

# First Quarter a Rough Ride for Local Advertising Markets

Companies: AMZN, AOL, CBS, CCO, CMCSA, CMLS, DIS, DISCA, FB, GCI, GOOG/GOOGL, IHRT, LAMR, MSFT, NFLX, NLSN, NWS, P, RENT, SBGI, SNI, SSP, TWTR, TWX, VIA, YHOO

April 7, 2015

## Research Question:

**With the proliferation of content, which advertising sector will wear the crown in 2015?**

## Summary of Findings

- This year has seen a proliferation of content, which has further fragmented the advertising market as everyone wants to be a publisher. Still, sources cited an insufficient amount of content and number of streaming hours to satisfy the digital ad appetite.
- Digital spending continues to outperform the overall ad industry, with video and social attracting the most dollars. [Facebook Inc.](#) (FB) and [Google Inc.](#) (GOOG/GOOGL) are beneficiaries.
- Network broadcast and cable TV is seeing scatter spending rise year to year, but overall TV dollars remain down. Scatter rates are up slightly vs. upfront because double-digit declines in audience ratings have tightened supply. Upfront 2015–2016 budgets are expected to decline in broadcast and cable, especially in light of low network audience ratings.
- The TV mix is transitioning from a shift from broadcast toward cable to a move toward video.
- Sources' [earlier optimism for TV and radio](#) has weakened in local broadcast markets. Soft rates from early January have continued into the second quarter. Radio is particularly hard hit.
- Newspaper ad spending is bucking the trend and is more stable. Digital and other products are helping to retain print advertisers.
- Out-of-home saw a rougher first quarter than expected. Although two sales managers reported improved visibility into the second quarter, an executive for a large public company expects OOH spending to fall in the double digits due to advertiser cutbacks.

## Silo Summaries

### 1) Digital Media Buyers and Executives

These three sources said digital ad budgets have grown in the low double digits while overall ad budgets are flat to up in the low single digits in the first quarter and for 2015 year to year. Digital spending is increasingly going to video and social, which has benefited Facebook, Twitter and Google's YouTube. Facebook also has profited from the rise in programmatic spending. The shift to digital will continue but likely not at the expense of traditional advertising. Rates are relatively flat.

### 2) Network TV and Cable Buyers

These five sources said first-quarter scatter spending was up year to year as less money was spent in the upfront market and as lower audience ratings tightened inventory. However, overall broadcast and cable network budgets are down year to year. TV buyers are not shifting their mix to cable as they have in the past, but instead are looking to move linear TV spending into digital video. Scatter rates are up compared with rates in the upfront market.

### 3) Local Broadcast Buyers and Sellers

These nine sources said March is an important revenue month for local broadcast but was weak for both TV and radio. Rates for radio the first two weeks of January—normally the cheapest ad units sold—have been extended into the second quarter. One radio expert believes this is a secular downslide for radio. Spot TV did not fare any better. Some strength in certain weeks caused rates to rise, but overall rates have been flat to lower year to year and inventory is readily available. The second quarter is not improving the weak landscape.

### 4) Newspaper Sales Directors

Despite the weakness in the local broadcast markets, these three sources said newspaper advertising appears to be going against the trend and that spending has stabilized and rates are higher year to year. Newspapers have come through the worst of the secular downsizing of print dollars, and advertisers are looking to optimize their budgets.

### 5) OOH Sellers

These three sources said the outlook is mixed for OOH advertising. Spending, which sources said had stabilized in the fourth quarter following a difficult year, has been challenged in the first quarter of 2015. Two sources said the first quarter was weaker than expected. The third said the first quarter rose in the low single digits, but expects a double-digit decline in the second quarter. First-quarter rates were flat to up slightly year to year.

	1Q15 Spending	1Q15 Rates	2015 Overall
Digital	↑	→	↑
Network TV/Cable	↓	↑	↓
Local Broadcast	↓	↓	↓
Newspaper	↑	↑	↑
OOH	→	→	→

# Advertising Report

## Background

Blueshift Research's [March 2 advertising update](#) found that TV ad spending had not weakened further than in 2014, when network broadcast and cable dollars were down. Still, sources said scatter spending was trickling in slower than expected considering less was spent in the upfront market. Local TV spending was flat year to year, with telecom the strongest spending category.

In our [Jan. 15 report](#), sources had predicted that first-quarter spending on network TV would continue to decline because the upfront market was down for both broadcast and cable networks. The local TV market was expected to improve in the first quarter of this year, with sources predicting that spending would be flat to up in the low single digits year to year. OOH, which had stabilized in the fourth quarter, was expected to show a slow improvement in spending and rates as the year progressed. Newspaper spending and visibility were mixed.

## Current Research

In this update, Blueshift Research assessed which sector was gaining advertisers' dollars and mindshare as the market saw a proliferation of content. We also monitored distribution methods that further fragmented the way advertisers spend on and audiences consume media. We employed our pattern mining approach to establish five independent silos, comprising 23 media experts. All are repeat sources, some for more than 15 years. Their roles and the media they oversee are morphing as digital infiltrates all media fronts; for example, a newspaper sales executive might discuss digital sales, while a spot TV station manager might comment on online, streaming and mobile sales. As such, we will adjust how we define our sources in the future, but please note that almost every source in this report spoke on digital media spending in some measure:

- 1) Digital media buyers and executives (3)
- 2) Network TV and cable buyers (5)
- 3) Local broadcast buyers and sellers (9)
- 4) Newspaper sales directors (3)
- 5) OOH sellers (3)

## Next Steps

Blueshift Research will monitor the upfront market, which is expected to unfold around its typical Memorial Day period, but also will report on any other changes in the advertising market's direction.

### 1) Digital Media Buyers and Executives

These three sources said digital ad budgets have grown in the low double digits while overall ad budgets are flat to up in the low single digits in the first quarter and for 2015 year to year. Digital spending is increasingly going to video and social, which has benefited Facebook, [Twitter Inc.](#) (TWTR) and Google's [YouTube](#). Facebook also has profited from the rise in programmatic spending. The shift to digital will continue but likely not at the expense of traditional advertising. Rates are relatively flat.

#### Key Silo Findings

##### First-Quarter Spending and Rates

- Spending on digital ads is up 10% to 12% year to year for 1 top-5 agency and continues to be up 15% to 20% for another top-5 source. An independent consultant said overall budgets are flat year to year, with the mix shifting toward digital.
- Rates remain stable year to year.

##### Visibility into 2015

- Content proliferation continues, especially with brands wanting to become publishers. Sources cautioned against this trend, stating that content is not an end in itself but must be tied to a strategy—largely a social one.

# Advertising Report

- Advertisers are shifting spending from traditional to digital media, but not all spending is being shifted to paid media.
- Facebook continues to benefit from the growth in social media spending and in programmatic buying, and is positioning itself in the video ad serving market as well.
- TV spending will continue to decline year to year as dollars shift to digital and also become commingled with nontraditional TV spending. Google and Facebook are staking a claim in ad dollars spent in nonlinear TV ads.

## 1) Chief digital officer for a top-five media agency; repeat source

Overall budgets are growing year to year because inflation, but digital budgets are up 10% to 12% as advertisers shift dollars from traditional budgets to digital. Spending in the 2015–2016 upfront market is expected to be down year to year, although broadcast networks will aggressively seek digital dollars with linear TV extended into the digital realm.

### First-Quarter Spending and Rates

- “Overall budgets are growing 5% to 6% for 2015 year to year, part of which are inflationary dollars. The increase will move up spending for everyone except newspapers and magazines, which won’t rise with the tide. Digital display, video, programmatic and social will be up 10% to 12% for 2015 year to year.”
- “Programmatic is increasing 20% to 25% year to year, with it now one third of our buying. It is inching up to be 35% to 40% of our spending.”
- “It’s getting harder to define what digital is. From [SEM](#), social marketing, video from broadcast on their digital properties, it’s harder to track the spending.”
- “What we know is so fragmented and becoming increasingly so. Some advertisers want a millennial audience, so they want to do 100% nontraditional media. We are getting a lot of advertisers asking for this. They don’t want to be in print. They want very specific websites in display and video like [BuzzFeed](#), [Tumblr](#), [Vice](#), [Biglari Holdings Inc.’s/BH] [Maxim](#), which is very strong in print and now has extended that brand online, or Mail, which is an extension of [Daily Mail](#) that has a huge audience. The advertisers are going where their audience is, and they want more contextual marketing with are spending more premium vs. programmatic dollars.”
- “Ford [Motor Co./F] changed their media plan as an incentive to dealers to drive more ad spending to digital. We don’t know how the strategy has worked yet. They will keep this incentive because local dealers and franchisees understand their consumers’ behavior, and it is no longer in newspapers.”
- “Print will continue to hurt. There are niche magazines like *Maxim* that have a strong brand in print and solid audience, and they have built a younger audience and translated them to online. Others ... have not built online. [Time Inc.’s/TIME] *Time* obviously hasn’t, [Time’s] *People* hasn’t; these brands are at risk of not being relevant.”

