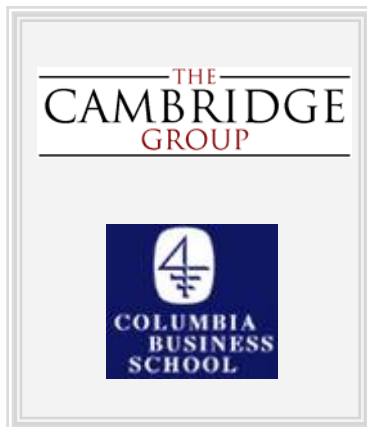


The Future of Advertising in a Tough Economy

Advertiser Media Research Study — White Paper

*Authored by:
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in partnership with
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The Cambridge Group, in partnership with Columbia Business School, conducted an in-depth study of Advertisers in the 4th quarter of 2008, concerning their perspectives on media spending, both in the context of the ongoing economic downturn as well as longer term developments, such as the progression to digital media. The research included in-depth interviews with senior agency and marketing executives, followed by a quantitative survey and supplemented by analysis of third-party data on media trends.

Introduction

Today's ongoing news of job losses, frozen credit markets, eroded consumer confidence, and general economic malaise leaves business leaders wondering not only how to survive this crisis, but how long they must wait for this storm to pass. In the context of media and advertising, these currents have fueled an atmosphere of tremendous volatility and uncertainty. And yet managers must not merely survive what some see as a perfect storm of current economic woes. Managers must look beyond these conditions and recognize some fundamental shifts in the nature of advertising.

Advertisers today must make crucial decisions about how to reach their audience at a time when the adoption of new media channels has caused what might rightfully be called a strategic inflection point — a fundamental shift in the structure and dynamics of how individuals consume news, entertain themselves, and increasingly, connect with others. When this storm passes, some basic elements of the advertising landscape will be forever altered. Based on the opinions of advertising decision makers and thought leaders, this white paper was developed to explore how changing advertiser objectives and priorities, coupled with new media options, are leading to the emergence of a new advertising landscape.

It is important to note, of course, that many existing structures and channels will NOT change radically — that ad spend is not a zero sum game where growth in one medium necessarily comes from another. So this paper will focus on what will endure as much as what will evolve and change. Based upon the opinions of a broad range of key decision makers, both on the agency and client side, the findings presented here offer unique insights about the state of advertising in difficult economic times that can help managers make sense of the current turmoil and respond to it.

Introduction (cont.)

Based on our analysis of historical data, industry interviews and survey responses, we believe the recent decline in advertising spending is primarily a cyclical phenomenon, driven by the state of the broader economy. These economic pressures have also led to a shift in advertiser objectives and priorities during the downturn. While target selectivity and engagement continue to be top priorities in good times and bad, the recession has seen advertisers placing greater emphasis on near-term, bottom-line objectives like flexibility, ROI measurement, and driving direct response. Media types that are perceived to deliver against these objectives – particularly the Internet – may benefit from their strength in these areas in the near term.

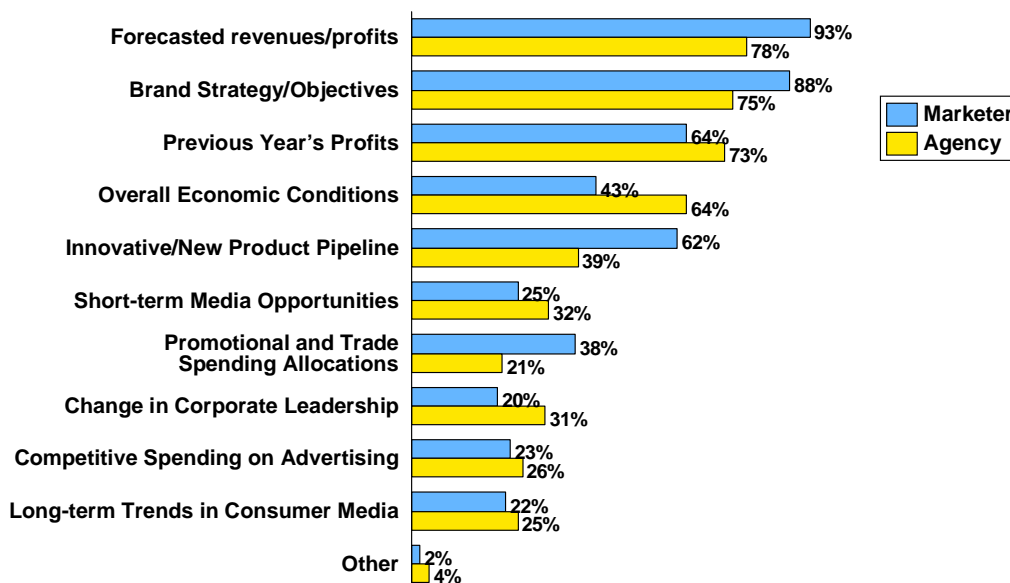
This leads to an emerging factor that may be tied to current economic challenges, yet will increasingly affect structural changes moving forward — and that is the need for advertising to reach a highly targeted audience. The survey found that the number one goal among both marketers and agencies was “reaching a highly targeted audience.” Indeed, 84 percent of marketers, and 73 percent of agency executives, cited this objective as a primary concern.

