

# Advertisers Increase Their Focus on Digital

Companies: AAPL, AMCX, AMZN, AOL, CBS, CCO, CMCSA, CRWN, DIS, DISCA, DISH, DTV, EPA:DEC, FB, GCI, GOOG, LAMR, MSFT, NFLX, NLSN, NWS, NYT, P, SBGI, SNI, SSP, TRBA, TWTR, TWX, VIA, YHOO

April 15, 2014

## Research Question:

**Was the anemic advertising spending at the middle of the first quarter a harbinger of 2014 growth?**

## Summary of Findings

- 2014 appears to be mirroring the last two years in terms of advertising spending being moved to digital. The out-of-home (OOH) market continues to lose national advertisers to digital, and the network TV market is seeing more digital spending options.
- Digital advertising—specifically mobile, social media and online video—will grow in the double digits year to year. Sources representing top ad agencies predicted 15% to 20% growth for digital, while small to midsize agencies forecast even higher rates.
- This is the second quarter in a row that network TV’s [scatter market](#) has seen spending pick up but then dwindle. [Upfront](#) budgets should be decided in the next month, but scatter’s weakness could affect this season’s prices.
- [Spot TV](#) varied by region and by affiliate. Stations airing the Superbowl and the Olympics garnered more ad dollars than others.
- Newspaper ad spending continues to shrink, but some dailies have been able to raise rates year to year. Also, newspapers in general are segmenting topics and offering new products to combat reader and advertiser attrition.
- OOH saw two significant beverage advertisers scale back and move spending to digital. Otherwise, the sector’s health varies by market.

## Silo Summaries

### 1) Digital Buyers and Sellers

These six sources said 2014 is a continuation of the share shift to digital but added that the shift seems more pronounced than in 2013. Large national advertisers are setting targets for how much money they will shift to digital within the next two years. Advertisers plan to focus their spending on mobile, social media and online video.

### 2) Network TV/Cable Buyers

These six sources said first-quarter spending started out healthy but then dropped back early in the period. Scatter prices are in line with upfront’s. This is similar to what happened in the fourth quarter of 2013, when the market went dark after October. If the trend continues, the upcoming upfront season’s pricing will be significantly affected. Sources have made early predictions of flat spending for the upfront market and more shifts to digital.

### 3) Local Broadcast Buyers and Sellers

These seven sources said first-quarter spending on local broadcast was mixed and was determined by the market and the affiliate. Those stations that aired the Olympics attracted more spending. Overall, sources’ first-quarter revenues were flat to slightly up. The second quarter still is coming together, but most sources are seeing single-digit spending growth. Station managers are looking forward to the second half of 2014, when political spending will kick in.

### 4) Print Buyers and Sellers

These three sources said print spending and revenue continue to suffer as more advertisers turn to digital. However, two of the three sources were able to increase rates after cutting them drastically during the recession.

### 5) OOH Buyers and Sellers

These five sources said 2014 did not start off on a good note. Two major beverage advertisers, Anheuser-Busch InBev S.A. (BUD) and Diageo PLC (DEO), drastically cut their spending on OOH for the full year and have shifted the dollars to online.

	1Q14 Spending	1Q14 Rates	2014 Visibility
Digital	↑	→	↑
Network TV/Cable	→	→	→
Local Broadcast	→	↓	→
Print	↓	→	→
OOH	→	→	→



# Advertising Update

## Background

In Blueshift Research's [March 4 advertising update](#), sources said the scatter market was lackluster, the local TV market continued to see weak national spending and steady local spending, and OOH had begun the year with weak national advertising. In Blueshift Research's [Jan 14 report](#), network TV buyers described the scatter market as picking up in the first quarter after being dormant in the fourth quarter of 2013. The spot TV market was experiencing pricing pressures from buyers, but was looking to political spending to save the year. Digital spending continued to grow in social media and online video.

## Current Research

In this next study, Blueshift Research assessed the state of advertising spending trends across all media. We employed our pattern mining approach to establish six independent silos, comprising 26 primary sources (including 23 repeat sources) and three relevant secondary sources focused on social media and programmatic digital buying:

- 1) Digital buyers and sellers (6)
- 2) Network TV/cable buyers (6)
- 3) Local broadcast buyers and sellers (7)
- 4) Print buyers and sellers (3, including 1 who also was included in the network TV/cable silo)
- 5) OOH buyers and sellers (5)
- 6) Secondary sources (3)

## Next Steps

Blueshift Research will continue to monitor the advertising market, including the upfront season as it unfolds. Spending shifts to social media and online video also will be on our radar. We will publish a midquarter update on the upfront market and a full report on second-quarter ad spending in early July.

## Silos

### 1) DIGITAL BUYERS AND SELLERS

These six sources said 2014 is a continuation of the share shift to digital but added that the shift seems more pronounced than in 2013. Large national advertisers are setting targets for how much money they will shift to digital within the next two years. Advertisers plan to focus their spending on mobile, social media and online video.

#### KEY SILO FINDINGS

##### Spending/Revenue

- Spending is up in the double digits, with social, mobile and online video gaining a larger percentage of the share.

##### Rates

- Rates for online video continue to face downward pressure, making inventory more attractive to buyers. Pricing for social media is flat to up slightly year to year. Programmatic buying is pressuring most online media rates downward.

##### 2014 Visibility

- Full-year growth will be in the double digits—15% to 20% for large agencies and 30% to 40% for small to midsize agencies year to year.
- Spending will grow marginally for social media and will increase significantly for online video, especially around the upfront season.

# Advertising Update

## 1. Global digital director for a top-five advertising agency; repeat source

This traditional agency's spending is in the low single digits overall and in the low double digits for digital. Most of the spending is focused on mobile, social media and online video. Spending has increased on Google Inc.'s (GOOG) [YouTube](#) because of the ratings and guarantees. The agency is pushing more dollars through programmatic buying, which is keeping prices down. This source warns that [Facebook Inc.](#) (FB) might be pushing too hard into paid placement and is at risk of losing advertisers and ancillary companies that use its data to buy programmatically. The rate of ad viewing has become an issue.

### Spending/Revenue

- "Advertising spending will be up just under 4% in 2014. Our digital spending will be up 15% to 20%, and digital is 25% of our overall dollars."
- "What changed this year for Google and YouTube is their ability to get ratings and guarantee them. This is a big issue because it helped with our reach-based planning."
- "There is a big need to get reach ... to get messages out as efficiently as you can. Marketers and [CMOs](#) are becoming channel-agnostic. It doesn't mean as much that they story tell on a TV screen. ... The best place to story-tell is on any screen. The quality of the programming is giving marketers reasons to say, 'I want to be on YouTube videos.'"
- "A few years ago when [Yahoo! Inc.](#) (YHOO) made an announcement they would invest millions in programming, it didn't take off. But I think the industry wasn't ready and the ratings weren't guaranteed. At the end of the day, where is the money going to come from? If it comes from TV, it needs to meet the guarantees and measurability of TV."
- "[Nielsen \[Holding N.V./NLSN\]](#) was a big part of the ratings and measurability, as well as the [IAB](#). They helped create metrics where you could buy media in a similar fashion."
- "Our spending on Facebook and [Twitter \[Inc./TWTR\]](#) is growing 5% to 6% year to year. In my conversations with marketers, they see more of the value in the earned part than in the paid part. My advice to Facebook is to watch it, don't over-push on the paid because it could backfire. Too much frequency and it won't have an impact. And marketers will question the value of advertising there. That's why I believe Facebook is looking to other revenue streams to diversify with [Instagram](#). [Oculus Rift](#) an interesting purchase but more like a toy for [Facebook CEO Mark] Zuckerberg than a revenue stream—as well as their purchase of [WhatsApp](#), which we all believe was way overvalued."

