



## **December 2004 Issue**

It's a tough world out there for CMOs today. Girish Nair and Darren Pleasance, Principals at McKinsey & Company, lead December's issue with pointers on how to survive in a challenging environment.

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## Editor's Cut



This year is rapidly drawing to an end and most tech companies, thankfully, find themselves in a better place than they were a year ago. However, one thing is certain: Even though the economy is improving and revenues rising, the role of the CMO is changing and the new imperative is accountability.

The CMO Council dedicated resources this year to helping CMOs better understand their accountability role through its Marketing Performance Measurement (MPM) initiative. The first-ever MPM study “Measures + Metrics” conducted during the first quarter of the year, the MPM Forum in June at *BusinessWeek*'s offices in New York, the landmark 160-page MPM Report, and the MPM Symposium at the CMO Council Summit in October broke new ground and were firsts for the technology industry. In fact, no other industry we know of has contributed so much “intellectual capital” to the subject of measuring marketing performance.

The MPM initiative will continue as a major focus of the CMO Council in 2005 with a number of new MPM Forums planned for cities in North America and Europe. New research will continue to provide CMOs with the latest MPM insights. For more details on the 2005 program, visit the MPM Program section of the CMOC Web site.


This issue of Marketing Magnified continues the accountability theme with a look at the “Tough New World of the Tech CMO” by Girish Nair and Darren Pleasance, Principals at McKinsey & Company. The article is based upon Girish's presentation at the CMO Summit this year and takes a hard-nosed look at how CMOs can bridge the gap between CEO expectations and the CMOs more traditional role in technology companies.

Brand consultant Nick Wreden also sounds a similar note with his article on how CMOs can remain relevant in a fast-changing marketing environment.

The bottom line is, of course, accountability. And accountability begins with an understanding of the customer, long-term business strategy and business drivers, and CEO/CXO expectations. The keys to CMO success now are less “know thyself” and more “know thy customer and CEO expectations.”

From all of us at the CMO Council a very merry Christmas and a profitable New Year!

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The **Gauging the Cost of What's Lost: Improve the Return on Resource Burn** study examines the attitudes, perceptions and concerns of C-level and sales and marketing executives on how their companies generate prospects, sustain deal flow and close business when they can [Download Report](#) 

## The Tough New World of the Tech CMO

Technology companies' challenges are placing a greater demand on CMOs than ever before. As CEOs face an increasingly competitive environment with narrowing opportunities for growth, they must try to make their companies more customer-centric and naturally expect CMOs to help them with this complex work. But many companies, and some of their marketing leaders, are unprepared for the challenge of retooling the company around customer needs. To make their companies more receptive, build their own skills, and transform themselves into "new world" CMOs, marketing leaders can take three critical steps: convert customer insights into truly differentiated products, focus on the customer experience to drive purchasing and loyalty, and manage and measure marketing performance.

That tech growth has slowed is obvious. Tech companies must now also contend with the commoditization of existing products, the expansion of brand portfolios, an increase in media vehicles and communication channels, fragmenting customer segments, and the emergence of new competitors. Moreover, tech companies have historically faced the uncertainty that comes from being in a product-driven industry, with engineers and scientists dreaming up the "next cool thing" and marketers called in for product launches only.

As growth expectations become harder to meet, tech CMOs must actively seek to bring customer insights to the fore and assume a broader, strategic role in the organization. But do they have the mindset and skills that will allow them to shift gears? Most tech CMOs have risen within the industry and will have to perfect the skills needed to step up strategically and help the organization find new paths to growth. Many are expert at creating product and sales collateral and designing branding campaigns – but unaccustomed to discovering what business problems customers really have or which functionality truly makes a difference.

Even highly skilled CMOs, like those imported from world-class marketing organizations in packaged-goods companies, can run into other problems. A CMO may arrive expecting to wield strategic influence across the organization, yet find a CEO unwilling to give him a place at the leadership table. Or he/she might inherit a widely distributed organization with lots of marketing people working within product groups with only fuzzy accountability to the marketing head. The "outsider" CMO – told to focus on market building and sales collateral or asked to manage a scattered and unresponsive team – will feel frustrated and head for the exits.

