AMERICAN ADVERTISING FEDERATION
THE UNIFYING VOICE FOR ADVERTISING ™

AAF Survey of Industry Leaders
on Advertising Trends 2004

Prepared by Atlantic Media Company

November 2004

Survey Highlights

- Mainstream view of advertising leaders that industry is recovering, but slowly; notable is the greater tendency among advertisers/clients to hold either a more strongly "bearish" or "bullish" view.

- Notable shift in top business concerns across the past year, from previous focus on media proliferation and industry consolidation to current focus on the (never-ending) quest for effective strategies that break through, change behavior, and demonstrate ROI.

- More than three-quarters of advertising leaders now believe that digital video recorder (DVR) ad-skipping technology will have a significant (even dramatic) effect on the landscape of TV advertising, with continued growth of non-traditional ad formats (if not the outright death of the 30-second spot).

- Still a healthy skepticism about the effectiveness of alternatives to the 30-second spot; with the exception of product placement, most non-traditional advertising tactics viewed by majority of respondents as only somewhat effective or entirely ineffective.

- Online advertising not only respectable again but also making significant inroads into the media mix, currently representing an average of about 8% of media spending, up from 5% three years ago, and projected to rise as high as 17% across the next three years; also notable is the dwindling proportion of media plans without at least some online ads.

- There is now greater clarity about the real benefits of online, including its ability to complement and enhance the use of traditional media and its precision targeting; notable distaste for new (more insidious) forms of online advertising that fall under the heading of "adware" or "spyware."

- Large majorities of advertising leaders believe that targeting multicultural markets is extremely or very important.

- More than 80% of advertising leaders believe that attracting and retaining multicultural talent is extremely or very important, a view shared across all industry sectors, most notably among advertisers/clients.

- Strong bearish sentiment on the advertising industry's ability to attract and retain talent, associated with pessimism about the long-term prospects and over appeal of careers in advertising.
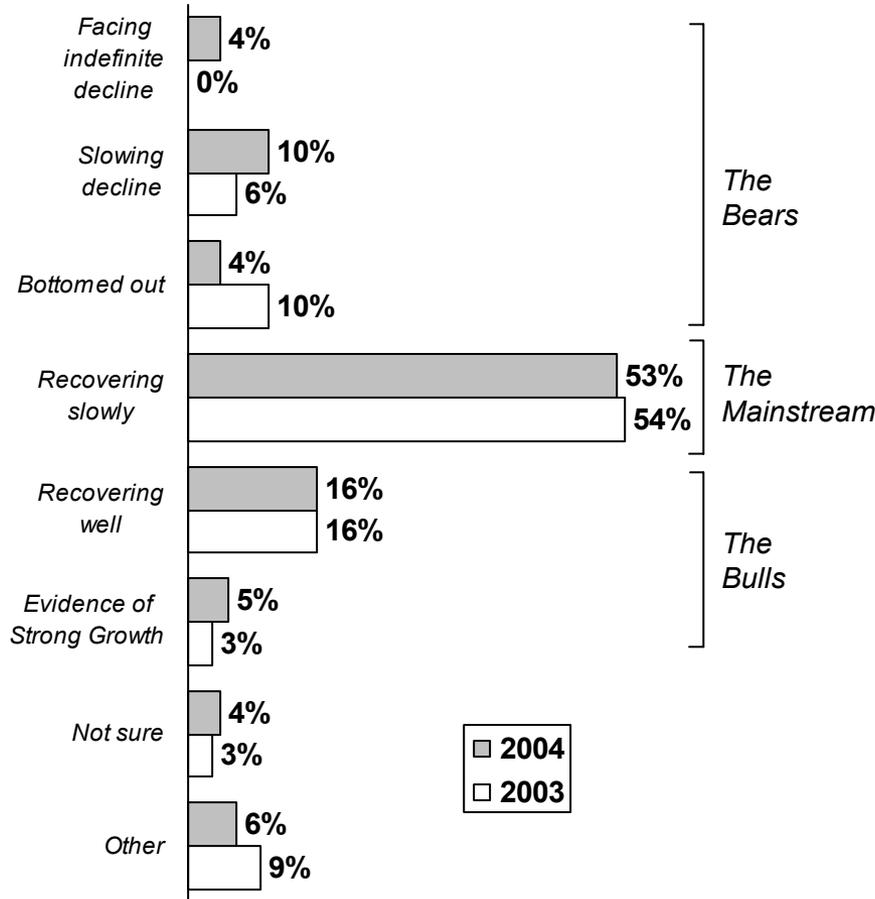
Onward (and Slowly Upward) Marches the Ad Industry

Mainstream view of advertising leaders that industry is recovering, but slowly, little changed over the past year; notable is the greater tendency among advertisers/clients to hold either a more strongly "bearish" or "bullish" view.
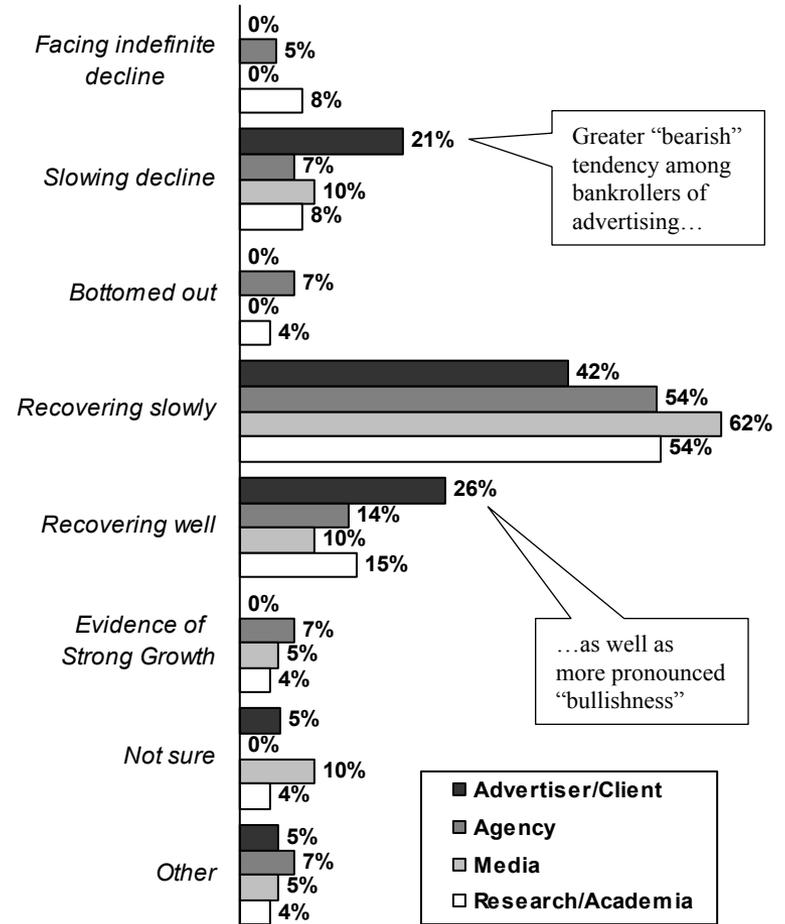
Current Fortunes of Advertising Industry
(All Respondents, 2003 and 2004)

