



BIA/Kelsey's
U.S. Local Media Forecast,
2012-2017 (Mid-Year Update)
Mobile Edition

November 2013

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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 local 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 2013 continued to experience a relatively slow growth for a recovery, though there have been several months of slightly stronger unemployment.
- The U.S. stock market has shown strong gains indicating some positive outlook towards the future.
- As a result, national and local advertisers were a little more forthcoming with their advertising expenditures. Where we initially projected the total of the local media market to be \$132.7 billion in 2013, we now expect it to be \$132.9 billion.

Executive Summary – Overall Local Media Advertising

- Based on the changes in our estimates, the overall local media market will grow faster than originally thought through 2017 (at a 2.8% compound annual growth rate), and by 2017 the total will be \$151.5 billion.
- Total local media advertising revenue growth will fail to keep pace with growth of the overall economy throughout our projection period.
- Growth in online/digital advertising revenues will remain strong, with a 2012-2017 CAGR of 14.0%.
- That compares with a 2012-2017 CAGR of -0.3% for traditional advertising revenues.
- By 2017 local online/interactive/digital advertising revenues will be \$44.5 billion.

Objectives

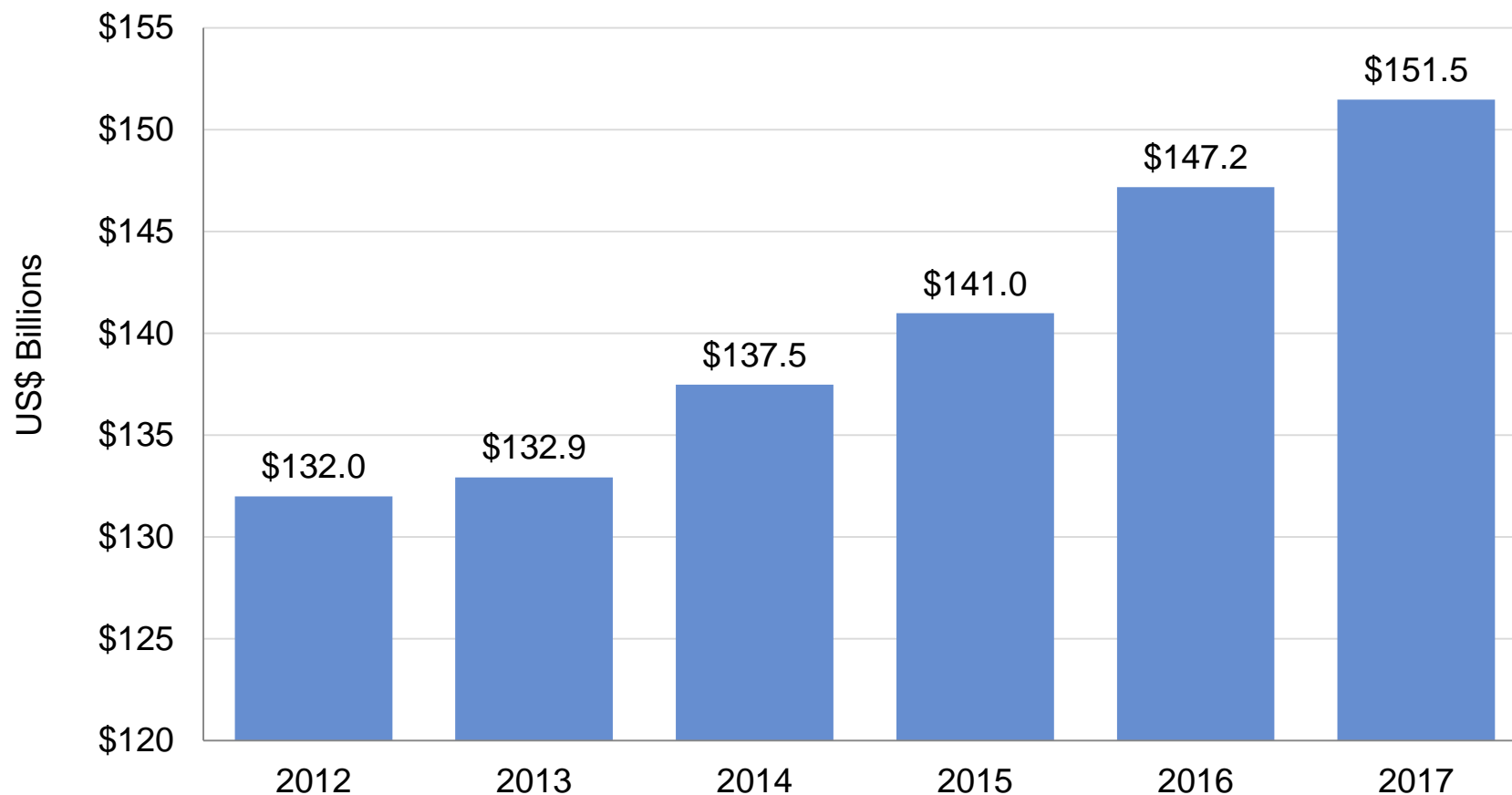
Our forecast objectives include:

- 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.

