THE GREAT SHIFT

The impact of the coronavirus pandemic has reached unprecedented levels, profoundly affecting the physical, social and economic well-being of nearly every nation on earth. As companies, workers and consumers around the world have scrambled to adapt, large-scale changes that were already underway, including the use of virtual sales channels and other digital transformation strategies, have undergone remarkable acceleration.

Some of the businesses within heavily affected sectors managed to adjust, and some even benefited from record-setting demand. Countless other companies that were unable to meet the moment, for any number of reasons, have been forced out of business. The knock-on effects of the pandemic have amplified many other pre-existing trends, such as reduced global trade, rising income inequality and increasingly widespread calls for social justice. There have also been counter reactions further polarizing many societies.

With all of these changes, marketers in much of the world have faced greater uncertainty than in any other time in memory, forcing the very function of marketing to rapidly transform itself.

Today, companies must invent or react to new ways of selling products while also building brands to support their sales in the future. And they must do this without the aid of any playbook or standard operating procedure.

Nonetheless, all of this disruption presents unique opportunities. The pandemic has forever altered the perceptions of limitations on ways business can be conducted, and the way marketers can interact with their audiences. Those that can look at the world with fresh eyes and identify new paths forward will be the ones that come out ahead.

In the following pages, you'll read about the shifts for four major sectors where marketing is a critical element of success and another where the industry has gone through significant change and, as a result, we must alter the way we think of them as sources of inventory.

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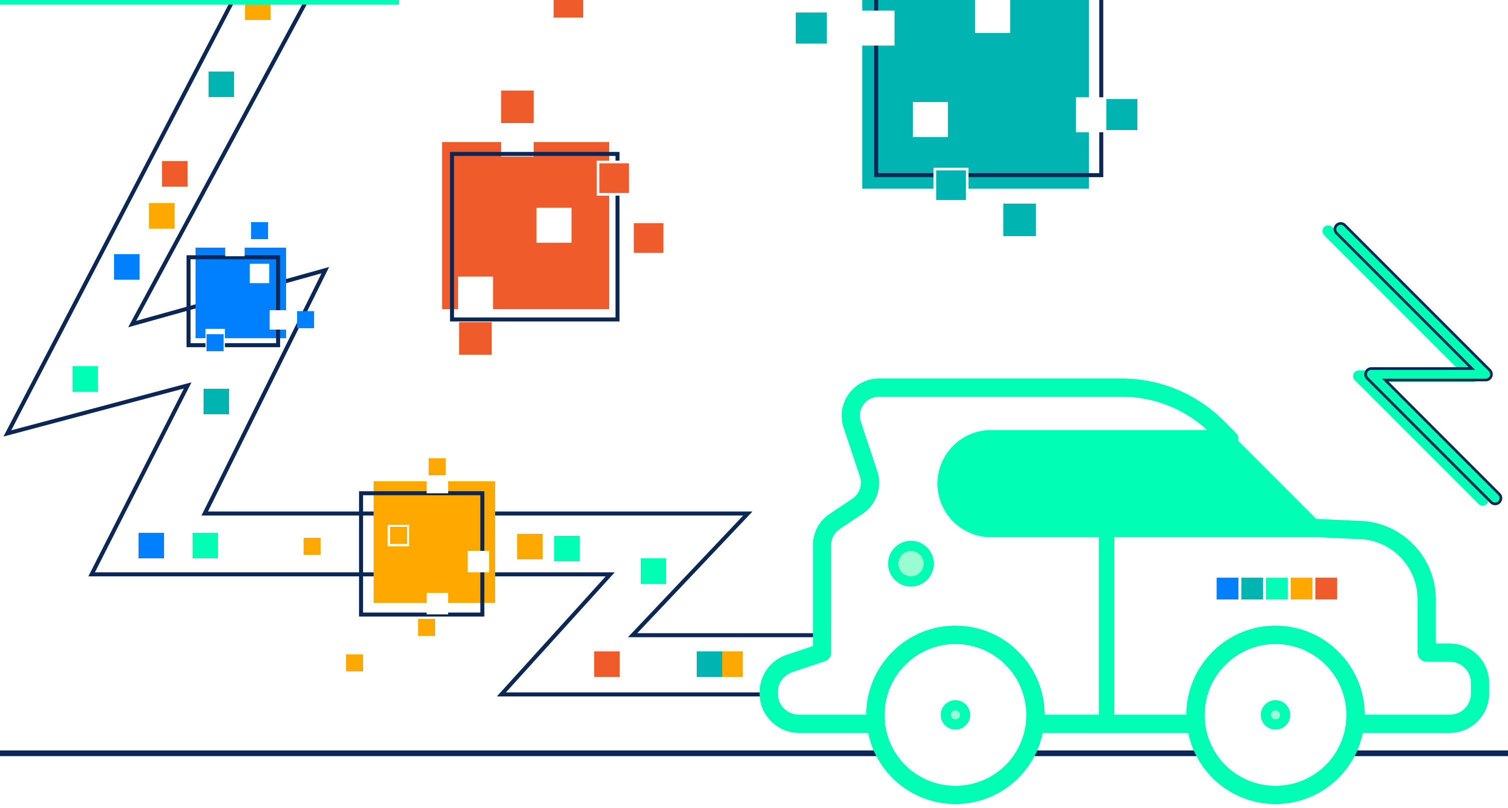