The significance of this finding cannot be overstated both in the current market and in the post-storm landscape. The current economic challenges are essentially focusing a brighter spotlight on the efficacy of ad spend. Managers must spend smarter because they are under greater scrutiny. Yet broader economic factors are leading to a tremendous oversupply of products, all of which are more vulnerable than ever to pricing pressure and the risk of commoditization. And so, in the post-recession economy the ability of new media channels to support this goal of focused communication to the right audience will have a more enduring impact.

Media Budgeting and Advertiser Objectives

Our analysis commences with an assessment of the state of the media industry as perceived by the survey participants. Respondents were first asked what factors were most important in setting annual media budgets. In general, economic factors related to both past and expected future business performance are fundamental drivers, in conjunction with objectives for the brand. Indeed, more than 75% of marketers and agency executives rated forecasted revenues/profits and brand strategy/objectives as important inputs for determining media budgets. Next in importance were previous year profits (73% among agencies and 64% among marketers). Following this, however, an interesting difference in perspective emerged among agencies and marketers concerning the new product pipeline, with 62% among the latter rating this factor as important, while only 39% of agencies rated it as such. **Chart 1** displays the full results for this question.

**Chart 1 — Factors in Setting Overall Ad Budget
(% Stating Important in Setting Budget)**

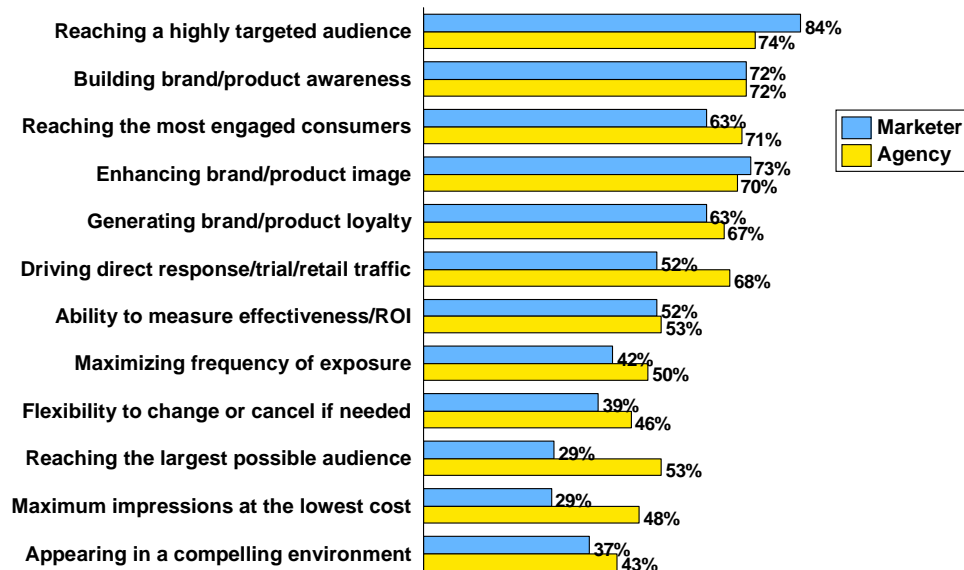


Source: TCG/Columbia Business School Advertiser Media Research Study; TCG Analysis

Media Budgeting and Advertiser Objectives (cont.)

Respondents were also asked to rate the importance of various advertiser objectives when making media mix allocation decisions. Conventional wisdom tends to regard the traditional metrics of "Reaching the largest possible audience" and "Maximum number of impressions at lowest cost" as high priorities. However, these were in fact ranked quite low relative to other key objectives for both agencies and marketers. Instead, the #1 goal for both marketers and agencies was "Reaching a highly targeted audience" with 84% of the former and 74% of the latter rating the objective as important (see **Chart 2**). Building awareness, reaching engaged customers, and enhancing brand/product image were also rated highly among both groups of respondents. It is also of interest to note a disconnect between agency and advertiser perspectives on the goals of maximizing reach and delivering the lowest CPM. While around 50% of agencies rated these objectives as important, only around 30% of marketers shared this view. This would suggest that advertisers are somewhat ahead of the agencies on this issue, placing less value on the metrics traditionally used to measure cost efficiency.