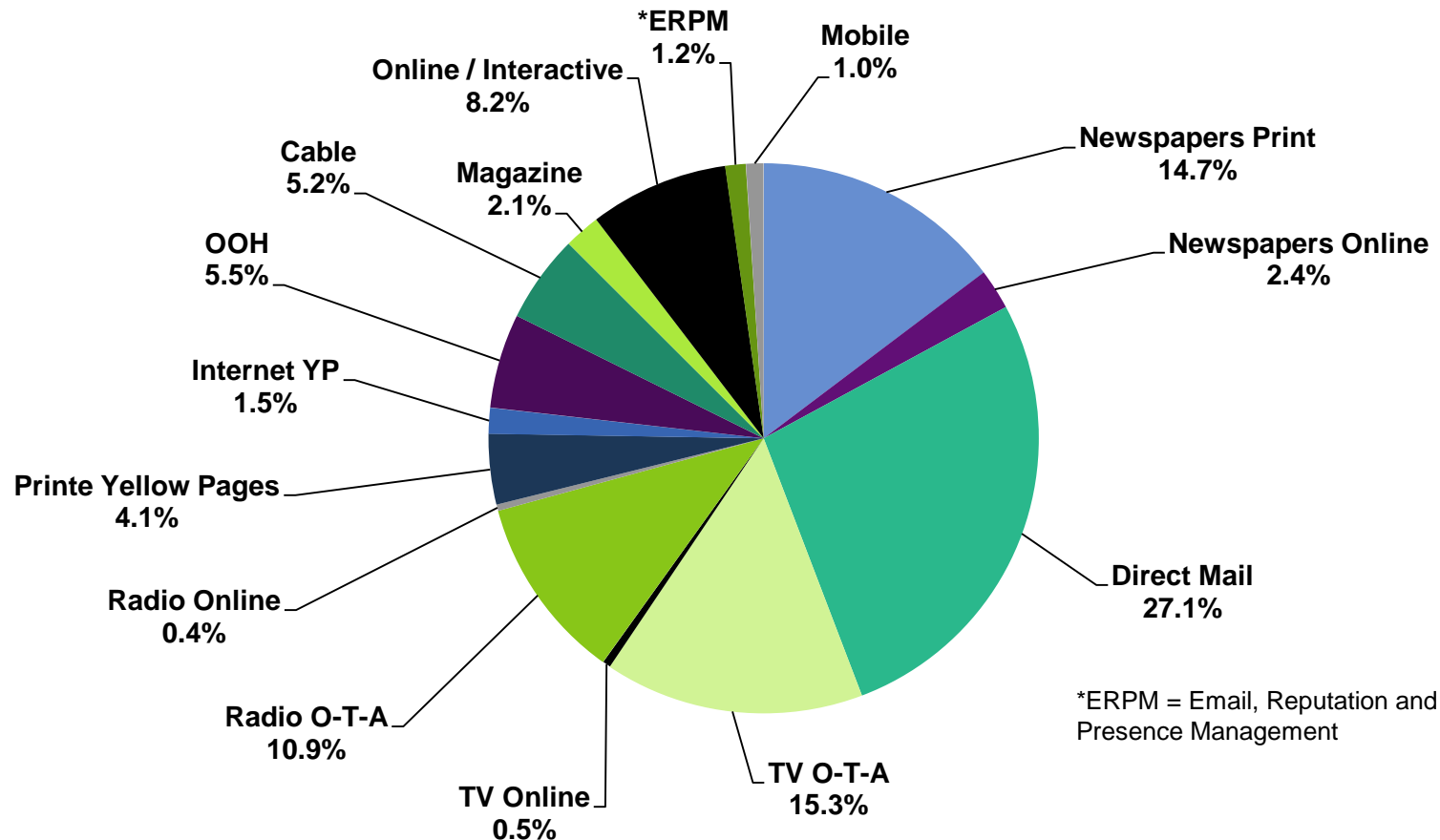
Local Media Five-Year Forecast



Note: Numbers are rounded.

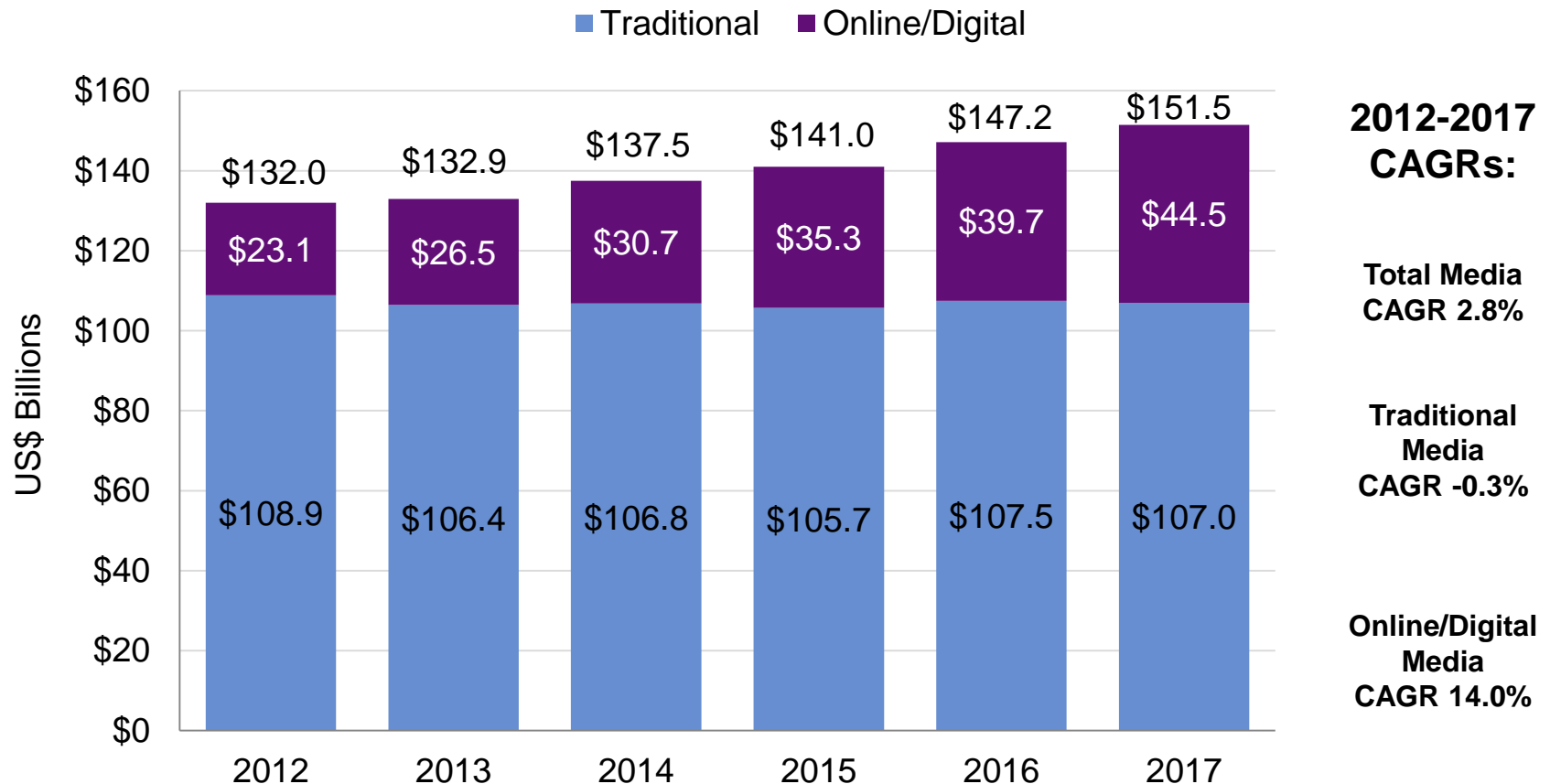
Local Ad Market Currently Dominated by Traditional Media

