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Special Reports

The State of Advertising

By the Project for Excellence in Journalism

The Future of Advertising

By Cathy Taylor and the Project for Excellence in Journalism

For the first three quarters of 2007, the U.S. advertising market was basically flat. But those numbers tend to hide, rather than reveal, the bumpiest terrain the media marketplace has ever seen.

Drill below the figures, and, in the summation of one ad executive, the ad market as we've known it — where a 30-second spot is the coin of the realm — is in "chaos."¹

Talking to ad executives, one gets the sense that few know how to cope even with the changes to the media landscape that have happened, let alone the ones that are still to come.

Simply put, the concept of mass media has ended. It is less clear what will replace it and how advertising will play a role in the new landscape.

What was once a matter of big media companies handing out content when and where it was most advantageous has become a menu of à la carte options, with consumers deciding when, where and how they see, hear or read their selections.

For users of media, this opening of the floodgates may well create information and entertainment nirvana. But, for advertisers, the fairly easy job of planning and buying across a handful of options has turned into a Rubik's Cube of twisting and turning.

An advertiser of a deodorant targeted toward teen males may still advertise on network television, and may even fork over millions of dollars for ads run during the Super Bowl. But given the well-documented flight of teen males to video games, the Internet and mobile phones, the same advertiser might question whether it is better off embedding its brands into a gaming environment, developing its commercials on YouTube, or sponsoring mobile phone delivery of sports scores. It also might decide to avoid network television and teen male-targeted cable programming such as Spike TV.

"We used to be in the trucking business. We used to take ads and commercials and deliver them," says Charlie Rutman, chief of American Operations at MPG, which controls over \$3 billion in U.S. ad spending annually. (For more details on the emerging advertising agencies, [see below](#).)

While ad executives know that the trucking analogy is no longer accurate, they aren't really sure what is replacing it.

It is even less clear if advertisers need news and entertainment media at all anymore. In the Internet age, advertisers can reach their target audiences with their own Web sites, post their commercials to YouTube or engage in word-of-mouth campaigns. Advertisers no longer need to rely on paid media to distribute their messages.

While this might seem an opportunity, the reality is that the advertising world is no better prepared to deal with this rapid change in the news media.

For the moment, we are mostly seeing change that comes in fits and starts. Meanwhile, massive changes are occurring

By the Numbers

When taken over all, the numbers for 2007 seem less remarkable.

According to TNS Media Intelligence, only three of the broad categories it measures show an increase in spending over 2006.² Its latest available data show magazines up 4.7%, the Internet up 17.2% and outdoor up 4.4%. Television, with network television showing the biggest decline, 3% for the year. Radio is showing slight slippage, down 1%

Freestanding inserts — such as Sunday circulars — are down by 1%, and then there are newspapers, which show the biggest decline. TNS pegs the entire category as down 5.2% for just the first three-quarters of 2007, following a decline of 2.4% for all of 2006. “The business to be in right now,” says Jon Swallen, TNS’ senior vice president for research.

The upward tick in magazine spending, which may seem somewhat of a surprise given recent headlines about the decline in some weaknesses, particularly in business-to-business magazines, down 5.5%, and local magazines, down 3.4%. According to Publishers Information Bureau, the growth comes in big, mainstream advertisers that often target consumer magazines. Magazine advertising categories were up. The top spending category -- drugs and remedies -- increased by 7.1% to nearly \$1 billion.

The underlying reason for many of the downward spending trends is digital technology, which has, effectively, splintered

Usually, when people hear the word digital, they think of the Internet. But as it applies to media, the Internet is only one of many technologies changing everything. This is the technology that has allowed the increasing penetration of digital video recorders (such as TiVo), which makes possible what is known as time-shifting (the practice of watching a television program after it’s aired, rather than live). It has also hobbled print versions of newspapers, whose content can now be found more quickly online, have been so hobbled. It’s also been the case with outdoor advertising, since digital technology allows companies like ESPN to beam sports stats to the tops of taxi cabs.

Accountability

With all that complexity, digital technology also brings the advertising industry closer to its holy grail: to finally know whether expenditures are working, and whether the prices that media companies demand for their time and space are reasonable.

Is it possible an advertiser such as Procter & Gamble can actually spend almost \$5 billion annually — in the U.S. alone — and know whether it was worth the investment?⁴ The answer is a (qualified) yes. In fact, perhaps the best-known quote in the advertising industry is Nike’s iconic campaign theme “Just do it,” but this: “Half of the money I spend on advertising is wasted; the trouble is, I don’t know which half.” attributed to John Wanamaker, the Philadelphia retailer who died in 1922. In 2007, that would still hold true.⁵

Television commercials and whimsical print ads may have sold a lot of VW Beetles, but advertisers have never been able to measure between cause (the running of an ad) and effect (whether and how it moved product), at least not without relying on sophisticated statistical studies. An advertiser may, for instance, have been able to see an up-tick in sales after spending tens of millions of dollars on a new product, but not whether the ads it bought on ABC during “Extreme Makeover: Home Edition” were more effective than the ones it ran in People magazine, or the cable buy that ran on the Lifetime and TLC channels.

With digital, in contrast, advertisers can more accurately than ever before track the number of people who viewed an ad, and whether they maybe even bought product online. This also gives advertisers a clearer picture of what they should pay for an ad.

In online search (see sidebar), for instance, specifically the “sponsored link” advertising that is dominated by Google, advertisers can know precisely which of their search ads are working. To put it simply, if consumers are interested in an ad, they click; if not, they don’t.

Even YouTube gives advertisers a tantalizing proxy for their ads’ popularity, albeit through data that are strictly unscientific. One Starburst commercial that featured a strange little lad who loves the new Berries ‘n’ Crème flavor, resulted in at least 10 million hits on YouTube a

posted the ad to YouTube before the ad agency did. The chilling aspect of that for media companies is that *not one me* in exchange for all those eyeballs.

This ability to get much more granular data and the pressure felt by chief marketing officers to justify their ad dollars has accountability the No. 1 priority among marketers today.

