



OVERVIEW OF THE BROADCASTING ADVERTISING MARKET IN 2019

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KEY FINDINGS

- The first months of the outbreak of the coronavirus pandemic have severely impacted the advertising market, especially the regional televisions and broadcasters that primarily serve Georgian companies.
- In 2019, in comparison to 2018, the advertising revenue decreased by 8.2 million GEL (10.9%).
- In 2019, TV Rustavi 2 suffered the biggest loss in advertising revenue. In total, in comparison to 2018, Rustavi 2 received 8.3 million GEL (27.2%) less in revenue. The suspension of public policy programs on Rustavi 2 was the main reason for the decline of advertising revenue.
- In 2019, Imedi TV emerged as the uncontested leader in advertising revenues. It received a total of GEL 28.8 million in advertising revenue with the television channels that are part of the holding company. That is equivalent to 42.8% of the total market, i.e. 5.8% more than in 2018.
- The total revenue of television channels in 2019, in comparison with the previous year, increased by 11.3 million GEL (13.9%). Nevertheless, without the donations made by the owners of the new Mtavari Arkhi and Formula channels, or the loans allocated to the television channels, the decrease in the overall revenue of the television channels as a whole would have been considerable.
- Advertising revenues for radio in 2019, as compared to 2018, increased by 192,000 GEL (2.2%), whereas total revenues fell by 174,000 GEL (1.8%).

INTRODUCTION

Transparency International Georgia traditionally studies the advertising market and reviews the state of the television and radio market in 2019. The ownership change in Rustavi 2 television and the subsequent suspension of public policy programmes in 2019, along with the creation of new television stations, have dramatically reshaped the advertising market. The report also reviews the conditions, challenges and expectations for the first quarter of the 2020 advertising market during the outbreak of the new coronavirus.

We regularly perform research on the advertising market in response to high public interest. This report is based on the analytical website of the National Communications Commission, information from other open databases, as well as from interviews with broadcasters, advertising agencies and other interested parties.

ADVERTISING MARKET DURING THE COVID-19 PANDEMIC

The outbreak of the novel coronavirus at the beginning of 2020 led to a global pandemic. As a consequence, a host of measures have been carried out by various governments, including Georgia, to contain the spread of the pandemic, ranging from limitations on commercial activities to restrictions on the holding of public events, which have resulted in the decline (and/or the decrease of the rate of growth) of economic activity. The pandemic also caused one of the greatest financial setbacks in the advertising market - the advertising market is regarded as a sensitive market that is quickly and adversely affected by economic fluctuations. As the financial crisis unfolds, companies primarily cut their marketing and advertising costs.

At this stage, the website of the National Communications Commission contains information on broadcasters' revenues for the first three months of 2020. Whereas in the first quarter of this year, in comparison with the same period in 2019, the volume of advertising¹ grew by 8.7% (amounting to 13.8 million GEL), in March it was nevertheless down by 4.1% compared to last year². Representatives of television companies suppose that the decline in advertising will be more pronounced in the Q2 data. In their view, due to the pandemic, some companies started the suspension of their contracts in mid-March. The drop in advertising revenue is specific to each company. For instance, DAC Capital, which sells advertising for the holding companies Rustavi 2 and Imedi TV, claims that advertising revenues plunged by about 20% during the pandemic, while Pirveli TV reported in April that its advertising revenue fell by 55%. This is explained by the fact that DAC Capital's advertising clients are large international companies, who have had less of an impact on its advertising costs, while the clients of Pirveli TV are Georgian companies that have made more cuts to their advertising costs.

According to Levan Aleksishvili, the head of the Regional Media Market, which sells advertisements on regional TVs, websites and radios, the present situation "has delivered an even greater blow to the regional media". In his opinion, although a significant share of the national channels' advertising revenues are scheduled for the beginning of the year, only 20% of them are scheduled in their case, whereas orders for the remaining 80% will be received over the course of the year. Nevertheless, as the ratings of the regional channels are not measured, national channels are prioritized by advertising companies in terms for advertising, as on the basis of the ratings they can better meet their advertising targets. Therefore, regional channels have been met with a considerable decline in advertisements. According to Aleksishvili, with an already scarce number of prospective advertising clients, the cancellation/suspension of several advertising contracts will have a serious impact on the regional broadcasters.

