This Year, Next Year

India Media Forecasts

April 2009

groupm

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April 2009

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Contents

Sources:
GroupM Specialist Practices: Trading, mConsult, Dialect, Interaction, ESP
GroupM Communications Agencies: Mindshare, Maxus, MediaEdge:cia, Motivator, Kinetic

Summary

Media, Rs. Cr., Net	2004	2005	2006	2007	2008F#	2008 Actual	2009F
Newspapers	5,554	6,651	7,856	9,290	10,033	10,033	9,832
Magazines	502	552	629	760	730	850	814
TV	4,528	5,185	6,051	7,110	8,400	8,400	8,988
Radio	240	300	399	590	880	880	1,012
Outdoor	875	995	1,165	1,398	1,698	1,448	1,506
Digital	75	120	204	390	630	680	850
Cinema	-	45	56	75	80	80	84
Retail Media	-	-	150	225	340	312	318
*General Elections**							*350*
Media Total Rs. Cr.	**11,774**	**13,848**	**16,510**	**19,838**	**22,791**	**22,683**	**23,755**

YoY % Change	2004	2005	2006	2007	2008F#	2008 Actual	2009F
Newspapers	-	20%	18%	18%	8%	8%	-2%
Magazines	-	10%	14%	21%	-4%	12%	-4%
TV	-	15%	17%	18%	18%	18%	7%
Radio	-	25%	33%	48%	49%	49%	15%
Outdoor	-	14%	17%	20%	22%	4%	4%
Digital	-	60%	70%	91%	62%	74%	25%
Cinema	-	-	25%	34%	7%	7%	5%
Retail Media	-	-	-	50%	51%	39%	2%
Media Total YoY % Change	**-**	**17.6%**	**19.2%**	**20.2%**	**14.9%**	**14.3%**	**4.7%**

% Shares of Media	2004	2005	2006	2007	2008F#	2008 Actual	2009F
Newspapers	47%	48%	48%	47%	44%	44%	41%
Magazines	4%	4%	4%	4%	3%	4%	3%
TV	38%	37%	37%	36%	37%	37%	38%
Radio	2%	2%	2%	3%	4%	4%	4%
Outdoor	7%	7%	7%	7%	7%	6%	6%
Digital	1%	1%	1%	2%	3%	3%	4%
Cinema	-	0%	0%	0%	0%	0%	0%
Retail Media	-	-	1%	1%	1%	1%	1%
*General Elections**							*1%*
Media Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Media, USD m, Net	2004	2005	2006	2007	2008F#	2008 Actual	2009F
Newspapers	1,148	1,374	1,624	1,920	2,073	2,073	2,032
Magazines	104	114	130	157	151	176	168
TV	936	1,072	1,251	1,469	1,736	1,736	1,858
Radio	50	62	82	122	182	182	209
Outdoor	181	206	241	289	351	299	311
Digital	15	25	42	81	130	141	176
Cinema	-	9	12	15	17	17	17
Retail Media	-	-	31	46	70	64	66
*General Elections**							*72*
Media Total USD m	**2,433**	**2,862**	**3,412**	**4,100**	**4,710**	**4,688**	**4,909**

≠1 USD = Rs.48.3871
* General Elections happen will happen in May 2009. At this point it too early to apportion the spends to any medium
#As forecasted in the Global Winter TYNY 2008 report

Summary

2009 is a year of uncertainty the world over. While the economic situation in India is not as dismal as opposed to some of the other markets, the general market sentiment continues to be negative. This is in part due to the global linkages of several key Indian players who are impacted by parent performance in other markets.

Historically, in times of recession, advertisers desist from experimenting with media and fall back on the medium which has traditionally offered them the best results. It is no surprise that in this recession most organizations are treading cautiously and are wary of committing to marketing spends across untested new media. They would rather wait till the latter half of the year when they will have a better sense of the business outcome before deciding on the spend level. In keeping with this sentiment and for want of adequate business information, we have limited our predictions to 2009 and make no prediction for 2010.

We have used both our regular bottom-up and top-down methods for estimating revenues. We have collated details of the major players in each of the individual media and looked at what initiatives they have planned. We have also looked at the individual product category spends, and their expected growth across media. As the year unfolds, the economic climate will do most to determine willingness to spend, so this serves as our binding constraint.

India is holding General Elections in April and May 2009. If the trend of January and February 2009 is anything to go by, these elections are likely to see higher than expected spends, which we have accounted for in our final analysis.

Overall, we expect the Indian AdEx market to grow around 4.7% this year to reach a total of Rs 23,755 cr.

Summary

AdEx estimates based on Category Growth

	2008		March 2009 Estimates		
Categories	Actual AdEx (Rs. Cr.)	% Contribution	Growth over 2008	Estimated AdEx (Rs. Cr.)	% Contribution
Real Estate	973	4%	-20%	778	3%
Infotech	413	2%	-15%	351	1%
Financial Services	1,256	6%	-10%	1,131	5%
Retail	869	4%	-15%	738	3%
Apparel	407	2%	-15%	346	1%
Corporate	809	4%	-5%	768	3%
Auto	1,508	7%	-4%	1,451	6%
Recession Impacted Categories	**6,235**	**27%**	**-11%**	**5,564**	**23%**
Services	1,781	8%	0%	1,781	7%
Durable	968	4%	0%	968	4%
Tourism	511	2%	0%	511	2%
Internet	306	1%	0%	306	1%
Airlines	116	1%	0%	116	0%
Paints	92	0%	0%	92	0%
Liquor	65	0%	0%	65	0%
Stagnant Categories	**3,840**	**17%**	**0%**	**3,840**	**16%**
Entertainment	941	4%	5%	988	4%
Education	2,728	12%	7%	2,919	12%
FMCG	5,970	26%	15%	6,865	29%
Telecom	1,726	8%	15%	1,985	8%
Recession Unaffected Categories	**11,365**	**50%**	**12%**	**12,757**	**54%**
Misc.	529	2%	0%	529	2%
Others	715	3%	0%	715	3%
	-				
Total	**22,683**		**3.2%**	**23,405**	
Elections				350	
Total	**22,683**		**4.7%**	**23,755**	

FMCG, Telecom, Education and Entertainment, four of the largest categories which together contributed to 50% of the total market in 2008, are less impacted by the recession in 2009.

AdEx as GDP would predict

	GDP Growth %	AdEx Growth %
2006	9.8	20
2007	9.3	21
2008	7.9	15
2009	5.1	10

If we use the AdEx to GDP growth correlation, we arrive at an AdEx growth of 10% for 2009. However, by factoring in the market sentiment, particularly while looking at individual category spends and the time lag expected between business results and the expenditure getting back on track, we have had to pare down our estimates.

