WFA World Federation of Advertisers

Produced with the help of The Economist Group

The State of Advertising

Research of WFA members in June 2019

Foreword

Advertising: Planting Tomorrow's Forests Whilst Putting Out The Fires Of Today

As an industry, we have a hard time seeing the wood for the trees. We're spending more and more time questioning if we're prepared for the constant stream of changes that have come to be the norm. We're increasingly leaning to quick return and automated performance marketing to the detriment of longer-term creative brand building. Less attention is paid to when and where we present communications to audiences in a way they want to consume it.

With so many fires to put out, it is not surprising we rely on tactical solutions for quick results. When performance is judged quarter to quarter, or in some industries, day to day or even hour by hour, it's understandable we're transfixed on the short term in order to deliver results now.

This emergency management mindset creates an interesting viewpoint amongst marketers. There has been a perceived 43% increase in upper funnel effectiveness and the sense of a massive 72% increase in lower funnel effectiveness. However, marketers also believe a too-cluttered ad environment is the cause of lower effectiveness (63%). Audiences are bombarded with messaging, driving people to trust ads less (39%) and to avoid advertising (53%), thus reducing the reach (42%).

No wonder CMOs are turning to agencies for help specifically in development of big-ticket creative and creative strategy as well as media strategy and buying. They're also moving programmatic out of house to external agencies. In-house resources have become dedicated to delivering tactical production tasks and development of short form content.

Looking forward, there's broad agreement that digital marketing has a negative impact on creativity (49%) but that direct-to-consumer brands could catalyse bigger brands to find new ways to reach audiences (73%). 67% believe the industry is becoming too introspective. 62% believe advertising will still exist in the future, but 77% agree it needs to be grounded in demonstrable and reciprocal value exchange. When people are being asked to interact with ads, and in some cases, disclose personal information, there needs to be a pay off—what's in it for them?

What we take away from this survey is that we need to balance short-term needs with long-term brand building. Of course we need to continue to put the fires out. And we also need to reforest with an eye to the future. Advertising is transforming with increasingly sophisticated audiences, media and tech. We need to plant the right trees for a changing climate. We need to create firebreaks, irrigation systems and nurture our saplings for a lush and thriving industry.

Mark Cripps,
Chief Marketing Officer
The Economist Group

Contents

2 The respondents
2 Ad spend on the rise
3 Most ad investment still focused on mass reach
3 Confidence in performance advertising effectiveness on the rise
4 Clutter and ad blocking seen to be the main obstacles to effectiveness
4 Prioritisation of investment in eCommerce, programmatic, POS and online
5 Is the trend towards in-housing being over-stated?
6 Death of advertising overstated but need for reciprocity