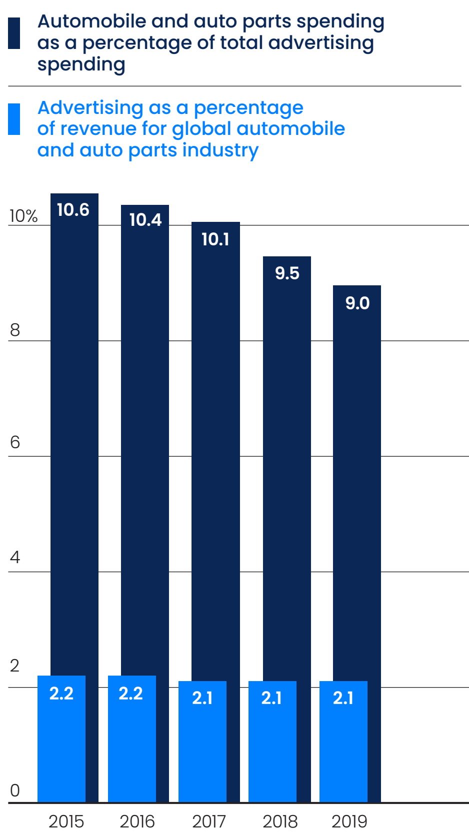
A BRAND-LED FUTURE

The automotive industry has been one of the sectors most severely affected by the pandemic. As most consumers were unable to visit showrooms and were reluctant to commit to purchases given the widespread economic uncertainty, several automotive companies saw revenues fall by 50% year-over-year.

Now, though, it is seemingly one of the sectors experiencing the biggest rebound.

Data shows that the significant rebound back to near normality—i.e.: from 40-45% declines at the low point in April to current levels of flat or better—is probably aided by consumer stimulus checks and the liquidity encouraged by central banks, which also led to many consumers refinancing their homes. In turn, this likely opened up capital to buy cars and facilitate cheaper auto loans.

The circumstances from the spring that manufacturers and retailers faced compelled the industry to find new ways of operating. Increased use of live chat with salespeople to help consumers complete the car-buying process digitally, select features, trading in old vehicles and securing financing and delivery have allowed manufacturers to see the benefits of engaging directly with their end customers. Normally, these customers rely primarily on independently owned dealers that are often protected by regulations or laws that effectively separate manufacturer responsibilities and opportunities from those of the independently owned dealers.



Source: GroupM estimates

Given these new levels of engagement, consumers could emerge from the pandemic with a greater appreciation for the level of service and experience these new ways of operating can provide throughout—and particularly after—the buying process.

As manufacturers and their partners develop concepts for future services, a heightened understanding of consumer preferences will allow for automotive brands to really be able to differentiate themselves.

For example, a consumer who wants to utilize self-driving to support a lifestyle involving rural living and city working, with the use of the vehicle as a portable office, will care about different aspects of a passenger car than they might have in the past. Entertainment services and high-quality connectivity are certainly among the features that will matter and the basis for preferring one car over another might change radically. Evolving use cases will inform marketing strategies and from there, branding and media should follow.

Consequently, manufacturers first need to invest heavily in consumers' emerging interests in using their new features and services. They will then want to build brands that state what the manufacturer stands for and provide a promise that the brand will fulfill.

Automotive manufacturers will need to continually invest in their digital presence to support these efforts, but they will most likely do so in partnership with their dealer partners.

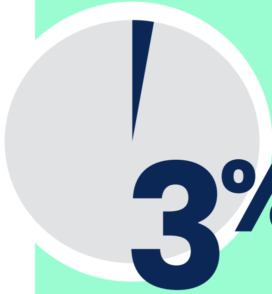
Some of the best ways for them to do that will be to focus heavily on the gathering and analysis of data on the front-end of the purchase cycle to continuously improve understandings of consumers' preferences as well as on the backend to improve understandings of those consumers' ongoing relationships with the brand. From there it will then become about integrating the digital customer experience with the dealer experience.

In the actual development of those services, manufacturers prioritizing development of their own offerings will need to also invest heavily in consumer insights to understand what kinds of services consumers are likely to value in cars over the long term, particularly given the extensive periods of time required to develop new cars. In saying that, it will be crucial to focus marketing efforts on consumers most likely to value new services and it will be equally crucial to ensure that third party brands resonate with the interests of the auto brand's end-customers.

64 MILLION

passenger cars sold globally during 2019.

Source: OICA



3%

percentage of sales associated with e-commerce in 2Q20 in the U.S.

Source: GroupM analysis of U.S. Census Bureau data

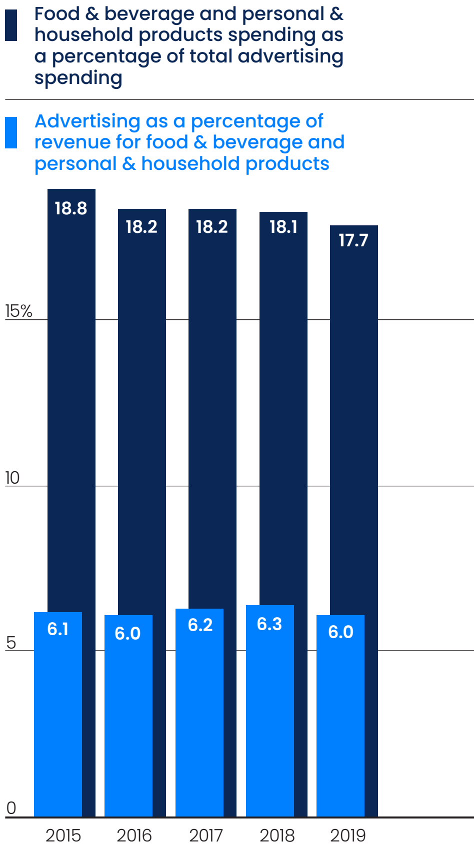
THE E-COMMERCE SPRINT

Packaged goods manufacturers have experienced a significant transition in how their products are sold to consumers. During the second quarter, the U.S. Census Bureau estimated that food & beverage and health & personal care companies saw a 277% increase in retail sales via e-commerce channels.

