The Internet Radio Revolution Has Arrived: Platforms, Services, Audiences and Advertisers Reinvent Audio

April 2014 v1.1
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Contents

Executive Summary ........................................................................................................... 1
Introduction ....................................................................................................................... 2
The Audio Marketplace .................................................................................................... 3
Reinventing the Audio Market ......................................................................................... 5
Internet Radio Gets Serious ............................................................................................. 6
The Audio Advertising Mix .............................................................................................. 7
Shifting Economics of Audio Advertising ........................................................................ 11
Trends in the Audio Market ............................................................................................. 12
The Shift to Internet Radio? ............................................................................................ 15
What Is the Listening Mix? ............................................................................................... 16
“Hands Free” Listening ..................................................................................................... 20
Advertising Efficacy ......................................................................................................... 21
Transcending the Small Screen ......................................................................................... 22
Closing the Gap ................................................................................................................ 22
Conclusion: The Economics of Internet Radio? .............................................................. 23

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Figures

Figure 1 - Four Emergent Processes Underpinning the Internet Radio Revolution ........................................... 2
Figure 2 - Percentage Listening to Each Type of "Radio" ................................................................. 6
Figure 3 - Phone Calls Are the Top Lead Source for Businesses ..................................................... 9
Figure 4 - Toyota's Entune System - The Connected Car ................................................................. 10
Figure 5 - JetBlue’s Interactive Voice Ad ....................................................................................... 11
Figure 6 - Percentage of Total Audio Ad Spending in Broadcast and Digital Radio
2012-2018 ........................................................................................................................................ 12
Figure 7 - Broadcast Radio is Major Part of Media Mix ................................................................. 13
Figure 8 - Broadcast Radio Stations Also Sell Digital Inventory ............................................... 14
Figure 9 - Digital Will Rise to More than a Quarter of Spending in Local Markets ........ 15
Figure 10 - Broadcast Radio Reaches 91.7% of 12+ Listeners Weekly ........................................... 16
Figure 11 - Average Quarter Hour (AQH) Ratings ........................................................................ 17
Figure 12 - Digital Radio Rises to 183M+ Listeners .................................................................... 18
Figure 13 - Average Digital Radio Listeners Spends 6.7 Hours per Month .................. 19
Figure 14 – Hands Free Use Cases Include Car/Truck, Walking Around and Gym. 20
Figure 15 - Radio is in Top 10 Sources Used Regularly for Local Shopping .......... 21
Executive Summary

The Internet radio revolution has been brewing for some time. Streaming audio has gone mainstream for audiences and advertisers. This revolution is foundational, meaning that new business models are forming around new audience behaviors supported by technology advances.

The audience is reinventing its traditional radio experience in the face of innovative Internet radio services by adopting available new technologies and developing new consumption and engagement behaviors. Audio comes in a wide variety of offerings including live, personalized, on-demand, multichannel, on the go, and interactive.

Recognizing new opportunities to reach and engage with these audiences, national and local advertisers are shifting budget into Internet radio services. Indeed, broadcasters themselves by providing their own streaming services are part of this revolution. Advertisers will inevitably follow the growing consumer adoption of both broadcast and pure play streaming services. eMarketer forecasts digital radio (streaming and podcast) will more than double from 2013-2018 to capture 21.3 percent of the overall audio advertising market.

Revolution? Well, yes. In the sense that the established audio order, largely defined by broadcast radio, is being structurally reinvented. BIA/Kelsey identifies four emergent processes underpinning the revolution in Internet radio:

1. Platform Integration
2. Services Innovation
3. Audience Reinvention
4. Advertiser Engagement

In this report, we’ll highlight how these forces will redefine the Internet streaming audio market over the next generation.
Introduction

For purposes of this report, we define the Internet streaming audio market as comprising: Internet Radio Streaming (e.g., streaming radio services such as Pandora or Spotify) and Broadcast Radio Station Streaming (e.g., AM/FM radio stations streaming their over-the-air signals and related program services whether simulcast or not). Either type of audio service may provide advertising supported audio services that may be linear (i.e., no listener interactivity supported) or may combine interactive elements (i.e., user interactivity of some type).

Figure 1 - Four Emergent Processes Underpinning the Internet Radio Revolution

Reinvention is a fundamental predictor of whether innovations succeed. Past market and academic research informs us that innovations are much more likely to be successful when a group embraces them by adopting new
behaviors. Reinvention follows by creating new value propositions and use cases. As we’ll show, this clearly is the case for streaming audio.

