



ARBITRON INTERNET LISTENING STUDY:

RADIO IN THE NEW MEDIA WORLD

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ARBITRON/EDISON INTERNET LISTENING STUDY: RADIO IN THE NEW MEDIA WORLD

Radio, which has seen such enormous changes in the last few years, sits at a unique moment in its history. While consolidation has led to an entire new way of constructing radio entities, for the first time, radio as a medium is being targeted with audio alternatives. With Internet Radio, Digital Satellite Radio, and other delivery systems, radio is on the verge of facing the kinds of challenges that print and television have been facing for years.

Arbitron's Internet Listening study conducted in conjunction with Edison Media Research is the most comprehensive and in-depth study ever undertaken on the nature of how radio listeners utilize the Internet, who is listening online, and what the potential impact of new media might be on radio. Nearly 3,000 people were interviewed.

The study consists of two distinct samples. First, we re-interviewed 1,600 radio diarykeepers from the recent Spring 1998 survey. We then conducted a separate online study of 1,300 audio users. Northstar Interactive, Arbitron's Internet perceptual research company conducted this study. Interviews were conducted online using Northstar's database of Internet audio consumers and through a link from the Broadcast.com Web site.

THE CHALLENGES FOR RADIO

The Arbitron Internet Listening study identifies the following challenges for radio:

- * Internet users spend less time with radio. One-fifth of those online have listened to Internet audio. Advancements in technology and programming will lead to more online listenership. As Internet usage grows, will Americans be listening to "over the air" stations on the Web, or Internet-only stations?
- * Americans are interested in Digital Satellite Radio. One-out-of-four Americans say they are very interested in the concept.
- * Seventeen percent of Americans say that their local radio options do not serve their music tastes. A similar amount says radio does not serve their news and information needs. New Media audio alternatives could attract these listeners.
- * If given the choice, one-third of Americans would listen more to out of town stations as opposed to local stations.

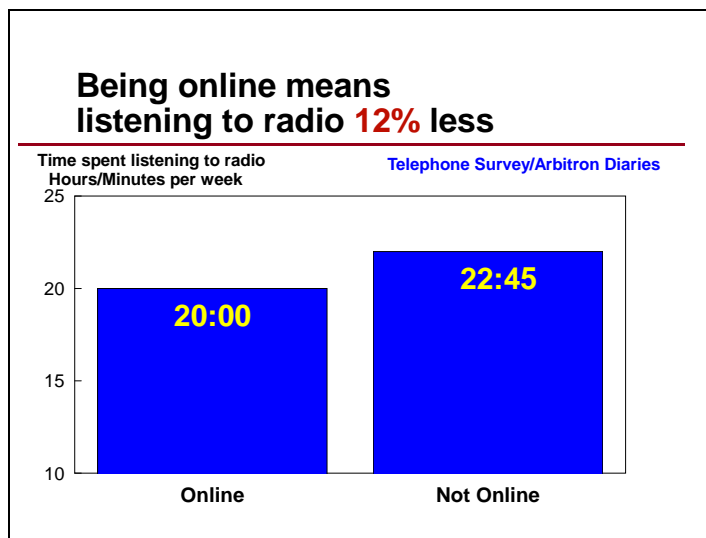
While these challenges of New Media could impact current radio listening levels, it is not certain these factors will adversely impact revenues. Both Newspaper and Television have suffered dramatic audience erosion, yet revenues for both media continue to be healthy.

THE OPPORTUNITIES FOR RADIO

This study identifies many exciting opportunities for radio to grow revenue and audience with New Media.

- * Webcasting could boost at-work listenership. One-third say radio signals do not come in clearly at work. Webcasting offers clear and static-free signals. As Internet penetration in the work place increases, so can at-work listenership.
- * What do Americans indicate is the most interesting type of Internet audio? Their favorite radio station! People want to listen online to the one station they already listen to the most.
- * Radio is the best possible medium to drive people to visit Web sites. Advertisers are finding that compared to Web based advertising, radio is more successful at getting people to go to a Web site. Radio stations' ownership clusters now reach 50-70% of all people in a market, and have a huge marketing opportunity to drive their listeners to their Web sites.
- * Online listeners want a lot more from radio station Web sites. The Web site functionality they desire consist of elements that can make money for radio:

--- Half of online Americans want to be able go to a Web site to see the products and services of radio advertisers.



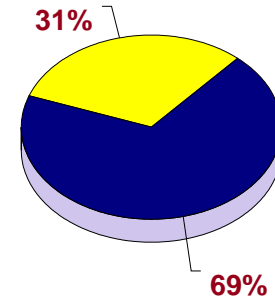
40% are

interested in printing advertiser coupons from station Web sites.

Nearly half are interested in BUYING products and services from a station Web site.

More than 30% of Americans are online at work or at home

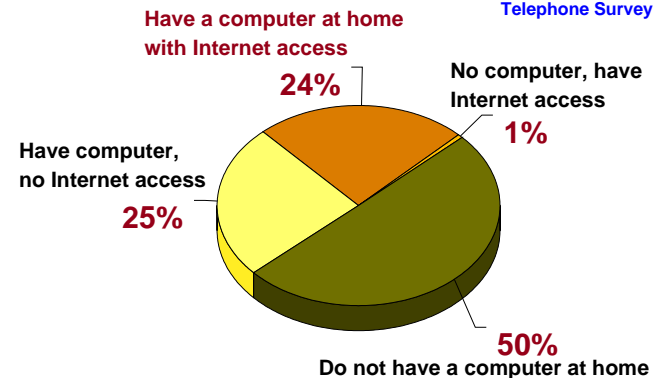
Currently have Internet access at home or work