Among the world's largest global packaged goods companies, we found sales via digital channels typically increased by 70%. Whatever the actual economy-wide growth figure was, it was substantial. Those digital channels now, on average, account for around 12% of total sales for those companies, and we expect this represents a new plateau on which future growth of e-commerce-related sales will occur.

E-commerce, however, is not just one type of commercial activity. It includes traditional sales to retailers who fulfill through their own digital channels, sales through pure-play e-commerce retailers and sales through direct-to-consumer offerings. Each manufacturer will have a different preference for each of these subchannels and those preferences will affect its marketing and media choices. Additionally, it will affect the degree to which the manufacturer focuses on building or reinforcing its brand versus driving shorter-term or performance based KPIs.

When anticipating how packaged goods companies will adjust to capitalize on e-commerce in the years ahead, what are the factors to consider?



Source: GroupM estimates

Once social restrictions were enacted at the start of the pandemic, manufacturers likely saw sales via third party retail outlets as a less attractive option, especially if their distribution was skewed toward "non-essential" stores that were forcibly closed.

The circumstances surely incentivized many manufacturers to invest in directly owned or controlled channels; however, others may have had opposite experiences if their retail partners stayed open throughout the pandemic, especially if their retail partners' sales grew substantially.

For example, a beauty products company that sold primarily through non-essential third-party stores would have found an advantage in prioritizing owned and operated (O&O) or pure-play digital sales channels during the pandemic. A food or household cleaning products company that sold primarily through grocery or big box channels would have prioritized supporting traditional retailers, whether those retailers themselves sold online or offline.

Prioritizing status quo distribution strategies will remain the simplest approach for most packaged goods manufacturers, as this is where the bulk of revenues and resources have been historically directed.

To this point, despite the rapid growth, food & beverage and health & personal care e-commerce sales still only accounted for 3% of traditional retail sales during the second quarter in the United States. Total digital sales including manufacturers' O&O channels would certainly be higher but are still relatively small for these aggregated categories.

By contrast, we can see that, within sporting goods, hobbies, musical instruments and books, e-commerce accounted for 18% of sales versus 7.6% in the year-ago quarter.

And in clothing and clothing accessories, more than half—52%—of sales were via e-commerce. This compares with just 15% during the second quarter of 2019.

It is an over-simplification to say that all food companies will prioritize supporting traditional retail distribution partners' e-commerce sales while all apparel companies will prioritize investing in O&O digital channels going forward, although that is likely to be generally true.

Individual manufacturers will want to assess their own optimal strategies for themselves, as there will be successful food businesses that focus on first-party digital strategies and successful apparel businesses that focus on traditional retail.

Manufacturers relying primarily on third parties will find tremendous opportunities in prioritizing investments in direct-to-consumer initiatives, if only because consumers are more primed than ever to transact online.

At an operational level, it would be understandable if companies in these sectors who establish closer, more direct connections to consumers increase

$4 TRILLION

in consumer spending on e-commerce during 2020.

Source: GroupM analysis

12%

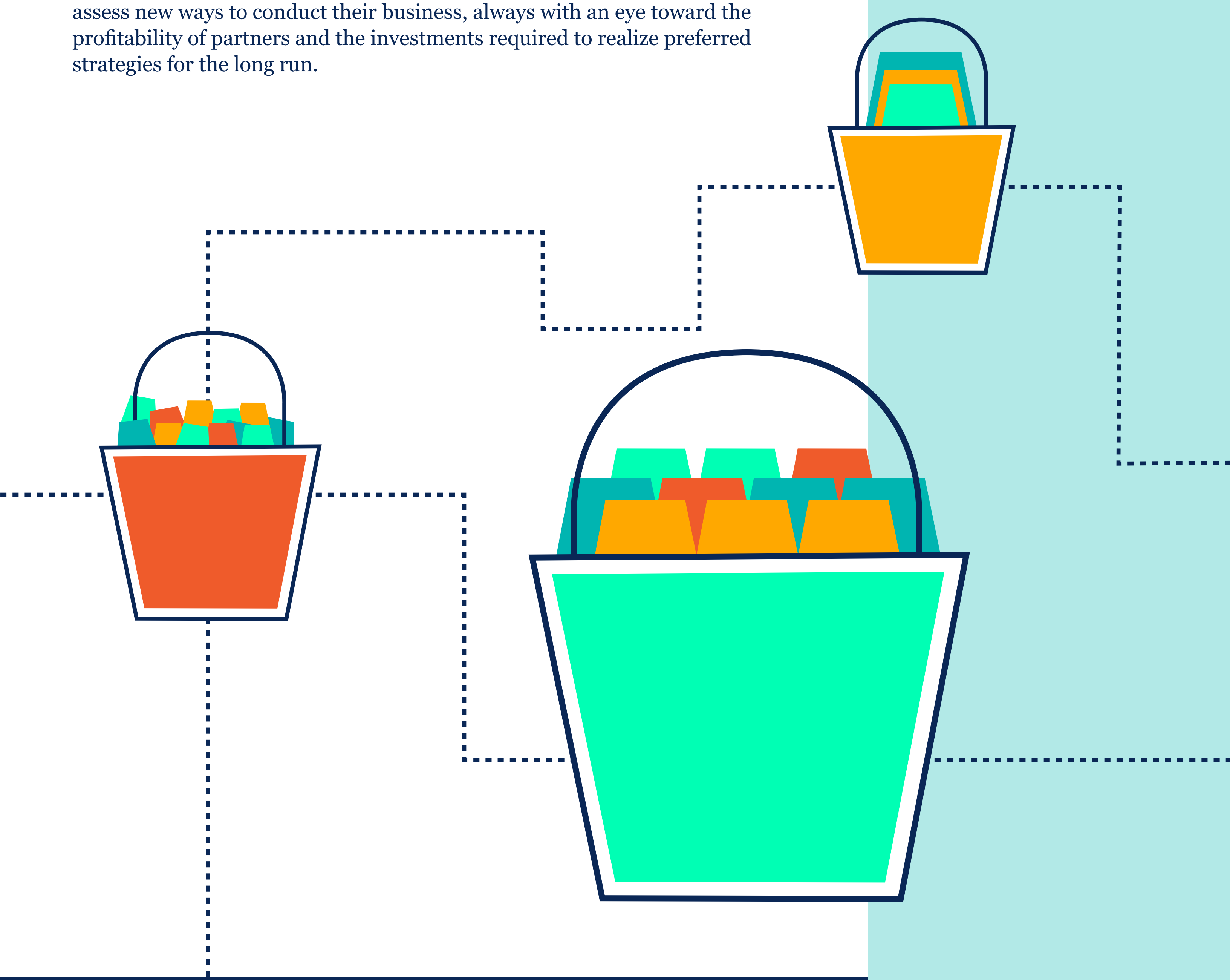
median share of revenue for the world's largest packaged goods marketers from e-commerce and related sales during the second quarter of 2020.

