Advertisers Size Up Media Sellers

In an exclusive survey conducted by Mediaweek and Spencer Stuart, marketing and media buying executives identify how media companies have adapted to selling in a harsher economic climate BY JOHN CONSOLI

No one needs to be told that it's harder than ever for media companies to sell effectively in a tough economic climate. Advertisers often demand flexibility on pricing, while sales teams struggle to maintain their goals to increase revenue in a buyer's market. Cost usually becomes a major factor in determining whether an ad deal moves forward or not.

Surprisingly, cost is not *the* biggest factor, according to the results of an exclusive survey of advertising and media-buying executives conducted by executive search firm Spencer Stuart Media Practice, in association with *Mediaweek*. Cost has been supplanted in importance by the ability to better target audience segments, to offer a quality editorial environment and to "partner" with a given media company.

The survey polled 250 executives at packaged-goods, retail, automotive, travel and technology companies, as well as two of the largest media buying agencies in the U.S. In aggregate, the respondents—made up of CEOs, CMOs and marketing executives—represent more than $20 billion of media spending per year.

Despite the sluggish economy, the survey suggests media companies may well want to revise their revenue goals upward. Why? Nearly half of the marketers polled (46 percent, to be exact) say they will spend more on advertising in 2002, added on to 36 percent who plan to spend the same amount. Only 18 percent say they will spend less this year.

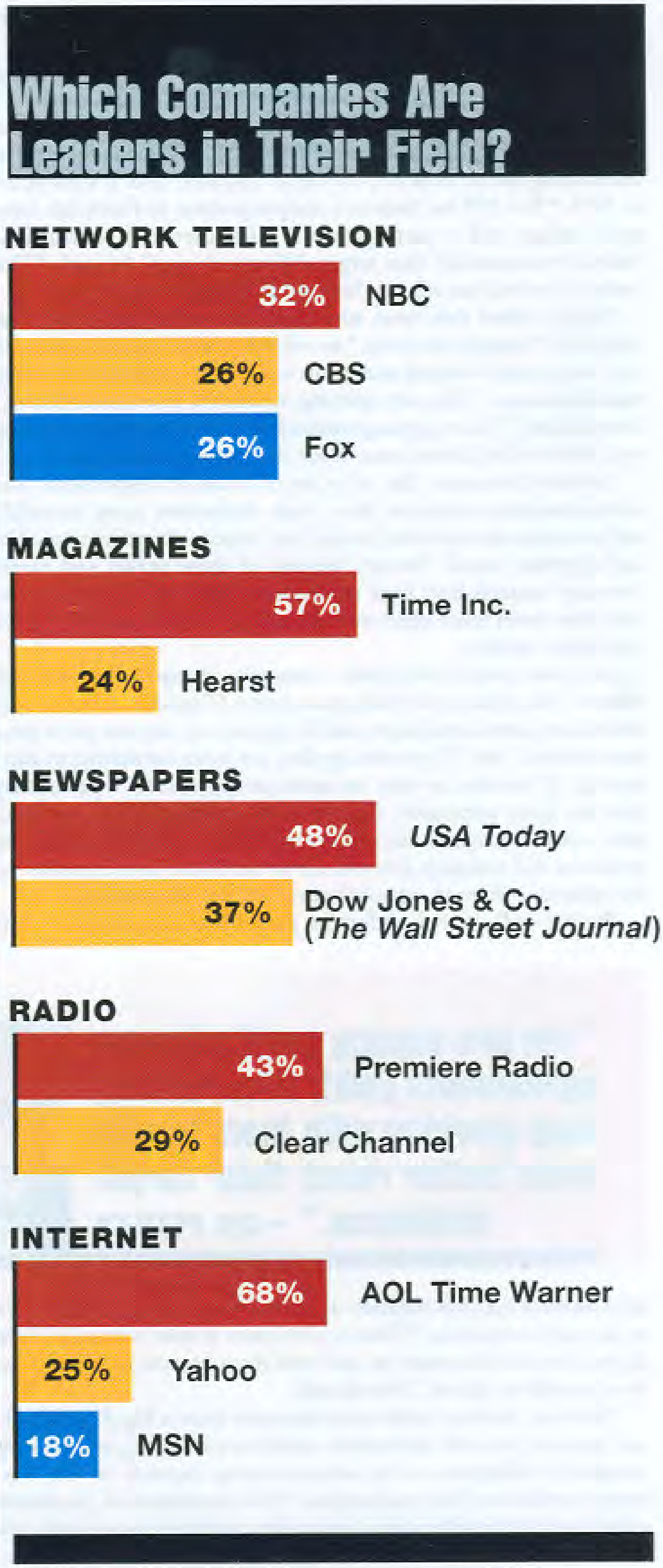
The survey shows that media company executives have changed how they do business, by becoming more accessible, more open-minded, more consultative, more creative, more proactive and more responsive to advertisers' needs than they were a year ago. "Surprisingly, cost, although important, is not the primary driver in media companies' ability to seize an advantage," the survey concludes. "Rather, it seems to be a genuine interest in creating strategic alignments with marketers that counts for more."

