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**An Analysis of
Sirius XM Holdings, Inc.**

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Sirius XM Holdings, Inc. (NASDAQ: SIRI) is a satellite radio broadcaster operating in the United States of America and Canada, and is the largest radio broadcaster in the world by revenue. Alongside satellite broadcast, SiriusXM also provides an internet radio service which can be accessed on smartphones and computers. The SiriusXM head offices are in New York City. SiriusXM Holdings is 69% owned by Liberty Media Corporation, which also holds 100% in Formula One and 34% Of Live Nation Entertainment (Liberty Media Corporation, 2017). The CEO currently is James E. Meyer, who took up this position in December 2012 after serving as President (Operations and Sales), for eight years prior to that. In addition, Meyer is also a Director on the Board of Pandora Media Inc. which SiriusXM is a shareholder of.

SiriusXM sells satellite radio subscriptions through various packages and price points, based on the type of service. They also provide business based services and professional services for marine and aviation. Its key selling point is that it offers radio service without any commercial interruption across various genres of music plus sport, comedy and talk shows. It also provides weather, fishing and traffic broadcasts. SiriusXM also produce satellite radios for purchase to use alongside their subscription services.

The current incarnation of the business is the result of the merging of two competing satellite radio broadcasters, Sirius Satellite Radio and XM Satellite Radio, with Sirius acquiring XM on 29 July 2008. Quite similarly to other mergers (such as the merger of Live Nation and Ticketmaster), there was disapproval from some parties of the union of Sirius and XM, with the main argument being that such a union would create a monopoly in the satellite radio market. And, essentially, they are the only provider of satellite radio in the US so could be considered a monopoly although other non-satellite based services offer competing products and services. At the time of the merger, the combined subscriber number of the two companies was 18.5 Million, which has now almost doubled to more than 32 Million SiriusXM subscribers quoted at the end of Q3 2017.

The coverage of SiriusXM's service incorporates the continental US and Canada however, SiriusXM Canada is considered a separate entity in which SiriusXM holds a minority stake. SiriusXM Canada has roughly 2.8 Million subscribers (SiriusXM, 2017).

While SiriusXM's main product is satellite radio service, it also offers a number of other different services. SiriusXM Traffic, SiriusXM Travel Link, NavTraffic and NavWeather are the company's traffic, weather and information services. SiriusXM delivers weather, data and information services to aircraft and boats through SiriusXM Aviation and SiriusXM Marine. In addition, SiriusXM Music for Business provides commercial-free music to a variety of businesses (SiriusXM, 2017).

According to SiriusXM, it has "arrangements with every major car manufacturer" (SiriusXM, 2018) and that most new and many pre-owned vehicles come equipped for use with SiriusXM (SiriusXM, 2018). This would indicate, that while there may be a number of SiriusXM subscribers that use only the web based services, the majority of their customer base are car owners and lessees. While the range of music stations available on SiriusXM is wide ranging and varied, its channel listings also gives us an indication at the type of subscribers that they are targeting at the moment.

With channels dedicated to artists such as the Beatles, Neil Diamond, Elvis and Bruce Springsteen, we can get an indication that SiriusXM are targeting listeners of this type of music. With sports channels covering most major sports leagues, NFL, Major League Baseball, and NBA among others, they are also targeting sports fans, and fans of specific sports teams for which they have dedicated channels (SiriusXM, 2018).

According to SiriusXM's Q3 Results Report, their 'Self-Pay' subscriber numbers had reached "approximately 27 Million" and the total subscriber number reaching 32.2 Million (SiriusXM, 2017). 'Self-pay' subscribers are those who pay full price for packages i.e. are not free trial subscribers or on a promotional offer period.

The main competition for SiriusXM comes from AM/FM radio broadcasters, which in the US, of which there are over 15,000 (Federal Communications Commission, 2017). They are free to listen to, and are generally paid for by commercial advertising. While this may be the more attractive option to some listeners, those who wish to listen to uninterrupted 'commercial-free' music may find this the better option, although SiriusXM does broadcast varying amounts of commercial advertising. In addition, the convenience of having the technology already installed in their vehicle by the manufacturer, and having received a trial of the service, users may be inclined to continue subscribing after receiving their trial, usually between three and twelve months in duration, depending on car manufacturer and dealer.

