



## Media I Strategy

### Solid as a Rock – Trends & Challenges in the Radio Industry

Comment by Marc Strüßmann, 18th August 2009

**In contrast to many other types of media, the radio industry has been barely affected by the ongoing economic crisis and structural changes in the media industry. While newspaper publishers are implementing restructuring measures as a result of dwindling readership and declines in profit margins, radio broadcasters are by no means faced by a threat to their existence. Quite the opposite in fact: in a time of fundamental changes in the use of media, there are opportunities for developing new business models and staking out claims to new territories...**

Radio is a steady business in all respects: the use of radios in Germany has only changed slightly during the past 30 years (increasing from an average of 164 minutes per day in 1979 to 176 minutes in 2008), the formats produced have been similar for a relatively long period of time and advertising revenues have continued to increase despite structural changes in the market.

Just how resilient the radio industry business model is can be seen from trends in the recent past. While each month sees stories in the press about the impending end of the newspaper industry and while the gross revenues of television broadcasters have fared even worse than newspapers during the last 5 years, radio has performed relatively well, with average growth in gross advertising revenues of 7%.

However, the age when anyone with a radio transmission licence and the necessary technical equipment could operate a radio station and achieve profit margins of more than 30% are over, and even radio stations are being forced to get to grips in the mid-term with the structural changes occurring in the media landscape.

The least acute threat faced by radio stations with regard to the Internet is that posed by the medium itself: the Internet can basically be used in parallel and at the same time as radio, and effectively complements radio use. For example, advertisers on the Internet often make reference to further information that is available on the Internet, with the Internet being used specifically to generate increased coverage. In turn, the Internet makes it possible to individualise offerings and provides a feedback channel from listener to broadcaster.

Radio stations now also use the Internet as an instrument for creating customer loyalty. However, the methods used on the net are very heterogeneous and probably represent more of a cost factor than a revenue generator.

What is more critical is the fact that the Internet, with its increasing bandwidth, has also established itself as a transmission channel for audio-visual media. The previously limited geographical coverage of a transmitter is thereby negated and Internet-based 'radio broadcasters' can reach ever larger audiences with little outlay in terms of expense and effort, and with extremely focused and specific programmes – there are now more than 15,000 such Internet radio channels transmitting around the world. This trend is aided by increasing numbers of Internet-capable end devices that work independently of PCs, thereby increasing the acceptance of Internet-based offerings.

A key feature of most Internet-based offerings is the tight trimming of formats and the resulting focus on a particular type of music. Many well established conventional radio broadcasters have already recognised this trend and therefore provide focused webcasts via their websites which are oriented to music styles suiting the tastes of the majority of listeners. The basic principle is: the additional distribution channel provided by the Internet can give rise, in the mid-term, to structural shifts in the listenership, which can also have an effect on the distribution of advertising revenues.

The digitalisation of radio, by means of standards such as HD-Radio and DRM+, which promise to deliver better transmission quality and improved feedback channel capabilities between broadcaster and listener, will probably not have much of an impact in the mid-term. Firstly, this is because it has not yet been clarified if and when digital radio will be introduced and, secondly, the impact of it in terms of increased listener interaction cannot yet be quantified.

In summary, there is currently no genuine threat. In fact, there are a number of opportunities that already exist: the fundamental structural changes in the media industry, which have been made possible and also necessary by the Internet, offer individual media channels the chance to expand their business models and re-position themselves. Even though certain optimists are claiming that daily newspapers still have a future, the newspapers in their current form are losing their reason for being. News can now be distributed much quicker via the Internet, so the news appearing in tomorrow morning's newspapers is already obsolete. Content appearing online can be linked more easily and enriched by audio-visual elements. Headline advertisements can also be published and evaluated much more conveniently.

The newspapers have been a little too slow in recognising these trends and this has left the door open for new online providers to move in on the market – headline advertisements are now marketed by specialist online platforms such as Immobilienscout24.de, mobile.de and neu.de. And news is being disseminated in particular by the online offshoots of the large news magazines, such as spiegel.de and focus.de.

And yet it is the local and regional newspapers, which have been integrated into large publishing houses and have thereby become increasingly standardised, that offer one particular online service more efficiently than any other providers have managed to do so far. This is the provision of local news reports and event advertisements etc., which are still primarily published by such daily newspapers.

Radio stations could get involved here and promote themselves as local/regional platforms by expanding their regional journalistic expertise and by recognising and utilising the Internet as a parallel and complementary medium. This could significantly increase the attractiveness of radio station homepages and thereby increase the corresponding advertising revenues considerably.

There is a real chance here to exploit a great opportunity in this area with little effort, expense or risk, particularly for media groups that already have private radio stations and local newspapers in their portfolios.