ADVERTISING & MARKETING
Research Brief

Sustainable Industry Classification System™ (SICS™) #SV0301
Research Briefing Prepared by the
Sustainability Accounting Standards Board®
December 2014

© 2014 SASB
www.sasb.org
SASB’s Industry Brief provides evidence for the material sustainability issues in the Advertising & Marketing industry. The brief opens with a summary of the industry, including relevant legislative and regulatory trends and sustainability risks and opportunities. Following this, evidence for each material sustainability issue (in the categories of Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance) is presented. SASB’s Industry Brief can be used to understand the data underlying SASB Sustainability Accounting Standards. For accounting metrics and disclosure guidance, please see SASB’s Sustainability Accounting Standards. For information about the legal basis for SASB and SASB’s standards development process, please see the Conceptual Framework.

SASB identifies the minimum set of sustainability issues likely to be material for companies within a given industry. However, the final determination of materiality is the onus of the company.

Related Documents

- Advertising & Marketing Sustainability Accounting Standards
- Industry Working Group Participants
- SASB Conceptual Framework

INDUSTRY LEAD

Nashat Moin

CONTRIBUTORS

Andrew Collins
Stephanie Glazer
Anton Gorodniuk
Jerome Lavigne-Delville
Himani Phadke
Arturo Rodriguez
Jean Rogers
Evan Tylenda
Gabriella Vozza

SASB, Sustainability Accounting Standards Board, the SASB logo, SICS, Sustainable Industry Classification System, Accounting for a Sustainable Future, and Materiality Map are trademarks and service marks of the Sustainability Accounting Standards Board.
INTRODUCTION

The power of persuasion of the Advertising & Marketing industry is undeniable. Consumers rely on ads to inform them of their choices in the market place, whether they are purchasing everyday items or luxury goods. With advertisements on televisions, magazines, billboards, computer screens, and smartphones, consumers are exposed to ads at nearly every waking hour. As such, the industry can play a key role in society as an agent of social change.

Advertising and marketing companies that are able use their influential abilities responsibly can be positive contributors to society. In the age of big data and targeted advertising, companies with strong consumer privacy policies are better positioned to mitigate risk from regulatory scrutiny and public concern regarding privacy. Management (or mismanagement) of material sustainability issues, therefore, has the potential to affect company valuation through impacts on profits, assets, liabilities, and cost of capital.

Investors would obtain a more holistic and comparable view of performance with advertising and marketing companies reporting metrics on the material sustainability risks and opportunities that could affect value in the near- and long-term in their regulatory filings. This would include both positive and negative externalities, and the non-financial forms of capital that the industry relies on for value creation.

Specifically, performance on the following sustainability issues will drive competitiveness within the Advertising & Marketing industry:

- Ensuring truth in advertising and protecting young children;
- Self-regulating use of consumer data for data privacy in the face of evolving regulations and public concern; and
- Managing a diverse workforce to foster innovation and create effective campaigns.

INDUSTRY SUMMARY

The Advertising & Marketing industry is comprised of companies that create advertising campaigns for use in media, display, or direct

SUSTAINABILITY DISCLOSURE TOPICS

<table>
<thead>
<tr>
<th>SOCIAL CAPITAL</th>
<th>HUMAN CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising Integrity</td>
<td>Workforce Diversity &amp; Inclusion</td>
</tr>
<tr>
<td>Data Privacy</td>
<td></td>
</tr>
</tbody>
</table>
mail advertising and related services, including market research.¹

Advertising and marketing companies are engaged primarily by businesses selling consumer products, entertainment, financial services, technology products, and telecommunication services.¹, ² Larger advertising companies are structured as holding companies owning multiple agencies that provide a wide range of services. These services include custom publishing, brand consultancy, mobile and online marketing, and public relations.³ For any ad campaign, the same company may be engaged in all aspects, from graphic arts and content creation to data analytics, marketing research, and media planning and buying. Or, it may be in charge of only certain aspects.

Publicly traded companies listed in global exchanges, as well as those traded over-the-counter, generated about $180 billion in 2013,⁴ while global ad spending exceeded $500 billion.⁵ The industry is impacted by global economic conditions, such as poor financial performance, which generally leads to a decline in ad spending.⁶, ⁷ Competitiveness depends on creative ability, client requirements, and the ability to win new contracts.⁸ The industry works intimately with the media to reach audiences and drive advertising revenue. Television’s share of global ad spending has been steady at about 40 percent. Internet ad spending has grown to 20 percent of overall spending in 2013 from a mere 5 percent in 2005. That is largely at the expense of newspapers and magazines, which have declined from 29 and 13 percent to 17 and 8 percent, respectively, during the same period.⁹ Twenty-five percent of industry sales comes from advertising for print, broadcast, and online media; 15 percent from direct mail advertising; 10 percent from public relations. The rest is distributed among other services including display advertising, reselling advertising time or space, and selling advertising on behalf of media outlet owners.¹⁰

The U.S. is the world’s largest advertising and media market, generating 44 percent of global industry revenue.¹¹ For example, Omnicom generated about half its revenue from the U.S.¹² Similarly, 55 percent of the Inter Public Group’s revenue came from the U.S., followed by Asia-Pacific and Continental Europe at 12 percent each. Omnicom leads the U.S. market with a 22 percent share, followed by WPP, a British company, with 16 percent.¹³ While advertising agencies and market research firms suffered a decline when consumer spending dropped and advertising budgets were cut during the most recent recession,¹⁴ advertising agencies’ revenue is now expected to grow again.¹⁵ The U.S. advertising market has long been mature, and companies are looking to faster-growing markets, particularly the BRIC (Brazil, Russia, India, and China) countries.¹⁶, ¹⁷

¹ Industry composition is based on the mapping of the Sustainable Industry Classification System (SICS™) to the Bloomberg Industry Classification System (BICS). A list of representative companies appears in Appendix I.
Ad spending in emerging markets is projected to grow by 11.6 percent for 2014 compared to a meager 2.1 percent growth in major developed economies. In particular, mobile advertising in China is forecast to reach $4.2 billion by 2017, jumping 478 percent during the four-year period from 2014 to 2017.