It's not surprising that high-tech CMO tenure has become alarmingly short, as a recent survey by Spencer Stuart indicates. Averaging about 30 months, CMO tenure is two-and-a-half times briefer than that of tech CEOs.<sup>1</sup>

CMOs can take three actions that will simultaneously build strategic skills and expand their "footprint" of influence. Then, having earned a place at the top-management table, they will be in a position to fulfill the CEO's heightened expectations.

### **Tap Customer Insights to Develop Truly Differentiated Products.**

Marketing must feed into product development and retool the value proposition of the company's products. Few tech companies work this way today. A classic example is the software maker that adds myriad features to drive purchase of its next release even though most of its customers use only a fraction of the features embedded in the current version. Customer-centric success stories in high tech are rare. Dell offers one example of a company with a clear marketing mindset. Another is Intuit, whose chairman, Bill Campbell, came from the packaged-goods industry and focuses religiously on product usability. Some companies that have followed this path have accelerated time to market by 20-to- 30 percent, gained a price premium over competitors' products, and lowered unit costs by up to 10 percent.

### **Focus on the Customer Experience to Drive Purchase and Loyalty**

The CMO and his group should shape the go-to-market strategy and customer experience, moving beyond the creation of direct-mail lead-generation campaigns to helping decide the strategy itself. They should ask questions like: How are customers buying today and how do they want to buy in the future? Through which channels will they be likely to buy and how well is the company set up to meet that buying need? Can it deliver, for instance, the online buying experience customers want?

Dell's Web experience illustrates the impact of a marketing-driven, technology- buying model. Ideally, the CMO, with an eye on target customer needs, would have the power to shape channel strategy and to some extent the role of and message projected by the sales force. Adopting this new focus has rewarded some companies with up to 25 percent higher purchase and repurchase rates and greater customer satisfaction and loyalty.

### **Rigorously Manage Marketing Performance**

The CMO of the future needs to maximize ROI from marketing investments. He/she can no longer be content just providing tactical support to develop and manage marketing campaigns but must also be accountable to management peers for how marketing dollars are spent. Where those dollars are being spent inefficiently, they must be reinvested so they yield the highest possible impact.

For many tech CMOs - even those at high-performing companies - this may mean retooling to understand the customer funnel and identify bottlenecks, skills they have never before been expected to deploy. Acquiring and using these skills can help the marketing group shake the reputation of spending without focus, even as sales-force spending is relentlessly scrutinized and IT groups are under constant pressure to deliver more with less budget and faster delivery times. For some companies, benefits of rigorous ROI management have been 15-to-25 percent reduction in spend and 4-to-8 percent growth in revenues.

Greater accountability can also come by reshaping how marketing is orchestrated across an organization, something CEOs can support. Marketing at tech companies is often so fragmented, with so many groups reporting to so many different people, that just making one person accountable for a substantial portion of the marketing pie can have a striking effect on ROI.

The new-world CMO must be the "voice of the customer," the steward of customer insights, who communicates these to multiple groups across the company and aligns priorities around them. In this broader role, the CMO helps to shape product development, focuses the organization on the customer experience, and establishes clear measures for marketing performance. The CMO can then enable his company to navigate the competitive, lower-growth environment and meet new expectations for himself as a key management player.

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<sup>1</sup> Spencer Stuart, "CMO Tenure," 2004

## How Marketing Can Stay Relevant

It is the ultimate corporate paradox: The more important marketing becomes to the organization, the less important are those in marketing departments. Marketing's vital role is acknowledged. A survey of 370 marketing and non-marketing executives, conducted by the Association of National Advertisers (ANA) and the consultancy Booz Allen Hamilton, revealed that 75 percent believe marketing has become more important to their firms over the past five years.

