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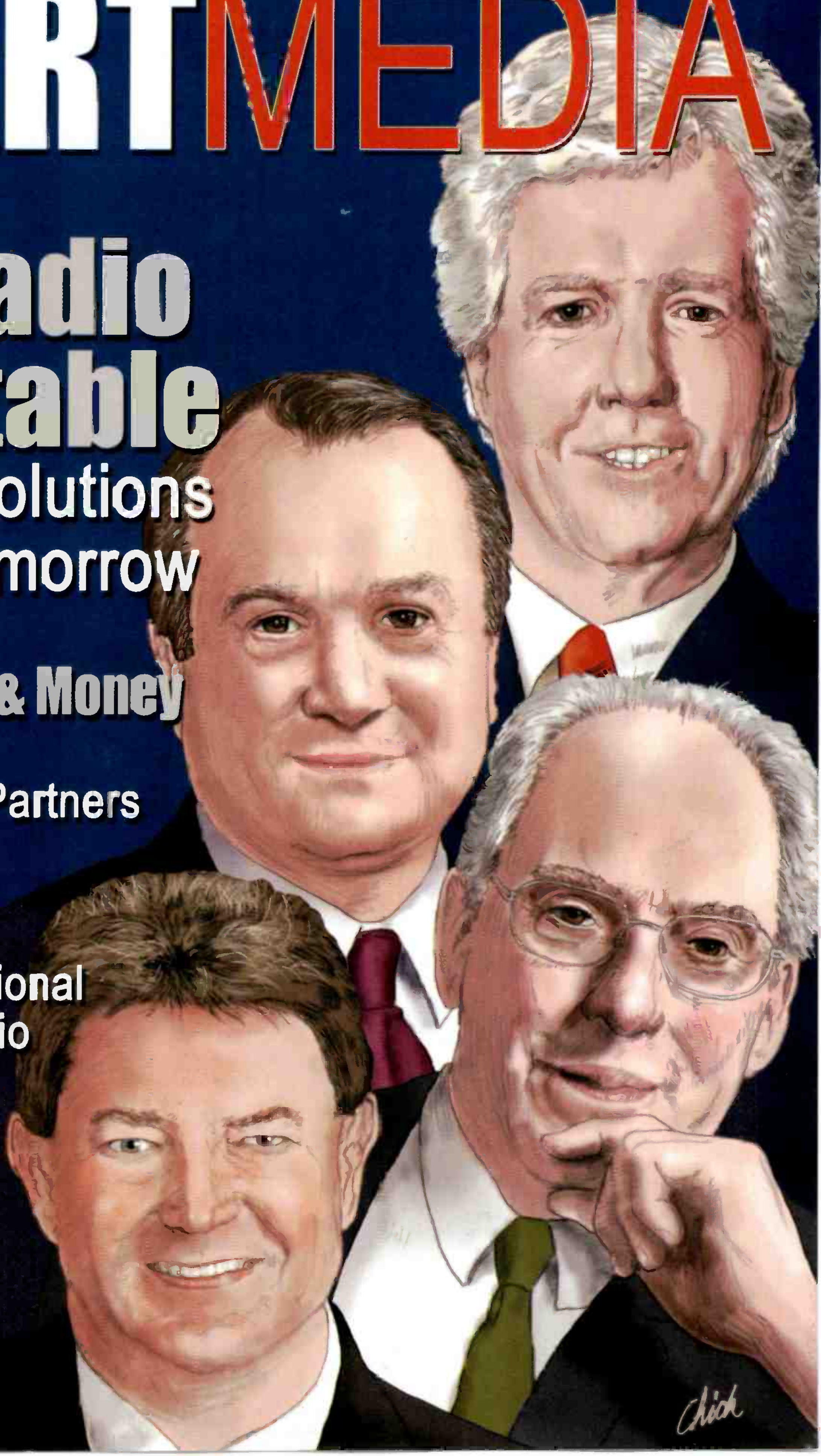

2007 Radio Roundtable

Execs find solutions for today, tomorrow

Media Markets & Money

Perry Steiner, Arlington Capital Partners

Engineering

Monetizing Conditional Access in HD Radio

RBR TVBR MBR

A Publication from Radio & Television Business Report

RBR TVBR MBR

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RBR Epaper $108
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CHICK'S CLIQUES

September 2007 Volume 24, Issue 9

[contents]

Cover Art (top to bottom): Peter Smyth, Greater Media CEO; **Stu Olds**, Katz Media Group CEO; **Ed Christian**, Saga Communications CEO and **Dan Mason**, CBS Radio CEO.

DEPARTMENTS

GM spending big bucks on radio stars

According to an Automotive News article last month, General Motors is recruiting many of America's best known radio personalities—including **Rush Limbaugh**, **Bill O'Reilly**, **Laura Schlessinger** and **Whoopi Goldberg**—to talk up its vehicles on air. GM gives the hosts new cars two weeks each month and brings them to Detroit for meetings with company execs—wow!

Hannity did a big GM car giveaway a few months back and talked about driving the loaners. Limbaugh has also talked about his staffers driving a loaner Cadillac in conjunction with promoting GM vehicles, so this isn't all new. **Dennis Donlin**, President/GM Planworks, tells SmartMedia: "In some ways radio is very analogous to social networking. DJ's create a community of sorts, and this initiative allows GM to enter that community as a guest."
Excerpts: "GM says it doesn't pay the stars directly for their endorsements, although it advertises on their shows. It gives them new GM cars and trucks to drive for two weeks each month. The company also invites the celebrities to Detroit for private meetings with top executives and VIP tours of GM facilities.

The attention is paying off. One day last month, for example, Limbaugh—who has the largest audience in talk radio—told his listeners that "GM cars and trucks have never been better. GM has a ton of momentum," Limbaugh enthused. "They are working hard and they are thinking smart. Believe in General Motors, folks. They're a classic American company doing it all."

Sam Mancuso, GM's director of brand marketing alliances and operations, told the mag the company initiated contacts this spring with 17 national radio hosts, as well as dozens of local personalities in cities such as Dallas and LA. Mancuso said he and **Betsy Lazar**, GM executive director of advertising and media operations, have done much of the wooing. GM's monitoring confirms that the personalities are talking about the company's vehicles on their programs, Mancuso said. But he insisted that GM does not give any of them a script, nor are they required to mention GM.

The full list of major talent includes **Michael Baisden**, **Glenn Beck**, **Delilah**, Whoopi, Hannity, **Laura Ingraham**, Limbaugh, **George Noory**, O'Reilly, **Bill Press**, **Jim Rome**, Dr. Laura, **Ed Schultz**, **Ryan Seacrest**, **Keith Sweat**, **John Tesh** and **Big Tigger**.

SmartMedia observation: Call it plugola if you like, but it's all above board and it's about using radio for the ad vehicle it really can be. They are just being asked to speak with the execs, drive the vehicles and talk about them. GM has done some interesting things with their vehicles, such as invite folks to test drive them on impromptu driving courses at stadium parking lots. Just get in one line and drive GM cars; another BMW; Toyota; Ford, etc. Sometimes putting folks behind the wheel is the best form of advertising. ■

Credit tightening hits broadcast sales marketplace

Rumblings in the big league credit markets are taking their toll on radio and TV transaction activity. What's still to be seen is how deep the impact will go.

Tribune sought to allay fears when it declared that all of the financing is committed for its buyout. Clear Channel is also believed to have firm commitments for its buyouts.

But for deals not yet done, terms are tightening and financing is becoming harder to get. Citing "difficult conditions in the financing markets" Nexstar announced that it has decided to suspend discussions with potential buyers of the company. CEO **Perry Sook** tells SmartMedia that a "hiatus" is an accurate description and it is likely that sale talks will resume when the markets improve.

There were rumors on Wall Street that LIN Television would take the same course. However, in his quarterly conference call with analysts, CEO **Vince Sadusky** said the company is continuing its review of strategic options, including a possible sale of the entire company. He noted, though, that the process has been impacted by the recent weakness of the credit markets.

First to be impacted were big deals, generally at least $100 million, where the bank making the loan will typically syndicate it to a number of institutional investors. That market contracted dramatically, but it's not known for how long that will be the case. Station brokers tell SmartMedia that for more typical transactions, up to the $30-40 million range, where the lender will hold the entire loan itself, credit is still available. ■

Battle lines on performance fees

Royalties are what the recording industry would like payments for broadcast performance to be called. A performance tax is how the National Association of Broadcasters puts it. The bottom line is that after decades of broadcasters, recording companies and artists enjoying a symbiotic relationship wherein broadcasters get content and producers, distributors and artists get tons of free promotion, the recording industry is trying to put the squeeze on broadcasters. Most think it's a short-sighted attempt to make up for shortfalls due to damage the internet has inflicted on its business model. It looks like the recording industry may have support in Congress, where during the summer it hid behind **Judy Collins** and **Sam Moore**. Broadcasters are fighting the effort, and also coming up with contingencies, like perhaps transforming performances into paid advertisements. Stay tuned. ■

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JACK **MESSMER** and CARL **MARCUCCI**

Execs tackle tough issues

SmartMedia recently sought out comments from radio industry leaders on innovation, progress and solutions to some of the biggest issues facing the medium. And there is no shortage of issues. AM and FM radio face new competition for listeners, radio's share of the ad spending pie is decreasing and HD Radio is still trying to get off the ground. Meanwhile, politicians want to re-regulate radio and record companies are trying to claim a share of revenues off the top line for the first time. It's a heck of a time to be a radio CEO, but we got a few of them to talk. Some answers were edited for space.

