

“Ad Panel Consistently States Positive PPM vs. Negative Diary Views – Will Radio Tune In or Dial Out”

ANALYSIS & COMMENTARY:

Forrester/ RAB Task Force “The Economic Impact Study of the PPM on The Radio Industry”

EXECUTIVE SUMMARY: Radio stations have a decision that looms immediately ahead. Should the Radio sector stride forward with passive electronic, costly Portable People Meters (PPM), or should it stand firmly still with inexpensive human-inscribed paper, less credible Diaries? The Forrester/ Radio Advertising Bureau PPM-Task Force Study (“Forrester study”) forecasts that if Radio moves forward with PPM audience measurement, as its Advertising community Panel suggests, the Radio Industry should potentially generate 3% of added, incremental revenue growth. Conversely, the Forrester study predicts that if Radio stands still with Diaries, that its Ad Panel indicated that Radio should prospectively see about 2% lower growth rate. It’s like the old Clash song, “*Should I Stay Or Should I Go?*”

The Industry debate is already underway, as nay sayers and cheerleaders fire away. Overall, this study provides more ammunition for the cheerleaders. One positive trend is 77% of agencies declare that radio advertising will gain greater credibility from electronic measurement. The spread between positive and negative choices in the study’s questions was consistently and strikingly in favor of PPM by an average of over 12X, a very broad indicator of support. The most revealing result was that if the PPM change occurs, 17% of the Agency respondents would increase their radio ad spend, and if no change occurs with Diaries maintained, that 8% would decrease radio ad budgets. I would point out one significant Ad Panel reply, which was when they asked if PPM markets will increase/ decrease spending vs. Diary markets – 18% will increase spending to PPM markets, while 9% will decrease spending in Diary markets. This disenchantment with Diaries was underscored in last year’s Padin & Estabrook Study ¹ that revealed radio’s Arbitron Diary audience measurement finished a disappointing second to last out of the nine distinct advertising media listed. That’s a dramatically poor ranking, implying a major obstacle to driving revenue is not only the existing Radio research method and seemingly most of the Radio Industry fails to recognize it.

My overall opinion is that Forrester’s judgment about the conclusions of their Ad Panel for a positive PPM direction vs. a negative Diary direction has a high probability of being correct, directionally speaking. My specific debate is in the Forrester study’s potential magnitude of the growth and profitability as being too rosy in nature, and largely trusting the ad community and Radio Industry to consistently react or swiftly conform to new practices. Additionally, there are several other factors changing in Radio today as it shifts to HD radio, electronic data invoicing (EDI), format investment and flexibility, and bloated inventory reduction, as well as the potential move to PPM. Yet, by not moving forward on these various initiatives, the Radio Industry should realize not only carries financial risks to themselves and investors, but also sends a lackluster message of inertia to the industry’s employees.

If the Radio Industry does invest in the shift to PPM, I would forecast a base case of moderate incremental revenue growth of an additional 1.6 percentage-points ² that is more conservative than the Forrester study. My base case’s revenue growth rate consequently has a prospective impact on station or stock valuations. If one utilizes the historical radio relationships between revenue, EBITDA, and FCF relationships at the larger radio groups over the last eight years ³, the potential 1.6% higher revenue could improve EBITDA by roughly 3.4% and could increase Free Cash Flow (FCF) by approximately 5.1%.

Forrester posits a black and white decision that Industry executives should consider with eyes wide open to the challenges, the uncertainty, and the higher costs, even with the potentially higher revenues garnered from PPM. I would point out the Industry’s customers are currently voting with their proverbial wallets to move disproportionately away from Radio advertising. \$14.6 billion of domestic ad spend has voted in the past five years in the favor of more easily measurable, more accountable, and more ROI-proven media.

There are risks to Forrester’s conclusion and to mine:

- It’s conceivable the Ad Panel’s revenue gains are minimal, if ad agencies are saying one thing and end up spending differently.
- It’s possible Radio only partly backs PPM, which extends the transition and mutes expected revenue gains.
- It’s conceivable the investment for PPM of reportedly 45-60% higher than Diary fees might consume much of the growth.
- It is arguable the 10-20% increase in other dayparts’ audience vs. 10-20% decrease in morning drive becomes a focus of agencies. An offset is a Quebec Study ⁴ that saw a much higher weekly come with PPM. One fascinating tidbit disclosed that Teen radio usage was 50% higher with PPM at 1.5 hrs per day than Diary’s 1 hr. usage. With Internet and *iPods*, that is an encouraging, little known plus for PPMs.