According to a statement by the National Communications Commission (GNCC)³, it is inevitable for the outbreak of the novel coronavirus to have an impact on the revenues of broadcasters in the next few quarters, particularly due to the downturn in the tourism industry, which accounted for 8.1 per cent of the country's gross domestic product (GDP) in 2019. Nonetheless, the GNCC

1 Under the EU directive, advertising revenue includes advertising, sponsorship, teleshopping and product placement, whereas the National Communications Commission has added announcements to this list as another form of advertising. DIRECTIVE 2010/13/EU, <https://bit.ly/2HZpwBm>

2 All the data used in the research were retrieved from the website of the National Communications Commission, Retrieved on 17.06.2020, <https://analytics.gncc.ge/>

3 Political advertising will compensate for the decrease in TV revenues - GNCC, www.netgazeti.ge, 13.05.2020, <https://netgazeti.ge/news/451971/>

estimates that by 2020, the advertising market will not shrink dramatically and that the decline in commercial advertising caused by the pandemic will be offset by revenues from paid political advertising during the election year.

Zurab Gumbaridze, Director of Formula TV, has said that he does not consider it appropriate for the National Communications Commission to regard commercial advertising and political advertising in the same way, as political advertising does not constitute a stable source of income for TV channels. The growth of the market with political advertising cannot, therefore, represent a guarantee for the sustainability of the media. It is therefore important to encourage companies in a manner that promotes the development of the advertising market.

TV ADVERTISING MARKET

Over the past few years, the TV advertising market has been trending downwards. The advertising market consists of components related to advertising, sponsorship, home-shopping, product placement and announcements. ⁴

CHART 1. TV ADVERTISING REVENUE		
Year	Advertisement (GEL Million)	Advertisement (USD Million)
2016	87.9	37.1
2017	76	30.2
2018	75.7	29.7
2019	67.5	23.9

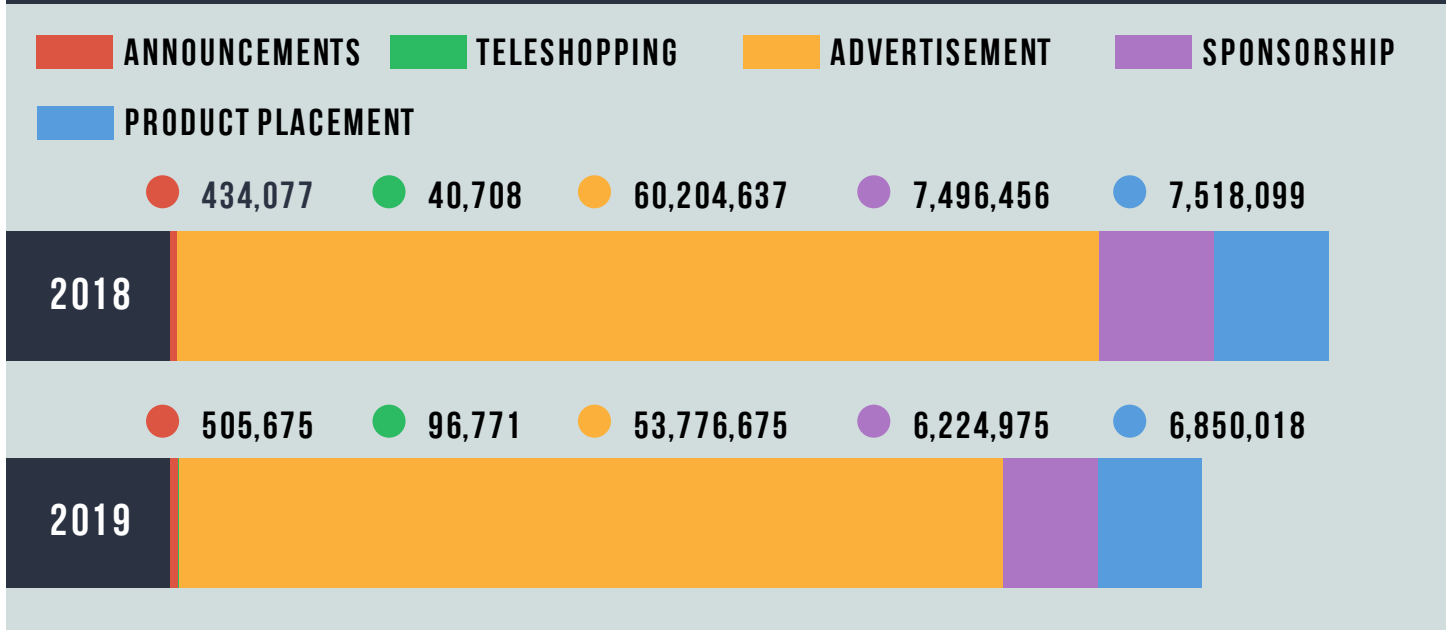
Source: Analytical website of the National Communications Commission