Telephone Survey

One-quarter of all households have Internet Access

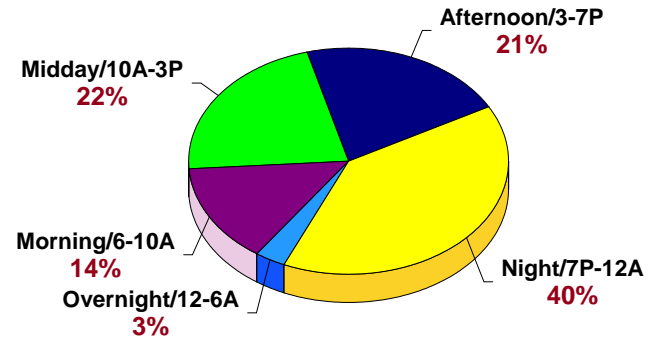
Telephone Survey



--- A third of online Americans say they are interested in visiting a Web site that would list local shopping information. This would be a boon to radio as a fair number of listeners report difficulties in recalling radio advertising information.

Nights are "prime-time" for Internet Usage

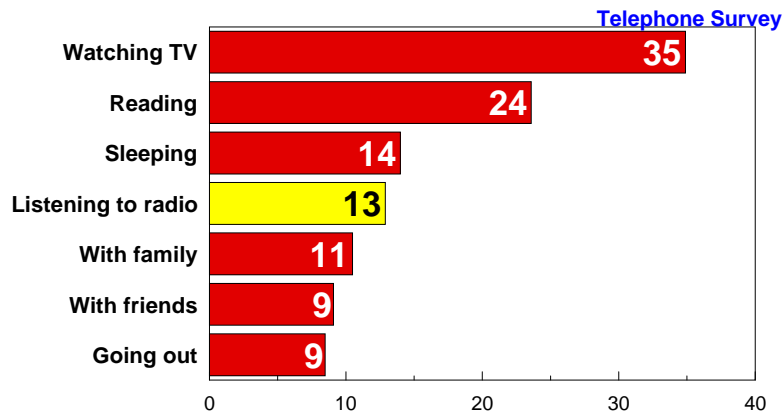
In what daypart do you go online the most?



Base: Online

Telephone Survey

Because of the time you spend online, are you spending less time...



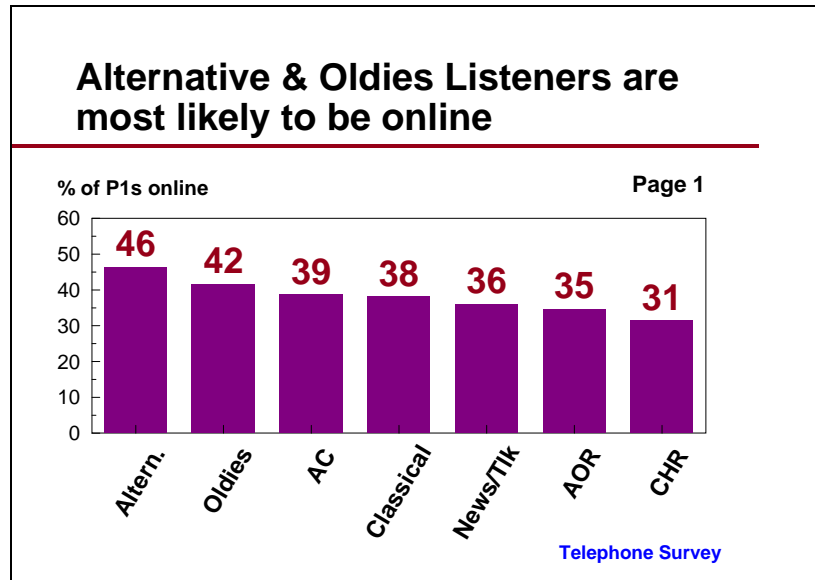
Base: Online

% saying "Yes"

TWENTY KEY FINDINGS

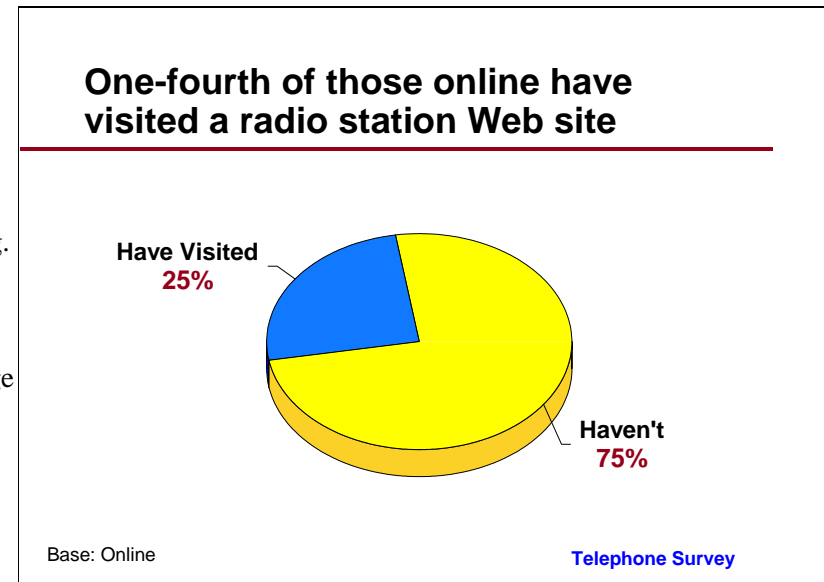
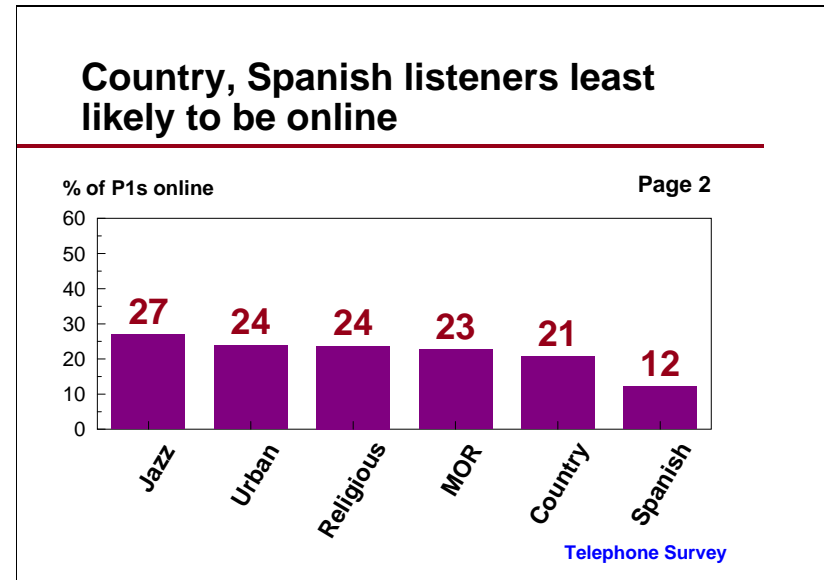
Our study implies that the threats and opportunities created by the New Media are real and enormous. First we summarize some of the key findings, and then we will delve into eight strategic issues for radio to consider.

