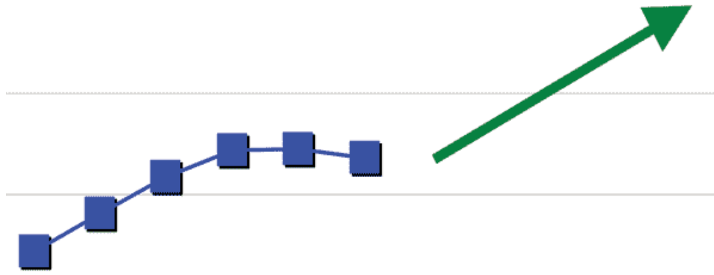
Audience 2010



Reinvigorating Public Radio's Public Service & Public Support

Interim Report 4

An Historic Loss of Momentum

Audience 2010

is a project of

Walrus Research

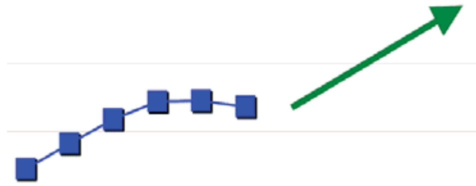
&

AudiGraphics, Inc.

for the

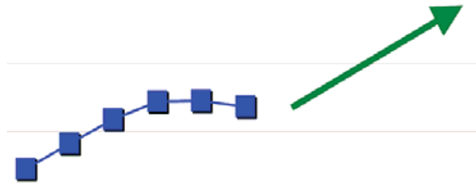
Radio Research Consortium

March 9, 2006



All audience estimates in this analysis are based on radio listening as recorded and copyrighted by Arbitron.

Financial data in this analysis are gathered from the Corporation for Public Broadcasting's Annual Financial Surveys and groomed by the Station Resource Group.



Key Findings

After a 30 year run of virtually uninterrupted audience growth, public radio is no longer increasing its reach into American society or claiming larger shares of radio listening.

It's not lost listening that portends ill for public radio. It's the loss of *upward momentum* – the absence of growth on which we have traditionally relied – that threatens to ripple through our public service economy.

Public radio's revenues have grown in lockstep with its audience for decades. Station managers could budget on the assumption of financial growth because their assumptions of audience growth typically proved true.

We can no longer assume we'll have more resources tomorrow than we have today. At many stations, listener-sensitive revenues are poised to level or even decline; the projected gap between expectation and reality will approach or exceed the size of their Community Service Grants.

As expenses continue to rise, already narrow margins will be squeezed even further. Practices and services that were sustainable in a growth environment may prove unsustainable in a no-growth environment.

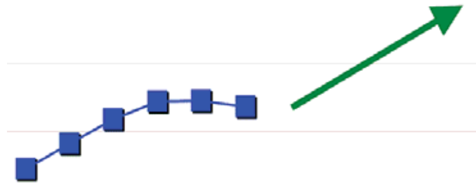
Managing the business of public service was difficult enough while listening and revenues continued to rise. It will be exceptionally challenging when both are stagnant.

Development professionals will be called on to earn more from listeners per listener-hour – a feat they've heretofore been unable to sustain. Programmers will be called upon to generate more public service per programming dollar – putting pressure on high cost, low return local programming.

Management initiatives that presume audience and revenue growth over the long term will be called upon to prove out sooner, or be adjusted mid-course, or be abandoned.

As an industry, we seem to be at a real point of inflection. We might wait a couple years to be sure, but by then it may be too late. If listener-sensitive resources do not grow, our ability to invest in new endeavors will be limited. The threat of a downward spiral looms.

The reinvigoration of public service and public support calls for clear foresight and able management. Fortunately, management teams at stations have tools at their ready disposal that illuminate the dynamics of their public service and the sustainability of their public support.



Graphs 1 & 2

Black squares in the top graph illustrate radio's extended history of decline. Twenty years ago, 18 percent of all Americans were listening at any time; today it's only 14 percent.

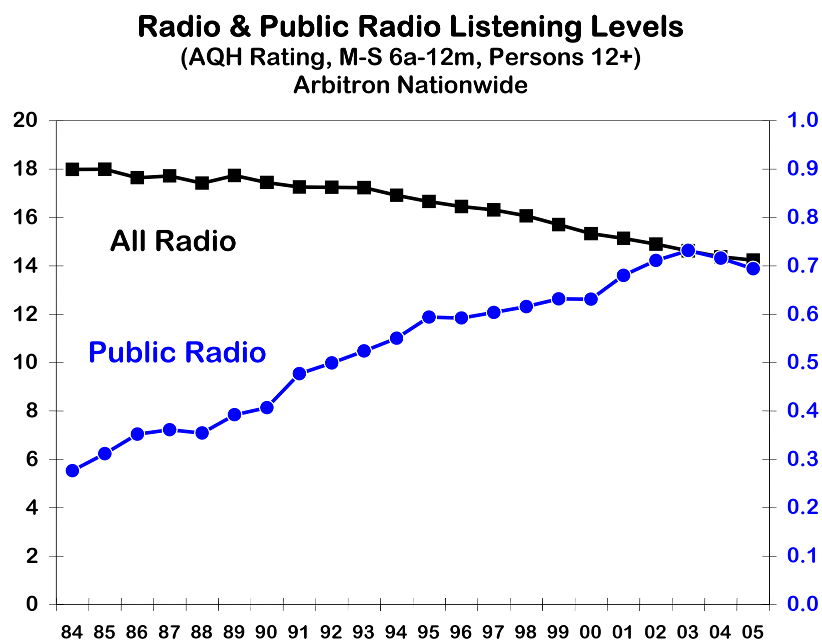
Blue circles show public radio working against that decline through 2003.

