



BORRELL

Tomorrow's Media, Understood Today

The Changing Face Of Co-Op Programs

Digital Media Forges New Opportunities for Brand Managers



WHITE PAPER

AUGUST 2015

Research Sponsored By





Introduction & Methodology

Co-op advertising programs in North America will total \$36 billion this year, potentially affecting about 12 percent of all ad spending. As brand managers¹ attempt to spur sales in an increasingly complex marketing environment, digital programs have begun to take center stage. Just how aligned are brand managers with local businesses when it comes to these new digital initiatives? Are co-op dollars being utilized well, or are they tangled up by complicated rules, paperwork and a reticence at the local business level to change longstanding advertising habits?

This white paper, created by Borrell Associates in collaboration with Netsertive, utilizes online surveys of brand managers and local business owners, along with telephone interviews and an analysis of the latest advertising data, to paint a clear picture of the new face of co-op advertising. The intent is to uncover key trends and deliver valuable insights to brand managers attempting to spur front-line sales via co-op programs.

Three sets of surveys were examined:

1. An online survey in March/April 2012 of 1,354 local advertisers, 256 of whom said they were participating in co-op at the time. This was used for comparison to current trends.
2. An online survey in Q1-Q2 2015 of 3,741 small and medium-size businesses (SMBs), 580 of whom said they were currently participating in co-op. This provided base usage data for co-op participation.
3. A set of online surveys and telephone interviews in June and July 2015 of approximately 50 brand managers and 100 local advertisers. This provided drill-down information on how co-op is currently being used, and attitudes that may be governing usage.

Typical Brand Manager Participant (2015 data):

- Reserves up to \$2 million for co-op funding, on average.

Typical Local Advertiser Participant (2015 data):

- Uses an average of four co-op programs.
- Spends co-op dollars mostly on (in order) digital, newspapers, direct mail, radio
- Receives up to \$25,000 annually for co-op programs, on average.

¹ For the purposes of this report, a brand manager is defined as a marketing professional in a major product company or manufacturer who is responsible in whole or in part for partner marketing with co-op at the local market level.

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CHAPTER 1

A Fast-Growing, \$36 Billion Opportunity

With dreams of digital bounty, brand managers have been plowing more dollars into co-op programs, growing the coffers 20 percent annually over the past three years. With a bonanza now totaling more than \$36 billion in what is essentially “free” advertising, you’d think local businesses would be scooping up every penny.

The fact is, that money is merely *earmarked* by brand managers wanting to spur sales at the retail level. At least 40 percent of it – more than \$14 billion – is left unused. That’s roughly twice the amount that went unused just three years ago. If “Unused Co-Op” were an ad category by itself, it would be among the Top 10, rivaling what the health care industry spends on advertising. It’s more than hospitals, banks and restaurants spend on advertising – combined.

Part of the reason involves the longstanding issues of red tape and lack of education. Local business owners still complain about the amount of paperwork required to qualify for advertising rebates or credits, and many still say they’re unaware of the various programs available to them.

If “Unused Co-Op” were an ad category by itself, it would be among the Top 10.

Whatever the cause, it’s obvious that while the funding is swelling, the advertisers are tuning out: In 2012, a Borrell Associates survey of 1,354 local advertisers showed that 30 percent had participated in a co-op program *at one time*, and that 18.9 percent were currently participating in one. Three years later, our survey of 3,741 local advertisers showed that only

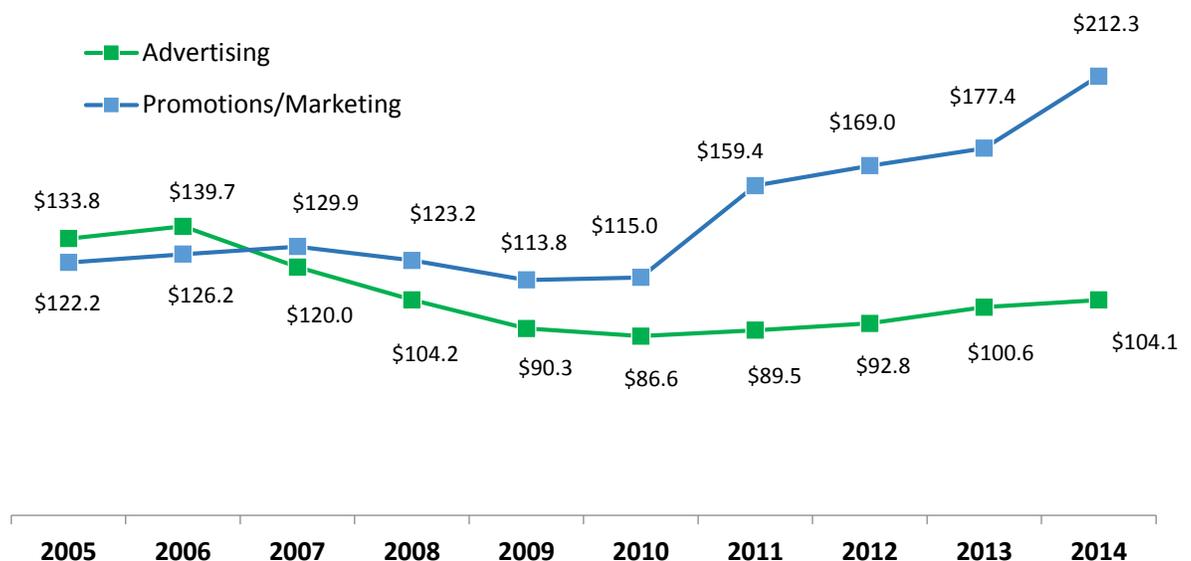
15.5 percent were currently participating.

