



FROM: Fred Jacobs

DATE: March 23, 2006

RE: THE CASE FOR PASSIVE MEASUREMENT



The Case For Passive Measurement

You don't need me to tell you that 2006 is already off to a weird and rugged start. Much of the focus will be on the CBS Radio Free FM stations and their new morning shows, watching satellite radio, and the beginnings of the HD Radio Alliance.

But one major issue continues to nag at me, and that's the passive audience measurement situation. There's been a lot written, and a tremendous amount of debate about the efficacy of Arbitron's PPM system. I'm not going to get into a diatribe about the pros and cons of PPM (or any of the newly proposed systems) because consultants are outside the fray. We don't pay for the ratings, we don't truly suffer like station personnel do, and we don't have to sell with the numbers either.

Yet, we truly are impacted by them. Decisions continue to be made on "Trends and Trons," as my friend Max Tolkoff used to call them, despite the fact that the former is a joke, and the latter often isn't much better. Our paper diary world was antiquated thirty years ago, but in the digital era, it is beyond rational sense.

Radio now finds itself at its most important crossroad since the advent of television

So these thoughts are less about PPM specifically, and more about passive measurement in general. Radio now finds itself at its most important crossroad since the advent of television. We are bombarded by new media, the sands are shifting very quickly, and what was once true is now being questioned by listeners, advertisers, and even those of us working inside the business.

Just this month, Mark Kaline - Ford's global media manager - made this statement at a radio forum: "Activate PPM. What are you waiting for?"

Again, this is less about PPM and more about why radio continues to be measured by a radio system that is beyond antiquated. Remember that scene in "Apollo 13" where the crew gets in trouble. In those days before computers, the NASA team whipped out their slide rules, while the astronauts grabbed paper and pencil to start doing the math that ultimately saved them. The audience gasps because it's so hard to believe how technology has come so far, so fast. Yet, that scene is reminiscent of the archaic way radio ratings are taken right now today in 2006. Here we are in a technology-driven world, and listeners are filling out paper diaries.

We have personally conducted a number of technology-oriented groups in the past year. You know about the Arbitron groups, but we have had other clients ask some of the same questions about how technology is impacting terrestrial radio. Of course, Jacobs Media clients have had the benefit of our Technology Web Polls, the first of which was conducted last spring. The follow-up survey has already been sent to clients, and you will be reading about its key findings over the next weeks and months.

If radio hopes to compete in the digital age, if HD Radio has a prayer of happening, and if we are serious about vying for significant advertising dollars moving forward, only a passive measurement system can hope to provide us with a scintilla of consumer usage reality. Clear Channel is now evaluating RFPs to solicit an alternative to PPM, so there's at least some acknowledgement that passive measurement is a key element in radio's future. But radio should have been asking for new ratings company proposals five years ago - not late in 2005.

One of the key findings of both Technology Web Polls is how close - and yet far away - new media are from being able to match radio's dominance. Yes, the Internet is right up there, but it's nowhere near being available in vehicles. While cell phone usage, iPod ownership, and cell phone applications are growing factors, radio is still a primary entertainment/information tool. Satellite radio - for all the hype - is still in its embryonic stages, with a financial model that has yet to be proven.

But we're also learning how the avalanche of new media is causing consumer confusion. Even among the best multi-taskers, it's difficult to remember all of the different media one uses in a typical day. Rewind just a decade, and the world was essentially radio, TV, and newspapers. Today, consumers can barely track their own habits.

Yet, radio continues to live with a "total recall" rating system. As we learned in the Arbitron focus groups last year, it is difficult for people to "take the diary to work," and attempt to even remotely fill it out with any modicum of accuracy. Everyone is so busy - with media, with families, with work - that even consenting to fill out a diary has become a next-to-impossible mission for Arbitron.

