

Internet Radio Trends Report 2015

The State of Internet Radio and Streaming Services

January 2015



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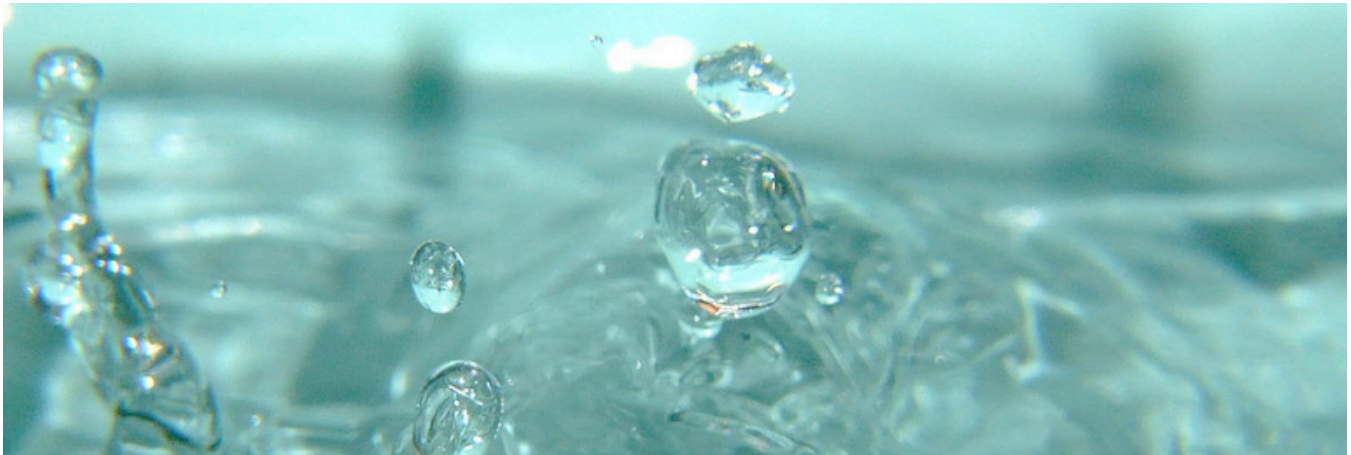
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From Data Trickle to Torrent

Just two years ago, Internet radio seemed to be a mysterious phenomenon. It was available for use, but there wasn't much data. That has changed. Today, there is a growing body of information on Internet radio and the current challenge is how to make sense of it all.

When industries are small and their future is unclear, they simply don't draw much attention. That is no longer an issue for Internet radio. Taylor Swift has taken a swipe at Spotify. Spotify in turn announced it had paid artists over \$2 billion, including millions to Swift. Universal Music and Sony Music are rethinking their deals with Internet radio. Clear Channel changed its company name to line up with the branding for its Internet radio property, iHeart. It then filed an opinion with the U.S. Copyright Board recommending the reduction in royalty rates for webcasters. Rdio SEC filings revealed it has raised \$108 million in the past year.

All of these activities occurred over a four-week period in the fourth quarter of 2014. Earlier in the year, we saw Apple purchase Beats Music for \$3 billion and the podcasting upstart Swell in the same month. Pandora announced record revenues again and the Recording Industry Association of America (RIAA) estimated that streaming accounted for 27% of music industry revenue in the first half of 2014.



Important for Music Industry and Advertisers

All of the data and activity point to one thing: Internet radio has become an important distribution channel for the music industry and is poised to become an important advertising channel for marketers. The introduction of consumer choice and personalization was enough to get the industry started a little over a decade ago. It received a boost based on convenience with the introduction of mobile apps. The listening options were then available anywhere the listener happened to be. The final catalyst was the expansion of ad-supported listening that removed the barrier of an explicit payment. Internet radio became easier to access than broadcast radio and it carried added benefits. Consumers have voted with their ears. Internet radio and music streaming services have become mainstream, as you will see in the User Growth section below.



The Benefits of Broadcast Radio and More

Radio has many qualities that advertisers like: large audiences; spotlight advertising that doesn't compete with other simultaneous messages; and alignment with popular culture. The rapid consumer migration to Internet radio listening brings these qualities and includes targeting by actual listener demographics, guaranteed impression counts, and the opportunity for measurable consumer engagement. In past years, radio advertisers have not focused on Internet radio because it lacked one quality: reach. That concern has disappeared, as audiences now constitute over 50% of the U.S. population and 67% of music listeners.

Internet radio has become an important distribution channel for the music industry & is poised to become an important advertising channel for marketers.

This doesn't mean that broadcast radio has no upside here or that its demise is imminent. It means Internet radio is a direct competitor for listener attention and will eat into industry revenue unless broadcast radio embraces this new consumer engagement channel.

