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Main findings

- The October 2012 parliamentary elections and the change of government had a major impact on the advertising market. Shortly after the transition of power from the United National Movement to the Georgian Dream, the structure of the advertising sector was significantly altered. General Media, the company that previously held a monopoly on selling advertising on national TV, no longer exists. TV stations now compete against each other using different sales teams.
- Politics no longer plays a significant role in the allocation of advertising budgets. Today it would appear that companies have abandoned the practice of self-censorship when allocating marketing budgets, as had previously been the case, and now decide freely about their spending. In the regions, local newspapers report that businesses and individuals are no longer afraid of being associated with independent media outlets. As a result, the advertising market and thus the media market have become significantly more competitive.
- Several advertising companies that were previously controlled by former Defense Minister Davit Kezerashvili (through offshore shell companies) have been acquired by the Georgian-Russian businessman David Iakobashvili, a business partner of Kezerashvili in several energy companies since 2011.
- Despite relatively strong economic growth, the Georgian advertising market has not grown in recent years, which is bad news for the independence and sustainability of the Georgian media. TI Georgia estimates that total advertising spending in 2012 was around USD 54 million, including at least USD 8 million of spending by political parties.
- Investors remain cautious and concerned about perceived political instability. The poor performance of advertising spending in the first three months of 2013 combined with a slowing down of economic growth to 1.7 percent in the first quarter, has led most market observers to expect another decline of overall advertising spending this year. Numerous advertisers postponed their media buys in the beginning of this year by several weeks, waiting for the dust in the broadcasting and advertising sector to settle after ownership, teams, strategies and price lists had changed. Only in 2014 might advertising spending grow – providing that local and foreign businesses regain their confidence and start investing.
- TV channels' total net advertising revenue declined by approximately USD 1.5 million in 2012, largely because of perceived political uncertainty which led to more cautious advertising spending, and because of changes in the ownership of several TV stations, most importantly Imedi, in the last quarter. Advertising revenues of radio stations saw a slight increase compared to 2011.
- While both Rustavi 2 and Imedi saw a decline in advertising revenues, Maestro, Kavkasia and TV9 saw a strong increase in revenues in 2012, with strong growth ahead and shortly after the elections. After December, their monthly revenues took a sharp decline. Market stakeholders interviewed by TI Georgia believe that such growth in ad revenues was at least partly an emotional response to political developments, rather than a decision based on marketing assessments, broadcasters' content, and ratings.
- Television continues to receive approximately 72 percent of all advertising spending, with approximately 95 percent of this money going to Tbilisi-based stations. While Internet advertising is growing, it only accounts for two percent of Georgian advertising spending – less than USD 1.5 million in absolute terms;
- Many media outlets continue to lack professional advertising sales representatives that would be able to attract advertisers. This is especially true for media outlets based outside Tbilisi, which often focus all their available resources on reporting and content creation.

Recommendations

Media

- Smaller media outlets and news websites should consider new forms of cooperation in advertising sales, either by outsourcing their advertising sales or by offering a larger cumulative audience to advertisers through partnerships with other outlets.
- Media managers should pro-actively engage advertisers and advertising agencies to discuss what types of audiences and marketing opportunities different advertisers are interested in, and what kind of data advertisers would like to have in order to be able to make better informed spending decisions that would contribute to a wider diversification of their marketing spending.
- Media outlets should ensure compliance with all the legal, ethical, and professional norms to ensure a proper separation of paid and editorial content. Advertising and paid content should be clearly marked in all cases and for all types of media.

Parliament

- Policy makers should consider reversing the amendments made to the Law on Broadcasting in 2011 that extended the maximum time a TV station is allowed to air advertising per hour. By limiting supply of advertising time during prime time, stricter limits would help to stabilize and sustainably grow the rates of national TV stations. This in turn would encourage advertisers to diversify their spending, allowing smaller TV stations to compete on a more level playing field. Shorter commercial breaks would also improve viewers' experience and might improve the impact of advertisers' messages since fewer people would switch channels.
- Parliament should consult with the GNCC over amending the Law on Advertising so that product placement (which is not recognized by the current law) is subject to regulation. One option could be to require broadcasters to display a disclaimer at the beginning and/or end of a program, informing viewers that product placement is applied during this program, to ensure that consumers are not misled by paid guest appearances, reviews or reports that appear to be of an editorial nature.
- Parliament should consider an amendment to the Tax Code to exempt social advertising services, which is only of social value but has no commercial benefit and is imposed on media outlets by law, from value added tax payments. Furthermore, the definition of social advertisement should be specified to ensure that this title is not misused for political advertising.
- Parliament should also consult with the GNCC and the currently established Personal Data Inspector's office over a possible introduction of anti-spam regulations or a regulation that would allow customers to opt out from unwanted advertising messages via SMS.

Donors supporting the media sector should

- Continue and intensify efforts to provide media outlets, especially smaller outlets based outside Tbilisi, with training opportunities in management, distribution and sales.
- Continue to support efforts to improve and expand existing audience data collection efforts for different types of media, providing that such collection efforts can become self-sustaining in the mid-run;
- Provide support to initiatives in which smaller media outlets establish a cooperation to jointly market their advertising space;
- Support and facilitate pilot projects of online news outlets aimed at developing and trying innovative and unconventional business models to improve their financial sustainability.

Introduction

In the past three years, the Georgian advertising sector has seen a high degree of market concentration and was highly politicized. A first TI Georgia report that looked at advertising in 2011 highlighted that a network of people with links to former Defense Minister Davit Kezerashvili had established control over large parts of the sector. It also found that many companies self-censored their activities and allocated much, if not all, of their spending to media outlets that were not seen as critical of the government.¹

Much has changed in the media and advertising sector after the October 2012 elections and the transition of power from the United National Movement to the Georgian Dream coalition. This report seeks again to take stock of the sector and to highlight the challenges that remain.

A free, competitive and growing advertising sector is a precondition to a free and sustainable media sector, as well as to healthy business environment. Media outlets can only be editorially independent if they are not contingent on political sponsors or other interest groups for continuing subsidies and manage to operate in a financially sustainable way with diversified sources of income.

This report is based on public records, available public and commercial data, as well as interviews with more than 30 professionals from the advertising and media sectors as well as marketing executives of leading Georgian companies. Many of the interviewees asked to remain unnamed.

The distribution of advertising flows

Television – the primary source of news and information for nine out of ten Georgians – continues to attract the largest share of money spent on advertising in Georgia.² In 2012, an estimated 72 percent of spending went to TV, according to estimates by Publicis Hepta. Rustavi 2 and Imedi TV, the two private channels with national coverage, continue to have a combined audience market share of around 60 percent and receive more than two thirds of all TV advertising spending.³

Outdoor accounts for an estimated 11 percent of advertising spending – money that does not benefit the development of the media sector. Radio accounts for ten percent, print media for only five percent of spending.⁴ Despite the fact that for around 12 percent of the population the Internet has become their main or second source

¹ TI Georgia (2011): The Georgian Advertising Market http://transparency.ge/sites/default/files/post_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market_0.pdf (accessed May 16, 2013).

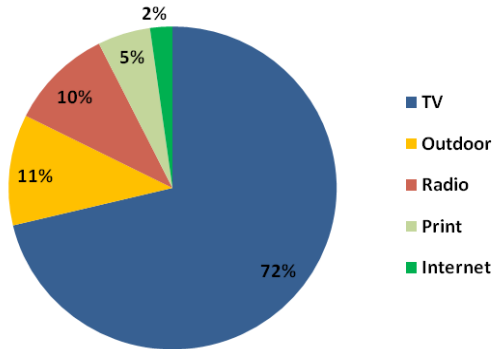
² The popularity of TV has remained consistent in recent years, despite growth in the number of Internet users. NDI/CRRC surveys from March 2011 and April/June 2013, <http://www.crrc.ge/store/downloads/projects/NDI%202011.rar> (accessed May 10, 2013).

³ A market share of 60% means that out of 100 minutes spent in front of the TV in Georgia, 60 minutes are spent watching Imedi TV and Rustavi 2. This data is measured electronically by AGB Nielsen Georgia and is representative for the country's urban population over 18.

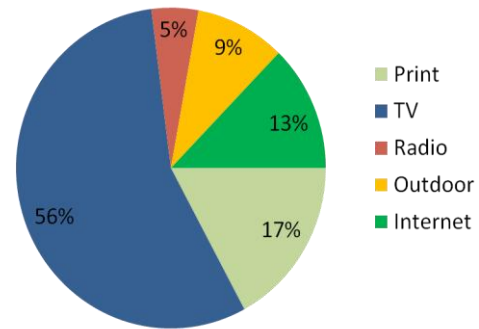
⁴ This estimate of net advertising expenditure is based on two different sources. To estimate the share of radio and television advertising spending TI Georgia used the data submitted to GNCC by broadcasting license holders. For outdoor, print and online expenditure TI Georgia estimates are based on net advertising expenditure analysis of Publicis Hepta.

of information about current affairs⁵, advertisers only spend a meager two percent of their marketing budgets online.⁶

Estimated net advertising expenditure – Georgia, 2012



Estimated net advertising expenditure – Central and Eastern Europe, 2012



Source: GNCC and Publicis Hepta

For outdoor, print, and online advertising spending, no detailed and reliable data is available. Publicis Hepta estimates that net outdoor advertising expenditure in 2012 was USD 6 million, net online advertising spending reached approximately USD 1.2 million while print advertising constituted approximately USD 2.8 million.⁷

Based on these estimates, net advertising in 2012 accounted for roughly USD 54 million, of which at least USD 8 million came from political parties. TI Georgia’s 2011 report suggested that in 2010 (which had local elections with low campaign spending), net spending was between USD 43 and 46.5 million. There are thus strong indications that in the past three years – possibly since 2008 – private sector advertising spending has been stagnating in Georgia, despite an economic growth of between six and seven percent per year between 2010 and 2012.⁸

Television

Television stations reported GEL 82,707,855 (around USD 50 million) of income in 2012 to the Georgian National Communication Commission (in several cases, sizeable contributions from owners and political backers were not accounted for).⁹ Advertising (including sponsorship, product placement and teleshopping) accounted for GEL

⁵ NDI/CRRC: Public Attitudes in Georgia, 2013, <http://www.crrc.ge/research/projects/?id=8> (accessed May 1, 2013).

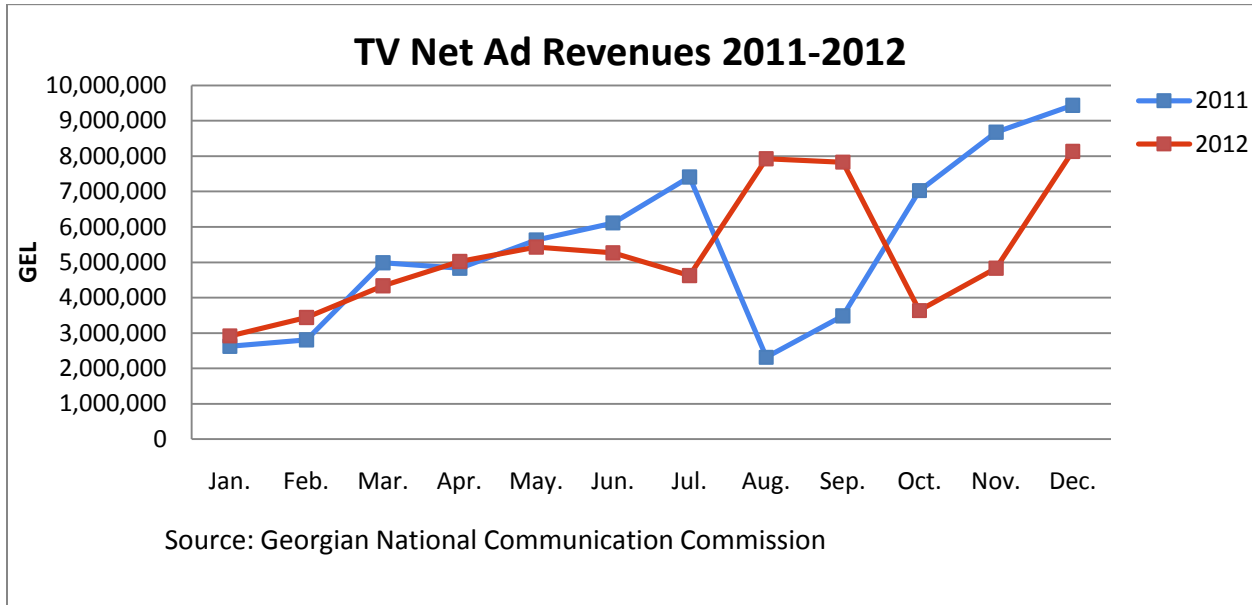
⁶ The charts show estimated net expenditures. The distribution of net advertising expenditure in Georgia is composed using two different sources: to estimate the share of radio and television advertising spending TI Georgia used the data submitted to GNCC by broadcasting license holders; for outdoor, print and internet expenditure TI Georgia estimates are based on net advertising expenditure analysis of Publicis Hepta; Data for Central and Eastern Europe were provided by Publicis Hepta;

⁷ Communication of TI Georgia with Publicis Hepta, April 26, 2013.