### Visibility into 2015

- “There is no game changer this year, just more of the same. Everybody, including marketers, is getting into the content creation game. ... Everyone wants to be Hollywood. Product developers and distributors are getting into this area even though it is not their core. Why get in an area that is not your core? Content can’t stand alone; it has to be tied to a social strategy and it needs a distribution set-up.”
- “This won’t be a shoe-drop [in upfront], but there will be more attrition this year. We are expecting a ... steady decline, and it will keep eroding. The networks will try to play with it so they don’t show the market is dropping like it is, and you will see them counting online as broadcast this year.”
- “Cable still has reach and is still attractive and important. Marketers, however, want large-scale or really contextual reach, and for broadcast that is major events, awards and sports only. Increasingly advertisers are seeking scale in other areas such a digital video. We see advertisers who want a broad reach leaving broadcast for digital video, and if they want a narrower reach, they can do cable.”
- “There is a strong increase in dollars flowing to digital video, including video watched on mobile devices. Mobile is growing exponentially, but it is not well defined. One half of Facebook’s traffic is mobile. Video is increasingly watched on mobile. There is no mobile strategy; there is an audience strategy, and that is mobile. The behavior on

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Chief Digital Officer  
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- “[Pinterest](#) is getting a lot of interest, and they will begin to monetize their site.”
- “The difference in 2015 vs. 2014 is that advertisers will extend their money from broadcast. Broadcast completely understands what they are up against, but for years they have been in complete denial. You are going to see broadcast networks be much more aggressive in extending their inventory. Broadcast money won’t necessarily leave in droves, but it will definitely extend out.”
- “It’s hard to classify what this year will be. We do know that there are year to year increases on Facebook, Google, Twitter, which are the new broadcast for scaled reach. Dollars are moving there for reach. Budgets look healthy unless the economy does something we are not projecting.”
- “Programmatic is often misinterpreted. It is automation through an exchange, either [RTB](#) or fixed rate [CPM], or it is a private network for buying units. This is done through automation but ... it is more narrowly defined, there are more premium costs associated with it, and there has been a rise in private exchanges that provide this premium inventory.”
- “We have a very large client who wants to buy programmatic in-house, and I asked, ‘Are you ready to hire 40 to 60 people who will run this operation?’ It’s not a machine; you have to have talent running it.”
- “The [NewFronts](#) center on broad-scale reach and want to lock in a rate. I don’t really see the broad scale. The money in the NewFronts is a niche-defined audience that a customer wants to lock in a rate for, and it is a specifically defined audience. NewFronts is not huge because there is a proliferation of content and video. This programming is not scarce.”
- “2014 vs. 2013 was about moving programmatic in-house, and now those who have tried it are not going backwards. 2015 vs. 2014 is about the proliferation of content and how everyone wants to own a studio.”

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Top-five Media Agency*

## 2) Chief digital officer for a top-five media agency; repeat source

Digital ad spending is up 15% to 20% year to year. Spending on video and social also is rising and is up in the mid- to high single digits in search year to year. Digital’s growth is not coming at the expense of traditional media. Google is not moving into the app economy that its digital competitors are creating and that mobile audiences are moving toward.

### First-Quarter Spending and Rates

- “Digital spending is up 15% to 20%. Video spending is up, programmatic is down slightly. Social is tricky because it is code for Facebook for most brands, and Facebook is code for programmatic. True social is up 5% year to year with spending on Twitter, Pinterest, [Snapchat](#) and all of these are moving into video.”
- “Spending is up because no one can produce enough content and stream enough hours. The pocket computer, otherwise known as the phone, allows us all to consume nonstop. Everyone wants to be a studio, but that is fool’s gold. They will look back and see that this was similar to when everyone wanted to be a cable network two decades ago.”
- “Rates are stable; there is premium content demanding premium prices.”
- “The big challenge on brands is to create enough valuable content to go all of the places, but the vision should be to go where your audience is. For example, [Amazon.com Inc.’s/AMZN] [Twitch](#) is not for everyone; it is for audiences passionate about gaming. It will not resonate with every single brand, but for those it does, they are finding ways to integrate there. ... But these audiences take awhile to get to, and then they move on.”
- “Mass channels still matter but in different ways than before. They are more for amplifying and connecting with live events such as awards shows, sports and major events. These programs are bigger than they’ve ever been. ... Now no one is just buying a Super Bowl ad and leaving it at that.”
- “Digital price per point is still low and more efficient than TV. In some cases digital is more expensive, the top 10 YouTube channels or Twitch celebrities, but it’s not an apple-to-apple comparison. Facebook may tell you they can deliver a Super Bowl-size audience, but we are not going to pay them a Super Bowl price for it. ... There is still lower inventory on spot or cable than video.”

# Advertising Report

- “Search still does an explicit job. Everything is about creating awareness and fulfillment. Video, social and programmatic offer no fulfillment. Search is growing 5% to 10% year to year. Search in retail is growing because Google comes up with clever product listings. Shopping overall is flat to up. No one is giving up on search.”

## Visibility into 2015

- “If I could build a programmatic video company right now, I would take all the dollars.”
- “We will move away from the cookie model; this will happen over time. ... Everyone except Google is moving to mobile being an app-driven economy. Google most needs apps, but they remain web-based. Meanwhile, Facebook, [Facebook’s] Instagram [and] Messenger, Twitter and [Twitter’s] [Vine](#) are all building an app economy. ... If the world is moving to a utility app ecosystem, do you go back to the one central source? Google hasn’t looked to acquire app investments, while Facebook and Twitter are investing in this area. They’ve struggled at building a utility beyond the core, and now that functionality is happening elsewhere.”
- “Here’s the big, dirty secret about why they use last-click attribution: There is no debate about what the last click was. When you move away from that, it gets far more complex. Everyone is trying to work on this. The challenge for any brand is the model that works is what you subscribe to, and the trick is then going into the market with that model and seeing what you value vs. what the market values. The market doesn’t care what you value. We won’t get to a single attribution model that will apply to every category. What a brand decides on can affect how they spend their money. The last-click value means you value search more, but you move away and value up the funnel more. You won’t invest in search but will spend in programmatic or other media and reallocate your front end into video or other down the funnel metric.”
- “What happened with Ford leaning more to digital advertising last year, then having sales that were lower year to year? Is it causation or correlation? Is it product or performance of marketing? This is the catch-22 of digital. ... Twitter has built its business on convincing you to combine Twitter with TV. Advertisers may need more digital but not at the expense of traditional. You get long-form media moving into the ephemeral, very ‘now’ mediums.”
- “You were spending \$1 on TV, and you don’t need 30¢ to 40¢ to get the same reach. You can get unique content that is not just broadcast and pay 30¢ for content creation. Then you have 20¢ or 30¢ still on the table so you keep 10¢ in-house and put 10¢ back in your business.”

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*Chief Digital Officer  
Top-five Media Agency*

## 3) President/CEO, consultant and expert on emerging media; repeat source

The spending that is shifting from TV to digital is not growing the overall advertising pie, which remains flat year to year. TV budgets will continue to decline as dollars shift to digital and as TV budgets are lumped in with nontraditional TV. With the rise in online video, TV networks are at risk of losing the monopoly they have enjoyed over large advertisers’ video budgets, particularly as Google and Facebook enter the video ad serving market in more meaningful ways.

### First-Quarter Spending and Rates

- “Overall advertising spending in the first quarter and 2015 overall is flat at best. There is no major growth because there are no growth businesses right now.”
- “TV budgets will continue to get smaller, but there will also be a commingling of TV dollars with digital and nontraditional TV. There are fewer advertiser dollars solely interested in TV.”

### Visibility into 2015

- “TV people are clinging to hope that the slowdown in spending is a cyclical issue and has more to do with seasonality in programming. But to the astute observer, you would see that from last year’s upfront to this year’s TV season a structural change is evident. 1) Ratings are down, and in a Nielsen [NV/NLSN]-oriented TV environment ratings matter and those ratings have not come back. TV audiences may or may not have gone down. I think they haven’t, but the places audiences are, are not measured. And we are seeing the limitations of the current rating system. It’s measurement vs. currency. This is pointing to multiple paths of measurement [such as [NewCoin](#) and [Rentrak](#)]

[Corp./RENT](#)], but what hasn't happened is another form of currency. We are leading to multiple currencies that won't supplant Nielsen but will supplement the live-plus-three because you can't extend that shaky system any further. 2) TV needs to bow to the plethora of data that tells a much more complex view and uses dynamic ad insertion. One of the broadcast networks is selling online access and protecting ads that run in live up to three to seven days and not allowing for reinsertion. They are classically protecting the aggregated rating of that one ad. These ads are not brand-new digitally inserted ads. ... This ensures that the broadcast ad also being seen on the [OTT](#) app."