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*Global Digital Director  
Top-five Advertising Agency*

### Rates

- "There is more pressure on pricing than ever, with programmatic pushing it and a plethora of channels and opportunities also pressuring. There has never been greater fragmentation. Ad dollars are not going up exponentially, so there is greater fighting for budget share. This is great for buyers as it provides negotiating leverage."
- "Video has come down from unrealistic highs in the \$20 per [CPM](#) range. They have come way down in expectations, and the pricing isn't out of whack anymore."
- "The big issue to watch out for is viewability; that's one that should be on the radar. On average, 30% of all ads are viewed; they don't get read or you have to scroll down. This is a big issue because we are buying impressions assuming ads are being viewed, but a vast majority are not viewed. That's where a secondary market is arising to measure—adding to more costs—to verify viewability. Cost is not in play as an issue as much as viewability."

### 2014 Visibility

- "The biggest growth with us will be through mobile and social media and video. These three areas are driving our spending with the most significant growth in programmatic media [bought through an exchange]. Every agency through the trading desk are moving more dollars programmatically through the trading."
- "CMOs are putting targets on shifting money to digital. ... They are saying 50% is targeted of all their media and marketing investment and needs to come through digital channels by 2016. This came from a traditional packaged goods company."
- "One of our major consumer packaged goods companies is coming to discuss their ecommerce strategy. What would a packaged goods company be thinking about in selling direct versus through a retail channel? What they have all said is they are following consumer patterns and behavior."

# Advertising Update

- “There was a [paper](#) written about the shift to digital and ecommerce, which basically said consumers, especially those in time-pressed jobs and urban areas ... are looking to do more through ecommerce, transact more online.”
- “There is a seismic shift in data and digital, and we are conscious about how to refocus a company whose largest investment has been in broadcast.”
- “Technology is enabling consumers to get entertainment differently, to communicate with peers differently. While technology is changing our behavior, our behavior is influencing technology. This has led to an abundance of data, and that data is driving the shift in our media spending. Advertisers want to personalize their message. You can’t do that in analog media; you can only do that in channels that enable addressability, which is digital.”
- “We are in a different place today than just a couple of years ago. CMOs are more neutral to the channel and saying, ‘I can story-tell anywhere as long as I get the audience guarantees and quality programming.’ Two years ago YouTube took the lead on this, as did [AOL \[Inc./AOL\]](#) and Yahoo and [Hulu](#). ... [They] were developing first-run programming. Back then they didn’t have the stuff to back it up—ratings and guarantees—so they were getting digital dollars, but it was share shift and not share gain. Now they are seeing a share gain.”
- “Broadcast and cable will continue to fight tooth and nail to get their share of the digital dollars, but they have to prove they can get the audiences because consumers are increasingly going elsewhere.”
- “Facebook and Twitter are doing more around data and analytics. Our spend with them is not as robust as it was in the growth period, but we are spending on ancillary companies that are utilizing [Facebook API](#) to get at the audience to do surveys and look-alike modeling to find audiences programmatically. In that case, Facebook just got screwed.”
- “There is a secondary ecosystem with Facebook and utilizing their data to inform and generate insights to a secondary market. ... All this data that is available in the market. They are not syphoning off dollars as much as creating a whole new ecosystem and mechanism to drive data effectiveness. So many companies are building platforms around data insights and targeting that it is hard to distinguish them from each other.”
- “The audio portion of our spend is not that big, but we do work with [Spotify](#), [Pandora \[Media Inc./P\]](#) and [Clear Channel \[Outdoor Holdings Inc./CCO\]](#), especially with certain brands where music is an important element.”

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*Global Digital Director  
Top-five Advertising Agency*

## 2. President/CEO of a top digital consulting agency; repeat source

Broadcasters’ quarterly and near-term views are visibly negative given the regulatory environment, but they could spin spectrum into gold in the long term from a technology point of view. This year social media will claim dollars from the search bucket but at a decelerated growth rate.

### Spending/Revenue

- “Spending on social media will grow low single digits year to year because I believe the rate of growth is decelerating and becoming more sophisticated in thought. People are being more diligent about what goes into social media, and the ROI is proving it.”
- “The cyclical aspect is steady as she goes, while significant structural changes are ahead. At some point structural has to come in harmony with cyclical.”
- “The short term for broadcast TV is much more muddled than the long term.”
- “There are three strikes affecting TV. The first is that Sinclair [Broadcast Group Inc./SBGI], Gannett [Co. Inc./GCI] and certainly Tribune [Co./TRBA] just got hit because of their ‘[sidecar](#)’ arrangements. The second strike is the broadcast decision concerning [Aereo](#), which is relying on the Cablevision decision in 2007 that allowed for centralized recording for copyright material. And the third strike is the regulatory rewrite of the cable act; the fundamental reality is a substantial rewrite of broadcast in this country. The status quo of today is based on the [cable act](#) from the early 1990s, and it is being revisited.”
- “You have to ask yourself if you are investing in TV over the long term because there is an inherent value in the limited, constitutionally protected spectrum that broadcast are given public use of. If the new regulations chip away at broadcasters, it doesn’t devalue the spectrum. There will be tech-driven business models that are not based on reruns of prime-time shows.”

# Advertising Update

- “The beauty of the spectrum is in the eyes of the beholder. If you are looking at spectrum used to further advance the broadcast media model, you could argue that broadcast-driven stocks are less and less valuable. But if a long-term investor is interested in broadcast spectrum as a pure play of raw material, then broadcasters are in the refinery business: Spectrum is refined into gold and silver, and a tech investor would see them differently.”
- “Some of the long-term tech issues relating to targeting abilities of local broadcast are already starting to show up. The addressable ad targeting that [DISH \[Network Corp./DISH\]](#) and [DirectTV \[DTV\]](#) offer are being played around with at cable nets and NBC-owned [Comcast Corp./CMCSA] cable nets by national advertisers. There is a rapid rise of online video as the ad environment moves to audience-based targeting.”
- “National and local advertisers have more competition in the last two years via cable sophistication, online video for TV and targeting abilities.”
- “There is a theme where I see social becoming the new search. It seems to be evolving most elegantly from the search bucket, which is 30% to 40% basis points of the online budget, so it has a readymade pool of money that fits more readily into the social bucket.”
- “I’m not sure the [Google/YouTube deals](#), which are in the press, are that substantial. I think the agencies want to appease their marketing clients with an intelligent video option that has scale. Scale is the ultimate buying decision. YouTube represents the largest amount of video content, but I’m very cynical [about] certain agencies committing certain dollars to YouTube. The reality is there is no law that guarantees ratings, so a lot of it is posturing for YouTube and Google to show they’re in a position to lure other broadcasters. The reality is it’s not the agency but the marketer dollars’ positioning and posturing. I will believe the flow of dollars when I see them. \$100 million in the press is meaningless.”
- “Twitter is doing a good job of figuring out other areas of business. It is the [Bitly](#) for the world, and there is value there.”
- “Facebook in the last number of weeks has been tweaking the algorithm for people hoping for earned and owned media results. Either you are optimizing or you pay directly to Facebook. That model will always go back to the owner of the platform. Google did it, Facebook is now doing it, and Twitter will do it.”

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*President/CEO  
Top Digital Consulting Agency*

## 2014 Visibility

- “I’m cautiously optimistic. I believe we are healing from the macroeconomic recession and the political cycle. But we are largely in a steady state in the ad market. It is neither hot nor cold—marginally more positive with political dollars. The World Cup and the Olympics this year added a seasonal bump, which was a little bit of spice to an otherwise unexciting marketplace.”
- “The minute people start to abandon Facebook and the unfettered growth with its vertical monetization model no longer functions, how much do advertising and marketing impede on the experience? Facebook is closer to crossing the line this year, while [Snapchat](#) and [Pinterest](#) are on the precipice. Either they will have to pull back or users will begin to question the platform. This is why you see Facebook diversifying, buying WhatsApp.”

## 3. CCO and partner of a top social digital agency; repeat source

Spending on social media continues to increase in the low to mid-double digits. The formula to success is changing from the earned, owned and paid strategy. Facebook has made obtaining amplification more difficult unless the advertiser pays for it. Instagram and Pinterest are figuring out how to monetize their platforms.

### Spending/Revenue

- “Spending on social media will be up between 30% to 40% year to year.”
- “There was definitely spending around the Oscars and the Superbowl. Brands are starting to think about the World Cup now. Live events are a big part of where Twitter and to some degree Facebook are going. I would have to imagine these platforms are seeing more and more spending by the nature of the general growth in dollars shifting over to mobile. There are very few places that brands can spend on mobile.”