As the first table shows, TV advertising revenues are decreasing from year to year in 2016-2019. In 2019, compared to 2018, advertising revenues fell by 8.2 million GEL (10.9%), and if we subtract the advertising revenues received by the public broadcaster, the advertising revenues of private television channels dropped by 6.9 million GEL (9.4%) compared to 2018.

Out of the five components included in advertising in 2019, there were three major components that were reduced.

⁴ Advertising in dollars is calculated in terms of GEL exchange rate against the dollar on average per month, National Bank

CHART 2. INCREASE/DECREASE IN ADVERTISING COMPONENTS



Source: Analytical portal of the National Communications Commission

In 2019, Rustavi 2 suffered the biggest loss in advertising. Over the last few years, Rustavi 2 was the advertising market leader together with Imedi TV. In 2019, a drawn-out legal dispute over the ownership of Rustavi 2 was resolved. According to the decision of the European Court of Human Rights, the ownership of the TV channel was changed and Kibar Khalvashi, affiliated to the government, became the new owner⁵. Following his arrival at the station, Khalvashi and the management sacked the channel's most prominent personalities - Nodar Meladze, Eka Kvesitadze, Giorgi Gabunia and Nanuka Zhorzholiani⁶. As a consequence, owing to the anticipated changes in the critical editorial policy, a large number of TV employees left the channel⁷. Their departure resulted in a crisis on the channel and a number of programmes were suspended, including the news programme "Kurier".⁸

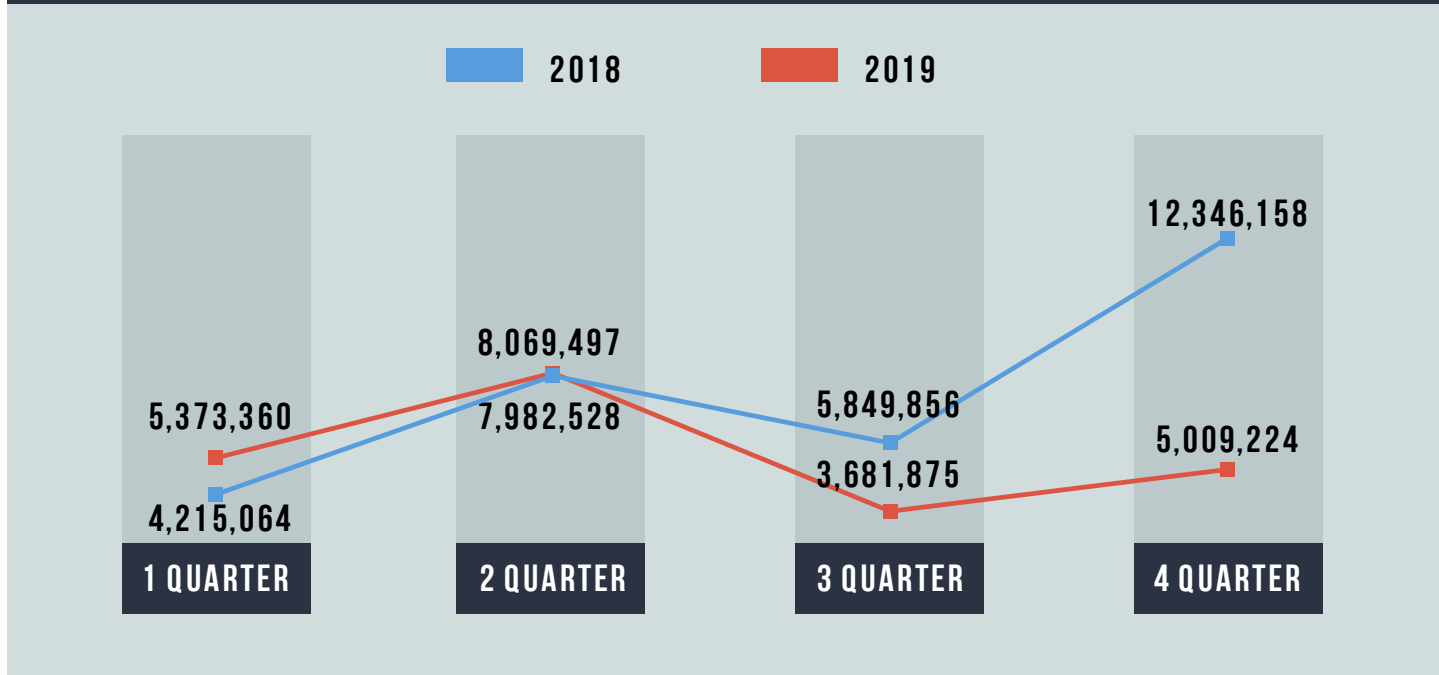
5 European Court of Human Rights finds no violation by Georgian courts in Rustavi 2 case, www.georgianjournal.ge, 18.07.2019, <https://bit.ly/2WG7xYU>

