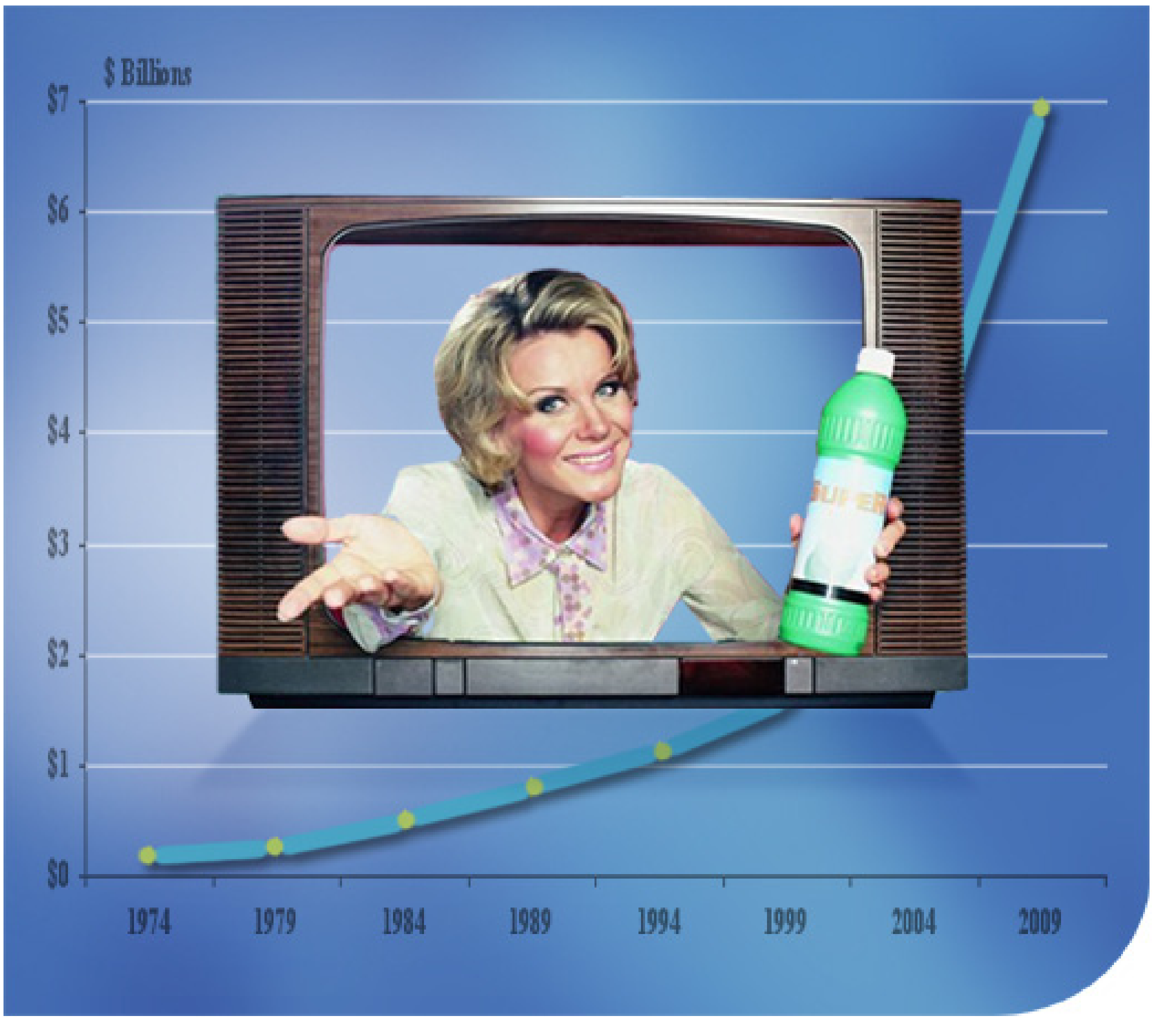
Product Placement Spending in Media 2005:

Executive Summary



A Special Report By:

pq media
CUSTOM MEDIA RESEARCH

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Summary of Product Placement Spending in Media

While product placement has been a marketing tactic used in media for more than 100 years, particularly in films, its role in television and the buzz surrounding this alternative marketing method have only begun to gain significant momentum during the last five years. The reasons behind this development are rather simple, but critical to a media industry undergoing rapid change in an era of ad-skipping technologies and accelerating audience fragmentation. Technological advances, most notably personal video recorders (PVRs), and continued audience fragmentation, due to the growing popularity of new media such as the Internet and videogames, have led major marketers – already skeptical of their return on investment in traditional advertising vehicles – to become even more dispirited with the old means of reaching target audiences.