Hand in hand with the trend toward a closer relationship between advertiser and media outlet is the growing importance of targetability. Among the respondents, 38 percent rated targetability as the primary factor in selecting a media outlet on which to advertise. Another 29 percent rated cost efficiency as the primary factor, followed by 14 percent who cited the ability to offer a cross-platforming mix, and only 5 percent who labeled mass reach as the primary factor.

Another subtle shift in thinking among marketing executives was revealed when respondents were asked to list the most important factor in selecting a media partner. More than half (55 percent) pointed to quality of offerings by the media outlet, far outdistancing the 9 percent who pointed to market reach. That's certainly good news for every small media outlet that hasn't reached its critical mass.

Media companies have had to adapt their pitches in order to motivate advertisers to buy more ad time or space in their properties, and survey respondents indicated the changes they have noticed. Fully 54 percent of media buying executives and advertisers said coming up with value-added components was a major factor in drawing their business. Cross-platforming was mentioned by 44 percent of respondents, followed by 25 percent who mentioned straight cost reductions, 22 percent who indicated discounts that resulted from the additional spending for cross-platforming, and 22 percent who mentioned access to new, previously unavailable inventory.

Lisa McCarthy, senior vp of Viacom Plus, which sells ad packages across all the Viacom media units, agrees that cost savings is becoming less important to advertisers than value-added and targetability. "Of



the 27 cross-platform deals we've done, only one of them was driven by price," she said. McCarthy said that in the past year she has noticed a significant trend toward media buying agencies and ad clients wanting to do cross-platforming rather than traditional one-media deals.

The fact that targetability has grown in importance comes as no surprise to Jed Petrick, president/COO of the WB network, who has been selling the network's 12-34 female audience since it went on air in 1995. "The WB has been in a unique position to watch this transition happen and to participate in it. Advertisers today are making multiple commercials that target different demos," he said. "This makes it not only an efficient buy, but an effective buy."

Petrick added that more advertisers and marketers, rather than asking for "tonnage discounts," are allowing media outlets to come in and look at their internal sales plans in order to come up with better media solutions. "They are opening themselves up as never before," he explained. "We are signing nondisclosure agreements and working with them to help them better reach their targeted audiences."

Another indication that it's a buyer's market: Respondents said media company executives have made themselves more accessible and are more open-minded toward and creative about accommodating advertiser needs. Seventy percent of those polled said media company contacts have been more accessible, while 78 percent said they have been more open-minded, and 67 percent said they have been more creative.

