18 December 2007

# National Economic Study of the Outdoor Media Industry

Report by Access Economics Pty Limited for the

## Outdoor Media Association

# EXECUTIVE SUMMARY

Over the past five years, outdoor media has made a continued and relatively unobtrusive entrance into the Australian economy and culture. Media suppliers and, small businesses to multi-national organisations are increasingly acknowledging the effectiveness and reach potential of outdoor advertising. Today, every industry sector is featured on outdoor media in some form.

While historically, outdoor advertising panels have been viewed by some stakeholders as unattractive additions to their local surrounds, a June 2007 AC Nielsen survey suggests that people's attitudes are mostly positive (49% of those surveyed) or neutral (38%) towards outdoor media and improve further once informed of the significant public benefits and community infrastructure projects provided by the industry. In the 2006-07 financial year, for every;

- $100 of revenue the outdoor media industry donated $1 of in-kind funds to charities; and
- 100 commercial advertising sites the outdoor media industry provided 15 public infrastructure sites to local councils.

The industry provides a significant amount of public facilities and street furniture – such as bus/tram shelters, and park benches. The current replacement value of these assets is $205 million. In the absence of outdoor media, local governments could face significant challenges in financing these facilities.

The outdoor media industry in Australia is represented by the Outdoor Media Association (OMA) and covers a range of advertising panel formats. Access Economics was commissioned by the OMA to design an economic activity survey to estimate the aggregate economic contribution and productivity of the outdoor media industry. Due to the relatively concentrated nature of the industry, the 18 responses represented approximately 98% of the outdoor media industry. As such, the key headline figures are based on a near-complete census of the industry.

**MEASURES OF PRODUCTIVITY & ECONOMIC CONTRIBUTION BY THE OUTDOOR MEDIA INDUSTRY**

| | Outdoor Media Industry Results | | | Benchmark |
|---|---|---|---|---|
| Measure | 2005 | 2006 | 2007 | 2007 |
| Contribution to national GDP (%) | 0.02% | 0.02% | 0.02% | |
| Value added per FTE ($) | $228,933 | $240,877 | $232,343 | $105,000 |
| Revenue per FTE ($) | $564,950 | $598,362 | $588,084 | |
| Revenue per Site ($) | $5,156 | $5,655 | $6,075 | |
| Sites per FTE (no.) | 110 | 106 | 97 | |
| Net Profit Margin (Net profit/Sales) (%) | 16% | 17% | 12% | 16.05% |
| Cost of Goods Sold (COGS) per $1 Revenue ($) | $0.59 | $0.60 | $0.60 | $0.47 |
| Inventory Turnover (COGS/Site) | $3,067 | $3,378 | $3,675 | |

Note: Benchmarks are extracted from Australian (ABS) and US (Reuters) printing and publishing industry results

The summary table above provides an overview of the performance of the outdoor media industry in Australia benchmarked to economic contribution indicators and productivity indicators for the printing and publishing industry. Outdoor media's contribution to national GDP is modest, however the low cost, high-return nature of the industry implies returns per unit of input are highly effective (eg. high value added and revenue returns per FTE).

The low marginal cost base on outdoor media supply allows the industry to operate on relatively high value margins (i.e. 17% profit margin in 2006). The 2007 net profit margin (12%) is relatively lower compared to previous years due primarily to new entrants who incur high upfront establishment costs. Based on forecast growth rates the margin is expected to bounce back to 15% in 2008.

The survey asked respondents to provide information on historical revenues and selected market activity. On aggregate outdoor advertising company revenues grew at an average annual rate of 10.1% from 2005 to 2007 – powered by innovative high tech formats and fragmenting audiences for rival advertising channels. Overall, the industry is evolving on a basis of robust operational and economic foundations.

**2007 FINANCIAL YEAR PERFORMANCE**

| **Financial year (or equivalent*)** | **2007** |
|---|---|
| Revenue (total sales, excluding GST) | $473.3 |
| *less* other non-labour costs | $286.3 |
| **Value Added ($m)** | **$187.0** |
| GST (indirect tax) on input | $7.8 |
| Income, corporate, operational (direct taxes) | $18.1 |
| *National Real GDP ($m)*** | *$953,798* |
| **Direct contribution to national GDP (%)** | **0.020%** |
| *Employment (FTE)* | *805* |
| **Direct value added per FTE ($)** | **$232,343** |

Source: Access Economics and OMA Industry Survey 2007

* Note: financial years differ somewhat between OMA members

** Source: Access Economics, *Financial Year Business Outlook*, September 2007

It is reasonable to expect the current standing of the industry in terms of revenue growth, productivity and GDP contribution to improve in the near term due to the emerging nature of the industry. As the outdoor media sector grows and start-up costs diminish relative to revenues, the ongoing strength in demand for large format and transit sites and the continued roll out of street furniture can be expected to improve net revenue flows and productivity of the industry.

With new technologies such as digital billboards, which provide rotating advertising on a single panel, the industry can potentially achieve significant efficiency gains. Thus, the growth in economic contribution, in the short term at least, has a high potential to outweigh growth in direct employment (FTEs).

## State Snap Shots

Currently New South Wales and Victoria dominate the outdoor media industry, encompassing over two thirds of the national revenues. Queensland has revealed itself as a high growth region in terms of innovations, forward thinking and flexible policies, and may become a major market leader in the coming years. Tasmania and the two Territories, however, are yet to embrace the industry, presumably due to the relative sizes of the economies and the presence of restrictive regulations and guidelines (regulatory controls in the ACT had outdoor media banned entirely until 2006).