⁸ GeoStat GDP data: 6.3% growth in 2010, 7.2% in 2011, 6.1% estimated growth in 2012, http://geostat.ge/index.php?action=page&p_id=119&lang=eng (accessed May 29, 2013).

⁹ Exchange rate: USD 1 = GEL 1.65.

63,405,061 (USD 38.5 million) of revenues.¹⁰ 2012 shows a fall of around GEL 2 million (USD 1.21 million) in ad revenues compared to 2011. TV spending was significantly lower than in the previous year in every month after June. August and September were an exception since political advertising ahead of the October parliamentary elections compensated for a drop in private sector spending.



The largest advertisers on TV in 2012 were multinational producers of fast-moving consumer goods, telecommunication companies and breweries.

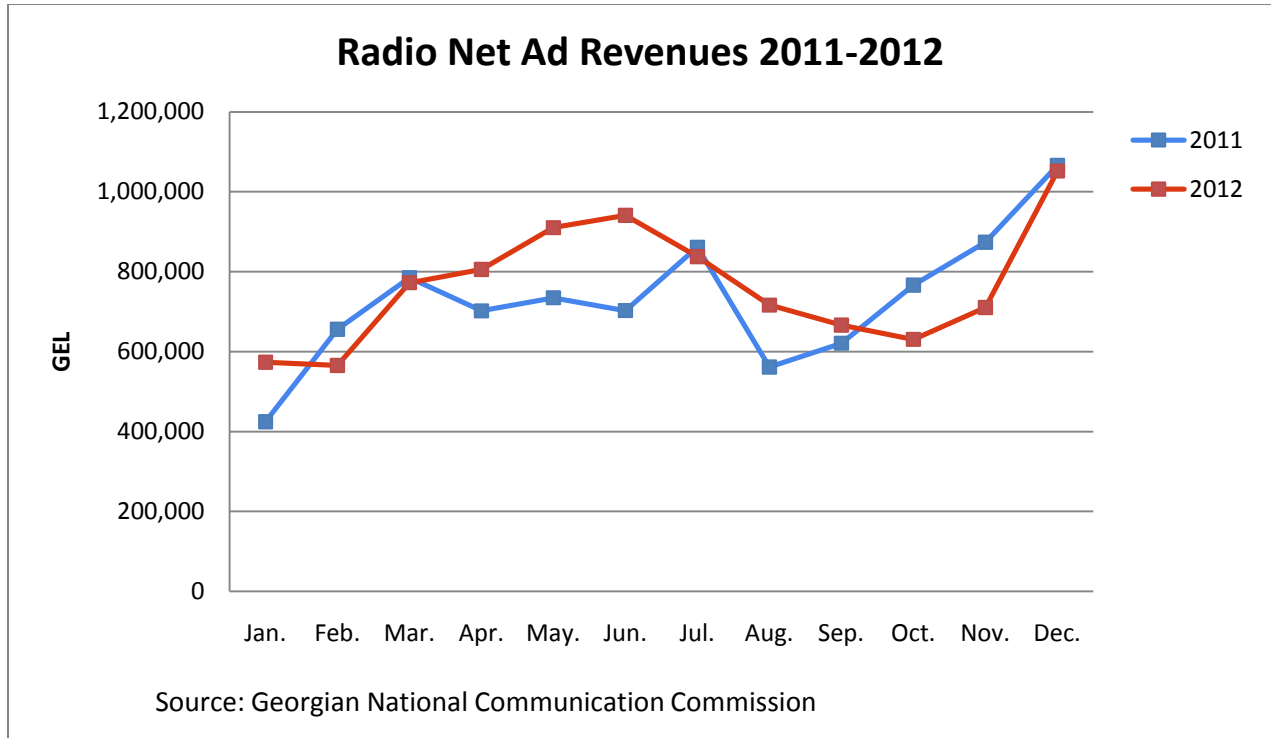
Largest TV advertisers in 2012 by gross spending			
1	KRAFT (Jacobs, Carte Noire, Alpen Gold, Toblerone, etc .)	11	WRIGLEY'S (Orbit, Juicy Fruit, Hubba Bubba)
2	PROCTER & GAMBLE (Gillette, Pampers, Pantene, etc.)	12	SCHWARZKOPF (cosmetics)
3	MAGTI GSM (mobile communication)	13	GEORGIAN BEER COMPANY (Zedazeni)
4	MOBITEL (Beeline, mobile communication)	14	BARAMBO (chocolate)
5	HENKEL (Persil, Syoss, Fa, etc)	15	SILKNET (Internet, IP-TV)
6	GEOCELL (mobile communication)	16	GEORGIAN LOTTERY COMPANY (gambling)
7	MARS (chocolate)	17	ELIT ELECTRONICS (retail, wholesale)
8	BREWERY NATAKHTARI (beverages)	18	PLAYADJARA.COM (gambling)
9	BANK OF GEORGIA (banking)	19	RICO CREDIT (microfinance)
10	TBC BANK (banking)	20	GLAXOSMITHKLINE (Sensodyne, medicines etc)

Source: TV MR GE, Nielsen Television Audience Measurement's licensee

¹⁰ TV stations are mandated to file regular reports of their revenues with the GNCC. However, stations report their revenues with varying levels of detail, and most stations do not account for in-kind contributions they receive from their owners or from political backers. The data was provided by the Georgian National Communication Commission in response to freedom of information requests.

Radio

Private radio stations reported total revenues of GEL 9,613,189 (around USD 5.8 million) in 2012, a slight decline from GEL 9,949,837 (around USD 6 million) in 2011. Advertising revenues grew from GEL 8,756,070 (around USD 5.3 million) in 2011 to GEL 9,182,361 (around USD 5.5 million) in 2012.



The impact of the October 2012 elections

After the change in government, prosecutors brought charges against Cesar Chocheli, the former governor of Mtskheta-Mtianeti, who was arrested over alleged illegal business activities and money laundering.¹¹ He and his family have either been shareholders, or else in the management of several major companies. These include Berta, a manufacturer of household and personal care products that ceased operations in late 2012, Barambo, a chocolate manufacturer, and the brewery Zedazeni. All three companies were among the top 40 TV advertisers in 2012.¹² As a result of the investigations, advertising spending of these enterprises is likely to decline in 2013.

¹¹ Civil.ge: Ex-Governor of Mtskheta-Mtianeti Region Arrested, 25 January 2013, <http://civil.ge/eng/article.php?id=25679> (accessed May 5, 2013).

¹² TV MR GE, Nielsen Television Audience Measurement's official licensee, data provided to TI Georgia on March 21, 2013.

Political advertising in 2012

Political parties in 2012 spent most of their (reported) advertising budget on television ads. While the Georgian Dream coalition spent much of their funding on campaign accessories such as T-shirts and flags, United National Movement focused its spending on campaign advertising.¹³

In the 60 days ahead of the parliamentary elections, the United National Movement spent a reported GEL 11.5 million on TV advertising, and GEL 1.08 million on print advertising. The Christian Democrats and New Rights parties spent another combined million GEL on TV ads, and close to GEL 450,000 on print ads. The Georgian Dream made significant media purchases of GEL 733,929 in the last days of 2011, just before new party financing rules came into force. They only reported minor campaign advertising activities, buying advertising slots, and paying for transmission and coverage of campaign events to several TV stations and the newspaper Guria News.¹⁴ It is possible that political parties, including the Georgian Dream (which also published its own party newspaper), underreported their actual spending.

	Television	Print	Internet	Brand Accessories	Other
United National Movement	11,503,061	1,085,403	53,097	253,146	1,816,548
Georgian Dream	123,833	20,483	-	-	-
Christian Democratic Movement	730,071	318,932	899	-	-
New Rights	427,152	124,987	-	-	17,239

Media purchases were also made by the two campaigning organizations – Georgia is not For Sale (supporting the UNM) and the civil movement Georgian Dream. The State Audit Office did not publish annual and election period declarations for these two organizations.

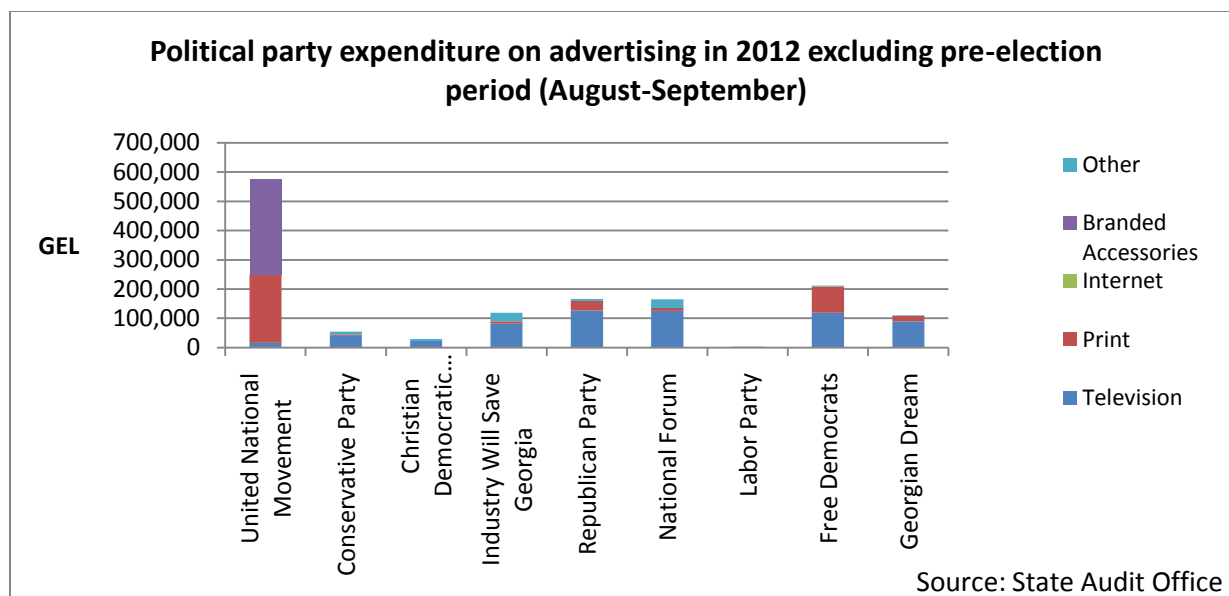
Outside the campaign period, political parties spent an additional GEL 1.5 million (including production cost) in 2012, according to the annual declarations submitted to the State Audit Office.¹⁶

¹³ See also: TI Georgia (2012): An Analyses of the election campaign finances – August 1 to October 1, http://transparency.ge/sites/default/files/post_attachments/An%20Analysis%20of%20the%20election%20campaign%20finances.pdf.

¹⁴ State Audit Office: Information on Financial Activities of Public Movement Georgian Dream/Media, http://sao.ge/res/files/uploads/monitoringis%20subieqtobi/media_gartuli-ocneba.pdf, (accessed May 7, 2013)

¹⁵ The figures are compiled by TI Georgia based on analysis of election period declarations submitted by political parties to the State Audit Office, http://sao.ge/?action=list_archive&p_id=387&lang=geo (accessed May 7, 2013). Declarations list party expenditures from August 1 to October 19, 2012 but not all parties have provided detailed reporting on media buys and marketing spending during their campaigns. Parties might also have underreported their spending. Thus, please interpret these numbers with caution. TI Georgia manually calculated vast amounts of data for these expenditures.

¹⁶ Financial Statements of political parties can be found at State Audit Office website, http://sao.ge/?action=pdf_archive&p_id=397&lang=geo (accessed May 10, 2013).