Have co-op programs become obsolete? Hardly. To the contrary, they are probably more needed than ever. Co-op programs offer a powerful link between the sophisticated brand strategy developed at the national or regional level and the sales-spurring advertising at the market level. With so many local advertisers focused on maintaining a presence and gaining leads from mobile and desktop searches, it’s easy to understand how long-established co-op programs that rely heavily on traditional media channels might have become out of sync. The shift to digital channels has made access to – and control of – co-op more challenging, while at the same time presenting an opportunity for brands and local retail partners to re-synchronize co-op programs.

There's a larger trend – and a larger opportunity – at play. Advertising as we've come to know it is in decline, while spending on overall marketing has mushroomed. We have been monitoring a phenomenon that occurred in 2007 when local advertisers for the first time began spending more money on marketing services and promotions than they did on classic forms of advertising. It was a signal that they had begun plowing money into building out *their own medium* – their company websites.

Since then, spending has skyrocketed to the point at which businesses last year spent 72 percent more on marketing-related services and promotions than they had spent 10 years earlier (see chart below). Meanwhile, the annual expenditure on local advertising in 2014 was 22 percent less than it was a decade ago.

'Advertising' Yields to Promotions & Marketing



Source: Borrell Associates Inc.; \$ in Billions

What are these non-advertising expenditures? They can include discounts, rebates, contests, promotional flyers, refrigerator magnets, a sign for the front window, search engine optimization (a technical task), building a website, managing email communications with customers, crafting and managing social media pages, producing a YouTube video, and even website hosting. More and more of it is spent on digital projects.

In short, now that local business owners have their own direct-to-consumer medium at their disposal, they're plowing more money into managing it – and scaling back on traditional forms of advertising.

We found more evidence of this remarkable shift when examining IRS tax records for 2 million corporations earlier this year. Records show that advertising as a percentage of gross revenues went from 1.19 percent to 1.05 percent between 2004 and 2012. As we projected that trend to 2015, we calculated something startling: If advertisers had been spending at the same rates as they were 10 years ago, there would be an additional \$56 billion in this year’s advertising market.

This is bad news for traditional media outlets, but not for digital media. Print and broadcast media are losing market share to digital media as overall advertising grows at low single digits, but digital media grows at double digits. Based on ongoing surveys of local advertisers, we estimate that digital advertising has grown between 35 percent and 42 percent annually since 2013.



Source: Borrell Associates Inc., August 2015; \$ in Billions

It is against this backdrop that we examine what’s happening with co-op advertising, and where the best areas of opportunity might exist for brand managers.

CHAPTER 2

Brand Managers’ Views of Co-Op

Of the brand managers surveyed, 69 percent manage up to \$2 million in co-op funding per year and 16 percent manage more than \$5 million. When asked how much these programs generate in sales, 56 percent selected “prefer not to answer,” the equivalent of “don’t know” (since that wasn’t offered as an option).

At the onset, this may point to one of the key opportunities. If brand managers knew, for instance, that every dollar invested at the national level in co-op generated \$100 in sales (hypothetically), that knowledge could be enough to unleash the estimated \$14 billion in untapped funds. Studies showing co-op ROMI (return on marketing investment) might even be more powerful because ROMI focuses on profit instead of gross sales volume.

There are other characteristics at play that point to opportunities. For instance, managers brush aside the notion that dysfunctional vendor marketing, red tape, and time are very big problems, but a lack of understanding of digital marketing is overwhelmingly viewed as a core challenge. More brand managers identified this as an obstacle than any other choice offered. “Don’t know about” programs and “don’t see co-op programs as valuable” also registered relatively high.

