THE NEW ECONOMICS OF ADVERTISING:

The Principle of Relative Constancy Reconsidered

By Andrew M. Gaerig

Mass media is in flux. Changing technology and shifting demographics threaten to undermine one-message-fits-all business models. Fragmented content increasingly targets niche markets. And mass media's advertising base – its largest generator of revenues – is dwindling, disappearing and migrating online.

Advertising, though, is bigger than ever. In the United States, more money was spent on advertising in 2007 than at any point in history. This increase in advertising is not driven solely by the Internet, or by mobile technologies. It's driven by the emergence of non-traditional forms of advertising during the last 30 years, forms that most advertising research has ignored, until recently. Forms that many mass media leaders don't know exist, or don't know how to capture.

The business model of selling an audience to advertisers isn't broken. It's thriving. Advertising firms know it. Media leaders who know it can position their companies to take advantage of growing advertising markets. This study analyzes the available data and widens the scope of what advertising can mean both to traditional and developing media companies. It provides quantitative analyses of traditional advertising approaches and exposes gaps in mass media planning. Most importantly, this study suggests new ways of thinking about how to sell services and connections, not just products.

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1. INTRODUCTION

> "If we may suggest one broad generalization, it is that in spite of the increasing complexity of mass communications with the advent of new media, the pattern of economic support has been relatively constant, and more closely related to the general economy than to the various changes and trends taking place within the mass media field itself."
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> - Charles E. Scripps (Economic Support, 1965; p. 4)

When Charles E. Scripps wrote the above in 1965, the size of the advertising market was roughly $15 billion; by the time of his death in 2007, it had grown 18 times over, to nearly $280 billion. During that time the mediums, consumers, and providers of advertising underwent head-spinning transformations.

Given the tumult, it seems strange that Scripps' lasting contribution to the field of advertising would be to point out how little it had changed. Scripps' above quote became the foundation for much of the macro-level research conducted on media expenditures, the foundation for what became known as the Principle of Relative Constancy.

The Principle of Relative Constancy, in its simplest form, suggests two important concepts:

- National wealth is the best predictor of media spending by both advertisers and consumers
- That the total level of media spending will remain constant over time

These two ideas might seem inconsequential, but their implications are important for media leaders. First, it is wealth – not technology, not competition – that drives media revenues. Second, because media's slice of wealth will remain constant over time, the only way for one company to increase its revenues is capture revenues from another media company. Media companies were engaged in a zero-sum game; a crowded, competitive marketplace was also now a cut-throat one.

Academics have taken the Principle of Relative Constancy and scrutinized its concept, its economic veracity and its predictive power. Industry analysts have collected and analyzed reams of data. They have built complex, proprietary forecasting models. They have questioned the statistics the Principle of Relative Constancy stands on.

Still, Relative Constancy remains one of the pre-eminent models for studying media expenditures. In its most basic form, it gives us the ability to establish a baseline of economic support for the media industry. Once the baseline has been established, media leaders can better understand whether the current climate rests on that baseline or whether we are in a temporary – or perhaps even permanent – departure from normal spending levels.

Regardless of the current level of advertising expenditures, that baseline is likely significantly higher than previously thought. Major shifts in demographics, technology, and, most importantly, the demands of advertisers have given rise to new forms of marketing and advertising. While these forms often exist outside the structures of traditional media like television and newspapers, they help comprise a dynamic and fluctuating advertising market. Media leaders who understand these new forms of advertising will be better able to position their companies in what remains a cut-throat marketplace.

Specifically, this paper establishes that:

- Traditional advertising remains a relatively constant proportion of national wealth
- Non-media forms of advertising continue to grow relative to media advertising
- Consumer-specific, incentive-laden and data-driven marketing tools are driving these gains
- Previously calculated levels of advertising expenditures underestimate the true amount of advertising available

2. SOURCES OF MEDIA INCOME

> "[O]ne of the major constraints on the ability of any mass medium to maintain itself in the marketplace of ideas, or in the marketplace of divertissement, is the level of economic support available."
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> - Maxwell McCombs (McCombs, 1972; p. 5)

Increasingly, economic support has come from advertising, not from consumers. Although micropayments and pay walls for content have been suggested as revenue generators, newspapers have traditionally received as much as 85 percent of their revenues from advertising. Other "traditional" media, like broadcast television and periodicals, remain primarily dependent on advertising. Thriving Internet companies, such as Google and Yahoo, are almost entirely dependent on advertising: in 2009, for example, Google earned 98.9 of its revenues from advertising.[1]

Media companies are in an environment where both their economic support structure and the very nature of advertising are changing. Journalist Dan Conover noted, "Right now the greatest failure of the mainstream media economy is its inability to witness the forces that are reshaping it." (Conover, 2009)

The change is more complex than a migration of consumers and advertisers to digital platforms, just as the solution is more difficult than simply digitizing content. Research firm eMarketer reported that, in 2009, online advertising declined for the first time since 2002, falling 4.6 percent.[2] ("The State of the News Media," 2010)

Researchers at the City University of New York held a roundtable with ad sales staff from a range of mediums that included blogs and newspapers. They suggested that companies "won't be selling media to merchants—banners 'n' buttons—so much as selling service[s]: helping [advertisers] with all their digital needs, including optimizing them in Google and Yelp and social media and mobile." (Jarvis, 2010)

One of the reasons advertising has changed is because some advertisers have begun to bridge a fundamental disconnect: as marketing venture capitalist Jerry

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[1] The remainder was licensing. Google, Inc. 10-K for the fiscal year ended December 31, 2009, p. 65.