Despite its importance, however, marketing is not getting the respect that all those in marketing think they deserve. Few marketing executives ever make CEO. Vice presidents of marketing have a notoriously short shelf life. According to executive recruiting firm Spencer Stuart, the average CMO tenure lasts only 23 months. In the food industry, tenure is only 12 months, barely enough time for business cards to dry. Famed branding observer Don E. Schulz observes: "The marketing function is being pushed lower and lower in the corporate hierarchy."

The reasons for marketing's exile to the corporate doghouse are familiar. Competition has increased and shareholder patience has shrunk more than product cycles. The mass economy, with its simple, predictable marketing tools, is dead. Consumers are more fickle than loyal.

So what is to be done in this environment? How can marketing recover the respect and status it once had, when CEOs sought lunch dates with Mary Wells and other Madison Avenue executives? The ANA study points out some common answers, some commonly ignored suggestions, and, most interestingly, a potential new role for marketing.

The typical answers revolve around marketing's insistence on marching to the beat of its own drummer, even though that makes it out of step with the rest of the organization. For example, the Conference Board found that the top four chief executive challenges for 2004 were: 1) top-line growth (52 percent), 2) corporate agility (42 percent), 3) customer loyalty and retention (41 percent), and 4) innovation (31 percent). By contrast, Booz Allen Hamilton found that marketing executives were focused primarily on: 1) branding guidelines (83 percent), 2) counseling divisions (52 percent), 3) best-practice sharing (52 percent), and 4) developing capabilities (47 percent). No wonder the ANA concluded: "Marketing is disconnected from the CEO agenda."

Signs of the disconnect are everywhere. Marketing prattles on about "brand equity;" CEOs are focused on retention and customer equity. *AdWeek* ranks agencies by how much they persuaded clients to spend with them. *BusinessWeek* ranks firms by profitability and shareholder value.

To address this gap, marketing needs to talk the language of business. That means more than paying obligatory homage to ROI, then using surrogate metrics like "awareness," which has no quantifiable impact on the bottom line. It means using some of the advanced features of Excel. As the ANA study put it: "Some marketing chiefs value unbridled creativity and innovation over multivariate regression models that isolate the incremental consumption delivered by a new ad execution."

It also requires becoming much more knowledgeable about other organizational areas. If branding is defined in terms of being able to sense, deliver and capture customer value, then marketing executives must have working knowledge of supply chain, financial, and product development management as well as ad and PR execution.

Other common-sense suggestions are rarely implemented. For example, pricing is one of the legendary 4 Ps. Yet pricing is most frequently driven by either finance or sales, not marketing. Additionally, marketing needs to learn how to market itself. Ask someone in the warehouse,

accounting, or even human resources what marketing does. The answers will generally revolve around ignorance or cynicism. Those are not much of a base for a prominent organizational role.

But what was most interesting about the study was its all-too-brief look at a potential new role for marketing. This new role has the potential to both raise marketing's stature in the organization and reduce the onus of being expected to measure the un-measurable, such as the impact of community relations.

The new role revolves around new product development and innovation, primarily by facilitating interaction between customers and other organizational areas. The ANA study concludes that "a surprisingly high percentage of correspondents believe [marketing's] most important contributions lie in zones not typically associated with marketing, such as driving innovation and encouraging cross-functional collaboration." In the consumer goods industry, for example, 79 percent felt that marketing was "best positioned to orchestrate across functions" to develop and promote new offerings.

In many ways, this role to spur corporate innovation takes marketing full circle. Marketing's original role, when it started being added to corporate organizational charts in the 1920s, was representing the customer. Marketing was supposed to be a stand-in for the customer, letting product development and other areas know exactly what customers wanted. It wasn't until the 1950s that the role changed to finding and selling the customer.

Because they are the source of all profitability, nothing else is as important as customers to a company. If marketing wants to reverse its current dive into irrelevance, it needs to once again be seen as the "voice of the customer." Ultimately, that will require less advertising and PR, and more customer communication and collaboration. If you're in marketing, start changing your job description and responsibilities if you want to ever reach the top or even keep your job longer than 23 months.

