



**FOURTH ANNUAL PUBLIC RELATIONS
GENERALLY ACCEPTED PRACTICES (G.A.P.)
STUDY
(2005 DATA)**

GAP IV

SECTION II: EXECUTIVE SUMMARY

By

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USC ANNENBERG STRATEGIC PUBLIC RELATIONS CENTER – GAP IV

SECTION II: EXECUTIVE SUMMARY

A. GAP RESPONSE INCREASED DRAMATICALLY

The 42% increase in number of respondents (from 347 in 2004 to 496 in 2005) suggests that the study is gaining acceptance as an important management resource for the entire Public Relations profession. The larger response this year from non-commercial organizations, coupled with anecdotal evidence, suggests that these organizations are increasingly facing the same demands for hard data, as their commercial counterparts.

A broad cross section of the industry participated in GAP IV, indicating that the need to access and compare data related to the management of the PR function is not limited to any particular size or type of organization.

Respondents to the survey broke down as follows:

- Public 42.6%
- Private 24.2%
- Government Agency 4.7%
- Not-for-profit 28.5%

B. THE STATE OF THE INDUSTRY: STABILIZATION AND NORMALIZATION

When compared with the hugely inflated and overly optimistic years of the Internet bubble, the erratic and generally negative conditions of 2002 and 2003 (as described in GAPs I and II), and the “Bounce Back” year of 2004 (as described in GAP III, which reflected a great sense of exuberance across the profession), GAP IV (conducted in Q4 of 2005) suggests that the industry has finally entered a period of greater stability and normalization. While this finding will have to be confirmed by further study in 2006 and subsequent years, as of this writing (April, 2006) the authors see no economic or other factors on the immediate horizon that will significantly alter the professional landscape.

The bottom line: 2005, bereft as it was of major destabilizing influences, may have been the first truly “normal” year the profession has enjoyed in some time, and the ideal benchmark year against which to gauge the profession’s future progress and evolution.

C. AT-A-GLANCE HIGHLIGHTS FROM THE GAP IV SURVEY:

- The data would appear to confirm the hypothesis that 2005 was a healthy year of stabilization and normalization for the profession, with most indicators remaining positive and no dramatic swings in one direction or the other.
- In 2005 PR budgets increased on average by 4% in all segments, attesting to a strong economic environment for the industry.
- The consistency in year-over-year data suggested that the budgeting tool created by the authors - the PR/GR Ratio - has emerged as an increasingly valid model.
- While projected increases in PR budgets were promising, PR budgets still remained miniscule compared to those spent on advertising. Based on the newly created PR/Advertising Ratio, the average PR budget was 1.28% of advertising budgets.
- Respondents affirmed that CEOs believed PR contributed to moving the business forwards in corporate reputation, market share, financial success and sales (though this varied somewhat from category to category).
- However, on average only 4% of the total PR budget was allocated to evaluation and the quantification of these contributions.
- Increasingly the PR function reported directly to the “C-Suite” at 64% with 25% reporting to Marketing.
- In general companies used fewer outside agencies in 2005 with a year-over-year drop of 3%. However, there has been no significant decline, and some increases, in the percentages of total budgets allocated to agencies. Bottom line: there may be fewer clients, but those remaining are spending more dollars among multiple agencies.
- The traditional Agency of Record model has become a rarity. In general Fortune 500 companies worked with 3 to 4 agencies, Fortune 501 – 5000 worked with 2 to 3 agencies, and smaller companies worked with 1 to 2.

D. BUDGETS

1. Total PR Budgets Rose While The Percentages Allocated To Salary Shrunk Slightly

In 2005, budgets increased on average by 4% in all segments except the Fortune 501-1000 category which decreased at -5%. Fortune 5001-20000 saw the highest increase at 8%. Salaries represented nearly 46% of the total PR budget. Since the smaller revenue categories had the largest percentages of budget dedicated to salaries and the larger companies with larger budgets had smaller percentages allocated to salaries, it may be inferred that the larger companies were working more with outside agencies and resources.

There were statistical correlations revealing that those companies with larger PR budgets were significantly more likely to report to the “C-Suite,” to be invited into organizational strategic planning, to work with more than one PR agency, and to coordinate and integrate the various communications functions.

