



BIA/Kelsey's Annual
U.S. Local Media Forecast,
2012-2017
Mobile Local Media

March 2013

About This Forecast

- BIA/Kelsey constantly monitors the local media marketplace. Twice annually we build a forecast that brings together these media for a holistic view of the U.S. local advertising picture (definitions are provided).
- The slides that follow present an overall assessment of the local media market, including forecasts and explanations, which is followed by a drilldown into the mobile segment (beginning on slide 13).
- For more information on the other segments that constitute the overall local media picture (each of which has a corresponding unique forecast), please contact Steve Passwaiter at spasswaiter@biakelsey.com.

Executive Summary – Overall Local Media Advertising

- BIA/Kelsey defines the local media advertising marketplace as those media that provide local audiences to all types of advertisers.
- The U.S. economy in 2012 continued to experience a relatively slow growth for a recovery. Private businesses did not increase their new hiring noticeably with the unemployment rate remaining uncomfortably high. Consequently, national and local advertisers were cautious in their advertising expenditures. Where we initially projected the total of the local media market to be \$134.6 billion in 2012, we now expect it to be only \$132.5 billion.

Executive Summary – Overall Local Media Advertising

- Even with the influx of significant political advertising spending, the growth in 2012 was only a slight increase from the 2011 level of \$131.8 billion (+0.5%).
- While we expect the economy in 2013 to be somewhat better with a lower unemployment rate, many uncertainties remain. Additionally, the lack of significant political advertising will affect the yearly growth. Our estimate for growth in 2013 will only be +0.2%
- Total local media advertising revenue growth will fail to keep pace with that of the overall economy throughout our projection period.

Executive Summary – Overall Local Media Advertising

- Based on the changes in our estimates, the overall local media market will grow moderately through 2017 (at a 2.3% compound annual growth rate), and by 2017 the total will be \$148.8 billion.
- Growth in online/interactive/digital advertising revenues will remain strong, with a 2012-2017 CAGR of 12.3%.
- That compares with a 2012-2017 CAGR of -0.3% for traditional advertising revenues.
- By 2017 local online/interactive/digital advertising revenues will be \$41.1 billion.

Objectives

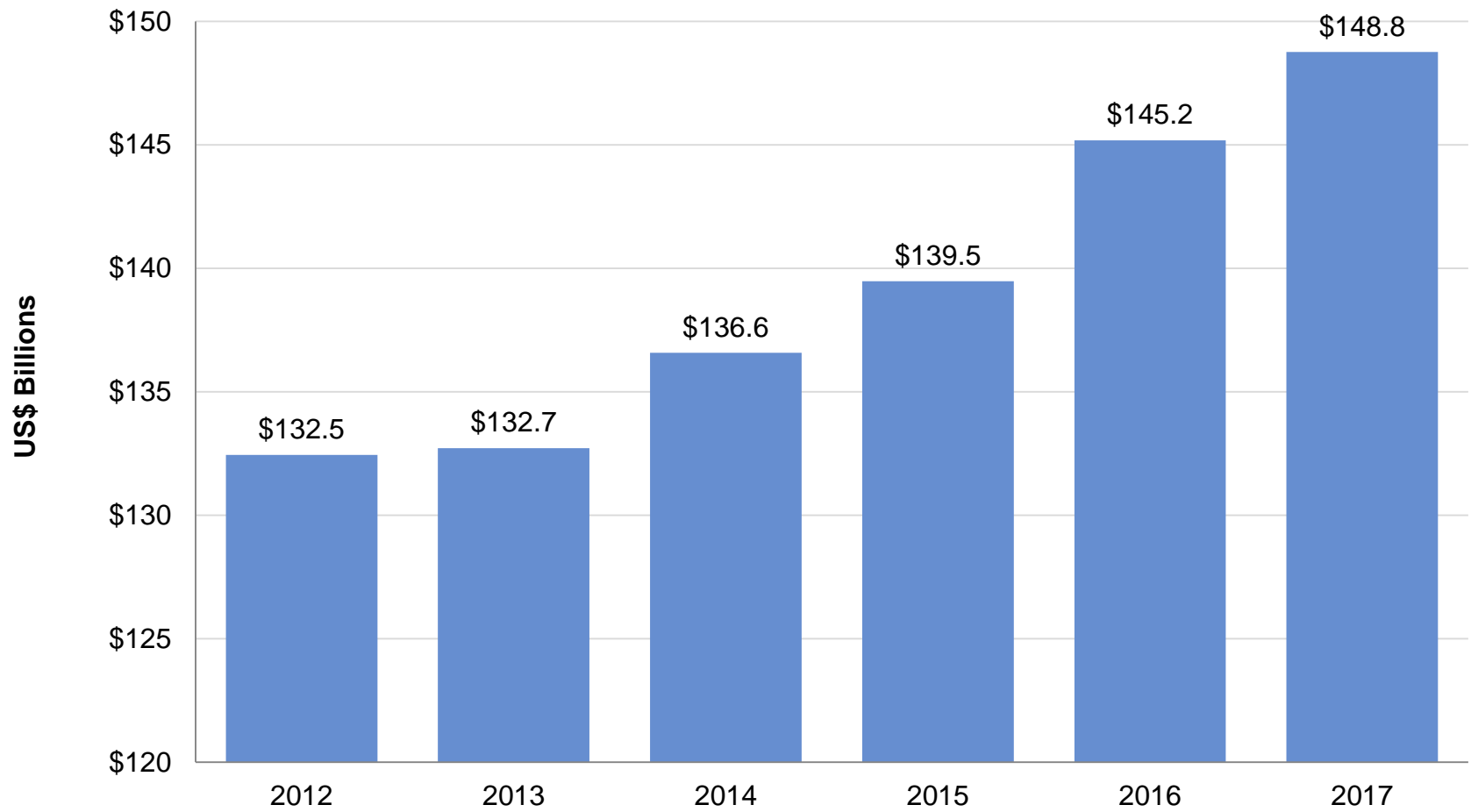
Our forecast objectives include:

- Providing a 360-degree view of the market for “local” advertising — with local defined as some form of targeted messaging to specific geographic markets — spent by national, regional and SMBs.
- Offering clients an independent, objective and credible five-year forecast of the market situation.
- Giving clients a view into the key drivers and assumptions behind the top-line forecasts.