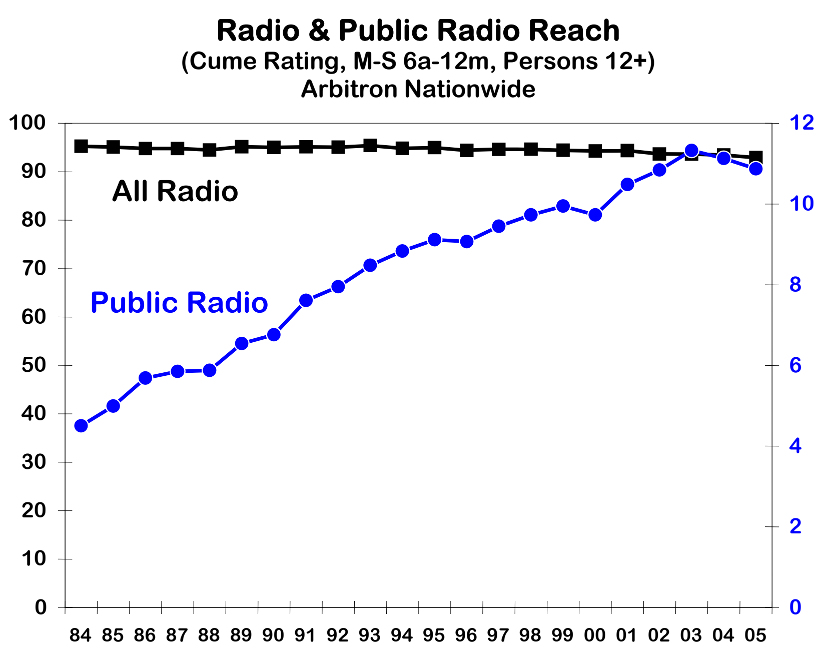
The bottom graph shows radio's reach remains long despite a slight decline over the last 20 years. 93 percent of all Americans still listen at least once each week – down only two points in twenty years.

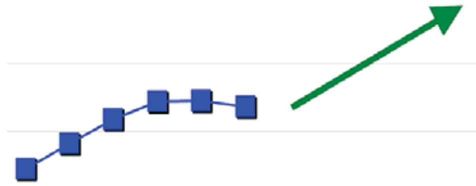
During this time public radio more than doubled its reach.

Note that both graphs have two axes – one for radio (black, left) the other for public radio (blue, right). We have calibrated each axis so that public radio's lines meet radio's lines in 2003 – the year public radio last peaked.

In this way it becomes clear that public radio's growth has not only stalled, but it may in fact have begun an unprecedented decline.







An Historic Loss of Momentum

Public radio swam against the tide for decades: as Americans listened less to radio, more listened to public radio.

In 2003 public radio generated five percent of all radio listening – over 13 percent of all listening by college graduates. Each week it reached into the lives of 11 percent of all Americans (one-quarter of all college graduates).

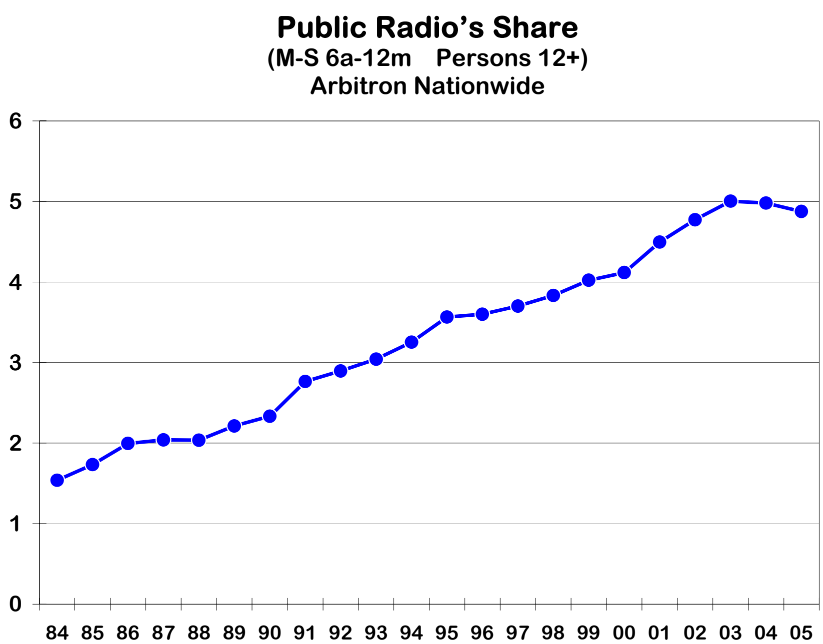
Public radio is no longer increasing its reach into American society or claiming larger shares of radio listening. **Its 30-year run of audience growth has stalled.**

Subsequent reports will attempt to determine the causes.

In this report, we address the central finding that **public radio is no longer a growth industry.** Or at least it won't be for the immediate future, as its ability to earn listener-sensitive revenues (particularly individual giving) is predicated on (and predicted by) listening.

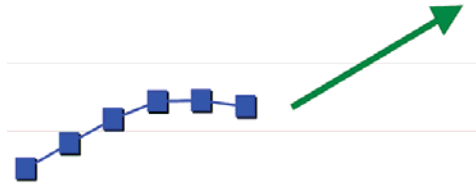
This finding has significant ramifications for those used to budgeting on the presumption of financial growth.

But before exploring them, let's ground our thinking in some basic realities.



Graph 3

After decades of growth, public radio's share has not increased since 2003. Its loss of upward share momentum suggests a decreased ability by its programming to compete.



