



TO: All Clients

FROM: Fred Jacobs

RE: **THE NEORADIO™ MOVEMENT**

We often joke that consultants are no smarter than anyone else. It's not a joke, but because we're exposed to so much radio, so much research, and we've got years of experience, we have the potential ability to see macro industry changes – if our eyes are wide open, and we're on our games.

Whether it's been a new format ready to explode (Classic Rock), an existing one that just needed better packaging and execution (Alternative/The Edge), identifying a huge TSL/image opportunity from available research (Workforce/the at-work opportunity), or technological changes that affect the industry (the web and database marketing), we'd like to believe that Jacobs Media has done a pretty good job of alerting our clients to some of the mega-changes that have affected radio programming.

We are fast reaching the conclusion that our industry may be at another fork in the road. And unlike a new format, we are becoming convinced that the next change on the horizon may be bigger and more important.

Last week, Dave Beasing sent out a bold memo to his Alternative clients. In this memo, we're taking some of the strands from last week's piece, and suggesting that something is going on in our business that transcends Alternative, and affects a wider group of stations and companies.

First and foremost, we feel there is a values-based revolution that's beginning to happen in radio.

Like a lot of major changes that occur in our business, this one is marked with a multitude of indicators. If you think about the success of Classic Rock – and I have – its success wasn't just about adults desiring to hear more of the music they grew up with. It involved the paltry state of new rock in the mid-'80s, the advent of the compact disc, the huge adult Boomer population, and the advertising industry changing its emphasis to the 25-54 demographic. All of these factors contributed to Classic Rock's good timing, and the ultimate success of the format.

So instead of simply telling you what I think is happening, permit me to lay out many of the signposts we're seeing, and help you connect the dots.

First and foremost, we feel there is a values-based revolution that's beginning to happen in radio. It transcends music, and instead deals with the ways in which listeners are included and treated, how radio is programmed, and an acknowledgement that there's non-radio competition out there that we'd better get serious about. Without going back into commercial radio's listening declines over the past decade, or the growing threats from satellite radio, videogames, the Internet, and television, let's stay focused on some of the events, innovations, and developments that have occurred in our own industry. While seemingly unrelated and even diverse, there are commonalities that tie many of these together.

1. The Drive in Chicago signs on in the late '90s, redefining issues like commitment to the music and depth. It is derivative of what WMMO did in the early years of this decade, and is even reminiscent of Triple A. It sounds like nothing else in Chicago, and while it is at times bland, it has generally been a ratings success because of how music-focused and different it is.
2. NPR explodes in the ratings and becomes a major adult factor in market after market. You can attribute much of this growth to their information programming (which plays a huge role in their success), and to consumer needs to obtain credible, balanced information in a post 9/11 world (all true), but you also have to take NPR's values into account. They present a calm, hype-free environment that values the listener. NPR employees carry around laminated cards that state their values. This motivates and helps frame every decision they make.
3. Entercom's KQMT/Denver signs on in April '02. It's a Triple A meets Classic Hits approach that's hype-free, depth driven, somewhat anti-corporate, and hosted by DJs who know and get the music. The airstaff is empowered to make musical choices, and that is communicated to listeners who appreciate this value. It targets listeners who used to like KBCO before they became too current and too repetitive. It works. KQMT has entered the upper echelon of the 25-54 Adult rankings. Their new slogan, "Free Your Radio," could be resonating.
4. Jefferson Pilot's FM 94/9/San Diego signs on in 11/02. It's a gold-based Alternative approach that's hype-free, depth driven, somewhat anti-corporate, and hosted by DJs who know and get the music. The airstaff is empowered to make musical choices, and that is communicated to listeners who appreciate this value. It targets listeners who used to like 91X before they became too current and too repetitive. Sound familiar? For the past couple of books, FM94/9 has kicked 91X's ass.

