

REPORT
Stockholm, February 20 2007

Communication Index 2006

- Sector growth and development during the previous year

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Introduction

During the autumn of 2005, the Swedish Public Relations Association and Precis conducted a study among the members of the Swedish Public Relations Association aimed at charting the total investments made within the framework of Swedish communication/public relations activity. The Communication Index 2006 is a follow-on from the Communication Index 2005.

Purpose

The purpose of the Communication Index is to provide the members of enacting organisations with facts about the size and development of the sector but also to highlight and give interested parties and outsiders figures to elucidate the extent of the sector. The aim is to annually update the Communication Index either through fresh measurement or through a better understanding of the development of the Communication Index.

By establishing the sector's turnover, development over time and strategic importance, the Communication Index also helps protect the demand for and status of the professional groups.

Objective

The objective of the Communication Index is to provide a basis for ongoing discussion about the relative size, influence and growth of the sector. The Information Index will also contribute to the creation of opinion within important areas such as dissemination of communication/public relations work and methods in the organisations' operations as well as the increased significance of communication work within the framework of leadership.

Implementation

For the Communication Index 2006, an estimated count was made of the total sums invested which were charted in 2005. The estimate was based on a number of indicators and positive drivers affecting the sector, described below.

As a complement to the 2006 enumeration, we have assembled an expert panel consisting of representatives from sector, public activity and the world of research and associated industries to discuss growth and development but above all the fact that market PR, i.e. market communication in dedicated and non-purchased channels is developing into an important component of the overall market mix.

About the Communication Index 2005

The communication/public relations sector amounted to **SEK 36 billion** in 2005. In addition to the identified investment, over 60% of the respondents answered that there was additional money assigned to the area of communication/public relations, in budgets for personnel, finance, sales etc. Of this 36 billion, 12 billion was budgeted by marketing departments for communication/public relations.

Close to 300 respondents took part in the data collection for the Communication Index 2005, with information about budgets including personnel costs and responding to a number of other questions.

About the Communication Index 2006

This year too, the Swedish Public Relations Association and Precis will be providing their members and interested parties an overall picture of what the intensity and development in the sector means in the form of increased investments.

The communication/public relations sector is growing. There are many indicators that the sector's growth is higher and more intensive than for many years. Surveys and studies indicate communication/public relations investments to be increasing more than investments in other traditional channels and media.

Through studying various growth figures both within and outside of the sector, the development of business cycles, purchasing manager's index etc. we consider it likely that the Communication Index for 2006 **will approach SEK 40 billion**. Below, we have chosen to show a member of the most significant indicators of growth in the information/public relations sector.

Preparatory to the Communication Index 2007, the aim is to carry out a comparable measurement, i.e. according to the same method as 2005 to safeguard the development of investments within the communication/public relations sector.

Growth indicators

We have chosen a number of indicators showing that investments in the sector are on the increase. Some indicators originate with data from the Communication Index 2005, some are general for the business cycle in the country, some are general observations for the sector and some are taken from external surveys.

General business cycle indicators also affecting the information/public relations sector include PMI (previously known as the Purchasing Manager's Index), which for the period 2006 increased by 10%, GDP 2006 increased by 4.3% and the Trade Sales figures (from the Swedish Research Institute of Trade) which showed an increase of 7.4% for 2006.

Increased funds from marketing

At the time of the Communication Index 2005, SEK 12 billion was identified as investment taken by marketing departments for communication/public relations. Qualitative questionnaires and surveys carried out by such bodies as the Association of Swedish Advertisers and the consultancy company Minnesota Communications show that marketing managers will be increasing investment within the field of PR/publicity in the next few years.

In interviews and discussions with communication managers within the framework of the Information Index 2006, it is also clearly apparent that marketing departments

and communication departments are increasingly collaborating in order to utilise market activities and render them more efficient. However, increased collaboration does not mean fewer budgeted funds but contributes to an increased emphasis and increased clarity towards the market.

In the Communication Index 2005, 70% of the respondents said they were using more and more communication/public relations methods in their marketing.

