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The New Radio Revolution

From satellite to podcasts, programming is exploding -- but the fight for profits will be ferocious

How fast is technology turning radio upside down? Ask Brian Ibbott. Last September, when the wannabe Denver deejay started playing music on the Internet, the term for what he was doing -- podcasting -- had been around for two weeks. These days the 35-year-old produces a half-hour show of popular songs called Coverville. Some 9,000 devotees download it three times a week to play on -- what else? -- their iPods. And if they tire of Coverville, they now have 3,500 other podcasts -- and counting -- to choose from.

For all the hullabaloo it's generating, podcasting is not even close to being a business yet. While startups such as Odeo and The Podcast Network are providing technological support and creating a podcasting network, right now Ibbott has barely enough ads to cover expenses, and most podcasters work for free.

EASIER ENTRY. Maybe a few will come up with a way to make a living doing it. Maybe not. Regardless, a trend is afoot that could transform the \$21 billion radio industry. Consider the basics: With no licenses, no frequencies, and no towers, ordinary people are busy creating audio programming for thousands of others. They're bypassing an entire industry.

The digital revolution took its time getting to radio. Now it's exploding -- and the big bang goes far beyond podcasting. As radio shows are turned into digital bits, they're being delivered many different ways, from Web to satellite to cell phones. Listeners no longer have to tune in at a certain time, and within range of a signal, to catch a show or a game. As the business goes digital, the barriers to entry -- including precious airwaves -- count for less and less.

A host of new players is piling in. They include satellite-radio upstarts XM (**XMSR**) and Sirius (**SIRI**), new-media giants such as Yahoo! (**YHOO**) and MSN, and regular folks like Ibbott.

ADS AND MINUSES. Traditional radio powers are already feeling the pain. On Feb. 25, Viacom (**VIA**) announced a \$10.9 billion write-down in assets at its Infinity Broadcasting division, a clear signal that earnings prospects were dimming. A day later, Clear Channel Communications (**CCU**), the nation's largest radio chain, took a \$4.9 billion writedown on its radio licenses, although the company says it did so to comply with a new Securities & Exchange Commission requirement to value its businesses.

Whatever the reason, there's no denying a stark reality: Listeners, increasingly bored by the homogeneous programming and ever-more-intrusive advertising on commercial airwaves, are simply tuning out and finding alternatives. Says Rishad Tobaccowala, chief innovation officer at Publicis Groupe Media: "Radio pissed on their own product and then cluttered it up."

The industry tumult comes down to a simple phenomenon. As digital forms of radio proliferate, listeners will enjoy an abundance of new programming -- but much of it still lacks a proven business model. What's more, even tested radio businesses could see ad revenues wither as new rivals snatch away listeners. No one is saying commercial radio is going away: It still draws more than 200 million listeners a week. The industry "is challenged, but not dead," says Laraine Mancini, an analyst at Merrill Lynch & Co. Still, the biggest fear, for old-timers and newcomers alike, is that even as audio programming grows by leaps and bounds, ad dollars will shrink.

BUYING A SONG. For radio to make money, execs must be as innovative with the business model as they are with technology. Satellite is losing money, but its subscription approach is expected to pay off in a couple of years. Now, Net radio players and cellular services are experimenting with subscriptions, too.

It's possible to imagine people paying monthly fees to hear programming-on-demand on the phone, PC, or in the car. Listeners could buy a song they hear on the radio with the click of a button. Companies could sell subscriptions and place ads inside customized traffic information, weather reports, or sports tickers. "This is the tyranny of choice," says Fred Jacobs, founder of radio industry consultant Jacobs Media. "Companies need to rethink the competitive scenarios and take risks."

As old-fashioned radio struggles, listeners are creating the future. In just seven months, podcasts have appeared, covering subjects from Delta blues to vegetarian cooking to consumer gadgets. Podcasting is growing on the backs of two trends in the tech world: the proliferation of blogs -- scores of which are becoming informal radio stations -- and the growing popularity of mp3 players, including, of course, Apple's iPod. Much like television's TiVo (**TIVO**), podcasting gives users the chance to listen to their programming whenever and wherever they want it.