“Accountability has gone from a buzzword to something that is much more expected in marketing and advertising spend,” says CEO of Tribal DDB, a digital offshoot of the ad agency DDB Worldwide, part of Omnicom Group. “That has led to a client addressable media.” More addressable media usually means anything digitally trackable, from online display ads to off-line phone users to text-message the advertiser to win a prize. Adds Denise Warren, chief advertising officer of The New York Times: “The [chief marketing officer] has to really show that their marketing spend is delivering results.”

Why Madison Avenue Is Slow to Change

The revolution, however, may not happen as fast as some might think. Traditional media having trouble transitioning to be heartened by the fact that the advertising world is also not changing business models as fast as consumers are adopting technologies. Asked how well the advertising community is adapting to change, Randall Rothenberg, CEO of the Intermark a trade group, responded, “Badly. The structure of the agency business has not kept pace with the needs of marketers.

And it’s not just agencies – it’s every industry associated with advertising, be it measurement companies, media companies. The reason is the sheer complexity of steering the business models of mammoth organizations toward a digital world that is evolving.

This is how Greg Smith, chief operating officer of Neo@Ogilvy, a digital media offshoot of WPP Group’s Ogilvy Worldwide, sketches out the differences in how traditional media and digital media would tackle the top-to-bottom structural overhaul. In traditional media, five people might be responsible for spending \$100 million in network and cable television, a task that involves buying the media, ensuring the commercials get to the networks in question and measuring traffic. In digital media, those five might be responsible for a budget of only \$1 million that involves 1,000 ad placements, the buying of 5,000 keywords or tracking and changing the campaign based on the data that come back. Some marketers do this on a daily basis, and making this a continuing, time-consuming task.

Given that agencies have traditionally been compensated as a percentage of the overall media spend, digital media presents a challenge. As the person in charge of day-to-day operations, Smith has to constantly assess and question whether the traditional models that make sense in an ever-changing digital world. “Boy, does that make me popular around these halls,” says Smith.

The other issue is the number of bodies advertising and media companies can throw at the transition.

According to an analysis of Bureau of Labor Statistics data by Advertising Age, as of October 2007, the number of jobs in marketing services was down 1.1% from its peak during 2000, the year the Internet bubble burst, and one of every eight jobs vanished.⁶

And the skill set most in demand — digital technology savvy — is also the hardest to come by for both marketers and agencies. Farella, president and CEO of the media boutique TargetCast, says, “Digital agencies or digital groups [within marketers] are, are probably understaffed by 15 to 20 to 25%, so that’s actually holding us back.”

In the near term, industry insiders expect how advertising is bought will remain bifurcated, despite advertiser passion for digital. The rise in digital media and its promise of accountability have prompted advertisers to send more and more of their dollars to digital marketplace is slow to change, both because of institutional resistance and the lack of a fully realized model that gives an accurate account of consumer viewing and decision-making.

With the Internet far and away the most built-out digital advertising platform, it’s clear that it is the tail wagging the old media on the horizon, save for a micro-chip shortage, could conceivably change that.

With that, let’s take a look at how individual media are faring and why.

Internet

The Internet's influence on other media is far greater than the actual dollars that, at this point, go toward it.

Internet spending accounted for only \$8.4 billion of the \$108 billion in total ad spending during the first three quarters of 2007, surpassing only radio (at \$8 billion), and less significant media such as outdoor and freestanding inserts.⁷ But that statistic has a large caveat: It does not include search advertising. That in itself illustrates how companies have not kept up with the demand. It hasn't yet perfected its ability to track searches, or other even newer ad forms, such as online video.

Numbers from Nielsen Monitor-Plus, which also do not include search, are even less generous, but confirm the general trend, with spending at \$5.4 billion during the first three quarters of 2007, for a year-on-year increase of 15.9%.

A more complete number is provided by the Interactive Advertising Bureau, which releases online ad revenue on a quarterly basis. PriceWaterhouseCoopers. It pegs Internet spending for the first three quarters of 2007, including searches and online video, at almost 26% from the same period in 2006. Even comparing that larger figure against TNS numbers for other media, on the spending figures for newspapers (\$19.2 billion), and magazines (\$21.8 billion), and is still a far cry from network television.

Advocates of the Internet as an advertising medium believe that should change. The reason, they say, is that the amount of online advertising spending in no way matches consumer consumption of it. According to the Internet Advertising Bureau, on average people spend 22% of their day online. Even taking the Internet Advertising Bureau's more comprehensive spending estimate, only about 13% of ad spending goes online.

There's no law that says ad spending by medium should match consumer consumption, but still the gap between consumer reality here is sizable. Wouldn't advertisers want their messages to be placed in some rough approximation of where their consumers are?

Ad executives say the reasons for the gap have to do with the nature of change. Jeff Lanctot, senior vice president of advertising agency Avenue A/Razorfish, says marketers lag in reacting to revolutions in consumer behavior. "When they double their spending in 2006-07, they think that's very aggressive," Lanctot says.

As one indicator of the gap, Nielsen Monitor-Plus' list of the top 10 advertisers in the U.S. bears little resemblance to the list of top 10 advertisers from Nielsen Online, AdRelevance. It might make sense for many of the biggest overall ad spenders to also be on the online list. Instead, only one advertiser, AT&T, was recently on both lists. While the overall list was dominated by companies like Procter & Gamble, General Motors and Verizon, the online list included digital-friendly advertisers such as Experian, Countrywide and Dell.

Despite the gap, advertisers are well aware that consumers are gravitating to the Internet. "The biggest shift we have seen is consumers spending more and more time online. We are seeing significant growth in digital and it continues to grow year on year," says Tom Hays, director of interactive marketing for global business services and consumer solutions at P&G. "The other key difference between traditional media options, the consumer can now engage on their own terms. Our challenge and opportunity is to be accessible to consumers where they are most receptive."

The gap may close more quickly now that the Internet is no longer a dial-up medium for most consumers. With broadband penetration in the U.S. currently hovering at about 50%, according to the Pew Internet Project, advertisers can now use the Internet for video advertising.