Methodology

- We gather as much proprietary and secondary information as available by segment.
- We then generate preliminary forecasts by segment, which are discussed with leaders within our key media segments — Yellow Pages, radio, etc.
- Our process includes using third-party and public company reports to adjust and fine-tune forecasts.
- We tie bottom-up approach with top-down approach.
- Our forecast utilizes long-standing industry expertise and knowledge to adjust drivers and key assumptions.

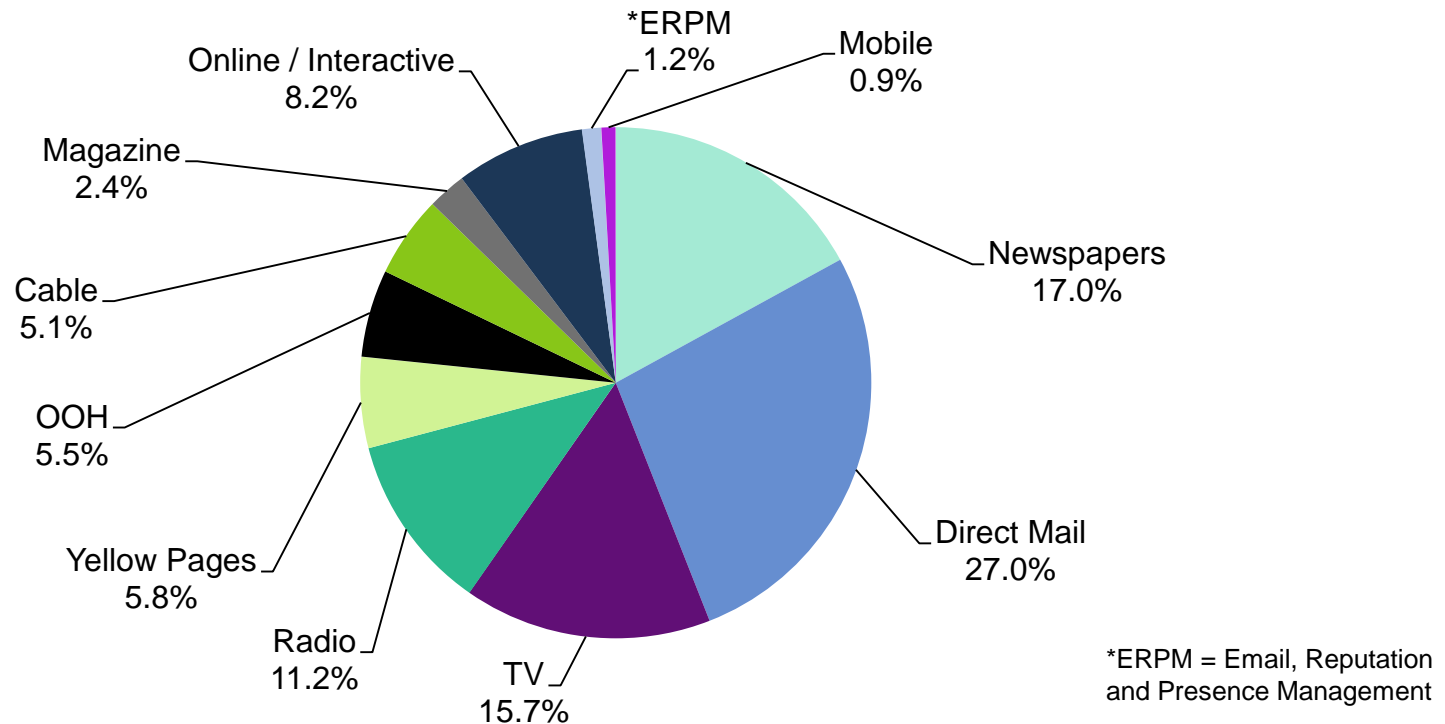
Local Media Five-Year Forecast



Note: Numbers are rounded.

