# HARD SELL

**Ongoing political turmoil in key markets, the lack of a reliable audience measurement system and the lingering impact of the recession are dampening confidence in the MENA television advertising sector, finds Aaron Greenwood.**

The political tensions in key MENA markets in the first six months of 2011 have tarnished predictions of a recovery in television advertising spend for the rest of the year.

The latest ZenithOptimedia report, detailing global advertising expenditure, showcases the severe impact the Arab Spring has had on advertisers, particularly in respect to planned pan-regional campaigns.

The market research firm has revised its initial forecast of 0.1 per cent growth in advertising spend across all media, to a 12.1 per cent overall revenue drop compared to 2010. Given that free-to-air (FTA) television continues to account for a significant slice of the pan-Arab advertising pie, this spells bad news for a broadcast industry still reeling from the effects of the '08 recession.

On the upside, the company now forecasts an 8.9 per cent rebound in advertising expenditure in 2012, compared to the 4.8 per cent estimate revealed in April. However this forecast is indelibly tied to greater political stability across the region - a factor which, for now, remains uncertain.

Emmanuel Durou of consultancy firm Value Partners believes the combination of political instability and low consumer confidence will ensure it is still some time before TV advertising revenues recover to pre-2008 levels: "After a significant drop in TV advertising revenues in 2009, ad spend recovered only slightly in 2010. This year the situation has been severely impacted by political events, particularly in Egypt, which is the third-largest TV advertising market in the MENA region.

"While we expect to see growth in some countries – particularly the UAE, Saudi Arabia and Qatar – overall ad spend will only experience moderate growth, and the absolute numbers will still be 10 to 15 per cent lower than those recorded prior to 2008."

Durou believes that a lasting impact of the recession has been to recast traditional media boundaries, forcing a shift towards online and digital platforms as advertisers demand greater bang for their buck and seek to differentiate their brands in the marketplace. "Television was impacted in the same fashion as other traditional mediums," he says. "The recession accelerated the move towards BTL (below the line) marketing and new forms of advertising with more measurable return on investment (ROI), particularly in the digital space."

This trend has led many of the region's biggest broadcasters to accelerate the rollout of new digital services in a bid to shore up existing revenues, while offering big spending advertisers new platforms designed to increase audience penetration.

However, given the current state of the market, the perceived value of these services remains greater than their actual contribution to overall revenues for many broadcasters.

At the forefront of this trend are mobile television services pioneered by the likes of pan-Arab broadcasting giant MBC.

"The rise of mobile TV and mobile services in general have had minimal or zero impact to date on the advertising sector," concedes MBC's head of mobile services Zeina Moghrabi. "TV will always be the conventional platform (for advertisers). Similarly to online advertising a few years back, mobile advertising remains a non-conventional approach."

Despite this, Moghrabi believes in the mantra that if you build it, the advertisers will come. "While the mobile advertising market is still relatively immature, we anticipate significant opportunities to arise over the next couple of years," she says. "Our mobile TV services have achieved considerable growth in popularity over the past three years. As a result MBC has increased its investment in these services, having established a mobile entertainment brand called MoBC."

**8.9%**
**Projected ad expenditure rebound in 2012**

Bassam Rizk and Jassim Ali from Omnicom Media Group (OMG) MENA, one of the region's biggest advertising and marketing agencies, agree that mobile TV's potential as a potent advertising medium remains in a state of flux. "Mobile TV hasn't reached the critical mass required to gain traction with advertisers," concedes Ali, OMG MENA's regional director for digital development. "The only countries that have achieved success in this area are Japan and South Korea, both of which boast world-class mobile broadband infrastructure."

"Given that digital media investments are not tracked here, the real value of mobile advertising investments are even harder to assess," says Rizk, Integral-OMG's business intelligence manager. "Suffice to say, it's probably nominal as a share of the total amount invested in brand communications in this region."

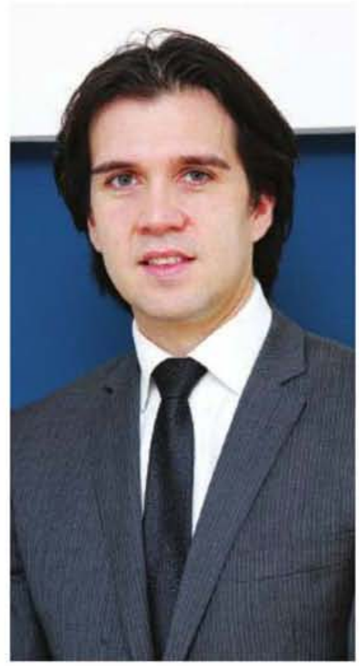
"We are only now witnessing the birth of IPTV, the launch of 3D TV, Smart TV and Mobile TV services," adds Ali. "These platforms are very much in their infancy, and will have little impact on the advertising sector until they reach maturity. The penetration of mobile devices, particularly handsets, smartphones and tablets, indicates that regional consumers are keen to embrace new technologies, and the advanced services provided by telcos will only serve to increase demand.

