# Digital Radio
# Discussion of Options

**August 29, 2005**

## Outline

1. **Current Landscape of Terrestrial Broadcasting**
2. **Current PR Plan Update**
3. **Digital Radio: Delivery Issues**
4. **Digital Radio Subscription Business Model**
5. **Alternatives**

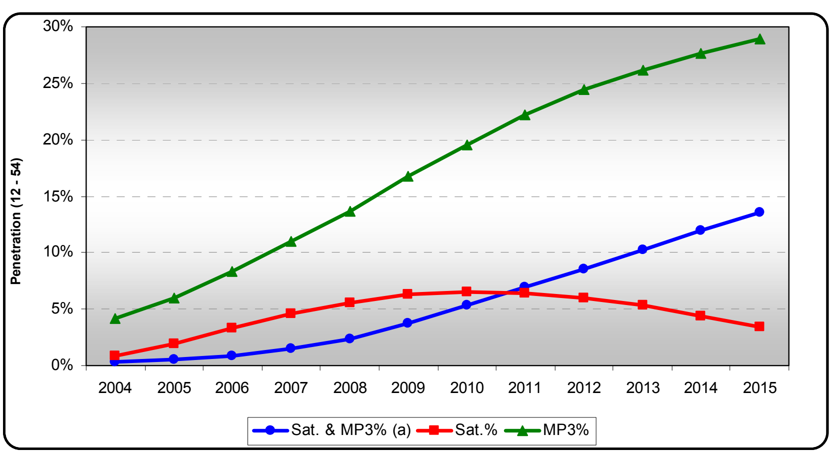
# Outline

1. **Current Landscape of Terrestrial Broadcasting**
2. Current PR Plan Update
3. Digital Radio: Delivery Issues
4. Digital Radio Subscription Business Model
5. Alternatives



# Building Blocks of AQH Forecast

New Media Penetration Forecasts

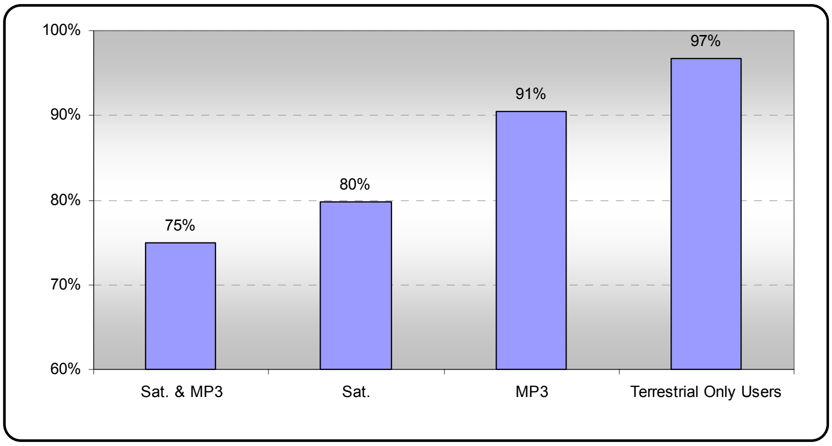



(a) Listeners who use both satellite and MP3 devices or listeners who use devices that have both capabilities