The Internet Radio Trends that Matter

For the 2015 Internet Radio Trends Report, XAPPmedia considered the growing body of data to critically assess the status and trajectory of the industry. The key trends driving Internet radio include:

Growth

- User Growth: from today at 160 million to 183 million in 2018
- Time Spent Listening Growth: displacing traditional audio
- Revenue Growth: from both subscriptions and advertising

Consumer Behaviors

- A Favorable Demographic: Internet radio hits all demographics but skews to tomorrow's audience of Millennials and younger
- Shift to Mobile Listening: mobile is the driver of growth and future of listening
- Reaching Consumers on Mobile: 95% of listening is now on mobile devices
- Listening While Otherwise Occupied: 79% of music listening is done while multitasking

Radio

- What about Broadcasters: traditional advertising is falling while digital revenue grows

We hope you find the 2015 Internet Radio Trends Report to be a useful resource as you consider how Internet radio should be incorporated into your advertising plan. If you have any questions about the content or conclusions, feel free to reach out to info@xappmedia.com.

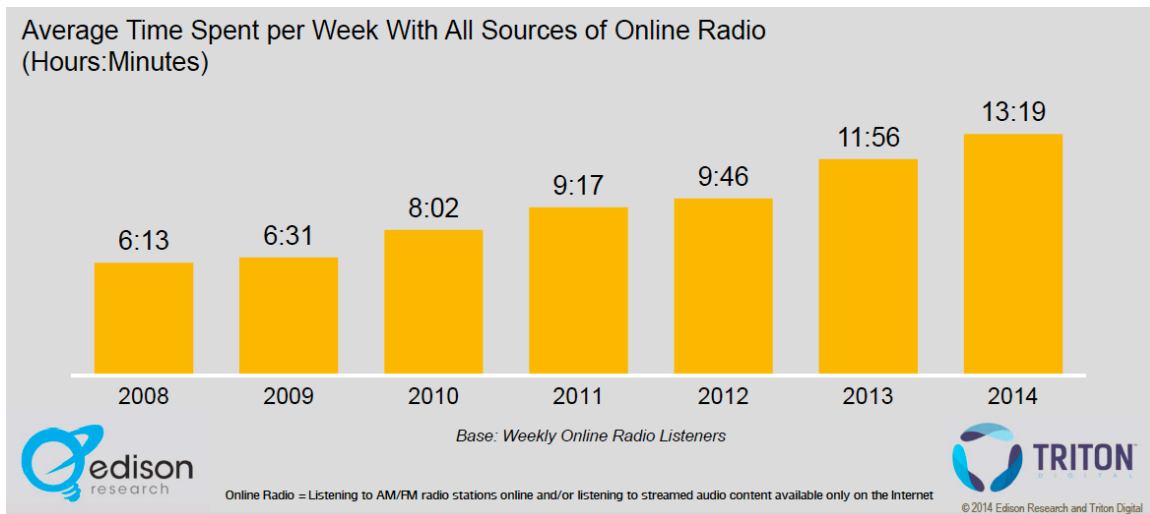
User Growth: Up and to the Right

The first consideration for advertisers or anyone assessing the industry will no doubt be audience size. eMarketer reported in 2014 that U.S. monthly digital radio listeners had grown to 160 million. That is over 50% of all U.S. citizens and 63% of Internet users. The audience is expected to grow to 183 million by 2018, significantly outpacing population growth. [Nielsen reported](#) in January 2015 that 67% of all music listeners access streaming services in a typical week.

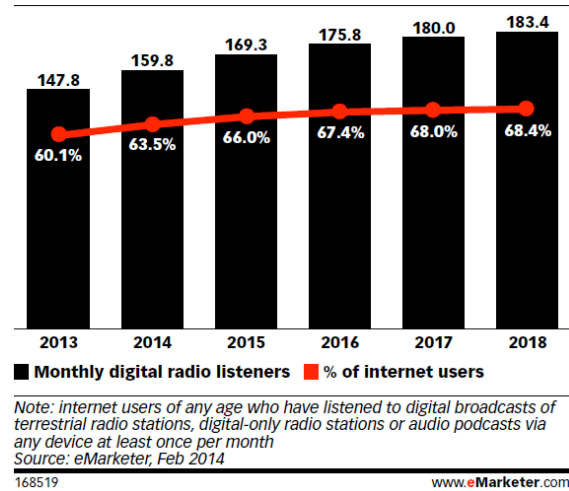
The conclusion for marketers is simple. Internet radio now reaches a large audience and can be an important channel for reaching consumers. However, the story doesn't end here.