Summary

AdEx Estimates basis expected advertiser behavior over four quarters of 2009

	Contribution to Annual AdEx	Growth rate
Qtr 1	22%	-11%
Qtr 2	26%	14%
Qtr 3	17%	3%
Qtr 4	35%	9%
	Total	**4.7%**

The downward trend of Q4 2008 has continued in the first quarter of 2009. Two large events in the second quarter, the Indian Premier League (Cricket) and the General Elections are expected to boost spends in the period. The July-September 2009 period is not a significant quarter for several categories from a business perspective. After the Q2 burst, cautiousness is likely to set in, which will result in a tightening of purse strings in Q3. It is expected that the advent of the festive season in the last quarter will see normalcy being restored and advertisers will return to regular spending behavior.

Snapshots, by medium

- TV has done better than expected in 2008, on the back of strong viewership. Given that it is the medium of choice for the categories that are continuing to spend well, it faces a less risky future in the coming year
- Print has taken a beating towards the latter half of 2008 with significant drops in inventory and will continue to do so. The only respite will be the General Elections
- The same is true for the Outdoor space which might also see a drop in inventory, due to city level municipal regularization drives
- Radio is expected to do reasonably well as it has established a widespread network of markets and is a relatively less expensive medium than TV and Print
- The response-driven nature of Digital Media will ensure that they continue to do well, though growth will be a little lower than that seen in past years

Newspapers
+8%, -2%

The Market

The Display advertising component of the Newspaper market in India for calendar year 2008 was valued at Rs.10,033 cr. This is a growth of 8% over calendar 2007 (Rs.9,290 cr.), which is in line with what we had predicted in the winter 2008 report.

Newspapers continued to dominate the Indian Media scene in terms of share of spends. While card rates dominated much of discussion for the first quarter, the focus shifted to spiralling newsprint prices in the second quarter. The larger publishing houses like *BCCL* and *HT Media* and the *Dainik Bhaskar Group* were able to claw back some of the expense with increased rates, but smaller players took a big hit on their profits. The rate hikes, however, backfired as they prompted advertisers to reduce their use of print and move to more efficient media like Radio. The other significant consequence was that brands started to scale back investment into only the key publications in their critical markets. The smaller publishers who were anyway under severe cost pressures have been put under further strain as a result.

The Indian economy was relatively insulated from the global economic downturn in the first half of 2008 but started feeling it from the third quarter. It particularly affected categories such as Banking and Finance, Real Estate and Retail, all big users of print. The trend continued though the second half despite festivals like Diwali, bringing reduced investment from categories like Consumer Durables, Apparel and Retail. On the other hand, categories such as Educational Institutions and Social Advertisements significantly increased spends in the last quarter of 2008.

2008 saw a lot of new launches with Hindustan, Nai Dunia and Dainik Bhaskar launching in the Hindi belt to achieve step growth, and the launch of a new publication *Sakshi* in Andhra Pradesh. This brought some additional money with local businesses spreading their investment across multiple cheaper options available in the market.

Another notable event has been raised cover prices on leading titles like Times of India and Economic Times. Most publishers had resisted this for years, fearing loss of subscribers and ultimately readership.

The Players

- Of the top 10 newspapers in India, six grew less than 10% in 2008. Of the top 20 only two grew more than 15%
- The only newspaper showing really substantial growth in 2008 was the Mumbai edition of DNA with 49%
- Most publications have struggled to hold on to their revenues in Q4 08. English newspapers fared better than Hindi and Vernaculars but only from having signed up longer-term deals earlier in the year
- Consolidation is expected in the newspaper market. With eroding bottom lines, many publishers are nursing huge losses. Large groups like Dainik Bhaskar, Rajasthan Patrika and even Deccan Chronicle are likely to acquire small and single-city titles

The Product

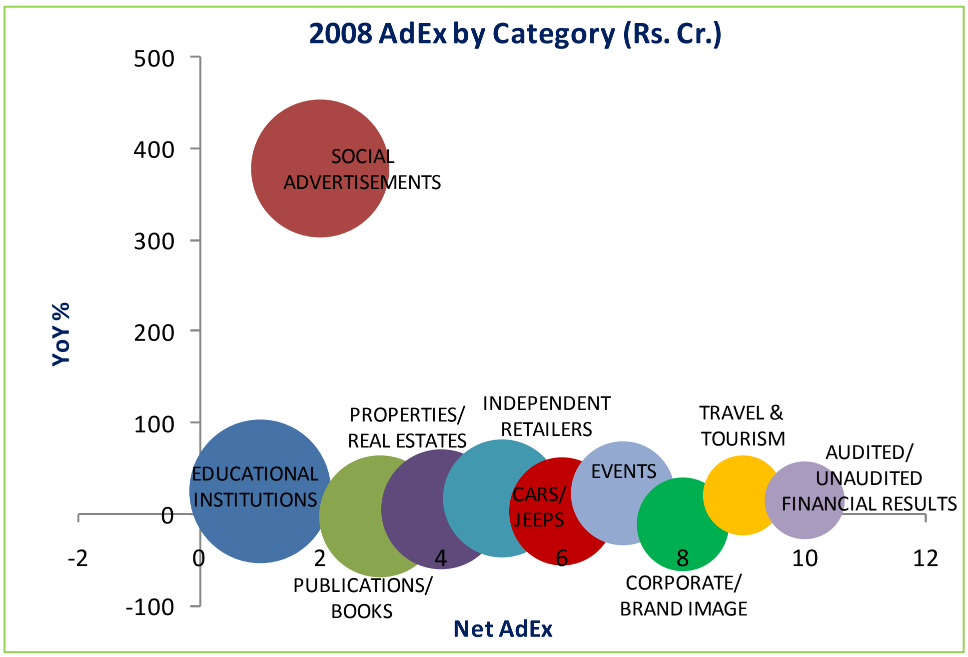
- *Threat from Radio:* In the coming days the biggest threat to newspapers as an advertising medium will be from radio. Radio being a high frequency, high-reach medium is increasingly finding favour with advertisers. The cost of customising the message to suit the various audiences is low and production is easily available from the broadcasters
- *OOH:* Out-of-home also offers a cheap alternative to print. It is a high-reach medium which comes at lower outlays as compared to print, and offers sufficient frequency given the longer tenure of the posting cycle. The arrival of international players like JC Decaux has markedly improved the quality of Hoardings, Bus-shelters and other OOH stock

Newspapers
+8%, -2%

The Future

Card rates are no longer sacrosanct even among leading publishers who had so far resisted discounting. With advertising money waning, publishers already under severe stress to maintain volumes are doling out discounts to maintain brand count.