Category	2004	2003	Group
Facing indefinite decline	4%	0%	The Bears
Slowing decline	10%	6%	The Bears
Bottomed out	4%	10%	The Bears
Recovering slowly	53%	54%	The Mainstream
Recovering well	16%	16%	The Bulls
Evidence of Strong Growth	5%	3%	The Bulls
Not sure	4%	3%	
Other	6%	9%	

Legend: ☐ 2004 ☐ 2003

Current Fortunes of Advertising Industry
(Responses by Industry Sector)

Category	Advertiser/Client	Agency	Media	Research/Academia
Facing indefinite decline	0%	5%	0%	8%
Slowing decline	21%	7%	10%	8%
Bottomed out	0%	7%	0%	4%
Recovering slowly	42%	54%	62%	54%
Recovering well	26%	14%	10%	15%
Evidence of Strong Growth	0%	7%	5%	4%
Not sure	5%	0%	10%	4%
Other	5%	7%	5%	4%

Greater "bearish" tendency among bankrollers of advertising…

…as well as more pronounced "bullishness"

Legend:
- ■ Advertiser/Client
- ■ Agency
- ☐ Media
- ☐ Research/Academia

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Source: 2004 AAF Survey of Industry Leaders on Advertising Trends

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In Their Own Words: The Ad Industry's Fortunes

"Although we see a recent recovery in advertising, I feel long term growth will be contingent upon the agency's ability to re-engineer it's thinking and processes to promote brands in our rapidly changing business climate and fluctuating economy. The traditional structure of an agency needs to be re-evaluated to embrace flexibility, responsiveness, integrated work teams, integrity, technology, multi-marketing techniques and so forth. Job titles and departmental functions will meld into a new highly engineered work force."

Agency

"Network and cable sales remain robust, print and internet have experienced strong growth. There is much vitality. The challenge for advertisers is that the equation is additive - you can't eliminate a medium, you really need to be everywhere the consumer is."

Advertiser/Client

"Agencies need to participate in broader toolset for helping clients meet their total brand development needs. Challenge will be in generating the trust on the part of clients to do this. Will likely need to generate more client-centric solutions, rather than those the are derived from adherence to traditional agency business models."

Brand Consulting

"Adjusting to a new communications environment that could well be more effective, but is more difficult to manage, as it is more fragmented, and does not have the efficiency nor, for the agencies, the profit margins of the 30" spot."

Consulting/Writing

" "Multicultural marketing is not recovering at nearly the same pace as the industry as a whole. All ethnic segments are still hurting, but especially African Americans."

Agency

"With so many options available for advertisers, it is difficult to really 'quantify' the question, unless it is broken down into different 'facets' of media. For some, it may seem that the industry is 'bottomed out'...however, that may simply be that particular 'medium'...overall, ad dollars are still there to be spent...there are simply more outlets fighting for the same dollars."
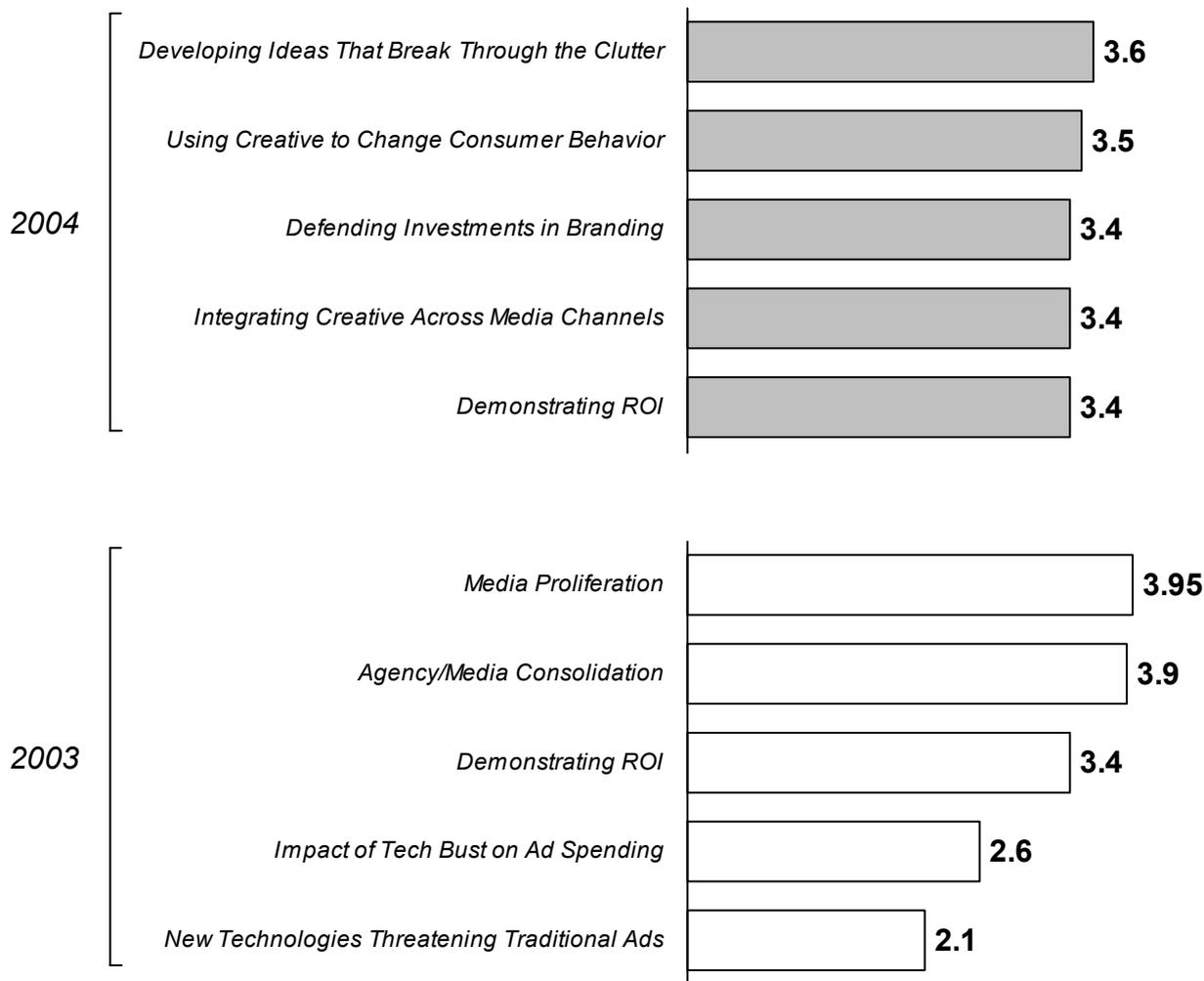
Media

Renewed Focus on Finding Strategies That Work (and Demonstrate ROI)

Notable shift in top business concerns across the past year, from previous focus on media proliferation and industry consolidation to current focus on the (never-ending) quest for effective strategies that break through, change behavior, and demonstrate ROI.

Most Important Business Challenges

Score On 5-Point Scale

2004

Challenge	Score
Developing Ideas That Break Through the Clutter	3.6
Using Creative to Change Consumer Behavior	3.5
Defending Investments in Branding	3.4
Integrating Creative Across Media Channels	3.4
Demonstrating ROI	3.4

2003

Challenge	Score
Media Proliferation	3.95
Agency/Media Consolidation	3.9
Demonstrating ROI	3.4
Impact of Tech Bust on Ad Spending	2.6
New Technologies Threatening Traditional Ads	2.1

Source: 2004 AAF Survey of Industry Leaders on Advertising Trends

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In Their Own Words: The Challenges They Face

"If clients limit their marketing activities to only those things that have immediate and measurable ROI they will inevitably cripple their own ability to embrace enormous ideas that cannot adequately be pre-quantified or fully measured over the short term -- that is to say, some of the most important brand-building decisions they will ever make. Likewise, some of the most important brand building and brand-defending decisions a client can make is to walk away from potential sales and profits that undermine brand integrity and/or dilute the value proposition that may have taken years, if not decades, to build."