[2] Though this is presumably a much smaller decline than other mediums faced, the point remains: online advertising is not a cure-all.

Neumann wrote, "media sells attention but is paid by the impression." (Neumann, 2009) Traditionally, advertising has sought to make its impression via visual and audio representations of products and brands. Simply put, some forms of advertising have found more effective ways of making an impression than through display advertising, television commercials, etc.

These new ways of making impressions have been made possible by changing demographics, changing media, and utilizing improved technology. The increasing diversity of the U.S. population is making one-size-fits-all, brand-building marketing more difficult. At the same time, consumers are becoming more sophisticated. Digital video recorders are making it possible for consumers to skip commercials. Telemarketing calls can be screened. Online banner advertisements are failing to draw the attention of viewers. (Mallin, 2009)

Not all of the advantages remain with the consumers. As more and more U.S. citizens migrate to urban areas and shop at large chain stores, point-of-display and out-of-home marketing tactics have become plausible ways to reach large numbers of consumers. Consumers are increasingly using social networking sites where demographic information is easily collected.

Some media have already started moving away from traditional forms of advertising. Search advertising compromises a substantial portion of online advertising expenditures: nearly half in 2009. What's reported less frequently is that display advertising and classified advertising—long thought to be print advertising's cash cows—comprised just over 30 percent of online advertising's expenditures. ("The State of the News Media," 2010) This number—roughly $7 billion—does not even begin to explain the loss of newspaper ad revenue during the same period. Even if some of the remainder of that difference is being funneled into search advertising, the implication is clear: the advertising has moved elsewhere, but it has not all moved online.

The central question remains: media companies are definitively making less money on offline advertising than ever; but online revenue has not filled the gap. Where has the money gone?

3. THE ADVERTISING ENVIRONMENT

On the advertising side, no change is larger than the influx of expenditures devoted to what has become known as below-the-line (BTL) advertising. Understanding BTL advertising is key not just to understanding how advertising has changed but also how it's adapting current models.

The definitions of below-the-line (BTL) advertising vary; roughly, it is advertising that delivers a tactile incentive to purchase a product (such as a coupon or a product sample). Above-the-line (ATL) advertising refers to traditional mass media advertising, that which is conducted in newspapers, on television, the radio, and on the internet. The confusing nomenclature is a relic of advertising industry semantics: ATL referred to services for which agencies received a commission for ads placed while BTL referred to services which were often performed for a set fee. A mixture of the two types of advertising is usually called "through the line." The following methods are usually considered BTL advertising (Sinha, 2008):

- Price promotions or discounting
- Coupons
- Gift-with-purchase
- Competitions and prizes
- Monetary refunds
- Loyalty incentives
- Point-of-sale displays

Some analysts consider online and search advertising to be BTL advertising; though these types of advertising can provide customer targeting and data gathering similar to BTL advertising, often their functionality—brand-building and promotion—is more in line with ATL advertising.

BTL advertising may also be referred to as "out of home" advertising or "direct marketing." Direct marketing, which has traditionally encompassed strategies like direct mail, Yellow Pages advertising, and telemarketing, has often been included in past analyses of advertising expenditures.

Because the terminology is confusing, this paper will refer to media advertising, such as newspaper banner advertisements and television commercials, as well direct marketing, as **traditional advertising**. BTL advertising will be referred to as **non-traditional advertising**.

The marketing consulting firm Winterberry Group believes the change in advertising approach is driven by three main traits (Tracking the Trends, 2006; p. 3):

- Perception: consumers want to feel engaged

- Interaction: consumers want to feel empowered and connected, and
- Measureability: consumer interactions are frequently more measurable than ever before

Non-traditional advertising represents far more than shifting terminology or advertising-industry dynamics. It represents a sea change in the way in which brands hope to interact with consumers. In the past, advertising has often focused on brand awareness and recognition, but today's non-traditional advertising seeks instead to drive sales. It aims for an efficiency of communication that traditional advertising often does not maintain.

