



An Analysis of 2007 and 2008 Political, Issue and Advocacy Advertising

This paper provides an overview of the 2007 political advertising landscape and a forecast of ad spending for 2008. Developed by TNS Media Intelligence/Campaign Media Analysis Group (CMAG), the paper discusses state and local political advertising, strong issue and advocacy ad spend and Presidential campaign ad spend.

Now that the last quarter of 2007 is underway, it is almost certain that the nation's political and issue advertisers are on track to set new records for both non-election and election year ad spending for 2007 and 2008. To date, 2007 spending on political and issue TV ads has surpassed \$529M, and with weekly upward growth expected for the balance of 2007, CMAG projects political and issue TV ad spending to reach \$700M total for the year. On tap to surpass previous record totals is an anticipated \$2.5B to 3B in TV ad spending for the 2008 election cycle.

2007 Overview

Expanding State and Local Political Advertisers

For the past 10 years we have seen expansion of the political and issue advertising marketplace in the number of advertisers, the amount of different races, the length of the ad campaigns and the threshold of the issues. Local races, such as a Mayoral race, are one of the areas where there has been recent growth. To date, CMAG has tracked TV ad spending in over 30 Mayoral races that have amounted to over \$18M in TV ad spending.

There are only three 2007 Governor races: Louisiana, Kentucky and Mississippi. However, these races, as well as the down ballot statewide offices, have attracted significantly more ad spending than just four years ago. Kentucky, which has seen \$10M in TV ad spending combined from both Republican and Democratic primaries, is on track for record spending. The Louisiana governor's race is competitive in the post-Katrina landscape and to date, close to \$7.9M has been spent by the candidates and state parties. Although the Mississippi governor's race is not as competitive in the polls as the other two states this year, it will be the focus of significant ad spending in the down ballot races such as the Insurance Commission and Attorney General through the fall. With a month to go these races have generated close to \$1M in new TV ad spending.

Other 2007 Political TV Ad Spending Highlights:

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| State & Local Ballot Measures: | \$6.2 Million |
| Down Ballot State and Local TV ad Spending: | \$37.2 Million |

Strong Issue and Advocacy Ad Spending Environment

Since the mid-1990s, issue ad campaigns produced by interest groups, labor unions and corporations that are targeted towards legislation and public policy have become a fixture in the American media spending landscape. These campaigns continue to grow in number and size with over \$270M in ad spending in 2007. This record spending is being driven by corporate, union and political entities on state and federal public policy issues such as healthcare reform, Wal-Mart, the new prescription drug benefits, telecommunications reforms, banking, energy and the environment, the war in Iraq and even extremely localized issues such as the relocations of dairy farms in Fresno, California. So far, ads on federal

healthcare policy are leading the way generating close to \$60M of TV ad spending for issue campaigns in 2007.

While much issue ad spending has been directed towards political leaders and public opinion on policy issues like healthcare and telecommunications, more than \$3M in TV advertising has been targeted specifically towards voters in what are believed to be the most competitive 2008 races for the House and Senate. This spending is likely to increase significantly in the fourth quarter 2007.

Historic Presidential Primary Elections

It is an understatement to portray the 2008 Presidential election as remarkable. The historic field of candidates, the evolving process and the early interest and intensity makes the 2008 race truly unprecedented. By the end of September 2007, candidates, 527s and issue and membership groups will have already accumulated over \$49 million in ad spending. As the top tier of candidates keep on pace for record fundraising, coupled with the compacting primary calendar, we are likely to see ad spending eclipse the \$100M mark before February 2008. Already in 2007 the leading campaigns are surpassing 2004 TV ad spending totals in the early primary states such as Iowa and New Hampshire, however they are spending in fewer states than during the same time period in 2003.

2008 Market Forecast

The U.S. Senate Landscape – A Sea of Red

It does not take a team of pollsters and political scientists to see that the Republicans' chance of retaking the U.S. Senate in 2008 is a long shot at best. Every two years, one-third of the Senate is up for re-election, and in 2008 the map is a particularly unfriendly one to the Republicans since Democrats only need to defend a dozen seats. Complicating this picture for the GOP, some of the most competitive races in 2008 involving a Republican-held seat are in some "dark blue" states like Maine, Minnesota and New Hampshire. The potential retirements that are looming also favor the Democrats.

So what does this political situation mean for media spending? The best case scenario would be for ad spending to equal the \$302M spent in 2006, and the worse case could be as much as a 20-30 percent decline in spending on Senate races. In 2006, holding on to the U.S. Senate became the centerpiece of the Republican Party's firewall strategy and thus drove a great deal of late ad spending in states like Virginia, Missouri, Tennessee, Montana and Ohio. In 2008, the states likely to experience the most Senate ad spending based on current cash-on-hand of incumbents and challengers, and the competitiveness of the races, include: Kentucky, Colorado, Maine, New Hampshire, South Dakota, Louisiana, Georgia and Oregon. However, potential retirements and self-funding candidates could also make Virginia, New Mexico and Texas competitive states.