6 Statement of NGOs on the ongoing staff changes in Rustavi 2 TV, Transparency International Georgia, 20.08.2019, <https://bit.ly/30vuU8T>

7 Rustavi 2 TV journalists resign en masse, citing expected changes to the critical editorial policy, Transparency International-Georgia, 22.09.2019, <https://bit.ly/2CnUULp>

8 After a one-month pause, Rustavi 2 TV resumed broadcasting. www.mediachecker.ge, 24.09.2019, <https://bit.ly/2KKOZZk>

CHART 3. QUARTERLY ADVERTISEMENT REVENUE OF RUSTAVI 2



Source: Analytical portal of the National Communications Commission

As the chart shows, Rustavi 2 lost advertising revenue primarily in the third and fourth quarters of 2019. Overall, compared to 2018, the TV industry generated 8.3 million GEL (27.2%) less revenue. The National Communications Commission and representatives of the television channel argue that the decrease in the total advertising market was the result of the Rustavi 2 factor.

“Due to the fact that Rustavi 2 together with Imedi TV not only held 80% of the market, but also held a dominant position in the TV viewership, large advertising companies discontinued their planned advertising budget for the channel by the end of the year. Due to television ratings, advertisers did not reallocate the advertising budget to other channels,” the National Communications Commission wrote to us.⁹

In 2019, the employees who departed from Rustavi 2 TV carried on their activities on two new TV channels: Mtavari Arkhi¹⁰ and Formula¹¹. The newly established Mtavari Arkhi received¹² 1.6 million GEL in advertising in 2019 and came sixth in terms of advertising revenue, while Formula recorded advertising revenue in the amount of 320,000 GEL.¹³

⁹ Written reply sent by the National Communications Commission to Transparency International Georgia, 13.05.2020