There is a new ad unit that uses voice recognition to interact with audio advertising. This ad unit could increase the ability to monetize mobile ad channels by leveraging a weakness into a strength. In on-the-go environments where touch screen or keyboard interfaces may be inconvenient, unsafe or illegal, this is a new twist on the radio experience. This technology is one of the ingredients of the radio revolution now underway and undergirds the other emergent layers.

Given the many recent advancements in the streaming audio industry, why do we pick now to call it a “revolution”? We do so because we have only recently seen signs of an industry ready to pivot. Listening to streaming audio services is reaching critical mass and the growth curves are promising enough to attract value recognition from advertisers. We’re talking about innovations ranging from the connected car to programmatic advertising platforms to mobile device streaming. Also included in this discussion are new forms of free and premium services and interactive audio advertising.

The Audio Marketplace

Over-the-air AM/FM broadcast radio has served listeners for nearly 100 years. In the U.S. alone 242 million weekly listeners (92 percent of Americans 12 years or older) consume a weekly average of more than 2.5 hours of radio (Nielsen 2014). For generations, broadcast radio followed a simple business formula – provide free programming to engage audiences and then sell advertisers access to that audience. It was a winning and essentially impenetrable business strategy. It has been hard to unseat radio as the audio king.

That enormous broadcast radio listening diet has not been impacted much over the years in terms of weekly reach. Time spent listening has declined due to competing audio platforms such as MP3 downloaded files (e.g., iTunes); podcasts and a growing number of streaming services. These services include Pandora, iHeart Radio, iTunes Radio, Google Play, TuneIn, Spotify, Rdio among others. Typically, they offer innovation in programming,
audience personalization choices and a mix of free advertising-supported and premium services.

Devices on which to consume these services are varied and often multifunctional. Smartphones, tablets, “connected cars,” home audio appliances, game consoles and personal music players are widely used.

There has been a lot of change simmering in the radio marketplace but we haven’t yet seen dramatic shifts. There are some early examples of innovation among radio broadcasters. One is industry leader Clear Channel’s iHeart Radio, a streaming audio service that offers more than 1,500 live radio stations owned by Clear Channel, Cumulus and others, plus options for personalized listening. Another innovator is NPR, which offers music and program streams as well as podcasts.

The broadcast ecosystem has expanded to include companies such as Triton and Abacast that work with radio broadcasters to provide streaming and monetization solutions to better serve today’s audience and advertiser requirements. Abacast has more than 1,400 radio station clients. Triton serves leading publishers in both broadcast and Internet worlds including CBS, Pandora, Entercom and Slacker. Triton provides audience measurement and reporting services recently accredited by the Media Ratings Council.

So where is this all going? What sense can we make of what is happening in the radio market?

With all of the excitement in mobile, social, video, search and now audio services delivered over wired and wireless Internet connections, it is easy to overestimate the short-term impact. We can feel something significant happening, but how will we change our relationships with technology in the long run?
Reinventing the Audio Market

Let’s briefly expand on the four forces we’ve identified that underpin the radio revolution. Together, these elements are driving radio industry disruption to the point of distinctly new and meaningful audience and advertiser behaviors.

- **Platform Integration** refers to the increasing user friendliness of accessing services, and the ways over-the-air and digital radio listeners can access services. These ways include laptop, mobile, AM/FM receivers; Internet devices, connected car entertainment systems; and over a variety of networks including over-the-air (AM/FM), WiFi, 4G or Ethernet.
- **Services Innovation** in radio now supports fully curated and programmed linear services like traditional broadcasting and personalized services. These range from allowing users to pick individual tracks, to favorite artist-based channels, to genre channels. These can be accessed free or through various premium tiers.
- **Audience Reinvention** of how they are willing to learn and undertake new ways to interact with technology platforms in the home, work and hands free (e.g., driving, walking, exercising) has allowed digital radio services to grow quickly. This has supplanted some traditional radio listening while creating new niches in the radio ecosystem that appear to complement AM/FM radio.
- **Advertiser Engagement** is a key element of this revolution with digital radio growing to 20 percent of the overall radio advertising market in just a few years. Advertisers are moving beyond their “experimental” digital radio budgets and starting to commit to serious spending. This includes adopting new forms of creative messaging in their campaigns, e.g., the interactive voice unit.

In media industries, waves of change typically progress in this sequence:

1. Fundamental breakthroughs in enabling technologies occur.
2. Entrepreneurs and their investors experiment with getting the right value proposition into the market.
3. Consumers find the winning technologies and begin to use them
4. Advertisers sensing a new opportunity for connecting with their consumers allocate “experimental budget.”
5. Media companies and publishers take new platforms seriously. It is only when we reach this last phase that we really get a sense of how fundamentally a technology will impact us in the long run.