The participants:

Jeff Smulyan, Emmis CEO; **Ed Christian**, Saga Communications CEO; **Peter Smyth**, Greater Media CEO; **Bill Stakelin**, Regent CEO; **Paul Robinson**, Emerald City Radio Partners President, **Dean Goodman**, GoodRadio CEO; **Mary Quass**, President/CEO, NRG Media; **Jeff Haley**, RAB CEO; **Stu Olds**, Katz Media Group CEO; and **Dan Mason**, CBS Radio CEO.

If radio ad sales are flat-lining and many radio stocks are hitting all-time lows, it is not a time to sit back and do nothing.

Q. What's broke in our industry and what do we need to do to fix it?

Smulyan: We need to demonstrate the incredible power of local radio. Listener consumption and engagement is much greater than conventional wisdom gives us credit for, and we need to overcome that perception gap. I believe the NAB and the RAB are helping to lead the industry in the right direction with marketing campaigns and major initiatives for reaching national advertisers.

Christian: We cannot operate in the traditional manner and must realize that there has been a paradigm shift in our industry. At the same time, we cannot allow our industry to be centered upon suspect research methodology. It continues to amaze me that Arbitron feels that the PPM is the salvation, yet most markets in the US may never see PPM and be yoked to the "diary method" which is, I believe, so out of date and irrelevant to today's lifestyles. We have made our industry "ratings centric" and I know of no other industry that would tolerate dated methodology and cavalierly supported information to be promulgated to our clients.

Smyth: We are stuck in history. We are so busy trying to fix our traditional business model that we're not giving sufficient time, energy and thought to our emerging new business model. Radio can and should prosper as a purveyor of integrated solutions for local advertisers, and provide them a seamless integration of broadcast, online and event exposure.

Stakelin: We don't view our business as being broken. We view it as continuing to evolve in a multimedia world. Develop strong local content compelling to consumers in local markets that are dependent upon it as well as entertained by it. Increase distribution of this local radio content through every new media outlet available. Streaming and building station internet communities with whom to communicate—these are exciting opportunities and those who, as radio has done in the past, can adapt and move forward will survive.

Robinson: As an industry, radio continues to compete in a bloody red sea of competition. Radio must come to grips with the fact that to succeed going forward the industry must recreate itself in a way that can not be replicated by competitive technologies. It can no longer be only about the music. If music serves as the foundation, the mortar between the bricks is what will hold your business plan together. It better be locally produced and it better be relevant to your target. Fulfill needs that the local market doesn't even know exists.

Goodman: Nothing! But owners, CEOs and GMs believe that radio is less viable today than it's been for the last 90 years. They believe because TSL is off with certain demos in certain rated markets the world is coming to an end. Radio reaches almost every American, every week! If you can't be passionate about that and sell it, program it and be proud of it; please get out of the way of those of us who can. ▸▸

Quass: I am not sure that ba broke is the correct term...maybe misguided is a better word. We keep looking for the quick fix to our income problems, be it NTR or bulk commercial contracts...when what I think we should be focusing on is how to maintain and grow our audience with superior programming and then charge a decent rate for the air time in that programming. Can you honestly say that you are giving your listener what they want, and doing it better than anyone? We need to focus on the product, have the courage to take bold steps to keep our listeners, and charge for what we are worth.

Haley: Our biggest challenge is to change the advertiser experience with radio. We are defining radio in the new digital media landscape and advertiser perception of our medium depends on their experience with us. HD Radio multicasting, Internet streaming, and content on mobile phones have led to creative and more interactive programming and advertisers are starting to notice. We need to build on that momentum, promote our medium's core strengths—reach, relevance, and receptivity—invest in marketing ourselves to listeners, and deliver measurable results to advertisers.

Olds: The radio industry is far healthier than many people believe. If anything, our biggest challenge is fighting the perception that radio has lost its way. In fact, our audiences have held steady, our ability to demonstrate return on investment has markedly improved and we are keeping up with technological innovation. Certainly, we need to make sure we continue to make advances in how we measure audiences, but it's important to remember that along with television we are the best way to reach a mass audience.

Mason: We need to increase our focus on the product. We can't, and shouldn't want to, sound like satellite radio or an mp3 player. Radio touches people in emotional ways and can call our audiences to action in like no one else. This is what sets us apart now and will in the future.

New names have come into the radio business lately, Google, SWMX and Bid4Spots to name three, wanting to be middlemen in the advertising process. Some broadcasters have embraced the idea of listing their inventory online, particularly remnant, while others have resisted the idea.

Q. Do you view Google and the other online markets for radio inventory as good for the business or not?

Smulyan: We all want to increase demand for our inventory, and I think that anybody who brings new advertising to the industry should be positive. Google has staggering reach—I believe they reach ten times as many total advertisers as the entire radio industry. If a portion of Google's current advertisers has a new focus on our industry, it should be good. We still have the right to refuse business that isn't favorable to us. The bottom line is that our industry needs to be redefined, and foreclosing any option doesn't make sense to us.

Christian: Not good for business. We don't sell remnant inventory. If we ever did, we would control the process. I'll change my mind the day that I see someone walk up to an airline counter several hours before a flight and offer to buy a tickets at 90% off marketed price and walk away with a ticket.

Smyth: Online technology is neither good nor bad. It's how it is applied. If online commodity trading takes the place of one-on-one selling of radio's value, then it will provide only an incidental bump, but will condemn the industry to a bargain basement position. We are already the most efficient of all the major media; there's not much reason to discount further and put ourselves out of business. ▸▸

However, if technology is used in conjunction with qualified sellers raising the value proposition of radio, online markets can be additive for radio revenues.

Stakelin: Neither. We view Google as an idea whose time has come and it is incumbent on us to figure out how to make it work to our advantage. Losing control of pricing and moving more rapidly toward a pure commodity sale of outstanding radio content is not in our interest.

Robinson: The online market for radio inventory may be one way to build demand, and only by building demand for inventory can radio put upward pressure on ad pricing. However, there is just no conceivable way (other than perhaps ease of use) that automated sales systems can be guaranteed to maximize an advertiser's ROI. Easy money (high margin business) is a good thing, so long as it does not ultimately devalue the asset that provides radio with its core income stream. Depending on the online market to make the numbers is the first step down the Pathway to Perdition (or Commoditization). Adding inventory to offset the impact of selling more avails at bargain basement rates would be the ultimate nail in radio's coffin.

Goodman: Very good. The easier it is to buy time the better. We have a handful of sellers, Google, etc. potentially have millions. There's plenty of business for every one of our salespeople and online sales.

Quass: To me it comes down to the decision of what is the best use of the available inventory we have. What Google is doing may be terrific for the business if it brings new advertisers to the medium, at a fair rate, and it puts pressure on the inventory to raise all rates....or it could be another dead end in the search for the easy way to drive revenue.

Haley: Radio is an amazingly versatile industry. Just like there is no one-size-fits-all radio format, there are diverse business models that can yield financial success in our medium. Each operator will make the choice that reaps the most rewards for their company.

Olds: It can be very positive for our industry if these new players increase the advertising pie and boost demand by exposing radio to a new set of buyers and advertisers. No one wants to cheapen radio's value by offering inventory as a commodity. Radio stations still have complete control over their inventory, which historically has been positioned and sold in different ways and across various platforms, such as local, national, network and spot. Beyond the issue of commodity pricing, auction services like eBay and Google are stifled by limited access to inventory and a line-up that doesn't include most of the major station groups.

Mason: If Google can bring new advertisers to radio that isn't a bad thing. However, if we sell our prime inventory to them at remnant prices, that isn't good.

With all of the spots listeners are hearing, driving the benefits of an HD Radio receiver and all of the new, cool formats, it's time to ask about how broadcasters plan on making money with the system they've been spending millions on across the country.

Q. What's next, now that The HD Radio Alliance says late this month they will meet to decide when monetization of HD multicast formats can begin.

Smulyan: The first thing we all have to do is create compelling content, and secondly we need to get HD receivers in the hands of our customers. Those two things are key. And beyond that, we think there are possibilities to monetize the spectrum through data content, as opposed to audio.

Christian: I would like to believe that we can power through and make it a revenue stream, but till receivers are in place, not a lot will happen. I listen to an HD2 stream in my office and for the last thirty days I haven't heard a spot. Take a clue from TV. It wasn't untill the ▸▸

FCC mandated the date that TV broadcasters had to abandon their analog signal that everything started to coalesce.

Smyth: Ask me when we get enough penetration of HD Radio to aggregate an audience. That's job one. We're not big believers in the co-branded channel approach to HD Radio.

Stakelin: We believe in HD and are a player in the conversion game. However, if our sights are on monetizing anything in the near term, HD is not the priority. Until the consumer, and especially Detroit, accepts the technology and we move rapidly for mobile devices for our listeners we will continue to see slow progress and continue to travel uphill. The opportunities that HD offers are awesome. But turning them into reality is proving an awesome task for the industry.

Robinson: Effectively monetizing the HD asset is a long term proposition. Even if stations can exploit HD Radio for its interactive capability, market penetration will be an issue for years to come. The basic flaw with HD is iBiquity's attempt to create a need based strictly on higher quality sound. If you're listening on an iDevice, who cares? Before too long mobile high speed networks will proliferate. People will become accustomed to ubiquitously available wireless high speed net-surfing. Using HD technology to deliver branded content through wireless mobile delivery services will be key.