2012 U.S. Local Media Revenues — \$132.0 Billion



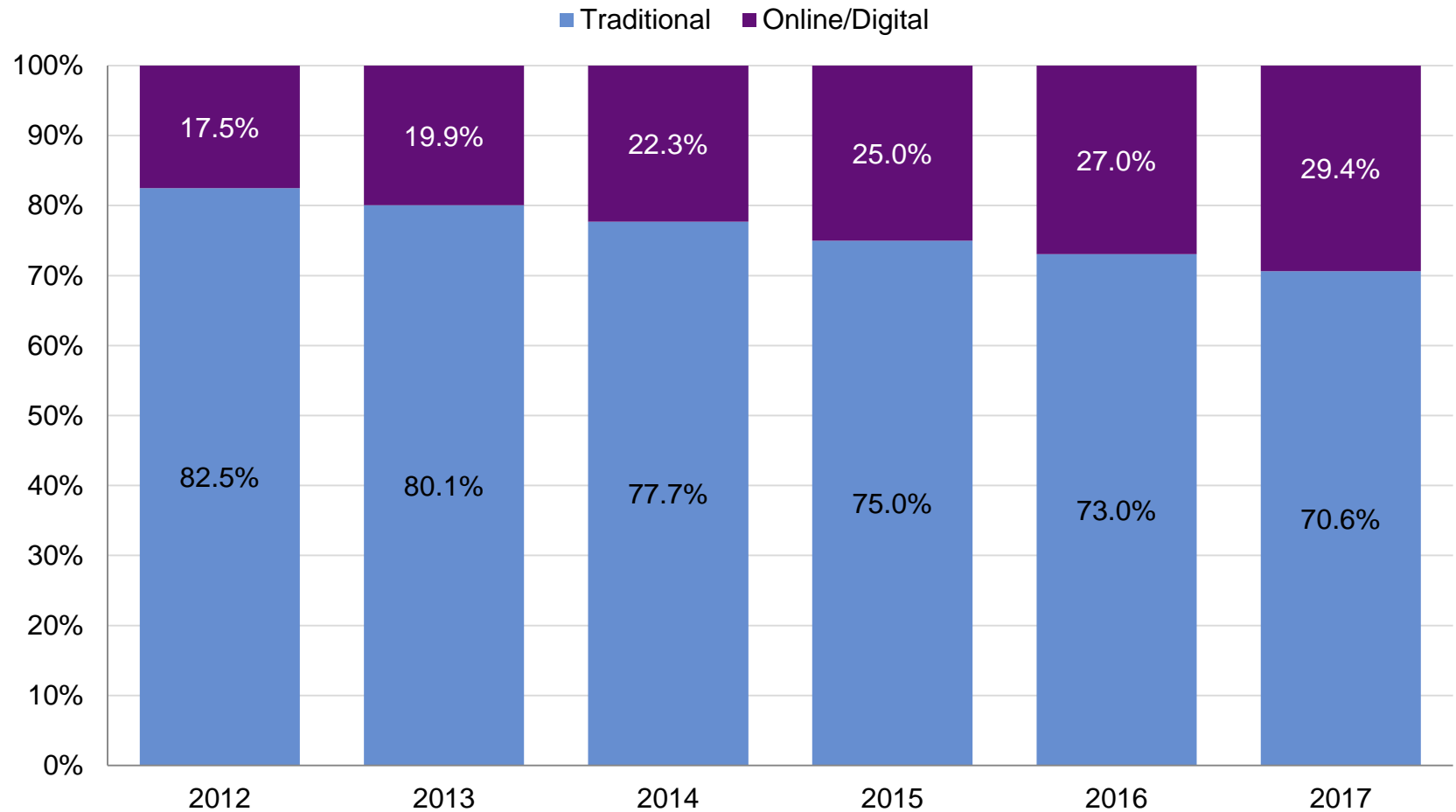
Digital revenues associated with traditional media (e.g., websites associated with local TV stations, local radio stations, newspapers and magazines) are included in the revenues for the traditional media. Revenues for Internet Yellow Pages that are associated with print Yellow Pages are included in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

