financial structures behind those transactions. Market size, facility strength, operator expertise, cash flow, and access to capital all play a role in determining how a deal is financed.

Generally speaking, large institutional lenders will loan into large portfolios, and that pricing is going to be pretty competitive—typically a couple basis points over LIBOR (currently ranging from 0.00 to 0.25%). On the other end of the spectrum, some financial institutions are making small loans based on some sort of debt and equity blend, with interest rates that are much higher. In between are many shades of green that often are determined by buyer equity, seller paper, available cash, and other peoples' money—including prospective partners, banks, and anyone in between.

"There really isn't a standard answer to a deal structure, since everyone's profile is different," MSG's George Reed says. Everybody gets weighed on their own credit-worthiness, track record, personal risk, and other factors, he observes.

"We have been in an unprecedented low interest rate environment for a long time, and that sort of environment changes the math in terms of what you can and should pay for any asset," he observes. "And with radio stations there is an inverse relationship between interest rates and station prices. As rates go up, multiples do come down."

Money is available for bigger deals, but access to it is no different than during previous times. "If you want to borrow $5 million you walk into Wells Fargo and they say we can't help you," Larry Patrick says. "If you say you want to borrow $50 million they'll talk to you. But if you want to borrow $250 million they'll put out the chair and say 'please sit down.' The big banks are still financing big deals, then syndicating the loans to try to minimize the risk. But it's hard for the new people and the small people (to get the money). The bigger you get the easier it is."

Smaller buyers can still get financing for radio deals but, because of market dynamics, interest rates are almost prohibitively high. "If you're a really big player the interest rates are 3% - 4%," Patrick says. "But if you're just a small player, or if you don't have a lot of clout, money is available but it might start at 9% and go up to 12%. In that case you're better off getting seller paper, and bringing more equity to the table."

While money is available, it's almost impossible to find 100% financing for a deal, says Frank Kalil. "A buyer really needs to bring a substantial amount of equity to the table—maybe 50%, including some of their own money," he explains. "The idea of doing an entire deal with other people's money is a bit of a challenge."

Independent broker Todd Fowler says interest rates tend to hover in the 5% to 7% range, depending on the bank. "On smaller deals we're seeing a lot more seller paper," he explains. "Separate from a local bank you can find lenders for small deals, so the seller gets the down payment, first position on the note, and they get a payment income."

Bottom line: banks are more cautious than they were 10 years ago, but creative deals are being completed. "Interest rates are relatively low, but there's still a little pall over the industry stemming from a decade of no growth," says MSG's Eddie Esserman. "We're past the high-flying days of the '90s, and there are far fewer analysts covering the broadcasting industry. If you count the number of analysts in any industry you get an idea of how hot that industry is. That says something about radio."

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DIGITAL DISRUPTION

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Despite the resistance of a few platform change deniers, digital technology has created a "mass disruption event" that threatens both the recorded music industry and terrestrial radio.

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Spotify In The Spotlight 55

The digital music service hit the 10 million paid-subscriber mark last May, and currently boasts more than 40 million active users across 56 countries worldwide.

Why Listeners ♥ iHeartRadio 57

iHeartRadio is a digital music platform that aggregates terrestrial radio streams from over 800 local radio stations across the U.S., as well as various other media.

Apple Is Set To Dominate Digital Music 58

Apple not only dominates the (diminishing) download sales marketplace, but also is positioning itself to drastically disrupt radio's domination of the dashboard.

SiriusXM: Radio's #1 In-Car Competitor 60

Analysts say Sirius XM appears financially strong as it implements various strategic moves, but emerging digital technologies are likely to stunt its growth curve.

Rdio's Deal With Cumulus Pays Dividends 62

In 2013 this four-year-old streaming music service entered into an arrangement that allows Cumulus to sell it's U.S. advertising in exchange for content created by its radio stations—and Westwood One. The arrangement appears to be paying off.

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Digital Music Is A Fact Of Life…And The Future

Despite the resistance of a few lingering platform change deniers, digital technology is having a profound impact on both the recorded music industry and terrestrial radio. The major record labels can directly track an alarming shift of declining music sales to the emergence of digital streaming services, and AM/FM broadcasters are experiencing a similar (and similarly critical) shift in audience levels and revenue generation. Without question, today's legacy media are facing a "mass disruption event" that—like it or not—has the potential to transform terrestrial radio broadcasting significantly, meaningfully, and permanently.

Let's look at the numbers: Three out of five (59%) of American music listeners say they use a combination of AM, FM, or online streams of terrestrial radio stations each week, according to Nielsen's latest study of the music habits and preferences of listeners in the U.S. [1] The report, titled "Music 360° 2014," says 48% use their own music libraries weekly when listening to their favorite artists and bands, while 41% use on-demand streaming services such as Spotify and YouTube. One-third (36%) tune in to such streaming music services as Pandora and iTunes/Beats and, overall, 93% of the country's population listens to music—spending more than 25 hours each week tuning into their favorite tunes.

The Nielsen study also suggests listening to music is the top form of entertainment for many Americans, with 75% of respondents saying they actively chose to listen to music, ahead of watching television (73%). Additionally, 23% of all weekly time spent listening to music happens in the car, followed by listening while working at home or in an office (16%) and listening while exercising (12%).

While radio in all its forms remains the most popular platform for consuming music, smartphones are showing steady growth in this area. According to the study, 39% of smartphone owners purchased music on their devices in 2014, up from 34% the year before. Additionally, smartphones are the third-most popular device used to listen to music (behind radios and computers), and their effect on music listening is growing. Smartphones allow consumers to access music on their terms and in the palm of their hands, and more than 7 in 10 Americans now own one. This growth affects music sales, too: 39% of smartphone owners purchased music on such a device in 2014, up from 34% a year ago.

Streaming Is The New Normal

Noting the rapidly evolving process of music discovery among teens and 20- and 30-somethings, Rachel Cooper, Director/Digital Consumer Insights at Viacom's VH1/CMT, says streaming has become the new normal. Citing information gleaned from an internal listener study, she observed that three out of four (78%) music fans have streamed music from such platforms as Pandora, Spotify, and iHeartRadio in the past three months. Furthermore, older Millennials (generally defined as adults 18-34) are more actively streaming than both older and younger music fans, with 63% of 22-30 year olds streaming daily (compared to 55% of 31-40 and 57% of 13-21). [2]

Referencing the Viacom study, Cooper says the "music experience" generally plays out over three phases. These include Discover, Immerse, and Acquire – although the "path to purchase" (the desired acquisition stage) is not exactly linear, because there isn't one brand, platform, or device that serves that singular purpose. In fact, the discovery stage is dominated by radio and the internet, with 96% of surveyed music fans saying those two platforms are their main sources for finding new music, followed by TV, word of mouth,

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> Is human "curation" enough for radio to retain its audience, especially when many listeners seek a variety and depth that tight playlists and even tighter format parameters prohibit? Music consumption is set to become a highly sociable activity,,, [and] human curation or not, this activity is expected to expand significantly via digital technology—primarily within the connected car and on smartphones and tablet devices.

"being out and about," and movies.

Interestingly, 83% of music fans say discovering new music is passive—meaning it usually just finds them, rather than the other way around. "As a result, music listeners want ways to filter through it all," Cooper explains. "Seventy percent say there's so much music online it's hard to stay on top of it all, while 66% wish there was someone or something that could point them in the right direction" when looking for new music.

"Music is as emotionally relevant as ever; consumers just have myriad ways to experience it," Cooper says. "Discovery is happening everywhere, actively and passively. Fans aren't overwhelmed, but they could certainly use a hand."

This element of discovery is what many analysts believe is AM/FM radio's best chance to battle the influx of digital streaming services. As opposed to a computer algorithm that plays tracks based on software code and strict regulations established by the Digital Millennium Copyright Act, radio programming still relies heavily (although not exclusively) on human "curation."

"Technology has improved access for all of us to enjoy music, but consumers of recorded music are discovering that there is much to discover - and rediscover," says Dave Van Dyke, president of Bridge Ratings Media Research. "Broadcast radio music stations are helping with the challenge of what to listen to as consumers of both technologies (analog radio and digital music streams) are learning to appreciate radio's ability to select music worth hearing. While this has perhaps always been a facet of radio programmers, the necessity of wading through all music that is available is being eased by broadcast radio's curation and exposure."

But is human "curation" enough for radio to retain its audience, especially when many listeners seek a variety and depth that tight playlists and even tighter format parameters prohibit? According to a study conducted by Fierce Mobile IT and released last fall, music consumption is set to become a highly sociable activity, with features such as music discovery and social media integration connecting music fans. Human curation or not, this activity is expected to expand significantly via digital technology, primarily within the connected car and on smartphones and tablet devices.

Labels' Loss = Streaming's Gain

As digital streaming grows in popularity, overall music sales are slipping, albeit somewhat disproportionately. According to the latest figures released by the Recording Industry Association of America (RIAA), U.S. music revenues slipped to $3.2 billion in the first half of 2014, a 4.9% drop from the $3.35 billion that the industry tallied in the first half of 2013. [3] Digital music revenue declined about 0.5% to $2.203 billion, from $2.214 billion in the first half of 2013.

Meanwhile, subscription streaming revenue during the same period jumped 23.2%, to $371.4 million from $301.4 million, and ad-supported streaming (excluding Pandora) jumped 56.5% to $164.7 million from $105.2 million. The RIAA estimates paid subscription services averaged 7.8 million U.S. subscribers in the first six months of the year, up from an average of 5.5 million subscribers in the first half of 2013. At the same time, distribution of performance royalties grew 21.3% during the same period, from $266.5 million in the first half of 2013 2013 to $323.4 million in H1 2014.

MiDiA Research founder Mark Mulligan says ad-supported and subscription streaming revenues will grow by 238% from 2013 levels to reach $8 billion in 2019, while music download revenue will decline by 39%. [4] "That's just 5% less than the rate at which CD revenues will fall, leaving streaming and subscriptions representing 70% of all digital revenue," he predicts.

Needless to say, digital streaming is one of those "disruptive technologies" that only a few far-thinking futurists saw coming 20 years ago. Until recently, many broadcasters considered it either a passing fad or far outside their own core business—and thus paid it little attention

Even today many broadcasters see very little point in streaming their over-the-air signal to a handful of online listeners, and there's considerable

> "Digital revenues reported by the Radio Advertising Bureau only include related banner ads, streaming services from terrestrial stations, text/email ads, and HD stations. They do not include Pandora, Spotify, or Sirius—each of which would contribute meaningfully to reported growth results if they were included in the figures."
> —Brian Wieser, Pivotal Research

debate as to whether the expense is worth the effort. As recently as the NAB/RAB Radio Show in Indianapolis last September there was still disagreement over whether streaming is a realistic profit center. Emmis Communications CEO Jeff Smulyan insisted he has never made a dime from streaming, while Univision Radio President Jose Valle said his company has generated some revenue money from streaming, albeit not a considerable amount.

Meanwhile, iHeartMedia (formerly Clear Channel Media & Entertainment) has enjoyed considerable revenue and marketing prestige with its iHeartRadio platform of branded events, while Cumulus Media has made a major investment in digital streaming through the Rdio platform. Additionally, CBS Radio has made inroads streaming many of its stations via www.radio.com, while Greater Media, Beasley, and other major group operators have substantial interests in streaming.

Kicking And Screaming…

As Pivotal's Brian Wieser points out, however, terrestrial radio has not been particularly welcoming to "pure play" digital services, viewing them as disruptive competitors that are encroaching on sacred AM/FM turf. "Digital revenues reported by the Radio Advertising Bureau only include related banner ads, streaming services from terrestrial stations, text/email ads, and HD stations," he said in a research note last fall. "They do not include Pandora, Spotify, or Sirius—each of which would contribute meaningfully to reported growth results if they were included in the figures." [5]

This is an unfortunate position, Wieser says, because national advertisers and radio buyers prefer to participate in a growth story (preferably with a digital angle), as it suggests a medium or at least a group of media suppliers that have rising relevance to consumers.

While there's very little immediate chance that the ad dollars of the Pandoras and Spotifys of the world will be rolled into the RAB's quarterly and annual revenue reports, the fact remains that these platforms increasingly play an important role in the lives of consumers. With that in mind, the following pages in this section are designed to provide an overview of the competitive forces that stand to have an impact on the terrestrial radio industry for years to come.

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Pandora: AM/FM Radio's #1 Disruptive Threat

As competition within the streaming music sector intensifies, Pandora increasingly is targeting terrestrial radio for both audience and advertisers. By far the largest digital streaming service in the world, Pandora was born from the Music Genome Project conceived by co-founders Will Glaser and Tim Westergren in late 1999. Fast-forward 15 years or so and that platform now boasts over 175 million registered users in the U.S., 76 million who listen on a regular basis. With approximately just under $1 billion total revenue projected for 2014, the company claims 9% of all U.S. radio listening, and would be one of the largest radio entities in the country—if AM/FM broadcasters recognized it as a member of their club.

Still Seeing Red

For all its apparent listener and advertiser interest, Pandora still is tainted with red ink—largely because of its high content acquisition costs. In the third quarter of 2014, the most recent numbers available for this report, the company reported total revenue of $240 million, in-line with Wall Street expectations, while ad dollars were $194 million. That was the fifth quarter out of the last seven the company missed most analysts' forecasts. Q3 user growth was even weaker, with only 100,000 net users added during the quarter, a "meaningful step-down" from the 3.8 million added in Q3:12 and the 1.6 million added in Q3:13. Overall, Susquehanna International analyst Brian Nowak estimates the company's full-year 2014 ad revenue will come in somewhere around $915 million.

Pandora's listener growth however, is not expected to increase any time soon. On a recent investor conference call, company executives tried to drastically lower expectations on the issue. Citing the "increasingly competitive environment" and the company's "already significant market position," they said it was not realistic to assume user numbers would grow at historic levels. This is a marked change in tone, and has caused Pandora to increase its investment in both branding and direct marketing in order to improve user retention. Additionally, content costs aren't going to change anytime soon, as any revision of performance royalty fees by the Copyright Royalty Board won't be finalized until December 2015. In fact, if the CRB leans toward music industry interests as it has in the past, those costs could rise appreciably.

Pay For Play

Still active in the day-to-day operations of the company, co-founder Tim Westergren clearly understands the challenges of growing revenues in an environment where bandwidth charges and content costs (performance fees paid to artists and their record labels) increase with every user. "We pay a healthy chunk of our revenue to artists," he told *Venture Beat* in an interview last fall. [1] "The real emotional statistic that keeps getting the sound bites and that gets musicians riled up is the per song royalty you pay, which is just a fraction of a penny. It's easy to point to that, but it ignores the volume of plays that most artists get. Compare that to AM and FM radio, which don't pay any performance royalties. It's just a classic chapter in the story of tech disruption where you have a lot of people throwing darts. But when they see there's this whole other world on the other side, and people start to calm down."

"It's a delicate balance," Chief Financial Officer Mike Herring, who joined the company in February 2013, told the *Wall Street Journal* last fall. [2] "The music industry has historically had a lot of tension between all the players. It's a tough world, and it's one of the reasons we think transparency is so important. It's easier with the artists because artists appreciate the promotion. The labels have different

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priorities, ones we can address—largely with promotions—but they're looking to monetize their assets."

One major challenge, Herring says, is to find the right balance between what fair compensation is for copyright holders and fair economics for the distributors. As noted above, the CRB Board this year will be reconsidering the fee structure that governs how much Pandora pays record labels and artists for the right to play their music. SoundExchange, the entity that collects and distributes those fees on behalf of rights holders, is looking for a sizeable increase, while Pandora has proposed a rate that's 27% less than it currently pays for advertising-supported streams.

"It takes years to get there," Herring explains. "A free service still isn't fully understood by the industry. It could be massively bigger, but we need to prove it."

Knock It Off

Pandora has made no secret of its desire to knock AM/FM radio off its pedestal wherever it can, and that effort currently is focused on the automobile dashboard. As reported last October by financial analysis firm Trefis, the streaming company partnered with Pioneer Electronics in 2010 to offer digital streaming in cars. [3] Now, just four years later, Pandora is planning to launch its radio services in 135 different models from 26 auto manufacturers.

According to Pandora SVP/Strategic Solutions Heidi Browning, all the best-selling passenger vehicles in the U.S. now come with Pandora services. While there are no clear signs that Pandora will be preferred over satellite radio provider Sirius XM, Trefis says the company is likely to steal some time spent listening from terrestrial radio, which currently dominates the audio market with more than an 80% audience share.

In the context of new vehicle sales, models that are not satellite-enabled may be Pandora's prime target because the company says it's much easier to beat the quality of AM/FM content than that of satellite radio. However, customers who are buying vehicles with OEM-installed satellite radio and are ready to pay for radio services are those most likely to prefer Sirius XM over Pandora due to the diverse and unique content of the satellite radio provider.

"There will always be a place for terrestrial radio, but we think we can get a good share of the time people spend listening in the car," Westergren said in his *Venture Beat* interview. "Half of all listening now takes place in the car, so it's just a matter of finding good sources of content that are compatible with what we're doing, and with licensing and ad rates that make sense. We have to have a way for the content to dovetail with [the] music experience. I would be really surprised if we didn't have a substantial part of that in the next five years."

Part of this effort, of course, includes a major drive to lure local and national advertisers from terrestrial radio to Pandora's bottom line. While there's no evidence that all (or any) of the $800 million in ad dollars the company generated last year came directly from AM/FM spot revenues, there's also no question some marketers and media buyers believe the digital music service delivers the targeted audience many advertisers want to reach. One of these is Seattle-based Thrive Advertising, which says Pandora's reduced spot loads, precise audience numbers, geotargeting ability, optional video ads, and pricing structure make it attractive to a number of advertisers.

"As an unbiased media buying agency we never deliver a one-size-fits-all media plan to our customers," the boutique agency says in its web-based marketing materials. [5] "We aren't saying traditional radio doesn't have value or that we don't buy traditional media, because we absolutely do. We have several radio campaigns running right now. But there is always a strategic reason why we chose one over the other."

Claims such as these are destined to induce apoplexy in a number of broadcast radio executives and spark debates about the efficacy of one medium over the other. Denial and repudiation aside, Pandora has succeeded in disrupting the AM/FM radio environment, and has proven to be a worthy competitive power. While Pandora is not likely to grow its active user base at the blistering pace it enjoyed over the past few years, its long-term outlook remains strong. The company has no core business to protect defensively, it has numerous directions in which to expand, and it is making positive moves to achieve revenue growth.

In Westergren's mind, it all comes down to music. "Music is still a source of cultural identity," he observes. "People who measure music against video or gaming are comparing apples and oranges. No, kids are not sitting in a living room listening to an entire record like we used to do. They are not out trying to discover the next big band. Kids that I interact with are constantly consuming and sharing music—but they're doing it in a different way."

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Spotify In The Spotlight

Spotify is a commercial music streaming service that allows users to listen either via a free, advertising -supported platform or a subscription service that currently costs $9.99 per month. The "premium" subscriptions remove advertisements and allow users to download music to listen to offline, providing digital rights management-restricted musical content from the three major record labels and many independents. It is available on virtually all desktop computers and mobile devices.

According to statistics recently released by the company, the streaming service hit the 10 million paid-subscriber mark last May, and currently boasts more than 40 million active users across 56 countries. "We've had an amazing year, growing from 20 markets to 56 as people from around the world embrace streaming music," CEO/founder Daniel Ek said in a statement. [1] "Ten million subscribers is an important milestone for Spotify and the entire music industry. We're widening our lead in the digital music space and will continue to focus on getting everyone in the world to listen to more music."

Since Spotify's launch in 2008, users have created over 1.5 billion playlists, collectively creating or updating over 5 million playlists each day. As reported by *Variety*, Spotify says its users spend an average of 84 minutes per user per day on the service. [2] Among those who use it across multiple devices, the average is 146 minutes daily.

The Impact On Sales

Despite its apparent growth curve, Spotify has only a fraction of the listeners of Pandora and iHeartRadio—largely because of its emphasis on the paid subscriber base. Still, as a leader in the subscription streaming business, the company is credited (aka blamed) for having a significant impact on the sales of digital tracks on iTunes and other online music stores. The Recording Industry Association of America last fall said digital music platforms generated $860 million in the first half of 2014, and Spotify is responsible for a significant portion of those dollars.

Still, for all its influence and impact on consumer listening habits, Spotify is not without its challenges. First, there is a finite (and as yet unknown) number of people who are willing to pay a monthly fee to listen to music they can hear without charge on AM/FM radio or via other digital streaming services. Additionally, many major and lesser-known independent artists maintain Spotify pays such low license fees to the record labels that their work is cheapened and their compensation is eroded to almost nothing. On top of that, the record labels claim the license fees paid by Spotify are actually too low, even though they collectively own a significant share of the company.

At 10 million paid subscribers the company is somewhat close to topping $100 million gross revenue per month, or $1.2 billion a year. But recent pricing plans that allow friends and family to be part of a streaming package for a 50% subscription reduction will reduce the aggregate dollars brought in by subscriber growth, adding to customer acquisition and bandwidth costs.

Spotify has lost a total of $200 million since it was founded, according to PrivCo, a firm that studies private company performance. [3] The company does say its contracts are structured so about 70% of its revenue goes to royalties; any other costs of business have to be covered by what remains. In theory, once Spotify has enough subscribers, its 30% cut could be enough to pay the bills and post a profit. Roger Entner of Recon Analytics says streaming music services should be sustainable when they reach 10 million paying users, but Spotify CEO Ek says the profitability threshold is less of a number than a mutually comfortable relationship with the music industry. "For us, it hasn't been about that magic number," he says.

The Swift Shift

Superstar artist Taylor Swift drew attention to Spotify last October by pulling all her songs (except one) from the platform in a move designed to reinforce her claim that streaming services tend to

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cheapen the value of music. Swift, who has been highly vocal about the downside of music sharing and streaming, said at the time that digital streaming services have contributed to a decrease in music sales over the past 18 months—and have lessened the value of music itself.

"Piracy, file sharing, and streaming have shrunk the numbers of paid album sales drastically, and every artist has handled this blow differently," she wrote in the *Wall Street Journal* last July. [4] "Music should not be free, and my prediction is that individual artists and their labels will someday decide what an album's price point is. I hope they don't underestimate themselves or undervalue their art."

Swift's move was supported by Big Machine, her record label, and likely helped her sell close to 1.3 million copies of her latest album *1989* in its first week of release.

As illustrated by Taylor Swift's comments, many performers and songwriters remain doubtful that Spotify's streaming model functions in their best interest. Part of this skepticism is rooted in artists' long-simmering distrust of their own record labels, which set the rates they actually pay those artists for digital performances. Since its inception Spotify has endured a number of holdouts who refused to license their catalogs, including the Beatles, Garth Brooks, AC/DC, and Tool. Such notable holdouts as Led Zeppelin, Pink Floyd, and Metallica have all signed up recently, but other bands, including the Black Keys, refuse to release new music on Spotify.

Then there's Radiohead frontman Thom Yorke, who once told a Mexican website that Spotify was "the last desperate fart of a dying corpse. As musicians we need to fight the Spotify thing. I feel that in some ways what's happening in the mainstream is the last gasp of the old industry." [5]

Even the world's #1 Parrothead, Jimmy Buffett, directly challenged Spotify at *Vanity Fair*'s New Establishment Summit last fall, asking CEO Daniel Ek, "Do you see anything in your future where we might get a raise directly from you, as opposed to going through the bullshit we have to go through to deal with a label these days?" Buffett's question raised some chuckles among the artists in attendance, and Ek defended his company by noting how Spotify has brought "transparency" to the industry, allowing musicians to view how many streams they had, and how much Spotify pays out. [6]

Theoretically, the more a song is streamed the more an artist is paid. As noted above, Spotify pays out about 70% of its revenues to record labels, which share that pot depending on how often their artists' songs have been played. On average, that works out to between $0.006 and $0.0084 per song per stream. Or to put it another way: one million streams would give a label $6,000-$8,400. [7]

By contrast, Spotify argues that to concentrate on the "per stream" math is the wrong way of looking at things. In total, it has paid out $1 billion in royalties to record labels, including $500 million last year alone. It also has persuaded 10 million people to pay $120 a year for music.

"We have an incredible amount of data about what is being played by whom and when," says Spotify's Jonathan Forster. [8] Artists can plan tours by targeting cities where they have fans or see where they need to boost marketing. The company is already adding other services such as allowing artists to sell merchandise or concert tickets via Spotify or even send an email when a new song is out.

While Spotify focuses on its paid subscriber base, clearly ¾ of its active users—30 million out of a total 40 million—listen to the free, advertiser-supported service. In order to boost the cost per thousand for each ad streamed, Spotify last year launched two new marketing platforms—one for both desktops and one for mobile devices—that will stream video advertising to listeners of its free digital music service. These "Video Takeover" ads appear in the desktop Spotify app during regular ad breaks and are only played if the client is in view, while "Sponsored Sessions" lets marketers play 15- and 30-second spots within 30-minute ad-free mobile sessions. Spotify video-ad launch partners in the U.S. include Kraft Foods, Target, and Wells Fargo, while worldwide launch partners are Universal Pictures, Coca-Cola, Ford, and McDonald's.

"Our audience is incredibly engaged, so we are delivering an advertising experience that enhances their time spent on Spotify and connects them to the music and brands they love," Spotify Chief Business Officer Jeff Levick said in a statement. "We think about video as one of the most dynamic forms of content that advertisers have and that bring great relevance to Spotify."

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Why Listeners ♥ iHeartRadio

iHeartRadio is the highly popular digital radio platform founded in 2008 by Clear Channel Communications (now iHeartMedia) as iheartmusic.com. The platform serves as an aggregator of terrestrial radio streams from over 800 local iHeartMedia stations across the U.S., as well as hundreds of other stations and a variety of other media outlets. Perhaps even more important, the platform serves as a music recommender system that allows users to build personal online radio stations, and also is the hub of the iHeartRadio brand, which is known globally for the iHeart Radio Music Festival, held every September in Las Vegas.

Now in its fourth year, the event continues to sell out almost instantly, while also allowing listeners to stream the concert live online, on mobile devices, and on select radio station websites. It also has spawned other events and merchandise, including the recently launched iHeartRadio Music Awards, the iHeartRadio Fiesta Latina, and regular concerts produced in Los Angeles and New York though its iHeartRadio Theater locations.

Second only to Pandora in its number of active users, iHeartRadio topped the 50 million listener mark last summer. Still, Bob Pittman, the company's CEO, tends to de-emphasize internet radio's popularity, noting that digital radio only accounts for 10% of the overall radio market.

"Radio is still as much a part of people's lives as it's ever been," Pittman said in an interview with *Bloomberg* in October. [1] "Back in 1970, 92% of the people listened to the radio. In 2013, 92% of the people listen to the radio. Big data is great because it tells us a lot about who those people are. When someone listens to iHeartRadio digital, we can find out who they are. When you can do that, you become much more efficient to advertisers."

Over the last 24 months iHeartMedia has been aggressively expanding iHeartRadio into new devices and platforms. In 2014 the company announced integrations with Amazon's Fire Phone and Fire TV, Google's Chromecast, and Apple's CarPlay. Furthermore, iHeartRadio has made numerous inroads with automakers, including Subaru, GM, Jaguar/Land Rover, Kia, and Volvo. Also, listeners who have installed the iHeartRadio app on an Android smartphone can access the free music service using voice activation on any smartwatch equipped with the Android Wear operating system, including the Samsung Gear Live, Moto 360, and LG G Watch. [3]

Additionally, last July the company partnered with AdsWizz, an advertising technology company, to develop a new method to insert targeted audio ads in live broadcast radio streams for the iHeartRadio ecosystem. The new process will enable advertisers to target listeners based on their user profiles, listening preferences, location, demographic, and psychographic criteria and devices. Advertisers will also be able to create custom segments using listener data.

iHeartRadio's significant brand strength is reflected in last year's decision to change the entire company's name from Clear Channel Media & Entertainment to iHeartMedia. Interestingly, the digital entertainment platform hit its 50 million user-base figure in a shorter period of time than social networking sites Facebook, Twitter, and Pinterest—and significantly faster than any competing digital music service. [5] The iHeartRadio mobile app has surpassed 345 million downloads, and in 2013, iHeartRadio was ranked as the #5 media brand on Facebook.

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Apple Set To Dominate Digital Music…To The Core

At this point early in 2015 Pandora remains the king of digital streaming services, but time never stands still – particularly when technological change is involved. Since its inception in 1976, Apple Inc. has been at the forefront of this shift, most recently its dominance in the digital music ecosystem. But the company's singular focus on selling digital downloads (and the devices on which to play them) caused the company to largely overlook a growing interest in digital streaming, which over the past 18 months has caused a marked decrease in digital music sales.

In its annual report filed in late October with the Securities and Exchange Commission, Apple revealed the iTunes Store overall generated more revenue in its 2014 fiscal year than it did in 2013, with growth coming from increases in app sales, "partially offset by a decline in sales of digital music." Apple didn't give specifics on how much its digital music sales have declined, but the *Wall Street Journal* said they have skidded 13% to 14% since January 2014. [1]

In a statement that seems to support this estimate, Apple said, "The company's digital content services have faced significant competition from other companies promoting their own digital music and content products and services, including those offering free peer-to-peer music and video services." The *Journal* pinned the blame on growing competition from cheap music, such as free videos and $10-per-month unlimited subscription plans.

