

RADIO INTELLIGENCE

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Is satellite Radio really the “Next Big Thing” or simply another button on the dial?

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A Commonsense Approach to
Satellite Radio

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By Sean Clark, Sr. Vice President/National Marketing, Radio Advertising Bureau

It is often the case in advertising that anything labeled as “new media” receives unwarranted praise that typically comes at the expense of more established media types. And yes, while the term NEW tends to elicit emotions of excitement and anticipation, in marketing and advertising it also can lead to the creation of false expectations that come from misinformation and a lack of informed understanding. Such is the current case with regard to satellite Radio’s impact on the “free” Radio world.

*“Without promotion, something terrible happens ... nothing!”
-- PT Barnum*

Much of the current perception of the impact of satellite Radio, both as an in-demand consumer medium as well as a technology that fundamentally weakens terrestrial Radio, has been more the product of well-crafted promotion and PR programs than anything resembling reality. And, while we see it as something that is here to stay (albeit not in its present architecture), there are basic realities and issues with satellite as an ad mechanism that need a bit of clarity and attention.

Just the Facts, Ma’am.

XM and Sirius are the two competing satellite Radio service providers, launched in 2001 and 2002, respectively. In general, the signal is beamed from a satellite to special in-car or at-home receivers that then translate the signals into the specific audio content. In terms of size and scope, here are the latest vitals in round numbers:

	<u>XM</u>	<u>SIRIUS</u>
# Subscribers	6M	3M
# Channels	160	120
# w/ Commercials	50	55
Monthly Cost	\$12.95	\$12.95
Exclusive Content	MLB, NASCAR	Howard Stern, NFL
Automotive Partnerships	GM, Toyota, Honda, Lexus, VW	Ford, Chrysler, Dodge, BMW

Although not actively measured by a ratings service for advertising purposes, Arbitron will be testing an enhanced satellite Radio diary credit policy in Q1 2006 in 25 markets that would allow listening credit to be assigned to individual satellite Radio channels. Pending acceptable respondent comprehension levels and statistical reliability, a full rollout would take place no earlier than the summer of 2006.

However, given the extremely low penetration at present, it will most likely be quite sometime, if ever, before audience levels reach Arbitron’s minimum reporting standards required to be captured at a quantified level that can be accurately reported.

Indeed, the total satellite Radio subscriber base of 9 million currently only represents approximately 3.5 percent of the total U.S. market, paling in significance when compared to the 93 percent coverage or, 229 million consumers reached weekly through terrestrial Radio. To further dimensionalize, while the weekly audience of 229 million for terrestrial is actual users, the total base of 9 million in the satellite space is more accurately articulated as representing the total universe of units, rather than purely active listeners.

Current projections in a study released by Forrester Research forecast total satellite Radio penetration to reach 20 million subscribers by the end of the decade. Importantly for marketers, one of the more recent discoveries made is that in generating their subscription numbers, Sirius was found to sometimes count yet-to-be-sold cars with a factory-installed satellite Radio at a dealership as a “user.” Further, they also may include in their base users who have canceled the service, counting them up to an additional 17 months after deactivation. Our ability to assess consumer penetration, exposure, and ratings accuracy is problematic enough in advertising without adding spurious calculations of reach. The lesson, then, is that for advertisers as well as Wall Street, true accountability in the satellite space remains a challenge and is something that demands extra attention and caution when evaluating as an advertising strategy.

With that said, to date the key drivers to overall category real-subscriber growth have been:

1. Bundled service in new-car purchases (e.g., free for six to twelve months as part of new vehicle purchase, etc.)
2. Depth of Content
3. “Ad free” commercial environment on music channels

Of all three, much of the subscriber growth to date has come from distribution deals with automakers. However, the reality is that as the auto channel becomes more saturated, additional sales channels will need to be found in order to have any chance of remaining viable down the line. A key challenge here, of course, is that these other channels likely won't provide the growth that has been experienced through the automotive platform.

The Demise of Terrestrial Radio? Don't Hold Your Breath.

In view of the modest - and a bit suspect - penetration, projected growth, and current financial instability, satellite Radio will not be the death blow to terrestrial Radio that a few of the uninformed have boldly stated. The simple reality is that satellite Radio as a national service lacks the scale and emotional clout of terrestrial Radio that can only be fostered through community ties, local interest, and relevant touch points that the medium has been centered on for over 80 years. More realistically is that the place satellite Radio occupies is one that represents a "nicheification" of Radio through highly vertical and segmented features. And while it has an appeal to a finite market, from an available audience and advertiser interaction perspective, satellite Radio cannot match the scale of what terrestrial Radio offers in terms of captive groups or targeted product or category users. As evidence, The Media Audit recently conducted a study of 87 markets representing 50 percent of the U.S. to begin assessing who and how many people are actually listening to satellite Radio. Here's a snapshot of what was found:

1. 0.5 percent of adults listened to satellite Radio in past week
2. 63 percent male skew; 75 percent over the age of 35
3. 30 percent retired and/or blue collar

*"What if you came up with a product that people said they wanted but then, nobody wanted it!?"
-- PT Barnum*

The active listener total of 0.5 percent is telling in that it is disproportionately low, even in view of the limited penetration of satellite. Further, the research surfaced the fact that satellite Radio appears to skew a bit older and less up-market than previously held. Consequently, if you rationally look at satellite Radio in the context of simply being another channel or button on the dial, it appears it is one that the masses are not punching all that frequently.