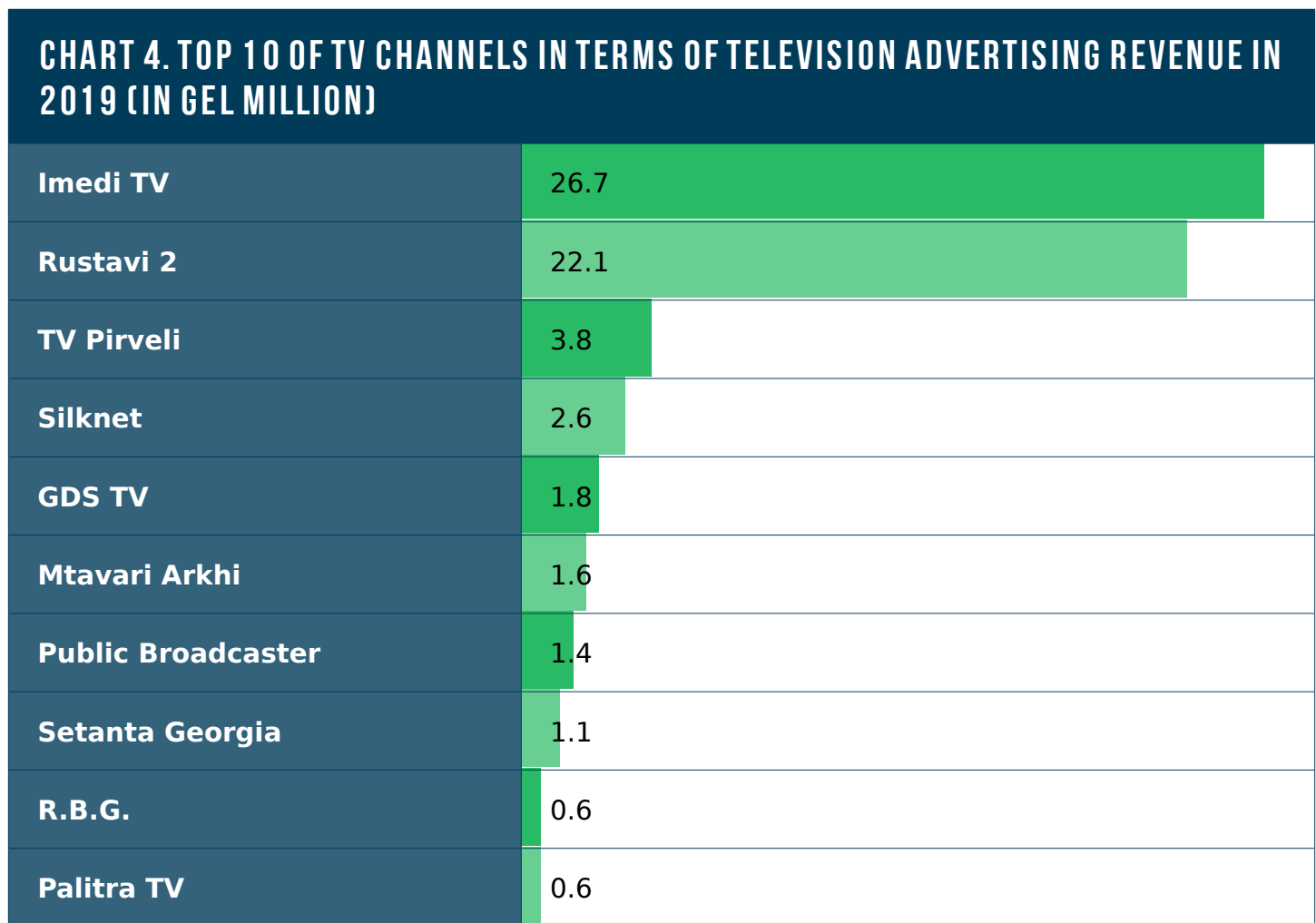
¹⁰ Extract from the Business Registry, <https://bit.ly/3jr0ixW>

¹¹ Extract from the Business Registry, <https://bit.ly/2CAAdNdT>

¹² Mtavari started advertising sales in May 2019, analytical website of the National Communications Commission

¹³ Formula launched advertising sales in October 2019, Analytical website of the National Communications Commission

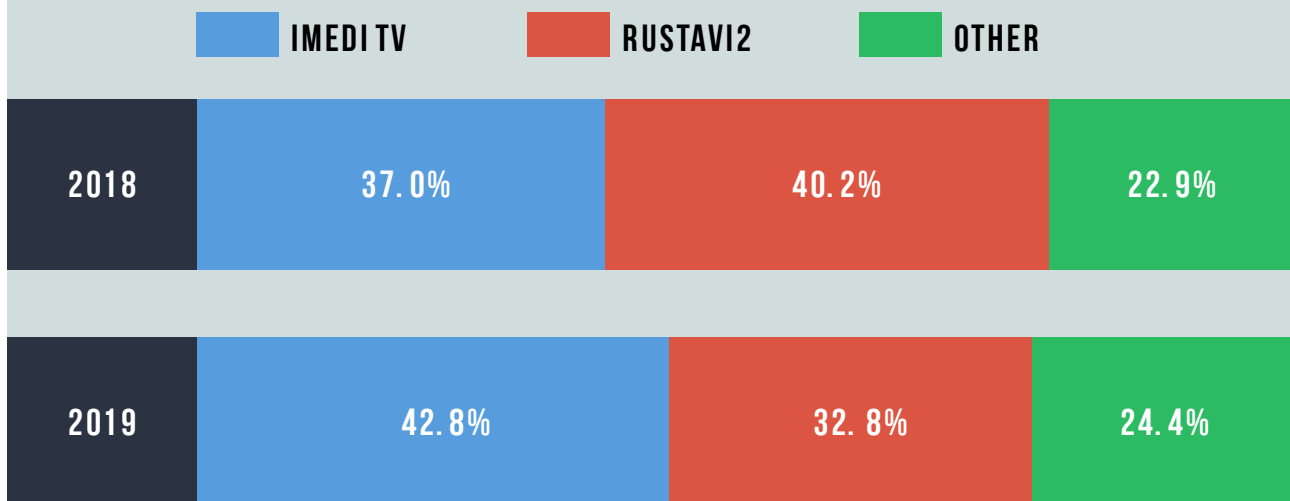
The Top 10 of TV channels in terms of television advertising revenue is as follows:



Source: Analytical website of the National Communications Commission

As we can see from the chart, Imedi TV is the uncontested leader in advertising revenues. Overall, together with the television channels included in the holding company - Studio Maestro and GDS TV, Imedi TV received GEL 28.8 million in advertising revenue in 2019. The company's share of the advertising market increased from 37% to 42.8% in 2019, while Rustavi 2's share fell by 7.4%. Nevertheless, Rustavi 2 and Imedi Holdings' combined portion of the advertising market in 2019 has remained high - 75.6% in total.

CHART 5. SHARE OF RUSTAVI 2 AND IMEDI IN THE ADVERTISING MARKET



Source: Analytical website of the National Communications Commission

TOTAL REVENUE OF TV COMPANIES

The total revenue of television companies in 2019 increased by 11.3 million GEL (13.9%) in comparison with the previous year.¹⁴ The total revenue includes other components on top of advertising revenues.¹⁵

CHART 6. TOTAL REVENUE OF TV COMPANIES		
Year	Total Revenue (GEL Million)	Total Revenue (USD Million)
2016	96.9	40.9
2017	97.5	38.6
2018	81.5	31.9
2019	92.9	32.6

* Total revenue does not include revenue of the public broadcaster.

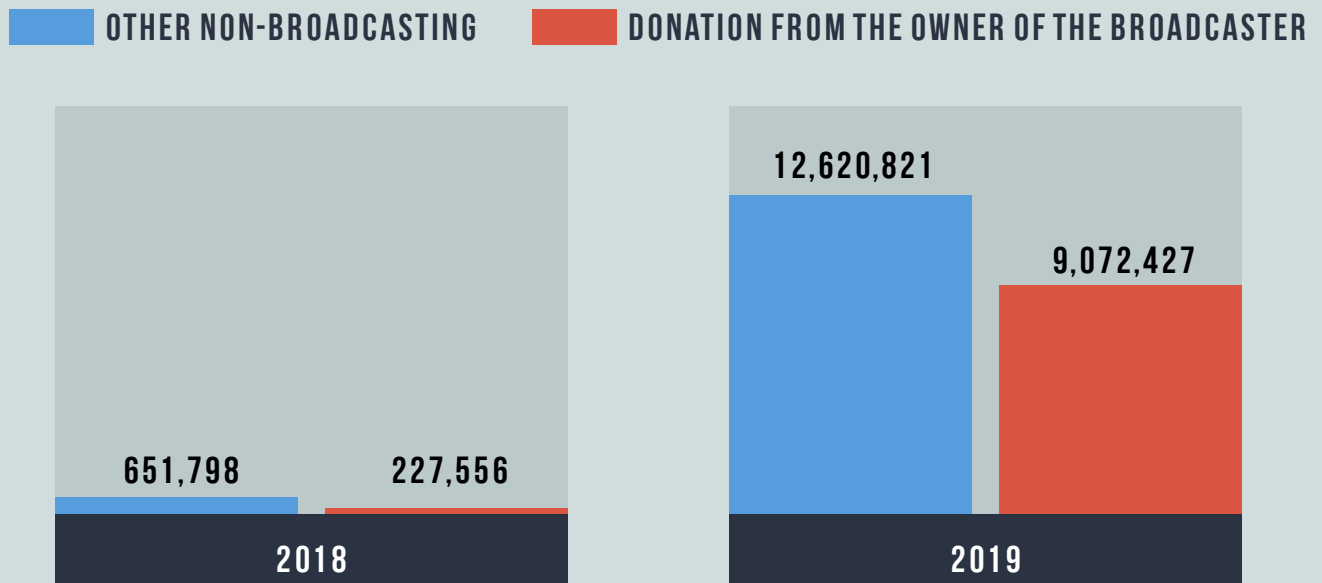
Source: Analytical Portal of the National Communications Commission

This data was heavily influenced by two components: the donation from the broadcaster owner and other non-broadcasting revenues. Notably, Mtavari Arkhi, which was established in 2019, received a donation of GEL 4 million from its owner; the majority shareholder of Formula (Davit Kezerashvili) donated up to GEL 4.9 million, while other “non-broadcasting revenues” from TV amounted to GEL 11.7 million, which, as they stated, is also the same amount provided to the broadcaster by Kezerashvili in the form of a loan.