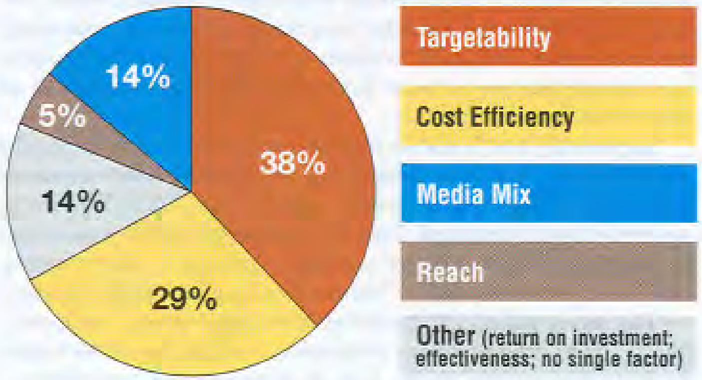
Just how much have media companies changed their business manner? According to the advertiser survey, 67 percent believe media outlets are more consultative, and 82 percent say they are more solution oriented. And 50 percent say they are more committed to partnership, 67 percent say they are more proactive, and 78 percent say they are more responsive. Among the suggestions in the survey of how a media company can differentiate itself was the idea that the president of a company give out his or her home phone number to the advertiser client in case of the need for rapid turnaround.

Petrick said one reason for the gung-ho attitude among media sales teams is the consolidation of media buying companies into five or six mega-companies. "There is a lot more at stake with a lot fewer players, but it's also easier to deal with them because there are a lot fewer people to talk to," Petrick said.

However, another media sales executive from a Big Four broadcast network, who did not want to speak for attribution, said a media company's willingness to be accommodating depends on the economic condition of the marketplace. If the marketplace's pendulum swings back to the seller's side, he predicts, media companies may not be as accommodating. But he did agree that targeted reach is important. "That's why MTV is able to charge advertisers a premium for its audience," he noted.

"We are signing nondisclosure agreements [with advertisers] and working with them to help them better reach their target audiences." —JED PETRICK

Primary Factors Driving Media Decisions



Not all is good news in the behavioral changes marketers have seen from media sales outlets. Survey respondents indicated such potholes as superficial sales efforts, an inability to eliminate internal barriers or red tape, "business as usual" attitudes, and an air of superiority that stems from a sales team's belief that it is the only company that can produce results for the client.

One section of the survey asked respondents to identify the media companies they perceived to be the leaders in their respective media categories. The companies that were *not* cited presented more of a surprise than those who did get the nod as one of the best. Among the broadcast networks, NBC was cited by 32 percent as a leader, while CBS and Fox each were identified by 26 percent. ABC was not considered a leader.

Among the cable networks, there was no clear leader, but those mentioned most were ESPN, MTV, Discovery and A&E. Missing: the Turner cable nets, which together pull in the single-largest chunk of ad revenue of any multinetwork cable sales operation.

Among magazine companies, 57 percent of the respondents mentioned Time Inc., and 24 percent mentioned Hearst. Notably absent from the list was Condé Nast. Among the national newspapers, 48 percent selected *USA Today* and 37 percent selected *The Wall Street Journal*. And among Internet companies, 68 percent chose AOL Time Warner, 25 percent chose Yahoo and 18 percent tagged MSN.

The two top radio companies among respondents were Premiere Radio, selected by 43 percent, and Clear Channel, selected by 29 percent. Of interesting note: Premiere Radio is owned by Clear Channel. Infinity/Viacom was mentioned as the clear media leader among the outdoor companies.

Commenting on the results of the survey, John Rash, chief broadcast negotiator for Campbell Mithun, said, "Sales executives are well aware of the new reality—that the proliferation of cable networks is drawing away audience and making the battle for viewers more competitive. Both broadcast and cable networks have to continue to be more innovative and flexible. Advertisers have also become considerably more sophisticated in micro-targeting audiences to deal with the channel proliferation and audience fragmentation. This is a way to turn a negative into a positive." ■

Media's New Mindset

In an exclusive survey conducted by *Mediaweek* and Spencer Stuart, broadcast, cable and print executives say they are adjusting to a consolidated agency world by aggressively crafting cross-platform sales operations BY MICHAEL BÜRGI

Now that the broadcast networks have presented their fall programming schedules, the ad sales executives at the major media conglomerates that own the nets are nervously drumming their fingers on their desks waiting to see just how soon the $10 billion national TV upfront marketplace will break open. It's generally believed that once it does, the television industry (including cable, syndication and spot TV) will see advertising commitments for next season rebound from last year's "correction" market. Meanwhile, executives in all the other major media hope that if things go well for the TV business, the uptick in the upfront will rub off on their businesses and everyone can all go back to living in the land of revenue gains.