The movement towards non-traditional advertising has been made possible in part by developing technologies and shifting demographics. Often reliant on detailed lists of customer information, non-traditional advertising and direct marketing have benefitted from digital media's ability to collect and store data. Direct mail and e-mail marketing can funnel consumers to websites where unique promotional codes can be collected, providing quick, reliable feedback to advertisers. (Brown, 2009) These decision-oriented marketing tactics often lead to a higher return on investment (ROI) for advertisers. Some estimates place the ROI of direct email marketing at more than $45, or more than twice the ROI of search or display advertising. (Datran Media, 2008)

Despite its increased prominence, it is difficult to determine the true size of the non-traditional advertising market. Research and data largely remain the exclusive products of marketing firms and trade organizations and is often available only to corporate clients.[3] In a free report in 2006, Winterberry Group estimated the total size of the U.S. non-traditional market to exceed $500 billion in both 2006 and 2007, or as much as double the amount spent on ATL advertising.[4] ("Tracking the Trends," 2006; p. 4)

Tracking growth in the two types of expenditures reveals a similar story, as non-traditional advertising continues to grow by nearly 8 percent per year while traditional advertising has, until recently, grown by 5-6 percent throughout the past decade. ("Tracking the Trends," 2006; p. 4)

The data used in this study (see section 4) capture some of those expenditures—direct mail in particular—but lack accurate measurements for non-traditional advertising activities like event marketing and promotional giveaways. Even the most conservative estimates of non-traditional advertising expenditures would significantly rattle the tenuous claims of constancy made by authors like William C Wood (Wood, 1986); these expenditures would further the case against constancy made by Demers (Demers, 1994) and Ghee-Young Noh and August Grant (Noh & Grant, 1997). Many of these activities, however, don't fall under the traditional scope of "media" advertising, and have therefore been omitted from previous analyses.

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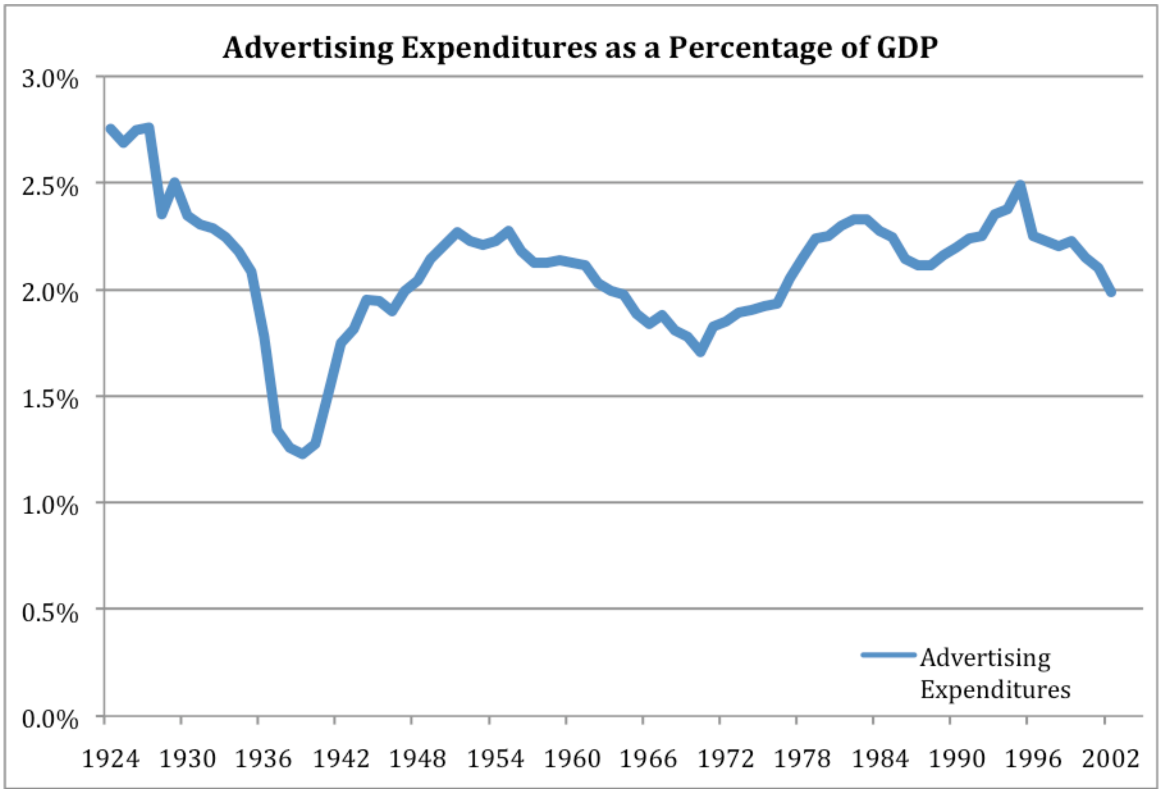
[3] Even data for traditional advertising can be difficult to obtain. The data used later in this analysis are public but are the product of a private-sector analyst and are released without extensive explanation. A 1995 paper by Richard Rogers and Robert Tokle, "The Economics of Advertising: Where's the Data?", explored the lack of accessible advertising data.

[4] Winterberry lists the following sources for their estimates of non-traditional advertising: Direct Marketing Association, JupiterResearch, Universal McCann, Winterberry Group (internal) analysis

Since the early 1970s, when Maxwell McCombs released his seminal study, *Mass Media in the Marketplace*, most macro-level analyses of media expenditures have been conducted within the framework of the Principle of Relative Constancy. Describing his hypothesis, McCombs said "[A] relatively constant *proportion* of the available wealth will be devoted to mass media." (McCombs, 1972; p. 5)

The policy implications of this should not be understated. What McCombs, and subsequent researchers like William C. Wood, posited was a media marketplace in which one company could only profit at the expense of another: a zero-sum game. Only an expansion of the general economy—and not transformative technologies or shifting behavior—could inject additional money into the media market, they theorized. The idea also allowed for the possibility that media had become a "staple," like clothing or food, for which economic support would always remain.