Graphs 4 & 5

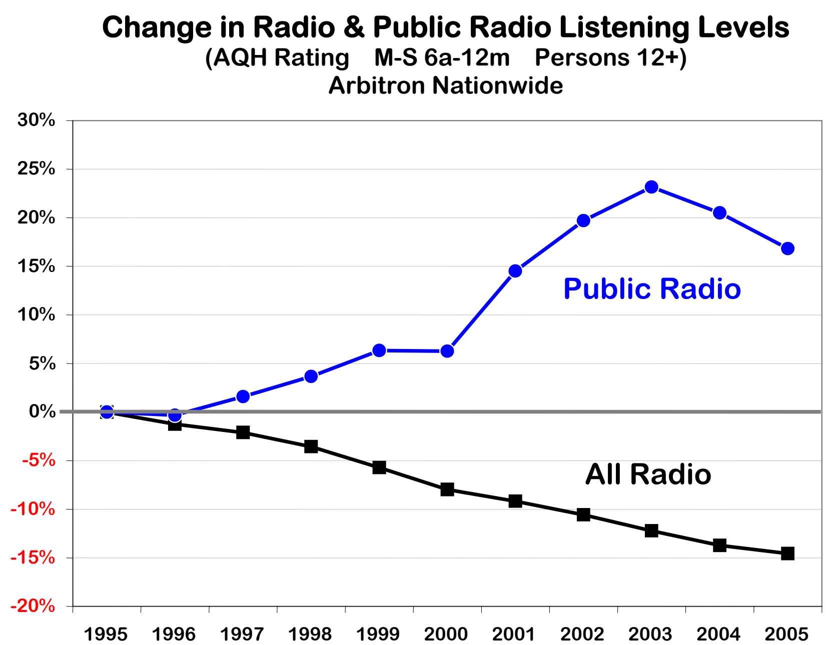
These graphs use 1995 as their starting point to show how listening levels and reach have changed over the last ten years.

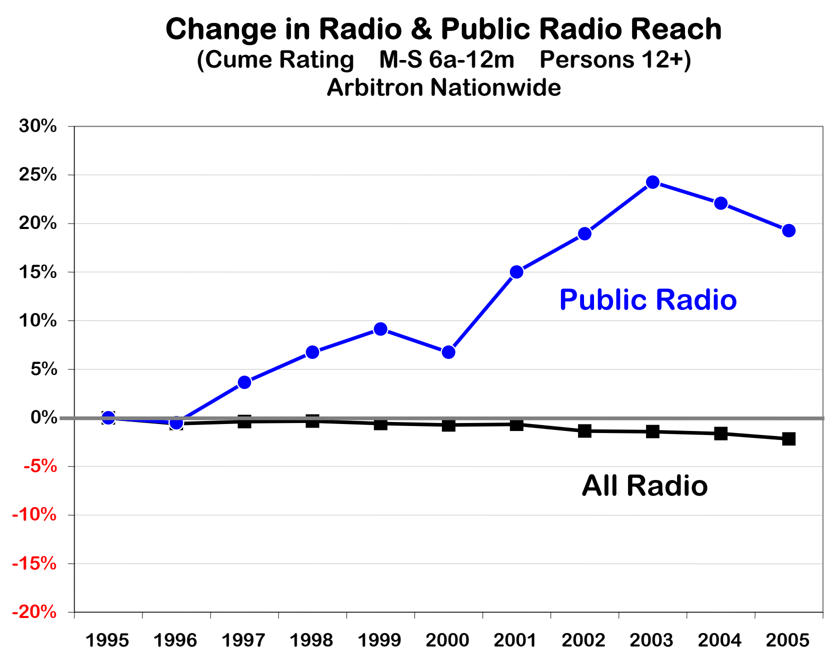
The top graph details the information in Graph 1. Black squares show radio's steady decline. Blue circles detail public radio's growth – at least, through 2003, when the upward momentum was lost.

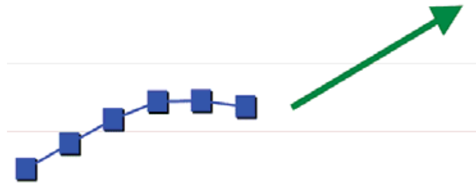
Black squares in the bottom graph show radio's relatively steady reach into the U.S. population. While softening, it is declining at only a fraction of the rate of radio's use.

Which simply means that **people are still using radio; they are just using it less.**

Blue circles in the bottom graph show public radio's growing reach through 2003 and its subsequent decline to 2002's level.







Listening Dynamics

While the use of radio has diminished significantly over the last decades, its ubiquity has not.

Ninety-three percent of all Americans – 95 percent of all college graduates – use radio each week. And why not, as they have eight or nine radio sets to choose from in their homes and in their cars.

That said, the typical American is listening less today than any time in modern history. Americans now average 19 hours and 30 minutes of listening per week, compared to more than 22 hours just ten years ago. Each year, for the last ten years, Americans have given up 15 minutes a week with radio.

Public radio listeners have been yielding radio listening at an even faster rate – about 25 minutes per week per year. Today they listen to radio four hours a week less than ten years ago.

Yet they are using the same amount of public radio. So those four hours have come at the expense of other stations.

For at least ten years, probably longer, public radio's listeners had been giving up on other stations – but not on public stations. Among core listeners, in fact, public radio is just about the last thing worth listening to on radio.

As a direct result, listeners' loyalty to public radio rose from 36 in 1995 to a high of 42 in 2004. These six points were earned at the expense of both AM and FM competitors. Indeed, since 2001, public radio's listeners have been more loyal to public radio than to all competing FM stations combined.