Positive salary development

Communication/public relations work is personnel intensive and the Communication Index 2005 confirmed that almost half the sector's investment consists of personnel costs. According to the Swedish Public Relations Association's own salary statistics, we can confirm that salaries in the sector have followed the general salary development, but for such people as senior consultants, MDs at agencies and sole consultants, the development has been significantly greater indicating an increased demand for senior counsel.

Strong demand for skills

In discussion with a couple of recruitment and staffing companies within the sector, we can confirm that the impression of the sector as red hot is correct. During 2006, Hammer & Hanborg increased its turnover by almost 100%. 60% of the recruitments currently made are new recruits, which is a major increase over previous years and indicates growth in the sector. Recruitment to permanent posts is also increasing, as backed up by recruitment company ComSearch, which is specifically seeing an increased demand for new recruitment of press managers.

In January 2005, the Swedish Public Relations Associations job advertising service was launched and between 2005 in 2006 has increased by 270%.

The Swedish National Labour Market Administration has also had a clear increase in the number of public relations officer posts announced there. In 2006, 770 public relations posts were advertised via the Swedish National Labour Market Administration's vacancies bank. In 2005, the corresponding figure was 523. There has therefore been a 47% increase in a year.

A strategic role

Companies and organisations are employing increasingly numbers of people with strategic skill in the field and thereby strengthening the strategic role and importance of communication departments. A new post which has appeared more often in the past year is that of communication strategist. Recruitment companies (see above) are experiencing an increased displacement of skills towards strategy and advising roles and away from production duties within communication/public relations.

In a questionnaire conducted amongst MDs/DGs in 2005 by the Swedish Public Relations Association, it emerged that an increasing number of managers and directors of communication were included in the management group and that the need for professional officers had increased and would continue to do so. 78% of the respondents in the MD/DG questionnaire considered that confidence/reputation was becoming an increasingly important question, and that increased demand for

communication/public relations was attributable to both the activity (65%) and the profession (64%).

Credibility in the media mêlée

The media intensity is ever-increasing. It is becoming increasingly difficult to penetrate with a message and become one of the brands which individuals truly rely on; part of the Trusted Thinkpool (source: Tomorrow's influence, Kairos Future). In addition, 85% of all Swedes believe there is too much advertising today and almost half of all Swedes can envisage paying to avoid advertising (source: Posten's delphi study).

In the Communication Index 2005, the respondents stated that they are increasingly working on brand-building communication/public relations at the expense of purely range advertising. In the light of the media hype, communication/public relations has developed into an area which builds a brand through stability, continuity and reputation. Reputation capital is seen by many within the sector as the current and future pre-requisite which will be increasingly important to safeguard and develop.

Brand responsibility

The number of brands has increased by 100% in the last 10 years (source: SIFO). More brands are battling for attention and the trend is sustaining. In addition, it is becoming increasingly difficult to control brands in a rapidly changeable world.

In the Communication Index 2005 and Swedish Public Relations Association's questionnaire to MDs/DGs in 2005, it was evident that brand responsibility was increasingly included in communication/public relations. Above all, the respondents to the questionnaires stated that brand issues were being brought up in the management group. 85% of the respondents in the Communication Index 2005 included costs of the brand in their budgets.

Purely theoretically, increased emphasis on brand issues means increased earning potential. In a study carried out by consultancy company Stockholm One and Stockholm School of Economics, it was confirmed that if companies on the stock market A-list optimised their brands, this would increase turnover by SEK 387 billion.

Large number of stock market introductions

Each new stock market introduction means major investments in communications and a commitment to continuous communication work. During 2006, 103 new companies were introduced onto the Nordic Exchange (source: OMX). This means the Nordic Exchange is the second largest in Europe; only the London Stock Exchange is bigger. This also means an increase of 250% over 2005, when 41 companies were introduced. In 2004, the figure was 34 companies.

PR agencies growing

There are currently approx. 1,000 consultants working in PR companies with two or more employees. Approx. 800 of these are employed in member companies within PRECIS. In addition to these are large number of sole consultants (200 of which are members of the Swedish Public Relations Association) and freelancers whose numbers are difficult to estimate. In addition, a couple of hundred people are

employed within commissioned journalism on the borders between journalism and public relations.

