

Radio's Leading Indicator

Audience ratings
and their impact
on revenue

Introduction

There are two measures that determine the financial health of a radio group: revenues and ratings. For analysts and brokers, a group's financial statements are familiar territory. Less familiar may be the Arbitron ratings, the currency by which radio time is bought and sold. Because ratings are the measure that advertisers use to determine the price they will pay for advertising time, Arbitron's audience estimates are a reliable indicator of a station's future revenue performance.

This presentation is designed to explore the relationship between ratings and revenue and how analysts and brokers can use ratings to set a value for radio groups and stations.

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Note about sources: Except where indicated, information is current as of May 21, 1998. Arbitron data are from the Winter 1998 survey. All charts, graphs and exhibits are aggregated data for the top 25 radio markets.

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Contents

Radio's Revenue Trends	1
Listening Trends	2
The General Rule: Ratings = Revenue	3
Example #1: High Ratings = Strong Revenues	4
Example #2: Low Ratings = Revenue Woes	5
Top Stations Command the Lion's Share of Revenues	6
Top-Ranked Stations Corner Revenues	7
Format Choice Impacts Ratings	8
Format Choice Impacts Station Rank	9
Format Choice Impacts Revenues	10
How Radio Formats Are Trending	11
Formats Have Regional Appeal	12
Formats Have Regional Appeal (continued)	13

Radio's Revenue Trends

No doubt about it, radio revenues are on a winning streak, outpacing most other media. For the past six years, the radio business has enjoyed uninterrupted revenue gains. And its growth is consistent across all regions of the country.

As of August 1998, radio revenues were up 9% YTD, according to the Radio Advertising Bureau. Local revenues were up 10% YTD, and national dollars, which has been driving the growth since the 1996 Telecommunications Act, were up 15% YTD.

Most forecasts call for more of the same good news. Radio Advertising Bureau president Gary Fries predicts that radio will end the year up 10%, echoing Standard & Poor's William Donald's forecast of 9%.

Most industry watchers agree that the primary force behind radio's continued revenue success is consolidation. Radio first harnessed Local Market Agreements (LMAs) in 1992. With the loosening of national and local ownership caps in 1996, groups have discovered how to leverage market clusters to better serve both their clients (advertisers and agencies) and their customers (listeners).

	1997	1996	1995	1994	1993	1992	1991	1990
Mountain	15.0	11.6	14.3	14.9	7.1	5.1	-3.2	2.3
Mid-Atlantic	11.3	6.6	7.1	10.9	6.9	1.3	-4.1	5.4
South Central	10.7	8.3	9.4	11.6	11.8	3.5	-1.7	3.5
Midwest	10.3	6.3	8.5	9.8	7.5	3.9	-1.9	2.7
New England	10.0	9.2	7.8	14.3	4.4	1.8	-7.9	-0.1
Great Plains	9.9	7.7	8.1	10.5	6.6	5.0	-3.5	3.5
Pacific	9.6	9.1	6.1	9.4	5.8	-0.6	-4.2	6.6
Southeast	9.6	10.6	8.9	12.2	9.5	3.8	-4.5	1.0
National Average	10.8	8.7	8.8	11.7	7.5	3.0	-3.9	3.1