New media has become a central platform for the industry as traditional media campaigns are losing their efficacy. Ad spending on digital media is expected to drive annualized revenue growth at 3.4 percent to $39.3 billion by 2018. Digital tools, such as social media, have become essential in accurate demographic targeting. Digital media has made it easier to acquire reliable performance metrics. It has also increased the number of affordable alternative to agencies and offers higher margins. The decline in traditional media, as well as the improved analytics of campaigns, have resulted in a shift from placed advertisements' traditional set-rate commission to incentive-based pricing models. Niche agencies are entering the industry with the growth of fragmented markets driven by digital, increasing the number of operators. To stay competitive, incumbent companies have been acquiring agencies and specialist firms, such as market research firms.

---

**LEGISLATIVE AND REGULATORY TRENDS IN THE ADVERTISING & MARKETING INDUSTRY**

The regulatory landscape for the Advertising & Marketing industry is a combination of self-regulation and indirect regulation through federal agency oversight of food and drug advertising, communication, and media for consumer protection. The following section provides a brief summary of key regulations and legislative efforts related to this industry.

In 1971, a group of ad agencies founded the National Advertising Review Council (now called the Advertising Self-Regulatory Council) to establish robust self-regulatory codes and sanctions agreed upon within the industry. The Advertising Self-Regulatory Council (ASRC) establishes industry self-regulatory policies and procedures, like the National Advertising Division (NAD), Children’s Advertising Review Unit (CARU), National Advertising Review Board (NARB), Electronic Retailing Self-Regulation Program (ERSP) and Online Interest-Based Advertising Accountability Program (Accountability Program.) One example is the International Code of Marketing and Social Research Practice, which helps ensure that participants in surveys are guaranteed the option for total confidentiality of the information they provide. The code also intended to highlight some ways in which regulatory trends are impacting the industry.
restricts business from selling to participants as part of the survey and from releasing their names and personal details. Major industry associations, the Council of American Survey Research Organizations, and the Market Research Association, as well as their members, have committed to adhere to the code.31

The International Chamber of Commerce also maintains the Consolidated Code on Advertising and Marketing to guide best practices for industry practitioners.32 In addition to industry efforts, the rise of social media has empowered consumers by giving them a voice, allowing them to become increasingly involved in policing best practices.33

However, self-regulation comes under scrutiny when companies violate the guidelines set by industry associations. For example, the role of advertising in the childhood obesity epidemic has been a growing concern, and industry best practices require truthful marketing. However, fast food companies McDonald’s and Burger King came under fire when their ads emphasized toy giveaways and movie tie-ins to kids instead of promoting the food itself. While the industry’s Children’s Advertising Review Unit (CARU) found the ads in violation of industry standards, the ads have emblazoned the discussion around child-targeted advertising and self-regulation.

Various government entities—like the Federal Trade Commission (FTC), the Food and Drug Administration (FDA), and the Federal Communications Commission (FCC)—actively enforce guidelines on the advertising and marketing of food, drugs, dietary supplements, alcohol, tobacco, and high-tech products.35 The FTC oversees truth-in-advertising laws that require advertising to be truthful, non-misleading, and backed by scientific evidence, particularly when dealing with claims that impact consumers’ health or finances. The FTC’s Deception Policy and Unfairness Policy provide guidelines on truthful and non-misleading advertising.36 One case in March 2009 brought pharmaceutical drug manufacturers under intense scrutiny when the FDA declared that manufacturers had violated guidelines for disclosing risks associated with taking the medications. Since then, pharmaceutical search advertising has plummeted 84 percent.37

The FTC also oversees the increasing number of products and services that are labeled ‘green’ or ‘natural.’ By order of the FCC, companies must avoid general, unqualified claims and provide reliable scientific evidence to support assertions including claims regarding carbon offsets, certifications, compostability, biodegradability, non-toxicity, recyclability, and renewable energy and materials.38

Personal privacy is also a focus of existing and proposed laws.39 These regulations can significantly impact the way industry practitioners conduct business. In the U.S., the FTC is also charged with ensuring compliance with privacy laws. Additional laws, like the
Family Educational Rights and Privacy Act, the Right to Financial Privacy Act, and the Electronic Communications Privacy Act, all limit federal and corporate access to individuals’ records. Furthermore, unauthorized access to this information creates significant liability risk for these companies. The U.S. is one of two OECD member countries that has not implemented baseline privacy protection for consumer data.

One such baseline framework is the European Union’s Data Protection Directive (DPD). In addition to the DPD, the EU is currently considering new legislation that would enact the strictest laws on data collection, use and protection. Increasingly strict EU regulations on consumer privacy have increased the costs for US companies doing business in the EU. In response, the U.S.-EU Safe Harbor Framework provides guidelines for the lawful transfer of personal data outside the EU. As advertising and marketing companies rely on obtaining personal data to inform their campaigns, these laws can further affect the efficacy and profitability of internet-based and digital marketing.

SUSTAINABILITY-RELATED RISKS AND OPPORTUNITIES

Industry drivers and recent regulations suggest that traditional value drivers will continue to impact financial performance. However, intangible assets such as social, human, and environmental capitals, company leadership and governance, and the company’s ability to innovate to address these issues are likely to increasingly contribute to financial and business value.