In the trade organisation Precis, the latest membership survey asked member companies about the development during 2006. The responding companies reported growth of slightly more than 15% for 2006.

Media monitoring increasing

We are seeing a large number of players delivering actual monitoring and comparison of what is being written in the press and on the public arena. Traditional press cuttings have competition in the form of simple search engines which can keep tabs at high-speed on enquiries to companies and organisations. Observers also have competitors such as Infopaq and Magenta.

Public sector growing

The public sector's need to get its share of attention is growing. Of the number of members in the Swedish Public Relations Association, 35% are currently from the public sector compared with 23% 10 years ago. Above all it is the number of communication officers in municipal positions which is increasing. In the past three years, the number of municipalities represented in the association has increased from 70 to 104. The number of municipalities choosing to have communication managers and communication strategies has also increased over time.

Summary of sector growth

The above indicators are acting as drivers for the size of the sector in the sense that they are principally increasing the number of individuals working in communication/public relations issues and driving development within the field.

The growth of the sector derives chiefly from an increased number of people working in the field but also from an increased need for strategic skill/advising within it. This in turn is pulling resources and funds into the sector.

Based on the growth factors defined above and the positive business cycle, we estimate growth in the communication/public relations sector to be in line with growth for the rest of Sweden, indicating that the Communication Index for 2006 is approaching SEK 40 billion.

Market PR in detail

In reporting the Communication Index 2005, we confirmed that one third of the total investment (SEK 12 billion) are funds for communication/public relations initiatives budgeted by marketing departments. We call this market PR, i.e. that part of market communication taking place in dedicated and non-purchased media.

44% of the respondents in the Communication Index 2005 stated that they were putting more money into market PR than before. This fact raises a number of questions which it would be interesting to elucidate:

- Is the communication/public relations field growing at the expense of traditional advertising?
- How are the market and communication departments interacting regarding budgets, activities and results?
- How has the distribution of budgeted funds changed?
- How are budgeted funds being spent?
- Who has power over the funds?

The Swedish Public Relations Association and Precis invited an expert panel (see appendix) so as to have the opportunity to gain a deeper knowledge of market PR work, and changes to it, in companies and organisations.

The concept of market communication and market PR

By market PR, we mean that part of market communication which takes place in dedicated and non-purchased media with the aim of creating positive relationships with customers.

Additional to market PR, we include in the whole concept of market communication, all communication with the customer/market taking place in purchased media, i.e. advertisements, direct advertising, sponsorship rights etc.

The concept of market communication is used in many different ways today and not entirely unexpectedly, our expert panel in complete agreement on the lack of consistency in the use of the term market communication. Depending on who was using the concept, it might represent all communication with the market/customer. However, within the communication/public relations world, the term is most often used specifically for publicity and then as a complement to other marketing activities. Occasionally, it is used synonymously with market PR and some people use it on an equal footing with advertising. Occasionally, the concept also includes other communication initiatives such as Investor Relations and Public Affairs.

We have chosen to focus the discussions around the concept of market PR, i.e. that part of market communication taking place in dedicated and non-purchased media.

A natural part of the market mix

There was agreement that market PR as a phenomenon is growing and that companies/organisations are including activities in the form of market PR and publicity in their planned market communication. The use of dedicated and non-

