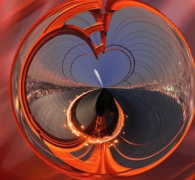


THE U.S. ECONOMIC
OUTLOOK FOR 2007 * THE
U.S. AND GLOBAL ADVERTIS-



THE STATE OF RADIO 2007

Reed Bunzel

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The State Of Radio: 2007

The Year Ahead

By now, you know the 2006 story. Radio revenues were virtually flat, sector stock prices (on average) were down, earnings were disappointing, ad dollars continued to shift platforms, and the prospects for overall industry growth wandered uncertainly. On the general economic front, gas prices soared (and then fell), housing prices slipped (although some economists believe the worst is over), and interest rates finally held steady. By year's end, the Federal Reserve all but proclaimed that the economy had come in for a soft landing, chugging along at a modest 2.5-percent GDP growth rate, while inflation appeared to be under control.

But, as they say, that was then and this is now. The ball has dropped in Times Square, and a new year is upon us. Are you prepared? Are your budgets complete? Do you know where your local and national ad dollars are coming from? Do you have a handle on economic conditions in each of your markets? How will HD, LIM, PPM, ROI, and all the other acronyms affect your bottom line this year? How will the perspectives of Wall Street and Madison Avenue affect your business prospects? Are you prepared for further encroachment of emerging media into radio's "listening space," and do you have a plan to position your company competitively on this new media landscape?

That's what *The State Of Radio: 2007* is all about. It's about understanding that the media world is changing rapidly, and recognizing that we too must change to remain a vital and healthy industry. It's about examining every aspect of the radio industry, polling industry leaders for insights and observations, then presenting practical solutions that can be used today to create a better radio business tomorrow. It's about accepting that consumers are in control of their media choices, and working diligently to ensure that we give the content they want, when they want it, how they want it, where they want it. And finally, it's about providing real-time solutions to marketers' problems, working with them in results-driven ways that move their wares off the shelves or off the lot.

The following excerpt from *The State Of Radio: 2007* presents seven exclusive Q&A interviews with key radio industry executives, including: RAB President/CEO Jeff Haley, Emmis Radio President Rick Cummings, Arbitron PPM President/Sales & Marketing Pierre Bouvard, HD Digital Radio Alliance President Peter Ferrara, iBiquity President/CEO Bob Struble, NAB Executive VP Dennis Wharton, and The Fritts Group President Eddie Fritts.

The radio industry has much to look forward to in 2007. Certainly, a wide range of revenue, content, and management challenges exist, but ours is not the only medium facing a new economic reality. Television, newspapers, cable, and magazines are dealing with similar issues as traditional and new-media worlds collide. *The State Of Radio: 2007* was written to help leaders in the radio business find solutions to these challenges. Reading this report indicates your determination to ensure radio's economic health and vitality for years to come. If you wish to purchase a copy of this report, please call me at 401-826-3172 or email rbunzel@earthlink.net.

Reed Bunzel
Bunzel Media Group
January 5, 2007

ISSUES AND ANSWERS

EXCLUSIVE INDUSTRY Q&A INTERVIEWS

EXCLUSIVE INDUSTRY Q&A INTERVIEW

RAB President/CEO Jeff Haley: Changing Perceptions Through Experiences

In early September, the Radio Advertising Bureau announced that it had selected Jeff Haley, a global marketing executive at Time Warner, to succeed Gary Fries as its president and CEO. By selecting a marketing executive, rather than an established radio broadcaster, to run the industry's top trade organization, the RAB search committee sent a strong signal that its #1 priority was to re-position the radio business as an effective, results-oriented advertising medium. Tired of the negative hype perpetrated by the satellite players and shifting marketing perspectives, the group served notice that the radio industry was intent on re-grading a competitive landscape that had been heavily bulldozed to favor the new-media players.

During his tenure at Time Warner, Haley — a radio neophyte — led a team of sales, account and creative-services staffs. Using the media assets of AOL, Time Inc. Turner, Time Warner Cable, Warner Brothers Entertainment, HBO and New Line Cinema, he was responsible for creating and marketing advertising-based programs to some of the largest advertisers in the U.S. He joined Time Inc. as part of the launch team for *Entertainment Weekly*, one of the most visible and successful new magazine launches of the last 20 years. He also served as sales development manager for Time Inc., where he was responsible for packaging the company's products in multi-title buys to its largest clients. Haley also served as vice president of sponsorships at Time Warner's Six Flags Theme Parks, and later worked at AOL in a business-development role.

Conceding that he has staked his career on a belief that no medium is a stronger marketing entity than radio, Haley assumed the mantle of radio industry spokesman in mid-September. Noting that "the role of the RAB will be to change advertiser perceptions through experiences," he insists that radio is a "very viable platform for virtually all advertisers. We just need to create experiences for them within this platform that they can say is great, cutting-edge, and efficient, and moves the needle for their business."

You bring a strong marketing background to the Radio Advertising Bureau. Having been in the job now for about 100 days, what have you identified as radio's most significant marketing challenges?
I'm looking at two immediate challenges: There's a

marketing issue of how the radio industry markets itself to its listeners, how the medium fits within today's changing landscape; and then there's marketing from the standpoint of our customer, the advertiser.



Let's take the listener first.

Our biggest challenge with our listeners is to be aware that there are outside influences on listenership — many substitute choices out there. We have to look at those to find what elements people are attracted to, then innovate and create opportunities within that, in order to play to that attraction. Radio is doing it well, but we need to do more of it in new and innovative ways. For example, let's look at the youth market, the 18- to 24-year-olds. How are we as radio broadcasters adapting our programming in light of the fact that

there is significant listening off-air with computers, iPods, and other MP3 devices? Some stations recognize this need for innovation, but many still aren't addressing this. The other day, I was listening to a station that was saying, "It's Shuffle Saturday." They are picking up the terms and the language of the alternative medium and using it in a way to enhance their programming. That is a great marketing story.

And from the advertiser's perspective?

On the trade marketing side, our biggest challenge is all under the rubric of greater accountability. We're in the service business of the advertising sales side, and the advertiser is calling for greater accountability. We have to find a way to serve that need. Having been here just over 100 days, I don't want to go too in-depth into the issues, but electronic measurement

“Overall, the growth rate of marketing expenditures vs. the growth rate of advertising expenditures is vastly different. Marketing expenditures have virtually doubled in recent history, whereas measured media spending has not. As an overall media industry, we in radio have to be sure that we can defend our position or increase our position in the overall marketing and media mix.”

clearly is one, as are accountability and electronic advertising. There's a variety of software players out there, vying to create an easier solution for the advertiser.

Is it still too difficult to buy radio advertising?

I hear that from some of the agencies, but I don't believe that's a valid criticism right now. I don't think radio advertising has to be too difficult to buy. I view it more in terms of continuous improvement — we can always do a better job serving our customer, and our customer is asking us to do just that.

More and more, we've been hearing about a “blurring of distinctions” between advertising and marketing. Can you inject some clarity into this discussion by providing a definition for both terms, and commenting on how those distinctions may be losing individual focus?

An advertisement is a message to a consumer, and marketing is the process by which people create that message — and then create opportunity out of it. Similarly, promotion is a specific offer to a consumer. You can look at it sequentially: In order to have an offer to a consumer, you have to have a message; in order to have a message, you must have a plan. I think of marketing as just further up the food chain with regard to what our product or service is, how are we going to go to market with it, what our strategy is, what our message — our advertisement — is, and what the offer is.

Can you provide a specific example of this focus on marketing with, say, the pharmaceutical industry?

Pharma marketing is heavily sales-driven. It's one-to-one communication, direct to the doctor. So when an agency says they're looking at marketing dollars, they're saying they can add some things to the mix in terms of the product's core strength for the client within those marketing activities. Overall, the growth rate of marketing expenditures vs. the growth rate of advertising expenditures is vastly different. Marketing expenditures have virtually doubled in recent history, whereas measured media spending has not. So you're seeing better measures of accountability and return on investment in marketing activities that

you're not necessarily seeing in measured media. As an overall media industry, we in radio have to be sure that we can defend our position or increase our position in the overall marketing and media mix.

It has been suggested that the RAB should become a marketing organization, rather than just a representative of the advertising element of the industry. What's your take on this?

You'll see the RAB being more explicit in its contribution to the overall advertising mix than it has. And you'll see us, along with other groups in the industry, advocate speaking with one voice for radio.

How critical is it for the radio industry to endorse electronic measurement?

Overall, measured media are moving from a perception-based measurement to a behavior-based measurement. That's a pretty significant shift. So to come in line with our brethren media, we have to create a measurement tool that's behavioral-based, and that generally seems to be an electronic solution. How we do it — which methodologies we use and how they get accredited — is not something I'm going to speak to, but I am in favor of implementing electronic measurement as early as possible.

Radio for a long time has identified its community usually in terms of P1s and active listeners, but the online world views the term “community” in a different light. Is it important for radio to understand and adopt this newer definition of community in order to create a more interactive relationship with its listeners?

There are two aspects to this. What you're hearing from radio folks, which is absolutely true, is that the inherent role of any broadcaster — radio or television — is to create content that serves the public interest. If it's doing that, it will create a very vibrant and strong community. Radio, even more than television, has been a leader in creating communities that involve and engage listeners. That's what makes it such a strong and attractive advertising medium, as well. The aspects of an online community, however, allow you to reach in and hear back on a one-on-one basis from those listeners. That's critical from an advertiser standpoint. We have to be able to leverage

that element as well, and many radio broadcasters are. Some of our RAB members have created fantastic websites that marry the online technology to the strong community that is already there. I'm very confident and bullish that more and more of these listener communities will be able to create an online extension for radio stations.

How critical is it to establish and develop a company's brand in today's increasingly product-swollen marketplace? What are some of the "rules of thumb" about branding, and what are some of the biggest branding mistakes that companies can make?