Other competition, specifically with regards to internet radio, are services such as 'iHeartRadio' and 'Pandora', as well as streaming services such as 'Spotify', 'Apple Music', and 'Tidal'. However, you could argue that Pandora is not technically a competitor as interestingly, and as mentioned previously, SiriusXM is a large stockholder in Pandora's business and James E. Meyer, SiriusXM's CEO, is a Board Director of the company (Pandora, 2017). Therefore, it is in SiriusXM's interest for Pandora to be successful. Pandora and SiriusXM generate revenue in different ways – Pandora with ad-generated revenue, and SiriusXM with service subscription fees. The money that SiriusXM put into Pandora was considered a "strategic investment" made in the hope that it would increase value for both companies and its stockholders (Pandora, 2017).

Pricing strategies are methods used by almost every business to best price their products or services (Suttle, 2018). There are a number of different methods, each with variations attributed to it and different pricing strategies can be effective depending on what product or service is being offered. The four main strategies fall in line with what is known as the 'pricing matrix' which is a 4-sector grid with 'high' and 'low' quality along one axis, and 'high' and 'low' price along the other. 'Premium Pricing' falls in the 'high price, high quality' section of the grid and is when a business prices its products at a higher or premium rate to attract customers for a premium product – the brand and product must have luxury appeal in order for this strategy to be successful. 'Price Skimming' is when a company charges a high price for a lower quality product. They are able to do this as they have some form of competitive advantage.

‘Penetration Pricing’ is a high-quality product for a low price – this is usually done as some form of introductory offer, as a way for a company to gain market share. The company would then raise the price when a market share has been established. The final strategy is known as ‘Economy Pricing’, and is charging a low price for a lower quality product.

Businesses usually achieve success with this by saving money on packaging, advertising and other overheads (Marketing Teacher, 2017). Other notable strategies, especially for the creative industries include ‘Freemium Pricing’ (allowing users of a service to use it for free in a limited capacity in order to attract them into converting to paid users), ‘Pay What You Want’ (allow customers to choose what they would like to pay, sometimes with a minimum amount set), and ‘Psychological Pricing’ (pricing items in such a way as to have an impact on the consumer psychologically) (Wikipedia contributors, 2018).

While SiriusXM is the only provider of satellite radio service in the US, it still employs a number of these pricing techniques to attract prospective and trial subscribers into becoming ‘self-pay subscribers’. Firstly, their main full-priced radio packages are known as ‘Streaming’ (content only available online and internet connected devices), ‘Select’ (content only available ‘in-car’ or on Satellite Radio devices) and ‘All-Access’ (combines the two packages). The first two packages are currently priced at \$15.99 per month each, whereas the ‘All-Access’ package is priced at \$20.99 per month. We can instantly see a psychological pricing strategy here. By pricing their packages this way, SiriusXM are psychologically manipulating consumers as they perceive the price to appear much lower than it actually is (Wikipedia contributors, 2017). Another technique SiriusXM use is a kind of ‘try-before-you-buy’ model, and it is easy to see the level of success they have in using strategy. SiriusXM has deals with many car manufacturers in the US to have SiriusXM satellite receivers built in to the car’s entertainment system as standard. Most dealers offer a trial period for the service, much like Netflix or Apple Music, and 40% of these trial users go on to become paying subscribers, what the company calls ‘self-pay subscribers’.

SiriusXM also offer ‘paid promotional subscription’. While I have tried to find a formal definition of this phrase, I have not found any definition or reference to this outside of SiriusXM’s quarterly reports. That being said, I will assume based on context, that these subscribers are paying for the service at a reduced, ‘promotional’ rate, for a limited time. As can be seen on the homepage of the SiriusXM website, there is a banner at the top of the page offering a six-month ‘Select’ subscription for \$30 and the ‘All-Access’ subscription for \$50 for six months. After this period, the subscription automatically renews at full price. In my opinion, while it may only retain subscribers for the period of their offer this is a fairly clever strategy as the business can take full payment for six months service in one go, therefore retaining the subscriber for a minimum of those six months, and taking advantage of customers’ potential idleness and renewing the subscription automatically after the promotional period has ended. If I began my subscription paying monthly, I may decide that I want to cancel my subscription after the first month meaning the company will only have a maximum \$20.99 of my money for the first month.