All of this is good news, and it adds to our understanding of the long term dynamics of audience growth. Audience by whatever measure (cume, rating, AQH, or share) has grown because public stations have successfully drawn listening from other radio stations.

However, these shifts have been decelerating in recent years, and it now appears other stations may be drawing a little listening back.

Graphs 6 & 7

Public radio listeners may be rediscovering other radio stations after an extended period of listening to them less frequently.

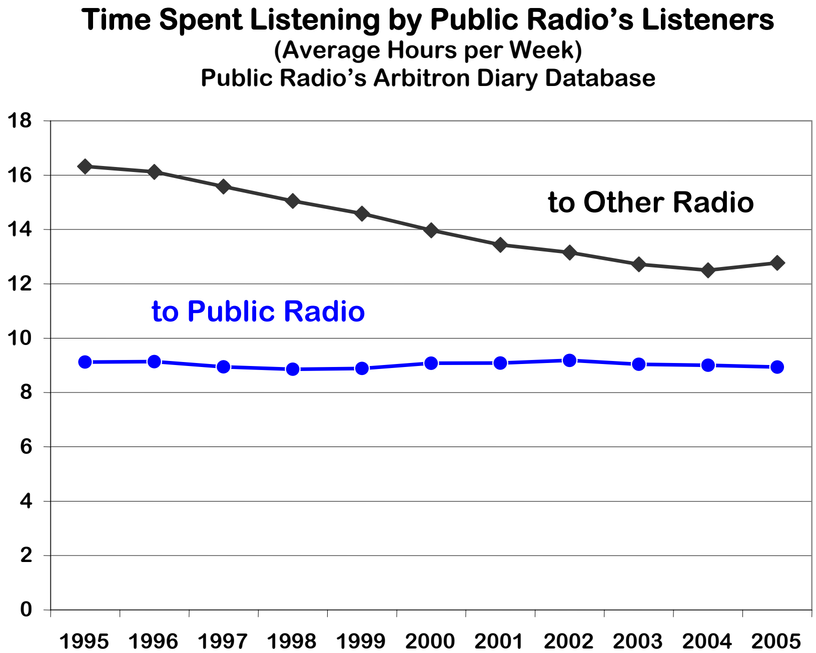
Perhaps competitors have gotten relatively stronger or public radio programming has gotten relatively weaker recently.

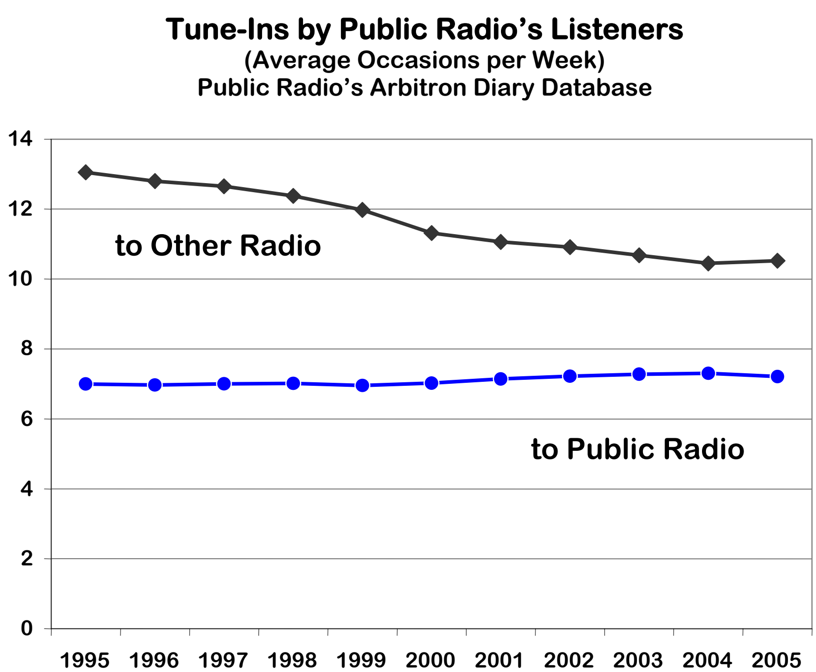
The top graph shows this reversal in time spent listening (TSL) terms. The bottom graph shows how TSL is driven by the frequency with which listeners tune in (occasions).

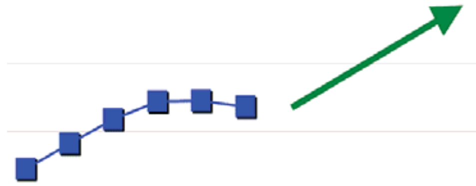
The frequency with which people listen indicates their reliance on the station, the station's importance in their lives, and their willingness to support their station financially.

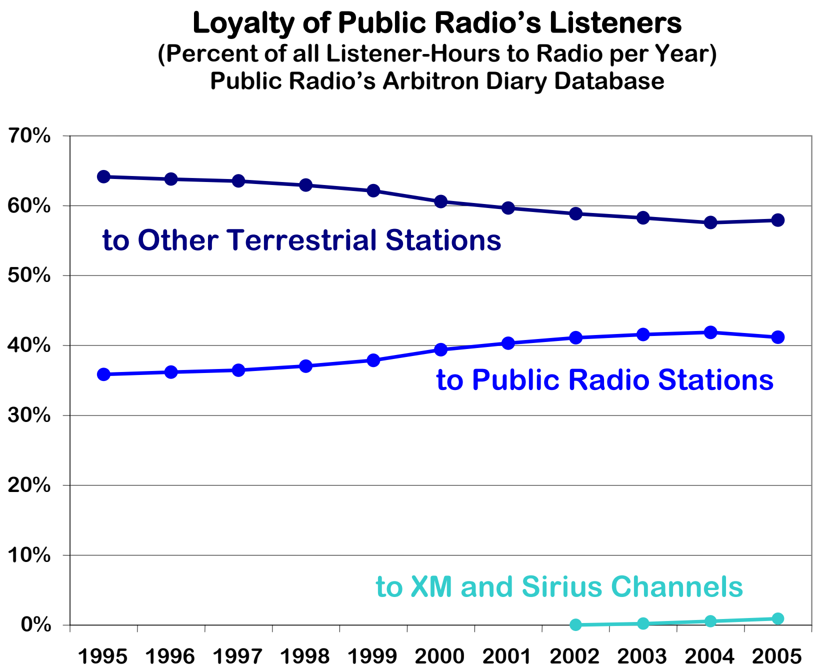
Frequency of tune-in is a direct result of consistency in programming appeal and the power of programming.