- "There has been a reorganization of a lot of TV companies, especially at cable companies with cost cutting, dealing with the lower ratings, ad sales function to better align with digital and linear. Viacom [Inc./VIA/VIAB], [Time Warner Inc.'s/TWX] Turner and [E.W.] Scripps [Co./SSP] all realize [that] not ... having separate processes for TV and digital isn't structurally sound. [Comcast Corp.'s/CMCSA] NBC is using their own homegrown data for real reach: TAMi [[Total Audience Media Index](#)]."
- "There are lots of different point solutions, and we will see a consolidation in this next year to something that is more holistic than simply click vs. touch-based attribution. Four different sets of companies need to consolidate. Touch-based attribution is what works, so Google search doesn't get all the value. At the same time, saying an ad on TV makes you search on Google is not the truth either. TV companies are increasingly serving programming in digital video environments and need to measure all that independently and aggregate it. Advertisers need to understand the true value of each opportunity. We need to change the delivery of the ad, so that if you watch a show that ran live almost two weeks ago, you have the opportunity to reinsert an ad and then measure it. Live-plus-seven and every day after it has value, but extending the current measurement beyond seven days is shaky and the confidence level starts to shrink."
- "[Atlas](#) was Facebook's way of catching up to Google. These are the two horsemen in universal log-in, which doesn't need to rely on cookies anymore. The cookie-less platform means they open their platform to others for digital, search, video and audio. Facebook's acquisition of [LiveRail](#) gives them video ad serving capabilities. Every time you log in with your Facebook profile, you are basically extending web browsing to Facebook that they control. The TV business fears this, because the ad spending is not just going to digital but to who serves the ads in this environment. When a TV company sells an ad, they keep 100% of the dollars, but when it is delivered via Facebook, their position is compromised."
- "There is a fundamental shift in ad buying; a transparency is being forced upon individuals. It's harder for the middle man to find inventory, wrap it up and sell it. Buyers are dictating what audiences they want on their own terms, and sellers are reluctantly resisting but now are opening doors to being analyzed and bought programmatically. The seller and ad network have less and less opacity to their benefit; they can't package behind the scenes or force premium prices for packages. The dynamic real-time ... eliminates artificial upfront buying. Bulk buying in advance is giving way to advertisers paying for convenience. Media sellers need to get hip to this."
- "Sellers are trying to align assets and sell total audiences, but the buyers are still siloed with one area digital, one area TV. Agencies are the weakest link because the functions are not aligned. Full-service agencies have separate line items for each function. The seller right now is getting more credit for aligning even though the agencies talk about it more."
- "The majority of radio and OOH advertising is local, which you can't do at scale, but there has been nothing but consolidation in both of these industries. [Pandora \[Media Inc./P\]](#) is a harbinger of where radio needs to go. ... OOH is much more cyclically dependent on the economy, but its silver lining is to connect with mobile devices. [Vistar](#) is bringing programmatic to OOH, helping to create dynamic ad environments that make real-time magic with mobile devices and digital boards."

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*President/CEO  
Consultant & Media Expert*

## 2) Network TV and Cable Buyers

These five sources said first-quarter scatter spending was up year to year as less money was spent in the upfront market and as lower audience ratings tightened inventory. However, overall broadcast and cable network budgets are down year to year.

# Advertising Report

TV buyers are not shifting their mix to cable as they have in the past, but instead are looking to move linear TV spending into digital video. Scatter rates are up compared with rates in the upfront market.

## Key Silo Findings

### First-Quarter Spending and Rates

- Sagging audience ratings are tightening up inventory, and fewer dollars being spent in the upfront caused scatter spending to rise in the first quarter year to year. However, overall spending is down year to year.
- Rates are flat to up single digits for scatter buys as the decline in audience ratings has squeezed available inventory.

### Visibility into 2015

- Too early to call upfront budgets, but most believe they will be relatively flat.
- With cable audiences down, a shift will take place not from broadcast to cable but from broadcast to video, which is why networks are aggressively seeking to extend their inventory.

## 1) CIO for a top-10 media agency; repeat source

The share shift out of network TV broadcast and cable that began two years ago is continuing. Digital media is up 20% to 25% year to year, with spending mainly in video, mobile and paid social. Programmatic buying is accelerating, and the goal is to shift 30% to 40% of spending to programmatic. The trend of national advertisers pulling out of local markets to spend in national networks also is continuing.

### First-Quarter Spending and Rates

- “The shift of dollars out of television is real, but advertising spending is still growing marginally overall. No doubt national TV is losing share points to digital, and that’s not going to stop. And I believe the national TV markets have been moderated and softened by it.”
- “The networks are, of course, all working on data-driven audience-buying programmatic operations to take back the dollars going to digital, which probably does have some good potential down the line. But the consumer is also changing their viewing habits, which is depleting the audience more quickly than expected.”
- “The share shift from national TV to digital began two years ago, but we are also looking at digital deflation. This is something that our analysts are pointing to as a reason to why ad spending is not growing as quickly as the GDP. Meanwhile, the TV market is suffering.”

### Visibility into 2015

- “There will be massive growth in digital this year, but everything else is down and TV is flat or barely down.”
- “Digital is getting big enough now where there are sectors of digital moving in different directions. Display is headed down, video and mobile are going up, paid social is going up, and search is not really growing. We’re going over those numbers now for major categories. Digital is up 20% to 25%, and national advertisers are looking for more national, less local. For example, restaurants are doing less local and taking more money from franchisees to drive business.”
- “Auto and restaurant companies go back and forth between dealers or franchisees and manufacturing and organizations. In general, the CMOs tend to believe that they can get a lot more bang for their buck with a national spend.”
- “The top-level consumer usage of OTT has accelerated and has begun to impact the national TV ecosystem. This was originally perceived as more gradual, and has become more immediate with usage levels dropping quickly that have access to [SVOD](#), which are not fully measured because Nielsen doesn’t have a comprehensive panel, so the numbers are dropping.”
- “On the marketplace side, spending has begun to shift away from TV to digital, but TV is still growing or flat but losing share to digital. On average [TV fell] 1% a year the last two years, and now we are in the third year. There was a lot of

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*CIO, Top-10 Media Agency*

hand wringing in the fourth quarter that it was accelerating faster, but the truth is it is down half a point. It looked worse in terms of what it actually ended up being, but it was still bad. Fourth-quarter cable spending was down for the first time and is down 1% year to year. That is the first time that has ever happened in cable. Upfront is not a good indicator of how that year is going to end up because I would have said DR [\[direct response\]](#) and scatter money would have made it up. A lot of money showed up in DR but not enough to make cable whole, partly because of the secular shift and because they don't have the ratings to monetize. The only way they got to their goals was increasing commercial load in the fourth quarter in order to be flat for the quarter."

- "There is a disconnect between ad spending and the economy because ad spending is not growing at the same rate as the economy. ... There is not a ton of consumer spending. All signs point to more ad spending, but ad spending is only growing a little bit. We think this is digital deflation, because you don't grow your pie as much when you can spend more on programmatic and digital. You are getting more out of the budget than you got before."
- "The vision of automated technology supported programmatic and manual programmatic buying via set-top box is we are already up and running the past three years. We have been buying local and cable local and putting together a national unwired, spending millions and millions there and have been recommending this to our clients. This is the first year that the national TV community is waking up to this and ... are building a product that guarantees across all of their networks. ... They are building out experimental products. Five major TV organizations are starting to do this, and this will be big talk in the upfront. Today it is 2% of spending for cable. By the end of year it would be 4% to 5% in the planning for 2016. As that grows and more national networks sell that way and more clients get more comfortable with concept, our hope is to get up to 30% to 40% of our buying. It would never be 100% because brands and relationships with the programs are still going to matter."

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*CIO, Top-10 Media Agency*

## 2) CEO of a top-five media agency; repeat source

Spending is up slightly in the scatter market because advertisers put less money into the upfront. Also, audience ratings are down across the board, tightening up inventory. This has caused some scatter rates to be slightly higher than in the upfront market. Upfront spending is expected to be relatively flat given the lack of risk in waiting to buy in scatter.