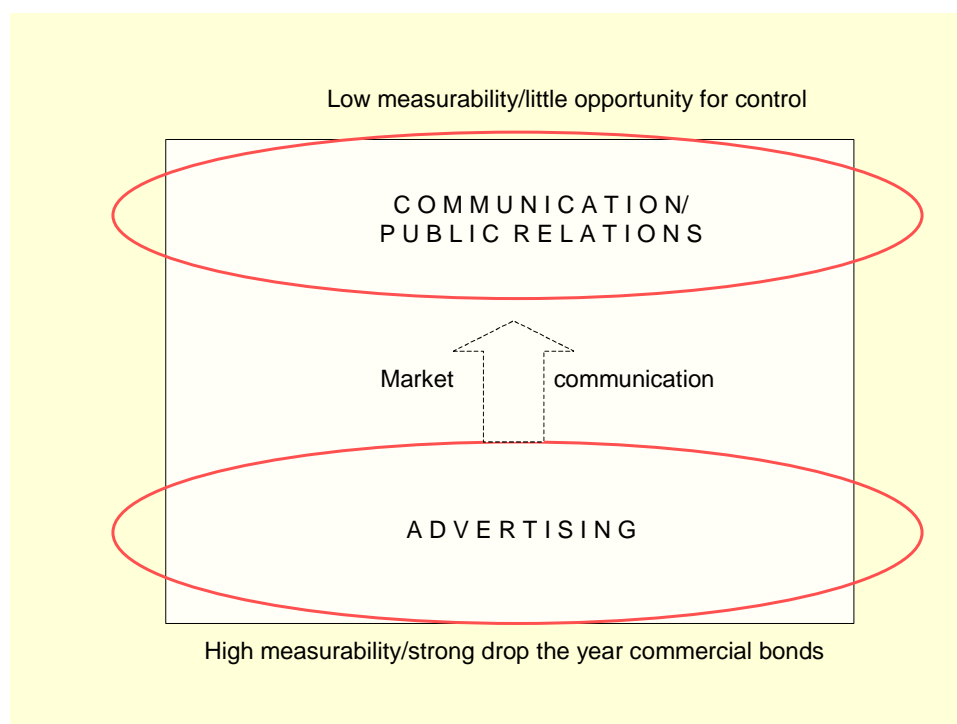
purchased media as complements to traditional purchased media in order to reach out with a message to the market/customer is self-evident.

Some of those interviewed emphasised this by explaining that market PR did not used to be budgeted at all in the market function. Today, funds are set aside for this and it is the marketing department which does so in order to guarantee the effect, presence and integration of market communication as a whole.

A paradigm shift in market communication

Traditional mass communication and communication in dedicated and non-purchased media works on the basis of various conditions related to controlling the effective value of investment in communication. Mass communication in purchased media takes place in an established and accepted business system, where the systems at all stages are well-developed, monitorable, measurable and largely controllable.

The communication/public relations sector, on the other hand, is familiar with working in circumstances where both control and opportunity to measure the value and effect of investment is low. The commercial ties are weak and it is therefore difficult to estimate the value of the investment.



To the above model, we can add that in today's highly active media society is becoming increasingly difficult to control the effects and result of communication activities. Globalisation, technical development, co-creativity and consumer power are some of the changes affecting communication conditions.

At the same time, there is a requirement for increased confidence in the message and increase confidence in companies and organisations if recipients are to listen to

the message. Add to this the fact that the modern, media-savvy recipients of communication can themselves control and choose how, when and what is received, then we can confirm that the opportunity for controlling the effect and results of the message of are becoming fewer.

Under the above conditions, the ability to be creative in one's work without being able to predict or control the effect of the message becomes an important success factor. In order to build reputation and make the sender selectable in the media mêlée, market communication will take place under conditions increasingly resembling those under which communication/public relations operates; and this regardless of channel choice.

Interaction and cooperation

From the Communication Index 2005, we can gather an increased collaboration between communication and marketing departments both in terms of market PR but also on other issues.

The expert panel regards this as self-evident. Communication and marketing departments complement each other by contributing different skills, insights and activities. Communication work is an important balance against the short-term requirements for results and effects which prevails in many sales and/or marketing departments.

Where it concerns market PR, the communication departments provide expert skill, occasionally advising and often implementing the activities in collaboration with marketing departments.

The expert panel considers that integrated communication is self-evident for the huge majority currently in the sector and that collaboration is not just an isolated issue between communication and market, but involves the huge majority of functions in a company or organisation.

Whose responsibility?

The discussion about "who owns the issue" is an interesting one, in the view of the expert panel. It is that type of issue which cements a traditional view on how functions work in the company.

Only an MD/DG can own an issue. On the other hand, taking responsibility in an issue is something many people can do. Obtaining the best people is more important than owning a function.

Budget issues

The communication manager's influence over funds is increasing according to the Communication Index 2005. Communication/public relations budgets will be larger, say the expert panel too. The reasons are that the importance of working on the company's organisation's reputation and confidence is increasing. Such work is being carried out by competent staff and budget issues are thus often a question of the number of staff or level of skill.

