BIA/Kelsey's Annual U.S. Local Media Forecast, 2010-2015

Mobile Local Media

April 21, 2011

Executive Summary

- BIA/Kelsey defines the local media advertising marketplace as those media that provide local audiences to all types of advertisers.
- The local media marketplace recovery was stronger in 2010 than initially expected.
  - Spending on political advertising was higher.
  - National advertisers rebounded robustly and quickly from 2009 levels.
- Without that political advertising and because of an uncertain economy (especially for employment), 2011 will be a year of no overall growth for local media advertising.

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Executive Summary

- The overall local media market will grow slowly over the next five years (at a 2.4% CAGR) and by 2015 total will be $153.5 billion.
- Growth in the total local media advertising will not keep pace with that of the overall economy.
- Growth in online/interactive/digital advertising revenues will remain strong, with a 2010-2015 CAGR of 14.5%.
- That compares with a 2010-2015 CAGR of -0.2% for traditional advertising revenues.
- By 2015 local online/interactive/digital advertising revenues will be $37.9 billion.

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Objectives

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

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Methodology

- Gathered as much proprietary and secondary information as available by segment
- Generated preliminary forecasts by segment, which were discussed with leaders within key segments — Yellow Pages, radio, etc.
- Included third-party and public company reports to adjust and fine-tune forecasts
- Tied bottom-up approach with top-down approach
- Utilized long-standing industry expertise and knowledge to adjust drivers and key assumptions

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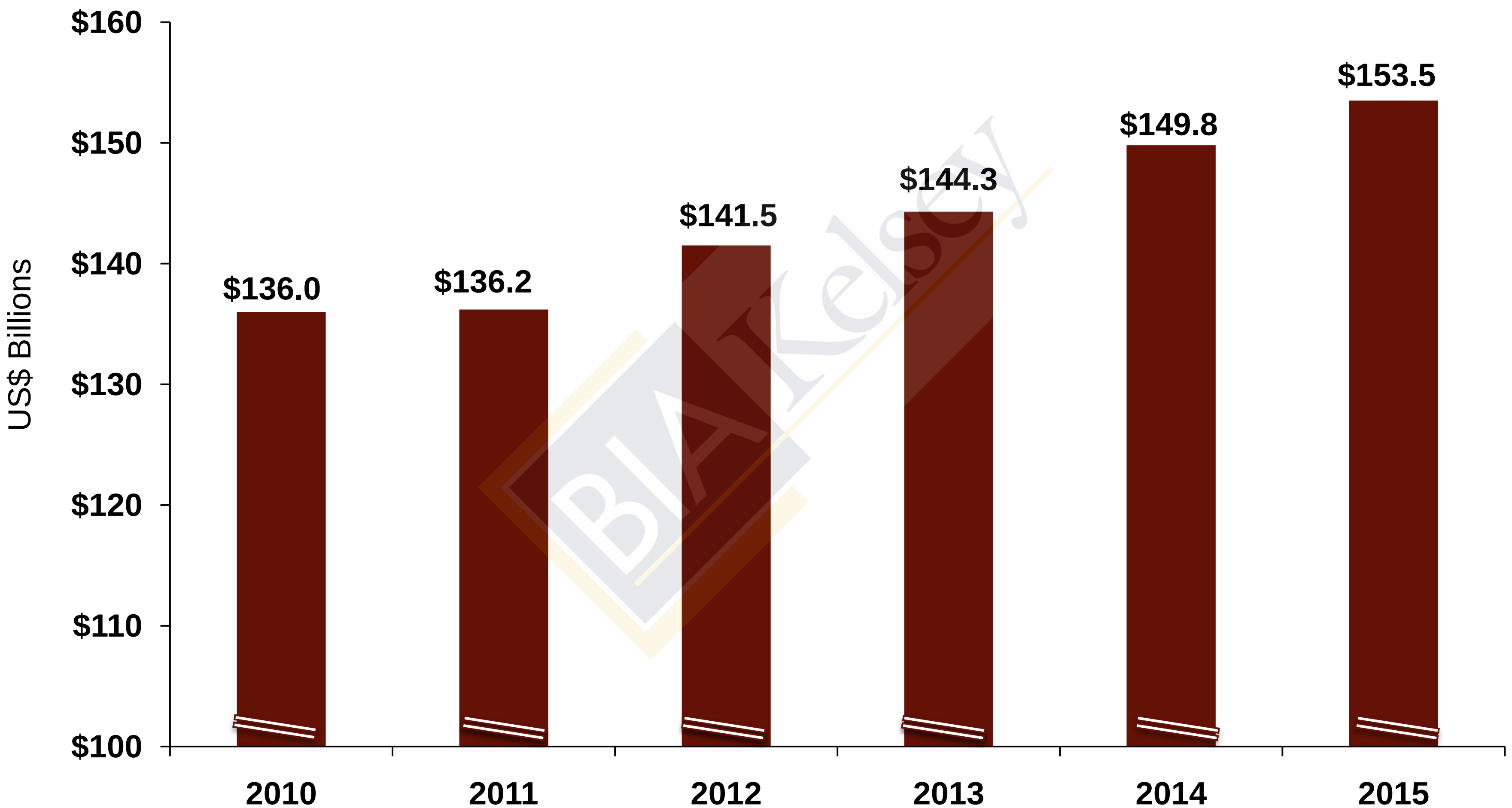
Local Media Five-Year Forecast



Note: Numbers are rounded.

