Internet Radio Ad Load Report – Holiday 2014

Ad-serving Trends

February 2015

Advertising Drives Streaming

According to [RAIN News](#), Strategy Analytics estimates that only about 11% of Internet radio listeners pay monthly subscriptions. And, they don't expect that ratio to increase. The research indicates that 89% of listeners have opted to spend time with ads instead of paying for a subscription today and the behavior is expected to continue through 2021.
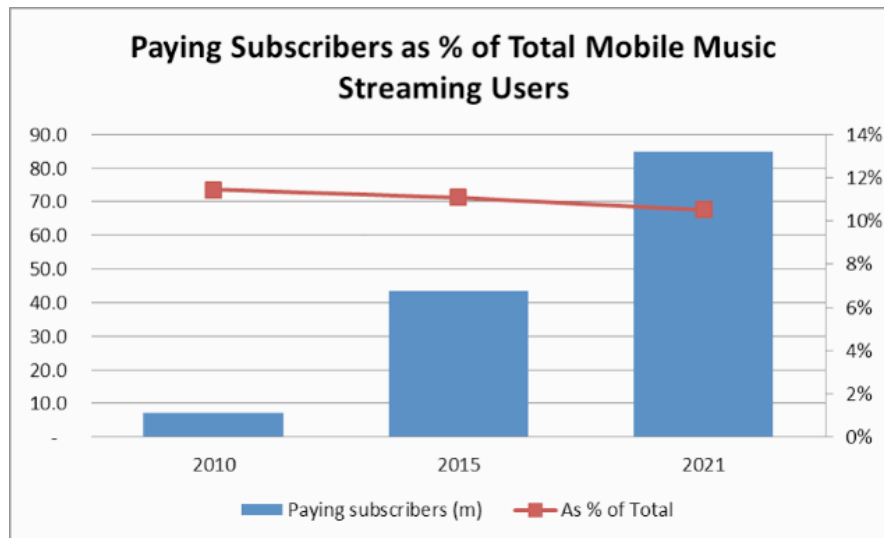

Figure 1 Source - Strategy Analytics

Advertising: The Economic Engine of Internet Radio

This means that the future of Internet radio economics will be dominated by advertising revenue. This shouldn't surprise anyone. The closest corollary to Internet radio is broadcast radio, which is overwhelmingly driven by advertising. Satellite radio is the subscription equivalent for broadcast radio and it is tracking at 8% of listening, according to [Pew Research Center](#) data. That is not far from the 11% estimate for subscription-based Internet radio. If we look for other examples ranging from written content to videos and social media, the business models that survived are all based on advertising.

Why is this the case? Media commentator Greg Satell of [Digital Tonto](#) offers this explanation that he characterizes as Media's Golden Rule:

> *Marketers are willing to pay more for consumers than consumers are willing to pay for content.*

This rule appears to apply to 89% of Internet radio listeners. Consumers have a wide variety of payment options with most ranging from $4.99 - $9.99 per month. These services all offer ad-free listening and typically include other features such as on-demand track selection. Despite these benefits, most consumers choose to listen to ads as their cost of using Internet radio services.

If advertising is both the present and future of Internet radio, then there are two critical metrics to track:

1. Ad Inventory
2. Ad Rates

Ad Load During and After the 2014 Holiday Season

In the Internet Radio Ad Load Report we tackle the inventory side of the equation. Of course, Interactive Audio Ads from XAPP are helping increase ad rates for the industry and you can learn more by reviewing this article, *Amazon, Ford and More Use Interactive Audio Ads in 2014*. Our focus in this report considers how four leading Internet radio services were managing and filling ad inventory during and immediately after the 2014 holiday shopping season. The data collection started in November before Black Friday, continued again in December in the period before Christmas and then concluded in January to provide a post-holiday point of comparison.

The intent of this report was not to reveal the ad serving strategies of any particular service, speculate on revenue trends, or assess the composition of their advertising base. Instead, the focus is on using discrete data from services to depict broader industry trends and norms.