That in turn should lead to more video. The Internet's ability to provide advertisers with sight, sound and motion has led to explosive growth in online ad video. The research firm Borrell Associates predicted in a 2008 outlook report that local online video advertising will more than triple this year, jumping from slightly more than \$400 million to \$1.3 billion.⁹ According to figures from the Internet Advertising Bureau, PricewaterhouseCoopers, broadband video accounted for only 1%, or \$100 million, of total online ad revenue in the first three quarters of 2007.

And then there's accountability. Even when consumers don't click on the ads they see — and for the most part, with a click-through rate of only 1%, they don't — the Internet can give much more voluminous data than older media. "It's very measurable, so that makes it easier to know your buy," explains Christine MacKenzie, executive director of multi-brand marketing and agency relations at Chrysler.¹⁰

Nielsen, though highly regarded, still determines billions of dollars in television ad spending based on a panel of approximately 100,000 homes. Although there are certainly other companies that help advertisers determine offline advertising effectiveness, Nielsen has learned how many users saw its advertising in a dizzying number of ways: across multiple sites, whether a user clicked on an ad or spent with an individual ad, where they came from and went to, and many other variations on data. They can target specific users whose online behavior indicates they are deep in the process of buying cars, or pregnant women in Maine looking for baby products.

ads that will only be displayed in the areas of sites, such as NBC's iVillage, that focus solely on the topic.

As with television, most online display advertising is bought solely on the number of impressions — in other words, the advertiser actually saw it. Where the Internet differs substantially from television is that players such as Nielsen/NetRatings and comScore. Internet traffic aren't nearly as important — they are only two among many in a much more complicated measurement system. Tools such as Microsoft's Atlas and DoubleClick, which Google set out to acquire in 2007, pending regulatory approval, serve also track them, making it easier to change campaigns as they proceed.

Thus, it's what can be learned from the volumes of data, not the buying procedure, that makes the difference.

Network TV

Despite the evidence that a search-style ad auction market is spilling over into other media, one medium that seems immune to these models is network television.

If old habits die hard, then they die hardest in the ad industry when it comes to buys on ABC, CBS, Fox, NBC and Time Warner. Business is conducted much the same as it has been for years, but the networks are also somewhat unaffected by these changes.

According to TNS Media Intelligence, network television spending was off by 3% for the first three quarters of 2007. Network television suffering a 2.5% decline. That's nothing to write home about, of course, but the declines don't compare to overall advertising viewership.

For the first 11 weeks of the 2007-08 television season, prior to the effects of the fall 2007 Writers Guild of America strike, viewer declines for the crucial 18-to-49 age group of 19.4% for NBC, 16.7% for CBS, 10.5% for ABC and 28.6% for CW. NBC was up with a 3.4% gain. (The ratings have been partly affected by a change in how television is measured by Nielsen, ([see Media Intelligence](#)) now expanded to include DVR viewing in the first three days after a program airs, and to rate commercials, rather than just spots.)

Why would advertisers pay more, or the same, for less?

It would be easy to pin the answer on habit, but, with billions of dollars at stake, that's too simplistic. The best explanation is that television, anyone, even among the most digitally savvy, who doubts television's persuasive power. "Television is the only medium where a commercial can sell a lot of product," says Gene DeWitt, a media agency executive and founder of DeWitt Media Strategy.

And although network television is by no means as powerful as it was, advertisers don't have another place to turn to get their message created to reach millions. The Internet, despite its popularity, is not that medium. It splinters its audience in millions of tiny pieces the moment they log on, so while it is great for targeting to ever-smaller niches, television still excels at blasting out a huge message. The first step to buying a product is knowing it exists, and television is still seen as the leader in doing that en masse.

There's no more high-profile example of this than the Super Bowl, which has evolved since the mid-1980s into the annual showcase and, not coincidentally, also draws the biggest television audience of the year. The 2008 Super Bowl saw the spot hit \$2.7 million; in 2007 it was around \$2.4 million, and those in the market see no indication that the big game -- or other watch annual television events -- will lessen in advertising importance.¹⁴ "People don't time-shift and watch the Super Bowl," says Francois Lee, vice president and activation director at media buying agency MediaVest, a unit of Publicis Groupe.

Advertisers' continuing ardor for television is best expressed in the way the entire ad market is conducted, and that's the advanced selling season held each spring, known as the upfront, which dictates much of the television networks' financial year. (For more details on [how the upfront works](#), see sidebar.) Most of the networks' inventory of advertising time is sold in the upfront. The remainder is sold closer to airtime in what's known as the scatter market, which is usually more expensive, and offers decreased options.

The upfront "sort of stabilizes the market," explains Jonathan Nelson, who advises advertising holding company Omnicom. "The networks like to know what their revenue is going to look like, and in exchange for that they're willing to cut deals."

The television networks don't operate with immunity, however. The writers strike potentially threatened the networks not only with a loss of make-good air time for lost commercials but also with mass refunds to advertisers. (NBC did give out fourth-quarter refunds to advertisers in December 2007.) And even the traditionally lavish upfront productions are in jeopardy in 2008, as at least

reassesses whether the costly spectacle is worth its expense in advertisers and press. The upside is that 2008 is a quadrennial summer Olympics in Beijing and, to a lesser extent the presidential elections, expected to boost network fortune.

According to CBS Chief Research Officer David Poltrack, the networks' de facto forecaster, network revenues will increase at an underlying growth rate of 5%, adjusted for the Olympic boost. TNS is more cautious at 2.7%. Either way, the broadcast networks did better than they did last year.

Cable TV

The outlook for cable advertising is one of the strongest over all.

Its numbers for the first three quarters of 2007 show a 4.7% increase to \$12.7 billion, according to TNS Media Intelligence Monitor-Plus reported a more meager 1.2 % increase.

According to analysis from the medium's trade group, the Cabletelevision Advertising Bureau, cable's share of the overall advertising pie grew from 36.8% in the second quarter of 2004 to 40.3% three years later. During the same period, network television's share fell from 54.1%.