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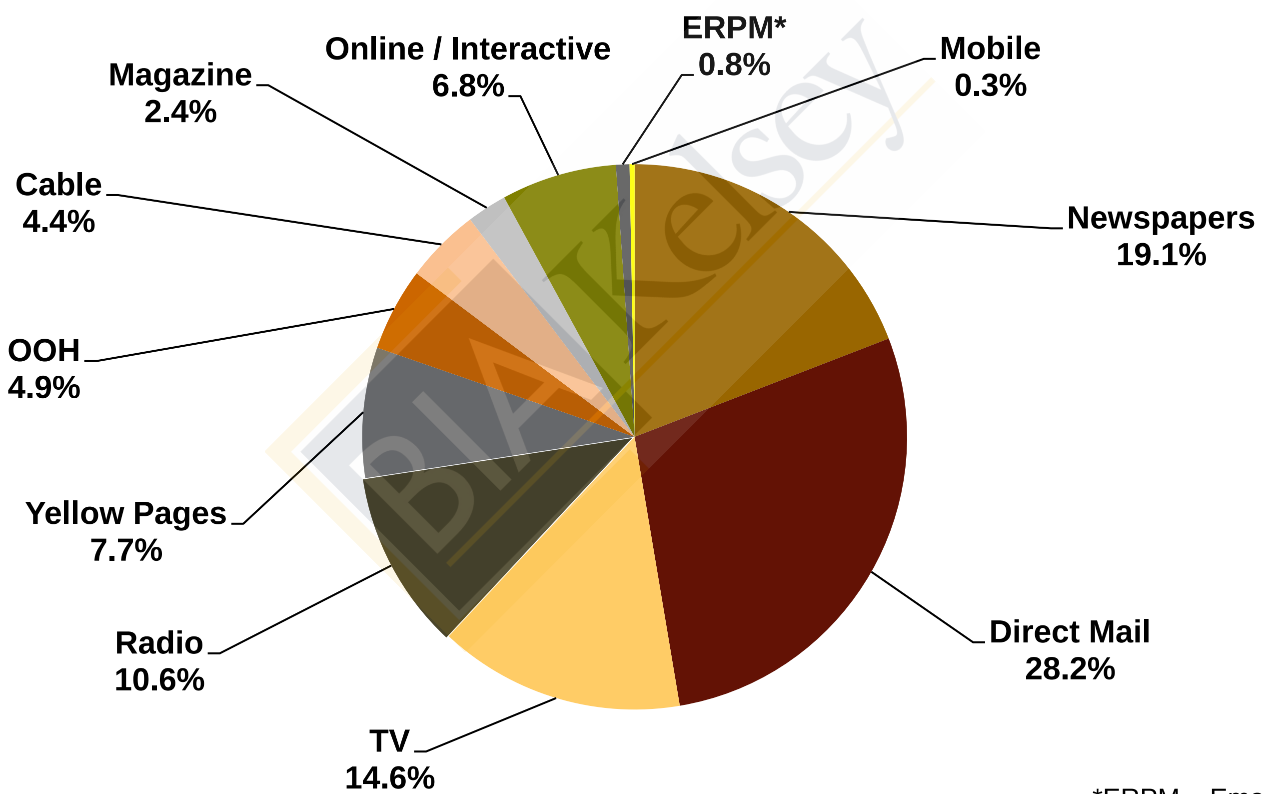
Local Ad Market Currently Dominated by Traditional Media

2010 U.S. Local Media Revenues — $136.0 Billion



*ERPM = Email, Reputation and Presence Management

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.