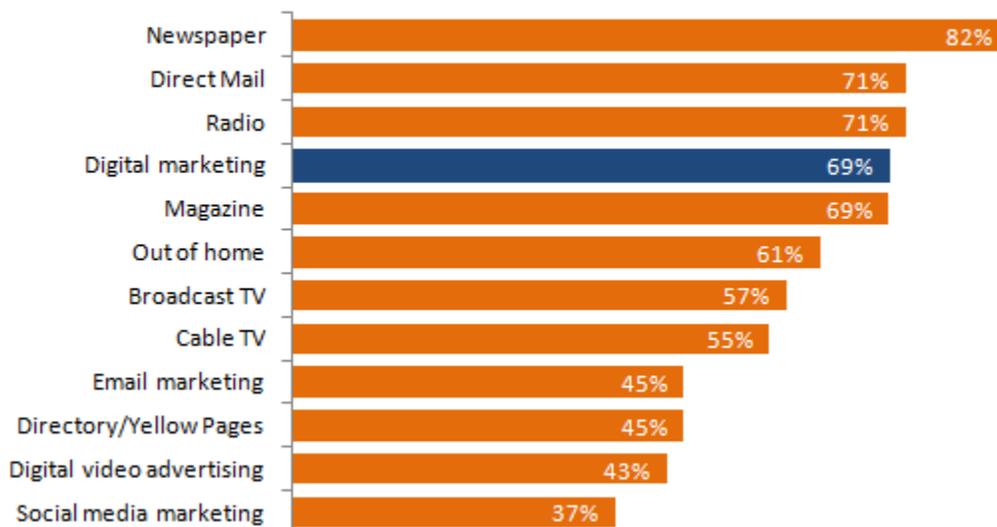
Obstacles to Participation in Co-Op



Source: Borrell Associates brand manager survey, June/July 2015

Oddly enough, despite the high growth and obvious interest in digital media, co-op programs still heavily favor traditional media. The survey showed that 82 percent of brand managers said their offerings include newspapers and 71 percent said they included direct mail and radio. Digital co-op, meanwhile, is offered by 69 percent. Specific categories that seem to interest local advertisers so much – social media marketing and digital video of their businesses and product offerings – ranked lower than yellow pages in terms of what brand managers offer.

Types of Media Offered in Co-Op Programs



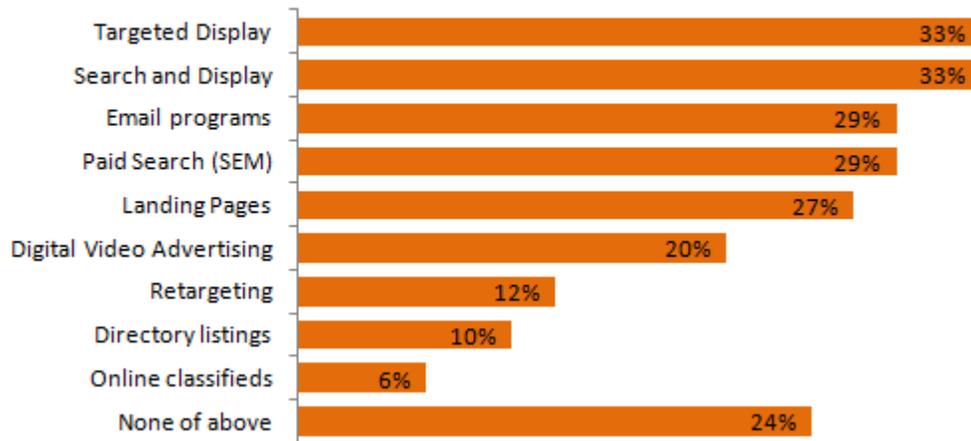
Source: Borrell Associates brand manager survey, June/July 2015

Of course, this doesn't address how much co-op money might be earmarked for these channels. It only says that the vast majority of brand managers surveyed are offering newspaper, direct mail and radio advertising above everything else – and that credits for any efforts focused on social media are rarer than those offered for placing an ad in the yellow pages book.

Drilling down on the digital opportunity, the largest percentage of managers said their co-op programs supported search and display type advertising, with email, paid search and landing pages garnering smaller responses. It's interesting to note the flip side of these numbers. That is, 67 percent of brand managers surveyed said their co-op programs did not

offer participation in display and search advertising. In other words, there is no majority agreement among brand managers that their co-op programs should be focused on any one digital category; they're all across the board.