Still, there are a lot of "ifs" out there that will be answered over the next two months. To get an indication from the media companies about what their hopes, concerns and expectations are for the duration of 2002, executive search firm Spencer Stuart, in association with *Mediaweek*, surveyed executives at large media companies throughout the U.S. and Canada.

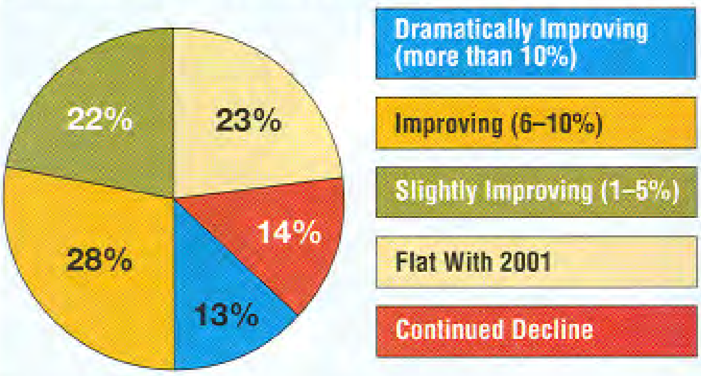
First, the good news: Nearly half of the survey's participants believe this year's revenue environment will improve by 6 percent or more. Now for the bad: Four out of five respondents said that the economy continues to be the greatest threat and challenge to their business. It seems everyone is so fixated on where the economy will go that many have forgotten to keep an eye on the company across the street: Less than 40 percent of the media executives surveyed cited competition as a threat or challenge this year.

The most striking development seen in the survey results is the unanimity with which media executives say they are "bundling" their media assets in cross-platform configurations to more effectively drive revenue. Due to continued concern about the economy, and also because of grow-

ILLUSTRATION BY GIACOMO MARCHESI

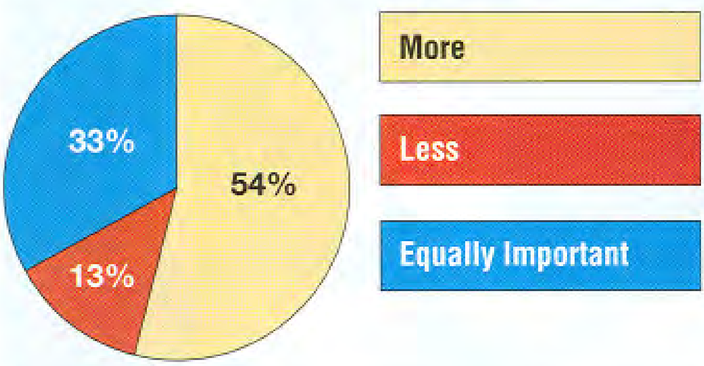
ing consolidation in the advertising and media agency world, 86 percent of respondents said they are developing cross-platform sales operations. Though cross-platform sales divisions were already being put together at many media companies in the late '90s, 60 percent of respondents said that over the past year, the changing environment has

2002 REVENUE ENVIRONMENT



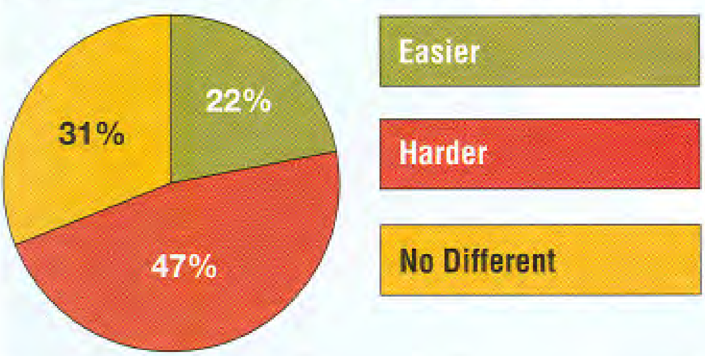
CHOOSING A MEDIA PARTNER

Has quality (defined as size and targetability of specific media offering) become more, less, or equally important as cost efficiency for your customers in choosing a media partner?



