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Electing to Advertise More in 2006

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Media and marketing are the most significant costs that political candidates will bear when running for election. Driven by the rise of political fundraising, MAGNA Global expects to see record levels of political advertising in 2006. Based on historical estimates published by PQ Media, we forecast total political advertising to rise by 82% over 2002 and by 10% over 2004 to \$2.949 billion during 2006, including \$1.655 billion of spending on local broadcast television.

Growth in media spending will be driven by higher fundraising receipts, which themselves will continue to post strong underlying growth due to systemic improvements in traditional fundraising methods. Fundraising will surpass 2004's intake because the increased number of gubernatorial races will more than offset the absence of a Presidential election. The presence of wealthy individuals with rising levels of disposable funds will likely serve as another contributing factor.

We expect that advertisers will need to pay particularly close attention to New York, California, Pennsylvania, Ohio, Michigan and Washington state during this election. Local advertisers targeting these and other hot markets can navigate around the political torrents in 2006 by maintaining flexibility in their budget and media allocations. Alternately, marketers may benefit by committing their budgets in advance in key local markets that are expected to experience high levels of political spending.

MAGNA Global and its affiliated agencies will continue to monitor the status of local elections in key markets, and advise clients as conditions change in the year ahead.

2006 POLITICAL FUNDRAISING WILL HIT RECORD LEVELS

Media and marketing are the most significant costs that political candidates will bear when running for election. During 2006, we forecast record levels of political advertising. This spending will be driven by the rise of political fundraising, which will also beat comparable figures of prior years. More precisely, because campaigns continue to rely on media, we expect virtually all of the 5% growth in fundraising to be allocated to media expenditures, resulting in our forecast for 10% political advertising growth.

Total fundraising receipts will continue to post strong underlying growth due to systemic improvements in traditional fundraising methods. Additionally, fundraising will surpass 2004's intake because the increase in number of gubernatorial races will more than offset the absence of a Presidential election. The presence of wealthy individuals with rising levels of disposable funds, will serve as another contributing factor.

Traditional fundraising is improving systemically due to better database management, investment in direct mail programs, focus on grassroots mobilization and generally speaking, an earlier start to the entire process.

Online fundraising efforts by some candidates during the 2004 election were very successful and will likely be more widely replicated during 2006. Proof of the impact of these changes is clear: according to recent FEC (Federal Election Commission) filings, fundraising for Congressional races are currently pacing up approximately 20% over the previous electoral cycle. As we note above, a portion of this amount is likely due to earlier mobilization of campaigns, which harvest money relatively early in some cases. We expect the pacing to level off somewhat to closer to 10% by the end of the election cycle. This increase equates to a 36% rise in fundraising when compared with 2002.

Wealthy individuals have become increasingly prominent as candidates in recent years, including many who earned large personal fortunes in recent years and contributed significant portions of these fortunes to races. Notable examples include Maria Cantwell of Washington (formerly a senior executive at Real Networks) and Jon Corzine of New Jersey (formerly a senior executive at Goldman Sachs). Both separately spent tens of millions of dollars of personal funds in successful runs for the Senate in 2000 and, in Corzine's case, also a gubernatorial election in 2005.

Key individuals with significant personal fortunes expected to run for statewide offices in 2006 include California's Steve Westly (a former EBay

executive), New York's Thomas Golisano (founder of PayChex), Washington's Mike McGavick (a former SafeCo CEO) and Michigan's Dick DeVos (whose family founded AmWay).

The sheer number of gubernatorial elections is also a significant factor in 2006. There will be 36 state-wide elections for these offices this year, compared to only 11 in 2004. Although the figures for 2006 are comparable to 2002, the factors described above virtually ensure that more money will be raised for elections held this year than for those held four years ago, and will more than offset the absence of a Presidential election.

We derive our forecast by estimating the amount of fundraising the primary political advertising spenders will capture during the current electoral cycle. These include the political parties' National Committees and State Committees, candidates for the House of Representatives, the Senate and Governorships, special interest groups (including PACs and 527s) and candidates for other local races. Historical filings from the FEC and the IRS are the primary sources for historical figures as well as current pacings.