1.

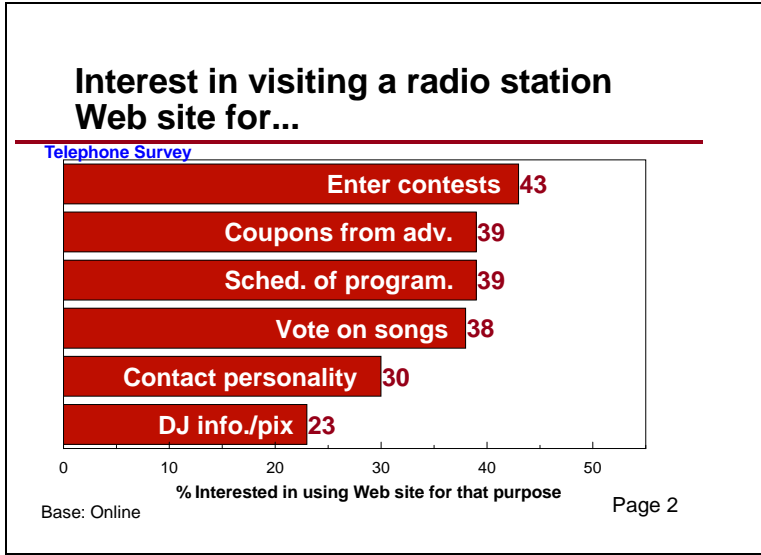
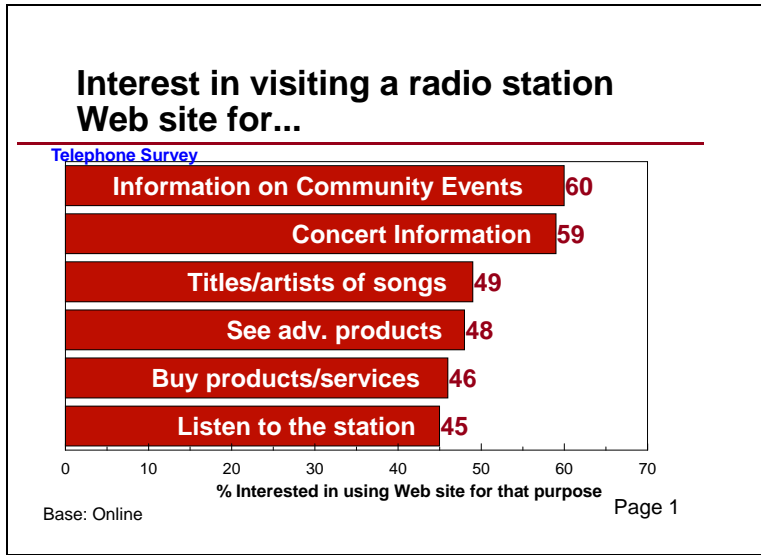


One-third of Americans are online and Internet users are a fast growing group (see graphs at right). Over one-out-of-five Americans access the Internet at work (22%). Twenty-five percent of Americans access the Internet at home. Others access the Internet through schools or libraries. Fully one-half of households have a computer and, as of now, only half of these households are connected to the Internet. Of those online, 39% indicate they have become Internet users within the last year. Clearly, Internet usage is exploding.

2. **Online users spend less time with radio (see graph below).** One of the most significant findings out of the callback study of Arbitron diarykeepers is lower radio usage among those online. Radio's average time spent listening among those not online is 22 hours 45 minutes a week. Radio's time spent listening among those online is nearly three

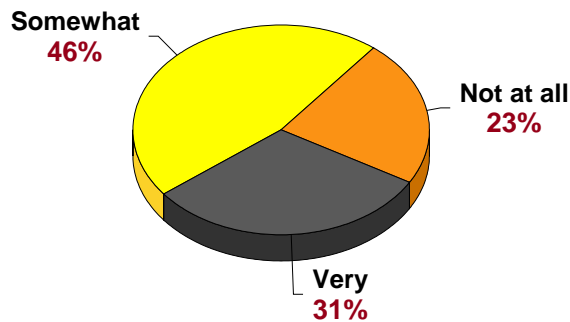


hours less, 20 hours per week. While newspaper readership has eroded dramatically over the past decade and viewership to the TV networks is off substantially, radio listening levels have been very consistent. The availability of New Media such as digital satellite audio or the Internet does mean time spent to radio should see some natural erosion.