*Source: Forrester, Lehman Brothers, and Internal Estimates*

## Building Blocks of AQH Forecast

New Media Owner Cumes for Terrestrial Radio Listening

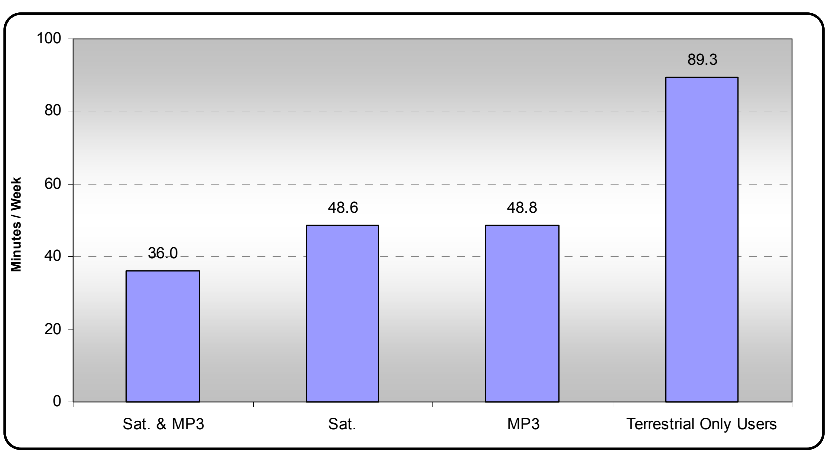



*Source: Internal estimates based on 2004 terrestrial radio studies*



## Building Blocks of AQH Forecast

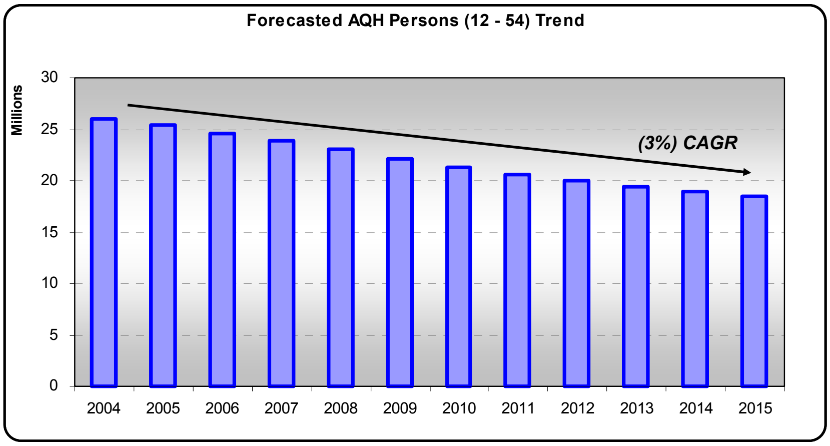
New Media Owner TSL's for Terrestrial Radio Listening




*Source: Internal estimates based on 2004 terrestrial radio studies*

# 10 Year AQH Forecast (12-54)

Based on new media penetration forecasts and their impact on terrestrial cumes and TSLs, AQH persons would fall 3% CAGR over the period.




*Output based on penetration, cume, and TSL assumptions in prior slides*



# Outline

1. Current Landscape of Terrestrial Broadcasting
2. **Current PR Plan Update**
3. Digital Radio: Delivery Issues
4. Digital Radio Subscription Business Model
5. Alternatives

## PR Plan

- Business to Consumer Influencer Launch
  - Concept: *Viral program places radios in high-profile influencers' hands*
  - Event: *Radios are hand delivered to key influencers who are then trained*
  - Follow up: *Check in with influencers to solicit feedback*
  - Time Line: *Distribution begins upon arrival of radios (Approx. Sept. 15)*

- Business to Business Influencer Launch
  - Concept: *Unexpected invitation to industry executives and calls from radio CEOs entitle a guest to a ride and an introduction to Digital Radio by an expert and a celebrity.*
  - Event: *In-car introduction to Digital Radio and exclusive lunch events in select cities*
  - Follow up: *Thank-you letters to guests*
  - Time Line: *…*



## PR Time Line

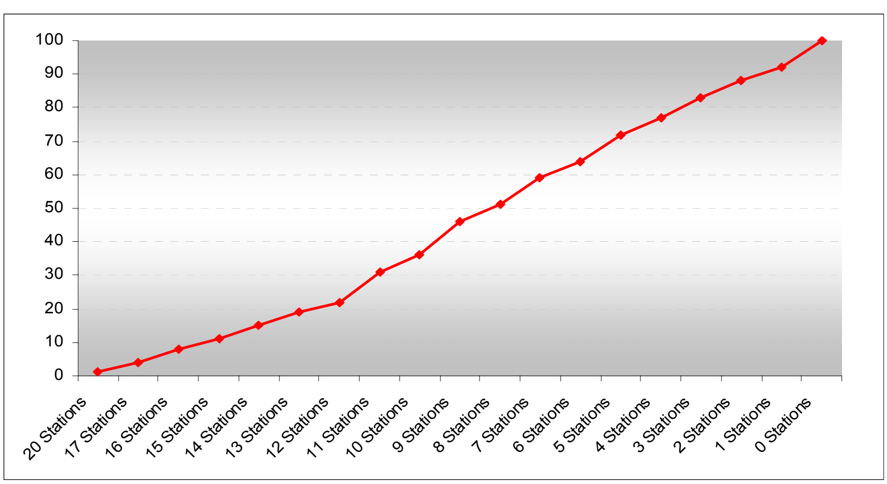
| | |
|---|---|
| B to C influencer list compiled | 15-Jul |
| B to C influencer campaign start date | 15-Aug |
| B to B influencer list completed | 22-Aug |
| Budget submitted for approval | 1-Sep |
| B to B influencer lunch dates set | 1-Sep |
| Research from CCCM | 9-Sep |
| DR name chosen | 12-Sep |
| Digital logo design | 15-Sep |
| Radios available for distribution | 15-Sep |
| Dedicated industry website | 15-Sep |
| Press conference Philadelphia Sept. 21 – 23 | 21-Sep |
| B to B influencer invitations / phone calls | TBD |
| B to B influencer lunch date / location NY | TBD |
| B to B influencer lunch date / location LA | TBD |
| B to B influencer breakfast date / location SF | TBD |
| B to B influencer lunch date / location Dallas | TBD |
| B to B influencer lunch date / location Washington DC | TBD |
| B to B influencer lunch date / location Detroit | TBD |