Brand Consulting

"Hiring, training and retaining top quality people in an environment where agency resources are constrained by clients looking to squeeze every last ounce of profit from agencies."

Agency

"I help clients makes leaps of faith that research and traditional marketing practices can't bridge. There is a genuine lack of courage out there. Confining agency activities to what is "safe" or "easily measurable" through focus groups is to guarantee over time the development of perfectly unremarkable advertising that is invisible, irrelevant, bland and meaningless (90% of advertising today)."
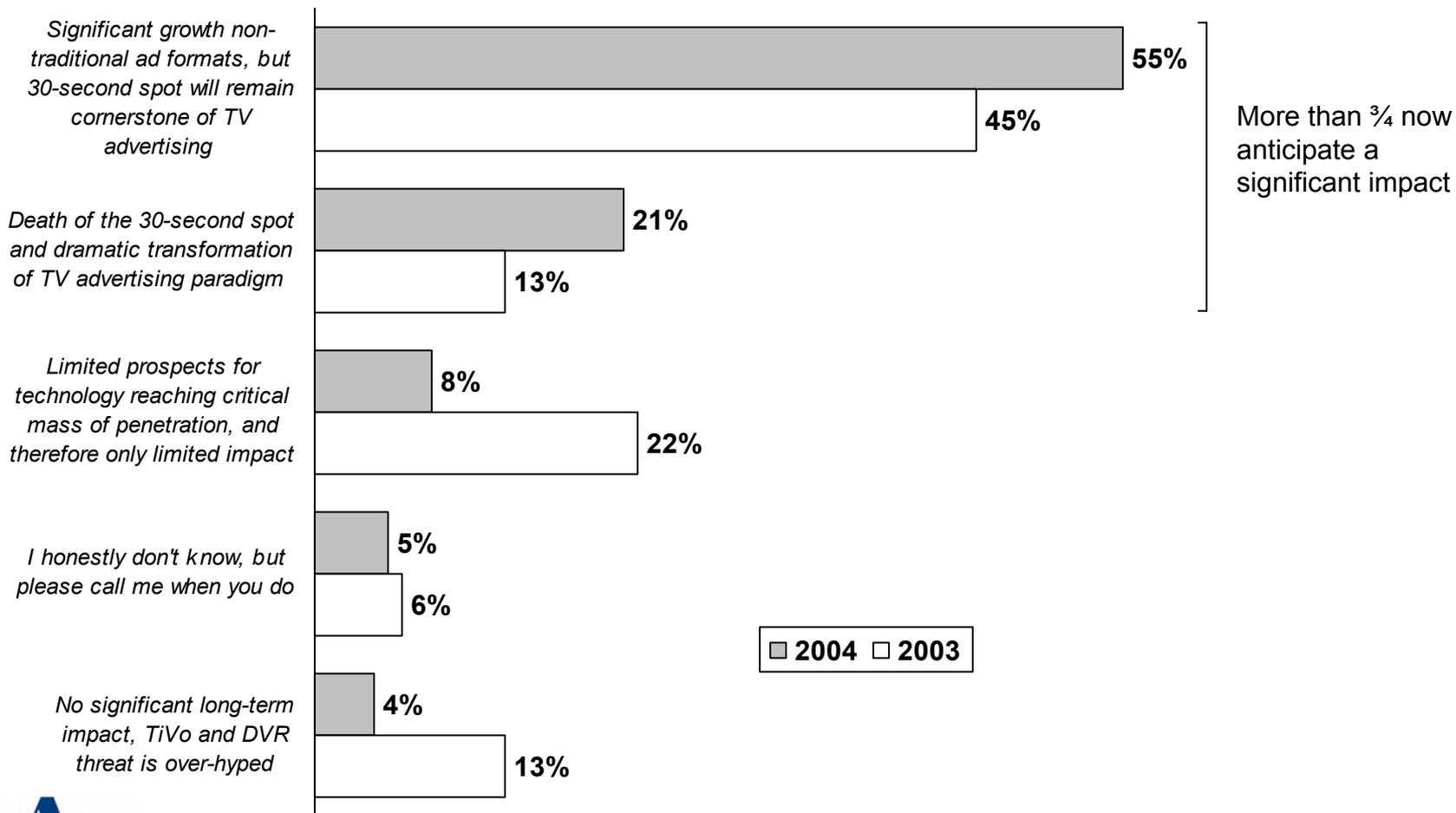
Brand Consulting

"We have actively been marketing to a multi-cultural audience for many years. Our commitment continues to increase. The same is true for our branding efforts and integrated message work -- we've been involved in these efforts for years, but our commitment and results are increasing. ROI is an on-going challenge and has never been more important. We are actively working on a proprietary model."

No Longer Denying the Impact of DVRs…

More than three-quarters of advertising leaders now believe that digital video recorder (DVR) ad-skipping technology will have a significant (even dramatic) effect on the landscape of TV advertising, with continued growth of non-traditional ad formats (if not the outright death of the 30-second spot).

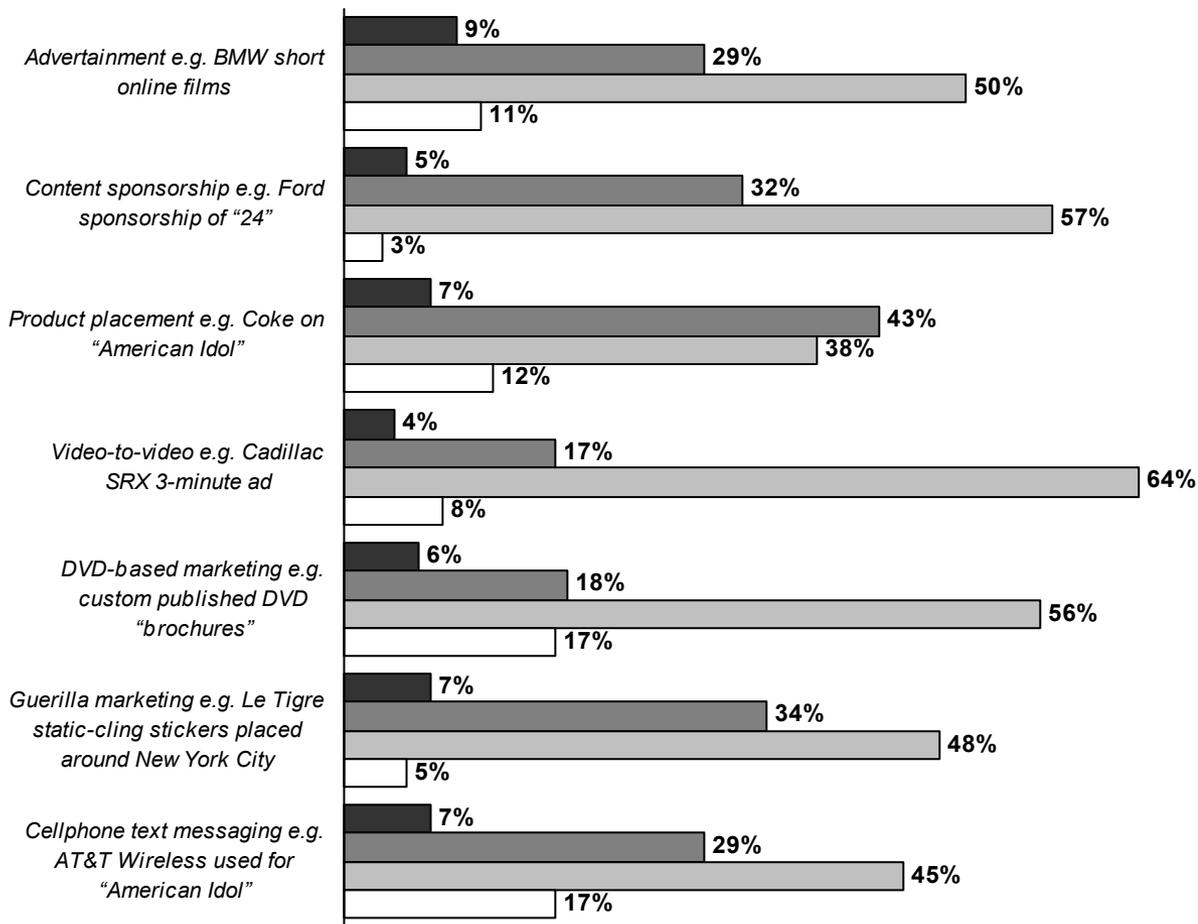## Anticipated Impact of DVR Technology on 30-Second TV Spot