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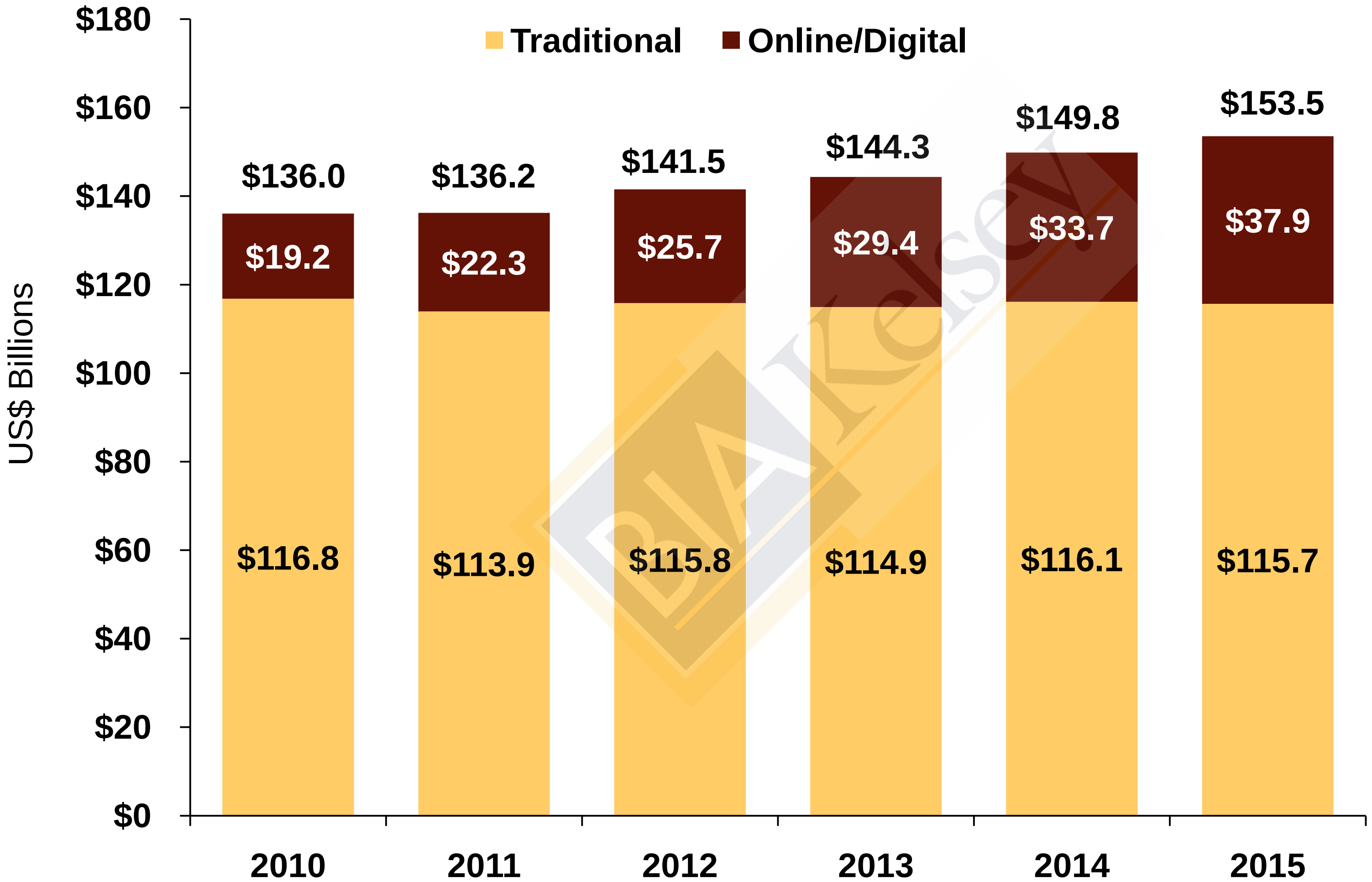
Steady Shift Toward Digital Media



2010-2015 CAGRs:

Total Media CAGR 2.4%

Traditional Media CAGR -0.2%

Online/Digital Media CAGR 14.5%

Note: Numbers are rounded.