SKY-HIGH AMBITIONS. Already the forces of commercialization are circling. Entrepreneurs are offering software and services to help podcasters turn out more polished shows. Advertisers such as Volvo (**F**) are sponsoring podcasts. And traditional radio stations, such as the British Broadcasting Co. (BBC) and National Public Radio (NPR) station WGBH in Boston, are launching podcasts.

"One of the reasons to do this is because we don't know what it will add up to," says Ruth Seymour, station manager at NPR station KCRW in Santa Monica, which on Mar. 1 began podcasting 22 shows. For now radio stations aren't charging for podcasts, hoping instead to lure more listeners nationally.

If podcasting is for now more of a potential threat to traditional radio, satellite is already drawing blood. While the two players, Sirius and XM, aren't expected to turn a profit until at least 2008, they have lined up high-priced programming talent and are making an aggressive play for the classic car-radio market. But drive-time radio isn't their only goal: They're stepping up marketing of handheld receivers that allow people to record shows and are placing programs on desktop programs such as Microsoft's (**MSFT**) Media Player. "Satellite-radio companies are at the beginning of their growth curve," says XM CEO Hugh Panero.

FEWER EARS. Having raised comfortable piles of cash, both XM and Sirius are investing to lure subscribers. Sirius is prepared to pay Howard Stern up to \$500 million over the next five years after luring the shock jock from terrestrial radio, hoping he'll bring loyal fans with him. Despite a rocky start, Lehman Brothers expects nearly 35 million people to tune in to satellite radio by 2010, up from roughly 4 million now.

While only a fraction of the traditional radio audience, these defections could have a huge impact. Lehman Brothers analyst William Meyers estimates that since many satellite listeners listen during the daily commute, the most lucrative hours, satellite alone will cut traditional radio revenue growth after 2006 to 2.5% from 4%.

How is old-time radio responding to this assault? For starters, it's looking for ways to bring back listeners. With ads clogging airwaves, the average listening time per person has dropped by more than three hours, to just under 20 hours a week since 1993, according to industry monitor Arbitron (**ARB**). Clear Channel and Entercom Communications (**ETM**) are reducing the frequency of commercials and cutting them from 60 seconds to 30.

ON-DEMAND CONTENT. More profound changes lie ahead as the radio majors join the digital fray. Their biggest hope is high-definition, or HD, radio, which provides CD-quality sound. By the end of the decade at least 2,500 stations are expected to have it. Radio execs are betting that HD will allow them to offer the kind of niche programming already available on satellite radio and on the Web. And in the next few years, HD will feature TiVo-like functions, enabling listeners to store music and news and get on-demand content such as traffic information, weather, and sports scores.

HD radio will keep traditional players in the fight. But getting traction will mean convincing carmakers to install the radios -- and satellite has a head start in colonizing the dashboard. Cutting the price of HD receivers -- now \$500 to \$1,000 -- will be crucial to attracting auto makers.

Even as they gear up for HD, the likes of Clear Channel and Infinity have discovered the Net. By this summer nearly 250 Clear Channel stations in the top 25 markets will introduce ad-supported sites offering radio feeds and studio performances from artists. Yahoo, MSN, and America Online (**TWX**) have staked out an early lead by providing subscriptions and free services that allow people to customize music channels, skip through songs, and buy a tune as they hear it. "If we don't do these things online, people will go somewhere else to get it," says Evan Harrison, hired from AOL Music to develop Clear Channel's Web strategy.

NEW AND IMPROVED? Not everything is easy for those taking the digital road. While audiences at the biggest Net radio players, including Yahoo and MSN, continued to increase last year, the total weekly online-radio audience was unchanged during the past six months, at around 19 million, according to a recent Arbitron survey. Why the plateau?

Some companies limited the music people could hear online to avoid paying heavy royalties. To help foot the bill for those fees and boost the nascent industry, AOL, Yahoo, and MSN agreed last year to jointly seek advertisers for their online radio stations.

Radio execs argue that their innovations and adjustments in programming will put their business back on a sound footing. "We've gone through a lot of events in our history that were...all said to spell the demise of radio," says Jeffrey H. Smulyan, CEO of Emmis Communications, a leading owner of radio stations. "I feel good about the radio business."

On one point, he's right to be optimistic. Thanks to the new technology, more people than ever will be creating and listening to audio programming in coming years. But the radio industry, a members-only club for the best part of a century, is turning into a free-for-all.

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