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## **Incorporating Brand - and Marketers - in Mix Can Enhance M&A Outcomes**

In a business environment where “scale wins” and the fastest way to achieve that scale remains the once-again burgeoning merger and acquisition route, the fact remains that this is a path rife with pitfalls.

Various studies by such consulting firms as KPMG and Booz Allen Hamilton suggest that 50 percent to 80 percent of M&A deals under-perform or actually destroy shareholder value within the first five years.

Part of the problem may stem from the way most post-merger integration efforts focus on internal initiatives like identifying cost savings and restructuring jobs. If integration efforts were also applied externally, with measures designed to ensure the combined organizations continued to meet customers’ needs and their expectations of the brand(s) behind them, the longer-term success rates of deals might well improve.

The problem is that brand isn’t comprehensively incorporated into the deal-making equation. The investment bankers, finance, strategy, and operations execs haven’t fully grasped the strategic implications of the brand to the transaction beyond its immediate role in helping acquire customers and achieve scale. In fact, brand has many facets, and as an asset can be leveraged to help businesses enter new markets, reach new customers, and launch new businesses that create organizational value.

Yahoo’s recent acquisition of MusicMatch, for example, lends both concerns enhanced credibility and stature in the online music space. Yahoo gains a more popular brand with consumers, allowing it to extend its reach. With the clout of Yahoo behind it, MusicMatch is in a better position to go toe-to-toe with Microsoft and Apple. Likewise, IBM’s 2002 acquisition of PWC Consulting, for example, solidified the promise of its Business Consulting Group to effect business transformation; having the “people” part of the equation in place closed a huge credibility gap in terms of its ability to bring the pieces (products and services) together.

The scope of the potential impact of brand on deals makes one argument for providing marketing leaders a seat at the deal-making table. Here’s another reason for incorporating brand strategy into the M&A process from the outset: Under new U.S. accounting standards concerning intangible assets, how the acquired brand(s) will be managed – whether they’re kept as-is or retired – affects the way they are valued as part of the deal. Failure to plan ahead has been known to lead to unanticipated (and often substantial) write-offs.

When marketing and brand are not incorporated into the due diligence process, some common failings occur that may prevent mergers and acquisitions from achieving their full potential

Too often, for example, short-term and ultimately short-sighted incentives and rationales can be allowed to dictate how the acquisition is branded. In the AOL/Time Warner merger, the desire to play off AOL’s prominence overshadowed its lack of relevance outside the Internet channel. It illustrated how branding decisions motivated by business politics rather than customer insights can easily lead to loss of customers, employees and shareholder trust, negatively affecting business results. Time Warner dropped the AOL designation from its corporate unit in recognition of the failure of content and distribution convergence and negative publicity emanating from AOL’s accounting practices.

Another failing often revolves around management’s failure to recognize the implications of the financial value of brands that are part of the acquired asset pool. These can carry a value in the millions, if not billions, of dollars. Yet while a rigorous plan is devised and followed to ensure the

value of the other acquired assets is maximized, this does not necessarily hold true for acquired brands. Too often, the acquired brand is integrated into the acquiring company's portfolio without a strategy that thoroughly accounts for communication of the move and, ultimately, how well the "new" organization will be able to deliver against the brand promise at all points of customer interaction.

Awareness is on the rise of the importance of metrics to gauge how well brands are supporting business strategies. Yet metrics programs to gauge how well the acquired brands are performing are not yet widely employed after the assimilation process has begun. There's a strong causal relationship between customer attitudes, customer behaviors, and business results that all businesses should monitor. As a rule – and not only in a merger or acquisition situation – putting related metrics in place is critical to monitor and prove out how well brands are driving business performance.

The current wave of M&A activity will have an end result of creating stronger businesses *and* brands if a brand-oriented lens is applied at all stages of the transaction. But this can only come about if marketers are brought in to the discussion to help ensure that strategic brand benefits are closely tied to the economic benefits of the deal.

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## Survey Shows Firms Mismanaging New Business Activities.

U.S. companies may be suffering huge losses in revenue due to mismanagement of new business development activities, according to an online survey fielded by two leading executive organizations. Many of the corporate officers polled believe revenues at their companies could increase by more than 20 percent through the adoption of improved prospect harvesting practices.

