- Consumer Demographics & Segmentation

Assessment: September 2006

FINAL

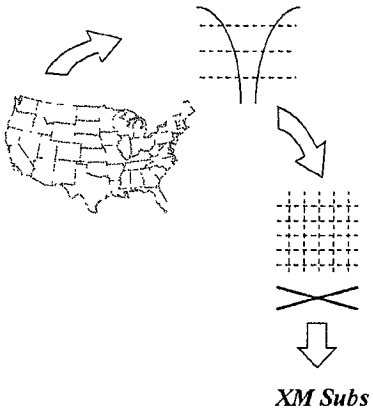
SX Trial Ex. 6 0

Consumer Demographics & Segmentation – Summary/Recap

- Though XM has been very effective at creating awareness, this awareness has not translated into the kind of favorability that ultimately becomes purchase consideration.
- Consequently, our pool of XM prospects is not growing as fast as it should.
- While we continue to penetrate traditional early adopter segments, when moving into the Early Majority, we have made the most progress within the Red State Suburbanite segment – while we lagged within the Blue State Suburbanite segment. This indicates a potential skew in our brand image, which should either be exploited & magnified to fish more deeply within that Red State segment-- or diffused to attract other segments.
- Diversity of music and music offerings is the most highly rated advantage among all potential target segments
- Our research to date shows the greatest barrier to adoption is the value proposition, or "why pay for satellite radio?"
- Therefore, XM must consider ways to emphasize the value of the music to key target segments. Given that sports programming has lesser, more narrow appeal, XM should consider an "own the music" strategy and be considered the leader in the music space (vs. placing emphasis on sports content deals)

Consumer Demographics – Approach

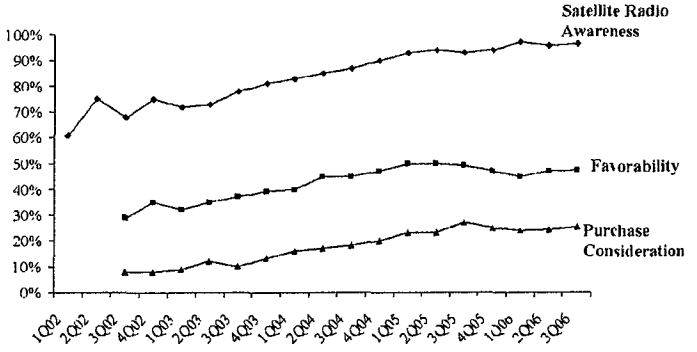
To understand what consumers want and how they turn to XM we need to look at how we segment the US market and how consumers perceive XM and satellite radio



1. **Brand tracking metrics**
   - Awareness
   - Favorability
   - Purchase consideration/intent
2. **Market segmentation filter**
   - Psychographic, behavioral, demographic attributes
   - Size & penetration
3. **Purchase/adoption barriers**
   - Value perception

Satellite Radio Category Metrics: *Awareness, Favorability, and Consideration*

Awareness of satellite radio is now almost universal (97%). Favorability and purchase consideration appear to be leveling off at 47% and 25% of respondents respectively



Research Questions

Awareness	Before today, had you ever heard the term "satellite radio"?
Favorability	How would you rate your overall perception of satellite radio? (top 2 box)
Purchase Consideration	How likely would you be to consider getting satellite radio? (top 2 box)

Source: Brandware 3Q06 Brand Tracking Study (A18-60, HHI $40k and above, 2006 sample size: 2,502 respondents)