Advertising expenditure could become more localized and the use of multiple-title packages thus reduce. The evolution of discounting is likely to make local deals better value than the hitherto more cost-effective all-edition deals.



	YoY Growth %	Rs. Cr. 2008
EDUCATIONAL INSTITUTIONS	26%	786
SOCIAL ADVERTISEMENTS	379%	719
PUBLICATIONS/ BOOKS	-2%	571
PROPERTIES/ REAL ESTATES	5%	554
INDEPENDENT RETAILERS	17%	549
CARS/ JEEPS	4%	435
EVENTS	23%	411
CORPORATE/ BRAND IMAGE	-11%	333
TRAVEL & TOURISM	21%	245
AUDITED/ UNAUDITED FINANCIAL RESULT	15%	244
Average = 8%		

** Social Advertisement refers to releases from government departments and ministries e.g. health, human welfare.*

Magazines
+12%, -4%

The Market

India has been one of the fastest-growing world economies for the past three years. Robust consumption and rising incomes have proved fertile ground for print media. The launch of niche brands on the one hand and new titles on the other led to a boost in magazines that began mid-2007 and continued in 2008. The year saw the launch of at least 20 new titles spanning different niche segments, attracting additional advertising investment sufficient to sustain the medium's 4% share of a rapidly-growing ad market while at the global level magazines have steadily lost share to online media. Many titles are still not covered in the syndicated AdEx tracking from Nielsen, so we use our own estimates and have corrected prior information accordingly.

The magazines advertising market was officially valued at Rs.730 cr. for 2007 and was projected to grow to Rs.803 cr. in 2008. These projections, however, did not account for new magazines that were launched after 2006. Taking these into account, we arrive at revised estimates of Rs.760 cr. for 2007 and Rs.850 cr. for 2008.

The Players

<u>The thrust in 2008 was on licensing</u>. Indian publishing houses have aggressively sought tie-ups with international publishers to bring existing titles into India rather than launching new titles of their own. It was seen as simpler and more economical to leverage the brand equity of existing titles such as GQ, Vogue and Rolling Stone.

Leading magazine publishing houses like Worldwide Media and India Today Group and many others are looking at these niche magazines as the way out in tough times and also as a means of keeping the reader hooked to their areas of interest. Most of the new magazines have also launched online editions which are free once the print edition has hit the stands.

<u>City specific Magazines and Splits</u> are being pushed aggressively in an attempt to make the content more relevant and topical. These magazines are, however, being either given away free at touchpoints like airport lounges or bagged with existing magazines in an attempt to get initial trials and create a reader base.

The Future

Given that most new initiatives recruit relatively few readers, syndicated readership studies continue to show declining numbers for magazines. If this was not enough, the ongoing global recession has amplified the fears that tough times lie ahead. The proposed new launches in the Automobiles sector and the impending entry of more Lifestyle and Luxury brands such as Armani into India will probably save the day for the respective magazine genres but might not do enough to lift the sagging morale of the sector as a whole. Corporate/ Brand advertising will reduce materially and IT and Services are expected barely to maintain their level of investment. This does not augur well for business magazines which are heavily dependent on these categories for their advertising revenues.

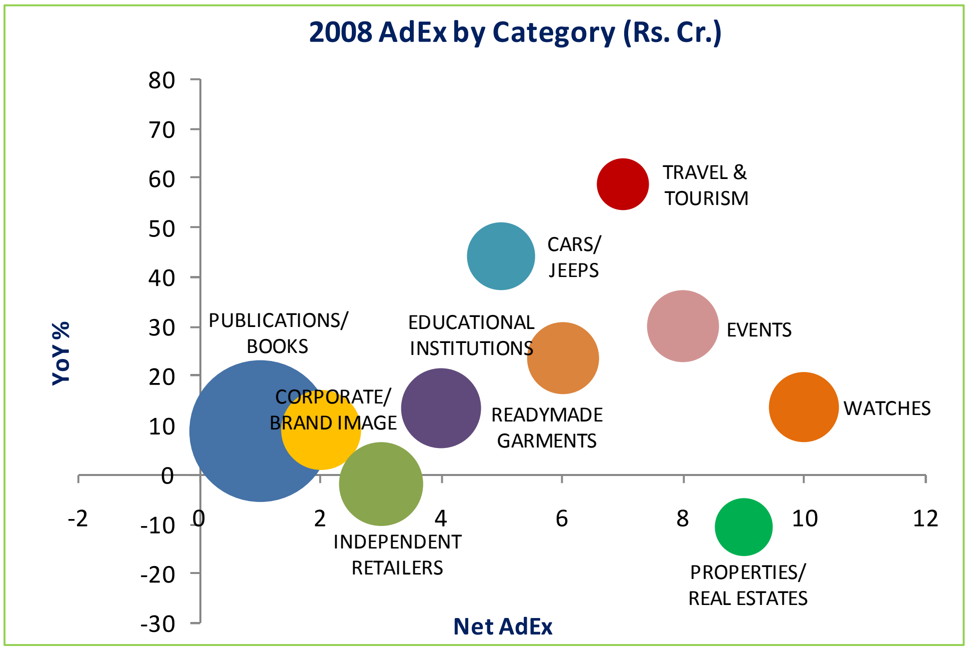
The regular advertisers from FMCG are likely to maintain their spends which means that women's magazines will not have to struggle to get advertising revenues in the foreseeable future.

<u>At an overall level, all signs indicate a drop in magazines revenues in 2009 from 2008.</u>

Magazines also face an increasing threat from other media which offer high reach-and-frequency options. With the launch of four new Hindi general entertainment TV channels in the past few months and many more regional channel launches in the offing, there is a glut of TV airtime inventory. New edition launches in newspapers and increasing internet penetration are just adding to the complication for magazines. As a result, the magazines market is likely to see intense price competition which may force out some of the smaller firms.

Magazines
+12%, -4%

The Union Cabinet cleared an Information and Broadcasting (I&B) Ministry proposal to allow foreign news magazines to bring out Indian editions effective September 2008. This has come as a shot in the arm for publishers in India waiting to launch magazines with foreign titles. The new policy will immediately benefit companies such as Network18 and Ananda Bazaar Patrika. The former has announced a tie-up to publish a fortnightly issue of *Forbes* magazine in India, and the latter plans to issue a local version of *Fortune*.