The U.S. House Landscape – A possible GOP Firewall?

With the Democrats' historic gains in the U.S. House in 2006 in the rear view mirror, the mission for the party now becomes to defend or even add to their 2006 gains. Meanwhile the Republicans put their faith in the historic trends that show losing parties regaining seats following a lopsided election. Adding to the weight of the 2008 U.S. House races is the fact that the only hope for the GOP to regain power in Congress may be for the party to win the House. This scenario could lead to U.S. House races becoming a national firewall strategy for the GOP in 2008.

If the early 2007 ad spending on House seats is any indication, CMAG estimates that ad spending in 2008 on House races will surpass the \$337M spent during 2006. We base this estimate on the fluid battleground list of competitive congressional races which now is in the 35-50 seat range and could climb even higher depending on retirements. Some of the states that are likely to see the most ad spending on House races include New York (Upstate), Connecticut, Ohio, Indiana, Kentucky, Illinois, Arizona, New Mexico and Florida.

2008 State and Local Spending Outlooks

A dramatic difference in the political landscape in 2008 will be the reduced number of Governor races versus 2006. With only 11 races in 2008, and only a handful of these competitive, it is likely that total spending for these races will amount to only \$100M or less. The states that are likely to see the bulk of this spending will be Indiana, Missouri and North Carolina.

However, state and local ad spending in 2008 is likely to continue to see growth based on more races utilizing paid media, and the growing importance of the mass-tort landscape on offices such as Attorney General and state and local judges. Look for the most spending on state and local races to be concentrated in a dozen states including Indiana, Missouri, Montana, Pennsylvania, Texas, Ohio, Washington, Minnesota, West Virginia and Florida.

Ballot measures continue to be one of the more unpredictable areas for ad spending. In 2006 there were over 350 ballots in 37 states. For the past several elections the major political parties have utilized ballot measures as a tool to drive voter turnout. In addition, a number of high profile issues such as stem cell research, gaming expansion and tax policy dot the election landscape over a number of states.

In 2008 CMAG expects that a number of states and localities will receive significant ad dollars from ballot measures focused on eminent domain, affirmative action, labor, healthcare, gaming and civil rights. Ballot measure ad spending should equal or exceed 2004 totals of \$210M and possibly reach the 2006 total of \$288M. Look for a concentration of this ad spending to again be in Arizona, Massachusetts, Florida, California, Colorado, Oregon and Missouri.

The recent failure of federal immigration legislation implies that this issue could also see a shift to the state and local level, giving it the potential for millions in additional ad spending in 2008.

2008 Public Policy and Issue Advocacy Climate

Issue advertising spending for federal legislation and policy is likely to come from two distinctive areas. The first will be driven by active legislation in the U.S. Congress that will center on issues like corporate taxes and regulation, global warming, healthcare, education and telecommunications. With the bulk of state issue spending centered on issues such as healthcare, tort and insurance reform, gaming and education, this spending is likely to surpass 2006 totals of \$330M.

The second driver of such ad spending will be issue awareness targeted towards voters and the news media for the 2008 Presidential elections. Several of the major spenders will be groups focused on issues such as education, healthcare, retirement security and the war in Iraq. Member groups like AARP and their *Divided We Fail* campaign, corporate interests, organized labor and think tanks like the Gates Foundation are already spending tens of millions of dollars on ad campaigns, and are likely to spend heavily in 2008 on ads to steer the national political debate and dialogue toward their particular issues.

The Presidential Election

It is without question that the 2008 election and subsequent media spending will be dominated by the events surrounding the Presidential election. Notwithstanding all the attention given to Internet and new media options on the table for campaigns, the 2008 election battle is still going to be largely waged on TV. Additionally, the battlefield is likely to be very similar to that of the 2004 election. When considering that a Democratic nominee would need only to win in the same states that John Kerry won in 2004, plus Ohio, in order to win the White House, it becomes clear that the battleground states will be largely the same as 2004.

Campaigns, historically, are a "follow the leader" business. The strategies and tactics of the current campaign copy those from the preceding election, only adjusted for inflation. The timing of ads moves forward and the media budgets move upwards. Based on a 2004 election analysis, we foresee ad spending eclipsing \$800M on the Presidential election alone. Driving this record spending are:

- Hard money increases allowed by federal campaign law has fueled the contribution levels individuals can give by 20 percent since 2004. Since media spending is the largest expense in a campaign budget, it is likely there will be a rise in ad spending totals tied to growing media war chests.
- The likely party nominees are all but assured of being off the federal fundraising system, allowing them to raise and spend continually with no post-nomination lull in campaign spending.
- Spending by the Democratic and Republican parties will likely exceed 2004 totals of \$150M.

Perennial issue ad spenders such as labor unions and issue groups and 527s have been empowered by the recent Supreme Court decision to spend later into the campaign calendar and with less restriction.