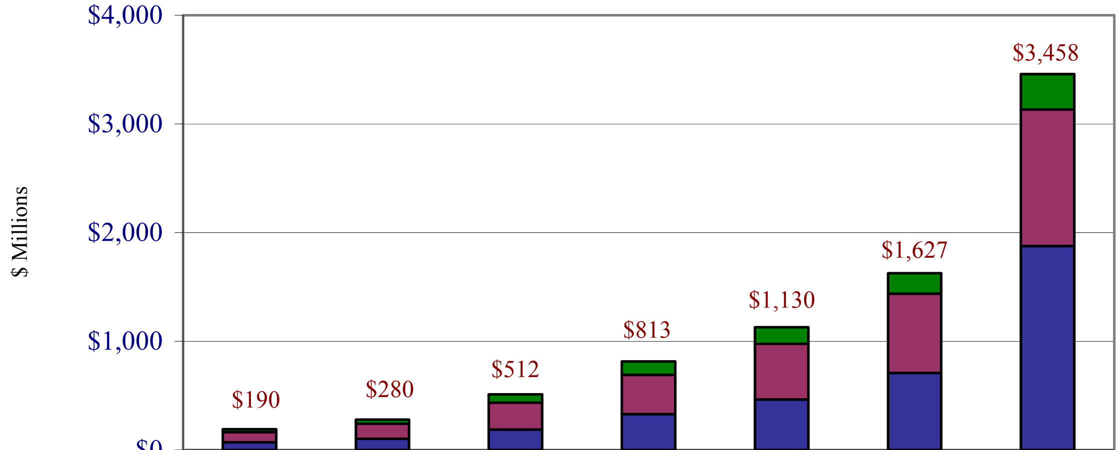
As a result, leading advertisers are more than ever questioning the relevance of the 30-second television spot, as their messages become scattered in the increasing advertising clutter or omitted altogether by a more empowered consumer who can skip them with the touch of a button. To compensate for this perception of diminished advertising returns, marketers have substantially ratcheted up the role of product placement in their buying strategies. In short, product placement is becoming an integral part of a larger marketing package for many advertisers that includes traditional advertising and alternative marketing such as product placement. And this is a trend we expect to continue in the foreseeable future.

Meanwhile in films, for many years the primary medium in which product placement was used, the value of placements has continued to increase at a strong rate even though films' share of the overall product placement market has declined. Spending in films has continued an upward trend because marketers covet the elusive 18- to 34-year-old demographic that constitutes half of the movie-going audience. Product placement spending in other media, such as videogames and the Internet, is growing faster than films in part due to the same reason, accentuated by the trend of more time being spent by consumers on these forms of media. And we also expect this trend to continue going forward.

To understand where product placement fits into the broader media industry, it is important to take a closer look at this burgeoning form of alternative marketing. Product placement is part of a larger segment of marketing services called branded entertainment that also includes spending on event sponsorships, licensing and other alternative marketing strategies. The financial value of barter and gratis product placement is estimated by the duration and prominence of the product's placement in the medium equivalent to the value of time and placement of advertising in that medium.

Defining this marketing method, product placement is the process that integrates an advertiser's product into selected media, most often television and films, for clear visibility. Although the product is visible, it is often not the focus, as it needs to fit almost seamlessly into the context of a scene or story. Product integration is a special type of product placement in which the advertiser's product is central to the program's plot line. Product placement can

Chart 1: Product Placement Spending in Media



	1974	1979	1984	1989	1994	1999	2004
Other Media*	$26	$39	$78	$122	$155	$187	$326
Film	93	137	246	361	511	730	1,255
Television	71	104	188	330	464	709	1,878

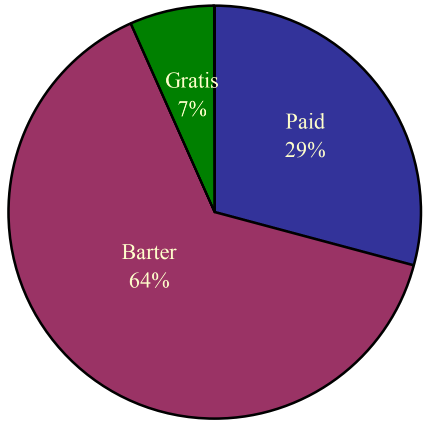
* Magazines, Newspapers, Videogames, Internet, Recorded Music, Books, Radio
Source: PQ Media

be audio, visual or print based. There are three major types of product placement: paid, in which the product placement is arranged and there is financial compensation; barter, which is also arranged, but the product serves as compensation; and gratis, in which the placement simply happens, often to strengthen a character's profile, or add richness to the plot, audio or printed text.