Summary Findings

The analysis considered more than 10 metrics related to Internet radio Ad Load. Some of these metrics and findings include:

Metric	Result
Average Ad Load Per Hour (minutes)	2.69
Average Number of Ad Units Per Hour	6.45
Percent of Ads that Were 30-Seconds	77%
Number of Identified Advertisers Per Month	29-57

There has been limited public information on the reality of ad serving in Internet radio. In 2014, Pandora's CFO mentioned in an investor conference call that the target ad load was no more than three minutes. Based on data from November through January, it appears that many Internet radio services have adopted this standard, as 2.69 minutes is the average ad load across services. This is less than one-third of the hourly ad time that broadcast radio serves to its listeners today.

There is also a strong bias toward the traditional 30-second ad format, although the services differ on whether and how often they serve ad blocks as opposed to single ads. Also, the seasonal trend is evident in the results showing a rise between November and December followed by a January fall. This finding would appear to follow convention, but it is the first attempt we are aware of to quantify the change across a number of different Internet radio providers.

We hope you find the data useful in learning more about industry Ad Loads and we expect to provide you further insight in the future. If you have any questions, feel free to contact us anytime at info@xappmedia.com.

Ad Load for 3 Month Period

Ad Load for the period of November 2014 through January 2015 averaged 2.69 minutes per listening hour. There are likely many ad-serving strategies being employed, but the convergence to ad loads nearing 3.0 minutes was clearly evident with one exception. You can see from the chart below that three services were very close to three minutes per hour and the other was much closer to two minutes. The service averaging about two minutes per hour had a material impact in pulling the overall average down.
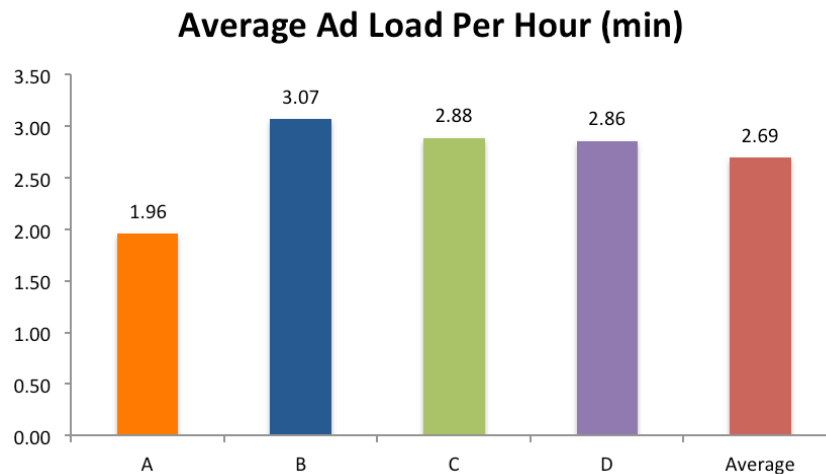
Average Ad Load Per Hour (min)

The monthly ad load breakdown reaffirms this trend. November yielded a 2.77 minutes per hour ad load, which climbed to 2.84 in December and then fell to 2.47 in January. This follows a typical pattern as retailers and consumer products companies are often more aggressive in ad placement at the apex of the holiday shopping season and follow that with a normal pullback in January spending. A question for industry watchers should be whether the January pull back reflected a softening of ad spend or if the services were constraining inventory to get back to lower ad loads.
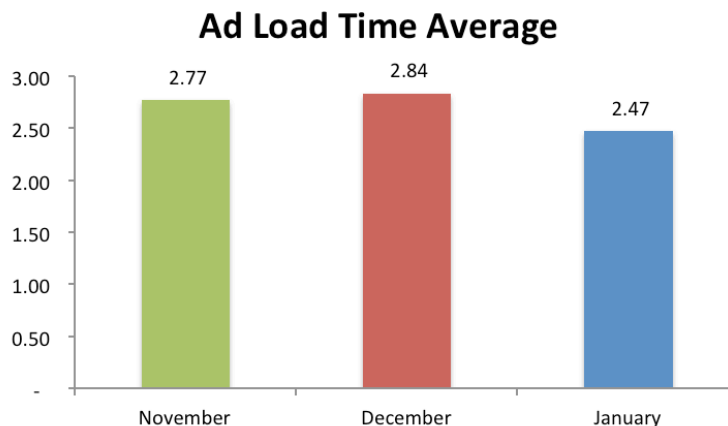
Ad Load Time Average

