



# Tracking the Trends: A Comparison of Above-the-Line & Below-the-Line Expenditure Trends

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## Executive Summary

"All the successful models we grew up with don't work. It used to be brands had all the power, and then they got sidelined by promotions... Now it's become a consumer republic again. The consumer is boss – there's no more mass market – and is driving the flow of information."

-- **Kevin Roberts, CEO, Saatchi & Saatchi Worldwide**

"I believe today's marketing model is broken. We're applying antiquated thinking and work systems to a new world of possibilities."

-- **Jim Stengel, CMO, Procter & Gamble**

In a market rapidly adapting to changes in technology, available information and heightened consumer demand, the words of Roberts and Stengel ring true: traditional, brand-oriented advertising is no longer the primary driver of customer behavior. Whether it's reflected in dwindling print newspaper circulation or the stagnant market for network television commercials, significant evidence suggests that the marketing landscape has fundamentally shifted – from an "above-the-line" focus on reaching a broad population with emotionally-oriented appeals, to a "below-the-line" approach that stresses targeted, customer-centric communications, measurable results and concrete return-on-investment.

We believe that the metaphorical "line" separating marketing philosophies (often quoted, but never precisely defined) is reflected in three key qualities that separate today's emerging promotional methods from the top-down advertising monologue of the past. Acting in concert, they embody the universal elements of successful below-the-line marketing efforts:

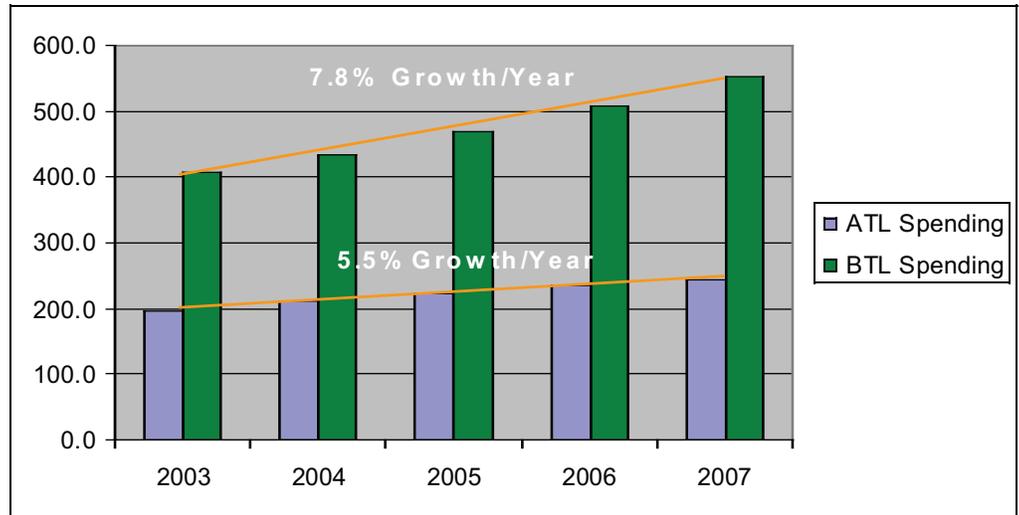
- **Perception** – The extent to which a consumer feels that he or she is engaged as an active participant in a marketing dialogue, rather than a target of an aggressive direct sales or branding effort
- **Interaction** – The extent to which consumers are empowered to respond to marketing communications via preferred channels that are both convenient and accessible
- **Measurability** – The extent to which a marketer can track the results of an individual initiative, determine commensurate return-on-investment and adjust future campaigns to provide for an enhanced chance of success

<b>Above-the-Line Media...</b>	<b>Below-the-Line Media...</b>
Are tailored to reach a mass audience	Are targeted to individual consumers, based on their expressed needs and preferences
Establish brand identity or reinforce emotional concepts surrounding a product or brand	Issue a "call-to-action," inspiring specific customer activity or tailored messages about a product or brand
May or may not drive customer response	Drive individual responses
Are difficult – if not impossible – to measure with any accuracy	Are highly measurable, allowing marketers insight into their return-on-investment, as well as those tactics that are (and are not) working
Cater to the mass market	Establish one-to-one relationships between consumers and marketers

"In 2001, [direct marketing] was seen as the decidedly unsexy stepchild to general advertising. Although dependent on many of the same creative capabilities found at general agencies, direct suffered from a perception that it was all about data manipulation, statistical analysis and offerings.... But the current era of accountability and demand for return on investment has changed all that: direct marketing now garners the greatest share – roughly a quarter of marketers' budgets in the U.S.... surpassing even newspapers and broadcast TV."

