

IPA Bellwether Report – 2023 Q1

Total marketing budget growth hits one-year high despite ongoing cost-of-living crisis

Key points:

- UK companies show greater appetite for marketing activities to support their brands, despite intense cost pressures and struggling UK households
- Main media marketing budget growth improves but sales promotions the top performer as firms look for ways to help out customers
- 2023/24 budget plans show optimism among marketing executives
- Company-own financial prospects turn positive for first time in a year but firms remain downbeat on industry-wide outlook

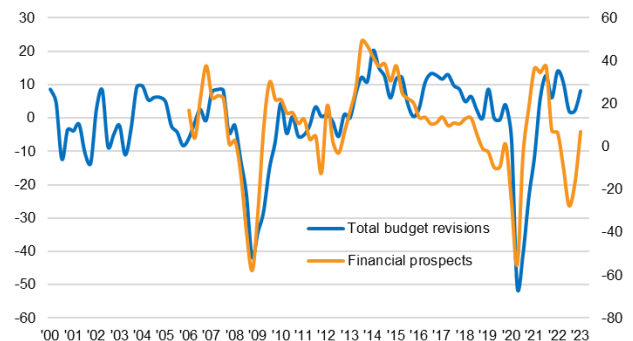
Against an intensely challenging economic environment both domestically and globally, total marketing budgets across the UK continued to rise at the start of 2023. In fact, spending growth was its strongest since Q2 2022, with the net balance of firms registering upward budget revisions rising from +2.2% in the previous quarter to +8.2%. Latest data showed 21.1% of firms saw an expansion, more than enough to offset the 12.9% of firms registering budget cuts. Around two-thirds (66.0%) recorded no change in spending.

Main media marketing, which includes online advertising activity and budgets for big-ticket campaigns on TV, recorded its strongest expansion in spending since Q1 2022 (net balance of +5.8%, from +4.4%). The breakdown of this category showed continued marked expansions in other online (+10.5%, from +6.3%) and video (+7.9%, from +13.7%), and a renewed upturn in audio (+1.7%, from 0.0%). Published brands (-1.9%, from -3.9%) and out of home (-12.4%, from -8.8%) were drags on main media in Q1, however.

Sales promotions budgets returned to expansion in Q1 (net balance of +8.8%, from -4.0%), rising at the strongest pace in nearly two decades as companies dedicated more resources to supporting their customers through the cost-of-living crisis. Another round of budget growth was also seen for events (net balance of +6.3%, from +5.7%) as marketing executives look to re-engage with new and prospective clients face-to-face. Direct marketing spending also rose at the start of the year (net balance of +4.2%, from -0.6%).

The remaining categories all recorded budget cuts, led by other marketing activity not already accounted for (net balance of -5.8%, from -10.1%), although declines eased in each case. A net balance of -0.6% of firms cut their PR budgets (from -1.9%), while a modest reduction was seen in market research spending (net balance of -3.2%, from -8.8%).

Chart 1: Revisions to total marketing budgets



Budget Plans 2023/24

Finalised data showing *Bellwether* firms' expectations towards their marketing budgets for the 2023/24 financial period were strongly positive, in line with the findings from the preliminary estimates collected at the end of last year. More than a third (36.6%) of respondents foresee greater total marketing spend in real terms in the year ahead, compared with 16.9% anticipating cuts. This yielded a strongly positive net balance of +19.8%.

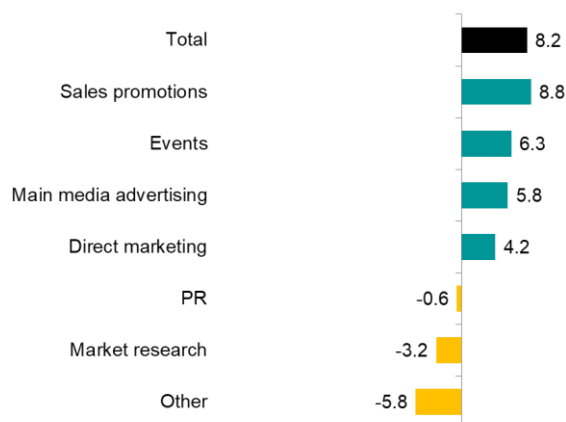
Firms' appetite to engage in face-to-face marketing activities remained strong. A net balance of +14.5% of companies expect events marketing spend to rise in 2023/24, the greatest level of optimism among the seven categories where budget plans are monitored. Bullish budget setting was also recorded in main media advertising (net balance of +13.5%), suggesting that companies plan to use marketing tools to combat a potential period of economic turbulence.