Goodman: Totally baffled. We need receivers everywhere. I can not understand why we don't mandate the NAB to get an all band receiver AM-FM-HD act from congress. They/We did it with AM-FM and UHF-VHF. The TV industry found a viable solution to HDTV, though an arduous task. The only way HD Radio is viable is distribution, where everyone has one. This will never happen without and all band radio act. Also the price point to buy one is crazy. The electronics industry and royalty beneficiary's need to be convinced selling hundreds of millions of radios at a competitive price is better then a few at a ridiculous price. The NAB can handle this too, just tell them now. This is the most important issue to this industry's continued viability, otherwise we are riding an analog radio dinosaur into extinction.

Quass: We are currently researching the options that are possible with HD Radio, both from a traditional programming sense and then from those out of the box, "what if ..." sense. Are there ways we can use the signal to enhance the main brand, but to do other things that are complimentary? So far we are searching for options.

Haley: Radio companies will explore every revenue option with HD Radio and again, I do not see only one road to success. We are going to hear everything from traditional spots to exclusive, single-sponsor stations and programs; client-customized or even client-created programming; deep product integration; and more. A lot will depend on the format, its audience profile, and the dynamics in that local community. Certainly in-dash, on-screen text-messaging is a great opportunity for delivering a local message in conjunction with the airing of a national commercial.

Olds: As HD radios enter the marketplace and more people listen to HD channels, the audience will grow and advertisers will be interested in reaching these listeners. There's no question that audiences will continue to fractionalize as media sources and devices become more mobile, wireless and on-demand. That will result in more niche segments across all channels. But to sell more advertising, we'll need to make sure we're attracting listeners with the right programming so we can continue to build audiences. Once again, content is king. ■

Next month we ask: What have you done in the way of advertiser integration into your programming and product, away from the typical spot schedule?; and Can radio do anything to make national business stronger and less volatile?

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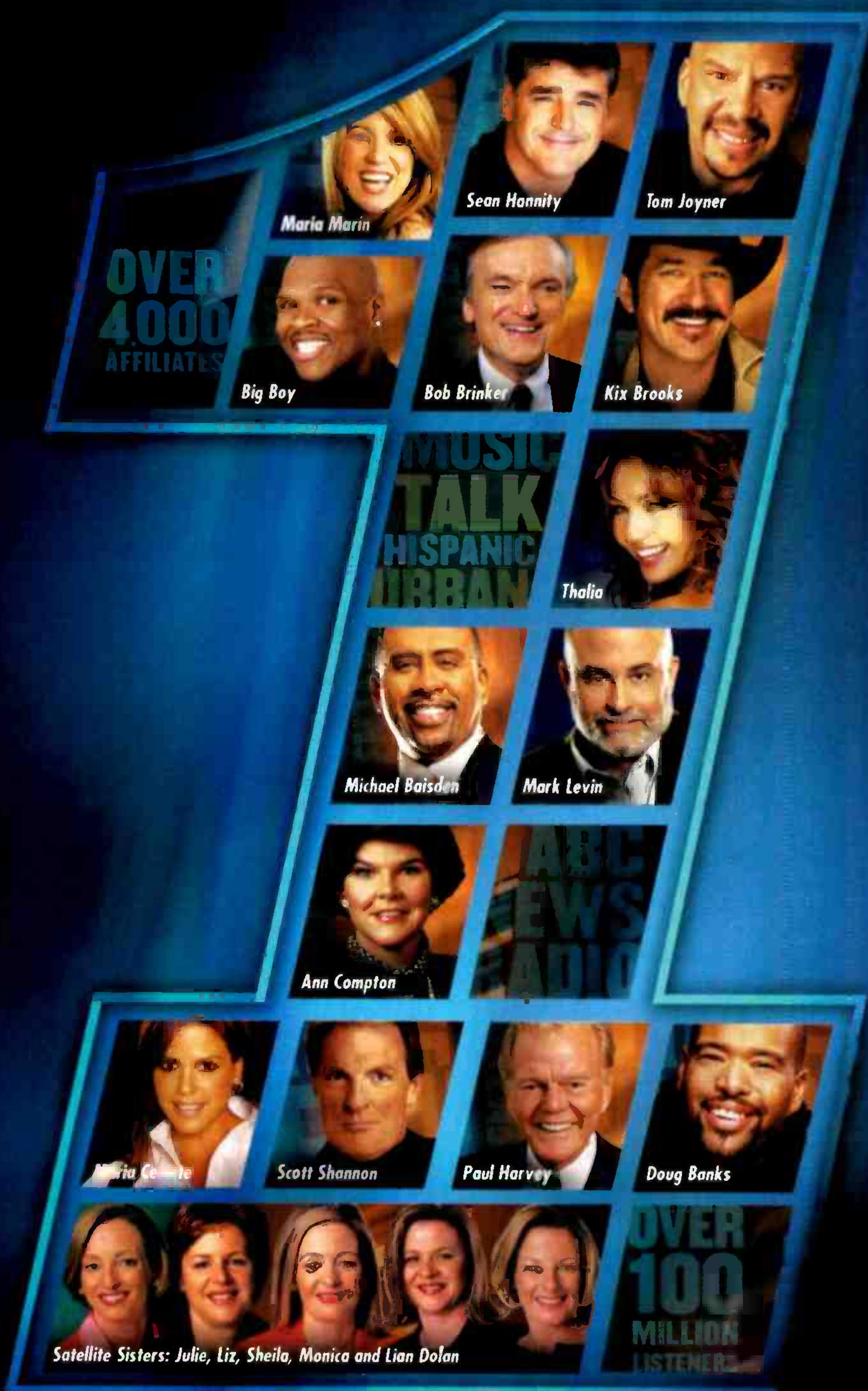

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Eric Ronning

The continuing evolution from radio to audio

As a company that has focused on, built, and led the growing online radio market, Ronning Lipset Radio has been fascinated with the recent coverage on the SoundExchange and online radio negotiations and what the royalty payments outcome might mean to the business of both traditional radio as well as online radio.

Ultimately, it appears that the two sides—the artists/labels and those who distribute their music—inherently know that neither business works as well without the other. If there is no popular music to play and attract an audience, there is no business for stations (barring of course the decision of every station in America going full-time talk). Conversely, if there is no promotion of artists/label works, there is no way for consumers to know what music to buy. There is value inherent in each side of this equation and what is being played out in the press is an ongoing negotiation of how much is fair for both sides in the process.

The realities of business dictate that some agreement, or series of agreements, should be attained to the benefit of both sides. There is just too much at stake for these two businesses, forever connected by the way they function, to let the other die.

For the clients and agencies who invest in audio with their advertising dollars, the details of that ultimate agreement are unimportant. They want to know that the business will be there and they will be able to reach the multiple millions of listeners now accessing every type of audio entertainment delivery system.

So the great news is that they are and will continue to put dollars towards audio entertainment as a strong way to reach their customers. The bad news, they are asking for more agreement and guidance from the industry on how to take all the new elements of audio into account and we are so focused on the royalty conversation, the industry as a whole is not doing a great job of providing that guidance.

One should not underestimate the importance of this situation, but it seems that there are other elements of the evolution from "radio" to "audio" that we all might want to consider as well.

1. Measurement of audience, pre and post buy. Historically, measurement as a description meant "Arbitron". Its context was always about "how many people should I expect to reach" in the future. Our industry is currently struggling to understand what measurement means in a "connected" world. We are becoming confused by the difference in anticipating how many in the future, and the new ability to show exactly how many after the fact.

Both of these terms are "measurement" but it is irresponsible to propose they mean the same thing. They are completely different and need to be addressed with that understanding.

There is a clear benefit to a client looking at all types of audio for a campaign and being able to use a single source to compare patterns across all possible delivery systems...a terrestrial audio signal, an online broadcaster, a satellite broadcaster, etc.

The client can then say with some certainty that the comparative universe of audience, the metrics of time spent, the metrics of time of day, the metrics of demographic, the metrics of location were all considered in the exact same context by the company doing the measuring. This provides confidence in pricing, spot load, timing, etc. for the planning teams. This simple but important concept is so strong that if you look at the TV/cable and streaming video world you will see that much of the conversation there is based on "Gee, if we just had a single measurement system to start with this would be better for all of us".

Audio has had that luxury for the past several years in Arbitron. But it seems to go unnoticed or not given the importance as a medium that it deserves.

Then there is the conversation on "post buy" measurement. Online radio shines in this area and yet it is largely overlooked or terribly misunderstood for its value by the agencies and clients.

But how can we guide the clients and agencies to clarity if no real standards have been established there? Does independent 3rd party verification of delivery matter any longer? Or are agencies willing to just accept that the log files and interpretation of those files by the very party turning them in for payment is acceptable?

Does the difference between traditional media thinking and digital media thinking need to be discussed openly in this market? Or is it OK that digital is often considered in a 24 hour, 7 days per week context where time of day has little meaning as long as the impressions were delivered in total by the end of the campaign? Does the market care about time of day delivery, reach, frequency, or any of the other disciplines brought to bear by those with traditional media experience?

2. Geotargeting and ability to create a "local" buy. The introduction of online concepts to the traditional radio business has brought up some righteous concerns in this area.