Time Spent Listening Growth

The more important trend may be the growth in time spent listening. Consumer audio listening habits are changing. On a per-user basis of weekly listeners, the growth has been impressive. Edison Research's 2014 Infinite Dial report showed that listening time more than doubled over the past five years, exhibiting a 13.5% compound annual growth rate.



US Monthly Digital Radio Listeners, 2013-2018
millions and % of internet users

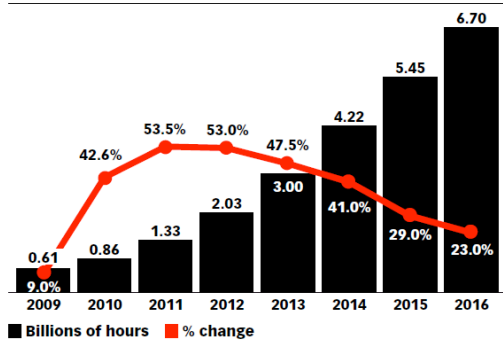


eMarketer also reported Accustream data that illustrates how user growth and time spent listening have dramatically increased the number of listening hours on Internet radio. Between 2009 and 2014, the data show that listening hours on Shoutcast, Napster, Rhapsody and Pandora have grown from 0.86 billion monthly listening hours to 4.22 billion in 2014 - a five-fold increase. This growth is impressive and only represents a portion of the Internet radio listening market. Accustream also forecasts listening hour growth rates to range from 20-30% over the next two years. [Nielsen data](#) reported in January 2015 showed an even faster growth rate of 60.5% for audio streams in 2014. Nielsen's conclusion: "streaming music is surging."

More Listening, More Ad Exposure

US Average Monthly Digital Music Listening Hours, 2009-2016

billions of hours and % change



Note: includes Shoutcast and track play hours via Napster, Pandora and Rhapsody; includes ad-supported, mobile and subscription
 Source: AccuStream Research, "Streaming Radio, Curated Station and Track Play Music: Listening Hours and Revenues Analytics 2013-2016," Dec 5, 2013

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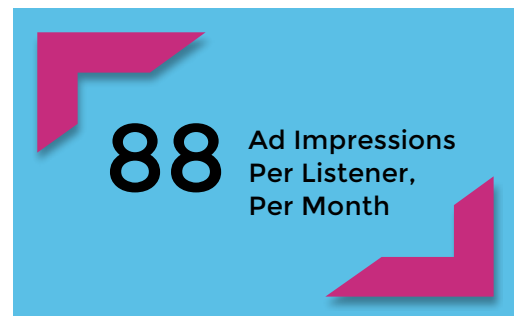
www.eMarketer.com

If we consider data from Edison Research's 2014 [Share of Ear](#) study we can estimate that Internet radio listening now averages about 14 hours and 12 minutes per month across the listening population. Listening hours are critical. They represent opportunities to reach real people with advertising messages.

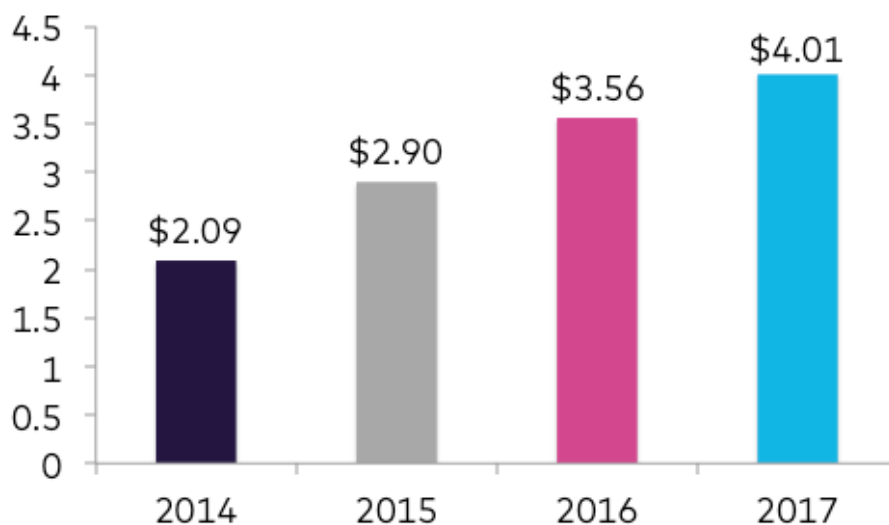
A review of four leading Internet radio pure plays in November 2014 revealed an average of 2.68 minutes of ads per hour. At 14:12 hours of listening per month, that reflects about 38 minutes of ads. Recent analysis shows the average Internet radio spot length is 25.88 seconds, which translates into about 88 ad impressions per month, per listener.

