

RADIO THROUGH THE CRYSTAL BALL

An annual look at radio leaders' expectations for the year, what they would like to see happen—and what they hope doesn't **By Jeffrey Yorke**

As George Beasley tells it, projecting the future of the radio business in this financial climate "is like trying to pick the winning numbers in the Florida lottery." ■ After nearly 50 years as owner of the Naples, Fla.-based Beasley Broadcast Group, which he launched in 1961, he has weathered several recessions. But he laments, "This one is different, perhaps the deepest and most severe our country will endure." ■ Even so, as a man who has pretty much seen it all, Beasley—whose company includes 27 FM and 17 AM stations—is optimistic that broadcasters will recover. "Radio's long-term strengths as a source of free entertainment and information, its local-oriented focus and its role as an excellent medium for cost-effectively reaching consumers will become more important than ever to businesses and listeners," he believes, predicting that operators will become "more efficient, innovative and aggressive."

There's no sugar-coating the fact that radio is facing a slew of obstacles that it has never before had to clear. And while there are endless tough-luck stories, many in the business are approaching the new climate with a realistic stance—and yet they haven't lost faith in broadcasting. In fact, there are some in the industry, particularly small-market operators, that are discovering new opportunities and improving revenue. With any luck, and a lot of forward thinking, that trend could spread in the coming year.



Beasley

This is Radio & Records' annual forecast, where we query the pillars and players of the industry about their expectations for 2009, what they would like to see happen—and what they hope doesn't.

Inspired by the remarkable economic downturn, this year we added a series of new questions to the survey, aimed at group operators and GMs: What will it take to turn radio's declining revenue around, and when do you predict it will happen? How do you see your company making the most out of this recessionary economy? And how are you motivating employees?

What's Old Is New Again

Since 1920, when a ragtag team of new radio enthusiasts broadcast the James M. Cox-Warren G. Harding election results from a makeshift studio inside a Pittsburgh barn on KDKA, the industry has weathered one economic storm and social crisis after another with a combination of brawn and creativity. The answers from our panel show that the industry is prepared to take on a difficult year with gusto. And one thing is certain: There's no shortage of passion among these industry figures.

Ed Levine, the fireball CEO of upstate New York's Galaxy Communications, says, "The beginning of 2009 will look like the end of 2008—in a word, ugly!" However, like many, he hopes that the first step toward better days for

both the broader economy and radio will begin with the inauguration of a new president Jan. 20.

The return of consumer confidence will be determined by the speed at which some of the new administration's changes are felt on Main Street.

Levine suggests, "It's hard to overstate the importance of consumer sentiment and its current negative impact on the economy and the radio business." He adds that if there is a pervasive feeling that the financial downturn of 2008 is in the rear-view mirror and we are now in a new year and a new era, things may improve more quickly. "If we continue to wallow in the negativity, without giving all the new initiatives a chance to work, it will make the turnaround even more difficult."

Emmis founder/chairman/CEO Jeff Smulyan is also concerned about the potential for the American economy to tumble "from a recession to a full-blown depression. The impact that would have on all of us, and our children, will be devastating for years to come."

He also points toward the new president and Congress, "which I hope will bring a renewed vitality in our country that will spur economic growth. With growth, the radio industry will come out of its slump as more people recognize the value of our audience and our efficient delivery mechanism."

Beasley believes the vitality of the U.S. automotive industry is going to be a key component. "On a macro level, we need to see the auto industry regain its health, as it is a vital part of the revenue mix for all broadcasters," he says, including housing and consumer retail on that list.

Beasley is also concerned about rising unemployment, which grew to 7.2% in December—a 16-year high, according to the Department of Labor. He says that more job creation would translate into more money being pumped into the economy and radio. "We're cautious of an environment where unemployment continues to grow, deflation continues and credit remains constrained."

Continued on page 12

'With economic growth, the radio industry will come out of its slump as more people recognize the value of our audience and our efficient delivery mechanism.'

—Jeff Smulyan



Levine

'We stopped truly caring about the product while looking to quick fixes like 'Less Is More,' HD radio and even PPM to help save our bacon... We talked about 'product development' to Wall Street while eliminating the program director job.'