Broad industry trends and characteristics are driving the importance of sustainability performance in the Advertising & Marketing industry:

- Managing social externalities: Through its power of persuasion, Advertising & Marketing companies can act as an agent of change or perpetuate the status quo. The industry must act responsibly in order to minimize negative social externalities of marketing.

As described above, the regulatory and legislative environment surrounding the Advertising & Marketing industry emphasizes the importance of sustainability management and performance. Specifically, recent trends suggest a regulatory emphasis on consumer protection, which will serve to align the interests of society with those of investors.

The following section provides a brief description of each sustainability issue that is likely to have material implications for companies in the Advertising & Marketing industry. This includes an explanation of how the issue could impact valuation and evidence of actual financial impact. Further information
on the nature of the value impact, based on SASB’s research and analysis, is provided in Appendix IIA and IIB. Appendix IIA also provides a summary of the evidence of investor interest in the issues. This is based on a systematic analysis of companies’ 10-K and 20-F filings, shareholder resolutions, and other public documents. It is also based on the results of consultation with experts participating in an industry-working group convened by SASB.

A summary of the recommended disclosure framework and accounting metrics appears in Appendix III. The complete SASB standards for the industry, including technical protocols, can be downloaded from www.sasb.org. Finally, Appendix IV provides an analysis of the quality of current disclosure on these issues in SEC filings by the leading companies in the industry.

**SOCIAL CAPITAL**

Social capital relates to the perceived role of business in society, or the expectation of business contribution to society in return for its license to operate. It addresses the management of relationships with key outside stakeholders, such as customers, local communities, the public, and the government. It includes issues around access to products and services, affordability, responsible business practices in marketing, and customer privacy.

The Advertising & Marketing industry connects brands and products to consumers. As such, ad agencies have a responsibility to ensure the truthfulness of what is communicated about product and services. In the U.S. and abroad, consumer protection laws have rules against deceptive or misleading advertising. Advertising claims may also be subject to industry-specific laws and regulations. While marketing products and services to specific demographics is not new, the rise of online advertising and use of consumer data for more targeted advertising has raised public concern around privacy.

**Advertising Integrity**

All businesses have a legal responsibility to ensure that advertising about their products and services is truthful and not deceptive. Additionally, consumer protection laws regulate advertising to vulnerable populations, like children, and marketing of specific products, like tobacco and alcohol.

Regulations can directly or indirectly affect the scope, content, and manner of presentation of advertising, marketing, and corporate communications services. For example, the FTC’s truth in advertising regulations apply to all aspects of ad campaigns in the U.S. Ad agencies and advertisers must ensure that the content of ads is not misleading or deceitful. This includes claims, endorsements, and testimonials. Additionally, the FTC has specific guidance on native advertising or sponsored content, where advertisements appear inline in a news article or in links above or below web content. Advertisers must clearly distinguish ads...
so that consumers are able to differentiate it from the surrounding content. Native advertising is a segment that is growing along with online advertising. Consumer protection laws provide guidance and restrictions on advertising to children. There are strict guidelines on advertising regulated products, like alcohol, tobacco, and drugs.

While much of the burden of ensuring compliance with these regulations lies on the advertiser, the advertising agency also plays a vital role in creation of ad content and advising their client regarding the applicable regulations. The FTC also investigates the involvement of the ad agency in any deceptive advertising. Advertising and marketing companies are keenly aware of these regulations and concerns and many participate in self-regulatory programs that address these areas. Company performance in this area can be analyzed internally and externally through the following direct or indirect performance metrics (see Appendix III for metrics with their full detail):

- Amount of legal and regulatory fines and settlements associated with false, deceptive, or unfair advertising;
- Percentage of campaigns reviewed for adherence with the Advertising Self-Regulatory Council’s (ASRC) standard, percentage of those in compliance; and
- Percentage of campaigns that promote products or services deemed socially harmful and subject to restrictions or taxes on use.

**Evidence**

Advertising campaigns make product claims aimed at winning customers by demonstrating a competitive advantage. The FTC has oversight of the truthfulness of advertising, and that includes holding advertising agencies accountable. The Federal Trade Commission Act requires that “(1) Advertising must be truthful and non-deceptive; (2) Advertisers must have evidence to back up their claims; and (3) Advertisements cannot be unfair.”

The FTC dictates that advertising agencies have a responsibility to independently vet the credibility of advertising claims, and that they may not rely on the advertiser’s assurance. In determining liability, the FTC examines the extent of the agency’s involvement in creating a questionable advertisement and whether the agency knew, or should have known, that the advertisement in question contained false or deceptive information. In cases where the FTC determines that an advertisement is making false or deceptive claims, the FTC can issue cease and desist orders, civil penalties, and mandate corrective advertising or disclosures. The line between highlighting the benefits of a product, and overstating them in a way that regulators would deem to be untruthful, is a fine one, and the legal fees to fight such accusations can be substantial. While these actions most directly impact the brand or advertiser, it may harm the agency-client relationship.
The FTC also issued guidance regarding endorsements and testimonials.

The FTC regularly investigates advertisements with alleged false or misleading claims. In a guideline to media companies, the FTC highlights the importance of screening ads for anything that may be misleading or untrue. One of the first litigated cases involved advertising agency Doherty, Clifford, Steers & Shenfield, Inc., in 1968. The court concluded that the “advertising agency actually participated in the deception.” Throughout the 1990s, multiple agencies settled allegations of misleading advertisements with the FTC.

