



MEDIA INFLATION
TRENDS

! IAVAS MEDIA

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In an April 2015 study by Millward Brown Digital, only 25% of brand marketers were confident they had an optimized media mix. This should come as no big surprise given the rapidly changing media landscape. And it's not simply the broader, overarching shift from offline to online investment. It's far more complex. The metamorphosis is being driven at the channel level with ever growing momentum. To put things in perspective, just follow the timeline of change over the last twenty years.

When Display advertising was launched in 1993, there were fewer than 16 million internet users. Online advertising remained a novelty and getting it wrong would not necessarily make or break the success of one's communications strategy. The 3-Net TV roadblock was still a feasible strategy. Offline media continued its reign. The industry's online goal through the 1990's was strictly about building critical mass in internet penetration. Even by the time Google came on the scene fifteen years ago, display and search only reached an estimated 123 million internet users (approximately 43% of the total U.S. population at that time). Fast forward to today, and the game has completely changed. Advertisers are reaching 280+ million digitally connected consumers (approximately 88% of total U.S. population) through a far more complex channel mix.

One of the biggest challenges is that change is happening at a much more hurried pace. The most recent mover being Mobile, which over a short three year period has jumped from a modest 8% of total digital investment in 2012 to 25% in 2014 (source IAB / PWC 2014 advertising revenue report). In the same time, Cable TV has usurped Network TV as the dominant offline medium, garnering nearly one in every five ad dollars spent in 2014. And while the broader picture of print and local media investments reflect steady contraction, these media have retained high relevance in select categories. No wonder advertisers are second guessing their media allocations.

The proliferation of media options has necessitated a far more rigorous review of one's budget allocations, within which buyers must consider numerous different ways to implement budgets. The rise of integrated investment reflects the plethora of ways a buy can be made: Upfront, Scatter, Direct Response, Programmatic, Integrated, et alia. If your communications strategy is misaligned today,

you may very well miss a significant portion of your target opportunity. The following analysis offers a perspective of the general media inflation trend in the marketplace with the intent of providing a benchmark against which to gauge your own CPM growth rate.

NATIONAL TV

Ratings erosion continues to prop up prices in the face of relatively stable unit loads. Simply stated, the dynamic of ratings decline forces advertisers to buy more units to achieve the same deliveries. And as original content continues to lure appointment viewers, brands continue to bid strong for prime placement, negotiate broader packages, and sustain the ubiquitous, high visibility presence that traditional TV offers. However, price sensitive clients continue to pull dollars from the medium.

The big winner in the National TV space is Cable TV. Cable TV has sustained its newfound dominance over Network TV and is not looking back. In addition to Cable TV's strong offering of original content, it continues to reflect a major portion of consumer time spent with media, reinforcing its strength in targetability, reach and frequency that few other media can claim.



Cable TV CPMs are expected to increase 5.5% in 2016, driven slightly higher than previous years due to election year activity. Overall, National Broadcast TV CPMs are expected to trend at 3.8%, though premium content and especially sports will buck the general total day trend.

LOCAL TV


Local TV is expected to experience a rebound in the summer of 2016 on the strength of election year spending. Both candidates and Super PACs are positioned to spend big as political parties battle to retain and regain the White House. Local TV is going to be especially fierce in the swing states (get ready Ohio for the deluge of political advertising).



Local TV CPMs are expected to rise 13%, offsetting declines in previous years.


ONLINE VIDEO

Online Video has experienced strong double digital spending growth over the last three years. According to the IAB, Online Video spending reached \$3.3 billion in 2014. While this is still less than 5% of total Video dollars (offline and online), online video is expected to continue its strong growth track. Advertisers will continue to augment traditional TV delivery with targeted digital video placement. However, as with other digital media, placement is in abundant supply, which is expected to dampen overall inflation.

 *Online Video CPMs are expected to grow in the low single digits, +1% in 2016.*

MAGAZINES

It's been a long swan song for magazines. For years, the pundits have spoken about the end of print. And while magazines continue to reflect steady year over year declines in overall investment, the medium remains as tenacious and relevant as ever, especially for specific categories such as Pharma, Beauty, Fashion, and Travel & Hospitality. The contraction in paging and titles witnessed through the Great Recession and over the last few years has more to do with standard business cycle of an over fragmented market correcting itself than an industry in a funeral march. And while digital readership is on the rise, most current estimates show tablet penetration barely breaking 50%. The seismic shift away from traditional magazine distribution is not feasible until tablets reach critical mass among consumers. Based on the most liberal forecasts for tablet sales, it appears critical mass remains a few years away at best.

 *For these reasons, we anticipate, Magazine CPMs to sustain 3% growth in 2016, consistent to year ago trends.*

NEWSPAPERS

Newspapers are struggling to sustain revenues through traditional distribution channels. The face of this struggle is clear in the persistent downward trend of Newspaper revenues over the last decade; not a single year of growth

seen in the category since 2005. Erosion, however, has slowed this past year, leading to lower inflation rates. The best of the survivors are reinventing themselves, augmenting core businesses with digital platforms to capture the wave of consumers who are now exclusively accessing content on mobile. The bright side of the shift is that the industry is becoming more and more creative in delivering content as they adapt to new technologies. Native is especially gaining traction. As newspapers are finding innovative ways to enhance reader engagement by customizing offerings in Food, Finance, Travel, Music, and Lifestyle. As publications harvest traditional business and adapt to a new paradigm, consumers are being given new reasons to stay informed.

