

BAIRD

Business Services Research

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In Partnership With



Marketing & Information Services

1Q11 Marketing & Advertising Survey

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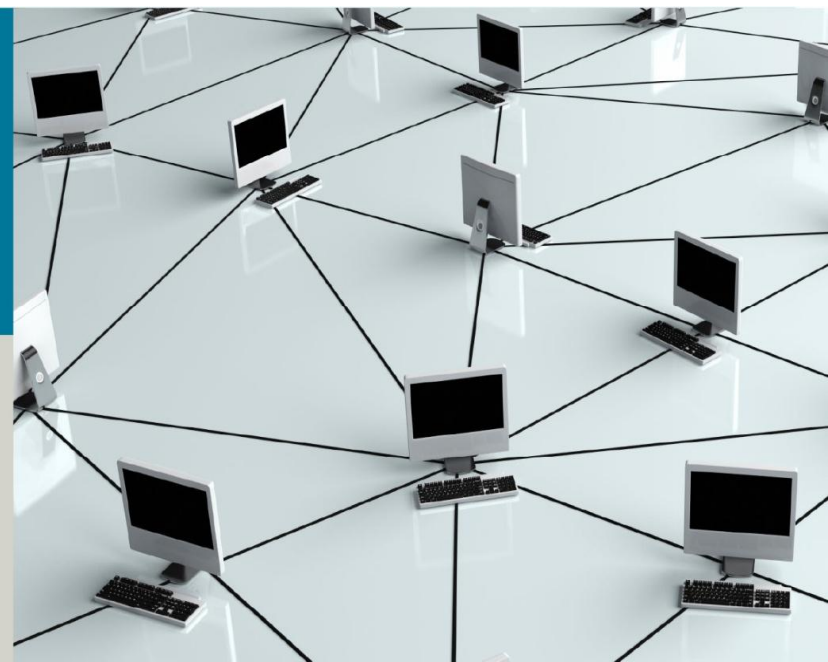
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Overview

- Robert W. Baird & Co. is pleased to present our quarterly Marketing & Advertising Survey.
- Thank you to the 200+ marketing and advertising professionals who participated in this survey. The color and depth of the additional commentary adds to the overall quality of the survey and our ability to interpret the results. Of note, the AgencyFinder.com partnership contributed 59 responses to the overall pool.
- This quarter we had over 25 follow-up conversations with participants in our attempt to better understand their responses and dig deeper into some of the underlying dynamics of the industry. We would like to thank all of the participants that indicated they were interested in having a conversation.
- If you have any questions, comments or would like to participate in future surveys, please email Senior Analyst Dan Leben (dleben@rwbaird.com) or Research Associate Mircea (Mig) Dobre (modobre@rwbaird.com).
- *This survey is meant to give investors and participants a general indication of current market trends. Individual responses have been edited to protect participants' anonymity.*

Please refer to “Appendix – Important Disclosures and Analyst Certification” on page 17.

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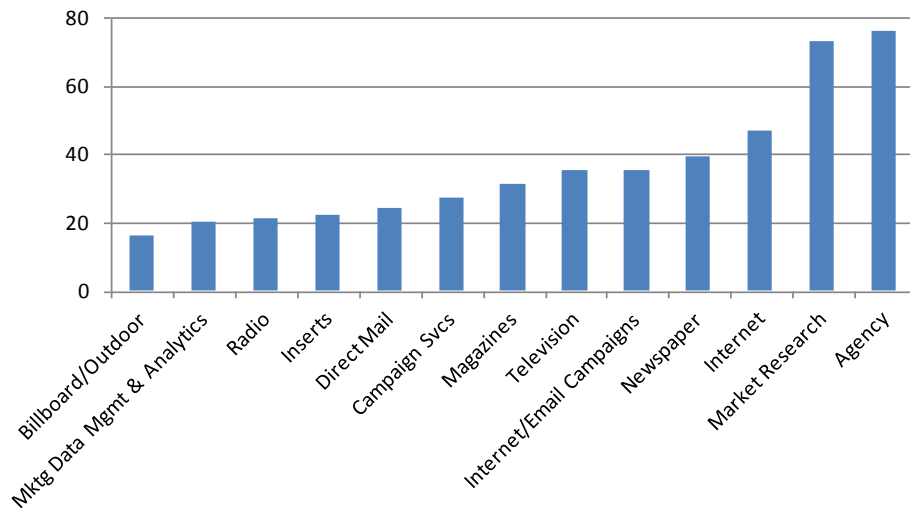
Executive Summary