2. Budgets: Significant Variations by Categories

a. Public and Private Companies

- In the larger revenue category, the average PR budget of Public companies was 23% higher than that of Private companies, while in smaller revenue categories the budget gap shrank to 17%.
- Public companies, irrespective of size, saw PR budgets increase.
- Budgets of Private companies were essentially flat.

b. Health Care, Manufacturing and Technology

- Healthcare and Technology saw budget increases in 2005. The increase in Technology may be evidence of a post bubble recovery.
- Manufacturing saw a slight decrease or remained flat.

c. Not-for-Profit Organizations and Government Agencies

- PR budgets have enjoyed a two-year upswing and another increase is anticipated this year.

3. PR/GR Ratio (Ratio of PR Budget To Gross Revenue): An Increasingly Valid Indicator

The consistency in the year-over-year data suggests that the PR/GR Ratio has emerged as an increasingly valid model. Fortune 500 companies averaged \$646 spent on PR for every \$1 million in gross revenue. Fortune 1001-2000 averaged \$962 spent on PR for every \$1 million in gross revenue. Among larger Public companies, more was spent on PR relative to gross revenue than was spent by larger Private companies.

4. Anticipated Budget Changes

When asked about expected changes to budgets next year (i.e. 2006), most categories reported expected increases of 5% on average. However, the actual size of the increase varied by the size of the current budget, with the larger Fortune 500 budget projecting an increase of 1% and the smaller Fortune 20000+ expecting an increase of 9%. Public companies expect to see their budgets to increase in 2006, while Private companies expect them to decrease slightly or remain flat. Most notable was the nearly 5% increase in PR budgets projected by smaller Public companies.

5. PR Budgets Relative to Advertising Budgets

PR budgets lagged significantly behind advertising budgets. Based on the PR/Advertising Ratio, on average the PR budget represented a mere 1.28% -- less than 2% -- of companies' advertising budgets.

F. EVALUATION: A RECOGNIZED NECESSITY, BUT A LOW PRIORITY

On average only 4% of the total PR budget was allocated to evaluation. This low priority of funding was further reflected in the findings indicating that the "ability to quantify results" ranked 7th out of 9 reasons for companies choosing to work with an Agency. However, when asked, respondents generally, but not overwhelmingly, (4.87 on a 1 to 7 scale) reported that the CEO believed that PR evaluation methods were adequate.

Statistical correlations of responses from various questions revealed that companies with larger PR budgets were significantly more likely to use a combination of the following four evaluation metrics; content analysis, influence on corporate reputation, share of voice, and influence on employee attitudes.

F. EVALUATION (cont'd)

Companies that reported to the “C-Suite” were more likely to utilize a combination of evaluation metrics that included, crisis avoidance/mitigation, and influence on corporate culture, corporate reputations and employee attitudes as well as stakeholder awareness and opinions.

However companies that reported to Marketing were more likely to use a combination of evaluation metrics that included, contribution to sales, total number and circulation of clips, and the number of clips in “top tier” media.

The differences in evaluation metrics used in companies reporting to the “C-Suite” versus Marketing were striking. The former were far more strategic and organizational in nature, while the latter were far more publicity and sales-oriented.

These results when viewed in context suggest that evaluation was a challenge for the entire profession. Respondents affirmed that CEOs believed in PR’s contribution to moving the business forward in corporate reputation, market share, financial success and sales, yet there was a lack of consistency on the methodologies for measuring these contributions.

This report raises fundamental questions: On what do the PR profession and CEOs base their conviction as to the validity of PR’s contribution to their businesses, and why aren’t there more effective ways to demonstrate ROI beyond the current methodologies?

G. REPORTING LINE: A MAJOR FACTOR IN THE PERCEPTION AND VALUE OF THE PR FUNCTION

Increasingly the PR function reported directly to the “C-Suite” at 64% with 25% reporting to Marketing and the other 11% reporting to Human Resources, Legal, Finance and Strategic Planning. Those reporting to the “C-Suite” expressed the highest level of satisfaction with their reporting line (6.35 on a 1 – 7 scale). Those reporting to HR expressed the lowest level of appropriateness at 3.86.