Revenue Growth

Not surprisingly, growth of industry revenue has accompanied the rise in audience size and listening hours. There are two sources of revenue that most Internet Radio streamers draw from: subscriptions and advertising. There is no public information on subscriber revenue other than Pandora and some estimates on Spotify's model. However, there is now attention focused on advertising revenue.



Internet Radio Ad Revenue (\$ Billion)



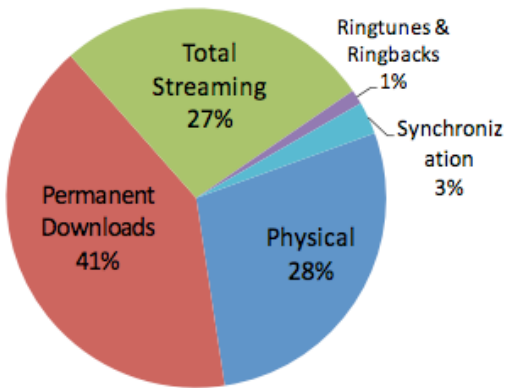
Source: BIA/Kelsey

An analysis by BIA/Kelsey suggests the 2014 U.S. ad revenue of \$2.09 billion will grow to \$4.01 billion by 2017. That is a compound annual growth rate exceeding 24%. BIA/Kelsey and eMarketer estimate that Internet radio ad revenue will grow from about 11.7% to 20% of overall radio industry revenue during the period. Additionally, SNL Kagan reports that music represents nearly 20% of all mobile entertainment revenue.

The rapid growth in advertising revenue is making Internet radio a large advertising market & a critical element of overall radio ad market.

US Music Industry Revenues 1H 2014

Source: RIAA



The growth in users and listening hours has created both a large number of subscribers and a tremendous amount of ad inventory that can be monetized. There was a time when industry observers thought that the only viable economic model for Internet radio would be as a subscription service. However, the rapid growth in advertising revenue is making Internet radio a large advertising market and a critical element of the overall radio ad market.

This revenue isn't just going to Internet Radio publishers. A significant portion of it is flowing to artists, labels, songwriters and publishers. RIAA reported in 2014 that 27% of music industry revenue is now generated by streaming services.

This growth in streaming revenue has been an economic lifeline for recording labels that experienced music sales revenue declines of 50% since 1999. The unbundling of individual tracks from albums as digital singles and rise in piracy have certainly contributed to this fall. Royalties from streaming services have helped offset some of these losses for both artists and labels. Artists have also filled the gap with a tripling of concert and performance revenue since 2000.

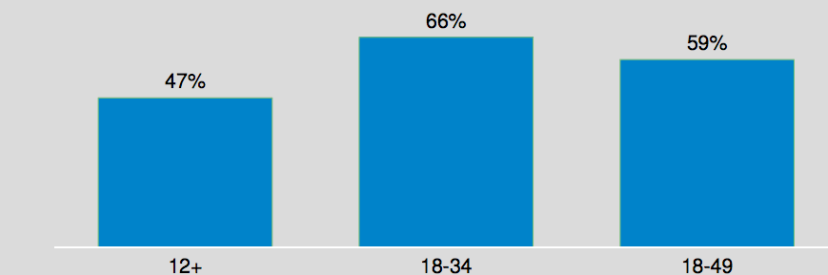
A Favorable Demographic

Millennials also play a part in the favorable demographics of Internet radio and streaming services. The services are particularly popular in the coveted 18-34 demographic. This is the age cohort that theory suggests has disposable income but has not settled on brand preferences. Current estimates are that Millennials will spend \$200 billion annually starting in 2017 and \$10 trillion over their lifetime. The time to establish brand loyalty would seem to be now.

Edison Research data shows that two thirds of 18-34 year olds and nearly 60% of 18-49 year olds listen to online radio monthly.