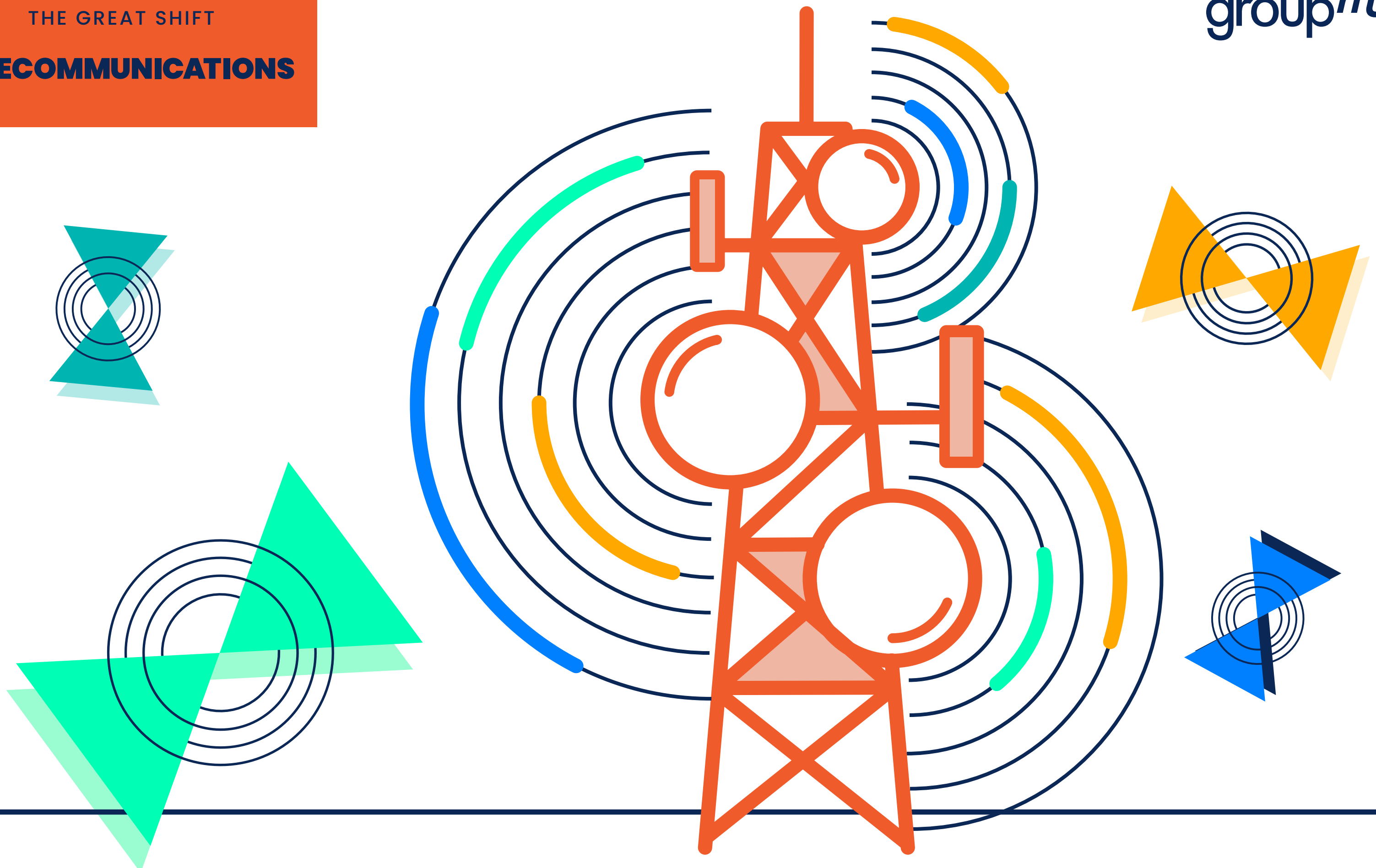
Source: GroupM analysis of company reports their focus on performance goals given how easily performance-based advertising can be linked to objectives.

