

State of the Radio Industry – February 12, 2008 at RAB2008 in Atlanta

Good morning everyone. Welcome to RAB2008. This is my second RAB conference. In Dallas, I was just a few months on the job and I was grateful that you gave me such a warm welcome. This year I know a bit more about Radio and you know a bit more about me. So I'm even more grateful for that warm welcome.

Last year, we defined Radio as sponsored audio content. We identified our core strengths and we built a new case for Radio on three indisputable facts:

1. Radio has reach - with over 93 percent of the U.S. population
2. Radio has relevance - now with 87 percent retention of TSL
3. Radio has Receptivity - with 92 percent of the audience remaining through commercial breaks

This week, Radio takes a bolder step, sending signals of change to our listeners and to our advertisers. Our conference theme and its content is Bold Signals for Radio. This reflects what is taking place in media and in advertising. We owe a great deal of thanks to Sheila Kirby and the RAB2008 Planning Committee for steering this conference in a new direction. Their meticulous planning and careful scrutiny has ensured a broad cross-section of session topics and speakers that offer benefits for both large and small market Radio station attendees.

At RAB2008, we will explore how to position Radio's assets across the increasing number of distribution channels in ways that are attractive to advertisers. New distribution channels extend Radio's ability to meet consumer demand for our content where they want it and when they want it. Radio is uniquely positioned to do this because it is the only medium that does not change its form from channel to channel. Print and video are different experiences when

they move to digital – Radio is not. The Rolling Stones sound like The Rolling Stones no matter the channel.

There are over a dozen sessions at this conference dedicated to generating revenue with online audio streaming, websites, and mobile phones, in addition to an entire separate track of Certified Digital Marketing Consultant sessions.

A most impressive roster of speakers has been assembled, including leading marketing executives from Allstate, Coca-Cola, Ford, The Home Depot, Macy's, McDonald's, Sears, and Wal-Mart. Collectively, these advertisers spent 5 Billion dollars in measured media last year, nearly 500 Million of that in Radio. Keep in mind that we have asked these advertisers to tell us not only what they like about Radio but also what they see as our challenges. Only by hearing the challenges directly from these advertisers can we respond and shape our industry for maximum growth.

We have also gathered early-adopters and pioneers from within Radio who will share with us how they are building revenues from digital platforms for their stations and groups right now.

Over the past fifteen months, I have been awed by the passion and commitment of the people in this industry to rally for progress and growth. From small markets to large, independent owners to corporate executives, I've witnessed innovation, experimentation, and an enduring drive for success. We are moving our business forward.

Nearly 4, 000 on-air Radio stations reach listeners with a streaming component. That's one in every three Radio stations in America reaching consumers on a platform that didn't even exist 10 years ago!

The financial success from online streaming is reflected in the double-digit increases in Radio's off-air revenue activity. The average monthly off-air revenue growth rate has been approximately 10 percent. At this rate, off-air revenue could grow to be over \$1.5 billion this year and approach \$2 billion by the end of 2009.

The commercialization of HD Radio began last month, increasing opportunities for advertisers to integrate their brand with new program content and reach our listeners through a wide variety of new communication options. There are approximately 1,500 Radio stations broadcasting in HD – that's a 50 percent increase over a year ago.

Audio content is expanding everywhere you look.

Sometimes, I wonder if we truly understand what this expansion means. The impact of Radio's new technology can get lost when we just recite statistics. So, let's look - and listen - to some of the audio devices that allow consumers to access Radio content.

1. I can hear RABRadio on my laptop. I'm getting the audio content over the Internet as opposed to a broadcast signal. .
2. With this IP Radio from Assus, I don't need my laptop to listen to a local Atlanta Radio station. And once again, it is delivered via the Internet. According to Arbitron and Edison Media, 25 million Americans listen to Radio over the Internet. That generates an incremental increase to Radio's national Average Quarter Hour by one million persons! Many IP Radios are wireless, so you don't even need to have an Internet connection in the room. It certainly makes it a lot easier for the listener to get the content they want, when they want it, and where they want it.
3. Radio has always been a mobile medium. From cars to the transistor to walkmans, it's always been on the move. Today, it's the MP3 Player. For

Apple's iPods, this Radio Remote accessory allows FM listening, and the most popular accessory that Apple sells.