3. **Internet usage increases as the day progresses.** While radio listenership is greatest in the morning, Internet usage is the highest at night. Forty percent of Americans indicate they use the Internet the most at night, followed by middays (22%), afternoons (21%) and mornings (14%). With Internet usage greatest at night, TV primetime viewership stands to suffer the most.

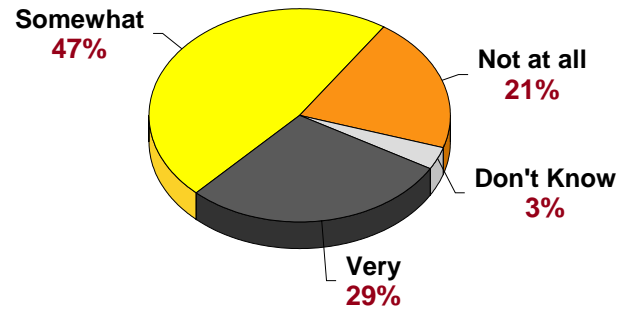
Interest in visiting a Web site that lists information on local shopping:



Base: Online

Telephone Survey

Likelihood to go to radio station's Web site for info. on products/services:



Base: Online

Telephone Survey

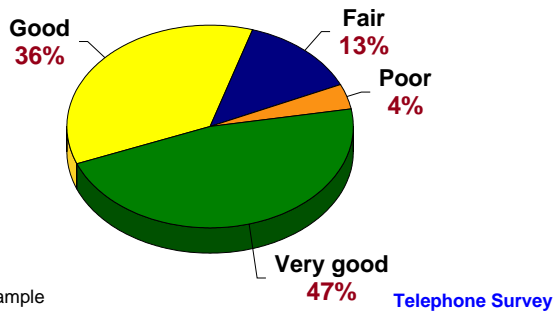
A full 13% of those who are online report spending less time with radio due to Internet usage.

Due to Internet usage, significant portions of those who are online report they are spending less time with various activities: TV (35%), reading (24%), sleeping (14%), radio listening (13%), family (11%), friends (9%) and going out (9%). As more people go online, this pattern is likely to continue, leading to reduced radio listening.

5. **Listeners to Alternative, Oldies and AC exhibit the highest online usage.** Nearly half (46%) of Alternative radio P1s (those who listen to Alternative radio the most) indicate they are online. Following Alternative are Oldies (42%), AC (39%) and News/Talk (36%). Thirty-five percent of AOR P1 listeners are online followed by CHR (31%), Urban (24%) and Country (21%). Keep in mind this is data from a national study. Your station's cume or your market could have different portions of listeners online.

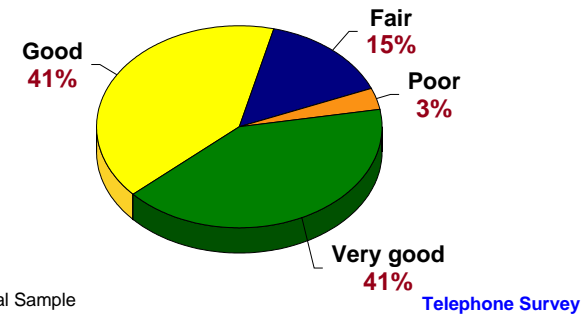
17% say local radio doesn't play the music they like

"How good a job do radio stations you can hear do of playing music you like?"

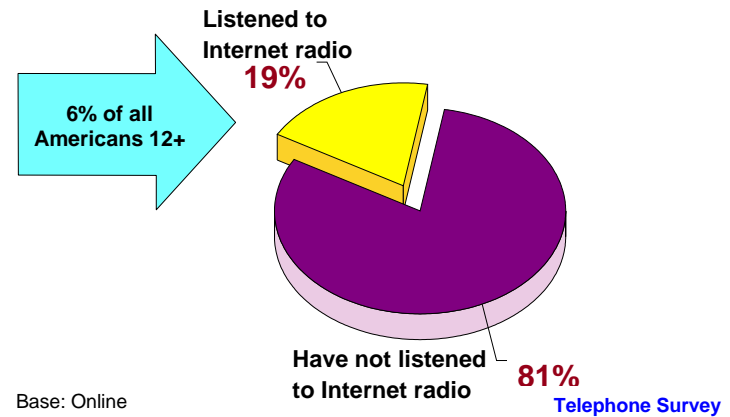


18% are unsatisfied with the news & information from local radio

"How good a job do radio stations you can hear do of providing news and information?"

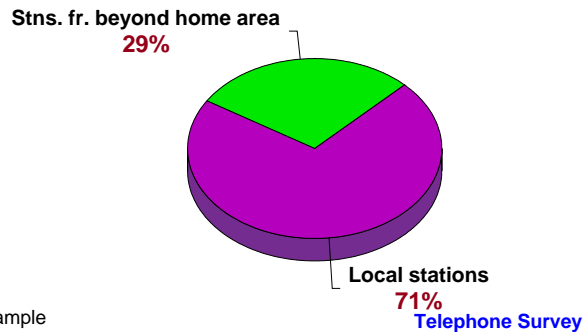


A significant fraction of people have listened to Internet Radio



Nearly one-third want to listen to out-of-town stations

"If you could choose, would you listen more to local stations or stations from beyond your home area?"