Comparatively, by offering the promotion, the business has made a minimum of \$30, even if the consumer does not wish to continue the service after a month of use. In addition, by offering this heavily discounted promotional period, SiriusXM is allowing the customer to become familiar with the product, and maybe even rely on it after six months, in the hope they will continue to subscribe at the end of this period, which I think is fairly smart. SiriusXM's business relies heavily on car manufacturers and dealers in order to grow its subscriber base. According to their Q3 Report, the fact that car manufacturers were selling less vehicles, the number of additional 'paid-promotion' subscribers had decreased and new subscribers of this type were not being added fast enough, due to the reduced shipment of new cars (SiriusXM, 2017).

Paid streaming services, such as Spotify, as mentioned above, offer a competitive price point for their service at \$9.99 a month for premium subscription. Spotify uses a freemium pricing strategy in order to attract customers into being full paying subscribers. Using this method, Spotify gives users access to a limited number of features, as well as playing advertisements between songs. Spotify have definitely targeted young people and families with their paid subscription packages dedicated to students (who receive the full premium service at a 50% discount) and families (who can bundle up to six user accounts into a single subscription payment, provided everyone on the subscription lives at the same address). In the US, the student subscription also includes a subscription to Hulu video streaming. Some might say that Spotify Premium is a better service than SiriusXM for music listeners at least. Most vehicles that are equipped with a satellite radio are likely to have a means to connect a device to the car via Bluetooth or otherwise. This means they can listen to uninterrupted music in their vehicle in high quality. And what's more, the user has full control over playlist/music choice, all for more than 50% cheaper than SiriusXM's in-car service. However, Spotify's service is limited to just music and more recently, podcasts, and does not offer sports commentaries, news and weather information like SiriusXM.

While SiriusXM offers a unique, wide ranging array of content, it has to be said that music services offer some fierce competition, especially with regard to customers only using the service for listening to music. Streaming services and internet radio are available on our mobile devices at a cheaper price point and sometimes even free, as well as providing additional flexibility in the choice of music.

Short-term financing is a term used to describe a financial obligation which is to be settled within one year or less. Some examples of short term financing include bank overdrafts, short-term loans and trade credit (another business allowing you to 'owe' them the money at a later stage – this is also known as 'accounts payable').

Liquidity can be considered as a business' ability to settle its debt obligations using its assets (Boyte-White, 2017). There are a number of different ratios of liquidity than can be calculated for various uses. The 'Current Ratio', is a liquidity ratio indicating a firm's "ability to pay off its short-term debt with current assets" (My Accounting Course, 2017). In the case of SiriusXM, at the end of Q4 2016 (December 31st), the total current assets of the business were \$642,649,000 and its total current liabilities were \$2,668,601,000. So, by applying the Current Ratio formula:

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$642,649,000}{\$2,668,601,000} = 0.24$$

we see that the ratio of current assets to current liabilities is 0.24 or 24%. This means that SiriusXM is only able to pay off 24% of its current liabilities with the current assets it holds. As a comparison, the current assets at the end of Q3 2017 were \$496,562,000 and the current liabilities were \$2,682,844,000. And if we plug these figures once again into the same formula:

$$\frac{\$496,562,000}{\$2,682,844,000} = 0.185$$

we can see that the ratio has now decreased, to 0.185 or 18.5%. This shows that the situation has worsened over the first three quarters of 2017 and that the business may struggle to meet its debt obligations. This very low liquidity might be an indication to potential financiers that investing money in the business would be risky, also shown by the negative trend over time.

The 'Leverage' of a company is a measure of how much debt a business has versus its equity. If a firm has a high leverage, then it has more debt than equity. Leverage can be used by businesses as a strategy to make a higher return by using borrowed money. A good example would be, a property investor with \$50,000 could choose to spend that money on one house, then resell the house at \$55,000, a 10% return on their investment. However, if the investor used the money to deposit \$5,000 on 10 houses, and borrowed the rest of the money. He could then sell each of the houses for \$55,000, pay back the money he borrowed and be left with a gross profit of \$50,000 – or 100% of his initial investment (Investopedia, 2017).