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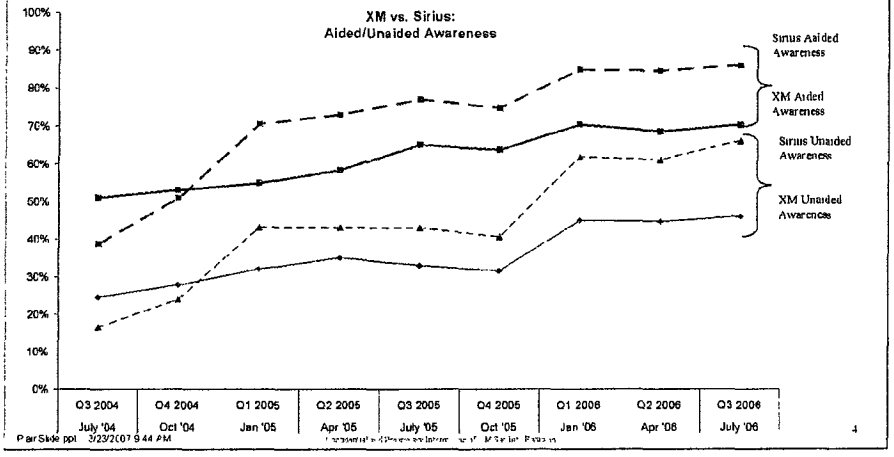
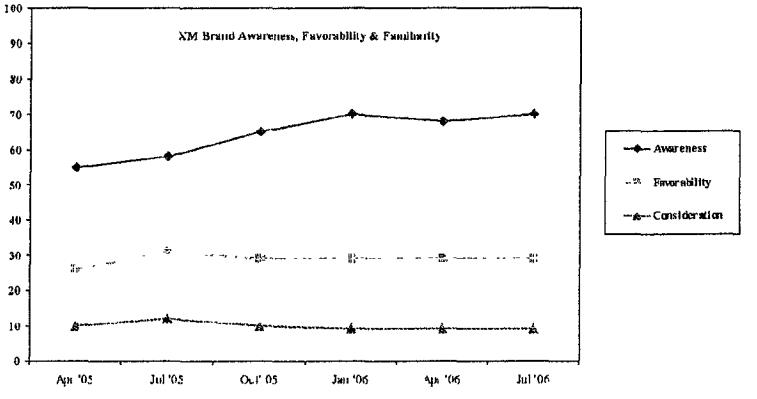
Brand Tracking Metrics- Past 24 months

- *Over the past 2 years, XM's awareness has fallen behind Sirius'.*
- *XM's aided awareness is now only slightly higher than Sirius's unaided awareness*



XM Trend in Awareness & Consideration – Past 18 months

- *In line with metrics for the category, XM's brand has gained awareness but has not made inroads into favorability or consideration, which would convert into subscriptions.*



Source XM Brand Tracking Study, XM Internal Metrics
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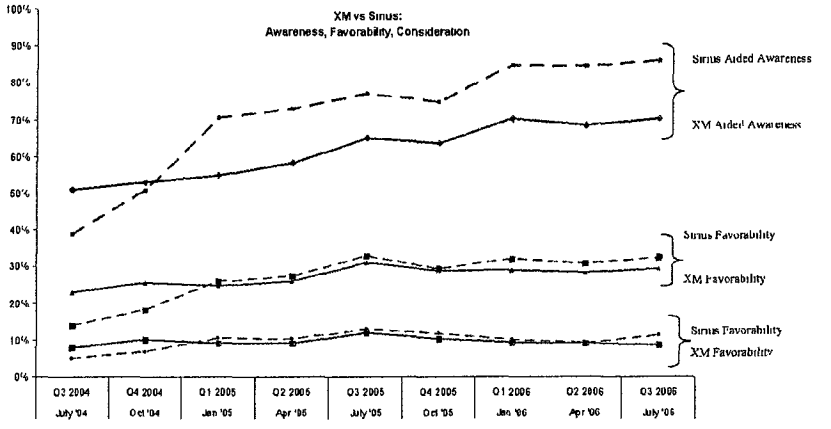
XM Trend in Awareness & Consideration: Past 18 months- XM vs. Sirius

- *"Good news/Bad news"- - Sirius has also increased awareness, but not increased favorability or consideration to match awareness growth.*