4. The Microsoft Zune is Radio-Ready with a built-in FM receiver. According to a Microsoft product satisfaction study, 46 percent of Zune owners listen to the Radio feature at least once a week. In addition, the Radio feature is of higher than average importance to Zune owners, scoring nearly 8 points out of 9. The FM tuner is incorporated into the Zune because in their product feasibility study Microsoft asked potential buyers their number one source for getting new music. 74 percent stated the Radio. This compared quite favorably with online sources at 31 percent and music stores at 8 percent. The long term success of an MP3 player requires that users continue to source and use new music. Without new music the player becomes stale and irrelevant – relegating the MP3 to just one more fad. FM Radio will definitely drive the success of the MP3 player.
 - o Over 100 million Americans own an MP3 Player. What would it mean for our business, if all of those players featured access to Radio content, and every MP3 owner listened to the Radio feature for even a half an hour a week? We'll come back to that in a moment.
5. Revenue opportunities also exist with Radio to display text-messaging. This feature is quickly moving beyond artist and title information and is poised to deliver advertiser content, including location-based messages and GPS services. This DUAL Radio features MSN[®] Direct HD, providing personalized and localized text content on the display screen. Traffic information, typically broadcast at regular intervals over the radio station airwaves is now delivered by the station to MSN and shows up on your dashboard screen as text. Local movie times, gas prices, and nearby fast-food locations can also be transmitted to individuals in specific markets and at specific times. This is personally relevant content on demand and it will drive a whole new category of advertising.

6. HD multicasting allows us to develop customized, highly-targeted programming for our listeners and for our clients. HD Radio is expanding its in-vehicle presence and is available as a factory-installed unit in BMW, MINI Cooper, Hyundai, and by 2009 in all Ford vehicles. iTunes Tagging has made the buy button a reality. Listeners tag the songs they want and when they connect their iPods to their computers, there is a seamless transition to the purchase process. So, hearing music over the air I hit the tag button and I have the option to buy. Imagine when that moves from content purchases to advertised product purchases.
7. A soon-to-be-available Radio from Dice Electronics provides conditional access to content. Here's an ESPN HD2 channel that anyone with an HD Radio can receive. But the HD3 channel is set up as an on-demand basis, available only to registered users, allowing stations to capture valuable insights about their listeners and their clients' customers. It's important to note that all of what you see here represents billions in capital investment for Radio. These dollars are well researched and a validation of our future.
8. One last device... the mobile phone. Cellular phones have opened the portal to mobile marketing programs through two-way e-mail and text-messaging communications including opt-in campaigns, text-to-win contests, and tune-in alerts for special programming. It is a natural next-step to deliver partnerships to advertisers that want more than just a gateway to the consumer and are seeking contextual engagement. There are over 200 million mobile phones in the U.S., representing nearly 80 percent of the population. This Nokia mobile phone comes with a built-in FM Radio receiver. Again, if Radio were available on every mobile phone, what would that do to drive our business forward?

Well, let's assume that half of all Americans take advantage of this new Radio functionality on their mobile phones or MP3 players for a half hour a day. That would generate 3 and a half million incremental Average Quarter Hours

nationally, which is about a 10 percent increase. That translates to about \$3 billion incremental dollars in Radio revenue opportunity.

We can use that incremental \$3 Billion dollars and more. Let's agree here and now that our goal will be to have Radio on every mobile phone, PDA, and MP3 Player in the next five years! On-air; online; on-site; and on-demand -- Radio must be anywhere and everywhere there is a speaker or headphones!

We no longer distribute our content on a single channel. We've become multi-channel distributors. Radio provides easy and personal consumer interaction through numerous audience touch points and on a variety of platforms.