Regional broadcasters received hardly any income from political campaigns. Under a provision that aims at enabling political parties to reach out to potential voters, broadcasters are required to allocate free-of-charge slots for political advertising in the 60 days ahead of the elections: 90 seconds every three hours, divided in a non-discriminatory manner between all parties running.¹⁷ In 2012, parties made no major media purchases with local TV stations, relying only on advertising slots allocated to them for free.¹⁸

The issue of political and social advertising lies at the heart of current discussions. An inter-fraction group in Georgian parliament and a team of civil society organizations are working on legal amendments regarding political and social advertising. The working group intends, among other issues, to modify the definition of social advertising so that it is not misused for political advertising in the future.¹⁹

Television

Rustavi 2 and Imedi

Rustavi 2, the largest private Georgian media outlet, reported revenues of GEL 30,679,329 million for 2012, 95 percent of which was generated from advertising.²⁰ Compared to 2011, the channel's total income decreased by approximately GEL 9 million while advertising revenues declined by GEL 2 million.

Despite this decline, Kote Batmanidi, Rustavi 2's head of sales as well as shareholder (15 percent) of its new advertising sales house Inter Media, assesses 2012 as a generally good year, noting that the channel underwent a

¹⁷ Election Code of Georgia, Article 51 paragraph 5.

¹⁸ OSCE/ODIHR Election Observation Mission Final Report (2012), page 18 <http://www.osce.org/odihr/elections/98399> (accessed April 29, 2013).

¹⁹ Media.ge: Parliament Works on New Media Regulations, 13.06.2013 <http://www.media.ge/en/portal/news/300639/> (accessed June 20, 2013).

²⁰ Data provided by Georgian National Communication Commission.

restructuring that included a cut of employees' salaries. Batmanidi says that 2013 proves to be much better in terms of ad revenues than they expected. "What really impacts the market is not the political money but the environment that politics creates, which affects advertisers' strategies", Batmanidi told TI Georgia.²¹

Between 2011 and 2012 Imedi TV's revenues fell by almost 25 percent from GEL 28,132,817 to GEL 21,383,406. Advertising revenues declined by more than GEL 6 million, largely due to the channel's restitution to its previous owners in October, the replacement of staff, and the consequent re-launch of its programming.²² Even prior to the ownership change Imedi TV's old management had cancelled several entertainment shows due to financial problems.²³ The station's monthly ad-revenues declined from GEL 3 million in September to GEL 500,000 in January 2013.

Advertising limits, sponsorship and product placement

In 2011, amendments to the law on broadcasting increased the time TV stations are allowed to show advertising from 15 to 20 percent of their daily broadcasting time.²⁴ This move de facto legalized the systematic violations of Rustavi 2 and Imedi, who had been allocating more time to ads than the law allowed for. The amendments also increased the maximum permissible length of commercial breaks from 120 seconds to 300 seconds, stipulating that news, political programs, and pre-election debates may be interrupted with advertisements or teleshopping no more than every 15 minutes and no more than for 300 seconds.²⁵

Nikolay Sosnowski, Imedi TV's sales director, who had also worked for the channel until it was shut-down by special forces in 2007 and was then taken over by individuals close to the government at the time, believes that these changes in the legislation benefited Rustavi 2 and Imedi TV and allowed them to more collect advertising revenues but overall were not in the long-term interest of consumers or TV stations.

Georgian television has been characterized by excessively long commercial blocks. Due to this reason product placement and sponsorship of shows, which allows advertisers to have the first or last spot around an advertising break to communicate their message, has seen strong growth over the past two years. The 2012 IREX Media Sustainability Index found that "product-placement practices are rampant on television as stations have few qualms about presenting sponsored infomercials as news. It is an open secret that major television stations have price lists for commercial content packaged as news."²⁶ Representatives of Imedi TV and Rustavi 2 told TI Georgia that they extensively practice product placement and sponsorship, including guest appearances, in all programs other than news (where product placement and hidden advertising is banned by law).

²¹ TI Georgia interview with Kote Batmanidi.

²² Transparency International Georgia (2012): After elections, TV stations reposition themselves and change ownership. <http://transparency.ge/en/blog/after-elections-tv-stations-reposition-themselves> (accessed April 30, 2013).

²³ Media.ge: Cognitive-Entertainment Programs to be Closed Down on Imedi TV, October 6, 2012

<http://www.media.ge/en/portal/news/50292/> (accessed May 16, 2013).

²⁴ Civil.ge: Broadcast Media Transparency Ownership Bill Passed, April 8, 2011,

<http://www.civil.ge/geo/article.php?id=23870>, (accessed May 7, 2013).

²⁵ Georgian Law on Broadcasting, article 64, paragraph 9

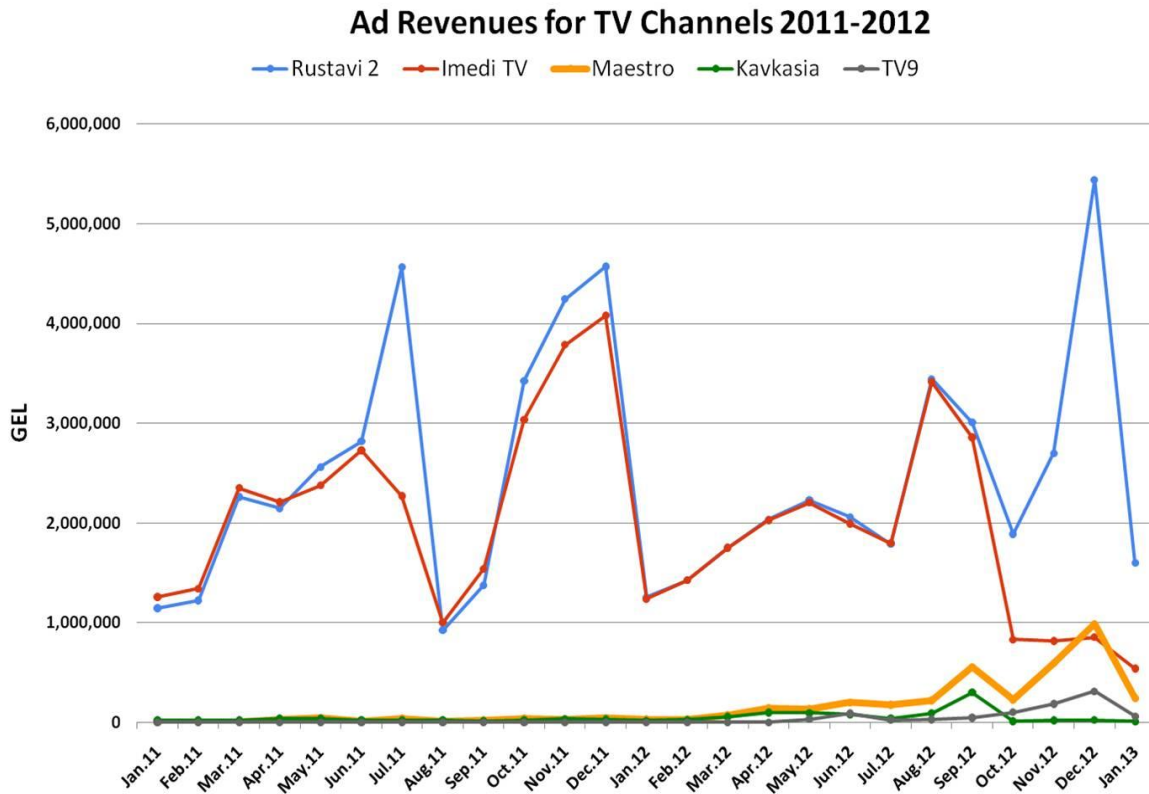
https://matsne.gov.ge/index.php?option=com_ldmssearch&view=docView&id=32866&publication=27 (accessed May 13, 2013).

²⁶ Irex (2012): Media Sustainability Index 2012, page 180.

http://www.irex.org/system/files/u105/EE_MSI_2012_Full.pdf (accessed April 30, 2013).

Maestro, Kavkasia and TV9

Several smaller TV Stations, especially Maestro and Kavkasia, saw a strong increase in revenues in 2012. Within one year, Maestro's reported revenue increased from GEL 285,005 to GEL 3,090,650 – a growth of more than 1,000 percent. Kavkasia's revenues increased from GEL 383,477 to GEL 1,136,680 between 2011 and 2012.



Source: Georgian National Communication Commission

Before April 2012, Maestro's monthly revenues remained significantly below GEL 100,000; from April onwards, they exceeded GEL 100,000 and continued growing until September, when the channel generated more than half a million Lari; a significant share of this advertising was likely to be of a political nature.²⁷ The strong growth in advertising revenue was not the result of a strong increase in ratings.

Maestro's new Sales Director, Nana Aburjanidze, says that the station's drop in advertising revenues which started in early 2013 was caused by the fact that the station had not invested enough resources in marketing strategies and was unable to maintain the rapid growth from the fall. This was the reason why Maestro's owners reorganized advertising sales and hired a new marketing team, consisting of several former General Media staffers, Aburjanidze says.²⁸ In early 2013, Maestro launched a second channel, Maestro 24, in an effort to diversify its content. While Maestro 24 will have a strong focus on news, political discussions and current affairs, Maestro will seek to attract the younger audience that advertisers look for with entertainment programming.

²⁷ Georgian National Communication Commission, data provided to TI Georgia upon freedom of information request.

²⁸ TI Georgia interview with Nana Aburjanidze, Sales Director of Maestro, March 28, 2013.

Only after the elections did TV9 see an increase in ad revenues, reaching GEL 311,063 in December 2012; revenues which fell sharply, however, starting from 2013.²⁹ Luba Eliashvili, director of TV9, says that her channel is now developing a new marketing strategy, saying that she and her team are still trying to understand why TV9 saw a significant growth in advertising revenues immediately after the elections. Eliashvili says it is not clear if this change was the result of emotional decision making from some advertisers and a feeling of guilt, or if it had to do with the station's programming and ratings.³⁰

Table: Audience Share by broadcasters³¹

TV Audience Shares 2011-2012		
Channel	Audience Share % 2012	Audience Share % 2011
Rustavi2	32.50%	33.09%
Imedi	27.52%	34.19%
GPB Channel 1	7.67%	5.59%
Other Foreign	5.36%	6.17%
Other Russian	3.85%	2.11%
New channel/Comedy*	3.59%	-
Sakartvelo**	3.44%	5.08%
Maestro	3.22%	1.58%
Kavkasia	1.78%	1.44%
GPB Channel 2	1.73%	0.79%
PIK***	1.67%	-
MZE	1.59%	1.56%
Other Georgian	1.51%	1.91%
TV 9****	1.03%	-
Enki-Benki	0.96%	0.34%
Music Box	0.72%	0.86%
Ajara	0.68%	1.11%
I STEREO	0.52%	1.00%
Real TV*****	0.33%	0.32%
Voice of Abkhazia*****	0.32%	-

Source: TV MR GE, Nielsen Television Audience Measurement's official licensee

* Comedy Channel is Rustavi 2's second channel which started broadcasting in December 2012

** TV Sakartvelo stopped airing since October 2012 when Tabula purchased its broadcasting license

*** Channel PIK was closed down in October 2012

**** TV9 started broadcasting in May 2012

***** RealTV closed its news service in October 2012. The channel airs only music and movies

***** Voice of Abkhazia started broadcasting in November 2011

While the elections were likely to be the main factor driving increased ad revenues of smaller channels from August 2012 onwards, the must-carry/must-offer rules allowed all households with either satellite or cable to watch opposition-leaning channels are also likely to have contributed to higher ratings of smaller TV channels.

A number of advertising professionals told TI Georgia that they believe the strong performance of Maestro and TV9 in the three months after the elections was partly caused by advertisers who thought it to be politically correct

²⁹ Georgian National Communication Commission; data provided upon a TI Georgia freedom of information request.

³⁰ TI Georgia interview with Luba Eliashvili, director of TV9, March 21, 2013.

³¹ Source: AGB Nielsen. This chart excludes a category 'Others' which includes other use of TV set (DVD, games etc).

to book ads on channels affiliated with the incoming government. “It became fashionable to advertise with Maestro and TV9 after elections. Despite the fact that there haven’t been sharp increase in the two stations’ ratings, some of our clients started requesting advertising on these channels”, says Tea Raphava from the advertising agency Media Port.³²

Another factor that might have contributed to the increased diversification of spending was that TV Sakartvelo, a movie channel with the highest ratings after the national channels, owned by a brother of former Mtskheta-Mtianeti governor Ceasar Chocheli, went off the air. So did Real TV, an opaque channel that had provided strong propaganda support for the United National Movement since 2010.