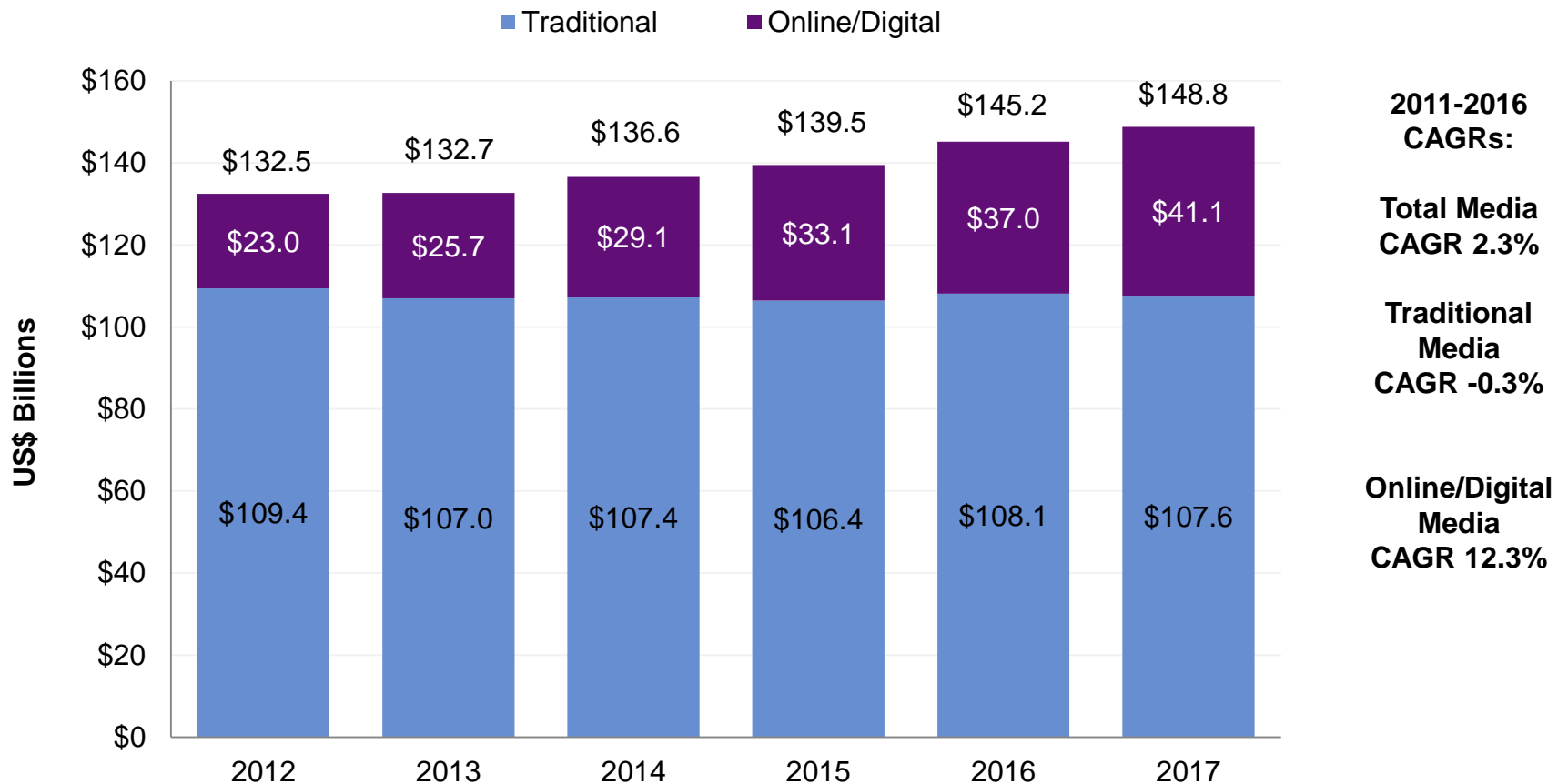
Local Ad Market Currently Dominated by Traditional Media

2012 U.S. Local Media Revenues — \$132.5 Billion



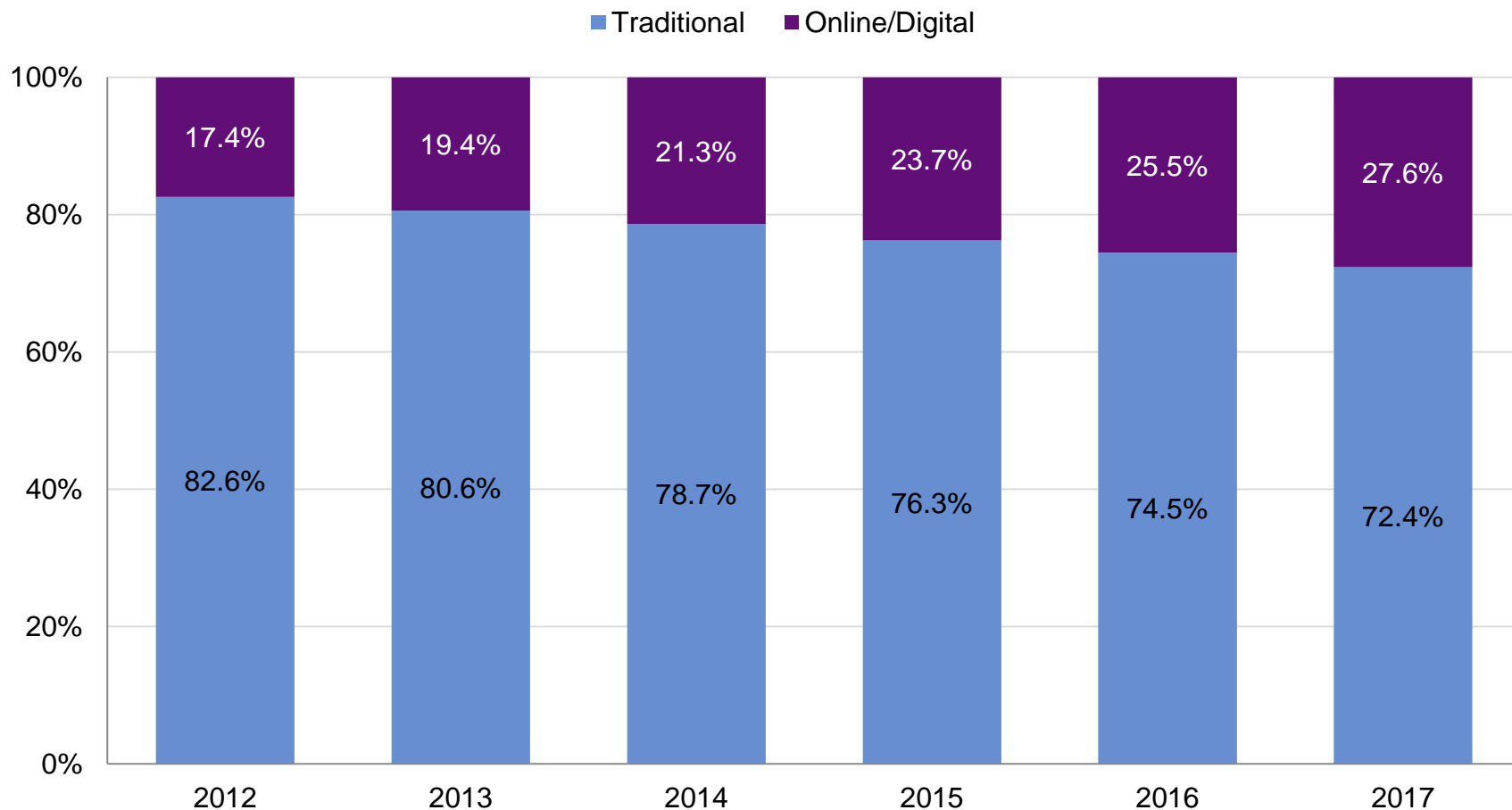
Digital revenues associated with traditional media (e.g., websites associated with local TV stations, local radio stations, newspapers and magazines) are included in the revenues for the traditional media. Revenues for Internet Yellow Pages that are associated with print Yellow Pages are included in the overall Yellow Pages media category.