Entitled "Gauging the Cost of What's Lost," the study suggests that while companies may be good at generating large volumes of business leads, most prospects languish because the sales organization is too frequently focused on only closing the most promising and qualified short-term opportunities. According to business acquisition experts, an estimated 80 percent of leads are typically lost, ignored or discarded, compromising top-line revenue growth. Some 78 percent of respondents in this latest survey say their company has no process for re-qualifying and revisiting a business lead once it has passed to the sales department.

The study is based on a third-quarter 2004 online survey of nearly 800 CEOs, CMOs, and other senior-level executives at U.S. companies. Approximately 13 percent of the respondents represent companies with more than \$250 million in annualized revenue. The study was fielded by the Chief Marketing Officer (CMO) Council, whose members include more than 1,000 top decision makers at high-technology companies and the Business Performance Management (BPM) Forum, an elite group of 500 senior managers dedicated to furthering operational visibility and financial accountability at global corporations.

In *Gauging the Cost of What's Lost*, nine out of ten survey participants said new customer acquisition is important to business growth. Yet, approximately 44 percent of all respondents are unsatisfied with the way their companies go after new business. Nearly three-quarters of respondents believe they could increase revenue at least 10 percent with better business development practices and 37 percent say they could increase the top line by more than 20 percent.

Among other survey findings:

- While 53 percent of respondents believe the sales and marketing functions have a close and collaborative relationship, only seven percent feel the two groups work together very effectively to harvest business prospects.
- Fifty-six percent of the respondents don't have a formal process for generating, qualifying, certifying, and validating new business opportunities.
- Fifty-six percent of respondents convert less than 10 percent of their business prospects into deals and approximately 30 percent convert less than five percent.
- Most respondents are not satisfied with their conversion rates and only five percent are very satisfied.
- Nearly half of the respondents say it takes at least six months to close a deal.

To undertake the research, the CMO Council and the BPM Forum joined forces with *BusinessWeek* magazine and *Sales and Marketing Strategies & News* magazine. The online survey was conducted this fall and it was accompanied by one-on-one interviews with senior marketing executives at several major companies. The full report - with detailed findings from the survey as well as a full analysis - is available for download at [www.cmocouncil.org](http://www.cmocouncil.org) and [www.bpmforum.org](http://www.bpmforum.org).

**CMO Council Honors Google, SAP & HP at “CMO of the Year” Awards  
Jonathan Rosenberg of Google, Martin Homlish of SAP and Allison Johnson of HP Singled  
Out By Peers at CMO Council Award Reception on December 8th**

Members of the CMO Council, the premier affinity group of chief marketing officers and executives in the technology industry, recognized three of their peers at Google, HP and SAP during the CMO of the Year award reception at the Computer History Museum in Mountain View, California on December 8.

Based on an online ballot of 1,000 CMO Council members, the 2004 CMO of the Year awards finalists included AMD, Cisco, Dell, EMC, Google, Hewlett-Packard, Mercury Interactive, palmOne, Salesforce.com and SAP. Google’s VP of Marketing , Jonathan Rosenberg, was elected CMO of the Year in the category of Business Value, Growth, and Creation; SAP’s CMO, Martin Homlish, was elected in the Continual Momentum Building category, and HP’s SVP of Corporate Marketing, Allison Johnson, won in the Transformation and Uplift category.

The new annual awards were presented by Geoff Dodge, BusinessWeek Publisher, and winners were elected based upon the market vision, strategy, leadership and creativity employed to build value, momentum and uplift for their organizations. BusinessWeek was the presenting sponsor of the awards and other key sponsors included Prophet and C3 Expo. In-kind sponsors included Restaurant O, Russo Winery and ProExhibits.

“The impact of marketing on business performance, customer experience and brand perceptions of these industry leaders proves the value of this critical function,” said Geoff Dodge, BusinessWeek publisher. “With the right strategies, practices and programs, marketing can profoundly impact the competitiveness and positioning of an organization. We are pleased to partner with the CMO Council to recognize the unique contributions and value created by the marketing teams at these three companies.”