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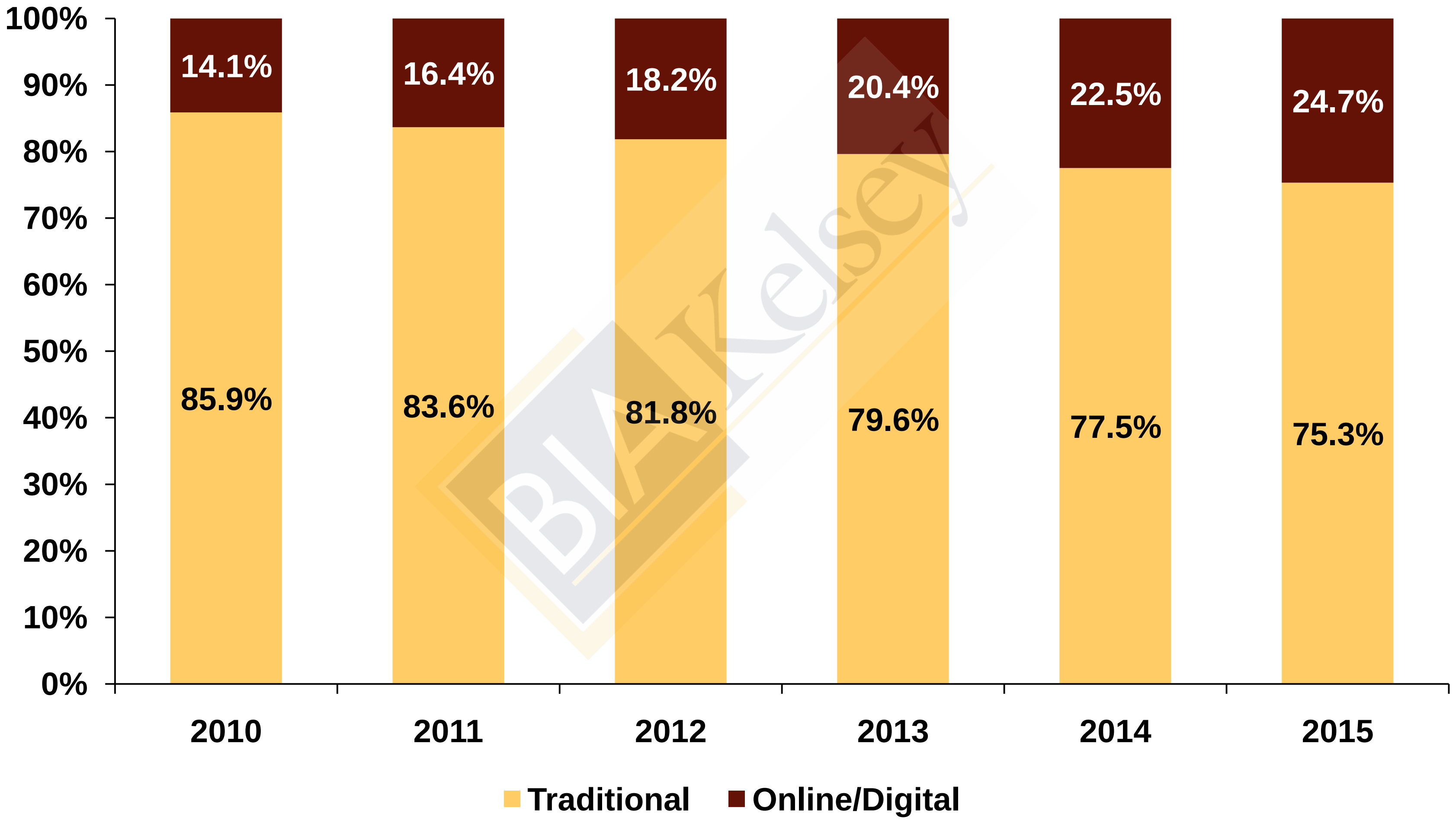
Steady Shift Toward Digital Media



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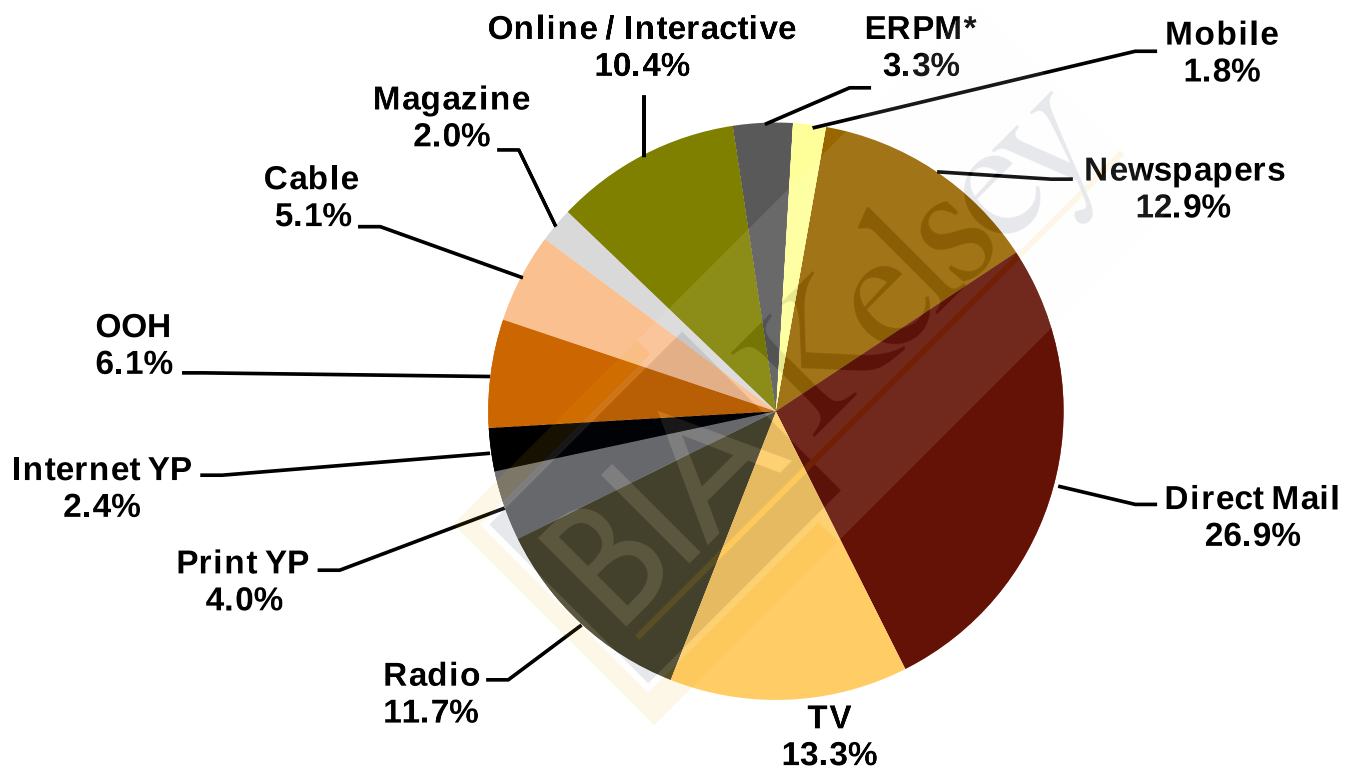
Local Ad Market Less Dominated by Traditional Media in 2015



