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Dear Friends:

As we approach the end of 2012 and consider various factors that contributed to advertising media spending—an election year and an exploding digital industry on the plus side, continuing economic uncertainty and transitional challenges facing traditional media on the negative side—what can we expect in 2013? What will the media landscape look like for both traditional and new media? How can credit and collection managers prepare themselves and their staffs? This issue's feature, the first of two parts, will lay out some predictions for advertising spending next year. Then in our next issue, we'll discuss various aspects of the digital marketplace that credit and sales departments should know in order to take best advantage of these trends.

We enjoyed celebrating the accomplishments over the past year of our wonderful employees at the Szabo Annual Awards Banquet last month. Looking forward, our fall calendar of industry events includes the Broadcast Cable Credit Association (BCCA) Media Credit Seminar, November 6 in New York, New York. Also, our annual Szabo Holiday Party will take place on December 8 here in Atlanta.

Best wishes for a terrific fall,

Robin

Robin Szabo, President
Szabo Associates, Inc.

Advertising Trends Create New Challenges for Credit and Collection Managers

The summer Olympics have ended, and in a few weeks the election will be over as well, ending a $3 billion quadrennial boost in advertising spending. Our focus turns now to 2013, with hope that increasing confidence in economic recovery will keep advertising spending on an upward trajectory.

Where will advertisers spend their dollars in 2013? Can traditional media expect growth? Will digital media continue its rapid and steep ascent? Is it a zero-sum game between traditional and digital, or one in which both can win?

Advertising spending should rise. ZenithOptimedia, a leading forecaster of advertising spending, has predicted 3.2% growth in 2013 for the U.S. media economy over the previous year, even though the numbers must compete with the quadrennial surge of 2012. The organization considers numerous factors such as price negotiations with media owners, client and consumer confidence, new formats, media launches and closures, new regulations, the rate of innovation and creation of new businesses and brands, corporate profitability and expectation for GDP growth to determine its forecasts.

Traditional and new media become not-so-strange bedfellows. One of the most exciting media trends is the convergence of old and new. Rather than sounding a death knell for traditional media, new technologies are generally breathing life into aging formats, making them more relevant to today's demanding consumers.

Internet continues its surge. Leading the pack in growth in 2013, according to Zenith-Optimedia, will be internet advertising, particularly mobile and social media. U.S. online advertising expenditures in 2013 are expected to grow 18.3% next year, to $36.2 billion, the strongest growth rate in at least four years. This staggering growth will be driven by rising consumption of online video, innovation in display formats, the rising value of social media, and the growth in mobile internet usage.

Positioned to enjoy the greatest surge, according to Zenith-Optimedia, is mobile, with a predicted 51% increase in 2013 over 2012. In its State of the News Media 2012 report, the Pew Research Centers Project for Excellence in Journalism (PEJ) states that 27% of the population now get news on mobile devices. It also reports that mobile devices increase traffic on major newspaper websites by an average of 9%, suggesting that mobile enhances, rather than replaces, news consumption.

Social media is set to take second position in internet advertising growth in 2013, with a predicted 35% increase from 2012, according to ZenithOptimedia. PEJ reports that approximately 133 million Americans, or 54% of

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the online U.S. population, are now active users on Facebook. Additionally, the number of Twitter users grew 32% last year to approximately 24 million users in the U.S.

Television remains strong. Among traditional media, television shines brightest. With sports money continuing its move to cable, the medium has been thriving as a complement and less costly alternative to traditional broadcast. According to ZenithOptimedia, national cable has enjoyed 12% and 10% growth in 2011 and 2012, respectively, with 10.5% growth predicted in 2013. Spot TV advertising, which is favored among automotive advertisers, is expected to continue its significant contribution. Total ad spending in the U.S. for television, the only media segment predicted to contribute more to the media economy than digital next year, is predicted to increase 3.5% to approximately $63.1 billion.

While traditional distribution via broadcast and cable continues to be the dominant means of accessing video content, other options are evolving. According to a recent Nielsen study, Internet Protocol TV (IPTV), which allows video streamed from the Web to be viewed on a television set, is gaining in popularity. At the beginning of this year, a little over 10% of homes had IPTV; however, IPTV functionality is now being built into current and future generations of televisions, which could result in much greater usage and competition for market share.