Radio Revenue Growth by Region

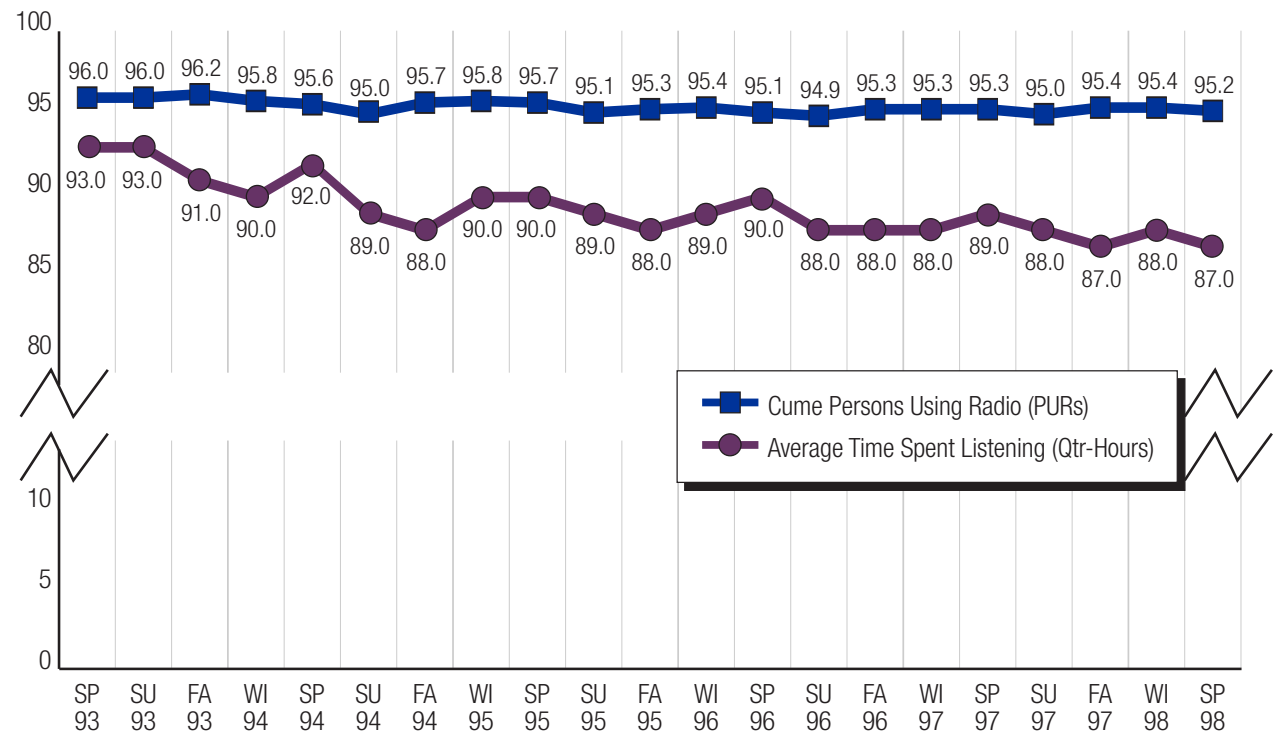
% Change from Previous Year

Listening Trends

There are two critical measures of radio listening: Cume and Time Spent Listening. Cume is similar to a newspaper's circulation; it's the number or percent of people that tune in to radio in a single week. Time Spent Listening is how long people listen to radio in a single week. These two basic measures, how many and how long, are the foundation for all the audience estimates that stations use to sell their commercials to advertisers and to gauge the effectiveness of their programming strategies.

Trending these two measures yields a mixed story for the health of radio. While the number of people (cume) that tune in to radio remains fairly constant—more than 95% of all people listen to radio each week—there are signs that they are spending less time doing so. In Spring 1998, people spent more than 21 hours a week listening to radio—down nearly two hours from five years ago.

Radio listening is holding up far better than network TV viewing or newspaper circulation, according to several recent studies. While radio time spent listening has slipped a little under two hours over the past five years, consumer time investment with television and newspapers has declined at an even more precipitous rate.



New Media Challenge Radio

P12+ Monday-Sunday 6AM-Mid, Total U.S.

The General Rule:

Ratings = Revenue

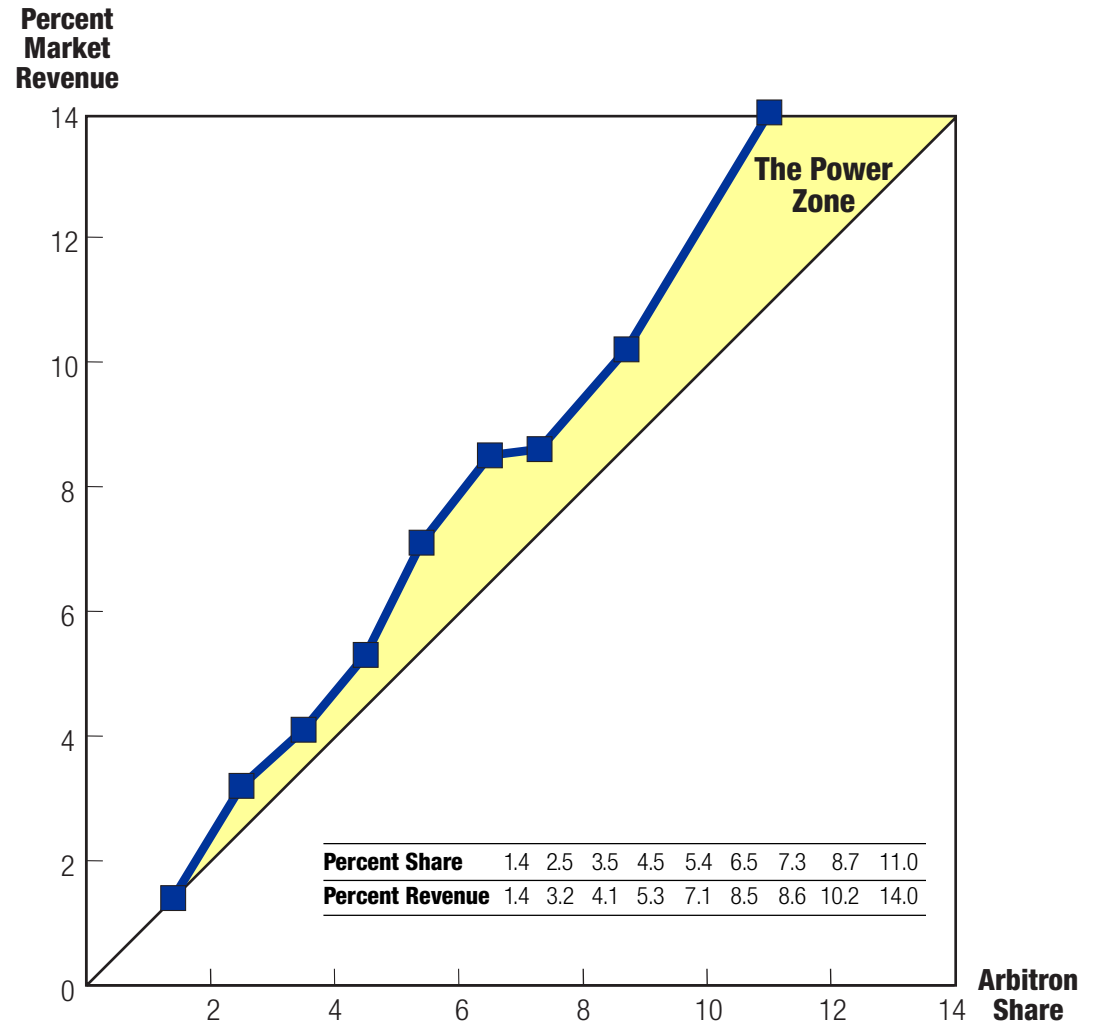
Because ratings are the currency by which radio time is bought and sold, ratings are a likely indicator of revenues. An increase in a station's share of listeners will generally translate into more dollars. And a station's share of revenue increases more substantially the higher its share of the audience.