- **2011 expectations raised.** Expectations for 2011 growth have increased to +5.7% y/y, 70bps above last quarter's expectations and also above the base expectation established during 4Q10. Participants expect the growth rate to accelerate in 2Q11, in spite of higher energy prices and slightly tougher comparisons.
- **Integrated marketing firms outperform.** While average growth improved, there is significant divergence in trends reported by broad vs. narrow service providers. Integrated marketing firms (spanning multiple service categories) have reported above average growth with niche players often reporting below average growth
- **Vendor consolidation.** The industry appears to be heading towards increased vendor consolidation as marketers are looking to simplify their decision making process and obtain improved purchasing leverage. Small players and sole proprietors operating in the Agency and Market Research space have pointed that this is creating an additional headwind to growth. The Integrated Marketing Services model is further supported by the rapidly changing allocation of marketing budgets, with Service firms trying to maintain their share of clients' budgets by providing additional services (digital, social media).
- **Pricing is a mixed bag.** Television continues to outperform in the current environment, Direct mail is seeing improvement driven by postage increase pass through. Furthermore, the category is impacted by Integrated responders – in our follow up conversations responders mentioned a slight price increase in Direct Mail due solely to postage and paper costs being offset with lower prices on Digital services, or additional “free” services offered such as Social Media. Other traditional media remains soft (conversations with newspaper participants indicate that flat pricing in the space is considered a victory at this point).

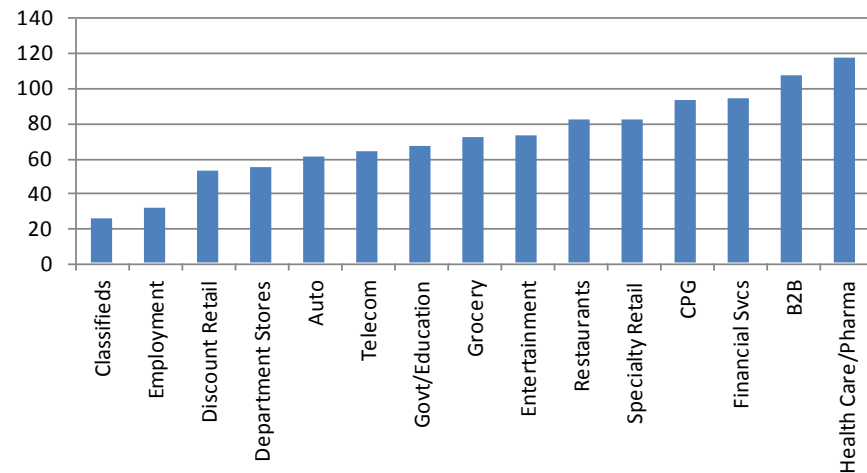
Survey Participants

- We surveyed 220+ marketing and advertising professionals across a broad array of areas and industries. Since most professionals have multiple areas of expertise, the average participant noted 2+ areas and 5 industry verticals where they participate.
- Common areas included: Agency (38%), Market Research (36%), Internet (23%), Newspaper (19%), Television (17%), and Internet/Email Campaigns (17%).
- Industries with the most responses include: Health Care/Pharma (58%), B2B (53%), Financial Services (47%) and CPG (46%)
- In terms of scope, 44% work exclusively with national advertisers and 22% exclusively with local advertisers.