We’re now in phase four and headed to phase five of this sequence in the audio marketplace. We show these changes in terms of listening behaviors in the chart below, based on an Edison Research study for the Streaming Audio Task Force. Streaming audio services have crossed into the majority of the listening market driven by the audience’s newfound abilities to both personalize and have on-demand listening choices. As audiences embrace these new platforms and services, listening both expands in total time and extends to new locations and contexts. Inevitably, advertisers will follow.

**Figure 2 - Percentage Listening to Each Type of "Radio"**

<table>
<thead>
<tr>
<th>Type of &quot;Radio&quot;</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>AM/FM Radio &quot;Over-the-Air&quot;</td>
<td>90</td>
</tr>
<tr>
<td>Internet Radio</td>
<td>53</td>
</tr>
<tr>
<td>Personalized Online</td>
<td>39</td>
</tr>
<tr>
<td>Streaming Live</td>
<td>27</td>
</tr>
<tr>
<td>On-Demand Music</td>
<td>18</td>
</tr>
</tbody>
</table>

*Edison Research, 2013*

**Internet Radio Gets Serious**

As we’ll explore below, audiences have already committed substantial amounts of time to streaming audio services. As with other audio innovations, the impact of new listener behaviors on over-the-air radio was mitigated by the fact that new audio services were not competitive in the radio advertising market. Furthermore, initial data have shown that over-the-air radio listeners remain highly committed, as demonstrated by their numbers and consumption levels.
Nonetheless, the broadcast segment has been forced to make room for the new streaming radio segment popularized recently by services such as Pandora and Spotify. These newer entrants offer both free ad-supported and premium services offerings. Until they could build-out meaningful scale in their listener bases and learn how to sell national and local advertising, the impact on broadcast radio was negligible. This has now changed and we can feel the difference in the market as the competitive rhetoric at industry conferences and in the trade press heats up, and as streaming audio services gain traction with listeners and advertisers.

The Audio Advertising Mix

The Radio Advertising Bureau points to a 2011 study by Parks Associates for TargetSpot to explain the multiplier effect of broadcast radio combined with Internet radio ad schedules.

This research concluded that “Radio and the Internet have complementary roles in a media plan” increasing ad recall, brand preference and website visits. This is significant for two reasons. First, combining broadcast and Internet radio in the media mix does a better job of achieving advertisers’ objectives. Second, by adding Internet radio into its media mix, publishers have a new way to grow revenue.

Furthermore, players in the Internet Radio market, including both pure plays and broadcasters, face a market in which they earn lower eCPM rates than broadcast radio while facing higher costs for music licensing. Using newer ad inventory that drives increased listener engagement such as voice interactivity in audio ads could help drive up the eCPM in Internet radio inventory.

The first interactive audio ads were developed by XAPPmedia. Nuance uses voice interaction as part of the user experience, but with advertising it relies on touch activation. XAPP, on the other hand, is voice activated and supports instant conversion even in hands free environments.
According to XAPP’s CMO Bret Kinsella, “XAPP Ads enable consumers to take action with their voice and connect with advertised offers. Action phrases are used to automatically execute the requested actions.”

XAPP Ads (see URL below graphic for an example) come in three formats:

- Engagement Ad
- Conversion Ad
- Engagement + Conversion Ad

These audio ad formats not only have a call to action, they facilitate the action instantly by voice including an auto-dialer to call the advertiser.
BIA/Kelsey research indicates that phone calls are the most important lead source for businesses, so this is a particularly valuable form of call to action supported by interactive audio ad formats.

**Figure 3 - Phone Calls Are the Top Lead Source for Businesses**

The move toward voice activated systems will have increasing impact from the user perspective in the Internet radio space as the connected car experience becomes more commonplace. Connected cars have mobile Internet connections and provide an integrated interface to information and entertainment systems. The telematics leverage voice activated commands to become an increasingly natural part of the user interface. For example, some Toyota models are equipped with the Entune system that includes Bluetooth, voice recognition, USB, aux port, navigation, and a display screen. On select, premium audio head units, users have access to navigation and a rich set of Apps and Data Services, now referred to as the Entune App Suite.
Toyota and its ad agency Saatchi & Saatchi partnered with mobile ad platform provider Millennial Media to launch a Nuance Voice Ad campaign using Millennial Media’s “Show & Tell” ad unit. Using speech recognition, the interactive audio ad asks the listener to say which option from a list they’d like to learn more about. The ad unit “responds” based on the listener’s spoken answer.