	YoY Growth %	Rs. Cr. 2008
PUBLICATIONS/ BOOKS	9%	88
CORPORATE/ BRAND IMAGE	9%	29
INDEPENDENT RETAILERS	-2%	31
READYMADE GARMENTS	13%	27
CARS/ JEEPS	44%	20
EDUCATIONAL INSTITUTIONS	24%	23
TRAVEL & TOURISM	59%	12
EVENTS	30%	23
PROPERTIES/ REAL ESTATES	-11%	15
WATCHES	14%	21
Average = 12%		

Television
+18%, +7%

The Market

The emergence of cricket as televised entertainment courtesy of the Indian Premier League and the successful launch and quick and sustained rise to ascendancy of the General Entertainment Channel (GEC) *Colors,* were the biggest events in Television in 2008.

The first outing of the *Indian Premier League* (IPL) based on T20 (20 overs a side) cricket format turned out to be a huge commercial success both on and off air. Aggressive marketing support, a snappy viewer-friendly format and the presence of movie stars as franchise owners made IPL the biggest blockbuster show on Indian Television in 2008. While top program ratings continued to tumble, cricket sustained its consistent performance. The lowest-rated IPL matches still delivered higher ratings than many of the top GEC programs. Though cricket viewership has traditionally been male-skewed, the T20 version broadened the audience base delivering high ratings even amongst the female TGs. This in turn made it more appealing to a host of new non-cricket advertising categories including FMCG. Unprecedented high advertising rates set a benchmark in IPL 2008 and are all set to go up even further in the 2009 edition.

On the other hand, long-running soaps and a new season of imported Reality/ Talent shows on mass channels floundered. Advertisers stalled at huge premiums demanded to offset big production budgets. With most of the new GEC players emulating the leaders in their programming, the overall GEC share remained more or less same while the audience base fragmented, eventually leading to softening of advertising rates in GEC content. The rate cuts were not however as steep as the fall in audience, so cost-per-rating point rose.

The prevailing economic conditions and their impact on marketing investments became visible in November and December 2008. Free Commercial Time (FCT) off-take of key channels remained stagnant or declined during the festive quarter of October-December 2008 as compared to the corresponding period in 2007. However, the non-discretionary nature of FMCG categories and their dependence on TV helped channels tide over the crisis to some extent.

The Players

The evolving viewer interests and the inability of leading channels to satisfy these took its toll on GEC shares which saw an 8% decline over the last two years despite a doubling the number of channels in the genre. However, the latest entrant, Viacom 18-owned *Colors*, had a dream launch and within 10 weeks became the number 2 behind *Star Plus*, pushing *Zee TV* to the 3rd spot. The success of the channel has been attributed to its (high-cost) disruptive content (male-skewed reality shows as anchor programs scheduled on weekday prime time), huge investments in distribution (ensuring presence in prime TV bands in the key markets covered by TV Audience Measurement system), aggressive marketing support and heavy cross promotion across group channels.

With the long-term objectives of leveraging their network strength and reducing dependence on the declining Hindi GEC genre, national players like Star TV and Zee Network expanded into regional markets like Maharashtra, West Bengal, Tamil Nadu, Kerala and Karnataka. Zee TV's Telugu and Kannada channels made their presence felt in 2008, while the Tamil channel faced distribution issues in Tamil Nadu. Star TV's, *Star Jalsha* had a remarkable launch in West Bengal and *Star Pravah* has also fared reasonably well in the Marathi GEC space.

The share of regional channels increased from 21% to 27%, but audience fragmentation due to new launches in genres like Comedy, Music and News, especially in the South has ensured that no channel can claim dominance of its genre. The southern market of Tamil Nadu, the biggest in the region, alone saw four major launches in 2008.

2008 also witnessed the launch of niche channels like *NDTV Lumiere, Showbiz, World Movies*, and *Firangi*, targeting the upmarket urban audience.

Television

+18%, +7%

The Product

Tentpole programming in the form of reality shows/ talent hunts lost their novelty value. Even the presence of popular film stars could not guarantee high ratings for shows like *Kya Aap Paanchvi Pass Se Tez Hai* (Star Plus) and *Dus ka Dum* (Sony). Similar trends were observed on regional channels. Hindi movie premieres also returned relatively lower ratings, possibly on account of faster home video releases of new movies at affordable price points.

Declining channel shares and increasing competition resulted in channels innovating with their program mix. Some of the longest-running serials on Indian Television like *Kyunki Saas Bhi Kabhi Bahu Thi* and *Kahaani Ghar Ghar Ki* were phased out, signifying the decline of melodramatic family sagas. Colors' reality show *Khatron Ke Khiladi* ensured sampling of the channel while fiction (Balika Vadhu) and mythology (Jai Shri Krishna) helped in retaining the audience. The success of *Balika Vadhu*, a realistic story which tackles a social issue (child marriage) has now opened the gates to similar offerings from competing channels.

The Audience

The number of Cable and Satellite households in India grew by 9% in 2008 (according to syndicated surveys). The Direct-to-Home (DTH) digital market is rapidly expanding in India and is currently estimated at 10 million homes. While the average time spent by a viewer remained almost constant at about 145 minutes/day, initial studies indicate that people spend more time and watch more channels in digital homes, in all dayparts. Once the DTH universe achieves critical mass, niche broadcasters will be in a better position to monetize the hard-to-reach upmarket viewers, through better-addressed promotions and advertising.

The Future

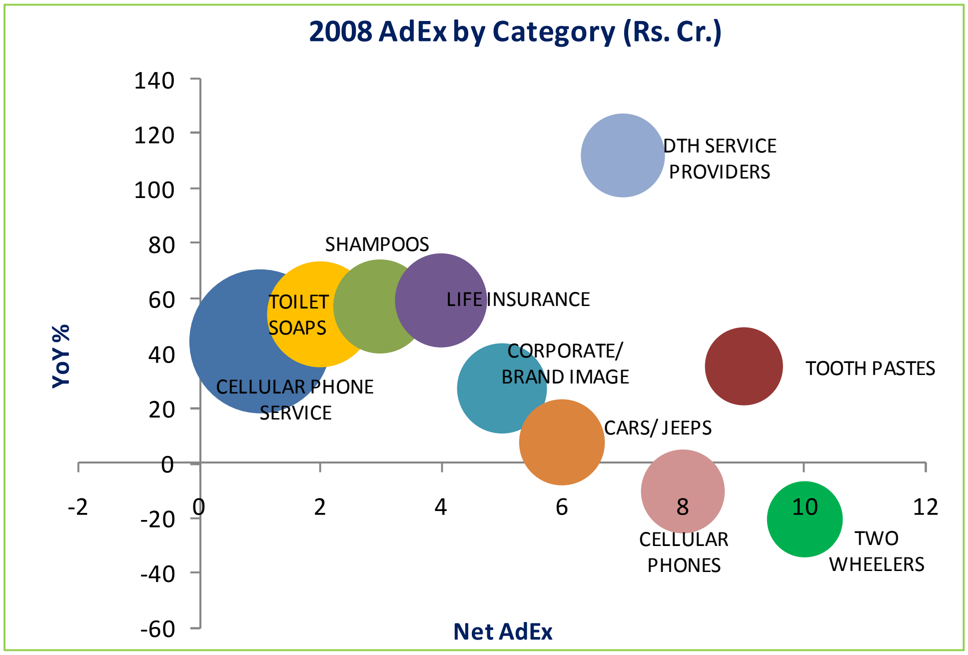
Advertising spends on television are expected to grow by 7% in 2009. The key drivers will be:

- The FMCG, Telecom and Education categories
- Advertising rate increases and audience fragmentation in key genres resulting in higher cost per contact
- Increased time spent at home resulting in higher viewership
- Increased hours of cricket telecast: potentially 33% more days in 2009 compared to 2008
- Regional and news channels' growth on the back of increasing regional focus of advertisers and elections resulting in an increase in advertising rates

Although we have already seen the launch of a new Hindi GEC *Real* in early 2009, the rest of the year is unlikely to see any major channel launches owing to the adverse economic conditions and ever-increasing entry and distribution costs. Accountability, network-wide deals and greater flexibility in offering tailored deals will set successful broadcasters apart from the rest. GECs will grow on the back of better advertising yields while erstwhile big-ticket money-spinning properties will face pressure.

Television

+18%, +7%



	YoY Growth %	Rs. Cr. 2008
CELLULAR PHONE SERVICE	44%	643
TOILET SOAPS	54%	351
SHAMPOOS	57%	276
LIFE INSURANCE	59%	274
CORPORATE/ BRAND IMAGE	27%	261
CARS/ JEEPS	8%	231
DTH SERVICE PROVIDERS	112%	223
CELLULAR PHONES	-10%	219
TOOTH PASTES	35%	192
TWO WHEELERS	-20%	186
Average = 18%		

Radio
+49%, +15%

The Market

2008 was another successful year for the radio industry which continued to grow at a rapid pace. Advertising spend on radio grew by a whopping 49%, from Rs.590 cr. in 2007 to Rs.880 cr. in 2008 and Radio's contribution to the overall AdEx rose from 3% in 2007 to 4% in 2008. The government-owned All India Radio (AIR) was the single largest contributor with revenue of Rs.290 cr., representing growth of 30% over 2007 primarily due to a hike in ad rates. The opening up of several new markets in 2008 resulted in growth of 62% for private FM (Frequency Modulation) players who contributed Rs.590 cr. The resultant increase in reach prompted advertisers to spend more on the medium.

National advertisers bought inventory across markets and are contributed to 70% of total revenue. The remaining 30% came from local advertising which in some cases accounted for 60% in smaller towns. The main categories advertising on radio have been Media and Entertainment, Telecom, FMCG, Services, Retail, Education and Automobiles. Financial Services and Real Estate, which were key contributors till 2007, have shown a decline in spends owing to the economic downturn.

The four cities Mumbai, Delhi, Kolkata and Bangalore, which are covered by the Radio Audience Measurement system (RAM), accounted for 55% of FM AdEx and Chennai, Hyderabad and Ahmedabad contributed to another 20%. Smaller and emerging markets are currently contributing about Rs.120 cr. to Radio AdEx.

Though advertising volumes have risen in the top metros during the year there hasn't been any growth in value. Rather, there has been a slight decline in value by 2% in the last quarter of 2008 in these cities.

The Players

About 80% of the FM stations licensed in January 2006 were on air by the end of 2008. There are currently a total of 238 FM radio stations from 40 broadcasters across 90 cities in India. More than half are in towns of under a million.

The players with the highest number of operational stations are Big FM with 44 stations, Radio Mirchi with 32 stations, Radio City and South Asia FM with 21 stations each and My FM with 17 stations. Due to a cap on the number of stations per broadcaster many large players have formed JVs with small regional owners in a bid to offer wider market coverage and to prompt national advertisers to spend more. Through these strategic alliances Big FM has 56 stations (the highest in the country) followed by Network 93.5 with 49 stations and Radio Mirchi with 42 stations.

The biggest revenue earners of 2008 are Radio Mirchi followed by Big FM, Radio City and Red FM in that order.

The Product

With continued restrictions on content, the entry of many new players has not really given the radio audience much variety in terms of programming. Radio stations have tried to build loyalty by differentiating on the basis of kind of music played and Radio-Jockey (RJ) speak. With an eye on high-spending advertising categories, most stations aim programming at a mass audience, especially in prime bands.

Besides plain-vanilla advertising spots, radio now offers content integration, brand mentions in woven into RJ editorial and on-ground activation directly involving the listener. This year 75% of total revenues came from spots; activations accounted for 10-12%; and Innovations brought in the balance 13-15%.

Radio

+49%, +15%

The Audience

The latest Indian Readership Survey (IRS) puts the reach of all radio in urban India at 24% and that of FM at 20%. The entry of private FM players has substantially boosted listenership especially in lower pop-strata towns. Listenership is largely skewed towards upmarket 15-30 year old men. The RAM system launched in October 2007 currently covers only the four cities Bangalore, Mumbai, Delhi and Kolkata and releases data weekly. Chennai and Hyderabad will soon join, giving advertisers metrics for the top six metros which account for the bulk of spends.

Given the limitations of available data, selection criteria for stations - especially in smaller markets – have typically included network availability and preference, positioning (i.e. programming type), market fragmentation, advertising spot rates and listenership data from IRS. A long-awaited electronic measurement system is likely to be tested in the coming year.

The Future

The next licensing tender is likely to attract bidding for 700 new FM channels in 237 cities, several not presently served by FM. Telecom Regulatory Authority of India (TRAI), the regulatory body for radio in India, has proposed many reforms which could stimulate revenue growth. Bidding is likely to take place only after the General Elections of May 2009, so most of these new channels will be operational only from 2010.