Expertise Mix



Industry Mix



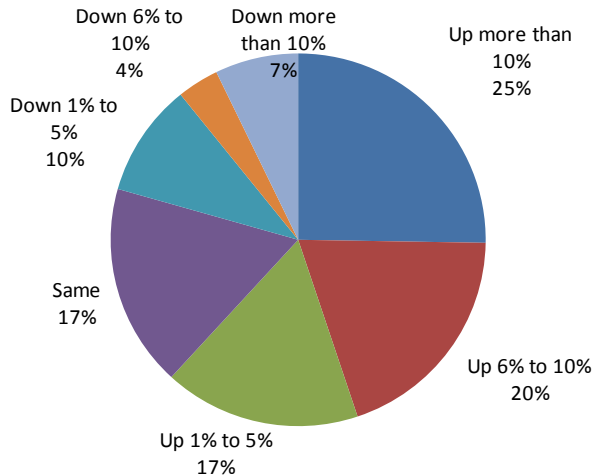
Source: Robert W. Baird & Company analysis

1Q11 Business vs. 1Q10



The first quarter of 2011, relative to the first quarter of 2010 was:

Respondent's Own Business



Areas – Own Business

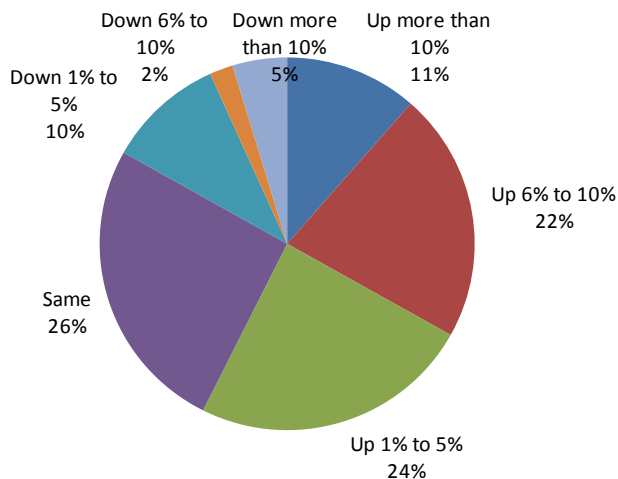
	1Q11	Q/Q
Total	3.8%	0.3%
Mktg Data Mgmt & Analytics	7.6%	3.1%
Campaign Svcs	6.3%	4.0%
Television	5.2%	1.7%
Direct Mail	5.2%	2.1%
Internet/Email Campaigns	5.0%	2.2%
Market Research	4.6%	1.1%
Internet	3.8%	0.8%
Agency	3.3%	-0.4%
Magazines	2.7%	-0.9%
Newspaper	0.3%	-2.0%

- Growth was slightly above expectations, as macro level uncertainties failed to derail what continues to be an improving marketing spend environment.

- It is important to note that while the average growth improved, there is significant divergence in trends reported by broad vs. narrow service providers. Integrated marketing firms (spanning multiple categories) have reported above average growth (full percentage point or more) with niche players often reporting below average growth.

- Categories such as Direct Mail, Data and Analytics and Campaign Services have been driven by responses from Integrated players. The rebound in Gov/Education and B2B is owed to relatively easy y/y comparisons.

Respondent's View of the Industry



Industries – Rank Order

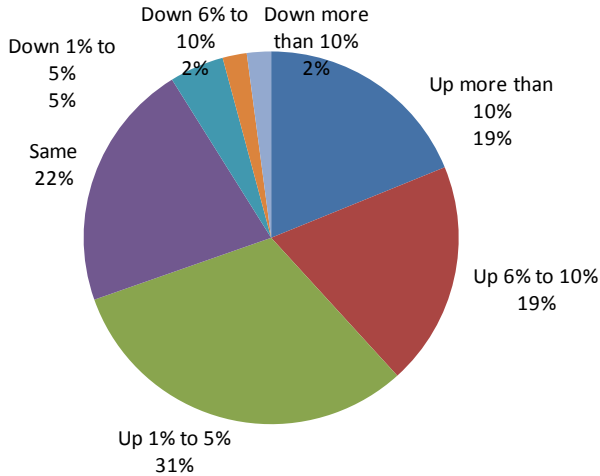
	Rank	Rank Change
B2B	1	+3
Govt/Education	2	+11
Specialty Retail	3	+8
Financial Svcs	4	+1
Grocery	5	+10
CPG	6	-3
Telecom	7	-
Discount Retail	8	+2
Health Care/Pharma	9	+3
Entertainment	10	-9
Restaurants	11	-3
Auto	12	-6
Department Stores	13	+1
Employment	14	-12
Classifieds	15	-6