Steady Shift Toward Digital Media



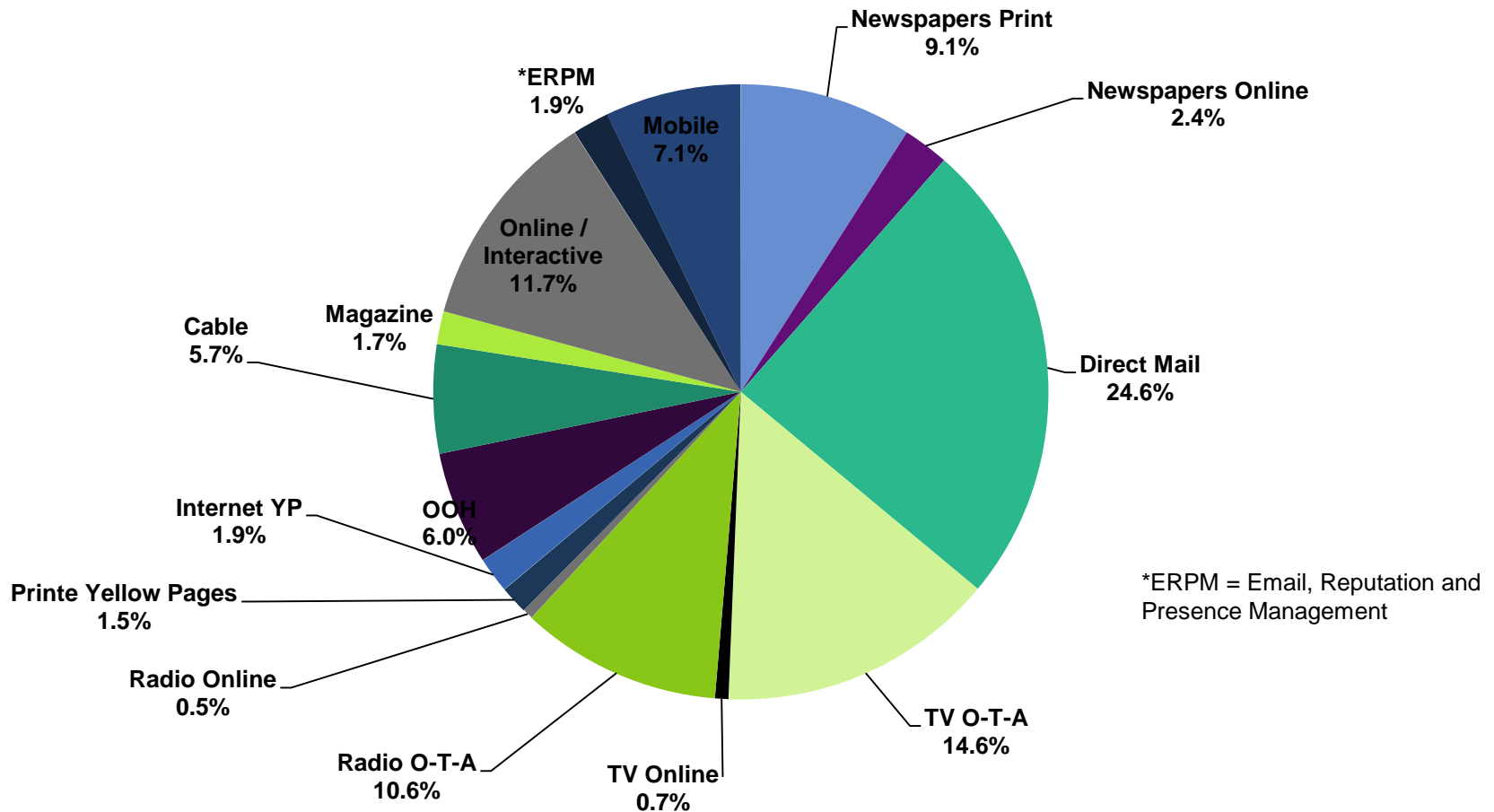
Note: Numbers are rounded.

Steady Shift Toward Digital Media



Local Ad Market Less Dominated by Traditional Media in 2017

2017 U.S. Local Media Revenues — \$151.5 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.

Executive Summary – Mobile Advertising

- Location targeted mobile advertising – the centerpiece of this forecast – is inclusive of total U.S. mobile advertising (see slide 20 for this breakdown).
- To understand the localized portion requires first panning back to the total mobile ad revenue picture. Here, BIA/Kelsey projects revenue to grow from \$3.65B in 2012 to \$20.68B in 2017. This projection has increased from our previous forecast (March 2013).
- Increased projections result from guidance from mobile ad networks and ad share leaders such as Google (33% of paid clicks now come from mobile devices); and Facebook (49% of ad revenues attributed to mobile, up from 23% in March).
- Google's Enhanced Campaigns*, launched in July, 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).

Executive Summary – Mobile Advertising

- This will play out as an influx of advertisers in Google's bid marketplace for mobile keywords will naturally boost bid pressure and thus CPCs. There is shift is already underway, evidenced by data shared with us by search marketing agencies.
- The share of the overall mobile ad revenue pie attributed to location based campaigns will grow from 37% (\$1.4B) in 2012 to 52% (\$10.8B) in 2017.
- This share shift remained fairly consistent from our previous forecast, as the factors driving localized mobile ad adoption have remained steady.
- These factors include advertiser demand, higher ad performance from location targeted ad campaigns, and resulting increases in mobile ad rates (CPMs, CPCs).
- Other important factors driving this localized share include the adoption of mobile local advertising tactics (i.e. geo-fencing, click-to-call, click to map) by national advertisers, who account for most U.S. mobile ad spending.
- SMB adoption – a slow but growing share of localized mobile advertising – will likewise impact its growth.