"At the end of the day, revenue is closely related to the size and quality of the audience."

— Randy Michaels,
CEO, Jacor,
as quoted in *Radio Ink*,
August 31, 1998

If a station garners a 1 share in the Arbitrons, on average, it will bill about 1% of the market's available radio revenue. As a station's audience shares increase, the revenue shares will increase even more. A station that posts a 5% to 6% share will capture about 7.1% of the radio market revenue.

That general rule also translates to specific station examples.



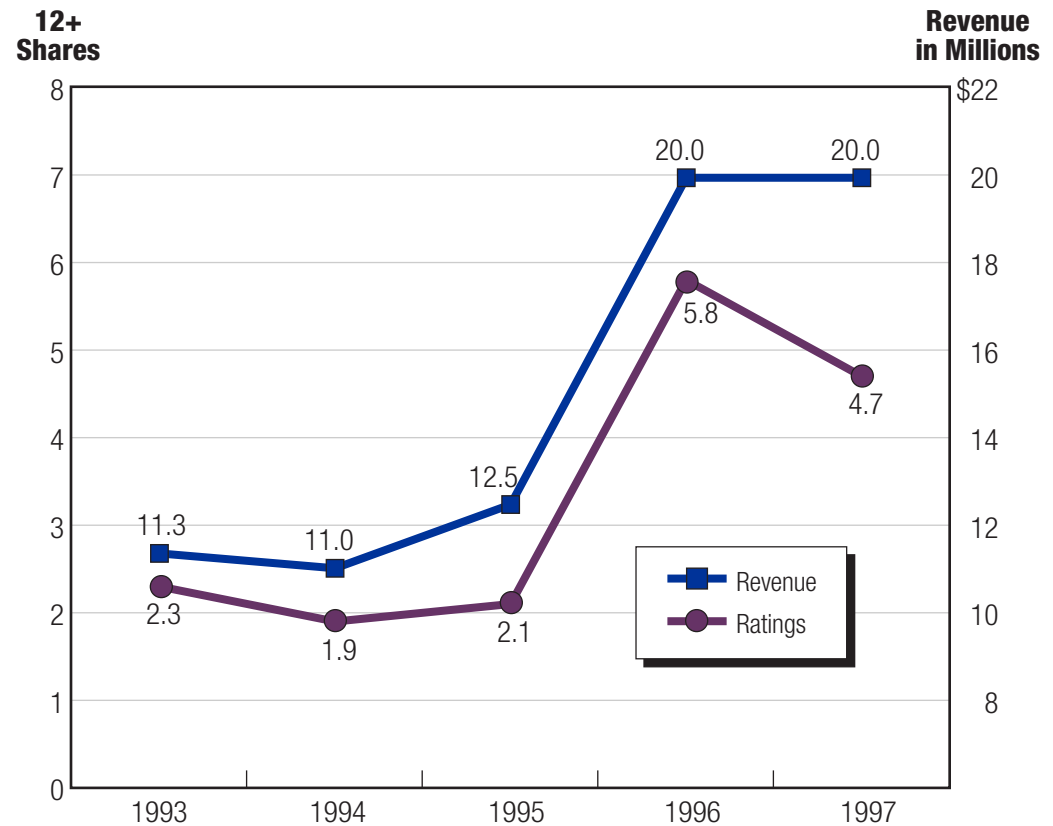
Percent of Market Revenue vs. Percent of Arbitron Share

Example #1:

High Ratings = Strong Revenues

WYNY-FM in New York was a Country station past its prime, with weak ratings and unrealized revenue potential. Despite the best efforts of format doctors, the station crept along with barely a 2 share, not even billing \$1 million a month.

With a format change to Rhythmic CHR and new call letters, the station zoomed to a 5.8 share. The revenues followed. In 1997, WKTU-FM New York was the fifth largest biller in the market according to *Duncan's Radio Market Guide*. And even though its shares have settled slightly, revenues continue to make WKTU a hot advertising property.