Much of our branding in the past has been criticized as being tied to the diary effort, something intended to create catchy names that listeners could remember and write down in the diaries. I don't necessarily subscribe to that. I'm coming new into the radio industry, but I think we need to ask ourselves if we are effectively attracting listeners with our brands, especially as we're poised to enter into a new measurement environment. I think we probably are, largely because we have a fantastic on-air promotional ability. Consistency is the most important thing in branding, and we'll see more of that as we have a better feedback tool for programmers and station owners.

It's been said that the average span of a chief marketing officer at a company is 22 months. If this is true, why is it such a short time?

We're in a very dynamic time for marketing. We have shifting consumer habits, and we have a lot of mergers and acquisitions. If two companies merge, they generally end up with one CMO, as opposed to two.

Also, the business of communicating to the American public is changing rapidly; as a result, plans change, ideas change, and the staffs that serve these companies also change — and that's not necessarily a good thing. Over the long term, some of the best CMOs are people who have been in the job five or 10 years; they have a fundamental understanding of the industry and their company, and they have the ability to make a much greater impact. Those folks are the exception right now, but I think you'll see those 10 years lengthen, because you really can't do a whole lot in 22 months.

How critical is the implementation — and consumer-wide acceptance — of HD Radio?

For the advertiser, HD represents a great new opportunity for radio to offer more variety, better programming, and better service its listeners. If the overall

quality of radio improves through the technology of HD, then we'll have a better advertising environment. We'll have listeners who have more opportunity to find more programming at a better quality. I can't imagine an advertiser not being interested in HD as a great example of radio embracing technology and moving forward.

Does radio need to re-invent itself as a ubiquitous content provider, rather than just "tall towers in fields" sending out music programming?

It's crucial. Media are merging. We have 30 million streaming radio listeners online each week. If we think of ourselves as creators of audio information and entertainment content, and if we find as many ways as possible to create revenue from that, we'll be well served. If we don't think broadly about where our content can go and how it can be used, somebody else will. Radio has the greatest listenership of any audio entertainment and information out there, so it's incumbent upon us to continue to expand the ways that listeners can access us.

What is the RAB's first cognitive step to ensure that the advertising community changes its collective perception of the radio industry?

Perceptions are based on experience, and the role of the RAB will be to change advertiser perceptions through experiences, one by one. We can't wave a magic wand across the landscape and create a new buzz phrase that will impact our business. What we have to do for advertisers is create experiences that are better, different, and more innovative, and give them the perception that radio can meet the demands of advertisers today.

We also need to leverage the fact that consumers are reaching out to us — more than 200 million every week — and that's a very viable platform for virtually all advertisers. We just need to create experiences for them within this platform that they can say is great, cutting-edge, and efficient, and moves the needle for their business. As we do that advertiser-by-advertiser, we'll be changing the perceptions of radio — and that's the only way to do it: one at a time.

What is your primary challenge as the new president of the RAB?

Over the next six months, we will be focused on three main tasks: to share knowledge, to facilitate industry consensus, and to drive revenue. As we execute those three main tasks, we'll do so in a more fervent and innovative manner than we have in the past, but that's the business we're in.

EXCLUSIVE INDUSTRY Q&A INTERVIEW

Emmis Radio's Rick Cummings: "We Need To Bridge The Gap"

In a sales-dominated business, Rick Cummings is one of those rare individuals who moved up through the programming ranks to become the head of a major company's radio division. He got his start as a play-by-play announcer as a student at Cloverdale High School in Indiana. After receiving a degree in radio and television at Butler University, he worked as an on-air personality at a variety of radio stations before joining Emmis Communications in 1981 as program director at WENS in Indianapolis.

During the past 25 years, Cummings has been responsible for programming decisions at the company's stations in Minneapolis, St. Louis, and Los Angeles. In 1986, he flipped the switch for L.A.'s new Power 106. In 1987, and he was named Emmis' executive vice president for programming, responsible for on-air content across the 11-station group. Cummings returned to corporate duties full time in spring 1996, becoming president of Emmis' radio division in 2002.

Cummings currently is serving as part of the HD Digital Radio Alliance, and he is active with the NAB and RAB boards of directors. A committed and dedicated radio veteran, he fully understands that radio stands at a very busy intersection of traditional and new media, and has made it his business to determine how the industry can best merge into traffic that appears to exceed any conventional speed limit.

Though mindful of the impact of new media, electronic measurement, HD Radio, revenue issues, and a tech-savvy younger generation, Cummings is optimistic that, if radio takes a bold step and recognizes the immense shift that's under way, it can remain a vital, vibrant part of listeners' lives. "Five years from now we need to have figured out how to blend what radio has always done — that push-out, mass relationship — into an Internet-driven, one-to-one world," he says. "We need to bridge that gap. We need to find new content, new ways to appeal to a younger generation through the use of our HD side channels, and other kinds of experimentation."

Most broadcasters agree that the radio industry is struggling through a period of great change. They

know we must re-think our content, our sales, and our approach to listeners — and some who may not always be listeners. Still, they're reluctant to give up the old, tried-and-true practices and philosophies and make that giant leap into the unknown. How are you tackling this issue?

Ten of my best thinkers and managers from around the country recently spent an entire day talking to students at the University of Southern California in its media solutions lab. We did this because, while we have all these immediate issues — stagnant revenue, more competition than ever before for ears, and increasing evidence that the 12-24 generation is leaving us for other forms of new media — we need to look further than the ends of our noses. We need to determine how we might be doing things a year, three years, five years from now — things that might

win back some of this 12-24 generation that clearly is leaving us. We didn't want these students to be encumbered with our economic reality; we wanted them simply to think about those things they would find appealing — and they did. There were some great ideas, and it created exactly what I was looking for: a lot of discussion afterward among our people.

Were you able to determine possible directions for how the radio industry can navigate through the next few years?

The Portable People Meter and all the new alternative media will continue to demonstrate that people under the age of 30 are leaving over-the-air radio as their choice for consuming music and learning about new music. We still have the lion's share, and we will two years from now, but increasingly we aren't



“We’re seeing signs for the first time that our last untouchable part of listenership in terms of location — the car — is also being threatened. WiFi is somewhere around the corner, and now you can plug your iPod into certain models of cars. It’s not that people haven’t had some choice with CDs and other music in the car, but it’s getting easier to choose the music you want to hear.”

the only choice — we must come to grips with that reality. As we do, several things must happen. We have to move our content to platforms of choice, whether it’s streaming, podcasting, mobile phones, or something entirely new and different. We also have to be prepared in a PPM world to recognize that, whether it’s the 12-24, the 12-34 generation, or any generation, breakthrough talent and breakthrough events increasingly become more important parts of the equation.

How would you qualify someone or something as a breakthrough talent or breakthrough event?

Here’s an example: Jonathon Brandmeier recently brought Mario Wallenda to Chicago to do his high-wire act across the Chicago River in his motorized wheelchair. More than 250,000 people physically turned out, and I have no idea how many were listening that morning, but I’m guessing we had a pretty damned big share of the Chicago listening market. It got worldwide press, and people were talking about it weeks before — and after — it happened. That was a breakthrough event with breakthrough talent.

We hear a lot of discussion about electronic measurement’s possible effect on sales, but it also appears as though it will have a significant impact on programming.

When PPM hits some of these markets, programmers and marketers will begin redefining what they need to do with their radio stations. They will recognize that a true star — in mornings or any daypart — and true breakthrough events, which create word of mouth and a lot of buzz, will not only be more important than they’ve been in the past, but also they will lead to direct ratings results. So every company will put more emphasis on talent, creating those buzz marketing events that can really drive performance.

Will PPM also affect how programmers look at music?

They’ll be able to see the immediate impact of adding a record to the station’s playlist. They’ll have passive call-out research, but they’ll also know what happened to the audience when that record was played. If it created a ton of tune-out, they will take that record off. All these things are around the cor-

ner, and it will radically affect how programmers do business.

Many programmers suggest that, because music is not exclusive to radio, radio’s content will become non-music-oriented. What’s your take on this?

Music will still be really important to radio, but there will be a shift in how that music is delivered. That’s one thing we talked about with the USC lab students. They spent three months studying our business, so they knew how the game is played now. These are all kids who are cutting-edge with technology. An overwhelming percentage of that under-30 generation wants to dictate what they want from music. They want an active role in selecting the music, and radio isn’t designed for that. Radio is a push-out-to-the-masses relationship, but we are in an alternative-media world that presents a one-to-one relationship, and everyone has a hand in creating his or her own playlist.

Can radio provide that relationship?

We think maybe it can. Text messaging and other things such as HD Radio can make this possible. A few years down the road, there will be a blend, so the most successful music stations will still be those that push their music out to the masses, but they also will have found ways for active members of that audience to truly have a hand in dictating what gets played. And PPM will change everything.

Will it change things enough?

I don’t know. Will we be having this conversation three years from now, when we’ve lost another 10 or 20 points in terms of being the number-one choice for music? I don’t know that, either. But we do have to respond, because we’re seeing signs for the first time that our last untouchable part of listenership in terms of location — the car — also is being threatened. WiFi is somewhere around the corner, and now you can plug your iPod into certain models of cars. It’s not that people haven’t had some choice with CDs and other music in the car, but it’s getting easier to choose the music you want to hear, when you want to hear it, how you want to hear it. We must find ways to respond, or we will become irrelevant.

“We’re definitely seeing a different dynamic today. Many people, especially under the age of 30, know they can have a hand in dictating what they hear. Though we’re seeing signs of iPod fatigue even in 20-year-olds — not everybody wants to spend all their time creating music playlists for themselves — they do have an expectation that, wherever they’re getting their music, they should have that right.”

Have radio stations become out of touch with the audience they’re trying to reach?