Today's viewing audience, particularly younger viewers, want what they want, when they want it. Online video and Video on Demand (VOD) are increasing in popularity and may soon out-distance Digital Video Recorders (DVRs) as a method of on-demand, delayed viewing access. While DVRs offer consumers the advantage of skipping over commercials, VOD usually does not, making it an appealing choice among advertisers. According to a recent extensive survey conducted by YuMe, a provider of digital brand advertising software and services, and Frank N. Magid Associates, Inc., a research-based strategic consulting firm, 30% of internet-connected households have some form of connected TV, and users of those sets are generally receptive to advertisements and ad-supported business models. Specifically, short-form video and streaming TV show consumers on connected televisions prefer 15-30 second ads over monthly subscription or pay-per-view models.

Increasing the appeal to advertisers further is Dynamic Ad Insertion (DAI) technology, which allows ads to be inserted real-time into live or VOD video streams. Combined with precision targeting tools, DAI offers advertisers a method to deliver ads to their specific target audience. For example, DAI can allow an advertiser to specifically reach a mobile audience at a particular event on a particular day at a particular time.

Social media are also having a significant impact on television. References to Facebook and/or Twitter are becoming more common during broadcasts, supplementing the once totally passive viewing experience with opportunities for viewers to react to programs and advertisements and to communicate with each other, while providing valuable information to advertisers in the process.

Radio is bolstered by online listeners. Overall U.S. radio ad spending is expected to grow 2.9% in 2013, reflecting a 2% increase in network radio and a 3% increase in local radio, according to ZenithOptimedia. Although dollars will increase, radio's share of ad spending is expected to continue to decline to 6.9% in 2013.

Even so, online radio listening is at an all-time high. According to a study conducted by Arbitron Inc./Edison Media Research and published by the Radio Advertising Bureau, the weekly online radio audience (comprising streamed and pure-play stations) is now 76 million persons age 12 or older in the U.S., approximately 31% of the 12+ population base.

Additionally, the new media environment is proving to be advantageous to radio advertising effectiveness. An experiment conducted by Harris Interactive, Inc. for the Radio Ad Effectiveness Lab indicated that radio and the internet can be powerful advertising complements, enhancing reach in both quantity and quality. For example, recall of advertising is dramatically increased (27% versus 6%) when a combination of radio and internet is used compared to website ads alone. According to the test, radio and the internet build complementary bridges to the consumer's mind, with radio connecting more effectively at an emotional level and the internet connecting at a more factual level.

Print numbers are mixed. The digital environment has not been as kind to print media. Data released mid-year by the Newspaper Association of America (NAA) indicates a continuing steep decline in print newspaper advertising revenue. Following their apex of $48.7 billion in 2000, print ad revenues have been on a downward trajectory, to $20.7 billion in 2011.

Digital revenues for newspapers, however, continue to rise. According to NAA statistics, 2011 online advertising was up $207 million industry wide compared to 2010. Print advertising, however, was down $2.1 billion, indicating a 10 to 1 ratio of print losses to digital gains.

Although newspaper digital sales are increasing, the gains thus far still fall short of the breakthrough the industry needs, according to PEJ. “Building digital revenues proves painfully slow,” states the headline of PEJ's State of the News Media 2012 report on newspapers. One factor that has complicated the selling of advertising on digital platforms is the continuing murkiness of digital data, according to the report. Measuring companies use different data, and doubts persist about which metrics make sense.

Print magazine ad revenue has also suffered, with monthlies' ad pages dropping 6.1% the first half of 2012, according to the Media Industry Newsletter as reported in *Advertising Age.* In its June report, however, PricewaterhouseCoopers predicts that magazine print advertising will ultimately grow 0.2% in 2012, with magazines' digital ad revenue growing 17%. The company also predicts that digital's pace of expansion will accelerate, with U.S. digital consumer magazine advertising increasing at an estimated 18.5% compound annual rate to $2.9 billion in 2016 from $1.2 billion in 2011.