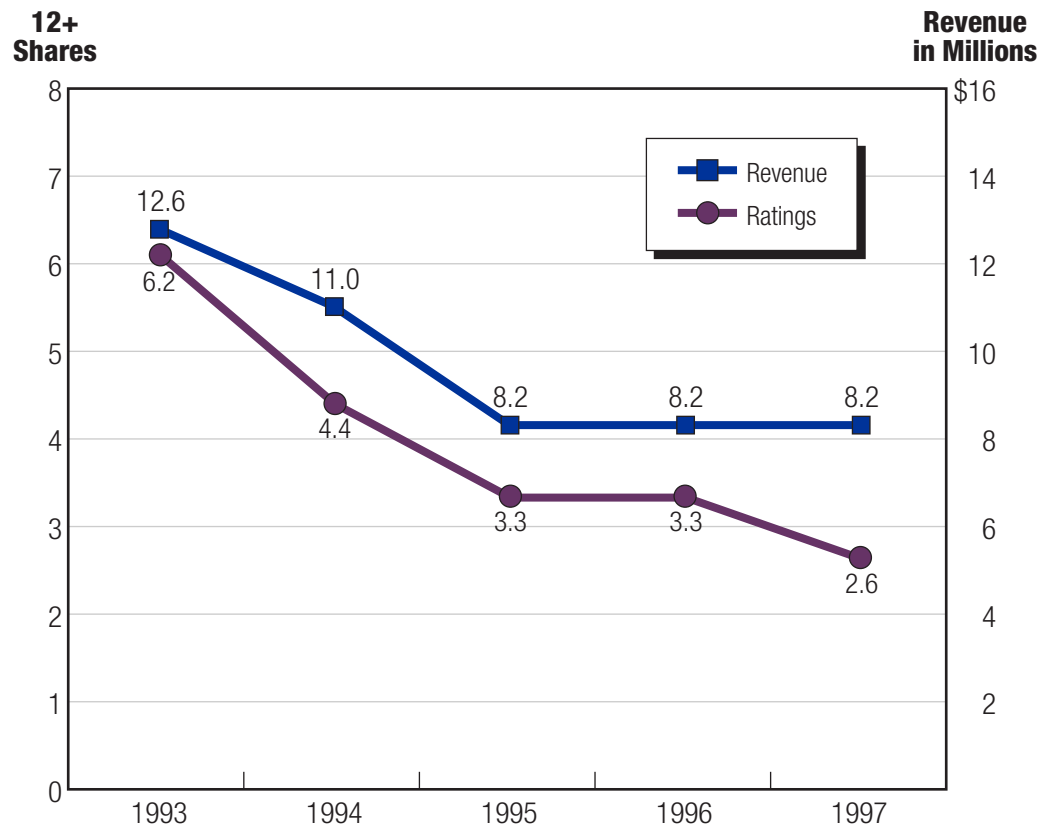


Ratings vs. Revenue
WYNY-FM/WKTU-FM, New York

Example #2:

Low Ratings = Revenue Woes

This major-market Country station's ratings have declined; so have its revenues. Its share of the market's radio audience has followed Country's general decline, dropping from a high of 6.2 in 1993 to 2.6 in 1998. Revenues followed suit, falling from a high of \$12.6 million to a low of \$8.2 million in a market that has seen 11% revenue growth in the period 1993-1997.



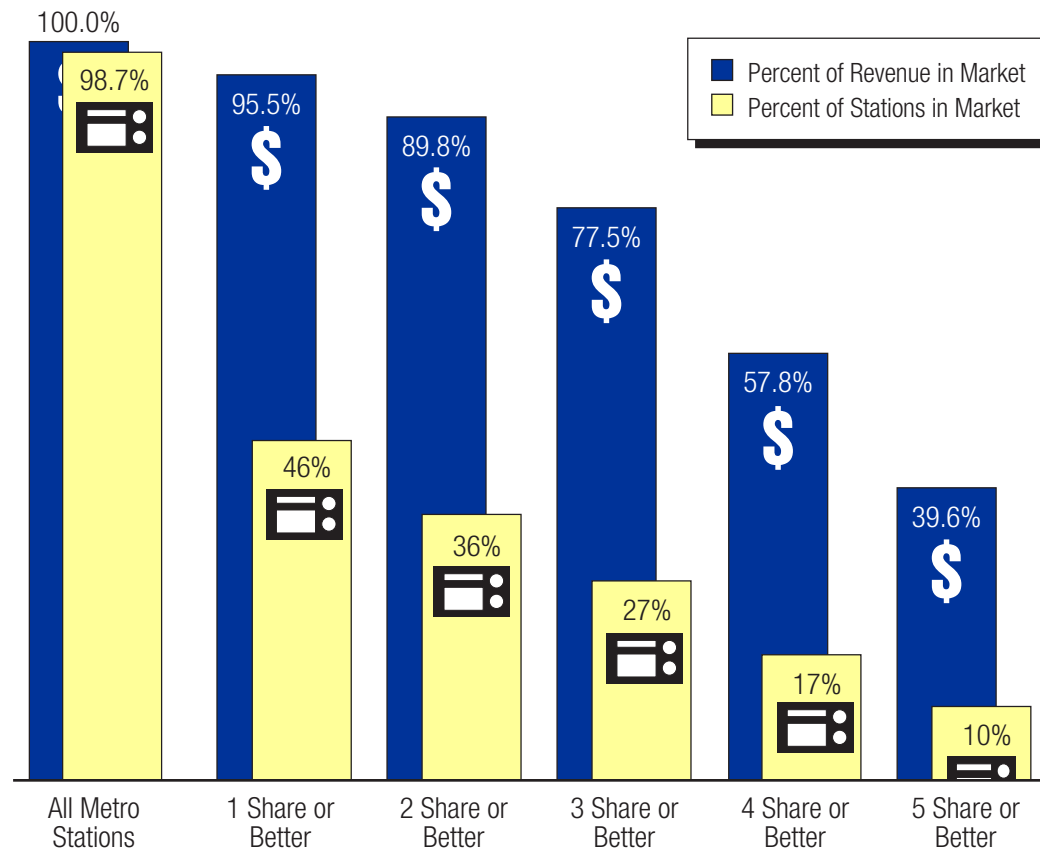
Ratings vs. Revenue

Major-Market Country Station

Top Stations Command the Lion's Share of Revenues

You've heard of the 80/20 rule? In radio, it's more like 77/27, but the concept is the same. Advertisers and agencies tend to buy the top-rated stations in the market. This means that stations with the highest shares capture a disproportionate share of the revenue.

Fewer than half of all radio stations (46%) can claim a 1 share or greater. Yet these stations are responsible for 95.5% of radio revenues. Stations that post a 3 share or better—27% of all stations—capture 77.5% of radio's revenues. Stations that achieve a 5 share or greater — a mere 10% of all stations— still get 39.6% of the revenues.