Still, like the Internet, cable television lags in terms of ad spending vs. viewership.

More people at any one time are now watching commercial cable television than broadcast network. During the last week for instance, 60.8% of the overall television audience was watching cable, according to data from Nielsen's Galaxy system. (This means the average cable channel's ratings are comparable to a broadcast network's. On cable, the audience is scattered across many channels, not among four or five network channels.)

The spending on cable advertising thus has room to grow. "Nationally, cable in prime-time TV probably has 62% of the advertising dollars [Rating Points]," said Sean Cunningham, president and CEO of the Cabletelevision Advertising Bureau. "Right now, we're seeing a lot of dollars."

Some think the gap will close.

Cunningham said the Olympics and the presidential elections in 2008 will create high demand for ads on the broadcast networks and dollars to flow to cable. Also, as network television deals with the large volume of make-goods caused by the writers' strike, advertising time will tighten, Cunningham said.

Cable viewers also do more "live" viewing and new data show that people are more apt to watch commercials when they are watching something they have recorded on DVR, said Cunningham, adding that that's a lure for advertisers.

TNS' Jon Swallen says local television money also has been drifting to cable, as smaller advertisers realize they can get more distribution for the same amount they would spend targeting individual markets. "Local TV stations — particularly in large markets — have been facing increasing competition from an unlikely source," he says. "And that unlikely source is cable networks."

Local TV Advertising (Spot)

Jon Swallen's insight may make it sound as though things are bleak for spot TV, the industry term for advertising sold on a per-second basis. At least for 2008: TNS Media Intelligence believes spot TV ad spending will increase by 9.9% this year, second only to

Spot TV may be the most cyclical of ad media, since its fortunes wax and wane with election years. A presidential election in an incumbent and an open field, may be optimal, since the candidates pour money into advertising on local stations during

It certainly has been a boon to television stations in Iowa, where TNS estimates candidates spent \$40 million leading up to the caucuses, three times more than four years ago.¹⁵ "We will outperform the ad market in '08, whatever it is," predicts Cheri Lippert, president of the Television Bureau of Advertising, the trade organization that represents local broadcasters.

But the medium's cyclical nature also contributed to its posting the biggest declines in the television industry. TNS puts

at 6.8% to \$11.2 billion in the first three quarters of 2007, and Nielsen Monitor-Plus estimated a 5% decline in the top 1

The other culprit, according to Rohrs, was a decline in automotive spending, which contributes much to the bottom line in the form of dealer advertising. "We did not anticipate the softness in the automotive business," he said.

The automotive industry, particularly the domestic carmakers, may be the best poster children for the changes in media. General Motors and Chrysler, beset by such factors as bulging healthcare costs for retirees and intense foreign competition, cut their budgets substantially and putting more of their advertising money in digital channels.

GM's budget for the first nine months of 2007 was down a stunning 22.2% to \$1.4 billion; Ford shaved its budget by 4.3%. DaimlerChrysler, now parent company to the Chrysler brands, slashed its budget by 11.3%, to \$865 million. (Toyota did, too, in 2007.)

During the first 11 months of 2007, according to Nielsen Online AdRelevance, Ford increased its online ad budget to \$121 million, nearly 130%; GM to \$121 million, for a gain of 38%, and DaimlerChrysler by 16.5% to \$30.4 million.

The Internet is the first place serious car buyers go to look for information. Thus, automotive advertisers have usually leapt to embrace digital technologies.

In marketing, cars (along with other goods and services such as computers and travel) are called "considered purchase" items because of a high degree of mulling by consumers. The Internet, with its ability to help people through the purchase process with car calculators and detailed specifications, is their medium of choice. "For our category, it's critical for us because we know where consumers go," explains Betsy Lazar, executive director for advertising and media promotion of General Motors.

What that means for advertising in other media, over the long term, is hard to say. Rohrs sees much potential for local television and burgeoning online channels, which may help counter-balance the dollars flying out of station owners' pockets.

Radio

Compared to categories like network television and the Internet, radio is an also-ran.

According to Mary Bennett, executive vice president of marketing for the Radio Advertising Bureau, the medium is facing a challenge. "All traditional media have their challenges," she said. "It's called the upstart darling: the Internet."

In fact, the strongest growth story in the radio universe is the Internet.

In 2003, the Radio Advertising Bureau (RAB) began to track what it terms "non-spot revenue," which is revenue from streaming audio advertising. The lion's share of that money is advertising from a radio station's Web presence, which rose from \$1.3 billion in 2003 to \$1.5 billion in 2006, growing by more than 15%. That trend continued into 2007, with non-spot growing by 11% in the first three quarters of the year compared to the year earlier.

The problem is that non-spot is one of the smallest revenue generators in radio. Of the \$21.7 billion the RAB says the radio industry generated in 2006, non-spot totaled only 7%.

Network radio, which is the category of ad spending that comes from syndicated programming such as "The Rush Limbaugh Show," is another growth story, but it, too, is not a huge contributor to its bottom line. For instance, 71% of revenue came from local dealers and retail outlets, in 2006. Network's contribution to the overall radio revenue pie in 2006 was 5%, or \$1.1 billion. In the first three quarters of 2007, network revenue grew by 5%.

As for radio's other revenue categories, they've barely budged since 2003.

National radio advertising, which pools and sells ad time from some of the big station groups such as CBS Radio and ABC Radio, generated between \$3.4 billion and \$3.5 billion between 2003 and 2006, while local radio fluctuated from \$15.1 billion to \$15.6 billion. The RAB says "the flagging economy [and] sub-prime market has consumers worried beyond belief about the next step."

TNS' Jon Swallen sees the problem as "the comparatively antiquated, backwater media measurement system that the with." Radio still relies on panel-based written diaries to determine its ratings. In a world of trackable media, that is quick "competitive disadvantage," Swallen said.

Moreover, an attempt by Arbitron, the Nielsen of the radio business, to launch a new, theoretically more reliable measurement has stalled.