Steady Shift Toward Digital Media



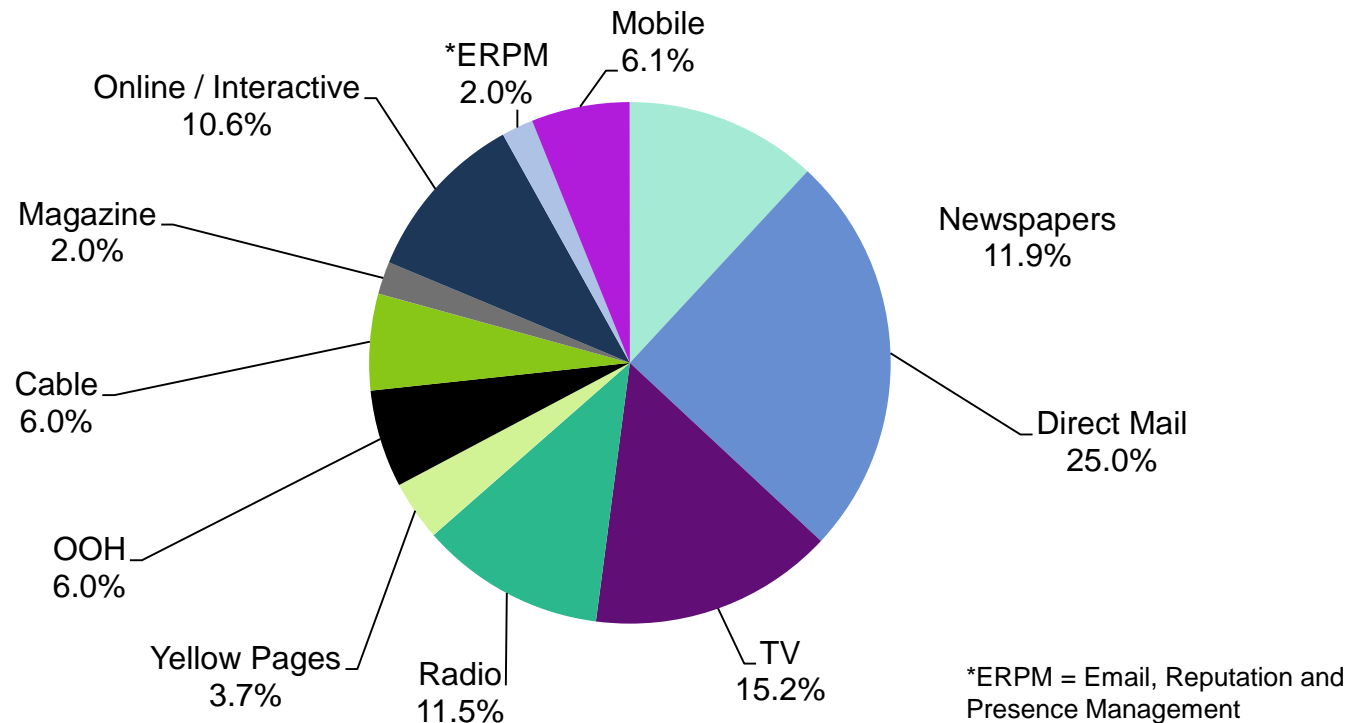
Note: Numbers are rounded.

Steady Shift Toward Digital Media



Local Ad Market Less Dominated by Traditional Media in 2017

2017 U.S. Local Media Revenues — \$148.8 Billion



Digital revenues associated with traditional media (e.g., websites associated with local TV stations, local radio stations, newspapers and magazines) are included in the revenues for the traditional media. Revenues for Internet Yellow Pages that are associated with print Yellow Pages are included in the overall Yellow Pages media category.

Executive Summary – Mobile Advertising

- Compared to our previous forecast, mobile local advertising remained constant for 2012 but expanded in outer years. Growth will be driven by greater demand, ad performance and resulting ad rates (CPMs, CPCs).
- Google’s recently announced “Enhanced Campaigns” will compound these factors by forcing mobile ads on search advertisers (default campaign inclusion). This will accelerate a mobile advertising learning curve and adoption cycle for all search advertisers, including SMBs.
- Enhanced Campaigns will also notably close the current gap between mobile ad rates and desktop equivalents (rates are demand driven), as combined campaigns will defer to higher desktop pricing for simplicity.
- Mobile local figures are inclusive of total mobile advertising (see slide 21, “Local vs. National Ad Spend in Mobile”). Like the mobile local figures above, overall mobile ad revenue grew from our previous forecast.

Executive Summary – Mobile Advertising

- **This growth results from stronger guidance from mobile ad networks and ad share leaders such as Google (\$8 billion global mobile run rate announced in October); and Facebook (23% of ad revenues attributed to mobile).**
- The share attributed to localized mobile advertising (slide 21), however, declined as some of the driving forces for overall mobile advertising do not yet have local components (i.e., Facebook mobile ads).
- The localized share was also reduced due to slower than expected adoption of local strategies among national advertisers, who account for most U.S. mobile ad spending.
- SMB adoption – a slow but growing share of localized mobile advertising – is likewise challenged. This sector's digital media adoption traditionally lags behind national advertisers due to lower levels of tech savvy, budget, time, and human resources.

