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ADVERTISING

Weakness Is Seen In Ad Spending At Media Titans

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By BRIAN STEINBERG and MARTIN PEERS
Staff Reporters of THE WALL STREET JOURNAL

(See Corrections & Amplifications item below[0].)

NEW YORK -- Have all the advertising dollars been spent? **Time Warner** Wednesday disclosed that its usually dependable publishing division took a hit in the third quarter, reinforcing concerns that the U.S. ad recovery remains uneven. Last month, Viacom warned that local-television ad markets weren't recovering as robustly as hoped.

There are growing concerns on Wall Street that prices for television's so-called scatter market -- ad time typically sold at a premium to marketers who need it immediately -- are flatter than this week's newest sitcom.

"There are not enough dollars to go around," says Brad Adgate, a senior vice president and director of research at Horizon Media, an independent media-services company that serves clients such as Berkshire Hathaway's Geico.

The dearth of dollars is affecting an array of media outlets. When reporting second-quarter results in July, Time Warner said ad declines at its news and business magazines were offset by gains at its lifestyle magazines such as Real Simple and Southern Living.

Wednesday it became clear the weakness had broadened. Time Warner said overall ad revenue had a "modest decline...due primarily to softness" in news and business publications. Time Inc., which has been a reliable source of quarterly profit growth for many years, reported 25% lower operating income. Part of the decline was due to losses at its Time-Life direct-marketing operation.

Time Warner apparently isn't seeing any evidence of a quick turnaround in magazines. "Visibility remains limited," says Wayne Pace, the company's chief financial officer. The company says Time Inc. commanded an industry-leading 24% of domestic advertising through Sept. 30.

Still, tough times can affect even the most steadfast operations. Horizon's Mr. Adgate suggests Time Inc.'s war horses, such as Sports Illustrated and People, have broad appeal but must contend with rivals that target narrower audiences. "There is just increased fractionalizing out there," he says. "In a sluggish economy, there is more choice for consumers."

Some suggest the big networks have wooed all the available marketing money. Advertisers and their representatives committed a whopping $9.3 billion to broadcast television in late May, a time when the major networks, including General Electric's NBC and Viacom's CBS, hawked ad inventory on their prime-time lineups.

After the spending splurge, media buyers suggested some advertisers moved much of their money traditionally reserved for scatter purchases into the upfront, or preseason, market. There also was anticipation that scatter prices would be higher this fall.

MEDIA MIX

Breakdown of Time Warner's 3Q operating income

SEGMENT	3Q 2003 (in millions)	PERCENT CHANGE
Networks	$509	+8.5%
Cable	394	+6.5
Filmed entertainment	319	+20.8
Publishing	158	-25.5
AOL	150	-6.8
Music	-1	-104.5
Intersegment eliminations	-12	-84.8
Corporate	-116	+11.5
Total	**1,401**	**+6.5**

Source: the company

But this season's new shows haven't delivered as promised. Now the networks may have to use their scatter time to placate advertisers who had expected larger audiences for their dollars.

"If I were the networks, I would take whatever inventory I had in the fourth quarter and give make-good or bonus units to some of my special advertisers," says Renetta McCann, chief executive of Publicis Groupe's Starcom North America. The company's clients include Walt Disney, Allstate and SABMiller.

All of this has made the television-advertising landscape murkier. Last week, SoundView Technology Group said in a report that it believed scatter-television pricing had weakened recently. Jessica Reif Cohen, an analyst for Merrill Lynch, agrees that the scatter market is now suffering.

Time Warner's Mr. Pace told analysts Wednesday that the fourth-quarter television-scatter market, like magazine advertising demand, "has been slow to develop" and the company was "cautious" as a result. A person close to the company says its scatter prices were down in the fourth quarter, compared with the upfront market. Time Warner owns such broadcast-television properties as the WB network and such cable outlets as CNN.

Write to Brian Steinberg at brian.steinberg@wsj.com[1] and Martin Peers at martin.peers@wsj.com[2]

Corrections & Amplifications:

Time Warner Inc.'s publishing division suffered a 25% decline in operating income in the third quarter. The article above incorrectly said the decline was at Time Inc., which makes up the publishing division along with Time Warner's book-publishing group.

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