5. Jack-FM takes Canada by storm. While it's very hypey, it breaks other conventional rules of radio – specifically, that stations have to hyper-target demographics and genres. Jack plays what it wants – just about everything, thus creating a "big tent" approach. Like the above U.S. stations, this notion of "we play what we want" and an anti-corporate vibe permeates Jack. It is now #1 12+ in Vancouver, with strong ratings in much of Canada. Why isn't it here in the States? Because it's a concept that is impossible to "pre-test" in a format finder study. It's going to take a CEO or market manager with a nice combination of vision and desperation to give this a run.
6. Fast-forward to Seattle. Late last month, venerable Alternative rocker KNDD submits to a complete overhaul, dumps its new in-your-face morning show, and redoubles its commitment to the music. In many ways, this is a return to the values the station exuded when it first signed on. It is now less current, playing more of the music that first characterized its launch, and is once again focused on its listeners. Days later, Atlanta's Alternative icon, 99X, essentially does the same thing. Much of these changes are motivated by growing listener dissatisfaction with the state of today's music, and the sense that stations have abandoned their commitment to playing great music, don't care about music variety, have taken the jocks out of the game, have become too corporate, too repetitious, and just isn't as exciting and vibrant as it used to be.
7. As we noted in an advisory you received late last week, satellite radio is beginning to move the needle. Each company's stock is on the rise, and people are actively talking about both services. They are offering lots of "free samples" (rental cars, Jet Blue, "wrapped" into new car purchases/leases), and their wide-open approach to music and radio is turning heads. And neither company is sitting still. XM has recently announced plans to start providing local weather and traffic information in 15 markets starting in March. We continue to see loose, but consistent evidence in focus groups that once people spend some time with this new version of radio, they become hooked on its freshness, variety, and the fact that it doesn't sound as confined as FM radio. As the "Sopranos" or "Curb Your Enthusiasm" is to "Frasier," so are XM and Sirius to commercial radio.
8. "Little Steven's Underground Garage" gains momentum and a following. We've been a supporter of this show because it provides an alternative to what most of our Mainstream and Classic Rock clients provide during the week. The show features mostly unfamiliar, untested music, and is now on in upwards of 50 markets around the country. Steven is passionate, he's a story-teller, and often viscerally understands why people love radio and music better than many of us in the business. The show has achieved a great deal of notoriety, ratings, and "buzz" precisely because it's fresh, doesn't sound like everything else, and is delivered by a guy who truly loves what he's doing.

All of these examples are somewhat disparate, but connected. More often than not, they are "passion plays" – designed to stir an audience that has become too accustomed to the "sale-old-same-old." And they point to larger changes on the landscape. While some are on the "outside" (XM), others are beginning to make waves on the FM band. In one way, shape, or form, stations in every market are soon going to be thinking and rethinking radio's "givens," searching out new approaches that don't sound like our in-the-box paradigm.

The reason I'm writing you this memo is that we think this may be a transcendent set of circumstances that applies to other formats as well.

Radio has some potentially strong technical upgrades on the horizon. RDS presents some great opportunities to use text information for marketing, and providing basic information like artist and title. And of course, the promise of HD could open up great possibilities technically, not to mention revive some AM stations that have apparently outlived their usefulness. But even these exciting new technologies won't deliver results unless programmers are able to creatively use them to provide entertainment and information that's different than what we've been broadcasting to date.

So that brings us back to the present. What will happen to Alternative around the country is now up for grabs. We expect that many long-time Alternative stations will be quickly studying what KNDD and 99X have done. We anticipate that some will adopt a similar policy, either because they think it's right, because they're afraid that someone else will do it against them, or because they just feel the need to change things up.

But is this just an Alternative issue? The reason I'm writing you this memo is that we think this may be a transcendent set of circumstances that applies to other formats as well. KQMT, FM 94/9, and Jack-FM sound nothing alike musically. Yet, they may all be succeeding because of these values-based changes that each station addresses in its own unique way.

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This leads us to believe that the next bright, shiny object for radio isn't a format or even a musical genre. It's a value-based proposition that goes well beyond music and our conventional ways of packaging formats. It's a code of conduct that separates a station from . . . everyone else on the dial. And it's listener-driven, and responsive to what the audience is talking about.

This is also why XM and Sirius have the freedom to construct a product that by its very design has architecture that runs against the grain of commercial radio. They have researched radio listeners, and designed products that provide an alternative to terrestrial broadcasting. We work with stations that have seen this same data in the past, and heard all the complaints from listeners about why radio is no longer at the top of its game. But most shrug when it comes to acting on these concerns. The thought of changing music testing guidelines, cutting inventory, widening formats, or scheduling fewer remotes is "anti" to what we've been doing all these years.

We hear listeners whine about lack of depth, and we think, "But we have to play the hits." Or when they cry out against repetition, we think: "Hey, hits are hits. When they start complaining, that's when we know songs are smashes." Or when they lash out against commercials, we respond with "We've got budgets to meet, and fewer spots won't cut it." Therefore, we deny, deny, deny, while other outlets (XM, iPods, NPR) give them what they want.