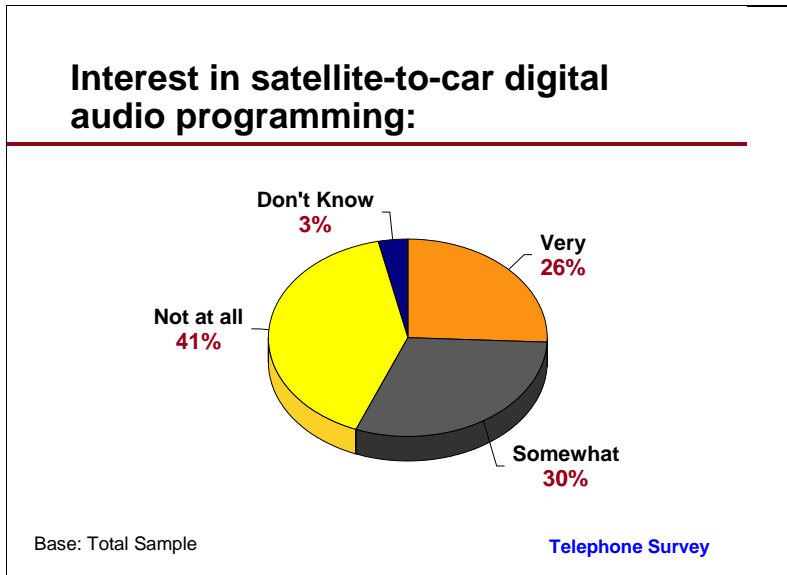
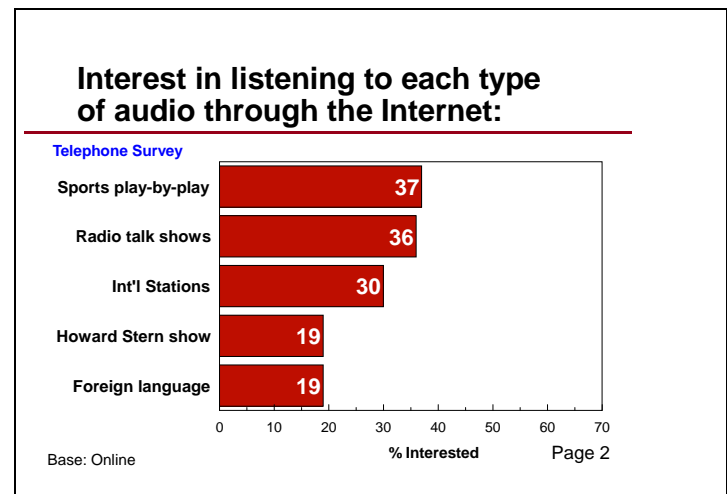
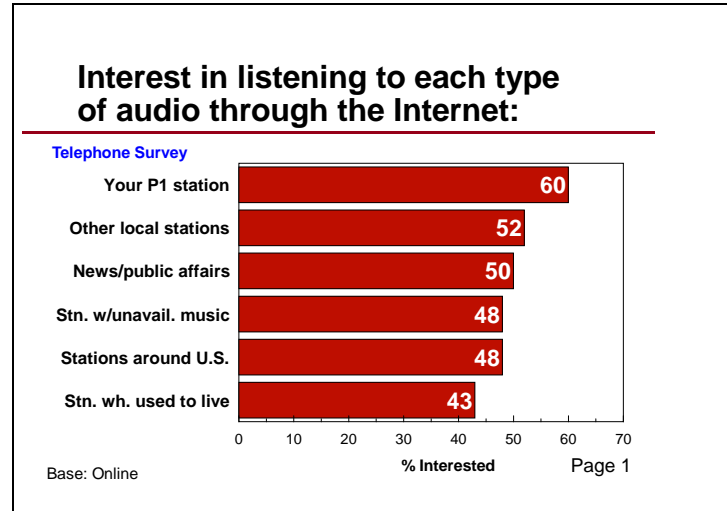


6.

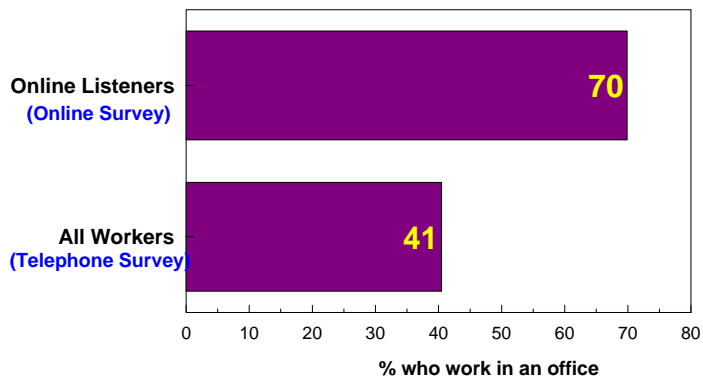
Nearly 60% of Americans have heard radio stations talking about their Web sites. One out of four online Americans have actually visited a radio station Web site. Most indicate their reason for first visiting a radio station Web site was simple curiosity or random surfing around. Forty-six percent of those who are online are aware that the radio station they listen to the most (their P1 station), has a Web site. Among those aware that the station they listen to the most has a Web site, 40% have visited the Web site, while 60% have not.

7. Most radio station Web site visitors return and exhibit an interest in a variety of Web site activities and information (see graphs below).