3. How do you insure that an online audio ad was delivered only to the city your client wants to reach? What standard of expectation has been established for this purpose? Traditional audio is absolute in its ability to insure that your ad was only heard in the city they want: the station signal is finite to about 40 miles or so from the center of the radio tower. This is easy for a client to understand, but what are those who buy into the online radio market on a local basis actually achieving? Many think that because the call letters are "local" they must be reaching a local audience only...is this true? What industry standards exist to hold stations accountable to in this area? What about the online only broadcasters? What techniques are they proposing to use for this purpose? Again, what standards of expectation are in place?

4. Format relevance in a world where "formatting" starts to take on an entirely new meaning. What work is being done by the industry to show clients how this is changing? We know that the "long tail" concept is of interest to advertisers but before any kind of media exchange can function there, the people investing the money in ads want to know what it means.

Are we making them comfortable that the person listening to five hours a week of Celtic House Electronica is a viable prospect for their product? It seems that we are not and that is a missed opportunity for our industry.

Other issues that are starting to appear on the radar include mobile streaming, music and social networking, and portability of the medium. These are just a few of the issues out there that need to be addressed as an industry which are far more impactful than the outcome of a royalty rate debate.

The time is now for the audio entertainment industry to group, organize, and work together to go the next step in our development. Up to now the industry has done a good job of prognosticating and giving opinions on some of this. But it is a real business now, a big business with a huge future.

It's time to hold ourselves accountable to the market and go the next step.

We need an organization like the RAB to be a vocal and active part of those groups to be taken seriously. Online radio is reaching over 12% of the US population each week. It is currently focused on those at a desk and expected to explode its reach once WiFi or similar technology makes it practical to get audio entertainment on a mobile device.

The industry is far underperforming its share of advertising dollars based on the excitement of its potential—not just online radio by the way but all audio.

Let's get it together as a group. Let's prove the value rather than just talk about it. Those with the advertising dollars want us to win—they just want us to speak clearly and with one voice. ■

Eric is Managing Partner of Ronning Lipset Radio. He can be reached at 212-935-4800 or ronning@rlradio.com.

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GREGG P. SKALL

Lowest unit charge: The network exception

In recent years several companies have appeared on the broadcasting scene that offer airtime on local broadcasting stations to advertisers and agencies through Internet portals. While they all differ in important ways, the net result is that they provide the ability for advertisers to tailor a group of stations specifically designed for their advertising campaign based on a variety of factors that may include format, location, demographic popularity, station class or other factors. The most popular of these companies are SoftWave Media Exchange ("SWMX"), Bid4Spots, Inc. ("Bid4Spots") and Google Inc.-owned dMarc Broadcasting, Inc. ("Google"). Together, I will call them the "Internet Based Networks" ("IBNs") In the interest of full disclosure, this firm represents SWMX. With the 2008 political season already upon us, the question is being raised whether the advertising rates paid through these companies must be calculated in the individual station's Lowest Unit Charge ("LUC").

For decades, groups of broadcasters have been fashioning various conglomerations of stations around some common theme or character into combined advertising buying opportunities known to the industry as "unwired networks." In most ways the resulting station configurations, cobbled together through the various means of each of their web portals, strongly resemble an unwired network. If a difference exists, it is that the resulting networks of stations are created through an Internet-based system and may exist for only a very short time.

Unwired networks

In 1976 the FCC decided that advertising run by stations as members of an unwired network was not to be calculated in determining the station's own local lowest unit rate. Robert L. Olender, 61 FCC 2d 694 (B/c Bur. 1976). As stated in Olender, a...network does not purchase time on a station in order to promote its own product or the product of "clients." Rather, it enters into mutually beneficial, long-term contracts whereby it receives time for specific low rates, or perhaps for no fee at all. In turn it sells time on groups of stations at a "package price" to national advertisers which the individual stations might not otherwise be able to attract.

According to the glossary section of Commercial Media Sales, Inc. a radio station rep firm specializing in representing radio stations in small and medium sized markets, an "unwired network" is defined in a way strikingly close to the manner by which the IBNs operate, as: a package of stations which have nothing in common but carrying spots for an advertiser. The advertiser selects the markets and the stations desired. The rep firm manages the unwired network to ensure that the schedules air as ordered.

The FCC legitimized unwired networks and again confirmed that their rates do not affect the station's own lowest unit charge in 1984 when it issued its Political Primer.

The rate restrictions apply to networks as well as to individual stations, since networks are, in effect, selling time on behalf of their affiliated stations. This also means that the compensation an affiliate receives from a network for carrying a sponsored network program will not be considered in computing the affiliate's "lowest unit charge" for direct sales to candidates. This principle applies to "non-wired networks" like Keystone as well as to interconnected networks like ABC, CBS, NBC, and MBS. [Emphasis added.]

In 1990, the Commission rendered its most recent and thorough discussion of unwired networks. In Letter to Charles M. Firestone, 5 FCC Rcd 3255 (1990), the FCC confirmed that compensation received by individual affiliates of a network created for the sole purpose of advertising sales generated by the network need not be included in the affiliate's LUC calculations. This case, known as Adlink, provides that LUC will not apply to network sales when:

1. No commercial advertiser, even the "most favored," could go directly to the station and receive a rate comparable to that which is offered to the network.

2. Each station charges the network a rate which would not be available to that station's most favored commercial advertiser for time sold on that station alone.

3. Any candidate who chooses to buy time from the network must be given the network's LUC for the various kinds of time the network sells to commercial advertisers.

Adlink sells and delivers regional and national spot advertising at rates it sets for a network of Los Angeles area cable television systems. Otherwise, the individual systems sell their own inventory at their own rates. With the exception that it applies to cable television systems, this description is essentially the same as that of an unwired network composed of broadcasting stations. Indeed, the Commission held that Adlink's arrangement was a network relationship. The Commission's reasoning was that network advertising rates are, in effect, a special "package rate" unavailable to even the most favored commercial advertiser who chooses to buy time directly from an individual network affiliate, and therefore, the rates paid by Adlink to its affiliates are not required to be included in the affiliate's LUC calculations in connection with sales of time made by the affiliate cable system. The LUC provision is not thwarted because any candidate who chooses to buy time from Adlink must be given the network's LUC for the various kinds of time the Adlink network sells commercial advertisers.

On the strength of these cases, one might reasonably conclude that those of the IBNs that meet the three critical criteria of Adlink should be considered unwired networks, the rates for which should not be used to calculate the LUC of the "affiliate" states that are bought for the same flight of advertising. Even were the Commission to fail to apply its prior guidance in the case of IBNs, it is probable that any such decision would be prospective only, given the reasonableness of relying on these prior cases without further specific guidance. The mere fact that an entity provides a similar service that differs only because it is more scalable and customizable on a faster basis newly made possible by the Internet should not result in a penalty to those who relied. Moreover, most political campaigns have found IBNs to be a useful new tool.

On June 19, a group of Named State Broadcasters Associations ("NSBA") filed a letter with the FCC requesting a declaratory ruling on the status of IBNs and whether a participating broadcast station in any of these programs must take into consideration the "sale price" of the airtime sold to advertisers under these programs when computing the station's LUC. The NSBA described the differences in each of the IBNs' operations, in essence admitting that they operate in differing ways. Some of those differences may have a bearing on the three critical factors of Adlink and therefore may make it difficult for the FCC to craft a ruling that deals with all IBNs similarly. Indeed, since there have been no complaints to the FCC about IBNs or the rates that result, the Commission may choose not to respond to the NSBA letter.

Therefore, unless and until there is further guidance from the FCC, a broadcaster should examine the three part test of Adlink in making its decision whether to participate in an IBN. Moreover, while not impossible, were the Commission to conclude that the rates paid through an IBN must be included in a member station's LUC, given the lack of reasonable notice, it seems unlikely that it would be applied retroactively. But as with all policy matters to be decided by a government agency, and especially involving the sensitive area of elections, there can be no guarantees as to how it might decide. ■

Gregg Skall is a communications attorney with Womble Carlyle Sandridge & Rice, PLLC. He can be reached at 202-857-4441.

Using your website to get, keep and grow your audience!

Can your station's website attract new listeners?

When looking at a typical radio website, you might reasonably get the impression that a lot of programmers and managers think their station's site is mostly an opportunity to bombard users with "added value" ads or to build a database. Building the station's brand and increasing your audience via your site seems to come as an afterthought if it is there at all. But is the concept of the website as tool to build audiences based on anything but wishful thinking?

Chris Sacca, head of the special initiatives department at Google, recently told a gathering of technology innovators, "At Google, we worry first about creating an application that will work to benefit a user, rather than worrying first about how it's going to make money."


Valerie Geller

Why did radio follow the exact opposite model? Many stations, concerned with bottom line, focused on making a quick profit or to use their websites to collect a database of listeners—rather than focus on how those listeners might benefit from the site. Stations also became enamored with streaming—listeners in offices with poor reception or out of range could more easily hear the station. Ads on the internet tended to be tacked on, offered as "value added" to loyal station advertisers. And many used interns to maintain their sites as an afterthought.

But stations are beginning to get it right. According to a recent Arbitron/Edison research study, 57 million Americans listened to a streaming station in the past week. That's 21% of the available 12+ population.

Broadcasters are beginning to get the idea that now they're no longer "just" running a radio station, rather, working to develop and market "a brand," and as "content providers." And since most on air personalities and programmers, don't really care whether their audience hears the show over the airwaves or online, advertisers, hungry for more eyes and ears, benefit as well.

1. MYTH or FACT: You can attract new listeners to the radio station from your website.

2. MYTH or FACT: You can make money from the website (even if you are not Ebay or a porn site)

The answers are Fact, and Fact.

