



UNIVERSITY OF SOUTHERN CALIFORNIA

Annenberg School for Communication

STRATEGIC PUBLIC RELATIONS CENTER

GAP III

3rd ANNUAL PUBLIC RELATIONS GENERALLY ACCEPTED PRACTICES (GAP) STUDY (2004 DATA)

Sponsored by the Council of Public Relations Firms

SECTION II: EXECUTIVE SUMMARY

By

Jerry Swerling, MA

**Director of Public Relations Studies and the Strategic Public Relations Center
Professor of Professional Practice
USC Annenberg School for Communication**

Ian Mitroff, Ph.D.

**Associate Director, USC Annenberg Strategic Public Relations Center
Professor, Public Relations Studies, USC Annenberg School for Communication
Harold Quinton Professor of Business Policy, USC Marshall School of Business**

**Jeffrey Hall, PH.D Candidate - Communication
USC Annenberg School for Communication**

Senior Research Associate, USC Annenberg Strategic Public Relations Center

**Daniel King, MA Candidate - Strategic Public Relations
USC Annenberg School for Communication**

Senior Project Leader, USC Annenberg Strategic Public Relations Center

**Daniela Zeltzer, MA, Strategic Public Relations
USC Annenberg School for Communication**

Research Associate, USC Annenberg Strategic Public Relations Center

Tom Waldman

Editorial Associate, USC Annenberg Strategic Public Relations Center

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A. The State of the Industry: A Bounce-Back Year and a Far Brighter Outlook

The 347 PR practitioners that responded to GAP III were decidedly more optimistic about the state of the industry than those who responded last year, when the profession suffered some serious setbacks due to economic uncertainties and the challenges facing the US. That new sense of optimism transcends the various categories used in the study to distinguish one group of organizations from another. GAP III respondents reported that:

- Their CEOs now believe that PR contributes to organizational success more than any other organizational function, including Marketing, Legal, Finance, etc. (This after two years of abysmally low rankings for PR.)
- PR receives more support from senior management.
- PR's role is expanding in many organizations.
- Budgets and staffs grew, almost across the board.
- Budgets were expected to grow in 2005 as well.
- PR now typically reports to the Executive Office in all categories.

More specifically:

1. **Budgets grew** -- Among all revenue categories (Fortune 500, Fortune 501-1000, Fortune 1001-2000, Fortune 2001-5000, Fortune 5001-20000, Fortune 20000+) PR budgets rose by an average of 3% in 2004 versus 2003, with much larger increases in some categories. Of equal significance, companies that reported increased budgets in 2004 expected another budget increase in 2005.
2. **PR staffs grew** – Outside of the Fortune 500, every revenue category remained the same or increased PR staff size from 2003 to 2004.

3. **PR's self perception dramatically improved** – Respondents indicated that their CEOs now believe that PR makes a greater contribution to organizational success than eight other common disciplines (Finance, Legal, Marketing, HR, Information Systems, Sales, Security, Strategic Planning). On a scale of 1 (“Does Not Contribute”) to 7 (“Contributes Significantly”), PR scored 5.51 in 2004 versus 5.09 in 2003 and 5.20 in 2002. In addition, PR was ranked #1 in 2004 in this category versus #6 in GAP II (2003) and GAP I (2002). PR's rise was accompanied by either stagnation or declines in the rankings of the other eight functions.
4. **Management support for PR increased** – Management support for PR increased in every revenue category in 2004 versus 2003. The rise was most striking in the case of Fortune 500 companies; 6.12 in 2004 versus 5.71 in 2003. The cumulative score of 5.72 was well above the 5.23 recorded in 2003, but below the 5.9 average in 2002.
5. **PR's recommendations were taken more seriously** – Regarding the extent to which PR's recommendations are taken seriously, the average score (on a 1-7 scale) rose among all revenue category respondents from 5.36 in 2003 – as noted in the GAP II Executive Summary – to 5.75 in 2004.
6. **PR contributed more to strategic planning** – When asked to rank on a 1 (low) to 7 (high) scale the extent to which PR contributed to strategic planning within their organizations, PR increased across all revenue categories in 2004 versus 2003 and 2002.
7. **PR reported more often to the “C” Suite** – More often than not, PR now typically reports to the “C-Suite” in organizations of all types. In four of six surveyed categories the percentage of companies reporting to the “C” suite rose in 2004. The considerable (16%) decline in the number of Fortune 500 companies that reported to the “C” suite must be viewed in light of the large increase in the number of respondents in this category in 2004 versus 2003.
8. **The agency industry had good news and fair news** – GAP III data indicates that 2004 was a stabilizing year for PR firms that showed a good deal of improvement over 2003 and promise for 2005. While in 2004 the percentage of larger organizations working with agencies either remained flat or grew slightly, the percentage of clients among smaller organizations declined. On the other hand, clients generally allocated greater percentages of their total PR budgets to agencies. These two points combined suggest larger budgets from larger clients. However, added to the mix are the findings that the “Agency of Record” relationship model saw diminished usage, and that clients are generally working with multiple, but still fewer, agencies.