**Chart 2 — Importance of Advertiser Objectives
(% Top 2 Box)**



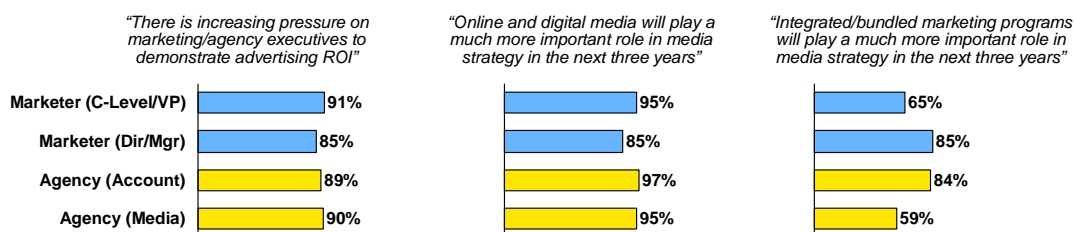
Source: TCG/Columbia Business School Advertiser Media Research Study; TCG Analysis

Media Budgeting and Advertiser Objectives (cont.)

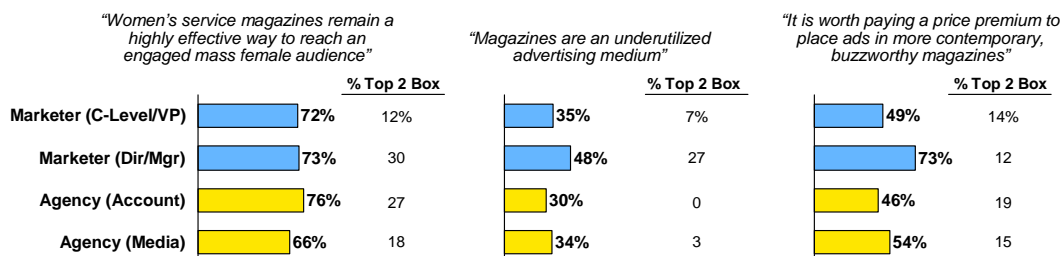
In terms of some important trends for media, both advertisers and agencies were well-aligned in their views on two specific areas. Among executives at every level, 85% or more saw increased pressure to demonstrate advertising ROI; moreover, an equal or greater percentage also foresaw rising strategic importance of online and digital media over the next three years. By contrast, there was divergence among executives on the issue of integrated marketing programs. The results here indicate that marketers at the Director/Manager level and Account executives within agencies generally believe that integrated marketing will become much more important, as compared with C-suite marketing executives and media buyers, who do not rank it as highly (see **Chart 3**). Thus it would seem that the latter two groups are not as convinced the trend towards more integrated marketing programs will continue.

Chart 3 — Attitudes and Expectations

Media Attitudes and Expectations (% Top 2 Box - Completely/Strongly Agree)



Magazine Attitudes and Expectations (% Top 3 Box - Completely/Strongly/Somewhat Agree)

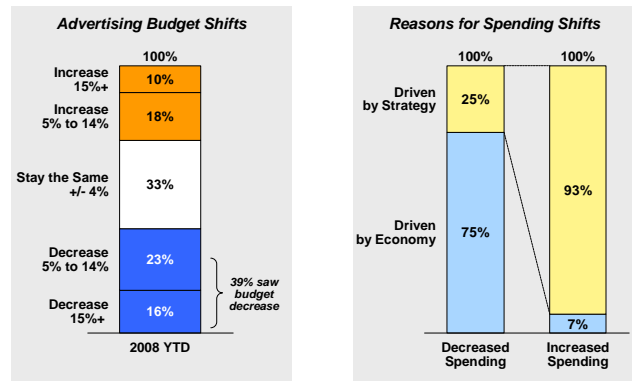


Source: TCG/Columbia Business School Advertiser Media Research Study; TCG Analysis

Impact of the Current Recession on Media Budgets and Priorities

A key question for the analysis was whether the current downturn was structural or cyclical. Among participants in the survey, 39% reported a budget decrease in 2008, while 28% reported an increase in their media budget. Furthermore, as **Chart 4** shows, among those who reported a decrease in spending, 75% indicated that it was driven by the economy, while amongst those whose budget increased, 93% reported that it was driven by strategic considerations.