On the other hand, the expert panel consider that it is difficult to argue for budgets in budget discussions based on effects and anticipated results. Measuring communication/public relations initiatives is still inexact and there is no unified outlook on what effect is worthwhile in, say, publicity.

Distribution of funds

The expert panel looked at the issue of how funds are distributed and were of the opinion that this, too, was an issue contributing to cementing functional thinking and old structures. Today's working methods are integrated and where, or with whom, the money is budgeted is of no interest. It is interesting to discuss the commercial benefit generated by the earmarked funds and in this regard, the work of the information department on reputation/confidence issues as a prerequisite to the business must be brought out and made clearer.

Some thoughts by the expert panel

At the meeting of the expert panel on 23 January 2007, the panel raised a number of interesting areas of change affecting concepts, approach, attitudes, future conditions and challenges for communication/public relations work.

The original purpose of the expert panel was not to discuss the future and developments in purely general terms, but the discussion was so intense and interesting that we wanted to document and highlight it for ongoing discussion.

Renewal

Discussions were heated on what was perceived by several on the panel as the old cemented function-classified method of looking at the role of communication in an organisation. The role of the modern communication officer is considerably more difficult and complex and cannot be organised as previously. The role of the new communication officer is:

- Larger than channels
- Larger than a single budget
- Larger than an individual function
- Larger than an individual campaign
- Larger than an individual target group
- Deals with feelings, experience and clarity
- Complex and multi-faceted

The new communication challenge is to be the sealant between the company's/organisation's functions and duties and the catalyst for them. It is the case of a strategic skill and a holistic view with the ability to see connections which few can do.

There has long been discussion of a renewal, a generation shift in thinking and action and this is now beginning to become a reality out in companies and organisations. The sector needs to redefine the professional role, the assignment and the challenges. In essence, this means there are many myths and old patterns which must be challenged and changed.

It is time for a revamp and to give the professional role the definition and importance it deserves. "It is time for the communication department to get down off its pedestal" and be operational, pointing out the commercial benefit it actually gives. The task of the information department must be linked more to commercial benefit as a whole. It is a matter of how one chooses to tell one's story. This is where the Communication Index contributes creating interest. However, it would be trite merely to talk about money, since it is much more complex than that. In-depth studies and advanced discussions on the subject of investment are a good way to create debate and interest.

New prerequisites

The sector has not defined and taken the consequences of everything that is happening on the outside world and which has contributed to dramatic changes over

the past decade to the professional role and duties of the communication function. Some of the drivers behind the major changes in conditions under discussion were:

- **Competition** is considerably more multi-dimensional, is everywhere, may come from unexpected quarters and even the public sector must start planning and acting as if exposed to competition
- **Loyalty** – relationships are not long-term. Customers change and break their relationships more easily and more often than before. This requires patience, forward-thinking and confidence in the communication.
- **New channels** – a multitude of channels where the message is difficult to place and own and in many cases cannot be controlled. If communication is to function, no link in the chain must fail.
- **Global world** – contributes to a lack of control. A lot can happen outside our own sphere, region or market and this raises demand for monitoring and communication.

The role of the communication officer today is not just “sending out” information but also “taking” information “into” the organisation. This is often forgotten and not highlighted. The importance of monitoring the outside world, assessing the outside world, mediating outside factors within and beyond the organisation is commercially vital and an important task for the communication officer. The ability to sort and evaluate information is important.

Concepts

It is time to review and renew definitions used in the information and communication sphere. It must be accepted that the purpose of the communication field is also to influence interested parties in its surroundings. “The role of the public communication officer has, by custom and tradition, been to keep to the facts, be correct. Influence has been perceived as manipulation. In this regard, communication officers must see their role change”.

Previously, the division was between “must” as communication and “want” as market communication, but this no longer works. There are demands on the company/organisation from many different quarters and communication must contain a large measure of attractiveness and ambition as well as having the right feel. Everything must interact and be uniform and clear and regardless of target group. “Even B2B customers buy nappies”.