Regarding the reasons why clients choose to work with agencies, while “Extra Arms and Legs” remains the number one reason cited, the continued strength of “Compliments our internal capabilities” can be seen as an indicator of the importance clients place on turning to agencies for specialized and/or deep expertise. Likewise, the movements of “Strategic/Market Insight and Experience” from #4 to #3, and “Objective Point of View” from #6 to #4, suggests that, as business conditions improve, clients are again turning to agencies for intellectual value, rather than pure labor.

As for the concerns clients have about working with agencies, there were no significant increases or decreases in client concerns. “Cost” continues to be the single, most consistent factor among organizations of all types. In the Fortune 1001-2000 revenue category, “Lack of Knowledge/Insight into Our Business” ranked a high 5.27 out of a possible 7 (strongly agree), versus 5.24 in 2003. In the Fortune 500 revenue category, “Perceived ROI” scored 4.58 in 2003 and 4.64 in 2004.

The bottom line for PR firms: Increasing numbers of clients are using a model in which they distribute a larger number of dollars, among a smaller number of agencies, rather than any single agency. While many of those client value the “Extra Arms and Legs” agencies provide, there appears to be a trend toward increased reliance on their more intellectual and strategic assets. In addition, with the role of public relations valued more within client organizations, there may be more opportunity for PR firms to make significant contributions. The outcome: a far more competitive environment for agencies – one in which the importance of making themselves indispensable and cost-effective, while providing outstanding service beyond just labor in a cost effective way.

B.

What it Takes to be a “Most Admired Company” (MAC)

When comparing the characteristics of companies on Fortune’s “Most Admired” list (MACs) to those not included on that list (Non-MACs), it is essential to bear in mind the generally larger average size of MACs, the greater frequency of public ownership among them, and the more complex communications environments they often face as a result of the first two points. That said, the characteristics that distinguish MACs from Non-MACs include these:

1. While senior management in both MACs and non-MACs ranked PR at or near the top of nine functions’ contributions to success in 2004, other queries indicated that MACs provide more support for PR than non-MACs. (In the case of both MACs and non-MACs the numbers improved in 2004 versus 2003). For example, in the all-important budget category, MACs allocated more funds to PR – with or without salaries -- than did non-MACs. Among Fortune 2000 companies, the average PR budget for MACs (with salaries) was \$9.2 million, as opposed to \$3.8 million for non-MACs.
2. Among Fortune 2000 companies, MACs perceived themselves as more “Proactive” and more “Democratic” than did non-MACs.
3. When evaluating PR, MACs utilized the following measures more frequently than non-MACs: “Influence on Corporate Reputation,” “Inclusion in Business Ranking Lists,” “Praise from the “C” Suite,” and “Influence on Stock Performance.”
4. MACs were significantly more likely to use outside PR agencies than non-MACs, possibly due to their larger size, likely public ownership, complexity, and need for additional external resources. Specifically among the Fortune 2000, 81% of MACs used outside agencies as opposed to 71% of non-MACs.

C. Shifts in the Characteristics of MACs

An examination of how the characteristics of MACs changed from 2003 to 2004 reveals:

1. They rank PR higher in terms of its contribution to success than they did in either 2002 or 2003.
2. They are significantly more likely to involve PR in strategic planning.
3. They are significantly more likely to take PR’s recommendations seriously.
4. They rank Legal significantly lower in terms of its contributions to success.
5. Regarding the Salary/Budget relationship, among Fortune 2000 respondents, MACs allocated 43% their budgets to salaries in 2004, as opposed to 44% percent for non-MACs. These figures represent a reversal of 2003, when MACs allocated 45% of total salaries to salaries while non-MACs allocated 33% to payroll.

6. Regarding PR Reporting Lines, among the Fortune 2000, PR reported to the Executive Office 50% of the time for MACs as opposed to 53% among non-MACs. In addition, within the Fortune 2000 MACs, PR did not report at all to HR while non-MACs reported to HR 17% of the time. MACs reported to Legal 22% of the time among MACs, versus 12% for non-MACs. The figures for marketing were nearly identical; MACs reported to Marketing 17% of the time, as opposed to 16% for non-MACs.
7. Regarding PR staff size, among the Fortune 2000, on average, MACs have larger PR staff than non-MACs, 44.2 people versus 22.4. The average size of MAC PR staffs increased by nearly two people in 2004 versus 2003, while the average size of Non-MAC PR staffs increased by one person.
8. Regarding the use of outside PR agencies among the Fortune 2000, MACs' use of outside agencies (81%) is greater than that of Non-MACs (71%). "Agency of Record" remained the most common type of agency relationship, although use of agencies on a "Project Basis" increased. The most often cited reason for working with agencies was "Additional Arms and Legs." Both MACs and Non-MACs allocated far greater shares of their budgets to agencies in 2004 versus 2003. For MACs the increase was 31%, while for non-MACs, it was 33%.
9. Regarding PR evaluation methods, MACs spent more as a percentage of total PR budget on PR measurement and evaluation than did non-MACs. "Influence on Corporate Reputation" remained the most commonly cited metric. MACs scored a total of nine possible evaluation metrics above 4 (neutral) on a 1-7 scale, while non-MACs scored seven above neutral. These figures narrow the gap from 2003, and as such suggest that Non-MACs are becoming more aggressive about evaluation. MACs ranked "Influence on Employee Attitudes/Morale" second, while this was third among Non-MACs. MACs placed a bit less reliance on media-related measures than did non-MACs.