Supported Digital Marketing for Co-Op



Source: Borrell Associates brand manager survey, June/July 2015

While these co-op programs may not be offering a great deal of digital marketing incentives, it's clear that managers see digital marketing as a valuable part of brand support. When asked whether the use of search and display tools were important in supporting the brand, 83 percent said yes (45 percent said "very important" and 38 percent said "somewhat important"). This dovetails with the views of local advertisers; 85 percent deemed search and display advertising "important."

Importance of Search & Digital Display (Brand Managers)

Overall, how important is the use of search and display tools in supporting your brands?		
	Total Respondents 47	Percent
Very Important		45%
Somewhat Important		38%
Not at All Important		6%
Don't Know		11%
Total Respondents	47	100%

Source: Borrell Associates brand manager survey, June/July 2015

Incentives geared toward up-and-coming forms of digital advertising – mobile and video – are nearly absent from the co-op realm. Advertisers are chomping at the bit to use both of these formats. Nearly two-thirds already have a mobile-optimized website, and 81 percent of those who said they had used mobile advertising in the past 12 months were satisfied with the results, according to our Q1-Q2 2015 SMB survey. While only 21 percent had purchased mobile advertising, 53 percent said they were actively being pitched mobile-ad campaigns and 43 percent said they were likely to buy into those campaigns within the year. Statistics for video advertising were similar, with about one-fifth of advertisers in the SMB survey already utilizing some type of video, but the majority saying they intended to jump into the alluring world of digital video commercials soon.

So it's surprising that, of the brand managers surveyed, 83 percent said they didn't offer support for video initiatives and 85 percent said they had no plans to increase co-op support for mobile initiatives.

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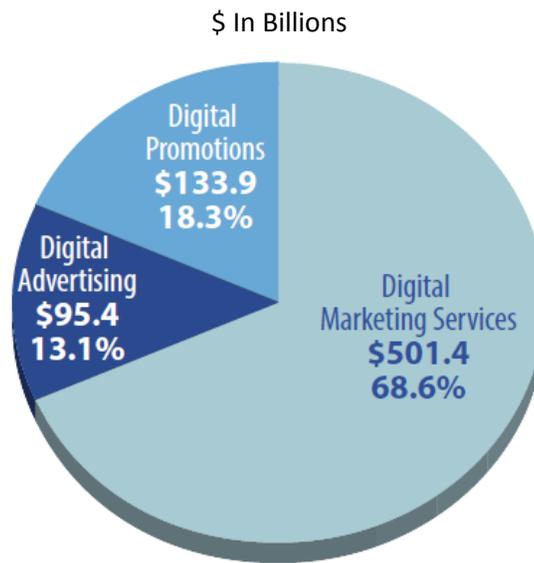
It should be noted that, as outlined in Chapter 1, advertising is only a part of the equation when it comes to marketing. An interesting statistic from our Q1-2 2015 SMB survey showed local businesses spending, on average, \$133,224 on marketing. That seems huge, especially considering that the average gross revenue for respondents was \$2.1 million. Behind the numbers is the fact that 77 percent of that marketing expenditure was in the form of promotions, and the other 23 percent (about \$30,000) was “advertising.”

This promotional spending has been increasing primarily because of local businesses' access to digital media. It costs money to develop a website and redesign it every few years. It costs to have a website optimized for mobile devices, or to build an app. It costs to produce a video showing off the remodeling of a new furniture store or that new line of kitchen appliances that just arrived. It costs to run a contest that is designed to drive leads. None of these is classified as “advertising,” but rather marketing and promotional costs. And all have the same goal in mind: drive sales.

Spending on the vast category of “digital marketing” is huge – an estimated \$730 billion, or nearly three times what's spent on advertising overall. And it's so intertwined with

advertising efforts that it's surprising more of it isn't covered by brand co-op programs. To illustrate how much is spent on digital marketing, we compiled statistics showing that, in 2014, only 13.1 percent of all digital expenditures by U.S. businesses went toward forms of digital advertising (banners, video, search advertising); the remainder was spent on digital promotions and marketing support.

How Digital Marketing Dollars Are Spent (2014)



Source: Borrell Associates Inc.

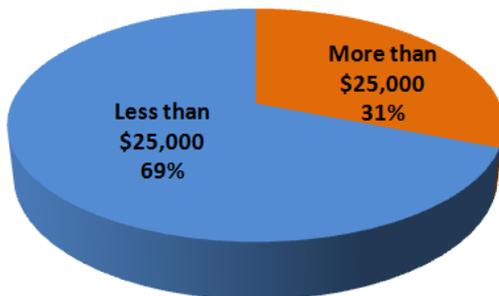
In the next chapter we'll examine the responses from local advertisers who participate in co-op programs. The contrast between what they're doing and thinking and what brand managers are doing thinking is, in many instances, remarkable.