Significant growth non-traditional ad formats, but 30-second spot will remain cornerstone of TV advertising
- 55%
- 45%

More than ¾ now anticipate a significant impact

Death of the 30-second spot and dramatic transformation of TV advertising paradigm
- 21%
- 13%

Limited prospects for technology reaching critical mass of penetration, and therefore only limited impact
- 8%
- 22%

I honestly don't know, but please call me when you do
- 5%
- 6%

■ 2004 □ 2003

No significant long-term impact, TiVo and DVR threat is over-hyped
- 4%
- 13%

…But Not Entirely Keen on the Alternatives

Still a healthy skepticism about the effectiveness of alternatives to the 30-second spot; with the exception of product placement, most non-traditional advertising tactics viewed by majority of respondents as only somewhat effective or entirely ineffective.

Effectiveness of Non-Traditional Advertising Tactics as Alternatives to Traditional Methods

Tactic	Extremely Effective	Very Effective	Somewhat Effective	Not At All Effective
Advertainment e.g. BMW short online films	9%	29%	50%	11%
Content sponsorship e.g. Ford sponsorship of "24"	5%	32%	57%	3%
Product placement e.g. Coke on "American Idol"	7%	43%	38%	12%
Video-to-video e.g. Cadillac SRX 3-minute ad	4%	17%	64%	8%
DVD-based marketing e.g. custom published DVD "brochures"	6%	18%	56%	17%
Guerilla marketing e.g. Le Tigre static-cling stickers placed around New York City	7%	34%	48%	5%
Cellphone text messaging e.g. AT&T Wireless used for "American Idol"	7%	29%	45%	17%

Legend: ■ Extremely Effective ■ Very Effective ■ Somewhat Effective □ Not At All Effective

More Sizzle Than Steak

"Frequency and continuity are still important principles, which many of these tactics ignore. They're more sizzle than steak."

Advertiser/Client

"Is online advertising now considered traditional???"

Advertiser/Client

Some Success

"Guerilla marketing tactics are pursued in most of our creative meetings - trying to come up with something that is new and will be effective. We've been successful."

Agency

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Source: 2004 AAF Survey of Industry Leaders on Advertising Trends

The Gradual Insinuation of Online Advertising

Online advertising not only respectable again but also making significant inroads into the media mix, currently representing an average of about 8% of media spending, up from 5% three years ago, and projected to rise as high as 17% across the next three years; also notable is the dwindling proportion of media plans without at least some online ads.

Percentage of Media Budget Allocated to Online Ads

Average of All Respondents

Incorporating Online Advertising Into the Mix

"[We use online advertising] mainly in three ways: 1) extend a brand message via roadblocks that garner attention for a television communication and drive people to our website to view; 2) deliver relevant product facts in shopping sites and encourage consumers to compare our product to the competition; 3) via contact marketing in order to establish an opt-in relationship with consumers and offer them exclusive content, offers and other information."
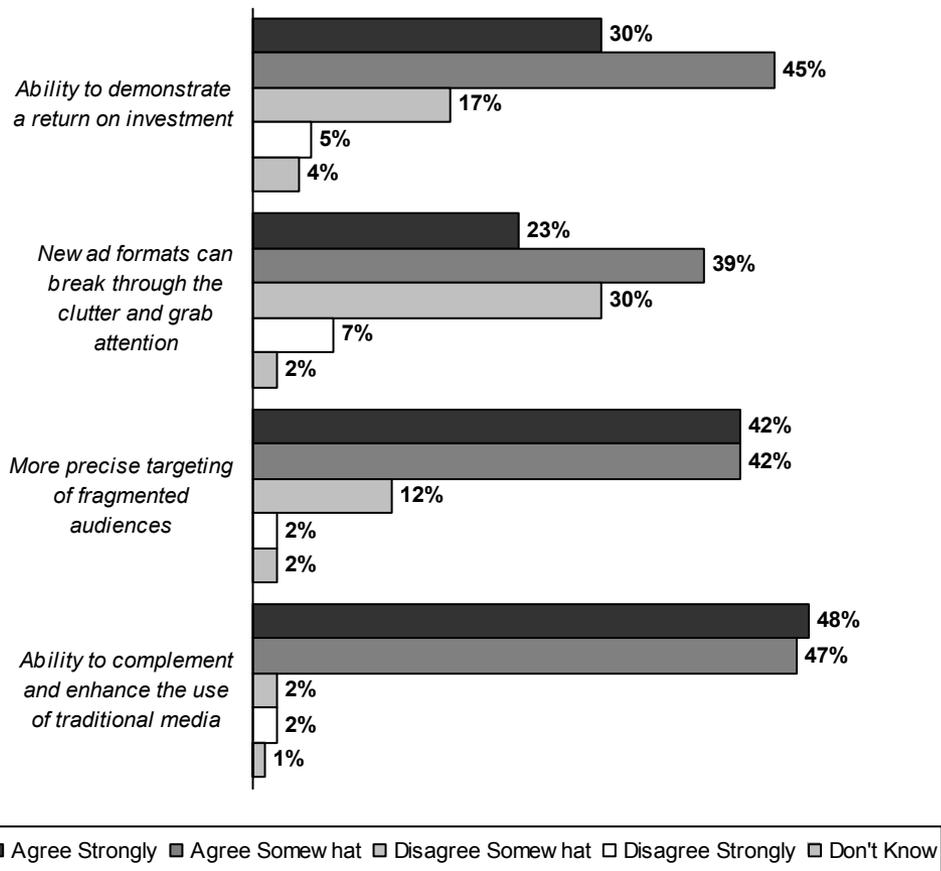
Agency Executive

