2020 - State of the Industry

December 18, 2020

The ARF Knowledge Center reviewed the latest published stats and reports on the state of the industry, especially the impact on advertising and media, marketers, key verticals, agencies, and market research. The following is a snapshot of how we did in 2020, and what to look out for in 2021.

Highlights:

- Despite the pandemic and the severity of the recession, latest forecasts from MAGNA show that **total U.S. advertising revenue for 2020 fell by just -1% to $221 billion in 2020** and is expected to **grow by +4.0% in 2021**, excluding cyclical events. The U.S. advertising market fared better than the **global average (-4.4% vs. 2019)** (Létang, 2020).
  - This was mainly due to the **stronger than expected digital media spend** (+10% vs. 2019) and a **huge influx of political spending ($6.1 billion)** that partly offset the budget cuts of other verticals in linear media (Létang, 2020).
- GroupM predicts that **national TV advertising will see a decline of 7.9% during 2020 and rebound to grow by 6.6% during 2021** before returning to a flat or slightly declining longer-term trend**. At this pace, national TV is faring better than every other category of media other than digital** (Wieser, 2020b).
- According to dentsu's 2020 CMO Survey, **the top challenge for both U.S. and global marketers in the next 6-12 months** is **understanding which consumer behavior shifts will be permanent**. Even if they do gain an understanding, over one-third are challenged to align their brands around changing sentiment (Keane, 2020).
- McKinsey observes that the lockdowns and a shift in consumer priorities toward health and safety due to **COVID-19 condensed five years of e-commerce growth into three months**, dramatically reshaping both the consumer path to purchase for CPG products and the actual points of purchase (Brodherson, Jacobs, Jojart, & Wong, 2020).
  - CPG manufacturers saw **277% increase in retail sales via e-commerce channels** for food & beverage and health & personal care companies in 2Q20 (Wieser, 2020a).
- **Agencies have suffered layoffs and furloughs this year largely due to COVID-19**, which spurred many brands to cut, reduce, or delay marketing spend, especially in the beginning of the pandemic. Forrester estimates that a

total of 35,000 agency jobs will be cut this year in the U.S., and that 17,000 more will be gone in 2021 (Smiley, 2020). COVID-19 has also accelerated the move towards brands bringing marketing **in-house** (ANA, 2020), as well as increasing adoption of **automation** in agencies - which will likely lead to "fewer people in smaller agencies" (Smiley, 2020).

- **COVID-19 also accelerated the digital transformation in market research.** As in-person research basically stopped altogether in favor of digital and/or online equivalents, market research companies are **redirecting savings into investments in new technology**, such as **automation, machine learning, artificial intelligence, and systems** that can make better use of customer data to help drive marketing efficiencies (Qualtrics, 2020).

The following deeper dive covers:

- Advertising Revenue & Spend - 2020 & Beyond
- Marketers - Top concerns and challenges for CMOs
- Industry Verticals - Auto, CPG, Telecom, Financial, Entertainment, Retail
- Agencies
- Market Research

ADVERTISING REVENUE & SPEND

2020

Despite the severity of the recession, MAGNA's analysis of media owner's financials suggests **total U.S. advertising revenues** (linear + digital) **fell by just -1% to $221 billion in 2020, a much milder decrease than initially anticipated** (Létang, 2020).

This was caused by **stronger than expected digital media spend** (+10% vs 2019) and a **huge influx of political spending** that partly offset the budget cuts of other verticals in linear media. Excluding the $6.1 billion of incremental advertising revenues from political spenders, non-political advertising revenues would have dropped by **-3% vs 2019**, which is still a better performance than the **advertising market globally (-4.4%)** (Létang, 2020).

Recent reports by GroupM and Zenith Media also show that the **underlying rate of decline for advertising is not quite as bad as forecasted earlier in the year**.

- **GroupM thinks the decline will be closer to -9%** (vs. -13% forecasted in June) **because of the strength in digital advertising**, especially the unexpected pace at which digital's small-business customer base expanded its spending. **Digital advertising is the "bright spot"** in an otherwise dark year for the industry, according to Brian Wieser, Global President, Business Intelligence, GroupM (Wieser, 2020b).

- **Zenith Media now forecasts that global adspend will shrink 7.5% in 2020,** compared to July's -9.1% forecast. **North America has fared better than any other region this year and is forecasted to shrink by just 5.3% in 2020, but that's partly owing to very heavy political spending in the run-up to the U.S. Presidential election** (Zenith, 2020).