Reinforcing this decline, the Recording Industry Association Of America (RIAA) in October reported U.S. music revenues, including sales of tracks and albums downloaded from Apple's iTunes store, slipped significantly in the first nine months of 2014, and are continuing a downward slide. [2] At the same time, revenue from subscription-based streaming services has jumped almost 25% year-over-year, and revenue from ad-supported platforms jumped almost 60% vs. 2013 figures.

Apple stands to lose a significant amount of iTunes download business because of this slowdown in recorded music sales. According to research conducted by Morgan Stanley, the sale of recorded music touched $15 billion worldwide in 2013 with streaming, ad-supported, and paid digital downloads accounting for over 40% sales. However, sales were down $1.5 billion vs. 2012—and 2014 sales were alarmingly lower. [3]

"The iTunes decline is a function of users spending more time and money on services such as Spotify, Pandora, and Netflix, and less on songs and videos in iTunes," Morgan Stanley analyst Katy Huberty said in a research note. [4]

We Got The Beats

This rapid downturn in music sales is part of the reason Apple, which had generated hundreds of millions of dollars in iTunes sales over the past few years, paid $3 billion for Beats Electronics last May. "Music is an important part of all of our lives and holds a special place within our hearts at Apple," CEO Tim Cook said at the time of the acquisition. "That's why we have kept investing in music and are bringing together these extraordinary teams so we can continue to create the most innovative music products and services in the world." As reported by *Forbes*, this acquisition was Apple's biggest ever, although it still is just a tiny fraction of the company's $150 billion the company has to play with. [5]

"The addition of Beats will make our music lineup even better, from free streaming with iTunes Radio to a world-class subscription service in Beats—and, of course, buying music from the iTunes Store as customers have loved to do for years," Apple Senior Vice President Eddy Cue told *Forbes*.

It's been clear from the start that Apple has big plans for the Beats technology and the team that brought it to fruition. CEO Tim Cook and the innovators in Cupertino obviously have a vision that far exceeds simply plugging it into its existing

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iTunes Radio platform. It's been said that for every Apple product that has shipped in a box, there has been a team of minds that first thought outside that box. The Beats integration is a clear example of this

Mostly lost in all the hype and hoopla surrounding the Beats acquisition was Apple's filing to expand the iBeats trademark to include new music-related uses. Specifically, the trademark now encompasses such areas as broadcasting, social networking, digital music downloads, and streaming music. In fact, *Mac Rumors* says the application includes a wide variety of audio and video recordings, liver performances, user interfaces for television and video on demand; and a host of other software uses. [6]

Now that Apple has ramped up its music-streaming offerings with its Beats acquisition, could the company set its sights on buying Pandora, whose stock price has experienced a dramatic pullback. Not likely, at least not anytime soon. But Motley Fool's Ishfaque Faruk postulated last year that, "if a large company like Apple, with more than 800 million registered iTunes users, acquires Pandora, the scale of Pandora would dramatically increase overnight." He went on to observe that Pandora has more than 250 million registered users, "and integrating Pandora into some of Apple's high-traffic portals might entice some dormant users to frequent the platform more actively." [7]

New Music Format

Beyond rebranding Beats Music under the iTunes banner, Apple also reportedly is developing—in partnership with rock band U2—a new digital music format that *Time* magazine predicted would "prove so irresistibly exciting to music fans that it will tempt them again into buying music—whole albums as well as individual tracks." [8] Legendary frontman Bono told the magazine that the new music format is designed to be something that "can't be pirated" and that could limit both illegal downloading and legal streaming, activities *Rolling Stones* says "have chipped away the music industry from a sales perspective." [9]

Apple also introduced a new platform designed to integrate the company's iOS operating system, and everything that goes with it, into the connected car. This new CarPlay technology allows an iPhone to tie into a user's dashboard, providing turn-by-turn navigation and digital mapping. Still, its heavy focus on music allows users to easily send songs from their phone to their car's speakers. [10] While the technology is not likely to see mass market adoption for some time, it gives the company a way to grab a part of the increasingly competitive dashboard "stack."

Apple's Post-Jobs Job

Under the tutelage of the late Steve Jobs, Apple built a reputation for anticipating (and creating) consumer needs and then building the products and services designed to fit them. CEO Tim Cook appears hell-bent to continue that commitment, which is why Apple's iTunes music platforms—in all its existing and anticipated iterations—poses a competitive threat to traditional broadcast radio.

That's why radio broadcasters must keep a close eye on what digital music services are up to, particularly in the case of Apple. "Let's say we had a subscription service, but this service was in an environment that you could go in and know everything about that artist, artists who are related to that artist, credible playlists by unique people, all the videos in one place, all this original content," CEO Tim Cook said at the time of the Beats acquisition. [11] "Music has to make a graceful entrance into the phone. The music industry needs the phone, and unless there's a solution that makes music easy for everyone, I don't believe we ever really move the needle."

Let there be no doubt: Apple is intent on moving that needle.

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Sirius XM: Radio's #1 In-Car Competitor

Liberty Media-backed Sirius XM creates and transmits (via satellite) a variety of commercial-free and ad-supported content in a broad range of formats. It also provides traffic and weather reports, as well as other data and information services, to mobile subscribers in cars, trucks, boats, and aircraft. Additionally, the company streams much of its programming through an online radio app for smartphones and other connected devices, as well as online at siriusxm.com.

During its third quarter earnings call in late October Sirius XM reported third quarter revenue of $1.057 billion, a 9.9% increase vs. $962 million in Q3 2013, with quarterly net income of $136 million. Adjusted EBITDA climbed 29% to a record $381 million in the third quarter of 2014 from $296 million in the third quarter of 2013. At the end of the third quarter of 2014 the satellite radio service had a total 26.7 million subscribers.

"We are very pleased with the performance of Sirius XM in the third quarter, and we are entering the fourth quarter with tremendous momentum," SiriusXM CEO Jim Meyer said at the time. "So far this year we have added nearly 1.2 million subscribers, grown our adjusted EBITDA margin by more than five percentage points, and increased free cash flow by 32%."

The company also reported it added 432,817 net subscribers during the quarter, increasing total subscribers nearly 5% to 26.7 million. Self-pay net subscriber additions in the third quarter were 379,598, bringing the self-pay subscriber base up nearly 7% to 22.0 million. Total trials underway at the end of the third quarter of 2014 were approximately 7.4 million, the largest in Sirius XM's history, up from approximately 6.9 million at the end of the third quarter of 2013.

Meanwhile, subscriber acquisition costs fell 22% from $45 in the third quarter of 2013 to $35 in Q3:14. The company also raised its guidance for 2014 revenue, free cash flow, and total net subscriber additions guidance, and reaffirmed its other financial and subscriber guidance:

- Net self-pay subscriber additions of approximately 1.25 million,
- Total net subscriber additions of approximately 1.5 million,
- Revenue of approximately $4.150 billion,
- Adjusted EBITDA of approximately $1.425 billion, and
- Free cash flow of approximately $1.12 billion.

Final numbers for 2014 are expected to be released later this month.

Car Sales Drive Subscriptions

Sirius XM continues to benefit from the healthy growth of U.S. auto sales, as well as a strong marketing program. The company provides free service to new car buyers for several months, with the objective of converting them paid subscribers. Moreover, the company continues to benefit from the pre-owned car segment. It currently works with a network of approximately 13,000 used car dealers offering another distribution channel to capture owners of Sirius XM-enabled vehicles. Company statements suggest Sirius is confident this market can contribute a net addition of approximately 2 million to its self-pay base in 2015, and in an earnings call company execs said they expect to maintain this rate of growth as long as vehicle sales continue at their current pace.

Approximately 65 million radio-enabled vehicles currently use U.S. highways, a number that some analysts believe could swell to 150 million in 2024. Sirius XM says it expects to expand its presence in those cars from 27% today to almost 70% ten years from now.

It should be noted here that Sirius XM has several subscriber categories. A majority (82%) of subscribers are "self-pay," meaning these individuals pay their own monthly fee. Depending on how an initial deal

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with an auto partner is structured, however, promotional subscriptions may or may not be "paid" by the manufacturer or a third party. In fact, history indicates that 55% of paid promotional subscribers will not convert to self-paying after that initial subscription expires, while 75% of the self-pay subscribers will stay with the service.

The Digital Leap-Frog

Despite the company's solid position in the dashboard, its executives know digital technology is leap-frogging satellite radio distribution. Sirius entered the streaming audio space several years ago, but recent comments made by Chairman Greg Maffei indicate the satcaster is studying the growth curves of other streaming music services and determining how to compete on a major scale.

"We are watching what happens in streaming," Maffei said at the Goldman Sachs Communacopia conference in New York last fall. [1] "Taking Sirius XM's unique content beyond the car in the home and in the office is an opportunity we've not yet attacked." Maffei's comments make it clear that the company, which depends heavily on in-car subscribers, is interested in becoming a bigger player in the internet-based streaming space. To that end, subscribers who prefer to listen the service on their mobile devices can get a stand-alone online radio package for around $15.00 a month, less than the "all access" package, which costs $18.99.

From an analyst's perspective, Sirius XM appears financially strong as it implements various strategic moves that should generate positive returns to shareholders. Of course, emerging technologies can always throw a wrench in the works, and today's connected car is tossing them right and left. Pandora has made no secret of its intention to push AM/FM radio off the dashboard throne, and Sirius XM also is a prime target. So are other streaming services, including iHeartRadio, Spotify and, to a lesser degree, Rdio and Slacker.

From an analyst's perspective, Sirius XM appears financially strong as it implements various strategic moves that should generate positive returns to shareholders. Of course, emerging technologies can always throw a wrench in the works, and today's connected car is tossing them right and left.

Additionally, Apple Inc.'s new solution for in-car connectivity—CarPlay—allows an iPhone to hijack a user's dashboard, making it easier to access apps, listen to music, and make phone calls. Though it may not show up in Apple's earnings directly, Motley Fool says CarPlay could serve a vital function by extending Apple's iPhone ecosystem to the automobile. [2] This can only drive further adoption of its service and keep its customers loyal, and put pressure on Sirius XM and other connected car services, including Garmin.

It's Always Something...

Other issues not specific to satellite radio could have a significant impact on Sirius XM going forward. Example: Last September a federal judge in Los Angeles ruled that 1960s band The Turtles—and, by extension, other recording artists—can collect performance royalty fees for copyrighted recordings made prior to 1972. A number of legal experts said the ruling was the worst-case outcome for Sirius XM and other digital music services because it will likely expand the scope of music on which they must pay royalties. It also could add a further layer of costs for the digital services that traditional AM/FM radio stations do not have to incur. For Sirius XM, Pandora, and other companies that stream music online, the ruling could lead to higher prices—or less music if these companies decide to simply play fewer songs from the pre-'72 era.

SiriusXM has appealed the judge's decision.

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Rdio's Deal With Cumulus Pays Ad Dividends

Rdio is a four-year-old streaming music service that initially charged for online subscriptions, but last September announced it was shifting into a "new phase" by offering an advertising-supported "freemium" music service to its listeners. Company executives said this evolutionary measure was expected to help it compete against digital music services that already have a massive head-start, including ad-based Pandora, subscription-based Spotify, and—once Apple has negotiated a new label deal—iTunes Radio/Beats Music.

"What we've learned collectively over the last few years is that the most successful models are freemium models," Anthony Bay, Rdio's chief executive, said at the time of the announcement.

As with other digital streaming platforms, Rdio lets users build their own libraries and playlists from a catalog of approximately 25 million tracks. These "what-you-want-when-you-want" services can effectively replace the need to own a music collection, as evidenced by the ongoing decline in music download and CD sales. Users of the free service will see both the online version and mobile apps place near-total emphasis on Rdio's ad-supported radio stations, including over 60 channels of audio programmed by new human "curators." [1] There also will be fewer invitations to upgrade to the premium version, and all users will have access to the service's "Home" feed, which offers social media stories about trending artists, songs, and albums.

The Cumulus Deal

The move largely is a byproduct of Rdio's September, 2013 deal with Cumulus Media, which was granted an equity stake of 15% in Rdio's parent company, Pulser Media, in exchange for providing content and promotional services. Cumulus says those elements are worth $75 million over five years. "This is the most exciting internet radio product we've seen and provides a compelling complement to our nationwide broadcast radio platform," Cumulus CEO Lew Dickey said when that deal was announced. [2]

Rdio's free version was introduced in 20 countries almost immediately after it was announced. Advertising in the U.S. will be sold by Cumulus, which in exchange allows Rdio to use content created by its radio stations and various networks—including Westwood One.

Cumulus Media's third quarter 2014 earnings were the first to reflect the radio company's first full year of revenues generated after forging its Rdio partnership. In a conference call CFO Joseph Patrick Hannan reported Rdio's ad revenue for Q3 was $5-million, representing 69% of the platform's year-over-year digital ad growth.

Rdio also is making inroads on the technology side of the equation. Last February Tesla Motors' CEO Elon Musk announced Rdio will be integrated into its cars in Europe as the default dashboard audio service, and the following month Google announced that Rdio will be available on Google's Chromecast in 12 countries.

Founded by Skype co-creators Niklas Zennström and Janus Friis in 2010, Rdio's stated mission is to provide access to every song, on every device, anywhere in the world instantly, online or offline. With the premium service available in 60 countries and the free service available in 20, the company is making a push to do just that, although execs won't say just how many users have registered to listen to the platform. Meanwhile, Pandora (76 million active listeners), iHeartRadio (50 million), and Spotify (40 million) are light years ahead of Rdio, but CEO Michael Bay seems to believe the switch to "freemium" may provide a sort of worm hole that allows it to catch up.

Or at least come close enough to fire its photon torpedoes.

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Today's New Radio Listener Defined

Listeners...They Are A Changin' 64

New audio platforms are encroaching on radio's once-exclusive domain at-home, in mobile devices, and in the car. This means that, as the audience fragments and the same content can be accessed through numerous new channels, the presentation of that content is critical. So is understanding the listeners who decide to listen to it...or not.

Smells Like Teen Spirit 66

During the brief 5- to 6-year period that by definition ends before one's 20th birthday, teens start to identify those influences that will help shape who they are for years to come. They also begin to reject other behaviors that defined their younger selves.

The Millennial Generation 68

According to *Time* magazine's cover story from last May, Millennials are dependent on their parents and can't find jobs. They're the most self-involved generation in decades, they have an abysmally short attention span, and they're more interested in "hooking up" than getting married. Don't believe it for a minute.

The Generation X Files 71

Because they're bookended by two much larger generations, Gen Xers are a low-slung, straight-line bridge between two noisy behemoths (Millennials and Baby Boomers). Thus, in most of the ways demographers take stock of generations, Gen Xers much of the time simply travel under the radar.

The Last Baby Boomer Just Turned 50 74

As Boomers continue to age, the U.S. healthcare industry is gearing up to meet unprecedented levels of demand. Though members of this generation still view themselves as young and healthy, they have more health problems and chronic conditions than previous generations at the same age. They also have a significant amount of discretionary income to spend.

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Today's New Radio Listener

For years media analysts and pundits have been echoing the now-tired cry that "content is king," but Bunzel Media Resources has always believed that—if we accept that statement—then "context" is the wild card. In other words, with so much similar content available on different media platforms, the various ways that content is delivered and consumed plays a major role in the relevance of each medium. Simply put, the context of delivery is just as critical today as the content that's being delivered.

For more than a half century radio has served as a powerful contextual force that filtered, through expert "human touch" (nowadays defined as "curation"), a broad range of entertaining and informative content to millions of loyal listeners each day. Radio programmers and personalities identified those songs and artists that would appeal to mass audiences, and then played those records in a rotation that kept listeners coming back for more. It was just as much the context as the content that assured this.

That reality is changing. Nielsen numbers continue to show radio reaches 92% of the U.S. population 12-plus, but other platforms are encroaching on radio's once-exclusive domain at-home, in mobile devices, and in the car. This means that, as the audience shifts to new platforms and the same content can be accessed through numerous new channels, the presentation of that content is critical.

Certainly, radio programmers, researchers, and music directors still apply the same high standards and expertise to their craft. But it's increasingly important to understand listeners outside the old paradigm of P1s, A12-49s, or M-25-54s. Most U.S. adults today divide their listening among several different audio sources, meaning these individuals no longer can be pigeonholed by the same traditional demo descriptors that have worked in the past. Perhaps now more than ever before, qualitative characteristics are more valuable to marketers than quantitative statistics are.

Listeners…They Are A-Changin'

According to Nielsen's most recent study of the music habits and preferences of American music listeners, 59% use a combination of AM, FM, or online streams of terrestrial radio stations to listen to music each week. [1] Furthermore, 48% of them use their own music libraries weekly when listening to their favorite artists and bands, while 41% use on-demand streaming services such as Spotify and YouTube, and 36% tune in to such curated streaming music services as Pandora and iTunes Radio. Overall, 93% of the country's population listens to music, spending more than 25 hours each week doing so in one form or another.

Looking Beyond The Demographics

Today's audio landscape offers a broad range of listening options for people to choose from, meaning content creators and advertisers have myriad ways to engage listeners that didn't exist even a few years ago. With this in mind, Nielsen Audio last summer released a study that looks well beyond standard audience demographics to better understand audio consumers, what motivates them to listen, and how radio broadcasters can use that information to tailor their programming and advertising to be most effective. [2] The report, titled "The Audience Demand Landscape," identifies six "defining characteristics," or audience segments, that Nielsen says may be more appropriate classifications of all audio listeners. They are:

- *Music Loving Personalizers*: Passionate music listeners who primarily are seeking an emotional benefit by listening. They prefer free services and often play music in the background. (23% of the population)
- *Discriminating Audiophiles*: Highly engaged consumers who listen to and prefer a wide variety of audio, and are willing to pay for specific content. (18% of the population)
- *Convenience-Seeking Traditionalists*: They prefer

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> Despite a constantly changing audio landscape, broadcast radio controls over half of the four-plus hours a day that Americans spend with all sources of audio. The audio space is vibrant and changing—and newer sources of audio, from internet-only services like Pandora and Spotify, to satellite radio, and even TV music channels like Music Choice now account for nearly a quarter of all listening.
>
> —Edison Research

broadcast radio, listening to their favorite stations and hosts, and routinely listen in the car. (17% of the population)

- *Information Seeking Loyalists*: Heavy broadcast listeners who usually listen to their favorite talk programs for news and education and to stay informed of current events. (15% of the population)
- *Background Driving Defaulters*: Less engaged, they typically have the radio on in the car for background entertainment or occasionally for news and information. (14% of the population)
- *Techie Audio Enthusiasts*: Avid consumers of many types of audio, these listeners are early adopters of new platforms to satisfy their audio needs. (13% of the population)

As digital platforms encroach on traditional media (most recently radio and print), analysts increasingly point to "digital natives" as the driving force behind this march of technology. For those who aren't quite up to speed with "analyst-speak," digital natives are those consumers who were born into the era of digital technology and never lived in the "analog" frontier that preceded it. As a MiDia Research study pointed out last fall, digital immigrants (old folks) bear the baggage of their analog era past, while digital natives (young people) have only ever know ubiquitous connectivity and content availability. [3]

Radio Still Dominates The Ear

Despite a constantly changing audio landscape, broadcast radio controls over half of the four-plus hours a day that Americans spend with all sources of audio. [5] According to an Edison Research survey of 2,096 Americans ages 13+, the audio space is vibrant and changing—and newer sources of audio, from internet-only services like Pandora and Spotify, to satellite radio, and even TV music channels like Music Choice now account for nearly a quarter of all listening.

The study reveals that Americans spend an average of 4 hours and 5 minutes each day consuming audio, and more than 52% of that time goes to broadcast radio on all its various platforms. But other sources of pre-programmed audio now control 26% of listening time, while listening to one's own music collection receives more than 20% "share of ear."

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The signs are everywhere: Mercurial mood swings, rapid behavior shifts, changes in attitude, ever-mutating hormones. Combine all these elements together in one young body and it

Smells Like Teen Spirit

While Nielsen starts measuring teen listening at age 12, most parents know teen boys and girls begin acquiring their own distinct attitudes and behaviors around 13 or 14. It's a confusing stage in human development as peer influence, desire for independence, and profound brain growth collide in ways that can be perplexing and puzzling to all concerned. During this brief 5 to 6-year period that categorically ends before one's 20th birthday, teens start to identify those influences that will help shape who they are for years to come. They also begin to reject other behaviors that defined their younger selves.

This demo group has always been critical to brands and marketers because teens tend to be early adopters and their brand preferences aren't yet firmly defined. The difference with today's teenagers, however, is that they're not listening to what the media and older generations are telling them is cool. While older Millennials looked to such television shows as MTV's *Total Request Live* to tell them what was in style, today's teens are more likely to discover and set their own trends.

Gatekeepers To Modern Trends

"Twenty years ago magazines, broadcasters, and record labels controlled the flow of trends downward to teens," Oliver Pangborn, senior youth insights consultant at the market research firm The Futures Company, told *Inc.* magazine last summer. [1] "Teenagers have now become the gatekeepers to modern trends. With the internet and social media, they have more access to information than ever before."

Teens also have a significant amount of purchasing power. According to a 2013 Nielsen survey, 29% of teens live in homes where household income is $100,000 or higher, which means their level of discretionary income is higher than for many of their predecessors. Additionally, they lead the way on mobile technology. A recent Pew Research survey revealed that 25% of teens access the internet primarily through mobile phones, whereas only 15% of adults are "mobile-first." This means such businesses as Facebook, which believe mobile technology is the future, would be well-served by focusing on their teen customers.

While today's teens are more "connected" than at any time in U.S. history, they also are much more tuned in to what their friends consider the latest thing than what marketers—or radio stations—are trying to sell to them. The challenge with this generation of teens becoming the new gatekeepers is that they're less loyal to brands and businesses than the generations that came before them.

"They've grown up in an era where just months after you've purchased the latest, greatest thing, the next best thing is around the corner," says Mary Leigh Bliss, trends editor at youth-focused research firm YPulse. "They tend to be loyal to the best in class, rather than the brand itself."

The Universal Truth About Teens

While it's difficult to peg any demographic with anything other than general guidelines, investment bank and asset management firm Piper-Jaffray each year attempts to do just that with its "Taking Stock With Teens" market research project. [2] "The universal truths about teens remain the same," says senior research analyst Stephanie Wissink. "They continue to seek peer affirmation, their spending is almost entirely discretionary, and they are early adopters of change. What's different about this generation of teens versus prior generations is they are non-conformists. They seek experiences over products, and they align with brands that are

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practical yet cool."

The most recent edition of the Piper Jaffray survey identifies these key findings:

- Teen males are spending more, up 4% from Fall 2013, which has historically signaled an inflection in broader spending.
- For the first time in the history of the survey, food exceeded clothing as a percentage of the teen wallet. Electronics also gained in share, while furniture and fashion ceded modest share.
- Decreases in the fashion category were most severe in accessories, which were down double-digits for a second year in a row.
- Top clothing brands continued to include Nike, Action Sports, Forever 21, American Eagle, Polo Ralph Lauren, and Hollister.
- Instagram ranked as the most important social network, exceeding Twitter and Facebook for the first time in survey history.
- At home, cable subscriptions are becoming less essential for teens, while online streaming is more critical. Out of home, IMAX continues to grow share among teens.
- Music/radio listenership has grown for Pandora and local broadcast radio, largely at the cost of MP3s and CDs.

Falling Out Of Fashion

Building on these findings, *The New York Times* reported in September that teens' social standing these days is enhanced more by owning the latest mobile device than wearing expensive brands and other peer-affirmation goods. As a result, the teenage apparel sector is in a deep slump, as sales have declined over the last several quarters.

According to The NPD Group, teens account for 15% of all apparel sales, and their waning interest in fashion and accessories is beginning to hurt. Indeed, such longstanding retailers as Forever 21 and Abercrombie & Fitch have been hit hard as online shopping has contributed to a reduction in teen-heavy mall traffic and actual hard sales. Paradoxically, the popularity of social media apps causes new products to flash in front of users so fast that an item that used to be considered "must-have" can be superseded by another within seconds.

For the first time, the Piper Jaffray survey of teens found they spent more money on food—just barely topping clothing—than any other category. "There's this magnetism to restaurant environments," Wissink said. "So we talked to teens about why, and it's the free Wi-Fi."

And therein lies the nature of the seismic shift.

In many ways, teens represent the leading edge of mobile connectivity, and the patterns of their technology use often signal future changes in the adult population. According to the most recent findings from the Pew Research Internet Project, [3] teens today are just as likely to have a cell phone as they are to have a desktop or laptop computer. And increasingly these phones are affording teens always-on, mobile access to the internet—and, in some cases, serve as their primary point of access. [4]

Text Me...Maybe?

According to a survey of 7,000 high school seniors conducted by Niche, texting far and away is the most popular form of social media among teenagers. [5] Almost nine out of ten (87%) say they texted every day, considerably ahead of the number who visit Facebook. In fact, the Piper Jaffray survey found 30% of teens rank Instagram as their most important social platform, ahead of Twitter at 27% and Facebook at 23%.

The message here is that teens should never be taken for granted. Anyone who has raised at least one of them is well aware of their mercurial shifts in mood, behavior, attitude, and focus. They are exceptionally tuned in to their peers, and continually turn to them for affirmation and approval. The teen psyche is delicate and his/her position within the teen universe can be fragile at all times. Music, fashion, food, and communal activities remain important to them, but these things cannot be dictated or fed to them.

Ultimately, teens believe they acquire their tastes on their own, and branding or marketing gimmicks are readily identified as such. Those brands—and radio content—that tend to thrive with teens are the ones that do it organically by meeting them on their own turf.

They're the biggest group of adult consumers since the Baby Boom generation. So forget everything you think you know about them and embrace

The Millennial Generation

Stereotypes thrive on myths, and when it comes to Millennials, the myths abound.

If you believe *Time* magazine's cover story from last May, they're dependent on their parents and can't find jobs. They aren't interested in marriage and prefer just "hooking up." They are far more "liberal" or "progressive" than older demographic groups. And they have the attention spans of gnats, unable to focus for more than a short period on any task.

Don't believe it for a minute.

Millennials Defined

For the record, Millennials (also known as the Millennial Generation, Generation Y, Generation We, Global Generation, Generation Next, the Net Generation, the New Boomers, and Echo Boomers) is the marketing term that refers to the demographic group of individuals generally born between 1981 and 1996. Or, for the purposes of this report, those age 19 to 34.

Millennials make up 25% of the U.S. population (approximately 77 million people), and—according to online innovation group PTTOW—their economic spending power is $1.3 trillion dollars. [1] In order to sell Millennials on a product, concept, or service, marketers need to connect with these consumers on an emotional level that aligns with their complex value sets surrounding socioeconomic conditions and new cultural norms.

Millennials also are more racially and ethnically diverse than any previous generation in the U.S. [2] This young and diverse generation makes up 24% of the country's overall population (the same as Baby Boomers), and their spending power is growing. Technology is part of the Millennial identity, since they were the first to come of age with cable TV, the internet, and cell phones. When Nielsen asked them what makes their generation unique, Millennials ranked "technology use" first (24%), followed by "music/pop culture" (11%), "liberal/tolerant" (7%), "smarter" (6%), and "clothes" (5%).

Auto Zoned-Out

One of the most obvious differences between Millennials and other demographic groups is the idea of car ownership. Millennials simply don't buy cars with the same fervor as their older cohorts did (and still do). While it could be argued that the recession forced this behavior upon them, there are other issues at work. In years past, car ownership was considered a rite of passage, and young adults saw their own set of wheels as the ultimate prize. A new car gave them a sense of personal freedom, allowing them to get together with friends and disconnect from the parental ties that bound them.

Unlike the Baby Boomers and Gen Xers, however, older teens and young adults today are expressing their freedom through social channels. As noted by *Fast Company*, [3] smartphones and Xboxes and social media networks are Millennials' wheels today, and they got the keys to them at about age 9. As a result, programming and marketing to this group demands a different mindset that involves taking the time to understand them.

Millennials use technology in every facet of their lives to connect with friends and family, and to get work done. *Fast Company*'s recent study of College Millennial Consumers (CMCs) shows

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> "Marketers should be aware of the changing expectations of their customers as the Millennial generation enters peak adult spending years. Millennials are omni-channel consumers with mobile being their primary channel of choice."
> —Experian VP Alex Schumacher

them to be highly motivated, open-minded, passionate, and extremely engaged consumers. Out of more than 1,600 college students surveyed:

- 96% were focused on making money to curtail their tuition and other college expenses;
- Nearly 30% needed to make $4,000 or more for the summer; and
- Nearly 50% of students were engaging in some form of "paid internship" in an effort to gain both pay and valuable job experience.

While they might appear distracted and lazy as they gaze at their phones, in reality they are keenly aware of what's happening around them, perhaps more so than other generations. They also are focused on their near- and long-term opportunities.