### First-Quarter Spending and Rates

- "First-quarter scatter spending depends on daypart. Late-night sold out, but broadly speaking you can get the stuff you want. Some place a moderate premium on rates. (Most of the broadcast guys with the exception of CBS [Corp./CBS] are getting a moderate increase because they sold less in upfront.) The market has more scatter money because of less in upfront, but it depends on the cable networks. Most have got serious liability issues with [ADUs](#). ... The second quarter will tighten up because everyone owes more ADUs."
- "If eyeballs were shifting to cable, you would shift dollars there because it has more reach potential, but we are not shifting to cable because ratings are down just as much as in broadcast. Five years ago some of us went into cable because it was cheap. We were 75% in cable. But others clung more to broadcast and sold unit by unit that had 60% cable in the plan, so they can increase cable because more efficiency-based. For us, there is no shift to cable. Cable is sucking wind right now, with 17 of the top 25 cable networks down double digits in audience ratings. Our mix is no longer broadcast vs. cable; now it is vs. digital video."
- "The digital offerings from [Walt Disney Co.'s/DIS] ABC, NBC, CBS and [News Corp.'s/NWS] Fox all have their full-episode players, which only gets you so far into the long tail."
- "The spending slowdown is part cyclical and part secular, with some of the money that is less traditional linear TV getting re-expressed into social or full-episode players."
- "The more the landscape evolves, the more the measurement lags horribly. In mobile there is no measurement, and in social, no measurement. TV

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measurement wasn't great, but directionally it was at least accurate."

## Visibility into 2015

- "Spending on social media might be creating a brand page. Every brand is doing that and the money has to come from somewhere, but the question on reported spending figures shows that some of the money is missing. It went into the places that are not measured. Social and mobile—you can't measure that stuff ... because the way that you ascribe dollar spend is based on audience measurement. Nielsen looks and says, 'This brand ran a hundred GRPs' and ascribes a dollar value. ... You have got to build a system and make sure you have a sample size that is representative. ... Meanwhile, the technology is progressing so rapidly."
- "In the short term it doesn't mean much that every agency has a content strategy, either creating or subcontracting content creation that can be distributed throughout the long tail as part of an overall strategy. Every media agency already has that capability and has had that for at the past five years. Content ultimately is king because people will find it in long form. ... What you'll see long term is that the pipeline will become less relevant. Broadcast networks are looking to cut different distribution models because if they rely on these old models like cable or satellite, then they are doomed to failure, so they are testing new grounds. ... They have to distribute it differently, like Netflix [Inc./NFLX] dropping a show on 8 p.m. on Friday. How do they make sure they have the same commercial loads so they can aggregate the audience? You don't want the pockets; you want the total. What is the distribution model a couple of years down the line? It will morph from linear base distribution model to linear plus. Eighty-eight percent still have cable or satellite; maybe it goes down 2% a year. You add up the tradeoff of going OTT and a hell of a lot of hassle as the cable companies start losing subscribers and start raising rates on broadband."
- "Some will say scatter has been pretty easy, with a small premium on rate, and they want more flexibility so it's worth paying a premium. Or they spend less. Then there is the second type who says, 'If ratings are going down 10% across broadcast and cable, at some point we will run into supply issue, and that will probably manifest itself in next year's scatter.' A lot of clients have become incredibly short-term focused, not comfortable going into the upfront. Two years of relatively soft scatter has allowed this, but past performance has no bearing on future. All of this is risk management. Those that take a very short view of the marketplace, questioning the upfront trading flexibility for price advantage, get comfortable with the short-term play until they get pain."

### 3) Group director for a top-10 media agency; repeat source

Scatter spending has slowly trickled into the quarter. Still, with audience ratings down throughout broadcast and cable networks, this executive fears upfront rates will rise because of the scarce supply. Some money is being shifted to digital and the agency will assess its strategies as the upfront season approaches and pricing is established.

#### First-Quarter Spending and Rates

- "First-quarter scatter is up because there was less money put in the upfront. Last year in the first quarter suppliers were dying. They are not dying now, but they are uncomfortable. Live programming still attracts dollars. ... Audience ratings are down in broadcast and cable, which scares me because fewer units means higher prices."
- "We had a client exercise all their options in the second quarter to shift them into the first quarter. Scatter in the first quarter came in slower and closer to air date, with no discernable penalty. There is no rush to buy. It hasn't been bad for anybody because it's not a bad economy, but it's also not bullish. Digital dollars are coming more from print and radio than TV."
- "When you say digital, it is much more than a peel back from TV because it's not a broadcast dollar to a digital video dollar. It is a bigger overall expenditure than in the past."

**Audience ratings are down in broadcast and cable, which scares me because fewer units means higher prices. ... We expect that upfront rates will still be up low to mid-single digits because of the audience deficiencies.**

*Group Director, Top-10 Media Agency*

#### Visibility into 2015

- "We expect that upfront rates will still be up low to mid-single digits because of the audience deficiencies."
- "TV is still the majority of where we spend our video dollars. We are looking at opportunities with Netflix, [Hulu](#), Amazon and where does it fit in the mix in terms of pricing, and are adding them in slowly. I'm not sure about Netflix because product placement is not advertising; it is an area that you have to be involved in early on."

# Advertising Report

- “Digital vs. linear TV buying is less than 5% in our group because we only buy the digital video that has broadcast heritage. We’ve been speaking to Google but haven’t purchased yet. Last year they came out with their top 5%; they sort it for you and give you the highest viewed videos within your genre, not user-generated.”
- “Linear pricing vs. digital pricing: We are trying to figure out why digital shouldn’t be lower because of limitless supply. We are hitting a glass floor, can’t get underneath it because they are saying it is the same thing, just a different screen, but we see the marketplace differently.”
- “Clients are using different measurement strategies, some with Nielsen, some Rentrak, some both.”
- “The numbers should be low- to mid-single-digit increases in rates, with broadcast spending down and cable reasonably flat depending on the network and with money going to digital, since cable ratings are down. Some of the bigger cable networks have double-digit declines. If cable is going to come up with a number ... we need an escape clause this time. We haven’t been very good at that. ... We try to find mass but also targeted, but big is always better. We’ll hear more in the pre-upfront. ... What scares me with fewer GRPs to sell, even with ratings down, they want more money. In cable you always have the escape.”
- “Last year we paid a little bit more than we should have in upfront because a couple of people set the bar and we followed. Broadcast networks were down all together. If someone is doing well, it means they are even with last year. Not a good market for broadcast. We have some clients that three or four years ago went whole hog into digital and had everything collapse, and they came back. Depending on the demographic, the younger you go, the better it is. After that the ROI doesn’t seem to be there. Agencies get a higher commission in digital, so we don’t try persuade our clients to not go to digital. Digital has more work on the agency side. If you are buying broadcast at \$100,000 a unit, then with cable it is \$10,000 a unit and digital at \$1,000 or less a unit.”

## 4) Managing director for a midsize national media agency; repeat source

The bulk of spending has moved from traditional to digital, which now accounts for a third of budgets. Overall spending is up 10% year to year, with an increase in programmatic buying. Spending is down for radio and local cable TV year to year, but up with Facebook.

### First-Quarter Spending and Rates

- “We are expecting to be up for the full year vs. 2014 by 10%, with the typical ups and downs with our clients. We have a lot of long-term potential, and most of our clients are increasing their budgets and shifting the distribution to digital. They are shifting a lot into programmatic on display, and we are getting good results, not just the CPMs and clicks but the response behind the curtain after that. And we’re able to track intermediate steps along the way.”
- “There is a little bit of sour grapes with TV people because TV can’t respond, but the truth is the integrated campaigns that use traditional media to generate awareness and digital to generate a response are the most successful out there.”
- “A few years ago we did a project for a direct marketing company that was looking at their leads from different inbound channels, from telephone numbers on TV and newspaper ads, QR codes in magazines, direct-mail pieces you could send back in, web addresses on all ads. But they generated more sales on a percentage basis from the direct mail, on a cost-per-sale that was really low. So they pulled their TV budget and put into the best-performing sales-producing media, and their sales dropped. TV had created interest, and people were willing to abandon the show to go online, and when the direct mail came in, they saw it and remembered it. People are rushing into digital only and it is performing, but at some point we will find the right mix with traditional media.”

### Visibility into 2015

- “Digital is 30% of our budget now, and we spend a higher percentage on digital than the big guys. It was 20% last year with a 40% to 50% increase. Of our digital budget, every client is different. It is 40% with one client, 20% with a second, and a third of it is into programmatic, where the benefit is spread all over the place. No one is making money off of it, but the dollars are going somewhere.”

The integrated campaigns that use traditional media to generate awareness and digital to generate a response are the most successful out there.

