

A Virtual Ad Agency for Online Radio

Elizabeth Olson

AS more people listen to the radio over the Internet, radio stations have been looking to generate new advertising revenue from the medium. A start-up company, TargetSpot, is trying to turn this nascent field into a viable business, and CBS Radio is its first customer.

TargetSpot is planning a service that will let advertisers of any size — from a local restaurant to a national chain — create commercials for their desired audience and buy ads that will be slipped into online radio programming. The service, which CBS Radio in part financed, will debut June 28.

Most radio stations, including the ones owned by CBS, stream their content onto the Internet, but some ads must be stripped out first for legal reasons (for instance, if there is no arrangement to pay for the rights of on-air talent, writers and producers). With fewer commercials on Internet radio than on traditional broadcast stations, TargetSpot sees an opportunity.

“Consumers would rather have ads than pay subscription fees,” said Douglas Perlson, TargetSpot’s chief executive officer. The satellite radio stations XM and Sirius have no commercials, but do charge subscription fees; XM also offers its content free through America Online.

TargetSpot, which bills itself as a kind of virtual advertising agency, will allow clients to create their own commercials from a menu of options, as well as to define and locate their audience, using demographic data or geographic information like ZIP codes. A pizzeria, for instance, could use the site’s research to focus on men ages 18 to 21 because they spend more money than other groups, then decide to place its ad at 6 p.m., because experience says that’s when the desired audience is hungriest.

For its part, CBS Radio is trying to attract businesses that have either not advertised in the past or have done so only in local newspapers or inserts, because traditional radio was too costly. David Goodman, president of marketing for CBS Radio, said that he saw ways for advertisers of all sizes to use TargetSpot.

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“A restaurant near Times Square could realize at 11 a.m. on a Tuesday that it had seven open tables for lunch,” he said, “and then the owner or manager could go online and target people in the 10036 ZIP code who make more than \$75,000 a year.”

Audio messages can also be edited, so the hypothetical Times Square restaurant manager could adapt his lunchtime commercial to attract more traffic at the dinner hour.

An advertiser that wanted global reach would also be able to use the technology, Mr. Goodman said. He gave an example of a chocolate maker in Paris who wanted to sell his confections to an overseas audience.

“He would be able to advertise to men in certain locales he identified, and select placement next to love songs rather than heavy-metal music,” said Mr. Goodman, “because those listening to love songs are much likelier to buy his product.”

CBS Radio has most of its 140 stations streaming on the Internet, plus nearly a dozen Web-only stations that serve the growing number of Internet listeners, who also are expected increasingly to use mobile phones to hear news, talk shows and music.

TargetSpot’s Web site will offer advertisers the ability to record ads by microphone, telephone, prerecorded audio files, computer-generated speech or voice professionals. Sound effects and jingles will be available on the site, as well as images or logos.

"This is a low-cost way to attract local restaurants and other businesses with small advertising budgets," said Gerry Kaufhold, media analyst for In-Stat, a market research firm.

Under the traditional system, "the radio salesperson must visit the clients, then someone has to create the ad, then it is put on the play list," he said. "The new service automates the process, and opens up the possibility for many smaller advertisers instead of fewer large ones."

TargetSpot may face stiff competition. A parallel effort to automate ads, but so far only on traditional radio, is under way by Google Audio, which recently announced a deal with Clear Channel to sell radio ads.

Another player in the rapidly evolving terrestrial radio advertising market is SWMX Softwave Media Exchange, which started in June 2006, and competes with Google Audio as an electronic platform to purchase, sell and manage traditional radio advertising time.

Both companies are gaining traction in the industry, which has revenue of about \$20 billion annually, said Jeffrey M. Haley, president and chief operating officer of the Radio Advertising Bureau, the industry's sales and marketing association.

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"Revenues have been flat for the past five years," he said, "but the radio industry is committed to growing revenues and finding new ways to make it more efficient and easier to buy advertising."

At the end of 2006, 72 million people — or 24 percent of the population — had listened to Internet radio within 30 days, according to Bridge Ratings, a market research firm. And, in a report released last week, Bridge said it expects that number to increase to almost one-third of the population by the end of this year.

Of the 250 million people who listen to terrestrial radio every year, the percentage of Internet listeners is increasing, hitting 12 percent last year from 5 percent in 2000, according to Arbitron, another market research company.

Appealing to the new, usually younger, audience is important for CBS Radio. Its operating income declined 12 percent, to \$787 million, last year and it sold 39 stations, among other cost-cutting steps. The departure of Howard Stern to satellite radio also hurt its revenues.

But it isn't just young people who are tuning in online. "A lot of Internet radio listening takes place on computers in the office," said David J. Bank, a media analyst for RBC Capital Markets. That makes the advertising market ripe for products like office supplies, he said.

TargetSpot's business plan calls for advertisers to bid against one another for time slots, with the highest bidder winning the coveted time. Right now, the market is CBS Radio's streaming programming, but Mr. Perlson of TargetSpot said he hoped to sign up more broadcasters.

TargetSpot, which also received backing from Union Square Ventures and Milestone Venture Partners, would let advertisers track their commercials' effectiveness through things like unique phone numbers or clickable ads tethered to the audio ad, Mr. Perlson said.

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