According to Toyota and Millennial Media, this audio interactivity provided by the Nuance Voice Ad unit increases listener engagement and interaction. It also provides content in a relevant way and creates a campaign uniquely suited for an environment such as the automobile where speaking is more convenient (and legal) than a keyboard interface.

JetBlue tried an ad unit combining touchscreen and voice activation to simulate two-way conversation. Working with Mobile Theory, the airline rolled out a mobile campaign by combining a mobile app with voice interaction. In this case, a pigeon pops up and encourages the user to “talk into the mic” to have a conversation that involves either a game or interacting with ads.
Figure 5 - JetBlue's Interactive Voice Ad

Shifting Economics of Audio Advertising

Advertisers will inevitably follow the growing consumer adoption of both broadcast and pure play streaming services. eMarketer forecasts digital radio (streaming and downloadable) will more than double from 2013-2018 to capture 21.3 percent of the overall audio advertising market.
**Figure 6 - Percentage of Total Audio Ad Spending in Broadcast and Digital Radio 2012-2018**

![Bar chart showing percentage of total audio ad spending in broadcast and digital radio from 2012 to 2018.](chart)

*Note: eMarketer defines “digital radio” as “digital only radio stations” and “audio podcasts.”*

BIA/Kelsey 2014; eMarketer, March 2014

**Trends in the Audio Market**

Broadcast radio, given its weekly reach and consumption, is a major part of marketers’ media mix and weight. A BIA/Kelsey survey found that small-businesses that advertise on radio devoted 12.5 percent of their 2013 advertising budget to the medium. BIA/Kelsey uses the 1-99 employee small businesses definition.
The same survey found small business advertisers spend more than double that amount (25.4 percent) for online advertising. While radio stations themselves are selling more digital inventory, BIA/Kelsey’s forecast calls for broadcast radio’s digital ad sales to peak at $0.926 billion by 2018 versus $15.8 billion for over-the-air advertising sales.

This figure only reflects digital revenue sold by radio stations including display, not just streaming audio. BIA/Kelsey counts other digital revenue, for example that sold by pure play Internet companies, in other digital categories such as online, mobile or email.
However, BIA/Kelsey expects 27.6 percent of all spending in local markets – both by local businesses as well as regional and national marketers – will be in digital advertising.
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The Shift to Internet Radio?

The growth in Internet radio is driven by:

- Increased audience consumption
- New entrants vying for market share in various parts of this ecosystem that could lead to exits, M&A, partnerships or competition from adjacent market spaces (e.g., video companies)
- Increased platform distribution via connected cars
- Mobile and tablet apps
- Mobile ad networks: Such networks include programmatic buying platforms that make it easier for marketers to buy and evaluate the ROI on digital radio inventory.

BIA/Kelsey, 2013
What Is the Listening Mix?

An important question that arises is what is the mix of listening to broadcast radio versus internet streaming channels and services?

The short answer is that over-the-air radio is king and will remain so. As mentioned earlier, about 92 percent of Americans 12 and up listen to over-the-air radio each week according to Nielsen.

Figure 10 - Broadcast Radio Reaches 91.7% of 12+ Listeners Weekly

While the broadcast radio industry likes to describe itself in terms of audience reach, the trading currency for the most part is Average Quarter Hour (AQH) listening. Here, the outlook for broadcast radio is a bit less sanguine with a secular decline in AQH ratings.
“Digital radio” (as defined by eMarketer) is expected to peak at about two-thirds of listeners of any age who are connected to the Internet; or 183.4 million digital radio listeners.
By 2016, the total listening to digital radio will rise to 6.7 hours per month or averaging about 1.7 hours per week versus the current level 2.5 hours spent listening to over-the-air radio each week.
BIA/Kelsey expects the mix of over-the-air versus digital radio total listening to change. For example, in a July 2013 U.S. survey of more than 3,000 radio listeners, Edison Research\(^1\) found that 58 percent of over-the-air radio listeners maintained consumption levels from the year ago period, while 23 percent increased. For digital radio listeners, the picture flips with 27 percent maintaining year over year listening levels, while two thirds increased consumption.

\(^1\) Research was completed on behalf of the “Streaming Audio Task Force” founded by Pandora, Spotify and TuneIn Radio
“Hands Free” Listening

Internet radio services have “hands free” use cases that create listening where it didn’t previously occur, or where it may have been constrained for one reason or another. For example, some listening occurs where it is inconvenient, illegal or simply less friendly to use touchscreen or keyboard interfaces to interact with content and advertising. This interaction is a key part of the digital radio advertising value proposition.

