

IPA Bellwether Report – 2019 Q4

Marketing budgets show renewed vigour in fourth quarter of 2019

Key points:

- Total marketing budgets increase for first time since Q1 2019
- Initial budget plans for 2020/21 show bullish expectations, with strong growth in total marketing budgets expected as uncertainties diminish
- Internet marketing continues to outperform as businesses invest in online tools to bolster digital presence
- Own-company financial prospects move into positive territory for first time in over a year
- Adspend expected to improve in 2020 and beyond as business cycle recovers from current soft spell

There were fresh signs of optimism for marketing expenditure during the final quarter of 2019, with latest *Bellwether* data showing modest growth for the first time since the start of 2019. This followed on from stagnant spending activity in the two previous quarters as uncertainty, client hesitancy and weak confidence led to a subdued business climate and delayed decision making.

A net balance of +4.0% of surveyed firms revised their total marketing budgets higher in the fourth quarter (up from -0.5% in the third quarter). This was the strongest expansion since the start of last year, albeit indicative of a modest increase. Approximately 23% of companies observed budget growth, while around 19% reported cuts, leaving the remaining 58% with an unchanged spending allocation.

Aggressive sales strategies were reportedly a factor supporting marketing budget growth in the fourth quarter. Efforts to find new business leads and raise brand awareness also were mentioned by panel members. Some companies also expect the upward trend to persist into 2020, with the result of the General Election helping to alleviate some of the political uncertainties which have disrupted long-term business projects.

Looking into the finer detail, the breakdown by *Bellwether* category showed that internet retained its status as top performer (net balance of +7.9% from +11.1%), while there was a fractional upward revision to main media advertising (+0.5% from 0.0%). All

remaining segments recorded spending cuts, led by market research for a second successive quarter (-13.2% from -16.9%). Direct marketing (-7.7% from -7.0%), PR (-7.1% from -4.7%), sales promotions (-3.0% from -2.3%) and events (-1.1% from -5.9%) all continued to register downward budget revisions at the year end.

Chart 1: Revisions to total marketing budgets

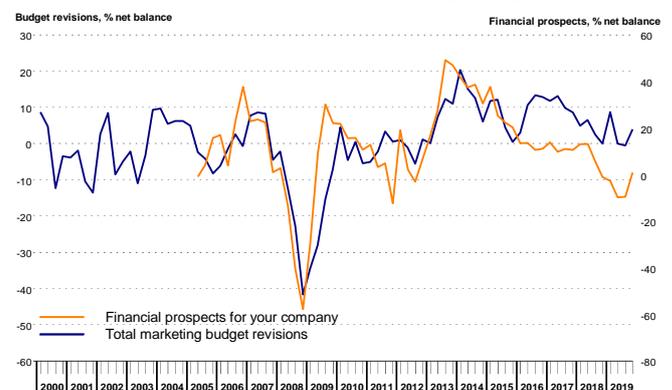
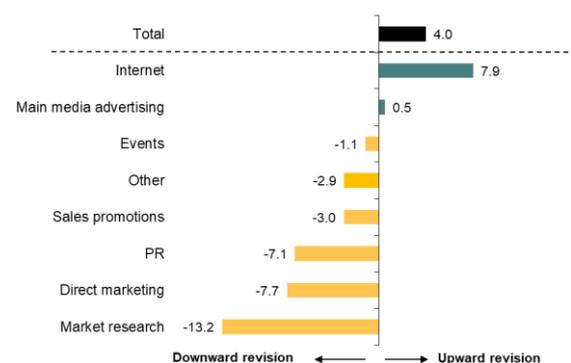


Chart 2: Analysis of marketing budgets in Q4 2019



Budget plans 2020/21

According to the latest *Bellwether* survey, the preliminary outlook for marketing spending in the 2020/21 budgeting year appears promising. A net balance of +15.7% of companies expect their total marketing budgets to be upwardly revised, a significant improvement from the 2019/20 forecast (+3.4%).

The renewed wave of optimism follows on from a subdued year in 2019, when budgets were frozen amid high uncertainty and a weak economic climate. While a number of panellists still expressed concern

towards the outcome of Brexit, others expect to see a bounce in business following the General Election and the subsequent alleviation of political uncertainty. A number of companies revealed extra motivation to release additional resources for marketing.