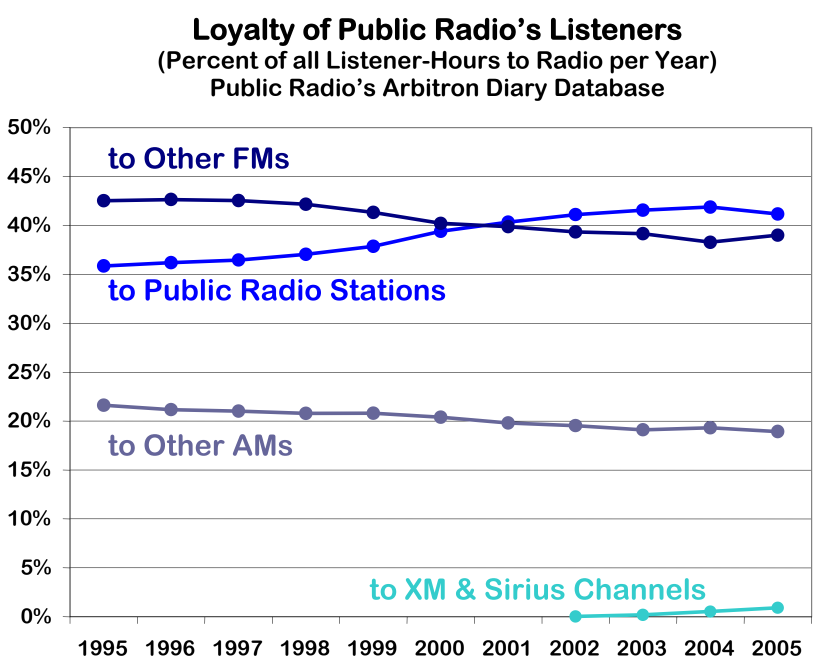
Positively influencing the listener's choice of station upon tune-in is the intended outcome of most programming techniques.









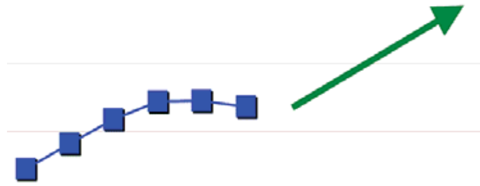


Graphs 8 & 9

Public radio has been gaining loyalty among its listeners for over a decade – the result of less listening to competitors rather than more listening to public radio.

But lately, public radio's listeners seem to be a bit more interested in other terrestrial FM stations (competing AM stations are not drawing loyalty from public radio listeners).

Either public radio's programming is weakening or competitors' programming is getting more appealing ... or both.