As was the case in both the GAP I and GAP II studies, those "hard" measures potentially offering the greatest degree of support from senior management ("contribution to sales," "contribution to profitability," "contribution to market share," etc.) were at the bottom of the rankings for MACs and non-MACs alike.

D.

Private Companies, Non-Profit Agencies, and Government Agencies

1. **Budgets** - The average PR budget (including salaries) among Fortune 2000 private companies was \$2,667, 071, as opposed to \$7,988,881 among Fortune 2000 public companies. When salaries were deducted, a significant gap remained: \$4,079, 804 (Fortune 2000 public companies) versus \$1,402,500 (Fortune 2000 private companies). Private Fortune 2000 companies allocated an average of 42% of their PR budgets to salaries vs. 54% for similar-sized public companies. Among Fortune 2000+ companies, the average PR budget for private was \$767,187, for public, \$1,263,972, and \$1,492,958 for government/non-profit. The private companies in this category allocated 44% of their budget for salaries, as opposed to 45% for public companies and 50% for government/non-profit.
2. **Budget changes** – Across the board, companies increased their budgets in 2004, and anticipate increasing their budgets in 2005. For 2005, public companies in the Fortune 2001+ category projected the largest budget increase, 13.26%. Private companies in the same revenue category anticipate increasing their budgets for 2005 by an average of 10.44%.
3. **Reporting Lines** – PR functions among private companies, public companies, government agencies, and non-profit agencies, reported most frequently to the Executive Office, by a significant margin. An average of 63% of Fortune 2000 private companies reported to the CEO in 2004, an increase of 13% over 2003. In the Fortune 2001+ category, marketing was second for private (43% of the time) and public (27% of the time) companies, as well as government/non-profit agencies (23% of the time). However, among Fortune 2000 public and private companies, PR reported to Legal more often than Marketing, though not by a wide margin.
4. **Staff size** – Fortune 2000 private companies added an average of 1.01 staff members, while Fortune 2000 public companies added an average of 1.24 people in 2004 over 2003.
5. **Use of Agencies** – Across all revenue categories, private companies were less likely to use PR agencies than public. Some 37% of private respondents in the Fortune 2000 category reported not using an agency at all in 2004. For private companies in the Fortune 2001+ category that figure increased to 45%. Still, these percentages represent an increase over 2003 in private company usage of agencies. Government and non-profit agencies used PR agencies an average of 56% in 2004.

6. **Reasons for using agencies** – Private and public companies in both revenue categories, as well as government and non-profit agencies, reported that the #1 reason they turn to agencies is for “Additional Arms and Legs.” This ranking is consistent with 2003. Both public and private companies among the Fortune 2000 gave “Compliments our Internal Capabilities” as the second most compelling reason for hiring an agency, which was also true of government and non-profit agencies.
8. **Concerns about working with agencies** -- Private and public companies in both revenue categories, as well as government and non-profit agencies, responded that “Cost” is the #1 concern about working with agencies. Public and private companies in the Fortune 2001+, as well as government and non-profit agencies, cited “Lack of Knowledge/Insight into our Business” as the #2 concern about working with agencies.
9. **PR Evaluation** – As with public companies, there was no standard approach to evaluation among the private companies, government agencies, and non-profit agencies. However, “Content analysis of clips” declined significantly among the biggest private companies as an evaluative measure in 2004 versus 2003.

As noted earlier, the authors of the GAP II study suggested that a “Bunker Mentality” created serious problems on a number of fronts for the PR industry in 2003. The “Bunker Mentality” was attributed to factors outside of the immediate purview of PR, including fear of terrorism, a spate of heavily publicized corporate scandals, the war in Iraq, and general uncertainty about the economy. These conditions led to a decline in the perceived value of PR and a corresponding rise in the stature of finance and legal, the more defensive functions.

PR’s comeback in 2004 would strongly suggest that the same external conditions that precipitated the “Bunker Mentality” the previous year had begun to decline in significance. More specifically, America is learning to live with the fear of terrorism, the economic outlook has generally improved, the war in Iraq is less inflammatory (if not less controversial), and corporate scandals were not so prevalent – and may even be contributing to the increased significance of public relations in the C-suite. As a consequence, companies in all revenue categories, MAC and non-MAC, viewed PR with more favor in 2004 versus 2003.