

IPA Bellwether Report – 2017 Q3

Marketing budgets rise in Q3, but to weakest extent for a year-and-a-half as uncertainty bites

Key points:

- Period of continuous marketing budget growth extended to five years
- Uncertainty undermines gains as nearly 70% of panel record no change in budgets since Q2
- Internet marketing underpins expansion, but main media stagnates
- Financial prospects continue to underwhelm
- Adspend forecast to rise by 0.6% in 2017; no growth expected in 2018

Marketing budgets revised higher in Q3 2017

Marketing budgets at UK companies were revised higher in the third quarter of 2017, extending the current survey record period of growth to five years.

Around 21% of the survey panel recorded an upward revision to marketing budgets during the latest survey period.

With 11% of companies recording a cut to their marketing budgets, the resulting net balance of +9.9% was notably down on Q2's +13.1% and the lowest reading since the first quarter of 2016.

Chart 1: Revisions to total marketing budgets



Overall budget growth driven by internet as main media advertising stagnates

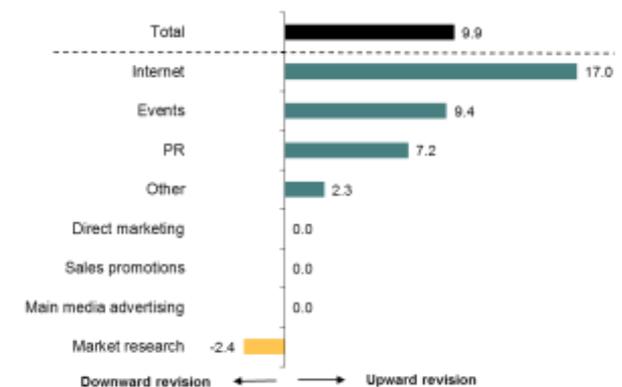
The perceived advantages of cost and return of digital marketing were noted as key in driving budget growth for **internet** – and thereby total marketing – during the third quarter of 2017. Latest data showed that a net balance of +17.0% of companies increased their internet budgets, lower than the previous quarter's decade high of +22.7%, but nonetheless indicative of healthy expansion. Reflective of a longer-term shift, there were reports

that internet marketing budgets had been increased at the cost of reduced spending on traditional print media advertising.

Within internet, marketing budgets related to **search/SEO** rose to a greater degree as signalled by the respective net balance improving to a seven-and-a-half year high of +16.3% (Q2: +15.6%). **Mobile advertising** also rose to a stronger degree in Q3 (net balance: +5.8%, from Q2's +3.0%).

Other *Bellwether* categories to enjoy positive net balances during the third quarter included **events** (+9.4% versus +2.1% for Q2) **PR** (+7.2% from +2.1% in Q2) and **'other'** (+2.3% from Q2's -2.6%). Some companies commented that attendance at local events, conferences and trade shows were beneficial due to the greater opportunity afforded to them of closer and direct engagement with customers.

Chart 2: Analysis of marketing budgets in Q3 2017



Perhaps reflective of ongoing uncertainty and generally slower sales growth in the third quarter, **main media advertising** was unchanged (net balance: 0.0%, down markedly from +9.8% in Q2 2017). Given the strong performance of internet, which forms part of the wider main media advertising category, the latest survey data subsequently implied a subdued performance for advertising related to 'big-ticket' areas such as cinema, TV and radio.

Stagnation of marketing budgets was also seen in the **sales promotion** and **direct marketing** categories during the third quarter (net balances of 0.0% were registered). That said, in both cases, no change in marketing budgets was a relative improvement following notable reductions seen in the preceding quarter (Q2 net balances were -10.7%

and -4.7% respectively).

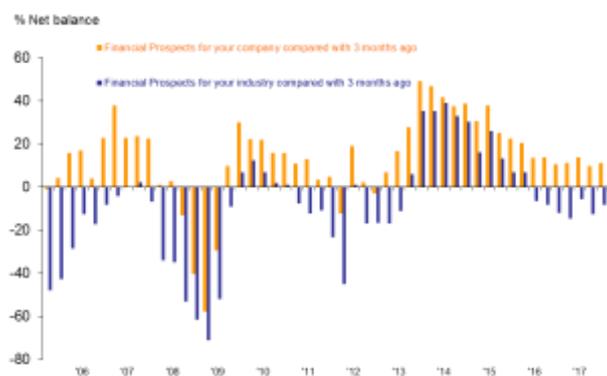
Posting a net balance of -2.4% (Q2: -6.2%) **market research** was the only *Bellwether* category to register a net reduction in spending during Q3.

Financial prospects remain underwhelming

When asked to consider their optimism regarding financial prospects for their industry compared to three months ago, nearly 24% of the survey panel were less confident, compared to around 15% that had become more optimistic. Although the resulting net balance of -8.2% was an improvement on the -12.6% seen during Q2, latest data marked the seventh successive quarter that a negative net balance has been registered.

Companies were a little bit more optimistic about their own financial prospects in Q3 2017. Just over 29% of the survey panel have grown more confident, compared to 18% that are less optimistic, with the respective net balance of +11.1% up slightly on the 18-quarter low of +9.8% in Q2. However, optimism remains historically subdued and well below the post financial-crisis average.

Chart 3: Marketing executives' business confidence



Muted growth in adspend predicted for 2017

Reflective of the uncertainty associated with Brexit, and the adverse effect this is having on business investment, we are pencilling in only a muted increase in adspend for 2017 (0.6%). This subdued view is supported by current business survey data which is showing the economy growing at just 0.3% in the third quarter as sectors exposed to changes in large scale investment such as construction struggled in September.

With the economy expected to slow further in 2018 (GDP growth is forecast at just 1.6%, undermined by a weak increase in consumer spending), we currently anticipate a stagnation of adspend in 2018.

As investment, consumption and wider growth improve in 2019/2020, adspend is forecast to rise at similarly quicker rates. Our current expectations are for increases in adspend of 1.8% and 2.3% respectively in 2019 and 2020.

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

"What strikes us most from this quarter's report is the extent to which UK companies – and their marketing budgets – are caught up in the wider economic and geo-political uncertainty. The vast majority are in a seeming state of paralysis, reflected in the fact that almost 70% of UK marketers haven't revised their budgets one way or another from this quarter to last.

"Recent evidence has revealed that the most effective way to attract more customers is through increasing market penetration. Furthermore, the most effective approach to achieving this is through using a 60:40 ratio of brand-building, mass media, supported by more targeted sales activation media. So while we acknowledge the benefits of internet advertising and welcome the growth in internet advertising budgets, we wouldn't recommend sole investment in online at the expense of offline. A careful balance is required.

"As Ed Butler, the former commander of the British Forces recently reminded our industry – standing still generally leaves you open to fire which, from both his experience and ours, is not an ideal situation to be in."

Dr Paul Smith, Director at IHS Markit and author of the *Bellwether* Report:

"The latest Bellwether survey was characterised by uncertainty, which is reported to be weighing on investment and household spending. The net result has been relatively sluggish sales growth, with companies responding by adopting a more cautious approach, in many cases freezing budgets at levels recorded three months ago.

"Looking ahead, financial prospects remain broadly subdued as concerns about Brexit continue to weigh on sentiment. Combined with ongoing squeezes on spending from rising costs, these headwinds are likely to continue to undermine growth in the final quarter of 2017."

- 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 reports 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 2017 can be purchased for £99+VAT for IPA members (£140+VAT for non-members) at www.ipa.co.uk/page/ipa-bellwether-report

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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