### Rates

# Advertising Update

- “Paid media rates fluctuate. There is premium and cheaper inventory. These platforms are their own economy, and they can bring on more inventory as needed. The page views are there. Pricing is going to be pretty flat. It will all depend on what inventory you want.”

## 2014 Visibility

- “Online video is a hot topic these days. The brands think it is an interesting place, interesting products out of Pinterest and other platforms.”
- “The big conversations have been around organic content not having the same reach as it used to and paid media in social taking center stage. The brands are starting to see their organic brands dwindle down. You have to pay to play. Earned media in the world of earned, paid and owned—it doesn’t exist outside of content marketing strategies. The definition of earned media is starting to evolve quite a bit. ... Twitter still has a following, [but] I can’t imagine that it will be able to do what Facebook is doing to force brands to play.”
- “Facebook is moving toward wanting to be a mass market, mass media, paid media platform with a billion users worldwide—a very different proposition than Twitter. ... I question the comparison of these two platforms; they have very different usage.”
- “Absolutely, there are success stories with social media. ... There are pretty strong performance marketing applications from awareness and brand-building standpoint on Facebook. ... A good part of the value that Facebook brings is to drive through mobile. ... The problem is brands are not currently set up to take advantage of mobile.”
- “I don’t think Instagram has started monetizing—probably no activity this year. They just did a [deal](#) with Omnicom [Group Inc./OMC]. Pinterest just made some good [hires](#), and there should be some ad products rolling out. They are probably the next on the list to get them acquired. They have scale and a defined audience.”

The big conversations have been around organic content not having the same reach as it used to and paid media in social taking center stage. The brands are starting to see their organic brands dwindle down. You have to pay to play.

CCO & Partner  
Top Social Digital Agency

## 4. Director of marketing for a digital advertising marketplace

Digital spending grew in the low double digits in 2013 and is expected to grow at the same pace this year. Audio and online video are growing the fastest in terms of digital spending.

### Spending/Revenue

- “First-quarter budgets are flat ... but we are expecting double-digit growth for the full year, year to year.”
- “We just bought a video company, so we are very bullish on online video. I think in the next 18 months you are going to see a lot of advertisers figuring out that TV and online video are nearly identical, and that there is a greater advantage in targeting online.”
- “The share of our spending for online video is 10% to 15%, and this share will continue to grow.”
- “The percentage we spend on social media out of our overall budget was 15% last year, and this year will move to 20%.”
- “Social moved from a hobby to a business in 2013, and online video is moving from a sidebar to a real business platform by 2015. This is a function of where the eyeballs are going, and they are increasingly going online to watch.”
- “Ten percent of our spending is on display. We are getting results from recommended content, especially on news and informational sites, where at the bottom of the article there are links to other things you might be interested in of similar content. This is a big driver.”

Social moved from a hobby to a business in 2013, and online video is moving from a sidebar to a real business platform by 2015. This is a function of where the eyeballs are going, and they are increasingly going online to watch.

Director of Marketing  
Digital Advertising Marketplace

### Rates

- “Facebook’s newsfeed pricing is up slightly year to year.”

### 2014 Visibility

- “We are optimistic for the full year. Second quarter is always strong for us, then third quarter is a little slower due to summer, but fourth quarter rocks.”
- “Spending was up 35% to 45% in fiscal year 2013, and we expect to do the same this year.”

# Advertising Update

- “There are certain verticals such as gaming apps that we are increasing our spending on this year on Facebook. The prices have inched up. [Facebook Exchange](#) is improving as Facebook gets more data.”
- “We are very bullish on Twitter. Twitter is working quickly to make some things happen. They have just partnered with ... Datalogix to [import](#) up as a bunch of data. At the end of the day, advertisers don’t care if Twitter’s user base is growing or not; the users they do have are engaged. As long as there is ROI—and there is—that’s all advertisers care about.”
- “Instagram and Pinterest are not monetizing their sites yet. They are not turning the key as quickly as Facebook and Twitter, but we see huge potential on Pinterest.”
- “We do not do search here, but we believe email is as good as or better than search.”

## 5. Group media director for a midsize digital agency

This year’s growth rate is slightly lower than last year’s 10% to 15%. Spending is moving to online video, social media and mobile.

### Spending/Revenue

- “Spending is up in the low double digits. It depends on the client. We have some with budgets up 5% to 10% and some that are up as high as 10% to 15% year to year.”
- “We have been seeing more dollars shifting to online video, mobile and social over the last couple of years.”
- “We are spending more on social. The percentage of our budgets we direct toward social is 25%.”
- “We have been buying more than Facebook and Twitter. We also are on Instagram, Pinterest and [Tumblr](#), which are all doing very well.”

We are spending more on social. The percentage of our budgets we direct toward social is 25%.

*Group Media Director  
Midsize Digital Agency*

### Rates

- “It depends on what we are buying; some social platforms the rates are stable, and some are up slightly.”

### 2014 Visibility

- “For the full year 2014, we expect to be up 10% year to year.”
- “We are buying across multiple screens—it’s mobile, online and elsewhere.”

## 6. Director of digital media for a large toy manufacturer

This marketer’s \$30 million budget for digital media is up slightly year to year. Most of its spending goes toward video. The source has been able to drive down costs on online ad networks as well as for kids’ programming on cable TV.

### Spending/Revenue

- “Spending is up slightly year to year.”
- “Search is 10% of our spending while video is everything—about 80%. Even our mobile advertising has video. We buy mostly ad networks for mobile such as [AdColony](#), [Google’s] [AdMob](#) and [Millennial \[Media\]](#) as well as Facebook and Twitter.”

### Rates

- “The average buyer is most likely paying small increases for digital, but we are driving our costs down. Mostly rates are flat year to year because we buy a lot and very efficiently.”
- “We tie our rates to click or completed view.”

### 2014 Visibility

- “Fifteen percent to 20% of our overall ad spending is digital and will be focused on video in 2014. Our overall ad budget is spent mainly on cable TV.”

## 2) NETWORK TV/CABLE BUYERS AND SELLERS

These six sources said first-quarter spending started out healthy but then dropped back early in the period. Scatter prices are in line with upfront's. This is similar to what happened in the fourth quarter of 2013, when the market went dark after October. If the trend continues, the upcoming upfront season's pricing will be significantly affected. Sources have made early predictions of flat spending for the upfront market and more shifts to digital.

### KEY SILO FINDINGS

#### Spending/Revenue

- First-quarter scatter spending is flat to down year to year.
- Upfront spending is expected to be down for broadcast, flat to up slightly for cable, and up significantly for alternative suppliers with original programming.

#### Rates

- First-quarter scatter deals were being negotiated to be in line with upfront rates.

#### 2014 Visibility

- Advertisers are seeking out original programming. [Netflix Inc.](#) (NFLX) and [Amazon.com Inc.](#) (AMZN) are poised to be formidable competitors, and now Yahoo [has announced](#) its own original programming. More TV dollars will be shifted to alternative suppliers this upfront season. Those most under threat are the second- and third-tier cable networks.

### 1. President of ad sales for a top-tier cable network; repeat source

First-quarter scatter slowed to fall in line with the fourth quarter of 2013. Upfront budgets still are being worked out, but online video has a lot of mindshare going into the negotiations.

#### Spending/Revenue

- "The scatter market has been steady. It's week by week."
- "First quarter did slow down earlier than usual, and second quarter began to kick in."
- "Remember the Olympic money from February 2014 will come back into the market."

#### Rates

- "Scatter rates are on par with upfront."

#### 2014 Visibility

- "It's still too early for upfront, but I do believe certain categories could be good, like studios, auto and tech."
- "Online video is a hot topic, and a lot of the agencies have reorganized their TV buyers to control online video now."
- "Mostly with media companies, they do upfront on linear."

Online video is a hot topic, and a lot of the agencies have reorganized their TV buyers to control online video now.

*President of Ad Sales  
Top-tier Cable Network*

### 2. Executive director of national broadcasting for a top-10 media company; repeat source

Scatter spending was slower in the first quarter and appears to be soft in the second quarter as well. This agency is looking to shift more TV dollars into online alternative channels and social. Last year upfront premiums were unjustified; rates were one or two points too high year to year.