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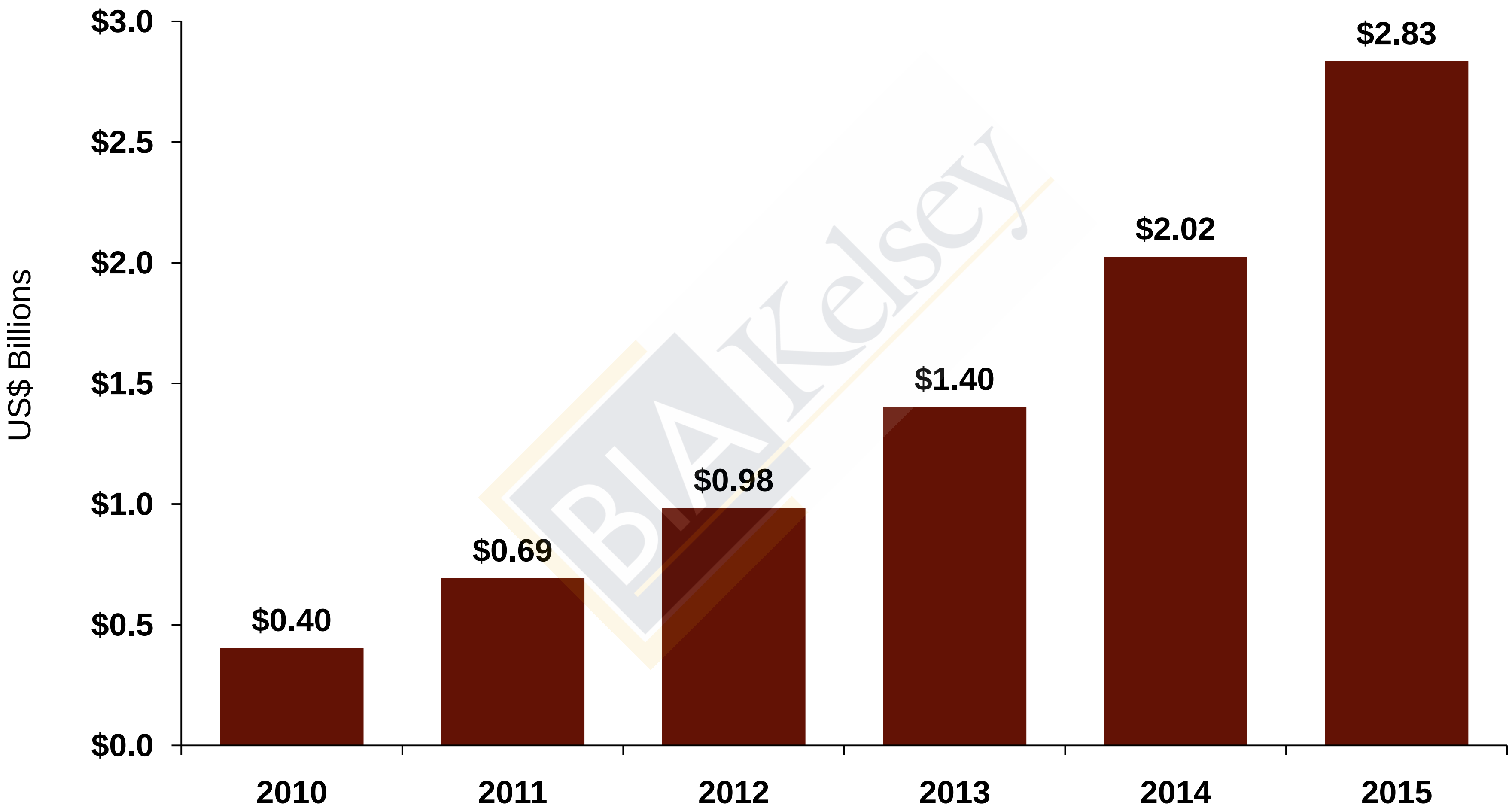
Mobile Local Ad Spend: Five-Year Forecast