—Ed Levine

Continued from page 11

Economies Of Scale

Looking more specifically at what the radio industry might do to propel itself forward, Levine states that broadcasters must better recognize the social, economic and technological evolution of the medium, including harnessing the power of the Internet and HD radio. He insists the industry "needs to sell advertisers on radio as a multi-media and digital platform, and educate listeners on digital features like iTunes tagging and real-time traffic. These tie to our 'local' advantage as well as consumers' desire for everything digital."

The perceptions that radio is outdated and troubled are its biggest problems, Levine adds, saying the industry did it to itself, thanks to the last 10 years of consolidation, which he describes as "an out-and-out disaster for all but the few who sold to Wall Street and cashed out. We stopped truly caring about the product while looking to quick fixes like 'Less Is More,' HD radio and even PPM to help save our bacon... We talked about 'product development' to Wall Street while eliminating the program director job. We agreed to exorbitant PPM-based licensing fees from a ratings vendor that forced us to fire airstaff across the country. We spent millions on HD and filled it with junk."

But there is hope on the horizon. Levine believes that as more stations return to the hands

of privately held companies—which will buy them at rational prices—the industry will slowly get back to its roots. "It took well over a decade for radio to get into the shape it's in. It may be another long period to get back to preconsolidation growth," Levine theorizes. He says his small, private company has been steadily "investing in ourselves and the area for years. While the big boys pulled back, we control or own most of the significant events in town, which has been a terrific edge for us in this economy."

Bright Spots

Another private owner, Bob Hughes, who owns San Diego independent rocker KPRI with Jonathan Schwartz, anticipates an overall gloomy picture, but with some very pronounced bright spots: "Look for brightness anywhere creativity comes face to face with a market need." Radio's economic turnaround will come once operators "reject the cost-per-point, sell-it-by-the-pound mentality," Hughes says. "Clients don't want efficient buys. They want people in stores. This is the ultimate measure of accountability."

Further, he says that radio is not about mass audience delivery, but more like the magazine industry. "Nobody buys magazines off a ranker 25-54. It's a qualitative buy based upon efficiently reaching a specific target audience. PPM is a step backward in this area. Arbitron is dead wrong to encourage us to promote radio as a 'cume medium.'"

He also points to the hotbed issue of posting, the process that reconciles advertising time buys with actual audience delivery: If the schedule doesn't produce gross ratings points as ordered, stations compensate the buyer for the difference. "What happens if an advertiser runs a schedule, it posts perfectly—but still doesn't get results? That advertiser is lost forever."

Hughes, who rose in the Washington market from a news anchor to news director, PD, GM, then president of U.S. Radio before buying stations, remains motivated by radio and looks for that in his staff. "If you are a radio person, this is the golden age," he says. "At no time in our history has there been a better opportunity to demonstrate radio's main advantages: efficient, effective, responsive."

Portable Connectivity

RAB president Jeff Haley is looking for radio signals to spread to more portable devices in the coming year. "We're going to see a proliferation of radio integration on mobile and Internet devices," he says. He points to CBS Radio's partnerships with Internet leaders AOL and Yahoo, and new applications like Clear Channel's iHeartRadio for the iPhone, along with broadcasters in smaller markets advancing their online presence to help local businesses. "So collectively, we are moving in the same direction."

Haley hopes to see radio elevated in the advertising community, where he believes its "core attributes of reach, relevance and receptivity are as strong as ever. Yet there is a disproportionate amount of spending on other media versus radio, in large part because of misconceptions. With advancements into online and mobile distribution enhancing delivery options and interactivity, radio is at the forefront of consumer engagement."

Haley anticipates the industry will continue to discuss digital opportunities, experiential marketing and branded on-air entertainment elements with advertisers. "We need to convey our message with one voice and employ accountability and measurement in our business practices that convey confidence in our medium." While he agrees that the recession has forced belt tightening, he says it's important for broadcasters to "continue responding to listener demand for new, innovative formats."



