

## Strategic Media Article

# The Current Radio Landscape and what it means for Direct Response Radio Advertisers

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Don't look now, but there are some exciting new developments in the radio industry, one not known for a lot of change. Let's take a look at some of these developments and how they could impact direct response radio advertisers.

### **In The Short Term**

The economy: Typically a soft economy helps direct response radio advertisers. Many traditional businesses cut their advertising budgets during economic downturns, which results in a reduction in demand and a corresponding fall in pricing power by the radio industry. This is an opportunity for direct response radio advertisers because more inventory and lower rates help make for huge profits.

The political races: Political campaigns are entitled, by law, to the advertising rates offered to the lowest-paying advertiser on a station or network. The political window starts sixty days from the general election, or September 1<sup>st</sup>, and forty-five days out from the primaries. Demand from political advertisers can often have an upward impact on advertising rates. However, we're seeing the soft economy offsetting this dynamic. The impact on rates and inventory availability is varying depending on the market, station, format, and timing. Political windows are different for each market because of the timing of primary elections and party conventions. Moreover, certain formats, and therefore stations, are in higher demand than others for political advertising. By using a little creativity it's possible to secure profitable media time that wouldn't otherwise be available to remnant media buyers.

### **Looking Long Term**

A possible merger between satellite radio providers XM and Sirius: The Justice Department recently approved the merger but as of this writing the FCC has not yet made a ruling, so let's look at both possible outcomes. If the merger does go through we expect to see a consolidation of the airtime inventories and a smaller number of available spots. This would theoretically be offset by the larger audiences they reach. At this point we don't anticipate a significant upward movement in rates without some offsetting benefit to radio advertisers. Sources inside the companies tell us that even should the merger be approved, it will be several years before the technology required for integrating their signals is ready.

If, on the other hand, the merger does not go through, both companies will be fighting for survival because while both have shown good revenue growth neither has been able to translate that to bottom

line profit. Satellite radio is a profitable channel for direct response radio advertisers so at this point we're rooting for the merger to go through.

Bain Capital's pending purchase of ClearChannel and other related assets: Bain has not only pursued Clear Channel (the largest radio station owner), but also some related assets in the internet radio and mobile direct to consumer spaces. The first thing we'll be watching is whether Bain will ditch the silly "Less is More" approach of Clear Channel and return to offering more 60-second spot inventory – the kind that is more effective for radio advertisers. When they launched "Less is More", Clear Channel also moved to mostly 30-second spots while not adjusting pricing accordingly. This move might have boosted short term profits for Clear Channel, but it didn't help Clear Channel's paying customers because thirty second spots don't work as well as sixty second spots. Therefore the move will certainly backfire in the long run.

Beyond correcting that strategic misfire for Clear Channel, Bain's involvement will mean stronger management and more visionary leadership for the radio industry. This may be most noticeable in the arena of integrating web and streaming technologies with current radio capabilities, which could allow radio to offer advertisers more effectiveness in reaching and eliciting a response from potential customers. Bain's involvement in the radio industry will be beneficial for direct response radio advertisers.

Arbitron and the PPM: Many in the radio industry have been angered by Arbitron's new and supposedly more reliable "Personal People Meter", or PPM, which tracks radio listening electronically and passively. The PPM is intended to replace the diary system, which relied on listeners to remember and write down their radio listening. In many cases the PPM is showing lower listenership numbers than the paper diaries did, which is having a negative impact on station pricing power. This is clearly good for direct response advertisers and not so good for the radio stations. Some stations don't want to show advertisers their demo-specific numbers because they feel Arbitron's numbers are so far below the actual audience sizes. Stations argue that certain demos are statistically underrepresented in the data Arbitron is collecting. Arbitron has indicated that some sample sizes may be too small, and is pledging improved data collection.

For direct response radio advertisers this is a mixed bag. In one sense it doesn't have much of an impact because we already know, through our own data from advertising with the stations and networks, what rate is profitable for a particular schedule. Additionally, we always test, and there is nothing more reliable than directly collecting your own real-time CPL and CPO data. In reality, though, the PPM is creating a lot of confusion and anxiety for the radio stations and that is something that we are seeing the need to work with as we work with them.

Google and GoogleAudio: Google continues to attempt to extend its reach beyond online advertising. Google Audio, a radio advertising offering, remains nascent and still has many issues to address. Most primary of those is the trackability of advertising results. GoogleAudio recently unveiled an online tracking tool meant to do for radio advertisers what its Pay Per Click analysis tool does for online advertisers. But a closer look revealed its shortcomings, specifically the inability to attribute web traffic or sales specifically to radio advertising versus other marketing efforts. GoogleAudio remains a viable option for small, local, infrequent, or inconsistent advertisers who want to explore radio advertising. It falls short, though, in the areas of national scalability and knowledge about what works in the arena of radio creative.



HD Radio: We hesitate to even mention HD radio – which is a move from analog to digital signals - because it's not clear exactly what value this technology will be adding for radio advertisers. However, the radio industry is strongly promoting this new technology in both on-air ads as well as online and retail. At this point we believe this will have a neutral impact for radio advertisers.

While it may be difficult to see exactly when or how these developments will play out, what we do know is that the radio industry overall is evolving in ways that will ultimately create more value for direct response advertisers.

*By Jeff Small, CEO, and Brett Astor, Vice President of Strategic Media, Inc. Together they have over twenty years of experience in direct response advertising. Learn more about profitable direct response radio advertising strategies at [www.strategicmediainc.com](http://www.strategicmediainc.com) or by calling (207) 871-9958.*