On the other hand, consumers probably rely more on perceptions of packaged goods' brands' attributes and what those attributes convey about themselves. Too much of a shift toward notional short-term performance metrics could take away from the aspects of marketing that have been responsible for so much of the industry's long-term growth.

As media continually fragments, it will become increasingly important to find ways to measure the degree to which consumers are made aware of brand attributes. Ongoing efforts to improve the delivery of messages with a desirable level of reach and frequency will also become increasingly important.

Whichever approaches are taken, manufacturers will want to continually assess new ways to conduct their business, always with an eye toward the profitability of partners and the investments required to realize preferred strategies for the long run.





THE VIRTUAL REVOLUTION

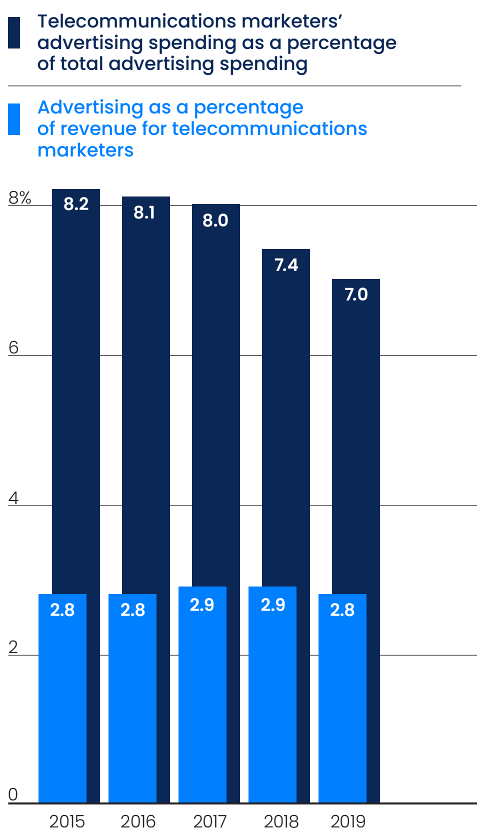
Reliance on telecommunications providers—already important coming into COVID—increased dramatically during the pandemic. Consumers needed faster and more robust broadband services to support household members working or schooling from home.

Video consumption levels spiked initially and, even after abating, streaming services continued to grow rapidly, representing another major source of network demand. Telehealth finally became a viable option for many people.

E-commerce was similarly dependent on reliable internet connections, and a lack of in-person social interaction also drove a substantial increase in various forms of internet-related activities, such as browsing the web or social networking.

This took place as the telecommunications industry increasingly represented many overlapping sub-sectors, including wireless communications, traditional video distributors—cable and satellite—and companies whose roots are in traditional landline telephony.

Prior to the pandemic, many of these businesses were either in the process of becoming data-services businesses or were using their existing customer relationships to broaden their offerings beyond their legacy products.



Source: GroupM estimates

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The pandemic has, so far, arguably favored traditional cable TV providers in many markets, which also happen to have the “fattest” pipes to homes and typically have less robust mobile networks. On the other hand, the pandemic is also highlighting the need for a wide range of healthcare monitoring, as with tracking and tracing, which are arguably best managed with mobile carriers.

Internet-of-things-related connectivity, which is becoming increasingly real, is also similarly more favorable for mobile carriers. Of course, as time progresses, network improvements and new protocols like 5G will enable wireless communications companies to offer today’s home-based services on a more equal footing. This is assuming that consumers’ standard requirements for those services remain unchanged.

For example, because people will have a hard time distinguishing between 4K resolution video and anything more granular, wireless communications companies will be better positioned to cost-effectively provide competitive services when compared with traditional cable operators.

We can already see how increasing numbers of companies are offering wireless telephony and video services.

Competition will likely broaden as time progresses, further enabling consumers to compare offerings from bundlers and stand-alone service providers alike. That means that dimensions of reliability, ease of use, access to additional services, etc., which are already important, will become even more so in the future. Those product offerings will be reinforced by consumers’ direct interactions at different touchpoints with the brand.

More generally, poor product offerings, pricing options or experiences cannot be glossed over by branding decisions or by many of the responsibilities typically held by marketing departments. This should mean that, as telecommunications-based experiences widen to encapsulate more and more of consumers’ daily activities, marketing functions should be organized to help lead product priorities by monitoring and segmenting different kinds of consumers to better anticipate their needs today and in the future. Ideally, this will lead to optimal combinations of telecommunications-related services with optimal pricing and partnership choices.

As long as an evolving set of products are well established for success, other marketing-related activities will remain important functions within telecommunications companies, helping to maximize the vast opportunities the sector has yet to develop.