As we mentioned in the summary, the average Internet radio ad load is considerably less than one-third the average ad load common in broadcast radio. A 2011 study by Coleman Insights, Media Monitors and Arbitron (now part of Nielsen) found that broadcast radio served an average of 9.1 minutes of ads per hour. More recent comments suggest that that may have climbed to 13 minutes. A broadcast station in Seattle, KNDD, has committed to reducing its ad load from 12 minutes to no more than 6 minutes per hour in three, two-minute blocks. Although that is still more than twice the ad load of Internet radio, industry insiders considered the move radical.

Based on the data, Internet radio ad loads are typically between 21% and 30% of broadcast radio. Internet radio's commitment to keeping ad loads low means that improved economics will need to come from increased ad rates. We may also see broadcast radio under pressure to reduce ad load in effort to improve listener experience similar to KNDD in Seattle.

What Do Consumers Think of Internet Radio Ads?

There is a widespread assumption that consumers find ads on Internet radio to be out of place. The thinking goes that people are comfortable with ads on broadcast radio, but assume that media on mobile devices should be ad free. The data suggests otherwise. Properties ranging from the Wall Street Journal to Facebook carry ads in their mobile apps. Consumers are clearly accustomed to the trade-off of advertising versus subscription fees. An Edison Research study in 2014 confirmed this consumer sentiment when it found 75% of Internet radio consumers considered "listening to commercials is a fair price to pay for free programming."

Listening to Commericals is a Fair Price to Pay for Free Programming...
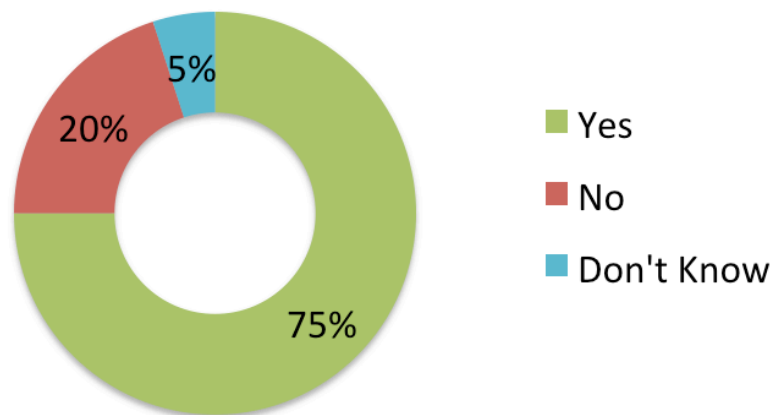