As the "break-out" examples listed earlier illustrate, this audience-driven concept isn't a format because it's occurring in a variety of different settings. So if it's not a format, what is it? We see it as a *movement* dedicated to presenting radio in a new way – or "The NeoRadio™ Movement." (Of course, we're branding it.)

We've been at this long enough to know that "the next big thing" – by definition – cannot sound like "the last big thing." That's why it's often difficult to detect – at first. It's why Classic Rock was vilified when it came out, or why Nirvana may have sounded a little weird at first. By definition, NeoRadio doesn't look or sound like anything else we've really ever seen or done. And it breaks a lot of tried-and-true rules along the way.

Stations that succeed in reinventing themselves, or totally brand new stations, will require programmers and jocks with brains, sensitivity, and vision – qualities that sadly haven't been as in demand in recent years. The people behind stations like KQMT and FM 94/9 have definite standards, a vision, values, and guts. This isn't a "format in a box." The degree of difficulty of doing "NeoRadio" right is very high.

Unlike the way that radio has operated (virtually since duopoly), NeoRadio is about listeners and what *they* want. This runs opposite of our post-Telecom Act norm, which has been largely dictated by what Wall Street demands. Yet, corporations can run NeoRadio stations successfully, and deliver the bacon at the same time. Consider that KQMT is owned by Entercom, FM 94/9 is owned by Jefferson Pilot, and many of the Jack FM stations are run by Rogers – the equivalent of Ted Turner in Canada. Each required bold leadership at the corporate level in order to make these successes happen. They are all examples of unique and challenging radio in a highly consolidated industry, and they're working.

So, what do we do now? In the case of Alternative stations, the urgency is stronger for several reasons. The format is heavily challenged, the consensus is that new music is less than wonderful, the beer money problem looms overhead, and now the cat is out of the bag. It's possible that many will be facing what The End and 99X just dealt with. Do it or get it done to you.

NeoRadio is about listeners and what *they* want.

But for Classic Rock, Active Rock, and perhaps other formats, there are applications as well. Studying NeoRadio values is going to be important. While most stations have in-your-face morning shows, being "about the music" or "playing what listeners want" the rest of the day are attributes worthy of consideration and emulation. Having jocks that aren't card readers, but are passionate about and engaged in the music they play is a major philosophical swing for many stations. Being local and connecting with listeners in your community is part of the "Retail Radio" strategy that we've been preaching for years.

So what does this mean to you in 2004? Many of the conditions described in this memo can and should be researched, whether in upcoming perceptuals, or in specially designed Web polls. As you know, we enjoy the process of the former, and have played an important role in developing the latter. We would love to work with you in creating the right questions to ask, but we also know it will be important to really listen to what listeners are telling us. This process should also involve conducting LABs (Listener Advisory Boards) or focus groups, hearing the audience, and beginning to strategize action steps that will lead to growth.

One of the things that Lee Abrams pointed out at Jacobs Media's Summit last June was that radio's research must be flawed. We don't think that's exactly it, but perhaps we're not paying close enough

attention to what listeners are saying. And beyond that, including "personal research" that isn't statistically based is an important part of the mix that has typically fallen by the wayside. You have to listen to what our customers are saying, and *then* form the questions that can be quantitatively answered.

Let's get on the phone with your management team soon to discuss this. Keep your collective ears to the ground for any competitive rumors that are floating around your markets. If you've got a weak station in your cluster, considering a gold-based Alternative or even a Jack-FM type station might make sense, if it fills a legitimate hole and protects an important flank.

The good news is that these moves may be breathing new life into old formats, and an industry that needs to seriously re-evaluate itself. We're on a 10-year listening downtrend, while still being stuck around 7% of the media revenue pie. So the process of re-evaluating basic operational tenets cannot be a bad thing.

Our company has been directly involved with many of the examples listed in this memo, and we feel the time has come to bring more clients into the discussion. Of course, we welcome your ideas and input.

Of course, NeoRadio isn't for everyone, nor is it a statement that the tried-and-true, "tight is right" way of business is no longer viable. Stations that have narrowed their focus and played the hits have done historically well. That's not about to change. But when the majority of stations in a market take a similar approach, everyone has solid perceptual and music research, and we're all using the same playbook – something's got to give.

I realize that in some circles, this memo may be uncomfortable, a little scary, and perhaps even anger-provoking. Change is difficult, and if anyone understands that bold risk-taking can be a tough road to hoe, we do. This is no small challenge, but as a wise man once said, "You don't need a weatherman to tell which way the wind blows." And it's beginning to get a little drafty out there.