Having said that, there isn't a week that goes by here at Jacobs Media where we don't hear from a PD or GM, wondering why their big contest, A-to-Z stunt, billboard campaign, or morning show event didn't register in the Arbitron month in which it occurred. How many times have we nodded our heads about the apparent Arbitron "lag theory" that the impact of anything a station does tends to show up in the *next* phase, and not in real time? We never really know whether "the contest didn't work," whether there was a diary/sample issue that month, or something else entirely. Yet, we continue pouring money and effort into promotions where the outcome is essentially unknown.

As Mark Kaline said, "Get comfortable with being uncomfortable"

All passive measurement systems have inherent flaws, they're expensive, and they may change the pecking order of stations, dayparts, and even morning shows. Broadcasters debate the fine points, because while everyone wants the system to change, many are unwilling to take the hits that passive measurement will most certainly trigger. As Mark Kaline said in the same speech, "Get comfortable with being uncomfortable."

So if we pull back from the immediacy of losing a rank, watching a 2-share competitor become "real," or seeing a dominant morning show get knocked down a peg, think about how we've lived with bigger flaws that are endemic to the diary methodology.

Try this: Go to a party or social gathering with non-radio people, and explain to someone how the diary system works, and how radio is measured. If they don't look you right in the eye and tell you how ludicrous it all sounds - that your career is being determined by this flimsy measurement system - I'll be surprised. We have lived with the paper diary for so long that it has become an accepted dysfunctional part of our professional lives. Yet, for all the inherent dangers and unknowns of passive measurement, the potential and future are so much brighter and rational.

First, we'd actually see the results of our work. Take a roomful of radio programmers and ask them whether they would risk their instincts on a system that could more accurately measure real-time listening, and 90%+ would jump at the chance.

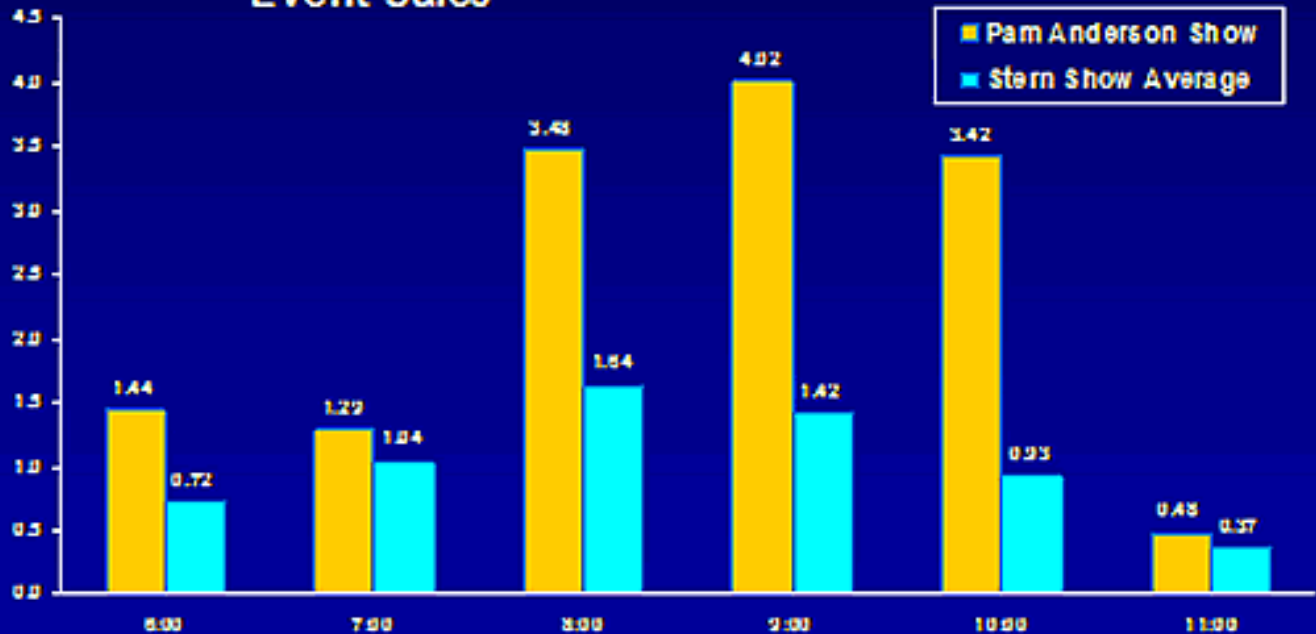
You may have first seen this slide at the 2002 Jacobs Summit in L.A. when Arbitron trotted out some of its findings from the [Philly PPM test](#). Remember that feeling of exhilaration when you connected the dots and came to the realization that a passive measurement system could measure on-air events in a real-time way? That the power of a guest or a giveaway or a promotion could actually move the needle?



