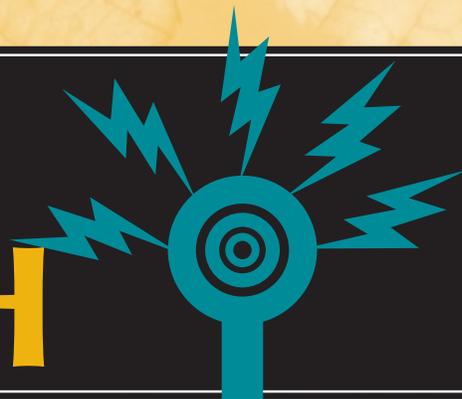


DEMERS DISPATCH



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See Spot Run...

Historically, radio has faced numerous threats as various new media have come along to take another piece of the great American attention span. Having done battle with movies, television and the like, terrestrial radio now faces challenges from cyberspace (the Internet) and outer space (satellite radio).

In the face of increased competition, we're confident that broadcasting will remain a vibrant entertainment medium and a viable marketing option for decades to come. However, we are concerned that those of us in radio need to fully recognize that some of the deadliest wounds received in battle are sometimes self-inflicted.

When Clear Channel announced their "Less is More" initiative to reduce on-air clutter we were reminded of the classic comic strip quote "We have seen the enemy, and it is us." That's "us" as in not just one company, but rather the medium itself. The need for growth helped drive the misguided belief among many (though not all) operators that listeners would simply tolerate increasing spotloads and not react negatively.

The fact that huge companies like CC have recognized that these policies were becoming a form of industry "Hari-Kari" has been, and should be, applauded. Still, we need to be wary of cures that may be worse than the disease itself.

At DeMers Programming, we have been concerned with (and writing about) the spotload issue since the early days of deregulation. After all, this is not really a "new" problem. Many in our business received their early opportunities to jump into this business because of the explosive growth of FM radio...generally at the expense of the once dominant AM band.

In the heyday of AM Radio, many programmers were uncomfortable with "long" 2-minute commercial stopsets. Consequently, stations would break for spots 6 to 8 times per hour. The FM revolution of the 1970s brought about fewer spots and fewer breaks. Most FMs limited themselves to four breaks of two spots each. This highly controlled commercial policy -- in many cases, a product of limited demand for inventory -- added to FM's appeal.

In the 80s, commercial placement strategies shifted. As competitive pressure kept the commercial count limited, operators experimented with deploying their average ten units per hour over three breaks. This allowed for longer uninterrupted music sweeps, and listeners perceived improvement in stations employing this policy.

As more operators integrated this approach into their programming, the competitive advantage was diminished. While there was a great deal of experimentation during this time with extreme song counts (e.g. 20 in a row), most programmers pushed to the next logical step -- two breaks an hour. Stations either split the hour in half or programmed an extended music sweep across several quarter hours and overloaded the backside of the clock.

By the early 1990s, this two breaks per hour policy became the standard in many markets. Of course, when introduced, many stations instituting the two-break policy were running no more than 9 or 10 units an hour, outside of morning drive. Thus, the breaks carried four or five units at most.

The increased commercial loads of the late 1990s and into the new millennium meant that the unit count per break had reached seven or eight in many major markets. Many observers have noted

SEE SPOT RUN...

Arbitron statistics showing an ongoing decline in Persons Using Radio over this time period. For example, Total Average Quarter Hour listening is off more than 10% from the Fall of 1998 through the Winter 2004 survey period. Overall cume is off only about 1%, however TSL loss is more than 8%.

Now that we are approaching consensus that there is a real clutter problem, successfully dealing with it becomes the challenge. The good news is that we have research studies that delve into the question of listener behavior when it comes to commercial tolerance.

Paragon Research has tracked "listeners' tolerance of commercials and their impact on listening habits" in five national studies, dating from 1991 through last year. For the 2003 survey, Paragon surveyed people across the country, aged 15-64, who listen to radio at least 1 hour per day. An Edison Media study was commissioned by Arbitron to "probe listeners' perceptions toward radio advertising." Edison re-interviewed Arbitron diary keepers, drawn from a national sample of those who participated in the Winter 1999 survey.

The bad news is that the results presented by these two studies suggest different answers when it comes to how listeners' perceive (and prefer) commercial loading by radio stations. All five of the Paragon studies indicate that often, by a near two to one margin, listeners prefer longer sweeps of music with less frequent, but longer, commercial breaks.

The Edison study suggests that, in general, listeners prefer more breaks with fewer spots in each. While the data shows wide variance according to format

preference, when given the choice of dividing twelve commercials within an hour, these respondents choose three breaks over two.

Given the pressure to grab any competitive advantage, these disparate results have left programmers in a quandary. We see stations using the Edison findings as the impetus to reconsider their spot loading rationale. Others argue that the "more (but shorter) stopsets" finding runs counter to the ongoing Paragon studies and they are sticking with fewer breaks.

We believe that caution is in order when considering a change in spot loading tactics. Although research is a powerful tool, the difference in sample, wording of the questions and scope of each study are all factors that contribute to the potential for differing results. Answers to individual questions posed in a research environment are not necessarily predictive of behavior. One must also take into consideration the respondents' "real world" context.

Consider the Old Coke/New Coke marketing dilemma that the beverage giant faced in the mid-1980s. When the two Cokes faced-off in taste tests, cola drinkers preferred the new formulation. However, when they went to the supermarket, consumers clamored for what they considered "The Real Thing" -- Classic Coke. Behavior ran contrary to the data. The researchers tested "taste," but that was only one factor in consumers' relationship with the brand "Coke." People don't always choose what is measurably the "best" choice. Ask Sony -- the picture was always better on Betamax.