Regional Broadcasters

While audience measurement data is available for national and Tbilisi-based TV stations, regional stations are not covered by Nielsen data from TV MR GE, as its sample of households is only representative of the country’s urban population.³³

Natia Kuprashvili, executive director of Georgian Association of Regional Broadcasters (GARB), says that a survey conducted under USAID Human and Institutional Capacity Development (HICD) PLUS project for her organization found that about half the rural population says it prefers watching the news on their local TV station than news on national TV. Another survey by NDI/CRRC found that in a number of regional cities, more than half of the local population said they watched current affairs coverage on local TV; in Batumi and Zugdidi, this was as high as 70 percent. The same survey also indicated higher levels of trust in the coverage of local stations than in that of national channels.³⁴

Despite the deep roots of local stations in their communities, these channels have not been able to attract a significant share of the television advertising spending. Ticker announcements with obituaries, personal messages and classified ads remain the largest source of income for most local stations. Kuprashvili estimates that only about one percent of TV-spending is going to region-based stations.³⁵ However, revenues appear to be growing.

2012 saw two successful efforts to establish advertising sales houses through which local stations can outsource at least part of their ad sales and potentially also tap into the marketing budgets of larger, Tbilisi-based companies. GARB says it managed to generate GEL 90,000 in ad revenues for its 20 member channels in 2012. Region Media Market, a new sales house that works for 13 regional televisions, founded by Levan Aleksishvili, the director of Gurjaani TV, says it generated GEL 200,000 in revenues.³⁶

“It was extremely difficult to attract advertisers last year, especially considering the monopolistic market structure. Attracting ads for regional broadcasters is like entering virgin soil. Nevertheless, to our big surprise, we managed to collect considerable amount of ad revenues, mainly thanks to private contacts with companies’ marketing managers,” Aleksishvili told TI Georgia.³⁷

³² TI Georgia interview with Tea Raphava, account manager of Media Port, April 17, 2013

³³ See: <http://www.agbnielsen.net/whereweare/georgia.asp>.

³⁴ Survey results are available on the CRRC website, <http://www.crrc.ge/research/projects/?id=8>, (accessed May 10, 2013).

³⁵ TI Georgia interview with Natia Kuprashvili, executive director of GARB, March 25, 2013.

³⁶ TI Georgia interview with Levan Aleksishvili, founder of Region Media Market, April 22, 2013.

³⁷ Ibid.

For 2013, his outlook is less optimistic. A large part of the advertisers he managed to attract last year were companies selling seeds, fertilizers and equipment to farmers. But many of these companies stopped advertising after the government started handing out vouchers worth between GEL 100 to 640 (depending on the size and type of the land) to over half a million farmers for these products.³⁸ Because of these vouchers, Aleksishvili says, companies saw a strong increase in demand for their products and cut back their marketing budgets, meaning less advertising on local TV. “Yes, market is free now, but there is not enough money in local businesses. More companies are interested in advertising, but their budgets are small and there is still a feeling of uncertainty.”³⁹

The dissolution of General Media

The de-facto dissolution of General Media in December put an abrupt end to a company that between 2010 and the autumn of 2012 had a de facto monopoly on selling advertising slots on national TV. General Media, which TI Georgia found to be connected to a network of friends and relatives around former Defense Minister Davit Kezerashvili, had exclusive contracts with Rustavi 2 and Imedi, as well as with several smaller Tbilisi-based channels, such as Sakartvelo, Mze, Real TV and I Stereo. About two-thirds of all advertising spending in Georgia have gone through the accounts of General Media in the past two years.⁴⁰

The apparent main reason for the decline of General Media was the change in ownership and management of several TV stations after the elections.⁴¹ Imedi TV, after it was restituted to its previous owners, the family of late oligarch Badri Patarkatsishili, by the outgoing government, preferred to sell advertising time with its own in-house team. Talks about including Maestro TV into General Media’s portfolio failed.⁴² Rustavi 2, together with its new Comedy Channel, appeared to be the only stations willing to continue working with several members of the old sales team, now under the name Inter Media.

While General Media’s disappearance and an increase in competition was assessed as a positive fact by most of the interviewed stakeholders, some advertisers said they find it more difficult to communicate with a number of different sales teams representing various TV stations and preferred having General Media as a one-stop shop.⁴³

TV ad sales: old players, new competition

The number of professional actors in the television advertising sector remains small; lines between ad agencies, sales houses and TV stations are at times blurred and the same individuals are at times involved in different, sometimes competing, companies. This structure leads to a significant risk of conflicts of interests and of potential misuse of market powers.

A group of former General Media employees remain in key positions but now no longer has a dominant market power. Zurab Gumbaridze, a former General Media executive, is now director of Inter Media, which sells ads for Rustavi 2 and Comedy Channel. Konstantine Batmanidi, the head of sales department at Rustavi 2 holds 15 percent

³⁸ Ministry of Agriculture (2013): Distribution of Agricultural Cards Began. <http://moa.gov.ge/?p=2338&lang=en> (accessed April 30, 2013).

³⁹ TI Georgia interview with Levan Aleksishvili, founder of Region Media Market, April 22, 2013.

⁴⁰ See: TI Georgia: The Georgian Advertising Market (2011).

⁴¹ See: TI Georgia: After elections, TV stations reposition themselves and change ownership, 16 October 2012, <http://transparency.ge/en/blog/after-elections-tv-stations-reposition-themselves>.

⁴² TI Georgia interview with Nana Aburjanidze, Sales Director of Maestro, March 28, 2013.

⁴³ TI Georgia interview with Pro Media, Spot Media and Media Port.

of shares in the newly created company.⁴⁴ Zurab Gumbaridze also holds shares in Formula Proesko Productions, a company that recently received a GEL 450,000 video production contract from the Ministry of Culture.⁴⁵

Maia Metreveli was another key person at General Media.⁴⁶ She and Zurab Gumbaridze founded two advertising agencies, Pro Media and Spot Media, which, according to media reports, are now affiliated with WPP, a global advertising and marketing group.⁴⁷ Both are newly created companies that started operating in 2012 and rapidly managed to win pitches with major clients including Kraft, the largest advertiser in Georgia, which now works with Spot Media.⁴⁸ In addition to Pro Media and Spot Media, Maia Metreveli is also a shareholder in Media Port, another advertising agency.⁴⁹

Radio

There are 36 radio broadcasters in Georgia as of June 2012.⁵⁰ Radio stations generated GEL 9,182,361 of advertising revenues in 2012 according to data reported to the GNCC – a five percent increase compared to 2011. However, not all radio stations managed to equally benefit from this growth. While Radio Maestro reported that it more than doubled its revenues to GEL 107,318, Radio Voice of Abkhazia's revenues decreased by 51 percent. Other major stations performed more or less at the same level as in 2011.⁵¹

The lack of independently measured audience numbers has been a challenge for Georgian radio stations. Maia Mazanashvili, Head of Marketing of Radio Sakartvelo, says large international advertisers such as Procter & Gamble have not booked radio spots because stations have been not been able to sell ads based on Gross Rating Points

⁴⁴ Public documents available on Public Registry website, https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=481640&app_id=557497, (accessed April 29, 2013).

⁴⁵ Georgian Public Registry, https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=490450&app_id=567266, (accessed May 26, 2013); Netgazeti: Patriarch, Ananishvili, Lekseni, Kikabidze – Projects Financed by the Ministry of Culture, January 21, 2013, <http://www.netgazeti.ge/GE/105/News/16179/>, (accessed April 29, 2013).

⁴⁶ TI Georgia (2011): The Georgian Advertising Market, p.19.

⁴⁷ This affiliation is not (yet) reflected on WWP's website, <http://www.wpp.com> (accessed May 30, 2013); Georgian Public Registry, https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=530457&app_id=607913, (accessed April 29, 2013); Georgia Today: World's leading marketing communications group comes to Georgia, 15 March 2013, http://www.georgiatoday.ge/article_details.php?id=10943 (accessed 29 April 2013).

⁴⁸ TI Georgia interviews with executives of Pro Media and Spot Media, April 3, 2013.

⁴⁹ *Spot Media shareholders*: Maia Metreveli (10%), Zurab Gumbaridze (10%), Nino Babukhadia (10%), Gia Burzгла (19%), Leli Chelidze (51%).

https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=523799&app_id=601212 (accessed May 21, 2013); *Media Port shareholders*: Maia Metreveli (30%), Studio Metro (5%), Ad Windforce (5%), Universal Capital Group (60%). Universal Capital Group is owned by David Iakobashvili.

https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=536452&app_id=614256 (accessed May 21, 2013); *Pro Media shareholders*: Maia Metreveli (15%), Leli Chelidze (55%), Gia Burzгла (20%), Zurab Gumbaridze (10%).

https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=530457&app_id=607913 (accessed May 21, 2013).

⁵⁰ Georgian National Communication Commission: http://www.gncc.ge/index.php?lang_id=GEO&sec_id=5706, (accessed May 20, 2013).

⁵¹ Georgian National Communication Commission: data on income of private radio stations was provided by GNCC on April 10, 2013, upon freedom of information request by TI Georgia.

(GRPs).⁵² This inability to sustain large advertisers, especially fast moving consumer goods companies, has left radio in a disadvantaged position compared to television. Radio remains more popular with local businesses.

In January 2013, IREX and Market Intelligence Caucasus, the licensee of TNS in Georgia, launched an uninterrupted radio audience survey to track the listening habits of Georgia’s urban population. Data is collected through telephone and face-to-face interviews. From January to April, three waves of surveying were carried out.⁵³

44 percent of respondents listened to the radio within the previous day or in the last week. Akhaltsikhe and Kutaisi had the highest rate of radio listeners with 52 percent; Tbilisi had 49 percent, while Zugdidi had the smallest share of listeners with only 13 percent of the adult population there. The research also shows that radio listeners have higher than average income, are more likely to be employed, are much more likely to own a car and are most commonly aged between 25 and 34.

Although subsequent research will provide more detailed information on listening, particularly in smaller communities, IREX G-MEDIA radio consultant Richard McClear says these first results show that radio stations in Georgia have a larger audience than many

people thought. Radio is particularly strong among car owners, 60 percent of whom listen to it each day. McClear says he was surprised to see that while many others listen at home (35 percent). The research shows that 15 percent of listeners use mobile phones to listen to the radio, seven percent listen through other mobile devices and five percent listen online via their computer. “These figures show that radio listening is keeping up with the times and broadcasters are delivering radio through new platforms”, McClear says.⁵⁴

The survey does not allow for the same sophisticated calculations of reach and audience that can be made for TV, where so called people meter boxes create constant electronic records of a household’s television consumption. However, the radio survey is as a positive step, providing basic data that will help efforts to highlight the attractiveness and advantages of radio to advertisers.

AQH Share - National (January-April 2013)

	AQH Share	Sample
Ar daidardo	31%	1,068
Fortuna+	9%	298
Fortuna	6%	197
Avtoradio	6%	226
Aphazetis khma	7%	183
Radio Imedi	5%	226
Mtsvane talga/Green Wave	2%	82
Muza	2%	34
Mtavari radio	0.4%	14
Radio ART	0.4%	6

AQH Share - specific radio's listening share in an average 15 minutes interval (in %) Data marked in grey and also under the red line is not statistically valid Source: TNS-Market Intelligence Caucasus.

⁵² TI Georgia interview with Maia Mazanashvili, head of Marketing of Radio Sakartvelo, April 5, 2013.

⁵³ The research is carried out by Caucasus Market Intelligence, the licensee of TNS and funded by IREX G-Media Program, as is this report. Within the reporting period 4,178 face-to-face and telephone interviews were conducted in 14 cities of Georgia. A presentation with detailed audience data is available on IREX Georgia’s website, http://irex.ge/wp-content/uploads/TOTAL_22-05_Eng.pdf (accessed June 3, 2013).

⁵⁴ IREX March 15, 2013: <http://irex.ge/archives/1080> (accessed June 6, 2013).

Print

Advertising in press remains one of the weakest spots of the advertising market. The circulation of Georgian newspapers remains unmeasured but is commonly perceived to be low. Kviris Palitra, the largest newspaper in Georgia reports a circulation of 63 thousands weekly.⁵⁵ Reportedly, the circulation of most well known political daily newspapers such as Rezonansi and 24 Hours does not exceed significantly 5,000 copies.⁵⁶

Kviris Palitra reported a 7 percent increase in ad revenues in 2012 and expects another 15 percent growth in 2013, according to Irina Sharvashidze, the head of advertising at Palitra Media.⁵⁷

Many daily and weekly publications reporting on current affairs provide a mix of rumors, opinions and factual reporting. Because of the inconsistent quality of the reporting, newspapers rarely manage to shape public debates or influence opinion leaders. Some papers are prone to publish hate speech, xenophobic, and harshly nationalistic statements – something that major advertisers generally do not want to be associated with.⁵⁸ Those who advertise in newspapers are often small and medium size firms that are reluctant to shift their marketing activities online.