2Q11 Expectations



I expect the second quarter of 2011 relative to the second quarter of 2010 to be:

Respondent's Own Business

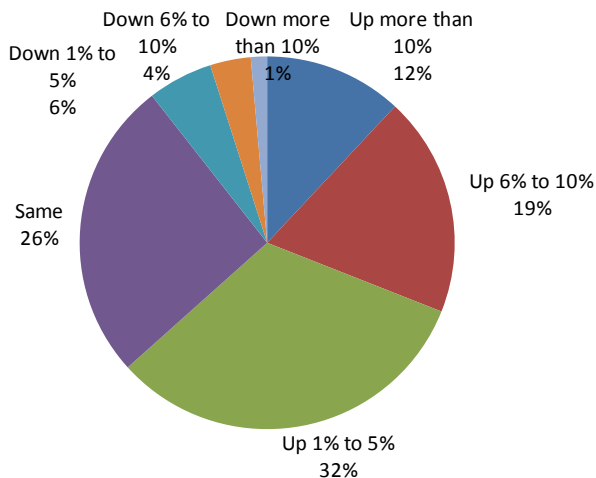


Areas – Own Business

	2Q11	Q/Q
Total	4.4%	0.9%
Mktg Data Mgmt & Analytics	7.9%	3.4%
Campaign Svcs	7.1%	4.9%
Direct Mail	6.8%	3.7%
Internet/Email Campaigns	5.5%	2.7%
Agency	4.9%	1.2%
Television	4.8%	1.3%
Internet	4.2%	1.2%
Market Research	3.9%	0.4%
Magazines	2.9%	-0.7%
Newspaper	1.5%	-0.8%

- Participants expect the growth rate to accelerate in 2Q11, in spite of higher energy prices and slightly tougher comparisons.
- As mentioned previously, categories such as Direct Mail, Data and Analytics and Campaign Services have been driven by responses from Integrated players. The rebound in Gov/Education and B2B is owed to relatively easy y/y comparisons after being the worst performing groups in 2010.

Respondent's View of the Industry



Industries – Rank Order

	Rank	Rank Change
B2B	1	+3
Specialty Retail	2	+9
Health Care/Pharma	3	+9
Entertainment	4	-3
Govt/Education	5	+8
Telecom	6	+1
CPG	7	-4
Restaurants	8	-
Discount Retail	9	+1
Grocery	10	+5
Auto	11	-5
Department Stores	12	+2
Financial Svcs	13	-8
Employment	14	-12
Classifieds	15	-6

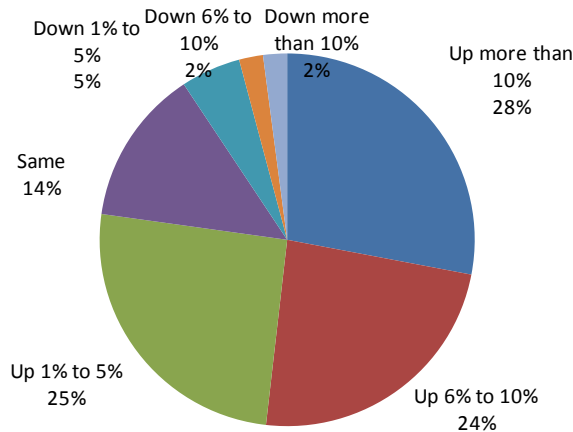
- Broadcasting continues to rebound with Agency participants noting an increase in broadcasters trying to bypass agencies and dealing directly with advertisers. Print remains relatively soft as rising prices in Broadcasting and emergence of new media steal budget and offset some of the typical cyclical uptick.