Paragon (www.paragon-research.com):

| "Which one would you rather listen to..." | 1991 | 1994 | 1996 | 1999 | 2003 |
|--------------------------------------------------------------------------------------------------------------------|------|------|------|------|------|
| • A radio station that plays longer sets of music and has less frequent but longer periods of commercial breaks? | 70% | 70% | 52% | 65% | 67% |
| • A radio station that plays shorter sets of music but has more frequent but shorter periods of commercial breaks? | 30% | 30% | 45% | 35% | 25% |
| • Don't Know | 0% | 0% | 3% | 0% | 8% |

...OVER THE GOLDEN GOOSE

Edison (www.edisonresearch.com):

| Percent of respondents that... | 1999 |
|--------------------------------------------------------------------------------------|------|
| • would prefer that stations stop more frequently with shorter blocks of commercials | 52% |
| • prefer longer blocks of programming with longer blocks of commercials. | 39% |
| • Don't Know | 9% |

A radio listener may register a preference when asked a question regarding scheduling commercials on the radio but that does not necessarily predict listening behavior. The bottom line for Programmers is determining what spot loading strategy will have the least negative impact on TSL. The "holy grail" answer is defining the tolerable balance between length of stopset and number of breaks per hour.

While the two studies differ in this area, let us assume that listeners do favor more, but shorter, commercial breaks. Using a real world example, should a station change its two-stopset/long sweep structure and go to three shorter stopsets because the listeners say they prefer it? Unless your spotload is completely out of control, we believe that the answer is NO.

One thing that is evident from both studies, listeners have noticed that radio has become "more commercialized" and they do tune out when spots hit the air.

Both the Edison and Paragon studies show listeners tuning out during commercial breaks in significant numbers. According to Paragon, the number of people tuning out before the first spot has doubled over the last two studies to 13%, and nearly half your listeners are gone by the second spot.

Edison cites daypart findings that are more encouraging; with a third of the audience tuning out commercials in static listening environments (at home or at work) but 60% tuning out in a car. The bottom line is that you are putting between one-third to two-thirds of your listening audience up for grabs when you stop down. How many times per hour do you wish to take that risk?

This may be one time when it is wiser NOT to give the listeners what they want. We believe that the

"real world" test of spot loading is that when fewer opportunities for tuneout are presented, fewer tuneouts will occur. The overriding concern we have is that ANY interruption in music flow presents an opportunity for a listener to make a decision to sample a competitor. Do the math – from 6a-Midnight, moving from two breaks to three in a given hour means going from 36 to 54 breaks, or 50% more opportunities for listeners to tune into their *second* favorite radio station.

In addition, the recent attempts to move toward a thirty second spot standard as opposed to focusing on selling sixties may prove to backfire on radio if not managed carefully. Not only is there the potential for an increase in the number of perceived events per break, selling techniques that put a premium on spot placement within a break may have an unintended result. Expect increased lobbying from a budget pressured sales department looking for more "premium" spots to sell. More stopsets mean more "first commercial in the break" positions.

The fact of the matter is that any interruption is just that -- an interruption. Test yourself – do you really believe listeners can (or care to) clearly perceive the difference between a :60 and a :30? Each interruption is a singular event and as each event is piled on, the impetus for tuneout increases. It's why programmers have long dreaded the "piggybacked :30" (two thirty-second commercials treated as a single 60 second unit).

We find it telling that both the Paragon and Edison studies refer to commercials in "unit" terms not "minutes." The assumption in each study is that each commercial is a unique event.

Much of the concern over clutter overlooks another key issue – the lack of creative, compelling content

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"When commercials are perceived as content, and not merely spots, everybody wins."

inside each stopset. Most radio stations devote 20% or more of their time each hour to something other than music or entertainment content. Yet what resources are deployed to ensure the quality of that 20%?

Having yet another local car dealer screaming at your listeners or another "testimonial" for a male enhancement product is not exactly compelling programming. People may dislike interruptions in their programming but not as much as they hate poorly written, shoddily produced, repetitive or even insulting commercials.

Conversely, there is evidence that if the content is entertaining enough, they will listen and enjoy. Consider that Bud Light has managed to create enough buzz with its "Real Men of Genius" radio series that thousands of people have purchased CD collections of the spots from the company's website. And how many of you recall Tom Bodett reminding you that, at Motel 6, "we'll leave a light on for you?"

What Bud and Bodett have in common is simple – entertainment sells. Internet experiments such as the BMW short-film series and Seinfeld-Superman saga for American Express also support the notion that creative messages stick...even if it takes more than 30-seconds to tell the story. Some television advertisers are now experimenting with 90-second mini-movies to engage viewers and keep their messages from being "TIVOed." When commercials are perceived as "content," and not merely "spots," everybody wins.

Radio is the one medium that has historically touted itself as providing marketers with enough time to really tell their story. Given this experimentation with longer-form marketing in competing media, some advertisers may find it somewhat troubling that radio is trying to focus on shorter commercials.

The cause – reducing clutter – is noble. The cure, injecting more short-form messages while interrupting the overall product flow more often, seems potentially counter productive.

Yes, radio needs to reduce clutter. Yes, radio needs to provide a more hospitable environment in order for advertisers to get their messages heard. But radio must do so in a manner that entertains, informs and engages listeners in our product as well.

In other words, we need to fix this problem, but in the process we cannot lose sight of the fact that the ratings game is still being played by the rules of recall – not reality. For the foreseeable future, radio programmers will be driven by the need to create brands that listeners "vote" for. It's all about creating fans – not just users.

Developing what spot loading strategy is right for your radio station is important but not nearly as critical as having a compelling product. The Edison study finds that listeners tend not to equate negative perceptions with their favorite radio stations. Becoming somebody's favorite radio station is still the best defense against tuneout overall.

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