The leverage of a business can be assessed using another ratio, known as the 'debt-to-equity ratio'. This ratio gives us an indication of the percentage of the company financed by debt (supplied by creditors, such as banks) vs. equity (money from investors). At the end of 2016, SiriusXM had \$8,795,610,000 in total liabilities and the total stockholders' equity was - \$792,015,000. Without even calculating we can see that the stockholders' equity is negative, so we already know that the business is in debt. When we apply the formula:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities (debt)}}{\text{Total Equity}} = \frac{\$8,795,610,000}{-\$792,015,000} = -11.1$$

When the ratio is negative, the meaning is less clear – a positive ratio i.e. a ratio of 1, would indicate that the assets are funded equally between shareholders and creditors. In this case, this essentially means the entire business is funded by creditors, and the investors are actually in debt to the creditors. We can apply a different formula to get an indication of how much of the business is financed by debt known as the 'debt-to-capital ratio'. When we plug our same figures in to the new equation,

$$\begin{aligned}\text{Debt to Capital Ratio} &= \frac{\text{Total Liabilities (debt)}}{\text{Total Equity} + \text{Total Liabilities (debt)}} \\ &= \frac{\$8,795,610,000}{-\$792,015,000 + \$8,795,610,000} = 1.10\end{aligned}$$

we get a ratio of 1.12 or 112%, meaning the business has more debt than capital which would again be seen as risky to creditors and investors. When we use the figures for Q3 2017, we see that the situation worsens over this period of time.

$$\frac{\$9,702,517,000}{-\$1,050,101,000 + \$9,702,517,000} = 1.12$$

These figures could indicate that SiriusXM is on the verge of bankruptcy – it cannot afford to pay off its debts with the current assets it holds by a long way, and the firm's equity is negative, meaning the business is being propped up by creditors and may have trouble paying this money back.

SiriusXM was already once on the verge of bankruptcy and went so far as to have the papers ready to file before Liberty Media floated the company \$530 Million in exchange for 40% equity in the business in order to save it. However, at this time the business remains profitable and the stock price has gradually risen over the past year and begun to plateau around \$5 (NASDAQ, 2018).

It would seem that SiriusXM has relied heavily on creditors for finance up until now due to their enormous long-term debt obligations, and deficit equity figures. This is a bad position to be in, as businesses are obligated to repay loans from creditors whereas they are not required to pay back any money to investors, however, in order to attract investors, a demonstrated ability to pay back loans and award dividends to investors would be key. I believe it would be crucial for SiriusXM to obtain more capital from investors and improve its long-term liability position. Liberty Media Corporation has already showed interest in supporting SiriusXM in the past, with its bail out investment of \$530 Million in exchange for 40% ownership in 2009. Liberty Media now own 69% of SiriusXM (Liberty Media Corporation, 2017).

'Lean' is a business ideology that businesses can use to aid them in maximising customer value and in reducing waste. Lean principles are most usually associated with physical product manufacturing rather than services, but this is a misconception and the principles are easily applicable to business that provide services as well, and therefore to SiriusXM (MBA Skool, 2010).

One lean technique, known as customer 'pull' is only producing something once it is needed by the consumer. This may be applicable in manufacturing and other types of business but I believe this would be hard to achieve in SiriusXM's processes in providing satellite radio. The infrastructure would need to be in place for satellite radio transmission whether no matter what the demand for subscriptions. SiriusXM would much more easily be able to respond to consumers' demand for types of content (MBA Skool, 2010).

To maximise customer value, a business needs to put its sole focus into what the customer wants, and not wasting time and resource by producing products or providing services that do not add value to the business, wherever possible. Obviously, some aspects of a business that do not necessarily add need to be in place in order for a company to function, such as accountants etc., but these should be minimised wherever possible. SiriusXM provides value to its customers by being the only satellite radio provider in the US. This makes them unique, and their unique blend of content allows them to stand out from services that provide similar content (MBA Skool, 2010).

Lean can be applied to any process a business has to perform and anything that might prevent the flow of a process should be streamlined, where possible – especially if increases customer waiting time. For example, SiriusXM has a phone number clearly advertised, that you can ring if you want to set up your radio service by phone. The first problem this may cause, is that a large number of people may telephone to set up their service, without even trying to set it up themselves online. This can may increase traffic on the phone lines leading to longer holding times for callers. Obviously, there needs to be this assistance in place for those who are having difficulty setting up their service, but this facility should be offered after the customer has tried to set up the service themselves. Self-setup is likely to be quicker and more convenient for customers on the first place, so a refined and very simple setup procedure for customers is essential. SiriusXM also offers a webchat customer service feature on its website, which I think is great of terms of convenience for users. In order to prevent wastage on the business side, telephone customer service assistants could be trained to run the webchat service if the phone lines are not busy and vice-versa, as they are likely to share the same knowledge base.

While it is difficult to establish what changes could be made to a business without knowing its internal processes and systems, there are always ways to improve efficiency and reduce waste.

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