 *In 2016, Newspaper CPMs are expected to eke out positive CPM growth of 2.5%.*

RADIO

Radio is perhaps one of the most underappreciated media channels among advertisers, representing less than 5% of the industry mix. This fact always surprised me given that the average American spends 92 minutes driving each day, according to one study conducted by the AAA Foundation. As Radio remains the medium of choice behind the wheel, it has unparalleled potential to reach consumers in an insulated, high engagement environment. As long as Americans continue to drive, traditional Radio will have life.

On the other hand, digital radio is augmenting listening habits. Approximately 44% of Americans listen to online radio on a weekly basis per a survey by Edison Research and Triton Digital, driven heavily by a 12-24 audience. As the industry reaches critical mass with greater numbers of digital radio listeners across all demographic groups, anticipate a shift from "Radio" to "Audio" planning, in the same way TV has shifted to Video. Highly anticipated is iHeart's first traditional radio programmatic platform to be launched in mid-2016. While this could put pressure on inventory, details are still emerging.

⤴ | *With all the options available (digital audio, programmatic, etc.), Network Radio CPM's are expected to reach as high as +1%*

⤴ | *Local Radio, on the other hand, is expected to grow 3.0% in 2016 due to Presidential election dollars, Super PAC spending, and a strong automotive marketplace.*

OUTDOOR

Outdoor signage offers ubiquity of presence with greater interactive formats. More and more, signage is shifting away from static to dynamic display. In this way, outdoor messaging is shifting from terse awareness slogans to brand information centers with fresh updates, rotating content, and eye popping presentation. Outdoor is delivering greater interactivity, higher engagement, and improved visibility, reinforcing its ability to effectively reach consumers and impact purchasing behavior.

⤴ | *In 2016, Outdoor CPMs are expected to sustain growth of 3.5%, following the historical trend.*

DISPLAY

There is a push-pull dynamic occurring in the world of display advertising today. Programmatic buys are driving prices down, while prices for site negotiated, premium placement are rising. Industry wide issues of visibility and fraud are increasing the need to prove the value of display placement, which is driving greater vigilance in what is being bought. As advertisers and buying platforms improve, we're likely to see greater convergence onto premium, proven placements, facilitated through the emergence of private marketplaces. As the industry fine tunes its approach, anticipate a shift away from tonnage space and more

selective placement for which supply dynamic is more narrow. In turn, this will impact CPM growth.

⤴ | *In 2016, online display CPMs are expected to rise a 1%, bucking the trend of flat CPM growth over the last few years.*

PAID SEARCH

Undoubtedly, search is a component of nearly every consumer decision journey. Search is one of the few "always on" media, always at the ready to connect consumers with branded content. The biggest shift in the search environment came with Google's May 2015 announcement regarding Mobile overtaking desktops in search volume. The trend is indicative of the ubiquity of search and how intertwined search has become across screens. Search is the one requisite of every channel mix, the sine qua non of media.

⤴ | *On a cost per click basis, we anticipate consistent growth of 3.3% in 2016.*

MOBILE

The explosion of Mobile advertising over the last few years has been intense. In 2014, Mobile became the second largest digital media after search, according to the IAB / PWC advertising revenue report. Five years ago, Mobile advertising was a passing, exploratory consideration. Now it's at the forefront of a brand's media innovation. The core force behind this explosion is smartphone penetration. The magic critical mass number of 75% penetration was reached at the end of 2014 and is projected to reach 80% by end of year 2015. Additionally, more and more consumers are accessing the internet mobile first. Ad formats are becoming more robust and engaging. And Mobile is multi-functional advertising portal, delivering Search, Display, Video, Social and branded site content.

Mobile is poised to completely change the face of advertising over the next few years.



As with other digital media, supply outweighs demand. In this context, overall CPMs for Mobile advertising are expected to rise modestly at 1%.

CPM MATRIX

CPM	2010	2011	2012	2013	2014	2015	2016 Estimate
Nat'l Broadcast TV	2.0%	10.6%	10.0%	7.0%	6.0%	5.0%	3.8%
Cable TV	5.0%	8.8%	9.0%	7.5%	5.5%	4.5%	5.5%
Spot TV	5.5%	-2.8%	12.0%	-6.0%	2.0%	-2.0%	13.0%
Network Radio	3.5%	2.0%	0.0%	0.0%	3.0%	1.0%	1.0%
Spot Radio	2.7%	6.9%	3.0%	-1.0%	2.0%	0.0%	3.0%
Newspapers	1.0%	3.0%	5.0%	4.0%	4.0%	3.5%	2.5%
Magazines	1.0%	2.0%	3.0%	3.0%	3.5%	3.0%	3.0%
OOH	3.9%	4.0%	3.0%	3.0%	2.5%	3.5%	3.5%
Internet/Display	0.0%	-2.0%	4.4%	0.5%	0.5%	0.0%	1.0%
Paid Search	5.0%	5.0%	5.0%	5.0%	5.0%	3.5%	3.3%
Online Video	0.0%	2.0%	0.0%	0.0%	0.0%	0.0%	1.0%
Mobile	-	-	-	-	-	1.0%	1.0%



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