Two-thirds of 18-34 Year-Olds Listen to Online Radio Monthly

% By Age Group Who Have Listened to Online Radio in Last Month



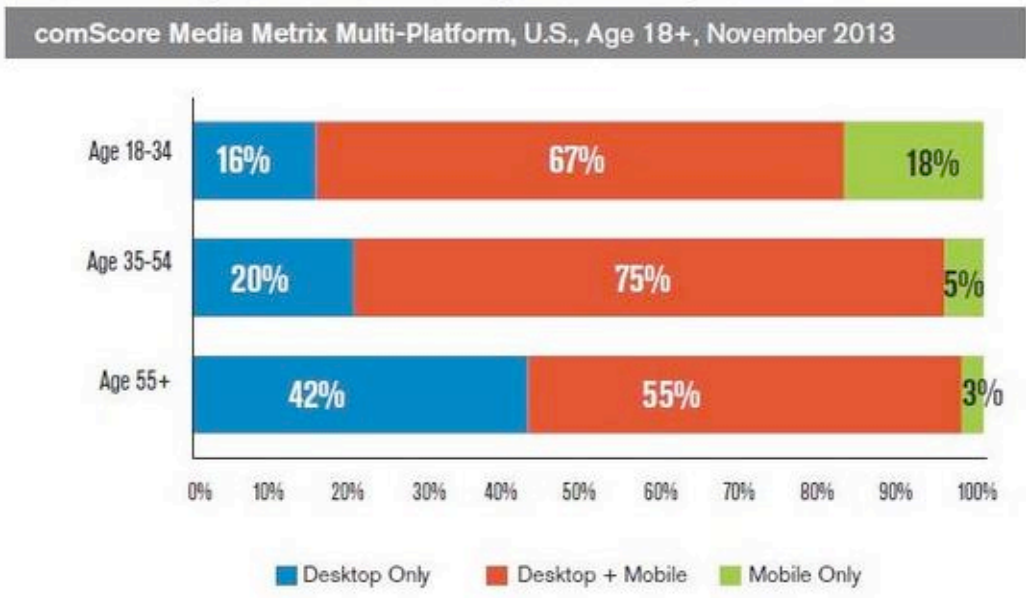
Online Radio – Listening to AM/FM radio stations online and/or listening to streamed audio content available only on the Internet



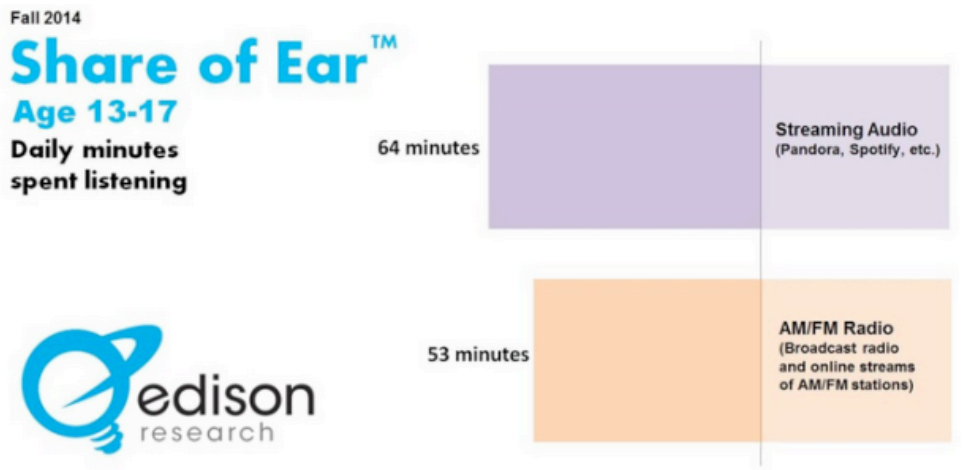
© 2014 Edison Research and Triton Digital

Millennials are particularly attractive for mobile advertisers since [Nielsen reports](#) that over 85% of the age group own smartphones. [comScore reported](#) in 2014 that nearly 1 in 5 millennials only use mobile computing and do not use desktops. If you are looking to reach millennials in your digital advertising, Internet radio is a good choice.