Stilwell

Unique Value

Like his RAB counterpart, NAB president/CEO David Rehr recognizes that radio faces many challenges in 2009. Its future, he says, hinges on seizing digital opportunities, whether HD radio, FM-capable cell phones, Internet radio or some yet-invented technology.

Rehr is hopeful that the new administration will recognize the value of free and local broadcasting, especially during

tough economic times, and will appreciate the lifeline role that radio plays in providing communities with local news, emergency information and public service programming.

Like Haley and Rehr, Emmis' Smulyan hopes that industry initiatives, including Radio 2020 and Radio Heard Here, "will start to bear fruit and change the perception of our industry. Despite reports to the contrary, consumption of radio has held up well, and I expect that trend to continue."

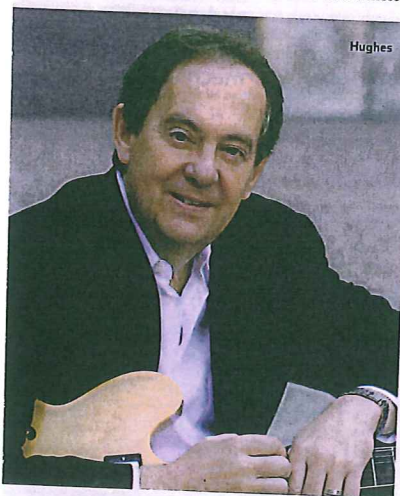
Smulyan has been instrumental in influencing cell companies to adopt device applications to carry radio broadcasts, so it is no surprise that he'd like to have an agreement with the wireless industry to put radio tuners in cell phones by the end of 2009.

Radio, Artists Prepare For Battle

Rachel Stilwell, a communications attorney with Berger Kahn in Marina Del Rey, Calif., and a longtime Washington watcher, points to issues that will heat up the year for broadcasting. She expects an increasingly contentious battle among radio, recording artists, labels and lawmakers regarding the performance royalties issue, which would impose a new fee on terrestrial broadcasters.



Rehr



Hughes

David Oxenford is on the same page regarding the issue. The communications attorney and partner in Washington law firm Davis Wright Tremaine believes it could be the year's biggest challenge. "More than any other regulatory issue, this one would have a direct and immediate impact on a station's bottom line—if radio broadcasters were forced to pay record companies for the use of music on the air, in addition to the current royalties paid to ASCAP, BMI and SESAC." Oxenford has been monitoring progress made in the past year by the performance fee lobby and warns, "The recording industry is gearing up to push this legislation again in 2009, so radio broadcasters will need to be alert for the coming battle."

He also warns that broadcasters need a solid understanding of regulatory and financial obstacles that face them. "The broadcast performance royalty and Internet streaming royalties are but part of a larger scheme of regulations that make it very difficult for small radio operators to be real players in the digital media space. Broadcasters need to recognize where their future revenues will come from and work to make sure that all can play in that environment."

Oxenford worries that new regulations and troubled economic times could hurt broadcasters. "I'd hate to see the FCC become too overly regulatory, especially in the current economic climate. If pending proceedings on issues like localism, enhanced disclosure of public-interest programming and embedded advertising were to be adopted this year, we'd see a world of economic hurt, especially among small broadcasters who can least afford additional expenses in this multimedia world." A change in administration always poses such a risk, he says, "but we would hope that the business climate and competitive realities of today's media marketplace would moderate the regulatory zeal of any new administration."

Leading The Charge

Jennifer Bendall, executive director of musicFIRST (Fairness in Radio Starting Today), is among those in Washington leading the charge for Congress to pass performance royalty legislation. She predicts that "bills will be reintroduced in both the House and the Senate this year to close the loophole in copyright law and establish a performance right on

radio for America's artists and musicians."

But not every station or format faces huge invoices. She insists that small broadcasters and public and religious radio stations will pay a nominal fee to clear performance rights for music played. "Larger stations and the big corporate radio groups will pay a rate set either through negotiations or by the Copyright Royalty Tribunal. These proceedings will take into account the promotional value of radio when setting the rate."