*Managing Director  
Midsize National Media Agency*

- “Facebook is definitely benefiting the most because they have a totally different cost model than anyone else since they are not producing any content. Someone else doing all the work, and all they have to do is provide a pipeline to share content. This is the best business model out there, and their only cost is on the technology side. It is brilliant.”
- “Twitter is not benefiting from programmatic because they are not participating in it, but they are providing higher-value relationships with organizations and they have a whole division dedicated to TV. They are all about taking what is happening on the first screen to the second or third screen.”
- “Local TV is pretty open. There is no real tightness; we put together a schedule pretty late and were able to clear all the inventory late. Right now we have no clients in network TV, but we have a few in spot TV and they are increasing their budgets because these are companies that are growing. I had a client doing only local cable and spending it in local broadcast.”
- “We had radio for one brand and shifted out entirely except for one or two promotional things. Our radio budgets have been slaughtered. We are going to spend on Pandora and some digital extensions, but we haven’t executed the program yet. It is in the process of getting approved.”
- “We are spending on native, search, premium publisher direct buys, social. We have a couple of clients who manage it internally, but they don’t understand what they are doing. ... The thing a lot are starting to realize is that the organic content posting doesn’t get you out to 100% of followers; you have to pay to promote it. Putting money behind lousy posts makes no sense.”

## 5) President of a midsize national media agency; repeat source

This agency’s budgets are up 4% to 5% for 2015 year to year. The TV spending mix is shifting away from top-tier cable and into tier 3 cable channels for more efficiency. Traditional TV budgets are shifting to digital, but mostly with digital extensions of linear broadcasting because of more favorable pricing than online video. TV is still a major share of the media mix.

### First-Quarter Spending and Rates

- “Overall budgets are up 4% in the first quarter and expected to be up by 4% to 5% for 2015, with the wireless category spending the most. There is a huge battleground, with T-Mobile [US Inc./TMUS] and [its] Metro being very aggressive.”
- “Broadcast and large cable networks continue to have sagging audience ratings.”

### Visibility into 2015

- “We’re not prepared to talk about the upfront because we have not finalized any plans yet. Broadly we have had an uptake in online video as it becomes more accessible and easier to trade, and this has come at the expense of broadcast, which continues to have sagging ratings.”
- “Some of our clients have focused their cable spending on tier 3 cable channels, which actually are showing a little bit of growth. ... With broad-based tier 1 cable, we are seeing softening, like broadcast.”
- “We see a strong performance when we are on TV, on how it drives other channels such as social volume, search volume, but no channel is working stronger than the other. All channels influence each other. That is the key we are looking at for in our preliminary upfront negotiation so we can leverage data and all of the channels together. People out there that are selling just a TV spot are going to have problem.”
- “If you look at tier 1 ... there is a finite amount of inventory that goes at a premium, and that is why they have the NewFronts. When I cut a deal with ABC, it tends to be a realistic deal where I’ve been with the client in the past including share shifts, and it helps them in areas they have trouble selling. But the entry-level price at the NewFronts, the overall package, is so out of whack. You could be looking at a channel ... that cost \$1.5 million at an entry level. Do people want to commit to something unproven? The content is real expensive to be involved with in online. A wireless client has online distribution, and devices are a heavily researched area. ... Online video and search are really important in trying to activate on where the intent is. It plays a critical role in a lot of our clients’ media. We are buying generic display ads, but for the most part are buying it programmatically to do it as inexpensively as possible.”

## 3) Local Broadcast Buyers and Sellers

These nine sources said March is an important revenue month for local broadcast but was weak for both TV and radio. Rates for radio the first two weeks of January—normally the cheapest ad units sold—have been extended into the second quarter. One radio expert believes this is a secular downslide for radio. Spot TV did not fare any better. Some strength in certain weeks caused rates to rise, but overall rates have been flat to lower year to year and inventory is readily available. The second quarter is not improving the weak landscape.

### Key Silo Findings

#### First-Quarter Spending and Rates

- Spending was flat to down on local TV with rates lower and advertisers able to get more bang for their buck or take home cost savings. Radio spending is down year to year as advertisers continue to shrink their radio budgets.
- Rates are flat to down year to year.
- Radio budgets continue to shift toward digital audio. Pandora is in the lead, but [Spotify](#) is a more aggressive competitor.

#### Visibility into 2015

- Telecom was a healthy category, while auto was mixed depending on the market.
- The second quarter is not showing signs of improvement for either spot TV or radio.
- Radio companies are aggressively packaging inventory to go after as much share as possible.

## 1) Executive vice president of local broadcast for a top-five media agency; repeat source

This source expect to see local advertising dollars fall 10% in broadcast and 15% in radio year to year. Clients want more digital but find that those digital units with the traditional framework are not priced for efficiency compared with buying programmatically. More radio dollars are being shifted to digital audio, benefiting Pandora. This agency spends 15% of its radio budgets on Pandora, an increase from last year.

#### First-Quarter Spending and Rates

- “The first quarter was down 10% year to year, with part of the spending going somewhere else. Also, we planned lower. We thought the market would be down in 2015 vs. 2014.”
- “Rates are down 5% year to year. We are seeing discounts in the market. We are hitting our planning costs.”
- “It depends on the market size, but overall inventory has been relatively easy to buy. The ... mayoral election in April saw huge ad spending.”
- “Radio is sucking wind right now. It is down double digits.”
- “We always have supported Pandora and haven’t heard of prices going up or management adding units. Users are saying [there are] too many ads on Pandora.”
- “There has never been a ton of inventory in local cable, maybe two minutes an hour. We tend not to separate and report here is a broadcast CPP vs. a cable CPP, because it is all TV. We try to work it in as part of our broadcast buys, so we don’t get a cable buy spec—just a buy spec for the market. Where it is priced like broadcast, we work it in; if there is a premium, we don’t.”

#### Visibility into 2015

- “2015 will be down vs. 2014. We are predicting down 10%, with radio down 15%.”
- “Overall there will be quarter-to-quarter variance. The general trend is, especially later in the year, we will be definitely be lower than a year ago.”
- “We have no auto right now. A regional telco is holding. Fast food is up a little bit; QSR is up a little bit. Retail is flat.”
- “Clients want digital. They want online video. We buy from an ad network programmatically. No one comes to us and says, ‘I want to buy online video in South Carolina,’ but a large CPG will say, ‘We want to target moms who have been to our website and downloaded recipes. And we want to deliver a cheese ad via an online video.’ But we can’t scale.”

**2015 will be down vs. 2014.  
We are predicting down 10%,  
with radio down 15%.**

*Executive Vice President  
Top-five Media Agency*

# Advertising Report

If you are a local station selling assets, that is what you are competing against. That spot may wind up on a station's website that they are giving to an ad network for pennies on the dollar, but if that same station comes to us and says they can sell us an ad unit on their website, I don't have any use for the price they are selling at. A desktop screen is so highly targetable and efficient, and your website in South Carolina can't compete. The stations don't get it because their mentality is to sell their assets against their competitor down the street. ... National buyers don't care where the eyeballs are coming from geographically."

## 2) Media director for a midsize national media agency; repeat source

Spending is shifting from local spot to local cable buys, but even that spending is softer than last year. Getting promotional ads on local broadcast or cable is difficult because of time shifting. Radio is struggling.

### First-Quarter Spending and Rates

- "We are buying a lot of local cable right now instead of local spot. Ratings are nonexistent. We buy very short flights on local cable—tune into a specific event and driving last-second promotions."
- "We are seeing some activity in spending on local cable, but it's not as much as last year. The whole thing feels like apathy, because with all the time shifting it is hard to promote anything."
- "Local radio is not doing well at all."
- "Spot TV is traditionally soft in first quarter, but at the end of March it is supposed to pick up into the second quarter. It's hard to say, but right now it is feeling very soft."

### Visibility into 2015

- "We are looking at alternatives to local spot and cable, but we are all siloed and the agency does everything."
- "Budgets will be flat this year."

## 3) Group director of local media for a large, independent media agency; repeat source

Spending is up 1.5% for TV and 2% for radio for this year. Inventory has been readily available, with only a few markets showing any tightness at the last minute. This agency represents a wide range of advertisers and is seeing only a slight bump in spending given the absence of the Olympics and elections. Spending on digital is growing but slowly. Pandora represents 5% to 10% of radio buys, and digital TV is growing a much slower pace.