Brand Tracking Summary- Q3' 2006

- For both XM and Sirius, Favorability and Purchase Consideration has remained relatively stable during recent quarters, indicating that though awareness has increased, this awareness has not generated the kind of interest that would otherwise result in subscribing for either brand
- But when comparing the two brands, Sirius continues to lead on the key metrics that would drive subscriptions:

Brand Metric Comparisons: Current Leadership	
Sirius Leads	**XM Leads**
•Unaided Awareness	•Familiarity *
•Aided Awareness	•Forced Choice Preference *
•Favorability	•Perceived Industry Leadership *
•Purchase Consideration	•Advertising Likeability *
•Logo Recall	
•Ad Recall	
	** Slight advantage*

- Many respondents aware of XM and Sirius still have significant misconceptions about the brands' program options, sign-up process, and receiver features. However, misunderstandings about Sirius appear to be more prevalent than misconceptions about XM. There were no significant changes in the perception of product attributes in recent quarters.

Barriers To Adoption – Changing Attitudes

Quarter over quarter, the most mentioned barriers to adoption continue to be price-related and "lack of need".

Historically, Sirius is cited as a bigger stated barrier to XM adoption than is MP3/IPOD. (Bear in mind that some people who prefer IPOD may also have classified their response under other reasons such as "refuse to pay" or "don't want satellite radio".)

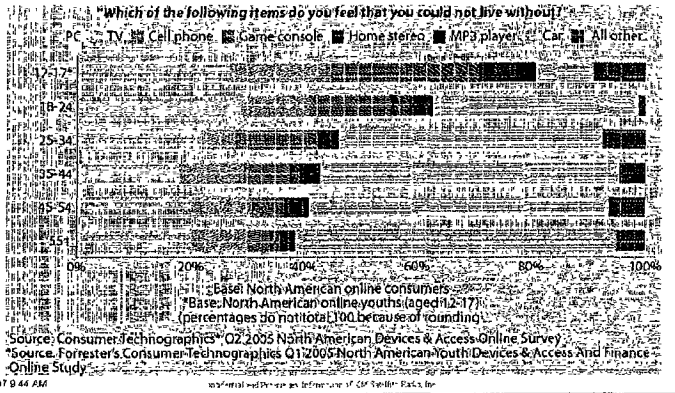
What single consideration has been most influential in keeping you from getting XM?

	Q1 '05	Q2 '05	Q3 '05	Q4 '05	Q1 '06	Q2 '06	Q3 '06
PRICE							
Monthly service fee	16%	15%	17%	17%	16%	16%	16%
Refuse to pay for radio	7%	9%	10%	10%	12%	11%	11%
Cost of equipment to get XM	6%	6%	8%	7%	5%	6%	6%
LACK OF NEED							
Don't listen to radio enough to justify	4%	5%	5%	5%	4%	4%	6%
Don't know enough about satellite radio/XM	5%	5%	5%	5%	5%	5%	5%
Don't want or need satellite radio/XM	2%	3%	2%	4%	3%	4%	4%
Not in car enough to justify	4%	4%	4%	4%	4%	4%	4%
Satisfied with AM/FM radio	2%	2%	2%	2%	3%	2%	2%
COMPETITION							
Prefer Sirius					4%	4%	4%
Prefer IPod/MP3 player					0.8%	0.5%	0.4%
CONTENT							
Doesn't offer enough local programming/content	0.6%	0.6%	0.6%	0.8%	0.7%	0.4%	0.6%

Barriers Continued- Device Priorities Shift Early In Adulthood

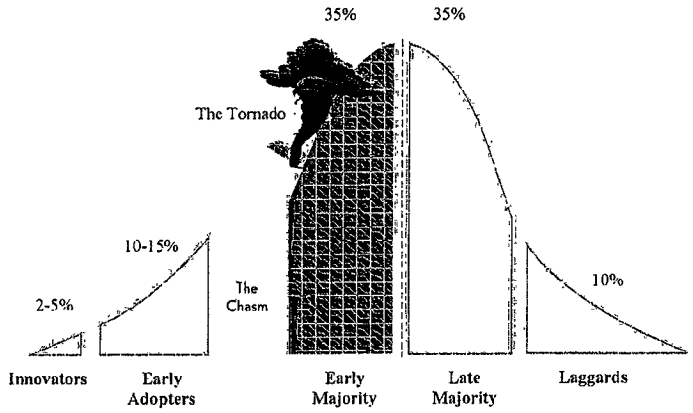
Addtionally barriers could include the fact that adults prioritize productivity devices over entertainment devices.

