Digital, Satellite to Boost Radio and Out-of-Home Advertising

By Kevin Zimmerman

Continued growth in digital and satellite radio will be the principal drivers behind the radio and out-of-home advertising market's growth to $86.8 billion in 2010 at a 6.2 percent compound annual growth rate (CAGR), according to PricewaterhouseCoopers' "Global Entertainment and Media Outlook: 2006-2010."

The report defines the market as consisting of advertiser spending on radio stations and radio networks, as well as such out-of-home media as billboards, street furniture, transit displays, and sports arena displays. In the United States, the radio market also includes satellite radio subscription revenues and advertising, while in the EMEA (Europe, Middle East, Africa) and Asia Pacific regions it includes public radio license fees. Advertising spending (net of agency commissions) is tracked in EMEA, Asia Pacific, Latin America, and Canada; advertising in the U.S. is customarily reported as gross spending, and is counted as such in the report's U.S. coverage.

Canada and Latin America, the two smallest markets, will be the fastest-growing during the forecast period, with the former reaching $2 billion in 2010 at a CAGR of 8.3 percent and the latter tallying $2.3 billion in 2010 at a CAGR of 8.1 percent. The U.S. will maintain its position as the world's most valuable market, growing to $39.3 billion in 2010 at a CAGR of 7.6 percent. EMEA will grow to $29.2 billion in 2010 at a CAGR of 4.8 percent, while Asia Pacific will rise to $14.1 billion in 2010 at a CAGR of 5 percent.

The radio market, whose boost by digital technologies will be somewhat inhibited by growing audience fragmentation that will dampen ad rates, will grow from $44.6 billion in 2005 to $58.8 billion in 2010 at a CAGR of 5.7 percent. Slow-growing public radio license fees will hold down increases in EMEA and Asia Pacific to 3.3 percent and 4.2 percent, respectively, while compound annual increases of 8.8 percent, 8.1 percent, and 7.4 percent are expected for Canada, Latin America, and the U.S., respectively.

Out-of-home will be the faster-growing segment, rising from $19.7 billion in 2005 to $28 billion in 2010 at a CAGR of 7.3 percent. EMEA has the largest out-of-home market; its 2005 total of $7.8 billion is expected to grow to $11.2 billion in 2010 at a 7.4 percent CAGR. Increases averaging 8.3 percent compounded annually are projected for the U.S. and Latin America; Canada will grow at a 6.6 percent compound annual rate; and Asia Pacific will grow by 5.8 percent annually.

In the U.S., satellite radio is expected to make the biggest impact, as it grows to $5.4 billion in 2010 at a CAGR of 39.5 percent, compared with terrestrial radio's rise to $24.5 billion in 2010 at a CAGR of 4.2 percent. With the continued fragmentation of radio's audience, and with cable operators more aggressively selling time to local advertisers, radio's share of radio/local cable/out-of-home advertising fell from a five-year peak of 66.6 percent in 2002 to 62.8 percent in 2005. Radio is expected to continue to decline throughout the forecast period, though at a slightly lower rate than the 3.8 percent decrease that occurred during the past three years.

In EMEA, public radio license fees – which accounted for 38 percent of spending in 2005 – will be the slowest-growing sector during the forecast period, totaling $9.3 billion in 2010 at a CAGR of 1.3 percent, and accounting for 32 percent of 2010's total market. Digital radio and new multiplexes will expand the market for radio advertising but increase audience fragmentation: overall radio advertising will rise to $8.7 billion in 2010 at a CAGR of 5.7 percent. Continued growth in wireless technologies and digital displays will stimulate out-of-home advertising, which will increase to $11.2 billion at a CAGR of 7.4 percent.

Western Europe, which accounts for 87 percent of the region's combined spending, will total $23.8 billion in 2010 at a CAGR of 3.3 percent. Faster growth is expected in Central and Eastern Europe (14.2 percent CAGR) and Middle East/Africa (5.5 percent CAGR).

Due mainly to its large public radio license fees, Germany remains the region's largest market, totaling $4.9 billion in 2005, followed by the United Kingdom at $4 billion and France at $3.1 billion.

Out-of-home advertising – enhanced by digital billboard technology and new street furniture (bus shelters, kiosks, etc.) -- will lead the way in the Asia Pacific market, totaling $6.8 billion in 2010 at a CAGR of 5.8 percent. Radio advertising -- helped by new stations in India, a surging market in the People's Republic of China (PRC), and sustained growth in other countries -- will total $4.5 billion in 2010 at a CAGR of 5.7 percent. Satellite radio subscriptions will begin to gain traction, increasing from $1 million in 2005 to $43 million in 2010, at a CAGR of 112.2 percent, albeit from a very small base.

Japan is the region's dominant country, at $5.9 billion, or 53 percent of 2005's total, followed by the PRC at $1.3 billion, South Korea at $1 billion, and Australia at $966 million. However, despite a strengthening economy, Japan will be the slowest-growing market in the region, at a CAGR of 1.8 percent.

India and the PRC are expected to be the fastest-growing countries during the next five years, with compound annual increases of 15.2 percent and 13 percent, respectively. India will benefit from a dramatic increase in radio stations stemming from deregulation, while the gains resulting from the PRC's surging economy will be affected by a temporary slowdown in 2009, following the 2008 Beijing Olympics. Meanwhile, South Korea – whose weak economy resulted in its being the only country to post a loss in 2004, down 0.6 percent -- is expected to continue its rebound and end up expanding to $1.2 billion in 2010 at a CAGR of 3.6 percent.

In Latin America, new stations and stable economic conditions will benefit radio advertising; radio, which constitutes 84 percent of the region's total, is expected to grow to $1.9 billion in 2010 at a CAGR of 8.1 percent. Rising employment will boost commuting and thus lead to increased exposure to out-of-home media, with that segment rising to $356 million in 2010 at a CAGR of 8.3 percent. Except for Chile, with a market that has shown little growth during the past five years, each country recorded a double-digit gain in 2005, with overall spending up 15 percent; Mexico remained the region's largest market in 2005 at $917 million, or 60 percent of the total, followed by Brazil at $287 million.

In Canada, digital broadcasting's growth and satellite radio's becoming an integral part of the market will help push radio advertising to $1.6 billion in 2010 at a CAGR of 8.8 percent. Digital technologies, new venues, and audience fragmentation will help drive out-of-home advertising to $363 million in 2010 at a CAGR of 6.6 percent.