Smartphonetics

According to a recent Nielsen report, 85% of Millennials aged 18-24 own smartphones and 86% aged 25-34 own them, compared to 71% of the overall population. [4]

The report, titled "Millennials Come Of Age," reveals that 50% of Millennial smartphone owners say that they access the internet more often through their phone than through a computer. Additionally, these young adults spend the most time using media compared with other generations, at approximately 67 hours a week compared with the 61 hours spent by adults over 35. It's also the first generation to spend more media time with digital (35 hours a week) than with traditional media (32 hours).

Experian Marketing Services says Millennials spend 14.5 hours each week texting, talking, and accessing social media on their smartphone, more than any other generational segment of the U.S. population. While this fact is not altogether surprising, it points out that these adults tend to be the most diverse, informed, and digitally connected generation. In fact, Millennials spend so much time on their smartphones that they account for 41% of total time Americans spend using these devices, despite making up just 29% of the overall population.

"Marketers should be aware of the changing expectations of their customers as the Millennial generation enters peak adult spending years," Experian Marketing Services VP/Marketing Alex Schumacher told *MediaPost* last Fall. "Millennials are omni-channel consumers with mobile being their primary channel of choice. Given that this is a generational reality, marketers should be accelerating their investments in creating and integrating brand experiences, incorporating mobile by design."

Millennials tend to be glued to their smartphones, making mobile an efficient way to reach them. An astounding 83% say sleep with their smartphones, compared with 50% of Boomers, and they're more than 1.5 times more likely than average to own an iPhone.

Kill The Stereotypes

Millennial interests and priorities are eclectic and fragmented despite being better (and more) connected, and they can sniff out hyperbole, stereotyping, and fraudulent claims. This means companies need to "keep it real." From the music they listen to, to their interaction with brands, Millennials put a premium on authenticity, creativity, and distinctiveness. Creating a two-way conversation through social media will allow these young and diverse consumers to provide input and, better yet, become brand ambassadors.

This means it's critical that programmers and marketers "get it right" when dealing with Millennials. An *eMarketer* report released in September cautioned against wedging Millennials into preconceived marketing slots that supposedly make it easier to target and advertise to them. [5] Example: Marketers should not play the "generation gap" card that purportedly worked for Baby Boomers.

"The press constantly pits and positions generations against each other, but that doesn't resonate with Millennials," says Victoria Draper, director of consumer analytics and research at AOL. "They look up to Boomers and Gen Xers [and] this gives brands a great opening to celebrate the significant alignment that exists between them."

Other insights from the *eMarketer* report:

- Don't split the sexes, since the lines are increasingly blurring between male and female Millennials.
- Tap into Millennial idealism; cause-related marketing goes a long way with Millennials

and brands that show their support of issues or allow them to support their causes will win big with them.

- Inspire them not only by embracing their positivity and their fun-loving personality, but also their personal struggles.

Home Sweet Home…Or Not

As noted above, Millennials are not as disposed to purchasing an automobile as their older counterparts. The same thing could be said for their housing arrangements, as Millennials are less prone to own their own home.

While U.S. Census data indicate 18 to 34 year-olds are less likely to live with their parents than they were at the height of the recession, it also suggests they don't actually have enough money, or desire, to form their own households. [6] Thus, the homeownership rate among Millennials remains low. So is the "headship rate," defined as the share of Millennials who are the head of a household regardless of whether they own real estate. This suggests the Millennial generation is still doubling up with friends or other relatives even if they aren't living with Mom and Dad.

This isn't good news for the future of the construction and real estate industries. Millennials are a massive demographic group, slightly larger than even the Baby Boomers. If this group builds the wherewithal to strike out on their own and buy homes, that could be a great boon for the economy. But at this point, Millennials are not there.

About Those Myths

Finally…to clarify a few of those myths at the top of this report, the *Washington Post* says vast hordes of Millennials are not moving back in with their parents after college or graduate school. [7]. It's true that a larger share of young people live with their parents today than did in the '60s, but the difference is not substantial (36% today vs. 32% in 1968, according to a Pew Research Center analysis). And more of them live on their own or with a roommate than in prior generations.

Also, despite the *Time* cover story that defined Millennials as "lazy, entitled narcissists," the truth is they are deeply concerned about the world around them. They want jobs that affect social change, and they give whatever they can to bring it about. A 2012 study found that three-quarters of young people surveyed gave to a charity in 2011, and 63% volunteered for a cause.

Additionally, the attitudes of Millennials toward marriage and "hooking up" have been distorted. While they are likely to stay single longer than prior generations, 70% of unmarried Millennials say they want to get married at some point, according to Pew, and most of the rest haven't made up their minds.

Yes, Millennials tend to be more progressive in thought and deed, but they do not necessarily align themselves with one political party. While 66% of voters 18 to 29 chose Barack Obama in 2008, by 2012 that support had slipped to 60%, the steepest drop of any cohort. Also, while younger voters identify as Democrats more than the country does as a whole (37% vs. 31%), neither party carries a majority, on account of independents.

Finally: Michael Posner, a professor emeritus of psychology at the University of Oregon, says criticism of the Millennial attention span is unwarranted. "The same people who say they have no attention span say they spend all their time playing video games, in which they show sustained attention," he notes.

In fact, Millennials may have a cognitive advantage over other age groups. Jim Flynn, a psychology and political studies professor at New Zealand's University of Otago, says Millennials hold about a six-point edge in IQ scores over the cohort 20 years their senior. He says the gains come mainly in vocabulary and logical reasoning and, "potentially, could help them make better judgments about the world."

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They walked in the shadows of the Boomers. They were too old to be part of the post-war boom, and too young to remember the Beatles except as an oldies band. They were still in diapers during the Summer Of Love and Woodstock, and by the time they took to the dance floor it was flashing with disco balls and the Bee Gees. These are the stories found in

The Generation X Files

Wedged in tightly between the Baby Boom generation and Millennials, those folks born between 1965 and 1982 in many ways can be considered the lost generation. Their overall population numbers aren't nearly as large as either of their neighboring cohorts, and their tastes and trends aren't as clearly defined as are those of other groups. As a result, many broadcasters and advertisers tend to ignore Gen Xers when developing their media strategies—and this can be a big mistake in the overall marketing scope.

Growing up in the shadows of Baby Boomers, who took their sweet time maturing in a world that was hard-fought (and won) for them by their parents, Generation X arguably was pushed into adulthood at an age earlier than any other recent generation. As noted in a report published by Value Options, [1] Boomers viewed the future as "theirs for the taking," while Gen Xers found their own futures largely disappointing and unappealing. Just like the malls, shopping centers, and office buildings they would come to work in and the videos they would rent, everything appeared secondhand and pre-owned.

The Wedge Generation

Born approximately between the release of *Rubber Soul* and John Lennon's death, Gen Xers grew up in an era of shifting technologies, political and institutional incompetence, and vague social trends. These individuals began coming of age during Watergate and Three Mile Island, experienced the Iranian hostage crisis and the explosion of the Challenger space shuttle, and endured both the Clinton-Lewinsky debacle and the Twin Towers tragedy at Ground Zero. Purple-ink mimeograph machines evolved into high-speed copiers, fax machines and hand-held copiers were the tech rage of the day, and personal computers first found their way into homes.

According to the Value Options study, Gen Xers spent less time with their parents than previous generations of children had. They found themselves home alone after school and taking care of themselves and their siblings, thus becoming known as "latchkey kids." Divorce among their parents was common, and Gen X kids found themselves less pampered than Boomer kids supposedly were. Autonomy and self-reliance were natural byproducts of the Generation X childhood, and these traits became generational trademarks as they progressed into the workforce. The American dream was changing, and many of these young folks were unable to find a job and replicate the lifestyles of their Baby Boomer cousins and parents. As a result, many of them were forced to move back in with parents while in their 20s, turning these "latchkey kids" into the first "boomerang generation."

These factors (and others) have led Generation X to be largely overlooked by polltakers, sociologists, marketers, and the media. Essentially, they slipped

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Because they're bookended by two much larger generations, Gen Xers are a low-slung, straight-line bridge between two noisy behemoths. Thus, in most of the ways demographers take stock of generations, Gen Xers much of the time travel under the radar.

between the cracks of society, and – because of their smaller size and defined age range (about 16 years) – they tend to be ignored. As the Pew Research Center [2] said in a profile published in 2014, "This overlooked generation currently ranges in age from 34 to 49, which may be one reason they're so often missing from stories about demographic, social, and political change. They're smack in the middle innings of life, which tend to be short on drama and scant of theme."

Because they're bookended by two much larger generations, Gen Xers "are a low-slung, straight-line bridge between two noisy behemoths," the Pew study observes. Thus, in most of the ways demographers take stock of generations—racial and ethnic makeup, political, social and religious values, economic and educational circumstances, and technology usage—Gen Xers much of the time travel under the radar.

Still, research shows that over the course of their voting lives, older Gen Xers have tended to be more conservative than both older Boomers and younger Millennials. Also, Xers are more doubtful than both of those larger generations that they'll have enough money for their retirement—although Pew attributes some of that negativity to the economic stresses of middle age.

Gen Xers also stand out in another way. In 2010, when Pew Research asked adults of all ages if they thought their own generation was unique, about six -in-ten Boomers and Millennials said yes. But only about half of Gen Xers said the same. And even among those who did, there was very little consensus about why they believed they were distinctive.

The Pew study suggests one reason Xers have trouble defining their own generational persona could be that they've rarely been doted on by the media. Baby Boomers have been a source of media fascination from the moment they emerged from the womb (hence their name). Likewise, the Millennial "everybody-gets-a-trophy" generation has been the subject of endless stories about their multicultural diversity, their progressive political and social ideals, their voracious technology use. But Generation X…not so much.

As reported by *Money* magazine, [3] Gen Xers even were short-changed in terms of generational arithmetic and time frame. Unlike Boomers, whose demographic definition covers 1946 through 1964, Generation X really only got 16 years before researchers started focusing on the new Gen Yers, or Millennials. Not even Pew can explain why this is, with researcher Paul Taylor noting that "generational boundaries are fuzzy, arbitrary, and culture-driven….Once fixed by the mysterious forces of the zeitgeist, they tend to firm up over time."

Still, with all the nuances that can be implied or inferred about Gen Xers, they remain a savvy, skeptical, and self-reliant bunch. They're not into preening or pampering, and they just might not give much of a damn what others think of them. Or whether others think of them at all.

Despite their independence and self-proclaimed indifference to societal woes, this generation expects immediate and ongoing feedback, and is equally comfortable giving feedback to others. Other traits include working well in multicultural settings, desire for some fun in the workplace, and a pragmatic approach to getting things done.

According to marketing consultant Bruce Mayhew, [4] they are much more comfortable with technology, diversity, and global awareness than any previous generation. Xers are the first generation to grow up with CDs, remote controls, and computers. Their circle of friends likely includes people from other cultures and they are one of the first generations to benefit from easier world travel and access to worldwide current events.

Loyalty Redefined

A recent American Bar Association [5] profile titled "Generation X and The Millennials: What You Need to Know About Mentoring the New Generations" says many Gen Xers saw their parents laid off or facing job insecurity, and some even entered the job force in the late 1980s when even more layoffs occurred, leading them to redefine the term "loyalty." "Instead of remaining loyal to their company, they have a commitment to their work, to the team they work with, and the boss they work for," the ABA profile states. "A Baby Boomer complains about his dissatisfaction with management, but figures its part of the job. A Gen Xer doesn't waste time complaining—she sends her resume out and accepts the best offer she can find at

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another organization."

Even more so than Baby Boomers, members of Generation X dislike authority and rigid work requirements. Again according to the ABA profile, they're eager to learn new skills because they want to stay employable, not necessarily because it helps the company. Additionally, they work best when they're given the desired outcome and then turned loose to figure out how to achieve it.

A recent study of upscale Gen Xers from Shullman Pulse [6] suggests marketers (and, by extension, radio programmers) should adapt their strategies to include this largely overlooked group—especially those that are targeting upscale consumers in an affluent market. Upscale Gen Xers have interests, goals, and concerns that differ greatly from Boomers and Millennials, and should to be considered separately when targeting these population segments.

For instance, one of the main goals for half of Gen Xers is to provide for their children's college expenses, and almost as many are focused on having enough income for retirement. Other important factors in their daily lives are their own health, crime, and climate change. Still, despite what may be considered a cynical outlook on life, more than half are optimistic about the U.S. economy and two-thirds are "very satisfied" or "satisfied" with life today.

Upscale X Priorities

According to the Shullman Pulse report, issued more than four out of ten upscale Gen Xers aim to have enough money for emergency expenses and to have enough income for retirement. For mass-market Gen Xers, as for all adults, the most popular goal is to have enough money for daily living expenses.

Generation X is a critical market segment for just about any local or national business because they are either in—or reaching—their peak earning and spending years. The younger edge of Gen X is marrying, having kids, and buying homes, while the older edge is enjoying greater purchasing power and looking forward to an empty nest as their children head for college. They have weathered the storm of self-reliance, largely feel secure in their own demographic skin, and have settled into lives and lifestyles that will travel with them into middle and old age.

Gen Xers Hang Out Online…So Target Them There

While Gen Xers weren't born with smartphones in their hands, they are the first generation to come of age along with the internet. According to an *eMarketer* report titled "Generation X: A Forgotten Population That's Well Worth Remembering," a majority of them use social media and smartphones, and three out of four Gen X internet users logged on to social networks at least once a month last year.

As GrowBiz Media CEO Rieva Lesonsky points out in a *Small Business Forum* article titled "Why Gen X Still Matters and How to Market to Them," marketers need to learn where Gen Xers hang out online—and then go after them:

- *Use Facebook*. Facebook is by far their predominant social network, with *eMarketer* estimating about two-thirds of U.S. Gen X internet users access Facebook at least monthly.
- *Target them via email*. While seniors are relatively new to email and Millennials may see it as "old-fashioned," Gen Xers view email as the gold standard for both business and personal communication.
- *Advertise online*. Pay-per-click advertising can pay off for this demographic, since Generation X is likely to start any product or service purchase online, at least for research purposes.
- *Practice good SEO*. SEO is essential to capturing Gen X consumers who are searching for a type of business, a product, or service online.

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They were born after the close of World War II and were the children of television, rock and roll, 45s, sock hops, the Summer of Love and the '60s. And now, on the last day of last year, at the stroke of midnight

The Last Baby Boomer Just Turned 50

For decades radio programmers and marketers alike sought to master this giant population group, targeting them during every step in their demographic journey: attending school, finding jobs, buying cars, marrying, forming households and bringing up children. They enjoyed a brief a-ha moment in 1989 when Boomers fit neatly within the much-valued 25-54 demo group, if only for a year. Underpinning this marketing energy was a belief that, because brand loyalty begins at an early age, money spent to woo Boomers would pay dividends for years to come. [1]

According to AARP statistics (which, in turn, cite numerous other sources), the 77 million Baby Boomers born between 1946 and 1964 hold 70% of all disposable income in the U.S. [2] This year they will spend approximately $2.9 trillion, with $35 billion of that spent on their grandchildren, and $7 billion spent online. Furthermore, they will spend more than any other generation on health care. (More on that later.)

Consider the size of the Baby Boom market: [3]

- Baby Boomers make up 35% of the American adult population (Source: Scarborough).
- Boomers' median household income is 55% greater than post-Boomers and 61% more than pre-Boomers, and they have an average annual disposable income of $24,000 (U.S. Government Consumer Expenditure Survey)
- Baby Boomers outspend other generations by an estimated $400 billion each year on consumer goods and services (U.S. Government).
- Baby Boomers account for nearly $230 billion, or 55%, of consumer packaged goods sales (Nielsen).
- Boomers outspend younger adults online 2:1 on a per-capita basis (Forrester Research).
- Baby boomers spend 27 hours per week online, 2 hours more per week than Millennials (WSL/Strategic Retail).

Furthermore, Boomers will buy about 36% of new cars sold in 2015 and, as they retire, will account for 80% of all travel expenditures. They are the leading consumers in 119 of 123 consumer packaged goods categories, almost 100% own a computer and, coincidentally, 41% of them own a product manufactured by Apple.

Unlike their senior parents—those individuals loosely defined in Tom Brokaw's much-heralded book "The Greatest Generation"—Baby Boomers are willing to spend money, but the expense has to be "just right." And now, as more and more of them have come to be dependent on Social Security and Medicare, they also are becoming known as the Entitlement Generation. Their sheer numbers are placing new demands on retirement communities, on the home health services they're starting to need, and on just about every other service provider with which they come in contact.

These affluent consumers also are giving up "hard copy" print media for web-based products and services at an alarming rate. Boomers average only two hours a week reading a newspaper or magazine, compared with 3.1 hours for their elder counterparts. In fact, they average 4.8 weekly hours of online usage at home and 14.8 hours of online usage outside of the home.

All this online activity and expendable income equates to a lot of money spent on eCommerce. In fact, the current $7 billion they spend online will grow exponentially as they age, making fewer trips

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to traditional retail outlets. Because of their income and adaptation to technology, they're expected to fully embrace the "internet of things" (computing devices talking to each other) which, among other things, will extend to a new wave of medical monitoring devices.

Of course, not all is rosy in the Land of Boom. The U.S. economy expanded by an average 3% a year for nearly 50 years, until Boomers started hitting retirement age. Now for the past five years, it has expanded on average 2.2% a year. That's the word from Dr. David Kelly, chief global strategist for J.P. Morgan, [4] who says the economy is experiencing a slower expansion rate and there is not enough capital spending to counter it.

"The economic problems caused by retiring Baby Boomers could be eased if the government gave seniors more incentive to keep working and if increased legal immigration was allowed to boost the workforce," Kelly says.

Also, as Boomers continue to age, the U.S. healthcare industry is gearing up to meet unprecedented levels of demand for products and services. [5] Though members of this generation still view themselves as young and healthy, they have more health problems and chronic conditions than previous generations at the same age. Still, they want to stay active for as long as possible, and expect healthcare that enables them to do so on their own terms.

The U.S. health industry is undergoing a large-scale, transformational shift away from treating illness and disease, toward rewarding wellness and prevention. As more aging Boomers focus on staying active and preserving their physical appearance and weight, they are fueling the markets for exercise as well as vitamins, dietary supplements, and anti-aging products.

A majority of Baby Boomers were already covered by health insurance before the ACA's first open enrollment period began in the Fall of 2013. According to the National Center for Health Statistics, Boomers had the highest insured rate of any adult age group not covered by Medicare. Since open enrollment, however, *eMarketer* says the number of insured has expanded even further and marketers are looking for ways to encourage them to take more responsibility for their own care and become comfortable with technology that will reduce long-term costs and keep them healthier. Digital advances, including electronic health records, mobile apps, and video and wireless monitoring technology, allow for widespread adoption of digital care management.

As Boomers continue to age, the U.S. healthcare industry is gearing up to meet unprecedented levels of demand. Though members of this generation still fancy themselves young and healthy, they have more health problems and chronic conditions than previous generations at the same age.

Make Room For The Boom

While younger consumers typically are the early adopters of new digital technologies, advertisers would be short-sighted to write aging Boomers out of their marketing plans. Many brands assume Boomers have made their choices and will stick with them to the grave—something that couldn't be further from the truth. In fact, Boomers are heading into a period of great disruption in their lives, and it's putting a good deal of their consumer spending in play.

According to *eMarketer*, a significant number of boomer consumers research products extensively before making a decision to buy. [6] A February 2014 survey conducted by Market Strategies International also suggests they are more likely than Millennials to use consumer websites and publications, and much more likely to cite these as primary information sources, while correspondingly being less inclined to rely on social media.

Additionally, a year-long Experian Marketing Services study that concluded in December 2013 found nearly three in ten Boomers would seek a better deal online if they saw something they wanted while in-store. While retail analysts don't expect the convenience of online shopping to completely replace trips to the grocery store any time soon, digital is making significant strides with mature consumers, particularly Baby Boomers. [7] Indeed, one in five respondents said they're currently ordering groceries online for home delivery, and two -thirds expressed a willingness to use these services.

Perhaps more than any other generation described in this report, Boomers defined the world in which they live. They created rock and roll radio, they still can't get the commercial jingles of the 1960s out of their heads, and they're having trouble coming to terms with gravity and male- pattern baldness. They are aging children of the media, they suddenly have time on their hands, and they have money to spend.

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About the IRTS Foundation

The IRTS Foundation is a 501(c)(3) charitable organization, which brings together the wisdom and power of today's leaders to train and educate the next generation of media and communication professionals. Our programs and diversity initiatives help ensure that the business responsible for informing, entertaining, and educating the public reaches its highest potential in this exciting digital age.

This year, we celebrate the 74th anniversary of the organization from which IRTS evolved, and we're proud to say that more than 8,250 competitively selected students and professors from colleges across the nation have been beneficiaries of the IRTS educational programs that are currently in existence. These include:

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Students and recent graduates learn about industry opportunities at this workshop and then have an opportunity to interview with approximately 30 recruiters!

IRTS Summer Fellowship Program – 44 Years

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IRTS Faculty/Industry Seminars – 43 Years

When professors learn from top media leaders, thousands of students benefit from their knowledge! Panels, speakers, on-site visits, demonstrations, simulations and case studies are the many tools we use to provide an in-depth understanding of our business.

IRTS Events and Seminars that provide a valuable service to both industry and academia.

While many philanthropic organizations are social in nature and forward a check to someone else at the end of the day, the IRTS Foundation takes full responsibility for the planning and implementation of all its educational programs, allowing donors to meet beneficiaries and see direct evidence of the difference their generosity is making.

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Impact Issues In 2015

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No issue will be more contentious or antagonistic in the coming year than performance royalty fees and all their ancillary elements...and potential impact on the radio industry.

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Performance Fee Fight Will Be A Battle Royal(ty)

No issue will be more contentious or antagonistic in the coming year than performance royalty fees and all their ancillary elements. Virtually all businesses that play music of any form have a stake in the outcome of this battle, and the creators of that music—the artists and record labels—are more determined than ever to change existing laws to their favor. This fight will be waged on several fronts—Congress, the Copyright Royalty Board, and the U.S. court system—and has the potential to significantly affect the margins of the radio industry on both the terrestrial and digital fronts.

Proposals for the royalty rates to be paid by webcasters for the public performance of sound recordings for the period 2016-2020 are now on file with the Copyright Royalty Board, and they represent as many differing perspectives on the issue as there are players on the field. The CRB will determine how much online radio companies can and should pay to record companies and recording artists, and stands to define the entire streaming industry for years to come. By mandate, webcasters pay statutory rates if they stream music under a compulsory license rather than negotiate directly with record labels. The CRB, a panel of three judges appointed by the Library of Congress, assesses all the filings and sets rates that "a willing buyer and willing seller would agree to in a regular market transaction."

The Theory Of Practice

That's the theory, at least. In practice, many digital music companies say the rates finalized by the CRB during the last procedure are egregious and far more than they ever would willingly pay. By contrast, many music industry organizations and artists' groups say the rates are excessively low, and should be jacked up higher to more accurately reflect the value of music today.

The CRB proceedings opened in January 2014, and participating parties—including online music services, SiriusXM, and SoundExchange—were required to file their "direct case exhibits" to justify their proposed royalty rates. Not surprisingly, SoundExchange—which collects and distributes royalty payments—says the current royalty rates are too low, and called on the CRB to raise them significantly, despite the fact that no major webcaster has been able to generate a profit under the current rate structure.

As attorney David Oxenford, with Wilkinson Barker Knauer LLP, noted in an online blog, SoundExchange suggested the royalties should increase from their current rate of $.0023 per performance (e.g. per song per listener) to $.0025 in 2016 and $.0029 in 2020. [1] They also proposed a new "greater of" formulation, suggesting that all commercial online radio services should pay the greater of the suggested per performance royalty or 55% of revenue related to their streaming.

By contrast, the digital streaming companies maintain the CRB should institute a complete "reset" of the rates. They point out that even Pandora, the biggest player in the game, has not been profitable at the current rates. Meanwhile, the the commercial radio industry—largely represented by the National Association of Broadcasters—suggested a royalty of $.0005 per performance for all five years. As Oxenford noted, this proposal is supported by expert testimony analyzing the marketplace, as well as

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testimony from broadcasters about their business, programming, and experiences with streaming. Meanwhile, Sirius XM—which pays different royalties for their streaming and their satellite-delivered radio service—suggests a rate of $.0016. Other webcasters have submitted proposals for an even lower rate of $.000125, similar to the rate recently set by the CRB's Canadian counterpart.

"This range of royalty rates demonstrates a fundamental difference of opinion as to the state of the industry and just what the "willing buyer, willing seller" rate for royalties… should be," Oxenford wrote in his blog. "Now that these direct cases are on file, the parties will…have time to refine their cases based on the discovery and to submit rebuttal testimony to refute the contentions of the other side. A trial, with witnesses and cross-examination, will take place in Washington in April and May. Final briefing and arguments about the case will follow in June and July, with a decision to be reached by the Board by the end of 2015."

Let's Get Real

In its proposal, the NAB called for the CRB to set license fees for terrestrial radio stations' streaming services that reflect realistic rates that would be agreed upon by a willing buyer and willing seller in a competitive market. [2] The NAB argued that previous rates were based on flawed evidence, and wrongly used the licenses granted by major record labels to interactive on-demand streaming services to set the licensing rates for non-subscription, advertiser-supported services.

In fact, of the seven streaming services the CRB used in setting licensing fees rates for radio, only one service has not failed—evidence the NAB says proves that the existing rate structure sets the financial bar too high to allow broadcasters to achieve a return on streaming. "[Most broadcasters] cannot make money on streaming, despite having made significant efforts to do so," the trade group said in its filing. "Some have reached a business decision to limit their streaming or not to stream at all, despite the potential to expand their listening audience. For all of these reasons, a significant rate reset is necessary so streaming can be a viable business that will allow broadcasters to provide services to the audiences that rely on them and benefit from them.

"Our sense is that the rates on the digital platform are too high, and if they go higher it will simply be the plateau for that platform," NAB President/CEO Gordon Smith told Bunzel Media Resources. "We're engaging in a meaningful discussion and trying to show what the marketplace is already developing, as a way to grow the music business to the advantage of all participants. We hope the CRB will take note of all this. This is the level at which we have been filing on this issue, and we will be engaged on all fronts."

> The Local Radio Freedom Act "reaffirms Congress's appreciation for the public service and economic benefits radio broadcasters provide to every community, while recognizing the mutually beneficial relationship between radio and performing artists."
> —Gordon Smith, NAB

Congressional Action

While CRB is going about its business of setting statutory rates, various parties have called for Congress to review—and possibly overhaul—a broad range of music copyright and licensing laws. To that end, last June a House Judiciary subcommittee began its scrutiny of the complex—and arguably archaic—system for licensing all music in the U.S., as various entertainment and media executives called for changes to how music rights were paid for by online services and by radio and television stations. Not surprisingly, the executives offered little common ground during the grilling and repeatedly clashed with one another during testimony—giving lawmakers a preview of how difficult it may be to satisfy all parties in the rapidly evolving but fractious music market.

As reported by *The New York Times*, witnesses testified about decades-old government regulation and the patchwork of federal laws that govern music licensing. [3] Example: BMI and ASCAP, which license performing rights on behalf of songwriters and music publishers, operate under consent decrees with the Justice Department that were established in 1941 and have not been updated in more than a decade. At issue is the fact that Pandora pays record labels about 12 times the royalties that it pays for songwriting rights, while SiriusXM pays an entirely different fee for the same recordings, and broadcast radio pays royalties to songwriters and publishers, but not to record labels or performing artists.

The most vigorously debated topic was AM/FM radio stations' longstanding exemption from paying royalties to performers and record companies. This

has irritated record companies and artists for years, and the law has become particularly contested in the age of online and satellite radio, which pay both kinds of royalties.

National Association of Broadcasters joint board chairman Charles Warfield defended the *status quo*, saying, "Our unique system of free airplay for free promotion has served both the broadcasting and recording industry well for decades."

The Local Radio Freedom Act

A broadcaster-backed effort to keep local radio stations from paying musicians for songs was introduced last year, gaining the support of more than half of the House of Representatives. That effort, known as the Local Radio Freedom Act and introduced by Reps. Michael Conway (R-TX) and Gene Green (D-TX), is a non-binding resolution that prohibits "any new performance fee, tax, royalty, or other charge" on local AM/FM radio stations. The resolution understandably is supported by radio broadcasters and is opposed by parties that maintain the current system creates an uneven playing field between AM/FM radio stations, Sirius XM, and online radio services. And the record labels and artists, of course.

NAB's Gordon Smith has said the resolution "reaffirms Congress's appreciation for the public service and economic benefits radio broadcasters provide to every community, while recognizing the mutually beneficial relationship between radio and performing artists."

On the other side of the debate are organizations like MusicFirst. Ostensibly irked that more than half of the House of Representatives signed the Local Radio Freedom Act last year, the group launched an ad campaign designed to shame members of Congress into removing their names from the non-binding resolution. [4]

"It's hard enough to make a living as a musician – and even harder when your own representatives in Congress won't support your basic right to fair pay for your work," the group said in its campaign, which calls the resolution "an anti-musician resolution pushed by big corporate radio companies."