More recently, in January 2014, Nissan and its advertising agency TBWA Worldwide, which is owned by Omnicom Group, settled a false advertising suit with the FTC. The commercial features a Nissan Frontier pickup truck driving up a massive sand dune to help a stuck dune buggy. However, during filming, both vehicles were actually dragged up the hill. The FTC stated: “the Nissan Frontier pickup truck is incapable of performing the feat depicted in the Hill Climb advertisement.” The ad did feature a disclaimer that was displayed for three seconds at the end of the ad: “Fictionalization. Do not attempt.” The FTC felt that the disclaimer did not meet its “clear and conspicuous” standard for disclaimers. The suit was unique because the FTC went after both Nissan and its ad agency, TBWA Worldwide. In order to charge the ad agency, the FTC has to determine that it “knew or should have known that the claims conveyed in the ad were false or misleading.” While this case was ultimately settled for an undisclosed amount, the case brought by the FTC against both announcer and the advertising agency highlights a potentially significant financial impact in litigation cost and fines. In addition, publicity around the case tarnishes the reputation of the product and the ad agency.

In 2009, the UK government banned an Olay advertisement for its Definity eye cream, after deciding the ad unfairly portrayed the benefits of the product. The advertisement featured British former model Twiggy appearing perfectly wrinkle-free. However, upon investigation it turned out that the images were retouched. When the government pulled the ad, it cited “not only a gross misrepresentation of products, but the ad’s potentially negative impact on people’s body images.” As a result of this legal action, Olay’s, and their parent company Proctor & Gamble’s investment to create and produce the ad campaign is lost, and the effectiveness of their product is called into question. In cases like these, the impact on ad agencies can be considerable, through reputational damages related to their ethical standards and risk to client relationships.

The FTC has been paying close attention to misleading ads, including native ads. A recent survey by academics at Berkeley Center for Law & Technology revealed that over 27 percent of consumers believed that a native ad was authored by the website owner, and 29 percent
did not know who the author was. In September 2014, the FTC announced that it had sent warning letters to more than 60 companies, including “20 of the 100 largest advertisers in the country,” regarding their failure to make adequate disclosures in their television and print ads. Previously, the Commission issued guidance on making effective disclosures in digital ads so as not to mislead consumers.

In addition to truthful advertising, the industry pays close attention to regulations around advertising certain restricted goods. In their annual SEC filings, advertising and marketing companies acknowledge the risks to their business from changing advertising regulations. Advertising company WPP states: “There is an increasing trend towards expansion of specific rules, prohibitions, media restrictions, labeling disclosures and warning requirements with respect to advertising for certain products, such as over-the-counter drugs and pharmaceuticals, cigarettes, food and certain alcoholic beverages, and to certain groups, such as children.”

Young children are particularly vulnerable to the influences of ads. Very young children may not be able to distinguish between commercials and program content. Ad agencies have to navigate the myriad of regulations around advertising to children. A misplaced ad or product placement can be problematic for their clients. In addition to regulations for marketing alcohol and tobacco to under-age consumers, there are regulations for governing food advertisements and advertising during children’s programs. Both advertisers and ad agencies often participate in self-regulatory programs governing children’s advertising, like Children’s Advertising Review Unit (CARU) program and the Children’s Food and Beverage Advertising Initiative (CFBAI). Additionally, the Children’s Online Privacy Protection Act (COPPA) protects children’s online privacy and restricts predatory marketing.

According to the FTC, the largest cigarette companies spent $8.37 billion in advertising and promotions in 2011. Due to the various restrictions on tobacco advertising, over three-quarters of this was devoted to promotions. The Federal Cigarette Labeling and Advertising Act prohibits all forms of tobacco advertising on radio and television. The World Health Organization is calling for countries to ban all forms of tobacco advertising and promotion. In 2012, 83 countries had already reported introducing a comprehensive ban of all tobacco products. Alcohol marketing is also highly regulated in many markets. In the U.S., alcohol companies voluntarily agreed to only advertise on television programs and websites where at least 70 percent of the audience is over the age of 21. The FTC concluded that more than 93 percent of ads were placed in compliance with these guidelines. Voluntary self-regulations often indicate pre-emptive moves by the industry to avoid additional regulations. Many media outlets do not accept advertisements for firearms. For example, NBC Advertising
Guidelines state that the company “does not accept advertisements for firearms, weapons or fireworks. Advertisements that include firearms, weapons or fireworks as props may be approved on a case-by-case basis.” The advertising of pharmaceutical drugs is also heavily regulated. Only two countries—the U.S. and New Zealand—allows direct-to-consumer (DTC) advertising of pharmaceutical drugs that include product claims. Even where DTC advertising is allowed, there are extensive guidelines around what must be disclosed and what is prohibited.

Ad agencies with significant revenues from regulated products, like alcohol, tobacco, firearms, and pharmaceuticals, must manage risks to their revenue from evolving regulations, especially where there is a trend towards stricter restrictions. Interpublic Group reports: “(l)egislators, agencies and other governmental units may also continue to initiate proposals to ban the advertising of specific products, such as alcohol or tobacco, and to impose taxes on or deny deductions for advertising, which, if successful, may hinder our ability to accomplish our clients’ goals and have an adverse effect on advertising expenditures and, consequently, on our revenues.” Ad agencies may also suffer reputational risk as a result of governmental or legal action, or from undertaking work that is challenged by consumer groups.

**Value Impact**

In their SEC filings, some advertising and marketing companies state that failure to comply with FTC regulations around truth in advertising may result in regulatory scrutiny and further lead to extraordinary expenses and increased contingent liabilities. Chronic instances of presenting false or deceptive information in advertising could invite additional government oversight and legal actions, and have a negative impact on reputation and lead to long-term deterioration of intangible assets. This in turn can affect relationships with key clients and result in a loss of market share as clients switch to advertising agencies with stronger ethics.

The amount of legal and regulatory fines and settlements associated with false, deceptive, or unfair advertising is a lagging indicator of how well advertising companies fulfill their shared responsibility with clients to produce ethical ads. It also indicates the probability and magnitude of the direct costs associated with large penalties, fines, and remediation activities.