Not too long ago, a PD could use passive call-out research, create a playlist a week in advance, go through the motions of taking requests (but never playing them), and give people the impression that the station was listener-driven. You could get away with it. But with the Internet and all this new technology, you just can’t bullshit people anymore.

So how does a station re-connect with listeners who have drifted away?

It’s not easy, but it can be done. We do something called The Perfect Ten with a couple of our Classic Rock stations. It’s completely listener-dictated. Sometimes entire weekends are completely listener-dictated. We also have The Shuffle, an iPod-software concept we’ve been using at Q101 in Chicago and the Point in St. Louis. These are completely listener-driven, too; Listeners go on the websites and create their own playlists. Not everybody’s gets played, because there’s only so much room on the radio. But we go back to some of the people who have created these playlists and tell them we’re going to play theirs, and they get to voicetrack it. People are looking at what we’re doing and they’re saying, “Okay, I’m not being bullshitted here.”

Still, an iPod is like a radio station in your pocket. Can programming content created for a mass audience trump music that’s selected personally by the listener?

We’re definitely seeing a different dynamic today. Many people, especially under the age of 30, know they can have a hand in dictating what they hear. Though we’re seeing signs of iPod fatigue even in 20-year-olds — not everybody wants to spend all their time creating music playlists for themselves — they do have an expectation that, wherever they’re getting their music, they should have that right. Radio must find ways to respond to that.

It sounds as though the industry needs to shift from a comfortable, long-held paradigm.

These things are cyclical. We went through a post-consolidation phase, when a lot of pressure was put on organizations for ratings and revenue perform-

ance. With that kind of pressure on a daily basis, program directors tend to take the most conservative route. If your ratings aren’t good, but you can point to the facts that you researched your playlist and that you have done everything the research dictated, that’s a pretty good answer. In the last few years, companies are saying it may not be the best answer anymore, and it’s time for us to create new things that — with PPM around the corner — will re-galvanize the audience.

What sort of new things?

The Jack format is a great example. It hasn’t worked everywhere, but it clearly is an example of a company that says, “Let’s create something that is different, instead of the tightly controlled playlist that is researched to death.” Jack sort of blew up all those rules. You’ll see more of that, because most of us have maximized whatever we were going to maximize with a narrow, tightly researched playlist.

That raises a good point: Why is it that many listeners complain that stations play the same songs repeatedly, yet programmers remain reluctant to expand the depth and scope of their playlists?

We had this discussion with our program directors a couple years ago. One of our best PDs, Rick Balis, said, “I have this great radio station, KSHE, and I’m clearly playing the records people want to hear; but it bothers me that I’m playing one song that was number 327 in the test, but number 329 — which missed the cut by .035 — didn’t get airplay. I’m not sure that’s the way this should be viewed anymore.” That made a lot of sense. When he started to adjust his playlist and fatten his library, we got immediate feedback from the audience that they appreciated it.

We always hear that thinking “local” is critical for maintaining radio’s ratings and revenue health. Still, many stations sound anything but local, except for weather and traffic reports. How important is “local,” really?

We tell our programmers that local is extremely important — it’s absolutely critical — but good always beats local. If your programmer is hiding behind the “local-local” mantra, but your station isn’t particularly entertaining or informative or even good, then it

“We’ve put out the word in a couple of our markets that we would really like our programmers to think about sitting down with some of these young kids and saying, ‘Let’s talk about making a radio station you’d like. We’ll let you actually create it.’ It’s an inexpensive way to find out what works and what doesn’t, and maybe we’ll be able to look back in a few years and say, ‘That worked like FM did in the early days.’”

shouldn’t be allowed. The most ideal circumstance is to be local and great. KGSR in Austin is one of those incredibly unique radio stations; you won’t find music playlists like it anywhere in America. It is uniquely Austin: One minute it’s Willie Nelson or Lyle Lovett, and the next minute it’s Patti Griffin. Though it breaks every rule in the book about what should be played, it is an absolute icon and continues to generate remarkable goodwill from its audience and the community. We sure wish we knew how to create that in every city we’re in. It is the epitome of what you want: local and great.

Right now, 1,200 radio stations have converted to HD, and 500 are multicasting an HD2 channel. Is HD an essential element in the radio industry’s future?

HD will become increasingly important. We are still in the phase of creating awareness of the technology. The HD Alliance gave up \$200 million of inventory last year to drive awareness and made some nice strides, and it’s going to give up \$250 million in 2007. The result is an amazing interest on the part of retailers. Circuit City has put HD Radios on the shelves in a number of top-10 markets, and Radio Shack is getting behind it in a big way. The more retail interest we can create, especially with auto manufacturers and the “big box” stores, which are tougher to conquer, the better.

Some critics contend that radio should get its current programming in order before messing around with experimental side channels.

Multicast channels give us a great opportunity to do what FM did 40 years ago. Back then, all the money was made on the big AM stations; in the meantime, they had this new FM thing right down the hallway. They didn’t know what to do with it. They didn’t spend any time on it; they didn’t care about it, because all their ratings and revenue came from their big AM powerhouse. Then a few smart people looked at the long-haired intern and said, “Do you and some buddies want to do something with this thing?” They went down the hall and put on their LPs, and within five years, we were seeing some big-time FM radio stations. I have hope that the multicast channels can turn into that; we’ve actually had that

discussion. Right now, most multicast channels are syndicated new format entries like comedy, or they’re line extensions of the main station — like a classic hip-hop channel. That’s not where this needs to go.

Where should it go?

It needs to be experimental. We’ve put out the word in a couple of our markets that we would really like our programmers to think about sitting down with some of these young kids and saying, “Let’s talk about making a radio station you’d like. We’ll let you actually create it.” It’s an inexpensive way to find out what works and what doesn’t, and maybe we’ll be able to look back in a few years and say, “That worked like FM did in the early days.” The other day, I asked some of our programmers, “What would happen if you went to one of your markets, found the 10 most popular MySpace personalities, and said to them, “We have this HD 2 side channel — do you want to make a radio station that you and your friends would listen to?” That’s an interesting concept.

What happens when PPM is introduced into the programming mix?

It definitely will change the way music is programmed, and it certainly will change the way we’ve always looked at holiday weekends. I can’t tell you how much time, energy, and creativity went into creating things like the Halloween Monster Mix weekend or the 72-hour Christmas mix. We thought these programs would create huge ratings for us, but what we saw in the Houston PPM test was just the opposite. We haven’t seen enough data to know categorically; but when I saw the July 4 Houston PPM data, I said, “If any station spent more than 10 minutes working on their holiday programming, they made a mistake.”

What brings you to this conclusion?

One thing we never thought about is that people are creatures of habit. They listen for 30 minutes on their drive to work; they aren’t going to listen for 40 minutes. They aren’t going to change their routine. They’re going to do what they do. What we never understood before PPM is that a holiday disrupts all

“Five years from now, PPM will have helped us enter the marketing world. Marketing is where it’s at, but we’ve never been able to participate in that arena. As we get *bona fide* behavioral information, however, marketers will understand that our audience data is real, not just someone’s diary guess. They’ll see that radio actually can reach more people and sell more product.”

of that. During the holiday, you’re not making that commute; you’re not listening. While we were convinced that everybody was listening to our top 500 Memorial Day weekend countdown, the truth was that listeners’ routines were interrupted, they weren’t doing their normal listening — in many cases they weren’t listening to the radio at all.

So a program director can see almost instantly how the listener reacts to certain songs or format elements.

As we get all this new audience data, we’ll be able to see where we should put our efforts in terms of special programming. We’ll be able to see how we should change our music rotations, and what events a station should be doing to create spike performance for the audience and the advertisers. We’ll have a better idea of whether certain sales-oriented promotions really do create an audience spike, so we can charge the advertiser a premium. All these things will change significantly, if not drastically, how we program and how we market. The days of radio stations spending hundreds of thousands of dollars to own a perceptual advantage over their competitors — and showing up in the diary — will go away. It’s a different game, and owning a perception won’t drive listening performance anymore. Now it will come down to creating content that is the real deal — the difference between your station being chosen more often than the other guy’s.

Despite all the tests, PPM remains an unknown entity in the real world. How do you become acclimated to a PPM world where, until now, it has existed only in a figurative Petrie dish?

Within this company this year, we are going to understand PPM thoroughly in every single department of the operation. It won’t be an easy thing, and it will take a long time. Key customers also have to under-

stand how it will work before it gets here. Those are big jobs, but in the end it will make a more dynamic listening experience for the audience, and it will create more value for the advertiser.

Considering all the changes that are coming, what would you expect the radio business to look like five years from now?

It will be dramatically different. We need people who know how to galvanize others around community issues, or how to put on a wildly entertaining and funny morning show. I really believe there will be a renaissance among some radio companies pushing for it; when they do, especially if we are able to keep up technologically, we will see a far greater interest among young people for getting into the business than there has been in the last few years.

What I would love to see five years from now, at least at Emmis, is that we have figured out how to blend what radio has always done — that push-out mass relationship — into an Internet-driven, one-to-one world. We need to bridge that gap. We need to find new content, new ways to appeal to a younger generation through the use of our HD side channels, and other kinds of experimentation. Also, five years from now, PPM will have helped us enter the marketing world, not just the advertising world.

The advertising world has been flat to down for years, in almost every category. That is not growing, and it won’t. Marketing is where it’s at, but we’ve never been able to participate in that arena. As we get *bona fide* behavioral information, however, marketers will understand that our audience data is real, not just someone’s diary guess. They’ll see that radio actually can reach more people and sell more product. That’s how we change the game. If we can do that, the radio industry will have a nice renaissance and growth curve, and this industry will become more dynamic.

EXCLUSIVE Q&A INTERVIEW

Pierre Bouvard: PPM Gives Radio The “Aura Of An Emerging Medium”

Perhaps no issue is more relevant — and potentially controversial — to today’s radio industry than electronic measurement. In the early 1990s, ratings giant Arbitron proposed a system to electronically measure radio listening and, in ‘92, it began development of the Portable People Meter. Since then, Arbitron has conducted more than 75 studies and field tests in the U.S. and in more than 15 countries to assess the performance of the PPM system. Last year, the company announced that it was ready to roll it out early this year, with plans to use it in all Top 10 radio markets by July 2008.