As all interested parties prepare to do battle over music licensing, most observers expect a long and drawn-out battle this year with little or no consensus. As Rep. Jim Sensenbrenner (R-WI) observed at the conclusion of last June's hearings, "Getting you all together, and getting on one page, will probably happen two days after the sun rises in the west." [5]

Where Were You Before '72?

Another thorny issue is federal copyright protection—or lack thereof—of music recordings made prior to 1972. Last September members of the 1960s recording group The Turtles were successful in their suit against SiriusXM, claiming state copyright laws apply to recordings made before Feb. 15, 1972, even if federal laws don't. In a summary judgment, U.S. District Judge Philip Gutierrez ruled Sirius XM had violated California state law by performing 15 recordings of The Turtles dating from before 1972 without a license. [6]

The victory of the Turtles could substantially change copyright law, as well as provide momentum to change federal law. Entertainment attorney Steve Gordon recently wrote a guest post for *Digital Music News* in which he said the issue presented in this case (and several others) is "immensely important because it has implications that go far beyond just whether Sirius XM should be paying for pre-1972 records." [7]

Such a finding would "implicate many other businesses at which sound recordings are publicly performed, including not only terrestrial radio, broadcast TV, and cable, but also any other physical place such as every bar restaurant and nightclub in the U.S.," Gordon says. "If a court were to rule in favor of the record business in these cases, that decision could radically change the landscape of music licensing in the United States."

The Turtles subsequently filed a nearly identical suit against Pandora, accusing it of copyright infringement under California law for playing its songs without permission. Meanwhile, SiriusXM has appealed Judge Gutierrez' ruling.

Consenting Adults

Meanwhile, the American Society of Composers, Authors, and Publishers (ASCAP) and Broadcast Music International (BMI) have begun a major push to modify or eliminate the current "consent decree" structure that determines the rate a company must pay to broadcast or stream a song…or whether a song can be withheld from use entirely. A court decision in 2013 found that neither rights group could selectively deny Pandora (or other streaming companies) the right to play certain works, leaving in place a structure that forces Pandora to pay a 1.85% royalty rate, while Apple's iTunes Radio plays an industry-wide rate of 10%.

Both organizations are seeking to overturn that ruling, and the U.S. Justice Department said in June it will review the issue in a move to "examine the operation and effectiveness of the consent decrees. "

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> "Modernizing the licensing system for musical works is a win for everyone – from digital music services to songwriters, music publishers, artists, labels, and fans. It must be a collaborative exercise. That's the only way this will work."
>
> —Cary Sherman, RIAA

The review will explore whether changes are appropriate, the department said. It's seeking public comment on possible modifications.

ASCAP President/Chairman Paul Williams said the group was "gratified" by the department's decision to review the agreements, but Pandora spokesperson Dave Grimaldi defended the role the decrees play, saying they provide important protections for songwriters and broadcasters, including mechanisms to establish a reasonable royalty rate when the two parties can't agree on one.

"Without changes to the consent decree, ASCAP may face the complete resignation of certain of its largest music publisher members, a result that could be as damaging for music users as it could be for ASCAP and its remaining members," ASCAP said last summer. [9] "Without a robust collective licensing system, the increased cost of having to negotiate licenses with hundreds of thousands of individual copyright owners would likely be passed on to consumers and stymie the growth of innovative new services that would benefit consumer choice and experience."

"The publishers and PROs are frustrated by the extent to which the decrees fulfill their purpose," Pandora said in its own public comments. "More to the point, the performance rights organizations and publishers are unhappy because the consent decrees prevent them from implementing a scheme that has the purpose (and would have the effect) of raising prices across the board without regard to competitive constraints."

Blanket Fee

The CRB's rate-setting proceedings notwithstanding, the Recording Industry Association of America (RIAA) last year proposed new blanket licenses and market-based royalty rates to replace the entire current—and complex—music licensing system. In an official response to the U.S. Copyright Office's request for comment on music licensing, the RIAA said any fix ultimately should include a simplified, blanket license that pays a fair market value to creators and copyright owners.

In its 52-page filing, the RIAA argued a market-derived royalty system would benefit rights holders and creators, produce greater consumer choice, and lead to cost savings for digital services. "Modernizing the licensing system for musical works is a win for everyone – from digital music services to songwriters, publishers, artists, labels, and fans," RIAA CEO Cary Sherman said in a statement. "That's the only way this will work—it must be a collaborative exercise." [8]

Specifically, the RIAA proposes the bundling of rights for reproduction, distribution, and performance into a single licensing package, as well as the replacement of the CRB and rate court with a "modern, efficient blanket license" that would cover all rights involved with 21st-century music products. It also called for establishing a pre-1972 copyright in the federal licensing system to cover older sound recordings, as discussed above.

Despite last summer's mud-slinging and political rhetoric on Capitol Hill, NAB's Smith is optimistic the performance royalty battle can be solved through private-party revenue-sharing deals. "We're going to fight this issue actively, but there's also an opportunity to get calmer voices together and find some common ground," he told BMR for this report. "We've seen great leadership by Clear Channel—now iHeartMedia—and various record labels that together are showing there is a place we all can agree, a way we all can profit, and a platform where music can grow."

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What To Expect From The 114th Congress

The new committees are in place, the chairmen have been named, and the 114th Congress has settled in on Capitol Hill for the next two years. While analysts and pundits will be watching with rapt (if not cynical) attention to see whether this new group of politicians will be any more effective than the last bunch, there are indications that many of them intend to put their stamp on Washington.

"Every time a new Congress comes in a new deck of cards is dealt," says National Association of Broadcasters President/CEO Gordon Smith, himself a former Senator (R-OR). "Our issues really don't register Republican or Democrat, so we look at the makeup of the new committees and the issues that will affect us—especially the judiciary committees of the House and Senate. I'm reasonably optimistic about our opportunity to do well for radio broadcasting with this Congress."

Near the top of this list of probable House activity is the anticipated rewrite of the Telecommunications Act, which serves as the congressional charter for the Federal Communications Commission and lays out what the agency can regulate, and in what ways. As reported by the *Washington Post*, such a move is an ambitious project that could have far-reaching consequences, primarily in shaping the next two decades of telecommunications policy. [1]

Rewrite, Revise, Reuse

A revision could change small pieces of the Telecom Act (as it also is known), or the entire thing could be scrapped in favor of a total rewrite. Many analysts believe an incremental shift is the likelier of the two, but with few actual proposals on the table—and with Republicans in control of both chambers of Congress—the write's co-sponsors believe they have *carte blanche* to do what they want. They are Fred Upton (R-MI) and Greg Walden (R-OR), and they'll be joined in the Senate by John Thune (R-SD), the new chairman of the Senate Commerce Committee.

"We have been hard at work over the past year gathering input and information to inform our work on a Comm Act update," Upton and Walden said in a joint statement last fall. While that work continues, we are ready to put pen to paper in the coming months as we update the nation¹s communications laws to further unleash growth and job creation in the innovation era."

Why rewrite the Act, and why now? Essentially, Republicans see it as an opportunity to deregulate the communications industry; Upton and Walden have pointed out that technology has changed a great deal since the last time Congress rewrote the Act in 1996. They argue that "legacy rules" risk holding back new technologies and innovation. Others, particularly consumer groups, say the nation's telecom laws are founded on universal principles that apply no matter what technology is being regulated. As the *Post* says, this is a substantive issue, and it could force Republicans to make some uncomfortable choices. [2] Political analysts believe any rewrite would be risky for the broadcast industry — with whom Walden is particularly close — because the current system serves them relatively well. But to get other players on board, Walden may need to risk angering his allies.

In any event, GOP leaders have suggested they will start drafting legislation early this year, but Beltway insiders predict it will take several years—likely beyond the 2016 election—to generate a final product. As NAB's Smith observes, "If the rewrite is going to move, it's going to have to be done within the first nine months of the new Congress. After that a lot of politics is being played and members of

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Congress get positioned by the other side and all the energy goes elsewhere."

Ad Tax Reform

GOP control of both chambers may make it more likely the next Congress will take up tax reform, especially since President Obama has indicated willingness to work on the issue with Republican congressional leaders. Both the House and Senate previously have produced proposals that would limit the deductibility of advertising expenses, albeit spreading the changes over years. Rep. Paul Ryan (R-WI), the new chairman of the powerful Ways and Means Committee, previously has said those proposals are still on the table.

The proposal to which Rep. Ryan refers was designed to limit the immediate deductibility of advertising costs as part of a broader tax-reform effort. That proposal, put forth by House Ways and Means Committee Chairman Dave Camp (R-MI), would have allowed companies to deduct 50% of their advertising costs in the year they are incurred, with the remaining 50% amortized over the following 10 years. [3] Senate Finance Committee Chairman Max Baucus (D-MT) proposed a more palatable five-year amortization period.

As analyzed by *Advertising Age* (which definitely has a horse in this race), the Camp proposal would prove to be a short-term nuisance for large companies with big advertising budgets and ultimately would only delay—not limit—the deductibility of advertising expenses. Under the Baucus proposal, if an advertiser were to keep its ad budget flat for the next five years, it would be deducting the same amount at the end of that period as it currently does. The change would clearly increase the after-tax cost of advertising for the a business in the short run, but it probably wouldn't prompt it to slash its spending on ads. [4]

"It is essential that everybody in the advertising community speak up loudly and quickly that this proposal is misguided and highly damaging," Dan Jaffe, group exec VP/government relations for the Association of National Advertisers, said when the bill was proposed. [5]

At the same time, ANA CEO Bob Liodice said a major new tax liability would increase the cost of advertising and cause a substantial disincentive for companies to spend additional advertising dollars.

Any effort to introduce a new tax on advertising, or change the deduction of advertising as a business expense, could have a difficult time gaining traction in the new Congress. Still, as members of the House or Senate try to identify new revenue streams to either balance the budget, lower taxes elsewhere, or pay for new government services, the idea is bound to come up—either behind closed doors or in an open hearing room.

Net Gain…Or Loss

The GOP leadership also is expected to take a hard look at Net Neutrality, which President Obama clearly favors while many Republicans are opposed to any plans to change the FCC's oversight of the internet and the way broadband providers use and sell access to it. [6] Any bill that would repeal net neutrality would face a Democratic filibuster in the Senate and an almost certain veto from President Obama. Thus, Republicans will have to decide if their distaste for net neutrality is stronger than their desire to rewrite the Telecom Act—or challenge the President head-on.

In fact, this wouldn't be the first time the issue of net neutrality thwarted an attempt to change U.S. communications law. In 2006, the Republican-led House passed a revision to the Communications Act from then-Energy and Commerce Committee Chairman Joe Barton (R-TX), but partisan battles over net neutrality derailed the bill in the Senate.

"It's inevitable that net neutrality is going to be a part of this," a Democratic aide told the *National Journal* in November. [7]

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Radio Makes Room For The Connected Car

As technology continues to infiltrate our daily lives, we increasingly want to stay connected from behind the wheel. The modern automobile offers some form of connectivity for everyone, and a new report from Nielsen indicates that, of the 44% of Americans who plan to purchase a new car within the next two years, 39% are very likely to purchase a connected car with built-in WiFi features. [1]

Much of the attraction here is the appeal of cutting-edge entertainment experiences, as 60% of future "auto intenders" say they'd like a connected car because they want to experience emerging technologies, 58% feel it will provide entertainment to passengers while on the road, and 43% say it will boost their productivity while they're driving.

In fact, in the second quarter of 2014:

- 36% of connected car users streamed audio every time they were in their car,
- 26% say they connect to the internet every time they're in their car (41% connect regularly),
- 21% use their connectivity to download media every time they're in their car, and
- 74% of men and 84% of women whose connected cars came equipped with built-in wireless say that using their car as a hotspot is a somewhat or very important connected car technology.

The study found the majority of connected car users are men (58%), 42% are age 55+, 62% have at least a college degree, and 37% earn more than $100,000 per year. They also tend to be those drivers who spend a lot of time in their cars, as 37% of all connected car users say they spend 30 minutes to an hour in their vehicles on a regular basis.

Indeed, connectivity is increasingly important for the consumer buying a new vehicle. A report published last September by McKinsey & Company indicates online connectivity increasingly is becoming a major consideration of consumers when they're shopping for a new vehicle. In fact, a majority of car buyers in America consider connectivity "important" or "very important" when "kicking the tires. "[2]

"Today's car has the computing power of 20 personal computers, features about 100 million lines of programming code, and processes up to 25 gigabytes of data an hour," the study says. "Yet, while automotive digital technology has traditionally focused on optimizing the vehicle's internal functions, attention is now turning to developing the car's ability to connect with the outside world and enhance the in-car experience. This is the connected car: a vehicle able to optimize its own operation and maintenance as well as the convenience and comfort of passengers using onboard sensors and internet connectivity."

Not surprisingly, the younger the car buyer, the more important they consider connectivity. The McKinsey study found 65% of 18- to 34-year-olds said it was an important factor when buying a vehicle, compared with 43% for those age 35-54 years old, and just 18% percent for those 55-74 years old. Still, 37% of respondents said they would not even consider a connected car, and many indicated limited willingness to pay for car connectivity features. Example: only 35% of new-car buyers said they would spend an additional $100 for smartphone integration, and just 21% said they would be willing to pay for subscription-based connectivity services.

Still, 20% of consumers surveyed said they actually would consider switching auto brands in order to get better connectivity. "It is clear as the technology develops and it goes further into cars, it

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will present opportunities for automakers," said McKinsey associate partner John Newman.

Opening Pandora's Box

As competition within the streaming music sector intensifies, it comes as no surprise that Pandora increasingly is focusing its energy on AM/FM radio and Sirius XM in the dashboard. The internet radio provider partnered with Pioneer in 2010 to offer digital streaming in cars and now, just four years later, Pandora is planning to launch its radio services in 135 different vehicle models from 26 auto manufacturers. Five million new users have signed up for the in-car service. [3]

According to Pandora SVP/Strategic Solutions Heidi Browning, the company has a tremendous opportunity to make inroads in the new vehicle space. While there are no clear signs that Pandora will be preferred over satellite radio provider Sirius XM, business analysis website Trefis says the company is likely to steal some time spent listening from terrestrial radio, which currently dominate the market with over 80% share.

To that end, Pandora VP/Automotive Business Development Geoff Snyder said in a GigaOm interview last fall, "We want to get as close to the FM radio model as possible. If Pandora was the last thing playing when you got out of your car, we want it to be the first thing playing when you get back in." [4]

Meanwhile, the *Detroit News* says AM/FM radio is facing a tipping point as Apple CarPlay, Google's Android Auto, and in-car Wi-Fi hot spots fundamentally change the user interface in vehicles from radio to internet. [5]

"The center stack has changed from two dials and three buttons to very complex systems that contain so many different options," says Jacobs Media VP Paul Jacobs, noting that the radio industry needs to work diligently to make sure radio remains vital in the car of the future. [6] Jacobs Media co-hosted the second annual DASH conference in Detroit back in October, bringing together the nation's automakers, OEM suppliers, and radio executives.

Jacobs says half of all radio listening occurs in the car, and one out of five cars on the road today are "connected" via Bluetooth or Wi-Fi. With 90% of Millennial drivers carrying a smartphone—vs. 65% of Baby Boomers—connectivity for new cars is a must. "The car is the Number 1 listening location," Jacobs observes. "It is also radio's number one revenue category. It's imperative that the radio industry get to know the auto industry better. Radio needs to get a seat at the table making sure they are delivering their content in a way automakers want in order to ensure they have a place in the center stack of the future."

"The car is the No. 1 listening location. It is also radio's number one revenue category. It's imperative that the radio industry get to know the auto industry better. Radio needs to get a seat at the table, making sure they are delivering their content in a way automakers want in order to ensure they have a place in the center stack of the future."

—Paul Jacobs, Jacobs Media

Cracks In The Dashboard

It's against this backdrop that much of terrestrial radio's future—and fortune—lies in the hands of automotive and consumer electronics executives. A recent *Wall Street Journal* analysis pointed out some good news and some bad news for AM/FM radio within this connected car framework. The good news is that more than half (58%) of Americans listen to AM/FM radio nearly every time they get in the car, while 86% listen to it at least some of the time. [7] The downside (aka "bad news") is that other sources of audio increasingly have crept into the automobile, with 61% of American drivers listening to CDs at least some of the time, 31% listening to MP3s, 17% tuning in satellite radio, and 14% listening to online radio.

All these figures come from a poll conducted last year by Edison Research, which suggests radio is the most common way for people to keep up with new music. Three out of four (75%) said they listen to the radio to stay up to date, compared with 66% who said they get new music from friends and family, 59% who relied on YouTube, and 48% who chose to listen to Pandora for new music.

More Marketing Coming At You

Connected cars not only offer AM/FM radio, digital HD signals, streaming music services, real-time news and information, GPS, and other location content, but also interactive features that provide drivers with digital coupons and promotional offers.

It's called contextual marketing, and it can either be a blessing or a curse, depending on consumers' acceptance (or not) of even more advertising—in this case messages that encroach on the privacy of one's car. Whatever one might think of the practice, it's

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> Certainly, a lion's share of radio listening occurs in the car. As long as radio broadcasters continue to create and distribute high quality content that's 1) relevant to the listener, 2) valuable to the advertiser, and 3) therefore critical to the sales of automobiles, AM/FM has a permanent home.

not going to go away any time soon, as in-car marketers are looking for new ways to tap into automotive data to deliver targeted messages and offers. The key, experts say, will be for these kinds of ads to walk the fine line between being useful or being annoying.

"There is an opportunity for in-vehicle marketing to be beneficial to consumers, if done in an unobtrusive way," Andy Gryc, conference director for the Connected Car Expo recently told *Tech Hive*. [8] "As cars continue to have connected capabilities with preferences, social networks, web searches, and calendars, marketing will be precisely geared toward a driver's likes and needs. The car is going to be a part of people's connected lifestyles like the smartphone is today—a crucial tool for making life easier."

Of course, "connected car" means a lot more than having WiFi access to tune into Pandora, Spotify, or iHeartRadio. In fact, automakers and public safety officials view the technology as a way to improve traffic safety, minimize the number of avoidable crashes, and better manage fuel consumption due to congestion issues. Intersections containing this technology can move traffic along more efficiently, and some industry analysts predict the traffic light may become obsolete, since it will be replaced by such advances as vehicle-to-vehicle and vehicle-to-infrastructure communication.

"Soon cars will be able to communicate with each other to avoid collisions," automotive consultant David Carlisle told CBS News. [9] "The same will work for vehicle-to-infrastructure technology as cars will be able to communicate with roads and detect hazards such as pedestrians and downed trees."

According to recent statistics compiled by Nationwide Insurance, the average urban commuter is stuck in traffic an estimated 34 hours every year, which wastes 1.9 billion gallons of fuel. "The only way we'll see a significant reduction in congestion and fuel consumption is to develop technologies that make our traffic systems more efficient," says Ben Collar, director of research and development for Siemens Road and City Mobility. "We recognize that our society is moving toward a more connected state. The technology will respond to the needs of drivers more fluidly."

Certainly, a lion's share of radio listening occurs in the car, and the industry's continued health depends on remaining front and center in the dashboard. Despite the plethora of new technologies that are creeping into that space, however, automakers and consumer electronics manufacturers are intent on maintaining at least that aspect of the status quo. As long as radio broadcasters continue to create and distribute high quality content that's 1) relevant to the listener, 2) valuable to the advertiser, and 3) therefore critical to the sales of automobiles, AM/FM has a permanent home.

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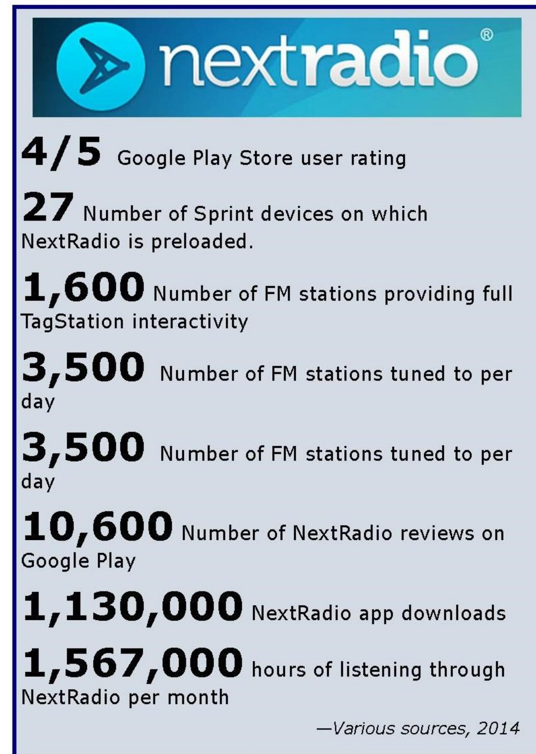
NextRadio: The Industry's Next Best Hope?

Virtually all smartphones available in the U.S. today are (or can be) manufactured with FM radio chips in them, but the wireless phone carriers – in all their infinite wisdom and quest for revenues – have deactivated them. Since their collective business model is based on monthly charges for bandwidth, offering traditional radio reception free of charge gets them nothing if FM listeners stream less digital music and download fewer songs.



The exception to this rule is Sprint, which in 2013 struck a deal with Emmis Communications, the primary champion and advocate of NextRadio, to activate those chips in the phones serviced within its network. While Sprint lags far behind ATT&T and Verizon in U.S. coverage and number of customers, it also offers an unlimited data plan – which means its revenues are not tied directly to the amount of bandwidth its customers use. [1] Essentially, Sprint customers can download a NextRadio app in order to listen to virtually every FM station in the market directly on their smartphone.

The app allows Sprint customers to scroll through a listing of all the FM stations in the market, see "what's playing now," and then listen to whatever FM broadcast they wish to hear and listen to it directly over-the-air. The app's "Live Guide" functionality—essentially a visual tuning interface that displays local station choices by real-time album art or custom schedule content—includes such interactive elements as upcoming concerts, "buy-now," record release dates, and recently played (or next-up) tracks. The platform is powered by a cloud-based data service known as TagStation, which allows radio stations to synchronize their broadcasts with images, interactive touch points, and other related data for display in the NextRadio app.

"From the beginning of NextRadio and TagStation we have looked for ways to make the broadcast radio experience consistent with today's listeners' expectations for consuming media and entertainment," Paul Brenner, CTO of Emmis Communications, said during a Radio Show news conference in September. "I'm proud of what our creative and talented team has accomplished and everyone in radio should be proud to show of NextRadio as a new way to listen to FM."

NextRadio currently is available on 30 different devices within the Sprint Network, as well as all HTC smartphones no matter the carrier.

Flipping The Switch

The primary hurdle in taking NextRadio mainstream to a wide consumer base is getting the major carriers to "flip the switch." That's something they're reluctant to do because—as mentioned above—they would prefer their customers pay for costly bandwidth rather than listen to FM radio free of charge. Emmis CEO Jeff Smulyan says that may be about to change, as more and more potential listeners realize what's available. "People want free, local FM radio on their smartphones and NextRadio gives them exactly what they want," he said in a company statement.

Indeed, a national study released by media research firm Coleman Insights last summer indicates consumers react positively to the NextRadio app when shown a video extolling its

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virtues. Smulyan and company believe this means they'll be likely to download (and use) it to listen to local FM radio stations more than they currently do.

The Coleman study was funded by the National Association of Broadcasters (NAB) and was based on hundreds of online interviews with 18- to 49-year-old smartphone owners who had viewed a 90-second video explaining NextRadio's capabilities and benefits. Among the study's key findings:

- 88% had a positive reaction to NextRadio, including 56% who described their initial reaction as "very positive";
- 45% said they "definitely would" use NextRadio if it was installed on their smartphones; another 43% said they "probably would" use the app;
- 80% said they "probably would" or "definitely would" download NextRadio if the app was not already installed on their smartphones;
- 63% say they would listen to local FM radio more if they had NextRadio; and
- 73% of those with metered or pre-paid data plans acknowledge that such plans limited their consumption of audio entertainment on their smartphones

While some analysts criticized the study by only showing a video of the NextRadio app rather than giving respondents a hands-on opportunity to try it out, Coleman Insights President/COO Warren Kurtzman said, "The qualitative research made it clear consumers liked NextRadio, but I must admit that how positive they reacted in the quantitative research exceeded my expectations. Results like these bode very well for NextRadio's potential to impact the consumption of local FM radio."

Uphill Battle

NextRadio's backers—led by Emmis' Smulyan—understood from the beginning it was going to be an uphill battle to get all major carriers to endorse the system, so they deliberately targeted the smaller carriers to develop it from the ground up. "The idea was to build out an ecosystem, roll it out, and then launch the major blitz—which is where we are now," Smulyan says. "This was not like launching an app and being available in 300 million phones instantly, which is what all the streaming services did. We knew it was going to take a while to build the interactivity with the radio companies, and we also knew this was going to be a bandwidth issue with the major carriers. We're having discussions with them now, and we're building momentum."

Still, NextRadio has its share of detractors who insist it's simply a digital app trying to plug a legacy industry hole. Pure play streaming operators generally view it as a latecomer to the "new media" landscape, noting that consumers today increasingly are eschewing terrestrial radio in favor of near-infinite individual listening choices. No matter how NextRadio "gussies up" the FM product, they say, users can't rewind or skip songs, build custom channels, or do many other things they've come to expect from a truly digital platform.

Additionally, while more than a million Sprint customers have downloaded the NextRadio app, some sources point out that actual "concurrent usage" numbers—those users who are using the app to listen at any one time—are just a small fraction of that total.

That's where the education process comes in, Smulyan says. "NextRadio fixes radio's perception problem because it gives us the chance to reintroduce ourselves to 275 million people," he maintains. "Whatever my favorite radio station is, I can interact with them. I can text their listen line, I can share songs, I can tell them I like a song. I can enter contests, and I can buy tickets to events. I can do all those things with one device I have in my hand all the time." Noting that interactive listening can significantly increase a user's average engagement with a station, Smulyan firmly believes that, "if we can replicate that with 300 million smartphones, this industry changes geometrically."

With that in mind, NextRadio recently announced a national marketing effort designed to encourage consumers to utilize the free access to FM stations on their phones. New York-based ad agency DeVito/Verdi is developing a multi-effort program to promote the NextRadio app and educate consumers that their smartphones possess a deactivated FM chip. The marketing program will include a national advertising program, public relations, social media and various digital efforts to inform, educate and move consumers to action.

"We will be preaching NextRadio's virtues because they are many, and where these chips are lit up they are extremely popular," NAB President/CEO Gordon Smith told Bunzel Media Resources. "Many people think they already have radio in their smartphones because they have an app for a local station. Ultimately data caps and the growing expense of mobile phones will highlight the economic reasons, if not for public safety reasons, that smartphones should be enabled with FM radio."

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HD Drives Radio's In-Car Experience

At the end of 2014 HD Radio had been installed in approximately 20 million vehicles, with the latest models including such updated HD features as multicasting, iTunes tagging, and Artist Experience—with NextRadio integration waiting in the wings. Indeed, a new agreement between these two entities has provided a framework for expanding both technologies in vehicles, mobile devices, and even overseas. HD Radio's parent company, IBiquity Digital, anticipates hat 40% of new vehicles sold in the U.S. this year will include HD Radio, and insists the technology will become the norm in a few years.

"HD Radio is an upgrade for radio," Consumer Electronics Association President/CEO Gary Shapiro said at the DASH Conference held in Detroit last October. Not an historically strong proponent of radio, he noted that "consumers today are concerned with audio and how the car entertainment system sounds, which is a reversal from what happened when Apple first debuted the iPod and consumers put up with lesser quality. We are pushing for high-quality audio and consumers want this, as do the artists."

NAB President/CEO Gordon Smith echoes this sentiment, noting that, "while HD had trouble on take-off in, new cars increasingly are including it—if not as a basic option, then for people to buy. It's growing, and we'll do our part to push it because it's a great system. Plus, there very well could be some opportunities for AM on the platform, as well."

Late To The Party?

The development of a viable in-band, on-channel digital radio system and its approval by the Federal Communications Commission took longer than the engineers or investors involved with the project thought it would. Still, Bob Struble—Ibiquity's president and CEO—says that in terms of broadcast media history, the timeline has been considerably shorter than the 40-year period it took for FM to gain parity with AM, the shift from black and white to color television, or the 25-years it took for digital television to supplant analog TV. "The FCC adopted the HD Radio standard in 2002, so we're 13 years into it," he says. "In the grand scope of media transitions that's actually pretty good, and the roll-out has definitely been full steam, mostly highlighted by the car."

As of December 2014 approximately 2300 stations had upgraded to HD, and the majority of those—probably 80%—are FM. While that's only a little more than 17% of the 13,000 stations licensed in the U.S., it's the quality of those facilities that's critical to the health of HD Radio. "There's a certain amount of stations that account for the vast majority of radio listening, and the vast majority of revenue," Struble says. "That number is 3,000 or 4,000, so as we roll up the numbers what's important is 74% of all radio listening is taking place on stations that have upgraded to HD Radio technology."