Figure 4 Source - Edison Research Infinite Dial 2014

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Ad Units Per Hour

Another variable that we tracked during this study is the number of ad units per hour. Since ads can be of variable length, two services with identical ad loads can vary significantly in the number of ads served.
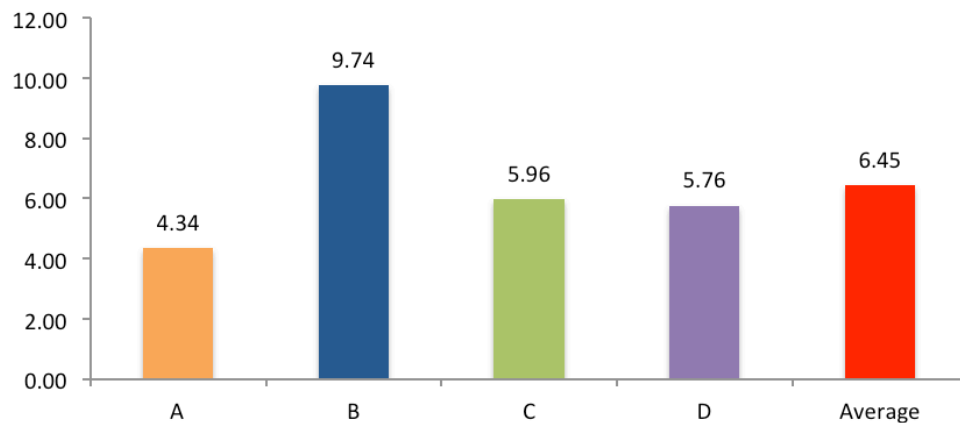
Average Ad Units Per Hour

For example, Internet radio service B averages 39% more ads per hour than service C, but the ad load differs by only 6%. These reflect different ad serving strategies with service B using many more 15-second and shorter ads whereas service C serves 30-second ads almost exclusively.

30-Second Ads Were Most Common

There was a clear bias toward 30-second ads for three of the four services. Overall, 77% of ads served during the period were 30-second ads. However, that includes one provider that served only 34% 30-second ads and two others that came in at 94% and 98%. If you remove Service B from the mix, the average reflects an even stronger bias toward 30-second ads.

Percent 30-Second Ads Overall
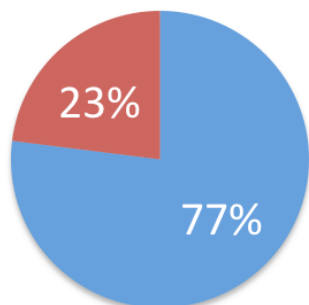
Percent 30-Second Ads by Service
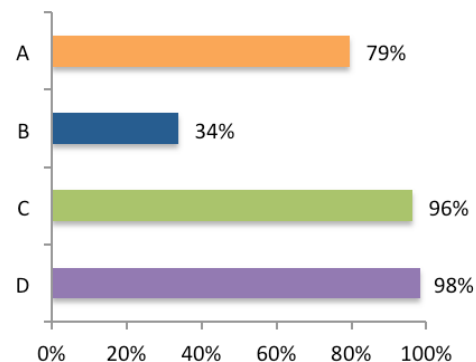
The reason for this 30-second ad bias is unclear. Since Internet radio streams content segments in sequence instead of following clock-driven programming, ad length variability is easily accommodated. The bias most likely reflects a convenient adherence to the traditional conventions for selling, purchasing, and creating broadcast radio ads. It may also be that advertisers in some cases are repurposing ads originally created for broadcast radio and placing the spots on Internet radio.

Ad Sequencing

Broadcast radio follows a standard clock typically fitting its programming and advertisements neatly within one-hour or thirty-minute blocks. Consumers that start listening at twenty minutes past the hour enter one-third of the way through a programmed one-hour block or two-thirds through a thirty-minute block. Programming will vary from hour-to-hour, but every listener receives the same content or advertisement at the same time.

By contrast, Internet radio sessions start whenever a consumer begins listening. This leads to variable programming for each session in terms of audio content and advertisements. The session start is always time = 0. When calculating Ad Load (i.e. ad time per hour) we record total ad time during the period between 0-60 minutes. However, there are other variables that become interesting when considering ad-serving strategies that may impact consumer experience.