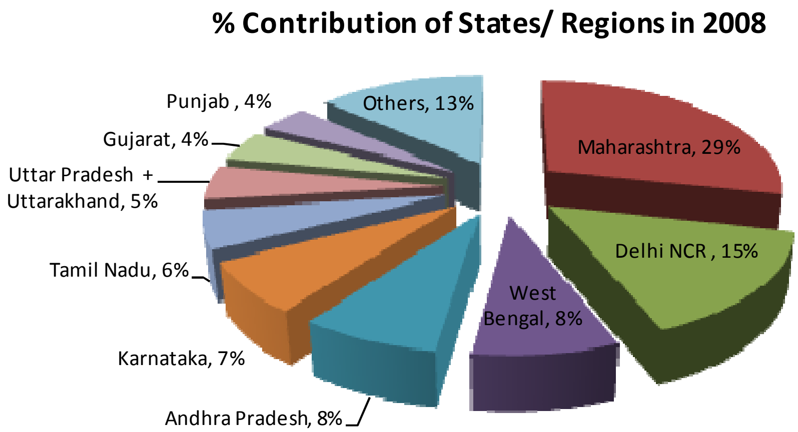
2009 will still see a revenue growth of about 15% which would have been a lot higher had it not been for the recession. Some argue that recession favors second-line media like radio and digital over more established media like TV and Print. The growth in Radio will be primarily driven by:

- Increased spends on radio from categories like Telecom, Media and FMCG who now have a more cost-effective option compared to TV and Print to reach more markets
- Radio being an effective and efficient medium for local advertisements, smaller markets will gain from categories like retail and education
- Six-city coverage by RAM, plus AdEx tracking, increasing credibility of the medium

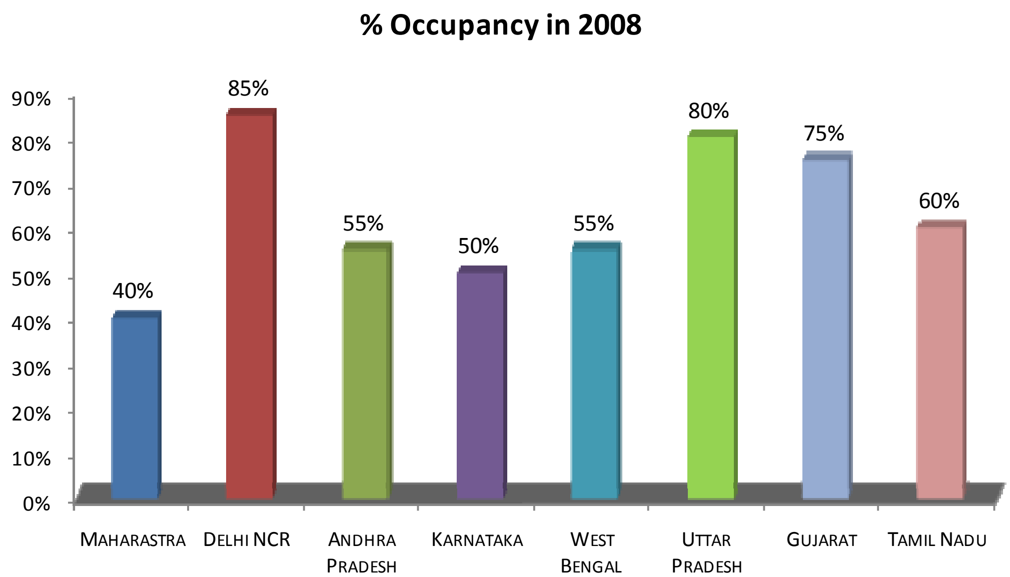
Outdoor
+4%, +4%

The Market

The Out-of-home (OOH) market grew by only 4% in 2008 and closed at Rs.1,448 cr., much lower than the Rs. 1,698 cr. we forecast. In India, about 70% of the OOH investment occurs in the first three quarters of the year with the remaining 30% coming in the last quarter. Q2 tends to be a lean period for most categories, especially the Financial Services category, which is one of the largest contributors to OOH AdEx. The economic meltdown severely affected key OOH markets (which contribute over 80% of AdEx) in Q4 resulting in heavily reduced spends.



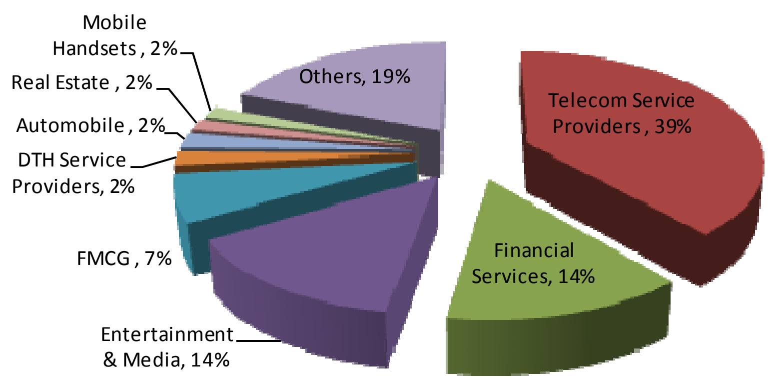
Maharashtra contributes about 29% of the total OOH AdEx, with Mumbai alone accounting for about 85% of all investment. Cities like Pune and Nagpur contribute another 10%, followed by the rest of Maharashtra. Mumbai was worst hit by the recession with 40% market shrinkage in Q4 of 2008 and inventory utilisation falling 60%.



Outdoor
+4%, +4%

Of the various categories advertising on OOH, the Financial Services segment saw a huge drop in spends. The key component of this category, Mutual Funds, saw a growth of 10% in the first three quarters but in the last quarter its contribution dropped by 40%. Consumer banking however continued to spend on OOH with many of the public-sector banks using the medium. Telecom service providers continued to spend heavily on OOH, both to build salience of new services in mature urban markets and to create brand awareness in new and nascent markets. The DTH category was a big new OOH user with the launch of three new service providers.

% Contribution of Categories in 2008



At the beginning of last year the industry was bracing for the “city beautification” initiatives of the municipal corporations which were to result in rationalization of OOH media and introduction of smarter formats. While newer formats have been introduced in some cities like Mumbai, Bangalore and Chennai, media rationalization has taken place largely in Mumbai only. One of the most drastic clean-up drives was in the state of Tamil Nadu (TN) where in April 2008 all hoardings were removed resulting in a 30% drop in investments over the next quarter. There was however no drop in the contribution of TN to the overall OOH industry due to escalating OOH media costs in the region.

The expected increase in OOH media costs due to the opening of new International Airports at Bangalore and Hyderabad did not materialize due to the high pricing of the media available coupled with the recession.

