

IPA Bellwether Report – 2018 Q4

Marketing budget growth flatlines amid heightened business uncertainty

Key points:

- Six years of total marketing budget growth ends as uncertainty bites
- Noticeable moderation in spending gains for internet-based marketing
- Sales promotions budgets strongest growing category
- Company-level financial prospects turn negative for first time since Q3 2012
- Adspend growth forecast for 2018 reduced, but bounceback anticipated for 2019

Budget growth comes to an end in Q4

According to the latest Bellwether survey, a six-year run of continuous overall marketing budget growth came to an end in Q4 2018. Marketing executives pointed to neutrality, with the proportion reporting budget growth (16.4%) equalling the proportion observing cuts (16.4%). This yielded a net balance of +0.0%, signalling no change in budgets during the fourth quarter. Roughly two-thirds of panel members (67.3%) reported no revision to their total marketing budgets.

Nonetheless, evidence from panellists highlighted some optimism for the coming year, with new product launches, expansion into overseas markets, digital transformation and technological development all expected to bring growth opportunities. However, political and economic uncertainty caused by the ongoing Brexit negotiation process has dampened both business and consumer confidence, driving belt-tightening and restricting resources available to marketing executives.

The shift towards digital modes of advertising remained apparent during Q4, although growth moderated noticeably, as signalled by the net balance for internet falling to +2.1%, from +13.6% in the third quarter. However, it was budgets for sales promotions that marketing executives enjoyed the greatest upward revisions for, with the net balance increasing to +3.8% from +0.6%. Budgets for events marketing also received a boost (net balance of +2.6%, from -1.1% in Q3).

However, panellists observed cuts to the remaining categories monitored by the Bellwether survey. The first downward revision for two quarters was seen for

main media advertising, which includes large scale campaigns on TV and in newspapers. The net balance fell to -6.5% from +4.8%. Direct marketing (-5.6% from -7.4%), market research (-4.7% from -3.7%), and PR budgets (-4.1% from +4.2%) were also areas of marketing that companies experienced a squeeze on spending.

Chart 1: Revisions to total marketing budgets

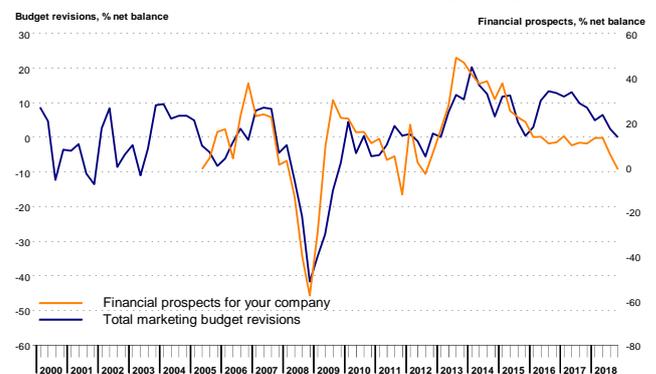
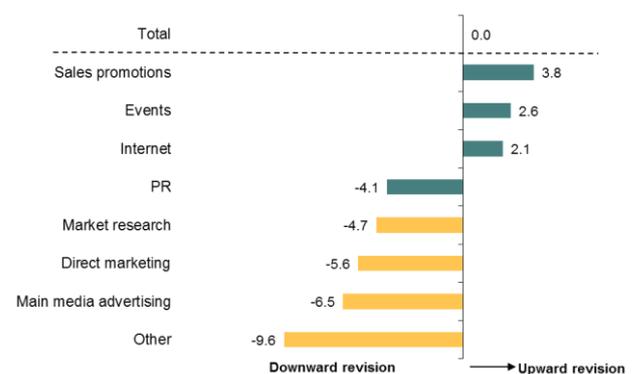


Chart 2: Analysis of marketing budgets in Q4 2018



Cautious expectations for 2019/20 marketing budgets

Looking towards the 2019/20 financial year, preliminary data from the *Bellwether* panel indicated a near-neutral stance on overall marketing spend for the coming budget period. The proportion of panellists anticipating increased marketing expenditure (27%) was only marginally higher than that for those predicting cuts (26%), thus yielding a net balance of just +0.8%.