Many publications struggle to communicate to advertisers which readers they are able to reach. Tamar Chergoleishvili, the editor-in-chief of Tabula magazine, says that being able to offer advertisers a clearly defined target audience was the main reason behind Tabula's successful marketing.⁵⁹ In 2012, Tabula, a general interest magazine with strong element of libertarian-leaning commentary, partnered with the Internet and IPTV provider Silknet and distributed the magazine for free to SilkTV subscribers. The circulation increased to 20,000, 16,000 of which were distributed for free. As the number of readers went up, so did its advertising revenue. Last year the magazine generated an income of more than GEL 350,000 from advertising. However, it was not enough to make the magazine fully financially sustainable. Tabula is in the process of launching a TV station, while the magazine has moved from weekly to monthly publication.

Newspapers in the region

Newspapers published in cities and towns across Georgia appear to be in a better situation since the elections: political pressure appears to have vanished and businesses, distributors and readers are no longer afraid of being affiliated with politically independent outlets. "Before the elections, the majority of companies had a list of opposition media outlets where they wouldn't place ads in order not to put their business at risk. Things have changed and we don't see this fear anymore. Our revenues grew after the elections", says Ia Bobokhidze, publisher and editor in chief of the Akhali Gazeti (New Newspaper) from Kutaisi.⁶⁰ "The mood has changed after the elections and more people are placing small announcements in our paper without being afraid", says Laura Gogoladze, the publisher of the newspaper Chemi Kharagauli (Our Kharagauli) from the Imereti region.⁶¹

⁵⁵ TI Georgia interview with Irina Sharvashidze, Head of Advertising Department at Palitra Media, March 22, 2013.

⁵⁶ IREX (2013): Europe & Eurasia Media Sustainability Index 2013, April 2013, p.162.

⁵⁷ TI Georgia interview with Irina Sharvashidze, head of Advertising Department of Palitra Media, March 22, 2013.

⁵⁸ Media.ge: Hate speech in Georgian press, December 21, 2011, <http://www.media.ge/en/portal/news/44049/>, (accessed May 10, 2013).

⁵⁹ TI Georgia interview with Tamar Chergoleishvili, the editor of Tabula magazine, April 4, 2013.

⁶⁰ TI Georgia interview with Ia Bobokhidze, May 27, 2013.

⁶¹ TI Georgia interview with Laura Gogoladze, May 26, 2013.

Because of a lack of sales capacity, however, most local publications have only classified ads. Most publications in the regions that are known for their strong coverage of local developments focus their scarce resources on reporting, and, when time is left, to gain some new subscribers. But the papers have neither the staff nor the skill sets to approach and win over potential advertisers. “Basically, we don’t have advertisements, except when Ministries and international organizations place paid announcements. Previously we have made attempts to attract some advertisers but it didn’t work. Now we are not working in this direction because we lack sales and marketing skills in our staff. Right now we depend on donor grants”, says Rima Garibiani, the editor of Samkhretis Karibche’s (Southern Gates) from Akhalkalaki.⁶²

“I recognize the importance of advertising, but there is one big challenge: I don’t have competence and experience in how to gain advertisements”, says Laura Gogoladze from Kharagauli. The same concern is echoed by Ia Bobokhidze of Akhali Gazeti: “What prevents us from further growing our revenues is that we don’t have management or marketing staff, and we don’t have any data for our local market. Our distribution area is also limited, and print quality of our paper is also fairly poor”, Bobokhidze told TI Georgia.

Case study: Palitra Media

Palitra Media is the only major integrated media holding in Georgia that has managed to grow in a sustainable way and diversify its business without maintaining links to political leaders. What started with one newspaper in 1995 has become a company that publishes close to 20 newspapers and magazines. Palitra Media’s portfolio also includes a number of news and entertainment websites, Georgia’s leading news agency, Interpress news, Radio Palitra, a recently launched cable TV channel, Palitra TV; not to mention a chain of bookstores, a book publishing house and a print media distribution network.

Irakli Tevdorashvili, the general manager of Palitra Media says his company has had the same problems with undue government interference that other outlets suffered from. In 2008, some businesses became reluctant to place ads in Palitra Media outlets, a trend which continued till the end of 2012, creating financial problems for the holding. “In a sense, we were lucky,” Tevdorashvili, says. “We diversified our business. We moved online and launched a publishing house. We didn’t know whether these sectors would be profitable but they turned out to be. Now we don’t depend on one source of income only. When having problems in one segment, we compensate with another one.”⁶³

As television remains very strong, Palitra chose to diversify and grow horizontally – moving into different media segments – as well as vertically by creating an in-house supply chain with printing, distribution and sales. Palitra also diversified its content: it now offers serious news reporting, tabloids, entertainment magazines and special interest publications. This diverse portfolio allows Palitra to offer advertisers packages and direct revenues to outlets that would otherwise have difficulties to attract the same advertising partner as a stand-alone outlet.

Online

Many advertising and media professionals TI Georgia interviewed see online advertising as the fastest growing advertising segment in Georgia. However, little data is available to substantiate these perceptions. Online spending continues to rank behind all other media vehicles; it accounted for an estimated two percent of all ad-spending in

⁶² TI Georgia Interview with Rima Garibiani, May 27, 2013.

⁶³ TI Georgia interview with Irakli Tevdorashvili, May 9, 2013.

2012, generating approximately USD 1.2 million revenues for websites.⁶⁴ Previously, TI Georgia estimated Internet advertising accounted for one percent of spending and remained below USD 1 million in 2010.⁶⁵ Earlier this year, a TI Georgia report on the state of the Internet found that there is now little growth in the number of Internet users.⁶⁶ About a quarter (24 percent) of Georgia's adult population is online every day; another eight percent of the population is online at least once a week, according to the CRRRC Caucasus Barometer survey, conducted in late 2012.⁶⁷

The underdeveloped E-commerce sector and the small number and turnover of Georgian online vendors who would promote their products online might be one of the reasons for the slow development of the online advertising market. PayPal, an online payment system, opened its services for Georgian clients in April 2013, which might facilitate growth for online stores by allowing for better payment options.

Hardly any Georgian news website uses cookies (besides those of social media tools and Google Analytics) that would allow the outlet as well as advertisers to better track the behavior of their visitors and the reach and impact of their ads. Cookies are small text files a website stores in the browser when visiting a website. Because cookies allow website operators to collect information about their visitors without the user's knowledge, an increasing number of media outlets, for example the online version of the Economist, alerts its visitors to the use of cookies and the outlet's privacy policy.⁶⁸ The European Advertising Standards Alliance has elaborated self-regulatory guidelines and good practices that serve as an industry standard for online behavioral advertising.⁶⁹

Over the past two years, a number of news outlets have started to better market their banner space by, for example, displaying banners in unsold slots that link to advertising price lists and contact information of sales staff. Most Georgian news websites continue to sell advertising for a monthly fee, rather than charging for 1,000 views or per click.

There is no widely used and generally trusted framework for measuring and comparing user data of news and entertainment websites in Georgia. Top.ge, which provides visitor ratings for participating websites, is not widely trusted as a neutral and independent measurement mechanism by a number of advertisers and online media outlets TI Georgia spoke to.

There appears to be no significant independent sales companies that specialize on managing online campaigns and marketing ad-space for news and entertainment websites on a commission basis, so that smaller media outlets could outsource the sales of their advertising space.

⁶⁴ TI Georgia estimates based on official data on broadcasters incomes received from GNCC upon FOI request and analysis of Publicis Hepta shared to TI staff on April 26, 2013.

⁶⁵ TI Georgia (2011): The Georgian Advertising Market, p.6.

⁶⁶ TI Georgia (2012): The State of the Internet – Who controls Georgia's communication sector?, p. 8.
http://transparency.ge/sites/default/files/post_attachments/State%20of%20the%20Internet,%20Press%20Release%20ENG.pdf.

⁶⁷ Caucasus Research Resource Centers (CRRRC): Caucasus Barometer 2012 – Georgia (the data was unweight at the point it was provided to TI Georgia in December 2012).

⁶⁸ See: <http://www.economist.com/cookies-info> (accessed May 10, 2013).

⁶⁹ European Advertising Standards Alliance: Comprehensive standards for Online Behavioural Advertising, <http://www.easa-alliance.org/page.aspx/386>.

Several representatives of online news outlets lamented a lack of professionalism among marketing managers, saying that advertisers still do not realize the full potential of online advertising and as a result do not manage to successfully plan such campaigns.

Facebook

Facebook is a huge competitor for Georgian news websites and appears to attract a large chunk of online advertising spending. The high reach of the social network in Georgia, its cheap prices for ads targeting a local audience, and the fact that its tools and statistics allow advertisers to easily launch and manage ad campaigns provide Facebook with a competitive advantage. According to Facebook's data, it has now more than 1 million users in Georgia.⁷⁰ In 2012, Facebook generated between USD 250,000 and 300,000 of revenue in Georgia, according to data provided by Publicis Hepta.⁷¹ This would mean that roughly 20 to 25 percent of all online ad spending flows to Facebook and thus does not benefit Georgian news and entertainment websites.

Facebook advertising is charged either by 1,000 impressions (CPM) or by every click on the ad (CPC). For Georgia, average cost of CPC is USD 0.04; the cost of CPM is as low as USD 0.01. For comparison: in the United States, average CPC is USD 0.74 and CPM is USD 2.38.⁷²

Sustainability of News Websites

The online news media landscape in Georgia is pluralistic. There are a few partisan outlets as well as several websites offering coverage without a political spin. Online media is free from licensing requirements, which means that there are lower barriers for new actors to enter the market; production costs are lower than for broadcasters or print media, decreasing the dependency on wealthy financial backers.

Many of the news websites, especially those based outside Tbilisi, continue to struggle to attract advertising revenues and often largely or fully depend on support from international donor organizations.

So far, Georgian online outlets have done little experimenting with different business models and to find innovative ways to generate and diversify their income. "Grants are slowly running out, so it is time for media outlets to start thinking as businesses and how to become sustainable. This is why also we are planning to focus more on marketing," says Maia Tsiklauri, editor in chief of Media.ge, a tri-lingual site covering media developments that is predominantly funded by grants.⁷³ Despite the fact that media.ge reaches an audience of opinion leaders and multipliers and offers high-quality reporting, it only managed to attract GEL 4,000 in advertising revenues in 2012. The site is planning to hire a marketing manager and hopes to double ad revenues this year.⁷⁴

Within financial support of USAID/IREX, Transitions (TOL) and the Open Society Georgia Foundation (OSGF), a number of Tbilisi-based and regional online media outlets including batumelebi.ge, media.ge, liberali.ge, livepress.ge, newscafe.ge, TSPress.ge, icn.ge, kavkasiatv.ge and icmm.ge launched new websites on the open-

⁷⁰ <https://www.facebook.com/ads/> (accessed May 30, 2013).

⁷¹ TI communication with Publicis Hepta, April 26, 2013.

⁷² Facebook ad prices for different countries can be calculated on <http://facebook.com/advertising>.

⁷³ TI Georgia interview with Maia Tsiklauri, Chief Editor of Media.ge, March 15, 2013.

⁷⁴ Ibid.

source Newscoop platform developed by Sourcefabric.⁷⁵ This effort to create more user-friendly websites with a built-in content managements system would also allow for cooperation between these outlets in collectively selling their ads by pooling their audiences.

