

IPA Bellwether Report – 2019 Q1

Marketing budgets bounce back in Q1 2019, but pessimism about the future rises

Key points:

- Total marketing budgets upwardly revised to highest level in one-and-a-half years after flatlining in Q4 2018
- Reports of increased efforts to protect brands amid rising uncertainty
- Year ahead forecasts at most subdued since 2009
- Company-level financial prospects turn more negative
- Adspend growth to be modest in 2019, but improvement is forecast for 2020

According to the latest *Bellwether* survey, a revival of marketing budget growth was observed during the opening quarter of 2019. This presented a notable contrast from the trend seen in recent quarters, where growth momentum had been easing and culminated with a stagnation at the end of last year.

The net balance of marketing executives reporting upwardly revised budgets increased to +8.7% in Q1, up from a +0.0% reading for the final quarter of 2018 and the highest since Q3 2017. Around 21.6% of panel members observed spending growth, compared to 12.8% registering budget cuts.

While the Brexit uncertainty that is shrouded over the UK's political and economic climate continued to prompt belt-tightening and a delay in decision-making, other companies took a more pro-active approach and looked to push resources into their brands, enhancing digital marketing methods and expanding presence on social media platforms.

Firms were also wary of rising competitive pressures, leading some to diversify product offerings as part of efforts to enter new markets and attract new clients. As such, there were reports of boosting marketing spend as a defence mechanism to protect brand reputation.

Nevertheless, unfavourable global economic conditions, coupled with fears of falling business and consumer confidence prompted caution over discretionary spending in some cases. Market research, sales promotions and direct marketing budgets were all revised lower during Q1, with net balances of -4.2% (from -4.7%), -3.7% (from +3.8%) and -3.5% (from -5.6%) respectively.

The best performing category of the Bellwether survey was internet, which saw its net balance jump from +2.1% to +17.2%. Firms showed a strong appetite to enhance their digital footprints, with search/SEO spending (+14.2% from -3.9%), as well as targeted advertising on mobile (+3.6% from -2.4%) all receiving boosts.

A renewed drive for big-ticket advertising campaigns was also apparent during the opening quarter of 2019, with main media marketing returning to growth (+5.2% from -6.2%). Events was the third and final *Bellwether* category to register expenditure growth (+3.4% from +2.6%).

Chart 1: Revisions to total marketing budgets

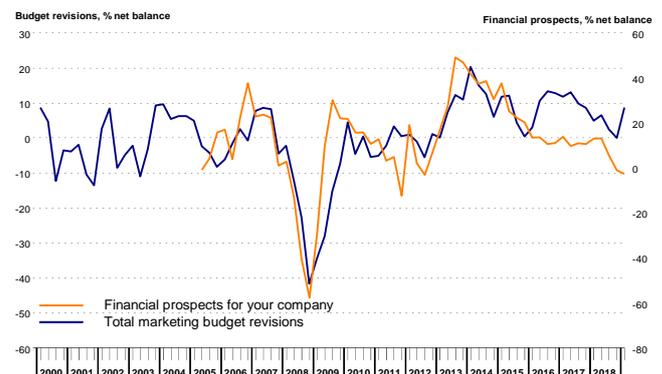
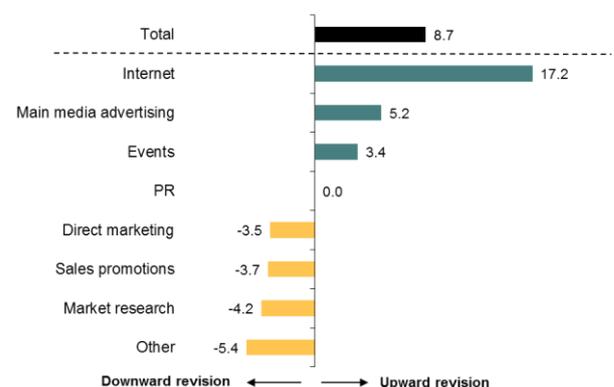


