



Radio & Streaming Music Services

A Special Report from Media Group Online, Inc.

Tune In, Tune Out

Like its traditional media counterparts – TV and print – radio finds itself in a much more competitive environment. Listeners and advertisers have more choices, which has led to industry consolidation and renewed efforts at the federal level to de-regulate ownership rules, so digital disrupters, such as streaming music services, don't totally overwhelm free, over-the-air local radio stations.

A major consolidation announced during February 2017 was the proposed merger of Entercom and CBS Radio, an almost unthinkable move, considering that CBS Radio has solely owned local radio stations for almost a century.

Looking at the total advertising revenues of the top 5 radio groups reveals, however, that such a merger was necessary to close the gap with #1 iHeartMedia, which neither Entercom nor CBS Radio was likely to do separately.

Top 5 Radio Groups' Total Advertising Revenues, 2015

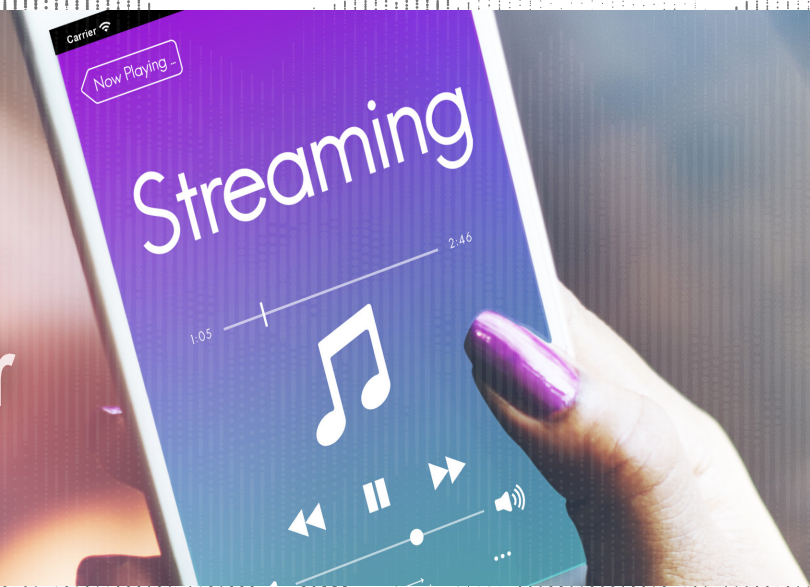
Radio Group	Total	Share
iHeartMedia	\$2.59 B	18.5%
CBS Radio	\$1.25 B	8.9%
Cumulus Media	\$748.6 M	5.3%
Entercom	\$505.6 M	3.6%
Univision	\$330.8 M	2.4%

BIA/Kelsey, July 2016

At the time of the latest BIA/Kelsey State of The Radio Industry report, CBS Radio was generating less than half and Entercom less than 20% of iHeartMedia's total ad revenues. Total the CBS Radio and Entercom numbers in the chart to the left, and the combined company's ad revenues are only 32.2% less than iHeartMedia's.

As with all major media consolidations, local markets and competing local media will be affected, which is why it is so important that you understand today's radio industry and its primary source of disruption, streaming music services. It is eerily similar to streaming video services' attempts to disrupt traditional TV.

Steady Signal Power



Data from Nielsen's Q4 2016 Total Audience Report shows that AM/FM radio has been able to maintain its #3 position for "average time spend per adult 18+ per day" among the 9 media/devices measured.

Average Time Spent Per Adult 18+ Per Day*, Q4 2014–Q4 2016

Medium/Device	Q4 2014	Q4 2015	Q4 2016
Live TV	4:31	4:27	4:23
App/Web on a smartphone	1:02	1:15	2:32
AM/FM Radio	1:51	1:51	1:52
Internet on a PC	0:47	0:55	0:59
DVR/Time-shifted TV	0:31	0:32	0:33
App/Web on a tablet	0:21	0:23	0:26
Multimedia device	0:07	0:11	0:17
Game console	0:12	0:14	0:13
DVD/Blue-Ray device	0:09	0:08	0:07

Nielsen, January 2017
*based on the total US population

When based on users of a slightly different list of 8 different medium/device, however, AM/FM radio's position has declined from #3 during Q4 2014 to #4 during Q4 2015 to #5 during Q4 2016. This was despite the fact the total minutes actually increased slightly during each subsequent fourth quarter. (Note: Live TV has been combined with DVR/Time-shifted TV, which is also listed separately.)