-- *Advertising Age, October 2005*

## Historical & Forecasted U.S. Marketing Spending, 2001–2007



Sources for All Spending Charts: Direct Marketing Association, JupiterResearch, Universal McCann, Winterberry Group analysis

This paper, based on exhaustive secondary research as well as insights compiled by both Winterberry Group and V12 Group, explores the key factors that are leading sophisticated marketers in all vertical segments to move dollars away from “above-the-line” (ATL) and toward direct, measurable “below-the-line” (BTL) marketing tactics. Specifically, it identifies seven key trends that are directly impacting the allocation of marketing budgets for both ATL and BTL campaigns. They include:

- Changing consumer demographics decrease the influence of traditional mass-media (i.e. “one-size-fits-all”) marketing messages
- Growing consumer sophistication heightens the demand for channel-agnostic communications
- Widespread marketing “clutter” diminishes the impact of commercial messages that don’t address specific and individually relevant consumer needs
- Enhanced information availability empowers both marketers and consumers with insight that allows for precise customer targeting and intelligent purchase decisions
- Heightened client pressure to deliver quantifiable value forces marketing service providers – especially agencies – to re-evaluate services platforms
- Growing effectiveness of “multichannel” campaigns (those that cross multiple media) reinforces demand for tactics that establish one-to-one relationships between marketers and consumers
- Rapid technological advances allow for consumer/marketer interactions that are frequent, easier and more relevant than previously possible

## Above- or Below-the-Line? A Definition

**“Above-the-line”** refers to those traditional marketing channels that strive to reach a mass audience with messages that reinforce a brand, communicate general product information or inspire an emotional response. “Below-the-line” initiatives, by comparison, act like traditional direct marketing efforts – they aspire to establish targeted relationships between marketers and individual consumers, and offer comparable ease in measurability.

As interpretations of certain applications vary, we have attempted to classify channels according to their most typical usage. Specific ATL and BTL channels include:

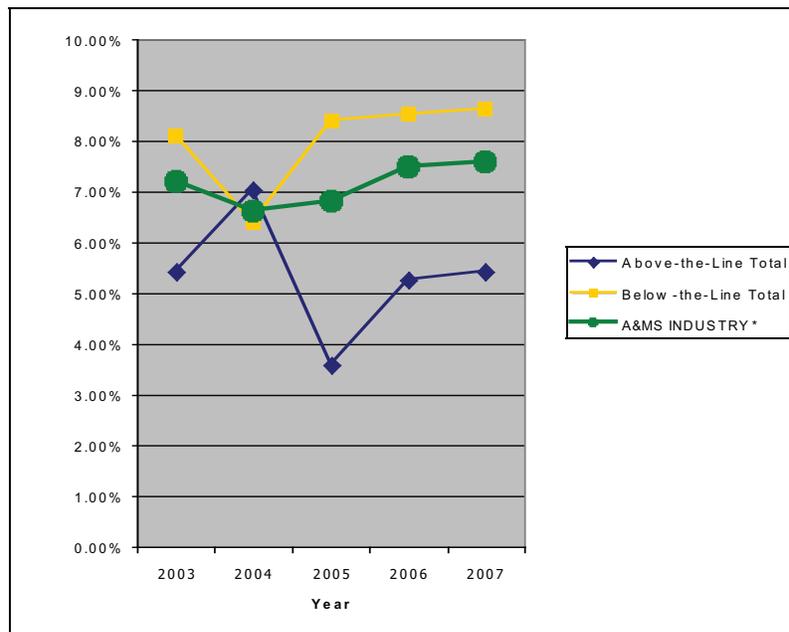
**Above-the-Line:**  
 “Measured Media” – TV/Radio/Print Advertising  
 Outdoor Advertising  
 Yellow Pages