The Arbitron Portable People Meter calls for a panel of listeners to carry a device with them each day that can detect and send the data back to Arbitron. (*See Radio.*) In December, Arbitron retrenched after initial ratings — in some cases coming in below the diary-based ratings — angered some stations.

"If you're going to make a transition of this magnitude that's going to change the way you do business," Arbitron spokes said, "the industry should be cautious."

Newspapers

Listen to advertising executives talk about the future of newspapers, and often they start with a long sigh.

The first problem the medium faces is that now people can easily find the content of newspapers elsewhere, specifically: "the substitutability paradigm hits newspapers harder than anybody else," said TNS Media Intelligence's Senior Vice President Swallen.

And that habit is particularly true among young people, who get their news quickly and conveniently on the Web. This new consumer behavior may be irreversible.

According to TNS' figures for the first nine months of 2007, every subcategory — local, national and Spanish-language — saw domestic ad spending dropping from \$20.3 billion in the first nine months of 2006 to \$19.2 billion. The category fell 5.2%. (For more details, *see Newspaper Chapter.*) And that came after a 2.4% decline in 2006 and a gain of only 1.1% in 2005.

Those longer-term numbers give a sense that the end of newspapers as pre-packaged parcels delivered to our doorsteps is inevitable. "Newspapers as we know them haven't done anything wrong," says Charlie Rutman, CEO of North American Operations for advertising agency MPG. "They haven't gone backwards, but all these other things have encroached on their territory."

Chief among these many "other things": Web sites, like Craig's List, that draw away classified ad customers. To that, add the loss of some bedrock newspaper advertising categories to other media.

At UBS' Annual Global Media Conference in December 2007, the Newspaper Association of America's vice president for research, Jim Conaghan, explained, "Local auto dealers are actually shrinking their advertising budgets and, within the last year to year, are changing the media mix." As we've seen, the main place those budgets are going is online.

Other categories have slashed newspaper budgets. As one example, Macy's dropped its budget by 22.3% in the third quarter, according to TNS. One bright spot is telecommunications; Verizon and Sprint both increased advertising budgets in the same quarter by 14.9% and 3.7%, respectively. However, AT&T, which put a lot of money into a branding campaign, chose to put that money on television. In the third quarter, it cut its newspaper budget by almost 20%.

"We're going to see some major metros collapse," predicts Dave Morgan, who in February 2008 left AOL, where he was vice president for global advertising strategy and worked closely with many newspapers on online ad revenue efforts. "The changes are just extraordinary."

And easily overlooked is the medium's lack of accountability compared to other, particularly digital, media. TargetCast told us that of one major metropolitan daily, "They can't tell you what the demographics of the sports section [are]. That's huge."

Michael Zimbalist, vice president for research and development operations for the New York Times Company, disagrees with the newspapers lag in accountability. "Of the traditional media," he said, "newspapers have generally been some of the most respected.... Retailers will tell you that you run ads in the newspaper and you will see foot traffic in stores."

Nonetheless, the pull toward online is inevitable. Newspapers are investing there — to the extent that their shrinking circulation is a generational thing, and I think both [magazines and newspapers] are working feverishly to move their content online as said Brad Adgate, senior vice president for research for Horizon Media.

So will online advertising get to the point where it can revive newspapers, as a mainly digital product?

The Newspaper Association's Conaghan believes the answer is yes.

"What you've seen up to this point at many newspapers is really adding the online buy to the print buy," he said at the conference. "What you're increasingly going to see in the near-term and longer term future is that online sale being made first and then print being an add-on to the online buy." For instance, if an advertiser was interested in using a newspaper property to launch a promotion, they might first decide that the ad should appear in targeted portions of the newspaper's Web site — a sports advertiser, for example, in the sports section. Once visitors clicked on the ad, they would go to a mini-site to register for the promotion. The role of print might be to drive online traffic to the promotion, but it's clearly secondary.

Some old-media companies are adapting to meet advertisers' multimedia needs. At the New York Times Company, for example, they work with a customer to present and customize all options, rather than sell them a particular one.

But there is a very long way to go. Although the Times reported that its Internet revenue — which includes both its new content "guide" site About.com — was up 26.5% to \$79.7 million in the third quarter of 2007 compared to the same quarter in 2006, it makes up only 10.6% of the total revenue, up from 8.5% the year before.¹⁸

Conaghan said at the UBS conference, "I would expect as digital businesses grow in all media, it will keep increasing the composition of newspaper ad spending. When it reaches 20%, when it reaches 25%, I really don't know. I don't think it will reach 30%."

Ultimately, there appears to be only one certainty. "The only way to get through this transformation," says Morgan of AC Nielsen, "is to get it right."

Magazines

It might be time to ask the question: What is a magazine?

Judging by ad spending in 2007, the medium by and large is healthy. But there was more talk than ever of magazine-audience publications crossing platforms to gain readership — and advertisers.

According to the Magazine Publishers of America, magazines over all announced 207 digital initiatives in 2007, ranging from marketing programs to building social networking tools. That number is up from 155 in 2006.¹⁹

There was no one big event in 2007 to single out. Instead, the year saw a slow drip, drip, drip that has resulted in most magazine audiences wherever it is and through means they once would have pooh-poohed.

The role of digital media is "to take the brands strength and deliver it to people in a 24/7 manner," said Ellen Oppenheimer, president and chief marketing officer of the Magazine Publishers of America.

Some examples:

- Forbes launched an online audience network to cull impressions from a number of sites that would make attractive advertising spots.
- Wired built a dedicated production studio to produce its own online video. It also integrated its Web and magazine sales.
- Vanity Fair now has exclusives on its Web site. Visitors, for example, could see unpublished photos from the print site's cover girl Katherine Heigl.

For some magazines seeing downward trends in ad spending, these changes are crucial. For others, having a healthy audience is a matter of hedging their bets.

For 2008, TNS predicts that the basic trends of the past year will continue, with consumer and Sunday magazines up a business-to-business magazines experiencing a miniscule 0.1% decline.