These use cases include listening environments such as the car, gym, public transportation or walking around. These hands free use cases range from 14 percent to 24 percent adoption by streaming audio listeners, according to BIA/Kelsey and Edison Research. An open question is how effective will advertising on mobile devices be when listeners can’t see the screen to interact with offers.

Figure 14 – Hands Free Use Cases Include Car/Truck, Walking Around and Gym

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Advertising Efficacy

Does radio advertising work? BIA/Kelsey’s U.S. consumer research shows that 29.2 percent of Americans cite broadcast radio as one of their top sources for making local shopping decisions. This paces ahead of digital channels like mobile deals, display, or social media – none of which make the top 10. Adding Internet radio into this mix along with its ability to be interactive via screen or voice could be a winning formula to further increase advertising efficacy of radio.

Figure 15 - Radio is in Top 10 Sources Used Regularly for Local Shopping

Consumer Commerce Monitor™ (CCM) BIA/Kelsey, 2013
Transcending the Small Screen

While mobile advertising inventory and use (views and clicks) are widely increasing, the ability to monetize the small screen real estate has proven vexing to the industry. As Nuance vice president of advertising, Mike McSherry, told AllThingsD, “Mobile has a monetization challenge. By introducing voice [interactivity] you can transcend the small screen size.”

Mobile extends the reach of streaming audio into new environments and on-the-go consumption contexts. That allows advertisers to reach listeners in new ways and at incremental times. Unlike broadcast radio, digital radio has dashboard analytics; interactivity; and both visual and audio ad inventory. Internet radio’s ability to be interactive either via screen or audio input helps serve advertisers’ needs by allowing them to better measure and report conversion and allow them to make better media allocation and weighting decisions. Advertisers can run different campaigns and see which one(s) are working better and change the creative on the fly. All these features of digital radio further empower the advertiser.

Closing the Gap

Whereas small screen size has proven to be detrimental for mobile in terms of quality of user experience with display ads and engagement, audio ads are not impacted by screen size and offer the opportunity for voice-based engagement. Given the historical success of radio ads and companies like Pandora who are growing this line of business, BIA/Kelsey sees a likely and significant upside.

However, the interactive audio ad unit does face a gap. It is always a challenge to introduce and standardize new types of ad inventory units. The IAB last looked at digital audio advertising platforms in September 2011, but has recently begun a Digital Audio Ad Serving Template (DAAST) special working group to develop an audio standard. This builds off of recent standards for video advertising developed by the VAST committee. It’s time to revisit this topic from an industry-wide perspective as there has been significant change in the digital radio landscape.
Conclusion: The Economics of Internet Radio?

The digital media industry increasingly relies on mobile to reach users. BIA/Kelsey has seen cost-per-click and other ad metrics decline in mobile due in part to the lower attractiveness and efficacy of smaller screens. However, interactive audio ads utilize not only the proven performance of audio ads but further leverage the kinds of engagement and ROI seen in digital media. As the Internet becomes a predominately mobile experience for more users, innovations like interactive audio ads may help to combine the strengths of traditional and digital media for both audiences and advertisers.
About BIA/Kelsey

BIA/Kelsey is a market research and analyst firm that focuses on all things local. Local media is an increasingly dynamic area of ad spending, and is quickly evolving with emerging digital platforms like mobile, social and search. Over the past three decades, BIA/Kelsey has been an authoritative voice on these developing technologies as well as their forbearers in traditional media, which continue to transform as they likewise compete for local ad dollars and consumer affinity.

Through a growing suite of products that include research reports, articles, conferences, and client consulting, BIA/Kelsey analyzes the business, financial, social and technology trends affecting local media. Readers, event attendees, partners and clients are given the inside track on critical data, analysis, and recommendations needed to grow and transform in a rapidly evolving media and advertising landscape.

About BIA/Kelsey Sponsored Reports

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About XAPPmedia

XAPPmedia is the leader in interactive audio advertising and is the first company to give consumers a voice allowing instant connections with brands through mobile audio apps. XAPP Ads present branded content followed by an opportunity for consumers to interact with ads by voice to receive more content, be connected directly with offers or get back to more listening.

Unlike other mobile ad formats, XAPP Ads are effective even when consumers are “ultramobile,” which means they are listening but cannot interact with a mobile screen visually or by touch. The immediate voice conversion opportunity brings more value to advertisers and increases ad unit yield for audio app publishers. XAPPmedia was founded in 2012 and is headquartered in Washington, DC.

To learn more click on the video link below or go to: xappmedia.com

Click here to view a video with additional information on XAPPmedia
References