ATTRACTING NEW LISTENERS THROUGH YOUR SITE

Why would someone want to visit your station site? (Often it's just to see what the personalities look like.) But it's important to ask: What is it they will get? What can you offer your online visitors that they can't get elsewhere? When you offer something that is unique, and relevant, it can draw in new audiences.

Take a page out of NPR's playbook. Public radio stations began successfully attracting new listeners and viewers to their sites by not only offering podcasts and archived programming, so that listeners can hear the programming when they want to on their own schedules, but also by giving "extra portions" of interviews that didn't make it to air. For example, if NPR airs a short, say, five minute interview with an author, but you would like to hear the entire, longer version of the interview that might not have made it to air, now you can download it or listen to the entire complete, unedited, interview online.

What are some of the other ways stations are attracting new listeners through their websites?

Rick Jensen, program director and talk host at News/Talk WDEL in Wilmington, DE stresses the importance of offering something on your site that cannot be gotten elsewhere. "Start by focusing on your station's core competencies. Think back to the days when the big Top 40 station would leave a list of their "pick hits" at local record stores. They were often sponsored—the goal was to get Top 40 record buyers to listen to your station. Then fast-forward to 2007. Ask: 'What is it your station does better than anyone else? How can you market that to non-listeners?'"

Jensen suggests, "Get your website on email lists of influential groups who can benefit from your station and website. Maybe your station is the most reliable for severe weather reports and school closings with unparalleled resources on the air and on the internet. When schools, association and others with large member databases include this information with the message "Listen to... or Go to..." they are not just promoting your station or your website, they are providing service to their members. In return advertisers love being associated with such a benefit and having their message seen by hundreds of thousands of eyeballs in addition to ears throughout the winter storm season."

Clear Channel's News/Talk stations have begun routinely sending their reporters out with cameras to post video or footage for their station's websites as well. At WDEL, reporters are not only sent out with cameras, they produce a daily video newscast, much like any major market TV newscast, on www.wdel.com.

GETTING INTO SEARCH ENGINES

Driving up the number of "hits" on your site is crucial for getting into search engines. That's how Google and the other search engines offer up your station's site in higher placement for someone seeking general information on a story. Cross promoting the website on the station is also important to drive up hits.

But there are other ways to get your station to "pop up" at the top of the search engine listing on a topic.

Eben Brown, a reporter at WFLA in Tampa, helped implement a stronger news image for his station's website, suggests, "Drum up as much news on your own as you can. At www.970wfla.com we use a lot of photo galleries. I'm often the local radio pool reporter for Presidential ▸▸

visits, which allows me to get quite close and take stellar photos. I'll post a gallery, especially if he's visiting local sites or posing with local celebrities. Once, the President took a few minutes to give a pep talk to our unlucky football team, and those pictures were quite popular among our web site viewers. We watched the counter rise continually. We left it up for a while and it continued to get a fair amount of attention."

DRIVING THE HIT COUNTER UP - COME SEE THE HALF NAKED LADY

[Animal rights group] "P.E.T.A. often uses women in bikinis (or less sometimes) to get attention to their demonstrations. I interviewed and shot video of one lady protesting outside a KFC. The radio story was admittedly a bit boring, but we mentioned that video of the bikini-clad twenty-something was available on our website. The hit counter went through the roof."

Brown also suggests, "put longer versions of killer interviews online, with your anchors directing the listeners to the website to hear it. Or create a text article with selected quotes for your website a few days in advance of airing that interview. It's about giving people more. Post raw news—unedited dramatic video, a gallery of photographs from the destruction caused by a category five hurricane, court documents from high-profile trials—the things you couldn't get on the radio, but that tell the story on their own without the need to be packaged."

Stations still employing substantial news departments are also asking them to do more. Today's radio news department is no longer just a radio news department. Brown says, "It's more taxing to produce for more than one medium and some old dogs need to learn new tricks; often writing and producing news in both print and television styles. It's worth it to invest in the technology and training to implement this."

He warns, on your site, make sure you get credit—"If you use a 'coverage partner's' big logo on your website, that will tell people they can find the news at your partner's website and not yours. If you're co-owned with a TV station or newspaper, work with them to form a single online brand of news."

Brown also stresses the importance of relevant, quality and current content: "While the news you post online is ever-changing, it is for a brief period as permanent as a newspaper article. A lackluster, weak or sloppy piece of reporting on the web will stand out for all the wrong reasons."

BIG MARKET STATIONS CAN BETTER SERVE LOCAL NICHE COMMUNITIES

And bring in new listeners. Serving an audience by finding out what they need and want is key. **Tim McAteer**, managing editor for online content at all-news 1010 WINS in New York, says the station not only gains measurable new listeners from the internet, they use both the website www.1010wins.com and cell phone Text Alert Network as extensions of the 1010 WINS brand.

"We've also recently increased our hyper-local news coverage, [to reach new, non-radio audiences] and in return we have advertisers who can target their ads to specific boroughs. One example is placing content from 1010 WINS news on local websites, such as the township of Long Island's Rockville Centre." [If you go to: www.ci.rockville-centre.ny.us, then click on the Village Hall photo, you will see a series of hyperlinks (on the right hand side of the page), to local stories from 1010 WINS. People who might be 1010 WINS listeners, but are interested in local stories can easily access the 1010 WINS content, from the local township site, then may turn on the station for more.]

TALK STATIONS - CONTINUING THE TALK ON-LINE

Many News/Talk stations offer entertaining community online chat boards, where listeners can freely continue a conversation off air, but online, about topics or issues they've heard on air with a chance to express their views.

NEVER LOSE A LISTENER!

If your information is old, and not updated regularly, or your site is hard to navigate, or requires too much personal or private information from them, listeners may not return.

DON'T DRIVE PEOPLE AWAY - "PERMISSION MARKETING" IS NEEDED

While radio stations love to collect data bases on listeners to provide to advertisers, take care. The number one complaint about radio websites is that they ask for too much information. If you want the concert tickets or to join the "All Access Club" visitors are asked to give personal information. Many people feel uncomfortable giving their age, zip code, address, sex, marital status or income level on line. Listeners (particularly women 25-54) resent it, believing it affects their privacy and will attract spam. Many, to get the "goodies," simply lie. Or leave. The key to "permission marketing," is to ask for a listener's participation, but not to force them. The goal: To offer a unique and rich enough experience so they come back and visit again, and maybe even turn on their radio for more! ■

DOs & DON'TS FOR YOUR WEBSITE

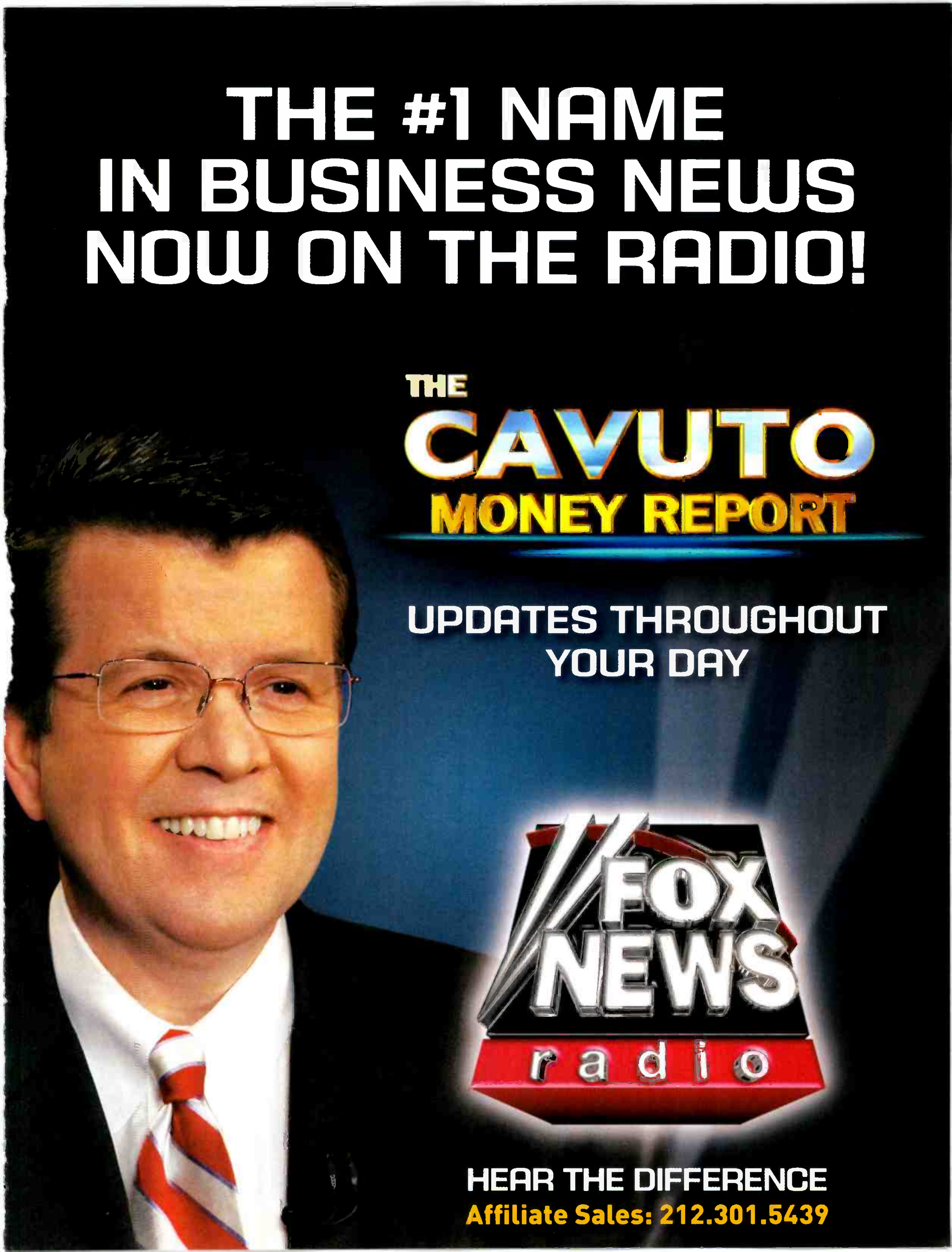
DO:

* Get in search engines. (e.g.: the posted photo of the P.E.T.A. 'half naked girl' for example, people will look)
* Create something new for the web, (e.g: WFLA's photo galleries or video newscasts like WDEL). Post photos and bios of your personalities. Add chat rooms where listeners can express views. Offer any unique content that your audience cannot get elsewhere.
* Send your reporters and promotional staff out with cameras.
* Hire a pro to maintain the site, a dedicated webmaster to update and keep your website fresh. (It's worth the investment.)
* Take a page from the NPR model of giving additional or more content that you cannot get "on air."
* Create liasons with your local listening communities, (e.g: Tim McAteer's 1010 WINS News Information RSS links off the local individual community websites.)
* Make listeners want to be on your email list—(school closings etc.) Take what you do best and promote that on the web.
* Cross promote your website and radio station.

DON'T

* Make your website hard to navigate. Make it easy for people to find what they want.
* Bombard your visitor with ads or use the site as a dumping ground for value added spots.
* Make it about YOU and not the listener.
* Just use an intern to maintain the site.
* Make visitors feel invaded by using it as a data collector for personal info.
* Make it irrelevant or offer nothing new or of value to a listener.

Valerie Geller, president of Geller Media International, is an international broadcast consultant specializing in news, talk, information & personality radio and author of Creating Powerful Radio: Getting, Keeping & Growing Audiences. For more: gellermedia.com or creatingpowerfulradio.com. Geller is presenting a Creating Powerful Radio session in Charlotte at the NAB on Friday, September 28th at 2:00 PM – "Valerie Geller's Create Powerful Radio: Never Lose a Listener" Charlotte Convention Center 213D.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EILEEN **DECKER**

Don't just sell your client time

The days of selling just spots and dots to an advertiser have, as **Margaret Mitchell** wrote, "Gone With The Wind."

As the media marketplace landscape changes, the role of the salesperson changes, thus making the relationship between buyer and seller a much more collaborative partnership. Salespeople have morphed into marketers and true Account Executives, just as the agency people responsible for placing media have turned into investors instead of just buyers of media. The sign in one major NY Agency's reception area reads: "Investors of our clients' budgets".

If we take a look at the way consumers' behavior and lifestyles have changed, you can see the challenges advertisers have in trying to reach today's consumers.

It used to be Radio, Broadcast TV and Print were the major media outlets used for advertising messages; then cable arrived and started the ball rolling for alternative advertising options for consumers. Advanced technology has made new pathways for today's consumers whose lifestyles now interact not only with Radio, Broadcast TV and Print, but with cable, outdoor, internet, online, streaming, cell phones and iPods as well—all which have the potential to deliver an advertiser's message.

Eileen Decker

The challenge for advertisers to reach these consumers continues to expand as more and more people are consuming media outside of traditional patterns—a record number of homes using DVR technology means a television program is more often that not viewed long after the original broadcast. When the behavior and lifestyle of an advertiser's target audience becomes so diverse, the ways to reach this target and stand out from the competition and the clutter of mass messaging is the ultimate challenge.

The very nature of Radio being a personal medium affords advertisers unique opportunities to connect with the consumer, and it is the responsibility of Radio Account Executives to bring these opportunities to the table.

The creativity of Radio has no barriers and is nimble enough to accommodate a variety of executions that will make an impact on consumers with the varied deliveries of the advertiser's message. The spoken word format is a very powerful environment as it is foreground radio and it engages the listener and creates a reaction. If a radio personality is passionate about a product or service he or she uses, a client can benefit greatly from a personal endorsement. Radio can also be the springboard for extensions of an integrated campaign incorporating multi-touch points to the consumer with the inclusion of text messaging opportunities, opt-in newsletters that extend the content of a radio show, product integration within a program, streaming, podcast sponsorships, live event synergies and listener participation through contests and promotions.

A winning campaign from concept to execution cannot take place without the combined cooperation and teamwork of the Media Department, the Advertiser and the Radio Account Executive.

The success of an Account Executive to aid an Advertiser in increasing their products' awareness and sales can be found in the word SALES itself:

Service – Excellent client service is paramount. Be extremely responsive to your clients' deadlines and their need for a quick turnaround, providing them with all necessary information in a timely and accurate manner. The importance of following up after meetings and relaying information at the end of their campaign is supreme.

Accountability – Being a credible source of information for your client and providing measurable results is imperative.

Listen – Too often Account Executives make the mistake of trying to sell something that will not meet their client's needs. It's crucial that an Account Executive listen to what a client is saying about their product, their customer, and their media goals and objectives.

Expectations – Managing a client's expectations about what your offerings are and what they can accomplish is necessary to establish upfront. The depth of knowledge of your product and how to incorporate the clients' message the right way paints a better application for success.

Solutions – As Radio Account Executives, we have the luxury of offering a variety of executions of a radio schedule to accomplish a client's objectives depending on the product, the message and target audience. It's the Account Executive's job to educate and present unique opportunities—to provide solutions—that will help grow their clients' business and provide answers to a client's need.

This is a very exciting time to be in Radio Ad Sales. Radio presents advertisers unlimited opportunities and environments to reach their customers. Don't just sell your client time. Market their product and be the best advisor and collaborator for their advertising dollars.

Remember, the partnership between an Account Executive, the Media Department and the Client is the blueprint for a successful advertising campaign...and at the end of the day Radio Account Executives have the perfect tool—RADIO—as it is a powerful call to action for an Advertiser. ■

Eileen is President/Sales for Dial Communications-Global Media (Dial-Global) in NYC. She can be reached at edecker@dial-global.com or 212-967-2888.

18-28

The Bedroom Project:

Meet the e-Generation!

Learn how the e-Generation interacts with radio and digital media from "The Bedroom Project"... fascinating new research from Arbitron and Jacobs Media that recorded the thoughts and opinions of 18- to 28-year-olds.

To provide the radio industry with important insights into this elusive generation, Arbitron and Jacobs Media went straight into the homes, apartments and dormitories of young adults to record how they use all types of media and technology in their daily lives.

You'll want to benefit from the rich observations revealed by "The Bedroom Project."

View the trailer at www.jacobsmedia.com

The Bedroom Project: How Young Americans Use and Interact with Media

NAB Radio Show "Super Session"
Wednesday, September 26
3:45PM – 5:00PM
Charlotte Convention Center
Overview on Media and Technology

The Bedroom Project: Radio Uncovered

Jacobs Summit 12
Thursday, September 27
2:15PM – 3:15PM
Charlotte Convention Center
Radio-specific Insights

ARBITRON jacobs media

www.arbitron.com

HD Radio and conditional access: a powerful combination

To fully appreciate the impact that conditional access HD Radio technology will have on FM radio, we need to think back to the days before cable television. As recent as the 1970s, the entire viewing experience was summed up in three or four TV channels. If ABC, CBS, NBC or the local public station didn't show it, it simply wasn't television. Then, in the early 1980s, cable television began to add variety to TV programming by introducing movie and specialty channels using a form of conditional access that we've come to know as pay-per-view. Some of you may even recall the first major pay-per-view event, which occurred on September 16, 1981, when **Sugar Ray Leonard** fought **Thomas "Hitman" Hearns** for the Welterweight Championship. More than half of Viacom Cablevision's viewers subscribed to the fight, and people started to give serious thought to the pay-per-view business model for television. Of course, at the time, some disparaged the arrival of cable, claiming that the pay-per-view business model would never work. We now know that they were wrong; cable TV, and newer arrival satellite TV, are alive and well in living rooms today.

What can we learn from this brief walk through history? First and foremost is that content – good, compelling content – will always hold value. People are willing to pay for content as long as it's relevant and it's accessible. Cable TV caught on because it made relevant content more accessible than before. The same may be said for HD Radio broadcasting, especially now that digital HD Radio technology includes a conditional access feature. Think of it: HD Radio broadcasting offers FM listeners more program variety in much the same way that cable television offered viewers more programming choices two decades before. But, unlike early TV broadcasters, who ended up sharing their viewer audience with new entrants selling program variety, FM broadcasters can deliver new programs to listeners today on existing, licensed band space, which makes it pretty much a closed-loop opportunity for FM broadcasters.

FM stations don't have to sit by as new competitors chip away at their market share. They don't have to give up existing market share, either. FM broadcasters can add one or two more program channels to their Broadcast Electronics' FM HD Radio transmissions systems without disenfranchising their current listeners. New channels are simply broadcast along with the main channel over the same licensed frequency, typically for a fraction of the original investment in radio.