2011 Expectations



I expect 2011 relative to 2010 to be:

Respondent's Own Business

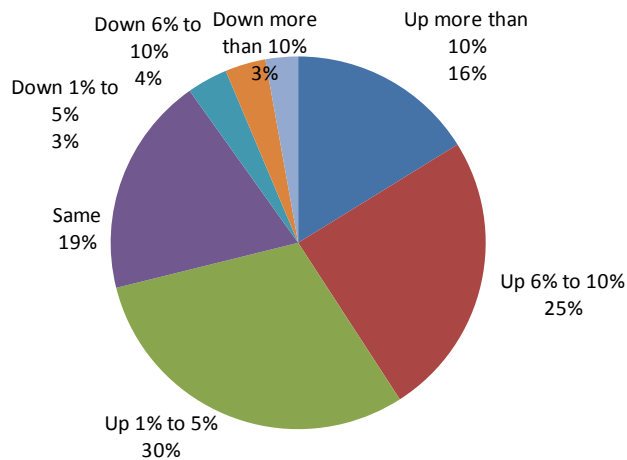


Areas – Own Business

	2011	Q/Q
Total	5.7%	0.7%
Campaign Svcs	8.4%	2.7%
Mktg Data Mgmt & Analytics	7.9%	1.5%
Direct Mail	7.3%	4.4%
Agency	7.3%	1.3%
Internet/Email Campaigns	6.9%	2.2%
Television	6.0%	1.4%
Internet	5.8%	0.6%
Market Research	5.4%	0.5%
Magazines	2.8%	-2.1%
Newspaper	1.6%	-1.7%

- Expectations for 2011 growth have increased compared to last quarter and compared to the base expectation established during 3Q10. We view this as particularly encouraging given that marketers have to contend with rising commodity prices and geopolitical uncertainties (Japan and Middle East).
- When asked specifically about the above mentioned uncertainties, the vast majority of respondents indicated no observable impact to budgets and their current operating environment.
- On a final note, marketers' own confidence appears to have improved, with respondents mentioning better visibility as clients appear more willing to commit to new projects.

Respondent's View of the Industry



Industries – Rank Order

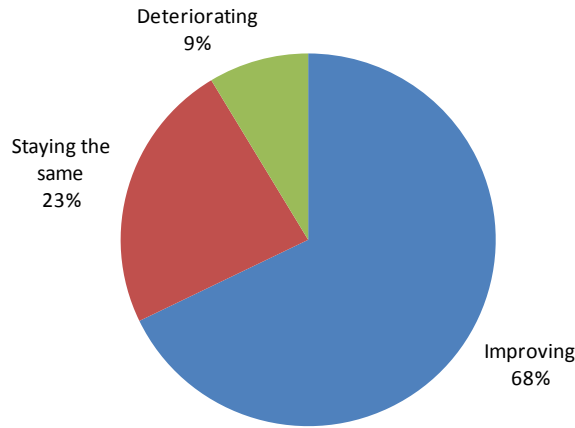
	Rank	Rank Change
Specialty Retail	1	+11
B2B	2	-1
Grocery	3	+12
Govt/Education	4	+3
Financial Svcs	5	-1
Health Care/Pharma	6	+4
CPG	7	-4
Telecom	8	+1
Entertainment	9	-7
Discount Retail	10	+3
Restaurants	11	-
Department Stores	12	+2
Auto	13	-8
Employment	14	-8
Classifieds	15	-7

Business Trends



Excluding seasonal factors, the overall trend is:

Respondent's Own Business



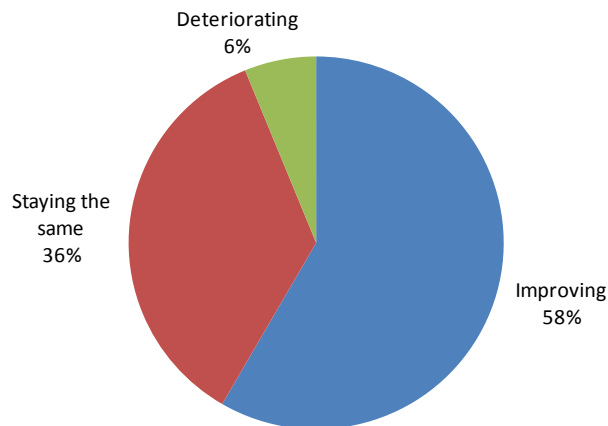
Areas – Own Business

	Trend	Q/Q
Total	79.6	-2.1
Television	97.6	10.4
Agency	87.4	2.3
Direct Mail	84.5	17.9
Campaign Svcs	82.7	3.2
Mktg Data Mgmt & Analytics	82.5	-3.7
Magazines	78.8	-2.3
Internet/Email Campaigns	74.9	-0.7
Market Research	74.5	-3.1
Internet	74.3	-12.3
Newspaper	66.7	-13.7