The value of the overall product placement market increased 30.5% to $3.46 billion in 2004, and grew at a compound annual rate of 16.3% from 1999 to 2004. Since 1974, the value of the overall product placement market climbed at a compound annual rate of 10.5%. Growth in 2004 and in the 1999-2004 period was driven primarily by the strong growth in the television segment. The value of television product placements increased 46.4% to $1.88 billion in 2004, and grew at a compound annual rate of 21.5% from 1999 to 2004. Meanwhile, the value of product placements in films rose 14.6% to $1.26 billion in 2004, and grew at a compound annual rate of 11.4% in the 1999-2004 period.

The market's growth has coincided with the recent trend of marketing dollars migrating away from traditional advertising to alternative marketing methods, especially product placement. And due to the large share of barter arrangements, product placement growth has not been hampered as severely as advertising by economic downturns. Since 1974, the value of product placement expenditures has outperformed the economy almost threefold, driven by significant gains in product placement on television. The share of product placement spending on television has risen from 37.1% in 1974 to 54.3% in 2004, with a 10-point surge coming in just three years from 2001 to 2004. In addition, marketers are turning to

Chart 2: Shares of Product Placement Spending in 2004, by Type



Source: PQ Media

other media, such as videogames and the Internet, which attract the desirable 18- to 34-year-old demographic. This demographic is one of the most coveted by advertisers because of the lack of brand loyalty. Product placement spending in other media increased 19.9% to $325.8 million in 2004, and grew at a compound annual rate of 11.7% from 1999 to 2004.

Another key trend in product placement is the growth of paid integrations compared with barter and gratis placements. The share of paid placements increased from 18% in 1974 to 29.2% in 2004. Competing marketers are willing to pay for placements on programs, films or media that are extremely targeted and considered to be hot properties by their niche consumers. As a result of the increased pressure to control costs and grow revenue, gratis placements, which accounted for 24.3% of the market's value in 1974, have become much less frequent, accounting for only 6.6% of total spending in 2004.

Marketers in the food & beverage, house & home, and health & beauty categories account for more than half of all the physical product placements. These placements, however, don't necessarily generate as much integration value as do other categories with products that have higher price points, such as transportation & parts. Over half of product placement spending is found in four of the 10 marketing categories: transportation & parts, apparel & accessories, food & beverage, and travel & leisure.

Overall Media Industry Trends

The rise of product placement is perhaps better understood when examined against the backdrop of overall media industry trends over the past three decades. Marketers are giving more prominence to product placement and other branded entertainment strategies in their overall media buying plans because of a number of major media developments. Foremost among them is the influx of new media choices during the past several decades, such as cable and satellite television, videogames and the Internet. The share of consumer time spent with traditional, or advertising-based, media has been declining for many years, although overall use of media has increased, driven by the growing use of media supported by consumer

Table 1: Spending & Growth on Product Placement in Media

($ Millions)	*1999*	*2003*	*2004*	*2003-04 Growth*	*1999-2004 CAGR*
Television	$709.1	$1,282.8	$1,877.8	46.4%	21.5%
Film	730.2	1,094.5	1,254.6	14.6	11.4
Other Media*	187.2	271.7	325.8	19.9	11.7
Total	1,626.5	2,649.0	3,458.1	30.5	16.3

Source: PQ Media

*Magazines, Newspapers, Videogames, Internet, Recorded Music, Books, Radio

spending. While advertising and marketing spending growth has outperformed the economy during the past 30 years, consumer usage of advertising-based media has waned. During the same period, consumers have consistently migrated to those media that they pay for, such as cable and satellite television and the Internet.