The percentage of campaigns that adhere to the standards of the ASRC – and the percentage reviewed – gives an indication of performance with respect to industry best practices. It also provides a more forward-looking indication of how firms are likely to perform in the future, both in terms of market share and revenue as well as the impact that direct and indirect legal costs and reputational damages may have on brand value and market share.
The percentage of campaigns that promote products or services deemed socially harmful and subject to restrictions or taxes on use indicates a firm’s exposure to increased legal and reputational risks, as well as the risk of further restrictions on such advertising, which can have an impact on revenue.

**Data Privacy**

With the rise of social media, location-based mobile applications, and the rise of e-commerce, our digital footprints offer a more complete picture on consumer habits than ever. Where companies used to simply place an ad for a new car on an automobile-related website or magazine, advertisers can now find highly detailed information about their buyers’ habits and lives, and advertising strategies can be precisely targeted. In addition to targeting mailers to households or individuals to certain characteristics, ads can be also be targeted to specific individuals through online publishers. Online behavioral advertising includes tracking a consumer’s online activities over time, including searches conducted and web content viewed.

While new innovations around data use in this industry can result in higher advertising and marketing efficiencies, there is also a risk associated with using consumer data. Consumers have mixed feelings about whether personal data adds a higher level of customer service and satisfaction, or constitutes an invasion of privacy, particularly when customers are unaware that their information is being distributed or sold.

As an industry that uses large quantities of data on private citizens, advertising and marketing companies must weigh the benefits of targeted advertising along with risks of privacy invasion. Companies in this industry must navigate increasingly stringent laws and regulations that govern consumer protection, data protection, and information security. Legislation on these issues is still evolving and is heavily scrutinized by lawmakers and consumers. Breaches of current regulations, or the creation of new regulations, could have a material effect on advertising and marketing companies. To stay ahead of regulations, industry players have been adopting voluntary self-regulatory principles regarding targeted ads.

Company performance in this area can be analyzed internally and externally through the following direct or indirect performance metrics (see Appendix III for metrics with their full detail):

- Discussion of policies and practices relating to behavioral advertising and consumer privacy;
- Percentage of online advertising impressions that are targeted to custom audiences; and
- Amount of legal and regulatory fines and settlements associated with consumer privacy.
Evidence

Digital marketing has been rapidly gaining ground. Internet ad spending reached $104 billion globally in 2013 and is expected to continue growing. The global mobile ads segment itself may rise to $31.5 billion in 2014 and is expected to triple to $95 billion by 2018. Mobile devices provide marketers unprecedented ability to target ads based on location, time, and other individual consumer data.

Recent surveys highlight the mixed consumer reactions toward use of personal data to target online ads. According to a March 2014 privacy study conducted by research firm GfK, nearly half of the respondents like getting targeted messages from advertisers. Meanwhile, 64 percent do not trust advertisers and marketers handling their data. Along those lines, just over half responded that they would like to see “marketers and advertisers alter their personal data policies and activities.” Other surveys showed even less favorable results. A national Consumer Report survey found that 85 percent of online consumers are not willing to share personal data in order to receive more personalized advertisements. Ad agencies must balance these consumer concerns with the increasing interest from advertisers in targeted ads. A 2010 Network Advertising Initiative study found that, per ad, behaviorally targeted ads generated more than twice the revenue of non-targeted ads.

Highlighting the link between transparency of privacy practices and company revenues from advertising, a study from Carnegie Mellon University found that subjects were more likely to purchase from sites where the privacy policy was clear and transparent. In fact, the study reveals that online shoppers would even be willing to pay a premium for goods sold on sites with stronger privacy policies. While this is not directly related to ads, it stresses the importance of strong privacy policies for both ad agencies and the platforms they advertise on.

A dynamic regulatory environment concerning consumer privacy, use of personal information, and online tracking technologies can affect how some companies in the industry gather information, and could increase penalties for data privacy violations. In October 2013, the EU introduced draft rules for fines of up to €100 million ($137 million) or five percent of annual global sales (whichever is greater) for data protection violations under revisions to the EU’s privacy law. Previously, the maximum fine imposed on a company by privacy regulators was only €100,000. In the US, the FTC has proposed self-regulatory principles. Several privacy bills have been introduced, including the Commercial Privacy Bill of Rights Act of 2011, the Do-Not-Track Online Act of 2011, and the Do Not Track Kids Act of 2011.

Many advertising and marketing companies have joined voluntary self-regulatory programs, which were developed to mitigate risks from
consumer backlash and the changing regulatory landscape. Most major industry associations participate in the Digital Advertising Alliance and commit to self-regulatory principles for mobile environments, multisite data, and online behavioral advertising. As a result, many online advertisers offer opt-out programs for consumers. Similar alliances and opt-out programs exist in Canada and the EU.

Leading firms in the Advertising & Marketing industry acknowledge the risk associated with protecting consumer data. Nine out of the top ten U.S.-based, publicly listed companies highlight the issue in the risk section of their Form 10-K. The issue is also acknowledged in other communications. WPP gives “compliance with privacy and data protection regulations and best practices” a materiality rating of “high” in their 2012-2013 sustainability report. In light of their business strategy, the company highlights the need for proper management of privacy and data protection to expand digital business. The report claims the issue is “associated with contractual, financial, legal and reputation risk” to the company. In response to the risk, WPP has established principles governing data privacy and protection, a tracking system to measure progress in executing the principles, and employee training.