While Struble says he will never be satisfied until every station in the U.S. is broadcasting in HD, the company today is focusing on the receiver side. "We've rolled out a very vibrant station network, but receiver growth has been averaging 40% growth a year. For the last 5 or 6 years we've grown that number, through the recession and the downturn in the radio business. The headline for that is 40% of all cars sold in the U.S. this year will come with HD radio technology. I'm not sure where the tipping point is, but 40% is a lot of cars. Plus, the aftermarket availability of HD radios is very strong, so we feel pretty good about that.

While some analysts criticize HD Radio for being "too little, too late," Struble points out that it's approaching 5 billion listening hours a year, and manufacturer adoption rates are increasing steadily. "Consumers love the audio quality," he observes. "There's an appreciable difference in terms of audio quality. But the things that test well with consumers are different from what we see in radio. People love that it's free, the extra channels score high in tests,

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and now we're seeing data about satisfaction with some of the newer features like album cover art, iTunes tagging, song and artist and album information."

Noting that it generally takes three or four years for a design feature to work its way into the automobile production cycle, Struble is confident HD in-car adoption rates will increase from the current 40% to 50%, 80%, and eventually 100%.

While some critics jumped on this announcement as evidence that HD was doomed, Strategy Analytics released a statement assuring broadcasters that "just as many new GM platforms are adding HD Radio as are dropping it, so the net is no change and the long-term outlook is for continued broad-based deployment."

The real push now is to get HD installed in lower-end vehicles. "Any car with a navigation system probably has HD Radio technology," Struble says. "Same thing if you select the upgraded audio feature with a Sony or Bose or Harman Kardon system. Where we need to push down now is to the base, or lowest level radio—that consumer who chooses the lowest possible option of audio. These radios are the single-line displays, no screen, crappy speakers—and there's a fair amount of them still out there. All the trends are working in our favor, including the price coming down, and that's just a matter of time."

Connected Disruption

Automakers' increasing emphasis on the connected car has the potential to disrupt radio's ownership of the dashboard, but Struble says it actually presents a phenomenal opportunity for HD Radio.

"The car infotainment system is now a key buying factor for consumers, right up there with miles per gallon and acceleration," he observes. "Certainly, the explosion of digital information and entertainment in the car is a competitive issue for broadcasters—and they need to address that. There is going to be a certain expectation for diverse programming options, view album covers, buy songs, and go to websites. HD Radio brings those features to analog, so broadcasters need to be cognizant of the fact that there's a certain consumer expectation around the digital interface, and HD Radio delivers on that."

This hybrid "digital radio experience" with interactivity will enable broadcasters to bring different and better radio product to listeners. HD allows broadcasters to offer (and generate revenue from) such non-audio services as real-time traffic delivered directly to a car's navigation system. "These things are important not because broadcasters make money from them, but because they show the auto companies that radio is more than an audio service. It's a key driver of revenue."

HD Radio AM Broadcasting

While the primary HD Radio broadcasting target has been FM, the technology also supports AM, and several hundred AM stations have upgraded to HD Radio broadcasting. The primary benefit is upgraded audio quality to a full FM-like stereo sound without the static, hiss and pops associated with analog AM broadcasts. Unfortunately, hybrid AM HD Radio broadcasts (where both analog and digital signals are simulcast) are subject to the same noise issues now plaguing analog AM.

Looking forward, the all-digital AM HD Radio solution (where analog signals are turned off and all AM broadcast are digital) has the potential to clean up the band permanently. Some broadcasters, notably CBS Radio, have begun to talk about an analog AM sunset where analog AM broadcast would stop and the all-digital AM future would begin. This strategy would be similar to what occurred with the HDTV transition.

To that end, NAB Labs, working with major AM broadcasters, has conducted a number of all-digital tests on AM radio stations to verify the performance of the all digital HD Radio system. The overall test includes three separate components: field testing designed to demonstrate "real-world" signal coverage; lab testing to determine the extent of interference between AM facilities; and allocation studies to help policy-makers understand the impact of digital AM on FCC rules. Many engineers and technical experts believe giving AM broadcasters the ability to go all-digital would help to revitalize the band and either fix or reduce coverage and interference challenges.

Reports on initial results have been encouraging. NAB Labs expects to submit data from the field and lab tests sometime this year (2015).

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The Art And Business Of Being Social

Nearly two billion people around the world use social media in one form or another, and that number is growing at a double-digit pace. In 2014, the number of social network users in the U.S. increased to 173.2 million, representing 68.5% of all internet users and 54.3% of the population—providing a large audience for retailers trying to engage in socially driven commerce. [1]

"Businesses that have not developed a strong online presence may already be missing out on growth opportunities," *Forbes* magazine said last fall. [2] "Going forward, they risk becoming unsearchable and irrelevant." As *Forbes* reported, when social media first erupted on the online scene many marketers perceived it as a place where people went to talk to other people, which led to a strong narrative about social media being a time-waster or distraction. Many businesses failed to realize how powerful these seemingly mundane connections could be, and how talking to other people and sharing information underscores almost everything that happens in our lives.

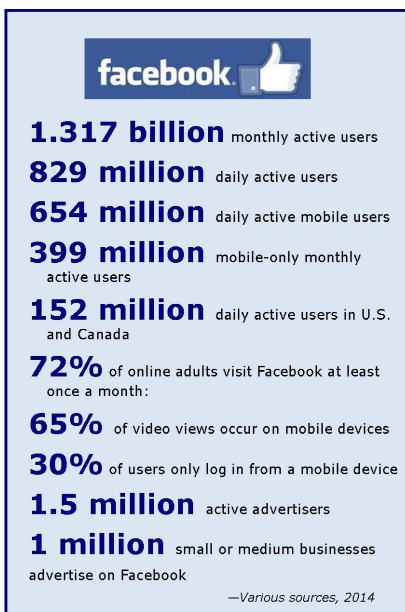
Now, as these interactions have become commonplace, social media networks have become:

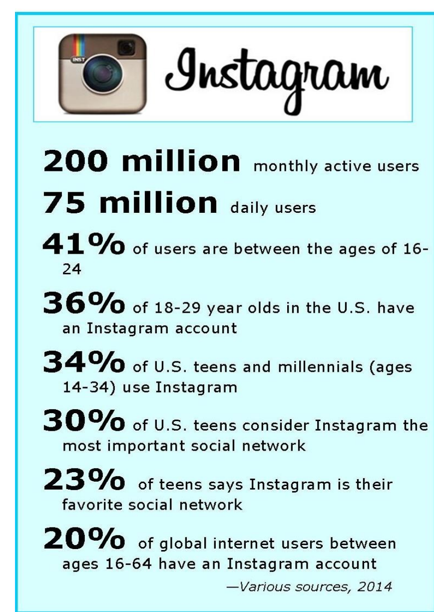
- A primary way consumers hear about new products;
- One of the basic channels consumers use to share views about an existing product or service, and encourage or dissuade others to use it; and
- A channel for consumers to express their feelings and opinions about the local and national companies with which they deal.

Each of these social media conversations matters greatly, because they have a direct impact on those individuals who buy a company's products, as well as suppliers, investors, and even future employees. [3]

Entire books and movies have been created around the social media universe, so no brief analysis can do the topic justice. This report, however, is concerned primarily with how social media gives people a forum to interact with other people—and businesses they can trust. In fact, trust is key to any social media communication, says Frank Murray, CEO of InterTech Media and social media tracker Zocle.

"'Social' is potentially the most effective environment in which to promote a business," Murray explains, noting that radio has a phenomenal opportunity to maximize this trust factor. "Radio stations have trusted relationships with their audience, and they have the ability to use





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that trust to figure out ways to enhance local business marketing."

The ultimate value of social media to radio is not necessarily to get more listeners to tune to a specific station or morning show, but rather to induce them to interact with advertisers. Radio broadcasters understand small businesses still buy traditional ad campaigns, but new research from BIA/Kelsey strongly suggests that social media now is the number one choice in local usage and spending. [4] The report, the 18th edition of the company's "Local Commerce Monitor," found 74.5% of small and medium businesses (defined as those with fewer than 100 employees) now use social media to advertise or promote their businesses—a figure that's up from 71.7% in 2013. In fact, small businesses spend an average of 21.4% of their total media budgets on social, up from 18.9% last year, more than on any other media platform.

"Social has been on a tear for about five years now, and it has gotten to the point where it is now the most-used category in terms of reach," BIA/Kelsey Director of Research Steve Marshall said when the report was released. "It also commands the largest share of budget of all categories. Social is Number One in both reach and spend—that's a first."

"Social is now the dominant media category for SMBs," BIA's Marshall explained. "It's a convenient and user-friendly platform by which they can connect with their local market. It's very inexpensive—which is a big deal—and there are low -participation barriers."

Low Cost Of Entry

It's this low cost of entry that leads many businesses to jump into social media marketing—often to misunderstand the fundamentals of how it works. For instance, many businesses calculate the success of a social campaign by counting the number of Facebook "likes" or Twitter "followers," but these things actually can mean very little if they don't translate to direct (or indirect) sales. In other words, instead of racking up the number of fair weather friends, businesses should hone those tools that attract new customers and keep existing customers coming back.

Case in point: new shopper marketing research from WPP's Geometry Global indicates 40% of online users around the world see no point in "friending" a brand online, a figure that rises to 55% in the U.S. [5] Despite these numbers, many brands still try to entice prospective customers to "like" them, even when there's no clear evidence that "like" = "buy." As reported by the *Wall Street Journal*, the challenge could lie in the fact that, while consumers may not want to "friend" a brand just for the sake of doing so, they may do so if they get something out of it. [6]

About half of respondents in the study said they were interested in brands sharing other users' experiences with them, and 42% say they want brands to help them make better product choices. "There isn't a real rejection of brands using social channels to communicate with [consumers]," said Geometry's Cesar Montes. "The rejection is about brands using social as if they were my friends in the typical way Facebook users" interact with friends.

Pinterest

2.5 billion Pinterest page views per month

40 million active monthly users

84% of female users stay active

50% of male users remain active

92% of pins are done by women

23% of users use it at least once a day

80% of Pinterest users are women

47% of U.S. online consumers have made a purchase based on a Pinterest recommendation

158: average number of "pins" by female users

—Various sources, 2014

twitter

1 billion registered Twitter users (approximately)

550 million Twitter accounts have sent at least one tweet

391 million Twitter accounts have no followers

271 million monthly active users

100 million daily active Twitter users

52.7 million Twitter users in the U.S.

80% of millennial Twitter users access it on a mobile device

44% of Twitter users have created an account but never sent a tweet

46% of users use it at least once a day

35% of U.S. teens (13-17) use Twitter on a mobile device

—Various sources, 2014

snapchat

100 million Snapchat users

70% of Snapchat users are women

400 million Snapchat snaps are sent per day

71% of Snapchat users are under 25 years old

32% of U.S. teens (13-17) use Snapchat on a mobile device

50% of male college students share selfies on Snapchat

77% of female college students who share selfies on Snapchat

77% of college students use Snapchat daily

58% of college students would likely purchase a product from a brand that sent them a Snapchat coupon

—Various sources, 2014

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Substantial evidence indicates that social media marketing works particularly well in those situations where people normally would interact. A good example of this is network TV: In years past viewers would gather around the water cooler or the coffee room and share their thoughts on a particularly good (or bad) show. The growth in social media increasingly is changing this behavior by moving the discussion directly to the desktop computer or smart phone. According a study conducted by Nielsen, one out of four TV viewers say they are more aware of programs due to their social media interactions. [7] Furthermore, 15% of viewers said they enjoy watching TV more when social media is involved, 11% said they watched more live TV, and 12% said they recorded more programs in 2013 alone.

Interestingly, while social networks have been proven to help businesses boost sales (or TV viewership), they've had arguably dismal results selling products or services directly to their own users. In fact, an August 2014 poll conducted by Harris found just 5% of U.S. adult internet users had made any kind of purchase through a social network. [8] Fear of hackers and privacy concerns are the two primary issues that are keeping the other 95% from buying something through social network sites .

While this Nielsen study focused on TV, the impact for radio is significant, if not immediately obvious. Radio programmers and personalities should focus on what their listeners are saying about music, personalities, celebrities, entertainment—everything that's "trending"—and then use that to better connect with the audience. These digital tools already exist for those operators who wish to stay relevant in an ever increasing media environment.

Social Media Do's And Don'ts

As with any power tool, social media can produce spectacular results…but one slip-up can ruin your whole project—and your day. With that metaphor in mind, here are some tips from Frank Murray, president/CEO of Zocle, to keep in mind when crafting a successful social media effort:

Do…

…Know your audience. Know what's on their mind *now*. That is part of being timely in your social interactions. In a world where in a couple hours you're a dinosaur, you need to be timely in what you're posting.

…Be relevant. What are the topics that work, and which ones don't? What are you posting about and what gets the most response? The effectiveness of most radio people's posts is very low, because they're talking about things that are important to them, which may not be relevant to what their audience cares about.

…Be special. Radio's relationships are tremendously effective in helping to co-brand their social presence. Keep that allure going. Give your listeners a special connection to the people who matter to them.

…Be consistent. Be there every day. You can't go several days between posts or people will forget about you.

Don't…

…Focus on things that are important to you as a station. Your listeners don't care. They care about their own world and what is relevant to them. Radio people post a lot of self-serving things that really aren't relevant to the listening audience.

…Post about things that create dissonance with your audience. In other words, know where they stand on certain things. The way you can do this is by paying attention to how they respond about certain things in your local market. Look at what they're saying about issues that come up, so when you talk about it you don't create dissonance.

…Post too frequently. People tend to go overboard in thinking they're cool and people care about the little things they're doing. People just don't care about them. Again, be timely and relevant, and not too frequent.

…Use auto-posting technology. Things like "now playing" just mess up your social accounts and make it look like you have nothing else to do than post things that aren't relevant. It makes you look out of touch.

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Programmatic: Coming To A Medium Near You

Programmatic buying – the process of using automated technology to purchase media advertising– is this year's newest and brightest "buzz phrase." While there's little question programmatic has transformed the way digital inventory is bought and sold—particularly in the areas of video and display marketing—many agency execs are expecting the practice to spill over into other, more traditional media. Television (in all its various forms) is the nextlikely candidate, and during last fall's Advertising Week in New York there was considerable discussion that programmatic may account for up as much as 5% of all TV buying for the 2014-2015 TV season.

As Marketron President/CEO Jeff Haley said in a recent article in *AdExhanger*, successful media selling thirty years ago was all about nurturing customer relationships—and in many ways it still is. [1] "Today in radio we know a whole lot more about our listeners, which creates complexity that can't always be conveyed one-to-one"—something Haley says is a natural extension of sharing audience information between seller and buyer. Radio's early movers include CBS and Cumulus, both of which have begun using computerized buying for online streaming inventory. "Before long, we will see this in all parts of the business, along with more revenue for our valued audiences," Haley says.

An Emerging Standard

In some respects programmatic advertising is still in its infancy, but many media executives sense that over the next few years it will become a standard buying practice. If it seems to be getting off to a slow start it's because many people on all sides of the advertising equation are struggling to understand just what it means. There also is a lack of cohesiveness in the process itself: different companies use different buying algorithms, and there is no established standard that inspires confidence among agency buyers.

Still, for all its inherent imperfections, programmatic is not going to fade into the marketing ether. Steve Danson, advertising entrepreneur and president of Keyword Digital, told *Web Pro News* last fall that he expects programmatic advertising to drive the future of online buying. "Programmatic advertising has become a major segment of the industry," he said. [2] "Ad exchanges remove the buyer's need to interact with the person directly. An ad exchange [allows] publishers on the supply side and advertisers on the demand side to opt in and connect directly through supply and demand platforms. This significantly reduces the human factor."

Programmatic advertising gives advertisers and agencies the ability to spend significantly less time coordinating their buys to reach their targeted user, while considering many factors at the same time through complex algorithms, Danson says. These algorithms cross-reference mass amounts of data that allow buyers to target a very specific user at the price they are willing to pay, and automatically bid on that user's ad impression in real time.

$21 Billion In Shock And Awe

Back in September, Interpublic's Magna Global attracted inflicted a bit of shock and awe when it forecast programmatic ad transactions would grow more than 50% in 2014 to hit $21 billion worldwide. Not surprisingly, the U.S. leads global adoption of programmatic methods and represented about half of worldwide programmatic transactions last year. Adoption across all 35 countries measured by Magna Global is expected to remain strong for the next four years, with an average annual growth rate of 27%, reaching an annual total of $53 billion in 2018.

As reported by *Advertising Age*, several large ad categories—consumer packaged goods, automotive, and direct-response segments including real estate

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> A survey conducted by the Association of National Advertisers indicates only 26% of marketers said they knew what programmatic buying was. A similar poll conducted by the *Wall Street Journal* found only 23% of Chief Marketing Officers understood programmatic buying enough to use it, while 12% were not aware of what it was.

and gaming—were among the top early adopters of programmatic. [3] Globally, almost half of the transactions last year occurred through real-time-bidding methods, with banner display ads dominating the type of inventory most often bought programmatically.

Additionally, a new report from BI Intelligence indicates real-time bidding (RTB), a key piece of the programmatic "ecosystem," will account for over 33% of U.S. digital ad sales, or $18.2 billion in 2018, up from just $3.1 billion in 2013. [4] Mobile and video ads are expected to be a major driver of this growth, with RTB sales for these formats topping $6.8 billion and $3.9 billion in 2018, respectively.

Overall, programmatic transactions in the U.S. represented 62% of display-related digital dollars in 2014, while globally they expanded to 42% of all display dollars. Social inventory is already predominantly traded programmatically among all formats analyzed by Magna Global, which predicted that by 2018 only the most premium digital inventory, including sponsorship and full-episode video, will still be transacted through traditional means. Prices for programmatic ads are increasing for almost all ad types, as demand outpaces supply. The effective CPM for social ads increased 64% between January through April 2014, compared to the same time period one year earlier.

Mounting The Learning Curve

While many direct buyers and agencies may be adapting quickly to programmatic advertising, the learning curve remains steep. A survey conducted by the Association of National Advertisers last summer indicates only 26% of marketers said they knew what programmatic buying was. A similar poll conducted by the *Wall Street Journal* found only 23% of Chief Marketing Officers understood programmatic buying enough to use it, while 12% were not aware of what it was.

Despite its growth and improved perception among marketers, programmatic buying still faces some major barriers to adoption. For instance, many brands worry they will lose control over where their ads will appear, while ad agencies are exerting resistance, and industry concerns over methods and results continue to linger.

As *Forbes* pointed out in an article last summer, 86% of agency executives and 76% of brand marketer execs say their companies are using programmatic buying for display ads. [5] Programmatic buying was also cited by 60% of agencies for both mobile and video ads, while 56% of marketers said they're using it for mobile and 48% for video. That's according to a new survey of 177 large advertiser, agency, and publisher clients of AOL.

By contrast, programmatic was being used far less for social ads, search ads, and television. In fact, only 8% of marketers and 9% of agency execs admitted to not using programmatic for any media.

Moreover, the AOL forecast indicates programmatic will continue its rapid pace of growth. Almost 90% of brands and agencies said they planned to increase their use of programmatic buying of display, video and mobile ads by more than half thrugh the first few months of 2015. Note: The AOL survey was released one day after the company announced it was raising $345 million to help it expand its increasingly programmatic-oriented advertising business. The full report from AOL can be found here. [6]

As TV Goes, So Goes Radio?

As noted above, even TV is starting to see the use of programmatic techniques,. One in eight (13%) of marketers and 7% of agencies said they're already buying some TV programmatically, and 12% of both say they plan to do more in the next six months. "We are extremely close to being able to pull data from set top boxes and other sources to make linear TV programmatic," says Doug Boccia, SVP/revenue and strategy for AOL's Advertising.com division.

According to another 2014 report, this one from the company's Adap.tv video ad platform, 60% of brands' online video ad spending is now programmatic. [7] The open survey (not a survey of AOL clients) strongly suggests programmatic has become the preferred method of buying video ads because the quality of inventory available through programmatic channels has improved. In fact, over half of publishers (51%) say they are currently making their premium video inventory available for sales via programmatic, up from 36% one year ago.

"Once a method that was seen to commoditize content, programmatic has now matured past real-

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Programmatic is not going to invade the radio universe this year, but it is coming. As national advertisers and agencies increasingly seek a single-stop buying platform that assures consistency, accuracy, and ease of buying across all forms of media, traditional advertising must move from old ratings and age-based demographics to a system that guarantees impressions against specific audiences.

time bidding and is helping publishers deliver a much more data-driven approach to selling video," AOL writes in the report.

Change With A View

Programmatic is not going to invade the radio universe this year, but rest assured: it is coming. As national advertisers and agencies increasingly seek a single-stop buying platform that assures consistency, accuracy, and ease of buying across all forms of media, traditional advertising must move from old ratings and age-based demographics to a system that guarantees impressions against specific audiences. The buying community is already fully engaged with the opportunities programmatic offers, and that interest will only spread as the technology catches on.

That said, the close and intimate relationship radio sellers have with their local clients means programmatic probably will not take over all—or even most—buying processes. "When you talk to agencies about their experiences so far with programmatic in television, cable, and what's coming for radio, it's not the be-all and end-all," says Steve Saslow, former CEO of Verance and, more recently, ThinkTelevisual. "It's not going to take over. First, you need real people to have a conversation about how where an advertiser or agency is going to put their money, and once they've made that decision it's not all going to go into a computer platform because that won't work in all situations. Radio companies that see programmatic as a way to automate the buying process and get rid of all sellers don't really understand this."

Still, as more and more dollars are siphoned from legacy media into the digital realm, radio cannot afford to resist the future. There's a magnificent future ahead for those who choose to be the lead dog in this journey, rather than the last one to struggle across the finish line.

Remember: The view is always better at the head of the pack; otherwise, it never changes.

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A WORD WITH RADIO'S LEADERS

Gordon Smith, National Association of Broadcasters 100

"We won the performance tax fight three Congresses ago, but we've been out of the spotlight. That's about to change, and we're going to have to make our case vigorously with the CRB and in the halls of Congress in the coming year."

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Erica Farber, Radio Advertising Bureau 102

"One of radio's incredible strengths is that we have always been an immediate, live connection with the consumer. No one does promotions better than radio. This creates a tremendous opportunity for us to open up conversations and develop relationships with the non-traditional decision maker."

Gordon Borrell, Borrell Associates 105

"You have to look at what happened to other media to figure out what will happen in radio. In reality, recommendations from an ivory tower are just not implementable. Unfortunately, the best thing that can happen to some of these large radio companies is they figure out a way to cannibalize themselves."

Frank Murray, Zocle 109

"Radio people have taken the easy way out, and all that does it undermine the credibility of who they are. They focus on what's fluffy rather than what's important and what they stand for. Radio broadcasters need to think about what their brand stands for and how they can use social media to become more relevant."

Marci Ryvicker, Wells Fargo 111

"How am I supposed to assume growth in the radio industry if it has been flat to slightly down for the past five years? I just can't imagine how growth is suddenly going to appear. If it does, that will be awesome and I'll change my long-term outlook. But it's flat until the industry shows different numbers. You can't just make this stuff up."

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A Word With Radio's Leaders [Cont'd]

Steve Saslow, ThinkTelevisual 113

"Radio is now called audio activation. And not only has that line item remained the same but it includes everything from podcasts all the way to network radio. There's no differentiation; it's all lumped into one thing. It's audio, and the biggest competitors are companies like Pandora."

Bob Fuller, Fuller-Jeffrey/Alpha Media 116

"Audio delivery still has plenty of gas in the tank. Because of the digital age, social media, and other factors, the listening/viewing 'pie' is much, much bigger. Radio will always have a strong place among listeners, but reaching ears and minds will continue to change."

Jeff Smulyan, Emmis Communications 119

"This industry has a huge challenge: We need to make radio cool again. We're getting killed today by Pandora and SoundCloud and Spotify. If we can change the perception about radio, that will be monumental with Wall Street, Madison Avenue, and the public at large."

Al Bell, Stax Records/Al Bell Presents 122

"What made the recorded music industry and radio broadcast industry important and successful was the tight relationship between the two. That hand-in-glove relationship has gone out the window. That's a tragedy, and it needs to be corrected for the benefit of both industries."

Larry Wilson, Alpha Media 125

"There's garbage on the air today. As an industry we ought to be so ashamed of the cheapness that we've put into this business. At Alpha Media we're trying to change that. We concentrate on the talent rather than cutting jobs. It's crucial to what we're going to do. It's like watching Home Shopping Network vs. *24* on television."

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A BROADCASTER'S CRY FOR HELP SHOULD NEVER GO UNANSWERED

When the lives of broadcasters and their families are shattered by unthinkable circumstances, leaving them unable to work or fully support themselves, that's when the Broadcasters Foundation steps in to help.

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Gordon Smith: What To Expect From Washington

Gordon Smith joined the National Association of Broadcasters as president/CEO in November 2009, and has guided the radio and television industries through a host of thorny and complex issues since his first day on the job. Prior to joining the NAB, Smith served as a two-term U.S. senator from Oregon and later as senior advisor in the Washington offices of Covington & Burling, LLP.

During his tenure in the U.S. Senate, Smith's committee assignments included the Senate Commerce, Science and Transportation Committee, the panel that oversees all broadcast-related legislation. He also served on the Senate Energy and Natural Resources Committee, the Senate Finance Committee, and the Senate Foreign Relations Committee. His role on the Commerce Committee and as chairman of a Senate High Tech Task Force helped foster his interest in media and new technology issues. Bunzel Media Resources caught up with Smith after November's mid-term elections changed the political complexion of both the House and Senate.

Last November the composition of Congress shifted dramatically as Senate leadership was transferred from Democratic to Republican control. How do you envision working with this new 114th Congress on issues important to your radio members?

Every time a new Congress comes in a new deck of cards is dealt. Our issues really don't register Republican or Democrat, so we look at the makeup of the new committees and the issues that will affect us—especially the judiciary committees of the House and Senate. I'm reasonably optimistic about our opportunity to do well for radio broadcasting with this Congress.

Is the issue of performance royalty fees the biggest regulatory or legislative issue facing the radio industry this year?

The performance tax is certainly going to be back, and the Copyright Royalty Board is going to be pursuing issues on the digital platform. Our sense is that the rates on the digital platform are too high, and if they go higher it will simply be the plateau for that platform. So we're engaging in a meaningful discussion and trying to show what the marketplace is already developing, as a way to grow the music business to the advantage of all participants. We hope the CRB will take note of all this. This is the level at which we have been filing on this issue, and we will be engaged on all fronts.

There's a lot of sides to this issue, as evidenced by Congressional hearings last summer. How do you think NAB's arguments will shake out when everything is said and done?

That's hard to predict because the legislative process is a very fluid one. Aside from what the CRB does we know there's going to be an effort in Congress to deal with the performance tax. We know that's coming so on several fronts, and we're going to fight this issue actively. But there's also an opportunity, as we've seen before, to get calmer voices together and find some common ground. We've seen great leadership by Clear Channel—now iHeartMedia—and various record labels that together are showing there is a place we all can agree, a way we all can profit, and a platform where music can grow.

This isn't the first time NAB has had to fight on this issue.

No, it isn't. We won the performance tax fight three Congresses ago, but we've been out of the

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spotlight. That's about to change, and we're going to have to make our case vigorously with the CRB and in the halls of Congress in the coming year. But I'm very, very optimistic.

One of the hottest issues both at the Federal Communications Commission and Congress is net neutrality, yet you've made it clear the NAB doesn't have a dog in this fight. Why?

I'm on record saying that some of our members are in favor of net neutrality and some are opposed to it. We're for our friends. Net neutrality has become a very politically divisive issue and it's going to take a prominent role in any Telecom reform. It's the King Kong in the room that's going to impact the entire rewrite.

So let's talk about the Telecom rewrite. Republican leaders in both chambers of Congress have stated they're going to push for a major overhaul, but such an undertaking could take years. What's your take on it?

If the rewrite is going to move, it's going to have to be done within the first nine months of the new Congress. My experience is that during the run-up to a presidential election, policy trumps politics for about nine months. After that a lot of politics is being played and members of Congress get positioned by the other side.

So by this time next year Congress will have shifted its focus back to politics?

Exactly. After nine months all the energy goes elsewhere. We're going to see a real effort made to push a Telecom rewrite, and NAB will be in the middle of it. There's going to be an effort to reform copyright, as well, and we'll be in the middle of that, as well. These issues fall in different committees with some overlap, and they're hard issues.

How likely is it that net neutrality becomes a political football in any Telecom rewrite?

I was on the Senate Commerce committee, and I remember that in 2005 net neutrality was why we were unsuccessful in doing a Telecom rewrite. And it's a much more partisan, politically divisive issue now than it ever was back then. It's the big issue that ultimately determines how this will all come out. The House and Senate have very different dynamics, but this will be fought in the Senate, and they will undoubtedly have to get 60 votes to agree on one position. That's going to be very difficult to do when it's such a partisan issue.

What about the prospect for tax reform—specifically any measures to eliminate the deductibility of advertising as a business expense?

No doubt it will come up, but having served on the Senate Finance Committee I can say tax reform is only slightly more complicated than Social Security reform and Medicare Reform. It's picking winners and losers. The last time tax reform was successfully done we had a Democratic House and a Republican Senate. President Reagan, Chairman Rostenkowski, and Chairman Packwood were all on the same page. Nothing in that dynamic exists today, and few things are more partisan than taxes.