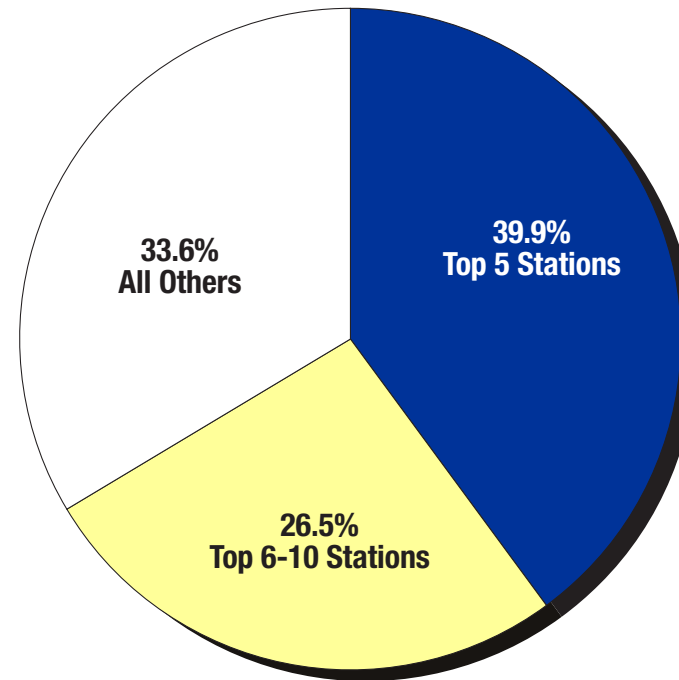
The Ratings/Revenue Correlation

Sources: BIA; Arbitron, 4-Book Average (SU97-WI98), P12+, M-Su 6AM-Mid, Top 25 Markets
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Top-Ranked Stations Corner Revenues

Not only must stations work to get a 3 share or better if they want to attract a disproportionate percentage of the radio revenues, they must also compete vigorously with the other stations in the market. It's not unusual for advertisers and agencies to limit buys to the top 5 or even top 3 stations in the market.

The chart opposite shows that the top 5 ranking stations net 39.9% of radio revenues. The top 10 stations capture two-thirds of a market's radio revenues, an astounding statistic considering that major markets average about 45 stations.



Heavy Hitters Take a Disproportionate Share of Radio Revenue

Percent of Market Revenue

Format Choice Impacts Ratings

While it varies by regions, some formats tend to end up at the top of the rankers more than others. In this analysis, the number of stations in each format is compared with the number of stations in that format that have a 3 share or better. (Keep in mind that stations with a 3 share or better—27% of all stations—capture about 77% of the radio revenues.) The comparison results in an index for each format.

An index of 100 or better indicates that the format outperforms the average station in its ability to deliver a 3 share or better. An index of less than 100 means the format falls short of the average.

What formats outpace the norm? CHR/Top 40, with an index of 258, and Jazz/NAC, with an index of 257, top the charts.

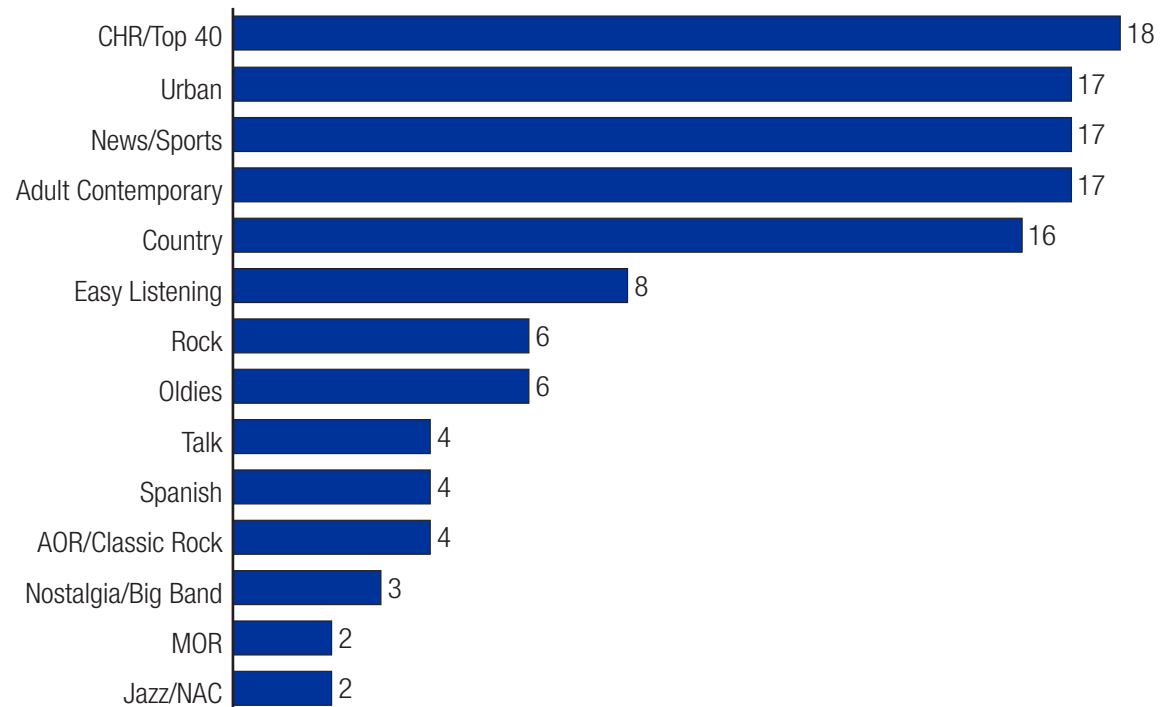
	Total No. of Stations in Format	Stations in Format w/ 3+ Share	Index
News/Sports	142	40	103
Religion	132	2	6
Spanish	109	7	23
Adult Contemporary	103	39	138
Country	97	31	117
Rock	94	40	155
Urban	68	29	155
Oldies	59	28	173
Talk	54	8	54
CHR/Top 40	41	29	258
Nostalgia	39	7	65
AOR/Classic Rock	33	20	221
Easy Listening	29	17	214
Jazz/NAC	27	19	257
Classical	24	4	61
MOR	16	5	114

Note:
Although only 27% of all reported stations post a 3 share or better with Arbitron, they account for 77.5% of market revenues.