17%

8.35%

5.25%
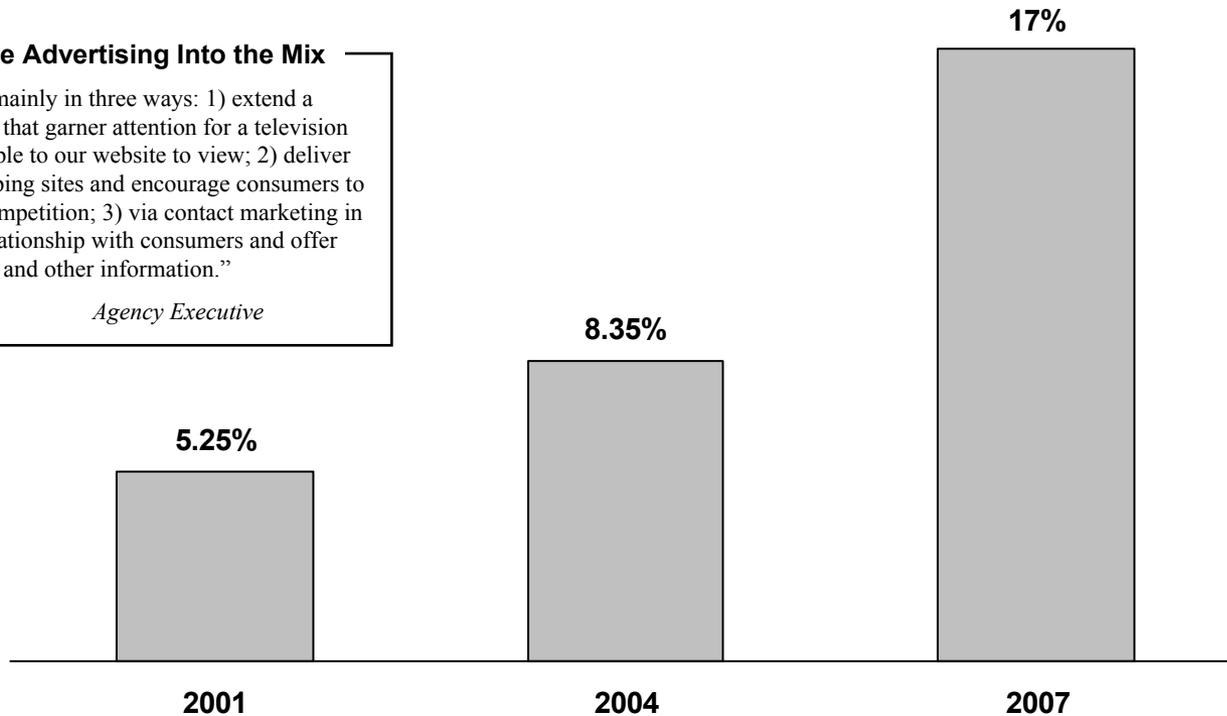
	2001	2004	2007
Median	2%	10%	15%
% Reporting "Zero"	25%	17.5%	8.5%

Source: 2004 AAF Survey of Industry Leaders on Advertising Trends

Clear-Eyed About the Advantages (and Limitations) of Online Ads

Far from the over-hyped promises of the late 90s, there is now greater clarity about the real benefits of online, including its ability to complement and enhance the use of traditional media and its precision targeting; notable distaste for new (more insidious) forms of online advertising that fall under the heading of "adware" or "spyware."

Benefits of Online Advertising

Ability to demonstrate a return on investment
- 30%
- 45%
- 17%
- 5%
- 4%

New ad formats can break through the clutter and grab attention
- 23%
- 39%
- 30%
- 7%
- 2%

More precise targeting of fragmented audiences
- 42%
- 42%
- 12%
- 2%
- 2%

Ability to complement and enhance the use of traditional media
- 48%
- 47%
- 2%
- 2%
- 1%

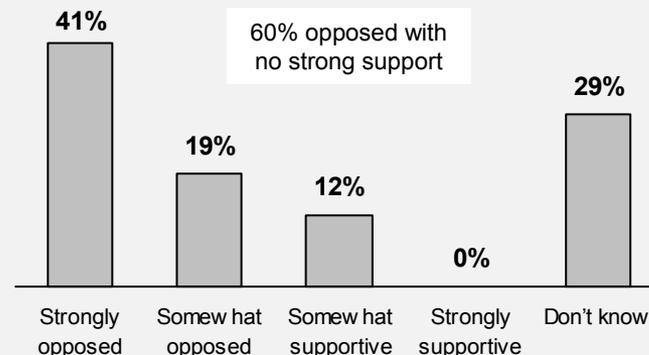■ Agree Strongly ■ Agree Somewhat □ Disagree Somewhat □ Disagree Strongly □ Don't Know

More Upside to Online

"[Online advertising offers the] ability to brand/enhance awareness [and] engage prospects/customers in more of a one-on-one environment in which the brand story can be uniquely presented."

Agency

Drawing Some Clear Limits

Position on the Use of Adware- or Spyware-Supported Advertising Tactics

60% opposed with no strong support

Strongly opposed	Somewhat opposed	Somewhat supportive	Strongly supportive	Don't know
41%	19%	12%	0%	29%

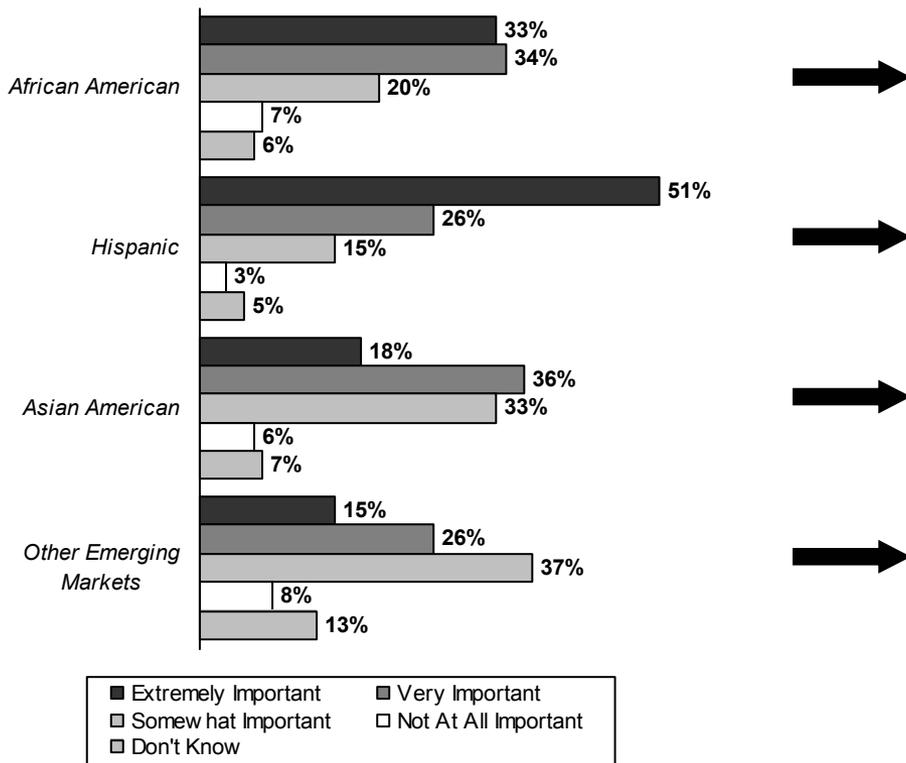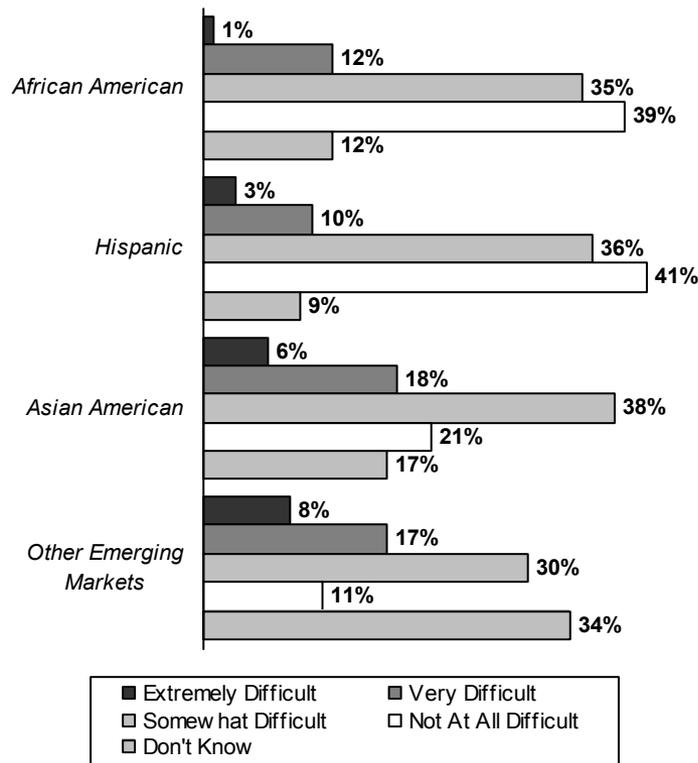Source: 2004 AAF Survey of Industry Leaders on Advertising Trends