The person responsible for shepherding PPM into the ratings marketplace is Pierre Bouvard, an Arbitron veteran who initially joined the company in 1983 and has served the company in various sales and management capacities. He left Arbitron for a six-year period as executive vice president of Coleman Research and rejoined the company in February 1995. Co-author of *Radio Advertising’s Missing Ingredient: The Optimum Effective Scheduling System*, Bouvard also created Arbitron’s series of industry studies covering radio, outdoor, Internet broadcasting, and cinema advertising. In his current role, as president of sales and marketing for PPM, he is relentlessly ebullient about the People Meter and its prospects for helping radio to increase its overall slice of the ad-revenue pie.



“PPM absolutely can help get more money from existing advertisers, and new money from non-radio advertisers,” he says in this exclusive interview. “PPM gives radio an aura of an emerging medium. It introduces new metrics, new accountability, faster data, and sexy new insights you couldn’t have before.”

What kind of new currency will electronic measurement bring to the radio industry?

There are many blue-chip American advertisers that don’t use radio. Recently, we were visiting with a significant giant advertiser that does not use radio, and we were talking about PPM and the diary. The advertiser said, “Any medium measured by a diary is not worth advertising in.” In the world of advertisers, who are used to instantaneous data, it is inconceivable that, in the year 2007, there are media that are

still measured in that classic way. Still, the conversations we’re having are quite exciting, because people are actually saying, “Wow — I want to try radio.” So it will be incumbent upon us as an industry to think big. Let’s go to the biggest advertisers and show them what radio looks like in a PPM world.

A number of broadcasters remain skeptical that PPM will “move the needle” in the right way. What are advertisers and agencies saying?

They’re excited. We have a number of advertisers who are not using radio but are saying, “I want to try radio now...I want to spend some money in it.” Obviously, that’s the Holy Grail, and that’s why we have been laboring long and hard all these 15 years — to bring the credibility that this industry needs. We can expect to

see big non-radio advertisers look at radio in a whole new light, start spending money, and experiment with an 87-year-old medium called radio.

Can PPM have a big enough impact on national and local advertisers to significantly increase radio’s share of the advertising revenue pie?

Here are some great statistics from a Bear Stearns analysis of media advertising data: If you look at radio’s share of local ad spend, you see that newspaper is 50 percent, local TV is 19 percent, and local radio is 19 percent. So on a local level, radio’s local dollars are tied with TV. Now remember, we don’t have sight, sound, and motion — we have only sound — but it doesn’t matter. Local advertisers spend as much in radio, because they know it gets results. They know radio can sell cars and furniture.

“In the case of PPM, the confidence is in the data. There is no question that anything measured electronically has greater confidence with advertisers. Speed of information delivery is a big issue. Many advertisers track the impact of their media, and they want to know how they did. With radio, you have to wait five months — there’s a 12-week book and then it takes two months to get out the data.”

Now, take a look at the national advertising pot of \$68 billion. Cable TV and network TV are tied for number one at 24 percent, spot TV is 17 percent, the Internet is at 10 percent, local cable is at 7 percent, and syndicated TV is tied with radio at 5 percent. There is a great difference between the amazing job we’re doing to get share out of local advertising vs. the largest national advertisers. I’m not suggesting that PPM is going to close this gap and suddenly pop a 19 percent, but with a pie of \$68 billion, if we can get half a point a year, that’s huge. The point is, PPM really can help get more money from existing advertisers, and new money from non-radio advertisers.

Advertisers have bought radio based on diary measurement for decades. Couldn’t a shift in methodology introduce uncertainty or lack of confidence in the data?

In the case of PPM, the confidence is in the data. There is no question that anything measured electronically has greater confidence with advertisers. Speed of information delivery is a big issue. Many advertisers track the impact of their media, and they want to know how they did. With radio, you have to wait five months — there’s a 12-week book and then it takes two months to get out the data. The other issue is granularity: how did that football game or that special broadcast do? We can’t show that in the diary, but we can show it with PPM. We can see the impact of day games vs. night games, we can see quarter-hour differences, and we can see how the marketing of a format change can impact listenership.

Will electronic measurement have a noticeable impact on advertisers’ perceptions of radio, given that so much attention is focused on the interactivity and accountability of the Internet and other emerging media?

The discussion of electronic measurement is getting people excited about radio. Agencies will tell you that their clients suffer from EMF: Emerging Media Fever. It’s highly contagious, and there’s no known inoculation. Well, PPM gives radio an aura of an emerging medium. It introduces new metrics, new accountability, faster data, and sexy new insights you

couldn’t have before. So we’re very focused on sitting with the advertisers, talking about radio and how this data can help them get the media mix they need.

Marketing guru Erwin Ephron claims that PPM introduces radio as a reach medium. What does this mean to Madison Avenue and Main Street in the way radio is bought and sold?

One of Erwin’s major points is this: If you have a media plan and you used television as the centerpiece, with all the clutter, commercial avoidance through TiVo, and other issues, hitting people once is not enough. So what does it cost to reach a large chunk of folks two or more times on TV? It’s exorbitant — nobody can afford it. By nature, people are now drawn into realizing they need a real media mix, not just a lot of TV and a little sprinkle of something else. Erwin’s point is that radio creates the ideal complement to bring more reach and frequency into that media schedule. He’s pushing his advertiser clients to allocate much larger chunks of ad dollars to radio to fix the issues that are coming up with TV.

How much of an upheaval should we expect when advertisers and agencies see that PPM average-quarter-hour listening levels are noticeably lower than those recorded by the diary?

You mean, will PPM shake their world? The advertisers and agencies will tell you absolutely not. They are old hands at diary-meter conversion. They did it 20 years ago, when television went from diaries to set meters, and over the last five years, when the top 10 TV markets went from set meters to people meters. They will tell you: “We know how to do this. It’s not a big deal. We do our cost-per-point conversions, then sit down with our clients.” Agencies understand how significant this is to radio, which has not seen any currency change in its lifetime. But they will point out that they’ve been through two such transitions in television, which already is on its third generation, so they are very prepared for this in radio. They know what to do and are impatient to get started with PPM.

But as AQH listening is perceived to decline, wouldn’t it follow that advertising budgets might

“With this whole accountability movement, many advertisers are auditing the buys of their agencies. Many advertisers have a policy that they cannot permit their agencies to buy unrated stations. If you don’t encode for the PPM, you’re unrated. A tremendous chunk of revenue disappears overnight for any broadcaster that doesn’t encode.”

be treated in the same fashion?

No. The agencies will tell you that any time you go from a diary to a meter, the viewing goes down. They saw it 20 years ago when they went from diaries to set meters; now Nielsen is transitioning from diaries and set meters to people meters. The viewing always goes down. Why? People exaggerate recall, because they round up. They say, “I usually watch *The Price Is Right* every morning of the week, and I usually listen to this morning-drive station Monday through Friday.” It is a common occurrence that diary-keeping exaggerates listening. TV has shown us that, and PPM has shown us that in country after country, test after test. Radio promotion departments have spent millions of dollars to get people to do just that: build recall.

So should we expect to see a massive shift in the way radio is marketed to listeners?

We’re not saying to marketers that they don’t have to market anymore. Of course, they still have to build brands — notice how much time and attention TNT spends on building their image of “We Know Drama.” They are making it very clear that, when you want a drama, you know where to go. We in radio can’t for a minute let go of the fact that we still need to market our brand. It’s a different kind of brand marketing vs. tactical marketing.

There’s been a lot of concern that certain dayparts specifically fare worse under PPM than the diary. Is this a result of a shift in methodology, or the fact that those dayparts might have been over-reported in the diary?

We’re in the early stages of understanding dayparts and commercials breaks as measured by PPM. One of the interesting analyses introduced at the NAB Radio Show last fall is the difference between the program rating and the commercial rating. If you asked a random sample of radio folks or agencies, “When commercials come on, if a station has 100 listeners one minute before the commercial break, how many listeners do you think it has in the middle of that break?” Agencies think it’s about 63 percent — about 40 percent loss — and radio folks think it’s 68 percent, a 30 percent loss. But as measured by

PPM, that loss is really only 8 percent. So our perceptions — both on the station and agency side of what happens during that commercial break — and the reality according to PPM — is very different.

So how does this apply, say, to morning drive?

Of all the dayparts, we see the narrowest distance between the program rating and the commercial rating in mornings. That’s probably why, over the years, we spent so much money in the morning: The audience [for] commercials is highest in the morning. This is why morning is and will continue to be a prime daypart; it’s worth a premium even if the reported listening levels go down.

How might electronic measurement affect the overall demographic skew of a radio station, as PPM measures exposure, rather than perceived listening?

One of the big conclusions about PPM in general is audiences collapse to the middle. Younger stations get older, and older stations get younger. Take KTRH-AM in Houston: In the diary, 30 percent of their audience is over 65; but in PPM it’s 15 percent, so the 65+ audience composition cuts in half. Why? There are probably a lot of 82-year-olds who are writing these long lines in the diaries. And there probably are a lot of 25-44s who are exposed to KTRH and listen but maybe, when it comes to filling out a diary, don’t consider that to be one of their stations. Same thing on the young end: KRBE is a Top 40 station that probably has many mothers listening as they drive the kids around; they’re exposed to that station a lot, but they may not think of KRBE when they’re filling out the diary. The audience profile of an older-skewing big-morning-drive radio station suddenly is a lot more attractive in a PPM world, from a composition standpoint.

To what degree does PPM significantly affect accountability issues between the advertiser, the agency, and the radio station?