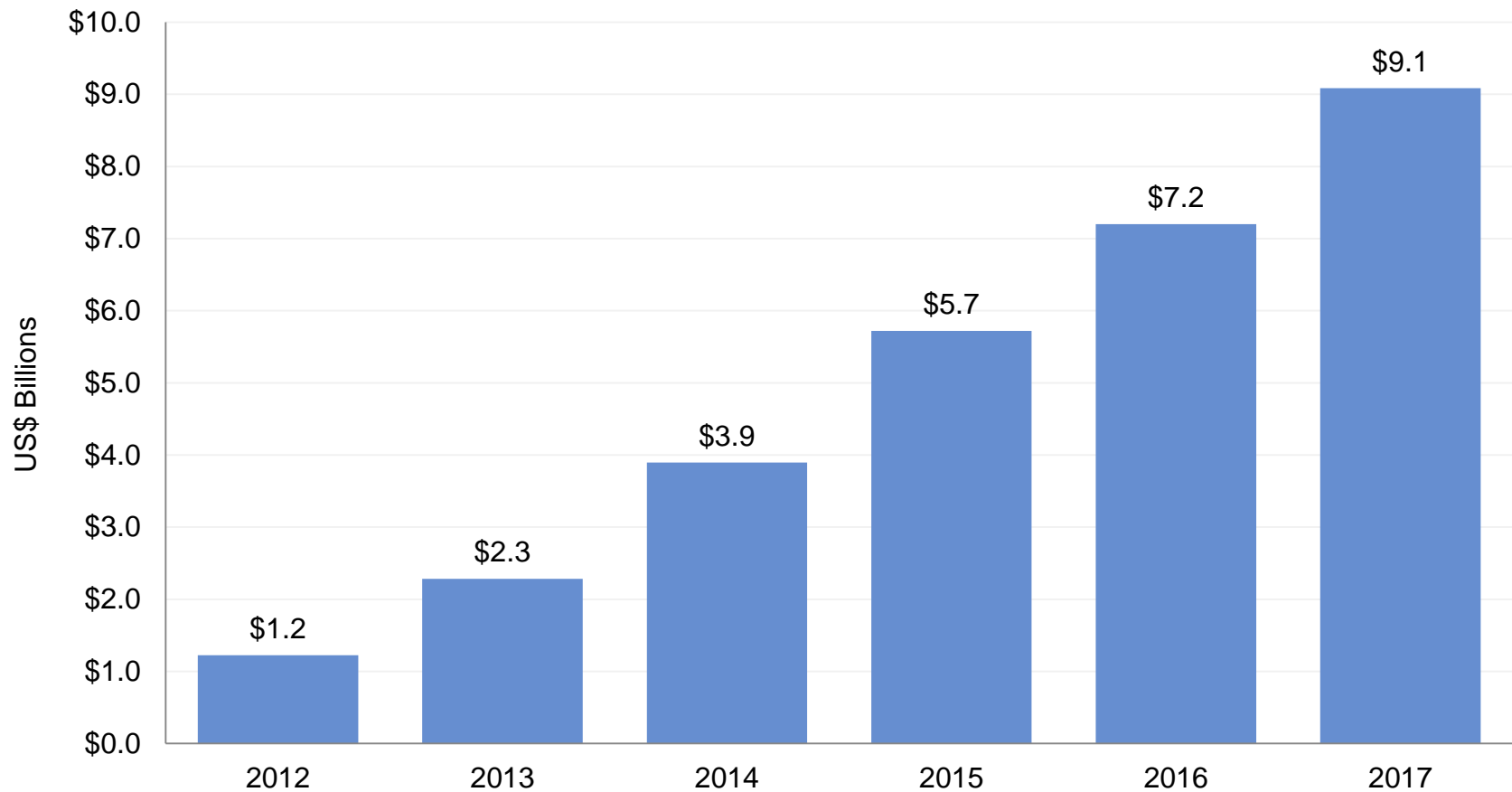
Executive Summary – Mobile Advertising

- We expect many of the above factors to be allayed in the longer term, as the benefits of localized mobile advertising are realized and adopted by national and SMBs advertisers.
- Factors contributing to this shift will include innovation among ad networks and ad tech providers (i.e., Enhanced Campaigns), and local media resellers' adoption of mobile bundles.
- On the national level, the shift will be driven by natural evolution of large brand advertisers to adopt effective, abundant, and currently undervalued mobile local ad inventory.