Share of wallet for technology devices would therefore shift towards productivity devices vs. towards entertainment devices such as XM.



Technology Adoption Curve

- *Early majority is critical based on size and declining interest*
- *Need to define, engage and connect*
- *Understanding the Early Majority requires further segmenting this group.*

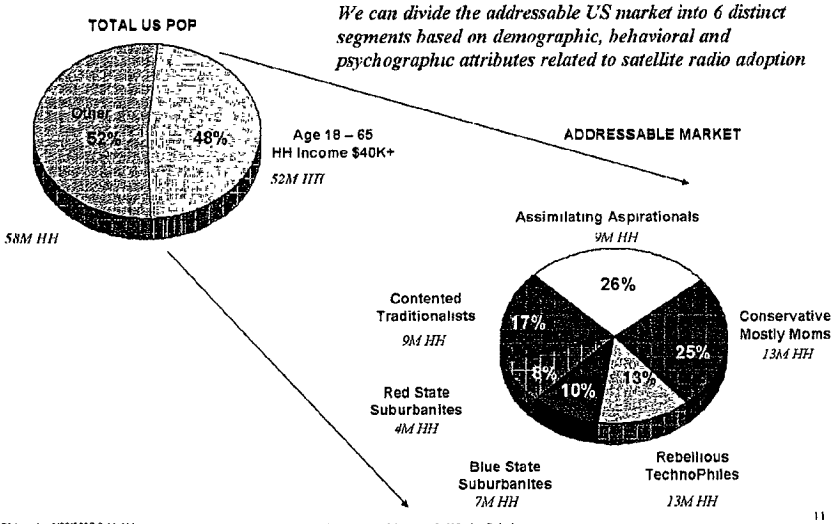


Source Crossing the Chasm, Geoffrey Moore

XMCRB 00000734

SEGMENTION 2006

We can divide the addressable US market into 6 distinct segments based on demographic, behavioral and psychographic attributes related to satellite radio adoption



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Market Segmentation – Segment Definitions (1 of 2)

Assimulating Aspirationals

- Listeners who have specific programming needs, focused heavily on sports and news. They are short on time technology oriented, open to trying new media products and services. They are not listeners or proponents of basic AM/FM radio though they actually like commercials. Their music listening, though not heavy, is oriented to international selections. They're a younger group that's more likely to be non-white. Though open-minded, they are more likely to want to assimilate than to stand out. They have frequent and long commutes to work. Generally, due to a more active lifestyle, they want a customized experience that will fulfill their specific needs (depth) and care less about the breadth of the offering

Conservative Mostly Moms

- Predominantly white, conservative moms who are offended by shock jocks and sex and violence in the media. They are heavily oriented to music on the radio and have a couple of favorite stations that they prefer. These listeners are less likely to be satellite subscribers, but their preference for specific programming oriented to family and DJs they can relate to, indicates that satellite radio has content that may appeal to them. However, they are less likely to pay for satellite radio and have a less favorable impression of it (perhaps due to Howard Stern associations?). These barriers could make them a less viable target or "harder nut to crack"

Rebellious TechnoPhiles

- This group vehemently opposes advertising and would pay more for commercial free media. They use media as a way to escape from the day to day and want to be able to find the music that they like more easily. Open-minded, perhaps more liberal listeners, that like cutting edge media sources. The technology and a perception of rebelling against the system will draw them in. They want something that allows them to access all types of information and music in a regulation and commercial-free environment. This group likes to stand out from the crowd and be non-conformists. Tend to be younger and single with a higher income

XMCRB 00000736

Market Segmentation – Segment Definitions (2 of 2)

Blue State Suburbanites

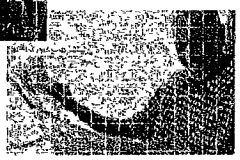
- Open-minded and well rounded somewhat older group that like to get news and information from several sources and turn to media only for things that make them think or broaden their perspective. They are much less interested in music and sports but would listen to non-news programming, like comedy, advice shows or educational programs. Though family-oriented they are less offended by sex & violence in the media and have the highest levels of education and income.