Statistical correlations revealed that those reporting to the “C-Suite” were significantly more likely to report that they received a higher level of support and serious consideration within the organization. Furthermore PR was more likely to be included in organizational strategic planning and senior level meetings of all types. In addition, their CEOs believed that PR contributed to financial success and market share, and that reputation contributed to the overall success of the organization.

G. REPORTING LINE (cont'd)

Companies where PR reported to Marketing were significantly more likely to see PR as making high contributions to sales and are anticipating budget increases next year (i.e. 2006). However, they were less likely to have senior level support or be included in senior level or strategic planning meetings.

Companies where PR reported to Human Resources were more likely to have PR report to multiple units or functions and less likely to have the CEO believe that PR contributed to the financial success of the organization.

Reporting Line: Significant Variations by Cross Sections

a. Public and Private Companies

- Among Fortune 500 companies, at 78% the shift was towards PR reporting to the “C-Suite” and at 17% away from reporting to Marketing.
- Generally speaking, gaining access to senior management was not the issue it had been just a few years ago. The issue has now become what one does with that access.

b. Health Care, Manufacturing and Technology

- PR functions in Technology and Manufacturing were less likely to report to the “C-Suite” and more likely to report to Marketing.
- Manufacturing PR departments, which reported the largest PR budgets, had the largest number of PR employees (10.52).
- Health Care, which reported the smallest PR budgets, had the fewest (8.75). This lower number could be due to the large number of Non-Profits reporting within the Health Care segment.

c. Not-for-Profit Organizations and Government Agencies

- All respondents reported the PR staff grew from 2004 to 2005 and were on par with those of Fortune 2000 companies.

H. OUTSIDE AGENCIES: SPENDING TRENDED UPWARD, BUT THE AGENCY OF RECORD MODEL HAS BECOME OBSOLETE

In general 3% fewer GAP respondents worked with outside agencies than was the case in GAP III. Among Fortune 500 companies there was a drop of 9% to 79%. Likewise Fortune 2001- 2000 saw drops. However, Fortune 501 –1000 saw a 23% growth and Fortune 1001 – 2000 saw a 5% growth. While the overall number of companies using agencies dropped, the average percent of total budget allocated to agencies was up significantly over the previous year. This was consistent with the trend upward since 2003. Bottom line: there may be fewer clients, but those remaining are spending more dollars among multiple agencies.

The traditional Agency of Record model has become a rarity. In general Fortune 500 companies worked with 3 to 4 agencies while Fortune 501 – 5000 worked with 2 to 3 agencies and smaller companies worked with 1 to 2.

Agency Usage: Significant Variations by Categories

a. Public and Private Companies

- On average 25 % of the total PR budget was allocated to PR agencies.
- Private Fortune 2001+ companies allocated the highest percentage of their PR budgets (39%) to agency fees. It is interesting to note that when this statistic was combined with prior data, it indicated that fewer companies in this category were working with agencies, yet they were working with larger budgets.

b. Health Care, Manufacturing and Technology

- Technology used outside PR agencies the most (77%), followed by Manufacturing at 66% and Health Care at 58%.
- Technology allocated the highest percentage of PR budgets (33%) to agency fees.
- Agencies of Record were more popular with Health Care (40%) than with Technology (32%).

c. Not-for-Profit Organizations and Government Agencies

- The overall frequency of using PR agencies by these organizations was not as extensive as it was in the private sector.

I. OUTSIDE AGENCIES: REASONS FOR WORKING WITH OUTSIDE FIRMS REMAINED CONSISTENT

Among all respondents, “additional arms and legs” was the single most popular reason for working with an agency (cited by 51%) followed closely by “complements our internal capabilities” (47%). Overall the larger companies tended to be more comfortable with their agency relationships than were smaller companies.

Of those respondents with concerns or reservations, the number 1 reason by far was “cost” (81%). It should be noted that cost was as much a factor for large and small companies. The second reservation cited at 67% was “lack of knowledge/insight into our business.”