TABLE 1: POLITICAL FUNDRAISING ESTIMATES

FUNDRAISING RECEIPTS	2000A	2002A	2004A	2006E
National Committees	\$800.0	\$807.0	\$1,243.0	\$1,367.3
• Share	21.5%	17.9%	21.4%	22.4%
• Growth (Over 2 Years)	-----	0.9%	54.0%	10.0%
• Growth (Over 4 Years)	-----	-----	55.4%	69.4%
House	489.6	447.1	481.6	529.8
• Share	13.1%	9.9%	8.3%	8.7%
• Growth (Over 2 Years)	-----	-8.7%	7.7%	10.0%
• Growth (Over 4 Years)	-----	-----	-1.6%	18.5%
Senate	457.1	354.8	527.3	590.6
• Share	12.3%	7.9%	9.1%	9.7%
• Growth (Over 2 Years)	-----	-22.4%	48.6%	12.0%
• Growth (Over 4 Years)	-----	-----	15.4%	66.5%
Governors	115.3	990.0	204.0	1,336.5
• Share	3.1%	22.0%	3.5%	21.9%
• Growth (Over 2 Years)	-----	758.6%	-79.4%	555.1%
• Growth (Over 4 Years)	-----	-----	76.9%	35.0%
State Committees	232.5	381.0	277.0	332.4
• Share	6.2%	8.4%	4.8%	5.4%
• Growth (Over 2 Years)	-----	63.9%	-27.3%	20.0%
• Growth (Over 4 Years)	-----	-----	19.1%	-12.8%
Other Local (State-Wide)	651.0	694.0	757.0	794.9
• Share	17.5%	15.4%	13.0%	13.0%
• Growth (Over 2 Years)	-----	6.6%	9.1%	5.0%
• Growth (Over 4 Years)	-----	-----	16.3%	14.5%
President	375.3	0.0	916.0	0.0
• Share	10.1%	0.0%	15.8%	0.0%
• Growth (Over 2 Years)	-----	-100.0%	-----	-100.0%
• Growth (Over 4 Years)	-----	-----	144.1%	-----
527s	0.0	150.0	480.0	150.0
• Share	0.0%	3.3%	8.3%	2.5%
• Growth (Over 2 Years)	-----	-----	220.0%	-68.8%
• Growth (Over 4 Years)	-----	-----	-----	0.0%
PACs	604.9	685.3	915.7	1,007.3
• Share	16.2%	15.2%	15.8%	16.5%
• Growth (Over 2 Years)	-----	13.3%	33.6%	10.0%
• Growth (Over 4 Years)	-----	-----	51.4%	47.0%
TOTAL	\$3,725.7	\$4,509.2	\$5,801.6	\$6,108.7
• Share	100.0%	100.0%	100.0%	100.0%
• Growth (Over 2 Years)	-----	21.0%	28.7%	5.3%
• Growth (Over 4 Years)	-----	-----	55.7%	35.5%

Note: House and Senate figures are net of PAC contributions; State Committee figures are net of candidate contributions

Source: MAGNA Global Research, FEC, Campaign Finance Institute, IRS, Opensecrets.org
www.followthemoney.org, The New Campaign Finance Source Book (Brookings 2005) and Tray.com,

MEDIA WILL SHIFT GRADUALLY, BUT TV RETAINS DOMINANCE

We forecast that broadcast television will retain its dominant share of budget allocations this year, holding essentially flat at approximately 56% of total expenditures. The dominant belief is that television remains the single most effective medium to convey candidates' messages to voters, and as a result we expect little change to this tactic. Although politicians have historically targeted older audiences (35-64) given their higher propensity to vote, it remains a possibility that some will begin to target younger audiences in this election. This would have the impact of affecting inventory for younger-skewing programs as well as staple older-skewing programs.

Based on our conversations with campaign professionals, we anticipate that direct mail will increase in importance as sophistication in usage continuously improves. However, this sophistication is driving lower costs, and so we do not expect to observe any increases in budget allocations to this medium. No less important, public relations and other promotional activities are directly driving voter mobilization, but as greater usage of public relations will lead to higher costs, we would expect to see increases in these categories of expenditures.

Other media will experience shifts, but remain secondary or tertiary factors in election marketing. Online will generate tremendous growth, primarily because it has demonstrated effectiveness as a direct response medium and also because penetration and usage figures are rising. Similarly, local cable will take increasing share because of the medium's viewing share gains and because races are increasingly focused on more tightly defined local markets. Newspapers will hold on to share due to publishers' efforts to retain budgets

Although too small to forecast in total dollars, we also expect to see greater use of other emerging media types (such as DVR showcases, social networking sites and podcasting) to target and segment potential voters while driving donations.

Given the aforementioned shifts, and the absence of sufficient supplier efforts to drive or sustain share, we expect radio and outdoor to generate reduced budget allocations from campaigns.