*Perception ~ Interaction ~ Measurability*

**Below-the-Line:**  
 Direct Mail  
 Direct Response Broadcast  
 Direct Response Print  
 Event Marketing  
 Interactive Marketing  
 Promotional Marketing

## Where is the spending going?

### Year-Over-Year Growth: “Above-the-Line,” “Below-the-Line” and the Total U.S. Advertising & Marketing Services Industry



*\*Note: On this and subsequent spending charts, “A&MS INDUSTRY” refers to aggregate annual growth for the entire advertising & marketing services industry, inclusive of both above- and below-the-line channels.*

“To call this advertising market ‘hot’ implies it’s a fashion that might turn slack at any moment. These yearly and quarterly [interactive] ad spending gains point to a sea change in media usage among marketers, reflecting how the Internet has become an essential element of daily life for more and more individuals.”

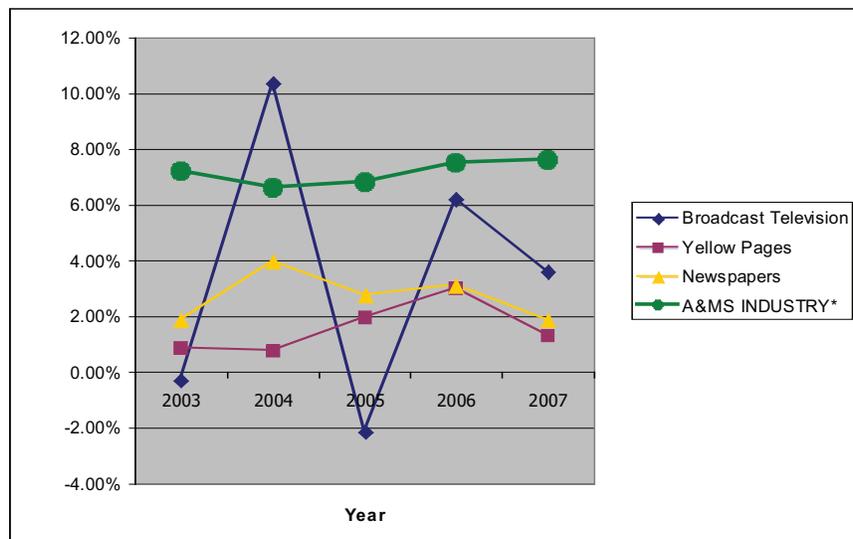
-- David Hallerman, Senior Analyst, eMarketer, September 2005

The statistics are stark: spending on interactive marketing is growing at a pace not seen since the “bubble” days of 1999. According to eMarketer, spending on online advertisements – a unique medium that offers reach and brand exposure along with the one-to-one benefits of BTL marketing – will reach \$12.9 billion in 2005, representing an increase of more than 34 percent from 2004 spending. By 2009, annual online expenditures should hit \$22.3 billion, reflecting an average annual growth of nearly 21 percent since 2002.

But the “sea change” to which Hallerman alludes isn’t limited to the interactive sphere. Gains are being realized among virtually all media that provide the BTL advantages of perception, interaction and measurability. Whether in direct mail (projected growth 7.5 percent in 2005, according to the Winterberry Group), promotions (3.7 percent, according to PROMO Magazine) or e-mail marketing (31 percent, according to JupiterResearch), recent spending and marketer commentary indicate a real and growing preference for tactics based on established data and quantifiable results.