$1.8 TRILLION

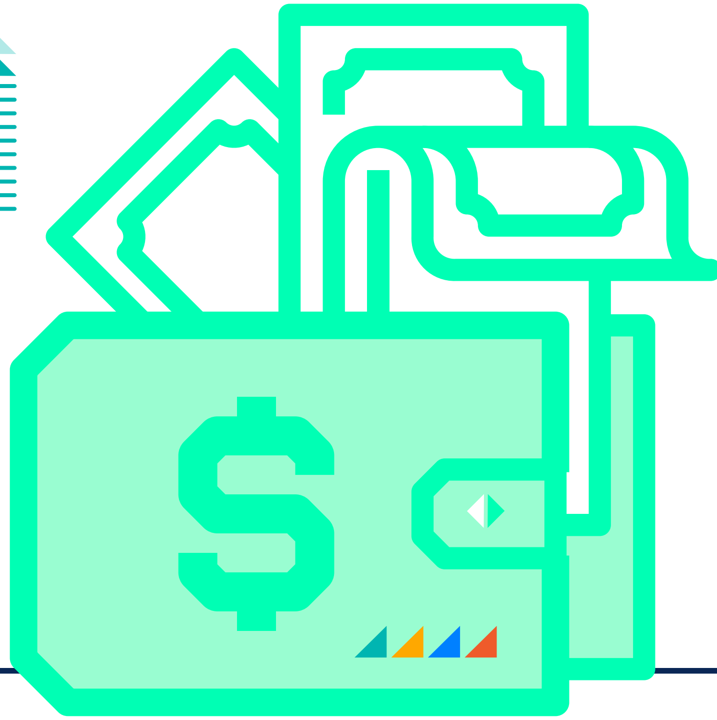
in global revenue for telecommunications services companies during 2019.

Source: GroupM analysis of Refinitiv data

5.2 BILLION

global subscribers to mobile services at year-end 2019.

Source: GSMA



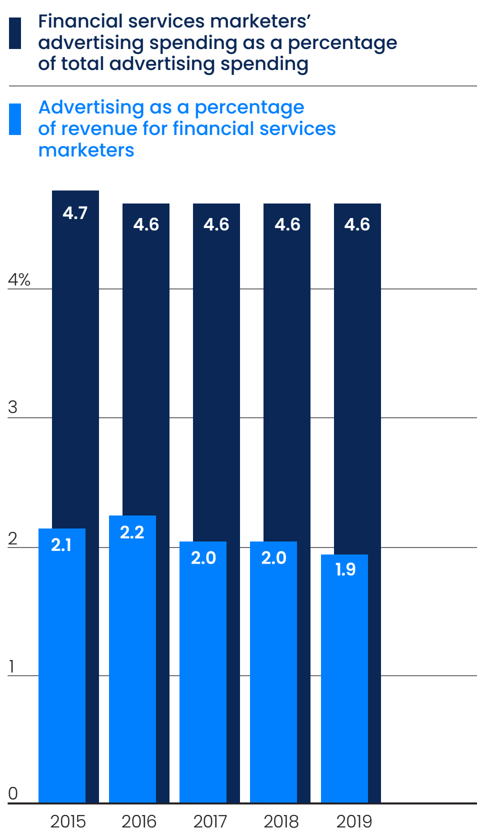
A DIGITAL STRATEGY ROLE MODEL

Prior to the pandemic, financial services were becoming increasingly important components of economies around the world. The sector has, arguably, fared well during the pandemic, aided by liquidity provided by central banks from around the world paired with new government-backed loan programs and stimulus payments made to consumers.

Consumers have generally benefited from a healthy financial sector, as access to capital has increased, a wider range of products have become available and transaction costs have largely fallen. Further, deposits at banks' consumer divisions have increased substantially.

While increased savings may be a factor, at least some of the increased deposits came from the aforementioned stimulus payments and other sources, such as mortgage refinancing. Consumers have also increased their use of other financial services as evidenced by increases in trading volumes by discount brokers, for example.

Despite the growth in consumer demand for bank-related activities, few consumers have wanted to engage with financial services providers in person during the pandemic. Fortunately, banks have invested significantly in their digital platforms in recent years, partly because of competition from online-only banks and partly because of their cost savings and revenue-enhancing



Source: GroupM estimates

potential. While use of these platforms was growing prior to the pandemic, it accelerated as COVID-19 progressed and as consumers were mostly unable or unwilling to go to bank branches.

While there have been concerns about the costs of maintaining these physical locations, especially as digital banking continues to grow, a strong retail presence remains an important component of consumer banks. A physical existence provides a range of benefits to consumers and banks alike, including a presence on the ground in customer communities, advertising in the form of branded storefronts and enhanced confidence in the durability of the bank among many depositors.

Online-only financial services companies, while certainly able to build thriving businesses of their own, might benefit from an immediate national, or international, footprint and perhaps have lower start-up costs but face challenges overcoming the factors that favor brick-and-mortar banks.

As digital platforms become increasingly important to consumer banks, they will share increasing similarities to other kinds of companies pursuing omnichannel retail and manufacturing strategies. This will mean a sustained investment in branding to establish or reinforce trust, as well as a heavy investment in data-related infrastructure, both in terms of monitoring and segmenting different kinds of consumers to better understand and manage them and to better understand which prospective customers should and should not be targeted in campaigns.

Generally, a business that is shifting to a true hybrid virtual-physical operation may want to increase its focus on performance goals given the ease with which performance-based advertising can be linked to objectives, such as account openings.

It is increasingly important, however, to find ways to track all of the other activities that lead to outcomes, such as phone call inquiries, in-person visits to banks, word-of-mouth or general branding.

Ultimately, banks and financial services in general are excellent examples for other industries as manufacturers incorporate more digitally focused services into their product portfolios, if only because most of what banks offer, including trustworthiness and perceptions of durability, are mostly virtual—or at least intangible—to begin with.