- We calculated the average response for each area by weighting the responses as follow: Improving (100), Staying the Same (50) and Deteriorating (0).

- The environment remains robust, however the improvement is moderating as the comparisons are getting tougher.

Respondent's View of the Industry



Industries – Rank Order

	Rank	Rank Change
Financial Svcs	1	+5
Telecom	2	+3
Auto	3	-
Govt/Education	4	+9
Entertainment	5	+5
Specialty Retail	6	+8
Department Stores	7	-
Discount Retail	8	-
Grocery	9	-1
Restaurants	10	-6
Employment	11	-9
CPG	12	-
Health Care/Pharma	13	-2
B2B	14	+1
Classifieds	15	-14

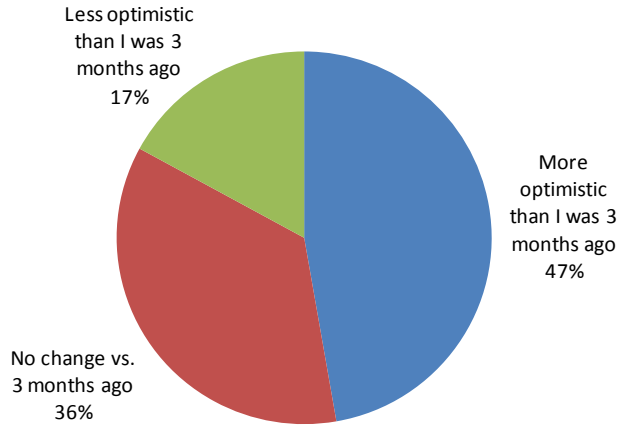
- We note the q/q decline in Internet trends and believe that is attributable to a combination of overlap with newspapers, increasing competition in digital marketing leading to pressure on rates within more established digital media.

Economic Environment



When thinking of the next 12 months' economic environment:

Respondent's Own View

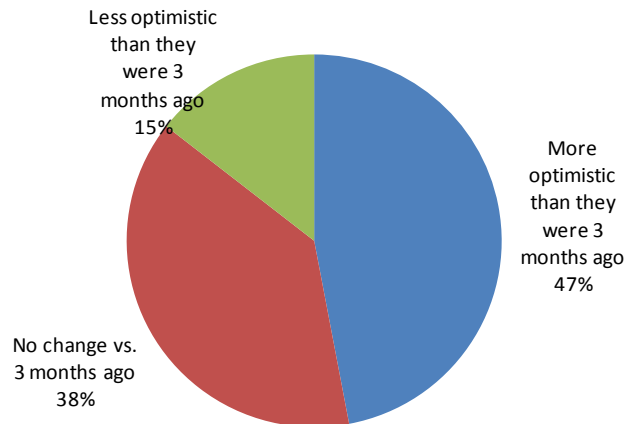


Areas – Own Business

	Economy	Q/Q
Total	65.1	-8.5
Campaign Svcs	82.7	10.9
Agency	78.0	3.0
Magazines	69.8	-6.9
Internet	63.7	-14.4
Television	63.1	-15.8
Newspaper	62.2	-7.8
Internet/Email Campaigns	56.8	-9.1
Market Research	55.4	-16.4
Direct Mail	54.1	-14.1
Mktg Data Mgmt & Analytics	51.6	-25.9

- Participants' perception of the economic environment has seen a slight softening. The "Less Optimistic" category increased 7% q/q to 17%, while "More Optimistic" decreased by 10% sequentially
- Given the commentary from our follow-up conversations, we believe this is most likely attributable to participants' concerns over rising energy prices, even though such concerns have not yet impacted marketing budgets or the decision making process.

