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Will Stern turn satellite radio into a star?

By [David Becker](#) CNET News.com October 7, 2004, 4:00 AM PT

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Potty talk could be just what the fledgling satellite radio industry needs to become a viable, mainstream business.

After protracted tussles with the Federal Communications Commission and media giant Viacom, Stern announced Wednesday he will move his show to striver Sirius Satellite Radio in 2006 after his contract with Viacom expires.

Industry analysts hailed the move as a major turning point for Sirius and for satellite radio in general, which has struggled to attract subscribers and stay ahead of mounting debts.

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What's new:

Popular shock jock Howard Stern's defection from broadcast has people comparing satellite radio to HBO and its highly successful, adult-oriented programming.

Bottom line:

Satellite's freedom, thus far, from the decency rules that apply to broadcast may indeed give it a leg up, especially when combined with the variety of programming it can offer. But satellite purveyors may need to push their equipment harder--people can't listen to a special radio if they don't have one.



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"We're going to mark today as a moment of sea change," said Jeff Jarvis, a media executive and author of the [BuzzMachine](#) blog. "This is going to be the breakthrough for satellite radio to become large enough to be a viable business...Satellite and the Internet will become the delivery mechanisms for audio programming, and broadcast is just going to become duller and duller."

"It helps to validate this as a medium to have one of the largest radio personalities move over to satellite radio," said April Horace, analyst for investment firm Janco Partners. "And he's doing it in a way that shows a substantive difference between satellite and broadcast radio. Howard's style is going to have to change significantly if he remains on broadcast. On satellite, he can do the kind of show he really wants."

But Sean Ross, an analyst at Edison Media Research, warned against overestimating the value of the risque. "Being the adults-only band by itself isn't going to be what makes the difference for satellite radio--it's about quality programming," he said. "Howard Stern has a 20-year career on commercial radio that proves his appeal isn't just based on being able to talk dirty."

Sirius and competitor XM Satellite Radio both emerged on the market about three years ago, with similar technologies and business plans. Both charge a monthly fee to let subscribers access dozens of channels of original audio programming beamed directly by satellite to special receivers in cars and home stereo systems.

XM has built a strong lead over Sirius, thanks to factors ranging from equipment deals with automakers to exclusive sports programming deals. But both companies have posted large financial losses as they try to recoup huge start-up costs for launching satellites, buying bandwidth rights from the FCC and producing hundreds of hours of original programming.

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XM reported earlier this month that it had 2.5 million subscribers, about 2 million short of the level analysts have estimated the company needs to turn a profit. Sirius last month reported 600,000 subscribers, compared with the estimated 3.4 million the company needs in order to move into the black.

But the shift is happening, said Jarvis, for the same reasons that cable television channels such as HBO--home of "The Sopranos" and "Sex and the City"--have increasingly overshadowed broadcast outlets. Consumers want a large selection of specialized programming.

"HBO is not a bad analogy," he said. "What matters with HBO is that they created the greatest quality on TV today...because they had a direct relationship with the audience. That's the essence of what's going to happen with radio--you're going to hear new quality and new invention."

Mind your language

And you'll also hear some locker room talk. While the FCC licenses the spectrum used by satellite radio, it's not required to enforce the decency rules Congress imposed on broadcast media in the 1960s. Breaches of those rules by Stern have resulted in millions of dollars in fines levied against stations carrying his program, including a record \$1.75 million settlement earlier this year by radio giant Clear Channel Communications, which later dropped Stern from its stations.

Stern cited FCC issues as one of his main motivations for jumping ship. "I have decided that satellite radio offers me more potential than terrestrial radio," he said in an interview with Reuters. "I can't do the same show I did a year ago because of FCC pressure."

Reader feedback

["I want to know why a grubby \(but sometimes amusing\) man and his comments are vilified when there are far more offensive actions being taken. I'll resist any political comments about sending military personnel to an unnecessary death but ask others to consider this as part of the bigger picture when compared to sexual inuendo, overt smut and frequent course language."](#)
--Lee McGinley

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The result could be a mirror of the current split between restricted broadcast TV and no-holds-barred cable networks, which have steadily gained in influence during the past two decades.

"There are definite similarities with pay TV services like HBO," said Michelle Abraham, an analyst for research company In-Stat/MDR. "We could see more of the content that could be considered too risqué for the public airwaves make its way to satellite radio."

But Abraham said the main issue for satellite broadcasters, particularly Sirius, is ensuring that more people have the special receivers necessary to receive satellite programming, which depends on support from automakers.

General Motors has been aggressive in installing XM receivers in new cars and pitching them to consumers, Abraham said, while Sirius partners such as Ford Motor haven't pushed as hard.

"Most people will be introduced to satellite radio when they go out and buy a new car, and that's when you have to catch them" she said.

Sirius has a little over a year before Stern takes a place on its network, Abraham noted, and it can't just wait for Stern fans to sign up. "Sirius can't stand still by any means," Abraham said. "The most important thing for them over the next couple of years is getting more of their radios in cars. Then they'll be in a position to really get some leverage from programming deals like this."

Ross said Sirius also needs to work on extending its technology to cover urban commuters who spend hours on trains and on foot. "I think the thing they really need to do over the next year is develop the satellite Walkman," he said.

Abraham expects overall satellite radio penetration to continue to grow at a moderate pace, reaching a total of 9.5 million subscribers by the end of 2007. The current 3-to-1 subscriber ratio between XM and Sirius should move slowly in Sirius' favor, she said, as more Sirius-ready receivers enter the market.

Horace said the Stern move will help Sirius narrow the gap with XM. She expects Stern fans to add 3 million subscribers to the service by 2007.

XM most recently branched out with an [online music service](#) offering Web broadcasts of its programming, while Sirius is looking to snag new subscribers with a deal that allows [Dish Network satellite TV](#) subscribers to access its service.

XM, meanwhile, didn't waste any time in responding to the new challenge. The main advertisement Wednesday on Stern's Web page promoted Sirius' competitor.