ADJUSTING THE DIAL

Hit by iPod and Satellite, Radio Tries New Tune: Play More Songs

After Mergers, Bland Sound Left Giants Vulnerable; Fewer Ads, Added Variety

Engineering a 'Train Wreck'

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The Web site of radio station KCJK-FM, known as 105.1 Jack FM, features a picture of an iPod and the taunt: "Guess you won't be needing this thing anymore, huh?"

After years of tight playlists and narrow music formats, KCJK in Kansas City, Mo., is trying to prove that it can give listeners the same thing an iPod does: an eclectic selection of music.

Previously, like most stations, 105.1 let computer scheduling programs pick the songs from a library of 300-400 titles, with the same 30-40 songs playing most of the time. Now the station is going against the grain of the past two decades in radio, more than tripling the number of song titles played on any given day. With more than 1,200 songs on the playlist, most songs get played only once every few days, rather than several times a day. Program director Mike O'Reilly and his assistants handpick the music and the order in which they are played.

"It's all about train wrecks," Mr. O'Reilly says, using radio terminology for two unlikely songs played back-to-back. "If you hear MC Hammer go into the Steve Miller Band, I've done my job." Indeed, the station boasts that it might play a grunge rock anthem by Nirvana alongside a disco hit by K.C. and the Sunshine Band -- the kind of serendipitous combination offered by an iPod.

The station, owned by closely held Susquehanna Radio Corp., is attempting to tackle head-on a malaise that has the entire radio industry on the ropes. Radio has been an incredibly durable medium over the past seven decades, beating back challenges from new media and, as recently as five years ago, riding high on a vast consolidation that put tremendous...
power in the hands of a shrinking roster of large chains. Big owners sought benefits of scale through strategies like voicetracking -- having one set of deejays handle similar stations across several cities, playing the same songs at all of them.

But today, the industry is under attack from new competition that was barely on the horizon five years ago. Digital music players like Apple Computer Inc.'s iPod let listeners carry thousands of songs with them in a device the size of a pack of cigarettes. Satellite radio services like Sirius Satellite Radio Inc. and XM Satellite Radio Holdings Inc. are beginning to blossom, offering higher quality sound, a dearth of commercials and far deeper playlists than most broadcasters. Internet radio stations are siphoning off listeners by targeting small, devoted niches.

To bored radio listeners, those alternatives have tremendous appeal. "The opportunity created for XM wouldn't have been there 15 years ago, because FM wasn't too bad," says Lee Abrams, XM's head of programming and a former consultant who pioneered audience testing and playlists. Now, "research, discipline and all that have gotten out of control," he says.

In a fresh signal of radio's travails, Viacom Inc. this week floated the idea of splitting its giant radio unit and other slow-growing businesses, including its CBS television network, off into a separate company. Today those laggards are widely seen as dragging down the value of Viacom's cable networks and movie studio. Viacom shares have jumped nearly 9% since investors heard the news.

The nation's two biggest radio companies, Clear Channel Communications Inc. and Viacom, both took giant write-downs last month related to their radio operations, in part due to changes in how intangible assets like radio licenses can be valued. Clear Channel's totaled $4.9 billion, and Viacom's was $18 billion.

Now, radio is taking steps to stop the bleeding. After years of delay because of cost, some broadcasters are now racing to embrace digital radio, which can send multiple high-quality signals on one FM frequency. Many stations are trying to program iPod-style mixes of music -- often with the same "Jack" monicker used in Kansas City. Jack, a format developed by Canadian company Rogers Media, a unit of Rogers Communications Inc., is licensed to eight U.S. stations and has spawned about a dozen unlicensed imitators.

Viacom is looking to sell off stations, particularly in smaller markets that are less profitable. And some chains, notably giant Clear Channel, are trying to make themselves more enticing to both listeners and advertisers by cutting back on the minutes of commercials per hour. Part of that involves steering advertisers toward 30-second spots, rather than 60 seconds, so listeners won't be bored.

"Getting and keeping a listener's attention is so much tougher" because of the increased competition, says John Hogan, Clear Channel's radio chief, who is betting that fewer ads will make listeners more loyal to the company's stations. "We can't keep adding interruptions and thinking there won't be casualties."

Doomsayers predicted radio's demise back in the 1950s, when television became widely available and
long-playing records made listening to music on record players easy. But the industry adapted to competition from television dramas by cutting many of its own dramas and playing more music. And it turned out people who bought LPs didn't stop listening to radio broadcasts. Once the 1960s hit and the invention of the transistor made receivers small and portable, radio boomed again.

When FM and stereo sound started to take off in the 1970s, conventional wisdom held that AM radio was finished. Instead, it became the home for talk radio, while music stations migrated to the FM dial. Radio overcame another perceived threat in the 1980s, when Sony Inc.'s popular Walkman became the first device to make custom-selected music truly portable.