CHAPTER 3

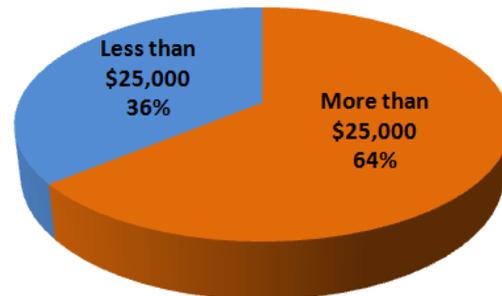
Local Advertisers' Views of Co-Op

It's clear that larger (and ostensibly more sophisticated) advertisers are utilizing co-op programs. Certainly the ones handling the more well-known automotive, furniture, audio equipment, and appliances are the best candidates for co-op (as opposed to smaller boutique retailers or independent mom-and-pop stores). The charts below illustrate the typical marketing budgets (advertising + promotions spending) for respondents who utilize co-op advertising versus those who don't. Two-thirds of those who participate in co-op spend more than \$25,000 annually on all marketing efforts. Conversely, more than two-thirds of those who do not participate spend less than \$25,000.

Mktg. Budgets for Non-Co-Op Users



Mktg. Budgets for Co-Op Users

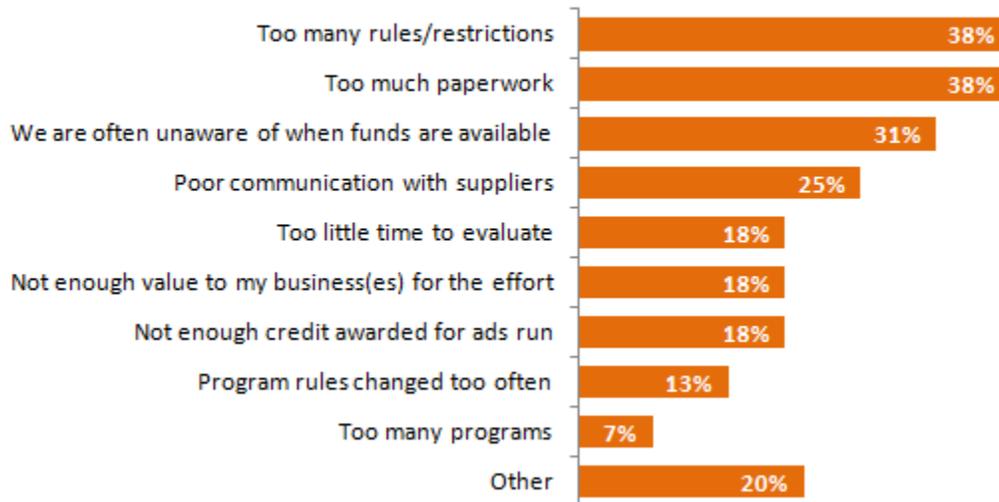


Source: Borrell Associates SMB Survey, Q1-Q2 2015

If there's such a disparity in the money set aside for co-op (about \$36 billion) and money actually claimed (about \$22 billion), what might the obstacles be? For those participating in the programs – and remember, these are the advertisers who *haven't* dropped out – the problem is chiefly red tape. The greatest percentage of advertisers responded that there were too many rules and restrictions associated with co-op and too much paperwork. A secondary concern, voiced by 31 percent of respondents, was that they were unaware when funds were available.

For those participating in the programs ... the problem is chiefly red tape.