BusinessWeek is the presenting sponsor of the CMO Council award program. CMO of the Year award winners will be recognized for their accomplishments in a full-page ad in the December 20 issue of BusinessWeek.

## The Download

### Recruiting Trends Show Hiring Increase

A survey by CareerBuilder.com and their quarterly employment forecast says that hiring will pick up during the fourth quarter of 2004. In a survey of 700 hiring managers, 38 percent said they expect to do the bulk of their hiring for the year in the fourth quarter. One-in-five workers surveyed said they expect to change jobs by year-end.

The data shows that 52 percent of hiring managers plan to add incremental employees in the fourth quarter while 48 percent expect to replace workers who left. Most of the positions being filled are in the professional and technical service areas, but recruiters and search firms had better move quickly since 62 percent of hiring managers expect to fill positions within 30 days compared to 64 days in the May survey.

While 55 percent of workers surveyed say they are happy where they are, better job prospects elsewhere are motivating one-in-five to seek new opportunities. Another 20 percent say they are dissatisfied in their present situations. Sources of their unhappiness are:

- Compensation – 47 percent
- Workload – 45 percent
- Lack of advancement opportunities – 40 percent
- Poor leadership – 39 percent
- Work/life balance – 32 percent

Segmented by industry, IT workers were most likely to switch jobs (23 percent) with hospitality and retail tied at 21 percent and government third at 19 percent.

### Ad Execs Scramble to Reverse Diminishing Effects of Broadcast Advertising

The 30-second commercial is dying, according to In-Stat/MDR. And while its death is not imminent, the high-tech market research firm believes that both broadcast networks and the advertising community are faced with the stark reality of a future without it or at least a world where its effectiveness is continually diminishing.

The diminishing effectiveness of broadcast advertising can be attributed to two major irreversible trends. The first is the continued erosion of the broadcast TV audience to other forms of electronic entertainment like cable television, DVDs, the Internet and electronic gaming. Second is an increasingly empowered consumer through new technologies like the Personal Video Recorder (PVR) that allows users to skip ads. In addition, the consumer will continue to be empowered through new distribution channels for content, such as DVD by mail and downloadable premium content through services such as CinemaNow and MovieLink.

PVRs have turned the broadcast TV ad business on its head. In-Stat/MDR's research shows that over two-thirds of those with a PVR skip ads, with 75 percent of those individuals skipping over 50 percent of ads shown. Some of the ways broadcast TV execs and advertisers are combating the rise of ad-skipping technologies is through the increased use of product placement. The recent \$7.7 million giveaway of Pontiac cars on Oprah to create a marketing "event" is an example of what is being done today outside of the 30-second commercial.

In addition to looking for ways to best utilize broadcast TV time in the world of PVRs, ad executives are reallocating their ad budgets. The increasingly powerful methods of paid search and broadband video advertising have created highly targeted ways to reach consumers.

The total U.S. electronic advertising market will see an average growth rate of 2.8 percent from 2005 through 2009. The growth will be driven largely by Internet advertising and to a lesser extent cable TV and video game advertising.

Video game advertising is a rapidly growing category. Soon, on-line gaming audiences will be tracked much in the way TV audiences are tracked today. The total market for video game-based advertising will reach \$2.8 billion by 2009.

### **Internet Ad Spending Outpaces Traditional Media Worldwide**

A new report from ZenithOptimedia calculates that print, broadcast, cinema, out-of-home, and Internet advertising expenditures make up 0.99 percent of economic output in 57 countries around the globe and projects that ratio to remain stable in 2005 and 2006.

Europe ad expenditures remain on course to grow faster than U.S. spending in 2005. Europe's advertising-to-GDP ratio has recovered to a healthy trend rate of 0.80 percent and rising. Germany and Italy recovery is strong, also. Spain's ad growth is in line with its vigorous economy and France should sustain stable ad-to-GDP ratios not seen since before the bubble of the late 1990s.