Sales promotions budgets are also set to rise in 2023/24, a sign that firms plan to provide support to cash-strapped customers (net balance of +6.3%), while direct marketing was the final monitored category where budget expectations were positive (net balance of +1.4%).

Budgets reserved for PR and other marketing

activities are expected to be unchanged in 2023/24 (net balances of 0.0%), while market research was the only segment where budgets are set to be reduced (net balance of 0.7%).

Chart 2: Analysis of marketing budgets in Q1 2023



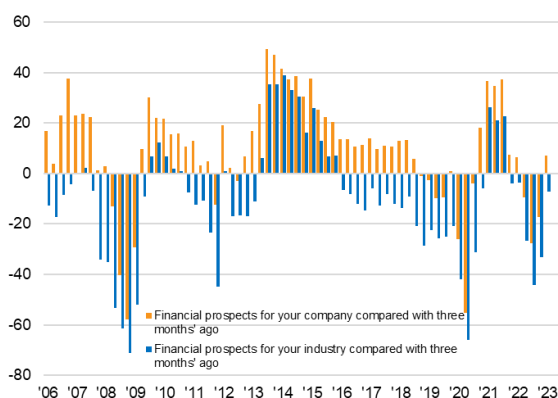
Company-own financial prospects turn positive

There was a divergence in sentiment regarding company-own and industry-wide financial prospects in the opening quarter of 2023, with the former moving into positive territory for the first time in a year while panellists remained downbeat about the latter.

Amid some recent signs of easing cost pressures, latest Bellwether data signalled a fresh sense of optimism among panellists regarding company financial prospects. This was indicated by a net balance of +7.0% of firms that were optimistic towards their business outlook (vs a net balance of -17.2% previously). The uplift in sentiment resulted in the strongest level of confidence since the closing quarter of 2021 and a stark contrast to the pessimism registered in each of the three prior survey periods.

Meanwhile at the industry-wide level, Bellwether panel members remained pessimistic towards the financial outlook compared to three months ago. However, while still offsetting the proportion who had grown in confidence (15.7%), 22.8% of companies were downbeat in their assessment (down from 41.8% previously). The resulting net balance of -7.1% signalled the weakest degree of negativity in a year, and compared with a reading of -33.2% previously.

Chart 3: Marketing executives’ business confidence



Adspend forecast to improve from 2024 onwards

Our forecast for the UK economy has been modestly upgraded, with GDP in 2023 expected to decline by -0.2%, instead of the -0.8% anticipated in the last *Bellwether* edition. However, households continue to face shrinking purchasing power due to high inflation and borrowing costs, which will weigh on the economy immensely. We foresee a small decline of -0.9% (vs. -0.3% previously) in adspend this year, although this primarily effects some normalisation after 2022’s strong rise.

The ongoing battle to contain inflation will likely last the entire year before a meaningful recovery can take hold in 2024 and beyond. As such, we are anticipating a marginal improvement in adspend next year of 0.5% (1.2% previously), before both UK GDP and adspend growth can return to firmer rates in 2025 and beyond. We expect adspend growth to improve to 1.6%, 2.0% and 2.2% in 2025, 2026 and 2027 respectively.

Commenting on the latest survey:

Paul Bainsfair, IPA Director General:

“This is a positive start to the financial year for marketing budgets, all things considered, The overall increase in confidence from UK companies regarding their financial prospects is being reflected in their marketing budget decision making.

“As the cost-of-living crisis continues, it is understandable for companies to offer sales promotions to help their customers’ tightened purse strings. To ensure brand loyalty isn’t eroded and to protect the long-term health of their brands, however, such activity must be coupled with investment in longer-term brand building media. We are pleased, therefore, to see that while investment in sales promotion activity has spiked this quarter, investment in main media advertising was revised up to its strongest level since this time last year.”

Joe Hayes, Senior Economist at S&P Global Market Intelligence and author of the *Bellwether* Report:

“The latest Bellwether survey once again highlights the resilience of UK businesses who have endured both a pandemic and a period of plunging consumer confidence and multi-decade high inflation. Total marketing budget growth broadened out during the opening quarter, showing that more companies are tapping into their marketing resources to help them successfully navigate through economic turbulence.”

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 2023 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. 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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