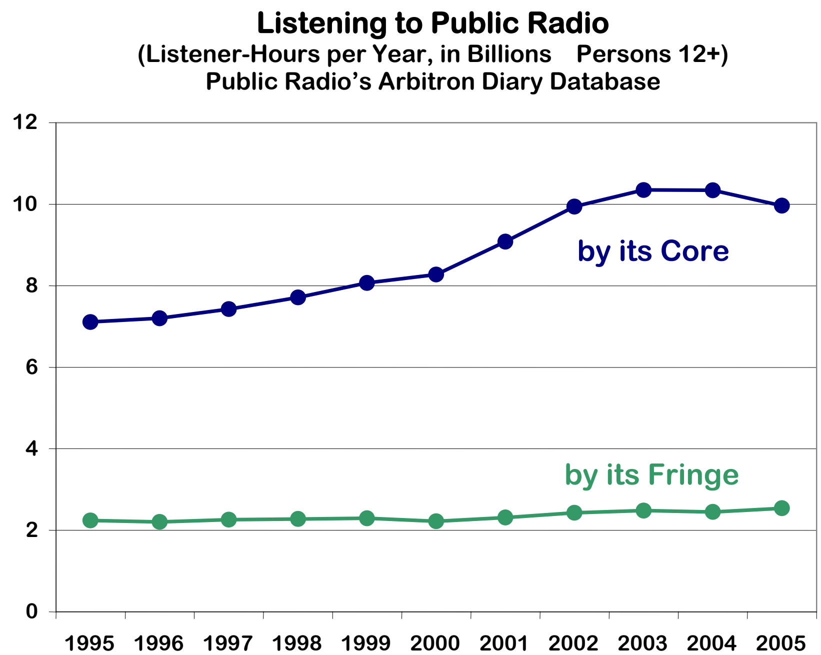


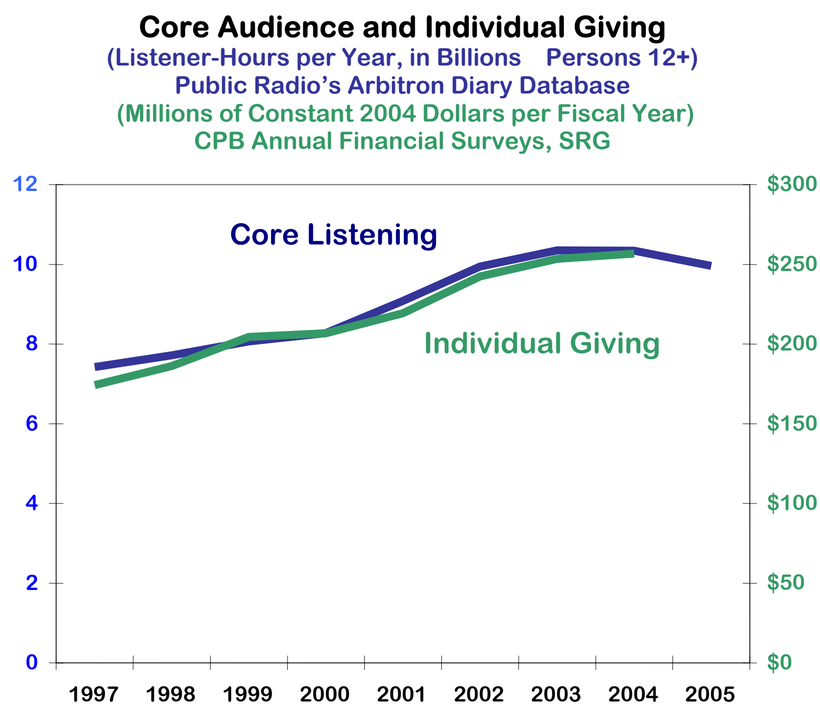
Graphs 10 & 11

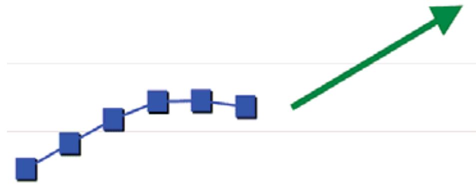
Listening by public radio's core is in decline (top graph).

Core listening in a calendar year is highly correlated with gross individual giving revenues earned the following fiscal year (bottom graph).

Therefore, 2005's drop in core listening is expected to ripple through individual giving endeavors beginning this fiscal year.







Financial Foresight

As public radio's audience is no longer growing, and as individual giving revenues are listener-sensitive, station managers might need to start thinking about managing less "profitable" enterprises.

For several years, gross individual giving revenues have been highly correlated with core listener-hours from the previous calendar year (R^2=.99). If this relationship holds into the future we can expect individual giving to decline.

Indeed, if expenses continue to rise at past rates, our models suggest **public radio's individual giving endeavors may return less in fiscal 2006 than in fiscal 2004** (net of expenses – Graph 12).

So rather than earning **$180 to $210 million** from individual giving this year (as past growth rates would have projected) public radio might expect something closer to **$150 million** (Graph 13).[1]

This $30-$60 million shortfall is 10-20 percent of stations' programming expenditures, perhaps as much as ten percent of their operating budgets.

Of course some stations will feel the pinch more than others, depending on their own situations. But the magnitude of these national numbers suggests that at many stations, shortfalls in individual giving may approach or exceed amounts received in federal financial support.

Perhaps managers have already calibrated their expectations downward based on the last two years' sluggish returns. But if they are budgeting based on past growth rather than on current audience, they may soon be faced with shortfalls in this key element of support.

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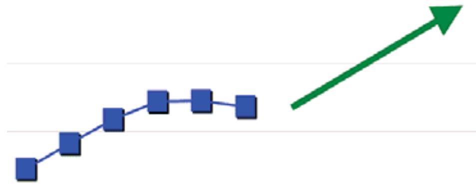
[1] All financial numbers cited in this report are in constant 2004 dollars as gathered by the Corporation for Public Broadcasting's Annual Financial Surveys, adjusted by the Station Resource Group, and modeled by AUDIENCE 2010.

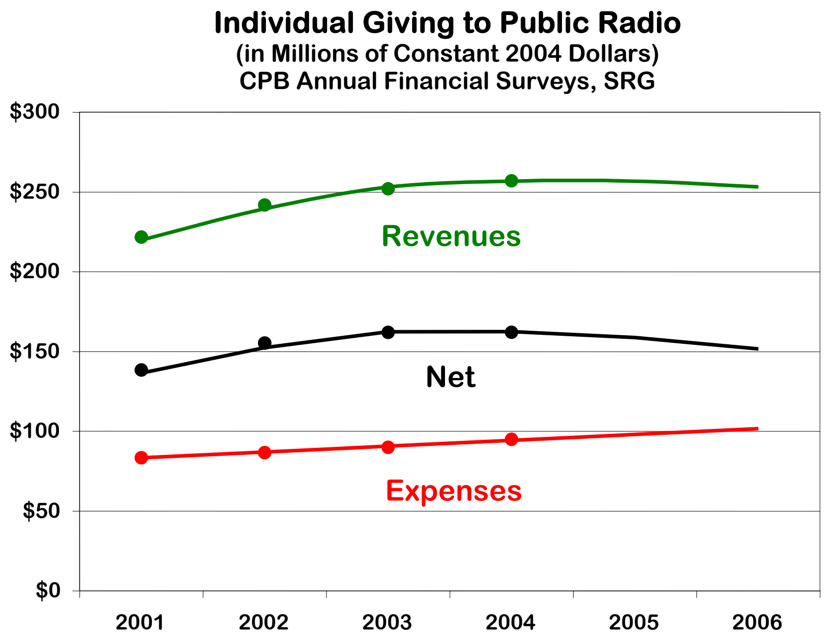


Graph 12

Each year public radio invests more on individual giving endeavors (red). Yet the recent audience downturn – particularly among core listeners – suggests lower returns may be on the way (green).