So why is the medium's overall performance so full of peaks and valleys?

To TNS' Jon Swallen, it's an example of what he calls the concept of "substitutability" — the easier and faster it is to rep media property delivers in another medium (usually, these days, the Internet), the more vulnerable the property is. Thus interest in the print newsweeklies, both business-to-business and consumer.

Print ad revenue statistics from the Publishers Information Bureau for the full year 2007 tell the story. BusinessWeek's : 12.9% and Fortune by 10.5%, with only Forbes bucking the trend among the major business newsweeklies, with a 7.9% was off 18.3% and Newsweek's revenue dropped slightly, by 1.8%.²⁰ On the b-to-b side, one notable trade magazine, I said late in the year that it would decrease its frequency to 36 issues a year to focus more on producing online content.

One way the category's relative vibrancy shows up is in the continuing quest by entrepreneurs to start up new magazines asked to add new magazines [to what we track]," said Brian Lane, senior vice president of client strategy and product d Monitor-Plus. "There are always new magazines out there." Despite the bright spots, however, even non-newsweeklies pressure to make money — or else. Among the notable shutdowns in 2007 were Time Inc.'s monthly Business 2.0 and Garden magazine, which had trouble competing in a market chock-a-block with shelter books.

Another bright spot is niche magazines that have a dedicated loyal audience for a specific topic.²² Some examples: Au 29.7% growth in ad revenue in 2007 compared to 2006; Fit Pregnancy saw a 22.8% gain and Road & Track had an 11. trends aren't uniform, they generally demonstrate an axiom that's at least as old as television: As new media come alor shift what they deliver.

In terms of overall ad categories, most of the news is positive. In addition to big increases in the categories of drugs an year 2007, other substantial gainers included food and food products, up 17% to more than \$2.1 billion; retail, up 10.3% billion; and toiletries and cosmetics, up 11.9% to \$2.6 billion.

But there are trouble spots in automotive, technology and home furnishings and supplies, off in ad revenue by 2.1%, 9%

For home furnishings and supplies, the category may be suffering from a downturn caused by the beleaguered real est cyclical situation. For automotive and technology, however, it's obvious that the Internet is one reason dollars are being may be a longer-term problem. At the annual meeting of the American Magazine Conference in October 2007, Chrysler told the crowd not to look for increases in ad spending from his company.²³ Christine MacKenzie, executive director of agency relations at Chrysler, said. "For us, magazines still play a role. Magazines are great, particularly during launchir however, that their effectiveness at delivering lots of information is something the Internet can do, too, often better.

The quest to gain readers and advertisers is leading more and more publishers in unusual directions. For example, Cor Condé Nast, was one of the launch advertisers on Facebook Ads, where it has created presences for its cooking site E girl-targeted site Flip.com; it also signed an ad revenue-sharing deal late in 2007 with YouTube, and in 2006 bought Re networking site that allows users to vote on and share their favorite online content.

To Sarah Chubb, president of CondéNet, it's all about leveraging the Web's easy distribution to build both audience an with all of these distribution deals is to have advertisers come along with us," she says.

For instance, CondéNet has worked both online and offline with the Diamond Trading Company, the company that bro "A Diamond Is Forever." The deal included print advertising in shopping magazine Lucky, online advertising at Condé N style.com, sponsorship of the style.com video area, and offline distribution of the diamond company's advertising throu Emerging Cinemas, in which CondéNet video is screened at art house film theaters across the country as a 10-minute Long-form commercials, of more than two minutes, from the diamond company were interspersed within the CondéNet

Though Condé Nast has had a cutting-edge approach to incorporating advertisers into its properties, wherever they are increasingly clear that, as with other media categories, magazines will live in a variety of media, with brands being the t different content platforms together.

Taking the Measure of Measurement

While Nielsen Media Research is still the standard for measuring television ratings, the quality and quantity provided by giving it a run for its money, as well as pushing measurement of every other ad-supported medium to improve.

Digital technology's ability to tell advertisers exactly who is accessing a specific promotion at any given time is a far cry from Nielsen households that have held together the television industry.

"There is an awful lot of pressure on mainstream media to keep up with the Internet," says Brad Adgate, senior vice president at Horizon Media. Magazines, newspapers, cable television and radio are all trying to make their measurement digital, or, at least, compare themselves favorably to digital advertising vehicles.

Sarah Fay, an online media executive who took the reins of the online and offline operations of Aegis Group's Carat US, is well aware of the discrepancy. "Coming in fresh to the broadcast market, the big question you ask is: Are the samples big e

To people who have spent their careers in broadcast media, that may seem an odd question. Nielsen's sample of approximately 100 million households (incorporating 30,000 viewers) of the 100 million households in the U.S. has satisfied the advertising community for decades. "We are still taking \$65 billion (in TV ad spending) off of pay-TV measurement," says Sean Cunningham, president and CEO of the Cabletelevision Advertising Bureau.

But as digital audiences grow, there's more concern not only about all of the households who aren't in Nielsen's fold, but also that data in every medium can stand up to newer technologies. "There's no question that technology is pushing us to a lot of new things," says spokeswoman Anne Elliott. "But we're developing technology that will help us on the way."

What follows is a snapshot of how measurement is changing to try to meet the digital challenge.

Television:

Nielsen's C3

At Nielsen, the biggest measurement news right now is what the media industry has come to call C3. ([See sidebar.](#))

The new system rates commercials and all viewing of a TV program – whether real-time, on a video game such as Xbox, or on a DVR recorder -- within three days after it airs.

C3 also became the negotiating currency for much of the 2007 upfront, meaning that audience guarantees to advertise are based on C3 instead of the old currency, which measured live program ratings.

Although not everyone wanted to limit viewing to three days, a shorter time frame made sense for some time-sensitive advertising, such as retail. According to Elliott, "A significant amount of playback does occur within those three days."