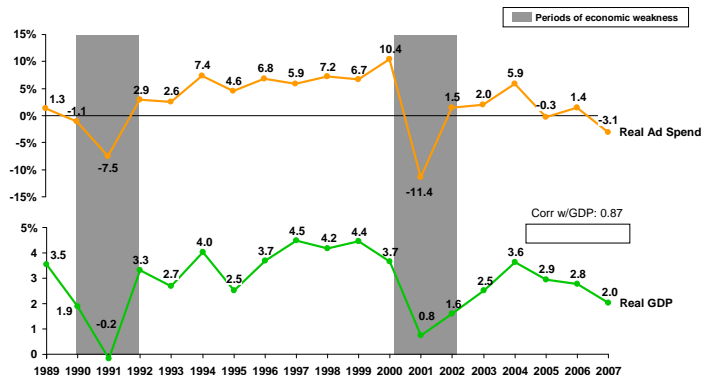
Chart 4 — Advertising Budget Shifts and Reasons



Source: TCG/Columbia Business School Advertiser Media Research Study; TCG Analysis

Additional evidence on this is provided by an analysis of Universal McCann historical ad spending data over the period 1989-2007, as shown on **Chart 5**. During both the 1990-1992 downturn and the 2000-2002 downturn, real advertising spend growth dipped along with the fall in GDP growth; the overall correlation between these two time series is 0.87. Taken in conjunction with the survey results, the evidence overwhelmingly suggests that the recent fall in advertising spend has a predominantly cyclical component.

Chart 5 — Percentage Change in Y/Y GDP and Real Ad Spending, 1989-2007

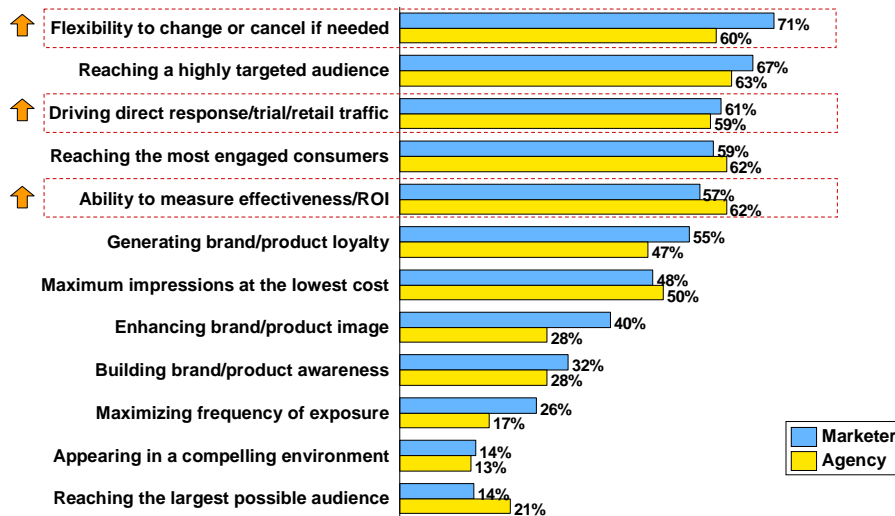


Note: Total Ad Spend as defined includes National/Local Spot TV, Cable TV, Network TV, Syndicated TV, Newspapers, Radio, Magazines and Display Internet; GDP Deflator used to convert nominal \$ to real \$
 Source: Bureau of Economic Analysis; Universal-McCann; TCG Analysis

Impact of the Current Recession on Media Budgets and Priorities (cont.)

It is also of interest to consider how media priorities change in a downturn, especially since the current recession is likely to prevail for some additional quarters. Flexibility in spending, immediate impact for generating trial or driving traffic and ability to measure spend effectiveness and ROI all become more important, with fairly close consonance on these objectives for both marketers and agencies. ***It is worth noting, however, that the #1 goal indicated earlier of reaching a highly targeted audience also ranks near the top of becoming more important during a downturn.***

Chart 6 — Advertiser Objectives: Importance During Economic Downturn (% Stating More Important in Downturn)



Source: TCG/Columbia Business School Advertiser Media Research Study; TCG Analysis