Then, there's the conditional access feature of HD Radio that recently became available as an advanced services application based on NDS RadioGuard™ technology—which, incidentally, is similar to the conditional-access technology used by cable and satellite companies for years.

By now, you've heard about the usefulness of conditional access for broadcasting reading services to the seeing impaired. National Public Radio member stations have long struggled with delivering specialized programming while maintaining regular program broadcasts. Up until now, their best option was to put special programming up on a subcarrier frequency piggybacked on the FM signal. The program was then picked up by special receivers, or SCA receivers, that cost listeners a small fortune.

That is no longer the case. Many of BE's NPR customers are planning to implement conditional access on their BE HD Radio systems for the purpose of granting listeners access to these specialized services through commodity HD Radio receivers.

And, there are many, many other uses for conditional access that our commercial FM broadcasters tell us may be viable. A separate HD Radio channel targeted to listeners interested in updates or more long-form broadcasts of their favorite host or show is just one example of extending the value of radio.

Conditional access of FM programming also opens up all sorts of new revenue models, from selling one-time access to a concert to opt-in listenership rights to a specialty channel sponsored by an advertiser. Whole program channels of interest to a narrow niche market may be sold as subscription-only channels, as could certain dayparts triggered by time or event.

We have the tools now, not only on the transmission end with products such as our IDi 20 multicasting unit for provisioning the bandwidth for this purpose, but also at the studio with such products as BE's The Radio Experience. And, the good news is that listeners will be able to opt-in to these channels or special program events from the same HD Radio car or tabletop radio that they will use to tune in to their favorite FM stations on the free airways.

Conditional access offers broadcasters a new way of serving listeners or advertisers, yet doesn't disrupt business as usual on the main program channel.

Running traffic data on conditional access radio

One exciting potential opportunity resulting from HD Radio is the leasing of channels to content providers and other companies looking for an economical, access-controlled way to send information en masse to certain devices. Prime examples are utility companies needing to feed data to workers in the field and navigational companies wanting to send information to mapping systems in automobiles.

Broadcast Electronics recently participated in a successful pilot test at WKQX-FM (Q101), an Emmis Communications station in Chicago, in which traffic data was broadcast over an HD Radio channel using conditional access technology. We worked very closely with iBiquity's **Joe D'Angelo**, Emmis' **Patrick Berger** and **Paul Brenner**, Vice President of Integrated Technologies, NDS's **Tom Rucktenwald** and the product developers at a large navigational firm.

A portion of the HD Radio broadcast was sectioned off by BE's HD Radio multicasting unit (IDi 20) and used to broadcast real-time traffic reports informing of roadway congestion and construction delays to in-vehicle navigational units.

The trial included encrypting the data at the radio transmitter and decrypting it at the receiver for access control, as well as testing the end-to-end system functionality and determining latency and data stability in the encrypted channel. Test drives in various multipath environments around the Chicago area showed no dropped data packets or loss of service.

The success of this proof-of-concept test is widely considered to be an important milestone. It proved the viability of broadcasters leasing unused HD Radio spectrum to third parties, who have few other options for economically sending data and information to specific destinations. ■

Ray is Vice President, Studio Systems for Broadcast Electronics. He can be reached at 217-224-9600 or rmiklius@bdcast.com.

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music scheduling
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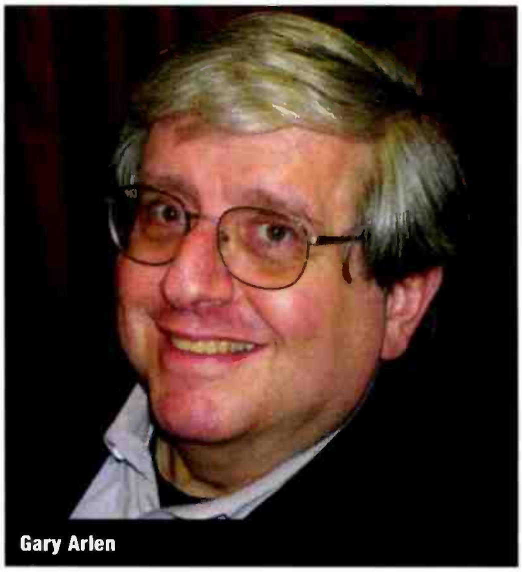
RCS Sound Software

Is 8 billion viewing hours a lot...or not?

Ignore the deluge of confusing "revolutionary" broadband video Websites with names like Vudu, Veoh, Babelgum and 60Frames Entertainment (www.vudulabs.com, www.veoh.com, www.babelgum.com, www.60frames.com).

Forget about the hyperbolic frenzy surrounding YouTube, Joost and the emerging NBC-Fox online video service. You can even overlook the $1,100 high-def video camcorders, laptop editing software and low-cost storage and server technology that lets everyone with a creative urge fulfill the universal desire "to direct." But you shouldn't dismiss the impressive findings about viewers' appetites for alternative content via on-demand delivery systems.


Gary Arlen

One of the most compelling analyses comes from BlackArrow Inc., a California firm that is working with networks, advertisers and agencies to establish tactics to survive in the Digital Video Recorder and online ad-skipping era (http://blackarrow.tv). BlackArrow's data shows that last year, Americans watched 414 billion hours of linear (i.e. conventional broadcast and cable) TV and about 2.9 billion hours of online video, in addition to another 53 billion hours spent on non-video Web activities.

By 2009, we'll spend about 38 billion fewer hours with linear TV, a scant 9% drop against the current massive number. Meanwhile, online video viewing will more than double to about 8 billion hours, and other forms of video-on-demand (including broadband and cable/satellite delivery) will nearly triple to 11 billion hours (see chart). On top of that, the proliferation of DVRs, will trigger about 93 billion hours of viewing via those boxes – about one-quarter the amount of time viewers in 2009 devote to "real-time" linear TV.

Backing up the BlackArrow analysis are a number of independent studies. The renowned Pew Internet and American Life Project found that currently 19% of online adults watch or download video on a typical day. Nearly 60% of Americans who use the Web have accessed such online video at some time during the past year. The Pew study also confirmed the vitality of "viral" video: people share appealing videos with their friends, and recipients actually look at the material they get (www.pewinternet.org).

Magid Media Futures put the figure for daily use of online video at 14%, with a majority of Americans ages 12 to 64 looking at some Internet video at least once per week. (www.magid.com)

A separate study by Nielsen Co. for the Cable & Telecommunications Association for Marketing (CTAM) put the figure slightly higher, but still within the same range: 63% of broadband users (about 81 million people) watch Internet video either at home or work – up 16% during a recent six-month period. (www.CTAM.com)

Adams Media Research predicts that Americans will spend $2.7 billion by 2011 to download movies and TV shows they want to own, with TV shows outpacing feature films by a two-to-one margin (www.adamsmediaresearch.com). "The explosive growth of TV downloads is impacting the near-term market for movies on the Net," Adams explains.

Booming indeed

These reports from the "demand side" are far more compelling than the avalanche of "supply side" hype about Joost, YouTube, MySpace and scores of other hopeful suppliers. One challenge is to assess the trade-offs in the emerging on-demand world – whether through broadband or other delivery systems. Certainly ABC.com's initial online successes (including innovative advertising for hit shows such as "Lost" and "Desperate Housewives") plus the ESPN.com initiatives demonstrate the opportunities in moving from "traditional" to "new" video delivery.

The Online Publishers Association emphasizes this value for familiar media brands. Its study showed that "video ads are more effective on media sites than on portals or...user-generated" Websites. OPA's research found that 52% of people who watched an online video ad took action – either visiting the product or company's own Website or looking for the product in-store (www.online-publishers.org).

By shopping in this way, consumers are fulfilling the long-held expectation that compelling video messages and the direct-marketing mechanics of the Web will create a new kind of merchandising experience.

Meanwhile, AppleTV – the Internet Protocol set-top TV service that is materializing very slowly – is pushing its relationship with YouTube. And the looming Fox-NBC joint venture is focused on exploiting Hollywood brands into the PC-delivery system.

This intense maneuvering (the typical Internet frenzy, with a new dash of Big Media insight) is creating a complex array of opportunities. For local broadcasters (radio as well as television), for example, broadband video does not simply mean storing and streaming newscasts, talk-show segments or other locally produced content.

There are entirely fresh content options. For example, on-demand real estate and automotive advertising, the proverbial high-school sports events and concerts plus citizen-created content are accessible – if you have the low-cost production tools and the legal rights to produce such shows. What does not suit the airwaves may well be seen – in perpetuity – on a station's Website, with a new revenue model.

In addition, the assault of Verizon and AT&T into the video business (competing with legacy cable TV operators) opens other doors as these telco-TV suppliers look for differentiating factors. Content packaged (with advertising) by local media adds "localism," a factor much beloved by Congress and the FCC.

Next is the broadband wireless opportunity, still a dream as airwaves are auctioned and technology refined. Again, the supply side – in this case, equipment makers as well as wishful-thinking content packagers – offers great promises about what might be available. But again, the early indicators from the demand side suggest that portable media and the growing reliance on mobility will find a sizeable market. The faddish appeal of Apple's iPhone (with its YouTube connection) and Verizon's VCast (including the MediaFlo television show component) are merely early signals of what can evolve.