#### Spending/Revenue

- "The scatter market is not good at all. We are getting calls of networks in distress. The Olympics took a lot of dollars out of the market."
- "We are seeing decent spending in cable."
- "Fourth quarter was slow but better than we had thought, and then by the end of January 2014 we were getting calls for deals."
- "Options firmed up OK. There has been no bad economic news."

#### Rates



# Advertising Update

- “Scatter rates are on par with upfront.”

## 2014 Visibility

- “Second quarter we don’t have a lot of scatter on our books. We are looking at video, not TV, and money is migrating from broadcast to cable first tier and then being diverted to social and online. Third-tier cable will suffer.”
- “Social continues to grow, and that will come from TV budgets. The top tier is trying to get money.”
- “We don’t know if the first quarter was an anomaly or if there is an issue in the economy. There is no justification for the market to get rate increases. Last year at upfront everyone agreed on a number, and it took off. But it was overpriced by a percentage point.”
- “There are a lot of questions around Hulu. ... They used to own inventory, but now broadcast owns the inventory and sells it to Hulu, with some changes in the corporate structure. [Hulu Plus](#) is a joke; it’s subpar and not doing as well as they had thought.”
- “There is a lot of pressure from Google and YouTube for these corporate deals; they did a deal with [Initiative](#) for \$100 million investment. Google is offering more original and tiered programming. They are making up artists like these YouTube stars that they created and are bundling into a premium package. It’s a smart model for them because the more eyeballs they have, the more investment they will attract.”
- “If Google sucks out \$100 million at a time from the TV budget, we would feel it. They were in the other day, and they are so bold. They’ve reorganized their sales structure and are continually tweaking their analytics.”
- “Everyone is talking about social, and Twitter is trying to sell it. Content deals with broadcasters for big events are being negotiated.”

### 3. Group director of national network TV for a top-five media agency; repeat source

Scatter was slow in the first quarter because of weaker ad spending. The shift to digital began a few years ago and has not intensified this year. TV spending is shifting to online video as prices have come into parity with broadcast.

#### Spending/Revenue

- “Scatter spending is soft, and prices are flat to upfront. All suppliers are well enough sold out to not lower their prices because upfront is just around the corner.”
- “The assumption that the Olympics sucked the money out of the quarter is erroneous because that money usually comes out of its own budget. Sometimes it comes from TV budgets, but mostly it is not dollar for dollar.”
- “There are more suppliers on the cable side and more money coming out of broadcast and going to digital.”
- “With full episode players, the cream rises to the top because people aren’t going to VOD to see crap.”
- “Full episode players are supposed to have a better commercial load but viewers are showing tolerance, so they keep adding more spots.”
- “ABC’s [The Walt Disney Co./DIS] [full episode player](#) has *Scandal* and *Modern Family*, the good ones. When we buy our mix, everything is in there.”
- “The big shift to digital started happening a couple of years ago; this year is just a continuation of that.”

#### Rates

- “Pricing is on par with broadcast and full episode players, so that is why there is more money following online options. This is free money for the networks because it is inventory they already had and sold.”
- “As soon as the price point got to be equal to broadcast, it made digital more viable.”

#### 2014 Visibility

- “Our upfront broadcast dollars will be down with cable up only slightly because there are more channels available, so it’s not like [Scripps \[Networks Interactive Inc./SNI\]](#) or [Comcast’s] [NBCU](#) will be getting the lion’s share.”
- “Ad dollars are soft, and we are dropping our third-quarter options because our clients’ revenue is down.”
- “I think broadcast will win the battle with Aereo.”

Pricing is on par with broadcast and full episode players, so that is why there is more money following online options. This is free money for the networks because it is inventory they already had and sold. ... As soon as the price point got to be equal to broadcast, it made digital more viable.

Group Director of National Network TV  
Top-five Media Agency

# Advertising Update

- “Digital will continue to get more dollars. We only deal with linear heritage from the broadcast budget. Our digital group handles buying Netflix and Amazon and non-professionally generated stuff. There is a higher commission on digital, so they are funneling as much there as possible.”
- “Third-tier cable networks are suffering from the shift to online—networks such as [Crown Media Holdings Inc.’s/CRWN] [Hallmark Channel](#), [Discovery Communications Inc.’s/DISCA] [Destination America](#) and [AMC Networks Inc.’s/AMCX] [WE TV](#).”

## 4. Executive vice president/director of national broadcast for a top-five media buying agency; repeat source

Scatter spending was slow in the fourth quarter, and the slight boost at the beginning of 2014 has since leveled out. TV spending for the 2014–2015 season is expected to rise 2% year to year.

### Spending/Revenue

- “Scatter spending is slow with fourth quarter having petered out sooner. And now the first quarter started strong but then leveled out. Premiums have not really been there.”
- “We had called for a more active scatter market than this, but there has been less backup on the upfront than we had expected. At the time we called it, we felt that upfront had been softer but that scatter would reveal dollars that had been held back by advertisers simply looking for more flexibility that just didn’t materialize.”

### Rates

- “We are seeing no premiums versus upfront, so rates are flat to upfront prices.”

### 2014 Visibility

- “We are headed into the upfront projecting a slightly more active market, but I’m beginning to wonder if digital is finally beginning to take bigger bites out of the TV apple.”
- “This next year will show a lot how much is going to shift to digital.”
- “Google’s YouTube is doing upfront deals with everyone, but most of the dollars are based on existing spend rolled up with some reasonable increases in spend. I don’t think this will substantially affect TV spending.”

## 5. President/executive director for a top-five media buying agency; repeat source

This source’s 2013 budgets were flat going into the upfront season. Scatter spending dropped off after Thanksgiving, but this top negotiator was not concerned. Prices were up in the low to mid-single digits in the previous upfront season and are expected to be similar this year.

### Spending/Revenue

- “The scatter marketplace is just there; we aren’t hearing any ridiculous quotes by anyone.”
- “The ratings are not as bad as most expected they would be. They’re down 4% to 5%, where most years it was down 7% to 8%. There is more supply than networks had thought, and this is moderating demand.”
- “We are not seeing any cutbacks in options.”
- “We are seeing radio and print budgets suffering, while most dollars are shifting to online based on consumer preference.”

### Rates

- “Scatter rates are up slightly over upfront as scatter spending has dried up.”

### 2014 Visibility

- “It’s too early for upfront, but we are asking how much do we allocate to different venues. I believe this year online video will affect TV budgets.”
- “We are increasing our spending on social on a small basis. If our allocation doubles this year, it doesn’t impact TV much. There is a general shift happening from traditional to digital across all media.”

**It’s too early for upfront, but we are asking how much do we allocate to different venues. I believe this year online video will affect TV budgets.**

*President/Executive Director  
Top-five Media Buying Agency*

## 6. Executive director of national broadcast (also included in print) for a top-10 media company; repeat source

Network TV spending was weak in the first quarter on scatter, while local spot TV markets saw inventory tighten in certain markets. Upfront is expected to be up slightly but not on broadcast, and cable will see its share split among new alternative channels offering original programming. Audio budgets are seeing a resurgence and are up 15% locally and flat nationally.

### Spending/Revenue

- “Network guys are saying that ABC and CBS [Corp./CBS] have inventory to end the quarter due to more inventory. Cable people were not sold out either.”
- “The reason scatter is soft is that there was more sold in the upfront last year, there are no brand wars, and there are very few cancellations in the option period.”
- “Local markets are seeing clusters, like in Texas, Florida and Nevada, as stronger. Inventory is tight in some markets, and we are finding relatively few pockets of softness.”
- “Social media is coming out of our TV money because our people are building social programs around any effort of sponsorship on TV.”
- “Fast food is using a social program for promotions and new menu entries.”
- “Social is designed to support a TV campaign, and the money is coming from the TV budgets. We are prepared to give up TV money to do the social thing because we can create a preview or a big amplification on a lot of different platforms—from Facebook to Pinterest.”
- “Google’s YouTube news is that the agencies are all in competition with themselves, and they have to show how avant-garde they are. ... These \$50 million or \$100 million deals between agencies and Google ... are not news. We make the same kind of announcements all the time just to position ourselves.”
- “Local radio spending is up 15% while national is flat.”
- “Radio has a chance to do something they haven’t in a while—or, rather, audio. There are more vendors coming onto digital, and there is consolidation in the AM and FM band, as well as amplification opportunities on [Clear Channel’s] [iHeartRadio](#) and Pandora.”
- “Audio has a very large Hispanic piece. In top markets, the Spanish station is the top one or two in the market.”
- “Pandora is increasing their ad schedules more often, but advertisers are accepting it.”
- “More and more out-of-home is moving into the digital universe. We are seeing it in subway stations with Wi-Fi. [JCDecaux \[S.A./EPA:DEC\]](#) is acquiring a lot of this inventory.”