The 2008 Wildcards

No matter how much campaign strategists plan for different scenarios, they are continually faced with potential wildcards. Political campaigns are driven by events such as the Mark Foley House Page scandal or human and natural disasters such as 9/11 or Hurricane Katrina, as well as outside influences such as a third party candidate like Ross Perot in 1988.

In 2008 the looming candidacy of New York Mayor Michael Bloomberg is just one example of a wildcard that could have a dramatic impact on not only how much money is spent, but where it is spent. Such a candidacy could drastically alter the battleground landscape as well as the advertising strategies of the parties, groups and candidates.

In addition to third party candidates, other factors could change the landscape in several battleground states, including proposed changes to the allocation of Electoral College votes, prospective single issue candidacies running on issues associated to abortion, and the Iraq war. At this point, most of the wildcard scenarios would likely add to advertising spending and not reduce.

The Best Positioned States for 2008 Political Ad Spending

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| Iowa: | Ground zero for the Presidential primary, likely general election battleground state as well as competitive House races in the state. |
| New Hampshire: | Ground zero for the Presidential primary, likely general election battleground state as well as competitive House and Senate race in the state. |
| Florida: | Key Presidential primary state, likely general election battleground state, competitive House seats and local races. |
| Ohio: | General election battleground state, competitive House seats and local races including state Supreme Court judges. |
| Colorado: | General election battleground state, competitive Senate and House races, competitive local elections slate likely including ballot measures. |
| Maine: | Presidential primary state, likely general election battleground state, competitive Senate Race. |
| Minnesota: | General election battleground state, competitive Senate and House seats. |
| Missouri: | General election battleground state, competitive Governor's race, and competitive local elections including ballot measures. |

Pennsylvania: General election battleground state, competitive House seats, and likely spill over media buys from the Delaware Governor's race.

Louisiana: General election battleground state, competitive Senate and House seats.

California: Not a presidential battleground state (yet), but always a very competitive landscape for ballot measures. Tribal gaming, labor and water-related bond measures all slated to be on ballot in 2008. It should be a healthy year for political and issue ad spending.

Other states that should receive significant political and issue ad spending in 2008 include:

Arizona, Michigan, Wisconsin, New York, Connecticut, Georgia, Virginia, Arkansas, North Carolina, Indiana, Nevada Tennessee, Kentucky, Oregon, South Dakota, Montana, West Virginia, Washington and Texas

Breakdown of 2008 Estimates

US Senate:

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|--------------------------|------------|
| Candidate: | \$220-250M |
| Party | \$60-100M |
| Independent Expenditures | \$10-20M |

US House:

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| Candidate | \$200-230M |
| Party | \$100-160M |
| Groups | \$20-50M |

State & Local

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| Governors | \$90-110M |
| Ballots | \$190-230M |
| Judges/AG | \$50-60M |
| Other | \$175-250M |

Issue: \$330-400M

Presidential Race:

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| Candidate | \$400-460M |
| Party: | \$150-175M |
| Group: | \$100-140M |

Media Performance

CMAG forecasts that Local Broadcast and Cable TV will receive between 70 and 75 percent of all political ad spending in 2008, and likely an even greater percentage of issue ad expenditures. However, we expect both local and network Cable to be well positioned to make significant ad dollar gains due to their ability to deliver targeted messages, and the need for more ad inventory in several battleground states. For the same reasons, radio and newspapers should also see significant increases in political ad dollars in a number of states. Although the Internet is likely to generate record ad spending from political campaigns, it is still likely to only be a fraction of what the broadcast media will receive. Thus far, Internet ad spending has been principally directed towards grassroots and fundraising.

An Eye on 2009 and beyond

No matter which party is victorious in 2008, 2009 is likely to provide broadcasters with a very healthy political and issue ad climate. While the off-year coming out of a Presidential election year is historically the worst year for ad spending in the four-year political business cycle, we will be faced with holdover issues centered on immigration, healthcare, energy, education and taxes. Likely new issues will be connected to the banking, finance and real estate industries. All of these issues have and will continue to generate several hundred million dollars in advertising spending. Additionally, the states of Virginia and New Jersey will have statewide elections.

The one issue that should not be discounted is redistricting. With the national census in 2010, Governors will hold the most power as new Congressional districts are drawn. This will make the 2010 election vital to party control of Congress for the next 10 years, creating a very healthy issue on which to fundraise.

TNS Media Intelligence/CMAG

The business of politics is dynamic and radically unique. Coupled with state-of-the art monitoring technology, TNSMI/CMAG has the ability to both analyze current legislative activity and utilize cultivated sources throughout the Capitol to accurately forecast and report new political, issue and advocacy advertising. TNSMI/CMAG possesses a historical database of political advertising that spans six election cycles and a staff of political experts familiar with every facet of historical and current political and issue advocacy advertising.

TNS Media Intelligence/CMAG is an invaluable resource for those who need to navigate the ever-changing world of politics and capture the greatest amount of political advertising revenue available.

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