

# Will it be U-shaped, V-shaped or Ad-shaped?

Whatever pattern the economic recovery follows, advertising can be expected to be both an indicator and a catalyst of the rebound.

As set out below, companies make advertising investment decisions influenced by their own financial prospects and those of their industry. A sustained pick-up in advertising is usually seen as evidence that a business expects future sales growth.

Historically, UK ad expenditure has often shared a similar trajectory to UK GDP, dropping earlier and further than GDP in downturns, but also bouncing back higher in the upswings.

The 2020 recession differs from predecessors in being caused not by financial factors but the shutdown of large sections of the economy as part of public health measures.

Given that some categories and media channels were more disrupted than others (see figure 2), it would

be logical to expect an uneven recovery, shaped by COVID-19 related developments.

Advertising has a role to play in marketing the economy's re-opening and accelerating general demand.

But we should not neglect the evidence that advertising creates specific business advantage.

Companies more committed to investing in effective advertising in recession have been shown to grow faster in recovery.

## **Despite cuts, greater optimism for 2021 outlook**

The quarterly IPA Bellwether from IHS Markit produces net balances from the percentage of business respondents reporting increased, decreased or unchanged marketing budgets and changes in the assessment of their own and industry-wide financial prospects.

Figure 1: Marketing budgets are strongly linked to companies' financial prospects



Data source: The Bellwether Report, IHS Markit/IPA

For Q1 2021, the report found a net 11.5% of respondents reported marketing budget cuts, citing COVID-19 restrictions and related soft demand as the main drag on investment.

However, momentum was improving. A net +17.4% balance expected marketing budgets to increase over the next year. In the strongest level of optimism for six years, +36.6% were more confident of an improvement in their own financial prospects.

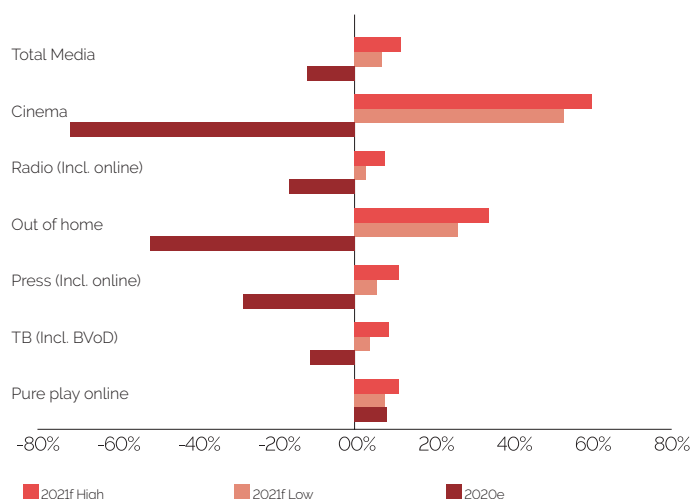
Overall, IHS Markit predicts a 3.5% increase in adspend during 2021, followed by a further acceleration to +6.9% in 2022.

### The 'Swiss Cheese' recession

According to the independent research firm Enders Analysis, the 2020 recession was not conventionally shaped but more "like Swiss cheese, with bullet holes in the economy and the advertising and media marketplace."

Some categories such as e-commerce in goods, furniture, home improvements, grocery and consumer electronics performed strongly, whilst others such as travel, entertainment, hotels and food and drink were hit very hard.

Figure 2: Year on year change in ad spend by media (%)



Data source: Enders Analysis, AA/Warc

As in figure 2, there were also diverging outcomes for media. Pure play digital media fared best, with the worst hit channels those affected by restrictions on travel and entertainment – outdoor, transport media, and cinema.

Enders Analysis predicts advertising channels will experience very different paces of recovery, with total display advertising expenditure predicted to rise between 7.1% and 11.8% in 2021.

### An ad-shaped recovery starts in recession

Malik Profit in Market Strategy collated data from 1,000 business units in the 2001 slump and earlier recessions. It found that businesses in recession that increased marketing spend as a proportion of their market size reported higher market share growth in the first two years of recovery than those cutting or maintaining budgets. They also grew their profits more.

This finding was confirmed by marketing consultant Peter Field and LinkedIn's B2B Institute which reviewed IPA Effectiveness Awards related to the 2008-9 recession.

The report found that businesses investing in high Extra Share Of Voice – namely investing in a bigger share of advertising spend in a brand's category than the brand's market share – during recession were several times more likely to report faster growth in profits during the recovery.

And while businesses want whole markets to revive, it is growth in their own market share and profits that will be the most meaningful recovery of all

The IPA and the FT, along with EffWorks, a cross industry marketing initiative, have partnered to support more effective advertising by businesses. For more on effectiveness materials, including links to IPA publications, visit [ipa.co.uk/effectiveness](https://ipa.co.uk/effectiveness)



Please get in touch if you would like our support to help your business improve its marketing and brand effectiveness.

**Janet Hull OBE**

Director of Marketing Strategy, IPA

+44 207 201 8253

[janet@ipa.co.uk](mailto:janet@ipa.co.uk)