The Power of a Panel

Pamela Anderson Draws Big Numbers on the Howard Stern Show

Event Sales



Persons 12+ M-F 6a-10a Feb PPM Data

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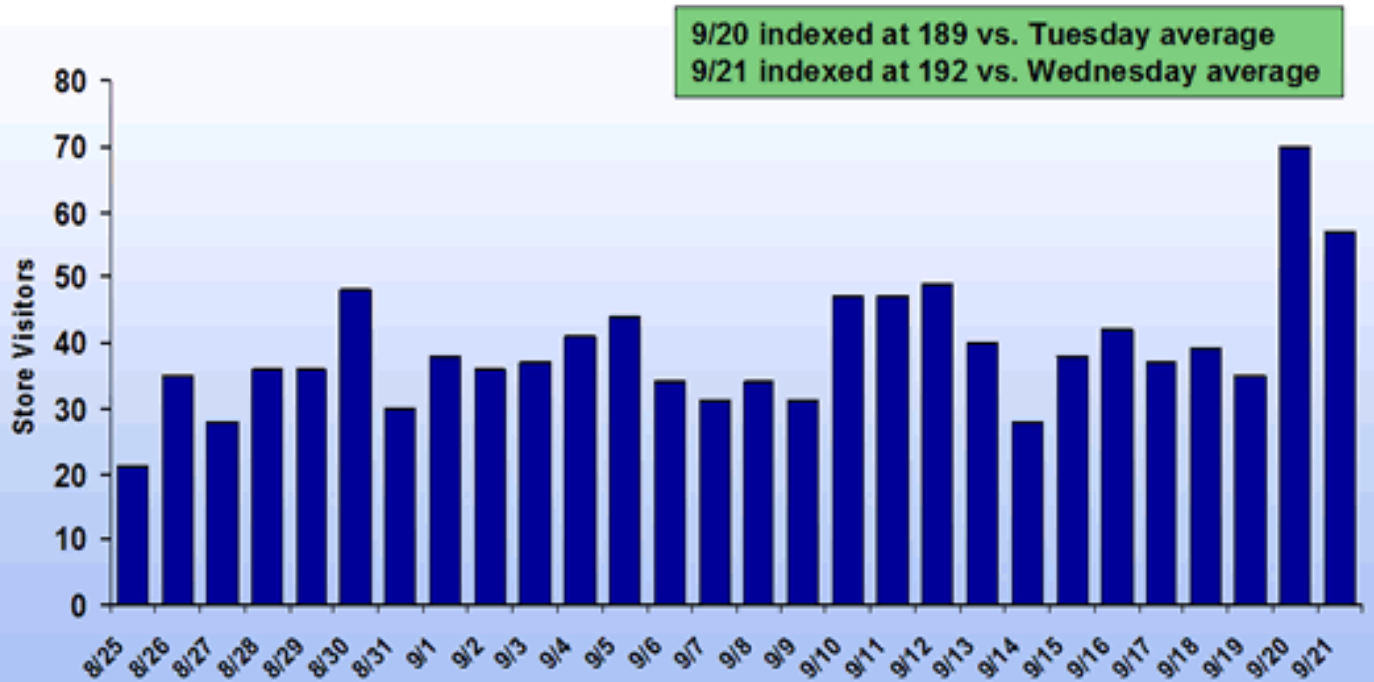
Arbitron presented similar findings from its [Houston PPM tests](#) from earlier in the fall. In this case, they used PPM data to show how grocery store visitation (yes, Kroger participates in the survey in Houston) skyrocketed prior to Hurricane Rita hitting land. The results, like the Stern/Pam Anderson example are striking in their ability to capture behavior:

Kroger Store Traffic Increased as Hurricane Approached

Houston DMA

Persons 6+ Store Visitor Count - Krogers

8/25/05-9/21/05



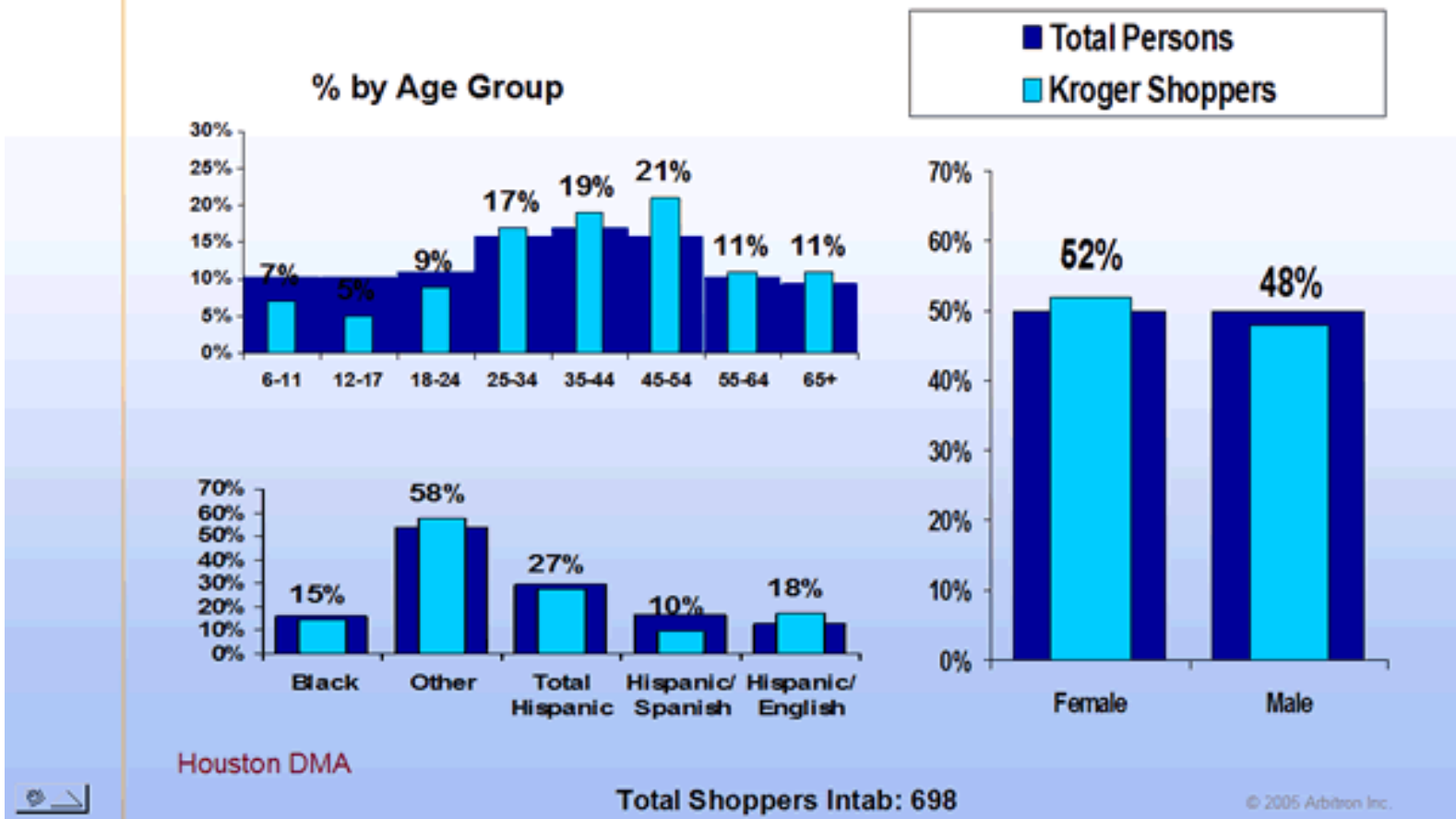
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Data like this confirms that listening behavior is truly dependent on events - whether caused by Mother Nature or perhaps great programming.

