

Protracted Upfront Negotiations Result in CPM Rates That Are Flat to Up 4%

Companies: AMCX, CBS, CMCSA, DIS, DISCA, NWS/NWSA, SNI, TWX, VIA/VIAB

June 26, 2015

Research Question:

Are CPM rates up in the upfront advertising market year to year?

Summary of Findings

- Spending in the 2015–2016 upfront market is flat to down 5% for broadcast and cable networks.
- CPM rates have remained in the range of flat to up 4% year to year. The exclusions are [Viacom Inc.](#) (VIA/VIAB), which wrote negative CPMs year to year, and News Corp.'s (NWS) [Fox](#), which sold some inventory in the negative range.
- Networks in the upper end of the CPM rate range are Walt Disney Co.'s (DIS) [ABC](#) and [Scripps Network Interactive Inc.](#) (SNI).
- Negotiations in the upfront market are proceeding slowly, and networks are offering more than just price to consider. They also are parlaying big data from set-top boxes as part of the negotiation.

Silo Summaries

1) National TV Upfront Negotiators

These five sources said the 2015–2016 upfront TV market is underway but moving slowly, with overall spending flat to down 5% year to year. CPM rates have ranged from or are expected to be flat to up 4% year to year.

	Broadcast Spending	Cable Spending	Upfront Rates
National TV Upfront Negotiators	↓	↓	→

Background

Blueshift Research's [June 12 advertising update](#) found that the 2015–2016 upfront TV market was warming up. Major ad agencies reported budgets that were flat to down in the low single digits for both broadcast and cable networks. One large agency source said spending might be down less than 5% once total dollars are tallied. CPM rates were expected to be flat to up 4%, but sources said the typical networks that close deals in the high end of the flat to up 4% range would have to fight to get this increase in this down market.

Current Research

In this update, Blueshift Research assessed whether the weakness in network TV spending would affect the CPM rates that broadcast and cable networks charge in the 2015–2016 upfront season. We employed our pattern mining approach to establish an independent silo of five primary sources (all repeat sources):

- 1) National TV upfront negotiators (5)

Next Steps

Blueshift Research will continue to monitor the upfront market and, in July, will publish its full advertising report on the network TV and cable, spot TV and local cable, newspaper, out-of-home and digital markets.

Advertising Update

1) National TV Upfront Negotiators

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Key Silo Findings

Upfront Spending

- Overall upfront 2015–2016 budgets are flat to down 5%.

Upfront CPM Rates

- Rates for Disney’s ABC broadcast and cable network negotiated up 4%; 1 midsize source said at least 5%.
- CBS rates up 3%.
- Fox rates flat to up 2%, with some properties written in the negative.
- Comcast Corp.’s (CMCSA) [NBCUniversal](#) expected to be up 4% because of some deals that now have Olympic inventory rolled in.
- No deals yet with Scripps, expected up 4%.
- No deals yet with [A&E](#) (joint venture between Disney and Hearst), but rates expected to be in the middle of the range of flat to up 4%.
- No deals yet with [AMC Networks Inc.](#) (AMCX), but rates expected to be in the high end of the range.
- No deals yet with [Discovery Communications Inc.](#) (DISCA), expected to be up 1% to 2%.
- ESPN (80% Disney, 20% Hearst) flat to up 2%.
- Time Warner Inc.’s (TWX) [Turner](#): rate negotiation is in progress, expected to be in the middle of the range.

1) Executive of national broadcast advertising for a top-five media agency; repeat source

The source reported a “glut of sports inventory.”

- “I think ESPN has written one deal, so not a lot of business yet. They are in the midrange of flat to up 4% because there is too much sports. There is a glut of sports inventory. The average NFL game has 70 units, and the NFL took eight games out of their Thursday night lineup and switched to CBS. Just by doing that, the audience almost triples and the cost triples. You go from \$3 million to \$9 million. You go from a \$100,000 unit cost to a \$300,000 unit cost on CBS because the audience is bigger and CBS gets higher CPMs. So now every one of those units is \$200,000 more expensive. It sucks up about \$100 million of more money that can’t come from prime-time, can’t come from cable or syndication or late-night or news, so it comes from Fox or CBS on Sunday afternoon, it comes from NBC. We saw this last year for the first time where NFL guys were sucking it up in the scatter market. It takes more money to fill those spots, and it sucks money out. And some advertisers can’t afford to be in the NFL to begin with.”
- “ESPN is more friendly this year. Broadly speaking, put aside CBS’s Thursday night (which is huge), there are Fox’s FS1 and FS2 [Fox Sports 1 and 2], which are not doing great ratings-wise, but they are doing ratings and they are selling ads. And there is NBC Sports. Their cable network is doing a lot more. Half of the NHL hockey finals were on their cable network, so you have all these different avenues and can get sports anywhere, whereas five years ago ESPN was the only place.”
- “I’d characterize what is going on with sports as more competition, which leads to more fragmentation, which has a steadying effect on pricing, and it’s a question of degrees. If I don’t like pricing for baseball on ESPN, I can buy on TBS or the major league network or Fox, so I also have more choices. College football used to be on CBS and ESPN, and now it’s on FS1 too.”

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Executive of national broadcast advertising for a top-five media agency

Advertising Update

2) Executive of national broadcast advertising for a top-five media agency; repeat source

Discovery's rates are expected to fall in the middle of the range of flat to up 4%; the network has seen a decline in its programming but is protected somewhat by its brand portfolio.

- "Discovery Networks will probably wind up in the middle to a little bit down [of the range of flat to up 4% in CPM rates]. They have high legacy CPMs, with their ratings not what they used to be. They used to be upscale but not with their programming today."
- "However, they do have a large portfolio. If you focus on big brands like Discovery and TLC, it's not a great story, but they have had pretty good growth on smaller networks. And there's a struggle on the base brands, so it can even it out. The larger the portfolio, in theory the more protection you get. Remember, sometimes in their quarterly reports they quote massaged numbers that include advertising and production money from sponsorships, and they sometimes tuck in subscribers fees. So they have lots of different ways to report. I don't think they will get over 2% CPM increase this year."

3) Executive of national broadcast advertising for a top-10 media agency; repeat source

The cable market is moving slowly in terms of negotiations and agencies' response.

- "Fox wrote negative CPMs. A&E and Discovery are in no rush, or the agencies are putting them off. Turner is trying and is further along [than other cable networks], but agencies are slow to respond."

4) Executive of national broadcast advertising for a top-10 media agency; repeat source

Big data is now a component of upfront deals, which has slowed negotiations.

- "I don't see anything new with the digital offerings from the networks. Everyone is talking about the big data stuff, and that is what is taking time [to close these deals]."
- "The networks are saying they have data now that we cannot get our hands on because they get it directly from their suppliers. They can maximize and optimize our schedules and help us get at the true target. We can buy car owners instead of an 18- to 45-[year-old] demo. ... No one has this big data down yet. All of it is in beta stage, which is the best offering the networks have right now. Basically people want to try something, so this is a test."

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Executive of national broadcast advertising for a top-10 media agency

5) Executive of national broadcast advertising for a top-10 media agency; repeat source

NBCU has rolled Olympic inventory into its upfront deals.

- "NBC is trying to roll in Olympic inventory because advertisers did not get the lift in the last Olympics that NBC had promised during the event. And even two weeks later sales did not register. So now NBCU is rolling this inventory into the upfront, adding to their portfolio, and that is why it is taking more time."

Advertising Update

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