Average Time Spent Per Adult 18+ Per Day*, Q4 2014–Q4 2016

Medium/Device	Q4 2014	Q4 2015	Q4 2016
Live TV + DVR/Time-shifted TV	6:39	6:45	6:24
App/Web on a smartphone	1:49	2:02	3:41
Internet on a PC	2:13	2:55	3:11
Game console	2:48	3:02	3:00
AM/FM Radio	2:42	2:43	2:45
Multimedia device	2:30	2:23	2:23
DVR/Time-shifted TV	2:00	2:01	1:57
DVD/Blue-Ray device	1:42	1:41	1:51

Nielsen, January 2017
*based on users of each medium/device

It's clear that the big winners here are "app/Web on a smartphone" and "Internet on a PC."

Data from the Radio Advertising Bureau reveals another stunning comparison: the increase in the percentage of persons 12+ who listens to streamed AM/FM and pure-play stations (streaming music services). It increased from a mere 2% during January 2001 to 17% by January 2010 and then to 57% by January 2016. It's safe to conclude that this increase is the driver behind the rapid growth in the amount of time spent on an "app/Web on a smartphone" and "Internet on a PC."

Music on the Radio

As with television and print, the primary purpose of radio programming is to entertain and inform. During its early decades, radio's programming was the most diverse: music, news, commentary and all-time classic drama and comedy series.

With Elvis and The Beatles leading the rock-n-roll revolution, music dominated radio programming from the '50s into the '80s when the news talk information format began its advancement to its #1 position today.

Top 10 Radio Formats*, 2014, 2015 and 2016

Format	2014	2015	2016
News Talk Information	8.8%	8.9%	9.6%
Pop Contemporary Hit Radio (CHR)	8.3%	8.2%	8.1%
Adult Contemporary (AC)	7.1%	7.4%	7.5%
Country (includes New Country)	8.2%	7.9%	7.4%
Hot Adult Contemporary (AC)	6.2%	6.7%	6.4%
Classic Hits	5.2%	5.2%	5.3%
Classic Rock	4.7%	5.2%	5.1%
Urban Adult Contemporary (AC)	4.9%	4.9%	4.8%
All Sports	4.4%	4.7%	4.7%
Mexican Regional	3.2%	3.4%	3.7%

Nielsen, January 2017
*persons 6+ share

Despite news talk information's top position, it is important to note that, except for all sports, the other 8 formats are almost exclusively programming music, which is, therefore, the entertainment content that attracts the most people to the radio dial.

Not only is radio still the most popular format for music listening, but also, according to Nielsen's 2016 Year-End Music Report, 66% of music listeners discover music through some form of radio (AM/FM, over-the-air, 47%, and radio via online, 19%).

Top 10 Sources Where Music Listeners Discover Music, 2016

Source	Percent
Radio (AM/FM, over-the-air)	47%
Friends/Relatives	38%
Movies/Movie soundtracks	26%
Online audio or video music Websites/apps	22%
Social media Websites/apps	20%
Radio (via online)	19%
TV (not music competition shows)	18%
Satellite radio	11%
Browsing online music store	9%
Live events/Performances/ Concerts	9%

Nielsen, January 2017

Much like news talk information in the format competition, radio (AM/FM, over-the-air) may be first, but there is a strong array of competitors, most of which are accessible via a digital channel or device, and together represent a much larger percentage.

Big News About News on the Radio

Think (and say) what you will about the election and presidency of Donald Trump and his administration, but they are responsible for much of the increase in listenership of the news/talk format before and since the election – and interestingly among Millennials.

The following table shows that January 2017 was the biggest month in average quarter hour (AQH) since November 2012 for persons 6+, and established a new record for adults, 18–34.

News/Talk Format Listening Comparison, January 2017

AQH Share Cohort	Top PPM* Share (month)	January 2017
Persons 6+	11.1% (Nov. 2012)	10.7%
Persons 18–34	4.9% (Jan. 2017)	4.9%
Persons 25–54	8.4% (2012)	8.1%

Nielsen, February 2017
*Portable People Meter

According to Nielsen's Total Audience Report Q4 2016, adults 18+ increased their total minutes (73.5+ billion) of news consumption during an average week of 2016. The following six major news sources all recorded increases, including radio news in PPM markets, except local broadcast TV news in LPM markets. National cable TV news experienced the largest increase, which is also likely attributable to the election cycle, but, not unexpectedly, may decrease during 2017.

Weekly Gross Minutes* of News Consumption, by Source, 2016

News Source	2015	2016
National broadcast TV news	13.6 B	14.3 B
Local broadcast TV news in LPM markets	15.3 B	15.1 B
National cable TV news	18.8 B	27.1 B
PC News	2.8 B	4.1 B
Smartphone news	1.0 B	1.5 B
Radio news in PPM markets	10.5 B	11.5 B

Nielsen, February 2017
* in billions

A view of the Nielsen data for adults' news viewer/reader/listener composition reveals some traditional patterns, such as adults 50+ dominating all three TV news sources and radio news. No doubt, Fox TV news programming and conservative radio talk shows were the primary contributors to those large percentages. Somewhat surprisingly, however, older adults also have the largest share of the two digital sources, although these have the largest shares of Millennials and Gen X members.