As noted earlier, passive measurement may hurt stations in certain areas, but it will help them in others. Here's an example, taken from Arbitron's PPM presentation at last month's Consultant Fly-In. It's using Kroger data to show a couple of important truths that we in radio have a difficult time communicating to advertisers.

The first is that men are important in the overall world of shopping and buying power - even in grocery stores. In fact, this one slide debunks much of what is believed about whom actually spends money/time in grocery stores:

Kroger – Total Shoppers vs. Total Persons 6+ 8/12/05-10/12/05



Let's think about all the different myths that are busted on this slide:

1. About one-quarter of Kroger's total shoppers are 18-34s.
2. Another quarter are 55 and older
3. Nearly half (48%) are men

Right there, important pitches and messages can be sent to Kroger (and every other grocery store chain) about who actually shops in their stores. In an environment where the conventional wisdom is that it's just 30-40 year-old women who do the grocery shopping, this data clearly proves that these businesses might want to rethink that logic. There is revenue available by aiming advertising dollars in different directions.

But it gets even better. Look at the audience shares among 25-49 *women* in Houston who visited Kroger stores four times a month or more - heavy shoppers:

Kroger - Radio Ranker

Women 25-54 with 4+ Store Visits, Houston Metro

M-Su 6A-12Mid

September 2005 Survey (8/25/05-9/21/05)

<u>W25-54, Frequent Kroger Shoppers</u>			<u>M-Su 6A-12Mid</u>	<u>Index vs.</u>
			<u>AQH Share%</u>	<u>Total W25-54</u>
1.	KKRW-FM	Classic Rock	11.3	305
2.	KTBZ-FM	Alternative	10.6	154
3.	KODA-FM	Adult Contemporary	9.7	82
4.	KHMX-FM	Hot Adult Contemporary	7.2	83
5.	KILT-FM	Country	7.0	109
6.	KSBJ-FM	Contemporary Christian	7.0	75
7.	KRBE-FM	Pop CHR	6.6	52
8.	KHJZ-FM	Smooth Jazz	6.5	162
9.	KTRH-AM	News Talk Information	4.1	106
10.	KUHF-FM	News Talk Information	4.1	102

* Share of Total Encoded Radio

Intab: 64

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Yes, that's a Classic Rock station up on top with a 300+ index, three times as high as any AC station in the market. And at #2? An Alternative station with an index that cracks 150 - nearly twice as high as KODA and Mix. Christian radio, Country, Spanish, CHR? Mediocre at best.

But more importantly, passive measurement provides us with concrete truths about who's doing what

This strongly suggests that in a passive ratings world, there will be a series of trade-offs. Stations will lose some power in certain areas, while gaining business and revenue opportunities in others. But more importantly, passive measurement provides us with concrete truths about who's doing what, unlike our current fantasy world where buyers, planners, and account managers assume they know who's spending money and where.

There are flaws and bugs in PPM (or any other passive measurement system) but we have overlooked the major holes that revolve around paper diaries for years. As an industry, the new media world is moving at high rates of speed, while we often find ourselves debating the finer points. If we're going to get into the game and be in a position to show our strengths - while we still have them - we cannot continue to let the minutia cloud our thinking or actions.

We continue to get painted by an "old media" brush as new and sexier technologies come to market. And our current ratings system reinforces this notion that radio is yesterday's news. It's time to get moving on passive measurement before the digital world passes us by.

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