Additional GroupM forecasts by other media/platforms (Wieser, 2020b):

- GroupM predicts that **national TV advertising will see a decline of 7.9% during 2020 and rebound to grow by 6.6% during 2021** before returning to a flat or slightly declining longer-term trend**. At this pace, national TV is faring better than every other category of media other than digital**. Post 2Q, advertising has held up well because most of the dominant advertisers adapted their behaviors, at least on an aggregated basis, which translates to national TV ad spending at levels that resemble pre-pandemic levels.
- **Print media** is expected to decline 20% for magazine publishers and a 30% decline for newspaper publishers.
- **Out of Home (OOH) advertising**, including its digital extensions, will decline by 31% during 2020 on an underlying (ex-political advertising) basis, following on 2019's 10% rate of growth.
- **Cinema advertising** is unlikely to see any meaningful rebound until traditional movie-going returns, and this will require studios to resume launching their major titles in theaters rather than via direct-to-consumer platforms.
- **Audio advertising,** including its digital extensions, will fall by 27% during 2020 on an underlying (ex-political advertising) basis, following on 2019's 2.1% rate of growth.
- **Direct mail** is estimated to generate around $13 billion in revenue during 2020, down 26% on an underlying basis but only 21% including political advertising.

2021 & Beyond

Assuming COVID vaccinations enable semi-normal business conditions for most of 2021, cyclical sports events (Olympics) finally happen, and the economic recovery predicted by economists does take place (e.g., IMF GDP +3.9%), **MAGNA forecasts U.S. advertising sales to grow by +4.0% in 2021** (+6% excluding cyclical events) to reach $230 billion, surpassing the 2019 high (Létang, 2020). MAGNA U.S. forecasts by media/platform:

TABLE 3: ADVERTISING GROWTH FORECASTS - US MARKET

YOY GROWTH %	2019	2020	2021
TOTAL DIGITAL	16.7%	10.0%	8.0%
Search	17.2%	8.4%	8.4%
Online Video	25.4%	19.4%	11.8%
Social Media	26.3%	17.7%	9.6%
Mobile	26.2%	17.1%	12.0%
TOTAL LINEAR	-5.7%	-15.8%	-2.8%
National TV (incl. CE)	-2.0%	-11.1%	4.6%
National TV (excl. CE)	-0.5%	-11.5%	3.3%
Local TV (incl. CE)	-15.6%	-3.4%	-20.4%
Local TV (excl. CE)	-2.9%	-20.6%	-3.7%
Print	-13.5%	-30.4%	-13.0%
Radio	-0.2%	-28.2%	1.4%
Out-of-home	7.5%	-24.2%	11.3%
Cinema	-0.1%	-80.0%	123.1%
Direct Mail	-3.6%	-13.9%	-4.8%
GRAND TOTAL (incl. CE)	5.9%	-1.3%	4.1%
GRAND TOTAL (excl. CE)	7.8%	-3.3%	6.0%

CE= cyclical events (US election, Olympics)

- **Linear advertising sales will stabilize**. National television will grow, and OOH will gain as consumer mobility recovers.
- **Digital ad sales will continue to grow close to double-digits** driven by search, social, and video.

Beyond 2021, GroupM anticipates slightly higher growth than previously forecast: **now 5% in 2022, followed by 4% in 2023, and 2024**, to reflect what they think will be an **accelerated pace of investment in digital media by marketers of all sizes** (Wieser, 2020b).

However, GroupM also cautions that it is important to remember that industry average growth rates are just that: averages. While average might be a satisfactory standard for some, it is critical for marketers to seek pathways for above-average growth, especially under challenging economic circumstances (Wieser, 2020b).