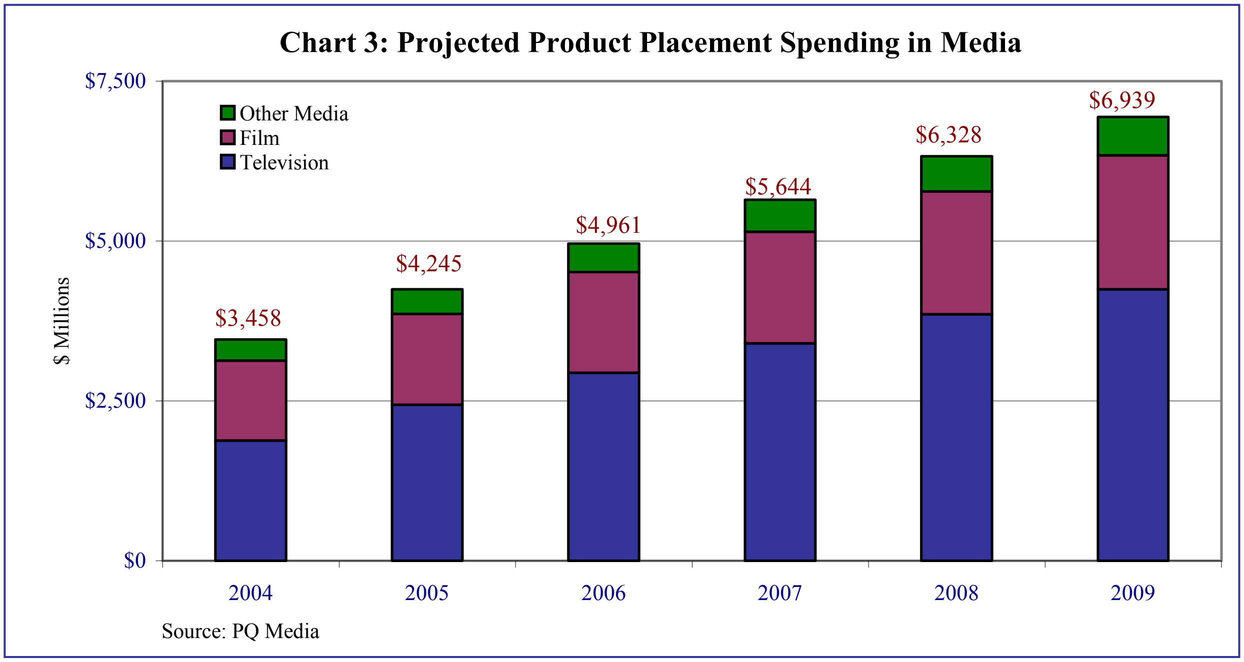
At the same time, the amount of media multitasking has grown substantially, and consumers have become increasingly sophisticated in using multiple media simultaneously, such as television and the Internet. Concurrently, consumers are being bombarded with numerous messages from a single medium, such as sports programs that simultaneously scroll visual scores and statistics while a consumer listens to the audio play-by-play description. As a result of this multitasking, marketers are searching for media that engage consumers. Some media, such as radio, are often used as background while other media, like books, require concentration. Product placement tends to be utilized most often in electronic or print media that have high consumer response and loyalty.

Technological advances have also impacted marketing decisions, and have had a positive effect on the growing momentum of product placement. One such development has been the launch of consumer products that allow individuals to forgo marketing messages, such as the PVR. Another has been the introduction of technologies like interactive television, which make product placements easier to integrate into programs and editorial content.

As a result of these trends, the growth of product placement spending has far outpaced that of advertising and marketing services over the past 30 years, particularly during the last five years. While the value of the overall product placement market increased 30.5% to $3.46 billion in 2004, as mentioned previously, spending on advertising and marketing services rose only 7% to approximately $339 billion. In addition, product placement expenditures grew at a compound annual rate of 16.3% from 1999 to 2004 and 10.5% since 1974, compared with 3% and 8%, respectively, for advertising and marketing services.

Projected Product Placement Spending in Media

The value of product placement spending in all media is projected to increase 22.7% to $4.24 billion in 2005, driven by strong growth in each of the three macro media segments, an increase in paid placements, the expectation of larger placement deals and the expansion of PVR penetration. Television placement spending, the largest media segment, will rise 30% to



$2.44 billion in 2005, while film placement expenditures will escalate 13% to $1.42 billion and other media will increase 18.1% to $384.9 million. Television placements will account for 57.5% of the total value of the product placement market in 2005, followed by films at 33.4% and other media at 9.1%.

We estimate that the value of the product placement market will grow at a compound annual rate of 14.9% from 2004 to 2009, reaching $6.94 billion. Television will increase its share of total product placement spending by more than three percentage points in the 2004-2009 period to 61.2%. Meanwhile, films will lose three points in the period, hitting 30.2% in 2009 and other media will lose one-half point to 8.6%, although there will be increased paid placements in videogames and on the Internet.

The share of paid placements will rise from 29.2% in 2004 to 37.5% in 2009, as television producers provide more opportunities for marketers and increase their rates to coincide with strengthening demand. In addition, we anticipate an increase in longer term, multi-million dollar agreements in the 2004-2009 period, and many of these arrangements will include packages of advertising, product placements and branded entertainment at other venues like theme parks. Barter arrangements will still account for the majority of the product placement market in 2009 at 58.5%.

Transportation & parts, apparel & accessories, food & beverage, and travel & leisure will continue to be the leading marketing categories throughout the next five years, and will account for more than half of all product placement spending in 2009. The fastest-growing marketing categories will be electronics & technology, toys & sporting goods, and media & entertainment.