The Shifting Forces that Are Affecting the Radio Industry

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www.blesser.net

Depending on whom you talk to, the future of the radio broadcast industry is black, white, or any shade of gray. We live in an era where entire industries are being threatened, revolutionized and re-invented. While some self-appointed pundits have a clear vision of what our industry must do to survive and thrive, I am just not smart enough to predict the future and will not offer yet another opinion. I will, however, offer a set of analytic tools so each of you can analyze the dynamic forces that now are destabilizing the status quo.

Think of the radio industry as a loose confederation of groups, each of which has a stake in our industry; hence called stakeholders. Such groups include listeners, investors, advertisers, executives, employees, journalists, governments, trade-show organizers, equipment manufactures, networking specialists, technical consultants and so on. Aside from the physical infrastructure, the radio industry is nothing more a collection of these groups.

Within each stakeholder group, we find individuals who have similar interests and a common relationship to other stakeholder groups. Compared to executives and engineers, listeners are a relatively similar group. Compared to investors and manufacturers, executives are similar. Depending on the goal of an analysis, each stakeholder group can be further divided into subgroups. For example, the listener group includes youths with a taste for a specific music, businessmen commuting to work and immigrant families facing language barriers.

While we could attempt to analyze the detailed relationships of each stakeholder group to all the others, the matrix of combination is very large indeed. However, even though the effort is large such an analysis is critical to making decisions.

As a consequence of having a relationship to other stakeholders, each group derives some benefit and contributes some value. For example, listeners benefit by receiving news and pre-package entertainment. In exchange, they contribute rating, headspace, and they are likely to consume goods and services advertised by sponsors. Investors contribute financial capital and expect a return on their investment. Sound engineers produce programs for salary, and sales people receive ad commissions.

Each group contributes something to the industry (cost), and in exchange, receives some benefit (gain). When the ratio of gain to cost is favorable, a stakeholder group grows; and conversely, when unfavorable, it shrinks. Investors can move their assets to industries with higher ratios. Audio equipment manufactures can shift their product line to cinema or television. Executives can take positions in other industries. Listeners can replace radio with portable audio prepared at home. Stakeholder groups expand and contract as individuals immigrate into and emigrate out of any given group. Looking to optimize their ratio, individuals make choices to maximize their personal situation.

Complexity arises because unrelated events change the ratio of gain to cost for each stakeholder group, leading to different choices. That then changes the ratio for other stakeholders, who then shift their choices. As listeners change their preferences in audio media because of new technology, advertisers shift their choice of delivery vehicles. Advertisers have a vast array of choices, including newspapers, television, billboards, direct mail, the Internet, and so on. New technology is constantly destabilizing the status quo of every group. And society is constantly adjusting its values: personalized versus standardized, public versus private, large versus small, and so on. While the details are unique to each group, each industry, each culture and each decade, the pattern is universal.

To predict the future, one needs to identify and analyze critical stakeholder groups with their shifting choices. Consider, for example, listener stakeholders who receive any of four classes of radio programs: entertainment, information, unique personalities, and local community participation. A long time ago, they had few choices for these classes. Now, however, they have exponentially increasing choices, which instantaneously changes the ratio of gain to cost.

As an illustration, we can focus on entertainment. Copying, buying, and organizing portable audio players takes time and money, but this choice can be readily customized to mood, time, place and personal preferences. In contrast, broadcast programming requires no preparation effort on the part of listeners, but they give up headspace, and experience the unwanted pounding of aggressive messages. Some listeners value the fact that expert programmers can find and sort music using their skill and experience. These factors are all part of the listener's ratio.

Unlike music entertainment, there are fewer choices for news and information, especially traffic reports on a minute-by-minute basis while driving. However, at some point in the near future, GPS services will offer not only real-time traffic information but also recommendations for alternative routes. Such a service will be very attractive; and like all popular technologies, it will eventually become an inexpensive commodity provided as standard equipment. This is a perfect example of how a new technology changes one ratio, opening new choices, which then changes many other ratios. Broadcasting traffic information from expensive helicopters loses its value, if listeners receive the same information from a faster, more comprehensive and interactive source. Technology shuts the door on the helicopter pilot, but opens a window for the GPS operations guru.

Having hundreds, if not thousands, of audio channels available, has value to listeners only if they have a strong preference for a specific kind of music, such as polka from 19th century Poland. However, providing that kind of service has a production cost and requires effort to manage music libraries. And the number of listeners on each channel becomes very tiny as the musical niche becomes small. Hence, this option is only viable if the audience can be increased by broadcast nationwide or even worldwide, such as with satellite or Internet radio. Even so, the cost of niche programming is often provided by monthly subscription fees rather than just by advertising, which is yet a different kind of cost for listeners.

Finally, we come to one unique asset that is often highly valued: the magic personality of a special voice or brand. Listeners may want to hear their favorite personality or sports team available only on one channel of one medium. By elevating a personality to mythical status, the ratio is highly skewed. Many young adults will spend a week's salary just to attend a concert of their beloved music group. For passionate followers of a highly valued person or team, cost is no object.

In this short illustration of stakeholder analysis, we immediately notice the complexity and dynamic nature of any conclusion. The problem for each group is compounded by a skew in time-scales. While listeners can switch choices daily because they have very little invested capital in their current choice, investors have their resources locked in inflexible physical plants, and professionals have decades invested in narrow skill sets. Stakeholder groups are not symmetric in their relationship to temporal flexibility.

What then is the future of terrestrial radio? The answer depends on the success in creating new relationships among the various stakeholder groups such that each group has a positive ratio of gain to cost. Easier said than done. And like a good academic, I leave the answer to the reader to discover. While the questions and framework are clear, the answers are not.

Historically, the actual outcome of such complex situations often arises from unplanned, unpredictable and unmanaged events. This is explained by chaos theory, which is definitely worth learning. As a one-sentence summary, it says that a single trivial event, out of millions of other trivial events, can eventually have profound and unexpected consequences. With such a premise, no amount of analysis will remove the fog from radio's crystal ball.