But there's bound to be a budget introduced that will include spending cuts and tax hikes…

That's an argument that will be very hard to get through Congress, even though it would be a huge short-term revenue generator. It will be debated fiercely, but tax reform is extremely difficult to do—especially with things divided the way they are between the parties. We'll definitely be in there making our case for the deductibility of advertising, and for the economic growth that it represents. But I'm optimistic that ultimately the economics will come out on our side, because no one wants to slow the economy down in the middle of a recovery.

There's been a lot of talk about somehow getting Congress to force the major phone carriers to include NextRadio in all smartphones. While that might do the trick, isn't a Congressional mandate the start of a very slippery slope?

There's certainly a reason to mandate NextRadio as a matter of public policy and safety, but mandates are extremely difficult to do and very unpopular with a Republican congress. Instead, we're focused on doing this through market deals with Sprint and other carriers in the future to achieve what otherwise cannot be achieved through legislative edict.

In recent weeks more than a few media pundits and bloggers have proclaimed radio to be either dead or on life support. Care to comment?

The death of radio has been predicted for many, many decades, and it's the ultimate survivor. As long as it's free, local, and live, radio has a fixed place in the firmament of the American lifestyle. Yes, there will be some erosion caused by other platforms, but I'm very confident that radio on both dials has a very bright future. We're always on, we're always free to the listener, and it is a very important part of moving American commerce.

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Erica Farber: Radio's Top Advertising Advocate

As President/CEO of the Radio Advertising Bureau, Erica Farber leads the radio industry's sales advocacy efforts by helping to drive business, grow advertising revenue, and communicate Radio's digital transition. She joined the organization in January 2012 as Executive Vice President responsible for membership, services, and professional development. She previously served as president, publisher, and CEO of *Radio & Records* for 15 years.

Throughout her career Farber has held nearly every position in radio sales and management. In 2000 she received an American Broadcast Pioneer Award from the Broadcasters' Foundation, and has consistently been voted one of "The Most Influential Women in Radio" by *Radio Ink* Magazine. Bunzel Media Resources spoke with Erica Farber in mid-December to get her sense of radio's place in the increasingly competitive media landscape, and identify those challenges that face the radio industry in the year ahead.

Wells Fargo Managing Director and Senior Equity Analyst Marci Ryvicker says elsewhere in this report [page 111] that there's no way radio can have better than flat revenues for the foreseeable future. Is she correct in this thinking?

It's not my job to forecast where we're going, so I'm very careful not to do that. But when I hear those comments about ad budgets not growing at all, and when I think about how many different industries or advertising vehicles are vying for those dollars, my reaction is this: If radio is going to be flat, that's actually very good news. And I mean that. How we all are positioning our media and packaging our media is changing every single day, and it will continue to change.

So how does radio position itself in this era of disruptive technology and constant change?

For years all we had available to us were 30- and 60-second increments of time. And that's just not the way we position radio anymore. It just can't be. Gordon Borrell tells us promotional budgets are growing and advertisers are looking at how to immediately touch their target consumers in the most effective way. One of radio's incredible strengths is that we have always been an immediate, live connection with the consumer. No one does promotions better than radio. This creates a tremendous opportunity for us to develop relationships with the non-traditional decision-maker. It's those promotional departments that are looking to impact a market, and this is an incredible opportunity for radio.

With so many media competing for a share of every ad dollar today, what is radio's unique selling point?

Let me say this: Putting aside the physical measurement of the medium, Nielsen's acquisition of Arbitron is showing the radio industry and the advertising community that not only are they committed to audio, they are committed to providing information about how radio can be utilized and how effective it is. Case in point is their study—in combination with Catalina—on return on investment (ROI). [1] That has always been an issue, not just for radio but any advertising vehicle. Advertisers want to know their ROI. It's always been pretty hard to quantify, and Nielsen is going deeper for us and helping to give us these stories with some concrete information.

How important is the ROI study in the day-to-day selling of radio on a local and national basis?

It gives the RAB and our members a very specific, important story to tell at the same time, at all levels. There are varying levels of professionalism in any industry, and taking a story that's clean, concise, and data-driven without being so complicated you can't explain it is very valuable. Research sometimes can

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be difficult to explain in English and be usable, but this was a actionable study that anybody can present to clients. Not only is it a message the RAB is telling as loudly as we can to as many people as we can; we're also sharing it with all radio stations. All the companies—big, medium, small—are incorporating this study into their presentations when they talk about the strength and power of radio.

You're in a unique position to see radio from both the national and local level. Does radio's strength continue to be local client relationships, or is it equally dependent on national advertisers?

Radio historically is a local medium that's also included in national campaigns. A lot of money is spent nationally and whether that's national sales or network advertising, it's a very important part of the industry, just as local is. They're equally important, but it becomes a little more complicated on the national side, because there are a lot of decision influencers. When the advertiser pre-determines how many markets will be in a buy, you can't go in and say "you should add 25 more markets." That is very difficult to do, and we're never going to be able to move that needle. On the other hand, with local businesses you can identify a decision-maker or influencer much more quickly. And with a local relationship it is much easier to effect a change, and you can see the results much quicker.

How will programmatic buying affect radio sales, both locally and nationally?

On the national level there has always been transactional business and new business development. There's been a lot of discussions over the years about how you handle that transaction process, especially when you have multiple stations in a market, and multiple companies in a market. The question becomes: how many salespeople do you really need to effect that? Remember, programmatic buying doesn't drive the decision. It doesn't activate marketing and promotional activities. It's a transactional process. Programmatic may be a way to automate that better than it has been in the past. But again, that does not replace the activation of marketing, promotional, long-term activities. It does not drive the decision to use radio. But when someone has decided to include radio, and has determined which markets will be included, and how much money is going into each market, programmatic can streamline the buying process.

Digital advertising currently accounts for about 6% of radio's overall revenues, which has offset some erosion over the last few years. Do you anticipate radio's share of digital ad spend will grow even more, or will it be difficult to move that needle past 6%?

Of course digital is going to grow, because those budgets are growing. But here is the issue for radio: If you are a digital-only company, it's very easy to identify the revenue that's coming into your company. But with the radio industry, how it's presented and how it's sold varies from market to market and company to of company. I think digital is actually influencing more revenue than it's actually being accounted for, but separating out those digital dollars isn't always the easiest to do. Most stations aren't going to advertisers with a digital-only solution, but once we understand what the advertiser is trying to accomplish, we have multiple touch points we can provide that advertiser. And digital assets are part of it.

In a competitive environment that increasingly is focusing on digital, is radio doing all it can do capitalize on this surge in dollars?

Some people are doing a tremendous job, and others haven't really made a commitment to do anything. We're kind of all over the board. Typically, the larger the company, the more they have put their arms around it, because there are expenses related to it that some smaller companies can't afford. You have to figure out a digital plan, and then determine how to implement it. These are different departments and different jobs than we've ever had in the business, and that's a challenge.

It's also a challenge to determine how much effort should go into digital when most dollars still come from traditional sales…

Exactly. It's only natural to protect the revenue you've always enjoyed, so there is a fine line between protecting the revenue and increasing your revenue base vs. investing in a new area and learning how to bring in revenue. Do you do that sometimes at the expense of not focusing on your core business? I hear a lot of people say, "I don't know why radio isn't doing more in digital." Well, there are a lot of reasons why, and it's very complicated. You don't just develop a business relationship with someone with just one phone call.

How important is the evolving automobile dashboard to the fate and fortune of the radio industry?

As a utility, of course it's important for radio to be in the dashboard. Historically it didn't matter if your

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"In order to be successful we need to attract really good talent to our business. In any business, no matter how great your product is, you are only as good as the people producing that producing and representing the product. They're our future. We need to remind ourselves about that and use that passion and energy as we think about what that next generation of radio broadcasters. looks like."

car was a Ford or a Chevy or a VW—the radio was front and present. You turned a knob or you hit a button, and it didn't matter who made it. Now it's a lot more complicated to turn on the radio. It's not in the same place in every automobile, and that's really the biggest difference. If you don't own a connected car, and if you have not driven one, go rent one and see what it's like. By automobile, they're not all the same—and that's the biggest difference. I believe there will be radios in cars, but the real question is, how prominent a position will radio have as more and more is brought into the automobile experience? The question is, how do the manufacturers provide—in a compact area—everything the consumer wants? We all know consumers' tastes are changing, and they like choice. We just have to make sure we have compelling content and move forward.

One of the great features of the NextRadio app is its ability to provide listener interaction with the radio station and the advertiser. Likewise, HD Radio brings interactivity to the automobile. How important is it for radio people to grasp the value of the "interactive experience" and incorporate it into everything they do?

There's no question that interactivity is where everything is moving. Whether that's in a mobile device, in car, through a toaster, on your television set—interactivity is the future. What that looks like and how it's going to work? I don't know. But we know the consumer wants it and we know the advertiser is focused on it. All I hope is whatever format that is, that radio stays up with it and even can take a lead, if that's possible. We must make sure we are ahead of the curve and not only protect what we have, but grow what we have.

Virtually all traditional media—radio, TV, cable, print—are experiencing erosion due to digital. What must happen in order for radio to remain vibrant, robust, and important to the listener?

The very positive thing is that audio entertainment is at an all-time high in usage. Radio was never sold as a reach medium, but PPM has shown us that more people are tuning in than we ever thought. The challenge becomes the time spent listening. First of all, people are busy. They have a lot of choices available, so we need to make sure we are available whenever and wherever that consumer wants to consume us. That's really important. Technology is going to continue to change, and we need to change along with it. Someone in our office just got a new car, and their radio can play a song again after it's already played. Just think: for a young person who didn't grow up with radio the way we did, they don't understand why you can't play a song again. That's how technology is going to help enhance our product. But the product has to be fine-tuned and continually reviewed to make sure our programming—iand our commercials—are as exciting and vibrant and timely as ever.

That's a tall order, especially at a time when younger people don't really "get" radio and look for careers in other industries.

You're right, and that's a real challenge. One thing that came out of our long-range planning committees—and this is one of our primary focuses—is the importance of attracting young talent into radio. That's not just on-air; it's all talent coming into the business. In order to be successful we need to attract really good talent to our business. In any business, no matter how great your product is, you are only as good as the people producing that producing and representing the product. They're our future. We need to remind ourselves about that and use that passion and energy as we think about what that next generation of radio broadcasters looks like.

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Gordon Borrell: Radio Needs Thinkers, Not Deniers

Gordon Borrell is a widely sought-after speaker for conferences and company meetings, and is considered one of the media industry's leading analysts. He is ranked in the top 2% among Gerson Lehrman Group's 150,000 consultants worldwide and is quoted frequently in the *Wall Street Journal*, *The New York Times*, *Advertising Age*, *Forbes*, and other publications. He also has appeared on CNN and other TV and radio programs discussing trends and forecasts for local media.

Prior to starting Borrell Associates, Gordon was vice president for new media for Landmark Communications, where he worked for 22 years. He started his career as a reporter and editor for *The Virginian-Pilot* in Norfolk, Virginia. In 1989 he began pioneering interactive ventures and helped establish some of the first television, newspaper, cable and network TV websites.

Last fall Borrell predicted during a webinar that ten years from now half of all the FM radio stations in the U.S. would be gone. Bunzel Media caught up with him in Norfolk, VA to determine how he came to that conclusion, and whether he was still wedded to it.

Several months ago you started a minor furor in the radio industry by saying that, 10 years from now, half of the FM stations would be gone? How did you come to this conclusion?

It's based in part on current trending in media usage and advertisers' acceptance of media, in particular digital. Radio advertising has been trending downward a bit and usage of digital media in terms of spending has gone up. So the conclusion could be pretty logical if you were just doing linear trending. But the number of FM licenses granted in the last decade is up several hundred, so it would be counterintuitive to say the number of stations must be declining—and in ten years we'll have half as many as we do today. It's understandable that people would say, "Where the hell did he come up with that?"

So where the hell *did* you come up with it?

The overlay that predicts that one thing is the number of stations, and I admit it's a bit "out there." I honestly don't know if it will be 70% fewer or 40% fewer. It's based to a degree on what we we've seen with the proliferation of media since the 1970s and the resultant decline in media because of saturation.

Do you have an historical perspective that leads you to this conclusion?

You can look at newspapers and see there were just far too many titles out there. You see a bunch of them moving from daily to weekly, and some of them actually failing. The market can't support so many newspapers, and when we look at radio—well, in my market alone there have to be three dozen stations. Every single one of the 3,000 counties out there has an average of three stations, and that's a lot.

But we don't see FM stations going dark…

The numbers have actually been declining in terms of the number of stations being added, plus the marketplace will only support so many media venues, whether it's cinema advertising, billboards, radio spot, or TV spot. So something's got to go. We looked at this and decided it has to be radio because there are just so many stations out there. The votes are coming in on radio advertising, and it's clear that while it works, it's not going to get more dollars. In fact, it's more than likely going to get less ad spend.

The majority of radio listening is done in the car, and there's a lot of trouble there because of these very sophisticated dashboards. Plus, the amount of time you're actually able to spend looking at your dashboard and interact with it will increase the more automated vehicles are, so you'll be wanting to do something with your fingers or your eyes, rather

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than just your ears. All of those stars came together in that prediction.

So if your prediction is true, where does the FM attrition start?

It definitely begins in large markets. It will mimic the yellow pages. In large markets you might have seen 10 or 15 yellow page directories—but who has a need for one big book and all those smaller books? Same thing with newspapers. How many newspapers do you actually need? So it's going to start with the bigger stations—not the Number One station but those that are still big stations. In Seattle it wasn't the *Times* that failed but the *Post-Intelligencer*, the Number 2 paper. So it's the weaker mid-sized stations in the larger markets that have the problem, particularly where there might be five hip-hop stations or five AC stations.

What happens to the smaller stations in the big markets?

Some of the smaller stations are like lizards and frogs and turtles. They're going to survive when the comet hits because they're small, and because they're not going to be affected as much. They're not going to need a lot of advertising, and in a lot of markets there's no other game in town. There might be a small newspaper but there's no TV competition in a market that spans one or two counties.

So how does this affect the big players in radio that have hundreds of stations and billions of dollars of debt?

I will say this about the old Clear Channel and the new iHeart: Their heart is in the right place. They're trying to figure out a new model and make a change. The big problem is they're in a marketplace that's being disrupted, and traditionally if you're the big guy your hands are tied. You can't really compete in a disruptive market. The little guys inherently win, because they can move faster and be much more responsive to marketplace needs. They can deliver something the market needs tomorrow rather than have a big committee meeting about it. That's one of the problems with these very large companies.

So what happens to their stations and licenses…if your prediction is accurate?

From an academic view, you have to look at what happened to other media to figure out what will happen in radio. In reality, recommendations from an ivory tower are just not implementable. These companies have such complex structures, not the least of which is satisfying stockholders' demands, which have nothing to do with the absolute right thing to do. It's all about producing a better dividend next quarter, or more cash flow. Unfortunately, the best thing that can happen to some of these large radio companies is they figure out a way to cannibalize themselves. They sell off pieces of the company that might be the weakest part and invest that money either in buying down the debt or purchasing companies that have higher growth potential.

For example…?

For example, let's look at the Yellow Pages companies. They used to be ATT Yellow Pages, and a couple years ago they were a $3 billion company, with $1 billion in digital and the other $2 billion was in the printed books. Today they're a $2 billion company, and a billion of it is still in digital. The books continue to decline, but their investment has put them squarely in the digital business. If they just rode it down, eventually they would have a very small business. Look at Encyclopedia Britannica. They switched too late to an online model, and they have very little to show for it. The transformation part is going to be extremely painful and in the end they're going to be a much smaller company, not a larger one.

Is all of this inevitable, or can some of what you're saying be modified?

I don't think anything in terms of media is inevitable. We ended our webinar presentation, which included that prediction, with the famous quote from computer scientist Alan Kay, who said, "The best way to predict the future is to invent it." I do believe that's true. The way we consume information today is vastly different from ten years ago, and it will be vastly different ten years from now. So clinging to an existing business model is a formula for disaster.

Yet entrepreneurs are still entering the radio business and purchasing stations in a number of markets. Are their business models misguided?

Recently I sat down with someone who is buying up radio stations. He's in four markets and owns a half dozen radio stations. He's reinventing the model. His radio revenues are increasing, his digital dollars are growing double digits, and his audio product is growing. Now, if you showed his business model to one of these behemoth radio companies, they would shrug their shoulders and say "small potatoes." They also wouldn't understand it, because it doesn't involve music to any great extent. So there are people

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out there experimenting with a new model. They will be survivors, but for a long period people will just ignore them, like ants.

People who are successful in a disruptive environment are those who start out small with a different business model that eventually matures and attacks the big players. So we have to pay attention to some of these small players, wild as they may seem.

The latest media buzzword is programmatic. How does this fit into the course of radio business over the next five or ten years?

Programmatic is just another one of those various important things that we have to put on our already-crowded radar. The problem is this: we are moving into a very, very automated world. Just go to Detroit and see how many robots are putting cars together. Go back 100 years and realize that just about every elevator was operated by an individual, and today that number has declined to about two. So the trend is for automation to severely affect advertising as we've known it for more than a century. Advertising typically is sold, not bought, but we're moving into an era where it will be be bought, not sold. Within five to seven years sales reps are going to transformed into consultants and people who have a great deal of creative capability. They're not going to be order-takers anymore.

How quickly will this transition take place?

The growth of programmatic today is small, but it's growing. The good news is we all have time to figure this out. It's so new to everyone and such a foreign concept that a year ago it was barely on our radar screen. The fallacy of it, which should give media people some comfort, is the computer is actually going to make that buy. That will be really rare. There will be reps; it's just that they will have a different role. They're going to ask, "What kind of advertising would you like to buy? What kind of audience would you like to reach?" The advertiser is going to say "I don't know, what do you recommend?" So the media rep is going to have to offer a full solution, including some media that they do not own.

It's hard to imagine a radio sales rep recommending a buy that includes not only his or her own stations, but TV, newspaper, and digital.

This is probably one of the biggest radical changes we'll see. Today, radio reps will beat the crap out of you if you say anything bad about radio. And they'll give you a big old wet kiss if you say anything nasty about the newspaper or the television station. That's going to have to change. They're going to have to understand the power of television advertising. They're going to have to understand the value of print advertising. Today you tell a radio rep that and they'll say, "you're crazy—they're the enemy."

It's hard to see a radio company condoning, much less encouraging, that sort of sales approach.

Right, but they're going to have to figure out how all this fits together and give the best advice to the advertiser. If you have reps that own the client relationship, and understand that they're helping the client buy audio messages, video messages, print messages, social media messages, and a host of other digital messages, they're in control. That's a tremendous amount of power rather than just going in and fighting for a share of radio budgets.

In your prediction you also mentioned that in ten years local advertising will evolve into promotion opportunities. How does that work?

Radio doesn't need to prepare for this switch in advertising, especially with promotion, because they think they're already prepared. They just need to recognize and capitalize on it. Radio understands the promotion business very well; they're all about promotions and crafting really great commercials that influence people to come out to a remote.

We recently published a report that says a car dealer will spend five times more on promotions to market a particular vehicle than they will on a traditional form of advertising. And radio has smart enough people to figure out how to tap into that promotional stream and open up a whole new realm. Suddenly you're not just fighting for a share of radio dollars in the marketplace; you're thinking really big. You're in there tapping a budget that could be five times as big as you've ever seen.

Is it realistic to ask radio people to give up on automobile advertising and push promotions instead?

I wouldn't tell them to give up, but I would advise them to be realistic. I don't think automotive dollars are going to return to radio. Sure, radio can get in there and craft some really creative campaigns and steal business from every other station in the market, but it's still not going to amount to a whole lot of money.

So what's the alternative?

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I talk to car dealers and they tell me they spend about 1% of their total ad budget on radio. That's not much. So to some extent you can give up on the audio advertising and redefine the role of the radio station. What are we really doing? Are we selling audio advertising to auto dealers or are we helping auto advertisers sell cars? If the latter is the case, and it should be, then what do we have at our disposal? We have radio advertising, but we also have promotions—and the potential mastery of digital media. Maybe the auto dealer doesn't buy the advertising on the station; maybe we give it to them. Maybe we craft things that make their campaigns in digital media work. They'll pay a lot more to bring all the digital media together and actually work, and the way to ring that bell is to craft some radio advertising, which we're going to give to them.

Many people—broadcasters and analysts alike—are concerned that the radio industry is hemorrhaging ad dollars. There's no question the business has been flat or down over the last few years, but is there a point at which radio will stop losing ad revenue?

I'm not sure it reaches the asymptotic curve even though, as we said in the webinar, science fiction is a great predictor of the future and you don't see a lot of people listening to radio in *Star Trek*. But in what I would term the foreseeable future—probably five years—I don't think we'll see much erosion in daily newspaper. I do think we'll see fallout in Yellow Pages and direct mail, and radio will decline a bit more. Television is the big one that we'll see in decline in the next several years. It will take years for that to happen; the bottom won't drop out at any time. There's trouble in predicting any medium is going to die as a result of a new one coming along because it's never happened in 100 years of electronic media. Ten years out there can be really weird stuff that no one could envision.

This is an almost heretical question for radio to even consider, but would the perception of radio as a robust advertising medium change if the revenues of such companies as Pandora were included in overall industry figures, rather than shunned?

The traditional radio industry's obsession with Pandora is disheartening and, to some extent, even a bit disgusting. They should embrace the Pandoras because they have brought new life into the audio industry. Unfortunately, they have put it in a box and said "they're not us, so they must be the enemy." What if Pandora was just another radio station in L.A.? Of course they would fight with it, but they might invite Pandora to their damned radio conference.

Is that strictly the fault of the radio industry?

There's plenty of blame on both sides. Pandora has taken a severely antagonistic approach to terrestrial radio, and radio's reaction has also been not very admirable. To say it's an obsession is absolutely positively on the mark. I was at a state broadcasters meeting last summer and I wanted to see a session that was supposed to discuss new stuff in digital innovation. The entire hour they talked about one thing: Pandora. It was a pie-throwing contest, and it was just sad. Instead of being negative about Pandora they should identify some positive things—and maybe even copy them. Then the radio industry could say to advertisers, "What are you talking about radio declining? We have one radio company whose revenues are up 100%."

As we've discussed here, the radio industry is operating in a highly disruptive environment. What advice would you give to broadcasters who are concerned about their balance sheets, the competition, and the future of the industry?

Of all the media I deal with, radio people seems to be the most emotional about their own industry. You can say they're admirable about that or just overly sensitive. So I would tell them to look at all these predictions, including ours, and take them with a grain of salt. We can all agree that something is going to happen, but I don't think we can figure out exactly what it is.

Radio people just need to put the defenses and the ego down and admit they've been so wrong in the past by saying everything's going to be fine. In fact, they're likely to be wrong now by saying everything is going to be fine. Instead, radio people need to take some action. If there's anyone left in any radio station who's still in denial mode, they ought to be taken out and publicly executed. They're not doing the industry any good. We need positive thinkers in the industry—and I do mean thinkers. I'm talking about people who can say, "Here's what we need to do. This is what we need to try."

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Frank Murray: Social Media Is About Trust + Relevance

Frank Murray is president and founder of both InterTech Media and Zocle, an "all-in-one" social media application that allows users to monitor trending stories that radio station listeners (and those of the competition) are talking about. Prior to starting InterTech and Zocle, Murray served as Chairman/CEO of Goodman Manufacturing Company and Amana Appliances—one of the country's largest private companies with sales estimated by *Forbes* magazine at $2.0 billion. During his tenure, the company realized unprecedented growth in its market share, revenue, and cash flow.

Before his stint at Amana Appliances Murray was a partner in charge of Mergers & Acquisitions at The Beacon Group, LLP. He graduated from Ohio Wesleyan University with a BA in Mathematics and Economics. He received his MBA from the Harvard University Graduate School of Business Administration.

Radio seems to straddling the great media divide, trying to maintain its strength among traditional AM/FM listeners while also making the transition to digital. How can radio broadcasters keep a foot on both sides without becoming totally immobilized by all the change that's occurring?

Radio's only hope is to become more relevant. In the Hemingway novel *The Old Man And The Sea*, the aging fisherman caught a giant marlin and as he brought it back in the sharks chomped away at it. By the time he got back in to shore all he had was a bag of bones. That's what's happening to radio. *TMZ* has taken over gossip, Music Choice is breaking records, Spotify is giving people a new way to listen to music—and radio's relevance has trailed off significantly.

How critical is social media in restoring this relevance to radio?

Social media is the perfect partner for radio to become more relevant. Think about where radio fits in with traditional media: it is the most real-time of all media. Newspapers aren't, magazines aren't, television isn't. People don't leave the TV on all day. But people will listen to their radio while they're at work, while they're surfing the internet, and while they're doing other things. Meanwhile, nothing epitomizes real-time communication more than social media. People are tweeting, they're posting on Facebook, and they're doing it more and more on mobile devices.

A generation ago every kid had a transistor radio. How important is mobile in today's digital world?

More than 60% of Facebook ads are now on mobile and fewer than 40% are on PC. Mobile tends to be more real-time; people are using it to engage on a real-time basis. If you think about which of the traditional media can be an effective partner for real time media, radio has a huge opportunity.

You used a Hemingway metaphor, so let me draw a parallel to Dickens. In *A Christmas Carol*, Ebenezer Scrooge asks the ghost of Christmas yet to come whether the images he has seen are visions that will be, or things that may be. Can radio change its course and restore its relevance?

I absolutely believe radio's fortunes can be changed. Think about how we used to listen to radio when we were younger. Air personalities had things to say that were meaningful to us. So why has social media become so important today? It's because people will engage much more if they're interested in content from people they trust, content that is relevant to them, and content that's timely. Social media gives them all of that, and radio needs to get back to that. It used to have all those elements, but it has moved far away from it.

How do you think radio lost its relevance and trust?

Radio people have taken the easy way out, and all that does it undermine the credibility of who they are. They focus on what's fluffy rather than what's important and what they stand for. Radio broadcasters need to think about what their brand

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stands for and how they can use social media to become more relevant.

It's easy to say "stay relevant," but how do you do it?

The internet is massive, and people need to find ways to sort through it all in a way they can trust. This is why reviews are so important. Everybody loves reviews because people are looking for ways to trust a product or service. People are looking for ways to curate their content, and people will engage with—and react to—content that is shared by people they trust, if it's relative and timely. This is why Rotten Tomatoes has not only a critics' review but also a viewer review section.

Do people trust radio stations today?

Trust is not given; it is earned. That means radio needs to provide content that is relevant and timely. If you walk up to a group of people at a cocktail party and start talking about what's important to you, they're going to look at you cross-eyed. They'll think, 'Who is this idiot?' So instead, you listen to what the other people are saying. You understand what's relevant to them. You understand how to engage with them. By doing these things, you reinforce a sense of trust that causes them to think, "this person really understands me." It will make what you say and do much more relevant, and enhance their trust in you.

There's trust, and then there's trust. Does radio have the "right kind" of listener trust?

People trust radio, but it seems that all radio really is doing is auto-posting "now playing" on social media. Are you kidding me? Sure, you can text that out to them, but polluting your social media with all this "now playing" stuff works against you. First of all, by the time listeners see it, it's irrelevant. And while "now playing" may be important to you, it's not important to them. Unfortunately, radio is very ineffective with social media. If you look at the retweets and replies for radio stations—and with Zocle we can do that—the results are dismal. Even the most effective social media people in radio are still horribly behind the other most effective personalities in other media.

You mean there's too much talk about the Kardashians and not enough focus on what's relevant to listeners?

You have to get inside your listeners' heads. That's why I keep emphasizing relevance and timeliness. Radio people need to ask what is going on *right now* in the heads of their followers, so you can talk about it on the air *now*. If they talk about the Kardashians—something that was posted on *TMZ* three days ago—it just proves how out of touch they are. People are just going to sit there and say, "Yeah, I already know that." It ends up just magnifying people's view that radio is becoming less and less relevant. The worst thing to do is talk about things that are not timely or relevant.

Are online music services a competitive threat to radio?

By not giving their own people the tools they need to be relevant, radio is walking away from local talent and playing into the hands of Spotify and Pandora. If there's some breaking celebrity news and you're relying on a voice-track system, how are you going to get that on the air? You're going to come across as even less relevant, and then you're really in trouble, since radio is supposed to be a medium that's immediate.

Radio broadcasters acknowledge the need to "go digital," yet many have yet to map out a strategy to get there. How critical is it to expand outside the comfort zone and become fully immersed in digital now, before it's too late?

That's the crossroads radio is facing right now. If radio people continue to go the route of cut, cut, cut, to take advantage of the fact that radio is a low-cost delivery platform, it will lose all relevancy to listeners. The fact is, automakers are putting 4G in their cars. Once internet comes into the dashboard, people can get exactly what they want and they're not restricted to what's on the AM or FM dial. How is radio going to compete with Pandora or Spotify when all it does is play music—the same thing all these other platforms do?

Good question. Do you have an answer?