25%

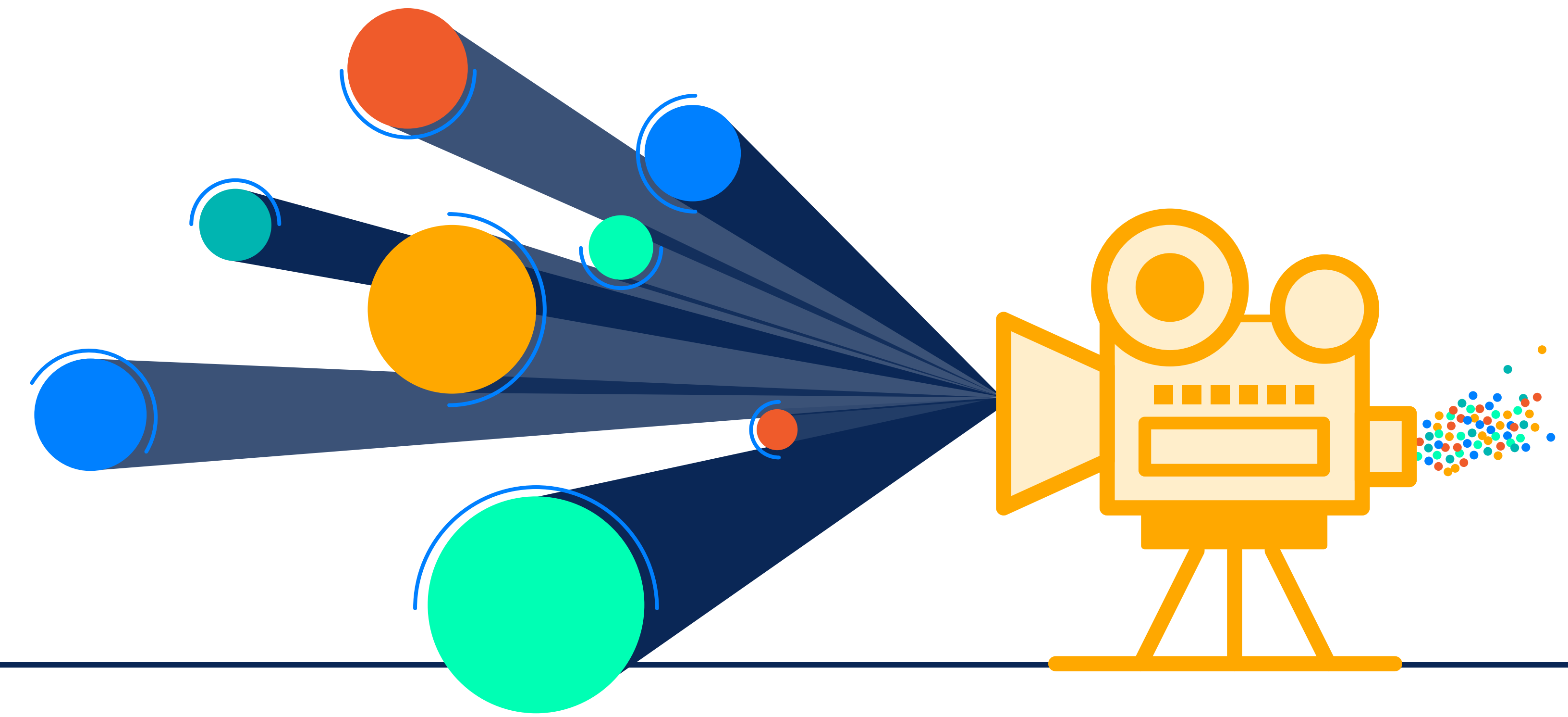
household savings rate in the EU during second quarter of 2020.

Source: Eurostat

26%

household savings rate in the United States during second quarter of 2020.

Source: BEA



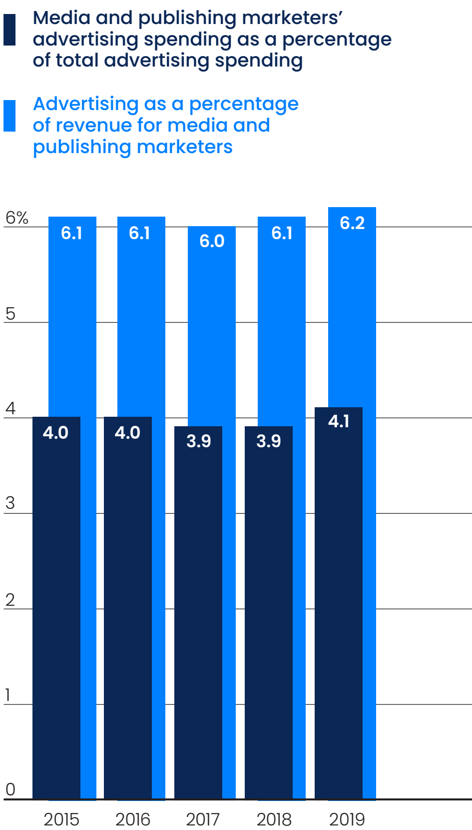
IN A WORLD WHERE STREAMING RULES

Much like increased use of e-commerce, increased reliance on streaming services for video-related entertainment consumption has been another feature of the pandemic. Arguably, this is less due to cord-cutting, per se, and more due to the fact that spending on content packaged by streaming services has been growing much more rapidly than spending on content packaged by incumbents. However, cord-shaving and cord-cutting have probably deterred media conglomerates from committing new spending on programming for their traditional TV services.