Important to Reach High-Value Multicultural Markets

Large majorities of advertising leaders believe that targeting multicultural markets is extremely or very important.

Importance of Reaching Market

African American
- 33%
- 34%
- 20%
- 7%
- 6%

Hispanic
- 51%
- 26%
- 15%
- 3%
- 5%

Asian American
- 18%
- 36%
- 33%
- 6%
- 7%

Other Emerging Markets
- 15%
- 26%
- 37%
- 8%
- 13%

■ Extremely Important ■ Very Important
■ Somewhat Important □ Not At All Important
■ Don't Know

Difficulty of Reaching Market

African American
- 1%
- 12%
- 35%
- 39%
- 12%

Hispanic
- 3%
- 10%
- 36%
- 41%
- 9%

Asian American
- 6%
- 18%
- 38%
- 21%
- 17%

Other Emerging Markets
- 8%
- 17%
- 30%
- 11%
- 34%

■ Extremely Difficult ■ Very Difficult
■ Somewhat Difficult □ Not At All Difficult
■ Don't Know

Percentage of Budget Spent on Multicultural Advertising

Average: 26% **Median:** 10%

"The Hispanic market is extremely easy to reach effectively. We have worked on many Hispanic campaigns that resulted in immediate sales and share growth. Examples are in the automotive, financial, fast food, beverage, telecommunications and banking industries. All produced measurable results."

Consulting

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The Workplace Diversity Imperative

More than 80% of advertising leaders believe that attracting and retaining multicultural talent is extremely or very important, a view shared across all industry sectors, most notably among advertisers/clients.
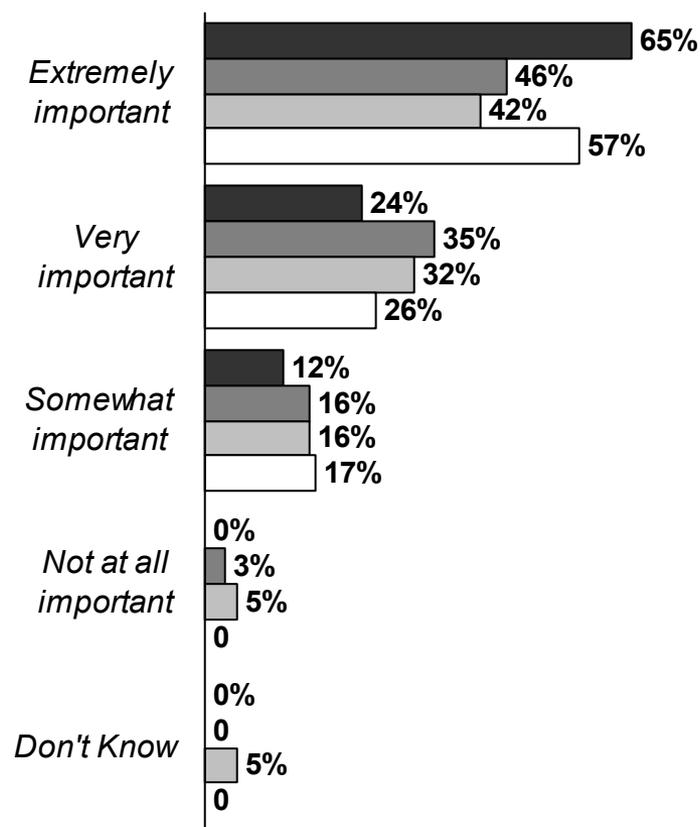
Importance of Attracting and Retaining Multicultural Talent

All Respondents

- Extremely important: 51%
- Very important: 31%
- Somewhat important: 16%
- Not at all important: 2%
- Don't Know: 1%
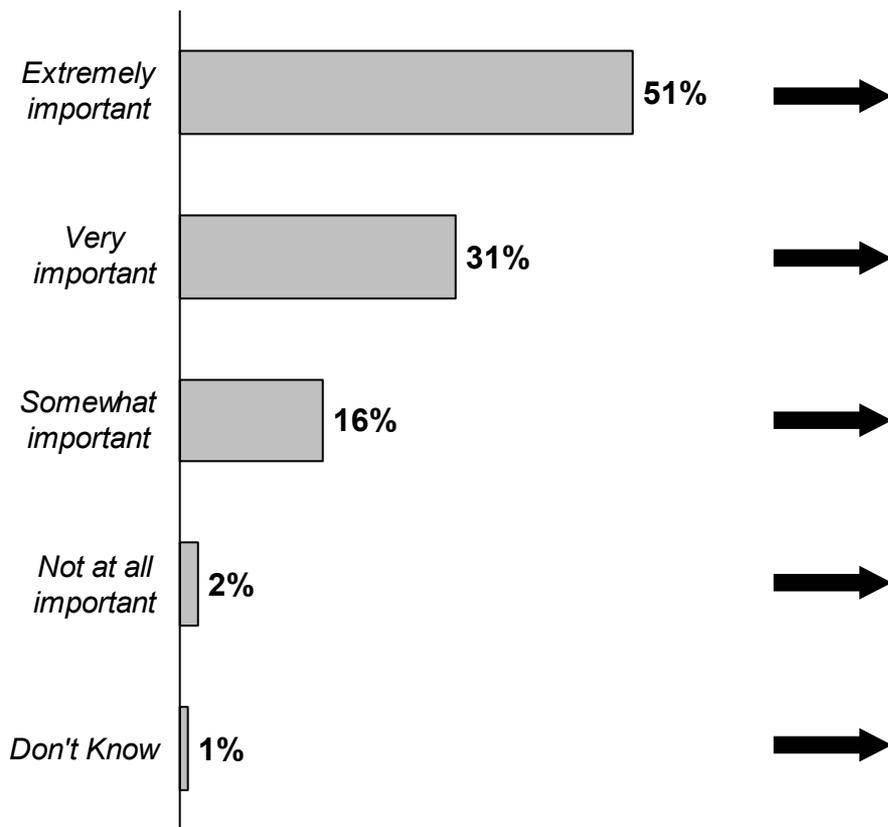
Importance of Attracting and Retaining Multicultural Talent

Responses by Industry Sector

- Extremely important: 65%, 46%, 42%, 57%
- Very important: 24%, 35%, 32%, 26%
- Somewhat important: 12%, 16%, 16%, 17%
- Not at all important: 0%, 3%, 5%, 0
- Don't Know: 0%, 0, 5%, 0

Legend:
- ■ Advertiser/Client
- ■ Agency
- ■ Media
- □ Research/Academia

Source: 2004 AAF Survey of Industry Leaders on Advertising Trends

In Their Own Words: Workplace Diversity

Assessing the Value

"Our customers are increasingly diverse, so it's important that our organization reflect the market as closely as possible. That will help us deliver true insights."