The lack of in-house marketing staff remains a key challenge for news websites, which often focus all available resources on reporting and editorial staff. One such example is Netgazeti.ge, a news-website owned by Batumelebi that has gained the reputation for high quality reporting but still struggles to attract even enough advertising revenues to bridge gaps between donor projects.⁷⁶

However, there are also successful examples where outlets manage to sustain their operations and grow: Media Palitra, the only major integrated media holding in Georgia, which owns among other websites ipn.ge, ambebi.ge and palitratv.ge, says its revenues from online advertising doubled in 2012, with online accounting for 22 percent of the group’s ad revenue, behind print (66 percent) and ahead of radio (12 percent).⁷⁷

Outdoor advertising

In 2012, outdoor advertising accounted for an estimated USD 6 million of revenue, making it the second largest advertising vehicle after television.⁷⁸ Tobacco and gambling companies are the largest outdoor clients. Kote Chavchanidze, the director of Outdoor.ge, the leading owner and manager of billboards and displays in Tbilisi, says that restrictions on alcohol and tobacco advertising in print and broadcasting media drive these advertisers to promote their products with billboards. Chavchanidze told TI Georgia that many outdoor advertisers have cut their budgets for 2013 by 10 to 15 percent compared to last year, and that he was expecting an overall decline of advertising expenditure for 2013.⁷⁹

For outdoor advertising in Tbilisi, limited data is available. The Institute for Polling & Marketing (IPM) monitors outdoor advertising locations biweekly and calculates the number of people who pass by – the so-called Opportunities To See: OTS. The data can also be used to calculate Gross Rating Points. However, only a minority of advertisers uses the data and there is not sufficient demand from companies to produce more data, Ketj Javakhishvili, the client service manager at IPM says.⁸⁰

Outdoor.ge continues to have a dominant market position for outdoor advertising in Tbilisi, as it holds an exclusive license from the Tbilisi City Hall to manage all billboards on the right side of the Mtkvari River. Kote Chavchanidze, the company’s director, told TI Georgia that his company, together with its contractor Alma+, controls around 90 percent of all outdoor spaces in the capital.⁸¹ Smod Advertising holds the license for the left side of the river – a company that has never been operational as a separate entity but de facto appears to be part of Outdoor.ge.⁸²

⁷⁵ Sourefabric is a nonprofit foundation registered and headquartered in Prague, Czech Republic. Apart from above mentioned online outlets, they also have been (independently) collaborating with netgazeti.ge.

⁷⁶ TI Georgia interview with Nestan Tsetskladze, Chief Editor of Netgazeti, March 18, 2013.

⁷⁷ TI Georgia Interview with Irina Sharvashidze, Head of Advertising Department of Palitra Media, March 22, 2013

⁷⁸ Estimate by Publicis Hepta.

⁷⁹ TI interview with Kote Chavchanidze, director of outdoor.ge, April 1, 2013.

⁸⁰ Interview with Ketj Javakhishvili, Client Service Manager at IPM, April 23, 2013.

⁸¹ GRP is calculated by dividing number of people that had the opportunity to see the outdoor advertising by the number of population over 18. TI Georgia interview with Kote Chavchanidze, director of outdoor.ge, April 1, 2013.

⁸² Smod Advertising does not have a website and cannot be searched on “Yellow Pages” directory.

Both companies have been controlled by offshore shell entities that TI Georgia believes were a front for Davit Kezerashvili. Since the change of government, David Iakobashvili appears to have acquired Outdoor.ge and Smod (see sections below).

A number of smaller companies and individuals in Tbilisi have billboards, often attached to houses they own, which they rent directly to advertisers. Outside of Tbilisi, billboards are often managed by individual entrepreneurs who own a single or a few locations, rather than by companies.

Mobile Advertising

A Growing number of companies, mostly retailers, banks and health care providers, use SMS advertising in Georgia, which costs advertisers between 2 and 4 Tetri per message.⁸³ Mobile advertising is regarded as an aggressive advertising tool, but it has high visibility – almost every recipient will see the message, no matter how annoyed he or she might be.

Several companies offer bulk SMS advertising services. GeoSMS and MS Group work exclusively with Geocell⁸⁴ and Beeline⁸⁵ respectively, while a few other companies operate independently.⁸⁶

However, this is an intrusive form of advertising that remains largely unregulated – there is neither anti-spam legislation nor an industry-wide possibility to opt-out from spam SMS – and in Georgia raises some privacy concerns. Two of the companies, Paradox Georgia and GeoSMS, interviewed by TI Georgia, confirmed they are in possession of large databases of Georgian mobile phone numbers and other data points connected with these numbers but neither company wanted to disclose how they received this data.⁸⁷ Mobile operators told TI Georgia that they are not selling or sharing the numbers of their clients.

The launch of a new government office – the personal data inspectorate, which is currently created – might have a significant impact on this advertising segment, as consumers will be allowed to file complaints if they believe their personal data is not collected, stored and used in line with the Law on Personal Data Protection, which, although gradually being implemented, will only be fully enforced by 2016. The personal data inspectorate will be able to investigate both companies and government entities, to ensure their compliance with the law.⁸⁸

Professionalization: The use of Gross Rating Points – GRP

Driven by multinational advertisers and large Georgian companies, the advertising and marketing sectors are seeing a slow but steady move to become more professional and sophisticated. One such indication is the increased use of Gross Rating Points (GRP), which allows advertisers to target the audiences it wants to reach and place ads in a more efficient way, thus allowing the company to get the desired number contacts with consumers,

⁸³ TI Georgia interview with Rufat Bagirov, Marketing Director of GeoSMS, March 25, 2013.

⁸⁴ Both GeoSMS and Geocell confirmed the partnership; Beeline confirmed the partnership; TI Georgia interview with Rufat Bagirov, Marketing Director of GeoSMS, March 25, 2013.

⁸⁵ Beeline confirmed the partnership.

⁸⁶ Both Geocell and Beeline confirmed to TI Georgia that these partnerships exist.

⁸⁷ TI Georgia communication with Paradox Georgia on March 20, 2013 and GeoSMS on March 25, 2013

⁸⁸ Georgian Law on Personal Data Protection, Article 27, Paragraph 1; Ibid. Article 39.

not more and not less. This practice increasingly replaces the buying of slots around specific programs – sometimes the favorite TV shows of the head of the company’s marketing department and his/her family members.

GRP is defined as:

“A measure of the total amount of the advertising exposures produced by a specific media vehicle or a media schedule during a specific period of time. It is expressed in terms of the rating of a specific media vehicle (if only one is being used) or the sum of all the ratings of the vehicles included in a media schedule. It includes any audience duplication and is equal to the reach of a media schedule multiplied by the average frequency of the schedule.”⁸⁹

$$\text{GRPs (\%)} = \text{Reach (\%)} \times \text{Average frequency (\#)}^{90}$$

For example, if a television advertisement that is aired five times reaching 10 percent of the target audience each time it is aired, the campaign would have a GRP value of 50 (5 × 10 percent).

Gross Rating Points can also be applied to other media vehicles than television, where it is most commonly used. If three percent of a campaign’s target population drives by the billboard that you are advertising on twice every day for 120 days, then: GRPs = 3 × 2 × 120 = 720.

In this formula reach refers to the number or percentage of people in the target audience who will be exposed to the medium where the message appears. While frequency refers to how many times an advertiser wishes to reach a target audience with their message. When setting up a media plan for establishing a frequency variable, an advertiser bases its assumptions on past experience, judgment, or previous research into how long it takes for the audience to comprehend and remember the message.⁹¹

Buying airtime and carrying out advertising campaigns without much planning or further assessments of a company’s actual needs remains a widespread practice in Georgian business circles. A lack of strategic planning might result in a somewhat inefficient campaign or a company spending more on advertising than it would actually need, as a large number of contacts with customers have a diminishing impact.

This tendency of companies to overspend might have been a reason why General Media, the former monopolist sales house, limited the opportunities for Georgian companies to buy by GRPs, according to one advertising executive. Only foreign companies and Georgian companies affiliated with international brands who were obliged to use GRPs by their headquarters were able to do so, the executive told TI Georgia.

The GRP method was at times allegedly used by General Media to discriminate against independent advertising agencies. Several executives of General Media also held shares in other advertising agencies, including Media Port. Davit Jashi, the CEO of the ad agency Betterfly says that in one case when his company pitched for a tender of a beverage company, the client insisted that the agency would have to plan based on GPRs rather than by minutes of airtime. While Betterfly and four other agencies were not able to book based on GRPs with General Media and thus were disqualified from the competition, Media Port was the only one allowed to provide this beverage

⁸⁹ American Marketing Association: Dictionary, [http://www.marketingpower.com/ layouts/Dictionary.aspx?dLetter=G](http://www.marketingpower.com/layouts/Dictionary.aspx?dLetter=G) (accessed April 25, 2013).

⁹⁰ Katz, Helen (2010): The Media Handbook, Chapter 6, Terms, Calculations and Considerations, p.121 to 124.

⁹¹ Ibid.

company GRP based deal. The beverage company confirmed the story to TI Georgia and expressed its doubts that there might have been a deal between General Media and Media Port. Tea Raphava of Media Port says she can recall the pitch but did not want to comment on General Media's conduct and relations with other ad agencies.⁹²

Directors of two major advertising agencies, who asked to remain nameless, told TI Georgia that Inter Media, the de-facto successor of General Media, continues to discriminate against some agencies that are not linked with Inter Media by not allowing them to book on Rustavi 2 and Comedy Channel based on GRPs. At the same time, Pro Media which is affiliated and linked with Inter Media (director and 50 percent shareholder of Inter Media, Zurab Gumbaridze holds 10 percent share at Pro Media) does not have a problem acquiring GRP based deals when advertisers requests so in their tender requirements, the agency executives said.

Apart from those companies that simply don't have enough competencies to use GRP, there are also those that simply do not see the point in spending time and resources on various marketing tools. Marketing director of one of the beer producer in Georgia told TI Georgia that they are not interested in GRP as long as they have an exclusive deal with Rustavi 2 with a conveniently low price.⁹³

Limited audience data and lack of industry coordination

Many media outlets do not have comprehensive and independently verified data about their reach and audience. This lack of data has made it difficult for independent media outlets, especially print media and local TV and radio stations, to make a strong case to potential advertisers that they can provide good value for money. Television is the only sector where a sufficient amount of widely accepted audience data is available. The sample, measured with electronic boxes (people meters) that are attached to a household's TV set, only covers the country's urban population.

In the past, some television executives had voiced doubts about the accuracy of their channels' ratings in TV MR GE's data. However, the TV sector and the advertising industry have not managed to establish a joint industry committee that would work to ensure and verify the quality of television audience research and data. To fill this gap, the IREX G-Media program commissioned an audit of the TV ratings measurement system operated by TV MR GE under a license from Nielsen.⁹⁴

A systematic radio audience measurement system, which is currently in its launching phase, was also only launched with financial support by the G-Media program. Georgia also has no Radio Advertising Bureau, an organization that would act in the interest of radio stations and explain the value of radio advertising to potential clients. IREX representatives say they will try to facilitate its establishment in parallel to supporting the production of data on radio audiences.⁹⁵

Georgia also lacks an industry body for advertising agencies, sales houses and other relevant actors, which could provide a platform for discussion, take on the issue of industry-self regulation, develop and promote a code of ethics and industry standards, offer trainings and represent the sector's interests.

⁹² TI Georgia interview with Tea Raphava, Account Manager of Media Port, April 17, 2013.

⁹³ TI Georgia interview with marketing director of one of the beer producer in Georgia, April 11, 2013.

⁹⁴ See: TV MR GE company website: <http://www.tvmr.ge/>; Nielsen company website: <http://www.agbnielsen.net/whereweare/georgia.asp> (accessed June 5, 2013).

⁹⁵ Communication with Lika Chakhunashvili, Deputy Chief of Party, IREX G-Media program, June 4, 2013; IREX Georgia: Results of the Television Audience Measurement System Audit of 2013, June 20, 2013, <http://irex.ge/archives/1091> (accessed June 23, 2013).

Taxation and legal framework

The Georgian tax code creates a generally friendly environment for advertisers. Besides sales tax, there is no specific tax on advertising expenditures as in some EU member states. Companies can report advertising spending as business expenditure and it is tax deductible.⁹⁶

However, concerns exist regarding the taxation of social advertising. Broadcasters are obliged by the law to allocate time, 90 seconds every 3 hours, to air public service announcements free of charge.⁹⁷ Despite the fact that the broadcaster does not receive compensation for airing a social ad, the station is nonetheless required to pay VAT on it, according to several advertising professionals. Article 12.1 of the Law on Advertising, defines social advertising as “advertising aimed at supporting public goods and achieving charitable objective, which is neither commercial nor election advertising and does not promote a legal entity of public law or a government organization as well as the service rendered by them.”⁹⁸ According to the Georgian Tax Code, certain services that create a social value are exempted from tax payments, such as the construction of churches and the renovation of cultural heritages.⁹⁹ In essence, social advertising is a service that is of purely social rather than commercial value, yet is not tax exempted. However, government entities have misused the title of social advertising to air commercials praising the achievements of the party in power ahead of elections.¹⁰⁰

New requirement: disclosure of TV advertisers

Amendments to the law on broadcasting that were adopted by Parliament on 31 May 2013 introduced new reporting requirements for television stations.¹⁰¹ At the time this report went to printing, President Mikheil Saakashvili had just vetoed the amendments but Parliament was expected to override this veto.