Chart 2: Analysis of marketing budgets in Q1 2019



Most subdued forecasts towards budgets since 2009

Marketing executives erred on the side of caution with their forecasts for marketing spend for the 2019/20 financial year. A modest net balance of +3.4%

anticipate budgets to grow during this period, which was notably weaker than past forecasts made before a new financial year and the lowest since 2009. Although approximately 26% of panellists foresee growth, the remaining 74% expect cuts or no change. Compared to this time last year, a net balance of +18% of firms anticipated budget growth for the 2018/19 period.

Positive expectations were centred on main media marketing campaigns and advertising at events, which yielded net balances of +4.8% and +2.5% respectively. Some companies expect that brand-building initiatives seen during the most recent quarter will continue through the coming financial year, as they look to defend their brand and stave off tough competitive pressures. Plans to launch new products in some instances were also seen as opportunities for marketing budget growth.

Nevertheless, firms were much more downbeat for the remaining *Bellwether* categories. Negative outlooks were recorded for other marketing (-13.1%), PR (-7.0%), sales promotions (-5.3%), market research (-4.0%) and direct marketing (-1.8%).

Outlook for own-businesses remains negative

Following the first downbeat outlook towards own-company financial prospects since Q3 2012 during the previous *Bellwether* survey, latest data showed no signs of an improvement.

A net balance of -2.7% of surveyed marketing executives indicated a pessimistic assessment towards their company's finances, compared to -0.9% during the final quarter of 2018, thereby indicating a stronger degree of negativity.

Industry-wide financial prospects remained pessimistic during the first quarter. Although the net balance of firms casting a downbeat assessment was slightly lower than previously, registering -22.6% (-28.6% in Q4 2018), it still signalled one of the most negative industry-wide outlooks since the global financial crisis.

Chart 3: Marketing executives' business confidence



Adspend forecasts for 2019 revised lower

With the Office for Budget Responsibility (OBR) releasing new forecasts in March, we have revised our expectations for adspend growth over the

coming forecast horizon.

The OBR downwardly revised its growth projections for 2019 by 0.4 percentage points since October (previously 1.6%), reflecting weaker growth forecasts for consumer spending and expectations of reduced business investment. As such, we are forecasting a modest 1.1% annual expansion to adspend this year, compared to 1.3% previously. Our downgrade reflects the challenging environment caused by Brexit uncertainty, slowing global growth and rising competitive pressures.

Nevertheless, under the assumption of restored business and consumer confidence once future UK-EU relations become clearer, investment and consumption are expected to bounceback. The OBR has revised up its consumer spending and capex projections for the forecast period from 2020 through to 2023. Increased expenditure by consumers and businesses alike should bring renewed opportunities for marketing. Our adspend growth estimates for this period have also subsequently been revised higher.

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

“This sharp increase following Q4 2018’s flatlining signals that UK marketing budgets have received a much-needed kiss of life in an economy gripped by Brexit uncertainty. The smart marketers realise that to grow their businesses, they must invest in them, particularly in mass reach, long-term media. While the forecast for the year ahead remains uncertain given the seemingly endless Brexit negotiations, those that want real competitive advantage should follow the proven rule that if you increase your share of voice above your share of market, you should expect to experience growth.”

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

*“A return to growth in marketing budgets during the opening quarter of 2019 may come as a surprise given that the uncertainty that shrouds the UK political and economic climate has only built further since the previous *Bellwether* Report. However, some companies began to show a determination to step up brand-building and protection in these challenging times, taking a pro-active, yet defensive approach in the face of business belt-tightening and weakening consumer confidence. That said, cautious undertones were still apparent in budget plans for the 2019/20 financial year, with panellists providing only modest growth expectations in available marketing spend. In fact, the outlook was the most subdued since 2009.”*

– 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 2019 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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