Those predicted 8 billion hours of online video viewing are merely a harbinger of where eyeballs will be in the coming decade. For conventional media companies, it's an opportunity to be part of the on-demand invasion. ■

Gary Arlen is President of Arlen Communications Inc. (www.ArlenCom.com), a Bethesda, MD, research and consulting firm, specializing in convergence and multi-platform media. He can be reached at GaryArlen@engineer.com

HOURS PER YEAR AMERICANS SPEND:

	2006	2009	Change
Linear TV Viewing	414 billion	376 billion	- 9%
Online Video Viewing	2.9 billion	8 billion	+ 275%
All VOD Viewing	3.8 billion	11 billion	+ 290%

Source: BlackArrow Inc. analysis

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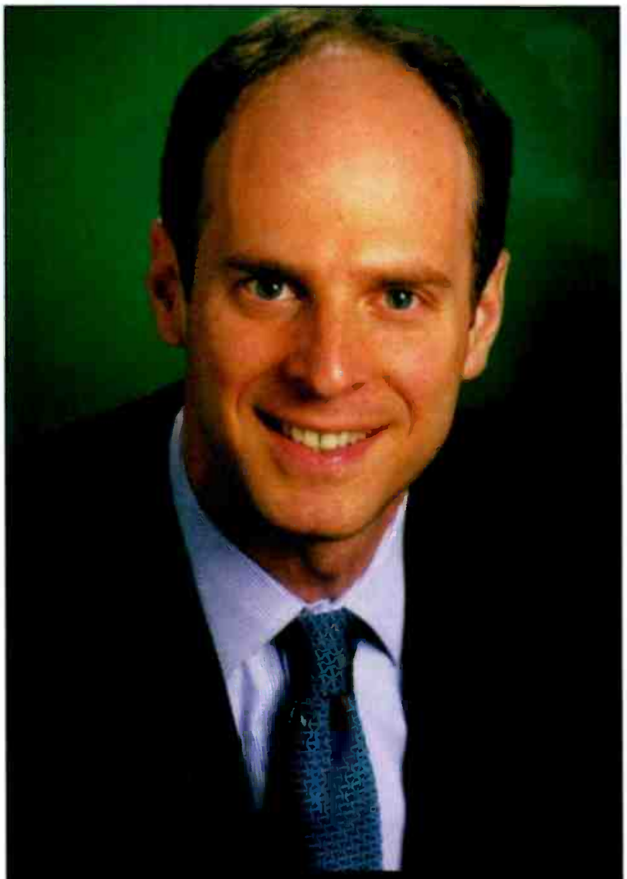
JACK MESSMER

Private equity in the driver's seat

The big deals have gotten everyone's attention. Clear Channel sold to Bain Capital Partners, Thomas H. Lee Partners and the **Mays** family for $27 billion. Clear Channel Television sold to Providence Equity Partners for $1.2 Billion. Cumulus Media sold to Merrill Lynch Global Private Equity and the **Dickey** family for $1.3 billion. Univision sold to Madison Dearborn Partners, Providence Equity Partners, Texas Pacific Group, Thomas H. Lee Partners and Saban Capital Group for $13.7 billion. The New York Times television group sold to Oak Hill Capital for $575 million. The list goes on, including many smaller transactions as well. What these deals all have in common is private equity capital.

With broadcasting stocks, particularly radio companies and multi-media companies with large newspaper holdings, beaten up on Wall Street, public companies aren't doing much station buying. But there are plenty of substantial transactions still taking place. That's because private equity has been aggressively bidding for top radio and TV properties that come on the market. That's recently drawn the attention of some FCC Commissioners, who worry what impact these new owners may have on the media landscape.



Perry Steiner

In truth, private equity is not new to broadcasting. **Perry Steiner,** a partner at Arlington Capital Partners, notes that his company and others have been investing in broadcasting for quite some time—and current market conditions have created a lot of activity. "I think there was a ton of private equity that came into TV and radio in the mid to late '90s and a lot of those people made a lot of money on the investments. There are a fair number of people that were on the sidelines during the whole of 2000, 2001 and 2002— maybe even '03—and some people did get burned during that period of time. Now a lot of folks are back and there is so much private equity available, not just for media but for all areas," he said.

Why, then, is private equity so much more bullish on broadcasting than the stock markets?

"I think that there's really no difference today in terms of private equity interest and appetites in radio and TV than it's been over the last 15 years. TV and radio stations are a very attractive area for private equity investment. They have been very consistent generators of cash flow, historically. There has been a very consistent growth rate. The need for capital expenditures are quite low and the free cash flow that the assets generate are very high. And yet, because of that they are highly leverageable—leverageable in terms of borrowing against those assets, whether it be bank debt or public market debt. And there is the ultimate asset protection or asset value there—or, if you prefer, stick value—in just the franchise, or license, and in TV you take that a step further in network affiliations. In radio it's the license and format and heritage signal in a market," Steiner explained. "So you got all those things that come together. And, by the way, that stick value has become the ultimate asset protector, because no matter how poorly the station is run, you still have that stick value. For all those reasons, private equity has been very attracted to radio and TV for two decades."

But while private equity funds have been active in radio and TV for some time, the deal sizes are now much bigger. Where does all that money come from?

"It's raised from the institutional investors—primarily corporate pension funds, state pension funds, insurance companies, banks to a lesser extent, funds of funds—and there's a lot of international money as well in all those categories, European and Asian and some Middle Eastern. The funding sources for private equity are very wide and very deep," Steiner said.

So, we wondered, why does private equity look at broadcasting assets so differently than the Wall Street Stock Traders?

"I talked initially about all the reasons why private equity is attracted to broadcasting assets. But from the Wall Street perspective, the public markets have not been attracted to radio for the better part of five years now. You have an industry that if you go back—and all these records are available—you go back 30, 40 years in the broadcasting business you have very consistent growth or anywhere from generally 3-6% and some years higher to 7-8%, but generally you can count on, you know, 4-6% growth in radio, every year, in and out, with only two down years," Steiner noted. "But then you come to the last five years, which have been very low growth. Wall Street money goes where the growth is and the growth has not been in TV and radio for the last five years, but very low, with growth at ➡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one or two percent numbers. I think the public market investors for the time being don't have the confidence level of the industry being able to grow."

The markets, though, are cyclical. Private equity funds typically hold assets for a number of years, then take them public in an IPO or sell them to a public company.

"Yes these waves go in both directions. The biggest company going private, you know, is Clear Channel and I would imagine that at sometime in the future Clear Channel will be a public company again—and I don't know if it's a year from now or five years from now, but I would guess that sometime during the next one to five years I see Clear Channel going public," Steiner predicted. "As private equity buyers, we think of ourselves as long-term investors, but long term is three to seven years, generally five years and private equity will look for an exit. We'll look for a value realization and with a number of the larger companies that will probably be an IPO."

There are now hundreds of billions of dollars invested worldwide in private equity funds. According to *Private Equity International*, a trade magazine for the industry, each of the 22 largest funds manages over $10 billion raised in the past five years, with $800 billion in all raised by such funds since 2002. The biggest of all, The Carlyle Group, had raised over $32.5 billion in the past five years. Several of the firms mentioned in the first paragraph of this story as investors in the broadcasting mega deals are in that elite $10 billion-plus group: Texas Pacific Group, Bain Capital and Providence Equity Partners.

Steiner's firm, Arlington Capital Partners, is a mid-range private equity fund, with over $1 billion under management. "Our niche is $50-500 million transactions," Steiner said.

As this issue was going to press, world financial markets were being roiled by growing default rates in the sub-prime mortgage markets. That had already reduced the availability of credit for large loans—say, $100 million plus—which banks have to syndicate to institutional investors, who had pulled back from all debt buying because of the liquidity problems in mortgage-backed securities. **Perry Sook's** Nexstar Broadcasting Group, which had begun shopping its group of television stations for a price expected to exceed $1 billion, pulled itself off the market until conditions improve.

What remains to be seen is whether the tightening of credit will trickle down to corporate loans in the tens of millions of dollars. Since private equity funds generally leverage their investments to several times their cash contribution, credit availability is essential to their business model.

With credit tightening, Steiner thinks sale multiples for broadcast properties will have to come down. But then, we would note, he is currently a buyer. Seller expectations tend to lag market moves, so if Steiner's prediction is correct, there could be a slowdown in transaction activity.

"It may create a stall," Steiner agreed. "Typically sellers are very sticky on the upside. They go up very rapidly when values go up and then, when the valuations come down, they don't like to move very much. It's the psychology of the sellers so it very well could stall some deals."

Regardless of short-term market fluctuations, Steiner says Arlington Capital Partners remains confident in the long-term value of broadcasting properties and other traditional media, although his firm is also investing in new media. ■

About Arlington Capital Partners

Arlington Capital Partners, headquartered in Washington, DC, currently has two radio companies in its portfolio.

- Cherry Creek Radio, headed by CEO **Joe Schwartz**, operates 45 radio stations in California, Arizona, Washington, Montana, North Dakota, Texas, Colorado, New York and Utah. (The New York operation is called Long Island Radio.)
- Main Line Broadcasting, headed by CEO Dan Savadove, currently operates station clusters in Richmond, Virginia, Hagerstown, Maryland and Waynesboro/Chambersburg, Pennsylvania.

In television, Arlington Capital Partners was the financial backer of **Jason Elkin's** previous company, his original New Vision Group, which acquired four network affiliate TV stations and sold them in 2005.

Before joining Arlington Capital, Perry Steiner was President of Digital River and led the e-commerce company through its IPO in 1998. He serves on the board of directors of Digital River, Cherry Creek Radio, Long Island Radio and Main Line Broadcasting and was formerly a director of New Vision Group.

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