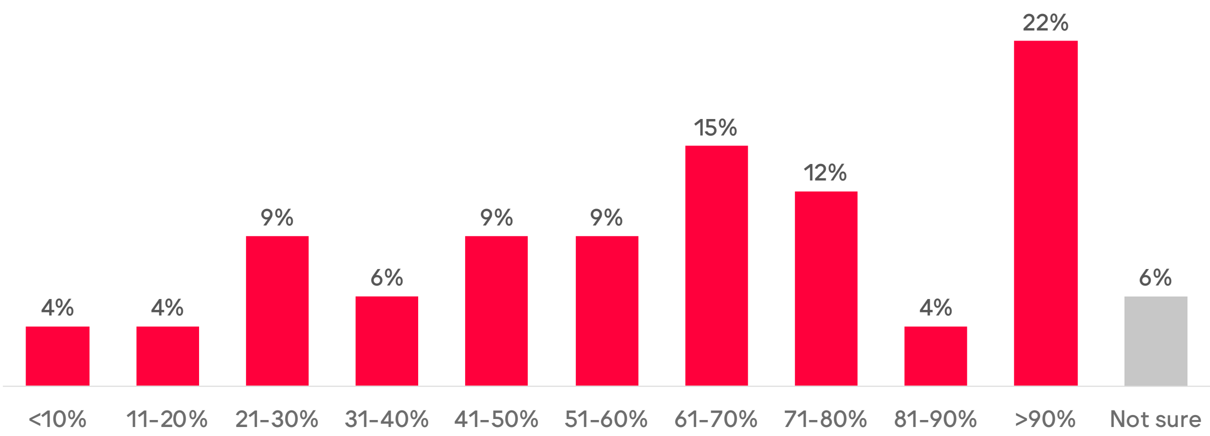
The respondents

The results are based on an online survey of WFA members conducted in June 2019. More than 100 individuals responded from 70 companies across 15 categories, including consumer packaged goods, automotive, food, alcohol, tech and finance. Collectively, respondent companies spend roughly $115bn on media and marketing annually.

Forty-nine per cent of respondents had global roles, 24% were responsible for Europe, 12% Asia-Pacific and 8% North America. Respondents covering Latin America, Middle East and North Africa, India and China accounted for the rest of the participants.

Advertising represents on average nearly two thirds (61%) of their total marketing budgets, when costs such as media, creative and agency costs are included. This weighted average, however, covers a wide range of approaches. For 22% of respondents, advertising represented more than 90% of the total marketing budget with the next highest peak of 15% coming at 61-70% of the total marketing budget. A further 12% said advertising represented 71-80% of total marketing spend.

Fig 1. Advertising represents, on average, 61% of respondents' total marketing budgets



Ad spend on the rise

Ad investment is up for 43% of our respondents over the last 12 months. Fifteen per cent reported a significant rise and 28% said it was "somewhat more".

Forty-nine per cent reported an increase over the last five years. Twenty-seven per cent of respondents reported significantly more investment and 22% somewhat more.

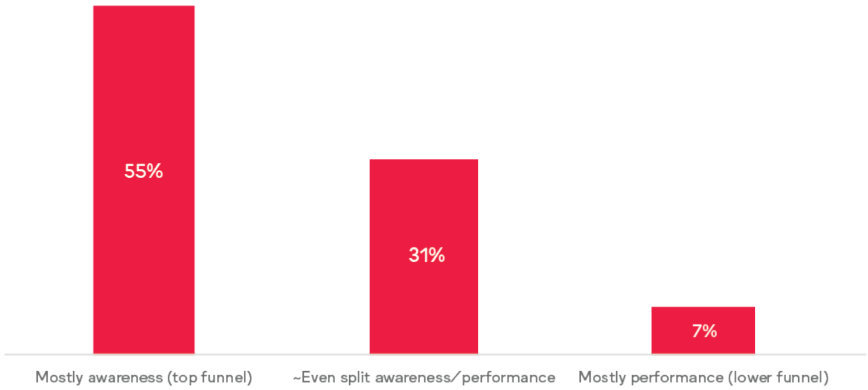
No change was reported by 24% for the last 12 months and 9% over the last five years.

Among those respondents who reported decreasing spend, 25% said it was "somewhat less" over the last 12 months with just 7% citing a significant drop. Over the five years the numbers were more evenly split with 20% reporting "somewhat less" investment and 19% saying ad spend was significantly less.

Most ad investment still focused on mass reach

Spend is focused on 'top of the funnel' activities for most of our respondents, with 55% saying most of their investment was going on activity designed to promote brand awareness. Thirty-one per cent were investing evenly between awareness and lower funnel performance with 7% investing mostly in performance messages and channels.

Fig 2. 'Top funnel' (awareness) advertising takes the lion-share of our sample's investment