Mobile-Specific Forecast Methodology

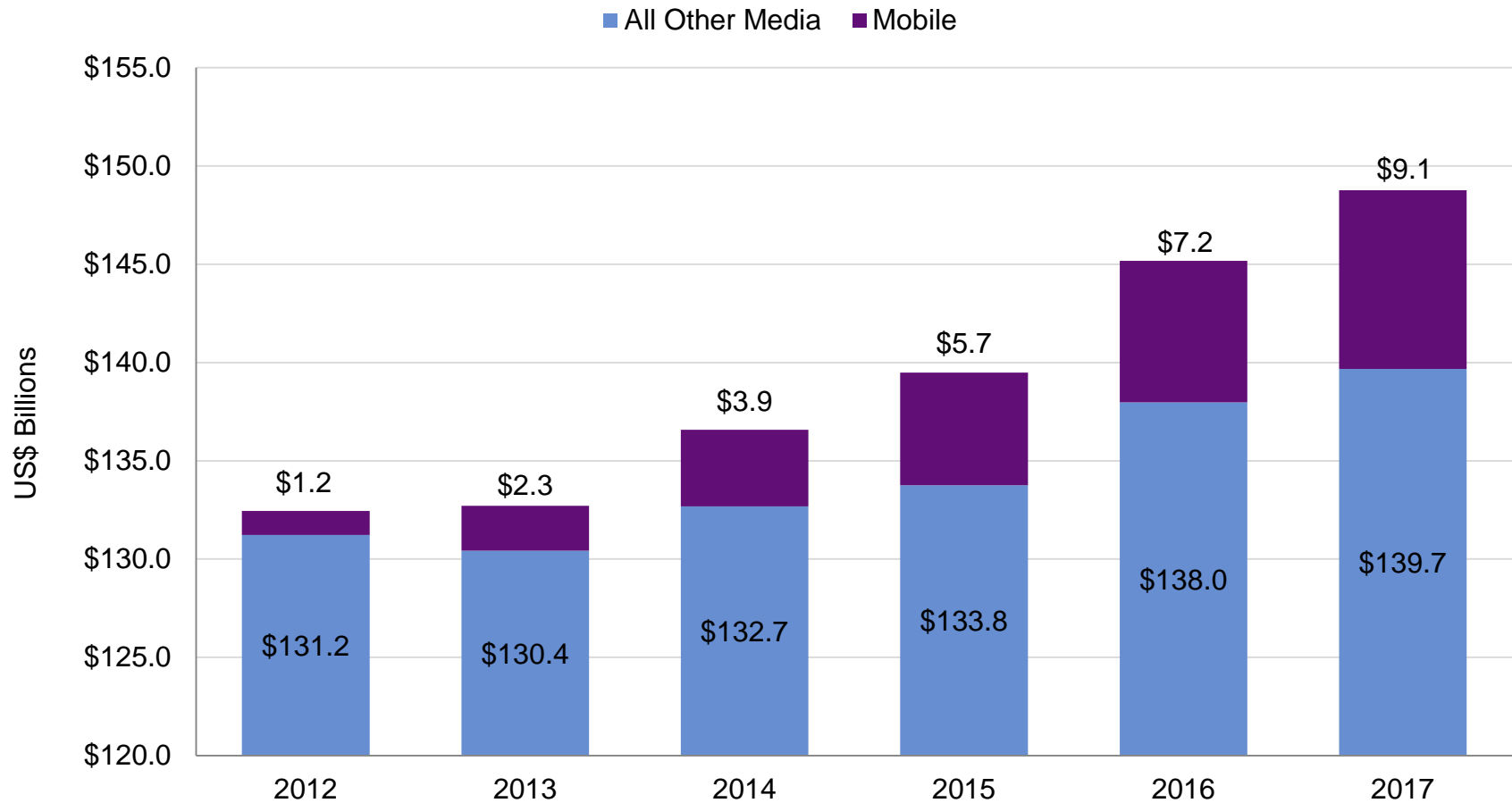
- In addition to interviews and company reports, BIA/Kelsey's mobile forecast is based on usage trends, mobile ad spending across various formats, consumer adoption patterns, advertiser penetration and ad performance measurements such as clickthrough and cost-per-click rates, and other benchmarks in online media.
- These data are vetted against aggregate revenues of top players in each mobile advertising segment (i.e., mobile ad networks).
- Traditional definitions of ad spending apply to this forecast. At present, it does not include marketing or promotional expenditures such as coupons.

Mobile Local Ad Spend: Five-Year Forecast



Note: Numbers are rounded.

Local Ad Spend: Five-Year Forecast



Note: Numbers are rounded.

Annual Revenue Changes

Media	2012	2013	2014	2015	2016	2017	CAGR (2012-2017)
Mobile	99.8%	86.8%	70.5%	46.9%	25.8%	26.2%	49.3%
Mobile Display	111.2%	91.0%	63.5%	44.8%	23.3%	29.7%	48.5%
Mobile Search	108.3%	92.2%	78.4%	49.6%	26.2%	24.2%	51.7%
SMS	25.6%	22.1%	9.0%	8.0%	6.0%	5.0%	9.9%
Mobile Video	175.0%	116.0%	93.3%	55.2%	49.3%	39.2%	68.2%
Total	0.5%	0.2%	2.9%	2.1%	4.1%	2.5%	2.3%
GDP	3.5%	4.0%	4.5%	4.5%	5.0%	5.0%	4.6%

*Growth from 2010 to 2011 is not indicated for the components of mobile advertising because of a new forecast model and set of inputs applied only to the years 2011-2016, but not retroactively to 2010.