Radio can't walk away from its greatest strength, which is the trust of the audience. Pulling back on that connection is a formula for disaster. If radio knows the audience and can effectively be there with content that is relevant to that audience, people will engage and regain that trust in radio. That's the way radio is going to thrive, and the perfect partnership for that is social media. Engagement means people are excited about talking to you and interacting with your brand. That is the salvation of radio. If they don't excel at this they run the risk of becoming even less relevant than they are today

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Marci Ryvicker: Radio's Wolf On Wall Street

In a media environment that is seeing less and less coverage by financial institutions, Marci Ryvicker is almost a lone wolf on Wall Street. A managing director and senior equity analyst of Wells Fargo Securities, she covers the media sector with specific focus on diversified entertainment, broadcast, outdoor, and cable/satellite.

Ryvicker began her career as a certified public accountant at PricewaterhouseCoopers. She earned her MBA degree from Harvard Business School and holds a BS in economics with a concentration in accounting from The Wharton School of the University of Pennsylvania. She is a certified public accountant and a CFA charter holder. She is also a member of the CFA Institute, the New York Society of Security Analysts, the American Institute of Certified Public Accountants, and the New York State Society of Certified Public Accountants.

Bunzel Media Resources caught up with her in mid-December, just a few days after it was announced that Entercom was acquiring Lincoln Financial Group's portfolio of radio stations.

Let's talk about the economy. What are Wells Fargo's analysts expecting for real GDP growth in 2015?

Our economists are currently real GDP** of 2.2% in 2014, and 2.7% real GDP growth in 2015. On a nominal they're looking at 3.8% in 2014 and 4.3% in 2015. So there is some sort of pick-up, but again we tend to see more downward revisions as we get into the quarters vs. upward revisions. And there is very little acceleration right now.

How does this translate to the radio industry? Are you expecting to see the overall U.S. economy move the needle for radio?

From a core perspective we're not going to see anything different. We're doing checks right now and it's interesting that local radio has been weaker than national for some of the players. I've been very surprised by that. I don't know if a lot of companies are including political dollars in their reporting, but I would assume core business will be down for the year. There will be some boosts from political, and we should see some modest growth in digital. At this point we're looking overall at the industry being flat for the year.

***Editor's note: The main difference between nominal and real values is that real values are adjusted for inflation, while nominal values are not. As a result, nominal GDP will often appear higher than real GDP.*

That's not news most radio broadcasters want to hear…

I get so much negative feedback from my projections but how am I supposed to assume growth in the radio industry if it has been flat to slight down for the past five years? I just can't imagine how growth is suddenly going to appear. If it does, that will be awesome and I'll change my long-term outlook. But it's flat until the industry shows different numbers. You can't just make this stuff up.

As digital advertising continues to grow do you expect to see radio's share of that pie to grow?

I want to say I hope so, but I really don't know. As digital gets bigger, growth tends to moderate. We're seeing that in television. I think where there's additional opportunity is in newspaper, because they're selling the same product differently. That's not quite true for radio. We've been waiting for it and waiting for it, and I think there are so many more digital offerings beyond radio out there. At this point I would say digital is not going to be the growth driver for radio we once thought it would be.

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Is that because radio folks are still so focused on their "core business" that they have yet to explore the full range of digital products available to them?

Digital is very fragmented. Entercom has their Smart Reach division, where they're trying to be more of a digital marketer. LIN Media in TV does the same thing. I would love to have greater visibility into what radio's digital cash flows will be over time and exactly what the business is going to offer. That way I might be able to figure out what multiple to put on those cash flows. The companies are not willing to break it out, and it's not really a huge discussion. The bigger discussion today is Nielsen measurement and the ROI of traditional radio product—much more so than any other new growth initiatives.

What sort of ad spend growth did we actually see in 2014, and what do you expect for 2015?

Overall for 2014 we are looking at low single digit growth. I believe advertising as a whole grows in line with GDP, so on a real basis it's 2.5%. We just heard at the UBS conference the co-COO of Fox James Murdoch said marketers are just generally more cautious; they're holding on to their money. That's going to have an impact on the entire growth of the advertising universe. In 2015 we obviously have the loss of political, and we don't have the Olympics or the World Cup. So 2015 should be relatively flat vs. 2014. What we've seen is a small loss of market share in radio over time. Radio has finished flat while the overall pie has been growing between 2% and 3%, so radio is losing share.

Does radio need to tell its story to advertisers in a different way to reverse the tide of this receding share?

Honestly, I don't know what the radio story is. I don't know what the message is. I listen to my radio stations, and I like my radio stations. I flip stations. They are trying everything they can do to book revenue, but I really don't think I remember one radio commercial. My overall view is there are too many stations, and there's too much inventory. There are so many other things for people to do with their time these days. I hear a lot of people at conferences talk about the perception of radio, but they never really say what radio is.

Is that because radio is threatened by disruptive technologies and a competitive landscape that's shifting dollars and users to digital med?

All traditional media are in the same boat. It's really hard to appeal to younger kids who are on iPads or iPhones. That's what they know. They want to watch what they want to watch when they want to watch it. And they listen to what they want to listen to. My prediction is prime time ends up going away, but drive time for radio isn't going to go away. Because when you're in the car you're in a car. The challenge is that younger generations don't listen to the radio. They're watching TV—in the car. They're playing games—in the car. It is a completely different way of consuming content. They don't want what radio wants to give them. They want what they want.

A few analysts have made headlines lately by proclaiming radio's days are numbered. Does radio have an extinction problem?

No. If it was going to go the way of newspapers we would have seen that already. When newspapers took a dive it was done quickly. At some point we're going to see some people sell out, as we just saw Lincoln sell to Entercom. I don't know that broadcasters will actually shut down and turn their licenses in, but I do believe the industry will weed out the weakest players. Whoever is left standing will be stronger and will probably grow.

Some radio broadcasters view such digital services as Pandora and Spotify as disruptive competitors, while others say augments audio listening and validates radio's strengths. Where do you weigh in on this?

Pandora and Spotify are a threat to time spent listening. You have finite hours in your day, and a lot of radio executives say its increasing all audio listening. I don't believe that. If I think about my own use: I listen to Pandora when I run on the treadmill, when I run outside, when I'm in the car with my boys. It does not take up that much data at all, not like streaming video. It's streaming audio. The only time it displaces the way I used to listen to radio is when I have my kids in the car. I do feel it's somewhat of a threat to TSL and it could eventually become a bigger threat to advertising dollars. But it's a migration, not a jump.

If terrestrial radio included advertising dollars from streaming platforms when calculating overall industry revenue, would it change Wall Street's perception of the radio industry?

That would be an interesting thing to say about the radio industry, and make it the audio industry. I don't know how people from my community would look at that, but my community doesn't really look at radio that much anymore. It's an interesting concept, and could actually help.

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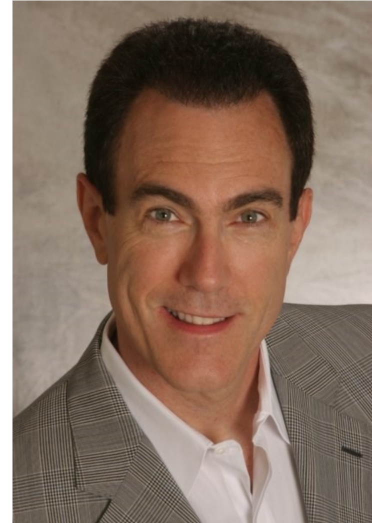
Stave Saslow: Curing Radio's Pre-Existing Conditions



Steven Saslow is a media veteran who has spent over thirty years in the radio, television, music, and digital industries. He was the founder of SJS Entertainment, which produced and sold network radio programming and services as well as live concert programming and events. He sold SJS to SFX Entertainment in 1997 and subsequently joined the company as executive vice president to help grow the SFX Network Group, which then was sold to Clear Channel Communications. In 2003 Saslow was named vice chairman and CEO of Verance Corporation, a leader in watermarking technology for the media and filmed entertainment industries.

Saslow also created the interactive music service "1-800-MUSICNOW," which he sold to MCI Telecommunications in 1995. Before forming SJS Entertainment, he was Director of Special Programming for NBC; prior to that he served as Director of Marketing and Sales for Group W Satellite Communications (The Nashville Network).

Most recently, Saslow was co-founder and CEO of ThinkTelevisual, LLC, the first 24/7 video news and information service to air simultaneously on-air, online, and on mobile. He currently serves on the Board of Directors of the IRTS Foundation.

Digital surpassed radio in terms of ad revenues several years ago, and many analysts say it will move past television this year. Can broadcast radio remain a viable ad medium as digital continues on its path to media domination?

First, all electronic media now is digital. Even out-of-home is digital. Radio is digital. But radio also suffers from three things. Two of them are pre-existing conditions, and one of them is a new condition. The biggest pre-existing condition is there has always been this chip on radio broadcasters' shoulder that they worked in an audio medium and couldn't compete as well with the visual media. Also, from a creative point of view, some people have lost their way in terms of developing true entertainment talent. At one time we had real entertainers who developed personas, forged relationships with their listeners and the music—or whatever the format was. We're simply not developing that anymore.

You said radio suffered from three things…

Yes, I did. The third one—which is the worst—is we stopped going out selling radio as a solution, with the understanding that we have to increase the advertiser's overall budget. I don't care whether it's local or national spot: unless you're expanding radio's share of the budget, all you're doing is stealing share among yourselves.

Are radio salespeople approaching sales too much as a media "buy" rather than as a "sell"?

The total budgets for radio every year haven't changed materially since I sold my company in the '90s. They're the same. So if you're asking me whether radio people are talking to the right people and asking the right questions, my answer is categorically, "no they are not." We need people who are smart enough to know they have to expand the total budget in order to get more than the same slice of the pie they've been getting. If I get 2% of that pie, the most effective way to bring in more dollars is to get 2% of a larger pie.

And by the way, radio is now called audio activation. And not only has that line item remained the same but it includes everything from podcasts all the way to network radio. There's no differentiation; it's all lumped into one thing. It's audio, and the biggest competitors are companies like Pandora.

Are radio people guilty of caving in to a self-fulfilling prophecy of negativity?

We have this sort of gloom and doom every few years. Remember when Maxell came out with this

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new technology called cassette tape, and everyone said it would be the end of both the music industry and the radio industry? Everyone was just going to record stuff and that will be the end of the world. But it wasn't. The radio industry always learns to adapt, and to take advantage of all the opportunities that are out there. We have all these new digital platforms and avenues of distribution. They provide the same kind of relationships radio used to have, with new ways to connect with the audience.

What is radio's single greatest strength to an advertiser?

Radio always has been a promotion medium. Radio is a call-to-action medium. And if we line it up with all these new opportunities and sell this power to marketers and their planners, we can deliver. Radio is promotion, promotion, promotion. You should just put an equal sign between radio and promotion. Radio = promotion.

So what is radio doing wrong?

Radio people go to the buyers, and the buyers are the downhill recipient of what the client and marketing people have already planned. Instead, radio people have to go in to the client every year and make sure they understand the purpose of the medium, just as radio people have to understand the client's marketing objectives. Then you can come back with a smart solution.

Where does programmatic fit in with all this?

Programmatic is just another way of buying. That said, I don't think we will ever completely replace the buyer-seller relationship. If you're selling radio (or anything) there are many buckets, and programmatic falls in the same bucket as the lowest CPM long-term buyer. Some companies say they want remnant inventory rather than the high-end stuff, and programmatic is just a more efficient way to buy that sort of inventory.

Yet there are rumors that a few companies are eyeing RIFs in their sales departments to become fully committed to computer-based buying….

Some radio people do think programmatic is going to take over all buying, but it's not. When you talk to agencies about their experiences so far with programmatic in television, cable, and what's coming for radio, it's not the be-all and end-all. It's not going to take over. First, you need people to have a conversation about how where an advertiser or agency is going to put their money. And once they've made that decision it's not all going to go into a computer platform because that won't work in all situations. Radio companies that see programmatic as a way to automate the buying process and get rid of all sellers don't really understand this.

The only medium computerized buying really works for is digital, because everything is 12+. There are no demographics or psychographics involved in digital. The only filters that have been put in there, for example, are "no porno sites" and "no Perez Hilton." But in radio you really need human input, so instead of eliminating the salespeople we really need to go the opposite way.

You're talking about shifting the overall attitudes and behaviors of sellers...

Exactly. Radio needs to adopt an attitude that "we are going to become a forward-thinking digital industry." In order to generate more business we have to do the work. Hard work. We need to see everybody in that food chain. We need to sell the medium from the ground up. We have to understand the marketing objectives of everyone in that food chain, then get them on board so we can go back to their CMO and say "we have something here that can help you."

Are radio people just not working hard enough, or are they already working too hard to do anything more?

There's nobody in radio I've met who isn't hard-working. It's just that this is very difficult grunt work that's not done by grunts. It takes some very talented high-level salespeople who are going to say, "I'm not just going to go to an agency and marketers and get a little slice out of the pie."

That's the way digital took hold. Look at Pandora: Those guys went in quarter after quarter after quarter and presented the story about their medium as a solution. They got a little bit, and then a little bit more. Radio has been around for almost 100 years, but we've forgotten that we need to go in and reinvest ourselves as that forward-thinking digital company.

Are you saying Pandora has done a better job of selling radio than radio has?

I'm a friend of radio and I don't want to criticize, but Pandora is part of that same budget now called audio activation. It's internet radio, but it's radio. And they have cleaned everybody's clock because they have done the work. And they've done it very effectively. Now radio has to do that, and if we do, it will pay off in spades.

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Doing the work—going in to talk to all the right people at the client level—will start to bring major revenue increases to everyone who does it. This approach also now positions them to be a multi-platform seller, and that includes digital video.

You've spent the last several years immersed in the video environment. What have you learned that radio can benefit from?

Radio is in an excellent position to be in the digital video business. I know this because I know how to sell it. Everyone in radio used to lament how they didn't have a video channel that allowed them to show a product—well, guess what: now they do. Radio now has a digital video solution. That's what I mean about positioning radio as a forward-thinking digital medium. Radio is a call-to-action medium.

But wouldn't that shift to digital interfere with radio's core business?

I'm not saying digital; I'm talking about this valuable line item that is growing phenomenally called digital video. Radio can do it. They're in the best place to be. They can do this based on what they know about the needs of their audience, and it isn't directly competitive with their current content the way it is for television. I can walk in to a client with a video component that gives me one more thing that gives me more impressions. If I can broadcast something on-air, and then run it on the desktop and a mobile device I can cross-pollinate radio impressions with video impressions. That is a huge solution for advertisers.

Of course, radio needs to sell this rather than give it away. Mobile video gives you a $25-30 CPM product vs. a $2-5 CPM. I just spent two years selling this, so I know it's there—and I know the formula.

Let's talk for a minute about the connected car. There's been a lot of talk about how broadband is going to change the scope of the dashboard. Does this disrupt radio's hold in the car or present it with new opportunities?

Everyone talks about the dashboard and the connected car. A very closed system is about to open up it's going to give radio an opportunity to connect the dots even further between the advertiser and the consumer—precisely at the time that they're ready to make a buying decision. The new interactive dashboard is a great opportunity for radio, if we position it as a promotional solution.

Has radio done a good job embracing digital technology or has its digital presence been more of an afterthought?

There's a big sign when you get off the highway in the Poconos that advertises everything north and south on Route 611. There are so many ads on it that you can't possibly see any of them—and it reminds me of hundreds of radio stations' websites. You go to a radio website and it's a mish-mash. Radio needs a digital strategy, and it doesn't have one. It also means creating good programming that's relevant and means something. People talk about repurposing content, and there's nothing wrong with that as long as you had an initial purpose for it.

What has to happen for radio to adapt to the new realities of cross-platform selling?

If we're going to turn this around, there are several things we have to do. I hear so many radio people say, "I already go in and see people from the client." And it's true—they do. But they're seeing the wrong people, they're asking the wrong questions. They're saying the wrong things. You want to sell them on your station in your market, and if you can justify why that will be effective for them, they will buy.

It sounds like zero-based budgeting, every year.

This is no different from what any start-up business does. Again, it's what Pandora does—and they have a product that's as confusing as it can be. They just put together "list" songs that have no flow from one to the next. Ads appear out of nowhere. Nothing is introduced. Content just shows up out of nowhere. But they sold close to $900 million in advertising last year because they did the work.

And it will work for radio?

Any radio company can be a forward-thinking digital company by extending what it's already doing with great programming that complements what you're audience has. It boils down to three essential ideas: 1) Better programming equals better ratings. Bring back talent and improve that talent, and you'll have the audience. Advertisers buy audience.

2) Get out and do the work. Start selling the medium. And that does not mean saying "cool… there's an avail up." Radio as an industry has done an absolutely atrocious sales job. They have not been able to bring more dollars to the medium because they haven't gone out and done it appropriately. 3) Look to the future. New platforms are new opportunities, not the death of radio.

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Robert "Doc" Fuller Looks Back…To The Future

Robert "Doc" Fuller is a veteran radio broadcaster who started his career at age 16 when he signed on WNBP-AM in Newburyport, MA its first day on the air. At 18 he was the youngest DJ in Boston on WMEX-AM, and subsequently served as program director at WJAB-AM in Portland, ME. He went on to serve in a variety of on-air and management positions in San Francisco, Fresno, Sacramento, and eventually Los Angeles, where he was national sales manager for Ken Draper and Chuck Blore.

In 1975 Fuller teamed up with business partner J.J. Jeffrey to form Fuller-Jeffrey Broadcasting, which owned and operated a number of radio stations in various markets before it was sold to Citadel Broadcasting in 1999. Fuller subsequently partnered with Jeffrey again to form Atlantic Coast Radio, which owns several properties in southern Maine.

A former M48 Tank crewman in the U.S. Army, Fuller is a recipient of the Broadcasters Foundation Ward Quall award, as well as a Doctor of Humane Letters honorary degree at St. Joseph's College of Maine. He currently is a partner and investor in Larry Wilson's Alpha Media, and divides his time between residences in California and Maine.

The radio industry is changing at an almost logarithmic pace. Where is technology headed today, and are radio people properly equipped to not only deal with the change that is upon us, but also to lead it?

It's the technology that's changing at a rapid pace. Radio, not so much. We still use the same frequencies, operate the same business model, and worst of all have nearly the same vision as we did almost 100 years ago. Now, not all that's old is bad. But identify one industry that remains essentially unchanged from three or four decades ago, except for the long-haul bus companies, that has survived and thrived. Even railroads have re-invented themselves. Most of what I hear about radio's future involves the notion that a business can "save" itself into prosperity. It's going to take more than that.

People say "this is what's gonna happen in one, three, or ten years," but the reality is that no one really knows how all the tech stuff will unfold. But it doesn't take a genius to know that we've got to be on mobile devices. You have to give enormous credit to Jeff Smulyan for what he is doing with NextRadio .

You've been involved with the radio business since you were 16 years old. Using the experience and knowledge you acquired over those years, what are your expectations for the radio industry in the coming five or ten years?

It all depends on the radio industry getting its act together. First, we must treat our people with respect. I understand that every now and then, for many reasons, you have to let someone go. But, if they were good people but for whatever reason things didn't work out, or you had no alternative because costs had to be cut, at least leave them with their dignity and give them a fair severance. If you don't, then your other employees will get the word of how you treated them and you will have zero loyalty and reduced effort on your remaining staff. People are not stupid…they know.

The good news is that audio will continue to be a strong force in entertainment, information, and education for many years. The aural medium is like water: it can go places and do things nothing else can. I believe the government-issued license will continue to hold value, because it represents a private pathway to the recipient's ear.

How can radio programming remain relevant to listeners as new digital music streaming platforms continue to take hold?

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Radio broadcasters have to think long term and not just "making month." Every market has to have at least one big "teen" station, even if it's a loss leader. Get the teens into radio and you have the foundation for long-term growth. Be live and local and very involved in the community.

Most people want to think of the DJ or talk host as a friend. He or she must relate to the listener and be relevant to their lives and their communities. Back–to-back music with no person with whom to relate might be okay for fifteen minutes, but it can be very boring, lonely, and cold—which produces no loyalty.

The radio station cluster in each market should be the foundation upon which the new tech stuff can be built. Without the scarcity of an FCC license, there will be never-ending competitors, and audio will be increasingly fragmented. But, what if Facebook or one of the music services becomes "uncool"? That can happen fast. There is no loyalty in most of the new media—not like there is to a DJ or talk host who relates to the local area.

Does radio need to add some other element besides music to its programming in order to maintain its "unique selling proposition" among listeners and advertisers?

Yes. It needs to cut down on the commercial units per hour and crank up the rates. Yes, we have been saying that for years, and it's not happening much these days because of the pressure from Wall Street and the ratio of debt to cash flow for too many companies. I was there once, so I understand. But the spot load problem and the lack of more creative commercials is hurting the industry much worse than most people realize.

How does radio need to change on a local level in order to adapt to an advertising environment that increasingly is focusing on digital and online marketing?

Radio needs to see itself as primarily in the people and marketing business. Finding a way to compete head-on with digital will require plenty of fresh thinking and an examination of the viability of radio's current business model. Radio also needs to promote itself the old fashioned way. When was the last time you saw a radio station billboard, bumper strip, or TV ad? Not all billboards are digital, but people still see them and are constantly looking at car bumpers when they drive. They also watch a lot of TV.

Ever since the Telecommunications Act was passed in 1996 radio has been criticized for reducing the emphasis on people. Is radio at risk of being "dehumanized" as it continues to find economies of scale that result in staff redundancies and reductions?

You can't kid the listener—not for very long, anyway. Treat people poorly and it will come out on the air, and with every person at the station. When a salesperson makes a call the client will know. They pick up the vibes as they can see the anxiety of the salesperson, who then probably won't get the order. If you walk into a station and the receptionist is uptight, you can sense the fear. Radio is a "people" business. And it's show biz. We need to get back to the basics and remember what got us here.

Are there too many bean counters and not enough communicators in radio?

Yes. If we only treat this as a cold, hard, numbers business, then radio will only mark time at best. It all starts at the top with the president/CEO. They set the tone. As I've said, if the overall attitude of a company is that employees are just "numbers" and the ownership has no compassion for their people, that attitude will filter down to all the company's stations. If the CEO is a tyrant and has no people skills or compassion, morale will sag and ratings and business will suffer.

I've made many mistakes over the years, but any success I have enjoyed or any credit I have received has been because of the people. They've all worked with me, not for me. I also delegate, because I don't have all the answers and I'm certainly not an expert in everything. No CEO is. Do you think Jeff Immelt at GE can personally build a jet engine?

How can radio turn this around and make an investment in its people…and its future?

The companies with too much debt have to find a way to fix their balance sheets one way or another, or get out of the business and turn these stations over to true radio people. Plus, the broadcasting companies that do have low leverage need to give up some cash flow periodically and reinvest in the product and the people. It would be like doing R and D at GE. You can't just milk the cow forever. Jerry Lee in Philadelphia reinvests in his station constantly and no one can touch him in his format, although many have tried.

Is radio management doing all it can to attract younger people…not just as listeners, but as salespeople, managers, and programmers?

It's trying. Erica Farber at the Radio Advertising

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Bureau and Diane Sutter via NAB's Education Foundation are making great efforts in many ways, but local stations need to do more to attract young people with long range ambitions. And the fact is, we have to be excited about the radio biz to get them excited. We have to work at making radio "cool" again. This will attract a lot more young people, but you can't try too hard to be "cool" or "hip" or you become "unhip." You can't fool these kids.

You're an investor in Larry Wilson's new Alpha Broadcasting, and you also co-own some radio properties in New England. Is ownership a safe place to be today, as the media landscape continues to shift toward digital media?

To paraphrase Warren Buffet, "Buy when there's blood in the streets." This is a great time to buy radio stations—but only at the right price! Larry is a smart guy and he doesn't overpay. Ownership is still a safe place for "real" radio people. I'm not being an elitist here: I'd love to see more of us life-long types involved in projects such as Larry has pioneered.

Alpha Media is definitely a "people" company, and Larry considers innovation a high priority. The transitions in our company will happen over time, and likely in a gradual manner. Meanwhile, Alpha is staffed by believers! Larry brought some very bright ex-Citadel stars to make Alpha a hot item—people like Bob Proffitt, Scott Mahalick, and CFO Donna Heffner. Bill McElveen is another great former Citadel guy that is now the regional guy for the southeast. I take great pride in being one of the original investors.

What kind of properties are attractive to buyers today, and what sort of multiples are they willing to pay? Similarly, what sort of deals are lenders looking to invest in?

Any broadcaster who has been around for a while knows that each market is different, so you have to look at the landscape. In some markets, especially in smaller geographic areas, an FM class A can be competitive, while in other markets a class A has no alternative than to be a niche format. Overall, good facilities are no longer a luxury—they are a necessity, both for what they can continue to deliver in the short term and what they may represent if there is ever a plan for swap for more capable bandwidth in the gigahertz ranges. Assuming the revenue is steady over the next few years, a 6X multiple will pay down the debt, but maybe 7X or 8.5X works if there are still cost savings from operations or consolidating with existing stations.

Lenders want that low leverage, and most investors still want that 3-to-5 year turnaround. Equity investors need to see the pot of gold at the end of the rainbow. Right now too many investment companies just can't see very far out and we are probably not doing a good job painting a picture of the future. Remember, Wall Street was late to the table in the '60s and '70s with FM and, for that matter, radio in general. They only got excited when they noticed 40% margins.

From your vantage point as a veteran broadcaster and "industry statesman," what do you feel is missing from the radio industry today.

Soul. Emotion. Warmth. Fun. A sense of purpose, and an air of success. Pride in the product! This is the foundation that Larry Wilson is building at Alpha Media. When he started this company he got a zillion emails from people who wanted to work with him.

What makes you feel positive about the radio business today…and, conversely, what has you worried?

Audio delivery still has plenty of gas in the tank. Because of the digital age, social media, and other factors, the listening/viewing "pie" is much, much bigger. Radio will always have a strong place among listeners, but reaching ears and minds will continue to change. There's a good supply of young talent out there, if we can find a way to make radio enticing the way it was for so many years.

At this point in my life I don't worry about the business because what's gonna happen is gonna to happen. Old Doc Fuller isn't going to have any influence on what happens, but I would love to see more investment in the product and the people. A strong balance sheet will allow that to happen.

The reality is that no matter what people might say about this medium, radio may seem a little down at the moment—but it most certainly is not out.

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Jeff Smulyan: NextRadio Can Make Radio Cool Again

Jeffrey Smulyan serves as Chairman of the Board of Emmis Communications Corporation, and is widely recognized as one of the visionary leaders in the radio industry. In that role he has guided the development of the Emmis-created NextRadio mobile application that allows consumers to listen to their local radio stations on Sprint phones without incurring data charges.

Smulyan formed and became principal shareholder of Emmis Communications in 1980. A public company since 1994, Emmis owns and operates radio stations in the nation's largest markets. The company also owns several city/regional magazines, including national titles *Texas Monthly* and *Los Angeles*. Emmis owns the two top hip-hop brands in the world, KPWR Power 106 in Los Angeles and HOT 97 in New York City.

The last few years you've been almost entirely occupied by getting NextRadio off the ground. Has this been a thankless task or have your efforts been worth the time and energy?

The most gratifying thing is that when people understand NextRadio, a light goes on. We had three decisions to make when we started this process: 1) Were we going to file an antitrust case against Verizon and ATT, which the lawyers told us we could win? 2) Did we want to go for a mandate in Congress to force the carriers to make a deal? Or, 3) Should we try to build it from the ground up, with the small carriers first? The people who introduced WiFi warned us the large carriers would say "over our dead bodies—we're not giving away anything free." So those folks made a deal with smaller carriers and they built it out. The public liked it, and eventually it became widespread. That's what we decided to do.

How close are you to getting widespread acceptance, if not outright adoption, of NextRadio from the major carriers?

We think we're very close. This is not like launching an app and being available in 300 million phones instantly, which is what all the digital streaming services did. We had to build it one carrier at a time, and we knew it was going to take a while. We did a lot of consumer research to see if people like it—and they do. The idea was to build an ecosystem, roll it out, and then—when we were ready—launch the major marketing blitz, which is where we are now.

How difficult has it been to sway the major carriers because of NextRadio's potential impact on data charges?

It is definitely a bandwidth issue with the major carriers, but it's one we're winning. We're having discussions with them now, and we're getting support in Washington, which we never had. Back in October, FEMA Administrator Craig Fugate discussed the value of radio-enabled smartphones during times of emergency, highlighting the importance of having access to local broadcasters' emergency information when other networks fail to work. Meanwhile, NPR launched a major on-air campaign focusing on safety. There's a website—www.freeradioonmyphone.org—that presents a call to action for the carriers, for Congress, and for the Federal Communications Commission.

Safety issues are one thing, but consumers generally use radio for news and entertainment purposes. What will it take to get them all on board, if and when the carriers sign up?

Once the public understands what this is they'll realize the broadband services cost them a lot, while NextRadio costs them nothing. Plus, digital apps drain phone batteries three times as fast as NextRadio does. Additionally, customers are starting to get data-metered, and that changes everything. We know there are 9 billion hours of local radio listened to via broadband data in the U.S. each year, and that adds up to a lot of dollars. Meanwhile, FM radio can be given to the American public for free, via NextRadio.