Obstacles to Participation in Co-Op

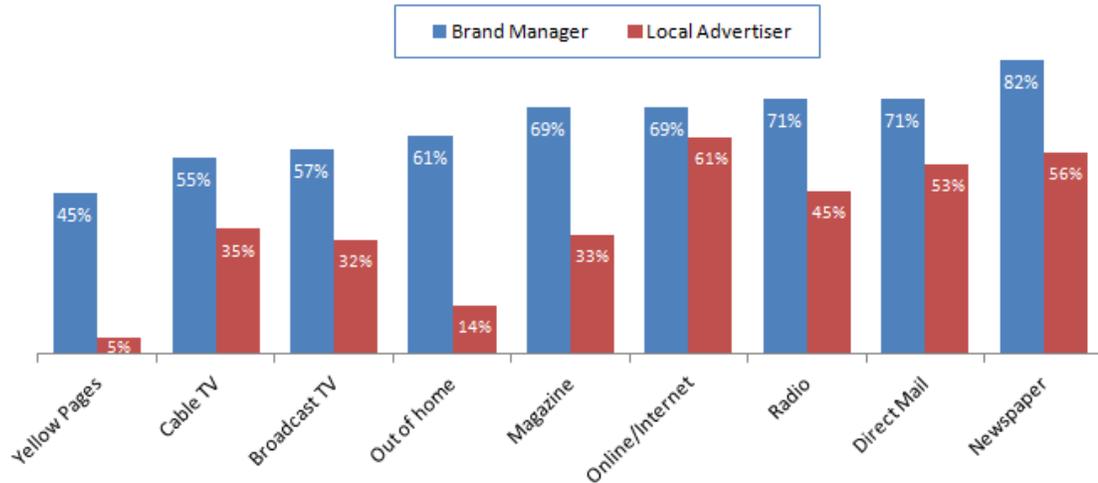


Source: Borrell Associates local advertiser survey, June-July 2015

Contrast this with what brand managers believe, and the disconnect becomes apparent. Local advertisers scream, “Too complicated!” and brand managers, who’ve heard that cry before, think, “They don’t understand digital marketing. That’s why they aren’t participating more heavily in co-op.”

Other differences became apparent as well, when we merged responses from brand managers with responses from advertisers. For instance, 45 percent of brand managers said they were offering yellow pages co-op, while only 5 percent of advertisers said they utilized it for co-op. There were noticeable disparities for every single media category. The only one where co-op offerings matched advertiser usage was digital.

Co-Op Offered vs. Co-Op Purchased

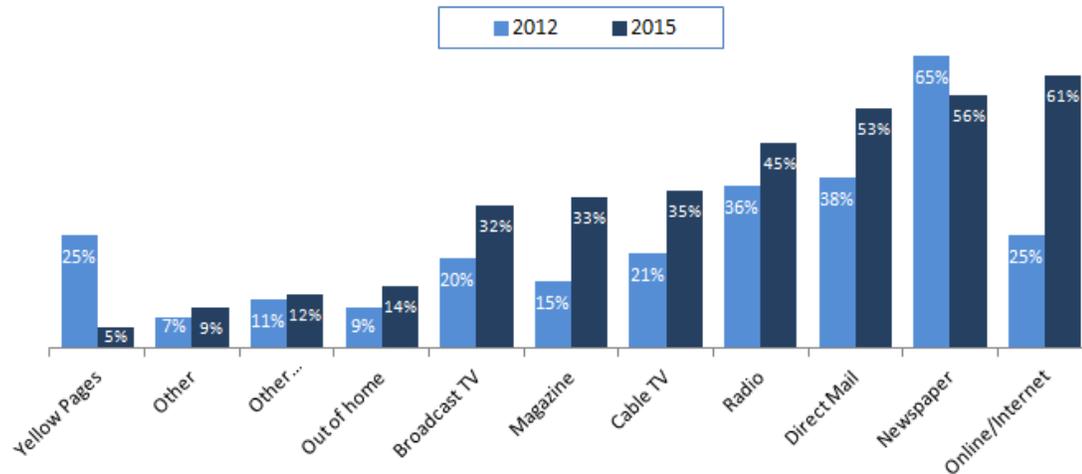


Sources: Borrell Associates brand manager survey and local advertiser survey, June-July 2015

What may be causing things to be out of sync is that co-op programs are tuned to old specifications.

What may be causing things to be out of sync is that co-op programs are tuned to old specifications. Local advertisers, while not terribly sophisticated in their use of digital media, have certainly been experimenting with digital marketing quite a bit. The chart below shows how their use of co-op advertising has changed since 2012. Notice big shifts at the far ends: One-fourth of advertisers reported using yellow pages co-op just three years ago, and now only 5 percent do; one-fourth participated in digital media co-op programs in 2012, and 65 percent do so now.