The biggest beneficiary so far has been Netflix, which established its leading position many years ago. Why is this so worth recalling?

In 2010, then-CEO of Time Warner Jeff Bewkes said major studios were unafraid of licensing content to Netflix because they didn't consider the platform a threat. Bewkes said: "It's a little bit like, is the Albanian army going to take over the world? I don't think so."

While the premium TV production business remained mostly favorable during the decade, studio owners—most of whom are media conglomerates—generally emphasized franchises and focused more and more on shorter-term financial objectives. Different parts of each conglomerate generally retained these businesses in silos, allowing different divisions to focus on their own interests.



Source: GroupM estimates

Investment in original content for streaming services was relatively minimal and mostly concentrated in Hulu, with an ownership structure that did not initially favor aggressive expansion. Studio owners began to see the importance of doing more and investing more aggressively in these services.

Among the traditional studio owners, there have been different flavors of reactions in recent years. For example, the "Albanian Army" comment nearly came full circle for Time Warner, now part of AT&T, as it completely reorganized its business and reporting lines early this year, fully centering itself around streaming services.

Disney has demonstrated a willingness to invest heavily in its offerings, not least by virtue of its acquisition of entertainment assets formerly owned by Fox, its shutting down of some of its assets, such as international cable channels, or sacrifices of future revenue streams, like bringing high profile films to Disney+. It also remains relatively more balanced between traditional businesses and newer ones, as do most of its peers.

For several reasons, this sort of change happens slowly. Shifting conventions in the entertainment industry take time, partly because of the length of contracts involving different supply chain participants. Output agreements by studios with competing media companies are another obstacle. Cable networks may be restricted because of similarly long-living contractual restrictions with their distributors, the traditional cable and satellite operators. And then there is the risk of sacrificing higher levels of predictable revenue for lower and less certain revenues in the short-term despite the potential for long-term benefits, which can be difficult for any organization to take.

Developing new content that is unique to these platforms is one way to work around this problem, although doing so can be very expensive; however, if those costs are overcome, traditional media companies have new trade-offs to consider, such as choices between simplicity—one monthly price for all content, potentially available on a platform forever—and complexity—content assets might be made available in one place for one point in time and another for a different point in time—or something in between.

We can imagine some of the ways in which studio owners who are prioritizing digital media, and are willing to sacrifice traditional operations, will focus their operations going forward. They will need to invest heavily in capabilities to aggregate and analyze data to understand consumers' content and platform preferences, optimizing assets accordingly.

Human investments will be as important as anything in making the most of this data, as smart data strategies are likely to be led by people rather than machines. Services will need to find ways to encourage consumers to try to stick with lesser-known and less expensive programming or else make the trade-off between continually investing in expensive, high-profile content and high levels of churn.

When considering how to balance a portfolio of traditional and streaming assets, a studio owner trying to find a balance between near-term profitability and long-term sustainability needs to focus on quantifying the risk-adjusted

$65 BILLION

in spending on premium video content globally during 2019 by the six largest U.S.-based TV/Film Media Groups or Divisions.

Source: GroupM analysis of company reports

$12 BILLION

in spending on premium video content globally during 2019 by the six largest European-based TV/Film Media Groups or Divisions.

Source: GroupM analysis of company reports return of a given dollar of investment in a content asset to be deployed on a traditional versus a streaming service.

Traditional media companies retain many of the advantages of incumbency; however, as we have seen, smart investment choices and business organization or, failing that, overwhelming levels of spending on content will be necessary to realize those advantages into the future.

CATEGORY	AD SPEND AS PERCENTAGE OF ALL AD SPEND	ADVERTISING AS PERCENTAGE OF REVENUE
Food & Beverages	11.4%	4.8%
Cyclical Consumer Services	10.6%	7.4%
Automobiles & Auto Parts	9.0%	2.1%
Telecommunications Services	7.0%	2.8%
Cyclical Consumer Products	8.2%	4.8%
Technology Equipment	8.5%	2.2%
Retailers	6.5%	2.3%
Software & IT Services	7.7%	3.7%
Personal & Household Products & Services	6.2%	14.4%
Food & Drug Retailing	4.5%	1.2%
Banking & Investment Services	4.6%	1.9%
Industrial Goods	3.6%	1.2%
Pharmaceuticals & Medical Research	2.8%	2.0%
Industrial & Commercial Services	2.5%	0.6%
Transportation	1.6%	0.8%
Mineral Resources	1.4%	0.5%
Energy - Fossil Fuels	0.7%	0.1%
Consumer Goods Conglomerates	0.6%	0.9%
Utilities	0.6%	0.3%
All Other	0.4%	0.3%

Category related spending data shows the importance of different categories to the advertising industry and of advertising to different categories. We have organized data for thousands of individual public and private companies and established industry and sub-sector level estimates for advertising expenditures using a combination of sources centered around data from Refinitiv.

Revenue estimates and forecasts are primarily based upon analyst consensus estimates for specific companies. Advertising expenditures are generally based upon data provided by companies that choose to disclose these figures; this data will often reflect costs beyond paid media and supporting services and may include a wide range of promotional activities. Category assignments are at the company level rather than at the product level.

In order to produce economy-wide data, we have extrapolated benchmarks for revenue growth and advertising expenditures from companies where such data is available to companies where it is not.

Please also note that this data does not, at this time, include most governmental or non-profit advertisers and, as indicated by the large company nature of this analysis, excludes smaller companies.

Figures included here should be interpreted in broad or general terms, not least as estimates and assumptions will be regularly revised.

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