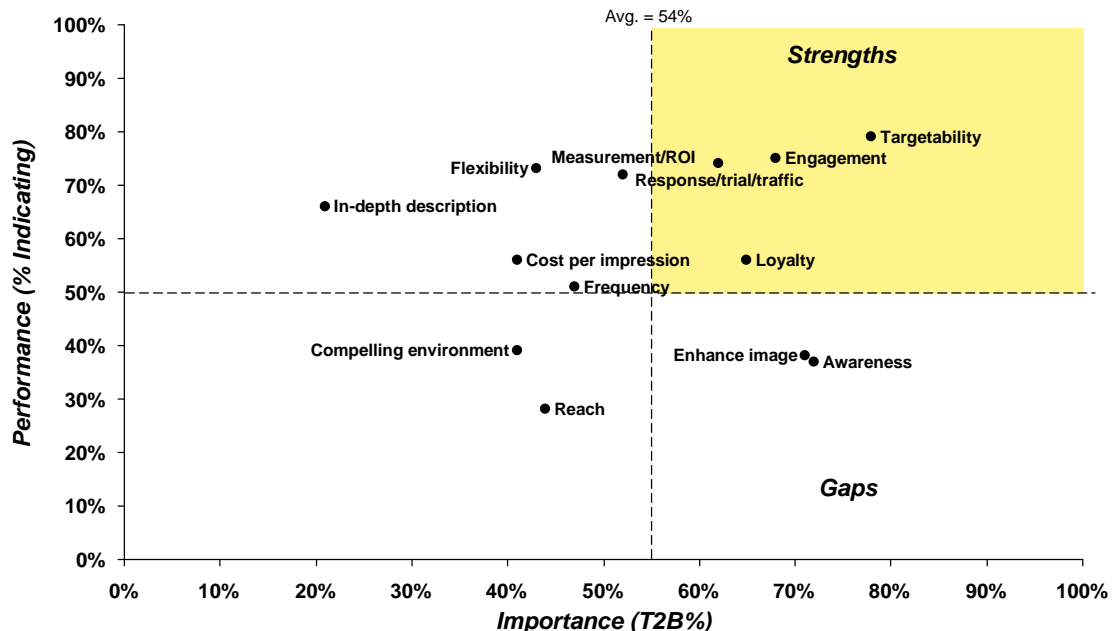
Chart 6 displays the detailed responses for this question. Perhaps surprisingly, the objective of maximizing impressions at low cost, which one might expect would become quite important in a recessionary environment, had only around 50% of respondents agreeing that it becomes more important, well below the objectives stated above.

It would thus seem that cost is at best one consideration in a downturn, with advertising effectiveness (defined along various dimensions) relative to cost being the additional factor in decisions to allocate media resources.

Evolving Role of Major Media Types

The survey research also examined the role of various media types such as the Internet, Television, Magazines, etc. in terms of how advertisers perceive them currently and their view on how their role would evolve over the next few years. **Chart 7a** shows how the Internet rates in performance on various advertising objectives relative to the importance of these objectives. Recall that important advertiser objectives include targetability, reaching engaged consumers, generating awareness, enhancing image and driving response and traffic.

Chart 7a — Performance vs. Objective Importance for Internet

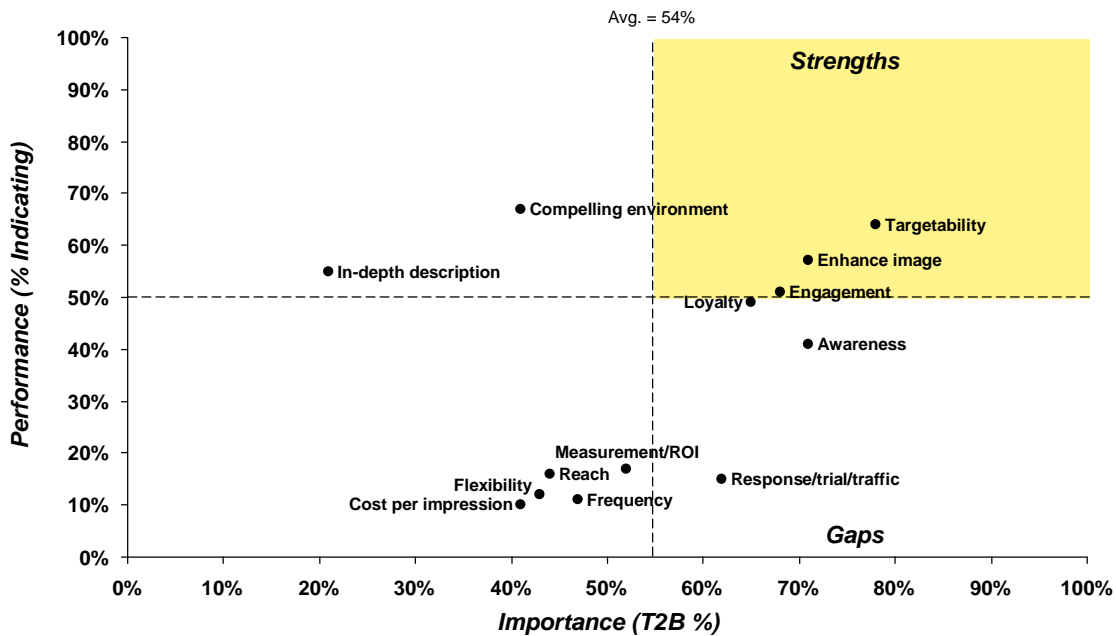


Source: TCG/Columbia Business School Advertiser Media Research Study; TCG Analysis

Evolving Role of Major Media Types (cont.)