“Second quarter could have been put to bed by now, but we are finding no pressure to place the money because we want to see how far down prices can go.”

*Executive Director of Natl. Broadcast  
Top-10 Media Company*

### Rates

- “Scatter rates are flat to upfront pricing.”
- “The upfront will yield fairly flat rates year to year for broadcast. And on cable, there are so many fringe networks developing original programming that are in demand. ... Now you have Hulu, YouTube, Amazon and Netflix. These additional content providers are going to keep costs down.”

### 2014 Visibility

- “Second quarter could have been put to bed by now, but we are finding no pressure to place the money because we want to see how far down prices can go.”
- “Upfront budgets are starting to shape up, and we will be a lot clearer a month from now. A lot of advertisers are not even close to getting a final number together. Spending might inch up a little bit, but we won’t see up 5% to 10% as we have in years past.”
- “The addition of new content providers will affect how much the top-tier cable nets can grow their business.”
- “Programmatic—no one is ready. I think there is one shop doing it but not the industry yet.”

## 3) LOCAL BROADCAST BUYERS AND SELLERS

These seven sources said first-quarter spending on local broadcast was mixed and was determined by the market and the affiliate. Those stations that aired the Olympics attracted more spending. Overall, sources' first-quarter revenues were flat to slightly up. The second quarter still is coming together, but most sources are seeing single-digit spending growth. Station managers are looking forward to the second half of 2014, when political spending will kick in.

### KEY SILO FINDINGS

#### Spending/Revenue

- First quarter was flat to up slightly for all but 1 source, whose spending was down because of challenges in the market.
- The Olympics affected local markets; those airing the event were able to attract spending.
- Radio enjoyed a good January and February, only to experience a weak March—the largest revenue producer of the quarter.

#### Rates

- Rates have been relatively flat for local broadcast year to year.

#### 2014 Visibility

- Sellers expect core business to be up in mid-single digits and, with political spending included, in the low double digits this year.
- Audio streaming is commanding more attention, and dollars are being shifted to online.

## 1. General sales manager for a local station group in the West; repeat source

This spot TV market's competition includes tech advertisers and online options. Spending was flat and rates were lower in first quarter year to year. Second-quarter visibility is opaque.

#### Spending/Revenue

- "If first quarter is an indication of 2014, it is not a good year. We had some big events that pulled money out of the market. We are pacing behind, but then again so is every station in the market except NBC affiliates. The market is still not in a good place."
- "First quarter is fairly flat if you are taking the Olympics out of the equation, which hurt the market more than usual."
- "The ratings in this market are lower than the rest of the country because of the [People Meter](#) that Nielsen rolled out, which has been very challenging here."
- "We also don't have any political spending per se."
- "Auto spending has been strong because they expect to keep selling a lot of cars."
- "AT&T is spending even though they are down dramatically year to year."
- "Comcast is still spending."
- "Retail has been pretty good but not as good as years past."
- "We're seeing a lot of new business with home improvement, healthcare, with a lot of Obamacare going into the market."
- "Casinos have just started spending. They were big in the fourth quarter and doing about half of that spend in first quarter."

If first quarter is an indication of 2014, it is not a good year. We had some big events that pulled money out of the market. We are pacing behind, but then again so is every station in the market except NBC affiliates. The market is still not in a good place.

*General Sales Manager  
Local Station Group, West*

#### Rates

- "Buyers thought they could negotiate lower rates because of less activity and only one station being tight in the market. Rates are lower even though ratings aren't lower."

#### 2014 Visibility

- "Second-quarter paces are low, but we still don't have a good read on it."

## 2. General sales manager for a local station group in the Midwest; repeat source

The full year is expected to be up in the mid-single digits. First-quarter paces were strong, especially considering the fourth quarter of 2013 went dark sooner than usual. However, the first quarter's revenue was in the low to mid-single digits, and the second quarter is expected to be similar.

### Spending/Revenue

- "Local spot is OK, but a lot like network right now OK, but if you have the Olympics, you sucked up a lot of money."
- "All categories seem to be doing all right."
- "First quarter had started off pacing way ahead, but we have stayed in the same place since December 2013. Revenue is coming in low single to mid-single digits. But considering we were up against the Olympics, we are pretty happy."

### Rates

- "Rates are up slightly year to year."
- "Rates will move up to high single to low double digits in the third quarter."

### 2014 Visibility

- "Second-quarter paces are OK, but we don't see a lot of the quarter yet."
- "We expect to be up mid-single digits for 2014 year to year."
- "We're in the midterm election cycle, and there will be seven weeks of displacement. We need a strong November and December."
- "We are doing a lot with social media in the owned and earned side. We are spending on the talent and management for social media rather than on the platforms."

## 3. General sales manager for a local station group in the Midwest; repeat source

Core advertising is up in the single digits, but Superbowl comps hurt this manager's first quarter. The second quarter is still coming together, with paces in the single digits.

### Spending/Revenue

- "We had the Superbowl last year, so we're down year to year this quarter, but if you adjust it out, we are doing pretty good."
- "National and local advertisers are spending in core."

### Rates

- "Rates are up slightly year to year."

### 2014 Visibility

- "Second-quarter paces are in the single digits."
- "I'm feeling optimistic."
- "We are hoping political is stronger than it was in 2012."

## 4. Media VP/director of local activation for a top-five media buying agency

Budgets are up in the high single to low double digits for spot TV, driven by higher rates from major live events and expectations of political spending for the back half of the year. Radio budgets are stable but could see overflow from sellouts during the political season. Major growth drivers are the telecom, healthcare and auto categories.

### Spending/Revenue

- "Budgets for local TV will be up in the 8% to 12% range because of major live events. Radio is up mid-single digits because of spillover from TV to radio due to sellout and CPM increases as a result of political, Sochi [Olympics] and the World Cup."
- "Live events such as awards shows continue to show growth for sponsorships, spots and sellout."
- "The drivers of growth are healthcare, including the Affordable Care Act, and automotive, which has pent-up demand, strong sales projections as well as vehicle launches."

# Advertising Update

- “There has been an increase in telecom on TV—also product offerings by telecom for on [MVPD](#), which are local by DMA [designated market area].”
- “Travel and tourism are up in key markets for domestic as well as international destinations.”

## Rates

- “Rates are relatively flat in the first half, but increase in the high single digits to low double digits around major live events and political.”

## 2014 Visibility

- “2014 will be up in the high single- to low double-digit range.”
- “In 2015, due to non-Olympics and less political, growth will be minimal, but travel/tourism, telecom, auto, entertainment and healthcare will continue to have some increases to offset a portion of the political decline.”
- “We walked away from a trade partnership proposal because the [CPP](#) was so low, it was better not doing a trade deal at all. Buyers are asking for stupid, aggressive CPPs, but it’s the same thing, different year. With our big clients looking for low CPPs, we are giving them less inventory than those who aren’t so low.”

## 2014 Visibility

- “We expect to be up 1% to 2% in 2014 year to year for core business. With political we will be up 21%, while the market anticipates it will be up 17.9%.”
- “We are predicting strong political spending in 2014. We budgeted for \$47 million gross.”
- “Auto is very important in our market still, but grocery and telecom are improving.”
- “[CenturyLink \[Inc./CTL\]](#) is laying new fiber optic cable, which is causing DISH and DirectTV to spend.”
- “The financial category is spending from life to health insurance. And healthcare is spending.”

