

markets & companies

In Focus: A Closer Look At The Sector's Chinese Poster Child

7 Nov 2005



Focus Media's In-Store Network grew by more than 400 percent in the quarter to 30 September



Between 40 and 50 LCD panels are installed in each supermarket, according to Daniel Wu, Focus's CFO



Going up: the company's share price has climbed steadily since its July IPO

With record-breaking third-quarter profits, a business model that investors like, and an increasingly prosperous domestic market, Focus Media looks set to become a flagship success story for digital signage.

Its NASDAQ IPO was one of the highlights of a busy year in the digital-signage business, and now the company is attempting to put some distance between itself and its rivals by expanding its presence in China's burgeoning retail market.

*Here Daniel Wu, the company's CFO, talks exclusively to **aka.tv** about Focus's latest acquisition spree, life as a public company, and why nemesis Target Media is now less of a threat.*

It's been a busy few weeks for Daniel Wu, chief financial officer for Focus Media. On Friday, he hosted a conference call to break down what he called the company's "record financial results" for the third quarter of 2005; Focus posted revenues of \$19.5m for the quarter – a year-on-year increase of 146 percent – and net profits of \$7.1m, compared to a loss of \$1m for the same period last year.

The company's core business of selling advertising on its Commercial Location Network in office buildings and leisure locations "continued to show strong growth", Wu told investors by phone. Demand for advertising on the network in tier-two cities (those outside China's major eastern conurbations) was, he said, "picking up rapidly".

All music to the ears of those who bought a piece of the action in July when Focus launched its IPO on the NASDAQ stock exchange, raising over \$170m. Since then, its share price has climbed steadily and the company has continued to look for new opportunities in China's growing advertising market.

Last month, Wu signed a check for \$183m for the acquisition of Framedia, a static-signage operator, which claims to have the biggest community advertising network in China. In a clear sign that Focus is looking beyond its digital-media assets, the company now owns and operates Framedia's network of thousands of billboards in residential buildings across China.

"Multiple media is good for Focus Media going forward and it will also benefit the advertising clients we have," explains Wu, who says that Focus has no intention of replacing Framedia's static signs with LCD displays except in a small number of very high-end residential buildings. One does not have to be a graduate of Columbia Business School (which Wu incidentally is) to appreciate his point that \$12 for a static billboard is more cost-effective than a \$500 LCD display in a low-traffic environment.

The Framedia acquisition is part of an expansion plan based on what Wu calls "emerging media areas", aimed at taking ad dollars away from TV.

"All the advertisers are talking about today is that TV has become less effective because of the Internet, because of cable. These advertisers are looking for real areas in which this advertising can become more effective," he says.

But its new billboard network notwithstanding, Wu says that Focus's solutions for doing this are more likely to be through digital media than traditional channels.

In-store is Focus's fastest-growing business

Most coverage of Focus's LCD digital-signage empire to date has dealt with the scale and success of the company's Commercial Location Network, which has now expanded from office buildings to other leisure and service locations, including beauty salons, golf courses and airport terminals.

However, with the exception of the figures in its third-quarter financial report, the company has been reticent on its involvement with retail digital signage, which the report shows as by far the fastest-growing part of its business.

According to the report, the Focus In-Store Network, which is deployed in supermarkets, hypermarkets and convenience stores, accounts for one third of the company's digital-media operations, with the Commercial Location Network responsible for the rest.

Wu explains that the content models and advertising bases for the two networks are very different. While the Commercial Location Network features what he calls "brand advertisers", such as mobile-phone companies, carmakers and other purveyors of products and services trying to build their brand image, he says that the In-Store Network is more focused on pushing specific products.

"It is the only place anywhere you have the product and consumers in the same place, he says. "It's more focused on the consumer at the point of sale."

Another major – and related – difference between the two networks is the audience. Wu says that the Commercial Location Network reaches a younger, more affluent audience, which goes to work for longer hours and surfs the Internet, watches cable channels or goes out partying with friends afterwards, rather than going home and watching TV. Viewers of the In-Store Network, he says, are more likely to be regular TV watchers.

Reciting the industry's oft-quoted mantra that 60 to 70 percent of purchasing decisions are made at the point of purchase, Wu says that programming on the In-Store Network is aimed at people who know what they want to buy, but not necessarily which brand. Advertisers on the In-Store Network therefore produce content that is likely to remind shoppers of their TV campaign.

