

# JACK MYERS MEDIA INVESTORS™ REPORT

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## Open Letter to the Radio Industry & Seven Strategies for Rebuilding the Industry

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— On David Letterman's CBS show last Thursday, Howard Stern, radio's biggest star, had an agenda: an attack on the radio industry. Three different times he came back to the subject until he made his point that radio hasn't changed creatively while radio advertising has stooped to new levels in its desperation for money. While Stern was biting the hand that feeds him, his comments should not fall on deaf ears. It's time for some radical change in the commercial radio broadcasting business before its underpinnings collapse. Here's an edited version of what Stern had to say:

**STERN:** "You know Dave, I haven't been here in five years. And I realize sitting back there that in the five years I haven't been here, radio hasn't changed. In fact, it's still a horrible medium. Look at what's happened. Nothing has progressed in radio. I'm still fantastic. I'm still doing my thing. But we have Rush Limbaugh on heroin or a heroin substitute, which really took me by surprise. Something's finally happened in radio."

"The radio business is hurting. I have seen such a change in the business, Dave, it's frightening. You know when I first got to my radio station they wouldn't even take an advertisement from Playboy. They considered that too pornographic. I realized within the last year now... we had a product on the other day that we advertise, it was for men's buttocks to smell better. It's a cream that you put on. So I go to the general manager of our radio station and I said 'Have things gotten this bad that this is what we're up to?' And he said, 'Yeah it's gotten bad.' It's very difficult to make a living in radio. Today I advertised a card; you get this card, it's the size of a baseball card and it's a woman dressed. And if you move it her clothing comes off. It's a hologram. And I couldn't believe that even on my show, I've sunk this low. It's depressing me."

Stern went easy on the medium, compared to many of his rants on his own show. And although Letterman didn't give him a chance to fully make his point, the state of the radio industry is obviously a major concern to Stern, who has been on the air for 25 years and working in his current format with sidekick Robin Quivers for 22 years.

At both Infinity and Clear Channel, presidents John Sykes and John Hogan are trying to innovate and develop new formats and programming models. But the realities of the business today make their tasks near impossible. The industry is desperately in need of a new playing field. It's too late to try to simply play the game differently. The game is broken. Radio as a medium is on a downward slope. It's time for a completely new game to be developed, tested, and implemented. Here are some new rules for rebuilding the radio business.

**1. Forget Washington.** The major radio companies need to stop operating their companies to satisfy regulators. There is such intense fear of regulators stepping in and revising ownership cap limits, duopoly laws, and placing further restrictions on content that radio management needs to tiptoe around Washington on eggshells. The FCC, under Michael Powell, has been so incredibly incompetent and inconsistent that broadcasters cannot anticipate the regulatory environment and act accordingly. Instead they need to play both sides of the political fence. Even George W. Bush favorite Clear Channel cannot assume favorable regulatory conditions. Let the regulatory chips fall where they might and start managing the radio business for its owners rather than its regulators.

**2. Institutionalize Innovation.** What percentage of their total operating expenses do the major radio companies put into innovation? Maybe two percent? Whatever the percentage, it's not enough. Television networks invest hundreds of millions annually in developing scripts and pilots. A majority of new programs fail quickly. Yes, it's a dysfunctional part of the TV game, but conceptually no creative business can grow without innovation and development. Infinity launched BLINK 102.7 FM in New York and failed dismally with the female oriented talk format. But they tried. The problem with BLINK was it was a programming test. The business models weren't restructured along with the format. Station groups should remake a handful of under-performing stations as laboratories, where new integrated marketing, business, and programming models can be developed and tested. Advertisers should be brought into the development process. Radio's business models are broken as much as programming models — both need to be rebuilt from the ground up. These station labs should be zero based. New management with non-traditional business and creative backgrounds should be hired. These stations should be spun into a separate operating component of their companies under separate management, ideally management with proven innovation credentials and little if any track record in traditional radio.

**3. Invest in new listener research studies focused on accountability and return-on-investment.** Radio has always been a frequency medium that media planners and buyers now use more as a reach medium. Radio needs to identify its competitive strengths, prove these strengths to advertisers, and then sell these strengths. Today, marketers evaluate radio stations in comparison to each other, making their media buys on the basis of cheap costs-per-thousand. Radio has an exceptional opportunity to recreate itself, as it did in the 1950s when television threatened to destroy the medium. There is an old saying that a new medium never replaces an old one. New media complement existing media. That concept no longer holds true.

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The Internet and streaming audio combined with satellite radio threaten the broadcast roots of the radio industry. It's time for a major investment in research to help programmers and marketers learn new ways to communicate to consumers through broadcast radio.