Measuring time-shifted viewing is one C3 innovation. The second is that, for the first time, Nielsen is rating the *commercial* program. For advertisers, this finally gets at the question of whether commercials, as opposed to programming, are being measured. Nielsen provides relatively rudimentary results, because it only gives an average rating of all commercials within a program. It was reported that a Budweiser ad featuring talking lizards did better than a commercial for the car-care product Armor All.™

As Nielsen has converted to C3, the system has offered up what seems to be a common result when a new measurement system is implemented: ratings drop.

According to data compiled from September to early December 2007 by David Poltrack, chief research officer of CBS, 11 networks saw prime-time audience drop by 9% over all, 11% in the 25-to-54 age group, and 10% in the 18-to-49 age group. Live programming commercials dropped only slightly, by about 5%, when people viewed them as part of live programming; about 60% skipped when watching pre-recorded programming.

That's not news that advertisers and television executives particularly want to hear. But C3, which most view as a trans signpost of what's to come.²⁴

The Set-Top Box

What the television and advertising markets are really gearing up for is the ability to mine data about viewer behavior d box — or the cable box, as most consumers know it.

There are limitations. Even if the television is off, the set-top box will still record whatever channel the cable box is turned on. The potential is clear: every time a television viewer changes channels using the set-top box, that data are transmitted to the operator. Until recently, that information has never been used to target advertising. "We're only a few years away from set-top boxes," says Dave Morgan, executive vice president for global advertising strategy for Time Warner's AOL.

The goal now is to use that data to provide more accurate ratings and also place more targeted advertising — all in ways that protect privacy. "We're looking at different ways that we can look at the set-top box information," says Nielsen's Elliott.

And it's beginning to happen. Although there are a number of initiatives, one that created headlines last year was a deal between EchoStar and EchoStar's DISH Network to provide second-by-second ratings information, which helps marketers, agencies and advertisers discover not only whether a commercial is being watched, but also at what point viewers tune out.²⁵ For advertisers, that's the key to their advertising. "In other words, where within that 30-second ad are we losing people?" says Todd Juenger, general manager and president for audience research and measurement at TiVo.

While Google and EchoStar had already been working together on Google TV Ads, Nielsen brought new information to the table with data, based on samples, to pinpoint the age, gender and income of the people tracked.

Another headline-maker was a November 2007 agreement between NBC and TiVo.²⁶

One result of that deal is taking advantage of TiVo's Internet-like interactivity. NBC advertisers can buy clickable tags on the network via TiVo; the results of those clicks will then be reported back to advertisers.

The second component is that NBC said it would subscribe to TiVo's Stop/Watch service, a panel-based measurement service. Like the Google/Nielsen/EchoStar deal, it gives second-by-second measurement. "TiVo is sitting on some terrific data," says Juenger.

Google TV Ads is an experiment with an automated, auction-based process for buying television advertising, in conjunction with Wave Cable and Nielsen. Like Google Print Ads, the service allows advertisers too small to warrant a call from sales representatives to advertise online. What's truly interesting is the data the advertiser gets back: Google TV reports whether people view ads and when they tuned out.

It would be reasonable to question why all major advertisers aren't experimenting with set top devices. Some contend that it's still advertising executives who view too much knowledge as a bad thing. It's no doubt scary for some to finally face the music. "Who wants to be incredibly accountable when you don't have to be?" asks Omnicom Group's Jonathan Neumann.

Why is Google involved in television? Google imagines a world where advertising is completely accountable. If it can build models for all its clients across all platforms, everyone wins -- Google, by gaining even more revenue; advertisers and publishers, by assuring their ad dollars are being invested wisely, and publishers, by proving their properties are worthy advertising venues.

At the UBS Global Media Conference in December 2007, Tim Armstrong, resident of advertising and commerce for Google, explained how more accurate measurement helps advertisers target and media companies sell more advertising. At a time when he had a Saturday morning fishing and hunting TV program, which in the late '90s you couldn't sell, and in essence now it's a question is -- was that inventory not valuable in 1998, and now it's valuable in 2007? The answer is there probably was information at that time period to really show advertisers why that inventory was really valuable." Theoretically, at least that program has a value to advertisers; you just need the data to prove it.

Google's model does not answer the question: can advertising be 100% accountable?

A spokeswoman for Google, Deanna Yick, says, “We think it can be.” But the ideal has its skeptics, who point out that it is difficult to measure the effectiveness of ads calling for a consumer response, such as dialing a toll-free number, than those aimed at building brand awareness.

And, as radio is finding in its own attempt at more digitally based measurement with its Arbitron Portable People Meter, there are also imperfections. (See [Radio Chapter](#).)

“I don’t think we’ll ever get perfect accountability,” says Charlie Rutman, CEO of North America Operations at MPG, a unit of Nielsen.

Print: Online Surveying

And then there’s print. How does a medium that has no near-term prospect of being delivered digitally cope with the digital challenge?

The answer is in several ways, which include comparing how the medium performs in combination with, or in competition with, other media and also by inserting digital technology into the product.

Ellen Oppenheim, executive vice president and chief marketing officer of the Magazine Publishers of America, says only the online medium to find out more about readership — has been hugely popular among publishers. The trade organization has conducted a series of studies, including how magazines help drive online success for advertisers.

Perhaps the most interesting experiment on the boards in magazine research is one by research firm MRI (Mediamark Intelligence) to measure readership using RFID (radio frequency identification) tags, which can then transmit data about readership back to headquarters.²⁷ “Accountability is the watchword,” says Kathi Love, the CEO of MRI. “Ever since we started their ad was seen.”

The test, expected to start in early 2008, will put RFID tags in magazines in some doctors’ waiting rooms, which will be covered. Data will be transmitted back to MRI through a Blackberry-size unit on the wall. It will not tell what stories a reader reads, but it will record whether a magazine is opened and the amount of time it stays open. More detailed data will come later, says Love.

The newspaper business announced a new measurement service called [Audience-FAX](#) in November. A joint venture of the Newspaper Association of America, Scarborough Research and the Audit Bureau of Circulation, the service is merging online and print newspaper properties to give advertisers more complete data on each newspaper property’s impact, regardless of which medium they use to consume it. “Getting that kind of data into their hands is going to be critical if we are to move past simply counting people who consume what we produce,” according to Audience-FAX.