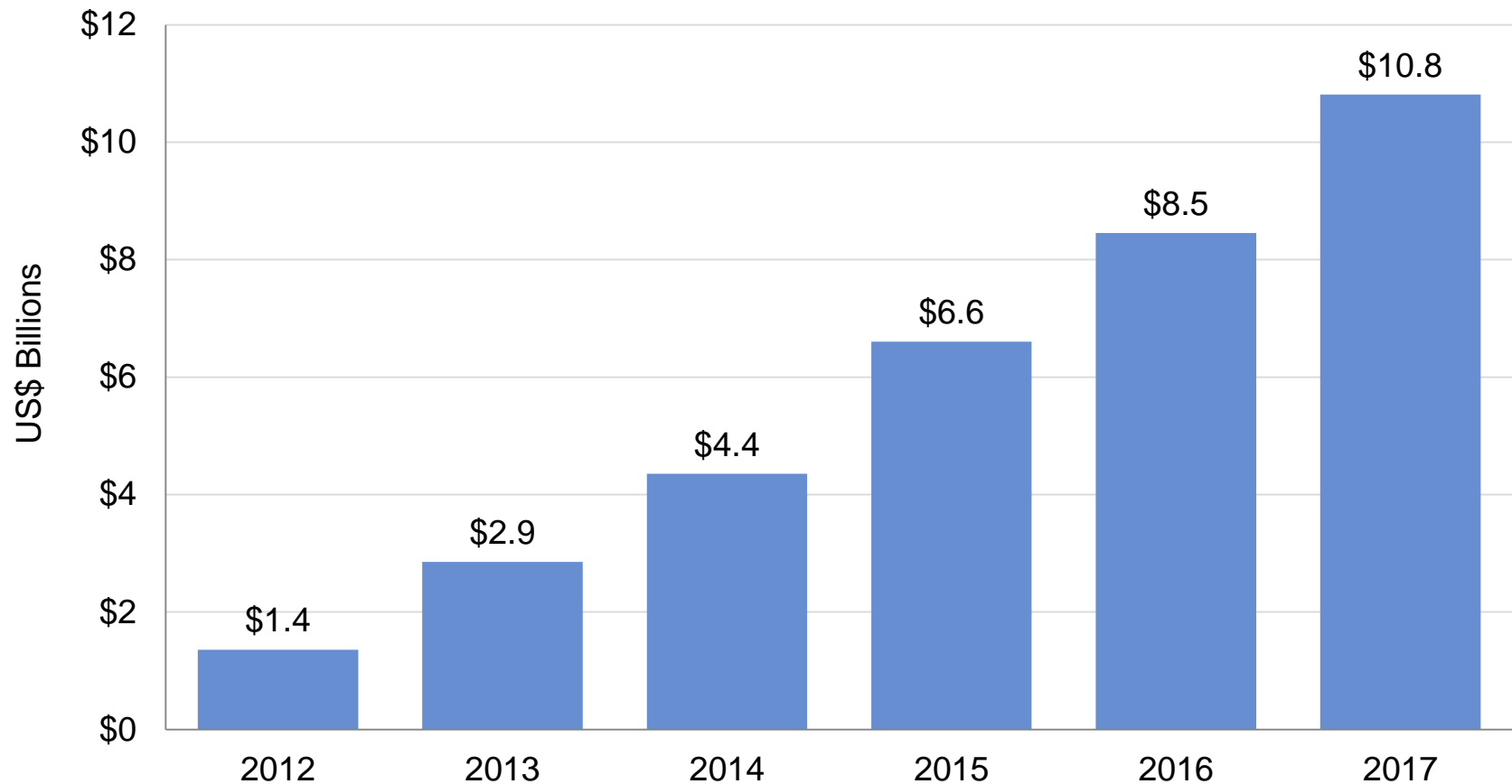
Executive Summary – Mobile Advertising

- **For national brand advertisers**, the shift to location targeted mobile advertising will be driven by their natural evolution to adopt effective, increasingly available, and currently undervalued mobile local ad inventory.
- Innovation among ad networks and ad tech providers (e.g., Enhanced Campaigns) will provide additional incentive and impetus for this transition.
- **For SMBs**, the sector's digital media adoption traditionally lags behind national advertisers due to lower levels of tech savvy, budget, time, and human resources.
- However, SMB-driven growth is expected throughout our forecast period due to evolving SMB savvy and growing propensity to self-serve with offerings like Google Adwords and Foursquare (*pull*).
- Also at play will be the accelerating mobile innovation, sales and bundling efforts of local media companies (*push*).

Mobile-Specific Forecast Methodology

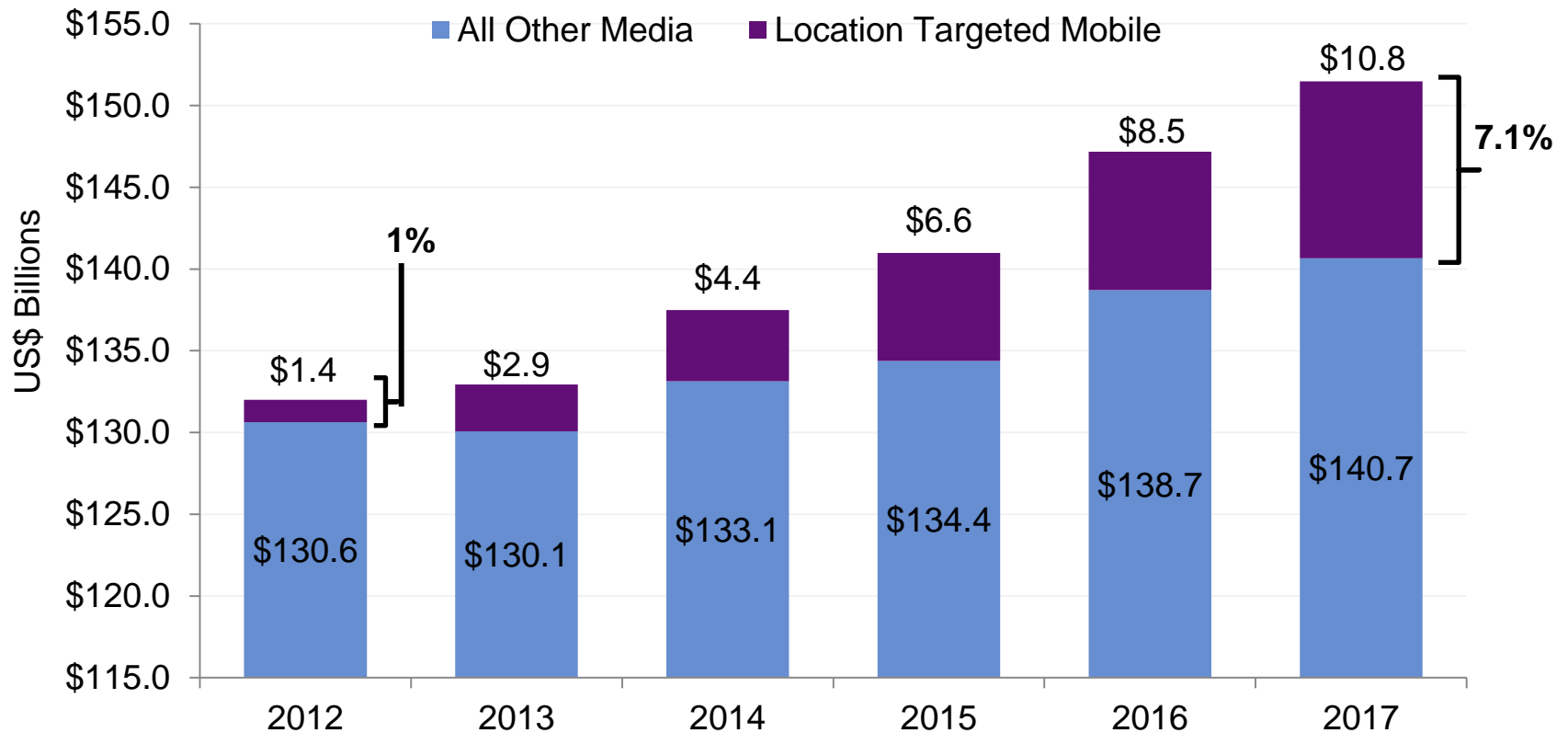
- In addition to interviews and company reports, BIA/Kelsey's mobile forecast is based on usage trends, mobile ad spending across various formats, consumer adoption patterns, advertiser penetration and ad performance measurements such as clickthrough and cost-per-click rates, and other benchmarks in 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.
- Consistent with all local media that BIA/Kelsey measure, location targeted mobile advertising is defined by ad campaigns that are geographically targeted for user impressions or engagement within specific locales.
- In addition to the targeting component of the ad placement, location specific ad copy or calls to action (i.e. call local store), will also classify a given ad as location targeted in BIA/Kelsey measurements.