Breaking down into the monitored marketing categories revealed expectations of varying trends. Events marketing is expected to be the strongest area, with a net balance of +11.9% anticipating growth, while main media is also forecast to see moderate gains (net balance of +6.3%). Lastly, the final marketing segment predicted to see growth in the coming financial year is sales promotions (net balance of +2.0%).

A neutral outlook has been provisionally recorded for both direct marketing and PR (net balance of 0.0%), whereas market research and the “other” marketing activity category registered in negative territory (both -5.7%).

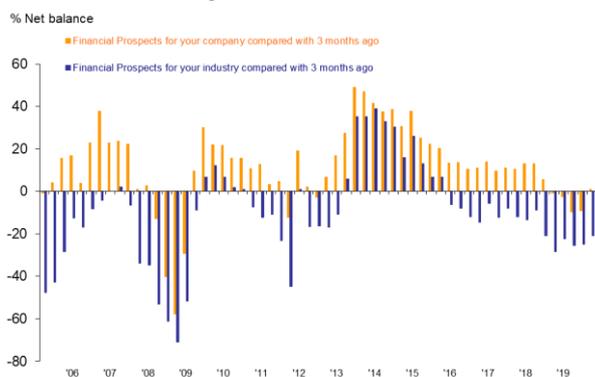
Own-company outlook turns positive

Trends between industry-wide and company-own financial prospects diverged in the final quarter, with the latter moving into positive territory during the latest *Bellwether* survey.

As has been the case since the end of 2014, panellists were pessimistic towards the financial prospects in their own industry. This was signalled by a negative net balance of -21.0%, reflecting a stubbornly elevated degree of pessimism. Nonetheless, this was a marginal movement upwards since the third quarter of 2019, where the net balance stood at -25.0%. Overall, over one-third (33.7%) of businesses felt downbeat, while 12.7% of surveyed firms reported an optimistic view.

In contrast, own-company financial prospects improved noticeably in the final quarter of 2019, with a net balance of +1.0% of firms anticipating growth in their business. This was the first time since the third quarter of 2018 that *Bellwether* panellists have been optimistic overall, and a notable upswing from the previous quarter, where a net balance of -9.4% of companies were downbeat on their financial prospects.

Chart 3: Marketing executives’ business confidence



Adspend growth set to improve in 2020 and beyond

Looking towards the coming year, we believe that conditions for marketing spend have become notably more favourable. Robust preliminary budget plans for the 2020/21 period also reinforce this view. A key hindrance for the UK in recent times has been the lack of a government with a working majority. With this layer of uncertainty now removed following the General Election, panel comments suggest that businesses have become more inclined to invest and spend. As such, we predict 2020 will be a stronger year than 2019 and we forecast annual adspend growth of 1.8%.

There also appears to be a strong likelihood that the business cycle will kick on beyond 2020. As such, we anticipate adspend growth to improve in 2021 (2.0%) and beyond (2.2% for 2022 and 3.1% for 2023).

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

“This latest IPA Bellwether Report demonstrates the extent to which UK marketing budget planning has been at the mercy of the unstable political environment. Over the past year we have seen a stagnation in marketing budgets, culminating in a below zero score last quarter. And yet now, with the clear result of December’s General Election, we are seeing a return to positivity in terms of UK companies’ confidence regarding their own financial prospects and in terms of their budgeting plans – up marginally this quarter and significantly for 2020/21. With Brexit still looming, I’m sure it won’t be plain sailing, but these forecasts provide an upbeat outlook for the year ahead for UK plc, their marketers and of course the agencies that work with them to grow their businesses.”

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

“There were a number of positives to take from the fourth quarter Bellwether survey. The rise in total marketing budgets provides tentative signs of a momentum shift, particularly when coupled with preliminary data for the 2020/21 budget year. It appears that firms are looking to release the pent-up investment which has been put on hold amid the high degree of political and economic uncertainty which has plagued the UK business climate for well over 12 months now.

“Nevertheless, while these positive developments will perk up enthusiasm for marketing budgets in the coming year, downside risks to the outlook remain at large, particularly if a business cycle recovery does not fully materialise and Brexit uncertainty descends again.”

– 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 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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