"If the pricing is right and the consumption of mobile content reaches significant levels, then advertisers will follow the eyeballs and embrace mobile platforms. But the industry needs to walk before it starts running."

Rizk and Ali believe that the rise of these new digital services stand to benefit the region's pay TV providers more so than their FTA counterparts, who already account for the lion's share of regional advertising spend. "Clients are becoming more accustomed to pay TV where advertising rates are still very cheap due to the relatively low reach," says Ali. "However, the development of mobile and IPTV services (by pay TV broadcasters) could increase the number of pay TV subscriptions."

"Pay TV remains a niche service in most countries around the world and so it proves here," adds Rizk. "If a pay TV audience profile is of interest, both from a quantitative and qualitative point of view, then it has a place in advertisers' plans. Clearly, all of these new technologies entering the market are designed for consumers who value their entertainment and are willing to pay for it. The key question is whether they are more engaged and receptive as a result."

One person hoping for a positive response to these queries is David Butorac, CEO of the MENA region's largest pay TV broadcaster, OSN. The firm has invested heavily in developing a new digital hybrid distribution platform encompassing satellite, mobile and online services, which it expects to launch later this year.



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**EMMANUEL DUROU**
Senior engagement manager, Value Partners

While OSN currently receives the bulk of its revenues from subscriptions, Butorac says it hopes to increase its appeal to advertisers by extending the reach of OSN across multiple platforms.

"Our new digital platform will undoubtedly appeal to advertising clients looking to deliver their message across a number of devices. It's important for us to offer this opportunity to stay ahead of the game," he explains.

"Advertising for any multi-channel platform is only ever going to contribute a relatively small percentage of overall revenues by comparison to subscriptions, but that's the joy of the pay TV model. However in saying that, every million dollars counts and we certainly make several out of advertising.

"This region is no different to any other market in the sense that we have to educate advertisers about the potential of the pay TV demographic compared to the FTA demographic. We can deliver a niche, well-defined audience for advertisers compared to the mass market approach delivered by FTA broadcasters.

"Our advertising revenues are accelerating at a greater rate than the advertising market is growing itself, which shows our message is getting through to advertisers about the power of the multichannel platform."

While Butorac agrees that integrated advertising campaigns distributed across multiple platforms are not yet as sophisticated in the Middle East as they are elsewhere, "the rate of development is going to increase spectacularly in the coming years.

"The average age of consumers in this region is younger than most other markets and the take-up of new technologies is greater, which means the acceptance of new distribution models is going to be greatly enhanced," he adds.

Like many of his peers in the broadcast sector, Butorac believes MENA advertising revenues are ultimately being hamstrung by the ongoing lack of a viable audience measurement system: "The television advertising market in the MENA region is relatively unsophisticated because there is no reliable audience measurement system in place, and until this situation changes, the market is going to remain distorted based on the particular habits of certain media buyers.

"There needs to be an accurate audience measurement system in place to allow this market to really shine," he adds. "Advertising revenues in this region are significantly undervalued compared to what they should be, because advertisers rightly say 'we don't really know what people are watching.'"

Butorac's opinion is supported by ZenithOptimedia research, which concludes that despite being home to around seven per cent of the world's population, the MENA region accounts for just one per cent of global advertising revenues. The statistic is even more astounding when taking into account the high net worth consumer markets of the GCC.

Butorac believes the situation regarding a ratings system is unlikely to change while "the vested interests who want to maintain the status quo continue to win out.

"The GCC markets are hugely valuable from an advertising perspective," he adds. "Saudi Arabia is obviously a huge market both in terms of population and consumer buying power. Despite this, the market is hugely undervalued because of the lack of a ratings system. The UAE and KSA governments are pushing towards the adoption of an accurate (measurement) system and we and other broadcasters are strongly supporting this campaign."

**12.1%**
**Projected ad revenue drop, 2012**

Durou, meanwhile, argues that IPTV services are ideally placed to capitalise on the ongoing dithering over a pan-Arab ratings system. "In theory, both mobile and IPTV services are enhanced advertising propositions.

In the case of IPTV, contrary to the current situation faced by FTA satellite, advertisers can gain access to an abundance of information about viewers allowing them to better target their ads to specific consumer demographics," he says.

"What is lacking in the satellite world, where targeting is virtually impossible even at a regional level, is proving a reality with these new platforms."