In addition to low active listener levels, their future growth is further compromised by less-than-spectacular consumer interest. This is evidenced by a recent study from Eastlan that found 80 percent of Americans having very little interest in satellite Radio and who stated that they are unlikely to subscribe to it in the future.

So while PR programs have shouted the ascension of satellite at the expense of terrestrial Radio, it simply isn't the case, nor apparently is it going to be in the future. Further complicating satellite Radio's viability is that terrestrial Radio will accelerate its growth in audience and consumer value as it embarks on a technological revolution that will take it to unforeseen levels of relevance and consumer engagement. One such advancement, which will be explored fully in a future edition of *Radio Intelligence*, is the adoption of high-definition (HD) Radio. Perhaps most exciting is that as terrestrial Radio transitions from the analog world into this digital space, Radio has the potential to explore a level of visual, on-demand, and interactive capabilities never before envisioned.

Common Sense: The Thinking Person's Filter.

Given the realities and lack of a meaningful and scalable product advantage, perhaps most perplexing, then, is that if only a sliver of consumers actually engage and have interest in satellite Radio, why is it occupying the level of "industry" interest that it does? This is most easily explained in the fact that over the years, our collective industry of marketing and advertising always has done a pretty good job of talking to ourselves. For example, the hard reality is that any new communications channel labeled "new" tends to create a diversion of thought from what arguably are the true issues in marketing and advertising (e.g., accountability, messaging, targeting, creative execution, etc.). Consequently, reality is lost in the hyperbole and trade articles of the day that prefer to report the new and different rather than the tried and true. And for whatever reason in media circles, these labels of "new" or "non-traditional" somehow equate to being better or more effective. But if one steps back from the industry-speak of the satellite Radio business, nothing is further from the truth.

"All change is not growth, as all movement is not forward."

-- E. Glasgow

Perhaps the American consumer provides the greatest clarity and sensibility here with their general lack of interest, including the lack of long-term commitment of past users. With common sense as their filter, consumers gravitate to real benefits and as such, are less inclined to be moved by rhetoric and hyperbole that is more intended for Wall Street than anything else. Secondly, and even more important, is the fact that they are generally already satisfied with the Radio they are already getting for free.

One other point worth surfacing is that for some, the advent of satellite Radio is seen as being analogous to the impact cable TV had on broadcast TV. While at first glance this might sound reasonable, deeper thought and logic reveal that the situations are very different. First, in addition to the reception advantages that helped it expand, cable provided exponentially more programming breadth than one could get on three or four broadcast stations. For a 24-hour sports or news channel to gain traction and survive, cable was the only outlet available for surplus or extended programming concepts. However, with 50+ stations in the larger markets, broadcasting through dedicated formats that encompass every genre of music, all-day news and information, around-the-clock sports, as well as serving a variety of ethnic groups, terrestrial Radio is in a completely different place. Their historical capacity for expanded content vs. what broadcast TV in the late '70s could absorb is significantly different.

Theorizing the Future of Satellite Radio.

Given where terrestrial Radio already is and where it is going from a technological standpoint, satellite Radio in its present form remains fairly inconsequential and probably will not survive over the longer term. With terrestrial Radio now embracing the growing digital world through innovation and exploration, their key product advantage of "free," when coupled with the expanded content depth and services, will present too great an obstacle.

*"No matter how skillful you are, you can't invent a product advantage that doesn't exist.
And if you do, it'll fall apart anyway."*

-- B. Bernbach

As a result, satellite Radio will change significantly in the next few years in order to better establish a position of relevant uniqueness and scale. Probably the first significant change will be a merger of the two competing services in the near future to better contain operational costs and reverse the dismal financial situations each is confronting. Even given this potential consolidation, satellite Radio's current strategy as a stand-alone Radio unit and a subscription business model is arguably already on borrowed time.

So where does that leave satellite Radio as a product and strategic proposition? One theory, and something they are in fact exploring now, is integrating the service into a more bundled product, including video and possible web interactivity in car and beyond.

Further, they also are looking to the satellite TV enterprises for partnership opportunities that might better capitalize on the more passive "back seat" automotive channel as well as the home entertainment market. In the end what you most likely will see in the next five to ten years is an integrated satellite effort that marries both the aural and video sides of the spectrum. Something that perhaps finds its way from car, to TV, to desktop at some level. Satellite Radio will survive, but in a way that makes it a component part of the overall "network" content package. Change is unavoidable for satellite, with or without Howard Stern.

About the Author:

Sean Clark brings over 20 years of multinational and regional ad agency experience, having held executive-level positions in Media, Account Planning, and Operations. Some of his past work has been on behalf of blue-chip clients that included Starbucks, Avia, Bank of America, Kraft, T-Mobile, Vulcan, Microsoft, P&G, and Ford. He also has been a past academic contributor and speaker to the University of Washington School of Communications.



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