### First-Quarter Spending and Rates

- "Local advertising spending for TV in 2014 was up 5% and in 2015 is expected to be up 1.5%. We are predicting 2016 will be up 6% because of Olympics and political. For radio, 2014 was up 1%, 2015 will be up 2%, and we are predicting 2016 will be up 3.5%."
- "Rates are flat for spot TV. We are getting more interest in digital, but that spending is not coming out of local budgets. If we can work in digital efficiently, we could still bring it in for whatever CPP, and advertisers would consider it because of their interest in this area."
- "There is some pressure on inventory in a handful of markets. Some of our under-delivery weight is being kicked out per client, and stations are not doing their due diligence. But it could be a little of that is because they are free spots. We are not seeing this a lot. Some markets may have some tightness, but not for most of stations, business has come down very late for them."
- "Stations are holding rates and we might have a little bit of bumped around, but we are trying to hold our ground. They want the business so they are not going to *not* take it, but they are trying to figure out how to run it."

### Visibility into 2015

- "What has happened in markets since our last forecast is the demand for live events, which is a trend on the rise. These units are selling at higher rates, and major packages are buying sooner. It had an impact in the first

We have recurring spending on Pandora. We dipped our toe, and now it is sort of whatever advertisers that do engage in Pandora they have come back as repeat customers. Only 5% to 10% of radio budgets goes to digital audio, tops. We hold them to be quite competitive, so they need to be efficient.

*Group Director  
Large, Independent Media Agency*

- quarter.”
- “We are seeing a wide range of categories—auto, insurance, entertainment, technology, consumer electronics, travel/tourism—are spending. Without the Olympics and political to disrupt normal spending, we are forecasting these categories to return at higher levels.”
  - “2015 is on track to grow 2% over 2014 with core categories such as finance, professional services driving the category. Entertainment and consumer products are spending. Telecom, auto and retail are all up only slightly in the first quarter. They are very reactive and competitive.”
  - “We have recurring spending on Pandora. We dipped our toe, and now it is sort of whatever advertisers that do engage in Pandora they have come back as repeat customers. Only 5% to 10% of radio budgets goes to digital audio, tops. We hold them to be quite competitive, so they need to be efficient.”
  - “Digital TV is growing slower than radio. We do some video programmatic tests, but these are very hard to do so it is a little bit slow coming.”

#### 4) Local media buyer for a regional, independent media agency; repeat source

Ad spending is as bad as or worse than last year, with budgets flat year to year. Money is shifting to digital, while radio budgets are shifting to Pandora. Local broadcast and cable TV are lackluster; some money is being spent on digital video, but inventory is slim.

##### First-Quarter Spending and Rates

- “It’s as bad or worse than last year; the markets we work with ... are the least affected, but even their reps are calling. No one is doing good.”
- “We are seeing a shift from traditional to digital media. Only a portion of what we do in this department is digital. We do digital audio and some video on the local side.”
- “2015 is flat year to year. On the accounts I work on, we don’t handle their digital portion so we haven’t been affected by their shifts. Our chunk of money hasn’t shifted, but on other accounts we are definitely feeling the squeeze. One account is doing a product launch with some extra money and is siphoning off 5% to 10% of their traditional spending to move it to digital.”

##### Visibility into 2015

- “If there is a radio buy, part off the top of the budget goes to Pandora. Say I have a \$50,000 budget in radio; 5% will go to Pandora. We don’t fully know the results of that spending because we don’t know how to necessarily test Pandora yet. We don’t want to miss out on the opportunity, and ... we see ratings from Pandora. Pandora gets the lion’s share of our digital spending.”
- “Through different vendors we buy video, but we are not buying from the stations because the CPM is ridiculous.”
- “Telecom and cable are the strongest spenders right now. Time Warner, Dish [Network Corp./DISH] and DirecTV [DTV] are spending, and in telecom, T-Mobile and Metro have upped their game. Last year Metro hardly spent anything; now they are all over the TV. Telecoms are all going crazy because they are looking down the road for the bandwidth. They are outspending the car dealers.”
- “We are not getting into programmatic for TV any time soon. We don’t think the inventory is there; plus, it’s another way to say DR. We don’t look at it this way. I’m personally thinking four years before it’s here. The networks want so much control. CBS and NBC are never going to go down that road.”
- “Local cable has seen erosion in their numbers, and they have their own issues. Either you have a huge show like *Walking Dead* that no one can touch, or local cable with two spots an hour, like Baltimore where it is too expensive.”

#### 5) Spot TV/radio strategist for a large, independent media agency; repeat source

The local broadcast market for TV and radio is soft. More of the radio budget is being shifted to Pandora, [iHeartMedia Inc.](#) (IHRT) and Spotify. All radio companies are being aggressive, but [Cumulus Media Inc.](#) (CMLS) and [Hubbard](#) are outperforming iHeart in winning business. Rates are flat to down year to year.

##### First-Quarter Spending and Rates

# Advertising Report

- “What we are seeing is it is soft. My budgets are flat, but I’m also able to deliver more than GRPs or returns as savings to my clients, who are holding onto their savings to see what happens in the fourth quarter of this year, if it turns around.”
- “We are spending 10% to 15% of our radio budget on Pandora, iHeart and now Spotify, which has a local app just like Pandora and is measured by [Triton](#). ... This helps us give ROI back to clients. We buy audio streaming like any other daypart. Our spending has gone up from last year. Looking at our clients a year ago, it was maybe 5% of the overall radio budget. I have some clients that can’t afford to go into large markets. Even though you are paying a premium for Pandora, they can make an impact.”
- “In a couple of recent markets, the rates we got in the first weeks of the first quarter held into the second quarter and have gone lower. It’s totally crazy. They upped them in four places by \$20, which is not significant, and we were still able to deliver what I needed. This happened on both TV and radio. The other thing we have seen to our benefit is when we pit a Cumulus against an iHeart and they fight for those dollars. If there is a promotional element, some companies have the leg up on it. ... The Cumulus, Hubbards or the independents ... are doing it better with winning business.”

**We are doing what we’ve been doing but are being more aggressive with rates and making sure we have good, solid buys.**

*Spot TV/Radio Strategist  
Large, Independent Media Agency*

## Visibility into 2015

- “We are doing what we’ve been doing but are being more aggressive with rates and making sure we have good, solid buys. Ratings are going down because of methodology changes with Nielsen that happened last May. ... The stations are saying the numbers are going to change so you can’t look at the books. Our buyers do a good job of looking at the trends and not just consulting the book. We are negotiating well.”
- “Programmatic is definitely on our radar, and we are working with a third-party vendor to create our own platform. We have definitely seen more clients shifting to digital. I have two ... significant clients who have made a shift to 50/50 and 60/40 [for] six to nine months to see how this goes. I think they are going to be back. They need all those pieces working together.”
- “My gut, because I’m working on political stuff, says that spending is going into 2016. The weakness this year is not nearly as much that auto or financial is not spending.”
- “You can say you serve that ad in digital. Say you want 5 million impressions and you get 5.2 million, but did anyone see it? A lot of our clients are looking at big data. You have every station group with digital offerings saying they can do better than what a digital firm is doing.”

## 6) Media director for a midsize, independent media agency; repeat source

Flat budgets are finding better value in a soft radio and TV market. Rates are down year to year; inexpensive rates offered in early January have been extended into the second quarter. This agency will begin testing Pandora this quarter.

### First-Quarter Spending and Rates

- “Our local broadcast budgets are flat year to year.”
- “We have seen our first week of January rates stick; we have rolled with those, and it’s been nice. I am working on the second-quarter buys and still rolling with those rates. The first two weeks are typically half off what they normally are. They were flat the first two weeks of January but unlike last year, where we only rolled into the second week of February. We are now going all the way into the second quarter.”
- “Sixty percent of our budget is radio, and 40% is TV. Some of our spending is going to digital but not going to Pandora. We’re not putting any money into Pandora because our clients are heavily direct response; the challenge with Pandora is it is on an impression basis. CPMs are two-fold dealing on impressions. We’d much rather have 30 spots that give us a known amount of responses we need, and their CPMs are higher than terrestrial radio. My own experience of Pandora because I’m a user is it’s the same message over and over, so I don’t know. It is on my list of things to test. If that test is successful

**Overall we are seeing our clients wanting to put more into digital. Our broadcast budgets are not suffering; instead, incremental dollars are going into digital.**

*Media Director  
Midsize, Independent Media Agency*

... then you will see me putting more of my budgets there. Somewhere in the middle of the second quarter, we will test, but now we are waiting to get 800-numbers before I pursue.”

- “We are taking advantage of lower rates and buying a lot more radio. Our cost per calls is lower than TV cost per calls, which indirectly has to do with our creative lens, which is 15 seconds on TV and 30 seconds on radio. Sixty seconds gives us a better chance to explain to the product.”
- “TV fluctuates a lot more than radio. The first two weeks of the month we are getting excellent deals. As retail and car dealers come in at the second half of the month, prices can double. Valentine week was especially heavy, and the week before Easter was hot and heavy. Typically what we will do is take advantage of first two weeks. A lot of our buys are not annual or quarterly; we buy week to week so we can look at fluctuations.”