Red State Suburbanites

- This group loves to listen to music, especially at home, and is interested in commercial-free experiences. More than anything they are frustrated with channel surfing and interruptions due to advertising. They tend to be more socially conservative. They know what they like, and only want familiar content/brands. Less interested in trying new things. These people tend to be higher income though many with only school/tech school graduates ("high end blue collors"), married and family oriented

Contented Traditionalists

- This group is also satisfied with current media content across all forms, though they are not very involved with the radio. They do not have any particular radio attitudes that skew above the rest of the population and they are less involved with satellite radio. These are females, more likely to be African American and fans of Oprah.

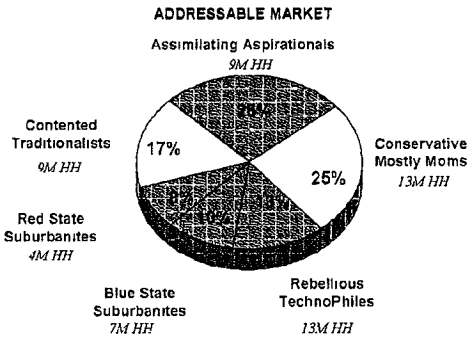


Segment Targeting Prioritization & Commonalities

- Not all Segments are potential targets for XM. Prioritization of segments TBD for 2006, though two segments (Conservative Mostly Moms and Contented Traditionalists) remain unlikely audiences for XM

- Of the remaining segments, the following factors are common across all potential target segments:
  - Age 40+
    Average HH income $65K or more
  - Gender balanced (fairly even mix of male/female)
  - Propensity to be married
  - Avg Household size 2.5 or more

- Potential targets are indicated in green:



Commonalities Across Key Segments

- *From an attitudinal perspective, all of the key potential target groups are more Programming focused than Features Focused.*

Attitudes Towards Satellite Radio

	Assimilating Aspirationals (A) %	Conservative Moms (B) %	Rebellious TechnPhiles (C) %
Features Focused	20%	12% ↓	25% ↑
Sports Benefits	13%	10% ↓	19% ↑
Programming Focused	26% ↓	43% ↑	43% ↑
Mood Focused	21%	19%	32% ↑
Family Focused	17% ↑	14%	5% ↓

	Blue State Suburbanites (D) %	Red State Suburbanites (E) %	Contented Traditionalists (F) %	Current XM Subs (X) %
Features Focused	28%	18%	12% ↓	32% ABEF
Sports Benefits	16%	21% ↑	12%	33% ABCDEF
Programming Focused	46% ↑	39%	30% ↓	46% AF
Mood Focused	22%	28%	15% ↓	40% ABCDEF
Family Focused	8% ↑	11%	7% ↓	24% ABCEF

Common Barriers to Adoption – Key Segments

- *Though there are some variations by segment, the main barriers which commonly surface among all segments are related to "not being able to justify the cost of satellite radio", especially in relation to satellite's main competitor– terrestrial radio.*

	Assimilating Aspirationals	Rebellious TechnoPhile	Blue State Suburbanites	Red State Suburbanites
Monthly Fee Too High	69%	76%	69%	55%
Happy with AM/FM	36%	24%	47%	36%
Don t listen to radio enough	34%	61%	45%	32%
Cost of initial equipment too high	33%	52%	41%	41%
Cannot justify paying for radio when can get it free	26%	44%	48%	41%
Happy using my prerecorded music on CD/ipod	26%	30%	30%	14%
Don t know enough about it	16%	17%	24%	27%
Waiting until the price comes down	7%	28%	19%	8%
Waiting until its standard equipment in new cars	7%	17%	14%	7%