But, this is only a part of our future. We need to advance and adapt in other areas, as well. Advertisers and their agencies are demanding accountability and measurable results.

That is why I am proposing a plan that will elevate our credibility with advertisers and ensure Radio's place in a new media landscape.

Last year we announced One Voice for Radio, an alignment of the marketing of Radio by the RAB, NAB, and HD Radio Alliance. Our thinking was that three organizations all promoting Radio separately could do more if they combined forces and spoke with greater impact together. What has developed is one of the most comprehensive multi-initiative marketing plans I have ever seen.

Radio 2020 will be our industry's chance to reignite the passion we all have for this business. Based on consumer research we've validated what we all know. First that Radio is a vital part of consumers' lives, and second, that they take it for granted. In addition, there are numerous misperceptions in the advertising and general marketplace about Radio's health as a medium. A massive campaign built of many integrated elements, the strategy is based upon this brand

positioning statement: RADIO IS THE ONE MEDIUM WHERE EVERYONE CAN FREELY AND EASILY CONNECT TO A DIVERSE WORLD OF ENTERTAINMENT AND INFORMATION, ANYWHERE AND EVERYWHERE.

The plan has these three parts.

A. ADDRESS PERCEIVED CHALLENGES HEAD-ON -- We will directly respond to growing concerns about stale content and technology.

B. ENGAGE THE INDUSTRY -- We are connecting radio stations, technology companies, and other partners – building the entire radio ecosystem.

C. ENGAGE CONSUMERS -- Consumers love radio, but like any long-term relationship, Radio and its consumers need a little nudge to reignite the passion.

Radio 2020 will bring awareness and appreciation to the public and to advertisers about the importance that Radio has in our daily lives. Each of you has a role to play in the Radio 2020 initiative, advocating and promoting Radio's remarkable ability to connect a broad variety of people, places, and purposes.

Radio 2020 will not be a one stop panacea to cure all of our ills. We must continue to push hard on key issues everyday. These are some that your organization -- the RAB -- can play a lead in and I want to address those right now.

The RAB recognizes the need for an end to the debate on posting. Posting is simply a guarantee that we will deliver what we promise to our advertisers. We know our actual delivery is better than the current perception. We must move to develop guidelines. With confidence, we can show our clients that we believe in our medium's ability to deliver. The debate is over. We will post.

We must raise the bar on the RAB's Key Advertiser focus, our effort to directly drive revenue for Radio. This effort has seen progress. For the first time in the history of our organization, with success from Cadillac, Target, and Wal-Mart, we have generated more revenue for stations than what we cost them.

You have a positive ROI with the RAB. We can do better. We are announcing today an unprecedented joint venture with Katz and Interep to increase clients' investment in Radio. I'm glad to say that for a specific list of clients, Katz, Interep, and the RAB will combine their efforts and provide a single point of contact for all communication with advertisers and their agencies. I'd like to thank Stu Olds from Katz and David Kennedy from Interep for including the RAB in this venture.

The Radio industry must have an action plan for electronic measurement to prepare us and our clients for the transition to behavioral-based research. It is time for the industry itself to take ownership for communicating a specific plan and take responsibility for a consistent point of view. We must speak with one voice on our most important issue. Dissension breeds mistrust and doubt amongst our key supporters in the advertising community. To be clear, I'm not advocating a specific plan or endorsing a specific partner. I'm calling for a unanimous and unequivocally clear position that all broadcasters agree to adhere to. We must be together on this issue.

These are positive responses to the needs of our industry and I urge you to respond positively to them. Too often we are our own toughest critics. When I hear or read one broadcaster denigrating another or witness a very public airing of our dirty laundry I cringe at the damage we do to ourselves. We are the number two most-consumed medium in America. We command an annual investment from advertisers of over \$20 Billion dollars and that investment moves billions more in consumer purchases. The capital investment in Radio by

manufacturers, technology companies, and the automotive industry has never been higher.

We are the leader in Audio entertainment and information. Let's embrace new technology. Let's be passionate and enthusiastic. Let's believe.