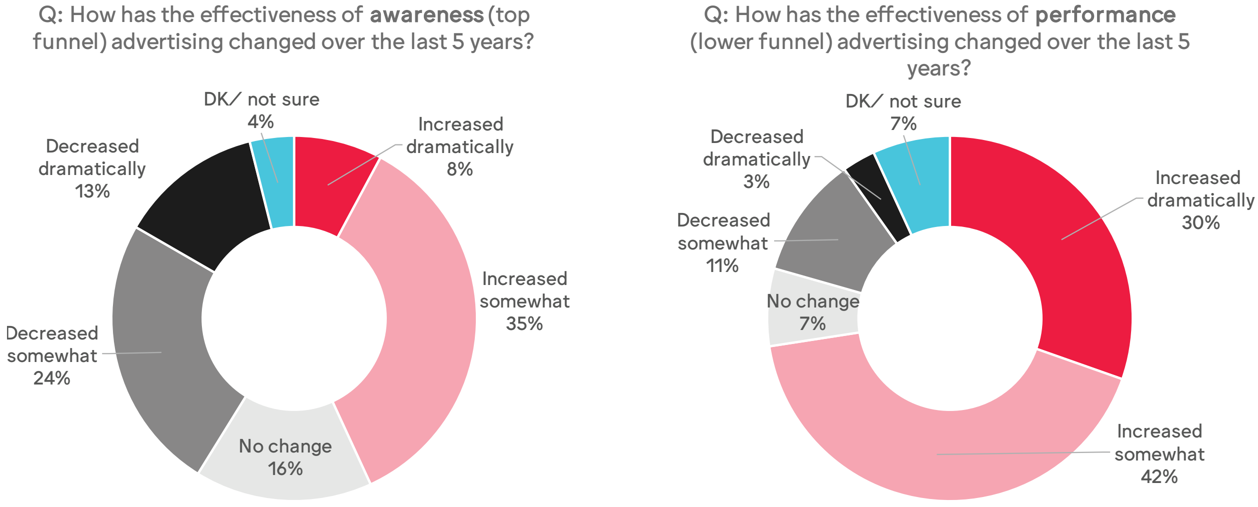
Confidence in performance advertising effectiveness on the rise

Whilst respondents are fairly evenly split in relation to their confidence in the evolution of awareness-focused (reach-based) advertising effectiveness, confidence has significantly improved in relation to 'low funnel', direct response-oriented inventory.

Thirty per cent said performance effectiveness had increased dramatically and 42% said it had increased somewhat. Just 3% said effectiveness had decreased dramatically in the lower funnel.

Opinions, however, were much more mixed when it comes to the effectiveness of awareness activity. Eight per cent said it had improved dramatically with 35% reporting "somewhat" improvement.

Fig 3. Respondents feel performance advertising effectiveness has increased dramatically



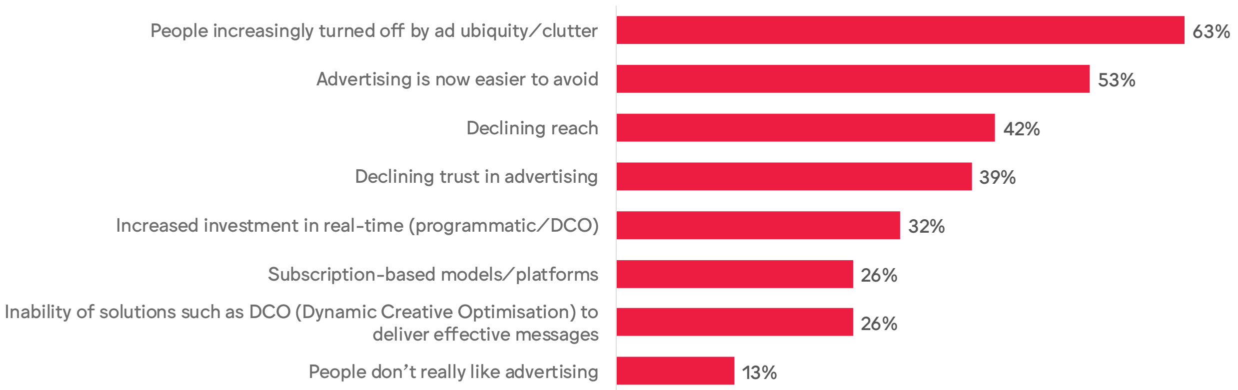
The number saying effectiveness has decreased is dramatically higher at the top end of the funnel with 13% claiming a dramatic decrease in the last half decade and 24% saying it had dropped "somewhat".