However, drilling down into the individual budget plans for each *Bellwether* category revealed a fairly

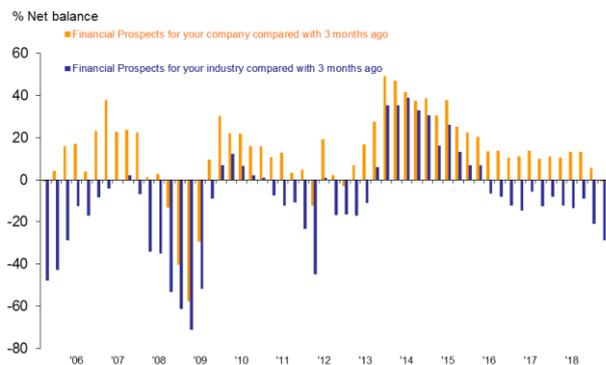
negative outlook. A number of panellists expressed concern towards the adverse impact of Brexit-driven economic and political uncertainty on both consumer and business confidence. In some cases, there was evidence that the potential for a more challenging corporate environment was set to restrict financial resources available to marketing executives.

Panellists cast first downbeat outlook on own-businesses since Q3 2012

For the first time since the third quarter of 2012, *Bellwether* panellists cast a downbeat outlook on financial prospects for their own companies. This brought a six-year bull-run to a close, where firms had been optimistic that their businesses would fare well financially in each quarter across this period. A net balance of -0.9%, which was down from +5.7% in Q3, signalled a mildly pessimistic assessment towards their own company's outlook, compared to three months ago.

Meanwhile, industry-wide prospects remained negative, as has been the case since the fourth quarter of 2015. In fact, gloomy own-company projections occurred in tandem with the most pessimistic view at the industry level for seven years. The respective net balance reading fell to -28.6% during Q4, from -21.0% previously.

Chart 3: Marketing executives' business confidence



Modest adspend forecasts for 2018 and 2019

With the Office for Budget Responsibility (OBR) lowering their forecasts for consumer spending, business investment and ultimately GDP, we now foresee softer adspend growth for 2018. Adding to the Brexit-related risks during the latest quarter were challenging business conditions across key export markets in Europe, particularly France and Germany. We have subsequently cut our projection for adspend growth to just 0.5% for 2018, down from 1.1%.

That said, under the assumption of an alleviation of uncertainty as a new relationship with the European Union becomes clearer, this should improve marketing budgets. In line with the OBR's projection of a bounceback in business investment, our adspend forecast for 2019 has been revised higher to 1.3%, from 0.7%.

Equally, we anticipate the business cycle to remain

accommodative at the start of the next decade, and have subsequently improved our adspend projections in 2020, 2021 and 2022 - albeit with the notable caveat of the considerable uncertainty around projections given the difficulty in understanding the impact of Brexit on the macroeconomy.

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

"In uncertain political and economic times such as these, the understandable reaction for some advertisers is to lose confidence in brand building advertising and to think short term even to the point of heavily discounting their products and services. We've seen this on and offline in the run up to Christmas – and now see the impact in black and white in this latest Bellwether Report. We know from the research we have done into what builds and what destroys brands - and it is proven - that too much short-term sales promotion activity destroys brand value in the long term. Marketers need to weather this turbulent period and think ahead. Now is the time to be bold, to keep up their share of voice and, if they can, increase it to grow their share of market. Businesses that rely on the strength of their brands need to follow the general 60:40 (brand building vs activation spend) rule of thumb."

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

"The slowdown in marketing budget growth seen in recent quarters culminated in Q4, as the six-year bull-run came to an end. Company-wide indecisiveness restricted the allocation of resources to marketers, as the wait-and-see approach to how the Brexit process will transpire appears to be the current strategy in place for many UK businesses."

"The neutral stance on marketing budgets came in tandem with a first pessimistic outlook by businesses towards their own companies' financial prospects for the first time since 2012, suggesting that top-level belt-tightening and plans to protect margins has seen marketing executives be given less discretion. Indeed, provisional data for budgets for the coming 2019/20 financial year indicate that downbeat stance seems likely to persist."

- 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 Q4 2018 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

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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.

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