- *If targeting specific segments, consideration should be given to the ranking and degree of importance for that particular segment.*

Perceived Advantages of Satellite Radio: Assimilating Aspirationals

Mean importance scores:

- Aspirationals are less passionate about the perceived advantages of satellite radio vs. other segments– as shown in their relatively low mean importance scores.
- Likewise, the limited range of scores (high= 6.6, low=5.5) shows that this segment does not focus on any particular attribute or group of attributes as being particularly important or unimportant
- They are, however, more interested in sports than any other segments

	Cosmopolitans
Fewer commercials	6.6
Digital sound quality	6.4
Gives me access to my favorite sports teams, which I cannot get on local TV or radio	6.4
Ability to listen to music you can't find on AM/FM radio	6.2
Gives you coast-to-coast coverage	6.2
Less DJ chatter	6.2
The ability to see the name of the artist and song being played on the radio display	6.2
Gives you the ability to listen to a greater diversity of new music	6.2
More types of music you prefer	6.1
Ability to take receiver with you from car-to-car, car to home, car-to-boat, etc.	6.1
Ability to find something you enjoy no matter what your mood is	6.1
Let's you de-stress & get in a better mood	6.1
Ability to discover new music that you like	6.1
Can get sports channels not available anywhere else (i.e., 24-hour NASCAR channel	6.0
Ability to listen to music from every genre - classical, rock, blues, jazz, reggae, etc	6.0
Provides music to energize you	5.9
Uncensored or not regulated by the FCC	5.9
Better options for children/family members	5.9
Let's you experience live events and interviews no on AM/FM	5.9
Available special programming not available on AM/FM, such as dedicated Comedy Channels, Ethnic Programming, Radio Drama, etc.	5.9
A fun experience you could share with others	5.9
Makes time go by faster	5.9
A new gadget or toy for you to enjoy	5.9
Ability to get instant traffic & weather reports for many major cities	5.8
Greater variety of news & talk than on AM/FM	5.8
Let's you escape from the day-to-day	5.8
Let's you kick back and relax	5.8
Let's you engage your mind and imagination	5.8
Provides Play-by-Play sports coverage	5.8
Has DJs/Hosts you can relate to	5.7
"Parental Controls" which allow you to turn off channels that may be adult-oriented or explicit	5.5

Perceived Advantages of Satellite Radio: Rebellious TechnoPhile

Mean importance scores:

- Aside from the music advantages seen in all groups, this group gives high ratings to "uncensored"(7.8), "gadget or toy to enjoy"(6.7); and the technology advantage of seeing the name of artist/song (8.1)
- Interestingly, sports content is not perceived very highly as an advantage

	Rebellious TechnoPhile
Fewer commercials	8.5
More types of music you prefer	8.1
The ability to see the name of the artist and song being played on the radio display	8.1
Ability to listen to music you can't find on AM/FM radio	8.0
Let's you de stress & get in a better mood	8.0
Digital sound quality	7.9
Ability to find something you enjoy no matter what your mood is	7.8
Ability to listen to music from every genre - classical, rock, blues, jazz, reggae, etc	7.8
Uncensored or not regulated by the FCC	7.8
Ability to discover new music that you like	7.7
Gives you the ability to listen to a greater diversity of new music	7.7
Provides music to energize you	7.5
Ability to take receiver with you from car to-car, car to-home, car-to beat, etc	7.4
Gives you coast to-coast coverage	7.4
Less DJ chatter	7.4
Makes time go by faster	7.2
Available special programming not available on AM/FM, such as dedicated Commedy Channels, Ethnic Programming, Radio Drama, etc	7.1
Let's you kick back and relax	7.1
Let's you engage your mind and imagination	7.0
Let's you escape from the day-to-day	6.9
A fun experience you could share with others	6.8
A new gadget or toy for you to enjoy	6.7
Ability to get instant traffic & weather reports for many major cities	6.5
Hot DJs/Hosts you can relate to	6.4
Let's you experience live events and interviews as on AM/FM	6.4
Better options for children/family members	6.2
Greater variety of news & talk than on AM/FM	5.8
"Parental Controls" which allow you to turn off channels that may be adult-orientated or explicit	5.3
Can get sports channels not available anywhere else (i.e., 24-hour NASCAR channel	4.9
Gives me access to my favorite sports teams, which I cannot get on local TV or radio	4.4
Provides Play-by-Play sports coverage	4.2