The portion of Gross Domestic Product—used in these analyses as a proxy for wealth—spent on advertising, research showed, would hover near 2.5 percent.



The Principle of Relative Constancy was split into two analytical methods: a time theory analysis and an income-share analysis. (Wood, 1986; p. 39) The time theory analysis sought to prove that media expenditures remained a constant fraction of spending over time (i.e. that media spending would remain near "x" percent over time), while the income-share analysis examined whether media expenditures rose and fell with changes in income (i.e. that a one percent change in income, at any time, would lead to a constant, proportional change in media spending).

As the analysis grew more mathematically rigorous, support for the Principle of Relative Constancy dwindled, especially on the advertising side (Noh & Grant, 1997). Most researchers found some evidence of a time-trend Principle of

Relative Constancy, especially for consumer expenditures, but academic literature grew more confident in its assertions that media spending was not the result of such a simple formula. Researchers noticed that in the 1980s, when new media technologies (such as the VCR and cable television) were adopted widely and quickly, media spending increased, especially on the consumer side. (Demers, 1994 p. 37; Noh & Grant, 1997) Other factors, like depressions, wars, and population dynamics were suggested as factors that, along with wealth, dictated the flow of media dollars. This, academics reasoned, was enough to prove the Principle of Relative Constancy false.

Researchers, however, continued to study the Principle of Relative Constancy, testing each new decade's and each new technology's data against McCombs' assumptions. There are likely two reasons for this. First, no explanatory model of media spending has authoritatively displaced the Principle of Relative Constancy despite calls for such a model (Dupagne, 1997). Second, the policy and strategy implications of the Principle of Relative Constancy for media leaders remain substantial.

McCombs — and, surely, Scripps — likely did not intend for the Principle of Relative Constancy to become a one-variable explanation of a hundreds-of-billions-of-dollars industry, but instead a framework with which to interpret this industry. McCombs said as much: "economic determinism is not the entire story of mass media growth and development." (McCombs, 1972; p. 13) Available time, literacy, and urbanization were suggested as potential complicating factors.

McCombs knew the real value of the Principle of Relative Constancy to the media industry was to deduce a pattern of media spending and then examine if a break in that pattern was:

- A temporary shift before a return to equilibrium
- A shift to a new equilibrium point
- A total break in historical trend

Unfortunately, most analyses of the Principle of Relative Constancy since 1990 have abandoned these crucial questions in favor of methodological nitpicking.

Further, some economists have argued that even if the statistical evidence of constant media spending were stronger, the Principle of Relative Constancy holds little predictive power because it cannot be tied to any well-vetted laws of economics. (Demers, 1994 p. 32; Dupagne, 1997) They claimed there was little evidence to show that media would remain a constant share of spending, even if it could be empirically proven that it had been in the past.

4. RELATIVELY CONSTANT: THE NUMBERS

Some statistical analysis is required to understand the changing advertising industry. This paper will present an updated analysis of the Principle of Relative Constancy as it relates to advertising expenditures.

The data used in this analysis are substantially the same advertising expenditure data used in all U.S.-based Principle of Relative Constancy analyses. Collected by Robert J. Coen of the McCann Erickson advertising agency, the data have been republished in the U.S. Census Bureau's *Historical Statistics of the*

United States, Colonial Times to 1970 as well as by the Television Advertising Bureau. Coen's data are well-regarded for their accessibility. Douglas Galbi, a senior economist with the Federal Communications Commission, has augmented some of the data.[5]

Coen, et al. divide advertising into 16 different categories that include "traditional" media (newspapers and magazines), new media (the internet and cable television), and even some direct marketing outlets, such as direct mail and out of home advertising.

The data vary inside each category, but fortunately Principle of Relative Constancy analysis requires only the sum total of the categories.[6] Principle of Relative Constancy analysis has rotated between using Gross Domestic Product (GDP) and disposable personal income as a measure of wealth; this analysis will use GDP on the assumption that it better approximates the advertising industry's reliance on the economic health of not only paying advertisers, but also the consumers who purchase those products.[7]

Essentially Principle of Relative Constancy attempts to solve two different equations:

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[5] The statistics used for this analysis were retrieved from Galbi's personal site, Purple Motes: http://purplemotes.net/2008/09/14/us-advertising-expenditure-data/

[6] For instance, a "miscellaneous" category which once accounted for as much as 20.1 percent of advertising expenditures accounted for just 13.4 percent of advertising expenditures in 2007.

[7] PRC analyses that use disposable personal income usually focus on consumer expenditures.

Equation 1: $M_t = A_0 + A_1W_t + A_2Y_t$

This is the time-trend analysis. In this equation media spending (M) at time (t) is equal to some constant (A_0) plus wealth (W) at time (t) plus some measure of time (Y) at time (t). Equation 1 is chiefly concerned with the coefficient (A_2) of time; if A_2 is significantly different than zero it suggests that the simple progression of time has an affect on media spending.