This is really a buyer-seller issue, because with this whole accountability movement, many advertisers are auditing the buys of their agencies. Many advertisers have a policy that they cannot permit their

“The rest of the industry is moving aggressively and quickly, and has decided that PPM is ready to go. As Joel Hollander says, ‘Nothing’s perfect.’ PPM will be enhanced and improved 40 times over the next 40 years. If you wait for perfection, you’ll never get anywhere. Mark Kaline from Ford likes to say, ‘If it’s 80 percent there, then go, because if you wait for 99.45 percent, you’re never going to go.’”

agencies to buy unrated stations. If you don’t encode for the PPM, you’re unrated. The beer guys say that a certain percent of their audience must be over the age of 21. Well, if there are no audience numbers, how do you prove this is a good buy according to the industry guidelines? A tremendous chunk of revenue disappears overnight for any broadcaster that doesn’t encode, but that’s a decision between the broadcaster and the advertiser — whether or not they want to do business. We provide encoders to anybody for free, so encoding is one decision, which has no price tag associated, and subscription is another.

A number of companies still insist that PPM is not ready for full implementation and are proceeding with a quest for an alternative electronic measurement system. Care to share your thoughts on this issue?

We’re very eager to have Clear Channel and all the other companies on board. Obviously, they have been among the leaders in calling for a transition —

in fact, every time [Clear Channel Radio CEO] John Hogan uses the word “diary,” he precedes it with the word “antiquated.” Clearly, he wants to get into accountability and return on investment and all that. All I can tell you is we have two-thirds of the Philadelphia broadcasters on board, and 90 percent of the agencies. The rest of the industry is moving aggressively and quickly, and has decided that PPM is ready to go. So we’re moving with the majority that is saying, “Let’s go, and let’s go quickly.”

PPM’s critics insist that the radio industry shouldn’t settle for an electronic measurement system that isn’t as close to perfect as it can get. Is PPM perfect enough?

As Joel Hollander says, “Nothing’s perfect.” PPM will be enhanced and improved 40 times over the next 40 years. If you wait for perfection, you’ll never get anywhere. Mark Kaline from Ford likes to say, “If it’s 80 percent there, then go, because if you wait for 99.45 percent, you’re never going to go.”

EXCLUSIVE INDUSTRY Q&A INTERVIEW

HD Radio Alliance's Peter Ferrara: "The HD Radio Egg Has Hatched"

In early December 2005, seven of the top U.S. radio companies joined in a strategic partnership to accelerate the rollout of HD Digital Radio, a new technology developed by iBiquity Corp. The group's stated mission was clear and precise: a) to coordinate the rollout of HD digital radio, including coordination of the formats on new multicast channels known as HD2; b) work together to secure automotive design additions and to lower the price of receivers; and c) jointly market HD digital radio, in partnership with receiver manufacturers and retailers.

Spearheading this alliance was Peter Ferrara, a career radio broadcaster with an extensive background in radio-group management, station ownership, and trade-association oversight. Specifically, Ferrara had served as senior vice president of Clear Channel Communications, chief operating officer of both U.S. Radio and Granum Communications, executive vice president of the National Radio Broadcasters Association, and board member of the National Association of Broadcasters.

"The industry today has stepped up in a major and unprecedented way," Ferrara said when the alliance was announced. "These companies should be congratulated on coming together to create a joint action plan, and committing air time and money to move HD digital radio forward. I'm honored to be asked to help lead this important initiative."

One year after its formation, the alliance has achieved what most charter members had hoped for but may not have expected: Nearly 1,200 radio stations have implemented HD Radio technology, 500 are multicasting an additional programming channel, and dozens of receiver models are available to consumers. Initial holiday retail reports suggested strong consumer interest, and in mid-December, the alliance announced that its members would pump an additional \$250 million of on-air inventory into further marketing of HD in 2007.

"The members of the alliance and the people in those companies — from CEOs on down — have made a major commitment to HD Radio," says Ferrara. "That commitment is making a huge statement to the people in the consumer electronics space.

It's incredible. I wonder where HD Radio would have been if we hadn't done it."



The HD Digital Radio Alliance was launched in early December in 2005. Considering where HD Radio was at that point, is the industry where you expected it to be a year later?

Actually, we're not where I wanted to be — we're much further ahead of that. When you rewind the clock, you'll see there were fewer than 100 stations doing any HD2 programming, and virtually no receivers were on the market. There were a couple of after-market car radios but no table-top units, home entertainment systems, or converters. There was no retail channel for these products, and none had been created or was coming. Auto manufacturers

were aware of HD, but this wasn't something they felt needed attention. Today, there are more than 30 manufacturers of radios and close to 50 SKUs (stock-keeping units) available. The retail channel has gone from a couple to literally thousands of storefronts, and HD has become front and center with automakers. They're now beginning to look at how they source that, put it in the dashboard, and make it happen.

Did you think it was possible to put all these radio CEOs in a room and get such notable results?

If I had waved a magic wand a year ago, I don't think we could have been this creative and come up with this result. I'm not patting myself on the back; I'm patting the industry on the back. The members of the alliance and the people in those companies —

“The CEOs and the alliance were very smart to make sure we put content on the air now. Even though a year ago radios weren’t being made, we had to start putting content on the air. We didn’t want to end up the way HD TV did early on. Our CEOs had a lot of foresight to commit themselves to putting out content first, so that when someone bought the radio, it was there. The egg essentially has hatched.”

from CEOs on down — have made a major commitment to HD Radio, and that commitment is making a huge statement to people in the consumer electronics space. We have more than 1,000 stations on the air now, 500 are multicasting, and this year we’re going to run \$250 million in promotions for it — it’s incredible. I wonder where HD Radio would have been if we hadn’t done it.

It’s always difficult to repeat a stellar performance — just ask the Pittsburgh Steelers. Can the alliance repeat its 2006 performance?

We can repeat. We’re all making this up as we go along. Something of this magnitude — where an industry has actively engaged in the marketing, promotion, and development of another industry — has never been done before. Sure, terrestrial radio is the end beneficiary of all of this effort, but that’s the long-term thinking and play. Meanwhile, iBiquity will make money, receiver manufacturers will make money, retailers will make money, and automakers will make money. Only when all those elements are in place, when we get listeners engaged and HD becomes ubiquitous, will broadcasters be able to build it into a valuable business asset beyond what they currently have.

What are you expecting to develop this year to sustain what already seems to be hockey-stick growth for HD Radio?

There are so many things in the funnel. This time last year, we were beginning from a dead start. Now we have momentum, and we’re moving into it. I think 2007 will be another great year, and I will be surprised this time next year if HD is not available in more automobiles and retail locations, and at lower price points. As we go into the holidays next year, consumer awareness and demand for HD Radio will have accelerated exponentially, and HD will be one of the “hot items” for Christmas 2007.

Would you expect consumer interest in HD Radio to grow even more exponentially than we saw in 2006?

Yes, provided we can keep the manufacturing and retail channels flowing. No one will make millions of radios without seeing clear evidence of the de-

mand to support those run rates. You can’t flood the market with millions of radios and expect to sell them all. The good news is that the anecdotal and hard evidence we’ve gotten from receiver manufacturers and retailers is that this roll-out far exceeds their expectations for new technology, and they’re going to make more.

iBiquity CEO Bob Struble says he expects to sell more than 1 million HD receivers this year. Would you agree that this is a reasonable expectation?

Bob Struble and I have always disagreed on what the goal should be for sales in the next year. If he says 1 million, I want to say 2 million.

What sort of reception are you getting from Detroit and foreign automakers?

The automotive market is very receptive. BMW has been very aggressive with HD; they will be installing HD Radio with multicast capability across their full model line in 2007, and we’re going to make a lot of noise about that. We have nine other manufacturers and 49 additional models that have been sourced and will be coming to market in the next 18-24 months.

What about those with a wait-and-see attitude?

Those not yet on board — specifically the Detroit automakers, because of their own issues and financial challenges — have been a bit more reluctant to take on the technology. There is a real cost involved, and they want to see that there is consumer demand and support for the product. They *will* see that. The biggest frustration for me with Detroit is that, even after they decide to actually do it, it’s an 18-to-24-month process before it actually shows up in the automobiles. Every technology has gone through that same thing. The GPS people had to go through the process; so did satellite radio. And the alliance didn’t start asking for the order until January last year.

Some broadcasters have said that HD is a chicken-and-the-egg thing, where receivers need to be available before people can hear the programming, but people need to have interest before the receivers are manufactured. Has the egg broken?

“The alliance and the broadcast industry at large must be reactive and proactive with HD Radio. We need to capitalize on various opportunities as they come our way through the natural evolution and development of HD Radio; we must capitalize on everything that bubbles up. We also have to be very proactive to create that momentum. We must continue to demand excellence in HD2 programming.”

The egg has broken. The CEOs and the alliance were very smart to make sure we put content on the air now. Even though a year ago radios weren't being made, we had to start putting content on the air. We didn't want to end up the way HD TV did early on. With all the new televisions out there, you couldn't appreciate HD TV unless you put a DVD in your player. There still isn't much content on HDTV. Our CEOs had a lot of foresight to commit themselves to putting out content first, so that when someone bought the radio, it was there. Today, we're reaching 81 percent of the U.S. population with an HD signal, so the egg essentially has hatched.

The FCC has yet to give final approval on several aspects of HD technology, including AM nighttime broadcasting and multicasting, which still is considered experimental. When do you expect the commission to give the official thumbs-up?

My expectations typically are very positive and upbeat. There is no reason for the FCC to not approve it. Nothing from a technical standpoint would cause them to say it doesn't make sense, and there's nothing from a consumer-value standpoint to make them

say we shouldn't do this.

What still needs to be done to accelerate the enthusiasm and acceptance of the technology among manufacturers, retailers, and consumers?