Format Choice Impacts Station Rank

Another way to look at formats is to compare stations based on rank. As we've said before, it's not unusual for advertisers and agencies to limit buys to the top 5 or even top 3 stations in the market.

This analysis is a count of how many times a format won in the ratings by ranking among the top 5 stations in the market. The results mirror those of the previous analysis. CHR formatted stations appear in the top 5 stations in a market more than any other format, followed by Urban, News/Sports, Adult Contemporary and Country.



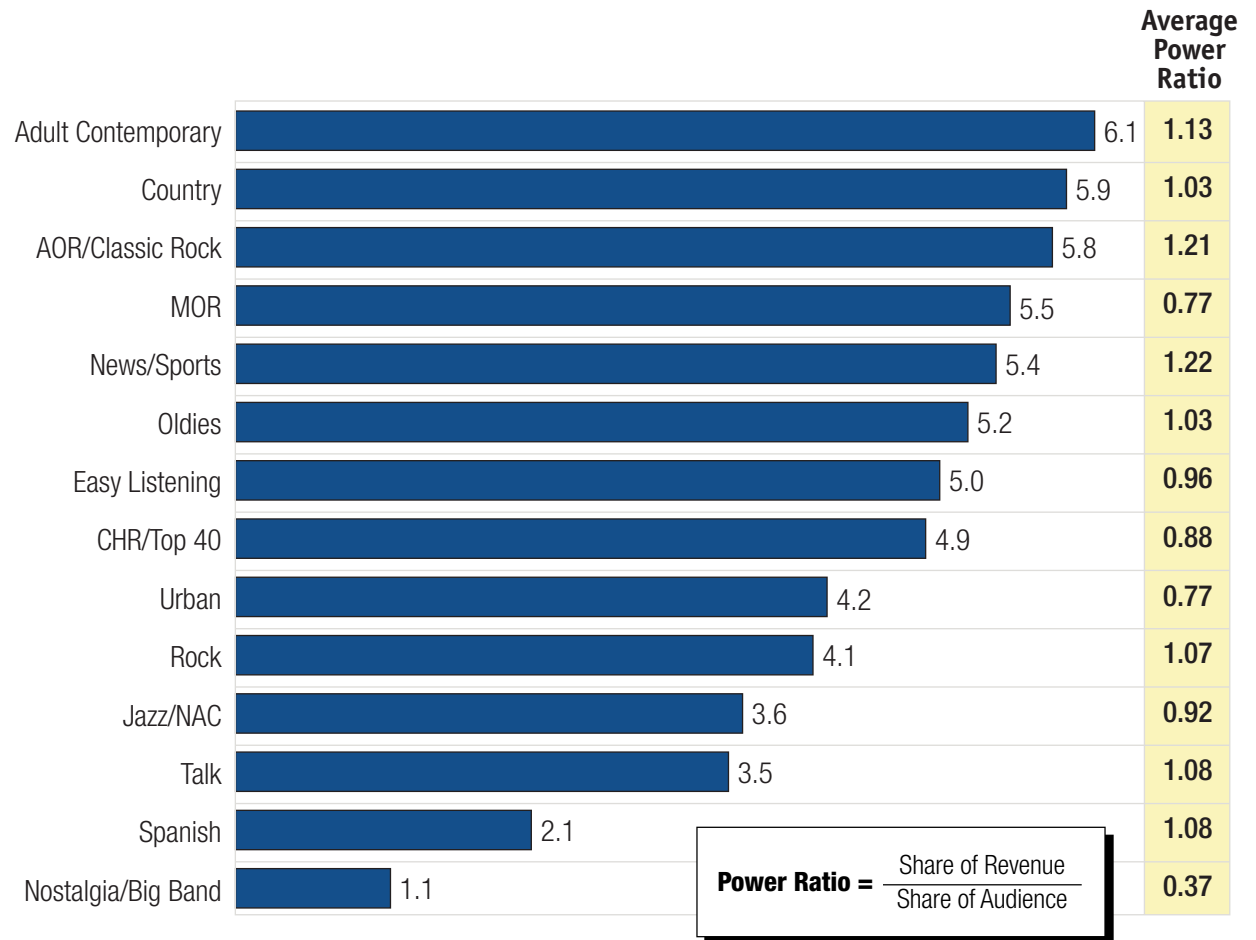
Which Formats Deliver the Ratings?

Number of Times Format Ranked in "Top 5"
Top 25 Markets

Format Choice Impacts Revenues

Format choice impacts revenues, but some formats are more lucrative than others. In this chart, formats are ranked by the percentage of market revenue.

On average, Adult Contemporary stations have 6.1% of the market revenue, with a power ratio of 1.13. The combination of strong ratings and strong revenues has motivated many to program AC stations. News/Sports, while having a higher power ratio than AC of 1.22, ranks fifth in terms of percent of revenue, with 5.4%.



Which Formats Deliver the Revenue?

Average Percent of Market Revenue

How Radio Formats Are Trending

Formats gain or lose share as a result of many factors: significant news or weather events, music tastes and trends, or seasonal listening patterns. In the early '90s, Country music was hot, Garth Brooks made the cover of Forbes, and Nashville couldn't crank out music fast enough. In markets where there was once one Country station, all of a sudden there were two, three, even four. Today, the Country craze has leveled off and other formats are experiencing hot trends. News/Talk got a big boost during the O.J. Simpson trial as consumers flocked to the radio to find out the latest development. News/Talk listening also has a seasonal pattern, declining with every Spring survey after a strong weather-driven Winter survey.