There needs to be a new use of language to which communication officers, with their specialist linguistic nuances and hues, can contribute by starting to introduce a use of language more suited to the role and duties of professionals. A communication officer should be able to take on the role of contributing in the creative process, “hovering above the action” and whipping up a little dust.

A new way of organising and leading

During the discussion about where market PR belongs, the expert panel confirmed that it was very much a matter of conditions in the organisation.

Leadership is communication and the ability to communicate across borders will therefore be an important success factor in future. Everybody is aware of how things should function, but there is an inbuilt sluggishness in the system which should be brought out and clarified in order to change.

Communication work is largely about reputation/confidence, which everything and everybody must be responsible for. "We must be stronger, clearer, more determined today than 10 years ago, in order to get through."

Most companies and organisations currently function as network economies in which everyone delivers in a complex value chain. Communication has a valuable role to fill in the new organisations by being the sealant and the catalyst and thereby contributing tools for creating unity and clarity.

New technologies, consumer power, individual orientation, new methods of segmentation – interest, lifestyle – etc. demand new ways of working in organising the communication work. The consequence is that communication/public relations work, indeed all communication, permeates most things that take place in an organisation. This requires good leadership and a holistic view – this is a genuine and complex task for communication departments and communication officers.

Owner and function discussions must be changed and flexibility built into the method of organising and working. For example, the web cannot be an organisational issue; responsibility for it must be placed where it is most beneficial to the business and contributes from a business development perspective.

On reputation

It is important to remember that it is this reputation which drives commerce and businesses, not advertising. Communication/public relations are a part of the commercial system but there is no accepted system for measuring and demonstrating the value of reputation capital in organisations.

"If my boss understood that it was reputation capital I am working with, then I would be able to command a much higher salary".

Measuring reputation merely through publicity is to trivialise the issue, which merely becomes a hypothetical value and therefore no value at all.

"If something comes without a price tag, we often think it has no value." (Al Gore in his climate campaign)

Finding a way of measuring reputation capital, both that which is informed outwards and that which is taken into the organisation, would be valuable in demonstrating the value of what the communication/public relations industry does.

Preparatory to Communication Index 2007

- How must we change the way of measuring and monitoring the sector? SNI codes etc.
- Communication/public relations is about head-counting. How many people does the sector employ? How is it developing? Number of communication managers; how are we monitoring the development?
- In the Communication Index 2005, we chose to exclude non-profit organisations. How could we include these in the Communication Index 2007 in order to gain a more comprehensive picture?
- How can we measure communication/public relations which are budgeted for within other departments (HR, finance, sales) in companies and organisations in order to gain a more comprehensive picture?
- How is the amount being budgeted in marketing departments of communication/public relations changing?
- How is brand responsibility developing?
- How do companies and organisations follow up the value of their investments in communication/public relations? Can we measure reputational capital?

Appendix:

Participants in the expert panel for the Communication Index 2006

Bodil Ericsson, Director of Communications, SCA

Helena Giertz, Director of Communications, Procordia Foods

Sven Hamrefors (DEc), Stockholm School of Economics

Leif Börjesson, Head of External Analysis, Posten

Joakim Johansson, Consultant, Spacerabbit

Kenneth Danielsson, MD, Wisely

Ulf Dahlquist, Consultant, Gullers Grupp, formerly Communication Manager at Nyköpings Municipality

Nils Lindhe, Business Area Manager, Tradedoubler

In addition, issues and material were discussed with:

Micael Dahlén, Senior Lecturer, Stockholm School of Economics

Caroline Ekman, Communication Manager, Spendrups

Fredrik Wahlrolén, Communication Manager, IKEA Sverige

Helena Westin, Business Development Manager, Aftonbladet

Anna-Karin Hedlund, Director of Communications, Samhall

Magnus Nilsson, Consultant, Minnesota Communications

Project manager for the Information Index 2006:

Anne Liljeroth, Anne Liljeroth Kommunikation

Reference projects:

Research project, "Business effective communication", run by the Swedish Public Relations Association in collaboration with Stockholm School of Economics.

Toni Muzi Falconi, Institute for Public Relations in Florida, "The global economic impact of the communication/public relations profession".

Return on Communications, Swedish Public Relations Association