Media Buying

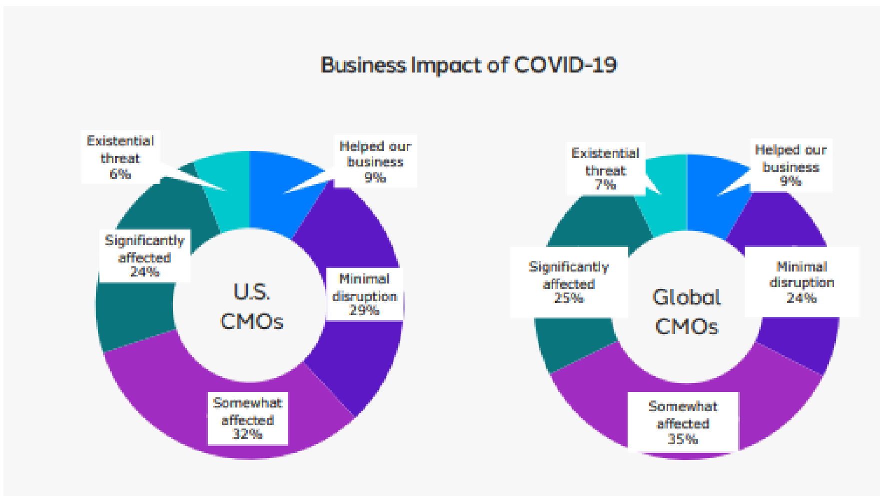
A new report from the Interactive Advertising Bureau (IAB) shows the growth of programmatic as digital ad spending increased exponentially this year in response to COVID-19. According to IAB CEO David Cohen, **programmatic has "now eclipsed direct buys in the digital ecosystem**" (Craft, 2020). WARC forecasts that that **the**

majority of ad money will be transacted by machines for the first time in 2021 (McDonald & Clapp, 2020).

However, IAB also reports that challenges such as the blocking of web cookies have frightened media buyers and **dampened their optimism about next year** (Craft, 2020).

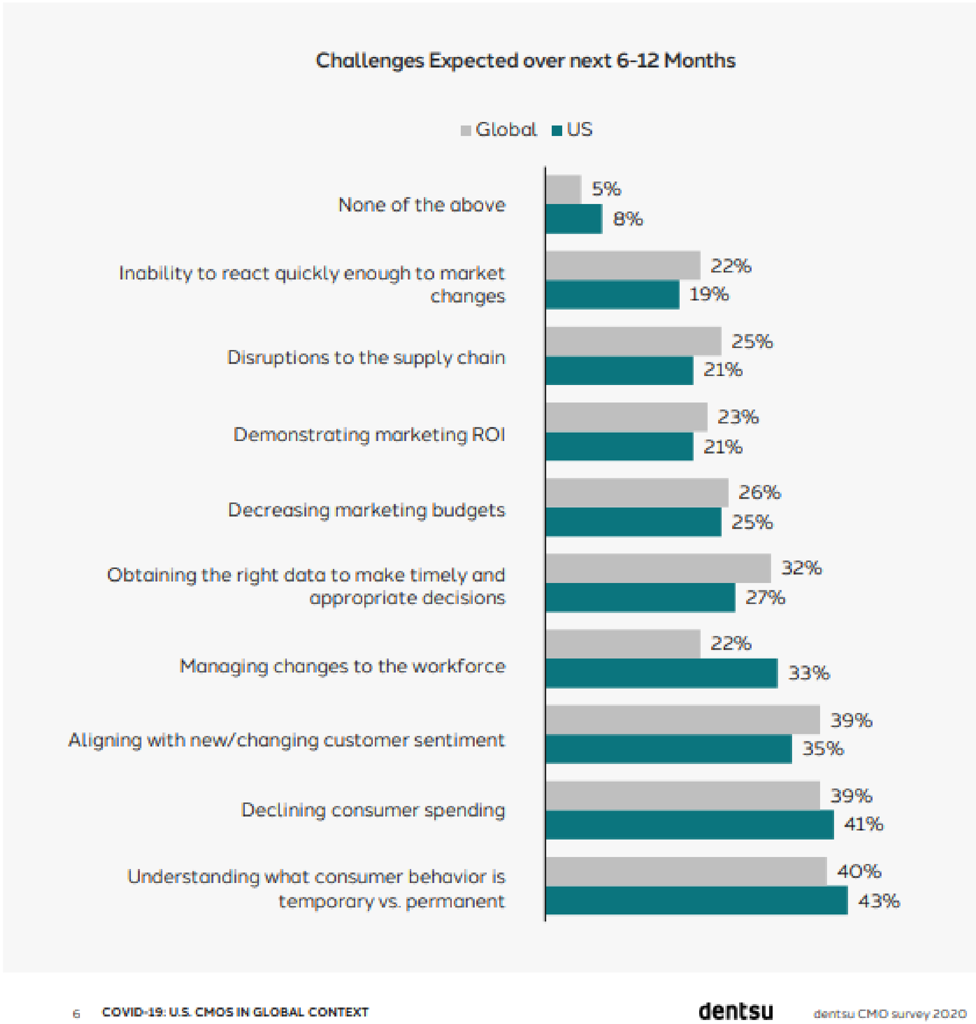
Marketers

According to dentsu's 2020 CMO Survey, **62% of U.S. CMOs say they have been at least "somewhat" affected by the crisis**, almost one in three report minimal disruption, and one in ten report that the crisis has helped their business (Keane, 2020):