Even accounting for seasonal and topical variations, format shares have been remarkably stable since the advent of consolidation. Today's mega-groups are better able to invest in their programming, using perceptual research and effective station promotions.

	SP95	SU95	FA95	WI96	SP96	SU96	FA96	WI97	SP97	SU97	FA97	WI98	SP98
News/Talk	15.8	15.5	16.9	16.5	16.3	16.2	16.8	16.6	15.6	15.6	16.5	16.2	16.1
Adult Contemporary	14.9	14.7	14.1	15.0	14.8	14.3	14.5	14.7	14.8	14.6	14.4	15.1	14.9
Country	12.1	11.8	12.1	11.0	10.8	10.6	10.5	10.6	10.4	10.4	10.3	9.8	9.7
Top 40	9.1	9.4	8.8	7.2	8.3	8.6	8.6	8.4	8.8	9.0	8.2	8.2	8.9
Urban*	9.1	9.5	9.8	10.7	7.0	7.0	7.2	7.2	7.3	7.5	7.7	7.6	8.0
Album Rock	8.3	8.3	7.7	7.7	7.7	7.4	7.2	6.7	7.0	6.8	6.8	6.8	7.2
Spanish	5.2	5.2	5.9	5.6	5.9	6.1	6.2	6.3	6.3	6.2	6.2	6.3	6.6
Oldies	7.5	7.6	6.6	6.5	6.3	6.4	6.2	6.0	6.3	6.3	6.1	5.8	5.6
Classic Rock	3.7	3.5	3.4	3.6	3.7	4.2	3.9	4.5	4.6	4.9	4.7	4.6	4.8
Modern Rock	3.6	3.8	3.9	4.4	4.4	4.4	4.1	4.1	4.1	4.1	4.1	4.0	3.8
Urban AC*					3.8	3.7	3.7	3.7	3.7	3.9	4.2	4.2	3.7
MOR/Big Band	3.3	3.3	3.2	3.7	3.5	3.6	3.5	3.5	3.5	3.4	3.4	3.5	3.4
NAC/Smooth Jazz	2.6	2.8	3.0	3.2	3.1	3.3	3.1	3.1	3.1	3.1	3.0	3.2	3.0
Religious	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.1
Classical	1.7	1.8	1.8	2.0	1.9	1.7	2.1	2.0	1.9	1.7	1.7	1.8	1.7

* Urban AC was combined with Urban until the Spring of 1996.

Survey Key: SP = Spring, SU = Summer, FA = Fall, WI = Winter, 98 = 1998

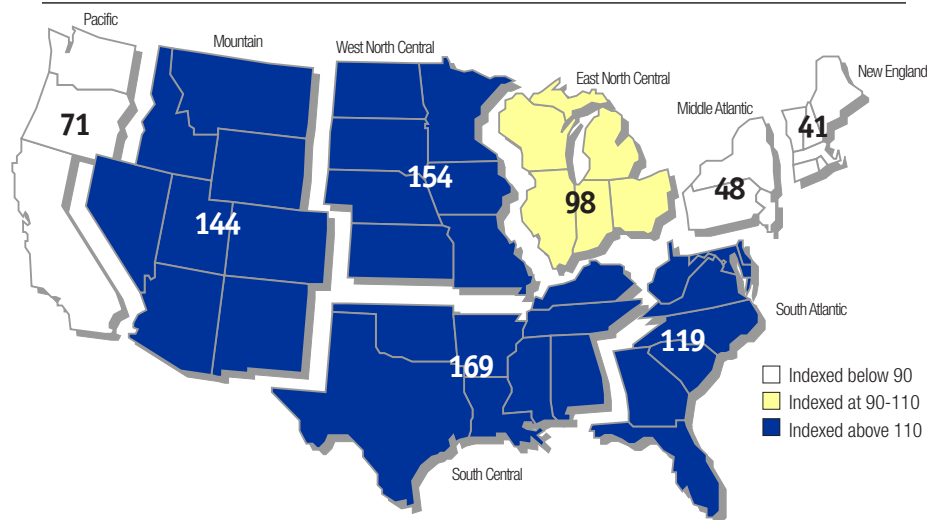
Which Formats Are on the Rise? Percent of Radio Listening

Formats Have Regional Appeal

There are more formats today than ever before, thanks to consolidation. As groups consolidate, they form market clusters looking to amass a group of stations where each station format occupies a unique niche to attract a specific, well-defined audience that advertisers can use to pitch their products and services to. Groups may want to concentrate on reaching all ages of women, or concentrate on developing younger audiences with a variety of formats. Or, they may want to offer a little of everything, arraying formats from young to old, men to women.

Station success is dependent not only on its format, but on where the station is located. The format's appeal must match a viable segment in the market's population. So, for example, a Country station as a rule may not fare well in New England but will have a better chance of success in the South. Spanish formatted stations would be a long shot in the center of the country but perform well in Texas and the Pacific.