Adult News Viewer/Reader/Listener Composition, by Source and Age, 2016

News Source	18–34	35–49	50+
National broadcast TV news	8%	18%	74%
Local broadcast TV news in LPM markets	8%	19%	73%
National cable TV news	6%	14%	81%
PC News	14%	31%	55%
Smartphone news	24%	25%	51%
Radio news in PPM markets	10%	20%	70%

Nielsen, February 2017

Music Streaming in the Mainstream

2016 was a record year for music streaming services.

- They accounted for a majority, or 51.3%, of album sales, and beat physical and downloads combined.
- During December 2016, global subscribers surpassed 100 million for the first time, or an exact total of 100.4 million.
- To provide some context, although not fairly comparable, the streaming music business increased 48% compared to 24% for Netflix.
- As the following table shows, streaming music services had the largest share of all US music industry revenues during the first six months of 2016.

Primary Sources of US Music Revenues, First Half of 2016

Source	Total
Streaming	\$1.6 B
Downloads	\$1.2 B
CDs	\$443.9 M
Vinyl LPs	\$210 M

Pitchfork (RIAA), December 2016

Despite streaming music's outstanding growth during 2016, what may transpire during 2017 could be an entirely different story. The first warning sign is that the quarterly increase in worldwide subscribers hasn't changed much since mid-2015.

- **Second half of 2015:** 16.5 million
- **First half of 2016:** 16.5 million
- **Second half of 2016:** 16.4 million

With the rapid growth of subscribers, from 67.5 million at the end of 2015 to 100.4 million at the end of 2016, some industry analysts think that the music streaming services have captured most of the consumers who are willing to pay the \$9.99/month subscription.

Although there may be still some growing pains, the US Department of Commerce estimates that worldwide streaming revenue will total \$5.4 billion by 2019, and IHS Markit is forecasting a tripling of US on-demand subscribers by 2020.

Share of Total Volume of Music by Format, 2016

Format	Physical Album	Digital Album	Digital Tracks	On-Demand Audio Streaming
Total industry	27%	19%	16%	38%
Rock	38%	24%	12%	26%
R&B/Hip Hop	18%	24%	12%	26%
Pop	20%	14%	26%	41%
Country	37%	18%	21%	24%
Dance/Electronic	7%	14%	22%	57%
Christian/Gospel	35%	24%	17%	24%
Latin	25%	7%	12%	55%
Holiday/Seasonal	57%	19%	7%	17%
Jazz	48%	25%	8%	19%
Classical	46%	27%	7%	20%
Children's	54%	23%	7%	16%

Nielsen, January 2017



According to the latest worldwide subscriber data from MIDIA, streaming media is essentially a two-horse race, Spotify and Apple Music – and Spotify has a substantial lead.

Streaming Music Services' Global Market Share and Paid Subscribers, 2016

Streaming Service	Global Share	Paid Subscribers
Spotify	43.0 M	40.0 M
Apple Music	20.9 M	17.0 M
Deezer	6.9 M	3.8 M
Napster	4.5 M	N/A
Tidal	1.0 M	4.2 M
Pandora	N/A	4.0 M
Others	24.1 M	N/A

Music Industry Blog (MIDIA), January 2017

The competition has become even more frenetic with iHeartRadio, Amazon and Pandora launching streaming music services. Pandora is already the number-one digital radio service and the ninth most popular smartphone app among US adult smartphone users, or a 40.5% reach.

During March 2017, Pandora introduced its premium subscription service primarily to compete with Spotify and Amazon. The new Pandora Premium will feature personalized recommendations, which was previously an exclusive competitive advantage, but Spotify and Apple Music have now added this feature.

With so many established, new and small players in the streaming music game, many analysts expect to see consolidation, as smaller companies, such as SoundCloud and Tidal, will have difficulty remaining competitive. Spotify is also expected to issue an IPO during September 2017, which will give it the capital to maintain its dominance.

Consumers' voices are also important to judge the streaming music landscape. According to the J.D. Power 2016 Streaming Music Satisfaction Study, Apple Music had the highest score, based on the highest scores in three of six categories of measurement: performance and reliability, content and ease of use.