To shore up radio's finances, Congress in 1996 greatly liberalized station ownership limits by passing a landmark telecommunications bill. Until then, companies could own only four stations in one market, and a total of 40 nationwide. Today, the same company can own eight stations in a market, with no limit on its national reach.

The move unleashed a wave of consolidation that ultimately led to some of today's problems. Spurred on by revenue that rose annually in the double digits during the '90s economic boom, radio companies gobbled each other up. In 2000, industry revenue totaled close to $20 billion, almost double the amount of five years previously. Two titans emerged: Clear Channel and Infinity Broadcasting, now owned by Viacom. But assumptions that had driven their acquisitions didn't pan out.

Revenue growth slowed to a near halt when the Internet bubble popped, eliminating many free-spending dot-com advertisers. At the same time, consumers were starting to look elsewhere for music: Internet file-sharing sites like Napster took off in 1999, and the first iPod hit the market in 2001.

More recently, satellite radio arrived on the scene and has continued to broaden its appeal. Satellite companies have locked up deals for game coverage of professional football and baseball as well as luring away popular radio personalities like Howard Stern.

Radio companies ignored advances that could have blunted some of the competition. They dragged their feet on digital radio, a technology that promises to provide CD-quality sound and allow radio stations to split their signals into several channels. That could allow the stations to serve the same niche audiences that satellite radio does and perhaps charge subscriptions in some cases.

"The industry did not invest in its future," says Joel Hollander, Infinity's chief executive since January. "If we had invested three to five years ago, people would be thinking differently about satellite" and other competitors.

That is starting to change. At the beginning of the year, 21 radio groups announced plans to accelerate the transition to digital radio. Industry executives say they will convert about 2,000 stations to broadcasting in digital signals, along with analog, in the next three years. Currently, almost 300 of 13,000 stations in the U.S. are broadcasting digitally.

But the conversion is expensive -- about $100,000 per station -- and most consumers won't notice the difference yet because most radio receivers are still analog. Some auto makers are installing receivers now and home digital radios are on the way later this year. Eventually, digital radio could offer some purely practical benefits, too, like traffic information streamed into display screens on the receiver. A TiVo-like function would also allow listeners to record and replay shows whenever convenient.

The Internet has proved largely disappointing for most radio stations. Many started simulcasting their programming over the Internet in the late '90s, only to get bogged down in music-royalty issues that prompted many to turn off the streams.
Now, stations are starting to experiment once again with selling music over the Internet. "The Internet and iPod are not challenges -- they are business options for us," says Mr. Hogan of Clear Channel, which pipes more than 200 of its stations over the Internet and plans to start allowing listeners to download programs to their iPods, a hot trend known as podcasting.

Most radio executives continue to believe strongly that audience research tells them which are the best songs to play, and most stations are still run by programmers who believe in the power of playing the most popular songs over and over again.

But some are starting to broaden their playlists, including the adherents of the "Jack" format. Mike Henry, chief executive of Paragon Media Strategies and a consultant on the format, says listeners want to hear familiar music, but a larger selection and variety of it. So Jack plays only songs people will recognize, albeit from a variety of styles and timeframes. "You're only challenging them on a stylistic level," says Mr. Henry. "You're not challenging them on a familiar/unfamiliar level."

Just over a year ago, Clear Channel helped launch a largely unformatted 1970s-style rock station in Los Angeles, Indie 103.1, that features a former member of the Sex Pistols holding court over the lunch hour each weekday and rocker Courtney Love dropping in for the occasional guest slot.

In a few markets, quirky stations owned by smaller groups flourish. Monterey, Calif.-based KPIG, which plays an eclectic selection of adult-oriented rock music, is the area's No. 7 radio station out of 40 ranked by Arbitron. Its owner, Los Angeles-based Mapleton Communications LLC, started simulcasting it last year in nearby San Luis Obispo, and the format thrived there, too. Now, Chief Executive Adam Nathanson is mulling introducing the format to another area station in his 27-station group. "If it works in one market, maybe there's a chance to build it around," he says.

On the business side, radio companies are also cutting down on commercials, one of listeners' biggest beefs. A study from J.P. Morgan last year showed that radio ran an average of 15 minutes in advertising per hour, with some shows running up to 22 minutes an hour. Listeners say they loathe it.

Clear Channel has made a big push to run shorter commercials and less total advertising time per hour. The hope is that with fewer commercial hours available, they will be able to raise prices, and not lose listeners during lengthy commercial breaks.

Across its chain, Clear Channel ran an average of 9.4 minutes of advertising an hour in February, according to brokerage Harris Nesbitt, likely down several minutes from a year ago, although the brokerage didn't track advertising minutes then. And it has boosted the number of quick-hit 30-second ads that the company says hold listeners' attention better than 60s. For competitive reasons, Clear Channel doesn't say how many minutes of advertising per hour it runs.

For most of their listeners, traditional radio companies say, the tradeoff of a few ads for free content will be worth it. "You can buy satellite," says David Field, chief executive of Bala Cynwyd, Pa.-based Entercom Communications Corp., "or you can pay nothing for us."

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