Share of U.S. Digital Media Audience by Platform Usage

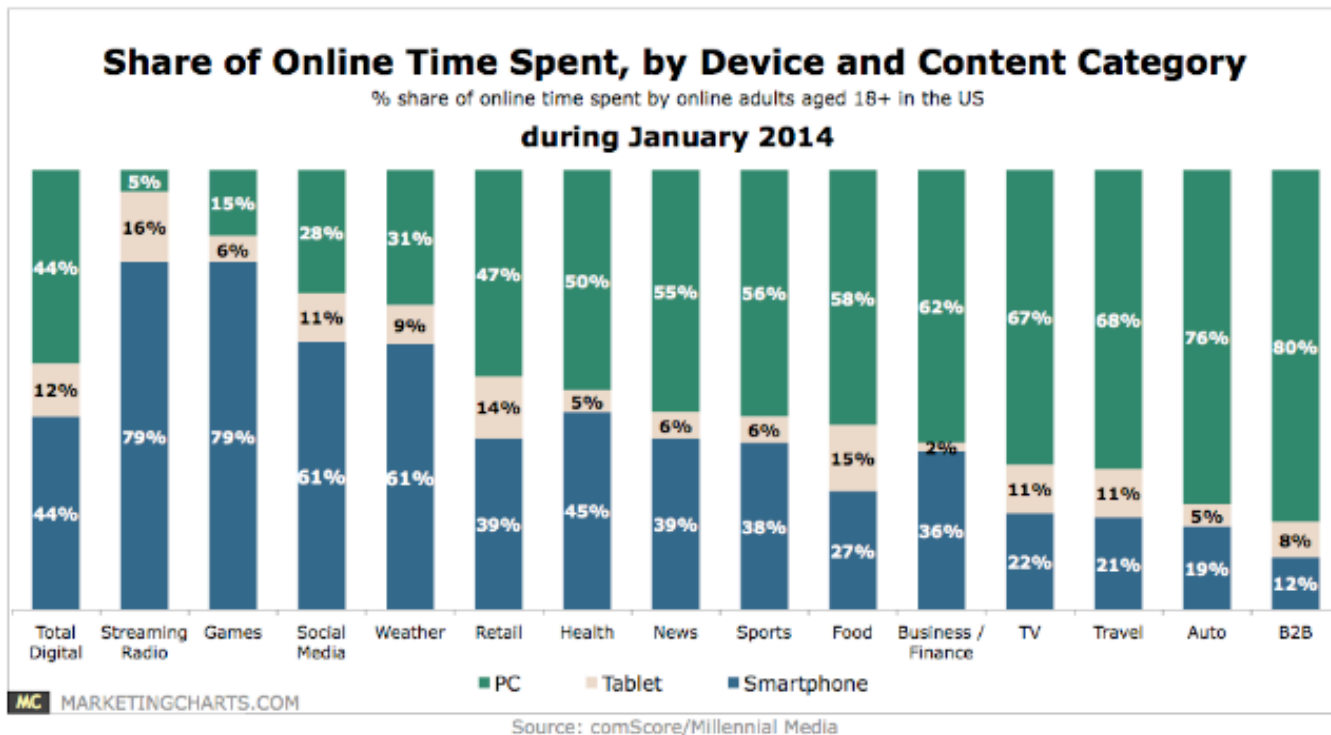


There's one more point to consider in targeting the teen demographic. Edison Research released data from late 2014 that shows 13-17 year olds report listening to more streaming audio than AM/FM broadcast radio. This is the first time that broadcast radio has been unseated by streaming as the top choice for audio content. All age groups are listening to Internet radio and it is becoming the preferred choice for younger demographics.



Shift to Mobile Listening

The other major Internet radio trend important to advertisers is mobile usage. Internet radio listening has rapidly become a mobile experience for consumers. In fact, data from comScore and Millennial Media show that streaming radio is the most mobile of digital media consumption categories.