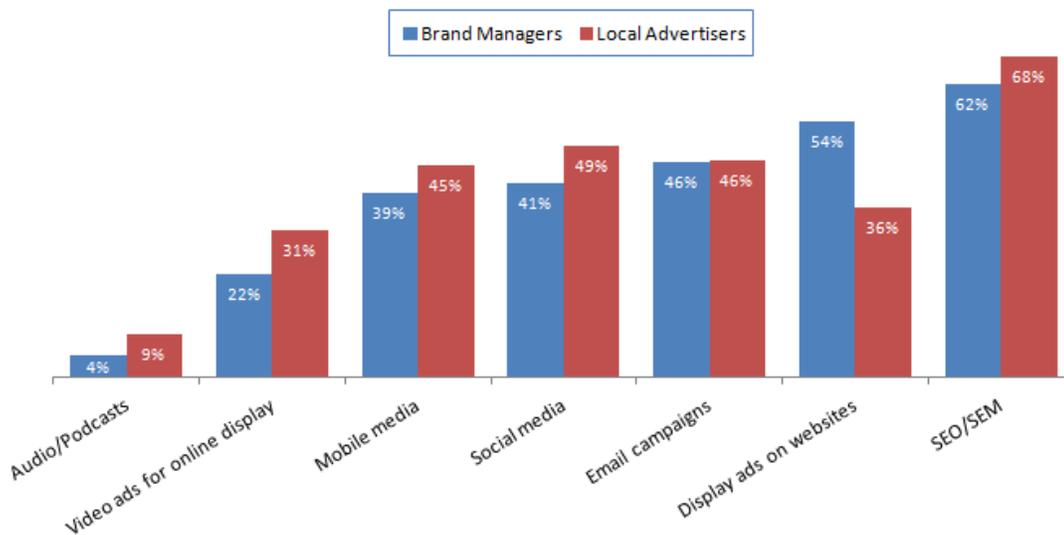
Change in Use of Media for Co-Op



Sources: Borrell Associates local advertiser surveys, April-May 2012 and June-July 2015

If digital is so important to local advertisers, which formats are most important? And how does that match brand managers' views? When we compared brand managers' responses with those of advertisers, things generally aligned, with the exception of display advertising. More than half of brand managers thought website banners were effective, while slightly more than one-third of advertisers felt so. Search marketing ranked No. 1 for highest impact in the minds of both brand managers and advertisers.

Which Digital Formats Have High Impact?

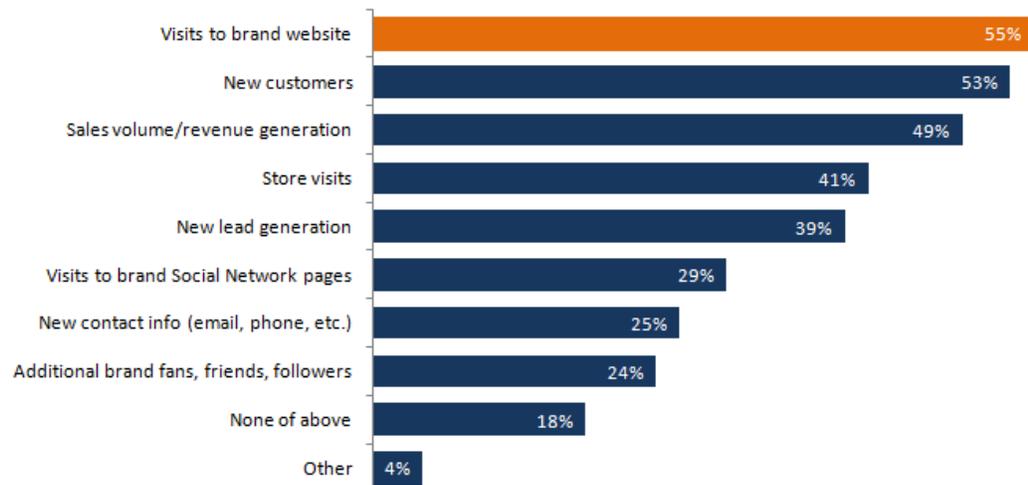


Sources: Borrell Associates local advertiser survey, June-July 2015

While video ads and mobile media didn't rank quite as high as SEO/SEM for local advertisers, both formats are grabbing local advertisers' attention and are on the rise in terms of usage and impact. Our latest forecast shows that advertisers are likely to spend \$7.1 billion on video advertising at the local level, up nearly 25 percent over last year. And while only one-fifth of local businesses are currently buying mobile advertising, our research indicates that figure will more than double within a year.

Why might it be important to funnel more co-op to support mobile initiatives? If brand managers needed a compelling reason, it shows up in the chart below. When local advertisers were asked how they gauged the success of their mobile initiatives, "visits to brand website" topped the list. And, bolstering that was appearance of "new customers" and "sales volume" as key results that local advertisers expected to see from mobile initiatives.

'Visits To Brand Website' Tops List of Mobile Success Metrics



Sources: Borrell Associates local advertiser survey, June-July 2015

CONCLUSIONS & RECOMMENDATIONS

The immediate reaction when looking at declining usage of co-op advertising is that the programs have become obsolete. While there is, as outlined in this report, a disconnect between the suppliers and the users of co-op advertising, it's only because the marketing ecosystem has evolved into something vastly different than it was just a few years ago.

The facts are quite clear: Unused co-op funds have doubled in the past three years, to \$14 billion, and brand managers' meticulously-planned marketing strategies are likely to be less effective as a result. If advertising from front-line sellers doesn't mesh with and reinforce the billions of dollars spent on national branding, something is broken.

