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WEB SITES
EARN 2004/2005

Borrell Associates Inc.

MARCH 2005

What Local Web Sites Earn: 2005 Survey

*Third Annual
Benchmarking Report*

EXECUTIVE SUMMARY ONLY



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Acknowledgements

We would like to thank the newspaper, TV, radio and pure-play Internet company executives who placed their confidence in Borrell Associates by sharing their revenue data for this report. Their willingness to participate underscores their interest in helping their companies build their local Web presence in a competitive marketplace.

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Introduction

This is our third year conducting this survey. Each year we've broadened our base of participants and sharpened our focus on what to ask and how to ask it. That is to say, the survey is a work in progress as we try to paint a clear and accurate picture of what's happening with local Internet advertising. The survey, like local online advertising, continues to evolve.

This report analyzes Web revenues for 2,177 local media properties, three times as many as last year. The breakdown is as follows:

Site Owner	# in Survey	% of All
Daily Newspapers	567	38.9%
Weekly Newspapers	152	2.0%
Radio Stations	1,113	11.1%
TV Stations	333	44.4%
Local Pure-Play Co.	12	Na

The newspaper and TV data are projectible because of the large sample size. The benchmarking for radio stations, as we've noted in Chapter 3, must be viewed as analysis "for stations that sell advertising on their Web sites" and not for all stations. We collected the weekly newspaper and local pure-play data for anecdotal purposes and did not conduct significant analysis on those results. Canadian weekly and daily newspapers are included in the totals, but there weren't enough of them this year for separate analysis.

This survey includes more information than last year's. We did not include analysis in this report on all data collected, but will use it for reports throughout the year. This year's survey provided information on:

- Revenue
- Expenses

- Revenue attributed to employment, automotive and real estate sales
- Revenue attributed to national advertising sales
- Percentage of revenue driven by “up-sold” print or broadcast advertising
- Percentage of revenue derived from “listings”
- Percentage of revenue derived from banners
- Average CPM for national and average CPM for local banners
- Number of dedicated (online-only) salespeople
- 2005 budget projections for all of the above

By combining the information with our WebAudit™ spending estimates for each market, we were able to get a market-by-market glimpse at how well these newspapers, radio and TV stations are competing with the national pure-play Internet companies for local ad dollars.

Participation was confidential. We therefore do not furnish the names of participating companies, nor do we reveal market-specific data. You'll find a description of our methodology in Appendix A.

Executive Summary

Spending on local online advertising accelerated in 2004, growing to \$2.7 billion, a 28% increase over 2003. The growth is expected to accelerate even more this year, mushrooming by 46%, to \$3.9 billion.

The excitement hasn't been lost on old-line media. Newspapers, TV stations, radio stations and Yellow Pages publishers are turning to the Internet to boost sagging audience numbers and profits. Newspapers have made a science of it. Their online operations – which last year grew to a \$1.19 billion industry segment – represented roughly 3% of company revenues but as much as 45% of an individual company's advertising growth.

Radio and TV stations have begun to sit up and pay attention, too. Just a few years ago, the Internet was seen as little more than an opportunity to promote a station's programming and talent. In 2004 it became far more than that. TV stations grew their Internet ad revenues 58.7% last year, to \$119 million. Radio stations grew theirs nearly twofold, to \$34 million.

This newfound focus on building up local Web sites has brought impressive results. Traditional locally based media companies control about half of all local online advertising, building those revenues mainly by up-selling their current print and broadcast customers. But it's the old glass-half-full analogy: The flip side is that pure-play Internet competitors such as Google, AutoTrader.com and Monster.com control the other half.

Two key indicators suggest that the growth seen in 2004 will not abate anytime soon. First, local ad budgets will continue to sync with the audience: While more than three-fourths of consumers regularly use the Internet, local advertisers spent just 2.1% of their ad budgets there in 2004. Second, the ratio between national and local online advertising will continue to sync as well: The traditional split between nationally placed and locally placed advertising is roughly 50-50. Of the \$11.9 billion spent on online advertising in 2004, the split was 77-23.

To maintain their grip on this rolling marketplace, local media companies will have to maintain brisk revenue growth. Average growth in 2005 is expected to be 46%; sites that grow below their overall market growth will lose share. For traditional media companies, that means lessening their dependence on bundling print or broadcast advertising with online advertising, and adding online-only sales positions. Future online growth for them is likely to come from using the Internet to reach out to that large segment of advertisers that don't currently do business with them.