#### Visibility into 2015

- “Even when radio gets tight in retail situations, we can take displaced money from TV and put into radio.”
- “Overall we are seeing our clients wanting to put more into digital. Our broadcast budgets are not suffering; instead, incremental dollars are going into digital. We are buying a combination of digital with a lot of it going to banner; some of it is paid search, and some is pre-roll. We spend some on social, but that is probably the last component.”
- “Both TV and radio stations will freely admit this is going to be a down year vs. last year. They seem content with knowing that they will not make their budgets. ... It seems to be more important to beat their competitors.”

## 7) Radio industry executive of national and local radio; repeat source

This long-time source and expert on radio reported a secular weakening in dollars spent on radio advertising. National advertisers have been spurning radio during the last six quarters, but local ad spending is further dwindling the market.

#### First-Quarter Spending and Rates

- “Radio sucks. The first quarter was not good. March was especially bad, which is a problem because it has a disproportionate share of the revenue of first quarter.”
- “If I were a radio ratings agency, I would give it a *sell* and *fast* rating.”
- “I thought radio had some cyclical issues. Now I’m convinced this is [another] secular decline. Radio will always have lots of use. It’s just going to be a smaller business than expected.”
- “All of the companies are spinning it that the weather was the reason for the soft first quarter, but the truth is radio had easy comps since weather was worse in more places last year.”
- “National advertising is down double digits year to year because they are not spending on radio in large markets, which are doing worse.”
- “National advertising was down 8.7% YTY as of April.”

#### Visibility into 2015

- “Second quarter national radio is down 2% YTY.”
- “If you go back 10 years and see the stories about newspapers and now swap out radio for newspaper, it is the same story. You could run them again right now verbatim.”
- “CBS and iHeart are outperforming a little bit because they have found ways to package things together very aggressively.”
- “I know that Ford cut last year, and now I have noticed the past couple of weeks have been good for auto and the volume of auto ads was up double digits year to year.”
- “Digital audio is growing when you do year-to-year audio numbers, but it is still only low single digits because radio was negative. But with the other audio components like satellite, Pandora, podcasting, it was growth of 1% to 1.5% for audio advertising year to year.”
- “Spotify is ramping up already on national, and now in the top 12 markets will go for local advertisers as well.”
- “One guy told me he is pulling money from national network radio and putting it into podcasts on [PodcastOne](#).”

## 8) General sales manager for a regional station group; repeat source

This source had been pacing up in the low to mid-single digits for the first quarter and ended up coming in flat year to year. The optimism expressed in early January now is tempered by the reality that the market is softer than expected.



# Advertising Report

## First-Quarter Spending and Rates

- “March ended up coming to a complete stop in most of our markets, and that tempered the optimism. But there was a small handful that kept adding money in March. We go some incremental auto, a lot services such as home or financial.”
- “The first quarter, if you back out the political and Olympics, will be flat year to year. Last year we had early primaries in certain markets, and were down slightly for 2014 vs. 2013 because we were up against Olympics.”

## Visibility into 2015

- “I feel like nationals are moving from local to network. Our big focus right now is new business.”
- “We are seeing it ramp up, but the softness is not transferring dollar for dollar.”
- “There is uncertainty amongst clients. Some say, ‘Business is good,’ to ‘Sales are down,’ to ‘I need to change my message.’ Digital needs to be bigger or less across the board in every market. ... Some markets are getting higher rates because ratings are up, but other markets are way down.”
- “Second-quarter pacsings are neutral. One auto guy told me, ‘There are so many people coming at me with different digital, so guess what? I didn’t spend anything.’”

There is uncertainty amongst clients. Some say, ‘Business is good,’ to ‘Sales are down,’ to ‘I need to change my message.’ Digital needs to be bigger or less across the board in every market. ... Some markets are getting higher rates because ratings are up, but other markets are way down.

*General Sales Manager  
Regional Station Group*

## 9) General sales manager for a regional station group; repeat source

The station group has seen audience ratings grow significantly in its markets, which are attracting more spending. The first quarter was up in the low single digits, but the money came in late. The source cited little visibility into the second quarter because advertisers are waiting until the last minute to spend.

## First-Quarter Spending and Rates

- “First-quarter spending was up low single digits year to year, but the money came in late.”
- “Advertisers question more and more what the opportunity is on digital vs. broadcast, but they still believe that the two can coexist and be profitable for both. ... Some national advertisers think that they want to be more targeted, and you can be with ZIP coding and data mining. But local advertising is as targeted as it is going to get, so local businesses see digital as a tremendous opportunity as an extension of their brand.”

## Visibility into 2015

- “Local advertisers are taking dollars out of the marketplace and moving to digital less so than national, which has more of a line-in-the-sand attitude, saying we need to move all this money to digital. I don’t think local advertisers react as much as national because they are members of the community.”
- “We had a few days of snow and ice, and we saw a lot of our audience on mobile. We saw 1 million page views because of the weather. When it is 72 degrees and sunny outside, broadcast will be just as effective as mobile.”
- “We believe with our locals we can create opportunity.”
- “For our [2015] core advertising spending it is too early to say. We saw first-quarter business breaking late. Historically, it always does break late, but at the end of March we did put business put on the books. We had a lot of advertisers wait till President’s Day for sales, and we had big events pushing eyeballs. But all the spending is being done at the very last minute, so it’s hard to see what’s ahead.”

## 4) Newspaper Sales Directors

Despite the weakness in the local broadcast markets, these three sources said newspaper advertising appears to be going against the trend and that spending has stabilized and rates are higher year to year. Newspapers have come through the worst of the secular downsizing of print dollars, and advertisers are looking to optimize their budgets.

# Advertising Report

## Key Silo Findings

### First-Quarter Spending and Rates

- Newspaper spending is flat to up, and sources are more optimistic that the industry is stabilizing.
- Rates are up single digits year to year.

### Visibility into 2015

- Newspaper ad spending is expected to be flat to up single digits year to year.
- Digital revenue continues to grow, and larger newspapers are making significant investments into digital offerings.

## 1) Digital sales manager for a metropolitan newspaper in the South; repeat source

This newspaper's digital revenue has grown in the low double digits year to year, but the print side also is doing well because spending has stabilized. The source believes the broadcast TV industry is being destabilized and disrupted.

### First-Quarter Spending and Rates

- "We finished last year in the digital space up 23% year to year. It was a strong year, so we are actually up against some significant numbers that we are trying to pace ahead of. January was soft, but spending rebounded in February and March. We are ... up 15% year to year."
- "We did well in the first quarter on the print side too across the ad department. Part of our success is we have been battling in this space for a long time, and it's getting to the point that newspapers are stabilizing."
- "Rates are flat. If we are winning, it is yield on the programmatic side of the business with more volume. There is no deep discounting, and we have maintained rate integrity year to year."

### Visibility into 2015

- "Travel is pacing up. We were soft in 2014 for travel, mostly because of national accounts that migrated to programmatic, and it was disruptive."
- "We have been winning in the local, controllable space where we do very well. It's the Deltas and Southwests of the world that are affecting us. When they decide to move their money, you can't change their mind."
- "Print has stabilized, and it's broadcast that is going to be disrupted next. Between what's happening with terrestrial radio with streaming options that young people are tapping into, print has been completely tapped now that advertisers are optimizing budgets. On the broadcast side, in the next three to five years programmatic buying for broadcast TV and radio will impact the industry. ... Streaming video such as Netflix, Amazon Prime and the cable space will be affected too."

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*Digital Sales Manager  
Metropolitan Newspaper, South*

## 2) General sales manager for a midsize market daily newspaper in the Southeast; repeat source

This source had expected the full year to be up 5% to 7% and now believes 5% is more realistic. The first quarter saw low single-digit growth, and the source reported a newfound optimism in this stability. Low single-digit rate hikes taken last year are sticking, and rates are up again year to year.

### First-Quarter Spending and Rates

- "We're having a pretty good quarter. February had retail spending, which carried the day. March detail is not in because we bill at the end of the month, but from our published reports we were up about 4%, up 3% in February, up big in January due to a product that we switched from December to January. But I spoke to friends, and most of them are not having a great quarter. ... Part of my success has to do with my market dynamics. It's hard and harder to make generalizations about the economy because it is so market-specific."
- "We had a great first two months of the year with auto, and then all of a sudden the biggest auto group in town with five franchises pulled all their ads and is doing only direct mail. They have a new guy in place who has to do something different. ... But earlier in the quarter we had signed that same group to a 36-page contract for the year."