Despite this potential, Durou concedes that IPTV's lack of penetration in the region will ensure it remains less of a mass-market proposition: "IPTV remains a relatively niche platform internationally and in the region. In the most successful markets like France and Hong Kong, IPTV has managed to penetrate more than 30 per cent of households.

"This region is no exception," he adds. "A

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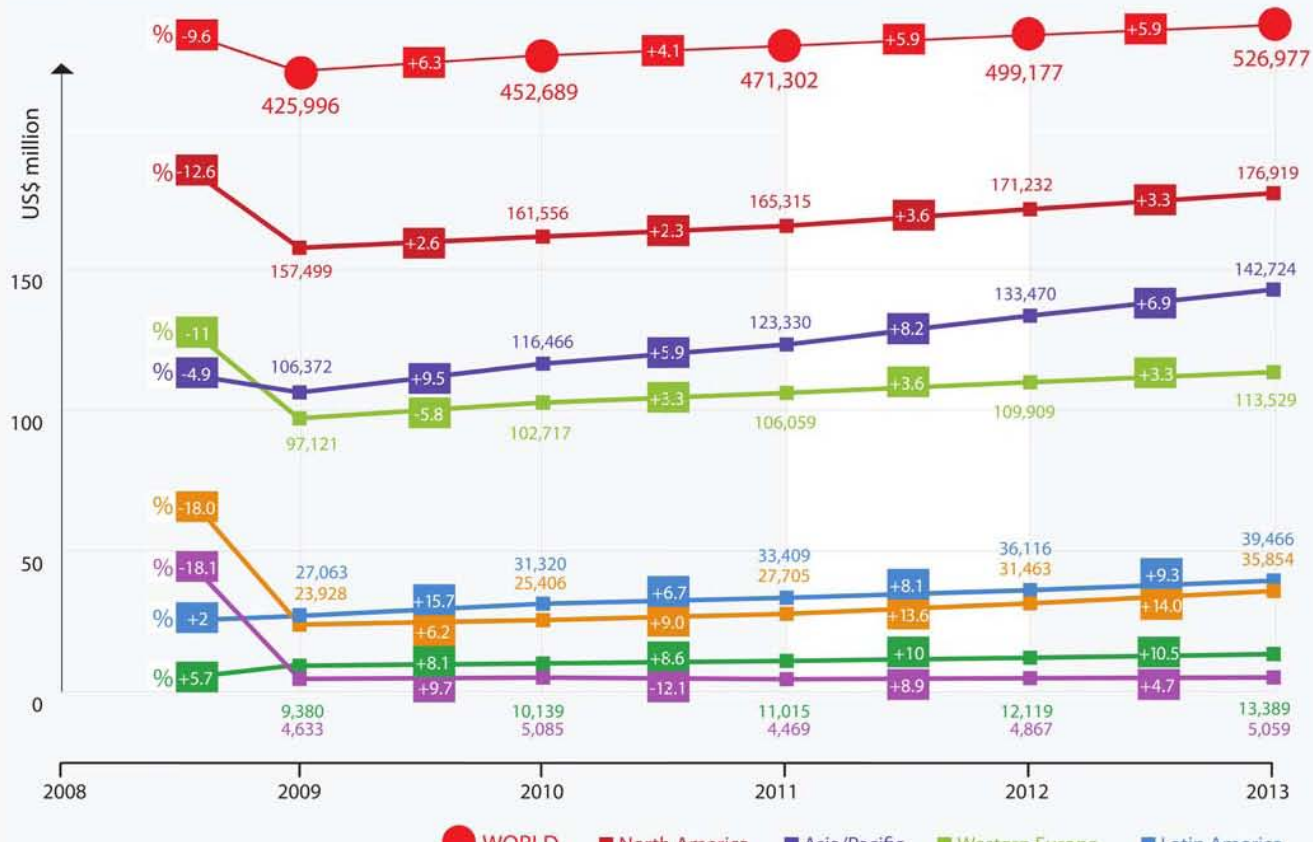
> CEO, OSN

couple of countries like Qatar and UAE are at 10 to 15 per cent penetration – mostly driven by the transition from cable, FTTH roll-outs and new real-estate developments – but overall IPTV penetration is low, especially compared to satellite FTA. Overall, the impact of IPTV on FTA satellite ad revenues has proven minimal."

Ultimately, Jassim Ali believes the development and distribution of innovative, interactive content will prove vital to snaring an increased share of advertising revenues in the future: "The future is going to be less about the technology or platform and more about the interaction and discovery of content – 'active' TV versus 'passive' TV, as it were...Interactive programming allows for greater understanding of viewing habits and provides for the development of more relevant content and targeted advertising campaigns."

## ADVERTISING EXPENDITURE BY REGION

Major media (newspapers, magazines, television, radio, cinema, outdoor, internet)




SOURCE: ZenithOptimedia