



The Web Offers Radio Station A New Life After the Airwaves

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By SHEILA MUTO , February 5, 2001

Tossed off the airwaves, a Los Angeles-area radio station has found a new home on the Internet.

In August, the station's owner, media giant [Clear Channel Communications Inc.](#), sold the rights to the station's broadcast frequency. The new owner immediately switched formats, from "adult alternative" rock to Spanish-language music. But just as quickly, the station resumed playing music ranging from the Beatles to the Wallflowers at [www.WorldClassRock.com](#) ([www.worldclassrock.com](#)).

Clear Channel, which had to be talked into the experiment, is now embracing WorldClassRock as a possible model for future Webcasting efforts. After all, the station, which made a small profit in its previous life, has quickly achieved something that has eluded most Web entertainment ventures: It's making a profit on the Internet, says John J. Martin, president of Clear Channel Radio Online.

So far, the key to WorldClassRock's profitability has been Clear Channel's partnerships. Microsoft Corp. and RealNetworks Inc. pay WorldClassRock a fee to link to sites where their Internet-streaming software can be downloaded. Akoo.com Inc. gives the station a commission on the wireless Internet audio devices it sells to WorldClassRock listeners. These and other agreements generate enough revenue to keep the station in the black, Mr. Martin says.

The scale is small. People from as far away as Brazil and Germany listen to the Webcast, but only about 130,000 tune in each month. That's way below the 246,000 people who listened to the station each week when it broadcast over the air, according to Ceridian Corp.'s Arbitron.

But for Clear Channel, profits are just part of the story. WorldClassRock is serving as a laboratory to help its parent determine how Internet radio can generate revenue, what technologies work best, and how to create synergies with the company's other properties. The San Antonio company owns some 1,120 traditional radio stations, about 300 of which also broadcast over the Internet. The company also owns Eller Media, a large outdoor-billboard company; SFX Entertainment, a live-concert producer and ticket seller; and Premiere Radio Networks, which offers syndicated radio fare, including "The Rush Limbaugh Show" and "The Dr. Laura Schlessinger Program."

Clear Channel's broader Internet radio strategy includes launching several more Web-only stations this year to complement the programming on its over-the-air stations. It is significant that it's forging ahead in this area despite a ruling last month by the U.S. Copyright Office that radio stations that put their programming online must pay music royalties to record labels in addition to the royalties they already pay to music publishers.

Marketing Concept:

A *Business Model* is the way a company makes money. This is often stated as the quantity sold multiplied by the price of the item.

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Even with a sagging economy, Kevin Mayer, chief executive of Clear Channel Internet Group, forecasts that the company's overall online ventures -- from SFX Entertainment's online concert-ticket sales to online radio -- will be profitable by next year. Toward that end, Clear Channel announced a deal last week with Hiwire Inc., a Los Angeles company that provides the technology for inserting ads into streamed Webcasts, to deliver targeted ads to listeners of WorldClassRock. The deal gives Clear Channel an early lead in tapping into the \$140 million that Jupiter Research expects advertisers to spend on streaming audio and video online by 2005.

Nationwide, there are 4,500 traditional radio stations that stream their programming online, and 500 companies that offer some kind of music online, according to BRS Media Inc., a consulting firm in San Francisco. WorldClassRock's quick success on the Web suggests that existing broadcasters have a huge advantage over most of the upstarts that launch Web-only radio stations. "Clear Channel already has the infrastructure to program and promote and drive traffic to its Web sites," says Credit Suisse First Boston analyst Paul Sweeney. "That allows them to operate at pretty low costs."

When WorldClassRock was an over-the-air station operating under the call letters KACD-FM and KBCD-FM, it had a relatively weak signal. As a result, its 60-second commercial spots commanded only about \$110, according to Duncan's American Radio, a broadcast research firm in Cincinnati. But, with a staff of only 10, its operating costs were low. Its 14 to 15 minutes of commercials an hour were sold by the ad-sales staff of another Clear Channel-owned station in the area, says Nicole Sandler, now WorldClassRock's station manager and afternoon disk jockey.