Value Impact

In their Form 10-K filings, advertising and marketing companies recognize the risks associated with data privacy and its material impacts on business and result of operations. The changing regulatory landscape in the U.S. and the EU concerning consumer privacy, the use of personal information, and online tracking technologies could affect the efficacy and profitability of Internet-based and digital marketing, currently the fastest growing segment for the industry. Highly targeted advertising may be viewed as an invasion of privacy and lead to a loss of consumer confidence, as well as reputational damage. Increasing public awareness and regulatory oversight around the issue may result in limits on companies’ ability to provide certain marketing services and products, negatively affecting revenues and growth prospects. As the regulatory environment around collection and use of personal data continues to evolve, the probability and magnitude of these impacts are likely to increase in the short to medium term.

Policies and practices relating to behavioral advertising and consumer privacy can serve as a leading indicator of performance, as robust management systems and alignment with industry best practice suggest a stronger ability to manage the sensitive balance between improving the efficacy of digital advertising

---

 Associations include 4A’s, American Advertising Federation, Association of National Advertisers, Better Business Bureau, Direct Marketing Association, Interactive Advertising Bureau, and Network Advertising Initiative.
campaigns and ensuring an adequate level of customer privacy. This can have a significant impact on ad agencies’ reputations, and ultimately on their ability to retain existing clients and attract new ones.

Companies’ exposure to data privacy risks can be assessed through the percentage of online advertising impressions that are targeted to custom audiences.

The amount of legal and regulatory fines and settlements associated with consumer privacy is a lagging indicator of how well advertising companies have been managing this issue. It also indicates the probability and magnitude of the direct costs associated with large penalties and fines and remediation activities. Lastly, it is a proxy for the effectiveness of a company’s privacy policies and practices, and it indicates potential long-term impacts on reputation and a firm’s ability to attract or retain clients.

HUMAN CAPITAL

Human capital addresses the management of a company’s human resources (employees and individual contractors), as a key asset to delivering long-term value. It includes factors that affect the productivity of employees, such as employee engagement, diversity, and incentives and compensation, as well as the attraction and retention of employees in highly competitive or constrained markets for specific talent, skills, or education. It also addresses the management of labor relations in industries that rely on economies of scale and compete on the price of products and services. Lastly, it includes the management of the health and safety of employees and the ability to create a safety culture for companies that operate in dangerous working environments.

A company’s ability to attract, develop, and retain talent indirectly but significantly influences the results of its operations. Employing a diverse workforce is particularly important to advertising and marketing companies for fostering affinity with and understanding of the customer.85

Workforce Diversity & Inclusion

Competitive advantage in the Advertising & Marketing industry is derived from creative, cutting edge ideas. Companies in this industry aim to attract top talent to create the most successful ad campaigns. Additionally, ad agencies have clients across the globe. In order to be able to effectively reach audiences, companies must employ a diverse workforce.

While women represent half of US advertising employees,86 gender wage gaps remain.87 Additionally, the industry is not as reflective of the general population in terms of racial makeup.88 Research has shown that connecting with target markets relies, to a large extent, upon employing a diverse workforce that is reflective of the communities served. As one Deloitte study explains, “(a) diverse workforce
serving a broadened customer base is a critical success factor because, as market research further demonstrates, a diverse workforce improves service outcomes and enhances financial performance.”

The value of a diverse workforce is particularly pronounced for advertising and marketing companies. For example, employee diversity can help companies gain consumer insights through better understanding of cultural nuances. When consumers can identify with a brand, they are likely to be more loyal. Ad agencies can play a key role in portraying brands to different demographics to garner their support. In addition, as with other talent-driven industries, having a diverse workforce can also help recruit and retain better employees. In a study on race and employment in the advertising industry, authors Marc Bendick, Jr. and Mary Lou Egan discuss how “differences in access to social networks” is one of the barriers to hiring minorities.

Company performance in this area can be analyzed internally and externally through the following direct or indirect performance metrics (see Appendix III for metrics with their full detail):

- Percentage of gender and racial/ethnic group representation for executives, professionals, and all others.

Evidence

According to the U.S. Bureau of Labor Statistics, 50.2 percent of full-time employees in the “advertising and related services” industry are women. Similar percentages are also reported by top advertising companies; in 2012, 52.5 percent of IPG managers were women, as were 47 percent of senior managers at WPP. However, only four out of the 65 creative and co-creative directors of commercials during a recent Super Bowl were female. When comparing median weekly earnings by occupation, BLS reports that female “marketing and sales managers” earned 67.7 percent of their male counterparts’ earnings.

The industry has much to be desired in terms of racial or ethnic diversity. According to the 2010 U.S. Census, the U.S. population breakdown is 72 percent white, 13 percent African American, 5 percent Asian, 0.9 percent American Indian and Alaska Native, and 0.2 percent Native Hawaiian and Other Pacific Islander. The balance of the population reported multiple races or “some other race.” These statistics add up to more than 40 million Latinos, 40 million African Americans, and almost 15 million Asians living in the U.S. However, advertising and marketing professionals do not reflect the same level of diversity. According to an August 2011 report from the U.S. Labor Department’s Bureau of Labor Statistics, 9.6 percent of advertising and promotion managers were Hispanic, 2.3 percent were Asian, and less than one percent
were African American. The same study showed that 5.9 percent of marketing and sales managers in the U.S. were African American, 5.1 percent were Hispanic, and five percent were Asian. 99 In fact, a 2009 study found that about 16 percent of large ad companies employed no African American managers or professionals. 100 While the reasons for these industry level demographics exist throughout the U.S. with many factors at play, including access to education and cultural influence, companies in this industry must find a way to source and retain talent from diverse backgrounds in order to win and successfully execute client work.