The table on following page provides a detailed jurisdictional breakdown of the outdoor media industry in Australia based on the OMA Industry survey responses.

| | NSW | VIC | QLD | All Other Jurisdictions | Australia |
|---|---|---|---|---|---|
| ***Employment (as at 30 June 2007)*** | | | | | |
| Full time | 498 | 172 | 119 | 43 | 832 |
| Part time | 6 | 1 | 10 | 1 | 18 |
| Casual | 3 | 0 | 5 | 1 | 9 |
| Contract | 14 | 0 | 12 | 1 | 27 |
| **Total (head count)** | **521** | **173** | **146** | **46** | **886** |
| **Total Full Time Equivalents** | **500** | **173** | **122** | **44** | **838** |
| *% contribution to national FTE total* | *60%* | *21%* | *15%* | *5%* | *100%* |
| ***Expenses ($m)*** | | | | | |
| Labour costs | $47.0 | $12.1 | $7.5 | $3.5 | $70.1 |
| Non-labour costs | $148.5 | $64.3 | $42.8 | $30.7 | $286.3 |
| **Total expenses** | **$195.5** | **$76.4** | **$50.3** | **$34.2** | **$356.4** |
| *% contribution to national total* | *55%* | *21%* | *14%* | *10%* | *100%* |
| ***Revenue by Source ($m)*** | | | | | |
| Media revenue | $172.0 | $109.5 | $60.8 | $42.9 | $385.2 |
| Non-media revenue | $38.8 | $16.5 | $13.4 | $6.4 | $75.1 |
| ***Revenue by Client/Campaign Type ($m)*** [1] | | | | | |
| National | $145.1 | $91.9 | $36.9 | $22.2 | $296.2 |
| State | $44.5 | $24.7 | $19.1 | $15.5 | $103.8 |
| Local/Regional | $18.3 | $9.0 | $17.5 | $10.4 | $55.1 |
| ***Revenue by Sector ($m)*** [1] | | | | | |
| Government | $13.2 | $8.8 | $3.7 | $1.9 | $27.6 |
| Private | $191.5 | $114.5 | $67.8 | $45.3 | $419.2 |
| Not-for-profit | $3.2 | $2.2 | $1.1 | $0.8 | $7.3 |
| **Total revenue** | **$210.8** | **$126.0** | **$74.2** | **$49.3** | **$460.3** |
| *% contribution to national total* | *46%* | *27%* | *16%* | *11%* | *100%* |
| ***Number of Advertising Panels by Type*** | | | | | |
| Large format | 1,627 | 566 | 420 | 259 | 2,873 |
| Transit | 18,219 | 8,318 | 4,250 | 6,370 | 37,157 |
| Street furniture | 11,546 | 7,506 | 4,649 | 4,322 | 28,022 |
| Posters | 1,690 | 635 | 1,728 | 393 | 4,446 |
| **Total number of advertising panels** | **33,082** | **17,025** | **11,048** | **11,344** | **72,499** |
| *% contribution to national total* | *46%* | *23%* | *15%* | *16%* | *100%* |
| ***Charity ($)*** [2] | | | | | |
| Donations | $5,000 | $0 | $17,978 | $0 | $390,228 |
| Free advertising space | $1,910,239 | $780,535 | $508,098 | $248,775 | $4,054,947 |
| In-kind services | $5,000 | $10,000 | $49,000 | $0 | $64,000 |
| Other donations | $0 | $0 | $6,500 | $0 | $6,500 |
| **Total charity donations** | **$1,920,239** | **$790,535** | **$581,576** | **$248,775** | **$4,515,675** |
| *% contribution to national total* | *43%* | *18%* | *13%* | *6%* | *100%* |
| ***Public Infrastructure (number of items)*** | | | | | |
| Bus/tram shelters | 2,515 | 3,793 | 900 | 1,300 | 8,508 |
| Bins provided | 909 | 152 | 0 | 0 | 1,061 |
| Park benches | 575 | 0 | 0 | 0 | 575 |
| Public toilets provided | 13 | 1 | 0 | 0 | 14 |
| Pedestrian bridges provided or subsidised | *29 nationally* | | | | 29 |
| MUPI | 240 | 210 | 90 | 0 | 540 |
| Kiosks | 81 | 0 | 60 | 10 | 151 |
| Billboard | 100 | 240 | 0 | 0 | 340 |
| **Total public infrastructure donations** | **4,433** | **4,396** | **1,050** | **1,310** | **11,189** |
| *% contribution to national total* | *40%* | *39%* | *9%* | *12%* | *100%* |
| ***Recipients of Funds or In-kind Benefits ($m)*** | | | | | |
| Emergency service organisations | $0.1 | $0.0 | $0.1 | $0.0 | $0.2 |
| Local councils | $15.5 | $13.3 | $4.7 | $5.8 | $39.3 |
| Private road owners/corporations[3] | $0.0 | $3.5 | $0.2 | $0.0 | $3.7 |
| Government road corporations[3] | $0.1 | $0.0 | $0.2 | $0.0 | $0.3 |
| Others | $0.1 | $0.0 | $0.3 | $0.0 | $0.4 |
| **Total contributions** | **$15.8** | **$16.8** | **$5.4** | **$5.9** | **$43.9** |
| *% contribution to national total* | *36%* | *38%* | *12%* | *13%* | *100%* |

Notes: [1]Sum of the breakdowns will not add up to total revenue by source due to missing data. [2]Breakdown represents location of charity (rather than business). The difference in the sum of the jurisdictions and Australian total represents contributions to 'nationwide' charities. [3]Excluding application fees