The alliance and the broadcast industry at large must be reactive and proactive with HD Radio. We need to capitalize on various opportunities as they come our way through the natural evolution and development of HD Radio; we must capitalize on everything that bubbles up. We also have to be very proactive to create that momentum. We must continue to demand excellence in HD2 programming. We have to continue to motivate the automotive industry, the manufacturers, and the retailers to keep that hockey-stick growth curve continuing upwards — we don't want it to flatten at all. By the end of this year, we'll have 2,000 stations on the air; and 1,000 should be multicasting by this time in 2008. There will be a continued expansion in manufacturing and SKUs, and prices will continue to go down — although in some cases, they'll go up as HD is incorporated into home entertainment systems.

EXCLUSIVE INDUSTRY Q&A INTERVIEW

iBiquity's Bob Struble: "Multicasting Is HD's First 'Killer App'"

As noted elsewhere in this report, 2006 was the year that HD Radio finally gained significant traction — and notoriety — within both the radio and the electronics industries. Today, approximately 1,200 radio stations are broadcasting in HD, and more than 500 of those also multicast a secondary audio channel — numbers that are expected to increase dramatically in the next 12 months. Similarly, four or five HD Radios were available a year ago at the retail level for the low-low price of \$599; today, at least 25 models are on the market, some with prices below the \$200 mark.

Perhaps no one is more responsible for the development and deployment of HD Radio than Bob Struble, president/CEO/chairman of iBiquity Digital Corp. Originally founded as a partnership between CBS, Gannett, and Westinghouse (and known as USA Digital Radio Partners), iBiquity was formed to develop and test an in-band, on-channel (IBOC) digital audio system that allowed broadcasters to transmit a digital signal alongside the traditional analog broadcast. As head of iBiquity since 1996, Struble has been responsible for guiding the company through a series of mergers and acquisitions, assembling technical and management teams, supervising the successful development and launch of HD Radio, and securing approval for the technology from the Federal Communications Commission.



"If we sold tens of thousands of units in 2005 and hundreds of thousands in 2006, we hopefully will be crossing the one-million mark this year," Struble says of HD Radio's retail prospects. "Things start out with high prices and they come down; they start at specialty retailers and broaden out. We're following the path reasonably by the book."

Last year was a pivotal year for HD Radio. Was as much progress made as you were looking for on both the radio and retail side of the equation?

We are very pleased with how the roll-out is progressing. By any and every measure, there were significant strides forward in 2006. We tend to view the world on two sides of the HD equation: what's happening on the broadcaster infrastructure side, and then what's happening on the consumer retail/radio receiver side.

Let's look at the radio side first. How did 2006 measure up, concerning HD conversions?

On the broadcaster side, it would be difficult to say anything but "double thumbs up." We will have just crossed the 1,200-station mark by the end of 2006. As we started the year with somewhere around 600, you can see that almost two stations a day converted over the last 12 months. That's pretty exciting. What's even more important is that the right stations are going on the air. Yes, we have 1,200 stations broadcasting, but there are more than 13,000 out there, so someone could say that less than 10 percent have converted to HD. That would be the wrong way to look at it. There are two metrics we think are

important here: population coverage and listenership.

What is your definition of population coverage, and how does that differ from listenership?

By population coverage, I mean that if I'm in any given market and I go out and buy an HD radio, will I be able to get a couple HD signals? We're now at the point where more than 80 percent of the population has access to HD radio in their market. Overall listenership may be even more near and dear to the hearts of radio broadcasters. The fact is that more than 40 percent of radio listenership in the U.S. now has HD channels. That doesn't mean these people are listening to digital, because they have to buy the digital radios, but the infrastructure is in place. And we have every indication that we should have 2,000 stations on by the end of 2007.

How critical is it for HD radio stations to begin

“We have to keep working for the more mass-market companies, like the Wal-Marts and Targets. I have no predictions in that area, but we have to move in that direction. We have to show up and do the work, but we’ve seen this movie before in consumer electronics. Things start out with high prices and come down; they start at specialty retailers and broaden out. We’re following that path reasonably by the book.”

multicasting a secondary channel of programming?

Look at it this way: At this time last year, very few people knew what multicasting was, and it certainly wasn’t at all clear — not as it is today — that this really is the first killer HD application that is being marketed to consumers. The broadcasters themselves have done a lot of research suggesting that buying a radio is an excellent value proposition for listeners so they can get lots of new content for free. That message will sell, so multi-casting clearly is the first real consumer value driver, and the numbers bear that out. Right now, more than 500 HD stations are multicasting on the air; that number has grown from under one hundred at the beginning of the year.

Still, how much value does multicasting have if no one has radios capable of receiving the programming?

The last thing that bleeds over to the consumer side is the promotional activity. The HD Digital Radio alliance was formed in December 2005, so this year we’ve seen a major commitment and a massive amount of promotion making consumers aware of HD Radio. The radio industry and receiver manufacturers have spent a couple hundred million dollars on consumer-awareness ads. If you’re in any major market and haven’t heard these spots, you’re not paying attention. The promotional plan developed by broadcasters, trying to build HD Radio awareness and listener demand, seems to be working. In that regard on the broadcast side, it would be difficult to say anything other than “major thumbs up” for 2006.

How about the consumer electronics side? “Thumbs-up” there, too?

A year ago, four or five HD Radios were available in the market. The lowest price was probably \$599. Those were all in the after-market automotive segment: the rip-out-your-dash, put-in-a-new-radio market. Last year, we sold tens of thousands of these radios. By contrast, we now have 20-25 different products, covering four or five different segments, including OEM automotive, after-market auto, tabletop radios, home radios, and car converter products. Plus, there are price points under \$200 now. That’s

moving strongly in the right direction. Also, if you look at the retail channel last year at this time, we really had only specialty shops and online channels selling HD radios. Now we also have major regional retailers such as Tweeter, Mickey Shore, ABC Warehouse, Ultimate Electronics, and the first national retailers such as Radio Shack and Circuit City. That’s major progress and, while obviously there’s more work to do, it’s all moving strongly in the right direction. We have a more difficult time tracking the numbers here than we do on the broadcast side, but this year we will have sold hundreds of thousands of radios. We’re feeling pretty good, and as you look at the 2007 pipeline, you’ll see more of the same: continued additional products and lowering of price points.

Have availability and pricing reached the point where widespread consumer acceptance of HD is only a matter of time?

If we sold tens of thousands in 2005 and hundreds of thousands in 2006, we hopefully will cross the one-million mark this year. You also will see an increase in products by name brands, and an increase in placements of the retail channels, with Best Buy most notably absent from the list. We have to keep working for the more mass-market companies, like the Wal-Marts and Targets. I have no predictions in that area, but we have to move in that direction. We have to show up and do the work, but we’ve seen this movie before in consumer electronics. Things start out with high prices and come down; they start at specialty retailers and broaden out. We’re following that path reasonably by the book.

Is HD essentially a large-market concern today, or are some smaller markets also showing interest and converting to digital signals?

We have non-Arbitron rated markets that have HD stations, so we’ve penetrated pretty far. There’s always a risk of what people would call the “free rider” syndrome, where broadcasters in smaller markets sit back and wait until they see HD take hold for sure. If the entire industry took that attitude, we’d be nowhere. I’d argue that, if you believe at the highest level that you’re going to have a good, exciting busi-

“Everyone is focused on satellite, but those iPods are going into cars, and the competitive dynamic you are dealing with is MP3 in the dash and 10,000 tracks in the trunk. If anything, that may be potentially a bigger issue in smaller markets, where there is not the diversity of content found in larger markets...So the HD story is absolutely compelling for smaller market broadcasters, as well.”

ness using an analog infrastructure when the rest of the world is digital, you're high. Look at the competition: Everyone is focused on satellite, but those iPods are going into cars, and the competitive dynamic you are dealing with is MP3 in the dash and 10,000 tracks in the trunk. That may be potentially a bigger issue in smaller markets, where there is not the diversity of content found in larger markets. People still get MTV and buy iPods and go to iTunes, so the HD story is absolutely compelling for smaller market broadcasters, as well. Stay tuned: There will be some incentive programs to try to reach out to smaller broadcasters beyond the mass markets.

When do you expect the FCC to approve AM nighttime digital broadcasting and multicasting?

We're all waiting on the FCC, which repeatedly says, "Yes, the ruling is imminent." We have seen the draft language, and everything is fine. We're going to get AM nighttime approved, and we're going to get the formal approval of multicasting — which is kind of scary if you think of the number of stations going on the air with it already. I would feel a lot more concerned about that if we thought the FCC was slowing down the rollout of HD, but we don't see that. That being said, it still has to get done.

Satellite radio is light years ahead of HD with factory-installed radios. How much of an uphill battle lies ahead for getting digital radios approved at least as an equipment option?

The car guys always keep their plans close to the vest, so I can't give you actual names. But again, this time last year, two makes of automobiles — the BMW 6 and 7 series — had been announced as offering an HD option. Now they've added the 5 series, and we're talking with other manufacturers, as well.

Can you provide any specifics on what companies or what time frame we're looking at for further rollouts?

We know there are automakers that have already ordered radios from nine different manufacturers to put in their cars, totaling 49 different models rolling out over the next couple years. So it's moving strongly. That being said, it's probably more of a typical consumer electronic product rollout in cars — meaning higher-end, luxury models and optional features — and we're still working hard to crack some of the mass-market guys. A lot of that will be driven by the competition we hope to see as these other automakers roll out, but we still have work to do there.