In the new marketing environment, digital is front and center. Local businesses remain focused on digital media – especially search – as a primary driver of new customers. In fact, a massive survey of 7,228 local advertisers that we conducted earlier this year placed digital media as the leading source of new business, just behind customer referrals and well ahead of all other media.

We believe that, if brand managers want to spur use of co-op funding:

- **Co-op Program media mixes need to be completely revamped** to reflect this new mindset. Print, broadcast and outdoor media certainly need to continue as a part of the mix, but greater emphasis is needed on digital.
- **Program qualifications need to be streamlined.** “Too much paperwork” and “too many rules” continue to be the chief obstacles. Time-starved local business managers are looking for less-complicated ways to handle the myriad of marketing choices available to them.
- **Search advertising needs to be a far bigger part** of the digital side of co-op. Local businesses are migrating away from buying basic website banners and want their messages to be closer to the consumer who's searching for a refrigerator, sofa, car, restaurant or mattress. Search placement is paramount in their minds, and coordinating local SEM placement with national brand SEM strategies would seem a no-brainer.
- **Expand the co-op programs from “advertising” to encompass “marketing and promotions” initiatives.** Because today's marketing tends to center around using digital platforms as an information-disbursement tool or lead-generation machine,

it makes sense to utilize co-op funds to coordinate brand campaigns with local marketing efforts. Billions are already being spent on basic digital services tied to marketing; co-op incentives could help focus store owners on initiatives that are more effective drivers of brand sales.

- **Incentives for mobile and video initiatives should be vastly increased.** It couldn't be clearer that these formats excite advertisers the most. Offering incentives to optimize websites (for the one-third of advertisers who haven't already) and to drive mobile search should fit nicely with overall brand strategies. Likewise, advertisers are interested in video marketing, suddenly available to them in a less-expensive format than television. Delivering polished video pre-roll and informational videos from brand marketers – with incentives to place them locally – seems an obvious way to stimulate co-op participation and spur sales.
- **Methods of mitigating the ad-switching risk need to be instituted.** Advertisers can be reticent to trying new methods of advertising or changing longstanding habits. One of the key impacts of digital media has been to instill the belief that all advertising should come with measurements. Yet local businesses are unsure of how to do that. A program that allows advertisers to monitor the effects of their placement in real-time and automate some of the buying decisions may be a big hit within co-op programs.



ABOUT NETSERVATIVE

Netsertive's digital marketing intelligence platform empowers brands and local businesses to work together to win local customers. The company's two complementary solutions, [MarketWise™ for Brands](#) and [StreetWise™ for Local Businesses](#), enable cooperative marketing and resource sharing between brands and their local business partners. Both are powered by Netsertive's proprietary learning engine, which combines the company's deep industry experience with the collective intelligence of its extensive network of automotive, IT technology, major appliance, furniture, consumer electronics, dental and eye care clients to deliver unprecedented campaign speed, performance and value. An award-winning marketing technology company and Google Premier SMB Partner, Netsertive drives local marketing success from campaign enablement through scaled, local execution. Additionally, Netsertive helps brands with their co-op marketing to ensure localized brand compliance, seamless campaign execution and reimbursement tracking for local partners.

Founded in 2009 and based in Research Triangle Park, North Carolina, the company has a history of rapid growth, a world-class team and the strength of venture capital funding from top firms RRE Ventures, Harbert Venture Partners and Greycroft Partners. Netsertive was named 2014 Software Company of the Year by North Carolina Technology Association and was named among Inc. Magazine's 500 fastest-growing private companies two years in a row. Additional information about Netsertive is available at www.netsertive.com.

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ABOUT BORRELL ASSOCIATES INC.

We track and analyses trends in local marketing across North America and the U.K. The results of this work can be seen in our premiere product, Compass (adspending.com), which is an interactive online dashboard that accesses our proprietary ad-spending database for more than 3,200 counties, cities and provinces. More than 700 media and marketing companies, investment analysts, and industry vendors license our data. Hundreds more subscribe to our published reports, and more than 1,000 attend our two executive conferences held annually in San Francisco and New York. Our work focuses on helping companies understand and capitalize on the evolving media landscape, and to grow revenues exponentially rather than incrementally.

We are headquartered in Williamsburg, Virginia. Our employees and analysts have worked in pure-play Internet companies, run retail businesses, managed new media divisions for large companies, and sold local advertising. They have hands-on experience that provides an understanding of the business that other consultants rarely offer.

Our slogan says it all: Tomorrow's Media, Understood Today.

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