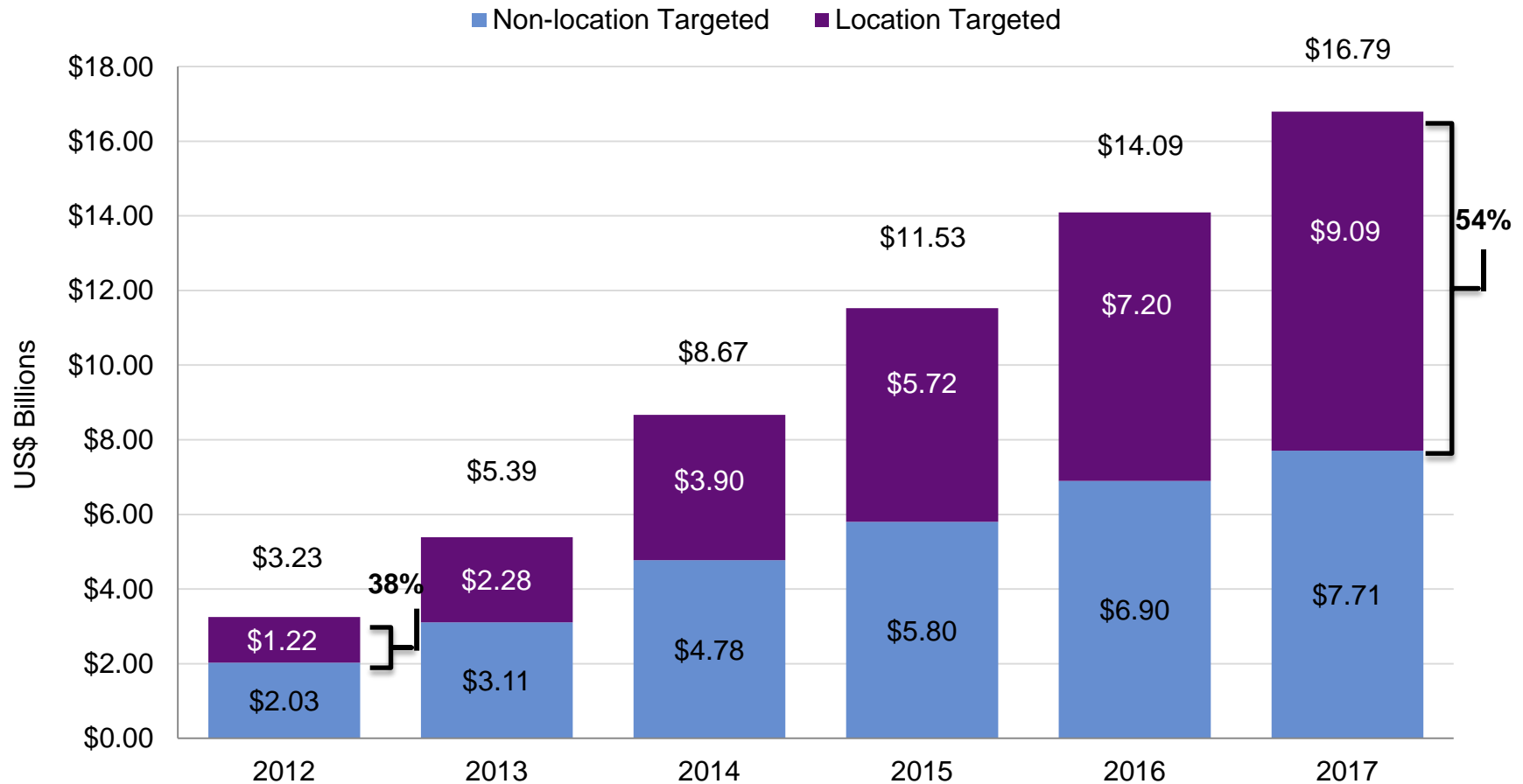
Mobile Local Ad Spend: Takeaways

- BIA/Kelsey projects U.S. mobile local ad revenues to grow from \$1.2 billion in 2012 to \$9.1 billion in 2017, a 49.3% CAGR.
- This represents a 0.9% share of local media ad revenues in 2012, growing to a 6.1% share in 2017.
- Other local media occupying this pie include radio, television, newspapers, Yellow Pages and online/interactive.
- Growth drivers include smartphone penetration (currently 56% of U.S. mobile subscribers, according to Nielsen), mobile Web usage and related increases in ad inventory.
- Though inventory growth currently outpaces advertiser demand, we believe the latter will begin to accelerate. This will not only increase overall ad spend but ad rates such as CPMs and CPCs, which are currently lower than desktop equivalents, due to inventory oversupply.

Mobile Local Ad Spend: Takeaways

- Advertiser demand will be driven by natural market forces to follow undervalued inventory, in addition to an overall learning curve and acclimation with the relatively nascent field of mobile advertising.
- As we've seen in the online space over the past decade, self-serve tools will also democratize the mobile ad buying process, led by Google.
- Google's recently launched "Enhanced Campaigns" will accelerate this by bundling mobile ad placement as an inseparable component to all AdWords search advertising campaigns.
- This will force a learning curve, adoption cycle and realization of mobile advertising effectiveness among local advertisers.
- These attributes include higher performance, clearer ROI, tangible conversions and a shorter purchase funnel — all of which correlate to mobile user intent, and to local advertiser's stated objectives (see BIA/Kelsey's Local Commerce Monitor).

Local vs. National Ad Spend in Mobile



Note: Numbers are rounded.

Local vs. National: Takeaways

- In addition to being a subset of local media (slide 17), BIA/Kelsey's projected mobile local ad revenues represent a subset of overall U.S. mobile ad spending (slide 21).
- Consistent with our classification of local media across categories, this is defined as advertising that is targeted based on a user's location. It includes large national advertisers and SMBs
- BIA/Kelsey has separately projected total U.S. mobile ad spending to grow from \$3.23 billion in 2012 to \$16.79 billion in 2017.
- This puts locally targeted mobile ads at 38% of overall U.S. mobile ad spending, growing to 54% in 2017.
- Growth drivers include smartphone penetration, location-aware technology, and advertiser evolution and proclivity to utilize this technology for better location targeting – all of which are underway.