Clutter and ad blocking seen to be the main obstacles to effectiveness

Of those who felt ad effectiveness was on the decline (32% of respondents), the reasons most often cited were clutter (63%), the increasing ease of ad avoidance (53%), declining reach (42%) and declining trust in advertising (39%).

Respondents also pointed to the increased investment in real-time (32%), the rise of subscription-based models (26%) and the failure of dynamic creative optimisation to deliver effective messages (also 26%).

Fig 4. Clutter and ad-blocking seen as the main enemies to effective advertising



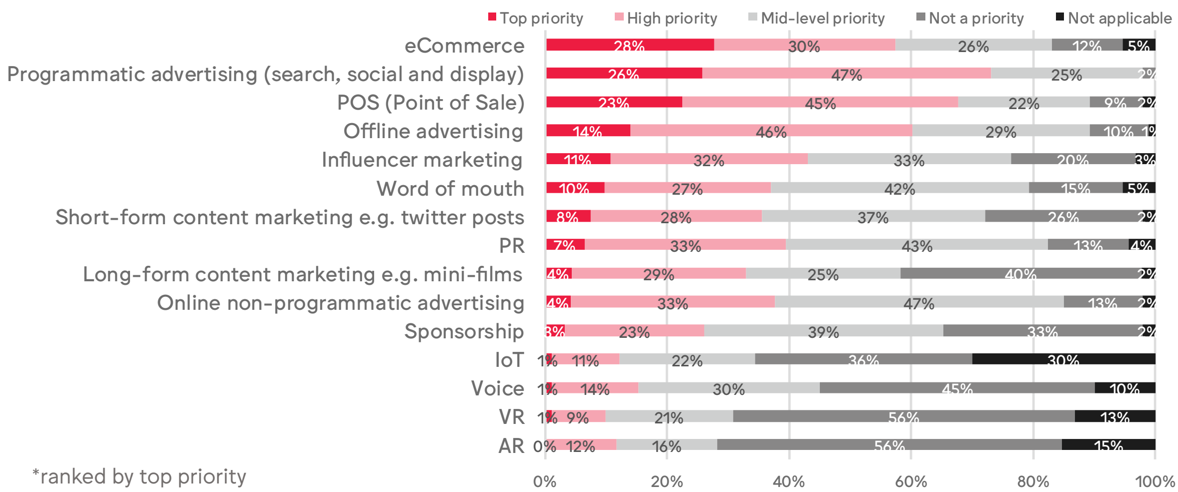
Other factors cited included a general dislike of advertising, short-term profit optimisation, a dramatic increase in short-term efficiency metrics, over reliance on efficiency-based practices versus focusing on effectiveness, the assumption that scale equals effectiveness and the extreme fragmentation of consumer's free time.

A number of respondents freely proffered a "decline in quality of work" as a factor for ineffectiveness.

Prioritisation of investment in eCommerce, programmatic, POS and online

Respondents are focusing their current investment emphasis on eCommerce and programmatic as their top two options with Point of Sale and offline advertising taking the two next spots.

Fig 5. Investment emphasis on eCommerce, programmatic. Though POS and offline ads still a high priority



eCommerce was cited as top priority by 28% of respondents with a further 30% saying it was a high priority while programmatic – covering search, social and display – was named as a top priority by 26% and as a high priority by a significant 47% of respondents. An additional 25% said it was a mid-level priority.

