Testimony of

Mr. Bill Rose

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Arbitron has over 50 years of leadership and experience in audience measurement. We are most commonly known for measuring network and local market radio audiences across the United States; surveying the retail, media and product patterns of local market consumers; and providing software used for analyzing media audience and marketing information data. Arbitron serves radio broadcasters, cable companies, advertisers, advertising agencies and outdoor advertising companies in the United States, Mexico and Europe. We have approximately 800 full-time employees, with executive offices in New York City, research and technology facilities in Columbia, Maryland, and field sales offices in Atlanta, Chicago, Dallas and Los Angeles.

In 1998, Arbitron together with Edison Media Research of Somerville, New Jersey, conducted the first of our twice yearly studies on how consumers use the Internet and streaming. These studies are free to the general public (available at www.arbitron.com) and they have become widely cited in the industry and the press. In 1999, Arbitron formed our Webcast Services division dedicated to providing credible third-party measurement that advertisers and advertising agencies use in order to make informed media planning and buying decisions, and webcasters use to demonstrate the size and value of their audience.

I started with Arbitron in 1981 and have been vice president/general manager for Arbitron Webcast Services since 1999. Prior to my current position, I served in marketing, management and sales roles at Arbitron working with radio stations, advertisers and advertising agency customers. I have also worked in radio station sales management and co-founded a company that provided radio managers and programmers with in-depth audience analysis and strategic advice.

You have several qualified panelists here today with a wide variety of backgrounds, so I will concentrate my comments on Arbitron's areas of expertise: specifically, the audience to traditional over-the-air media, how consumers use the Internet and streaming, and our general knowledge of the advertising sales, planning and buying process.

The size and growth of the streaming media audience

January 2002 research shows that streaming is highly popular among American consumers. Streaming media usage is at an all-time high, with an estimated 80 million Americans having tried it. Also, regular usage of Internet audio and video increased substantially in the last year. The growth of residential broadband will most likely stimulate greater usage because people with broadband Internet connections use far more streaming media than those with dial-up connections. Twenty-seven million Americans now have broadband connections at home, and 14 percent of those with dial-up access plan to get broadband in the next 12 months.

Despite this remarkable growth, streaming media is still in its infancy compared to traditional broadcast media. As of January 2002, nine percent of the population aged 12 and older used streaming audio or video in the past week. In fall 2001, 95 percent of people 12 and older listened to radio during an average seven-day period.

Streaming media provides a variety of voices and choices not available through traditional media

Streaming media provides a valuable service by enabling consumers to have a variety of choices that are not available through traditional media. For example, it is highly unlikely that consumers would be able to hear klezmer or Celtic music on over-the-air radio, but these music styles are easily found online. Also, Classical music is not found on commercial radio in most markets today, but it is widely available on the Internet through streaming media. The ability for consumers to get "what they want, when they want it" is one of the medium's strongest value propositions. Traditional media limit the types of music they play over the air, while streaming media can expose consumers to a wider variety of music. Also, since the cost of entry is so low, streaming media is capable of promoting a wider variety of voices than traditional media. The most active streaming media users are those who listen or watch each week. Among this group, nearly two-thirds (63 percent) agree that they use the Internet to listen to audio content that they cannot otherwise find through traditional over-the-air radio.

Impact of proposed digital-rights fees

We analyzed the proposed digital-rights fees from the Copyright Arbitration Royalty Panel (CARP) in an effort to understand the impact of the proposed fees and put the fees in perspective.

Digital-rights fees for a top-ranked music station in New York:

As an example, if one of the top-rated radio stations in New York rebroadcast its programming online and had the same audience on the Internet as it does over the air, that station would pay approximately $15 million per year in digital-rights fees. Thus, the digital-rights fees would be more than 25 percent of what that station currently derives from selling traditional over-the-air advertising (approximately $56 million per year). If that online station had original programming on the Internet (versus a rebroadcast), its digital-rights fees would be approximately $30 million, or over half of the revenue a top-ranked music station in New York derives from its over-the-air advertising.

Digital-rights fees for a top national radio network:

If one of the top national radio networks had the same size audience online that they do over the air, their digital-rights fees would be $358 million, which amounts to approximately 39 percent of the entire network radio advertising industry revenue today (approximately $910 million).

Digital-rights fees for the entire radio industry:

If the number of Americans listening on the Internet to rebroadcasts of the programming of music stations equaled the size of the over-the-air audience, the radio industry would pay approximately $2.4 billion in digital-rights fees. This amounts to approximately 13 percent of radio's total advertising revenue for 2001.

While broadcasters pay licensing fees to composers of music, currently they do not pay fees to artists and labels. However, if the proposed fees were applied to an over-the-air radio audience, the royalty would create an impact that would significantly alter the financial viability of an already mature and healthy medium. Broadcasters would not be able to sustain a cost that amounts to 25 percent or 50 percent of their current over-the-air revenue. The webcasting industry is still in its infancy, with little revenue and profit being generated at this stage of the market's development. Therefore, the impact on the webcasting industry would be even more burdensome.

Consumer awareness and attitude toward proposed digital-rights fees

Arbitron and Edison Media Research conducted a poll from May 2, 2002, to May 6, 2002, to understand consumer awareness and attitudes regarding audio streaming and digital-rights issues. We spoke with 162 people who listen to Internet audio on a monthly basis.

? Half (49 percent) are aware of the current issues facing audio webcasters regarding licensing and performance royalty fees.

? One in six (16 percent) say that Web radio stations and Internet-only audio Web sites or channels they listened to online in the last year have stopped offering the ability to listen over the Internet.
? Nearly two-thirds (64 percent) would be upset if the Web radio stations or Internet-only audio Web sites or channels they normally listen to permanently stopped offering the ability to listen over the Internet.
? Two-thirds (67 percent) support action by Congress to address the proposed online music licensing fees in ways that would help Internet audio webcasters afford to continue streaming music.
? Nearly four in 10 (39 percent) feel strongly enough about the threat to Internet radio to indicate that they would be willing to write to their Congress representative in support of Internet audio webcasters regarding licensing and performance royalty fees.

Conclusion

While webcasting's audience is growing rapidly, it is still small compared to the traditional media. We believe that all parties should work together to enable webcasting media to grow a critical mass of audience big enough to support significant advertising revenue. A broad distribution of programming, greater competition and a diversity of voices on the Internet will help achieve this objective.