EFFECT OF CONSOLIDATION

Has consolidation in the agency business made it easier, harder, or no different to negotiate the right deal for your company?



created the need for more creativity and alternative-selling solutions such as cross-platform offerings.

A senior executive at Fox who participated in the survey but declined to be identified said his most immediate concern is the "four or five media-buying conglomerates [that] have gotten together in order to be more efficient in the marketplace. While last year they weren't sophisticated, this year they are more strategic and more effective in thinking through their strategy, and therefore now represent this huge monolith to contend with." Put another way, it's simply harder for media companies to work with bigger, more consolidated agencies than ever before.

An ABC executive who also declined to be identified explained that the recent restructuring of his network's sales force was done to "reflect the changes occurring in the marketplace...We've set up teams, and each team has a responsibility for a few holding companies and each agency's client roster."

The trend is not limited to electronic media. A publishing executive at Vulcan Sports Media (whose products include *The Sporting News*) said: "We are definitely trying to develop more effective integrated programs, which is something going on across the publishing industry."

"Agencies have cut back so much in staff that the value-added packaging concepts they used to develop are not being presented. Innovative proposals are coming from the media side."

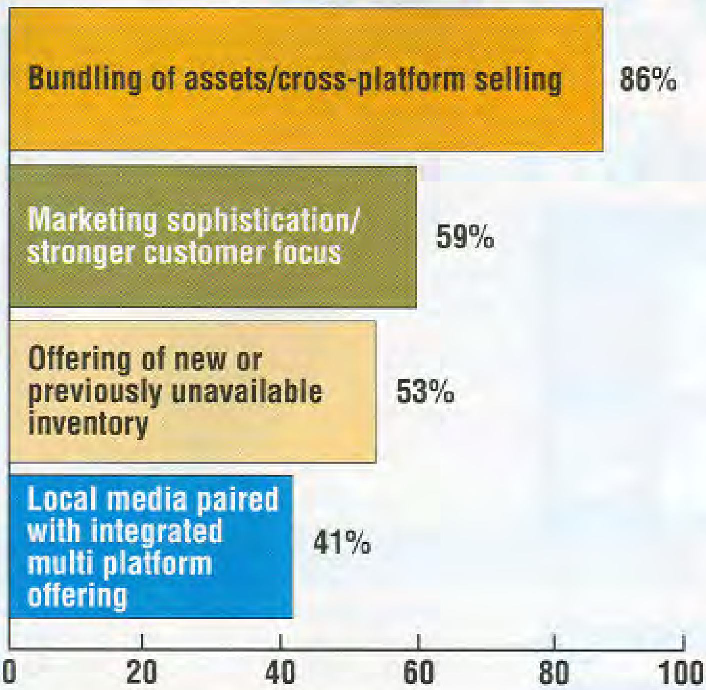
The efficiency of cross-media platforming in media sales is to some degree dependent on market conditions, the Fox executive noted. "New cross-platform deals are attractive to the media [companies] who present them when there is less demand than supply for product, so that they can put together a product mix by which they can discount some of their offerings," said the exec. "However, when demand is strong, this approach becomes less appealing for media. Consequently, companies with a broader array of assets have an easier time cutting deals than those that have a narrower band of product offerings."

"Bigger Is Better" appears to be a common thought in many media executives' heads these days. When asked if consolidation in the advertising and media agency business has made it easier, harder or no different to negotiate the right deal for their company, 47 percent of the survey respondents said it is harder (*see chart*). The primary reasons: 1) Sellers now need to contact and deal with higher-level executives in the agency—who they believe are able to see what's better for the client, with less focus on costs and price-per-point—but these top execs are harder to reach; 2) It's difficult to do something special for individual clients when the agency has so many competitive clients; and 3) When the focus is on price only, the ability to create a higher-impact (but more costly) program or deal is limited.

Those frustrations have led media companies to reach out more directly to client companies in trying to lure their dollars. More than half the respondents said they engage with both client and agency contacts in order to create the best media package. Another factor in the direct-to-client trend is that as agencies have consolidated and have cut back on personnel, they have also scaled back the services they used to offer.