In general, the Internet does well among many important objectives, such as targetability, reaching engaged consumers and driving response and traffic. However, the Internet falls short on the important objectives of generating awareness and enhancing brand image. By contrast, as can be seen in **Chart 7b**, Magazines do well on targetability, reaching engaged consumers and also in enhancing image, but do not do as well on driving response and traffic. Network Television does well on traditional agency metrics of building brand awareness and enhancing the brand image, but is generally perceived as not performing as well on the high priority objectives of targetability or reaching engaged consumers.

Chart 7b — Performance vs. Objective Importance for Magazines

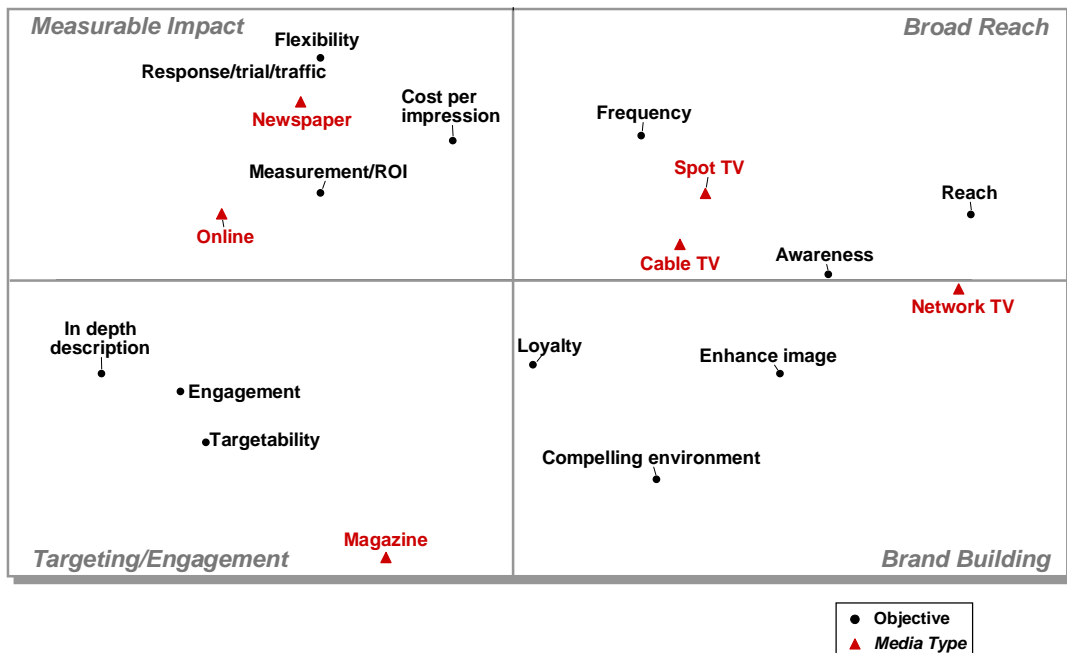


Source: TCG/Columbia Business School Advertiser Media Research Study; TCG Analysis

Evolving Role of Major Media Types (cont.)

Chart 8 shows a derived perceptual map indicating how various media types fit into advertisers' perceptions, based on the perceived association between media types and key advertiser objectives. Newspapers and Internet do well in terms of having a measurable impact and for targeting and engagement. Television — Network, Cable and Spot — are perceived as suitable for broad reach and brand building, while Magazines have a distinctive position in terms of targeting/engagement and brand building.