Significant Variations By Cross Sections Concerning The Reason To Retaining An Agency

a. Public and Private Companies

- Public companies used more outside agencies than Private companies.
- The number of agencies used by both types of companies, in both size categories, increased significantly in 2005.
- Public companies were significantly more likely to cite the following reasons for working with agencies: Extra arms and legs; Unique expertise; Objective point of view, and Cheaper than adding staff.
- Private companies were significantly more likely to cite: Extra arms and legs, and Complements our internal capabilities

b. Health Care, Manufacturing and Technology

- Technology companies appeared to have attached greater value to “unique expertise” and “strategic market insight and experience,” perhaps due to the specialized knowledge required to succeed in the technology field.
- Technology companies were the most confident about their agency relationship with 59% citing no reservations as compared to 43% in Manufacturing and 41% in Health Care.

c. Not-for-Profit Organizations and Government Agencies

- The traditional Agency of Record was not favored by most Not-for-Profits (cited by only 36.3%).
- Government agencies tended to use multiple agencies (40%) or have Ad-Hoc relationships (30%).

J. OUTSIDE AGENCIES: PROCUREMENT DECLINED IN AGENCY SELECTION

While there has been much discussion in the industry about the use of Procurement in the selection of agencies, the year-over-year findings showed Procurement slipped to number 5 with only Legal coming in lower as an involved party. The top two decision makers were the PR department and Corporate Communications, numbers 1 and 2, respectively. Results varied by organizational type, with procurement involved more often among government agencies.

K. PR WAS SEEN AS CONTRIBUTING TO THE BOTTOM LINE SUCCESS OF THE COMPANY

When asked about Senior Management's views of the contributions to organizational success of nine common functions, PR moved from number 1 in 2004 to number 4 in 2005. However, this must be seen in the context of the very small ranges separating the top four functions: (1) Finance (5.59); (2) Sales (5.53); (3) Marketing (5.42); (4) PR (5.30).

The authors interpret these results as indicating that 2005 was a year of stabilization and normalization for the profession – one in which stability took the place of dramatic shifts, and excess optimism, in the professional environment.

Significant Variations By Cross Sections Concerning Contributing to the Bottom Line

a. Not-for-Profit Organizations and Government Agencies

- PR was ranked as the top contributor to success among respondents at government agencies and the largest not-for-profits, suggesting that one of the benefits of working in the government or not-for-profit arena is the extent to which PR is seen as an important player.

L. PR'S RESPONSIBILITIES: A MULTITUDE OF RESPONSIBILITIES

When asked which communication-related functions the PR department had primary budgetary responsibility for, the most frequently cited was “Corporate Communications.” This top ranking has held since GAP I. Moving into the number 2 position from number 4 last year was “Employee Communication” (67%). (This movement could have been impacted by the removal of “Internal Communications” to avoid redundancy.) While 66% reported having primary responsibility for “Marketing PR,” this number dropped to 61% among Fortune 500 companies. 64% reported having primary responsibility for external websites, which is significant as this responsibility was considered “up for grabs” just a few years ago.

Statistical correlations revealed that companies whose PR function reported to the “C-Suite” were significantly more likely to be responsible for Community Relations, Corporate Image Advertising, Corporate Intranet, Corporate Reputation, Crisis Management, Executive Communications, External Website, Government Relations, Issues Management, and Public Affairs.

Companies whose PR functions reported to “Marketing” had a more narrowly defined role as they were significantly less likely to be responsible for Corporate Image Advertising, Corporate Reputation, Employee/Internal Communications, Government Relations, Issue Management and Public Affairs.

Companies that increased the PR staff size over the last 1 to 2 years were significantly more likely to be responsible for Corporate Communications, Corporate Intranet, Investor Relations and Issues Management, suggesting these may be growth areas for the profession and individual practitioners.

Significant Variations by Cross Sections

a. Health Care, Manufacturing and Technology

- Health Care PR functions tended to have responsibility for Corporate Communications, Employee Communications, Crisis Management, Community Relations, Corporate External Web Site, Corporate Image-Graphics Standards, Marketing PR, Executive Communications, Corporate Reputation, Corporate Image Advertising, Public Affairs and Issues Advertising.

Significant Variations by Cross Sections (cont'd)

- Manufacturing and Technology PR functions tended to have responsibility for Corporate Communications, Employee Communications, Crisis Management, Community Relations, Corporate External Web Site, Corporate Image/Graphics Standards, Marketing PR, Executive Communications, Corporate Reputation and Corporate Image Advertising.