Mobile Local Ad Spend: Five-Year Forecast



Note: Numbers are rounded.

Local Ad Spend: Five-Year Forecast

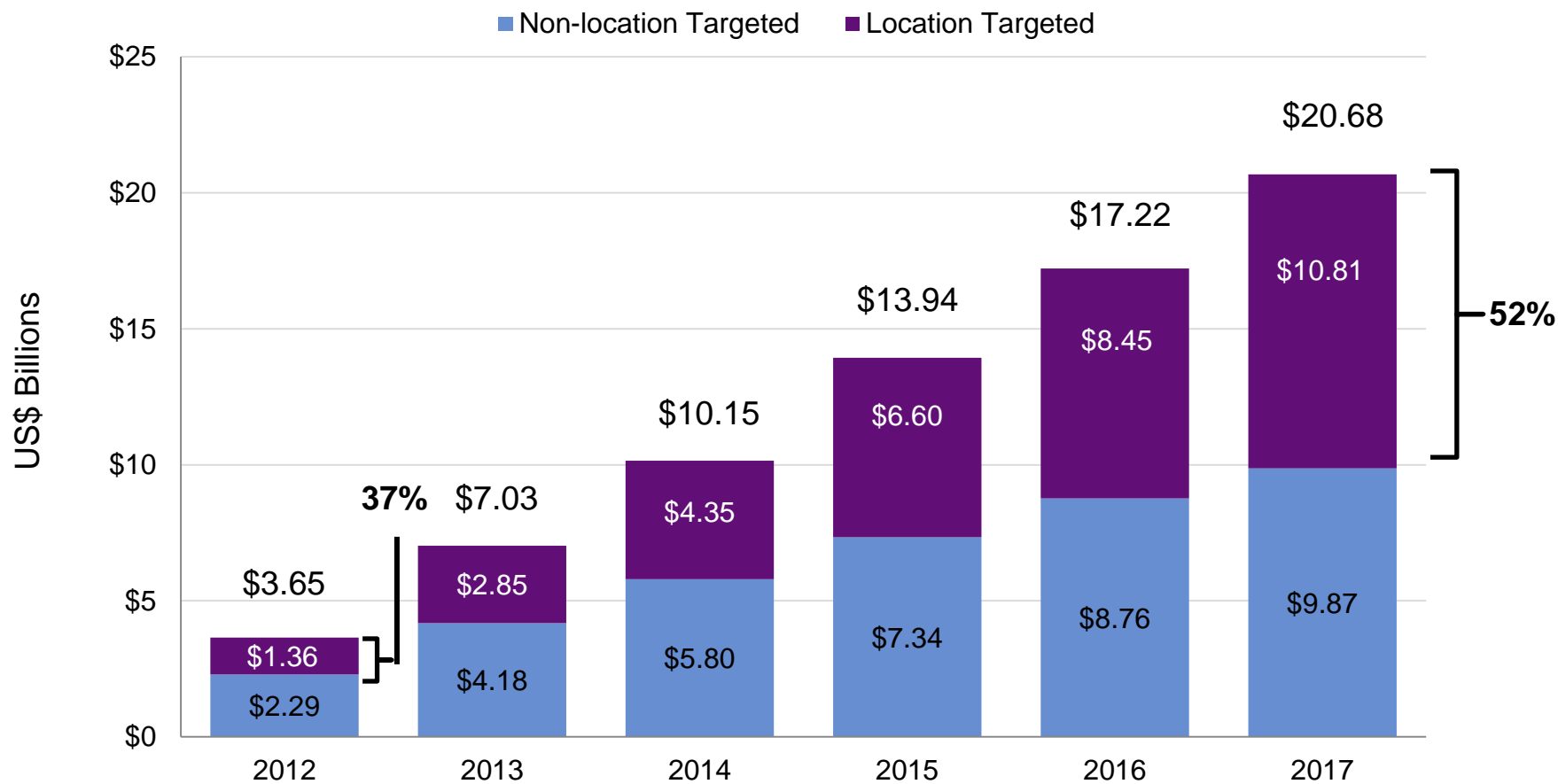


Note: Numbers are rounded.

Mobile Local Ad Spend: Takeaways

- BIA/Kelsey projects U.S. location targeted mobile ad revenues to grow from \$1.36 billion in 2012 to \$10.81 billion in 2017, a 51% CAGR.
- This represents a 1.0% share of local media ad revenues in 2012, growing to a 7.1% share in 2017.
- Other local media occupying this pie include radio, television, newspapers, Yellow Pages and online/interactive.
- 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.
- In addition to the targeting component of the ad placement, location specific ad copy or calls to action (i.e. call local store), will also classify a given ad as location targeted in BIA/Kelsey measurements.

Local vs. National Ad Spend in Mobile



Note: Numbers are rounded.

Local vs. National: Key Takeaways

- In addition to being a subset of local media (slide 9), BIA/Kelsey's projected mobile local ad revenues represent a subset of overall U.S. mobile ad spending (slide 20), which will grow from \$3.65 billion in 2012 to \$20.68 billion in 2017.
- Growth drivers include smartphone penetration (currently 64% 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.
- Advertiser demand will be driven by natural market forces to follow undervalued inventory, in addition to an overall learning curve, acclimation and realization of value/ROI within the relatively nascent field of mobile advertising.
- Mobile advertising's appeal will include higher performance, clearer ROI, tangible conversions and a shorter purchase funnel. These qualities of mobile content and advertising possess a rare alignment between typical mobile user intent and advertisers' stated objectives.

Local vs. National: Key Takeaways

- Google's Enhanced Campaigns, launched in July, will accelerate the above adoption drivers by forcing mobile ads on search advertisers (default campaign inclusion). This will accelerate a mobile advertising learning curve and adoption cycle.
- Enhanced Campaigns will also notably close the above mentioned gap between mobile ad rates and desktop equivalents (rates are demand-driven).
- This will play out as an influx of advertisers in Google's bid marketplace for mobile keywords will naturally boost bid pressure and thus CPCs. There is evidence of this shift already.
- The effects of Enhanced Campaigns on the mobile ad revenue totals will mostly be limited to search based mobile ads (just one of several formats – see slide 25). However this effect will be significant, due to search's leading share of revenue among mobile ad formats.