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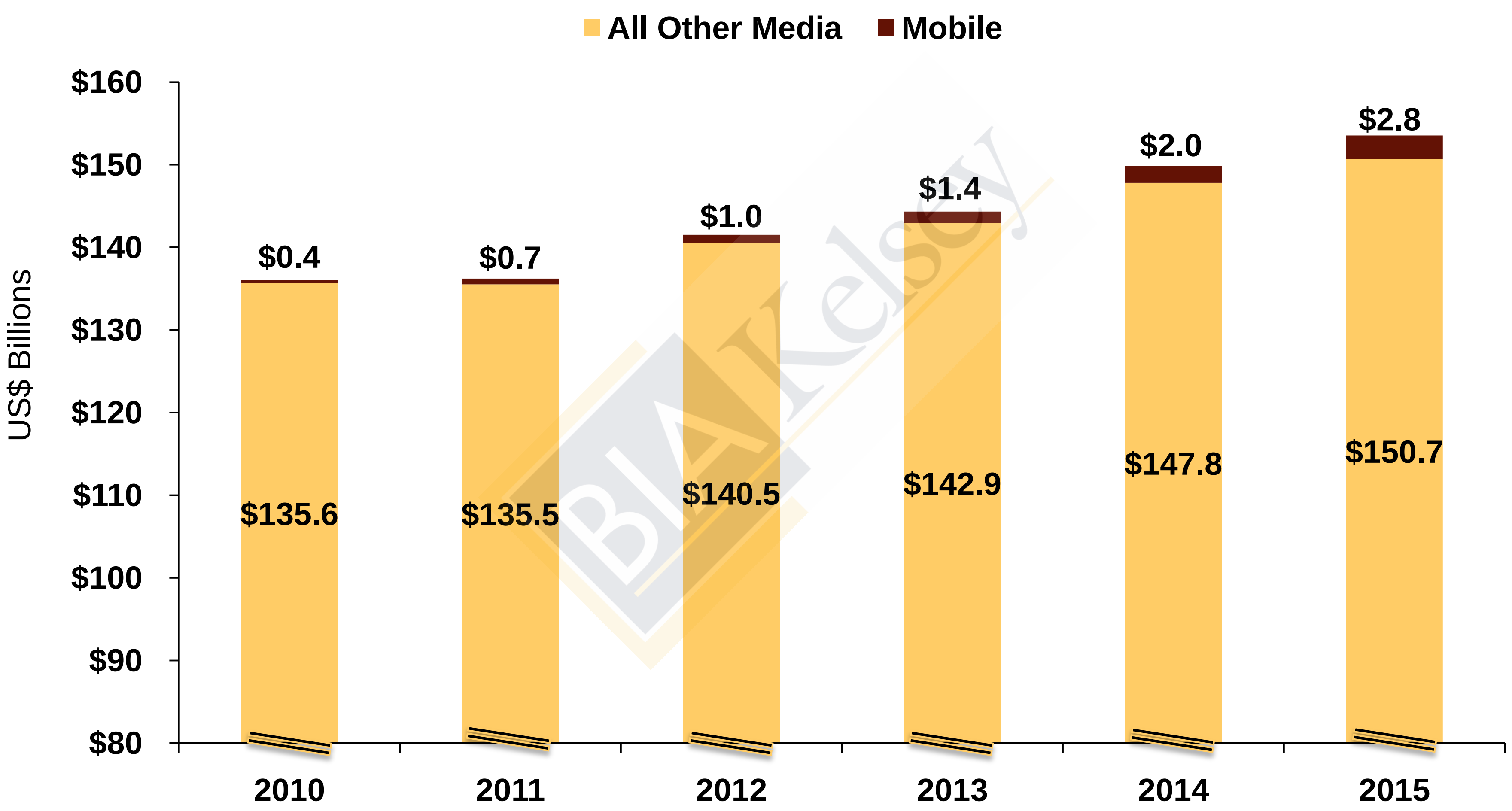
Local Ad Spend: Five-Year Forecast



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Annual Revenue Changes

Media	2010	2011	2012	2013	2014	2015
Mobile	89.5%	71.6%	42.0%	42.6%	44.4%	40.0%
Total	**4.2%**	**0.1%**	**3.9%**	**2.0%**	**3.8%**	**2.5%**
GDP	**3.8%**	**5.2%**	**5.5%**	**5.3%**	**5.3%**	**5.3%**

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Mobile Local Ad Spend: Takeaways

- We project U.S. mobile local ad revenues to grow from $404 million in 2010 to $2.83 billion in 2015.
- This represents a 0.3% share of local media ad revenues in 2010, growing to a 1.8% share in 2015.
- Other local media occupying this pie include radio, television, newspapers, Yellow Pages and online/interactive.
- Growth drivers include smartphone penetration (see BIA/Kelsey's Mobile Market View Wave III), mobile Web usage and related increases in ad inventory.
- Advertisers will also be drawn to mobile marketing as part of overall market shifts to digital advertising. Traditional media companies with sales forces will speed this shift in the face of falling offline revenues.

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Mobile Local Ad Spend: Takeaways

- As we've seen in the online space over the past decade, self-serve tools will also democratize the mobile ad buying process.
- Google has already begun to bundle mobile ad placements within its pervasive AdWords search marketing platform.
- Mobile self-serve ads could see greater adoption among SMBs than paid search, due to clearer ROI, tangible conversions and a shorter purchase funnel — all of which correlate to mobile user intent.