Time to First Ad (TTFA)

The average time to first ad (TTFA) was 11 minutes from the start of the listening session. Surprisingly, the variance among services was only two minutes plus or minus the average.
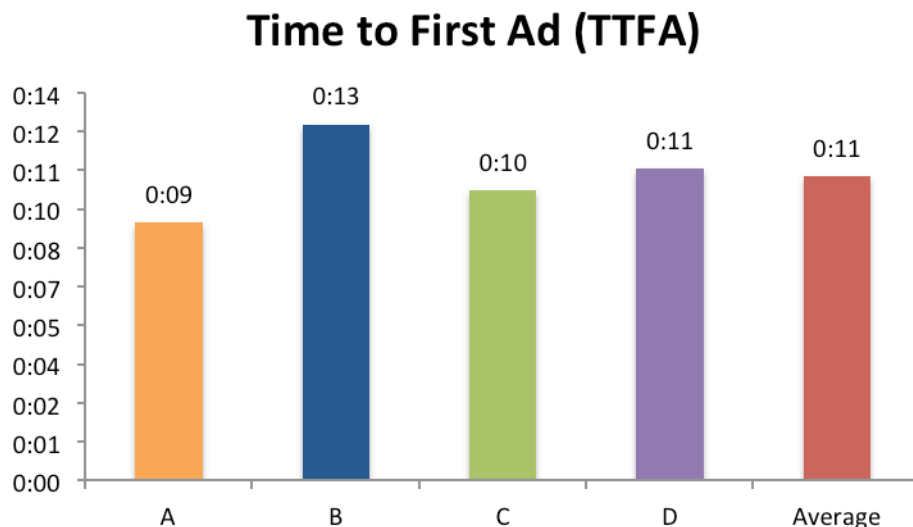

Figure 8 Source - XAPPmedia Analysis

Each of the services has determined that getting 2-4 songs in before an advertisement is optimal for balancing between listener experience and economic necessity. This standard is likely driven by the average listening session length. Clearly the average session length is more than 11 minutes, allowing the services to secure at least one ad in the listening sessions. In fact, the average listening session length for the top ten Internet radio providers on Triton's November Digital Ranker came in just over 45 minutes, providing ample time for the services to run several ads during a typical listener session.

The longest into a session for TTFA was 37 minutes and the shortest time was zero minutes. The ads served at zero-minutes were all pre-roll video ads and were few. During the testing, we deferred all options for video ads that offered ad-free listening in exchange for a viewing a video. Several sessions had a TTFA of 25 minutes and there were three instances of over 30 minutes, but the vast majority of TTFA fell into the 8-13 minute range.

To Block or Not to Block

Two of the services included a multi-ad block with its first ad more than 80% of the time, while another did so 18% of the time. One service never recorded a block with its first ad served of a listener session.

In all of the testing, we only recorded three ad blocks over one minute in length. Two of these were 90 seconds that included three 30-second spots. The other was 75 seconds comprised of two 30-second spots and one 15-second spot. Sixty-second ad blocks comprised of two 30-second or one 30-second and two 15-second spots were common, although single spots were also common among three of the services.

Advertiser Participation

Another consideration in our data gathering was the number of advertisers represented each month. Similar to the monthly pattern for ad loads, the number of advertisers identified rose between November and December and then fell in January. The difference is a much steeper climb in advertisers after Black Friday in the heart of the holiday shopping season. This sharp rise in advertisers likely contributed to the increase in ad loads.
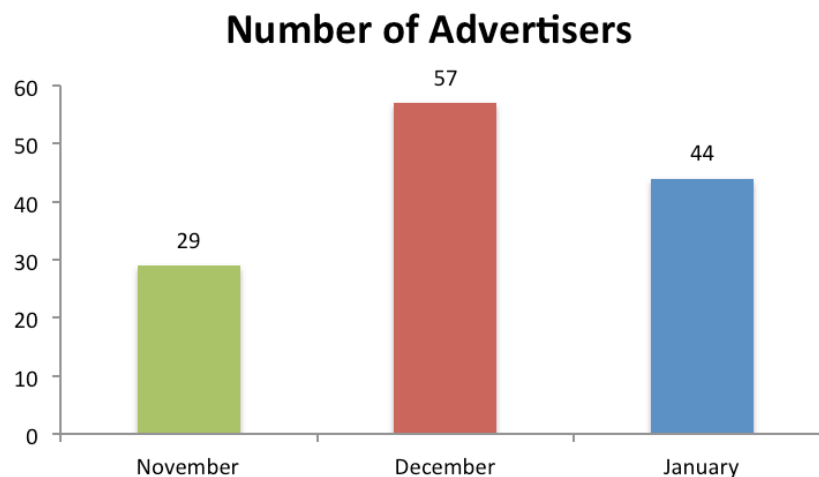