EXCLUSIVE INDUSTRY Q&A INTERVIEW

The Washington Landscape: What Leadership Change Means To Radio

By all accounts, the 2006 off-year election sent a message to the Washington political establishment that the American voter (or at least a majority of them) was increasingly troubled by the direction of the Iraq war, and was particularly wary of "politics as usual." Capping a year marked by a series of Congressional scandals and a war that seemed to have no real exit strategy, the Republican leadership in both the Senate and the House of Representatives literally changed overnight. While most Americans on Election Day focused on issues of personal importance, this shift from right to left (and, more accurately, the center) created significant repercussions that will ripple the political pond for months, if not years, to come.*

One of the most powerful trade organizations inside the Beltway, the National Association of Broadcasters is the radio industry's torchbearer in the Washington maelstrom. Awakening the morning after Election Day, the organization's executives instantly realized that the incoming Congress would prove both interesting and challenging. From media-ownership rules to broadcast indecency and new technologies, the NAB would have to craft new relationships and rekindle old affiliations in order to advance industry interests on the Hill.

NAB Executive Vice President of Public Relations Dennis Wharton sits on the front line of this effort, working with the news media to explain the often-complex issues facing the radio and television industries. Here he shares some thoughts on what the new Congress will mean to broadcasters and how a still-Republican-controlled FCC will work within a climate of leadership change.

Now that Washington has had a couple months to absorb the shock of a political power shift, how will the new Democratic leadership change the focus of Congress as it looks at issues of interest to radio broadcasters?

The mid-term elections did create a major shift in Washington, with the Democrats taking the House of Representatives for the first time since 1994. Repub-

**As this report went to press, Sen. Tim Johnson (D-SD) was recovering from brain surgery, but as of January 4, 2007, the Democratic leadership Gained control of the Senate with a 51-49 margin over the Republicans.*

licans have ruled this town for 12 years, ever since the Gingrich revolution swept them into power. Now we have Democrats in power. That has major implications for the radio business, as it does for virtually every business in the country. It's too early to tell what specific legislative priorities they will have, but we have new chairmen at every committee. Some have been there before, such as John Dingell [D-MI] and Ed Markey [D-MA], who are chairing the Energy and Commerce Committee and the Telecom Subcommittee, respectively.

Those two names are familiar to almost anyone who follows the broadcasting industry. Can you provide some insight about them?

Having Dingell and Markey in there is sort of like going back to the 1990s, even the '80s, because they were chairing and co-chairing their respective committees then. We know the way they operate, and we have great respect for both individuals. Both men appreciate the value that broadcasters bring to their communities, and they understand the importance of local broadcasting. That's not to say they will agree with us on every issue, or vice versa, but you always get a fair hearing when you're dealing with someone like a John Dingell, who's been in Congress for 50 years. In a couple years he will be the longest-serving member of Congress in history, and he has not lost his fastball at all. He's still sharp as a tack, and he fights for the issues he believes in. Ed Markey certainly is no shrinking violet, either. He's well respected, very smart. He loves to have hearings; he's glib and good with the press. He gets lots of coverage, and he's smart in terms of getting hot-button issues passed, so he is one to keep an eye on.



“We’re definitely watching Internet streaming issues, and all the copyright issues will be front-and-center this year. One issue we’ll watch closely is the Recording Industry Association of America’s attempt to enact some sort of performer’s royalty fee on broadcasters. Their claim is that record companies ought to be compensated for music that plays on the airwaves.”

What about the House Judiciary Committee?

The House Judiciary chairman is John Conyers, a Detroit-area Democrat who is interested in copyright issues and is the Copyright Subcommittee chair.

How do you view some of the changes in Senate leadership?

In the Senate, Dan Inouye [D-HI] will be chairing the Senate Commerce Committee, but Ted Stevens [R-AK] will serve as co-chair. They have a very interesting relationship. It truly is a co-chairmanship because of the respect they have for each other; they’re World War II veterans and close friends. They operate that committee in an unusual fashion in terms of bi-partisanship, at least at the co-chairman level, as that may not play out among the individual committee members. The chairman of the Senate Judiciary Committee now is [Democrat] Patrick Leahy from Vermont. He’s an interesting guy who’s very interested in copyright issues, so that should have some impact. And there are some great radio stations in Vermont that should help us.

What are the most important radio-specific legislative issues the NAB will pursue in the 110th Congress?

We will continue to press for specific legislation, such as legislation that holds satellite radio accountable to their national-only license. That bill was HR 998 in this session of Congress, but chances are good that it will have another number in the next session. The bill basically says that satellite radio was licensed to serve as a national service; Sirius and XM have been almost too cute by half in offering some traffic and weather reports in a certain community and broadcasting that information nationally.

How have they attempted to skirt the issue?

If you live in Baltimore and you subscribe to XM or Sirius, you will be able to hear traffic information in Los Angeles. That’s how they skirt the national-only license. In our view, the intent of the FCC was that these companies should be national program services and not local program services. Ultimately, XM and Sirius understand that, to be a successful, viable business model, they need to provide local programming. They tried the national programming model,

and it has been a major failure. Just look at the amount of money they’re losing every month. They’re not hitting their numbers; Mel Karmazin announced several weeks ago that Sirius was not going to meet its subscriber targets. The real question is whether they will ever become profitable in terms of cash flow. That’s a very open question. They have their own problems, but that should not change how they were licensed by the FCC. They were supposed to be national services, and now they are trying to go back on that pledge, provide local programming service, and pull a fast one over the legislators.

Are you seeing much support for this among members of Congress?

This legislation has 139 co-sponsors. Once you get into the 100-plus range of co-sponsors of legislation, that’s a serious – no pun intended – threat of being passed. Getting that bill re-introduced will be a priority at NAB, and we’ll be educating a lot of new members of Congress about this issue.

The NAB has been actively interested in Internet streaming and copyright matters. What action do you expect on these issues in the new Congress?

We’re definitely watching Internet streaming issues; folks such as Lamar Smith [R-TX], who was the chairman of the House Copyright subcommittee, have expressed interest. All the copyright issues will be front-and-center this year. One issue we’ll watch closely is the Recording Industry Association of America’s attempt to enact some sort of performer’s royalty fee on broadcasters. Their claim is that record companies ought to be compensated for music that plays on the airwaves.

How do you counter that argument?

Our rebuttal is that we already pay \$300 million in fees to ASCAP and BMI to compensate songwriters. We don’t think record companies should be getting a performance tax, because of the symbiotic relationship between our two industries. When we play a Britney Spears record on radio, it generates millions of dollars in revenue to both the artist and the record company. That’s undeniable. For the RIAA to claim anything different is disingenuous. An Omnitel/

“Ninety-nine percent of broadcasters have never been subjected to even a complaint, and certainly not a fine. But many times we are locked into discussions of indecency because of the transgressions of our pay competitors. The indecency issue won’t go away entirely, but the onus probably is off broadcasters — barring any St. Patrick’s Cathedral or Super Bowl incident that could surface.”

American Media Services study released last August reported that 63 percent of respondents said radio is their primary source of new music — that’s 20 percent higher than the nearest competitor, which was “talking with friends.” That demonstrates the value that radio airplay brings to these record companies.

Where does the NAB stand in the “Net neutrality” debate?

We are watching this very closely. We debate this issue internally as to what position we should take, and we have taken the bold position of remaining neutral. It’s not our fight, not yet. We’ve brought in experts on both sides of the debate, and we’ve had them hash it out in front of our board of directors. We’ve heard great dialogue and passionate debate, but we’re just not ready to pick a horse in this race, and I’m not sure we ever will. This is steeped in a lot of partisanship, and our issues generally are not partisan. This has become a Democratic rallying call, and once you pick sides in this debate, you sort of align yourselves as a partisan organization. I’m not sure our board is ready to go down that road, and it may never be.

Let’s move on to the FCC. What’s the most pressing issue the NAB will be watching?

Imagine you’re a housewife in your minivan, listening to Radio Disney or any other station of your choice. Then some teenager pulls up next to you at the stoplight in his hot rod and, all of a sudden your radio station starts playing Howard Stern, talking about strippers. Boiled down to simplicity, that’s what this issue is all about. A number of modulator devices exceed FCC standards, one of them by 20,000 percent. We conducted a study, and National Public Radio did its own independent study, confirming what we presented to the FCC. It’s hard for the FCC to ignore something like that, and we’ll get a good audience at the Commission, as Kevin Martin has been an indecency hawk to some degree. They’ve asked Sirius and XM to explain why this has happened, and we’re at the initial phase of that investigation.

Isn’t there an issue of providing free subscription service to new-car buyers or cars in a rental fleet?

Exactly. The way XM and Sirius get around indecency restrictions is by claiming they are a subscription service, and people invite them into their cars or homes by paying a monthly fee. Well, when a rental car has satellite radio included in the fee, there’s a good likelihood that a large percentage of people renting these cars do not know it is coming on. Many of them have kids, they’ll turn on the programming, and there’s Howard Stern again. It obliterates the claim that it’s a subscription service and that people are inviting it into their home or car because they’re paying for it. It’s up to the FCC to act on this, but again — they are sensitive to indecency issues, given the track record of the last year.

Would you anticipate further major discussion of broadcast indecency regulation in the new Congress, or was that taken care of by last year’s actions?

We’re hopeful that the indecency issue might be on the back burner, as they addressed it last year. Perhaps the attention will be focused where, in our view, it should be focused: on subscription models like satellite radio, satellite TV, and cable TV. Ninety-nine percent of broadcasters have never been subjected to even a complaint, and certainly not a fine. But many times we are locked into discussions of indecency because of the transgressions of our pay competitors. Chairman Martin is still interested in cable *a la carte* services, where you pay only for the cable programming that you want. The indecency issue won’t go away entirely, but the onus probably is off broadcasters — barring any St. Patrick’s Cathedral or Super Bowl incident that could surface.

How would you expect a Democrat-controlled Congress might affect the FCC’s review of media ownership rules?