The net result (black) is an endeavor less capable of supporting other public service activities, such as programming.

Dots are actual amounts; lines are modeled amounts.

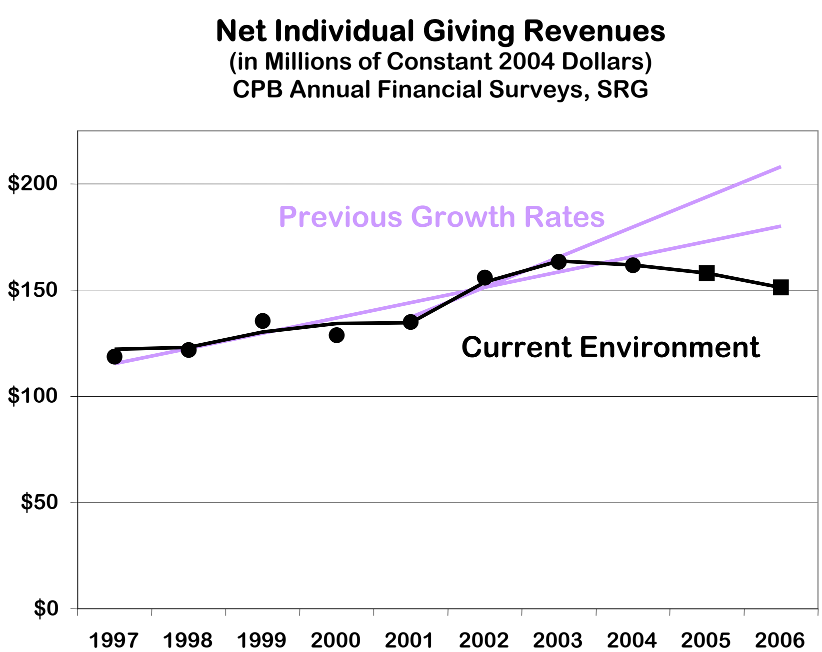


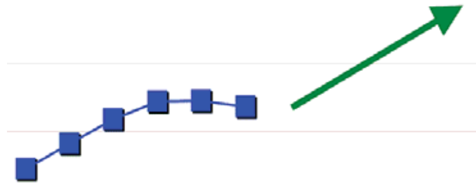
Graph 13

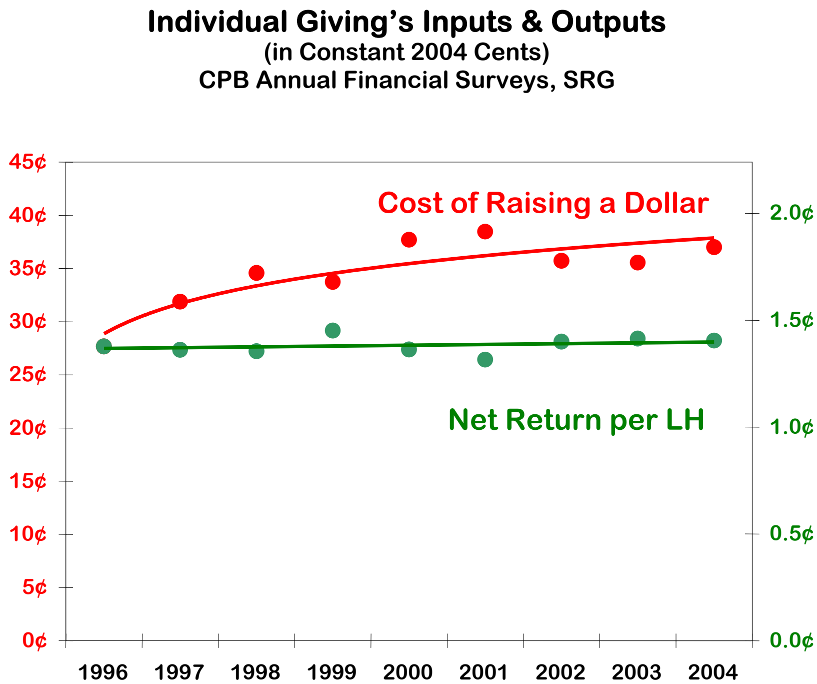
The violet lines project public radio's net individual giving revenues had its audience continued to grow at previous rates. The black line projects net revenues based on the audience downturn (Graph 12).

Even the most conservative model suggests a disparity of $30 million this fiscal year – 17 percent less than what it might have been.

Dots are actual amounts; lines and boxes are modeled amounts.