## Outline

1. Current Landscape of Terrestrial Broadcasting
2. Current PR Plan Update
3. **Digital Radio: Delivery Issues**
4. Digital Radio Subscription Business Model
5. Alternatives

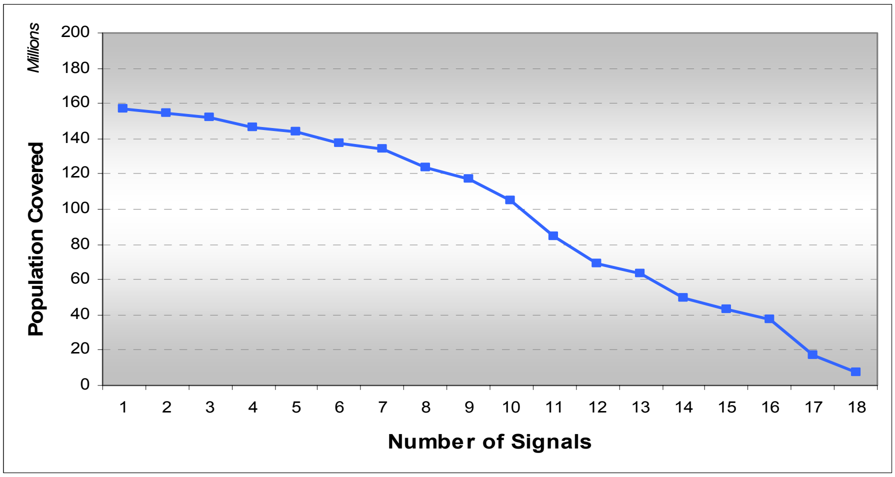


## Number of Full Market HD2 Signals in Top 100 Markets




Stations where the predicted 60 dBu contour (also known as the 1 millivolt contour) covered at least 90% of the high density population areas. 60 dBu is the amount of signal that is needed to receive HD2 on a consistent basis. This study used a simple FCC contour and does not account for terrain issues.

## Top 100 Market Population Covered by HD2 Signals




Population refers to total population in the top 100 markets.