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Perceived Advantages of Satellite Radio: Blue State Suburbanites

Mean importance scores:

- Like other groups, this segment mostly stresses the importance of the music.
- However, this group sees "variety of news and talk" as a benefit more strongly than other segments do (6.9)
- Though family oriented content & parental controls are important, they are less important to this group than to other groups
- They do not see much advantage in sports programming.

	Blue State Suburbanites
Fewer commercials	8.0
Digital sound quality	7.4
Ability to listen to music from every genre - classical, rock, blues, jazz, reggae, etc	7.3
Ability to listen to music you can't find on AM/FM radio	7.2
More types of music you prefer	7.2
Less DJ chatter	7.1
Gives you coast-to-coast coverage	7.0
Let's you de-stress & get in a better mood	7.0
Ability to discover new music that you like	6.9
Ability to find something you enjoy no matter what your mood is	6.9
Greater variety of news & talk than on AM/FM	6.9
Ability to take receiver with you from car-to-car, car-to-home, car-to-boat, etc	6.8
The ability to see the name of the artist and song being played on the radio display	6.8
Available special programming not available on AM/FM, such as dedicated Comedy Channels, Ethnic Programming, Radio Drama, etc.	6.7
Gives you the ability to listen to a greater diversity of new music	6.7
Ability to get instant traffic & weather reports for many major cities	6.6
Let's you experience live events and interviews on AM/FM	6.6
Let's you engage your mind and imagination	6.5
Let's you escape from the day to-day	6.3
Let's you kick back and relax	6.3
A fun experience you could share with others	6.2
Makes time go by faster	6.2
Provides music to energize you	6.1
Uncensored or not regulated by the FCC	6.1
Better options for children/family members	5.9
Has DJs/Hosts you can relate to	5.5
A new gadget or toy for you to enjoy	5.3
"Parental Controls" which allow you to turn off channels that may be adult-oriented or explicit	4.9
Can get sports channels not available anywhere else (i.e., 24-hour NASCAR channel)	4.6
Gives me access to my favorite sports teams, which I cannot get on local TV or radio	4.1
Provides Play-by-Play sports coverage	3.8

Perceived Advantages of Satellite Radio: Red State Suburbanites

Mean importance scores:

- This groups seem more advantages to satellite radio than other groups and may continue to be our "low hanging fruit"
- Red State Suburbanites place much more emphasis on parental controls (avg 5.3) and options for family/children (avg 7.3) than do other segments