When the station was sold, Clear Channel executives were at first reluctant to approve the KACD air staff's request to shift the broadcast to the Web. "They wanted to know whether our audience would stick with us," says Ms. Sandler. Approval was granted only after more than 30,000 listeners signed an online petition saying they would listen to a station broadcast over the Internet. Still, Clear Channel hedged its bets by also putting WorldClassRock on an AM frequency, even though it can be heard only by a small group of listeners and doesn't rank on Arbitron's list because there are so few.

Now that the station is operating online, Clear Channel executives won't disclose details of WorldClassRock's revenue sources or its operating expenses, including the cost of streaming its seven-day-a-week Webcast, its seven-person staff, and the rent on its Santa Monica, Calif., studio.

But clearly one of the keys to its success is its synergy with other Clear Channel properties. For instance, the company recently completed a centralized data center in San Antonio, and all of its Web sites are now hosted there. The cost of streaming appears to be minimal, in part because of the relatively small size of WorldClassRock's audience. Web radio observers say that streaming audio over the Internet can cost as little as 3.4 cents an hour per listener these days. As a result, broadcasting WorldClassRock about 130,000 times a month for 37 minutes each, the average time of each listener, would cost only about \$3,000 a month.

In contrast, NetRadio Corp., which first began Webcasting in 1995, has been in the red since it went public in October 1999, even though it attracts 2.5 million unique users a month who collectively spend about five million hours tuned into its 120 radio channels. The Minneapolis company, which broadcasts only over the Net and offers a range of formats from talk to hip-hop, incurred about \$12.8 million in losses on slightly more than \$1.6 million in revenue during the first nine months of last year, according to its most recent federal filing.

But others may be close to following WorldClassRock into profitability. For example, Santa Monica-based KNAC.com, a heavy-metal Internet radio station, is about six months away, according to its founder and general manager, Rob Jones. Like WorldClassRock, KNAC had its over-the-air frequency sold to a Spanish-language broadcaster in 1994. It re-emerged on the Web three years later as KNAC.com. Mr. Jones says that more than one million unique listeners a month now tune into KNAC, which last year became part of closely held Enigma Digital in Santa Monica, operator of five other online radio channels. Along with banner ads and ad copy read by DJs, KNAC generates revenue by selling sponsorships for such events as online interviews with musicians and listener contests.

MusicMatch Inc. expects its two-month-old online radio venture to post a profit within a year. The San Diego company has been marketing its radio stations to the 13 million people who use its jukebox programs, software that allows users to store and play music on their computers. The company says its stations already generate about 4.5 million listening minutes a day, and send about 45,000 people daily to e-commerce sites, for which it receives referral fees. MusicMatch executives boast that they have sold a healthy number of radio sponsorships. "Instead of blanketing our airwaves with loud ads, it's more effective having a few advertisers to quietly sponsor the next couple of hours of commercial-free radio," says Bob Ohlweiler, senior vice president of business development.

Until last week, advertising revenue at WorldClassRock came from a few banner ads and e-commerce deals. Now, using Hiwire's technology, WorldClassRock plans to stream about 10 minutes of commercials each hour within the Webcast, says Ms. Sandler. Hiwire Chief Executive Warren Schlichting says that based on his company's experience so far, advertisers are willing to pay \$30 to \$60 per 1,000 listeners for a targeted audio commercial.

Others say it's folly to rely too heavily on streamed advertising. "The best business model is the one that offers the most nonintrusive listening experience," says Mike Wise, NetRadio's chief financial officer, noting that NetRadio runs a maximum of two minutes of commercials an hour on its Webcasts. "We will never let advertising time increase to anywhere near that of traditional radio because online listeners won't appreciate it and won't come back," he says.