Equation 2: $M_t = B_0 + B_1W_t$

This is the income-share analysis. Media spending (M) at time (t) is equal to some constant (B_0) plus wealth (W) at time (t). In this equation, if the constant is significantly different from zero, it can be inferred that media spending cannot be a constant proportion of wealth. This is the time-trend analysis of the Principle of Relative Constancy.

In accordance with previous Principle of Relative Constancy research, this paper uses a regression analysis to test for proof of constancy in advertising expenditures. The regression analysis includes the years 1929-2007. The data were corrected for inflation using the consumer price index. (Picard, 2002) Because the data showed strong evidence of autocorrelation, the SAS procedure AUTOREG was employed.[8]

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[8] Absent other variables, the data showed first order autocorrelation of nearly 0.79. This study found strong evidence of 2nd and 3rd order autocorrelation as well but correcting for them did not impact the significance of the explanatory variables.

Table 1: Time-Series Analysis

	Constant	Coefficient for:	
		GDP	Time
	A_0	A_1	A_2
Estimate	0.0556	0.0233	-0.000029
Standard Error	0.0539	0.001517	0.0000278
t Statistic	1.03	15.33	-1.04
Total R^2	0.9901		

Table 1 displays the results of the time-series analysis. The analysis looks much like would traditionally be expected: putting aside disputes about the Principle of Relative Constancy, all researchers seem to agree that wealth, or GDP, is an important factor in media spending. The extremely high R^2 statistic corroborates this thinking. Moreover, the size of the coefficient for wealth—0.0233—suggests that an increase in GDP would lead to a proportional increase in advertising spending of 2.33 percent of the increase in GDP, a number that falls in line with historical trends. We see that while time has a negative effect on advertising spending, that effect is both small and statistically insignificant. This suggests that time does *not* have a significant impact on advertising spending, and that **the time-series Principle of Relative Constancy is confirmed**.

Table 2: Income-Share Analysis

	Constant	Coefficient for:
		GDP
	B_0	B_1
Estimate	-0.000202	0.0216
Standard Error	0.000434	0.000605
t Statistic	-0.47	35.74
Total R^2	0.9886	

The results for the income-share analysis are similar. The extremely high R^2 and a coefficient for GDP — 0.0216 — are corroborated by historical trends. The constant term is tiny, negative and insignificant. Because the constant term is not significantly different from zero, **this model supports the income-share Principle of Relative Constancy**.

Both of these models support the Principle of Relative Constancy by common statistical standards, but it's important to note that putting aside strictly logical tests of statistical significance, these models offer some logical support for the Principle of Relative Constancy. The Principle of Relative Constancy literature is interested in testing the existence of an intercept in the income-share model. In the income-share model above, the intercept is not only statistically insignificant, it is very, very small. If the intercept does not exist, 2.16 percent of an increase in GDP is attributed to advertising expenditures. But presuming the existence of the intercept does not change the outcome much: the increase in advertising expenditures would be 2.16 percent of the increase in GDP minus a small constant. If GDP increased by $100 million, advertising expenditures would increase $2.16 million. Were the constant term significant, and given the same $100 million increase in GDP, advertising expenditures would increase by $2.1598 million. While this slight change would mean that advertising expenditures are not literally a constant proportion of GDP, the policy implications of the Principle of Relative Constancy would remain.

Despite the evidence above, it's unwise to think of the Principle of Relative Constancy as an ironclad rule. Some analyses have suggested that cable television led to an increase in advertising expenditures. It is generally assumed that consumers spent more on media in the 1980s when VCR's were introduced.

(Demers, 1994; Noh & Grant, 1997) What the numbers above could mean is that the introduction of cable was simply a temporary move away from constancy, or that recessions in the early 2000s and the already-present depression in media spending in 2007 have returned expenditures to a previous plateau. It could also indicate a rise in spending on mobile and internet advertising has been offset by a decrease in advertising spending on traditional media. These ideas demand further statistical analysis.

Another reason to warn against taking the Principle of Relative Constancy's statistics too seriously is that the data remain difficult to pin down. While Coen's data is public and widely disbursed, it remains imperfect. Some estimates, like those provided by the Interactive Advertising Bureau (IAB), suggest internet advertising expenditures could be 50-100 percent more than Coen's estimates since 2002.[9] Coen's estimates of internet advertising revenue fall below the advertising revenues reported by just two publicly traded companies: Google and Yahoo. While the relatively young medium of online advertising remains one of the smaller expenditure categories, using the IAB estimates does weaken the case for constancy.