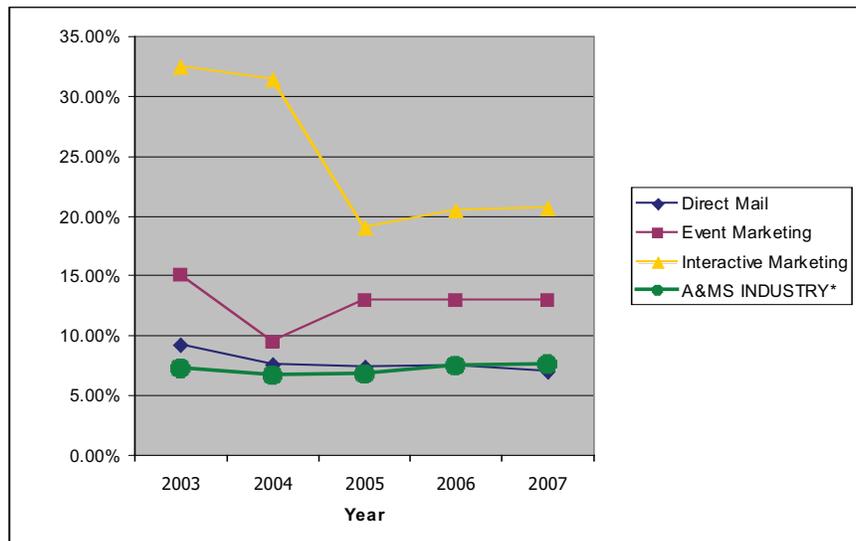
The world’s largest marketing service providers, likewise, are adapting to the business imperative of one-to-one communications. In doing so, they appear finally poised to transition out of the mass advertising-centric focus that has for so long defined their business. WPP Group, for example – one of the world’s largest advertising and marketing services holding companies, with annual revenues of approximately \$10 billion – recently announced that “media investment management continues to show the strongest growth of all our communications services sectors, along with [below-the-line] direct, Internet and interactive and healthcare communications.”

### Year-Over-Year Growth: “Above-the-Line” Channels vs. Entire Advertising & Marketing Services Industry



Despite general growth in advertising and marketing services expenditures -- as well as a one-year spike in broadcast television spending brought on by the quadrennial Olympics/U.S. presidential election cycle – market spending data suggest that above-the-line marketing is not fairing well compared to the industry at large. In 2006, ATL spending (encompassing such channels as television, radio, newspapers, magazines and yellow pages) is expected to grow 5.6 percent, a full 1.7 percent behind the industry as a whole. By 2007, that difference will become more pronounced, as ATL spending growth is projected at just 4.6 percent for the year, compared to an equivalent 7.3 percent industry growth.

### Year-Over-Year Growth: “Below-the-Line” Channels vs. Entire Advertising & Marketing Services Industry



The spending outlook is dramatically different for below-the-line marketing services, which are projected to grow at a pace far exceeding that of the industry at large. Led by interactive (the growth path of which begins to “fall back to earth” as search, e-mail and online advertising mature and gain universal acceptance), virtually all BTL channels project to grow in excess of the 6.9 percent annual growth forecast for the industry. The only exception to this trend is direct mail, which stands to confront a moderate slowing in growth as the effects of the 2006 and potential 2007 postal rate hikes are enacted.

“The traditional media – newspapers, radio and television – have seen spending by local marketers erode despite improved business conditions.... Many local advertisers now concentrate on the use of pre-printed inserts, highly targeted mail advertising programs and increased spending for online marketing efforts that are more transactional than persuasive in nature.”

**-- Robert Coen, SVP/Director of Forecasting, Universal McCann, June 2005**

While spending on virtually all marketing media is expected to grow over the next few years, the budgetary bottom line, not surprisingly, mirrors these channel-specific shifts. With the exception of 2004, which featured both a Summer Olympics and a U.S. presidential election – two events which uniquely fit the mass-communications

model of ATL marketing – spending growth on above-the-line efforts is expected to fall or remain stagnant for each year within the 2003-2007 timeframe.

*During that span, spending on all above-the-line advertising media is expected to grow by an average of **5.5 percent per year**. Below-the-line spending, by contrast, should grow by approximately **7.8 percent annually**.*

Consider those numbers, and the sea change looks like a truly oceanic movement of marketing emphasis.

## Trends Impacting ATL and BTL Marketing Budgets

Expenditure estimates say a lot about where sophisticated marketers are focusing their efforts, but they don't address the more fundamental question of why. Why, after so many years of success with above-the-line methods, are marketers finally changing their approach to reaching customers and fostering profitable relationships? And why do customers appear so willing to accept this new communications philosophy? The following seven trends explore the factors, both external and internal, that are contributing to this emerging marketing emphasis.