# Advertising Report

They were going to share the pages [with another auto manufacturer], but one said they would make up for the one who pulled out.”

- “The rate hikes we took are sticking. Rates are up 2% to 3% year to year.”
- “Some pretty big newspapers in Norfolk, Savannah, Greensboro, Winston/Salem, Knoxville and Nashville are doing OK, holding their own and doing more digitally driven products.”

## Visibility into 2015

- “We are different from a lot of communities, even in this state. We had expected to be up 5% to 7% for 2015, but now are optimistic we can do 5%; 7% would be a stretch.”
- “We have had a number of people come back and start advertising again that have been out since 2009–2011. ... They don’t feel like they are on the verge of going out of business, so they are investing in their business again. I haven’t felt this optimistic in six years. ... Gradually it is getting better, not roaring, but 2% growth is the new high-water mark.”
- “Local cable is doing fairly well in this market. We have two networks.”
- “Radio has come out with a package that combines their web ads and terrestrial, with prices down through the floor. [I’m] not sure how they are doing. The stations here have bare-bones staff, with local people on the air during the daytime hours. Then at ‘drive time’ they go to automation.”
- “There is nothing except the economy in general that would cause us to run into a wall. We have a lot of tourism. Casual dining is OK. We dropped some long-term local restaurants during the worst of the recession, but in the meantime we had new restaurant chains that put pressure on the locals that are staying open and advertising. We have two full pages every week of mostly local advertisers on the dining guide pages. We haven’t seen a huge drop.”
- “One of the real things to keep an eye on is the technology gap between smaller groups and the larger groups. ... Smaller chains don’t have the technology to be in the lead. We are looking for a partner to do more of the digital services like SMO, email blasts, etc. I won’t be able to keep but about 30% to 40% of the revenue.”
- “We have had no pay raises here in three years.”

### 3) Sales manager for a midsize market daily newspaper in the Midwest; repeat source

This daily saw revenue fall in the single digits last year, but the source is slightly more optimistic for this year because revenue is up in certain areas.

#### First-Quarter Spending and Rates

- “Advertising spending is down but not because of advertisers or the market as much as internal situations. We lost a seasoned salesperson who had 16-year relationships; you don’t replace those overnight. We also switched our graphics location, which created a nightmare.”

#### Visibility into 2015

- “We are wrapping up our biggest project of the year, and revenues are up over last year. We could be doing better if not for internal situations. We have the potential to do better.”

### 5) Out-of-Home Sellers

These three sources said the outlook is mixed for OOH advertising. Spending, which sources said had stabilized in the fourth quarter following a difficult year, has been challenged in the first quarter of 2015. Two sources said the first quarter was weaker than expected. The third said the first quarter rose in the low single digits, but expects a double-digit decline in the second quarter. First-quarter rates were flat to up slightly year to year.

#### Key Silo Findings

##### First-Quarter Spending and Rates

- Spending was weaker than expected for 2 and was up low single digits for the third.
- Rates were flat to up.

##### Visibility into 2015

# Advertising Report

- 1 said the second quarter will be down 12% to 15%, while 1 said it is pacing better than the first quarter.

## 1) General sales manager for a large, private, national OOH company; repeat source

This sales manager expected to be up in the double digits last year but posted a low single-digit increase. The source also forecast an improvement for this year's first quarter, but said the market has been challenging because clients have cut their ad spending. The quarter was up 2% year to year. Meanwhile, rates have risen 8%.

### First-Quarter Spending and Rates

- "I just got back from a manager meeting. The first quarter was not good, but the management meeting was good. We had a very good first quarter last year, sparked by late fourth-quarter 2013 spending. Last year fell part in a lot of different ways. Auto started strong; then local dealers got co-op cuts. We thought we had dealer money, but they had to hold back. We ... rely on the co-ops to fuel our growth."
- "The first quarter was up 2%, and that was not easy—it was a struggle. In the middle of December the markets were pacing 8% to 10% ahead, and then the bottom fell out. We had cutbacks from mergers with clients. Banking has us scratching our heads. ... Home builders are dead. The industry needs retail to wake up and get out of circulars."
- "Rates are up 8% year to year. Occupancy is up 69%, and our goal is high 70s."
- "We are pushing rates because we have fixed assets, real estate, and we've been charged to make sure our assets look great."
- "Our national team is raking up some business for us, but it's not enough."
- "National radio usually pulls it out of the fire, but it is a terrible first quarter. TV and radio are not doing well."
- "We are trying to get broadcast dollars and pulling our offices together so there is a one point place to make a buy. Maybe this will start to fuel the fire."

### Visibility into 2015

- "The billboard business is looking to take a quantum leap in 2015 with partnerships with online offerings. When you buy billboards, you are buying eyeballs—nothing better than online and out-of-home. We have met with some really big players ... and are looking at categories we have never touched. We're not experts in online and will never be, but we can partner with those who know about recruitment ads and circulars."
- "We have a clear strategy. Our goal is to finish strong—double-digit growth to 12% year to year."
- "Pandora is the No. 1 radio station in our region. ... But no OOH salesperson has said, 'We lost a deal to Pandora.' Radio is experiencing this more than OOH."
- "We run eight commercials on a digital sign, which is 10% to 15% less than most static in our market because you own static and it comes at a premium. We present our digital as a network format and sell it on area coverage. The way we deconstruct the customer is to find out if they are truly a digital or a static customer."

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*General Sales Manager  
Large, Private, National OOH Company*

## 2) General sales manager for a large, private, national OOH company; repeat source

Spending was not as strong as expected for the first quarter, but it has improved in March and should be up 7.5% for 2015 overall. Rates are likely to rise in the low single digits year to year.

### First-Quarter Spending and Rates

- "2014 leaked oil all year last year, and it was hard. Our January and February were off this year. They were good for us last year. We had a decent first quarter last year, and then it went downhill. This year January was off significantly. ... We were off 5% in February. ... Our March is up 5%, and then our April is pacing up 15%, May up 12%."

# Advertising Report

- “We were so soft last year in the last nine months, it is hard not to be up a bit. ... June [is] flat right now, but we’ve got a couple of big things that have not come in.”
- “Rates are up 2.5% to 3%. In all of the conversations we have had, we have had one piece of business say, ‘We won’t renew because of rates,’ but their business wasn’t significant to us.”

## Visibility into 2015

- “I’m optimistic. We knew that January was going to look the way it did, so it was not a surprise.”
- “We expect to be up 7.5% for 2015. If we end there, I will feel good. That will come with a little bit of occupancy and rate. Rates had flat for some time, so we went to folks to give us a little bit of a bump.”
- “Occupancy is a constant battle. We were at 45% to 50% in the first quarter, always low early in the year, but in April we will be in the mid-60s. Our ambitious goal is 70%.
- “We don’t have the big spikes and drops for the year. ... It is pretty balanced all year looking out, so that makes me feel more comfortable.”
- “There is nothing new. ... Auto was never good here. We have one more person selling and specifically going after new business. Healthcare continues to be a strong category and always has been. Real estate is the one who comes spending if it sees peers going up. Contractors, builders are good.”
- “Our staff is doing well. We had turnover and have now recalibrated, so we are more stable and that helps.”
- “[Lamar \[Advertising Co./LAMR\]](#) is in acquisition mode around here.”

## 3) Account executive for a public OOH company; repeat source

The first quarter was up in the low single digits, but the second quarter has fallen apart and is down 12% to 15% year to year. Other media in the market are seeing reduced budgets as well, especially radio.

### First-Quarter Spending and Rates

- “2014 vs. 2013 was flat. We did well in 2014. Going into 2015, we actually were up 3% to 4%, but the second quarter is another story. ... We are getting mauled. The second quarter is down 12% to 15% year to year. We could see it coming in December because [a large client] was not coming back.”
- “Our region is doing pretty well, but we are way down. We have some incremental beer business coming in, small buys from a ton of beer companies, but I think all the traditional media are getting kicked around here.”
- “OOH is still a player because we can join with the Internet and phone stuff and we can push people’s buttons while they are in their cars, but radio and traditional are getting killed in this market.”
- “I don’t think our company knew how severe it was going to be. We are better than the rest of the company, even though we are down, because we have a ton of perm[anent] business—four- or eight-week plays. ... Auto—there is some business there but not a lot—mostly local and not on national. ... Fast food is stable.”

### Visibility into 2015

- “Everyone is pulling dollars from their traditional media and putting it into mobile. Prior to this call, I got five emails that are all flash sales—25% off—which pop up. Mobile is what is doing it. Our business hasn’t changed. The bottom line is everyone wants everything right now. That’s what the phone has done for them, and that’s why people want digital. No one wants to lock up a six-month or one-year contract; they want four weeks. Twitter is right now.”

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