A diverse and inclusive workforce is increasingly being recognized in Human Resources (HR) literature as contributing to company value. Recent research suggests that companies with effective management of gender diversity, especially at the leadership levels, outperform their peers. For example, companies with sustained high representation of women on their board of directors outperformed those with sustained low representation by 46 percent on Return on Equity. 101 In a survey of 321 executives from global companies with annual revenues of more than $500 million, 85 percent of respondents agreed that a diverse and inclusive workforce provides different perspectives and ideas that foster innovation. 102 Additionally, companies with a diverse workforce may be able to expand market share. The then-CEO of Foote, Cone & Belding (formerly DraftFCB), a subsidiary of Interpublic Group of Companies, mentioned in a 2010 Wall Street Journal article that “multicultural advertising” was one of the firm’s fastest growing segments—with revenue from that segment doubling between 2008 and 2010. 103

Companies in this industry have made considerable efforts to increase diversity in their staffs. At the same time, they are focused on retaining the talented staff they have worked to attract. Carol Watson, a cross-cultural talent consultant, said in a recent Advertising Age article she has noticed increasing numbers of employee resource groups and affinity groups at larger marketing agencies. Not only have some companies, such as WPP, hired in-house diversity recruiters, but the issue is coming up at the executive level. WPP’s CEO Rob Norman said that he allocated more time on diversity hiring then he expected when he began his role as CEO in 2010. Interpublic Group’s Senior Vice President and Chief Diversity and Inclusion Officer, Heide Gardner, said the group’s workforce data has shown continued progress, with “year-over-year improvement for women and people of color at both the manager and executive levels.” Interpublic also ties executive compensation incentives to diversity-hiring targets. 104 As ad firms are trying to recruit more minority talent, the focus is shifting to retaining and recruiting talent. 105 Attracting talent is part of creating a diverse workforce, and should be paired with creating a culture that fosters employee retention and development.
The Super Bowl is unique in that viewers pay almost as much attention to the advertisements as they do to the action on the field. The Super Bowl is also an excellent case study of diversity in advertising because of the imbalance between the diversity of its viewers and that of the advertisement’s creative directors. NFL teams are diverse, their fans are diverse, but the creative minds behind Super Bowl commercials are predominately white males. Nielsen demographics data show that for the 2011 Super Bowl there were 111 million viewers, 12.5 million of which were African-American, 10 million Latino, and 51.2 million female. However, of the 66 advertisements aired during the game, only eight featured a person of color in the lead role. That makes up 9 percent of the total commercials, versus 20 percent of viewers who were minorities. Of the 65 creative and co-creative directors that produced the 2011 event’s commercials, two were African-American, one was Asian, one was Latino, and four were women.\textsuperscript{106}

**Value Impact**

Given the importance of targeting for ad efficacy, a diverse and inclusive workforce can help ad agencies to develop campaigns that reflect the increasing diversity of customers, both in the U.S. and abroad. This can improve their ability to attract and retain clients and increase market share. Moreover, a diverse and inclusive workforce can have a positive impact on a company’s reputation and increase its brand value. On the downside, poorly targeted campaigns can be perceived as discriminatory and lead to consumer backlash. In addition, non-compliance with FCC regulations on equal employment opportunities could lead to extraordinary expenses and contingent liabilities. Combined, these factors can lead to lower growth projections for revenue and profits and, ultimately, diminished shareholder value.

Gender and racial/ethnic group representation is a proxy for how well ad agency staff is positioned to serve the broad but diverse set of consumers targeted by their clients. A comparative look at the diversity at executive, professional, and all other levels provides an indication of how well companies develop and promote a diverse and inclusive workforce beyond initial hiring, specifically for creative positions. Both measures provide an indication of companies’ absolute and comparative performance in this area, and the potential impact of diversity on ad agencies’ reputation and brand value.
REFERENCES


4 Data from Bloomberg Professional service accessed on September 30, 2014, using the ICS <GO> command. The data represents global revenues of companies listed on global exchanges and traded over-the-counter from the Advertising & Marketing industry, using Levels 3 and 4 of the Bloomberg Industry Classification System.


8 The Interpublic Group of Companies, Inc. Form 10-K. 2013. p.5.

9 Author’s calculations based on Data from Bloomberg Professional service, accessed on October 30, 2014, using the BI ADVTG <GO> command. Industry. Data Library. “Global Ad Revenues ($M, Zenith).


18 Data from Bloomberg Professional service accessed on November 17, 2014, using the BI ADVTG <GO> command, ‘Macro.’


Data from Bloomberg Professional service accessed on October 30, 2014, using the BI ADVTG <GO> command, Industry, “Global Ad Revenues ($M, Zenith).”


http://www.aboutads.info/principles/.


Omnicom, IPG, and Clear Channel Communications, Form 10-K. 2012.


93 Data from Bloomberg Professional service, accessed on September 30, 2014 using Equity Screen (EQS) for US-listed companies (including those traded primarily OTC) that generate at least 20 percent of revenue from their Advertising & Marketing segment and for which Advertising & Marketing is a primary SICS industry.


APPENDIX I: Five Representative Advertising & Marketing Companies

<table>
<thead>
<tr>
<th>COMPANY NAME (TICKER SYMBOL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Omnicom Group Inc. (OMC)</td>
</tr>
<tr>
<td>WPP plc (WPPGY)</td>
</tr>
<tr>
<td>Interpublic Group of Companies, Inc. (IPG)</td>
</tr>
<tr>
<td>Alliance Data Systems Corp. (ADS)</td>
</tr>
<tr>
<td>Publicis Groupe (PUB)</td>
</tr>
</tbody>
</table>

This list includes five companies representative of the Advertising & Marketing industry and its activities. This includes only companies for which the Advertising & Marketing industry is the primary industry, companies that are U.S.-listed but are not primarily traded Over-the-Counter, and for which at least 20 percent of revenue is generated by activities in this industry, according to the latest information available on Bloomberg Professional Services. Retrieved on September 30, 2014.
## APPENDIX IIA:

**Evidence For Sustainability Disclosure Topics**

<table>
<thead>
<tr>
<th>Sustainability Disclosure Topics</th>
<th>EVIDENCE OF INTEREST</th>
<th>EVIDENCE OF FINANCIAL IMPACT</th>
<th>FORWARD-LOOKING IMPACT</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HM (1-100)</td>
<td>IWGs % Priority</td>
<td>EFI Revenue &amp; Cost</td>
</tr>
<tr>
<td>Advertising Integrity</td>
<td>63*</td>
<td>100 1 High</td>
<td>•</td>
</tr>
<tr>
<td>Data Privacy</td>
<td>50*</td>
<td>83 2 High</td>
<td>•</td>
</tr>
<tr>
<td>Workforce Diversity &amp; Inclusion</td>
<td>50*</td>
<td>67 3 Medium</td>
<td>•</td>
</tr>
</tbody>
</table>

**HM:** Heat Map, a score out of 100 indicating the relative importance of the topic among SASB’s initial list of 43 generic sustainability issues; asterisks indicate “top issues.” The score is based on the frequency of relevant keywords in documents (i.e., 10-Ks, 20-Fs, shareholder resolutions, legal news, news articles, and corporate sustainability reports) that are available on the Bloomberg terminal for the industry’s publicly-listed companies; issues for which keyword frequency is in the top quartile are “top issues.”

**IWGs:** SASB Industry Working Groups

%: The percentage of IWG participants that found the disclosure topic to likely constitute material information for companies in the industry. (-) denotes that the issue was added after the IWG was convened.

**Priority:** Average ranking of the issue in terms of importance. One denotes the most important issue. (-) denotes that the issue was added after the IWG was convened.

**EI:** Evidence of Interest, a subjective assessment based on quantitative and qualitative findings.

**EFI:** Evidence of Financial Impact, a subjective assessment based on quantitative and qualitative findings.

**FLI:** Forward Looking Impact, a subjective assessment on the presence of a material forward-looking impact.
### APPENDIX IIB:
Evidence Of Financial Impact For Sustainability Disclosure Topics

<table>
<thead>
<tr>
<th>Evidence of Financial Impact</th>
<th>Revenue</th>
<th>Operating Expenses</th>
<th>Non-operating Expenses</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Cost of Capital</th>
<th>Industry Divestment Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising Integrity</td>
<td>•</td>
<td></td>
<td></td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data Privacy</td>
<td></td>
<td>•</td>
<td></td>
<td>•</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workforce Diversity &amp; Inclusion</td>
<td>•</td>
<td>•</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Bolded cells indicate HIGH IMPACT**

**Medium gray cells indicate MEDIUM IMPACT**
## APPENDIX III: Sustainability Accounting Metrics | Advertising & Marketing

<table>
<thead>
<tr>
<th>TOPIC</th>
<th>ACCOUNTING METRIC</th>
<th>CATEGORY</th>
<th>UNIT OF MEASURE</th>
<th>CODE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising Integrity</td>
<td>Amount of legal and regulatory fines and settlements associated with false, deceptive, or unfair advertising*</td>
<td>Quantitative</td>
<td>U.S. Dollars ($)</td>
<td>SV0301-01</td>
</tr>
<tr>
<td></td>
<td>Percentage of campaigns reviewed for adherence with the Advertising Self-Regulatory Council’s (ASRC) standard, percentage of those in compliance</td>
<td>Quantitative</td>
<td>Percentage (%) by revenue</td>
<td>SV0301-02</td>
</tr>
<tr>
<td></td>
<td>Percentage of campaigns that promote products or services deemed socially harmful and subject to restrictions or taxes on use</td>
<td>Quantitative</td>
<td>Percentage (%) by revenue</td>
<td>SV0301-03</td>
</tr>
<tr>
<td>Data Privacy</td>
<td>Discussion of policies and practices relating to behavioral advertising and consumer privacy</td>
<td>Discussion and Analysis</td>
<td>n/a</td>
<td>SV0301-04</td>
</tr>
<tr>
<td></td>
<td>Percentage of online advertising impressions that are targeted to custom audiences</td>
<td>Quantitative</td>
<td>Percentage (%) by revenue</td>
<td>SV0301-05</td>
</tr>
<tr>
<td></td>
<td>Amount of legal and regulatory fines and settlements associated with consumer privacy**</td>
<td>U.S. Dollars ($)</td>
<td>n/a</td>
<td>SV0301-06</td>
</tr>
<tr>
<td>Workforce Diversity &amp; Inclusion</td>
<td>Percentage of gender and racial/ethnic group representation for: (1) executives, (2) professionals, and (3) all others</td>
<td>Quantitative</td>
<td>Percentage (%)</td>
<td>SV0301-07</td>
</tr>
</tbody>
</table>

*Note to SV0301-01: Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.

**Note to SV0301-06: Disclosure shall include a description of fines and settlements and corrective actions implemented in response to events.
APPENDIX IV: Analysis of SEC Disclosures | Advertising & Marketing

The following graph demonstrates an aggregate assessment of how representative U.S.-listed Advertising & Marketing companies are currently reporting on sustainability topics in their SEC annual filings.

<table>
<thead>
<tr>
<th>TYPE OF DISCLOSURE ON MATERIAL SUSTAINABILITY TOPICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising &amp; Marketing</td>
</tr>
<tr>
<td>Advertising Integrity</td>
</tr>
<tr>
<td>Data Privacy</td>
</tr>
<tr>
<td>Workforce Diversity &amp; Inclusion</td>
</tr>
</tbody>
</table>

IWG Feedback*

*Percentage of IWG participants that agreed topic was likely to constitute material information for companies in the industry.