On another front, Future of Music Coalition executive director Ann Chaitovitz believes the credit crunch will make it hard for new business models and innovations to get off the ground, but "the distinctiveness of certain forms of traditional media may become more valuable. In the case of radio, its capacity to serve local communities is unique—it's an important part of radio's history and something no other medium can do."

She wants commercial terrestrial radio to pay more heed to localism, which is key to its continued viability. "With increased competition in other media, it seems increased community focus is one way for commercial broadcasters to retain and even attract listeners."

'The broadcast performance royalty and Internet streaming royalties are but part of a larger scheme of regulations that make it very difficult for small radio operators to be real players in the digital media space.'

—David Oxenford

Financial Forecast

Analysts and brokers read the tea leaves for 2009

Mark Fratrik, VP, BIA Financial Network

Expects to happen: Things will get worse before they get better. Local station radio revenue will decrease by 10% this year. The decrease in the smaller markets will be somewhat smaller than in the largest markets.

Would like to see happen: Broadcasters that weather the storm, don't panic and get back to working with clients to develop advertising plans that lead to results. Broadcasters that continue to develop their Internet sites, not only radio sites, but sites that provide other local information. Advertisers that think longer term and maintain their advertising/promotion/capital expenditures, even though that is difficult in these tough times.

Doesn't want to happen: Panic. Lowering spot prices just to get some business in the door. Radio is still an effective local advertising medium. While broadcasters may need to be flexible in pricing for their cash-strapped advertisers, they must not give away the store. Otherwise it will be hard to raise those prices once the economy recovers.

Marci Ryvicker, VP of equity research, Wachovia Capital Markets

Expects to happen: Another very difficult year with radio revenue percentages down by high-single digits for the year, although this may be too optimistic.

Would like to see happen: A bottom in all the carnage—particularly in the stock and housing markets. A return in consumer confidence and spending, plentiful credit and thriving media businesses. Better corporate governance in all of media, but particularly in radio. Groups working together to figure out ways to generate

incremental revenue.

Doesn't want to happen: Radio groups continuing to air their dirty laundry. Stop fighting Arbitron in the public eye—it makes your customers doubt your measurement system that much more. Public groups getting delisted, but that is unfortunately a likely occurrence. Broadcast analysts laid off. Hearing about how radio is suffering from a "perception" problem. No one is naive enough to believe that statement and you just lose credibility every time you say it.



Serafin

radio station operators trimming expenses. Significant, open resistance from owners and operators to costs incurred from certain suppliers and vendors.

Would like to see happen: Radio to hunker down for 2009 and simply have a plan on how to get to 2010. There won't be any magic bullet in the near term. While there is some great national programming, it would be counterproductive to cut deeply into local programming. And for

radio to promote itself more.

Doesn't want to happen: Radio companies collapsing under their debt.



Boyle

Jim Boyle, veteran Wall Street media and entertainment analyst

Expects to happen: Radio advertising to be down 8%-10%.

Would like to see happen: Further rationalization of the giant platforms and de-levering of the largest groups.

Assertive exploration of nonadvertising revenue streams and distinctive formats. Crisis is often the time to try gutsy, different ideas.

Doesn't want to happen: More of the same old approach. Although cost-cutting is unavoidable in very tough times, more prudent and surgical cuts might make more sense than ongoing, widespread head-count reductions and slashing salaries and commissions. Promotion and programming cuts have already been done multiple times.

Gregory Guy, managing partner, Patrick Communications

Expects to happen: The recession to continue through the end of the second quarter. By then the uncertainty of the lending environment and the radio business hopefully will dissipate, providing new benchmarks in terms of multiples and values, and allow for significantly more transactions in 2009.

Would like to see happen: A quarter or two of economic stability to bring lenders and buyers back to the table.

Doesn't want to happen: A prolonged recession. The lack of available credit, even at decreased levels, continues to strangle station values and trading. This makes groups unable to shed stations, even at reduced values, in order to improve their balance sheets.



Guy

Glenn Serafin, president, Serafin Bros. Broadcast Brokerage & Finance

Expects to happen: More ad market constriction and