A Democratic Congress will make it more difficult for Chairman Martin and the FCC to modify the rules. In our view the justification for relaxation is crystal clear, maybe more so on the television side, but there is real rationale for radio, as well. This will be an issue to watch because of pressure from the Hill. Even though the FCC is an independent agency, they certainly listen to Congress, because Congress can place financial restraints on the FCC in terms of

“You have groups like Free Press and Common Cause on the left; even on the right, there are a lot of interest groups that oppose so-called ‘big media consolidation.’ The two Democrats on the FCC have pretty much staked out a position of ‘over my dead body,’ and the question is whether Kevin Martin and the two Republicans are willing to tackle this issue. Ultimately, the courts may have to step in.”

moving forward with any of their initiatives. So it will be a little more difficult, because the FCC is conducting this road show of hearings. This issue brings out passionate debate, and sometimes it’s not necessarily rational.

Who’s leading the debate on this issue?

You have groups like Free Press and Common Cause on the left; even on the right, there are a lot of interest groups that oppose so-called “big media consolidation.” The two Democrats on the FCC have pretty much staked out a position of “over my dead body,” and the question is whether Kevin Martin and the two Republicans are willing to tackle this issue. It probably will be a year or so before any action is taken. Ultimately, the courts may have to step in and justify keeping rules that have been in place for more than 30 years, before there was cable or satellite radio and television, before the Internet, before the fragmentation of media that has resulted in an explosion of choice for consumers. Sometimes it’s hard to get beyond the rhetoric on this issue, but that’s a challenge for both the NAB and the supporters of further deregulation.

Do you expect the FCC eventually to give final approval to HD Radio?

For whatever reason, the FCC hasn’t acted on the final HD Radio rules. There’s a claim that it’s an experimental service, but how can it be experimental when we have 1,200 radio stations on-air with HD, and many of those are multicasting? I don’t believe HD Radio is viewed within the industry as experimental anymore. This is a legitimate service that, with all due respect, deserves final FCC rule; and we’re hopeful that they will come out with them very shortly.

What do you think is taking so long?

One thing that has kept the FCC from adopting final HD Radio rules is that the Democrats on the Commission — Jonathan Adelstein and Michael Copps — want public-interest obligations spelled out as part of it. Our reaction is that HD is a brand-new technology, so why would you want to restrict or impede it? Ultimately, consumers will make the call, and the market will decide what kind of program-

ming is appropriate for individual communities. We’ve opposed that; we believe they should adopt the rules and “let the thousand flowers bloom here,” to borrow a phrase. They can revisit the public interest issue later.

Meanwhile, isn’t there a proposal to allow AM stations to use FM translators?

Yes, and there seems to be some sympathy for it. This would be a big issue, particularly for our smaller-market AM broadcasters, because it would boost their signal and extend their reach. It’s an important issue for AM stations, and we’re getting some positive response from the FCC. We have a petition that the FCC has released for public notice, and we’re cautiously optimistic that the Commission will move forward with it.

How will efforts to reform Washington lobbyists affect the way the NAB conducts its business?

These guys need to get out from under the Washington shell and understand more about the businesses they regulate. They talk about these so-called “junkets” — well, when they come to the NAB convention, they’re hardly on a junket. These people are on panels; they walk the floor; they talk to real, live broadcasters. They’re looking at new digital radio and television equipment that has a real-life impact not only on business, but also on the consumers who will buy it. Still, this is one of those pieces of legislation that will be hard to oppose in the era of Jack Abramoff and scofflaws that really are the aberration, as opposed to the norm.

The Democratic majority has claimed that it will try to work in a non-partisan way with the Republican minority — and the White House — to do serious legislative work. How realistic do you think this might be?

The Iraq war is going to dominate everything in these next two years. Despite these claims that the new Congress wants to work with the White House, that likely won’t last too long. Generally after a mid-term election, there’s a window of maybe six months where you get something passed — legitimate legislation. Then everything becomes wrapped up in the general presidential election.

EXCLUSIVE INDUSTRY Q&A INTERVIEW

Eddie Fritts: The Politics And Business Of Radio

More than a year has passed since Eddie Fritts stepped down from his position as president/CEO of the National Association of Broadcasters and moved into the “private” sector after providing 23 years of industry leadership in Washington. During his NAB tenure, he was involved with virtually every aspect of the legislative and regulatory process, and he probably is more familiar with the halls of Congress and the FCC than any other executive in the business. In March 2006, he launched The Fritts Group, providing “strategic counsel to various telecommunications companies in the areas of political consulting, government relations, international affairs and public relations.”

As Fritts maintains daily contact with radio broadcasters throughout the country, he stays current with radio’s business issues. He says that issues in the years ahead will break into distinct categories, one dealing with the governmental structure affecting radio, and the other with radio business aspects. In his capacity as “senior spokesman” for the radio industry, he agreed to share his thoughts on politics and the radio environment in 2007.

You spent 23 years as head of the NAB. During that time, you saw politics swing left to right and back again. What does the recent mid-term election mean to Washington and the radio industry?

What occurred with the latest election is part of that political pendulum, obviously swinging away from Republican control of the House and Senate. It probably portends what may happen in 2008, as the presidential races are already up and running. For the radio industry, the election first means that John Dingell (D-MI) is chairman of the House Energy and Commerce Committee, and Ed Markey (D-MA) is chairman of the Telecommunications Subcommittee. On the Senate side, Daniel Inouye (D-HI) is chairman of the Commerce Committee, but he and Ted Stevens (R-AK) have a very close personal and working relationship that spans 35 years, so they will work together on a number of issues.

Will this political change introduce any specific shift in political philosophy or business as it is done on Capitol Hill?

From a big-picture standpoint, we’ll see a more bipartisan effort than we have seen in the past. My political philosophy has always been that you have to do business with both sides of the aisle to get anything accomplished, no matter who is in charge. Closer to the radio industry, Dingell and Markey will be more regulatory — and therefore less deregulatory — in their thought processes, but they both care very deeply about broadcasting, and about localism and service to local communities. They’re well steeped in issues of importance to broadcasters, so no ramp-up time will be needed.

What would you expect from the Democrat-controlled Congress in the first few months of this year?

In the short term we will see a lot of hearings, a lot of investigations. The Democratic Congress is going to bring in the FCC to tell them what is going on. They will be inquisitive, and they will feel that they have been left out of the dialogue, so they will assert their position and be heard. Still, I don’t anticipate a lot of legislation.

It has been said that there is a six-month time frame for a Congress elected in a mid-term election to work in a bipartisan manner before presidential ambitions take over. Will that estimate hold true in 2007?

That time frame has been truncated to about six days. Already, John McCain (R-AZ), Hillary Clinton (D-NY), Barack Obama (D-IL), and Joe Biden (D-DE) have come out of the gate real fast. Mitt Romney, Tom Vilsack, and Rudy Giuliani are also running.



We're going to see a lot of hearings that will spotlight specific items that Democratic members of Congress care about; in truth, they probably are the very same issues that were of interest to the Republicans, but with a different focus. Both Republicans and Democrats have to deal with mini-struggles inside their parties. There is a mini-struggle between Nancy Pelosi and the "blue dogs" and the Black Caucus and the Hispanic Caucus, with typical "can we keep all our troops together?" concerns. Meanwhile, the Republicans will be looking at whether they can keep right-wing conservatives under the tent while they try to meet the Democrats in the middle. The question is how those political issues affect the broadcasting industry. At the end of the day, I don't think broadcasters will be harmed by a Democratic Congress.

Some people have raised the specter that a Democratic Congress will try to change media ownership rules. What's the realistic chance of that happening?

There will be much discussion about media ownership. Every individual and every interest group with an issue — RIAA, NCTA, MPAA, NAB — will use the hearings as an opportunity to advance its cause. But I see no reason why this Congress, whether controlled by Republicans or Democrats, would have any intent of doing anything to harm the radio business; and it ultimately would be very hard to substantially change the rules and regulations. There will be regulatory and legislative issues on the table, but the industry will find that it's not on top of the stack of things that Congress believes must be done for the country. I think you'll find that radio is subsumed by national issues of a greater magnitude.

That's the government side of the industry. What do you expect on the business side?

The real focus for radio broadcasters will be on their business. People will be talking about satellite radio and Internet radio, what Google is doing, and what the Clear Channel sale means to the overall industry. There will be a lot of talk about content, and whether radio stations should try to compete with iPods as just a music source. If stations do that, I can assure you, they will not be successful. But if they try to compete with satellite radio, they *will* be successful because of the localism that radio provides. For years, we've had competition from other devices that distribute music. It started with 8-tracks, then cas-

sette tapes and CDs; now we have music in cell phones. But FM radio will become more and more prevalent in cell phones; once people can plug their headsets into their phones and have that wonderful experience we call radio, we'll be in good shape. That's coming; it's just a matter of time.

What does the Clear Channel sale mean for the industry?

The change in regulation in 1996 made it fashionable for companies to aggregate stations and go public. Now, many of these companies are finding that it may be better to be private. I think the sale of all these Clear Channel stations may spawn another generation of buyers who are more focused on local markets and operations. Just as Clear Channel aggregated 1,200 stations because they were public and had access to capital, the capital now is available without going public. There may be companies that buy public companies, or sell their public companies to private equity firms, then turn around and manage them. Gary Chapman bought and sold LIN Television three or four times. He'd take it public, take it private, take it public, take it private. That cycle may be about to start again. Clear Channel was the market leader in aggregating stations, and they may be the market leader in figuring out how to maximize their business opportunities on the exit strategy. I would not be at all surprised to see other companies think about that program or something similar. The economy is awash with money right now. Private equity firms and funds in all different businesses are trying to find good investments, and radio still is an extraordinarily good investment.

What do you see on the horizon for radio in the coming year?

It will be interesting to watch who comes next behind Clear Channel, and how they structure what they are going to do. Last year, Citadel bought ABC, and Entercom bought some of the CBS stations. I believe we'll see increasing selectivity toward clustering stations within markets. There will be more trading, where someone may trade two stations in KC for a station in Dallas. People will bulk up, in terms of filling out their clusters. It may not create headlines, but it will make business sense. We sometimes forget that there are many shrewd business people in the radio industry, people who don't own all these stations just because the stations fell into their laps.