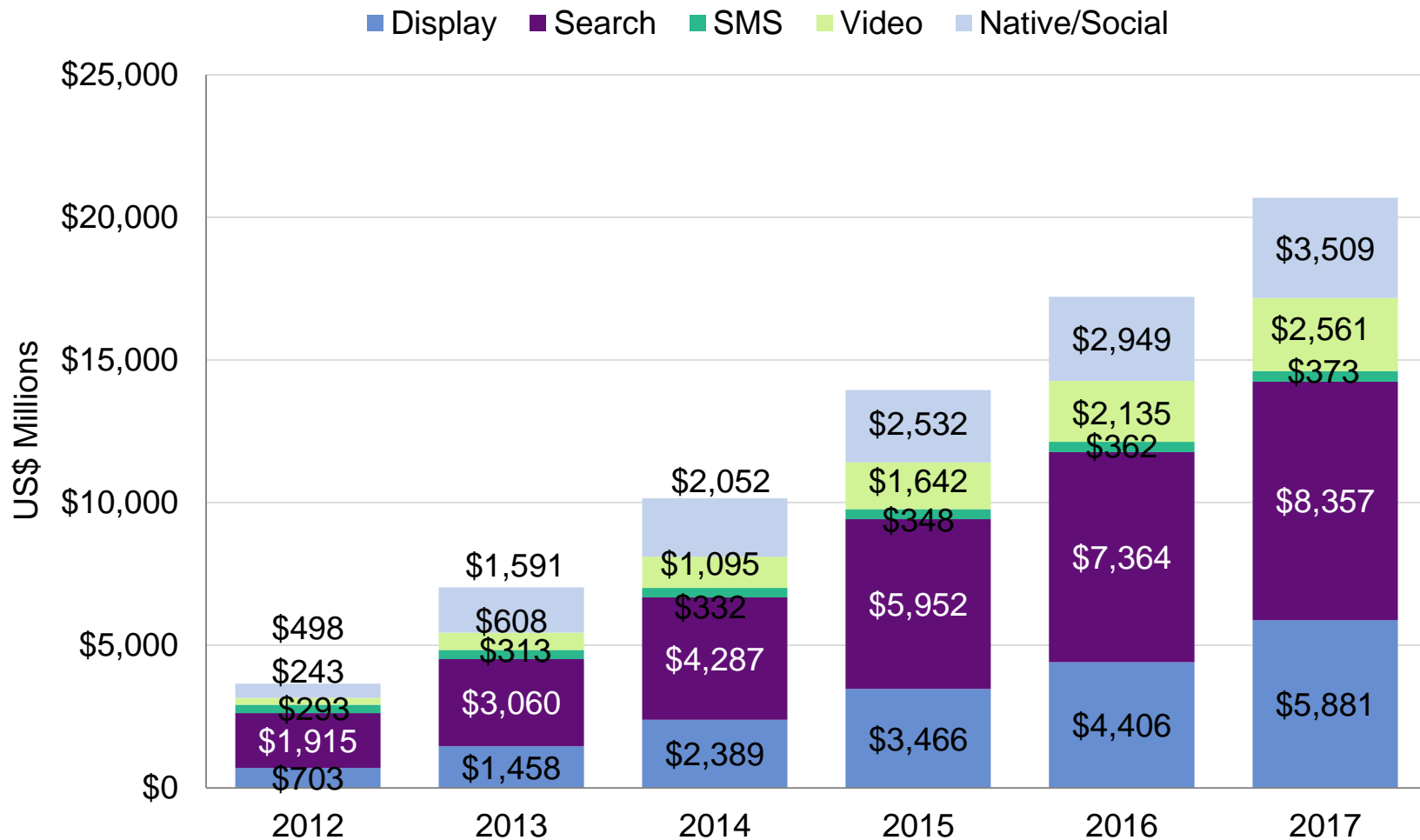
Local vs. National: Key Takeaways

- Location targeted mobile ads will capture 37% of overall U.S. mobile ad spending in 2012, growing to 52% in 2017.
- Driving this localized share will be the adoption of mobile local advertising tactics (i.e. geo-fencing, click-to-call, click to map,) by national advertisers, who account for most U.S. mobile ad spending.
- This adoption will be a result of national advertisers' natural evolution to adopt effective, increasingly available, and currently undervalued mobile local ad inventory.
- Innovation among ad networks and ad tech providers (i.e. Enhanced Campaigns) will provide additional incentive and impetus for this transition.
- SMB adoption – a slow but growing share of localized mobile advertising – will likewise impact its growth.
- This will result from evolving SMB savvy and growing propensity to self-serve with offerings like Google AdWords and Foursquare (*pull*).; as well as the accelerating mobile innovation, sales and bundling efforts of local media companies (*push*).