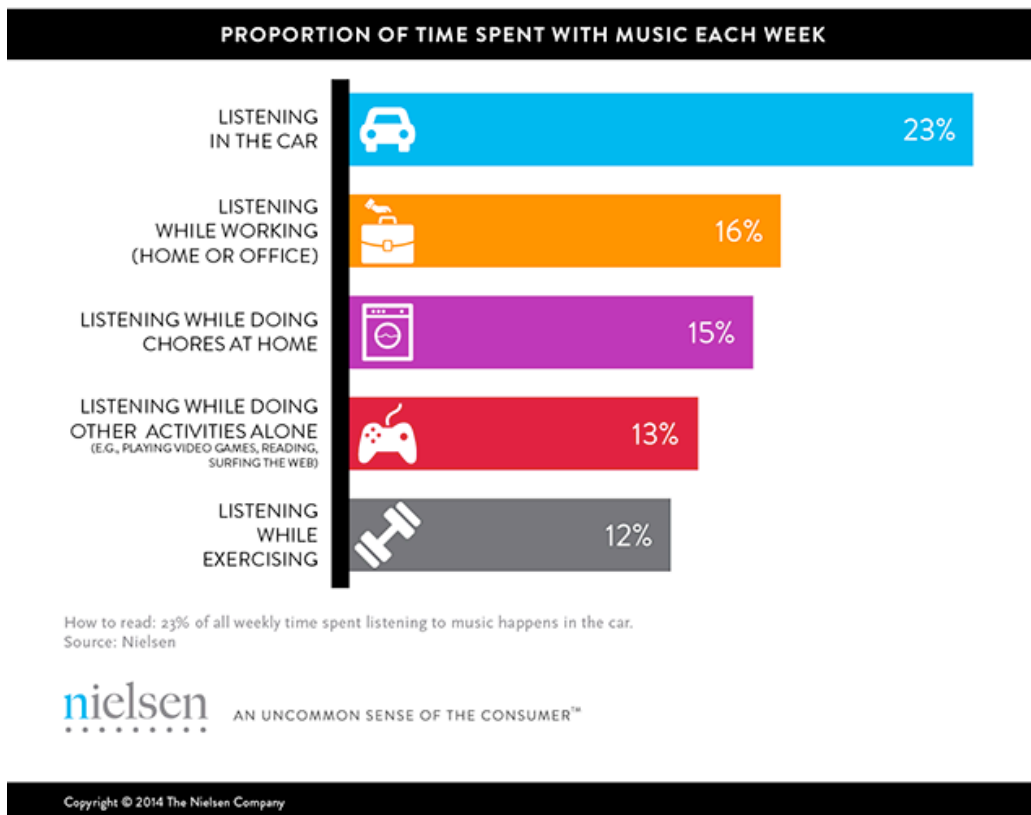


Only 5% of streaming radio time is now spent via computer. Of all of the categories assessed, streaming radio was the most used on smartphones and tablets. Around 20% of computers still access music but the time is heavily skewed to mobile devices. What does this mean for marketers? Advertising on Internet radio and streaming services is mobile advertising.

95% of Internet Radio Listening is on Mobile

Listening While Otherwise Occupied

Another critical trend that impacts both Internet and Broadcast radio is that consumers are listening to music while engaged in other activities. Many of these activities are referred to as ultramobile, since consumers are on the go and they are otherwise occupied. A study by Nielsen shows that 79% of music listening is consumed while multi-tasking.



For advertisers this is good news. It represents an opportunity to connect with consumers during parts of their lives when they are otherwise unreachable. It also comes with the warning that the ad creative and methods for connecting with consumers must account for the fact that they are multi-tasking and visual media is not likely to be effective. The introduction of [Interactive Audio](#) that allows listeners to respond to offers by voice is designed to address this behavioral change.

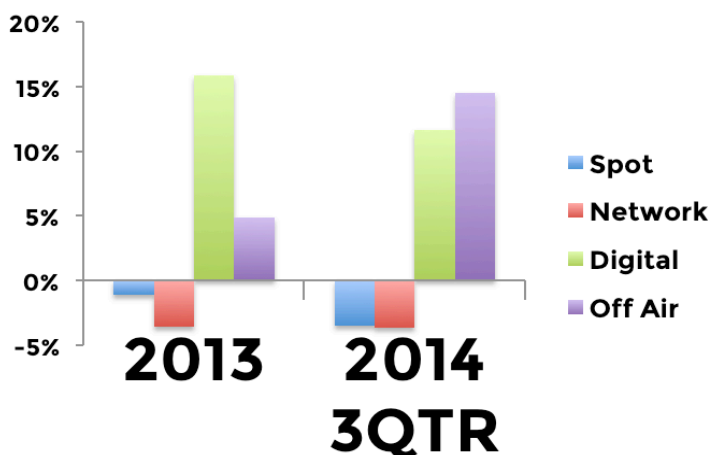
79% of listening takes place while multi-tasking.

When you look at time spent on mobile numbers you should also understand that music listening may be undercounted because it is occurring at the same time as other mobile activities. Audio content consumption is becoming pervasive.

What about the BOB (Broadcasters on Broadband)?

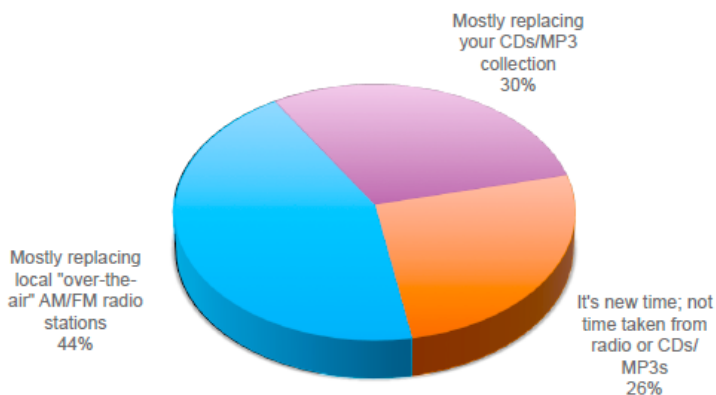
Broadcast radio has a choice in how they participate in these shifts. The industry can simply cede audio listening time to new Internet radio and streaming services and double down on optimizing their business around the terrestrial signal; or they can leverage their existing audience and content assets to establish and grow an online presence. iHeartMedia, formerly known as Clear Channel, has notably chosen the online growth path. It's hard to see how other broadcasters could do anything but follow this lead. The writing is on the wall. While audience reach is still strong, time spent listening is starting to tell the migration story.