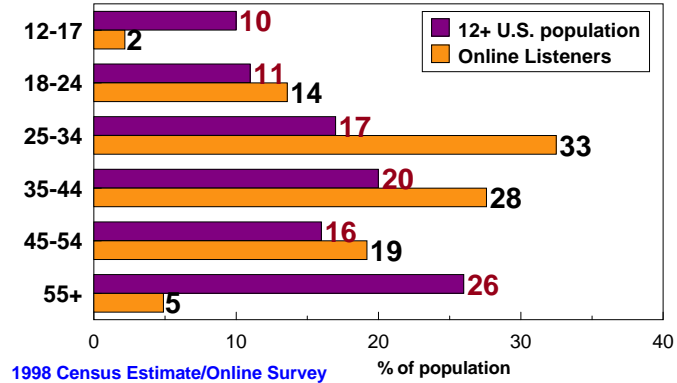
Seventy-one percent of those who have visited a radio station Web site say they have returned to it at least once. Listeners express a strong degree of interest in a number of different items on radio station Web sites: information on community events (60%), concert information (59%), titles and artists of songs being played by the station (49%), seeing an advertisers products (48%), being able to buy products and services (46%) and actually listening to the radio station (45%). Next, 43% say they would like to use a radio station Web site to enter a contest, to print out coupons from advertisers (39%), to access the programming schedule (39%) and to vote on songs (38%). One of the key findings of this research is that while most radio station Web sites contain simple data like programming schedules and some top-line information, radio stations can do a far better job providing a more interactive and compelling content experience for listeners. It is clear that what radio stations currently provide on their Web sites is simply the tip of the iceberg in terms of the experience that listeners desire.



Internet Radio users are *much* more likely to work in an office



Online Listeners are 25 to 44



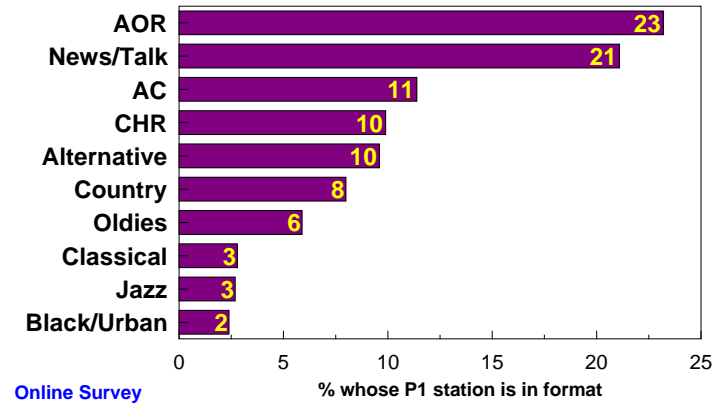
8.

Listeners show interest in Web site functions that can generate revenue for radio stations (see graphs above).

For example, nearly half say they would be interested in actually buying products and services advertised on the radio station right off the radio station's Web site. About 40% express interest in being able to print out coupons from the radio station's advertisers. Half say they would be interested in being able to actually see the products and services of the radio station's advertisers. Over the years, one of the perceived drawbacks of radio station advertising has been its lack of visuals. Perceptual studies conducted by Arbitron of agency media planners and major advertisers have confirmed this perception. Half of all online Americans are interested in visiting a radio station Web site to see and visualize the products and

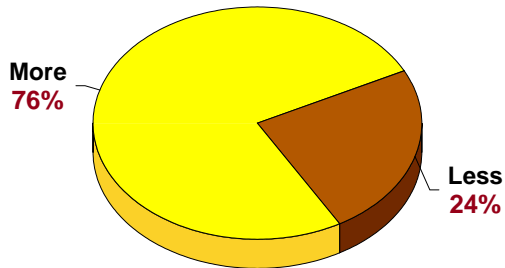
services of station advertisers. Thus, the Web provides an opportunity for radio to overcome one of its biggest perceived weaknesses: not being able to see the products and services of its advertisers.

Who is listening online? P1 Format



Internet Audio users are increasing their listening

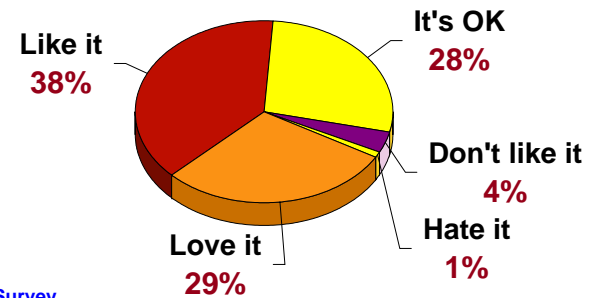
During the past 6 mos., are you listening to audio over the Internet **More** or **Less**?



Online Survey

Internet Radio listeners seem to really enjoy the experience

"How much do you like listening to radio stations over the Internet?"



Online Survey

9. Listeners having difficulty in recalling radio advertising information. Also, there is interest in local retail shopping Web sites. Most Americans have some difficulty recalling advertising information they hear on the radio (“frequently” 25% and “sometimes” 38%). Thirty-one percent of people say they would be very interested in visiting a Web site that would list local shopping information. Forty-six percent say they are somewhat interested. This is a significant finding for the radio industry. The 1996 Arbitron/Edison Newspaper Advertiser Perceptual Study indicated that one of the perceived benefits of newspaper is that it is used as a shopping tool. Thus, when Americans are ready to buy a product and service, they leaf through the newspaper looking for sales and product information. Advertisers do not perceive radio as a shopping tool. However, radio stations can create Web sites listing information and product detail from their advertisers as a shopping tool for radio listeners. Nearly a third of radio listeners say such a service would be very interesting. Creating a local shopping and retail information site that was heavily promoted on air could prove to be extremely successful for radio. For the first time ever, a radio station could provide its listeners with a local shopping tool rich in visuals and product detail.

10. Several threats to radio listenership: listeners' perception that radio does not play the music they want and radio does not provide sufficient news and information (see graphs below). New Media alternatives to radio such as digital satellite audio and the Internet could satisfy those consumers who see radio as not providing the type of music or news and information desired. Seventeen percent of Americans say their local radio stations do not do an adequate job of playing the music they like. While the vast majority do say that radio does a good job, almost one-out-of-five indicate radio doesn't satisfy their particular music niche – one which could be satisfied with the huge variety of choice being offered by digital satellite radio and Internet audio. Eighteen percent of Americans say their local radio does not do a good job of providing sufficient news and information. The Internet has built an image as a source for news and information. Dozens of Internet sites offer audio news updates from respected sources such as The Associated Press and ABC News.