Number of Advertisers

Figure 9 Source - XAPPmedia Analysis

In all, 101 different advertisers were identified. However, there was a sharp difference in the breadth of advertisers among services. On one service there were over 50 distinct advertisers identified while the other three averaged only 22 unique advertisers during the period.

The vast majority of advertisers, 87%, appeared on only one of the services while 10% were identified on two services and 4% on three. No advertiser was found on all four services. Seven of top 10 broadcast radio advertisers from both Q1 and Q2 2014 are represented on the list below and five of the top 10 advertisers from Q3 2014, as reported by RAB. There is little doubt that Internet radio and broadcast radio are competing for ad dollars and relevance with top audio advertisers.

National Advertisers	National Advertisers Cont'd	Local Advertisers
AAA Travel Planning	MeUndies	ABC News (Local affiliate)
ABC Agent Carter	MedExpress	Arlington Honda
AHCA	Mercedes-Benz	Brunswick Bowling
Airheads	MetroPCS	Canaan Valley
American Family Insurance	Mosaic	Christmas in Williamsburg
American University	MyEyeDr	Fiat of Tyson's
Angry Orchard	Napa	Gold's Gym
Applebee's	Nordstrom Rack	Helzburg Diamonds
AutoZone	Not Your Average Joe's	Liberty, Whitetail Ski Resorts
Banana Republic	O'Reilly Auto Parts	Mervis Diamond Importers
Bing	PayPal	Navy Federal Credit Union
Blackpoint Technologies	Peet's Coffee	Ted Britt Chevrolet
Blue Moon	PNC Bank	Ted Britt Ford
Buffalo Wild Wings	Progressive Insurance	Washington Capitals
Capital One	Radio Shack	
CareFirst	Rainbow Light Vitamins	
CarMax	RetailMeNot	
Coca-Cola	Rite Aid	
Constant Contact	Sam Adams	
Cooking Fever App	Secure Family Insurance	
CMT	Simple Mobile	
Defense Mobile	Smule Magic Piano	
Dentyne Ice	Sony Music	
Devils Backbone Brewing Co.	Sprint	
Dick's Sporting Goods	Squarespace	
Discover Card	Stamps.com	
Drake's	Strayer University	
Famous Footwear	SunTrust	
Game of War	T-Mobile	
GEICO	Taco Bell	
Grand Marnier	Target	
Graze	Toyota	
Guitar Center	Toys"R"Us	
H&R Block	Tropical Smoothie Café	
Hallmark	Universal Music	
Home Depot	Utz	
iTriage	Verizon	
JC Penney	Walgreens	
join.me	Walmart	
Land Rover USA	Warner Music	
Lifebeat.org	Wendy's	
Lowe's	Wix	
Macy's	Xfinity	
McDonald's	Zenga	

An Industry Resource
Advertising on Internet radio is here to stay. Like its predecessor in terrestrial broadcast, Internet radio has aggregated listening audiences that advertisers want to reach. The listening audiences have voted with their ears indicating their preference by an eight to one ratio for ad-supported services over subscription.

As advertising becomes the economic engine behind Internet radio, we hope this report serves as a useful resource in better understanding the industry's rapid growth. To learn more about the industry, you may also want to consult the recently published Internet Radio Trends Report 2015.

WASHINGTON DC 20006

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.