Additionally, an analysis of data for recent years might yield different results. Data for 2008 and 2009 are unavailable, but preliminary reports suggest that constancy has not held during the most recent economic depression. Figures

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[9] It's possible that Coen's "miscellaneous" category could include all or part of these expenditures. The miscellaneous category may also include some non-traditional advertising expenditures, but ascribing these unknown numbers to non-traditional advertising does not make the rise in non-traditional advertising meaningfully smaller.

compiled by forecasters at ZenithOptiMedia and reported by Journalism.org suggest that U.S. advertising expenditures fell 12.9 percent in 2009, which would far outpace the nearly 1.3 percent decline in GDP in 2009. ("The State of the News Media 2010")

5. ESTABLISHING A BASELINE

What the Principle of Relative Constancy remains useful for is establishing a baseline of advertising spending. Where this baseline falls has major implications for virtually every form of media. This baseline is likely much higher than previous Principle of Relative Constancy analyses suggested. Even conservative estimates of non-traditional advertising spending would obliterate the tenuous claims of constancy above. The Coen data used above (and used in previous Principle of Relative Constancy analyses) includes as much as $105 billion in non-traditional advertising spending in 2007.[10] The Winterberry Group, meanwhile, estimates non-traditional advertising in 2007 to be nearly $550 billion. A graph of advertising spending as a percentage of GDP over time with a loose estimate for non-traditional spending would yield the following graph [11]:

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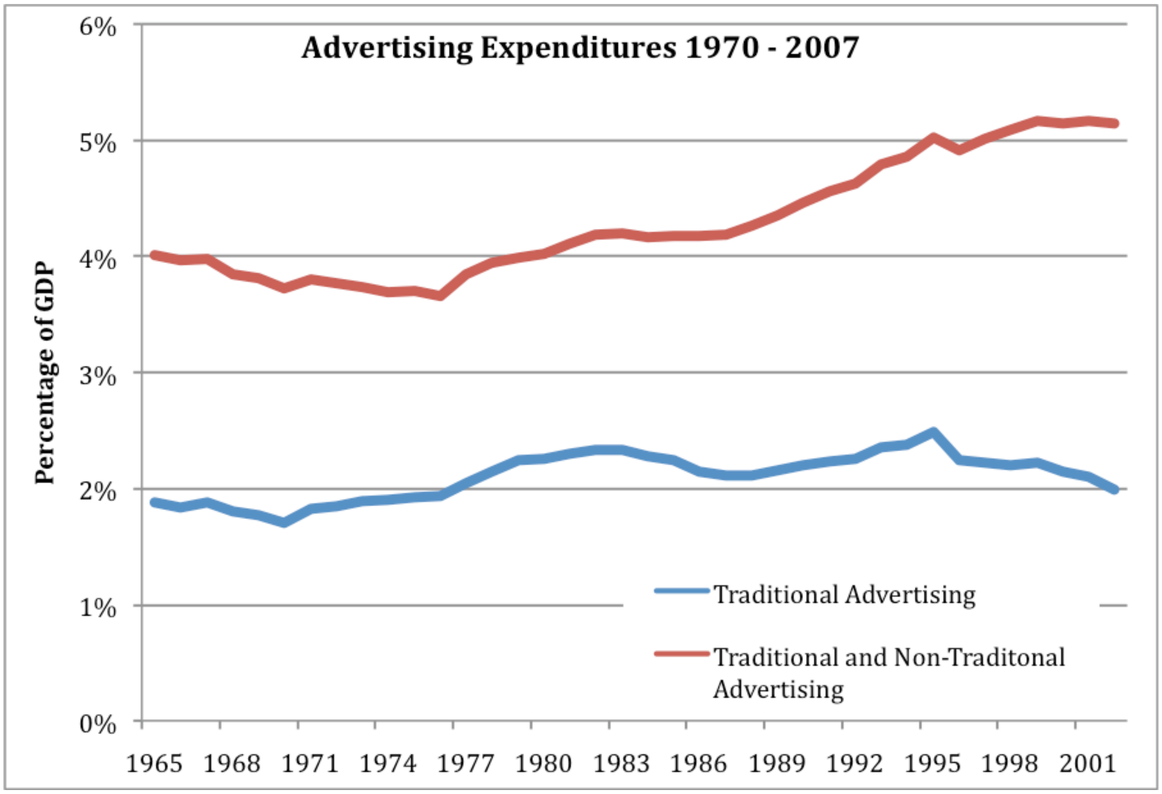
[10] This number, which sums the out-of-home, direct mail, and the entirety of the miscellaneous category, is almost certainly an overestimate.

[11] This estimate was derived by taking the difference between $550 billion and $105 billion and projecting Winterberry's 7.8 percent growth rate for non-traditional spending backwards. It's extremely likely that non-traditional advertising spending has not grown at a constant 7.8 percent rate and instead grew at a much faster rate for a short time as it was being introduced. The history



Charts like this — which likely overestimate the amount of non-traditional spending already included in the data while underestimating the annual growth rates of non-traditional advertising — suggest that advertising spending has not only broken constancy but is moving towards a new, higher equilibrium point. This equilibrium point exists outside the bounds of the Principle of Relative Constancy literature — indeed, it may have been discovered earlier had those analyses taken into account non-traditional spending—but it's a point that has very important implications for the media industry.

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of non-traditional advertising spending is not well documented. This chart is likely a substantial underestimate of the growth of non-traditional advertising spending.