11. Seventy-six percent of Americans wish that radio stations would provide the title and artist of nearly all songs being played. Listeners indicate one of the most frustrating aspects of radio is its inability to provide title and artist information. New Media such as Internet audio and digital satellite audio can provide this information to radio listeners. Digital satellite radio has the ability to electronically display the title and artist being played. Internet audio sites not only provide the title and artist being played but also additional information on the CD, the artist and they offer the ability to purchase the CD being heard.

12. Fifty-seven percent of online users are aware that they can listen to radio stations online. Nineteen percent of online users have actually listened to radio online. This means that 6% of all Americans have listened to radio online. Considering the rapid growth of the Internet and the nature of downloading streaming programs and accessing audio on the Internet, Internet radio is off to an extremely fast start. Over the next couple of years, a number of technical developments should make audio listenership on the Internet easier for the consumer. Announcements continue to be made on improving modem speeds. On September 28, 1998 Real Networks, the leading supplier of Internet audio and video streaming technology, announced a landmark agreement with America OnLine. AOL will use Real Networks audio and video streaming technology as part of its 4.0 software release. This significant partnership will bring the ease of use of AOL to Internet listening. In this fashion, the 13 million subscribers of AOL will easily be able to listen to radio stations and audio on the Internet. Will they be listening to *your* radio station over the Internet?

13. Almost one-third of all Americans would prefer to listen to out-of-market radio. Given the capability of the Internet and digital satellite audio to bring hundreds of new signals into a market, we asked Americans if they would continue to listen more to local stations, or if they would more prefer stations from outside their home area. Three-in-ten said they would prefer to listen more to stations from outside of their market (29%). American radio stations will need to continually measure their images and perceptions with annual strategic studies and implement marketing programs designed to build images in their local market. Some stations have cut back on perceptual research and marketing expenditures. These findings will cause radio to rethink this strategy. With the advent of hundreds of new Internet and digital satellite audio signals, measuring radio's local image perceptions and marketing to protect brands are an urgent priority.

14. Internet audio desires: listening to the existing favorite station ranks first (see graphs at right). First and foremost, listeners report that they would be interested in listening to their P1 station online (60%). About half of online listeners indicate they would like to listen to: other local radio stations, news and public affairs, stations offering music not currently available in their area, stations from around the country, and stations from places they used to live. Next, 37% indicate interest in sports play-by-play and radio talk shows (36%).

15. Twenty-six percent of all Americans are very interested in direct-to-car digital satellite radio (see graph below). When explained the concept of digital satellite radio, 26% say they are very interested and 30% say that they are somewhat interested. When given the choice of such a service with no commercials and a monthly fee versus a service with some commercials and a lower fee, a majority of Americans pick the latter option.

16. Adults 25-44 are doing the majority of Internet listenership.

Sixty-one percent of all the Internet listening is occurring among Adults 25-44. Nineteen percent are 45-54 and 14% are 18-24. Internet listeners are largely Adults who can access the Internet at work with high-speed connections.

17. At work, most online listenership is occurring in an office. Not surprisingly, 70% of all at-work Internet listening is occurring by those people who are in an office with the availability of computers and Internet connections. While 41% of all employed Americans work in an office, seven out of 10 working Internet listeners are in an office.

18. One-third of Americans report radio does not come in clearly at work. Better reception is reported at home and in car. Similarly, the 1997 Arbitron/Edison At-Work Listening Study revealed that one reason people do not listen at work is poor reception. Internet Webcasting could be a solution to improving radio signal reception at work. This could lead to increased at-work listenership for radio Webcasters.

19. AOR and News/Talk are the most preferred radio formats of Internet listeners (see graph at right). Among those who have listened to audio on the Internet, format preferences lean to AOR (23%) and News/Talk (21%). In that the current profile of Internet listeners skews male, their station preferences naturally lean to male formats. Note that a format like Alternative, which nationally only garners about 2% of all listening, is P1 to 10% of this sample.

20. Internet listeners like what they are hearing and say they are listening more (see graphs below). When Internet listeners were asked if they were listening more or less to Internet audio, 76% indicate they are listening more. Internet listenership is clearly a pleasing experience. When asked to rate Internet listening, 29% say they “love it,” 38% say they “like it” and 28% say it’s “OK.” Only 5% have a negative impression.

EIGHT SIGNIFICANT AND COMPELLING QUESTIONS TO CONSIDER FOR YOUR RADIO STATION'S NEXT STRATEGIC PLANNING MEETING.

The results of the Edison Media Research and Arbitron Internet Listening Study raise some profound issues, ones worthy of discussion at your station. Below in a point-by-point manner, we have indicated eight significant issues that should be considered by American radio.

- 1. What local attributes of my radio station will distinguish it from hundreds of new stations playing the same format?** For the last 75 years, radio has been marketed and available as a local medium. For the most part, stations in a particular format are the only local outlets offering that particular music. Thus, if you're the local Classic Rock station, you're the only place people in your market can hear great Classic Rock. Now with digital satellite radio and the Internet bringing literally hundreds of Classic Rock stations to your market, what will set your radio station apart, make it unique and compel people to listen? For years, programmers have sought to infuse their sound with creative packaging, unique personalities and local attributes. This strategy will be more important than ever in a world of greater listener choice.
- 2. What is the state of my radio station's local brand equity?** Some radio stations have cut back on perceptual research and marketing dollars. This study may compel radio to reconsider this strategy. With the advent of digital satellite radio and Internet radio, the American consumer will have a tremendous variety of new audio choices. Consider: almost one-out-of-four indicate that radio currently does not satisfy their news and information and specific music needs. For many people, Radio frustrates listeners by not providing the title and artist of songs being played. New Internet and satellite services can provide the news and information listeners are looking for, the niche music sounds that are currently not available locally and the title and artist of songs played. When given the choice, almost one-third of Americans indicate they would prefer to listen to out of town radio stations. In light of these findings, it is likely that local service attributes will be the most important aspect of radio in the coming years. It is crucial that radio stations continuously measure the magnitude of their images and perceptions in their market. In addition, stations need to market to insure that when these new choices become available, audience erosion is minimized.
- 3. Are you satisfied with the level of commitment to your radio station's Web site?** Radio listeners have a long laundry list of interactive and revenue-generating activities they would like to see on radio station Web sites. Listeners would like to see advertisers' products and services on your Web site. Listeners would like to buy products and services they hear advertised on your station. The list goes on and on. At present, most stations consider their Web site strictly as a promotional vehicle. Listeners want a lot more. It is time for radio to think of their Web sites as another avenue for offering programming and entertainment – and to provide new opportunities for revenue. No one can drive people to a Web address better than radio – you need to make that power work for your own station's benefit.