J.D. Power Streaming Music Satisfaction Study, June/July 2016

Service	Score*
Apple Music	834
Rhapsody (now Napster)	826
Pandora	825
Spotify	824
Industry average	822
TuneIn	820
Amazon Prime Music	818
Google Play Music	818

*J.D. Power, September 2016 *based on a 1,000-point scale*

Not surprisingly, paid subscribers are more satisfied with their streaming music service than passive listeners, who are defined as “customers who neither share their own content/playlists nor consume other users’ content.”

The J.D. Power study also found that listening to music on peripheral devices generates more satisfaction, including newer devices: smartwatches, +57 point; home automation controllers, +50 points; and virtual reality viewers, +48 points.



Streaming Music Will Continue to Evolve During 2017

As well as streaming music services performed during 2016, 2017 could be an even better year – and here are 5 trends that point the way.

1. **An untapped subscriber base** – The approximately 100 million worldwide subscribers is a very small percentage of the total human population.

Amazon has an estimated base of 66 million Prime members to which it can pitch its Music Unlimited service, which is just \$8 per month. In addition, the increasing sales of Amazon Echo, Sonos and Google Home devices bring streaming music into homes and offices beyond just smartphone access.

2. **Exclusive artist deals** – Although there may be fewer of these deals during 2017, industry analysts expect more artists will release music (if not an entire album) exclusively on a streaming service, as Frank Ocean did during 2016 with *Endless* on Apple Music.

While artists must be careful about negatively affecting their relationships with their labels, these exclusive deals help the streaming services to add more subscribers.

3. **Making music with machines** – Artificial intelligence, or machine learning, has not yet progressed to the point that it can replace your favorite music artists, but IBM's Watson and other systems are making significant strides. It's likely that music beds for commercials or video-game soundtracks will be the first artificially created music, but the many artists who are already creating in a digital environment will adopt some of these technologies to augment their work.

4. **Becoming more artist-friendly** – Many of the streaming music services are introducing tools and services focused on the needs of artists, such as data, marketing and the sale of concert tickets directly to fans via the app. It is unlikely that there will be a wholesale movement of musical artists from their label contracts to streaming services, but it's an option that many artists will seriously consider.

5. **The development of virtual reality (VR)** – Somewhat surprisingly, the traditional music companies are not allowing VR to blindsides them as other technologies, such as file sharing, did. Many companies are already working with major artists to create immersive music videos, music documentaries, music-oriented video games and other VR content.



Listening and Consumer Habits

Data from The Media Audit's Winter 2017 survey for the Baltimore, MD GMA allows for a close examination of Spotify premium subscribers. As consumers willing to spend approximately \$120 annually for the service, their consumer habits should be of great interest.

In the Baltimore GMA, 15.1% of all adults 18–49 are in this category while adults 50+ who are Spotify premium subscribers are only 3.5% of that age group, clearly indicating that the younger audience is the prime target for advertisers.

The following table reinforces an obvious expectation of where adults 18–49 who are Spotify premium subscribers are listening to the music streaming service.

Devices On Which Adults 18–49 Who Are Spotify Premium Subscribers Listened to Spotify During the Past 7 Days

Device	Percent	Index
Smartphone	85.2%	379
Tablet	28.9%	395
Computer	52.9%	370
Web-enabled, such as TV or DVD player	14.2%	595

Based on The Media Audit's Winter 2017 Baltimore GMA survey

Although the smallest percentage of this audience is listening via a Web-enabled device, it indexes 495% more than the market average, and even 116% more than those listening on a smartphone.

Another interesting look inside the data for this audience is found in the following CrossTab report. It certainly bodes well for automotive and motorcycle dealers, although this audience indexes less than the average for being high-mileage drivers. They also score high indices for major purchases – a new home and household appliance – and upscale shopping, such as jewelry stores.

Selected Metrics for Adults 18–49 Who Are Spotify Premium Subscribers

Metric	Percent	Index
Employed full-time	60.6%	109
Employed part-time	20.3%	113
Financial optimists: better off 6 months from now	49.0%	129
Plan to buy new car/van/truck/SUV	27.8%	247
Own motorcycle	19.1%	256
High-mileage driver: 350+ miles/week	13.8%	88
Plan to buy major household appliance during next year	25.7%	171
Plan to buy a new home during next 2 years	24.8%	161
Shopped jewelry stores during past 4 weeks	18.8%	253

Based on The Media Audit's Winter 2017 Baltimore GMA survey

Sources: BIA/Kelsey Website, 4/17; InsideRadio Website, 4/17; Nielsen Website, 4/17; Radio Advertising Bureau Website, 4/17; Music Industry Blog Website, 4/17; 9to5Mac Website, 4/17; Billboard Website, 4/17; Pitchfork Website, 4/17; J.D. Power Website, 4/17; eMarketer Website, 4/17; Fast Company Website, 4/17; The Media Audit Website, 4/17.

Updated: April 2017

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