



# The Radio Workout Team

Serving Receivers, Trustees, Operators & Media Lenders

## THE NEW RADIO BUSINESS MODEL

### THE NEW MODEL

Given the current state of the medium, there's one thing we can probably agree on: Radio, like most traditional media, is in need of a new business model. The one-two punch of the recession and ongoing erosion of ad dollars to new media simply demands this.

Thankfully, radio's audience reach remains strong. What has been lacking in recent years is radio's ability to harness "the power of the tower" to leverage that reach into new revenue streams.

The Radio Workout Team's new business model for radio leverages this power by incorporating new revenue streams from two sources: 1) instituting a strategy of hyper-localism in each market, and; 2) multiplatform opportunities that now exist as a result of new technology.

This new strategy will once again put "listeners first" and add a new element: Audience engagement. The idea is to create strong local media brands through the radio dial, along with podcasts, mobile content, and micro-websites involving strategic media partners.

The New Model leverages what radio does best: Create crowds through local promotions and live events, fueling many of the multiplatform revenue streams. The radio properties are the central mechanism in creating local multiplatform media marketing outlets.

### Hyper-Local

Having a strong local radio brand is no longer the end game, it is an essential requirement to simply get in the game. Hyper-localism means having an unyielding focus on local content, promotions and community engagement. The opportunity for hyper-localism is growing quickly across many markets, as radio, TV and newspapers increasingly rely on more syndicated and national content. Many local media are not very local at all anymore, including their community actions. Meanwhile, consumers' desire for hyper-local service has fueled the growth of community and promotion-based websites and social networks. Some of these new media outlets are quickly establishing a beachhead in the absence of true local media from the traditional outlets. Hyper-localism requires staff infrastructure and an investment in resources, but returning to the harvest of this low hanging fruit is critical for radio's survival. Every local radio cluster should strive

to be the #1 local media revenue company. Thus, it is a key component of radio's New Business Model.

### Multiplatform

What does "multiplatform" really mean? It means the go-it-alone days of an AM or FM service are gone. The new opportunity that exists today is in building successful brands, and in content creation (programming). Content can be disseminated over the Internet, to cell phones, or iPods and other portable devices as easily as it can be broadcast over the traditional FM platform. Working with local media partners in print, TV and Internet will be critical to winning competitive battles. In some cases, it might be advisable to purchase or co-own these local media properties.

The new radio business model incorporates many new revenue streams that are currently either minimal or non-existent. The mix of revenue streams may vary from market to market. In some markets, the optimum arrangement mix may favor the use of digital opportunities, while in others it may focus on events and promotions to generate revenue. In any case, the common theme of the new business model is "local." While the current trend in radio broadcasting today is to rely on national syndicated content, hyper-localism is and has always been at the heart of radio's success.

## **HOW WE GOT HERE**

Current market conditions indicate an opportunistic environment for application of the New Radio Model, due primarily to the following, well known trends:

- (1) The business model utilized by the major broadcast companies over the past 10 years has allowed for acquisition behavior that grossly over-valued radio station purchases, and financed them mostly by debt.
- (2) These operating models relied on consolidation to compensate for the overpriced acquisitions and attain reasonable multiples on EBITDA.
- (3) As a consequence of consolidation, radio revenue eventually experienced sluggish growth over this period, forcing the major industry players to further consolidate operations in order to service over-leveraged debt commitments.
- (4) The U.S. economy has entered a deep recession, depressing radio revenue growth even further, and causing major industry players to cut well beyond reasonable and prudent operating levels.
- (5) Property values have plunged dramatically due to these unwise consolidation practices.

## RECOUPING VALUE THROUGH OPERATIONS

Reducing operational expenses and performing financial triage is the first order of business to “stop the bleeding.” So, if controlling expenses is the primary objective, how can this be reconciled with concurrent investments that may be required for transition to the New Business Model? Because it must be recognized that the value of radio stations must be redeemed. Rebuilding value – not just cutting costs – is critical for the survival of the entire radio sector. Consider also that much of the new investment can be funded through careful reallocation of current expenditures, providing increased value with little or no net cost increase. The overall value of the average radio cluster can be appreciably enhanced through systematic implementation of proven operating methods and new multiplatform revenue strategies, which are glaringly absent from most radio operations today.

### SUMMARY

Typically, single stations ranked demographically in the top 20% of the market garner 80% of the total gross radio market revenue. This statistic articulates the need for market dominance.

In the past, radio has been a highly competitive business, which in turn has required considerable monetary outlays. Enhancing and maintaining a competitive advantage in the marketplace naturally requires expenditures relating to programming, engineering, sales and advertising, and promotion. In the current environment, however, due to heavy debt loads resulting in unrealistic ROI expectations, in conjunction with the application of a dysfunctional business model on the actual operations, stations have not been able to make the necessary investments to remain competitive or, sometimes, even profitable.

A New Model is necessary to create a competitive advantage and keep expenditures below the traditional norm. Utilizing new strategies, smart radio operators can grow revenue over the next three to five years by taking advantage of this weak competitive situation – regardless of growth trends forecast for radio advertising revenue. A Hyper-Local focus and a commitment to building Multiplatform revenue streams are the keys to achieving this success.