### **Changing consumer demographics decrease the influence of traditional mass-media (i.e. "one-size-fits-all") marketing messages.**

In 1990, ethnic minorities in the United States commanded \$647.4 billion in annual consumer spending, or about 15.6 percent of total expenditures. By 2001, that proportion had shot up to nearly 19 percent – some \$1.3 trillion, according to American Multichannel Marketing. Clearly, the influence of multicultural Americans, with their widely disparate preferences, customs and even languages, is growing along with their representation in the general population.

Today, approximately 25 percent of the U.S. population is of African, Asian or Hispanic descent. But by and large, above-the-line marketing messages are still crafted for consumption by the larger population – ignoring the cultural sensibilities of many and threatening to reawaken the kind of cross-cultural snafus now immortalized in business legend. Included in this infamous group are the ill-fated Latin American launch of Chevrolet's Nova brand ("no va" means "doesn't go" in Spanish) as well as the ambiguous wording of the "Got Milk?" campaign in Mexico (which caused some to interpret the message as "Are you lactating?").

Escalating life expectancy and the coming-of-age of the Baby Boom generation are heightening the impact of older Americans, as well. Just like multicultural consumers, this unique sub-population will require targeted, relevant marketing communications in the years ahead.

**Growing consumer sophistication heightens the demand for channel-agnostic communications.**

Advances in marketing and communications haven't just served to benefit marketers – consumers, too, have learned to exploit technology, information and available media channels for their benefit. Among other capabilities, the sophisticated modern consumer is adept at:

- Using the Internet to compare product prices
- Screening out unwanted outbound telemarketing calls (or telemarketing calls altogether – through participation on the National Do-Not-Call list)
- Skipping past television commercials – the lifeblood of above-the-line marketing – with TiVo and other digital video recording technologies
- Bypassing traditional print advertisements through online newspaper subscriptions and opt-in “headlines” e-mails that provide a selected snapshot of relevant news with only a fraction of the advertising interference.

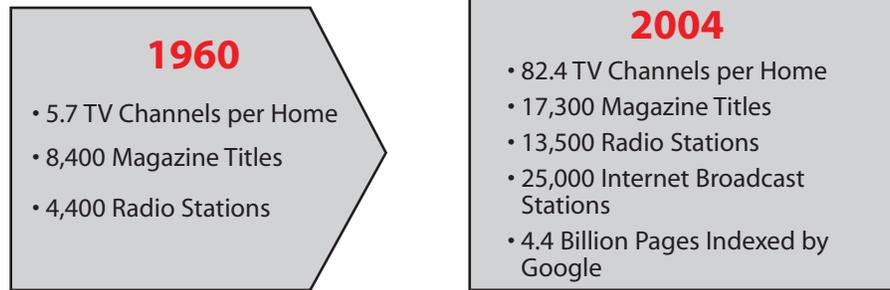
Collectively, these practices speak to the active participation of consumers in the marketing process, a phenomenon made possible by the same innovations that many marketers expected would cement their authority in customers' daily lives. They demand marketing responses that are concise, relevant and universal across all media – so that consumers who choose to interact via multiple channels (say, researching available products online and then completing the purchase in-store) are exposed to a consistent fundamental buying experience.

**Widespread marketing “clutter” diminishes the impact of commercial messages that don't address specific and individually relevant consumer needs.**

Rapid advances in the quality of available marketing media have had at least one deleterious effect: a saturated media consumption landscape, plus a resultant consumer backlash against advertising messages that are perceived as intrusive or otherwise irrelevant.

Sophisticated consumers – like the TiVo users referenced earlier, who tune out commercial advertisements in a move to do away with the clutter – now pose the most significant threat to traditional television advertising and other ATL methods. Forrester and the Cabletelevision Advertising Bureau note that in 2004, 11 billion U.S. DVR users skipped between 68 and 78 percent of commercial advertisements, effectively accounting for approximately \$2-3 billion in wasted advertising spending. Emerging media such as cable-on-demand and podcasted television shows (available for download to portable video players just minutes after running on broadcast networks) likewise have the potential to further marginalize ATL media that speak to the general population, rather than individual preferences.

## Available Mass Media Channels, 1960 Versus 2004



Source: Forrester Research

### **Enhanced information availability empowers both marketers and consumers with insight that allows for precise customer targeting and intelligent purchase decisions.**

"In the past, it was OK for the age-old quote about half our advertising dollars being wasted. That's not good enough any more. The stakes are too high."