Local vs. National: Key Takeaways

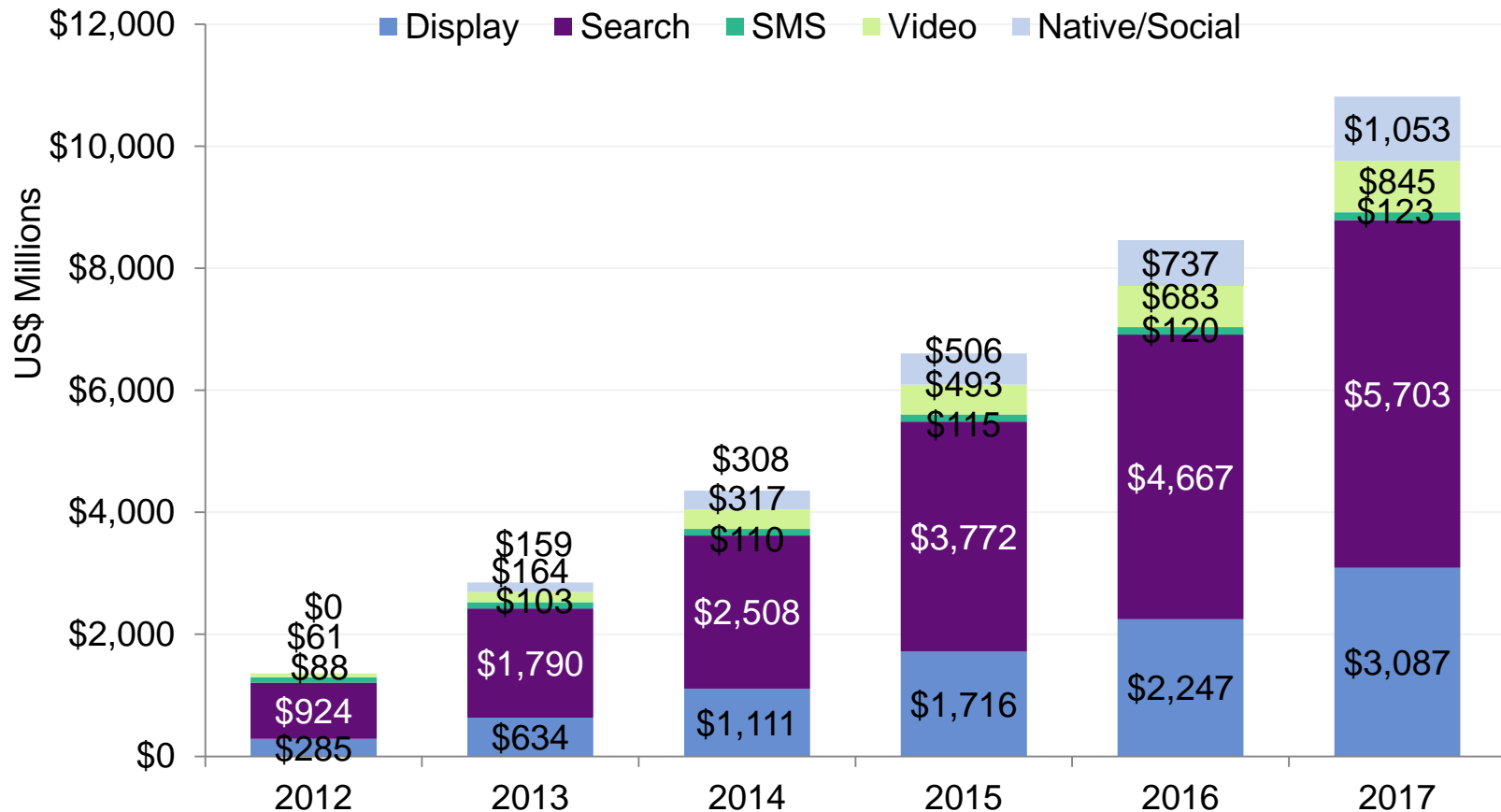
- The increase in localized mobile campaigns that results from the aforementioned advertiser adoption shifts, will be coupled with premiums that develop for location-targeted ads. These factors combined will drive the projected dollar share shift towards location targeted mobile ads that BIA/Kelsey projects.
- The ad premiums referenced in the previous point will result from higher performance for location targeted mobile ads when compared with non-location targeted ads. This is already evident in data shared to BIA/Kelsey by mobile ad networks and agencies.
- These performance deltas (such as click through rates) are a function of higher relevance, immediacy and alignment with consumer local buying intent -- all of which are more prevalent in mobile than in other print and digital media.
- For example, half of mobile searches have intent to find local information or products, compared to the 17 percent of desktop searches that carry comparative local intent. Many similar usage inputs were collected in the production of this forecast.

Mobile Ad Spend by Format



Note: Numbers are rounded.

Mobile Local Ad Spend by Format



Note: Numbers are rounded.

Annual Revenue Changes – Mobile Local

Media	2012	2013	2014	2015	2016	2017	CAGR (2012-2017)
Mobile	N/A*	110.0%	52.7%	51.6%	28.1%	27.9%	51.4%
Mobile Display	N/A*	122.8%	75.2%	54.4%	31.0%	37.4%	61.1%
Mobile Search	N/A*	93.7%	40.1%	50.4%	23.7%	22.2%	43.9%
SMS	N/A*	17.7%	6.0%	5.0%	4.0%	3.0%	7.0%
Mobile Video	N/A*	170.0%	93.3%	55.2%	38.7%	23.8%	69.3%
Mobile Native/Social	N/A*	N/A*	93.4%	64.6%	45.6%	42.8%	NA
Total	0.1%	0.7%	3.4%	2.5%	4.4%	2.9%	2.8%
GDP	3.5%	4.0%	4.5%	4.5%	5.0%	5.0%	4.6%

*Growth from 2011 to 2012 is not indicated for the components of mobile advertising because of a new forecast model and set of inputs applied only to the years 2012-2017, but not retroactively to 2011.

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, fill rates. 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	Video ad units distributed within app and mobile web inventory, such as pre-roll ads.	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.
Native/Social	Visual and textual brand messaging that is merged into the organic feed-based interfaces of mobile social apps such as Foursquare and Twitter	Mobile social app usage, reported revenues from the consolidated field of competitors that monetize this ad format in its early days (i.e. Facebook).

Mobile Ad Formats: Key Takeaways

- This forecast comprises various mobile ad formats including textual search, display, video, SMS, and native social advertising (see slide 28 for definitions).
- These are bought and sold in various ways, meaning different formulas and models apply to each one, in terms of the composition and production of this forecast.
- Slide 25 breaks down the share of each format for the overall mobile ad market. Slide 26 provides the same breakdown but within the location targeted portion of the mobile ad market.
- In both cases, Search advertising currently holds the largest share, followed by display and native social ads. Search will continue to eclipse all ad formats to hold the largest share throughout the forecast period.
- It's important to note that search's dominant share indexes higher within the localized segment (68% in 2012) than within the broader U.S. mobile ad revenue total (52% in 2012).
- This is due to the high correlation between mobile search and local user intent (i.e., 50% of Google mobile searches are local).

Mobile Ad Formats: Key Takeaways

- Display conversely indexes higher within the overall mobile ad market than within the localized segment . This is due to the branding (as opposed to direct response) and reach-driven objectives inherent in many display campaigns (i.e. in-app ads).
- Overall mobile search growth will 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 Ad Formats: Key Takeaways

- Native Social is a new category in this forecast, broken out from its previous classification within the display category. It is defined by visual and textual brand messaging that is merged into the organic feed-based interfaces of mobile social apps such as Foursquare and Twitter.
- This is differentiated from standard display advertising that is placed within social-oriented mobile apps (which is counted under the display category).



QUESTIONS & COMMENTS:

MICHAEL BOLAND

Senior Analyst

mboland@biakelsey.com | (415) 508-8462

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