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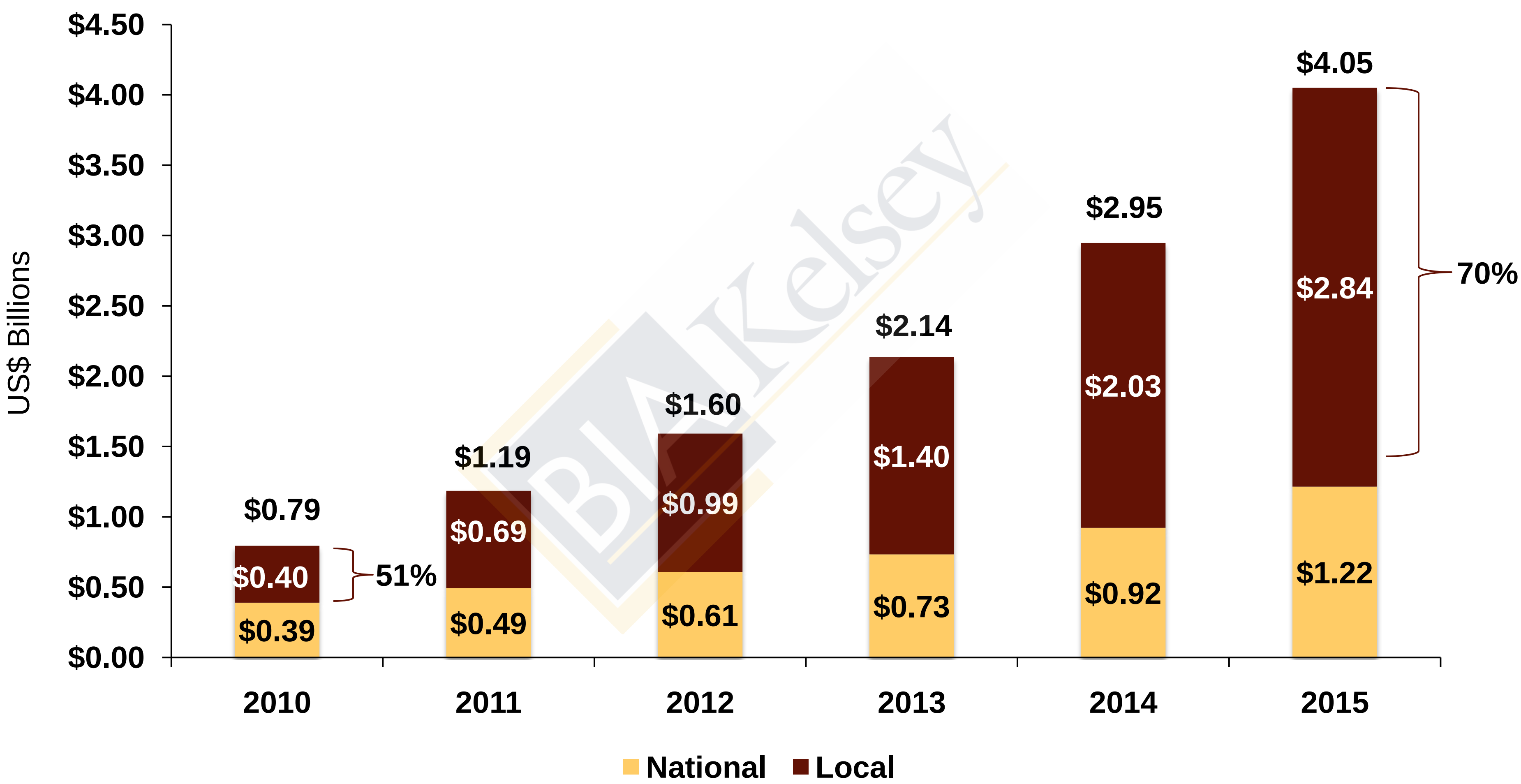
Local vs. National Ad Spend in Mobile



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Local vs. National: Takeaways

- In addition to subsets outlined earlier (local media), our projected mobile local ad revenues also represent a subset of overall U.S. mobile ad revenues.
- Consistent with our classification of local media across categories, this is defined as advertising that is targeted based on a user's location.
- BIA/Kelsey has separately projected total U.S. mobile ad spending to grow from $790 million in 2010 to $4.05 billion in 2015.*
- This puts locally targeted mobile ads at 51% of overall U.S. mobile ad spending, growing to 70% in 2015.
- Growth drivers include smartphone penetration, location-aware technology, and advertiser evolution and proclivity to utilize this technology for better location targeting.

*At the time of publishing, IAB released annual digital advertising revenue figures for 2010, reporting $650 million for mobile. Further examination of its methodology and definitions are required, and will be considered in BIA/Kelsey's next mobile ad revenue forecast in Q3.