Coen's data set has long been the most reliable data for advertising expenditures, but changing methodologies about data collection have thrown his numbers into question. Calculated largely using private sources that relied on official rate cards to estimate expenditures, Coen tracked a market that included some measures believed to be below the line – like direct mail – and that grew to $280 billion by 2007. (Taylor, 2009)

Many industry analysts – including Coen's forecasting successor at Magna Global, Brian Weiser – have begun to take a different approach. Believing that widespread discounting of rate cards has led to overestimates, Weiser et al. have begun to look at the reported advertising revenues of the media companies themselves: companies like The New York Times often report these numbers via their publicly reported financial statements. As a result, Magna Global's 2007 advertising expenditures are nearly $80 billion less than Coen's previously reported numbers.

Recent internal calculations by the Winterberry Group – who rely on sources like JP Morgan, Barclays and Veronis Suhler Stevenson (as well as Magna) – have also been revised. The previously reported $550 billion from 2007 now sits at $225 billion.[12] Appendix A attempts to reconcile the differences between numbers from the old and the new methodologies.

Where did the money go? Rate card discounting is likely one culprit. Also at issue is the calculation of direct mail. Coen's numbers calculated expenditures

[12] Based on a Winterberry internal document.

for direct mail as the cost of sending the mail (i.e. postage, production, etc) as well as the discount the mail offered (so a $0.35 savings on laundry detergent would count as $0.35 of advertising expenditures). New estimates don't count the discount, preferring instead to think of that as an increase in cost of goods sold on the part of the advertiser.

Does this matter? The answer depends on what side of the advertising divide you stand on. Relative Constancy, remember, seeks to establish the level of advertising spending. The methodologies are difficult to compare – truly, they represent two different ways of looking at the calculations – but so long as the new methodologies result in similarly decreased expenditure numbers over time, the implications for Relative Constancy are few. (Logically, the new methodologies would result in reductions in the past as well. These models, however, are proprietary and, to date, are used mainly for forecasting, not back-casting. There is no known historical data set calculated with the new methodologies.)

For the purposes of Relative Constancy, it doesn't much matter if the historical level of expenditures has always been 2.16 percent of GDP (as was calculated above) or the smaller levels implied by the new methodologies (closer to 1.6 percent) so long as expenditures have *always* been at those levels.

New methodologies are also unhelpful when trying to track non-traditional advertising. While traditional measures such as direct mail often show up in a company's advertising expenditures/revenues, non-traditional marketing such as event promotion and loyalty clubs might fall a number of different places on a company's income statement. This has made data collection a near impossibility; there is no known historical data set for non-traditional advertising, only forecasting. The size and growth rates of non-traditional advertising suggest that were a data set available, constancy would break.

6. ALTERNATIVES AND COMPLEMENTS

Chris Anderson, in his now-famous discussion of how "free" has become a common price for online products, said, "To follow the money, you have to shift from a basic view of a market as a matching of two parties—buyers and sellers—to a broader sense of an ecosystem with many parties, *only some of which exchange cash*." (Anderson, 2008; emphasis added) Anderson was discussing more broadly the "future of business," but his comments about an "ecosystem" apply equally to the media advertising world.

Indeed, Anderson credits the media industry's prime business model—selling readers or viewers to advertisers, rather than merely selling content to users—as the inspiration for many online business models. The fact that companies like Google and Twitter have turned to this model of revenue generation should tell the industry all it needs to know as it flails about searching for replacement models. Pay walls and subscription services seem appealing, but the practice of selling an audience instead of content is thriving, and companies are paying more than ever for those audiences.

7. CONCLUSION

Most advertisers seem to be pushing “multi-platform” ad campaigns. Much of the money is going into direct marketing, though brand-building through mass media remains a part of many advertising campaigns. Media leaders need to understand if their specific outlet might be an alternative or a complement to non-traditional models of advertising. Researchers have noted several inconsistencies between the Principle of Relative Constancy and traditional economic theory, but the idea of functional equivalence—roughly, product substitution—is one concept under which the Principle of Relative Constancy holds up. (Dupagne, 1997 p. 70) In the 1980s, for example, the VCR did not displace cable, it merely slowed its diffusion. (Noh, 1994) Newspapers are struggling to regain their advertising foothold, but it’s possible that non-traditional advertisers will eventually need to access the concentrated customer bases and institutional credibility newspapers and other traditional media offer.

The results of this analysis suggest that the media’s business model isn’t broken at all: it’s thriving. The application of that model, however, has undergone drastic changes. The ability of a media to survive in this environment will likely depend not just on the type of media but its size and location. The ecosystem is changing, rapidly. Ian Brown, the owner of Komita Management consultancy, said for small and medium-sized businesses, “the only type of marketing you ever want to consider is direct response marketing.” (Brown 2, 2009) This marks a drastic change from just ten years ago, when many small businesses tried to build brands via display advertising in local newspapers and radio spots.

Some media products are better positioned than others to thrive in this new environment. Because they are physical products that, in ideal circumstances, are delivered daily directly to consumers' homes, newspapers are uniquely positioned to capture part of the non-traditional advertising market. It would be somewhat ironic if, in a rush to develop the next revenue model, newspapers abandoned their traditional delivery infrastructure, a piece of their business that might be used to distribute coupons, product samples, or direct mail substitutes.

