

Economic woes loom large for some media in 2008

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By Michele Gershberg

NEW YORK (Reuters) - The media industry is on the brink of a second downturn in a decade, one that could accelerate the divisions between fast-growing targeted advertising and traditional formats aimed at mass audiences.

Since the last advertising recession following the Internet bust in 2000, the world's largest media companies have tried to adapt to deep technological changes, from the rise of high-speed Web use to the spread of portable digital media players like Apple's (NasdaqGS:AAPL - News) iPod.

But a deteriorating U.S. housing market has raised fears of a domestic recession that could harm media segments vying for some \$290 billion in U.S. advertising in 2008.

Leading media executives and sports commissioners will discuss their strategies at the Reuters Media Summit in New York from November 26 through November 29.

Experts say advertisers need to remain competitive in a tightening market while keeping costs down, making them likely to boost spending in areas more directly linked to commerce, such as Web search queries.

That would benefit companies like Google Inc (NasdaqGS:GOOG - News), Amazon.com Inc (NasdaqGS:AMZN - News) and eBay Inc (NasdaqGS:EBAY - News). But television networks like CBS or NBC and Web companies like Yahoo Inc. (NasdaqGS:YHOO - News) that rely on brand advertising could suffer.

"We see continued strength in paid search and continued strength in retail e-commerce, and possibly an acceleration of online video," said Sanford C. Bernstein analyst Jeffrey Lindsay.

Web search leader Google, whose shares surged passed \$700 earlier this year to become the sixth-largest U.S. company by market capitalization, broadcasts confidence it will push through the year unscathed.

The shares currently trade closer to \$650, but some analysts see it reaching \$900 within a year.

"We feel that we're not too sensitive to those macroeconomic fluctuations," Google's chief economist, Hal Varian, said in an interview. "If there is a macroeconomic downturn, people will be a little pinched. We think that would be to the benefit of online sales."

Varian said he was not pessimistic about the economy in general and saw a temporary slowdown more likely than a significant slump.

"When we look at our customers in the sectors we service, it's really broadly distributed," he said. "We're not particularly exposed to any sector that's highly volatile."

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A few executives from more traditional media outlets have already sounded a warning note for 2008, a year that is expected to see stronger advertising from the dual boost of Olympic Games and a U.S. presidential election.

News Corp (Other OTC:NWSAF.PK - News) chief Rupert Murdoch said earlier this month that the year ahead could be "rough" based on current economic indicators.

Interpublic Group (NYSE:IPG - News) CEO Michael Roth said the advertising services company had small exposure to the troubled financial services sector. But he said that economic concerns could spill over to other sectors into the first quarter.

Internal trends in the industry are also having an impact, from a Hollywood screenwriters strike that has put television networks in rerun mode for at least part of their schedule, to competition from social networks like Facebook and the new experience of mobile Web surfing offered by Apple's iPhone.

"A lot of online, transactional businesses will be emphasized," Charlie Rutman, CEO of media buyer MPG in North America, told Reuters Television. "Media that could suffer are actually media that build audiences slowly and also have long lead times."

Radio might see slight gains from the changed spending patterns since costs are relatively low, he said. Direct marketing channels and in-store promotions by retailers will also be on the rise.

The biggest casualty could be the relatively uncharted, less conventional forms of advertising that marketers have embraced to try to anticipate where consumers will go next.

"One thing that could be affected in an economic downturn is experimentation in these new media forms," Rutman said. "Because right now we are into a very robust period of experimentation."