The amended Article 70, Paragraph 4³ states: “The [Georgian National Communications] Commission shall make public the identity of a person if the person has placed advertising, sponsorship or teleshopping worth more than seven thousand Lari within the last three months, or if the person has donated or provided service worth more than seven thousand Lari to a broadcaster in the last three months.”¹⁰²

It remains to be seen how the Georgian National Communication Commission will interpret and enforce this provision. It is possible that this article will be applied to all Georgian channels that cover all parts of the country with their signal, including through satellite transmission. The intention of the amendment’s authors was to

⁹⁶ TI interview with Zviad Rogava, tax lawyer, April 17, 2013.

⁹⁷ Georgian Law on Broadcasting, Article 65.

⁹⁸ Georgian Law on Advertising, Article 12.1,

http://www.gncc.ge/files/7050_6519_533799_01%20LAW%20OF%20GEORGIAN%20ON%20ADVERTISING.pdf

(accessed May 20, 2013).

⁹⁹ Tax Code of Georgia, Article 168, Paragraph 2.

¹⁰⁰ TI Georgia: Social advertising in the service of the ruling party, 3 August 2012,

<http://transparency.ge/en/blog/social-advertising-service-ruling-party>; Sidestepping the law on social advertising,

<http://transparency.ge/en/blog/sidestepping-law-social-advertising> (accessed June 7, 2013).

¹⁰¹ Civil.ge: Parliament Confirms Amendments to Law on Broadcasting, 1 June 2013,

<http://civil.ge/eng/article.php?id=26136> (accessed June 7, 2013).

¹⁰² Unofficial translation by TI Georgia of the draft law before it was adopted in the 3rd hearing by Parliament. At the time of writing, the adopted amendments had not yet been published in the official law database,

<http://matsne.gov.ge>.

require only Rustavi 2 and Imedi TV (the two private channels that can reach about 90 percent of the population with their terrestrial broadcasting frequencies) to disclose major advertisers.

Proposed ban of ads for betting and gambling

A controversial draft law aimed at banning all advertising for gambling in media outlets and in public was introduced by Georgian Dream MP Koba Davitashvili in early 2013. Davitashvili argued the ban would help to bring down rates of addiction to gambling.¹⁰³ However, on May 1, Parliament failed to pass the proposed amendments to the Law on Organizing Lotteries, Gambling and Other Winning Games. The ruling Georgian Dream coalition was split on the vote and the law was 13 votes short of the needed 59 votes. Davitashvili nevertheless stated that he would start collecting signatures for holding a referendum on outlawing not only advertising for gambling but also gambling itself.¹⁰⁴

The discussion over a potential ban of gambling advertising raised concerns among various media outlets and Outdoor.ge, as casinos and betting/gambling websites have significant advertising spending and are some of the largest clients for online and outdoor ads.¹⁰⁵ One commentator also argued that TV stations might no longer be able to afford rights to broadcast international sport events if sports betting websites – major advertisers and sponsors around live sport broadcasts – were no longer able to advertise.¹⁰⁶

One executive of a gambling website told TI Georgia: “We have cut advertising expenditure in half this year because of the talks about amendments to the law. If the law is not passed, we will double the spending again.”¹⁰⁷

Persons of interest

Davit Kezerashvili and Dimitri Chikovani

Davit Kezerashvili, a former head of the Revenue Service and the Ministry of Defense and close ally of President Mikheil Saakashvili, was charged with corruption in January. He is accused of having accepted USD 12 million in bribes over several years to cover the smuggling of alcohol from Ukraine to Georgia, including while serving in public office.¹⁰⁸ In February, Kezerashvili, who is residing outside Georgia, was sentenced to pre-trial detention in absentia for allegedly coercing Joseph Kay into giving up his shares in Imedi TV in 2008.¹⁰⁹ According to his lawyers, Kezerashvili denies any criminal wrongdoing.¹¹⁰

¹⁰³ GHN: Possible Ban on Advertising Gambling, <http://ghn.ge/news-81639.html>, (accessed April 29, 2013).

¹⁰⁴ Media.ge: Parliament did not Pass the Amendments to the Law on Gambling, May 1, 2013, <http://www.media.ge/ge/portal/news/300240/>, (accessed May 2, 2013).

¹⁰⁵ TI Georgia interview with a manager from a gambling company who asked not to be named; interview with Kote Chavchanidze, director of Outdoor.ge, April 1, 2013.

¹⁰⁶ Maghradze, Irakli: Initiative that Restricts More than It Seems to, Tabula Magazine website, March 23, 2013, <http://www.tabula.ge/article-29630.html>, (accessed April 29, 2013).

¹⁰⁷ TI Georgia interview with a manager from a gambling company who asked not to be named.

¹⁰⁸ Civil.ge: Ex-Defense Minister Kezerashvili Accused of Corruption, 31 January 2013, www.civil.ge/eng/article.php?id=25698 (accessed May 7, 2013).

¹⁰⁹ For background, see: TI Georgia: Television in Georgia (2009), <http://transparency.ge/sites/default/files/Media%20Ownership%20November%202009%20Eng.pdf>, p. 12.

¹¹⁰ Black Sea Press: British Lawyers to Defend Ex-Defence Minister of Georgia, 15 March 2013 (accessed via Factiva on 16 May 2013).

In connection to the Imedi case, prosecutors are accusing Tbilisi mayor Gigi Ugulava of having initiated the buy-back of a land plot in central Tbilisi for USD 17 million in 2010 from the company Akhali Rikhe, which had bought the land for USD 7 million from the municipality two years earlier. According to the prosecution, a USD 10 million profit was allegedly used to compensate Kay for his Imedi shares.¹¹¹

Dimitri Chikovani, Kezerashvili's brother-in-law who has managed several advertising related companies controlled by Kezerashvili, remains an official representative of the British Virgin Islands entity Lexor Capital that owns 30 percent of the Georgian Lottery Company (the remaining shares are held by the state).¹¹²

Outdoor.ge

Adprojects Inc., a British Virgin Islands entity that TI Georgia believes in the past was controlled by Davit Kezerashvili, remains the owner of 70 percent of shares in Outdoor.ge but it is likely that since the elections, David Iakobashvili has acquired Adprojects Inc. from Kezerashvili.¹¹³ Georgian public records, however, so far have not indicated such a sale.¹¹⁴

In May, the ownership of Outdoor.ge sparked a political debate. Goga Khachidze and Irma Nadirashvili, Members of Parliament for the United National Movement, accused Gia Kukhashvili, an official adviser to Prime Minister Ivanishvili, of trying to take over Outdoor.ge and the advertising agency Media Port from David Iakobashvili. Iakobashvili's representative in Georgia, Alexandre Beridze, denied these allegations, stating that the government had not interfered in Iakobashvili's businesses and did not deny that Iakobashvili owns Outdoor.ge.¹¹⁵ Khukhashvili denied any involvement in Iakobashvili's assets but claimed in an interview that he had played a role in returning companies in the energy sector which he said Kezerashvili had taken over illegally back into the control of the state.¹¹⁶

David Iakobashvili

Soon after the change of government came a change of ownership of a number of companies that were active in the advertising and energy sectors that were previously controlled by offshore entities that apparently served as a front for former Defense Minister Davit Kezerashvili (or people closely affiliated with him). David Iakobashvili, a Tbilisi-born, Russia-based businessman with a Swedish passport, appears to have bought several of these assets.

¹¹¹ Civil.ge: Court Declines Prosecutors' Motions Against Ugulava, 25 February 2013, www.civil.ge/eng/article.php?id=25787 (accessed 16 May 2013).

¹¹² Public documents available on Public registry website, https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_scandoc_by_id&scandoc_id=350409&app_id=351353, (accessed April 29, 2013).

¹¹³ Public documents available on Public Registry website, https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_scandoc_by_id&scandoc_id=548726&app_id=566431, (accessed April 29, 2013).

¹¹⁴ Georgian Public Registry extract for Outdoor.ge: https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=489908&app_id=566431.

¹¹⁵ IPN: David Iakobashvili business group responds to UNM statement, May 8, 2013, <http://www.interpressnews.ge/ge/ekonomika/238851-biznesmen-davith-iakobashvilis-biznesigufi-saparlameto-umciresobis-ganckhadebebs-pasukhobs.html>, (accessed May 8, 2013).

¹¹⁶ Netgazeti.ge: Khukhashvili: Kezerashvili does not rob the country anymore and I took part in it, <http://www.netgazeti.ge/GE/105/News/19408/>, (accessed May 22, 2013);

Forbes Russia estimates the wealth of Iakobashvili to be USD 950 million.¹¹⁷ Iakobashvili was a co-founder, shareholder, and Chairman of Wimm-Bill-Dann, a Russian dairy and juice company that was acquired by PepsiCo in 2010 for USD 4.2 bn.¹¹⁸ He has founded and developed a number of “large agricultural, real estate, mining and entertainment holdings” in Russia, according to a 2011 SEC filing.¹¹⁹ Iakobashvili currently serves as an independent Board member of Sistema JSFC (he holds .0031 percent of shares). Sistema describes itself as the largest diversified publicly traded investment company in Russia and the CIS, with investments in telecommunications, high technology, oil and energy, radars and aerospace, banking, retail, mass media, tourism and healthcare services.¹²⁰ He has played an active role in the Russian Chamber of Commerce and Industry and other business associations, at the World Economic Forum and at the Senate of Economic Advisers of the European Democracy Forum.¹²¹

In Georgia, however, he has maintained a low profile. Iakobashvili has apparently been involved in the Georgian energy sector since 2011 as a shareholder alongside of Davit Kezerashvili. His shareholdings only became publicly known after the 2012 elections, when he increased his positions in several companies. A Gulf press release in November quoted Iakobashvili saying that he intends to continue investing in Georgia and that he also wanted to take part in charitable public projects.¹²² In media statements, Iakobashvili’s lawyers have rejected the notion that he has been a business partner of Kezerashvili.¹²³

Assets that appear to be owned by Iakobashvili include:

- The outdoor advertising company Smod Advertising which he acquired for USD 345,000.¹²⁴ According to a number of advertising professionals, Smod has never operated as an independent company but appears to be a de facto subsidiary of Outdoor.ge.¹²⁵ Smod holds an exclusive license to control and sub-lease billboards on Tbilisi’s left bank of the Mtkvari river through a 12-year license that Tbilisi City Hall awarded in 2009 to Irakli Chikovani’s Magi Style Media, which then passed the license on to Smod in 2011. At the

¹¹⁷ Forbes.ru: <http://www.forbes.ru/profile/david-yakobashvili> (accessed May 15, 2013).

¹¹⁸ Bloomberg BusinessWeek: PepsiCo’s East European Snack Attack, 28 February 2013 (accessed through Factiva on May 15, 2013); SEC: Wimm-Bill-Dann Foods OJSC, 14D-9, filed in March 2011, <https://www.sec.gov/Archives/edgar/data/1166718/000104746911001972/a2202587zsc14d9.htm> (accessed May 15, 2013).

¹¹⁹ For a detailed list of companies, please see SEC: Wimm Bill Dann Foods OJSC, 20-F, filed on 23 April 2010, p.114, accessed via <http://www.secinfo.com/d11MXs.rKUs.htm> (May 15, 2013).

¹²⁰ Sistema company website, <http://www.sistema.com/press/press-releases/2012/07/shareholdings-allocated-to-sistema-board-of-directors.aspx> (accessed 10 May 2013).

¹²¹ SEC filing in 2011, accessed via <http://www.secinfo.com/d11MXs.rKUs.htm> (accessed 10 May 2013).

¹²² Gulf website: http://gulf.ge/index.php?lang_id=ENG&sec_id=33&info_id=188 (accessed 10 May 2013).

¹²³ Netgazeti, "Gulf shareholder Iakobashvili denies ties with Kezerashvili, 31. May 2013, www.netgazeti.ge/GE/105/business/20191/ (accessed June 1 2013).

¹²⁴ According to public records, USD 345,000 were paid to a Latvian bank account with Aizkraukles Bank held by Smod Equities Corp, a Panamanian shell company that TI Georgia believes to be a front for Davit Kezerashvili, who previously controlled Smod and Outdoor.ge. Georgian Public Registry: https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_scandoc_by_id&scandoc_id=563095&app_id=580317, p.87; unofficial copy of the Panamanian company registry: <http://ohuiginn.net/panama/company/id/643043> (accessed May 12, 2013).

