

IPA Bellwether Report – 2020 Q1

Total marketing budgets cut at strongest rate since 2009 as coronavirus outbreak dents UK economy

Key points:

- Total marketing budgets decline at fastest rate since the global financial crisis
- Coronavirus pandemic causes broad-based cuts to all forms of marketing activity, with market research and events the main casualties
- Company-specific and industry-wide financial prospects turn strongly pessimistic
- Budget forecasts for 2020/21 point to strong optimism as firms expect UK economy to recover during the coming financial year
- Adspend forecast to shrink in 2020, but recovery set for 2021 onwards

The far-reaching negative economic impact from the global coronavirus pandemic was laid bare in the latest *Bellwether* survey. Data for the first quarter showed the strongest reduction to total marketing budgets since the global financial crisis in 2009 as emergency public health measures to stem the spread caused a sudden stop in consumer and business spending.

According to the latest data, which were compiled between 02-27 March 2020, a net balance of -6.1% of companies revised their total marketing budgets lower. This was a notable swing from the final quarter of 2019, where the net balance stood at +4.0%. Moreover, this signalled the strongest quarter-on-quarter fall in total marketing expenditure since the end of 2009. Precisely 25% of panel members recorded a budget cut, compared to 18.9% signalling growth.

Many businesses are facing an unprecedented challenge, particularly those in the service sector which rely on consumers venturing to high streets and shopping centres. Restrictions on public gatherings, events and travel has led to a loss of income for many *Bellwether* panel members, according to anecdotal evidence, while supply chain disruption on a global scale only compound localised hardship.

Market research was the worst-performing category of the survey in the first quarter (net balance of -21.0%), followed by events (net balance of -15.9%) and public relations (-14.3%). None of the broad slices of total marketing budgets saw growth, with direct marketing and sales promotions observing the

slowest reductions (net balances of -6.6% and -7.2% respectively). The key brand-building category, main media, recorded its strongest downward revision since 2009 (net balance of -9.9%).

Chart 1: Revisions to total marketing budgets

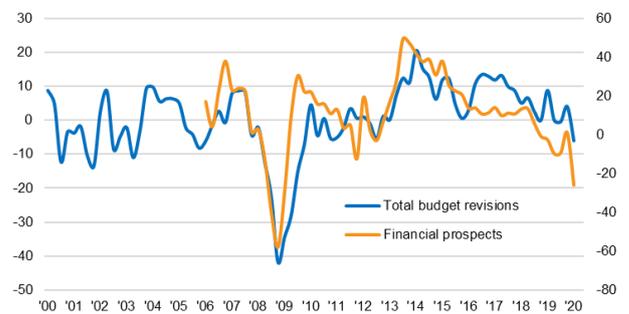
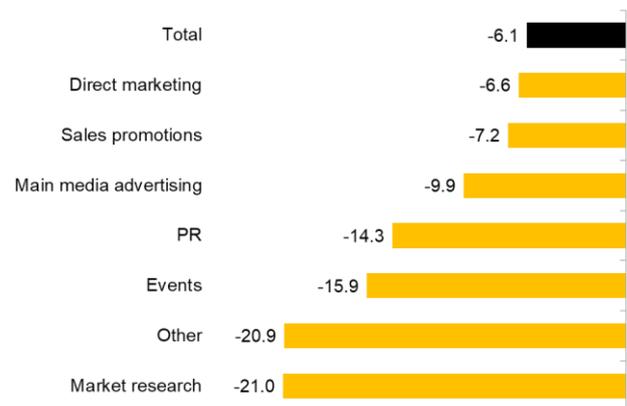


Chart 2: Analysis of marketing budgets in Q1 2020



Budget plans 2020/21

There was plenty of upside from the 2020/21 financial year budget plans, which showed expectations for a sharp rise in total marketing budgets over the coming year as a number of *Bellwether* panel members foresee a quick economic recovery.

A net balance of +16.2% of firms anticipate higher spending allocations over the next 12 months, signalling a strong level of optimism and suggests that many companies plan to grow their businesses and brands. A number of companies also expressed a determination to tackle the current challenging economic climate, which they expect to be short-lived. Encouragingly, the crucial main media advertising segment recorded the strongest forecasts, with a net balance of +8.4% of companies expecting upward

budget revisions. Events marketing budgets are also set to see growth (net balance of +6.3%) once public health restrictions are relaxed. Modest upward revisions to direct marketing budgets are forecast (net balance of +3.7%), while the outlook for public relations was narrowly positive (net balance of +0.6%).

Elsewhere, panel members took a neutral stance regarding sales promotions in the year ahead (net balance of +0.0%), while market research and other advertising budgets were the sole categories to record forecasts in negative territory (net balances of -0.6% and -7.9% respectively).

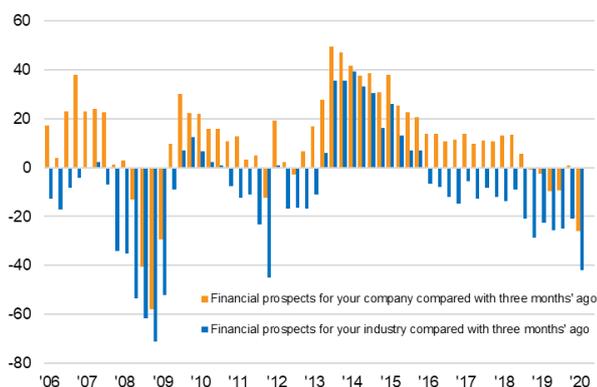
Own-company outlook most negative since 2009

Latest survey data indicated a sharp deterioration in both company-specific and industry-wide financial prospects during the first quarter.