## 5. Executive vice president of local broadcast advertising for a top-three media agency; repeat source

First-quarter local broadcast spending was sluggish as advertisers moved more dollars to digital. Radio was soft, and spot TV was flat to down in the single digits. Political is expected to help in the back half of 2014.

### Spending/Revenue

- “2014 spending is tepid.”
- “First-quarter radio spending is flat. I’ve heard radio is soft in the first quarter in terms of ad dollars but that listening is up because of the bad weather.”
- “First-quarter spot TV spending is flat to down single digits. I think the softness in core spending on spot TV is because clients like the targetability of digital and they see digital spending as less of a waste. The broadcast model has always had the shotgun approach.”
- “We went from 8% of our radio budget to 10% to 11% but we are seeing our spending creeping up on audio streaming. We spend on other streamed audio as well, but Pandora gets the lion’s share.”
- “I hear anecdotally that Pandora is serving the same ads all the time, but those complaints are coming from Pandora’s competitors.”

### Rates

- “First-quarter radio rates are soft, and I’ve heard stations blaming it on the weather. Someone said that some auto guys were cutting their radio spending because they had to pay snow plows to clean off six inches of snow off their lots instead.”
- “Spot TV rates are down in the first half of 2014 following the auto and retail’s weakness, but the back half has political.”

### 2014 Visibility

- “Political will help spot TV toward the end of the year, but the big, national packaged good brands are slowly decreasing their spending on spot TV to move elsewhere—social, mobile and online video—mostly because of better measurement. Clients are seeing results there.”
- “Nielsen is trying to measure over multiple devices and multiple audiences, and they haven’t rolled out their audio product yet. But TV is getting there. They are saying it will be out by the end of the year. Stations are anxious to get across all devices.”

Political will help spot TV toward the end of the year, but the big, national packaged good brands are slowly decreasing their spending on spot TV to move elsewhere—social, mobile and online video—mostly because of better measurement. Clients are seeing results there.

*Executive VP of Local Broadcast Advertising, Top-three Media Agency*

# Advertising Update

- “I can’t say to what degree social is pulling money from local broadcast, but brands are certainly understanding the value of Twitter, Instagram and also Facebook, and are figuring out how to incorporate.”

## 6. Director of local broadcast advertising for a top-five media agency; repeat source

First-quarter ad spending was soft across spot TV and radio, while audio streaming experienced an increase, which benefited Pandora. The source noted an underlying trend of advertisers shifting their dollars to media that can target audiences, which will boost social media, mobile and online video suppliers.

### Spending/Revenue

- “We are seeing a lot of incremental dollars in the first quarter shift to second quarter.”
- “Our spending is flat year to year.”
- “We can be very local with geo-fencing, and yet our budgets are not going up. Clients are starting to see more ability to buy ethnic, and they are understanding the nuances across the U.S. through digital.”
- “Retail and packaged goods are spending more.”
- “We are working across all streaming audio with Pandora becoming more mainstream with pop, and there are some issues about measurement. Now that [Nielsen bought Arbitron](#), there could be better measurement. People spend different times with Pandora versus terrestrial radio. Investors lost money in radio, and now they are coming back to pure plays like Pandora. And they are not exclusively bringing these dollars from digital buckets.”

### Rates

- “The rates in the first quarter always have multiple ups and downs. January was easier to place at flat rates, February had the Olympics, so it depended on what and where you placed. Then March was tougher. There are less ratings points on the supply side, so it makes it more expensive and you have to expand your buy.”
- “We are paying base inflation rates of up 3% to 4% year to year without political. The ratings are down 10% to 15%, but you can’t drop the rates 10% to 15%. In the third quarter, the real concern is that rates could be up 15% with PAC money and different legislations.”
- “Pandora pricing is for less ad clutter, a different syndication model for national, and it is not a unit price but a CPM. In terrestrial radio the clutter is accepted, but with Pandora getting more popular there is a fear of clutter.”

### 2014 Visibility

- “No one is on full-tilt spending. All advertisers are cautiously optimistic. No one knows what is going on with the economy. Healthcare was supposed to play a bigger role, but it hasn’t materialized.”
- “Social and mobile are getting more share of spending. A digital planner is always thinking of ways to take more dollars.”
- “The auto business with its five tiers of money is now two tiers: just dealer groups and factory. These are not big bucks, and they don’t spend in every market.”

## 7. Local broadcast consultant; repeat source

The first two months of the quarter were good for radio, but March, a critical month, was soft. Audio streaming is gaining momentum. Apple Inc.’s (AAPL) [iTunes Radio](#) brings cache to advertisers’ marketing plans.

### Spending/Revenue

- “I think the first quarter will be up 1% or 2% year to year for radio, not what was hoped.”
- “I heard national is down 11% for [Katz Media](#).”
- “January and February have actually been better than expected, maybe even better than normal—less griping about winter slowdown. However, there may be some time delay to weather problems; I’ve heard March is a little slower. ... March contributes more dollars to the first quarter than other two months.”
- “Some political dollars are already flowing, not a lot, but giving hope for a record midterm year. It could be a watershed year for political. More hyper-targeting will be done by the GOP like [President] Obama did in 2012. What this means for radio is yet to be determined.”
- “Healthcare is mixed—better than it was but not as high as hoped.”

# Advertising Update

- “Auto is still driven by local dealers, but weather has had an impact there too. It is market-dependent. I spoke with a Midwest guy today, and he’s off 10% at his company.”
- “Wal-Mart and Sears have cut spending on radio, but there has been growth from Lowe’s, Target and J.C. Penney.”
- “Telecom is strong with AT&T, Verizon and T-Mobile all spending, and there is no sign that car insurance is slowing down either.”
- “Retail and restaurants are weak.”

## Rates

- “There is nothing to push rates up.”

## 2014 Visibility

- “I think the year will be up slightly.”
- “There is a sign that some old consumer packaged goods spenders are coming back.”
- “[Pandora’s] spot load is up a bit but still way below terrestrial, but the best I can see is they’re not yet able to sell that low inventory advantage. They do get higher CPMs, but it’s based on making people register so they can sell targeted campaigns instead of the less targeted broadcast that radio and a lot of other sites are selling.”
- “Radio guys still tell me they’re not seeing any impact in local markets from Pandora. Agency folks—all national advertising—recently brought up iTunes Radio more than Pandora. Buyers like being able to put Apple on the media plan. There is a lot more cache to Apple. They say it should help Pandora and even traditional radio guys’ webcasts though since it brings dollars to that space.”

Agency folks—all national advertising—recently brought up iTunes Radio more than Pandora. Buyers like being able to put Apple on the media plan.

*Local Broadcast Consultant*

## 4) PRINT BUYERS AND SELLERS

These three sources said print spending and revenue continue to suffer as more advertisers turn to digital. However, two of the three sources were able to increase rates after cutting them drastically during the recession.

### KEY SILO FINDINGS

#### Spending/Revenue

- Spending is flat to down year to year.

#### Rates

- Rates are up slightly year to year.

#### 2014 Visibility

- Print sellers are expecting slight growth year to year in 2014.

### 1. Director of advertising for a midsize daily newspaper in the Southeast; repeat source

This source is more optimistic now than in the past few years. The fourth quarter posted a slight increase year to year, compared with the first three quarters’ flat revenue. Overall, 2014 is expected to be up 2% year to year. Rates are up in low single digits. The local economy is improving even while mom-and-pops continue to struggle. The local housing market has made gains in the past few quarters.

#### Spending/Revenue

- “The first two months of the year were down 1% to 2% from what we expected, but then we made it up in March when we were up 9% to 10% year to year.”
- “We had a good week last week with 20% more sales. Advertising revenue was flat, but we got \$7,000 or \$8,000 on programs of big events.”
- “We expect full year to be up 2% to 3% year to year.”
- “The underlying fundamentals are what I expected: slightly down the first two months and then a big event helped us make it up in March. In January, our legal advertising dropped 40%. These are ads required by law, legal notices where they have to run the ad four times. This varies month to month, but it hurt our January.”



