Wall Street's love for radio turns sour

Satellite radio, iPods present threat to profit margins

• The Associated Press •

NEW YORK — For years, investors loved the radio business. Its sky-high profits margins were among the best in the media industry and changes in ownership rules a decade ago triggered a wave of merger deals. Prospects for growth seemed great.

These days, Wall Street would rather hear something else. Growth in advertising has slowed, listeners seem to be switching off their radios in favor of iPods, and a new threat is emerging from commercial-free channels offered by satellite radio.

This week, media giant Viacom Inc. disclosed that it wrote down the value of its radio business by $11 billion and the nation's largest radio chain, Clear Channel Communications Inc., said it lost $4.7 billion in the fourth quarter, mostly because of an accounting charge.

Industry observers say many of the problems reflect the industry's focus on profits and Wall Street, rather than consumers. Specifically, they point to cost-cutting that compromised the quality of programming, and a tendency to put more advertising on the air, alienating listeners with what's known as advertising "clutter."

In the boom years of the late 1990s, radio stations benefited from the surge in advertising from Internet companies, and many increased the amount of ad time, or "inventory," as it's called in the industry, to accommodate the surging demand.

"It was a boom time," said Tom Taylor, the editor of Inside Radio, an industry magazine owned by Clear Channel. "Then came the bust." Despite a big dropoff in demand for radio ads since then, Taylor says, "There's way too much inventory out there."

Radio revenues are now edging higher, but nothing like the growth they enjoyed in the '90s. Last year, radio advertising inched up 2 percent, and in 2003 it rose just 1 percent, according to figures from the Radio Advertising Bureau.

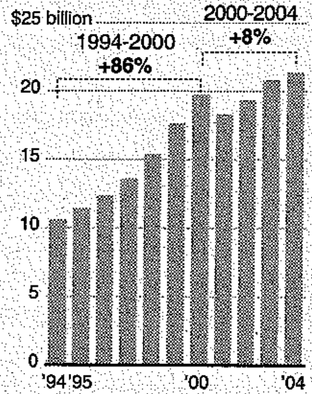
In order to beef up its own radio portfolio, Viacom, which had come under criticism for running its stations too leanly, is selling off stations that aren't in the top 20 markets and investing more money into the ones that it's keeping. Viacom also owns CBS, MTV and the Paramount movie studio.

Meanwhile, San Antonio-based Clear Channel is trying to curtail clutter by reducing ads each hour by about 20 percent, cutting the amount of traditional 60-second spots and selling more 30-second spots, and charging more for them.

Radio interference

Revenue growth in the radio industry has slowed considerably since the boom of the mid- to late-1990s.

Radio industry revenue



SOURCE: Radio Advertising Bureau AP

Clear Channel acknowledges that it will likely take a short-term financial hit for its "Less Is More" program, but it says the strategy will pay off in the long run by bringing listeners back. "We know that shorter-length commercials work," John Hogan, chief executive of Clear Channel Radio, told analysts on a conference call Friday to discuss the company's quarterly earnings.

A federal rule change in 1996 led to a wave of merger activity, leaving 2,000 of the nation's 12,000 stations — many in large markets — concentrated in the hands of a small group of public companies.

"The industry started running its business for the analysts and investor community, rather than its listeners," said Ed Christian, the CEO of Saga Communications Inc., a publicly held company in Grosse Pointe Farms, Mich.-based that owns about 80 stations. "It led to buying because you were rewarded for buying."

Yet even as Clear Channel and Viacom address their own issues, external threats are creeping closer. The phenomenal success of Apple Computer Inc.'s iPod, which has already sold more than 10 million units, has some executives worried that many younger listeners are tuning out radio altogether.

Satellite radio is also a potential rival. While the success of XM Satellite Radio Holdings Inc. and Sirius Satellite Radio Inc. is far from assured, investors have bid up their stocks over the past two years, while those of terrestrial radio companies have stagnated.

XM and Sirius are involved in an increasingly aggressive bidding war for top talent. Sirius signed a $500 million deal with shock jock Howard Stern and a $108 million deal with NASCAR, while XM reached a $650 million deal last fall with Major League Baseball. Still, the companies have just 4.3 million subscribers between them as of the end of 2004 and have racked up massive financial losses so far.