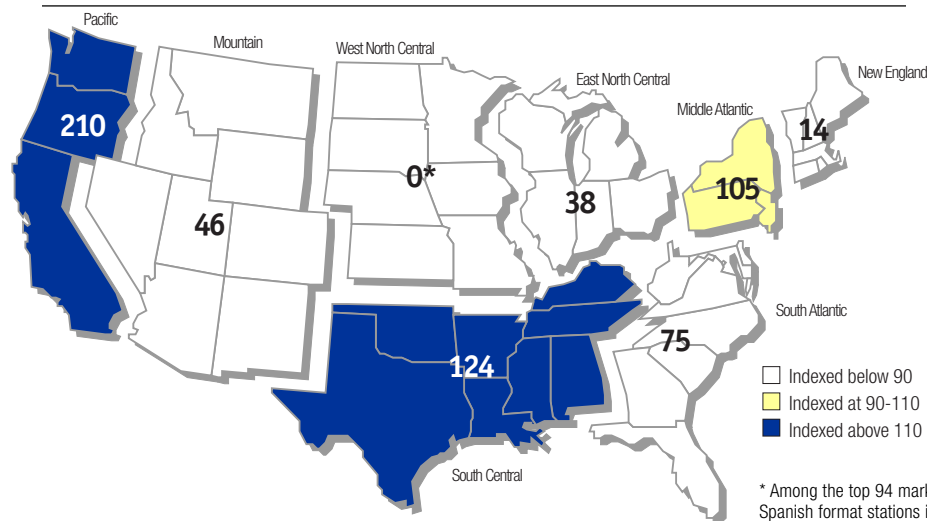
Country



Audience Share by Region

Index Based on 94 Markets; 100 = National Average
Mon-Sun, 6AM-Mid, Persons 12+, AQH Share

Spanish



Audience Share by Region

Index Based on 94 Markets; 100 = National Average
Mon-Sun, 6AM-Mid, Persons 12+, AQH Share

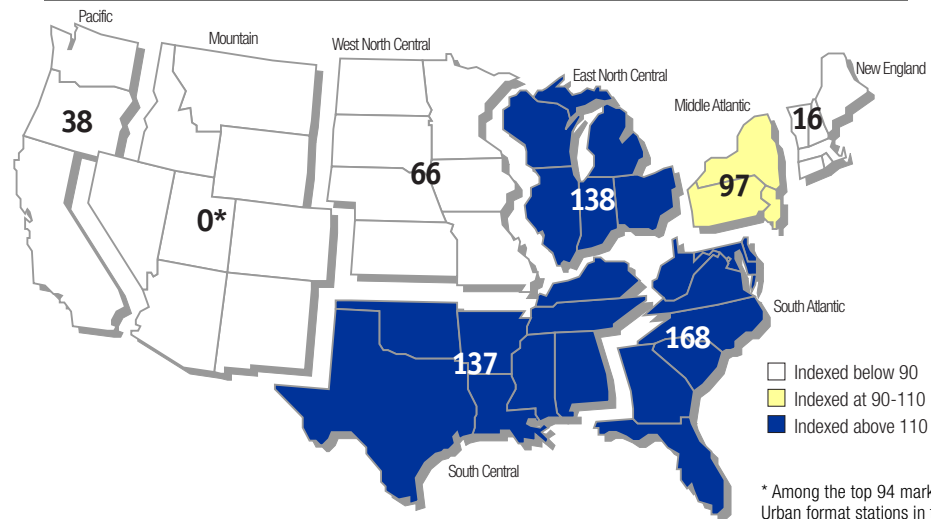
* Among the top 94 markets in the U.S., there are no Spanish format stations in this region.

Formats Have Regional Appeal

Urban stations have greatest success in metropolitan, urban areas. One format that seems to have broad-based appeal is Adult Contemporary.

The four radio programming formats shown here are just a sampling of the different programming formats radio broadcasters use to reach a valuable, targeted audience segment.

Urban

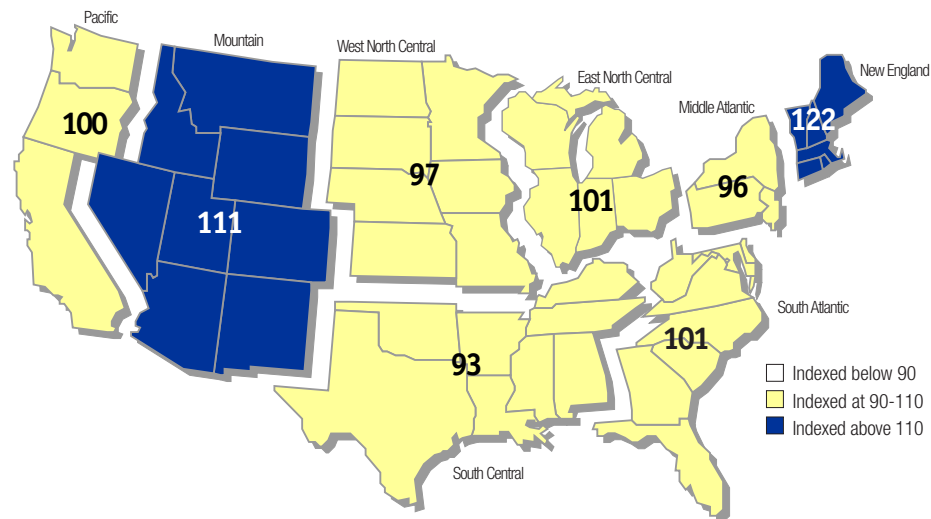


Audience Share by Region

Index Based on 94 Markets; 100 = National Average
Mon-Sun, 6AM-Mid, Persons 12+, AQH Share

* Among the top 94 markets in the U.S., there are no Urban format stations in this region.

Adult Contemporary



Audience Share by Region

Index Based on 94 Markets; 100 = National Average,
Mon-Sun, 6AM-Mid, Persons 12+, AQH Share

For More Information

Arbitron has more information on the performance of radio formats across the country. If you would like the latest copy of *Radio Today*, Arbitron's annual profile of the radio audience in the United States, go to www.arbitron.com/radiotoday00.pdf.



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