**4. Run your business for the audience and not Wall Street.** Wall Street gives no inducement to struggling industries and companies when they try to redirect their businesses. Companies that bite the revenue bullet in order to build long-term growth are punished in the financial community. Any admission of troubles can drive stocks into the trash heap. Leading radio station groups must communicate to Wall Street that it will take a period of investment and reorganization to build a stronger, more sustainable radio business. Clear Channel and Infinity, along with the other major radio owners, need to develop new models and build them in tandem with advertisers. They will need to reduce their revenue base at underperforming stations in order to make these investments. The radio industry must reposition itself, re-create its unique marketing proposition, and rebuild its competitive and proprietary position. The first step is to advise Wall Street that revenues will be impacted during the R&D phase and taking the necessary financial hit.

**5. Radio needs to rethink its position on clutter.** To avoid significant cost increases and to achieve onerous budget demands, radio has dramatically increased its clutter and, as Stern pointed out, lowered its commercial standards. I used to fall asleep nightly to the radio, knowing that I could depend on a good twenty minutes of music between commercial breaks. If there was a commercial break, it was short and not overly invasive. Today, in late night radio, commercial breaks come about every five to seven minutes or less, they are long, and commercials sound like Raceway Park and Crazy Eddie. I can't listen anymore. In my car, I flip around the stations in a futile effort to find a station without long commercial breaks during key rush hour time periods. New solutions are required or commercial radio broadcasting will quickly lose listeners to satellite and Internet radio. Radio needs to be inventive and radically innovative in designing integrated marketing relationships with major advertisers focused on reducing clutter and increasing advertiser value. Ideas include exclusive marketing and programming initiatives, partnerships with television networks, innovative sponsored approaches to uncluttered formats, new commercial lengths, and restructuring of commercial breaks. There are hundreds of ideas that the radio industry could test one station at a time, one daypart at a time. Although the industry knows it's troubled, the demand to suck in every available dollar to meet onerous budget requirements prevents creativity and exploration. It's time to explore creative ways to reduce clutter in radio.

**6. Brands, Brands, Brands: Where are the Radio Brands?** Why are the biggest brands in popular music distribution today Launch@Yahoo!, Radio@AOL, Real, Kazaa, and Audio Galaxy. Why are the up and coming brands Sirius and XM? Readers are welcome to submit other music distribution brands, but where are the radio stations in this mix. What are

the modern day national versions of the WMCA Good Guys; the WNEW-FM of Scott Muni, Dave Herman, Allison Steele, and Jonathan Schwartz; the WABC that Rick Sklar made an East Coast powerhouse; the WNEW-AM of Gene Klaven and William B. Williams? Every city had its own local version of a branded radio station. Everyone knew the format and everyone you knew listened. Radio is no longer a local medium, and that's an issue for another column. Sure, radio has developed brand name talent like Howard Stern and Rush Limbaugh. But radio has failed to develop meaningful national music brands. With all the power of MTV, VH1, Spike, and CMT, why hasn't Infinity capitalized on these brands and extended them into national radio? The WB offers The WB Radio on Radio@AOL. ESPN Radio has built a powerful national brand in sports radio. Disney Radio has been successfully created for kids. What am I missing in the evolution of radio that has failed to embrace the extraordinarily valuable music brands that have been built in cable television? And it's not just music. Why not CNN Radio? Why not Discovery Radio? Clear Channel has exceptional radio assets and a ubiquitous concert promotion business. The company uses its brand for music promotion; why are there no branded Clear Channel radio stations that emphasize tour information, contests, promotion and music? Everything is about brands today. The radio business will suffer if it fails to develop and market relevant national branded properties.

**7. Be Interactive & Think Nationally.** While many stations have created promotional websites, only a fraction stream their audio signals via the web. This creates an important opportunity for national audio brands to develop on the web and slowly erode radio's share of market. Television executives are wondering where the 18 to 34 male audience has gone. The young audience is leaving the radio medium as well. More and more young people are listening to music over the Internet and on MP3 players. The music industry is collapsing, merging, purging and imploding, yet the radio industry is not reacting. In the 1950s, as television viewing replaced radio as America's favorite form of mass entertainment, the radio industry adroitly shifted to new formats, primarily locally programmed music and talk. Until then, radio had been a national medium, with programming such as Green Lantern, Amos & Andy, Fibber McGee & Molly, Gale Storm, The Lone Ranger, and The Jack Benny Show. It's time for radio executives to begin thinking nationally again - and even globally - by embracing brand-based media expansion opportunities combined with Internet streaming. Radio should be co-opting the Internet as an expansion vehicle before the Internet becomes the new audio medium of the Net generation.

There are no short term solutions to the problems facing the radio industry. But until innovation, creativity and brand development become institutionalized within the organizations of the major radio companies, real solutions will be shot down by overwhelming economic and regulatory realities long before they bear fruit. It's time to bring some free form management into the radio business with a commitment to long-term support. □