"Agencies are stretched so thin that they're not quite as capable of evaluating multimedia programs, [so] that today publishers are going directly to clients and bypassing agencies," noted the Vulcan Sports

TOP PRACTICES EMPLOYED TO DRIVE REVENUE



Media executive. "There's a push on publishers to more closely address the needs of clients without the help of ad agencies."

The Fox executive added that "agencies have cut back so much in staff that the value-added packaging concepts they used to develop and present are not being presented by them, as a result of a shortage of manpower. Innovative proposals are coming from the media side."

In the survey, 82 percent of the respondents said they have changed the manner in which they deal with clients. A senior executive at AOL Time Warner pointed out that the sales side of his company is even adding positions that reflect the reality that the client needs to be addressed more directly. "We now have teams of very senior people focused on developing consultative relationships with more major clients," said the exec, who requested anonymity.

There's also a push on to establish closer ties to senior marketing executives at the client companies, from vice presidents on up to chief marketing officers. "This level of client executive's function is to understand the strategy of the marketing plan—[that] it's not necessarily driven by price" as most agency-media negotiations are, said one survey respondent.

The rationale behind strengthening direct contacts with top marketing execs is also in part to "increase client coverage to access [media] budgets prior to agency deliberations," another survey respondent said.

The survey reveals that media companies feel that clients' attitudes toward them have changed over the past year. Seventy-seven percent of respondents said clients' reduced media budgets have influenced their need to sell more effectively. Lower spending by clients also led 54 percent of the survey respondents to say they believe quality (defined as size and targetability of a specific media offering) has become more important than cost efficiency to customers in choosing a media partner (*see chart on page 28*).

Survey participants were also asked which companies are their toughest competitors. Interestingly, companies that have moved further ahead in integrating their varied media properties into cohesive sales options were cited. ESPN/ABC Sports was mentioned by several companies; Viacom and Condé Nast Publications also were named.

One disturbing note voiced by a minority of survey participants was a feeling of lack of control over their businesses and media in general that has developed since Sept. 11. It's left some media executives feeling that they can no longer see around the corner.

"The world of advertising sales has changed radically over the past year," bemoaned one senior vp at a major media organization who did not wish to identify his company. "Prior to September, you knew how the year would evolve in terms of TV and print advertising. But now we react to what our competition is doing. Only when someone else acts are we more inclined to follow."

Echoed a general manager at another media organization: "There is no planning in advertising today—we and our competitors are exhibiting totally reactive and defensive behavior."

Several executives suggested that the media business needs to adapt more quickly to the rapidly evolving marketplace. "The [TV] industry is operating on a 40-year-old broadcast model, while the dynamics of business are dramatically being altered," said the Fox exec. "We'll have to become more technical about how we evaluate demand versus the way everything was done even 20 years ago. Historically, demand from year-to- year had some pretty regular trending, so demand could be predicted pretty easily. But that's not the case today, and the use of historical trending is no longer a viable tool to rely on."

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Bottom line: The business is inexorably changing, perhaps more so than at any time in the history of media selling and buying. The tough times that media companies have struggled through over the past year may end up having a Nietzschean effect: that which does not kill them is making them stronger. "This is a much more difficult environment than we've faced in the past, and it won't turn around in the immediate future," said the AOL Time Warner executive. "So we need to focus on the relationships and be patient that what we're doing now will pay dividends when the market returns." ■

Who the Survey Polled:

Spencer Stuart sent a survey in April to 450 media executives at companies that took in close to $200 billion in ad revenue in 2001. Of the 68 respondents, 34 percent work in magazines; 33 percent are in cable; 31 percent are in network TV; 18 percent are in TV syndication; 18 percent are in newspapers; 12 percent are involved in the Internet; 10 percent are in radio; and another 6 percent classified themselves as in other media (respondents were asked to select all answers that applied). Of the respondents, 18 percent are CEOs/GMs; 21 percent are presidents; 40 percent are either vice presidents, senior vps or executive vps; 15 percent are publishers; and 6 percent fall into other categories.