

IPA Bellwether Report – 2019 Q3

UK companies cut marketing budgets for first time in seven years reveals Q3 IPA Bellwether Report

Key points:

- Slight contraction in total marketing budgets in Q3 as firms look to keep tight control over expenditure
- Economic and political uncertainty lead to indecisiveness and hesitancy among UK businesses
- Firms re-adjust budgets to allow sustained growth in digital marketing space
- Own-company and industry-wide financial prospects remain deeply negative
- Adspend to grow marginally in 2019, but improvements forecast for 2020 and beyond

According to the latest *Bellwether* survey, the recent underwhelming performance of marketing budgets continued during the third quarter of 2019, with panellists recording a slight reduction to spending availability amid heightened economic and political uncertainty.

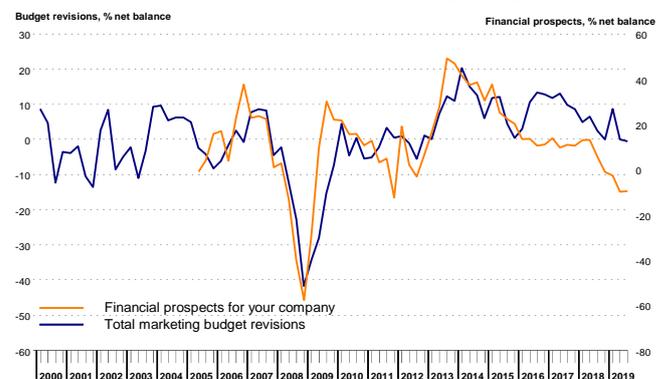
A net balance of -0.5% of firms registered downward revisions to their total marketing budgets during Q3. Although this is the first time in seven years that marketing executives have observed cuts to their allocated spending, the net balance was broadly unchanged from the prior quarter (+0.0%) and fractionally below neutrality, highlighting the underlying tone of hesitancy that dominated UK business decision making for the most part of the year.

Nearly two-thirds of the *Bellwether* panel (64.1%) reported no change to their overall marketing budgets in the third quarter. There were reports that economic and Brexit-related uncertainty warranted a 'wait-and-see' approach. Low consumer confidence was said to have generated hesitancy towards spending, leading firms to hold back on big-ticket marketing drives and tighten the purse strings. Others indicated that, in the interest of cost efficiency, they had re-allocated budgets to online and social media-based campaigns, keeping total budgets unchanged in the process. Approximately 18.2% of firms cut total advertising expenditure, while 17.7% reported budget growth.

Indeed, the continued shift towards digital marketing was once again highlighted as the internet category remained the top performer in the third quarter. A net

balance of +11.1% of firms observed budget growth here (+11.5% previously). The development of new online tools encouraged firms to boost internet budgets available to marketing executives. Data-driven campaigns and a greater push towards social media advertising also underpinned the continued rotation into the digital space.

Chart 1: Revisions to total marketing budgets



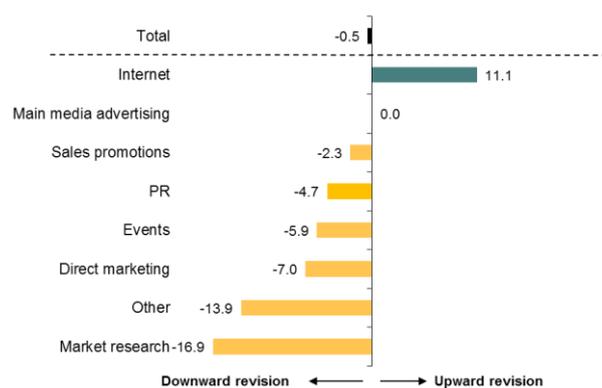
However, main media advertising budgets were placed on hold during the third quarter (+0.0%) following some relatively solid upward revisions in the first two quarters of the year (+5.2% and +5.6% respectively), signalling a reluctance among firms to commit to big-ticket marketing campaigns.

The remaining types of marketing all recorded in contraction territory, with the worst performer being market research (-16.9% from -2.9%). Budgets here were cut to the sharpest extent across the seven-year series history. Elsewhere, direct marketing spending was reduced (-7.0% from -9.0%), as has been the case since Q4 2017, and continued declines were also seen for sales promotions budgets (-2.3% from -7.1%), PR budgets (-4.7% from -5.2%). Meanwhile, events marketing budgets were downwardly revised for the first time since Q3 2018 (-5.9% from +4.8%), while 'other' marketing expenditure, which captures anything not already included, also contracted (-13.9% from -12.8%).

Own-company outlook remains bleak

Company and industry-wide prospects remained in negative territory for a fourth consecutive quarter during the latest *Bellwether* survey, highlighting a sombre mood among panellists.

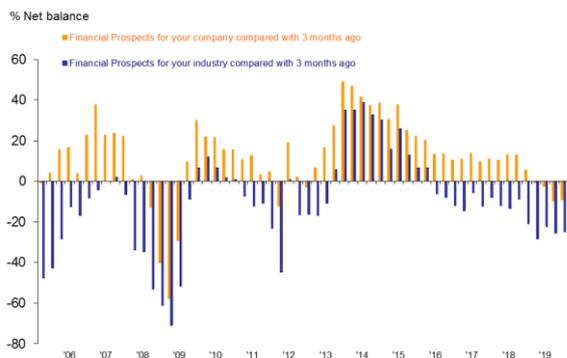
Chart 2: Analysis of marketing budgets in Q3 2019



The degree of pessimism across both outlooks were broadly in line with those seen during the second quarter. Industry-wide expectations were among the most downbeat since Q4 2011 and only narrowly less negative than in the previous *Bellwether* report. The net balance posted a fractional rise to -25.0% from -25.6% in the second quarter.

There was also a slight improvement rise in the net balance of firms indicating worsened financial prospects for their own company, this time from -9.8% in the second quarter to -9.4%. Again, expectations were among the most pessimistic since the final quarter of 2011.

Chart 3: Marketing executives' business confidence



Adspend forecasts for 2019 subdued, but improvement beyond 2020 foreseen

There has been little real change since the second quarter, with the UK economy remaining subdued and likely to post only marginal growth in the third quarter. We have subsequently decided to leave our forecasts unchanged to reflect this and we remain cautious towards 2019. Overall, we anticipate a modest 1.1% annual increase in adspend over the year as a whole. Various factors underpin our reservation, namely sustained Brexit uncertainty and a weak economic backdrop.

Nevertheless, we believe businesses will be eager to accelerate marketing efforts once uncertainty has cleared, and subsequently see 2020 onwards being more positive on the adspend front. We expect growth of 1.8% in 2020, followed by stronger rates of increase in 2021 (2.0%), 2022 (2.2%) and 2023 (3.1%).

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

“It’s a false economy to cut one’s ad budget when things look uncertain. The evidence shows that far from being prudent, it can have a negative long-term effect on growth. Companies that hold their nerve consistently, and that invest in the 60:40 ratio of longer-term brand building to shorter-term sales activation, outperform the market.”

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

*“The latest *Bellwether* survey spells further disappointment for the UK marketing industry, which is suffering, just like the rest of the economy, as a result of spending delays, firms placing projects on hold and subdued business confidence. The UK economy has endured a tough year so far and firms have subsequently withdrawn discretionary spending to protect profit margins.*

“Perhaps the most discouraging sign is to see firms sitting on the fence regarding main media advertising, which is a vital form of long-term brand building, following resilient budget growth in the two previous quarters. Overall, as long as political and economic uncertainties remain at large, it will be surprising to see noteworthy boosts to marketing spending.”

– 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 Q3 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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