**Chart 8 — Advertiser Perceptual Map
for Media Types and Performance**

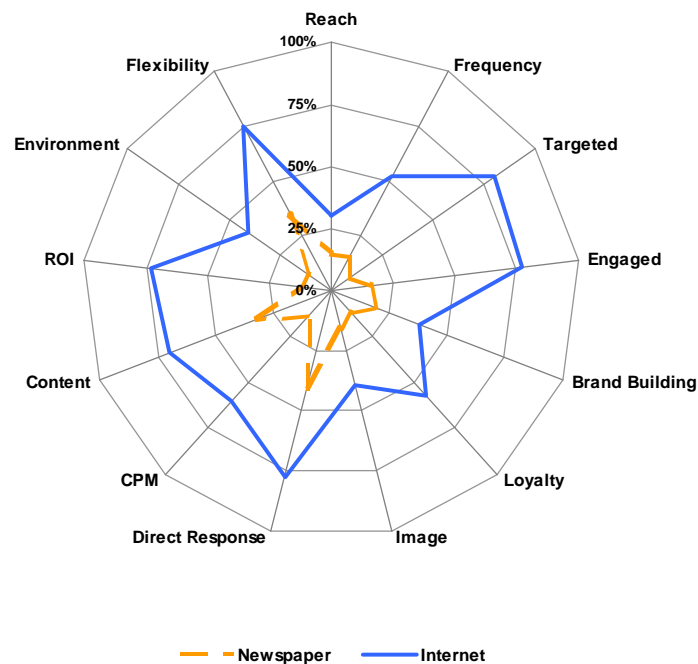


Source: TCG/Columbia Business School Advertiser Media Research Study; TCG Analysis

These results suggest that the different media types are largely complementary to each other, and highlight the importance of surrounding the consumer via multiple media types.

Evolving Role of Major Media Types (cont.)

**Chart 9 — Media Type Performance Comparison —
Internet and Newspapers
(% Reporting Media Type as Highly Effective)**



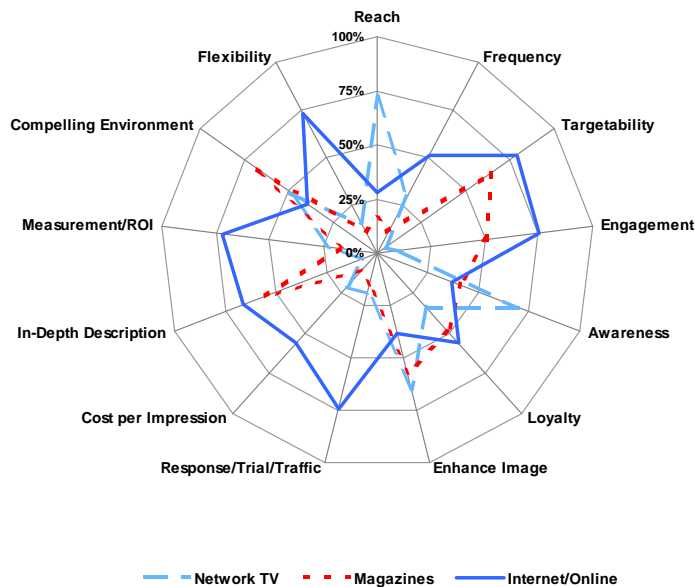
Source: TCG/Columbia Business School Advertiser Media Research Study; TCG Analysis

Since the Internet scores highly on many of the attributes, it is instructive to compare it with other media types. The spider diagram displayed on **Chart 9** shows that ***on every one of the advertiser objectives, performance of the Internet dominates that of Newspapers.*** For many of the attributes, such as targeting, engagement, flexibility, CPM and ROI the perceived performance gap is also very large. These findings suggest that Newspapers face a tremendous challenge in overcoming the positive halo possessed by the Internet.

Evolving Role of Major Media Types (cont.)

In **Chart 10**, we consider a similar comparison between the Internet, Network Television and Magazines. Here, the difference between the Internet and the other two media types is not as clear cut as in the case of Newspapers, nor does the Internet uniformly dominate. Network Television outperforms the Internet on the advertiser objectives of reach and awareness, while both Magazines and Network Television do better on offering a compelling environment and enhancing image.

**Chart 10 — Media Type Performance Comparison –
Network TV, Magazines, and Internet
(% Reporting Media Type as Highly Effective)**