Some intriguing notes:

- **BIGGER WALLETS HAD BETTER VIEWS** -- There is a more positive view of PPM at larger ad agencies and advertisers in the data.
- **PPM MOVES THE \$\$\$ METER** – PPM was said by 17% of agencies and 23% of advertisers to boost radio advertising
- **CONSISTENT LANDSLIDES BODE WELL** -- The magnitude of the positive and negative reactions between the PPM vs. Diaries was huge. *This dramatic skew again and again vs. much lower negative views bodes well for the direction of the predictions to come true.*

QUESTIONS POSED	AD AGENCIES			ADVERTISERS		
	Increase	Decrease		Increase	Decrease	
With PPM, do you incr./ decr. Radio adv.?	17%	1%	17X	23%	2%	12X

With Diary , do you incr./ decr. Radio adv.?	1%	8%	8X	4%	8%	2X
	YES	NO		YES	NO	
Would Radio adv. be higher w/ PPM ?	22%		22X	24%		5X
Would Radio adv. be higher w/ Diary ?	1%			5%		
	Increase	Decrease		Increase	Decrease	
Would your Radio adv. incr./ decr. with the avg. station cume higher ? [2x more w/ PPM]			9X			44X
	36%	4%		44%	1%	
	Increase	Decrease		Increase	Decrease	
Will your Radio ad. incr./ decr. in PPM mkts?	18%	2%	9X	22%	1%	22X
Will your Radio ad. incr./ decr. in Diary mkts?	5%	9%	2X	4%	13%	3X

SOURCE: Forrester/ RAB PPM-Task Force Study, April 2005.

The sluggish radio revenue growth and the ongoing audience slippage are due to many aspects, not just the perception of antiquated, less reliable audience measurement. It is many factors, such as the protracted rollout of PPM, the slow but accelerating launch of HD ⁵, the tardy introduction of EDI, the belated format experiments like "Jack", or the long overdue start of the LIM initiative have all contributed to Radio's dilemma. Nonetheless, the combination of concerns that also includes no passive electronic measurement has provoked advertisers and Wall Street to pull substantial money away from the Radio Industry.

Included in the survey were some non-Radio ad agencies at 9% and non-Radio advertisers at 6% of the sample. The data showed very distinct directional differences. A stunning 25% of the non-Radio Advertisers anticipated beginning to spend in Radio. Given Radio's challenge to develop new business and to simply replace the annual advertiser attrition, such a relatively impressive percentage of the non-Radio users that believe PPM should attract more ad clients, is once more possibly a major rationale for Radio to invest in PPM. Since the vast majority of advertisers do not even use any Radio, if a quarter of those holdouts change their mind because of PPM that should potentially add up to tens or hundreds of millions or more new dollars for Radio. That's food for thought.

NOTES:

¹ Padin & Estabrook 2004 Survey of audience measurement credibility. It disclosed Radio personnel perception overstated Radio's ranking by the ad community, while understating all the other media's measurement. *That's not a big ad community vote of confidence for the Radio Diary measurement by Arbitron.*

CREDIBILITY OF AUDIENCE MEASUREMENT	VIEW OF ADVTRS. & AGENCIES [208]		RADIO STATION PERSONS VIEW [368]	
	Weighted Avg.	RANK	Weighted Avg.	RANK
Internet	6.2	1	4.3	4
Network TV	6.1	2	5.0	1
Local TV	5.7	3	4.7	2
Magazines	5.6	4	3.9	6
Synd. Natl. TV	5.4	5	4.2	5
Cable TV	5.2	6	2.9	9
Newspaper	4.9	7	3.2	8
Local & Net Radio	4.9	8	4.5	3
Out-of-Home	3.7	9	3.3	7

² Assumptions and data from Forrester/ RAB-PPM Task Force Study, released July 20, 2005, adjusted for probability by J. Boyle.

³ Wachovia Capital Markets LLC ('97A-'04A company data) of historical relationship of Rev./ EBITDA/ Free Cash Flow for Implied Radio Growth [Boyle, Marci Ryvicker, CPA & Maria Zubov]. The avg. relationship between rev. growth and EBITDA growth was that EBITDA increased at 2.1x rev.'s pace. The avg. relationship between rev. growth and FCF growth was FCF improved at 3.2x rev.'s pace.

⁴ "Station to Station: Measuring Radio Audiences with a PPM Panel in Quebec" [Pasquale A. Pellegrini and Ken Purdye of BBM Canada, June 2005].

⁵ "Digital Milestones –Radio's Transition Underway & Making Quiet Progress"[Boyle, Marci Ryvicker, CPA & Maria Zubov – WCM report from 5/19/05].

DISCLOSURES:

--- I do not formally cover the Radio Industry or any of its individual stocks for a Wall Street firm at this time.

--- I do not, and my family does not, own any public radio company shares, nor own any interests in private companies.

--- I was compensated by The Arbitron Company (ARB, \$42, not rated) to provide my comments and analysis on the Forrester/ RAB-PPM Task Force Study. I requested the freedom to write what I believed. The Company readily agreed and subsequently did not attempt to influence my views. As a relevant aside, when I worked on Wall Street, the occasional client would question my credibility on radio stocks since my family has been in radio for fifty years. I would note to them that I frequently downgraded radio stocks. My track record was that on average I downgraded the radio shares nearly once a year during my recent Street tenure. I often had a more pessimistic view on the Industry than many of other Street Analysts, who all had no Industry background.

James B. Boyle -- August 4, 2005