*--Jim Spanfeller, CEO, Forbes.com*

Significant advances in database marketing, analytics and customer relationship management (CRM) platforms have spawned an informational avalanche, allowing marketers the opportunity to build a comprehensive, 360-degree view of the customer and their transaction history. By maximizing the complex array of available information, leading-edge marketers are reaching prospects with offers targeted to their expressed (or expected) wants and desires – and driving significantly enhanced response rates and lifetime customer value.

Impressive recent growth in these data-centric marketing disciplines, however, is expected to pale in comparison to what lies ahead. According to JupiterResearch, the current market for Web analytics stands at about \$400 million annually. By 2010, that number should top the \$1 billion mark – reflecting over 20 percent of annual growth. And according to a survey conducted by Dynamic Markets, over 73 percent of marketers say that insufficient customer database management is negatively impacting their bottom lines – highlighting a serious deficiency and an opportunity for even further data penetration in the years to come.

Not to be outdone, consumers are arming themselves with an array of enhanced informational tools to make smarter buying decisions. A whopping 71 percent of American adults, says a survey from Prospectiv, turn to the Web to research potential purchases prior to a store visit. And even more – 88 percent – do so before buying online, according to iProspect and Harris Interactive. In this case, the Web seems a logical place to turn for enhanced consumer learning; the growth of price comparison and product review Web sites reinforces the movement to obtain information and apply it through stricter scrutiny of the available market.

### **Heightened client pressure to deliver quantifiable value forces marketing service providers – especially agencies – to re-evaluate services platforms.**

Among traditional advertising agencies, average client tenure now stands at less than 18 months per account. In a timeframe shorter than many ad campaigns themselves, marketers are increasingly deciding that these trusted strategic advisers – once thought of as the standard-bearers of marketing strategy, conception and delivery – can easily be replaced by others whose strategic, creative and, most notably, financial objectives better align with their own.

While shoddy creative work is often cited as the reason, more often, the actual fuel for this rapid agency turnover is a lack of concrete delivery. In the face of alternative below-the-line media that offer the benefits of personalization and measurable return-on-investment, the vast investment required to sustain solo ATL campaigns (as well as the agencies from which they originate) is increasingly seen as excessive in the eyes of bottom-line focused executives.

Some agencies have responded in force – by shifting their efforts from above- to below-the-line media. In addition to the WPP example cited earlier, three major agencies, including Publicis USA, Ogilvy & Mather and Foote, Cone & Belding, have each taken recent steps to diminish the traditional barriers between ATL and BTL advertising. In some cases, executives have been tasked with cross-channel campaign development; in others, entire below-the-line business units have been elevated to serve the strategic role once held by their advertising colleagues. “As advertisers put more emphasis on direct marketing and other techniques,” The Wall Street Journal wrote recently, “the center of gravity within agencies is shifting.”

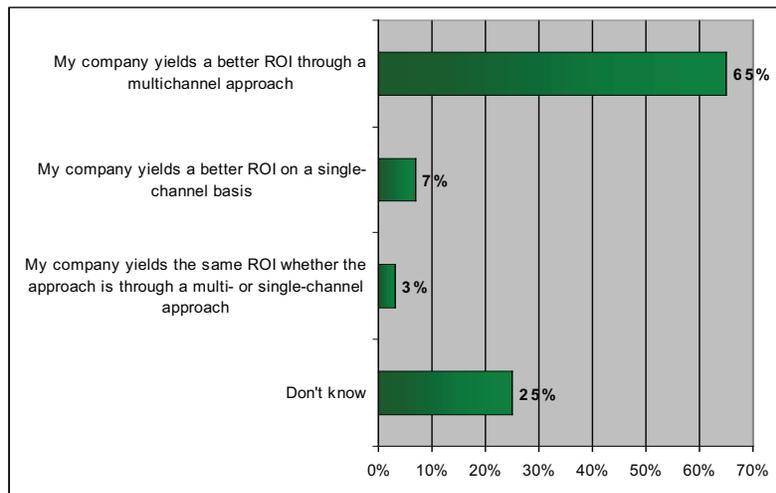
Merrill Lynch recently announced that the industry as a whole has finally reached “neutral” status in its reliance of ATL advertising for marketing purposes – indicating that the two core marketing approaches now stand on equal footing, complementing each other -- and depending on each other – to fuel successful integrated marketing campaigns.