# Advertising Update

- “The nasty weather with lots of rain and two big snow storms hurt us. We lost three days of sales in February.”

## Rates

- “We have increased our rates about 5% on magazines, and our package rates, where the cheapest is \$275 to \$295, are up 8% to 9%, which is a modest increase. If we keep doing these packages, we’ll edge up the prices over the next few years and get back to where we were prerecession.”
- “Our rate increase outpaced inflation for over 25 years, but we were the low-cost providers and there was ROI. And then we priced ourselves where only the largest advertisers could afford us.”

## 2014 Visibility

- “There is a new optimism coming. Advertisers who didn’t want to talk about June because it was too far away are beginning to talk.”
- “I see certain trends happening in the market. Metros are still trying to figure out what to be in the future relative to large circulation and high rates. They still need to pay operating costs, and I’m not sure if they’ve touched bottom yet. There is still a core group of advertisers who rely on the paper for immediate sales and preprints are continuing to be strong. The ROP [run of print] side is still adjusting to the new reality because they are too big to be local and they are not *The New York Times*. The second bucket is a group of smaller dailies and weeklies in markets that are not doing well. They continue to struggle in the migration to the metro world. ... The third bucket is the kind of papers that are in good, lively markets that will hold their own. There is a bit of a reversal for advertisers who left social and Google [AdWords](#) who are coming back to newspapers. We are seeing it this month with advertisers making an effort to contact us, so I see the pendulum coming back a little. This last bucket makes up 25% to 30% of newspapers around the country.”
- “When I look at the other markets, we are so much better off because of tourism and our golf courses. Manufacturing has all gone away, and there is nothing to recover there.”
- “*The New York Times* [The New York Times Co./NYT] is the biggest receiver of national advertising. They dumped *Boston [Globe]* and are selling off all of their community papers, cutting down to the core business. ... The era of that kind of national advertiser paying \$100,000 for an ad in a paper is not here anymore. This type of advertiser used to be *The New York Times*’ bread and butter.”
- “[Gannett’s] *USA Today*’s biggest obstacle is their gigantic circulation. They are going to have to go down to bite size for advertisers. The one thing they have working for it is an understanding of content and length. We should all pay attention to what they have done.”
- “The industry editors have to do a better job of making it read quickly. [News Corp.’s/NWS] *The Wall Street Journal* does this very well—the column on the left summarizing. I think we should all go back to the triple-decker headlines, like 50 years ago.”

There is a new optimism coming. Advertisers who didn’t want to talk about June because it was too far away are beginning to talk.

*Director of Advertising  
Midsize Daily Newspaper, Southeast*

## 2. Director of advertising sales for a midsize daily in the Midwest; repeat source

The first quarter was slower than usual, with winter weather dragging on sales. The paper was able to move rates up year to year. Full-year revenue was expected to be up in mid-single digits but has since been readjusted to be low single digits year to year.

### Spending/Revenue

- “First quarter was down 7%; we had hoped to be up that amount.”
- “We had hope to be up 6% to 7% this year based on the shale and fracking industry that is growing all around us, but it isn’t here yet.”
- “The largest manufacturer here sells to restaurants, and the restaurants are saying they are laying off employees because of Obamacare.”

### Rates

- “We inched up rates this year—up 3.5% year to year.”

### 2014 Visibility

- “Second quarter is picking up a little.”
- “Full year we now expect to be flat or up a few points year to year rather than up 6% to 7% as predicted earlier.”

We inched up rates this year—up 3.5% year to year.

*Director of Advertising Sales  
Midsize Daily, Midwest*

# Advertising Update

- “I don’t think it’s because our clients are seeking out other media, I think the slowness is more cyclical and economy-driven than anything else.”
- “We had a tough winter, and some businesses are closing.”

## 3. Executive director of national broadcast (also included in network TV) for a top-10 media company; repeat source

Print budgets were flat year to year for many years until last year when the company began to contract. The addition of two clients has stabilized the decline, but these campaigns will not last into next year.

### Spending/Revenue

- “From an in-house perspective our print budgets are shrinking every year, but this year we did pick up two accounts that print-centric.”
- “Spirits and telecom are spending on print in both newspaper and magazine.”
- “It’s highly unusual for both of these clients, and the campaigns will run for a year with an annual contract.”

### Rates

- “Rates are very reasonable.”

### 2014 Visibility

- “The vendors have created sections that they never had before. *The [New York] Times* just came out of with a [Museum Section](#) and are also hoping their website can deliver.”

## 5) OUT-OF-HOME BUYERS AND SELLERS

These five sources said 2014 did not start off on a good note. Two major beverage advertisers, Anheuser-Busch InBev S.A. (BUD) and Diageo PLC (DEO), drastically cut their spending on OOH for the full year and have shifted the dollars to online.

### KEY SILO FINDINGS

#### Spending/Revenue

- OOH is a local story and, as such, differs by market. However, the broad trend of national advertisers continuing to withdraw spending on OOH is a negative one.

#### Rates

- Rates are flat in 2014 year to year as sellers work on building and maintaining occupancy.

#### 2014 Visibility

- Spending for 2014 is expected to be up, but the market will determine whether the increase will be slight or robust.

## 1. General sales manager for a top, private OOH company in the Southwest; repeat source

The first quarter was softer than anticipated. Clients are definitely moving money to online even if they still do not understand it. The source likens the results to what direct mail used to offer: barely any return, but even a small return was met with enthusiasm. Also, the weather hurt the first quarter.

### Spending/Revenue

- “First quarter is up 5% versus the 12% we had forecasted. There was the business we knew about, but also the new business did not come in at the same rate. There seems to be a lot of slide.”
- “Second quarter is pacing up 5%. April and May are strong, but June is funky. The weather hurt the Southeast and messed with people’s heads.”
- “We were the least affected by weather in the country, and yet we had to give up \$500 to get people to move on their contracts and still were having trouble.”

A large beverage company just said that the second half of this year they would be shifting ad spending from OOH to online. I’m seeing that more confidence that a brand can execute online and get what they’re looking for.

General Sales Manager  
Top, Private OOH Company, Southwest

# Advertising Update

- “Advertising moving budgets to online is a big part of the weakness. It’s been a hot topic for us lately.”
- “A large beverage company just said that the second half of this year they would be shifting ad spending from OOH to online. I’m seeing that more confidence that a brand can execute online and get what they’re looking for.”
- “We talk to the local advertisers about online and eight out of 10 of them have no idea what it is, so we are trying to help our clients navigate websites and drivers. It’s like direct mail was 20 years ago; people did handstands if they got a 2% response.”

## Rates

- “Rates are stable.”

## 2014 Visibility

- “We are seeing more quarter-centric planning than I have ever seen before.”
- “We are not freaking out, but we are definitely trying to understand what is happening in the market with spending and a shift to online.”
- “TV and radio stations are saying the same thing as us around here. The Olympics helped the TV market, but there is still weakness overall.”

## 2. General sales manager for a top, private OOH company in the Southeast; repeat source

This market went through a few years of challenges and still has a dearth of national advertising dollars. The source also mentioned large advertisers’ shift to online advertising.

## Spending/Revenue

- “First quarter is flat year to year. However, we are in a growth market so home builders is a very important category, and it is improving. We will turn the corner this year.”
- “Anheuser-Busch pulled out of the market, and national [advertising] has slowed down more than last year overall. It doesn’t seem to get any better.”
- “It seems the auto money is moving into online and social. We met with Chevrolet, and they said their strategy is online. That only seems to be increasing.”
- “We don’t hear as much about online from the mom-and-pops spending \$20,000 to \$30,000 a year.”

## Rates

- “There is no tremendous rate growth at the moment. Occupancy is improving by more local advertisers using the medium. We have big sales teams on the streets.”

## 2014 Visibility

- “We are cautiously optimistic about 2014. We have to keep shoring up our local business because those years of national ad campaigns coming down the pike are just not happening.”
- “QSR continues to grow, as well as tourism and attractions. Personal items like massage and franchise groups ... now have ad dollars.”
- “The industry needs to have more one-on-one conversations with national advertisers to get consideration.”