Newspapers and radio stations, which, at their best, accrue massive audiences that return daily, may be able to assist advertisers in the creation of loyalty clubs. Digital technologies will play just as big, if not a bigger role, for companies seeking to expand their advertising base. The ability of medias to leverage their audience into social networking opportunities might offer distinct opportunities for data collection and demographic targeting. For instance, newspapers and radio stations might use their columnists and hosts at educational or entertainment "events" that could then be sponsored. Combining their digital communities with their legacy structures, mass media can begin to offer the types of direct-to-consumer, data-oriented marketing that advertisers now seek. This could lead to mass media capturing a piece of a substantial advertising market that has, to date, eluded them.

Dave Chase, the publisher of hyper-local content site SunValleyOnline.com said that education—of advertisers, of publishers, of content generators—is

"Hands down the biggest need I've seen." (Jarvis 2010) While this paper is aimed at media leaders, they're not the only stakeholders who influence modern advertising and marketing trends. One way that media companies can begin to reclaim their advertising base is to make advertisers — both businesses and agencies — aware that they can offer more than merely display or classified advertising.

The challenge for leaders of "traditional" media outlets is not to bow to non-traditional advertising but rather to find ways to co-opt the value it offers to advertisers: consumer-specific marketing that offers direct incentive to purchase while providing the brand with data. As they learn to do this, it's crucial that they make their stakeholders—advertisers, local business, subscribers, online passers-by—aware of the value they offer, not just as content providers, but as nexuses in an increasingly complicated media ecosystem.

8. GOING FORWARD

This paper examines an advertising market in flux, but analysis of that market is also in disarray. Robert Coen's data, which runs through 2007, increasingly looks dated. Coen's successor, Brian Weiser at Magna Global, has developed a new model, but it's private and, to date, only a forecasting model. Even dedicated BTL advertising firms like Winterberry only track BTL advertising data back into the 1990s. Key BTL advertising strategies like event promotion and loyalty clubs are frequently accounted for differently than mass media advertising, making them difficult to track, even under the new forecasting models. The fastestgrowing segment of the advertising market – internet advertising – remains the segment whose numbers are most contested.

What's clear is that advertising expenditures are as large as they have ever been. And they will continue to grow. How do we measure this market? The Principle of Relative Constancy is a start. It's been put through a theoretical ringer and updated over the course of four decades, but it's in danger of dying due to a paucity of data: Coen's traditional numbers are no longer being updated. New methodologies seem structurally sound but aren't publicly available and don't offer historical context. Most importantly, BTL advertising seems as difficult to track as ever.

Analysis of the advertising market should remain important to media leaders, but those outside of major organizations – the likes of which that can afford expensive proprietary analysis – figure to be left in the dark moving forward.

Those with historical data are encouraged to make it public, as it will be crucial to future applications of the Principle of Relative Constancy as well as alternative models of advertising expenditure that may be developed. Properly tracking and publicizing the data are the first steps to proper analyses and strategy. Until more complete, robust data sets become available, the complex world of advertising will only seem more so.

APPENDIX A

Some of the data provided for this analysis is proprietary and cannot be republished. It's important, though, to try and reconcile the different data sources. At issue is the scarcity of data available for non-traditional advertising. There are no known historical estimates, and the Winterberry Group is the only data source specifying anything more than direct mail as below the line advertising.

This appendix will reconcile data sources and methodologies for 2007, the last year for which data was available for old methodologies.

2007 Old Methodology

Traditional Media Spending: $280 billion
Source: Robert J. Coen data (Magna)
Includes: Above the line advertising, direct mail, Internet advertising, "miscellaneous" category

Non-traditional Media Spending: $540 billion
Source: Winterberry Group public report
Includes: Direct mail/marketing, Internet advertising

Overlap between traditional and non-traditional sources:

Direct Mail ($60 billion) + Internet Advertising ($11 billion) + Miscellaneous ($37 billion) = $108 billion

Remaining unaccounted-for Non-traditional advertising: $540 billion - $108 billion = **$432 billion**

That $432 billion has not been previously included in Relative Constancy Analyses

2007 New Methodology

Traditional Media Spending: $204 billion
Source: Magna Global
Includes: Mass-media advertising, direct media advertising

Non-traditional Media Spending: $226 billion
Source: Winterberry Group internal report
Includes: Direct Marketing, Digital Marketing, "Promotional Marketing"

Overlap between traditional and non-traditional sources:

Direct Media advertising [includes Internet advertising] ($48 billion)

Remaining unaccounted-for Non-traditional advertising: $226 billion - $48 billion = **$178 billion**.

Under the new methodologies, the size of the non-traditional advertising market is more than cut in half. Much of this is likely due to the differences in how direct mail is accounted for. The new methodologies probably offer a truer picture of the actual size of the current non-traditional advertising market, but the number is still large enough (and predicted to grow quickly enough) that it throws claims of constancy into serious doubt.

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