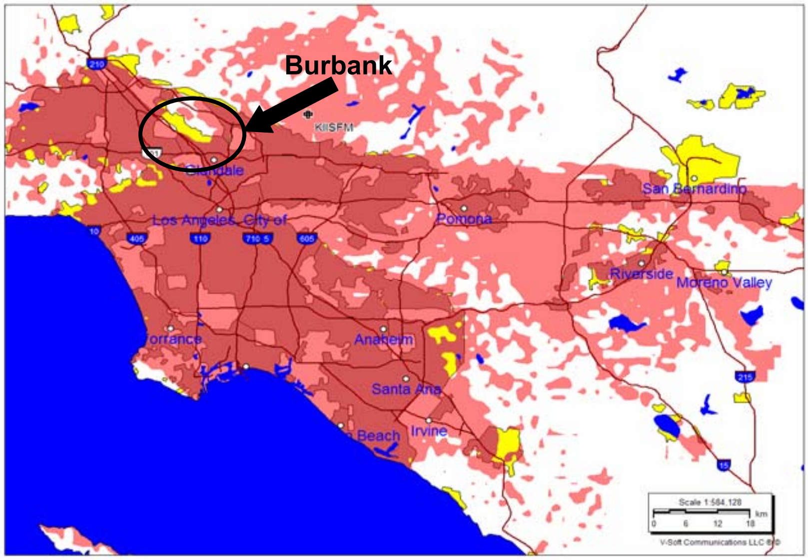


## Population Coverage in Top 10 Markets

| Rank | Market | Total Metro Population | HD2 Coverage | Coverage % |
|---|---|---|---|---|
| 1 | New York | 18,855,621 | 12,488,387 | 66.2% |
| 2 | Los Angeles | 12,358,310 | 10,312,336 | 83.4% |
| 3 | Chicago | 8,929,177 | 7,013,994 | 78.6% |
| 4 | San Francisco | 6,781,025 | 4,409,360 | 65.0% |
| 5 | Dallas | 5,191,787 | 4,933,931 | 95.0% |
| 6 | Philadelphia | 5,037,735 | 3,704,799 | 73.5% |
| 7 | Houston | 4,752,411 | 4,569,693 | 96.2% |
| 8 | DC | 4,567,180 | 3,569,187 | 78.1% |
| 9 | Boston | 5,066,024 | 3,415,309 | 67.4% |
| 10 | Detroit | 4,598,542 | 3,535,497 | 76.9% |

Population Coverage refers to the number of people that receive 60dBu or greater and reside inside of a Metro County.
This study takes into account terrain issues.

## Coverage Holes in Rough Terrain




Dark red areas represent metropolitan areas with 60 dBu or greater signal strength

Light red areas represent non-metropolitan areas with 60 dBu or greater signal strength

Yellow areas represent metropolitan areas with less than 60 dBu signal strength

White areas represent non-metropolitan areas with less than 60 dBu signal strength



## Outline

1. Current Landscape of Terrestrial Broadcasting
2. Current PR Plan Update
3. Digital Radio: Delivery Issues
4. **Digital Radio Subscription Business Model**
5. Alternatives

## Digital Radio Subscription Business Model

*Digital Subscription Service would offer several potential benefits*

- At low subscription prices, it could act as the low-cost alternative to satellite
- It could generate revenue from subscription fees
- It could recover some of the more price-sensitive members of the Satellite listener community
- It could offer audio quality superior to terrestrial AND satellite
- It could attract non-radio listeners by offering unique programming



## Digital Radio Subscription Business Model

*but also some potential detriments*

- Cannibalization of current broadcast primary formats
  - More choices, more fragmentation
  - Lower ratings and rank positioning
- Slow adoption due to high cost of receivers
  - Consumer value proposition is not aligned (it's not "free")
- No current carmaker support
  - Not a passive purchase
  - 45% of all radio TSL is in automobiles
- Broadcast versus narrowcast utilization
  - Programming of channels and competitive agreement among industry

# Digital Radio Subscription Business Model

## Summary Recommendations

**We do not believe that a Digital Subscription Service is a viable business model**

- The technical footprint for a national service has "holes" and would be limited to about 10 channels.
- Consumers have demonstrated little interest in or willingness to pay for a subscription based service at various price points (demand curve).
- Even at a low subscription price point, given the data and logical consumer behavior, we can assume that someone would not pay $5 a month for 10 channels when for $13 they can get hundreds.
- The "cannibalization" effect (digital subscribers mainly coming from the broadcast radio listening group) would likely be greater than the incremental subscription revenue.
- With or without the effects of "cannibalization", this is not likely to be a profitable business, even over time



# Outline

1. Current Landscape of Terrestrial Broadcasting
2. Current PR Plan Update
3. Digital Radio: Delivery Issues
4. Digital Radio Subscription Business Model
5. **Alternatives**

## Digital Radio: Four Partnership Alternatives

1. Market Forces (*Let it Run Wild*)
2. National Partnership (*Run by CCU / Infinity*)
3. National Partnership (*Run by New Entity*)
4. Local Partnerships



## Alternative 1: Market Forces (*Let it Run Wild*)

| Attributes | Comment |
|---|---|
| Management | Each station / entity manages its own spectrum independently |
| Funding | Each station / entity funds its own operations |
| Voting and Profit Sharing | NA |
| Spectrum | Each station / entity manages its own spectrum |
| Programming | Each station / entity provides its own programming |
| Sales | Each station / entity uses its own sales force |