Advertiser/Client

"The customers and consumers are increasingly multi-cultural. A workforce that does not mirror its target audience, when it is this complex, cannot speak to them effectively."

Consulting/Writing

"It's very important--- there're so many cultural differences and nuances to be aware of; without a good mix of diversity in the agency, the face of advertising would be completely one-sided, bland and ignorant. Creative would be one-sided, media selection would be bias...the list goes on. Cultural, ethnic diversity is very important, especially to the ever-changing, ever-evolving face of the United States."

Agency

Making It Happen

"Our agency has a strong networking program and guest lectures at Historically Black Colleges and Universities. Our strong leadership and solid benefits package enhances our retention program."

Agency

"Internships and casting the broadest net when recruiting."

Non-Profit

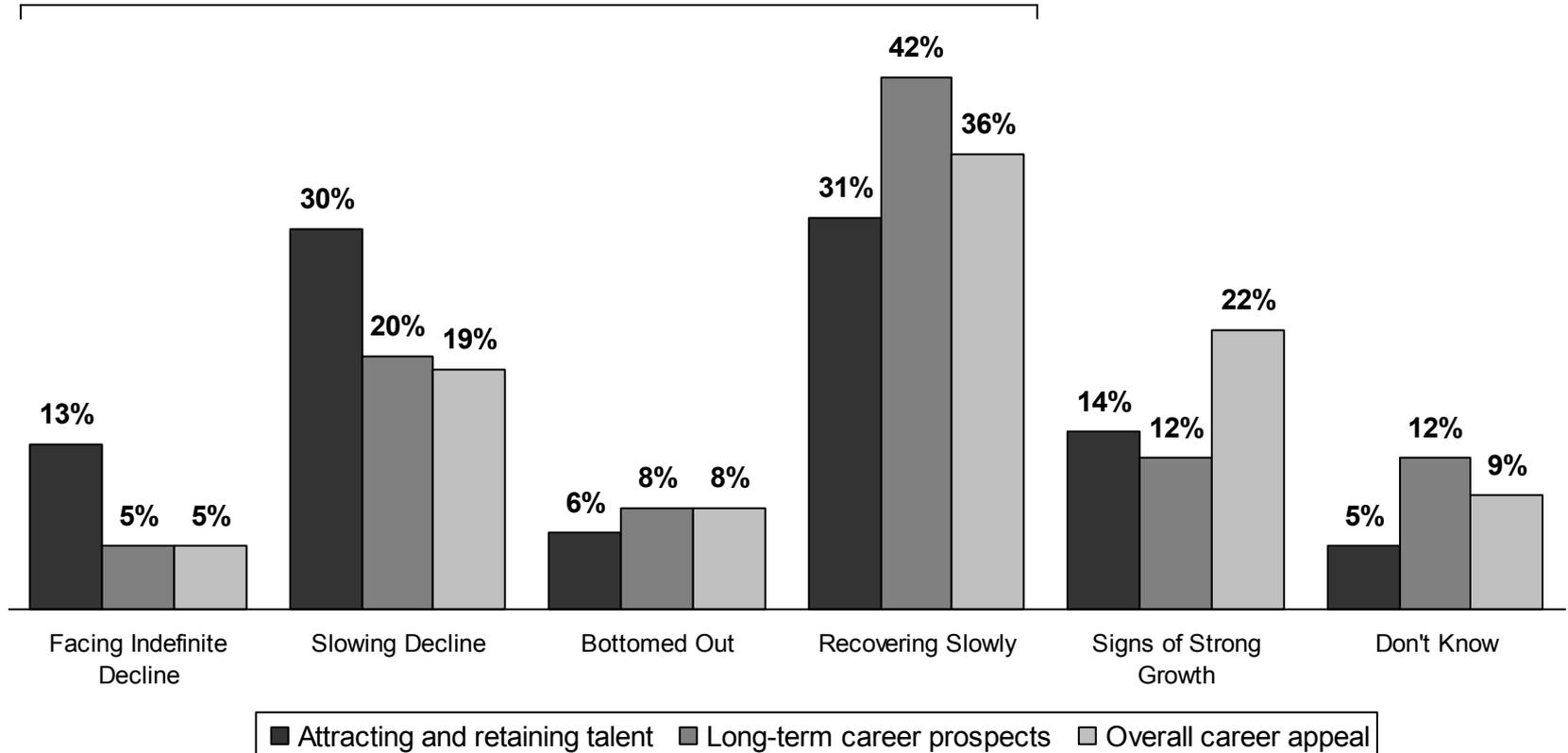"Internships; making it a company-wide priority."

Media

Raising Concerns about Careers in Advertising

Strong bearish sentiment on the advertising industry's ability to attract and retain talent, associated with pessimism about the long-term prospects and over appeal of careers in advertising.

Perspective on Careers in Advertising

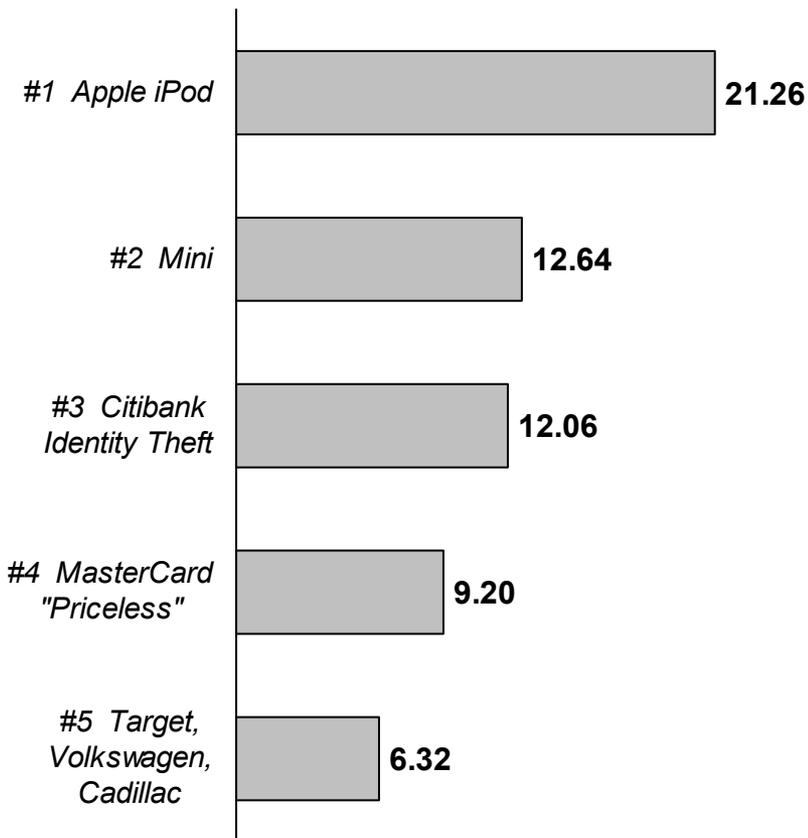*Not Bullish on Advertising Careers*

Legend: ■ Attracting and retaining talent ■ Long-term career prospects □ Overall career appeal