“There is no question that marketing services businesses are growing more rapidly as large marketers are questioning the return on traditional advertising,” said Lauren Rich Fine, a Merrill Lynch analyst. Agencies now “participate equally in both sectors and [are] relatively indifferent to how a client chooses to spend.”

**Growing effectiveness of “multichannel” campaigns (those that cross multiple media) reinforces demand for tactics that establish one-to-one relationships between marketers and consumers.**

Given the proper tools, consumers prefer to engage with marketers through a combination of available media (including retail stores, the Internet, catalogs, direct mail and direct response television) thus relegating single-channel categorizations such as “catalog buyer” and “online shopper” to the business archive.

**Marketers: Multichannel Approach Enhances Campaign ROI**



Source: Direct Marketing Association

But these customers offer more than just a challenge to marketing strategists – they also offer greater profit potential. **According to the Internet Advertising Bureau, well-executed multichannel marketing campaigns generate a sales lift ranging from 7 to 34 percent.** Viewed from another perspective, that spells trouble for single-channel marketers (such as those hoping that traditional television advertisements will fuel visits to retail stores). They're likely missing out on somewhere between \$17 and \$85 billion in potential revenue.

The real demand for marketers is to exploit the channels at their disposal to craft appropriate, uniform offers for the same customer groups, no matter their chosen interaction point. Increasingly, savvy marketers are waking up to this essential need; according to the Direct Marketing Association, approximately 42 percent of marketers now sell via two primary channels, while another 40 percent sell via three. Marketers, likewise, are increasingly searching for service providers whose capabilities span more than one or two media – providing both potential cost advantages and a uniform platform from which to launch cohesive, integrated campaigns.

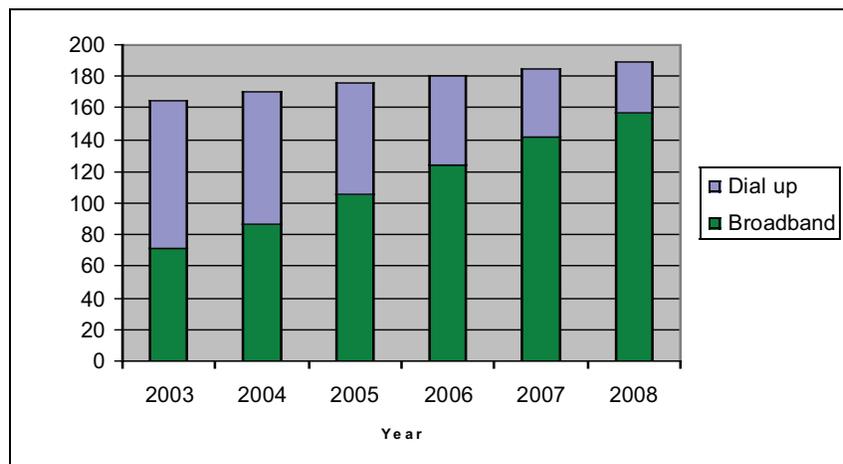
**Rapid technological advances allow for consumer/marketer interactions that are more frequent, easier and more relevant than previously possible.**

Long ago cited as the most significant factor inhibiting the growth of BTL marketing, the recent proliferation of appropriate, cost-effective technologies – for both marketers and consumers – has finally reached the critical mass necessary to fuel campaigns that cross multiple media and stand out from the mass-oriented messages proffered by traditional advertising.

The scope of technological advance spans all media, but perhaps the most significant advance involves the widespread adoption of high-speed, broadband Internet connections – allowing consumers to surf the Internet effortlessly and manage rich, HTML-coded e-mail and online messages that inspire click-throughs and greater response. More than 43 percent of U.S. households now connect to the Internet through a broadband connection, according to JupiterResearch, and approximately 80 percent will be on broadband by 2010.

On the marketer side, a number of technologies – including high-quality variable data print for direct mail, new rich media delivery systems and advanced search engine algorithms – are similarly slimming the gap between buyers and sellers.