TABLE 2: MEDIA/MARKETING EXPENDITURES, GROWTH RATES AND SHARE

MEDIA/MARKETING EXPENDITURES	2000A	2002A	2004A	2006E
Broadcast TV	\$676.0	\$911.5	\$1,504.5	\$1,655.0
• Share	56.1%	56.4%	56.1%	56.1%
• Growth (Over 2 Years)	-----	34.8%	65.1%	10.0%
• Growth (Over 4 Years)	-----	-----	122.6%	81.6%
Direct Mail	242.0	334.5	563.5	562.8
• Share	20.1%	20.7%	21.0%	19.1%
• Growth (Over 2 Years)	-----	38.2%	68.5%	-0.1%
• Growth (Over 4 Years)	-----	-----	132.9%	68.2%
PR/Promo	97.0	127.5	243.5	294.9
• Share	8.0%	7.9%	9.1%	10.0%
• Growth (Over 2 Years)	-----	31.4%	91.0%	21.1%
• Growth (Over 4 Years)	-----	-----	151.0%	131.3%
Radio	128.0	154.5	188.5	147.5
• Share	10.6%	9.6%	7.0%	5.0%
• Growth (Over 2 Years)	-----	20.7%	22.0%	-21.8%
• Growth (Over 4 Years)	-----	-----	47.3%	-4.6%
Cable	19.0	34.5	78.5	118.0
• Share	1.6%	2.1%	2.9%	4.0%
• Growth (Over 2 Years)	-----	81.6%	127.5%	50.3%
• Growth (Over 4 Years)	-----	-----	313.2%	241.9%
Newspapers	26.0	33.5	57.5	64.9
• Share	2.2%	2.1%	2.1%	2.2%
• Growth (Over 2 Years)	-----	28.8%	71.6%	12.8%
• Growth (Over 4 Years)	-----	-----	121.2%	93.7%
Online	3.0	5.0	25.0	88.5
• Share	0.2%	0.3%	0.9%	3.0%
• Growth (Over 2 Years)	-----	66.7%	400.0%	253.9%
• Growth (Over 4 Years)	-----	-----	733.3%	1669.5%
Outdoor	13.0	15.0	18.0	14.7
• Share	1.1%	0.9%	0.7%	0.5%
• Growth (Over 2 Years)	-----	15.4%	20.0%	-18.1%
• Growth (Over 4 Years)	-----	-----	38.5%	-1.7%
Magazines	1.0	1.0	2.0	2.9
• Share	0.1%	0.1%	0.1%	0.1%
• Growth (Over 2 Years)	-----	0.0%	100.0%	47.5%
• Growth (Over 4 Years)	-----	-----	100.0%	194.9%
TOTAL	\$1,205.0	\$1,617.0	\$2,681.0	\$2,949.1
• Share	100.0%	100.0%	100.0%	100.0%
• Growth (Over 2 Years)	-----	34.2%	65.8%	10.0%
• Growth (Over 4 Years)	-----	-----	122.5%	82.4%

Source: PQ Media, MAGNA Global Estimates

WHERE WILL THE MONEY FLOW?

We expect that advertisers will need to pay particularly close attention to **New York, California, Pennsylvania, Ohio, Michigan** and **Washington** state during this election, based on our expectations for these markets to become particularly hot over the course of the year due of the following factors:

- In New York, California, Michigan and Washington, a number of deep-pocketed individuals are expected to run
- In Pennsylvania and Ohio, significant funds from outside the state are expected to flow in
- In Ohio and Michigan, competitive Governor and Senate elections are expected
- New York and California are also expected to see significant spending from candidates Hillary Clinton and Arnold Schwarzenegger, respectively, both of whom will benefit from national sources of funding

Beyond the situations described above, hotly contested races generate the most significant media expenditures. Relatively few elections are truly competitive in the United States, as incumbents win approximately 90% of the time. Consequently, as control of one of the houses of Congress may hinge on a handful of races, these key races in turn attract the bulk of the dollars.

Importantly, spending will generally skew late during 2006, as only two states will hold primaries during the first quarter of the year. This may artificially (and temporarily) create the impression of a slower year.

At the present time our best proxy for assessing which races will be most competitive (and thus drive the most political advertising in a given market) is the likelihood of whether or not any particular office will change hands between parties. Two sources form our list of competitive races, including The Washington Post's "The Fix" blog and The Cook Political Report, both of which closely track local races.

We group the state-wide races into three segments: (A) those with hot races for Governor and Senate, (B) those with hot races for Senate or state-wide House only and (C) those with hot races for Governor only.

Group A: Competitive State-Wide Races: Governor <i>and</i> Senate	
STATE	MAJOR DMAs INCLUDED
Florida	<ul style="list-style-type: none"> • Miami-Ft. Lauderdale • Tampa-St. Petersburg (Sarasota) • Orlando-Daytona Beach-Melbourne • West Palm Beach-Ft. Pierce • Jacksonville • Ft. Myers-Naples
Maryland	<ul style="list-style-type: none"> • Baltimore • Washington, DC-Hagerstown
Michigan	<ul style="list-style-type: none"> • Detroit • Grand Rapids-Kalamzoo-B.Crk • Flint-Saginaw-Bay City
Minnesota	<ul style="list-style-type: none"> • Minneapolis-St. Paul
Ohio	<ul style="list-style-type: none"> • Cleveland-Akron (Canton) • Cincinnati • Columbus • Dayton • Toledo
Rhode Island	<ul style="list-style-type: none"> • Providence-New Bedford

In general, groups (B) and (C) should share some similarities in their political spending characteristics, but Senate races reflected in Group (B) will likely attract more advertising from national sources given their impact on the make-up of Congress.