The Future

AdEx on OOH media is expected to grow by 4% in 2009 to Rs.1,500 cr. This will spring from a minority of categories, as a majority will spend less. The General Elections will occupy about 5-7% of AdEx in 2009, but we have not yet apportioned this predicted Rs 350 cr. effort between the individual media. Our predicted 'like-for-like' OOH growth of 4% will therefore rise once election activity is consolidated.

Amongst the categories that traditionally use OOH media, Telecom Service Providers will continue to be the biggest contributors to the medium. However, this year the growth will not come from traditional players like *Airtel, Vodafone, Reliance* and *Tata Indicom*, but from other players like *Idea, Aircel* and *Virgin*, all of whom are expanding to newer markets. In addition to this some growth is expected due to the launch/re-launch of players like *Shyam Telecom, Unitech, Datacom and Loop*. Other categories that are likely to show a surge in spends will be DTH Services, Automobiles and Mobile handsets. Categories like Hospitality and Healthcare that increased spends in end 2008 and early 2009 are likely to grow through the year, while others like Financial Services, Media and Entertainment are likely to show a drop in spends in 2009.

While the metros will be the largest contributors to the category, the contribution of Tier-II towns having already risen from 25% to 27% in 2008, will continue to grow in 2009.

Outdoor
+4%, +4%

Regulation will continue to impact the industry in 2009. The Mumbai beautification project affects placement and size, and prohibits all OOH around residential and coastal zones. This will damage investment severely. In Tamil Nadu new formats will be introduced across markets after the General Elections. This will give an impetus to the medium through a combination of better-quality formats and an increase in total number of media options available.

Given that the market is in a state of recession, media inflation is unlikely, though select formats (like JC Decaux bus shelters) will continue to command a premium.

The Airport Authority of India is revamping about 35 airports in the country. However, the overall contribution of airports to the AdEx is unlikely to change significantly and will hover around the Rs.200 cr. mark, as many of the large airports are not likely to see any significant change in media investments this year.

Digital
+74%, +25%

The Market:

Digital, comprising Internet and Mobile, continues to be the fastest growing medium in the country albeit a small contributor to the overall AdEx. In 2008 this medium grew by 74% to Rs.680 cr. Digital media will be much less-affected by the economic slowdown than other media.

The key reasons for this steep growth are:

- **Increase in User Base:** The user base increased to 45.3 million by September 2008 as per the latest Internet and Mobile Association of India (IAMAI) report. 42 million are urban and the remaining 3.3 million rural
- **Broadband Penetration:** As per Telecom Regulatory Authority of India's (TRAI) report broadband subscribers increased to 5.85 million by February 2009. Consumption of digital media is likely to go up with increased broadband penetration
- **No more a Niche medium:** Digital is no more a niche medium and reaches the length and breadth of the country. Increased mobile subscription holds good promise for interactive advertising, and the medium is well-established across up-market demographic
- **Growing Stickiness Index:** The time spent on the medium is increasing. Not only are the consumers spending more time on the internet, but two-thirds of the active internet users are accessing the medium two to three times a week according to the IAMAI
- **Performance Advertising:** The medium offers measurability and better ROI for advertisers. This becomes critical given the current economic outlook, when performance advertising is top priority for most advertisers
- **Consumer Engagement:** Unlike other media like TV which are *lean-back,* digital is a *lean-forward* medium offering greater engagement with consumers

Early advertisers used digital for awareness and lead generation but now it is increasingly becoming a part of many more media plans and widely used by top categories and advertisers. Though the advertising outlays are still low, they are on the rise due to the performance-oriented nature of the media, high levels of consumer engagement and rapidly increasing consumer base. Financial Services and Consumer Durables use the medium to generate leads, FMCG is using it to create consumer engagement, while Travel is using it to drive online sales.

The leading advertisers in the Digital space are ICICI, Citibank, HSBC, LIC, Maruti Udyog, Reliance ADAG, Airtel, HUL, Naukri.com, Shaadi.com, Bharat Matrimony, Nokia and Make-My-Trip.

The Players

Portals

Portals can be divided into three broad categories – *Search Engines* like Google, *Horizontal Portals* like Yahoo and *Vertical Portals* like MoneyControl. The key players in this segment are Google, Yahoo, Rediff, MSN, Times Internet, Web 18, Naukri.com, Shaadi.com and Cricinfo.com.

Most portals offer standard Online media options like Banners and Widgets for delivery.

Ad Networks

Advertising Networks have come up in the digital space in the last 2-3 years. They play the role of aggregators and work as a bridge between audience and publishers enabling marketers to reach their audiences. There are 15 ad networks in the country, some of the leading ones being Komili, Tyroo, Tribal Fusion, Ozone Media, Ad Magnet and Network Play.

Digital
+74%, +25%

Ad Networks offer a cluster of websites instead of just the top 5-6 sites for a Target Group and have the ability to place ads over a wider spectrum offering greater depth in reaching customers as against stand-alone portals. They also offer choices in terms of verticals like Travel, Finance etc. and hence access to consumers with specific tastes and preferences.

Mobile Phones

Though comparatively a nascent medium, mobile phones have the potential to become a stand-alone media option in the next 2-3 years, provided there is right service provider support.

The medium is gaining popularity due to high level of measurability and one-to-one consumer engagement. 3G has already been launched in a limited way and awaits national roll-out later in 2009. IPTV and Mobile TV are also being experimented with.

Social Media

Social networking sites like Orkut and Facebook continue to be a hub of youth activity. Their ever-increasing user base is an indication of the popularity of these sites. Beside these, multiple social networking sites have emerged over the last 2-3 years, some localized and others focusing on specific verticals like Travel, Backpacking and Night Life/ Eating Out.

Communities and Blogs continue to be popular especially amongst the youth. The use of such communities, blogs and messaging was highlighted by their ability to mobilize support and aid during recent incidents like the Mumbai terrorist attack. Advertisers are also seeking these avenues to connect with consumers and there are some recent examples of advertisers using Digital Media to create socio–political awareness against the backdrop of the impending General Elections.

The Future

Growth will be driven by Search Engine Marketing, Mobile Advertising and Content. Display advertising will continue to be a large contributor to the AdEx, but will not grow much in 2009.