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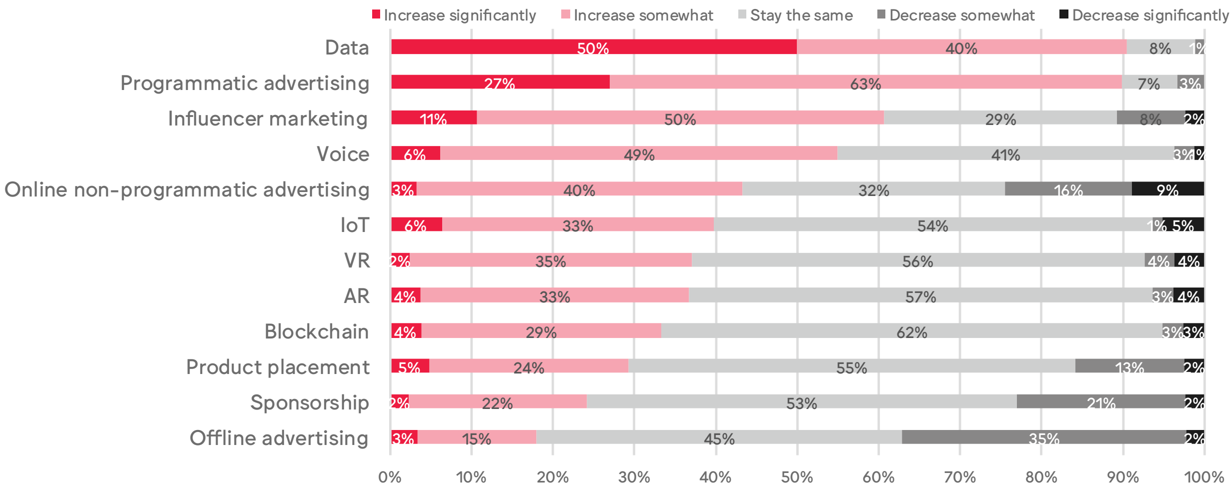
Point of sale attracted top priority comments from 23% and high priority from 45% to take the third spot.

Respondents, who were able to select from a list of 15 options, rated AR, VR, Voice and IoT as the four areas with the lowest priority.

The three-year timeline highlighted the ongoing importance of data and programmatic with influencer marketing also making the podium. Fifty percent of respondents said data was an area that would increase significantly, with programmatic in second scoring 27% on the same measure.

Fig 6. Data and programmatic remain upcoming priorities



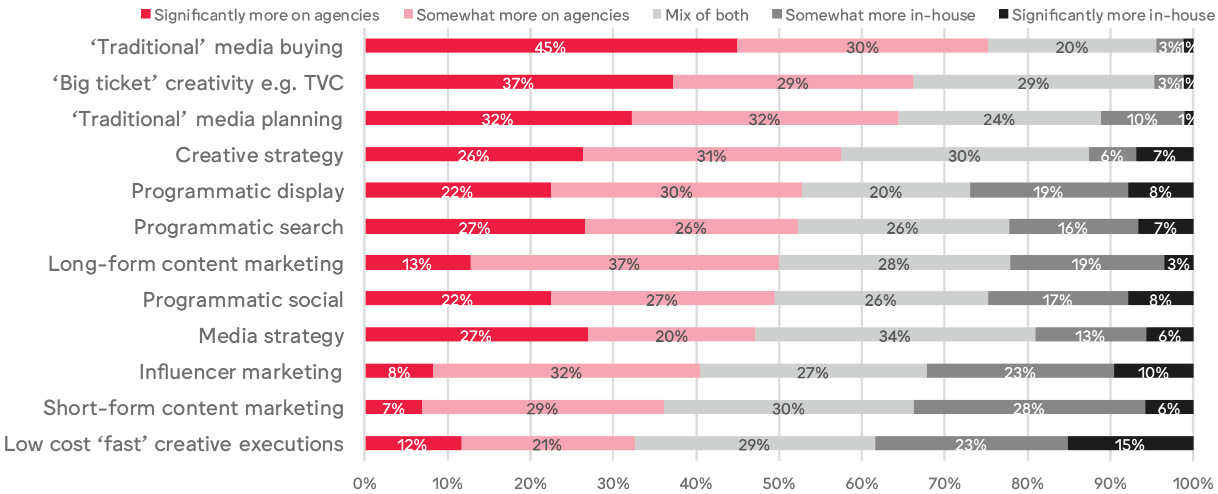
Is the trend towards in-housing being over-stated?