"It's actually an integral part of advertisers' other ad spending as it serves as a reminder to consumers to bring their products home," he says.

The other principal difference between the two networks is content format. Repeating an observation that is becoming conventional wisdom in the digital-signage world, Wu makes a distinction between the captive audience waiting for an elevator in a commercial office building or a beauty salon, and the more free-moving audience in a hypermarket.

He says that Focus recognizes the need to provide content in different formats for each type of location, playing longer-form content to static viewers, and shorter-form content to the moving-target shoppers.

Says Wu: "People waiting for the elevator for two minutes with nothing to do can see a 30-second commercial, but if you go to an in-store location people move around more, the advertising has to be more to the point; maybe five-to-ten-second commercials repeated with a higher frequency."

And, because the principal function of the In-Store Network is to remind consumers of ads they have seen on TV, the commercials shown in-store are often shortened versions of regular 30-second TV spots.

To maximize impact for a mobile audience, Focus works with advertisers to edit their creative material down to between five and ten seconds. All content production is then done by advertisers; who in turn give it to Focus to digitize and send out to the retail locations.

Many retail partners, one revenue destination

Wu says that Focus's retail digital-signage network has a different business model from many established networks in the U.S. and Europe. For example, in contrast to Wal-Mart TV operator Premier Retail Networks (PRN), which shares advertising revenue with its huge retail client, Focus works in a more fragmented retail market.

He explains that Focus has partnered with between 20 and 30 large Chinese hypermarket chains in different local markets, with whom it signs a three-to-five-year exclusive contract for fixed-rate payments to rent in-store space.

Focus then takes full control of the network, from installation, to maintenance and operation, to securing advertisers; the only thing the retailers provide is electricity. When it comes to the advertising dollars, Wu says "basically, there is no revenue-sharing".

Aside from the obvious financial advantage this business model affords, it enables Focus to offer advertisers region-specific buys across a range of retail chains, without having to work out how much each retailer contributes in terms of exposure, or how much each retailer needs to be paid.

Wu describes Focus's In-Store Network, comprised of 40 to 50 LCD and plasma screens located about 2m from the floor in each store, as "super-sexy" and difficult to ignore. Audio is played to accompany the content to make it even more noticeable.

Focus has not done any research into the effectiveness of the In-Store Network itself, but the network's advertisers have, says Wu, typically seeing a same-store sales uplift of between five and ten percent compared to control stores.

Focus and Target – some more equal than others?

Wu says that Focus's move into retail is one of the key differences between it and its major competitor in the Chinese market, Target Media. According to Wu, Target has publicly stated that it will not extend its network into supermarket and hypermarket chains.

The other major difference between the two companies is their approaches to residential locations: Wu says that Target Media's widespread use of LCD panels in residential apartment blocks is not something that Focus is interested in following.

"As Focus's revenue composition from different ad mediums continues to diversify, we think Target Media's is going to be much more different in terms of business territory versus ours," he says.

On the results of a recent ACNielsen report that showed Focus Media and Target Media having equal market share, Wu is a little piqued. While he accepts the top-line results of the research showing the two companies in a similar number of locations, he takes issue with the methodology. He says that Nielsen counted each residential building and convenience store as equal to a

commercial building, and that the survey was based on square city blocks (which house more residential locations) rather than on streets which house offices and commercial buildings.

“Whatever these surveys conclude, our advertisers will view this with a more critical view, purely based on numbers,” he says. “People can come up with any comparison, depending on what angle they look at. ACNielsen’s report could be correct based on their specific methodology, but the reason that they can make that claim is because Target Media is more focused on the residential sector.”

Ultimately, he says that the difference between the two companies will be measured in revenue generation, and at the moment he says that “based on our understanding Target Media’s revenue is much less than [ours]”.

With Target widely expected to launch its own U.S. IPO in the next few months, much more information about that company will be made available to potential investors and a more accurate comparison of Focus and Target should be possible.

In the meantime, Wu says that Focus will continue to carve out more business for itself and look for new investment and acquisition opportunities.

“We think this new media business will continue to grow for a long time; I’m not saying that it’s going to replace TV, but the effectiveness of TV will be reduced,” he says.

Kevin Massy

aka.tv staff