More refined targeting brings with it a major concern. Will consumer privacy be breached? There’s no simple way to resolve this. The advertising industry would prefer to self-regulate in large part by targeting ads at consumers who agree to receive them or through opt-outs, which track consumer behavior without revealing identities.²⁸ But for now, the privacy debate remains largely unresolved.

Advances in measurement will march on. Clearly the days of advertisers spending billions of dollars based on broad strategy and audience are drawing to a close.

From Advertising Agency to Media Agency

Over the past decade, the explosion of new digital platforms has provided advertising agencies with a staggering array of options for delivering their clients’ messages.

Planning and buying media, once a behind-the-scenes specialty within the advertising business, has taken center stage through the smorgasbord of media choices.

What is planning and buying, and what exactly does the key figure involved, the so-called media specialist, do?

Planning is the process of deciding where an advertiser’s message will have the most impact: Are prospective purchasers watching prime-time network television, listening to the radio, reading a niche magazine or surfing the Web?

Once an advertiser and agency have decided where the campaign should appear, the buying phase starts. Buying is the

advertising, including such units as 30-second broadcast television commercials, single-page print ads or Web banners to a media supermarket, but involves intense negotiations, sometimes with hundreds of millions of dollars at stake.

And the weight of all those dollars has significantly shifted how advertising agencies operate.

Ad agencies once had several departments under one roof: creative, where ads are designed and produced; media, which strategy and buys the media where ads will appear, and account services, which coordinates these activities on behalf of clients. Agencies also had a research department to gather insights into what made consumers tick.

When media selections were limited to a few television stations, consumer magazines, radio stations and newspapers, advertising within the advertising business was the poor stepchild. But that all changed in the 1990s, as media, and the business of advertising, started to become exponentially more complex. Once working quietly behind the scenes, media specialists are now leading people as the darlings of the ad world.

Today, media specialists have to decide not only which older media channels are appropriate for their clients' message but also which consumers they are trying to target are best reached through social networking Web sites or search engines; video and audio heard on your laptop or PDA, or the still-proliferating number of cable networks.

The rise of the media specialist also has led to a fundamental structural change within the ad business. For the most part, it is not within the ad agency that creates the ads but through a separate unit, known as the media agency, whose job is to find the right outlet for clients.

For the foreseeable future, the ad business looks as if it will be two businesses: the media agency and the creative agency.

As MediaPost columnist Jack Feuer explained: "In the old mass media world, everybody fished on the same three giant networks. Nobody knew where the fish were or if they were biting. So the difference between the fat fishermen and the who had the brightest lure -- the best creative."

Here's one example of how drastically that has changed.

In 2004, Dove, the women's skincare brand made by Unilever, embarked on its "Campaign for Real Beauty," a continuous campaign that has used a complex combination of media to promote its twin messages. The first: Beauty comes in many shapes and sizes. The second: Let's start a discussion on how women define beauty.

To get out those messages, the Dove brand leapt into the multi-media pool using the following outlets:

- Interactive billboards such as one in Times Square, allowing viewers to use text messaging to vote on whether the world was "wrinkled or wonderful."
- An online series, "[Dove Realty Diaries](#)," which features blogs and videos that follow four girls as they deal with self-esteem during the teen years.
- A Web site, [campaignforrealbeauty.com](#), that acts as a forum for visitors to discuss their concepts of beauty.
- Viral videos, "[Dove Evolution](#)," appearing online only, portraying how the beauty industry creates unrealistic images.
- A 2006 Super Bowl commercial focusing on self-esteem issues.
- National magazine advertising.

The budget numbers for the campaign have not been divulged by the media agency, Mindshare, and the creative agency. But they will share some of the responses, which illustrate how deep and wide new audiences for a product can be.

During four years, nearly 4.5 million people have visited the [campaignforrealbeauty](#) Web site. Since it had its debut in 2004, "[Dove Evolution](#)" has been viewed by more than 12 million people on YouTube alone and caused an 8,000% jump in traffic to the main Web site. And more than one million people have viewed the latest video, "[OnSlaughter](#)," on YouTube since it appeared.

While Unilever is a particularly inventive company when it comes to media strategy, campaigns such as this one are becoming commonplace, requiring more intricate planning and buying — and the service of dedicated media agencies — than traditional media outlets.

The rise of media agencies also reflects the considerable clout they wield when negotiating to buy space and time with ranging from NBC to Time Warner to Yahoo.

In 2006, according to data from Advertising Age, 15 media agencies controlled about \$85 billion of the \$150 billion spent on advertising. (Much of the rest is in local advertising.) As with the ad agencies they split from, the media agencies are now four communications holding companies. And each of these, in turn, owns dozens of companies in every marketing corner from public relations to sales. (See [AdAge chart](#).)

Interpublic Group, for instance, owns media agencies Initiative and Universal McCann, as well as the public relations agency the ad agencies McCann Erickson Worldwide and Deutsch (and others), and even the Hollywood publicity outfit PMK/H

The big four holding companies are:

- Interpublic Group, New York. 2006 revenue: \$6.2 billion. Major clients: General Motors, Johnson & Johnson, Unilever
- Omnicom Group, New York. 2006 revenue: \$11.4 billion. Major clients: Chrysler, McDonald's, PepsiCo.³¹
- Publicis Groupe, Paris. 2006 Revenue: \$6 billion. Major clients: General Motors, Nestlé, Procter & Gamble.³²
- WPP Group, London. 2006 revenue: \$11 billion. Major clients: Ford, IBM, Unilever.³³

Ad agencies filled with account and media people still exist, but a more accurate name for them today is creative agency

And yet as the advertising and media industries continue to evolve, there are signs the business will come full circle, will once again be housed together to create truly integrated campaigns. In December 2007, one major media agency, Starcom, announced it was developing its own in-house creative department to help with certain parts of the creative process, such as programs on the Web.³⁴

Footnotes

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