Group B: Competitive State-Wide Races: Senate or Statewide House Only	
STATE	MAJOR DMAs INCLUDED
Missouri	<ul style="list-style-type: none"> • St. Louis • Kansas City • Springfield
Nebraska	<ul style="list-style-type: none"> • Omaha • Lincoln & Hastings-Krny
New Jersey	<ul style="list-style-type: none"> • New York • Philadelphia
Pennsylvania	<ul style="list-style-type: none"> • Pittsburgh • Philadelphia • Harrisburg-Lncstr-Leb-York • Johnstown-Altoona
Tennessee	<ul style="list-style-type: none"> • Nashville • Knoxville • Chattanooga • Memphis
Vermont	<ul style="list-style-type: none"> • Burlington-Plattsburg
Washington	<ul style="list-style-type: none"> • Seattle-Tacoma • Spokane

Group C: Competitive State-Wide Races: Governor

STATE	MAJOR DMAs INCLUDED
Alabama	<ul style="list-style-type: none"> • Birmingham (Ann, Tusc) • Mobile-Pensacola (Ft Walt) • Huntsville-Decatur
Arkansas	<ul style="list-style-type: none"> • Little Rock-Pine Bluff
California	<ul style="list-style-type: none"> • Los Angeles • San Francisco-Oakland-San Jose • Sacramento-Stockton-Modesto • Fresno-Visalia
Colorado	<ul style="list-style-type: none"> • Denver • Colorado Springs-Pueblo
Georgia	<ul style="list-style-type: none"> • Atlanta • Savannah
Iowa	<ul style="list-style-type: none"> • Des Moines-Ames
Maine	<ul style="list-style-type: none"> • Potland-Auburn
Massachusetts	<ul style="list-style-type: none"> • Boston (Manchester)
Nevada	<ul style="list-style-type: none"> • Las Vegas
New York	<ul style="list-style-type: none"> • New York • Buffalo • Albany-Schenectady-Troy • Syracuse • Rochester
Oklahoma	<ul style="list-style-type: none"> • Oklahoma City • Tulsa
Wisconsin	<ul style="list-style-type: none"> • Milwaukee • Green Bay-Appleton • Madison

A fourth group (D) describes races for the House of Representatives which are expected to be hot. Money will be tightly concentrated into very specific markets, corresponding with the size of the districts themselves. We note that this list could potentially expand over the course of the year, depending on specific events.

Group D: Competitive Local House Races

DISTRICT	DMAs INCLUDED
Arizona (8th District)	<ul style="list-style-type: none">• Tuscon
Colorado (7th District)	<ul style="list-style-type: none">• Denver
Georgia (8th District)	<ul style="list-style-type: none">• Atlanta• Macon
Illinois (8th District)	<ul style="list-style-type: none">• Chicago
Indiana (8th District)	<ul style="list-style-type: none">• Evansville• Terre Haute
Indiana (9th District)	<ul style="list-style-type: none">• Louisville (KY)
Iowa (1st District)	<ul style="list-style-type: none">• Cedar Rapids-Waterloo
New Mexico (1st District)	<ul style="list-style-type: none">• Albuquerque-Santa Fe
Ohio (6th District)	<ul style="list-style-type: none">• Youngstown• Zanesville
Ohio (18th District)	<ul style="list-style-type: none">• Columbus
Pennsylvania (6th District)	<ul style="list-style-type: none">• Philadelphia
Texas (22nd District)	<ul style="list-style-type: none">• Houston

IMPLICATIONS FOR MARKETERS: MAINTAIN FLEXIBILITY

On a short-term and location-specific basis, political advertising will impact media supply, especially on broadcast television during 2006, driving up pricing for advertisers in many markets. Political advertising peaks in periods leading up to conventions (in races for governors) and during the month October (which alone may account more than half of the year's political spending), but heavy flights may also unexpectedly appear at any time prior to October.

In terms of market, state-wide races (such as those for Senate and Governor) often cover DMAs with differing political leanings. This may cause politicians to place an emphasis on one DMA over another to shore up support in a specific area.

Local advertisers targeting hot markets can attempt to navigate around the political torrents in 2006 by maintaining flexibility in their budget and media allocations, because the timing and locations of political spending will be generally uncertain. Alternately, marketers may benefit by committing their budgets in advance in key local markets which are expected to experience high levels of political spending. However, early commitments will not guarantee against pre-emptions.

MAGNA Global and its affiliated agencies will continue to monitor the status of local elections in key markets, and advise clients as conditions change in the year ahead.

MAGNA Global's Neal Aissa contributed to the preparation of this report