	Facing Indefinite Decline	Slowing Decline	Bottomed Out	Recovering Slowly	Signs of Strong Growth	Don't Know
Attracting and retaining talent	13%	30%	6%	31%	14%	5%
Long-term career prospects	5%	20%	8%	42%	12%	12%
Overall career appeal	5%	19%	8%	36%	22%	9%

Source: 2004 AAF Survey of Industry Leaders on Advertising Trends

Icons of Advertising Success

And the winners are…

Most Successful Campaigns of 2003-2004

Scores Out of 100 Points Maximum

Rank	Campaign	Score
#1	Apple iPod	21.26
#2	Mini	12.64
#3	Citibank Identity Theft	12.06
#4	MasterCard "Priceless"	9.20
#5	Target, Volkswagen, Cadillac	6.32

Brands That Achieved Greatest Success Through Advertising

Scores Out of 100 Points Maximum

Rank	Brand	Score
#1	Nike	30
#2	Coca-Cola	28
#3	McDonald's	15
#4	Apple	14.5
#5	Budweiser	10.3

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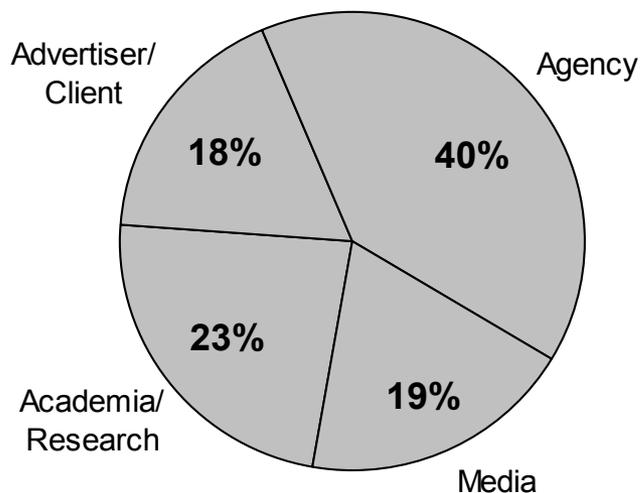Source: 2004 AAF Survey of Industry Leaders on Advertising Trends
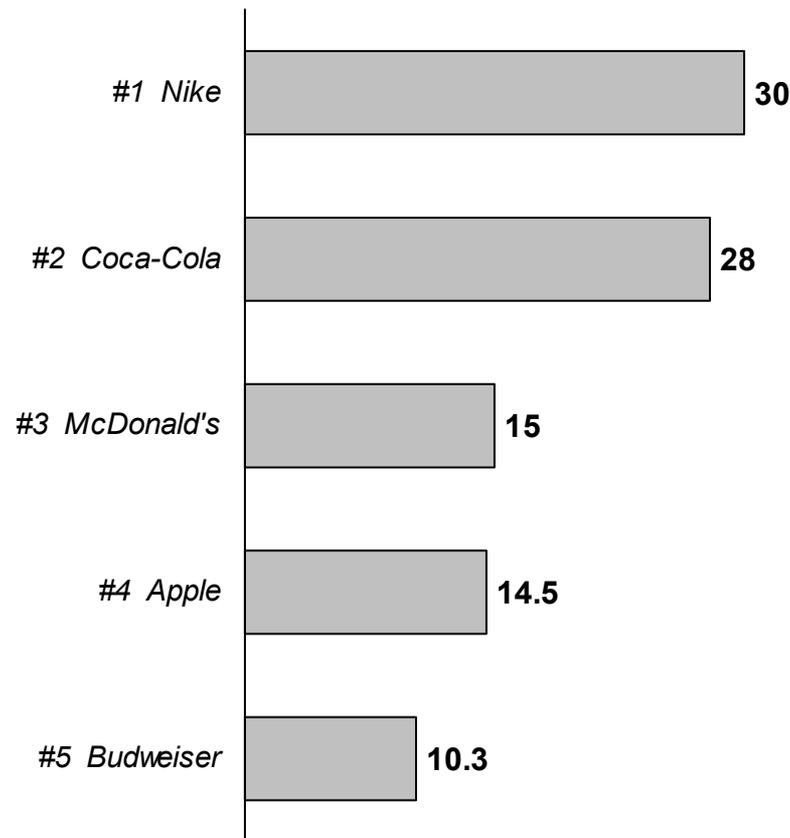
Respondent Profile

The 121 industry leaders who responded to the survey represent all sectors of the industry, with 70% having at least 15 years of experience in advertising.
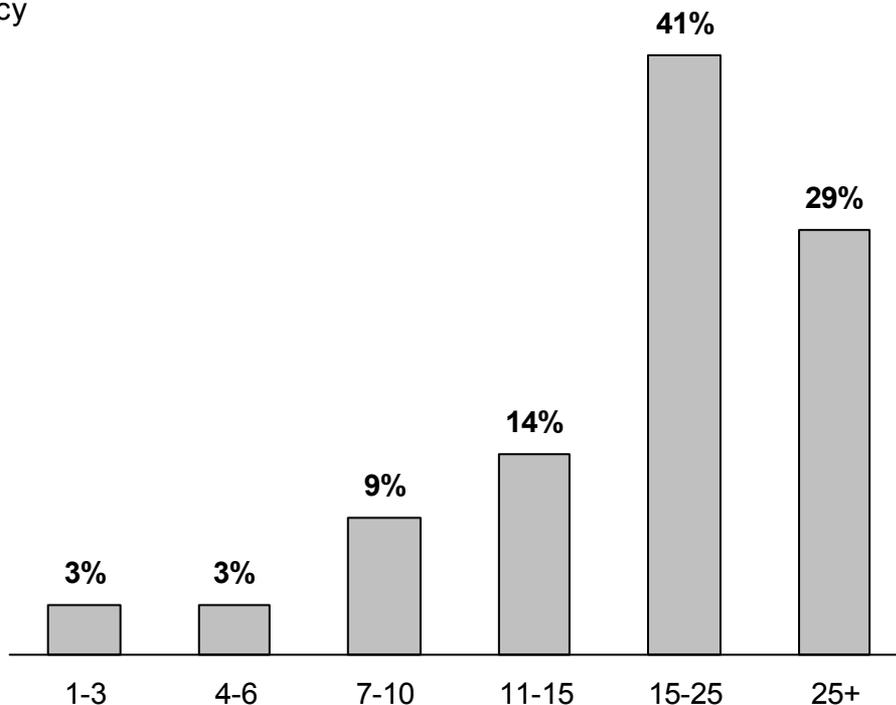
Advertising Industry Sector
(n=121)

Years Worked in Advertising Industry
(n=121)

For Further Information

For press inquiries, please contact Mary Hilton at the American Advertising Federation.

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