## 3. Account executive for a large, public OOH company in the West; repeat source

West Coast markets other than Los Angeles have had a slow recovery from the recession. Housing was particularly hard-hit in markets covered by this executive. National advertising has been weak. The oversupply of digital boards is driving down pricing on inventory.”

## Spending/Revenue

- “First quarter was tough. Weather killed the East Coast markets and some in the Midwest as well. Who wants to even look at an out-of-home billboard when it is snowing?”
- “Budweiser pulled out 95% across the entire country, and this hurt the top three out-of-home companies the most. Coors came in trying to buy some of their inventory, but it didn’t make up for it. The weakness in national advertising is killing us.”

## Rates

- “We are trying to keep rates stable, but we are dealing where we need to.”

# Advertising Update

## 2014 Visibility

- “Digital billboards are overbuilt in our market and down the coast.”
- “The oversupply of digital is ruining the industry horribly.”

## 4. General sales manager for a top, private OOH company in the Northeast; repeat source

This source has not seen a slowdown in the OOH market. Beverage advertisers, entertainment and amusement continue to spend. The full year is expected to be up in the low double digits, driven mainly by keeping occupancy at 70%.

### Spending/Revenue

- “First quarter is up 10% and not just from digital.”
- “We’re seeing a lot of interest in billboards from local media—TV and radio stations. They are buying more boards than ever.”
- “Budweiser was never big for us, and Coors has had a resurgence in the market. We are still seeing spending from Coke, Pepsi and Miller. The distributors love digital and its connection to social.”
- “Growth is happening on a quarter-to-quarter basis. The business is there, but we are fighting for it.”
- “Entertainment and amusement are stronger this year. We have new concerts, casino and an amusement park all spending.”
- “Auto has been steady. The overall dollars are down, but it is expected to pick up.”
- “Healthcare is optimistically steady with insurance companies still branding and marketing. And some hospitals are spending as well.”

**Growth is happening on a quarter-to-quarter basis. The business is there, but we are fighting for it.**

*General Sales Manager  
Top, Private OOH Company, Northeast*

### Rates

- “Rates are up mid-single digits, but we are driving our growth by building occupancy more than pushing for rate increases.”
- “We are protecting key assets rate-wise, but we are making it affordable to buy larger swaths of inventory. Instead of selling a five-board package, we are looking to sell 12 boards.”
- “Our occupancy is at 70% to 77%, and we know if we keep it there we will make money.”

### 2014 Visibility

- “Second quarter will be up 11%. For full year we are expecting to be up 10% to 13% compared with 2013, when we were up 6% to 7%, which was less than we had expected because of healthcare reform and a bad fourth quarter.”

## 5. President of OOH for a top-three media buying agency; repeat source

Last year at this time business could not be better, but in just under 12 months the situation has deteriorated. National ad spending is weak in the local markets.

### Spending/Revenue

- “Out-of-home is in a dormant stage.”
- “First quarter has been very slow.”

### Rates

- “We had some incredible deals thrown our way in the first quarter by vendors. They are still trying to make their quotas.”

### 2014 Visibility

- “Digital is being considered more and is getting larger investments from the vendor side, both billboards and screens.”

## Secondary Sources

These three secondary sources centered on how TV and the advertising revenue that supports it are under siege. Online companies such as Amazon and Netflix are competing head to head in the domain of original programming. Meanwhile, broadcasters are fighting Aereo's business model. Advertisers are taking notice of online video because of the ease in targeting and tracking data, making it particularly attractive to political campaigns.

### April 7 [article](#) from *The Hollywood Reporter*

Original programming, once the domain of broadcast networks, is popping up all over the digital landscape. Netflix and Amazon have attracted large advertisers through the success of their original shows. Now Yahoo is jumping into the mix to boost its reputation and bottom line with advertisers.

- "Following fellow web giants Netflix and Amazon, [Yahoo] plans to acquire a slate of high-end, cable-quality shows, as part of strategy to boost its reputation with advertisers."
- "The company is close to ordering four web series, each of which will be a 10-episode half-hour comedy, with per-episode budgets ranging from \$700,000 to several million dollars."
- "Yahoo CEO Marissa Mayer and her chief marketing officer, Kathy Savitt, have reportedly reviewed over 100 projects over the past few months, targeting shows that are ready to launch and require little development."
- "The move into original TV is part of a strategy to boost Yahoo's reputation among advertisers by demonstrating that its video offerings are richer and higher quality than the options offered by competitors, especially Google's YouTube."

### April 4 [article](#) from *TV News Check*

The case of American Broadcasting Companies vs. Aereo is scheduled to be heard by the Supreme Court on April 22, and will be examined for implications well beyond the service that Aereo provides. The networks are arguing that Aereo is stealing their content, which violates copyright laws. They also said this sets a precedent for cable and satellite companies to avoid paying for content. Aereo says that it is the equivalent of a rabbit-ear antenna.

- "March 3: Seventeen friend of the court amicus briefs were filed, including one by the United States, in support of the broadcaster petitioners' position that Aereo's provision of broadcast signals and programs to paying subscribers, without broadcaster consent or compensation, violates U.S. copyright law. On the same date the SC denied FilmOn's motion for leave to intervene and become a party in the case."
- "The Solicitor General argued: Aereo's unauthorized Internet retransmissions infringe broadcasters' exclusive public performance rights under the Copyright Act."
- "Even if the SC construes the term 'performance' narrowly to apply only to the transmission itself, the performance is still public because those transmissions are still available to any member of the public who is willing to pay Aereo's monthly subscription fee."
- "The SG distinguished other technologies, such as cloud-based services, from Aereo. In the cloud and other non-Aereo technologies, the underlying content has already been lawfully acquired, and a consumer's playback of her own lawfully-acquired copy of a copyrighted work to herself will ordinarily be a non-infringing private performance. Aereo, on the other hand, equips its subscribers to access copyrighted content in the first place (without any prior lawful acquisition by the consumer), providing the same service that cable companies have traditionally provided without paying the same license fees."
- "NAB: Aereo's system amounts to no more than a technological gimmick to subvert a carefully constructed legal framework. Through the compulsory licensing system and its retransmission consent scheme, Congress struck a careful balance between interests of broadcasters, copyright holders, MVPDs and the public."
- "Aereo's transmissions of broadcaster material to its subscribers are private, not public, performances, and therefore do not violate the Copyright Act's Transmit Clause (which distinguishes between public and private performances)."
- "April 15: Petitioners may file a reply brief to Aereo's respondent's brief."
- "Before April 22: The SC grants or denies the SG's motion to participate in oral argument."
- "April 22: Oral argument before the SC by both sides, with justices asking questions, which may indicate how they are leaning."
- "By, or soon after, July 4: The justices issue their decision(s)."

# Advertising Update

## March 15 [article](#) from *The Washington Post*

Local TV stations have come to rely on the boost from political revenue, but more political ad spending is moving to digital. The 2012 Obama campaign spent a considerable amount on digital advertising.

- “For half a century, television ads have been the staple of political campaigns, the preferred, if costly, vehicle for communicating a candidate’s message to the voters. What happens when people stop watching live television?”
- “The country has reached ‘a tipping point’ in the competition for viewers between traditional live television and other forms of viewing content.”
- “This is the third such survey in the past four years. For the first time, fewer than half (48 percent) of all voters say that live TV is their primary source for watching video content. The second-most-preferred form for viewing is through recorded programming, but a majority said they skip 100 percent of the ads when they watch.”
- “Smartphones were not in general use during the 2008 campaign, when President Obama’s team supposedly broke the mold in its employment of new technology. By the 2012 campaign, the smartphone became a hot new platform not only for the delivery of political messages and content, but also for fundraising.”
- “Some figures supplied by Margolis’s firm, GMMB, show how rapidly the Obama campaign adapted its spending in just four years. In 2008, the campaign spent \$253 million on television ads and \$16 million on its digital efforts, including fundraising. In 2012, the campaign spent \$380 million on television and \$112 million on digital.”
- “The Obama campaign was more digitally focused than any in modern times.”
- “If this is truly a tipping point—and everything suggests that the changes in viewing habits will accelerate—then campaign strategists will have to change their habits even more rapidly than they may think.”

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