That said, print continues to represent a much larger proportion of magazine advertising, with expected growth in U.S. consumer magazines to reach $10.6 billion in 2016. Perhaps the reason magazines have suffered less than newspapers is that the experience of reading a magazine is quite different (and many would say, more appealing) than reading it online. Additionally, magazines do not have the burden of presenting breaking news as do newspapers, which must compete with the internet's power to immediately deliver information.

Out of home advertising benefits from technological innovations. Following a high of $7.3 billion in 2007, outdoor advertising spending dropped the next two years to a low of $5.9 billion in 2009, according to the Outdoor Advertising Association of America (OAAA). Since then, however, spending has been on the rise. ZenithOptimedia predicts a 5% increase in U.S. ad spending on billboards and a 5% increase on other out of home advertising in 2013 over 2012.

A study conducted by the Media Behavior Institute and released in May by OAAA found that out of home advertising provides tactical and strategic additions to traditional media. According to the report, more than 80% of Americans can be reached daily while away from home and work, with multiple out of home formats being most effective for maximum exposure.

Technologies such as IPTV have enabled convergences between digital out of home (DOOH) and both traditional and new media, providing a myriad of opportunities for advertisers to reach customers more effectively. As examples, the convergence between DOOH and broadcasting allows real-time distribution of television programming on a narrowcast network such as a digital sign, and convergence between DOOH and mobile media enables customers to send Twitter and text messages to displays. Mobile barcode scanning is experiencing explosive growth, according to a new study by Scanbuy as reported in a research brief from the Center for Media Research. In the second quarter of 2012, there were more than 16 million mobile barcode scans, with June being the highest scan month ever.

Convergence creates new challenges. While the convergence of new and traditional media can create opportunities for profit never before possible, the transition carries with it some formidable challenges. It is becoming difficult, if not impossible, to completely separate each medium in order to measure its individual impact. Convergence also creates a complex value chain. The industry has not yet resolved issues regarding the pricing of advertising whose delivery overlaps various technologies and contributors. Additionally, as the vocabulary of advertising continually expands to include the newest innovations, with acronyms such as IPTV, VOD, and DAI, credit managers are increasingly challenged to keep abreast of what their sales departments are selling.

Also, traditional advertisers have shown reluctance to embrace the digital world. News organizations are having limited success convincing key traditional advertisers to advertise online. According to the PEJ report, news organizations also tend to rely most heavily on static banner ads on their sites, while rich media and video ads are rarely found. This is somewhat troubling, since ZenithOptimedia predicts online video and rich media advertising

"Boss, your grandad—I mean the Chairman of the Board—just sent down his idea for mobile advertising. He said he's happy to hear it's become so popular again."

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will grow 28% in 2013 over 2012, while banner ads will increase only about 10%. Additionally, few news websites demonstrate the sophisticated targeting that many consider the future of digital advertising, according to PEJ's 2012 report. The report states that ads on news websites rarely take advantage of technology used by Google and Facebook to match ads with individual interests of users. Metrics that these technology giants use to measure ad performance are continually being reviewed and improved. For example, Facebook is now making a measurement change related to how it accounts for and reports on user interactions with ads and content, according to a recent article by Dave Williams, CEO of Blinq Media, in *Advertising Age*. The change allows connections to be decoupled into distinct actions, allowing advertisers to specify a single action or multiple actions to be measured in order to develop improved advertising strategies.

Since digital revenue is poised to leave other platforms in the dust in a very few years, future success may depend in part on whether the news industry can take advantage of the more lucrative areas of digital advertising. Some news companies, however, are creating their own digital advertising sales networks and are moving into digital marketing and consulting. As examples, Gannett, Meredith, and the Tribune Company have all made leaps into the interactive marketing space. (Side note: On August 21st, it was announced that Gannett has acquired Blinq Media, a company that helps advertisers and ad agencies place ads on social platforms, primarily Facebook. Blinq will now become part of Gannett Digital Marketing Services.)

We have always believed that with new challenges come new opportunities. 2013 promises to be a good year overall for the media industry, with the convergence of new and traditional media offering a myriad of new opportunities for organizations that approach its challenges with confidence and optimism. With that in mind, we devote next issue's feature to meeting those challenges; specifically, what credit and sales should know and how they can work together to maximize opportunities in the digital marketplace. ♦

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