## Alternative 1: Market Forces (*Let it Run Wild*)
### *Pros and Cons*

**Pros**

- Every owner would have flexibility in usage, formats, inventory
- May create deeper and ultra "niche" formats for listeners
- No initiative or cooperation required
- Likely the quickest way to use spectrum

**Cons**

- Overall dilution of existing advertising potential
- Would not provide a clear and compelling value proposition to consumers
- Higher overall costs due to duplication of marketing, programming, and other initiatives
- Negative perception due to industry's inability to create unified effort (vis-à-vis satellite)



## Alternative 2: National Partnership (*Run by CCU / Infinity*)

| Attributes | Comment |
|---|---|
| Management | CCU / Infinity to manage the partnership and its assets |
| Funding | Pro-rata (based upon 12+ coverage of spectrum committed) from each partner over the first two years |
| Voting and Profit Sharing | Profits and votes would be based upon 12+ coverage of spectrum committed |
| Spectrum | From each partner with right to pull with 90 days notice |
| Programming | Everyone has a voice on a local market level, including creative local programming as well as nationally produced programs provided to each local market on a menu basis |
| Sales | CCU / Infinity to provide and manage sales staff |

## Alternative 2: National Partnership *(Run by CCU / Infinity)*
### *Pros and Cons*

**Pros**

- ▲ Mitigates risk that multicast channels are used for redundant programming
- ▲ Very efficient
- ▲ Agile organization; has ability to move quickly
- ▲ Many programming choices
- ▲ Cost effective (lower marketing and programming costs)

**Cons**

- ▼ Individual station owners have less control of multicast programming
- ▼ Potential perception of "conflict of interests"



## Alternative 3: National Partnership (*Run by New Entity*)

| Attributes | | Comment |
|---|---|---|
| ◆ **Management** | → | ◆ Newly formed entity to manage the partnership and its assets |
| ◆ **Funding** | → | ◆ Pro-rata (based upon 12+ coverage of spectrum committed) from each partner over the first two years |
| ◆ **Voting and Profit Sharing** | → | ◆ Profits and votes would be based upon 12+ coverage of spectrum that is committed |
| ◆ **Spectrum** | → | ◆ From each partner with right to pull with 90 days notice |
| ◆ **Programming** | → | ◆ All produced / purchased by new entity |
| ◆ **Sales** | → | ◆ New entity to provide and manage sales staff |

## Alternative 3: National Partnership *(Run by New Entity)*
***Pros and Cons***

**Pros**

- ▲ Mitigates risk that multicast channels are used for redundant programming
- ▲ Avoidance of "conflict of interests" perceptions
- ▲ Independent entity focused solely on digital multicasting
- ▲ Potential to seek independent financing

**Cons**

- ▼ Potential for great bureaucracy (slow and political)
- ▼ Start-up risks
- ▼ Individual station owners have less control of multicast programming



## Alternative 4: Local Partnerships

| Attributes | | Comments |
|---|---|---|
| Management | → | Each locality forms a partnership which manages the use of spectrum |
| Funding | → | Pro-rata (based upon 12+ coverage of spectrum committed) from each partner over the first two years |
| Voting and Profit Sharing | → | Profits and votes would be based upon 12+ coverage of spectrum that is committed |
| Spectrum | → | From each partner with right to pull with 90 days notice |
| Programming | → | National providers could provide menu of choices in coordination with local markets |
| Sales | → | Each local broadcaster responsible for sales |

## Alternative 4: Local Partnerships
*Pros and Cons*

**Pros**

- Provides local owners with higher degree of flexibility than national partnership
- Smaller number of broadcasters needed in each locality to reach agreement
- Potentially quickest way for local broadcasters to act / respond in unison to market conditions

**Cons**

- Very difficult to develop a unified industry effort
- Duplicative costs in each locality
- Would create disparate value propositions and branding for Digital Radio by market



## Action Plans

1. **Investigate which alternatives that comply with DOJ practices**
2. **Determine if any alternatives are acceptable to the group**
3. **Potential in-person meeting on September 8$^{th}$ in Indianapolis at CEDIA, a consumer electronics show for manufacturers and retailers**
4. **Future updates on CCU / Infinity PR plan**