Despite reporting similar levels of disruption to their business as global counterparts, **U.S. CMO's marketing budgets are doing better on average.** U.S. CMOs may be heeding the general advice that brands should not "go dark" during times of recession. Additional insights from the CMO Survey (Keane, 2020):

- **U.S. CMOs are also focused on growing their consumer base.** The U.S. focus on growth and short-term performance metrics is consistent with global priorities. Interestingly, CMOs in more emerging economies appear to focus more on innovation than those in mature markets.
- **The top challenge for both U.S. and global marketers in the next 6-12 months is understanding which consumer behavior shifts will be permanent.** Even if they do gain an understanding, over one-third are challenged to align their brands around changing sentiment.



David Tiltman, VP Content, WARC, stated that **the questions facing marketers as 2021 approaches are more profound than any previous yea**r: from navigating the rest of the pandemic to plotting the rebuild; from planning across a tech oligopoly to responding meaningfully to the need for greater diversity (WARC, 2020).

Successful marketers are **identifying new consumption opportunities and disrupting established brand relationships** during this period when consumers are forming new purchasing habits (WARC, 2020).

- For example, nearly every brand that occupies a spot on **Morning Consult's Fastest Growing Brands™ of 2020** is **meaningfully connected to pandemic-related behavior**. **Zoom** is the standout winner this year**. Video streaming services** dominate the rankings and **food delivery apps** had another banner year (Morning Consult, 2020).

Industry Verticals

GroupM's analysis of industry verticals reveals that COVID has shifted the landscape for auto, CPG, telecom, financial services, and entertainment (Wieser, 2020a):

- **Auto has rebounded from 40-45% declines at the low point in April to current levels of flat or better.** Car manufacturers have shifted to direct online relationships with consumers.
- **CPG manufacturers experienced a significant transition in how their products are sold**, leading to a **277% increase in retail sales via e-commerce channels** for food & beverage and health & personal care companies in 2Q20.
  - In a separate report, McKinsey observes that the lockdowns and a shift in consumer priorities toward health and safety due to COVID-19 **condensed five years of e-commerce growth into three months,** dramatically reshaping both the consumer path to purchase for CPG products and the actual points of purchase. **These patterns are unlikely to revert back to the pre-COVID-19 normal** (Brodherson, Jacobs, Jojart, & Wong, 2020).
- **Telecommunications** consumers have exponentially increased internet usage. Telco has responded with **faster, more robust broadband** services to support working or schooling from home and streaming service growth to meet telehealth needs and e-commerce.
- **Financial Services have fared well during the pandemic**, aided by liquidity from central banks from around the world paired with new government-backed loan programs and stimulus payments made to consumers.
  - **Banks have served as a digital role model for other industries with more digitally focused services into their product portfolios**, if only because most of what banks offer, including trustworthiness and perceptions of durability, are mostly virtual. **However, banks will need to sustain their investment in branding** to reinforce trust, as well as heavy investment in data-related infrastructure.
- **Entertainment**, **particularly streaming services, have soared** in large part because spending on content packaged by streaming services has been growing much more rapidly than spending on content packaged by incumbents.
  - Going forward, studio owners will need to invest heavily in capabilities to aggregate and analyze data to understand consumers' content and platform preferences, optimizing assets accordingly.

In 2021, as the COVID restrictions are gradually relaxed during the year, MAGNA expects improvements in some verticals (Létang, 2020):

- **Entertainment** (e.g., movie releases) and **restaurant** will benefit from a gradual reopening.
- **Food and drinks brands** will benefit from a return to normal sports schedules and social interactions.
- **The automotive and travel industries, however, will remain financially fragile.** High unemployment rate leads to fewer people making large purchase decisions, such as buying a car, and the lingering effects of the COVID-19 pandemic leads to fewer people traveling. Even if travel and auto consumption recover, **MAGNA anticipates these sectors to remain cautious with marketing costs** and start with direct media rather than linear media.
- MAGNA believes the return of consumer mobility, major events, and economic recovery will prompt **most industry verticals to grow their linear advertising budgets in 2021**, **but the long-term trajectory has shifted even further towards a digital-centric marketing environment.**

Retail has been a tale of two halves. Businesses that were already e-commerce focused like Amazon, or those like Walmart and Target who could pivot quickly, did very well. However, those that couldn't adjust, including some long-lived retailers like JC Penney and Neiman Marcus, fell into bankruptcy or have severe financial conditions (Qualtrics, 2020).