¹²⁵ Smod holds 56% of shares in LLC Edpoli and 50% in Region Transport Advertising LLC and Speed Master LLC. Smod is owned by Milarm International Corp (British Virgin Islands, ID 1734332) which is owned by Gannado Worldwide S.A. (British Virgin Islands, ID 651774), of which Iakobashvili is the director, https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=505400&app_id=580317.

time, Outdoor.ge was awarded the billboard license for the right side of the river.¹²⁶ While the ownership of Outdoor.ge, a company that has had a dominant position on the outdoor advertising market in Tbilisi in recent years, has not officially changed, Iakobashvili is likely to become the company's new owner.¹²⁷

- Iakobashvili acquired Universal Capital Group (UCG) for USD 2 million through his British Virgin Island entity Gannado Worldwide (via Redeli Management Limited, BVI).¹²⁸ UCG company holds:
 - 60 percent in Media Port LLC, a leading advertising agency;¹²⁹
 - 100 percent in UCG Trans LLC, a terminal operator at Poti port;¹³⁰
 - 24.497 percent in Agaris Sugar Company LLC.¹³¹
- Through Gannado Worldwide, he also holds 90 percent of Casino Ajara LLC, which he acquired in May 2011 for USD 8.72 million.¹³²
- In November, Iakobashvili became the major shareholder in Sun Petroleum Georgia which operates some 140 Gulf gas stations in Georgia (the company is owned by a Delaware shell company, Energy Investment Venture Holdings LLC). Iakobashvili apparently had been a shareholder ever since the company was set up in 2011, together with Kezerashvili.¹³³ In November 2012, Sun Petrol Georgia stated that Kezerashvili had given up all shares in the company but did not specify how much of the company is held by Iakobashvili.¹³⁴
- Iakobashvili increased his shareholding in Petrocas Energy Group from 25 percent (which he reportedly acquired in 2011) to 80 percent.¹³⁵ Observers valued the deal at USD 240 million.¹³⁶ Petrocas trades oil

¹²⁶ See: TI Georgia (2011): The Georgian Advertising Market, p. 27,

http://transparency.ge/sites/default/files/post_attachments/TI%20Georgia%20-%20The%20Georgian%20Advertising%20Market_0.pdf.

¹²⁷ An employee of Outdoor.ge told TI Georgia that he was expecting a change of ownership in the near future.

¹²⁸ Also in this case, the money was transferred to an account with the Latvian Aizkraukles Bank, held by RLYF Management S.A., Panama (ID 642085) which TI Georgia believes to be another front entity for Kezerashvili. While the beneficial ownership of Gannado Worldwide is not disclosed, the fact that Iakobashvili serves as its official director (Sergey Vorontsov is the director of Redeli Management Limited) leaves TI Georgia to conclude that he owns the entity;

¹²⁹ https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=536452&app_id=614256 (accessed May 20, 2013).

¹³⁰ https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=253582&app_id=290106, <http://www.apmterminals.com/europe/poti/contact.aspx?id=17837> (accessed May 20, 2013).

¹³¹ https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=434654&app_id=506536 (accessed May 20, 2013).

¹³² https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_scandoc_by_id&scandoc_id=326952&app_id=325637, p. 38 (accessed May 20, 2013).

https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_scandoc_by_id&scandoc_id=326952&app_id=325637, p. 9 (accessed April 29, 2013)

¹³³ Gulf website: http://gulf.ge/index.php?lang_id=ENG&sec_id=33&info_id=188;

http://gulf.ge/?lang_id=ENG&sec_id=6 (accessed May 21, 2013).

¹³⁴ For Energy Investment Venture Holdings LLC (ID: 4916402) no ownership information is on public record (<https://delecorp.delaware.gov/tin/GINameSearch.jsp>, accessed May 21, 2013).

¹³⁵ The shares are held through the Cyprus shell-entity Nextra Services Limited. Public documents available on Public Registry website,

https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=434896&app_id=506747, (accessed April 29, 2013); RBCDaily: David Iakobashvili Exchanged Joghurt For Oil, January 21, 2013, <http://www.rbcdaily.ru/tek/562949985549074>, (accessed April 29, 2013).

products with Lukoil, Socar, Rompetrol and Gulf and is active in Georgia, Turkmenistan, Kazakhstan, Kyrgyzstan and Vietnam. In 2012, the company reportedly generated a turnover of USD 800 million.¹³⁷

- He became the majority shareholder in Channel Energy (Poti) Ltd (held via Channel Energy (Eire) Ltd, in Gibraltar) which operates the oil terminal and storage facilities at Poti port; Channel Energy Poti holds 32.67 percent in the Poti Terminal Company LLC.¹³⁸
- Iakobashvili also owns Future Products Company, an energy logistics company affiliated with Channel Energy, owned through Future Products Company (Seychelles).¹³⁹

Although Iakobashvili is using offshore shell entities to hold his assets in Georgia, he does not use nominee directors but rather serves as the official director of these entities. His business conduct thus appears to be more transparent than that of most other individuals who use shell companies to conceal their identity while doing business in Georgia.

In the past, Iakobashvili has done business with now Prime Minister Bidzina Ivanishvili in Russia. In March 2012, Ivanishvili's agro-industrial company Stoylenskaya Niva purchased several bread factories from Iakobashvili's holding ЗАО Пыкарпонпроект (Russian Agrarian Project). Iakobashvili confirmed the deal in 2012 but did not disclose the exact value of the transaction.¹⁴⁰ Ivanishvili then sold Stoylenskaya Niva to Arco International Group, an American-based investments firm for a reported USD 180 million (this income does not appear in the Prime Minister's asset declaration).¹⁴¹

An investigation by Studio Monitor and the Georgian Young Lawyers' Association described Iakobashvili as a shareholder of Akhali Rikhe LLC, a company that in 2006 bought a land plot in central Tbilisi from the city of Tbilisi for USD 7 million. In 2008, the plot was sold back in a controversial deal to Tbilisi City Hall for USD 17 million.¹⁴² In February, Iakobashvili stated that he had plans to develop the property that fell through and that he was not involved in any criminal activity.¹⁴³

¹³⁶ AK&M Mergers and Acquisitions Market Bulletin: Transactions Involving Foreign Partners, 28 February 2013, accessed via Dow Jones Factiva.

¹³⁷ RBCDaily: David Iakobashvili Exchanged Joghurt On Oil, January 21, 2013, <http://www.rbcdaily.ru/tek/562949985549074>, (accessed April 29, 2013).

¹³⁸ <http://www.ebrd.com/pages/project/psd/2000/11846.shtml>; [http://channelenergy.ge/?cat=5; https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=538426&app_id=616114](http://channelenergy.ge/?cat=5;https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=538426&app_id=616114).

¹³⁹ <http://channelenergy.ge/?cat=5>; [http://futureproducts.com/. https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=111865](http://futureproducts.com/.https://enreg.reestri.gov.ge/main.php?c=app&m=view_doc&doc_id=111865).

¹⁴⁰ Kommersant.ru: Давид Якобашвили заработал себе на хлеб, March 6, 2012, <http://www.kommersant.ru/doc/1887465>, (accessed April 29, 2013).

¹⁴¹ Kommersant.ru: Бидзина Иванишвили обработал "Стойленскую ниву", September 7, 2012, <http://www.kommersant.ru/doc/2016783>, (accessed April 29, 2013); Declaration.ge: <http://declaration.ge/csb/report/report.seam?id=44171&lang=2> (accessed May 5, 2013).

¹⁴² GYLA: Questions on Rike, <http://gyla.ge/geo/blog?info=855>, (accessed April 29, 2013).

¹⁴³ Iverioni (24.02.13): David Iakobashvili denies any illegal involvement with Rike. <http://www.iveroni.com.ge/2012-01-19-17-16-29/27368-davith-iakobashvili-riyis-teritoriasthan-dakavshirebith-raime-ukanono-sqemashi-monatsileobas-uaryofs.html?lang=ka-GE> (accessed April 29, 2013).

Irakli Chikovani

On April 15, Irakli Chikovani, who had served as the Chairman of the Georgian National Communication Commission since mid-2009, resigned from his post but remains one of the five members of the Commission.¹⁴⁴ He has not attended GNCC meetings since early November and appears to reside outside Georgia.¹⁴⁵

Chikovani continues to own 42 percent in the advertising agency Magi Style Media, and remains a shareholder in the construction companies Magi Style and Bedegi.¹⁴⁶ His business partner Giorgi Gegeshidze, who now holds nine percent of shares in Rustavi 2, owns Samkutkhedi LLC which continues to hold 20 percent of Outdoor.ge.¹⁴⁷

Towards sustainability?

Many marketing executives and advertising professionals interviewed for this report share the view that the current advertising market will not be able to support all currently existing media outlets – a total of around 90 TV and radio stations, at least 65 newspapers and magazines, and dozens of online news outlets.¹⁴⁸

One advertising executive provided a different take: “It may come as a surprise but from the perspective of advertisers and advertising agencies, there are not enough TV channels in Georgia. It would be good to have a third big channel. Except Rustavi 2 and Imedi, nobody has large ratings and content that would attract bigger audiences.”

The fact that smaller channels saw an increase in their revenues before the elections and a drop in revenues soon after the change of government can be seen as a healthy development – indicating that it is no longer political considerations that drive advertising spending but rather market indicators and ratings that drive media buys.

Ad expenditure globally is predicted to grow 4.1 percent in 2013. ZenithOptimedia predicts that such growth will be led by developing markets, which they forecast to grow by 8 percent on average in 2013, while developed markets will grow by just 2 percent, weighed down by the Euro zone crisis.¹⁴⁹

¹⁴⁴ Liberali: Irakli Chikovani resigned from the post of the Head of GNCC, April 14, 2013, <http://www.liberali.ge/ge/liberali/news/114538/>, (accessed April 29, 2013).

¹⁴⁵ TI Georgia: A 3-month vacation: when the chair of the broadcasting regulator does not show up to work, January 31, 2013, <http://www.transparency.ge/en/blog/3-month-vacation-when-chair-broadcasting-regulator-does-not-show-work>, (accessed April 29, 2013);

¹⁴⁶ Georgian Public Registry: https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=465376&app_id=540650, https://enreg.reestri.gov.ge/main.php?state=search_by_name&value=%E1%83%9B%E1%83%90%E1%83%92%E1%83%98+%E1%83%A1%E1%83%A2%E1%83%98%E1%83%9A%E1%83%98, https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=498344&app_id=575512, (accessed April 29, 2013)

¹⁴⁷ Georgian Public Registry: https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=471180&app_id=546161, https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=489908&app_id=566431, https://enreg.reestri.gov.ge/main.php?c=mortgage&m=get_output_by_id&scandoc_id=511167&app_id=582222 (accessed April 29, 2013).

¹⁴⁸ Print: 48 newspapers, 18 magazines. IREX Media Sustainability Index 2013, page 162. http://www.irex.org/sites/default/files/u105/EE_MSI_2013_Georgia.pdf (accessed May 21, 2013); Broadcast: 90 broadcasting licenses (source: GNCC June 2012) http://gncc.ge/index.php?lang_id=GEO&sec_id=5706 (accessed May 21, 2013).

On one thing marketing executives and sales managers in Georgia manage to agree: it is unlikely that Georgia will be able to follow the global trend and see a growth of its advertising market this year. Observers of the Georgian market expect a decline of private sector ad spending in 2013 due to a combination of the poor performance in the first three months of this year, companies' tightened advertising budgets, and slowed down economic growth in the first quarter of the year. Now, much depends on whether and when local and international investors regain their confidence that the country can provide a stable environment for building and growing businesses. Once investment in the private sector will regain momentum, so will advertising spending.

Meanwhile, this period before the advertising sector returns to significant growth will create pressure for many media outlets to adapt to a difficult market environment, restructure their operations and develop new sources of revenue. As a result of the lack of growth in advertising expenditures, the Georgian media market is likely see a period of consolidation over the next year or two.

¹⁴⁹ Barnard, Jonathan: Zenith Optimedia Forecasts 4.1% Growth In Global Ad spend in 2013, December 3, 2012, <http://www.zenithoptimedia.com/zenith/zenithoptimedia-forecasts-4-1-growth-in-global-adspend-in-2013> (accessed April 29, 2013).