¹⁴ Counted without the revenues of the Public Broadcaster TV and Radio

¹⁵ Total revenue includes all types of television revenue: archive rental, program placement and airtime sales, announcements, web banner revenue, inquiries, content sales and airtime sales, broadcaster owner donation, product placement, advertising Broadcasting, state funding, sponsorship, teleshopping, maintenance, donation, donations from other persons, other broadcasting, other non-broadcast income, other

CHART 7. OTHER NON-BROADCASTING REVENUES AND DONATION FROM THE OWNER OF THE BROADCASTER



* The data does not include the data of the Public Broadcaster.

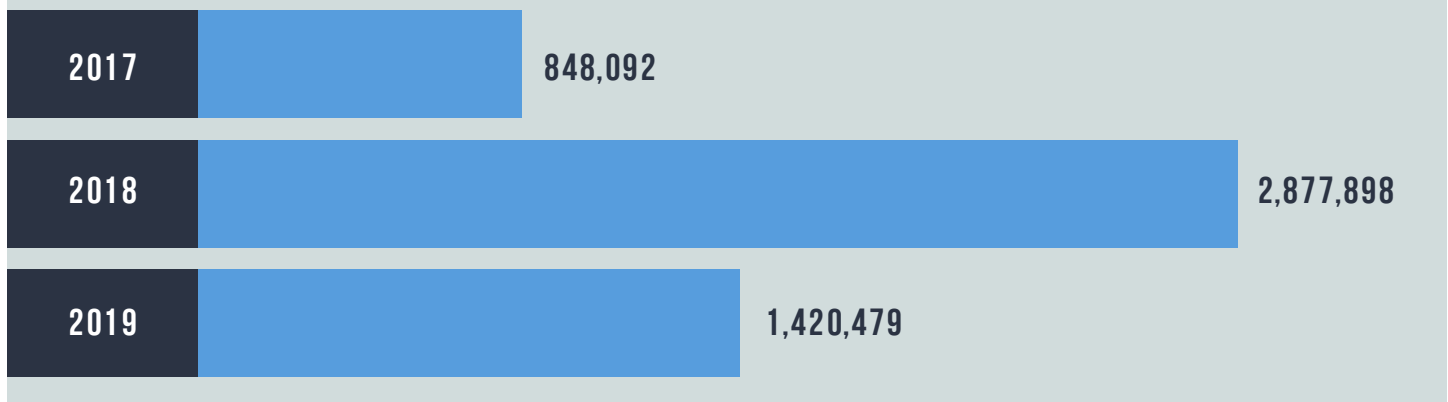
Source: Analytical website of the National Communications Commission

REVENUES OF THE PUBLIC BROADCASTER

The Public Broadcaster is the richest television channel in Georgia, with a continuously increasing funding from the state budget¹⁶. It has a total revenue of 55.9 million GEL¹⁷.

As for advertising revenues, as compared to 2018, they decreased by 1.5 million GEL in 2019, but are still in seventh place among the top ten advertising revenues (Chart 4). The public broadcaster's advertising increased significantly in 2018. Earlier that year, the Parliament adopted controversial legislative changes that increased the scope of advertising and sponsorship for the public broadcaster¹⁸. The public broadcaster explained that the increase in advertising in 2018 compared to 2017 was due to the advertising of its exclusive World Cup broadcast. This time we compared the 2019 data with the 2017 data (because there was no World Cup in either year) and it turned out that advertising in this case also rose by more than 572 thousand GEL. We sent a letter to the public broadcaster concerning the impact of the legislative changes passed in February 2018 on the growth of advertising, but no answers were provided.

CHART 8. ADVERTISING REVENUE OF THE PUBLIC BROADCASTER



Source: Analytical website of the National Communications Commission

Adjara TV and Radio of the Public Broadcaster continues to be the one of the highest-revenue television channels with a total revenue of GEL 7.8 million. In 2019, its advertising revenues amounted to 90,821 GEL.