- 4. Should your company consider a revenue-generating marketing strategy for your Web site?** There is a big desire among listeners to go to a radio station Web site to see the products and services being advertised on a radio station. The lack of visuals is one of advertisers' chief arguments for not spending more money on radio. A radio station Web site, which allows listeners to see rich product detail and visual information on a product or service advertised on the station, can overcome this objection to radio. Clearly, it is worthwhile for an advertiser to pay additional money to have a prominent position on a radio station's Web site with product information, hot links to the advertiser site and lots of visuals. Radio stations have tremendous promotional capabilities to market their Web sites. Stations can promote their Web site free of charge. In a typical market, a radio ownership cluster reaches 50% to 70% of everyone in the market. Thus, a radio station can use its airwaves to drive usage of its Web site and then turn that large traffic into advertising commitments and dollars. Every US station has a devoted core or first preference (P1) audience, which typically spends 15 to 20 hours per week with the station. It is these core listeners who will be most interested in ways to learn more about the station and its advertisers.
- 5. What is your company's strategy for attracting Internet advertisers?** Radio has proven its ability to drive consumers to advertisers Web sites. Advertisers such as the Vermont Teddy Bear company have seen a dramatic increase in transactions on their Web site after implementing radio advertising campaigns. Busy, hard-working Americans with spending power spend more time with radio. The more a person works, the more time they spend with radio. Advertisers seeking to influence these consumers will find radio's exclusive strengths for in-car and at-work listenership to be very powerful. Only radio has devoted and loyal core listeners spending up to 20 hours a week with their most preferred station. Thus, frequently repeated advertising messages create excellent results for Internet advertisers seeking to build their brand and grow traffic.
- 6. What is your company's position on putting its programming on the Internet? Can Webcasting enhance at-work listenership?** One-third of working Americans indicate they have problems clearly receiving radio stations at work. The Arbitron/Edison At-Work Listenership Study revealed the power of at-work listenership. Could you grow AQH audience if your radio station could be received crystal clear without static or interference in the workplace? Can Internet Webcasting be your radio station's pipeline to at-work listenership increases?
- 7. Should your company create online formats to serve uncovered format niches in your marketplace?** For years, radio stations have conducted format searches in the form of perceptual research. The goal of these format searches is to find the format that can get the greatest shares in Arbitron. Some format niches and holes might not be significant enough to generate large shares. What if you could fill those local unserved format needs inexpensively through Webcasting? Is there an advantage to filling unserved format holes in your market before digital satellite radio or other Internet Webcasters? Only your company has the ability to promote these channels inexpensively in your marketplace. Over-the-air radio signals can be used to fill the biggest available format holes while smaller format niches can be served using Webcasting. Advertisers can be offered a wide array of advertising vehicles to reach exactly the type of person they are looking for. Advertising schedules could become a combination of over the air and over the Internet radio broadcasts.

8. Should growing radio companies consider purchasing Internet radio broadcasters? Since the Telecommunications Act of 1996, American radio companies have sought to consolidate ownership to offer greater listener variety and enhanced revenues for shareholders. Should this model continue with radio companies seeking to acquire major Internet broadcasters? Would it make sense for a major radio company to own some of the most listened-to audio and video sites on the Internet? Should the radio industry broaden their mandate to include audio and video signals available through the Internet, or should it just wait for the competition to drive down listening levels? Radio should consider co-opting these competitors, just as network television should have invested more heavily in cable.

ARBITRON'S NEXT STEPS

It is Arbitron's goal to provide the complete solution for Webcasting measurement:

- * In its first initiative, Arbitron, along with Radiowave.com, will begin Internet Webcasting measurement of over 300 radio stations by the end of 1998.
- * Arbitron's goal is to collect and process all Internet listening data to generate the definitive "gold standard" of Webcast measurement. To achieve this, Arbitron is assembling a coalition of blue chip companies which already includes Magnitude Network, Real Networks and Engage Technologies to develop industry-wide services. Streaming organizations interested in joining this newly formed industry coalition should contact Arbitron's vice president and general manager of Internet Information Services, Greg Verdino at gregory.verdino@arbitron.com.
- * Arbitron will test refinements to its radio diary to better capture digital satellite radio and Internet audio.
- * Arbitron will also enrich the Internet data provided by its Scarborough qualitative service and its Pathfinder New Media Study.

The Arbitron/Edison Internet Listening Study provides exciting and substantial insight into an area where little research has existed. Arbitron, as the leader in media information, along with Edison Media Research will field the Internet Listenership Study each year. This will provide the industry with fresh information on a growing and vibrant marketplace which offers a tremendous amount of revenue promise as well as new listenership choices for consumers.

There is immensely more information from this study than is summarized here. For more information please contact Edison Media Research.