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Radio is facing a variety of disruptive and competitive challenges. Can NextRadio single-handedly turn around its fortunes?

This industry has a huge challenge: We need to make radio cool again. We're getting killed today by Pandora and SoundCloud and Spotify. People don't talk about radio, even though they listen to it. If we can change the perception about radio, that will be monumental with Wall Street, Madison Avenue, and the public at large. We think this app makes radio interactive and cool. It takes advantage of everything we've done as an industry for 95 years—all the community involvement, the promotions, the contests, and the advertising—and makes it interactive. Then it puts it in the one device people look at 125 times a day. The whole ecosystem is built to take advantage of radio's intimacy and put it in people's hands in a visual way.

Making radio cool again doesn't happen overnight. How do you do that when most people don't even know NextRadio exists?

For starters, we hired an advertising agency—DeVito/Verdi—to tell the public what NextRadio is all about and educate consumers that their smartphones possess a deactivated FM chip. Nine radio companies—including my company—put $1 billion of air time behind the HD radio roll-out over 4-1/2 years, and there's no reason the entire radio industry can't commit a billion dollars in air time over two years to educate the public about NextRadio. If everybody in America knows about this, there won't be a wireless carrier that isn't going to turn these FM radios on. This works out to about 20-25 units a week, so we can do this.

Has NextRadio taken longer than you expected when you first started working on it?

I'm not a patient human being, but I knew from the start we had to roll this out in a very methodical way. We had to make sure everyone loved the system. Sprint says it's the best "take" rate of any entertainment app they have in the Google Play store, and one of the top 10 entertainment apps. And that's ironic, since we're not available on 95% of the phones. We know people who understand NextRadio like it, so we just need to let everyone know about it.

At the Radio Show last September you announced new features that enhance NextRadio's interactivity between listener and station. How important is this to the overall "cool factor"?

We've learned one thing that's absolutely fascinating: The average PPM session for listening to a radio station with a static logo is 9 minutes 30 seconds. But the average listening session for people who listen to an interactive station—where they can rate a record, share a song, buy a song, or enter a contest—is 15 minutes 45 seconds. This tells us that interactivity changes their engagement level with the station. If we can replicate that with 300 million smartphones, this industry changes dramatically. And by the way, NextRadio measures every second of listening. We know exactly what people are listening to. That's very valuable information and we've had great success with it.

What sort of impact does this have on national and local advertising?

The interactive advertising ecosystem changes dramatically. More than anything else, Sprint did this deal with us because of the interactivity and the revenue it will produce. This is the first time we can marry our call to action, our local relatability, our massive audience, and our 30,000 salespeople on the street. It gives us the opportunity to go back and forth with our listeners, and that's very valuable.

Here's an example. Historically we've sold McDonalds an ad for Egg McMuffins. But now, in addition to that radio ad, we can sell them an interactive component. That's a new sale, and the CPM for that is a lot higher than the radio ad. So they buy the interactive element, one that gives the listener a coupon he or she can download, along with a map to the nearest McDonalds. All that interactivity is something we never had before, and there's a lot of revenue potential.

But how does this differ from other channels of cross-platform selling?

The key is we have this in our own ecosystem. We control this. We're not going through a third party. This is done through our airwaves. And when people understand all this, a light goes on. When we showed this to MediaVest they said it was the most important thing the radio industry has ever done. We know that, but it's still going to take a while to roll it out. It took me a few years to get people to understand the difference between an over-the-air signal and digital streaming, and I know everything isn't going to be seamless. But we've come to a point where just about everybody who makes their living in the terrestrial radio business is thrilled.

You're on the record for not being a big fan of streaming…

I've been streaming for 18 years and I have never

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made any money from it. I joke that we have the #1 radio station in cume in the U.S. and lost almost $400,000 a year from streaming. SoundCloud is the hottest thing out there, and they lost $29 million on $14 million in revenue. How do you spend $43 million on $14 million revenue? And now they think the value of the company is $700 million. It's crazy. One day the light is going to go on, but right now all these people are in this space and everyone talks about digital as the holy grail. But nobody makes money, and there's no barrier to entry.

Of course, there are some people who think Jeff Smulyan is tilting at windmills, that nothing can reverse the digital juggernaut.

Look: Not all these new emerging ideas can be monetized. As I've always said, if the world goes to streaming, that's where we're going. The problem is, I won't have a business—I'll have a hobby. And I don't know anybody in radio who will have a business. But people are starting to understand data costs and battery drain, and if we can be in the device they're using—with a free service that's cool—we have a tremendous opportunity. Especially if we can sell a lot of interactive ads. All those things play in our favor, and the technology has shifted in our direction.

Aren't you concerned that consumers just aren't thinking about the cost of their broadband usage today?

Data metering is not going away. When people understand what it means, and what it's costing them, it changes their entire perception. We conducted research where half the survey respondents were metered and half were not. People without the meter thought all this digital stuff was free, but once they flipped over to data metering they said, "Hey…wait a minute. " So every day someone gets data-metered is a day that makes our business proposition more attractive.

Still, Pandora, Spotify, Rhapsody, iHeartMedia, and other streaming services generate billions of dollars a year in subscription fees and ad revenues…

The internet is the greatest information transfer mechanism the world has ever known, but it is one horrifically inefficient entertainment distribution system. The notion that all Americans are going to be sitting there watching the Super Bowl on their smartphones while completely shutting down everything else—that's just not going to happen.

Yet the Radio Advertising Bureau revenue figures indicate radio's strongest growth sector is digital.

There's no doubt, if you look at this industry since 2010, it's pretty much flat. I don't care whether you get your business locally or nationally, or add in your digital or streaming revenue: the fact is it's a flat industry. And we have to do a better job, because we have a serious perception problem. Our perception needs to be fixed.

And NextRadio can do that?

NextRadio gives us the chance to reintroduce ourselves to 275 million people who, I'm convinced, will say "that's cool." They'll be able to interact with their favorite radio station. They can text the listen line, and they can share songs. They can say they like a song, they can enter contests, they can buy tickets to events. And they can do all those things with one device they have in their hands all the time. Kids don't even know radio can be portable; they only think it's in a car or a device in their parents' home. We have a remarkable industry that reaches so many people, and we have to get them to think about radio in a new light. I'm convinced NextRadio can do that.

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Al Bell: How It All Stax Up For Music Radio

Considered a recording industry icon, Al Bell is perhaps best known as chairman and owner of Stax Records. During his tenure at the Memphis-based label he produced and marketed such artists as Isaac Hayes, the Staple Singers, Johnny Taylor, Sam And Dave, Booker T and the MG's, the Bar Kays, Otis Redding, The Emotions, Carla Thomas, Rufus Thomas, Richard Pryor, Bill Cosby, Billy Eckstine, Albert King, and The Dramatics. He also worked with MGM Studios on the release of the multi-million-seller and Oscar-winning film *Shaft*, and subsequently produced the landmark music event and documentary film *Wattstax, The Living Word*.

Following his years at Stax, Bell was named president of Motown Records Group, and later, through his company Bellmark Records, he "discovered" Tag Team ("Whoomp: There It Is") and gave Prince his biggest hit with the single, "The Most Beautiful Girl In The World." Early in his career Bell was an air personality on radio stations in Little Rock, Memphis, and Washington, DC.

Bell currently serves as Chairman and Chief Executive Officer of Al Bell Presents, an intellectual property management company established to introduce a new business paradigm to the recorded music, broadcast music, and entertainment industries. The recipient of numerous awards and accolades, Bell recently was recognized by The Recording Academy with its Grammy Trustee Award, and in February he will be inducted into The Arkansas Business Hall Of Fame.

The radio business and the recorded music business have been interdependent for more than six decades. Both of them are experiencing health issues, and I'd like to address them separately… and then together. So let's start by talking about what's ailing the recorded music industry.

In my judgment what is ailing the recorded music industry today is the result of them growing from multiple independent and large labels to three major labels that control everything. It's not unlike what happened in the automobile industry, when it became the "Big Three." After the big three had acquired all of the smaller independent companies, there was nothing else for them to acquire. The major corporations in our industry, as in all industries, grow primarily through acquisition, and through their growth they eliminated the infrastructure that allowed new trends to be born and entrepreneurs to build other companies.

You mentioned the "Big Three" auto companies, which have gone through several industrywide upheavals. What did they learn that the recorded music industry should pay attention to?

At the same time the major labels consolidated they also became mass merchandising arteries. They placed their emphasis on a 12-plus demo, and many people in that demo were purchasing based on impulse. That mass merchandising approach became like McDonald's or Burger King: one thing was just like the other thing. In the case of music, if one music group was successful they wanted another group that sounded just like it. That approach inadvertently stifled and inhibited creativity, and we're seeing the result of that today. We've become stagnant and stale, just like the auto industry did, and we're not growing artistically and creatively. We're not satisfying our consumers, so the demand for our product has decreased. At the same time, because of the growth in technology, people are finding ways to obtain music without having to pay for it, in some cases illegally and in other cases legally. This has deemphasized the value of recorded music.

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Sales of digital downloads and CDs are dropping while listening to digital streaming services is increasing. Does this mean the value of music is diminishing?

Music has an inherent priceless value. But there's a problem with how the music that's being recorded and marketed today is being treated by our three major companies. People still want to hear music. They still react to unique singing and rare performing artists, but the companies are no longer producing those unique singers and artists. So as far as the industry is concerned, music has lost its value. But in terms of consumers who purchase music and music appreciators who attend concerts, the value of music is greater than ever before. It's just not being made available to them.

The challenge that major labels and companies are facing today is monetizing a piece of recorded music. From their vantage point it may not be wise to risk investing in new artists and building the careers because they don't know how they're going to make their money back.

Is it just a fantasy for an artist today to dream of scoring a major label deal and becoming a superstar on the basis of album or single sales?

I can't speak with absolute certainty, because tomorrow an executive at one of these companies may decide to get back to being creative and artistic. He or she might run the risk of taking rare, new artists and take the time to develop them and turn them into artists with great careers. But generally speaking, I believe it is a waste of time for a new artist to think about signing up with one of the major labels and expect to have a fantabulous recording career and a performing artist career.

How does radio fit into this picture? Are programmers guilty of just playing what their consultant tells them to, or what's moving up the charts without regard to what the listener wants?

Whether they're consciously aware of it or not, the people who control what's played and programmed on radio today have moved away from giving the kind of attention and consideration that needs to be given to the listening audience. They've forgotten why people listen to radio and what's exciting to the radio listener. That can be something as simple as giving the title and artist's name after playing a record. At the end of one of those 20-minute sets, the listener is told what just played, but otherwise you really don't know what you heard. Radio is doing a big disservice to its listeners.

How did we get to this place?

The same thing happened on the radio broadcast side as happened on the recorded music side. Once the broadcasting industry got the laws changed with the FCC, they started consolidating. Instead of just owning two stations in a market, it's almost unlimited today. Each radio station in a cluster is dealing with a different so-called consumer based on the station's publicized and advertised demographic, and selling advertising accordingly. It appears in the process of doing that all these radio stations have a programmer located in one place, or a research consultant telling them what they should play that, in many instances, limits their listener's satisfaction. And in many cases they're the same records that are played in that genre of music on every radio station the company owns all across the country. So in Chicago you don't get a chance to hear a piece of music that's unique to that city, and different from what's being programmed in Detroit. It's all controlled elsewhere. I'm not being critical of it, just making an observation.

Is radio afraid to take risks…breaking music from the bottom up on a local level, working it hard, identifying truly unique artists and songs?

In the past we would popularize music in one city and then move it to the other, but radio got away from that. Rather than focusing on the people, radio has more or less become the soundtrack in the background music in the listener's life rather than being the soundtrack music of their lives. That's very important, and it's missing.

At the same time, the record companies have not been providing radio stations with the kind of music—the diversity in the music—that allows them to program to people in Chicago a little differently than in New York. The culture in those areas is a bit different, and listeners want to hear something a little different.

Has the radio industry centralized its business focus while losing sight of the listener?

With two major companies now controlling so many radio stations, it's difficult for them to respond and react to the tastes and desires of consumers. And that has hurt radio. More important, much of the reason for radio in people's lives has been abandoned. Radio stations originally were licensed to serve the needs of the community, but limited consideration is given to the community today, because you're broadcasting to a generic Urban community, or a generic CHR community. It's the same thing across America, and that has created an even greater problem: while radio is important to

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people's lives, it's the contemporary version of Muzak. And that must change.

Given this current environment, what's the best venue to expose new, unique music to listeners—who also happen to be potential customers?

The proper venue for exposing an artist and beginning to popularize them still is radio. And I mean terrestrial radio. We just need to find the ways and means to provide leadership in that arena. We need to cause radio—from the big companies down to the smaller stations—to appreciate the artistic and entertainment value of music and understand why a piece of music should be programmed. We need to work diligently to create an environment so a radio station, even if it's in a secondary or tertiary market, has the freedom to play the music its listeners want to hear and popularize it. That way it can get the attention of the listening audience, entertain and satisfy them, and give rise to consideration from the major market stations that are controlled by the big corporations. Today it requires a sophisticated, creative, strategic marketing approach to get a piece of recorded music programmed on terrestrial radio and ultimately picked up by the online services.

Labels today are placing a major emphasis on licensing to streaming companies. Are they overly reactive to today's disruptive technologies rather than trying to find tomorrow's distribution methods?

I don't think new, unique music should be launched on these subscription platforms. They may have a lot of listeners who can *access* it, but you can't *bring attention to* it. Instead you use radio and other means to grow its popularity and then, at some point, you can take it to the Spotifys and Rhapdosys and the other services for more exposure. But "fundamentally" it's still three yards and a pile of dust every time you get the football. At the end of four downs you're first and ten. And that's radio.

Let's shift now to an historical perspective. How different is the process of promoting a record today than when you first went to Stax in 1965—and even prior to that, when you were on the radio?

What's different today is the control is given to some computer that's programmed to play what's on a radio station. The human part is absent. In the past you could sit with a program director and music director, who knew and understood their market and their audience. If you had a piece of recorded music that fit that profile, that PD or MD would listen to it and test it, and ultimately play it. If the consumer reaction was such that listeners requested it and talked about it, you'd get more and more play and popularize it in that market—and then in the next market. The fundamentals!!!

You don't think that human touch exists today?

Not really. You don't have that person who 1) understands the market intimately, and 2) has the freedom to program the music. So if you're going to get anything done with radio programmers today you have to create an environment that gets their attention, and generally speaking that's a national environment where everyone's talking about the music or artist. You have to generate attention at the radio level, maybe get radio to test it. Then, if it's unique enough, people start reacting to it emotionally in a reasonably quick period of time. But it's extremely difficult, if not almost impossible today, to get your music "broken" as we could do just a couple decades ago.

Do you see a disconnect between the recorded music business and the radio business?

What made the recorded music industry and radio broadcast industry important and successful was the tight relationship between the two. The recorded music industry was all about the business of recording the music that the radio broadcast music industry needed in order to grow an audience and sell advertising. That hand-in-glove relationship has gone out the window. That's a tragedy, and it needs to be corrected for the benefit of both industries. If that is done both industries will continue to grow and, I submit, make more money today than ever before.

The problems being experienced on the broadcast music side and the recorded music side are causing both industries to do things differently to increase or generate revenue. But if unique music and rare performing artists are made available to the listening audience, both industries benefit. If terrestrial radio stations allow music to be exposed on a market by market basis, the audience will grow and advertising dollars will increase. Similarly, it will increase the diversity, value and popularity of music today, which can help grow sales and generate more revenue for the recorded music industry.

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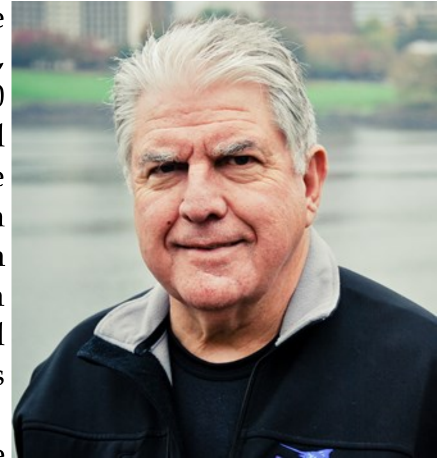
Larry Wilson : Radio's Alpha Broadcaster Is Back At It



Widely considered one of the leading visionaries in the radio industry, Larry Wilson is chairman of Alpha Media, which is well on its way to owning and operating over 100 stations across the U.S. The former Chairman/CEO of Citadel Communications, Wilson exited the radio business when he sold the company to Wall Street investment firm Forstmann Little & Co. in 2001 for $2.1 billion. He credits John von Schlegell of Endeavour Capital in Portland for coaxing him back into the business in 2009, whereupon he purchased Microsoft co-founder Paul Allen's Rose City Radio stations and the CBS properties in that market.

In 2012 Wilson formed L&L Broadcasting and acquired the radio properties owned by Triad Broadcasting. He subsequently purchased stations from Mainline Broadcasting, YMF, and BMP. L&L merged with Alpha Broadcasting last summer to form Alpha Media, whereupon it purchased six stations from Buckley Broadcasting and the properties owned by Access 1. Other deals are pending.

Wilson has served on the Board of Directors of the Country Music Association, and was honored in 2001 by the National Association of Broadcasters when he received the prestigious National Radio Award. In 2002 *Radio Ink* magazine named him "Executive of the Year" and in 2007 he received the Tom Rivers Humanitarian Award from the Country Radio Broadcasters. Last year Wilson was inducted into the Country Radio Hall of Fame.

I know you get asked this question five times a day, but what motivated you to jump back into the radio business after selling Citadel Broadcasting to Forstmann Little in 2001?

Around 2009 one of my former partners, John von Schlegell of Endeavour Capital in Portland, asked me if I was interested in getting back into radio. I told him I would consider it, so I started looking around to determine after all that time if it was still a good business. I concluded it was and decided to get back in. I ended up buying Paul Allen's stations in Portland and then the CBS stations in Portland. It turns out I came back in a little early because the economy was really bad. Still, we bought those stations and fixed them up and they're doing well today. We've now merged that into one entity of Alpha Media in Portland along with all the L&L stuff we bought over the last few years.

But you didn't have to do this. What is it about radio that brought you back in?

It's simple. I love the business. I love the people. I love what it does for advertisers, and I love the entertainment factor. It's not the same as when I got out in 2001, but it's a wonderful business. We sold for 17 times cash flow and when we got back in we thought we were buying some good stuff at 8 times. I'm at a point in my life where I don't want to live on the edge, so I'm not going to pay 8 anymore. Meanwhile the economy has gotten a little better, and we're improving what we've acquired. Radio still gets results for advertisers, and it builds passion with listeners. That's what we're going to try to do. It's a tall order and it keeps you on your game every day, but our folks are doing very well and I'm very proud of them.

After you bought the Portland stations you went after Triad Broadcasting. What did you see in them that made them attractive?

Triad was a very troubled company. It was totally messed up. It had no culture. It was management by fear and intimidation. We bought that company very cheap, and we're working through all the problems. It's working very well for us now, and we've added to it selectively ever since.

As I recall you picked up Triad for next to nothing, largely because you traded the stations in Fargo, ND to Jim Ingstad. How did that come together?

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Out of the blue Jim Ingstad came to us and said he wanted to buy Fargo while we were buying Triad. I told him he couldn't buy it because he already owned stations in Fargo. He told me confidentially he was selling them and wanted to buy mine. The day before we moved the money on Triad I went to Jim's house with a pile of documents and an hour later we negotiated and signed them. That was the good part; the hard part was we then had to go tell those Fargo employees that we had just bought them and sold them. It was not easy. In any event, Fargo brought the price of Triad down to about 3X cash flow. Soon afterwards I got a call from Mike Cutchall who was a overseeing stations for Yucaipa, the entity they formed Magic Johnson. They asked if we wanted to buy Jackson and Columbia, and we made a deal on those.

You went on to buy BMP, Mainline, the Buckley stations in Bakersfield and Merced, and other deals that were announced recently.

That's right. You never know what's going to be available, so I just listen to people who call me. We've been jumping from deal to deal as people present stuff to us, and by the time everything is closed over the next few months we should be at over 100 stations.

Can you describe how Larry Wilson goes about tracking down a deal?

What I do is old-fashioned. I have the BIA database and I make binders on every company I'm interested in. I study them. I basically look for decent signals where we can do good radio. I have one computer that's dedicated to this so I can stand there and look at all this stuff. I look for properties where we can find a strong niche. I like to have a full complement of stations where I can, so I target that stuff. Also, we're very disciplined. I've dropped out of several deals because the price tag got too high.

Do you actively seek out distressed properties?

Most of what we buy needs work; that's the way it's always been in radio. When you buy something you always think you can do it better. You go in and fix it and you hope you're right. And right now we know it's working.

What makes it work?

Live and local is the most crucial element there is. I give my partner Bob Proffitt full credit for naming our company L&L. When he first came to me with that name I thought he was talking about Larry and Lynn, my new wife. But it really was named for our live and local focus. He made a fantastic call because, while everyone has mouthed that line, it's become crucial to everything we do as a company. We have to remember at all times this is show business. It's critical that we reach out and touch people, and that's what we steadfastly try to do. We have to tell somebody something they want to know, not just a hodgepodge of trivial stuff you're throwing at them. Our Number One initiative is to really be involved in our communities. It's our goal to get to know the clients and the listeners, and give them something that's special.

You mentioned corporate culture a minute ago. How do you go in and turn that around when you buy stations that aren't running at full speed?

For starters, we're not about firing people to get to the bottom line. If it gets to that point I'm out of here. I'm old enough that I can retire at any time. It's very short-sighted for people to think we can do everything by remote control and not have any personality in our programming. That's an area where we've fallen down in this business. We used to develop our overnight talent to become evening talent, and they moved up and became middays, and then *they* moved into morning drive. But the industry did away with all that because it was trying to be cheap. Everybody, including Citadel in many cases, went to voicetracking. What a waste of our massive signals, to do voicetracking.

Do you do voicetracking today at Alpha?

Yes, we do it when there's a very low amount of listeners. But when you're in the heart of drive time, or middays when people are having lunch, or afternoons you have to really put yourself in there. You have to give your audience something substantial. There's a lot happening in the world today, and we just have to find really entertaining content and people who can be compelling.

And radio doesn't deliver on that?

There's garbage on the air today. As an industry we ought to be so ashamed of the cheapness that we've put into this business. At Alpha we're trying to change that. We concentrate on the talent rather than cutting jobs. It's crucial to what we're going to do. It's like Home Shopping Network vs. *24* on television. One is going to put you to sleep and make you broke, while the other is going to entertain you and keep you awake. I'm a big fan of some of this new stuff that's on TV these days—it's very compelling product—and it's being put out more by new companies rather than the old networks.

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Does this garbage extend into commercial breaks, as well?

I can't believe all these crappy, horrible, generic ads that contain absolutely no creativity. We're really trying to make our commercials entertaining. Look at Allstate and Geico and Budweiser: those companies have really thought about this and they've made some very entertaining stuff. We need to do that in our commercials, as well as the talent we have on-air during the breaks. If we play the right music or if we have the right talk host or a real vibrant news operation, people will tune in. If you want to be important in someone's life, you have to have the personality and entertainment factor.

With that sort of business philosophy you probably don't have too much difficulty finding good people to come work for you.

You wouldn't believe how many LinkedIn messages I receive every time we announce a deal. These are from people who are working at other stations but want to work for us. The people in this business are passionate, but the industry has shoved daggers in their hearts and isn't allowing them to go where their passion takes them. We're seeking to build the all-star team, so if you're an all-star, send me an email. I keep a database that to me is almost as sacrosanct as the BIA database. I spend a lot of my time looking for great people and great stations.

You've also built live entertainment venues in some of your markets, beginning with the Bing Lounge in Portland. How does that work?

We do 180 shows a year in there. It's a very small venue, but the digital aspect is huge. Bing is the sponsor if it, so all the content goes up on the Bing portal and it's seen all over the world. If the Doobie Brothers perform in our venue it's up on the Bing portal almost simultaneously. Does that do us any good? No, but it does the artists good. It's all digital so one night it can be KXL, our News/Talk station in Portland. If we're doing Country it's The Bull. If we're doing Alternative it's KINK. We change these stages electronically. We carry the Oregon Ducks, so when they're on the road we have football viewing parties with listeners. They get drawn to win a ticket and they come in have a great night, a little popcorn and beer, and watch the game. It's a really fun and entertaining way to extend our brand.

How critical is digital to your overall business model and market revenues?

About 6% of our business in Portland is digital, and that's a real number. But we're very selective with our digital efforts. As Bob Proffitt says, we don't want to chase every shiny object. Some radio people say they're doing 40% in digital, and that's just not true. This business isn't there yet. In my mind digital is still an evolving thing. People chase stuff, and we've chased some stuff, but it didn't really bear any fruit. Having said that, we just hired some IT digital guys to help us find the answers. We have a company in Peoria that we acquired through Triad that develops websites for clients. It's not a big deal yet, but they're leading the way for us. We also have an arrangement with SmartClick in Boulder. It's interactive technology that, if you hear a commercial, you can click through and make reservations, enter contests, that sort of thing. It's really promising because it totally makes radio interactive.

We've also moved most of our contests to our websites and we drive listeners to there. If you want to win tickets to our theaters we'll talk about it on the air, but you have to register on the website and then we give the tickets away there. That way we find out who's using our digital services and they go into our database, and we stay in touch.

How important is streaming your over-the-air signal to computers and mobile devices?

I'm a big believer in streaming. If people are going to the office and you can have your signal up there and give them compelling product, it makes a big difference. Very few of our stations streamed when we bought them, but now we stream them all. I want to be available everywhere people go. The terrestrial signal is fantastic; the old technology of the tower and transmitter is a very efficient way to deliver a signal. But we want to be every there they go. We do a lot of things that go way beyond terrestrial, but terrestrial is the guts of everything we do. More than 90% of Americans listen to radio each week, and that's what a lot of people in this business have lost sight of.

If you had 30 seconds—which you do—what would you tell tthose broadcasters who see the glass as half-empty rather than half-full?

I'd tell them to embrace their talent, whether they're in sales, programming, traffic, on the air, engineering, accounting people, promotions, or marketing. These are your people, and they make you who you are. Embrace them and motivate them to get up every morning and do something great. We have to be really cognizant that we're in the entertainment business.

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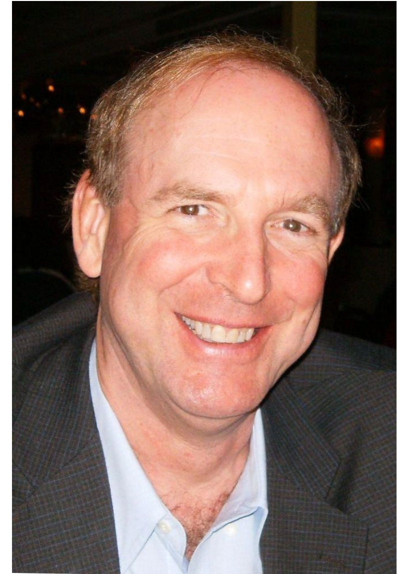
Reed Bunzel
President, Bunzel Media Resources



Reed Bunzel is a veteran media executive, publisher, and editor with over 30 years of service in the radio, television, music, and digital industries. He currently serves as president of **Bunzel Media Resources**, a full service consulting and analytics firm that works with a variety of terrestrial broadcasting and online/mobile media clients. In this capacity he is involved with financial research, digital platform development, technical consulting, program production, and marketing strategies. Additionally, Bunzel edits and publishes a variety of weekly industry reports, and also supervises the broadcasting industry initiative known as ***Radio 2015***.

Previously, Bunzel served as Chief Operating Officer and Executive Vice President for **Al Bell Presents LLC**, where he worked with former Stax Records chairman Al Bell to build an online music presence and develop a "360" business paradigm to represent all facets of an artist's musical career. Prior to that he was President and Chief Executive Officer of **American Media Services-Interactive**, where he oversaw all aspects of developing and building a start-up internet radio streaming company known as **TheRadio.com**.

Earlier in his career he served as editor-in-chief of **Streamline Publishing**'s *Radio Ink* magazine, where he was responsible for all editorial and analytics operations. Before that he was editor-in-chief for **United News and Media**'s San Francisco operations, where he oversaw all editorial products, including ***The Gavin Report***, ***Gavin GM***, and ***Gavin.com***.

Bunzel also served as an editor at both ***Radio & Records*** and ***Broadcasting*** magazine, and worked in executive capacities at both the **National Association of Broadcasters** and the **Radio Advertising Bureau**, where he served as Vice President of Communications. In that capacity he oversaw the organization's marketing and management products, and guided the team that developed the RAB's first website.

Bunzel is the author of three mystery novels, including ***Pay For Play***, ***Palmetto Blood***, and ***Carolina Heat***. Additionally, he has written a number of non-fiction books, including ***Clear Vision: A History of Clear Channel Communications***, ***The State Of Radio***, and ***Guidelines For Radio: Copywriting***. A graduate of **Bowdoin College** in Brunswick, Maine, Bunzel holds a Bachelor of Science degree in Anthropology, *cum laude*. A native of California, he now resides with his wife in Charleston, South Carolina.

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