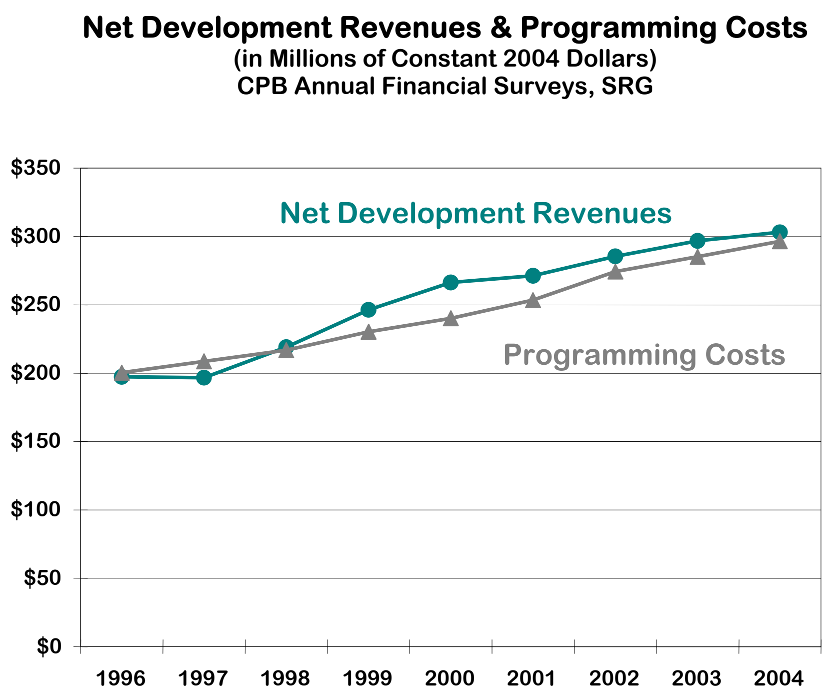


Graph 14

It is getting more expensive (presumably more difficult) to raise a listener dollar. Cost has risen from 28¢ in 1997 to 37¢ in 2004 (left red axis).

Yet the net return per listener-hour is relatively stable, hovering in a tight range around 1.4¢ (right green axis).

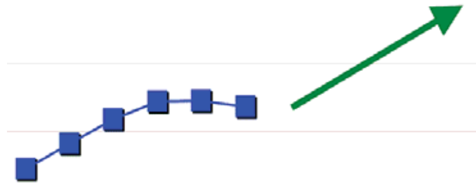
Both amounts are calibrated to 1996 to show their relative changes over time. Dots are actual amounts; lines are modeled amounts suggesting long term trends.



Graph 15

Public broadcasters may not set their budgets this way, but historically, their net development revenues (aqua dots) essentially pay for their programming (gray triangles).

Both amounts are shown in millions of constant 2004 dollars.



Reinvigorating Public Radio

Audience is a leading economic indicator in our public service economy. We can expect the loss of upward audience momentum to cascade through our balance sheets this year, next year, and possibly for years to come.

We may also expect it to change the way we do business. In a growth economy we could afford to spend more to earn more. A static economy brings new pressures to bear on our development endeavors and our programming aspirations.

Development: Listener-Sensitive, Listener-Insensitive

The challenges for listener-sensitive development are brutal in an environment without audience growth.

Individual giving is the revenue source most sensitive to audience, as audience size has historically determined gross individual giving revenues (Graph 11).

We can work even harder to realize new efficiencies. But each year it seems to get harder and more expensive to raise each dollar. And while our individual giving efforts have gotten more effective over the years, they have also gotten less efficient, yielding a nearly constant net return per listener-hour (Graph 14).

Managers budgeting on past growth rates rather than current audience levels may soon be faced with shortfalls (Graph 13).

We can turn to underwriting to make up the difference. But underwriting is also sensitive to the size of audience – and to the financial well-being of our underwriters (as we were reminded in 2001 and 2002).

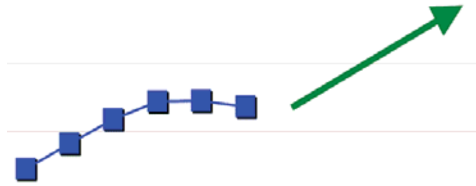
Or we can develop sources of support that are not listener-sensitive. Few in our industry expect licensee or tax-based revenues to increase. Many, however, do aspire to large grants and major gifts.

These revenue sources certainly have a place in our diversified public service economy, although managing their undependable nature from year to year is an acknowledged challenge.

Posing another challenge are restricted grants and those major gifts donated with strings attached.

Unlike listener-***sensitive*** revenues which focus our attention on public service, listener-***insensitive*** sources are not necessarily aligned with the public good. They can perpetuate programming that provides no demonstrable public service. And they can lock a station into a format that may ultimately prove to be non-competitive.

Our public service economy benefits from its diversity of funding sources. But we must be vigilant in pursuing and receiving listener-insensitive grants and gifts, lest they limit our ability to program in the best interest of the public we seek to serve.



PROGRAMMING

The economics of programming in an environment without audience growth poses its own set of challenges.

Public radio's programming expenditures generally track with its net development revenues (Graph 15). While this is probably more coincidental than causal, declines in listener-sensitive development nets are quite likely to ripple though stations' programming budgets.

These waves may rock some fundamental programming strategies. For instance, some at stations are investing heavily in local programming – differentiating their services from those without a local presence, or anticipating a day when they are no longer the sole conduits for the most powerful (and profitable) national programming.

The economics of local programming are as brutal as its programmers' aspirations are commendable.

With few exceptions, local programming is generally more expensive to produce than acquired programming of the same caliber. It generally does not serve the station's audience as well. Listeners generally do not consider it as important in their lives as other programming on the station. As a result, it is difficult to do well and sustain financially. [2]

Local programming is typically subsidized by excess returns from national programming. If the per listener-hour cost of national programming increases due to smaller audiences or higher costs, margins will narrow further or even turn negative.

Programming that is relatively expensive, relatively uncompetitive, and of relatively low value to listeners is not only tough to sustain financially – it is hard to justify using any public service rationale, no matter how bold or imperative it may seem to those who create or subsidize it.

TAKING ACTION

This report uses national numbers to identify a set of challenges now facing our industry. But national numbers are simply the sums of station situations.

The onus of meeting these challenges begins with stations. Effective management requires an up-to-date assessment of each station's audience, programming, development, and financial situations. Fortunately, tools that inform these assessments are readily available.

[2] These characterizations of local programming are based on a significant body of research including AUDIENCE 98, The Public Radio Tracking Study, perceptual surveys, and focus groups.