Viewing global trends, only the government and non-profit sector increased adspend in 2020. A full 17.4% of global losses were within the **automotive** sector, where spend is down by a fifth, or $11.0bn. The **retail** sector follows (-$10.5bn), with **travel & tourism** brands cutting adspend by a third (-33.8%). All categories bar government and non-profit are set to increase spend next year (McDonald & Clapp, 2020).

AGENCIES

Agencies have suffered layoffs and furloughs this year largely due to COVID-19, which spurred many brands to cut, reduce, or delay marketing spend, especially in the beginning of the pandemic. Forrester estimates that a **total of 35,000 agency jobs will be cut this year in the U.S., and that 17,000 more will be gone in 2021** (Smiley, 2020).

COVID-19 has also accelerated the number of brands bringing marketing "in-house." An ANA Insights Brief reports that a "do more with less" dynamic is being adopted throughout the marketing industry, and **future changes in agency structure are inevitable** (ANA, 2020).

Forrester also predicts that beyond COVID, **automation will completely transform the advertising industry**: **11% of digital, creative, and media agency tasks in the U.S. are expected to be automated by 2023**. According to Jay Pattisall, a principal analyst at Forrester, this combination of factors contributes to his belief that, "In the end, we're talking about **fewer people in smaller agencies"** (Smiley, 2020).

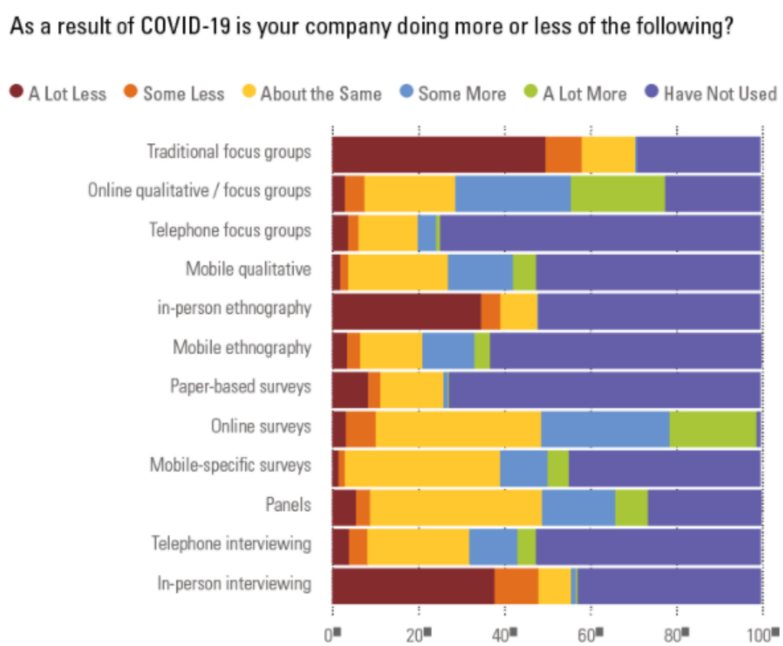
McKinsey also reports that agency relationships will change in the post-COVID, new normal. **Agencies and marketers are moving to project-based arrangements characterized by greater collaboration with agile teams and a focus on performance** (Brodherson, Jacobs, Jojart, & Wong, 2020).

MARKET RESEARCH

Qualtrics found that **in the immediate response to the pandemic**, **almost two thirds of companies cancelled or postponed some of their planned research** (Qualtrics, 2020). Quirk's *2020 Q Report* on COVID-19's impact on corporate researchers found that **about 45% of respondents said their market research budget had stayed the same**, while **just over 30% said their research budget had decreased by more than 10%** (Rydholm, 2020). Market research companies sought to adapt by **seeking cost-cutting measures**, such as reducing headcount and adding new roles as slowly as possible (Qualtrics, 2020).

However, **COVID-19 also accelerated the digital transformation in market research.** As in-person research basically stopped altogether in favor of digital and/or online equivalents, market research companies are **redirecting savings into investments in new technology**, such as **automation, machine learning, artificial intelligence, and systems** that can make better use of customer data to help drive marketing efficiencies (Qualtrics, 2020).

Top research methods used in response to COVID-19 (Rydholm, 2020):



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