KEY STATISTICS FROM THIS REPORT

LOCAL ONLINE ADVERTISING¹

2002 Ad Spending: \$1.65 billion
2003 Ad Spending: \$2.1 billion
2004 Ad Spending: \$2.7 billion
2005 Ad Spending Projection: \$3.9 billion

NEWSPAPERS

2002 Online Revenue: \$655 million
2003 Online Revenue: \$811 million
2004 Online Revenue: \$1.19 billion
2005 Budgeted Revenue: \$1.52 billion
2004 Average Market Share Per Newspaper Site: 18.1%
2004 Average Revenue Per Unit of Print Circ.: \$25.97

RADIO STATIONS

2002 Online Revenue: NA
2003 Online Revenue: \$18 million
2004 Online Revenue: \$34 million
2005 Budgeted Revenue: NA
2004 Average Market Share Per Radio Site: <1%
2004 Avg. Rev. Per-Station²: \$8,232 (small station), \$73,765 (lg.)

TV STATIONS

2002 Online Revenue: \$55 million
2003 Online Revenue: \$75 million
2004 Online Revenue: \$119 million
2005 Budgeted Revenue: \$196 million
2004 Average Market Share Per TV Site: 1.5%
2004 Average online revenue per TV household: \$0.44

¹ Definition: Advertising placed by locally based businesses for locally focused online messages.

² Of those stations that generate Internet advertising revenue.

APPENDIX A

Survey Methodology

We solicited participants via telephone and e-mail in late January and early February 2005. Those who agreed to participate were sent a spreadsheet (see next page) with 26 data-entry points. We requested online-only revenue, factoring out that portion attributed to a broadcast or print schedule. Since the "online-only" revenue issue can be interpreted differently by different managers, we followed up some of the entries with telephone interviews and email inquiries.

Participants were promised confidentiality. We never reveal the names of participants, nor do we disclose individual or market-specific data. Our first year of research included 403 newspapers and TV stations. The second year it was 711. This year we covered 2,177 properties. The breakdown is:

Site Owner	# in Survey	% of All
Daily Newspapers	567	38.9%
Weekly Newspapers	152	2.0%
Radio Stations	1,113	11.1%
TV Stations	333	44.4%
Local Pure-Play Co.	12	Na

We combine the database of local media properties with what we know about national Internet companies that are tapping "local" dollars to get a market-by-market estimate of "share." These include Google, Realtor.com, Autotrader.com, Autobytel, RegionalHelpWanted.com, Monster.com, etc.

In addition, we have a proprietary database of spending by local advertisers that allows us to gauge the amount of national and local advertising flowing through any local market, down to the county level. This database tracks \$2.7 billion spent last year by local advertisers and \$7.8 billion spent by national advertisers.

2005 Borrell Associates Inc. Web Site Revenue Survey

Please complete and return to Borrell Associates. *Thank You!*

Complete All Yellow-Shaded Areas		
Name of Property [Note 1]:		
Internet Revenues	Actual 2004 [Note 2]	Budgeted 2005 [2]
National Advertising [3]	\$	\$
Automotive-Related	\$	\$
Real Estate-Related	\$	\$
Recruitment-Related	\$	\$
Other	\$	\$
Total Revenues	\$	\$
Total Expenses [4]	\$	\$
% of total revenue from display or banners	%	%
% of total revenue from listings or listings enhancements [5]	%	%
Estimated % of gross revenue from upsells [6]	%	%
Number of online-only salespeople [7]		
Average CPM for locally-sold banners [8]	\$	\$
Average CPM for any nationally-sold banners, pop-ups, etc.	\$	\$

All responses are confidential and used only in aggregate. We never reveal the names of participants or individual data points.
Enter a Zero if the response is actually Zero. Leave field blank if you do not know.
Still have questions? Call 757-686-8769.

Notes

- [1] Name of principal property (newspaper, TV, radio station) or, if a pure-play, name of Web site.
- [2] These must be Internet-only revenues. Include only the Internet portion of any combo packages.
- [3] Any revenue received from participation in a national sales network (e.g., Google's AdSense, RealCities, WorldNow's national sales network)
- [4] All expenses associated with your Internet operation as listed on your P&L.
- [5] ALL listings-based revenue and revenue from added logos, photos, boldface type, hotlinks, etc.
- [6] % of all revenue that is driven by an existing print or broadcast sale to which an online feature is added.
- [7] The number of salespeople who work exclusively for your online operation. Include sales managers only if that person's job also includes selling. Fractions accepted (e.g., 2.5 people). Do not include print or broadcast salespeople who also happen to sell online.
- [8] Cost Per Thousand (CPM) rate for banners sold locally. Do not include national CPM rates.

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Borrell Associates Inc.

Borrell Associates Inc. is a Virginia-based research and consulting firm that tracks local Internet advertising. Its WebAudit™ service delivers detailed online spending data for any local market. In addition to the expertise offered by our top-level associates, our primary strength is fact-based analysis. Additional research reports can be found on our Web site, www.borrelassociates.com.

We would appreciate your feedback on this report. E-mail us at info@borrelassociates.com.

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