Respondent's View of their clients' perspective



Industries – Rank Order

	Rank	Rank Change
Classifieds	1	+1
Employment	2	-1
Govt/Education	3	+5
Entertainment	4	+2
Financial Svcs	5	+8
B2B	6	+3
Telecom	7	-2
Discount Retail	8	-5
Specialty Retail	9	+2
Health Care/Pharma	10	+5
Restaurants	11	-4
CPG	12	+2
Auto	13	-1
Grocery	14	-10
Department Stores	15	-5

- In fact, several of the categories that were at the lower end of their views of the economic environment are businesses we view as most exposed to commodity prices (restaurants, CPG, auto, and grocery).

Pricing Environment

On a per unit basis, pricing for your business has been/is expected to be:

Respondents were given the following 7 choices: Up more than 5%, Up 4-5%, Up 1-3%, Flat, Down 1-3%, Down 4-5%, Down more than 5%. Responses were weighted by the mid-point of the range to derive the levels represented below (listed by the average pricing increase in 2010).

- Television continues to outperform in the current environment, which is not surprising given that volumes are essentially fixed in nature. Going forward pricing is expected to remain robust in spite of a lack of political catalyst.
- Direct mail is seeing improvement driven by postage increase pass through with some benefit from paper prices. Furthermore, the category is impacted by Integrated responders – in our follow up conversations responders mentioned a slight price increase in Direct Mail being offset with lower prices on Digital services, or additional “free” services offered such as Social Media.
- Non broadcasting traditional media remains relatively soft given digital migration (conversations with newspaper participants indicate that flat pricing in the space is considered a victory at this point).

	1Q11 - Pricing		2011 - Pricing		2Q11 - Pricing	
	1Q11 - Pricing	Q/Q Change	2011 - Pricing	2011 - Pricing	2Q11 - Pricing	2Q11 - Pricing
Total	0.4%	-0.5%	0.8%	0.8%	0.8%	0.8%
Television	3.0%	0.7%	3.5%	3.5%	2.9%	2.9%
Direct Mail	1.8%	1.5%	2.8%	2.8%	2.1%	2.1%
Mktg Data Mgmt & Analytics	1.4%	0.8%	2.2%	2.2%	1.6%	1.6%
Internet	1.4%	-0.4%	2.0%	2.0%	1.1%	1.1%
Internet/Email Campaigns	0.6%	-0.4%	1.2%	1.2%	0.7%	0.7%
Market Research	0.4%	-0.3%	1.0%	1.0%	1.0%	1.0%
Agency	0.4%	-1.1%	0.8%	0.8%	0.9%	0.9%
Magazines	-0.2%	-1.0%	0.4%	0.4%	-0.4%	-0.4%
Newspaper	-0.7%	-1.3%	-0.1%	-0.1%	-0.7%	-0.7%
Campaign Svcs	-1.0%	-3.0%	-0.2%	-0.2%	-0.5%	-0.5%

Area of Business Rankings



- As expected with the strong performance by television in almost every question on the survey, this particular area of marketing and advertising remained at the top of the heap. However, we believe that television is perhaps the most cyclical of all verticals, with performance potentially showing quick reverse in a downturn given the relatively higher-cost nature of television.
- Integrated marketing firms (spanning multiple categories) have reported above average growth while niche players often reporting below average growth. Categories such as Direct Mail, Data and Analytics and Campaign Services have been driven by responses from Integrated players. As we scanned the previous 4 surveys, we found that the gap in responses between the integrated marketing firms and the more narrow players has actually been expanding over the course of the last year.