	Red State Suburbanites
Fewer commercials	8.9
More types of music you prefer	8.4
The ability to see the name of the artist and song being played on the radio display	8.4
Digital sound quality	8.3
Ability to find something you enjoy no matter what your mood is	8.2
Ability to listen to music from every genre - classical, rock, blues, jazz, reggae, etc	8.2
Let's you de-stress & get in a better mood	8.1
Ability to listen to music you can't find on AM/FM radio	8.0
Ability to take receiver with you from car-to-car, car-to-home, car-to-boat, etc.	8.0
Gives you the ability to listen to a greater diversity of new music	8.0
Gives you coast-to-coast coverage	7.9
Less DJ chatter	7.9
Ability to discover new music that you like	7.8
Available special programming not available on AM/FM such as dedicated Comedy Channels, Ethnic Programming, Radio Drama, etc.	7.6
Provides music to energize you	7.5
A fun experience you could share with others	7.3
Better options for children/family members	7.3
Let's you escape from the day-to-day	7.3
Let's you kick back and relax	7.3
Makes time go by faster	7.3
Ability to get instant traffic & weather reports for many major cities	7.2
Let's you experience live events and interviews so on AM/FM	7.2
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Greater variety of news & talk than on AM/FM	6.8
"Parental Controls" which allow you to turn off channels that may be adult-oriented or explicit	6.7
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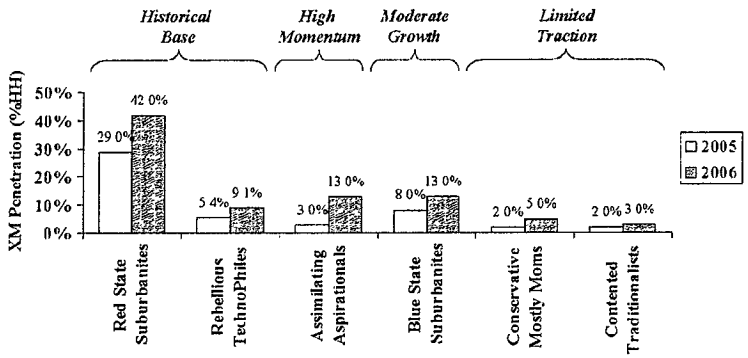
Can get sports channels not available anywhere else (i.e. 24 hour NASCAR channel)	6.4
Has DJs/Hosts you can relate to	6.1
Gives me access to my favorite sports teams, which I cannot get on local TV or radio	6.0
Provides Play-by-Play sports coverage	5.6

Market Segmentation –XM Penetration by Segment

We've experienced the largest increase in penetration in Red State Suburbanites over the past year



US Households (M)	4	7	14	5	13	9

Source: DDW 2006 Segmentation Study (M. DiSciullo)

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Market Segmentation: Rationale for Successes

•We theorize that the success we have had with Red State Suburbanites is due to a more conservative talk lineup, and more emphasis on country music programming and artists. Likewise, our NASCAR content has probably also contributed to our appeal among this segment.

•Rebellious TechnoPhiles continue to be attracted to satellite radio due to its inherent nature as a technology-oriented gateway to non-traditional media, and have received some halo effect from the "uncensored" Howard Stern move to Sirius

•At this time, we are uncertain why we have had success with the Cosompolitan segment, since we have not marketed very heavily to this group (younger, more ethnic) audience. It could be due to our sports coverage, which is perceived as an advantage of satellite radio by this group moreso than by others. Further exploration will be conducted to better answer this question (tbd- Potentially impact of Starbucks? Double check media plan & awareness/favorability numbers)

•We theorize that Blue State Suburbanites have not been as attracted to XM due to its conservative talk lineup, association with NASCAR and emphasis on sports content (which scores low as a perceived advantage). However, this segment is a potentially attractive market that we may want to consider marketing to more aggressively..

•We did not expect to see much movement among Conservative Mostly Moms and Contended Traditionalists.

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- Though XM has been very effective at creating awareness, this awareness has not translated into the kind of favorability that ultimately becomes purchase consideration.
- Consequently, our pool of XM prospects is not growing as fast as it should.
- While we continue to penetrate traditional early adopter segments, when moving into the Early Majority, we have made the most progress within the Red State Suburbanite segment – while we lagged within the Blue State Suburbanite segment. This indicates a potential skew in our brand image, which should either be exploited & magnified to fish more deeply within that Red State segment-- or diffused to attract other segments.
- Diversity of music and music offerings is the most highly rated advantage among all potential target segments
- Our research to date shows the greatest barrier to adoption is the value proposition, or "why pay for satellite radio?"
- Therefore, XM must consider ways to emphasize the value of the music to key target segments. Given that sports programming has lesser, more narrow appeal, XM should consider an "own the music" strategy and be considered the leader in the music space (vs. placing emphasis on sports content deals)