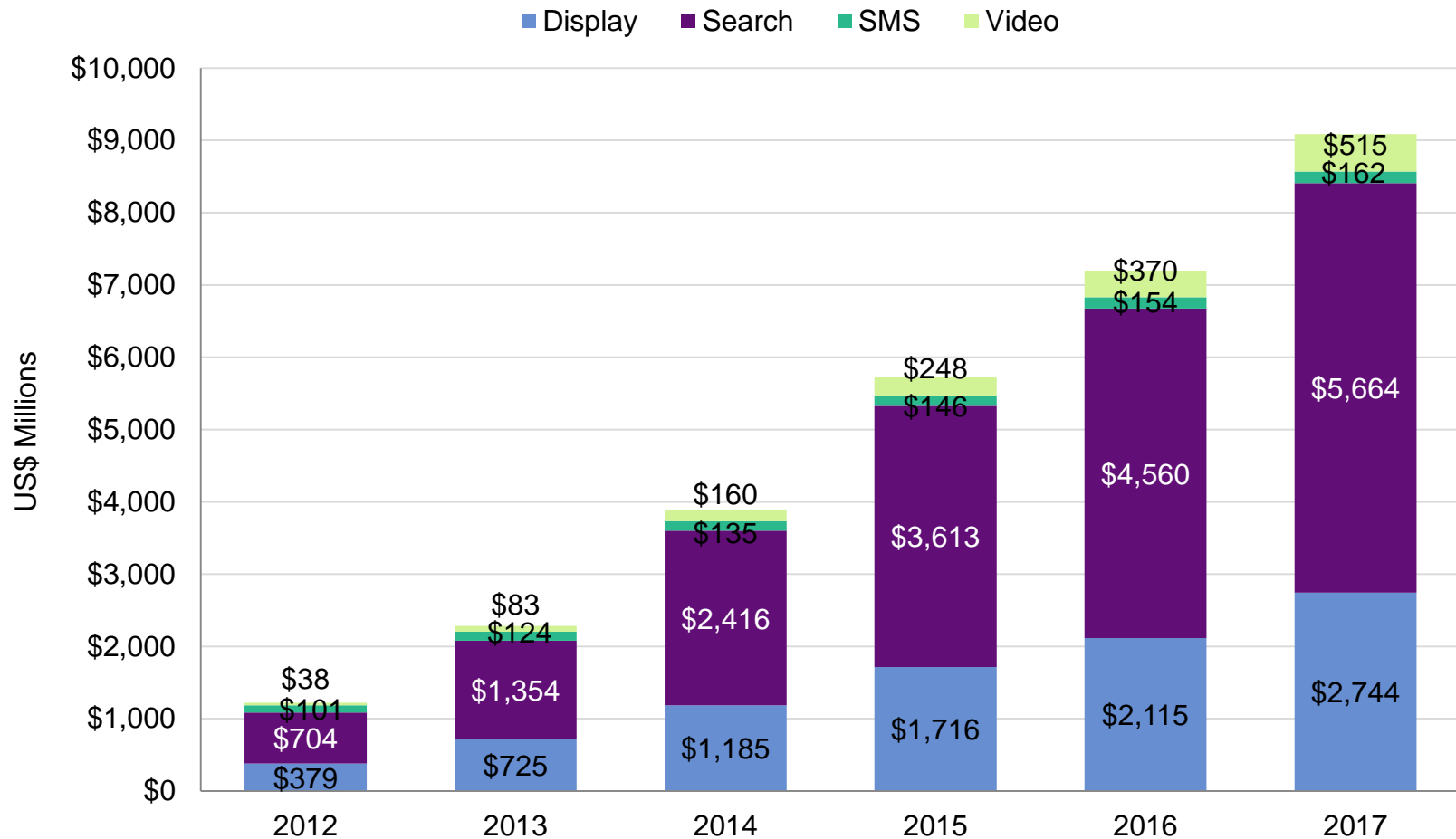
Local vs. National: Takeaways

- Large brand advertisers will increasingly adapt their campaign objectives to the capabilities of the mobile device — an area where they've been slow to adopt.
- We'll also see mobile advertising move down market to the SMB segment through a combination of aforementioned self-serve tools, and local media direct sales channels.
- Resulting ad volume growth will be compounded by premiums that develop for location-targeted ads.
- These premiums will result from higher performance for locally targeted mobile ads when compared with non-local ads. This is already evident in data shared by mobile ad networks.
- This performance is a function of higher relevance, immediacy and consumer buying intent, all of which are more prevalent in mobile than in many other print and digital media.

Local vs. National: Takeaways

- Though these factors will drive the “localized” share of U.S. mobile ad revenues, it’s important to note that this share was downgraded from our previous forecast.
- One reason is that overall ad revenues will grow at a faster pace than the inclusive localized share. For example, some of the driving forces for overall mobile advertising do not yet have local components (i.e., Facebook mobile ads).
- The localized share was also reduced due to slower than expected adoption of local strategies among national advertisers, which account for most U.S. mobile ad spending.
- SMBs adoption – a slow but growing share of localized mobile advertising – is likewise challenged by lower levels of tech savvy, budget, time, and human resources (longstanding characteristics).
- We expect many of the above factors to be allayed in time, as the benefits outlined on the previous slide are realized and adopted by national advertisers and SMBs.
- Other driving factors include innovation among ad networks and ad tech providers (i.e., Enhanced Campaigns); as well as national advertisers drawn to effective, abundant, and currently undervalued mobile local ad inventory.

Share of Mobile Local Ad Spend by Format



Note: Numbers are rounded.

Mobile Ad Formats: Definitions and Drivers

Ad Format	Definitions	Key Inputs/Drivers
Search	Text advertising applied to search queries on mobile devices.	Search volume, CTRs, CPCs, ad coverage. Vetted against core search engine revenues.
Display	Display advertising applied to app and mobile Web inventory.	Mobile Web use, page views, impressions, CPMs, sell through rates. Vetted against ad network revenues.
Video	Rich media ad units distributed within app and mobile web inventory.	Similar to display, this is measured by a combination of impressions, ad rates, and current ad network revenues.
SMS	Commercial SMS messaging.	SMS penetration, volume, CPMs, sell through. Vetted against ad network revenues.

Mobile Ad Formats: Takeaways

- This forecast comprises advertising placed in mobile search, display, video and commercial SMS.
- These are bought and sold in various ways, meaning different formulas and forecast models apply.
- Search advertising currently holds the largest share, followed by display and SMS.
- Search will grow the fastest, eclipsing others to hold the largest share throughout the forecast period.
- It's important to note that search's dominant share indexes higher within this localized segment (58%, growing to 62%) than within the broader U.S. mobile ad revenue total (39%, growing to 46%).
- This is due to the high correlation between mobile search and local user intent (i.e., 50% of Google mobile searches are local).
- There is conversely a lower percentage of localization within the display category, due to the branding (as opposed to direct response) and reach-driven objectives inherent in display campaigns (i.e., in-app ads).

Mobile Ad Formats: Takeaways

- Search growth will be also be driven by the ascent of the mobile Web as an entry point to mobile experiences (vs. apps).
- Mobile Web growth will in turn result from technological developments such as HTML5, as well as the economic advantages of mobile website development (vs. apps).
- The market's move toward browser based solutions and cloud computing will further drive innovation that resides within the mobile browser (vs. apps).
- Search's positioning as a front door to browser based experiences will cause it to grow with the above factors.
- In addition to resulting volume increases, search's ad revenues in mobile will be driven by premium ad rates that develop as a function of its intent-driven nature.
- Mobile market leaders such as Google are behind this shift toward the mobile Web, as seen in their product development and other public statements.



Questions & Comments:

Michael Boland

Senior Analyst

mboland@biakelsey.com

(415) 508-8462

© 2013 BIA/Kelsey. All Rights Reserved.

This published material is for internal client use only. It may not be duplicated or distributed in any manner not permitted by contract. Any unauthorized distribution could result in termination of the client relationship, fines and other civil or criminal penalties under federal law. BIA/Kelsey disclaims all warranties regarding the accuracy of the information herein and similarly disclaims any liability for direct, indirect or consequential damages that may result from the use or interpretation of this information.