	1Q11 - Own Business	2Q11 - Own Business	3Q11 - Own Business	Trend - Business	Environment - Self	Environment - Clients	1Q11 - Pricing	2Q11 - Pricing	3Q11 - Pricing	Average Rank	Q/Q Average Rank Change
Television	3	6	6	1	5	6	1	1	1	1	-
Mktg Data Mgmt & Analytics	1	2	1	5	10	5	4	3	3	2	+1
Direct Mail	4	3	3	3	9	8	2	2	2	3	+7
Agency	8	4	5	2	2	2	6	7	6	4	-
Campaign Svcs	2	1	2	4	1	3	10	10	9	5	-
Internet	7	7	7	9	4	4	3	4	4	6	-4
Internet/Email Campaigns	5	5	4	7	7	10	5	5	7	7	+2
Magazines	9	9	9	6	3	1	8	8	8	8	-1
Market Research	6	8	8	8	8	9	7	6	5	9	-3
Newspaper	10	10	10	10	6	7	9	9	10	10	-2

Trends and Opportunities

Highlights from commentary provided by participants:

- **Vendor consolidation.** The industry appears to be heading towards increased vendor consolidation as marketers are looking to simplify their decision making process and obtain improved purchasing leverage. Small players and sole proprietors operating in the Agency and Market Research space have pointed that this is creating an additional headwind to growth. The Integrated Marketing Services model is further supported by the rapidly changing allocation of marketing budgets, with Service firms trying to maintain their share of clients' budgets by providing additional services (digital, social media)
- **An emerging shortage of talent.** Strategic Consultants in the Agency space have pointed out that the recent recession resulted in considerable headcount reductions (many agencies operating with 20%+ lower headcount when compared to 2008). Furthermore, budgets are shifting resources towards digital marketing, which is asset light but talent intensive. As demand continues to increase and excess capacity is depleted agency costs are expected to increase. Consultants point out that marketers do not appear to be aware of talent-based constraints in the communications industry, with the agencies finding themselves in a situation where they have to educate their customers of such constraints and the higher costs they are likely to lead to.

AgencyFinder.com Vs. Entire Survey



- When comparing the results from the AgencyFinder.com sample to the entire population of the survey, we find that the AgencyFinder.com group had a slightly stronger first quarter but expectations for the remainder of 2011 are materially higher. We believe this is a direct result of the more optimistic view on the economy as well as stronger current trends in their businesses.
- The group also is experiencing stronger trends than the broader agency group and while outperformance appears modest, we would note that over half of the agency participants in the survey are from the AgencyFinder.com group.
- The group is also benefitting from the integrated approach with exposure to multiple areas of marketing. Relative to the overall average of 2-3 practice areas, the AgencyFinder.com group participates in excess of 5 on average.

	AgencyFinder.com	Total Survey	Delta
1Q11	3.9%	3.8%	0.1%
2Q11	5.4%	4.4%	1.0%
2011	7.9%	5.7%	2.2%
Trend	86.8	79.6	7.2
Economy	78.1	65.1	13.0

	AgencyFinder.com	Agency	Delta
1Q11	3.9%	3.3%	0.6%
2Q11	5.4%	4.9%	0.5%
2011	7.9%	7.3%	0.6%
Trend	86.8	87.4	-0.6
Economy	78.1	78.0	0.1

Trends and Opportunities

The impact of social media on the overall marketing mix.

- **Social Media drivers:** Consumers have become increasingly selective regarding the information they choose to be exposed to, starting with the big push behind the Do-Not-Call list blocking telemarketing in the early 2000s. Consumers view most pre-packaged commercial messaging as irrelevant, while actively seeking information on products and services, often viewing peer opinions as more relevant than expert reviews. The shift from a static consumer waiting to be served commercial information to an actively involved participant seeking to interact with vendors on his/her own terms has resulted in a decline in demand for traditional messaging techniques, while presenting considerable opportunity for online data aggregators and Social Media.
- **Budget shifts:** Virtually all marketing professionals agree that Social Media is a rapidly growing portion of marketers' budgets. Most seem to think that it is taking "budget share" away from traditional marketing strategies (Print and Direct Mail), although some are pointing out that there is real potential for Social Media to impact Email Marketing as well, given a growing number of individuals using Social Media sites as a replacement for Email in communicating with peers.
- **A new equilibrium:** In spite of the above mentioned shift in budgets towards Social Media, Marketing professionals expect a new equilibrium to be reached with traditional marketing still playing a role for marketers.

Appendix – Important Disclosures and Analyst Certification

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