16 Law on Broadcasting, Article 33 (5), <https://bit.ly/2BjE6V7>

17 This includes GEL 4.9 million in "other non-broadcasting income", which includes: bank loans, real estate and rental income, deposit interest and other income, information provided to Transparency International Georgia by the National Communications Commission.

18 Changes to law of Georgia on Public Broadcaster. Overview of the process of initiating and hearing the changes, Transparency International Georgia, 10.07.2017, <https://bit.ly/30yw7vZ>

TV RATING COMPANIES

In 2019, there were questions as to which company had to measure TV ratings. One of the two companies, Nielsen, which is partnered in Georgia with TVM-R Georgia, chose to exit the Georgian market as it was considered too small for two companies¹⁹. The new TV rating company was to incorporate TVM-R Georgia and its rival Tri Media Intelligence. According to one version, an industry committee was to run the company, which would encompass all stakeholders - television media, advertising agencies and advertisers. However, as Nino Gogoladze, the Director of TVM-R Georgia, told Transparency International Georgia, the deal failed because the companies could not agree on the principle of the merger. At present, TV ratings are still measured by both companies.

Prior to Tri Media Intelligence entering the market in 2015, ratings were measured by TVMR Georgia, the only company in Georgia. In the spring of 2014, representatives of the tax authorities entered the offices of the company to do an inventory and demanded the disclosure of confidential information from the company.²⁰ The actions of the Revenue Service raised doubts as to the true motives for an inventory, as their request threatened the credibility of the study. It was at this time that a new company, Tri Media Intelligence, emerged on the market, and began measuring television ratings in Georgia in 2015 under a license issued by the British company Kantar Media. Its customers now include television stations that are loyal to the government.

There are currently still two companies on the market, the data of which are often inconsistent, which, according to experts, impedes the development of an already small advertising market.

In regard to the sale of advertisements, following the change of ownership of Rustavi 2 and the legal dispute against 'Inter Media'²¹, Rustavi 2 discontinued its cooperation with Inter Media and a new sales company was established²², which sells advertisements of Rustavi 2 TV and Imedi TV holdings. As for the television companies Pirveli, Mtavari, Formula and Kavkasia, they sell their advertising time on their own. Previously, Inter Media sold full-time advertising for the Rustavi 2 holding company, as well as part of the advertising time of Pirveli, Kavkasia and Music Box. Advertisements for Imedi TV's holding were sold separately by the TV.

19 Unclear future of TV ratings; www.netgazeti.ge, 19.12.2019, <https://netgazeti.ge/news/415052/>

20 Ministry of Finance should not limit company's ability to measure TV ratings, Transparency International Georgia, 8.03.2014, <https://bit.ly/2OICZBt>

21 Briefing at the Prosecutor's Office of Georgia, 6.09.2020, <https://bit.ly/2CnXSiZ>

22 Extract from the Business Registry, <https://bit.ly/2LMsZWr>

RADIO ADVERTISEMENTS

There are small changes in radio revenues. For instance, advertising revenues²³ in 2019, in comparison to 2018, increased by 192,000 GEL (2.2%), whereas total revenues decreased by 174,000 GEL (1.8%).

CHART 9. RADIO REVENUES				
Year	Total revenue (GEL Million)	Total revenue (USD Million)	Advertisements (GEL Million)	Advertisements (USD Million)
2016	12.1	5.1	10.1	4.3
2017	10.6	4.3	8.7	3.5
2018	9.6	3.8	8.6	3.4
2019	9.5	3.3	8.8	3.1

* The data does not include the data of the Public Broadcaster.

Source: Analytical website of the National Communications Commission

As far as advertising revenue is concerned, the holding company Fortuna is traditionally at the helm, comprising several radio stations. In 2019, its revenues increased by 256 thousand GEL.

CHART 10. TOP 5 RADIOS ACCORDING TO ADVERTISING REVENUES IN 2019 (GEL MILLION)	
Holding Fortuna	5.0
Radio Imedi	0.8
Geo Media	0.6
Radio Center Plus	0.6
Georgian Radio	0.4

Source: Analytical website of the National Communications Commission

²³ Radio advertising revenue includes the following components: advertising, sponsorship, product placement and announcements