### Internet Users in the United States, by Connection Type



Source: eMarketer

## In Summary

With an increasingly complex array of promotional options at their fingertips, marketers continue to search for solutions that deliver the essential concepts of perception, interaction and measurability offered by the below-the-line marketing approach. Caught between the contrasting needs to grow profitability and meet the demands of a sophisticated customer corps, this dual imperative has resulted in a significant shift in marketing emphasis – away from mass-oriented media and toward direct, targeted and return-on-investment-oriented channels including direct mail, direct response broadcast/print, e-mail, event marketing, online advertising, insert media, promotions and search engine marketing.

To marketers, the go-forward challenge is to identify the appropriate media mix for their business, encompassing both above-the-line (for branding and identity) and below-the-line (for customer acquisition, retention and loyalty development) methods. Service providers that successfully intertwine these multiple channels stand to meet those needs more effectively than providers still mired in a siloed, single-channel approach.



## we own everything below the line

V12 Group is the complete provider of below the line (BTL) marketing services, using our proprietary database and multi-channel delivery model to provide measurable results for customer acquisition campaigns.

### V12 is your point contact for your entire BTL needs

V12 Group fulfills an agency and a marketer's entire BTL marketing program through one single point of contact. No longer do you have to work with multiple vendors, different on and offline firms and a separate company for insert media advertisements. BTL companies have typically provided fragmented services offerings that are tactical and not tied to a marketer's brand or customer acquisition objectives. V12 Group was formed to provide our clients with a strategic approach to integrated BTL solutions through one source. As dollars continue to shift from mass marketing to customer targeting programs, below the line marketing is now the best way to tap into niche media channels and increase customer acquisition and retention.

#### V12 service offerings include:

- Analytics and Strategy
- Database marketing
- E-mail marketing
- Direct mail
- Interactive services
- Affinity marketing
- Insert media services



As part of our integrated service offerings, V12 Group is the world's largest provider of insert media with seventy percent market share and over three billion inserts annually. McDonald's, Unilever, AT&T, Target and 47 of the top credit card issuers in the US are among our more than 400 clients in industries ranging from oil and gas to travel, financial services, consumer packaged goods and retail.

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# WINTERBERRY GROUP

**Winterberry Group** is a unique strategic consulting firm that helps direct marketing, marketing services and marketing technology firms build profits and propel shareholder value. Our services include:

## **Strategic Consulting**

The Opportunity Mapping process prioritizes customer, channel, product and service growth strategies, informed by a synthesis of market forces and the core competencies of a company or division.

## **Business Assessment & Planning**

The Value Driver Assessment examines customer, internal business process, financial and human capital dynamics and compares them to industry standards and best practices.

## **Market Intelligence & Sector Research**

Comprehensive industry trend, vertical market and value-chain research provides insight into customers, market developments and potential opportunities as a precursor to any growth or transaction strategy.

From partnership and channel development to the marketing plan, we tap our operational expertise to guide clients past the hurdles that come with launching new business initiatives.

Winterberry Group's executive consultants combine years of industry experience with an intense focus on strategic innovation and best practices to generate dramatic results for our clients. The firm's impact is further enhanced through its affiliation with **Petsky Prunier LLC**, a leading investment bank providing merger and acquisition advisory services to companies in the direct marketing, marketing services & technology, advertising & promotion and information industries. Working in close collaboration, the two firms offer a unique dual perspective on corporate growth grounded in market knowledge, value assessment and strategic insight.

Winterberry Group's clients represent all segments and constituencies of the direct marketing industry. Business owners, senior executives, investors and marketers turn to us for unparalleled market knowledge and the industry's most comprehensive suite of strategic and tactical business-enhancement tools. For more information on how Winterberry Group can help your business, please visit our Web site at [www.winterberrygroup.com](http://www.winterberrygroup.com) or contact Bruce Biegel at [bruce@winterberrygroup.com](mailto:bruce@winterberrygroup.com). To download additional copies of this white paper or past copies of the *Value Driver Briefing* e-newsletter, visit [www.winterberrygroup.com/research](http://www.winterberrygroup.com/research).

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