Respondents highlighted the dichotomy of the in-housing debate, admitting they will spend more on agencies in some areas while also saying they will do more in-house in others.

Agencies are likely to benefit from increased spending in areas such as traditional media buying where 45% expect to spend significantly more and 30% to spend somewhat more in the next 12 months.

Other areas that are also likely to be less impacted by in-housing include big ticket creativity, traditional media planning, creative strategy and programmatic search, all of which had over 50% of respondents predicting they would spend more.

**Fig 7. "If we didn't have agencies, we would invent them…"
We may be over-stating the trend towards in-housing.**



By contrast, the three areas where some advertisers are committed to bringing more in-house in the next 12 months are low-cost 'fast' creative executions, short-form content marketing and influencer marketing. That said, only for low cost creative executions was there a larger number of respondents saying they would in-house compared to the number of respondents saying they would outsource.

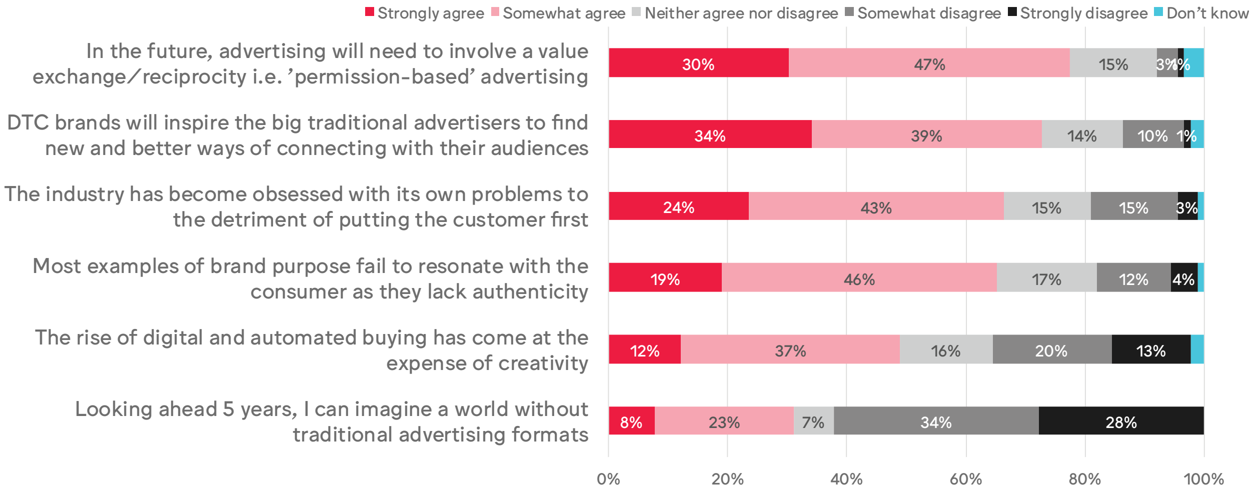
Thirty-eight per cent of respondents said they expected to spend more on low-cost "fast" creative executions in-house, with 15% saying they would spend significantly more.

Death of advertising overstated but need for reciprocity

Respondents largely disagreed with the premise that in five years' time there will be no traditional advertising. Just 8% strongly agreed with the statement that: "looking ahead five years, I can imagine a world without traditional advertising formats". Twenty-eight per cent strongly disagreed and thirty-four per cent somewhat disagreed.

That said, a relatively significant minority (31%) said they could envisage a world without traditional ad formats in five years.

Fig 8. People-friendly evolution versus "death of" advertising?



The most popular statement, however, was "in the future advertising will need to involve a value exchange/reciprocity", which was supported by 77% of respondents.

The second most popular statement was "direct to consumer brands will inspire the big traditional advertisers to find new and better ways of connecting with their audiences". Thirty-four per cent strongly agreed and 39% somewhat agreed.

Finally, 67% of respondents agreed that the industry had become too obsessed with its own problems to the detriment of putting the consumer first, while 65% agreed with the statement that most examples of brand purpose fail to resonate with the consumer as they lack authenticity.

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