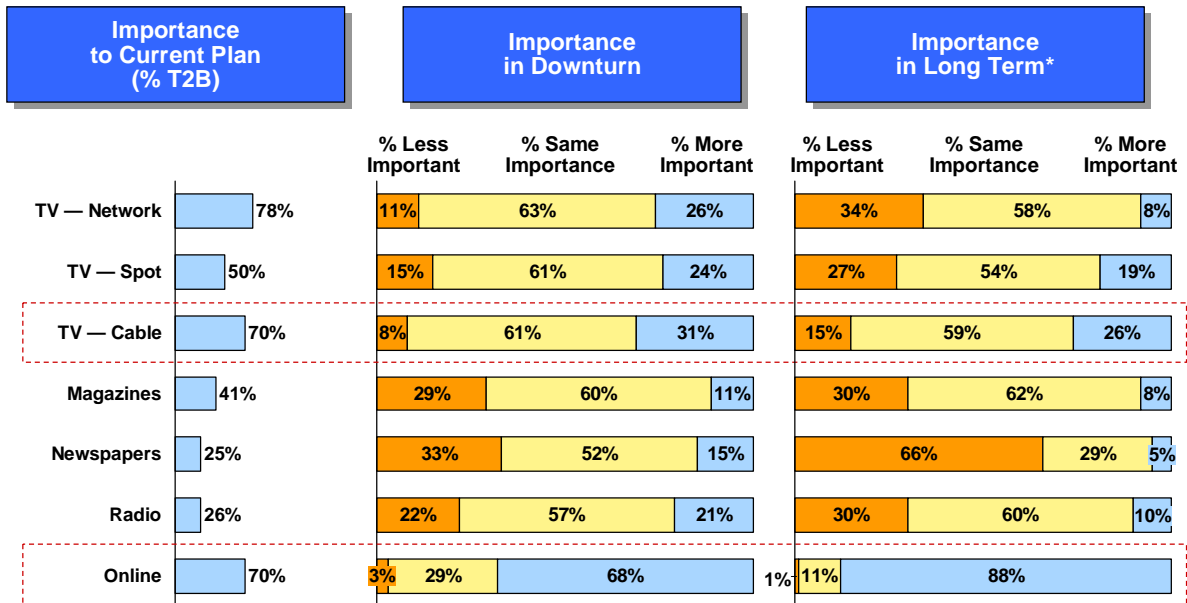
Source: TCG/Columbia Business School Advertiser Media Research Study; TCG Analysis

Overall, these findings point to the importance of incorporating multiple media types into an integrated marketing plan, leveraging the benefits offered by the Internet, but complementing it with media that are more effective at building brand image and awareness, such as Television and Magazines.

Evolving Role of Major Media Types (cont.)

Lastly, respondents were also asked about their **outlook concerning the different media types both in a downturn, and in the longer term**, defined as more than 3 years from the present. As **Chart 11** indicates, a wide majority of advertisers viewed Internet as growing in importance both in a downturn and longer term. Cable Television is also seen as growing in importance, albeit nowhere near to the extent of the Internet. By contrast, Newspapers are seen as most vulnerable in the longer term, with as many as 66% of survey participants indicating that Newspapers will be less important over the longer term, a figure more than twice that of any other media type.

Chart 11 — Change in Importance of Media Types in a Downturn and over the Long Term



Note: Long term defined as 3+ years out
 Source: TCG/Columbia Business School Advertiser Media Research Study; TCG Analysis

Conclusion

This paper has aimed to identify key trends in the advertising landscape during a period of unprecedented economic volatility. Overall, given the array of media objectives important to advertisers, and the differentiated strengths of different media, most media types can be expected to remain relevant during and beyond this difficult time. Even as advertiser priorities shift, certain key objectives like precision targeting and consumer engagement remain of paramount importance throughout.

The current economy does raise unprecedented challenges for advertisers, just as it does for all businesses, and has drastically reduced any margin for error. However, it can also be a time of great opportunity for all businesses — particularly advertisers — that understand the global economy's historic shifts and how to develop a new Business Model to differentiate their offers and position their businesses for ongoing success.

In our 2002 book, The New Law of Demand and Supply, The Cambridge Group noted that the world's economy was undergoing a fundamental and permanent shift from a supply-driven economy to what we termed the new Demand Economy. We correctly forecast that in the Demand Economy, businesses that continued to push undifferentiated supply would face greater commoditization, loss of pricing power, brand erosion and lower customer loyalty as markets world-wide became increasingly saturated.

In this far less forgiving economic environment, a much deeper, more precise understanding of profitable demand is needed to meaningfully differentiate supply. Our Demand Strategy approach has proven successful at driving far greater levels of precision across the business system, including:

- Improved targeting based on proprietary insights into the most profitable customer segments
- Offers honed to provide exactly the right features and benefits to the right customers
- Optimized pricing strategies that command price premiums rather than accepting commodity prices
- Communications that reach precisely the right customer with the right offer at the right time

For over 30 years, The Cambridge Group has been a leader in applying advanced, proven Demand Strategy perspectives and proven approaches to help clients achieve profitable growth across industries and across economic cycles. The enclosed material provides a brief overview of our firm and our capabilities. You can learn more at www.thecambridgegroup.com.

THE FUTURE OF ADVERTISING IN A TOUGH ECONOMY

The Cambridge Group/Columbia Business School Advertiser Media Research Study — Research Team

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