Sentiment around own-company prospects moved into negative territory, reversing the marginal improvement seen at the end of last year which followed the partial decline of political uncertainty after the general election. A net balance of -26.0% of firms felt less optimistic towards their company-specific financial prospects, down sharply from +1.0% in the previous quarter to the lowest since the global financial crisis in 2009. Almost half (46%) of panel members were pessimistic, compared to approximately 20% who still foresee growth.

Industry-wide financial prospects were also down sharply as a net balance of -42.0% of surveyed firms were downbeat compared to three months ago. This was a steep decline from Q4, where the net balance stood at -21.0% and marked the weakest reading since 2011. The 11.5% of firms which viewed the prospects for their industries in a positive light were completely outweighed by the 53.5% who expect conditions to deteriorate.

Chart 3: Marketing executives' business confidence



Adspend to recover in 2021 and onwards

Given the extreme degree of uncertainty surrounding the UK at present, we note that our adspend forecasts could be subject to substantial revision in the future as the impact of coronavirus on the UK economy becomes clearer in line with the release of official data statistics, which at present we lack. We have used IHS Markit's latest forecasts for GDP,

consumer spending and business investment which assume an extended lockdown to May but then a gradual reopening of parts of the economy.

We estimate that GDP will contract by -4.3% in 2020 as a result of the coronavirus pandemic, under which scenario the historical relationship with adspend implies a -13.7% decline in expenditure. However, as the current situation is clearly unprecedented, there is an unusually high degree of uncertainty pinned to these forecasts, with risks tilted to the downside.

Consequently, 2021 may also pose a difficult year for marketers as the recovery spills over, although Brexit negotiations and more uncertainty there be may creep back in. We forecast another adspend rise modestly in 2021 (+1.0%), before seeing more robust growth in 2022 onwards.

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

"The Q1 results already reveal a sobering snapshot of the initial impact of COVID-19 on UK businesses' marketing decisions despite fieldwork for this quarter's Bellwether Report closing just a few days after Government enacted the lockdown. These are undoubtedly the toughest overall trading times that any business and indeed any marketer will have ever experienced, but while we suspect the fuller, sharper extent of this global pandemic to be captured in Q2 data, the hope from this report is that we will see a more upbeat end to the year."

"To achieve this return to growth will require UK marketers to make bold decisions. When recession looms it is understandable if businesses try and shore up short-term profits by cutting variable expenditure, such as advertising. However, as our evidence from past downturns shows, unless companies are saving cash simply to survive, or because they can no longer supply advertised services, cutting ad budgets – relative to competitor spend – is a high risk strategy. Such a move exposes firms to losing market share, foregoing sales and delaying the recovery of profits in the long term. Those brands that hold their nerve will gain extra share of voice which will achieve competitive gains."

Joe Hayes, Economist at IHS Markit and author of the Bellwether Report:

"Given the extraordinary challenges UK businesses are in the middle of combating, it comes as no surprise to see a reduction in marketing budgets in the first quarter. Firms are in survival mode, reallocating funds to service liabilities and keep the business alive. This is critical to ensure that they can keep staff on the payroll, which will give their businesses the best chance to recover when the time comes. It will also support the economy on a broader scale if people remain employed and are earning, as they will be in the position to go out and spend when the lockdown is over. Positively, it seems that a number of firms expect a quick economic recovery and are planning to boost marketing budgets later in the year."

– Ends –

For additional information, please purchase the full report which also has content detailing threats and opportunities facing marketers and their companies over the coming 12 months. The report also includes charts comparing business confidence amongst survey panellists to wider economic output, which depicts how views on financial prospects are a function of the current business environment.

A downloadable PDF for Q1 2020 can be purchased for £99+VAT for IPA members (£140+VAT for non-members) at <https://ipa.co.uk>

Annual subscription is also available by contacting economics@ihsmarkit.com

All press enquiries, please contact:

IHS Markit

Joe Hayes, Economist

Telephone +44-1491-461-006

Email joseph.hayes@ihsmarkit.com

IPA

Sylvia Wood, Head of Press Office

Telephone +44-20-7201-8247

Email sylvia@ipa.co.uk

Joanna Vickers, Corporate Communications

Telephone +44-207-260-2234

Email joanna.vickers@ihsmarkit.com

About the *Bellwether*

The *Bellwether* is based on a questionnaire survey of around 300 UK-based companies that provide regular quarterly information on trends in their marketing activities. The survey panel has been carefully selected to ensure that the survey data provide an accurate indication of actual marketing trends in the whole economy. Participating companies therefore include a broad variety of advertisers in terms of market sector and geographical location. The survey panel has been recruited from the nation's top 1000 companies. Respondents are primarily marketing directors or similar.

Questionnaires are dispatched to companies in the final three weeks of each calendar quarter, requesting information relating to two key issues:

- (a) whether their marketing budgets for the year (either calendar or financial year) have been set higher, lower or the same as the actual expenditure outcome for the previous year.
- (b) whether their original budgets for the current year – as reflected in their original answers to (a) above – have been revised since they were first set.

The financial prospects data are based on responses from the *Bellwether* survey panel of marketing professionals at 300 UK firms. The question asked each quarter is as follows: "Taking all things into consideration, do you feel more or less optimistic about the financial prospects for (a) your company, and (b) your industry as a whole, than you did three months ago?"

About the Institute of Practitioners in Advertising

The IPA is the industry body and professional institute for leading UK advertising, media planning and buying, and marketing communication agencies. It provides a full range of services to its members: from advice (legal, sector and management), awards and events, best practice, information, research studies and training as part of an extensive CPD programme. It is also the agency industry spokesman.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and expertise to forge solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 key business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.

The intellectual property rights to the Bellwether Report provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Limited and/or its affiliates.