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Local vs. National: Takeaways

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

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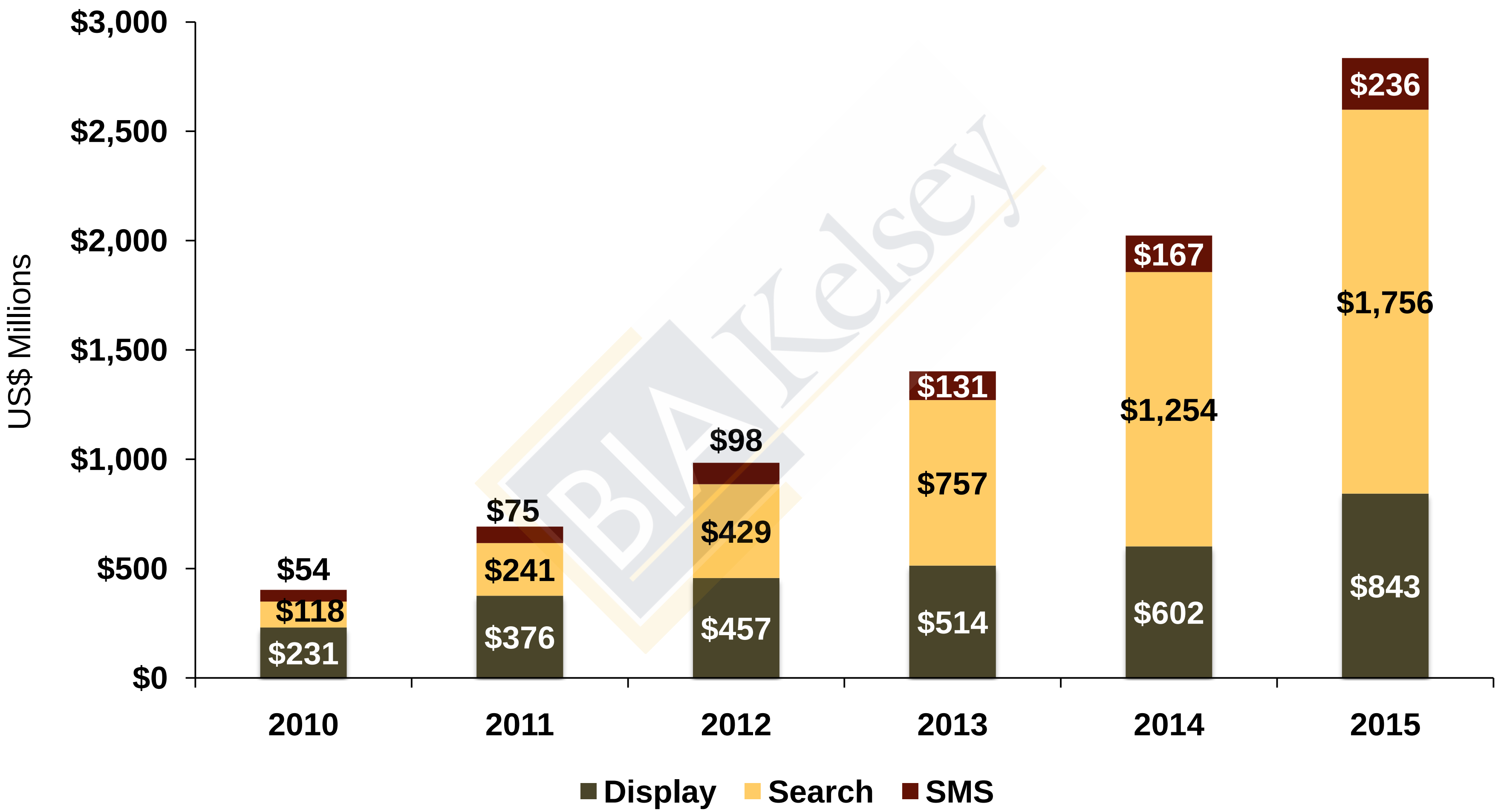
Share of Mobile Local Ad Spend by Format



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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. Includes rich media.	Mobile Web use, page views, impressions, CPMs, sell through rates. Vetted against ad network revenues.
SMS	Commercial SMS messaging.	SMS penetration, volume, CPMs, sell through. Vetted against ad network revenues.

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Mobile Ad Formats: Takeaways

- This forecast comprises advertising placed in mobile search, display and commercial SMS.
- These are each bought and sold in different ways, meaning different formulas and forecast models apply to each.
- Display advertising currently holds the largest share, followed by search and SMS.
- Display includes ad supported video and rich media. Future BIA/Kelsey forecasts will break out video.
- Among these ad formats, search will grow the fastest, eclipsing others to hold the largest share by 2013.
- Search growth will be driven by the ascent of the mobile Web as an entry point to mobile experiences (vs. apps).

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Mobile Ad Formats: Takeaways

- 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.

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MLM Forecast Methodology

- Data for Mobile Local Media forecasting are based on interviews, company reports, usage trends, and top down calculations of mobile ad spending across various formats.
- This includes usage, consumer adoption patterns, advertiser penetration and ad performance measurements such as clickthrough rates, cost-per-click and other benchmarks in online media.
- This “top down” approach is vetted against a “bottom up” approach, which aggregates 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, this doesn’t include marketing or promotional expenditures such as coupons.

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Questions and comments:

Michael Boland | mboland@kelseygroup.com | 415.462.1935

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