Despite growth in the overall advertising market, broadcast radio advertising has been essentially flat. Off-air revenue has risen intermittently and digital revenues, including revenue from streaming on-air content, have grown rapidly. According to the Radio Advertising Bureau (RAB), full year 2013 revenue fell 1% for spot ads and 4% for network ads while digital revenue rose 16%. A review of the first three quarters of 2014 seems to confirm that trend with spot and network ads falling 3% and 4% respectively and digital rising 12% compared to the first three quarters of 2013.



Source: RAB

Growth in Digital and Off-air revenue are making up for falling advertising revenue in traditional categories. Although most broadcasters have made only tentative efforts around streaming, and it is only a portion of Digital Revenue reported by RAB, it is proving to be a source of potential revenue growth at a time when traditional advertising sources are flat at best. The RAB counts 7200 stations that are today streaming in some form. That is good news for the industry. The question is whether these streams are being monetized beyond simulcast and made available on mobile devices where consumers are migrating.



Internet Radio Listening is...
(source: Edison)

All of these changes are happening despite the fact that radio still reaches 91.5% of Americans according to the Radio Advertising Bureau (RAB). That is an impressive number that exceeds the reach of other major media. However, reach and time spent with media are different statistics. RAB also reported that weekly time spent listening on radio declined 25% between 2007 and 2012. A Fall 2013 study by Edison Research suggested that Internet radio may be a big contributor to that decline. The results indicated that 44% of listeners said Internet Radio was displacing time formerly dedicated to AM/FM broadcast radio stations.

44% of listeners said Internet Radio was displacing time formerly dedicated to AM/FM broadcast radio

This is shaping up as a classic case of the innovators' dilemma. The existing radio business is still large and often profitable. The revenue declines are minimal at first, but show a consistent downward trend. Because the new revenue streams seem small in comparison to the traditional business drivers, they receive little attention which offers new competitors a chance to establish their own foothold. Broadcast radio may not be going away, but the business is destined to change because the audience is establishing new media consumption habits. The choice is to augment existing terrestrial formats with new digital listening formats that have the potential for growth or be satisfied with maintaining a business that is likely to contract and remain flat at best.

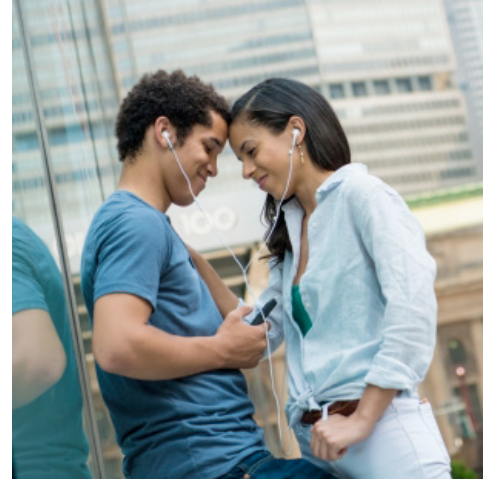


The Future of Internet Radio

It has become popular among some radio industry pundits and recording label executives to suggest Internet radio is a fad. First there was the argument that users were saddled to their computers and could not listen in all of the places radio is common. With the advent of mobile listening through smartphones, the discussion shifted to the car being a place where most radio content was consumed and Internet radio was absent. Now we know from SNL Kagan that Internet connected cars are expected to rise from 2.7 million in 2013 to over 50 million in 2017 and from Edison Research that 26% of cell phone users have listened to Internet radio while in their cars.

More recently, there's a narrative that says the economics of the industry aren't favorable, Pandora is the only service that is growing, and that Internet radio is unfair to recording artists. The facts continue to contradict all of these stories. In addition to Pandora, Spotify is growing rapidly in the United States and has contributed more than \$2 billion to artists while industry-wide streaming now accounts for 27% of revenue.

Internet radio audiences are growing and their time spent with the media is increasing rapidly. Internet radio and streaming services are not completely replacing broadcast radio, but it is displacing listening time and also creating incremental audio consumption. The large and growing audiences and favorable demographics all point to an industry that is here to stay and will provide value for advertisers for many years to come.



Learn more about 50 million
ultramobile audio consumers
on Internet Radio

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About XAPPmedia

XAPPmedia™ is the leader in interactive audio advertising and is the first company to Give Consumers a Voice™ allowing instant connections with brands through mobile audio apps. XAPP Ads™ present branded content followed by an opportunity for consumers to interact with ads by voice to receive more content, be connected directly with offers or get back to more listening. Unlike other mobile ad formats, XAPP Ads are effective even when consumers are ultramobile, which means they are listening but cannot interact with a mobile screen visually or by touch. The immediate voice conversion opportunity brings more value to advertisers and increases ad unit yield for audio app publishers. XAPPmedia was founded in 2012 and is headquartered in Washington, DC.