Search: Search advertising will grow much more as advertisers look for performance advertising and also because it creates the opportunity for greater engagement compared to straight display advertising

Social Media: Social networking sites, blogs and communities will continue to grow and attract consumer interest. Advertisers are increasingly likely to use these websites, as they attract more and more visitors

Branded Content: Opportunities to generate branded content will be sought by advertisers looking for engagement and interactivity. This could evolve into a significant revenue source

Portal: At present there is no service provider linked portal in the country which offers content across Internet and Mobile Phones. As 3G mobile devices and infrastructure improve, there is more incentive for leading telecom operators to launch such a portal

Longer-term drivers for the media include:

Government and Global Initiatives: Initiatives like one laptop per child and efforts to drive prices down with new technology will increase PC penetration and literacy and drive internet consumption

ROI and Engagement: Advertisers are likely to explore the media aggressively in current economic scenario due to the high measurability and engagement offered

Digital
+74%, +25%

3G and Advanced Mobile Devices: Introduction of 3G coupled with newer advanced handsets utilizing technology like Intel's Atom Processor, Mobile Internet Devices (MID) and Ultra Mobile PCs (UMP) will change the dynamics of the game drastically. This will blur lines between PCs, Laptops and Mobile Phones

Regional Language Content: Availability of content in Hindi and regional languages will drive usage

Cinema
+7%, +5%

The recession expectedly saw this medium being negatively impacted as it is not seen as an 'essential' to advertising. However, there are a few players in the market who plan to drive the usage of this medium with the continued expansion of multiplexes and digital cinema theatres. This is expected to bring in revenue into the medium which will result in a growth of 5%, albeit from a small base.

Cinema spends in this report do not include on-ground activation spends in cinema locations.

Retail Media
+39%, +2%

The Market

Retail Media, boosted by the growth of organized retail, continues to grow in India. The medium grew by around 40% from Rs.225 cr. in 2007 to Rs.312 cr. in 2008, slightly lower than our estimated growth of 51%.

All organized retail chains now offer retail media solutions in their stores. *Future Media* was a pioneer and continues to dominate the market. Other key players include chains like *Shoppers Stop*, grocery retail chains like *Reliance Retail* and *More*, and coffee chains like *Café Coffee Day*.

Malls are evolving from being mere shopping destinations to being family entertainment centers for a full day of activity offering shopping, movies, food and amusement for the whole family. The continuous increase in the number of malls across India and the resulting increase in the number of stores will lead to a growth in inventory this year. Facades and Show windows, Displays and Shop-in-shops will continue to be the most used elements of retail media.

Media space in Multiplex and Cinema halls continued to be a popular spot to connect with families. The use of a combination of static media and activation will continue to drive the use of these spaces.

A critical factor in driving this medium has been the ever-increasing spending power of youth in places like coffee shops, quick service restaurants like McDonalds, and music stores. These formats will continue to attract youth-oriented brands that seek to connect with the target groups frequenting these spaces.

Categories that have shown interest in using retail media are Cellular Service Providers, Handset Manufacturers, Lifestyle, Personal Care and FMCG, Banking, Finance Services and Insurance and Automobiles.

The medium is used by advertisers largely to promote new product launches and offers and to some extent for imagery by personal care and lifestyle brands especially through use of Facades.

The medium suffers from several barriers to growth. These include disorganized selling; absence of industry benchmarks; inconsistent pricing; and vendor reluctance to invest in research and consumer understanding. A limited understanding of the Medium, and, Planning and Implementation flaws only make things worse. Advertisers, retail media owners and vendors still struggle to classify the medium. While some treat it as OOH for its offering facades and show windows, others view it as a part of terms-of-trade. Investment decisions are therefore largely perception-based rather than based on data and logic, with very little focus on the consumer's interaction with the brand.

Retail Television

Retail Television or venue-based television is emerging as a key component of retail media and there has been a proliferation of players like *Future TV, OOH Media, Live Media* and *TAG Media* in the last three years. There was a rapid expansion in inventory in the first half of 2008, which slowed down in the second half of the year as investment funds dried up.

It is expected that while the top 2-3 players will continue to expand at a slower pace in 2009, the overall increase in inventory in is going to be minimal. There is high likelihood of consolidation in this space, as it has too many players struggling to achieve break-even on a limited AdEx base. Measurability of impact of retail TV continues to be the biggest barrier for the medium as it is unclear how this medium adds value over conventional TV advertising. Lack of tailor-made content and its use as a stand-alone medium also continue to hamper its growth.

Retail Media
+39%, +2%

Rural Retail

Rural retail is the next big thing to watch out for in the coming five years. This will be fueled by an increase in purchasing power, changing consumption patterns, improved access to information and communication technology and improving infrastructure in the rural markets to access over 720 million consumers across India. The rural retail market is estimated to pass Rs.215,000 cr. by 2010 and Rs.290,000 cr. by 2015, according to a study by the Confederation of Indian Industry (CII)-Yes Bank.

The DCM Sriram group is at is at the forefront in offering a superior retail experience in rural India through their Hariyali Kisan Bazaars, along with an opportunity to communicate with difficult to reach consumers in these market through retail media and activation opportunities. With 300 stores up and running, they have rapid expansion plans in the pipeline.

Some of the other players in this market include ITC (Choupal Sagar), Tata (Kisan Sansaar) and the Pantaloon Retail-Godrej JV (Aadhar).

Luxury Retail

According to the FICCI-Yes Bank report, India has the most rapidly growing high-net-worth individuals' (HNI) population in the world, and the income level of consumers is expected to grow three times by 2025. The Indian Luxury retail market, estimated to be the 12th largest in the world, has been growing at the rate of 25 per cent per annum and is estimated to touch Rs.145,000 cr. by 2015, according to a recent survey by AT Kearney.

The rise of Luxury Retail indicates increasing consumption and improved spending by consumers. This is likely to lead to increase in the use of retail media by luxury brands in the next few years.

The Future

Given the current economic crisis and liquidity crunch, most advertisers are likely to concentrate on their core media and be less experimental. As retail is yet to establish itself as a medium of choice for most categories, it is likely to take a hit when advertising budgets are allocated. In spite of this retail media is estimated to grow marginally in 2009 to reach Rs.318 cr. Media available in organized retail spaces is expected to contribute about 5-7% of the total Retail Media AdEx in 2009.

The key drivers for this medium will be:

- <u>Better Mall Management and Development</u> due to presence on national level developers and in most cases the presence of multinational JV partners with international experience in creating a better shopping experience to consumers
- <u>Spread of Malls and Multiplexes to Tier-II and Tier-III cities</u> like Ludhiana, Lucknow, Indore, Nashik, Kanpur and Amritsar
- Fast Food Chains like Pizza Hut, Domino's, and McDonalds having tasted success in the metros are now bullish about setting up outlets in Tier-II and Tier-III markets. Coffee chains like Café Coffee Day are already in an expansion mode. This will increase the market reach of retail media
- <u>Reduction in space Rentals</u> due to the economic slowdown. This will help improve the bottom lines of retailers and also aid their expansion plans

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