Come back in a year and tell us if cutting your budget was a good idea

Incorporated by Royal Charter

We can't predict where the economy will be 12 months from now. There are too many volatile factors affecting both businesses and consumers in mid-2022.

But we can share our evidence of how budgetary decisions made in previous downturns subsequently impacted on companies' financial performance.

This evidence, collated over several recessions, shows companies that increased their marketing budgets during tough markets, created a competitive advantage that helped them report higher average profit and better market share growth when the economy recovered. And economies do always recover.

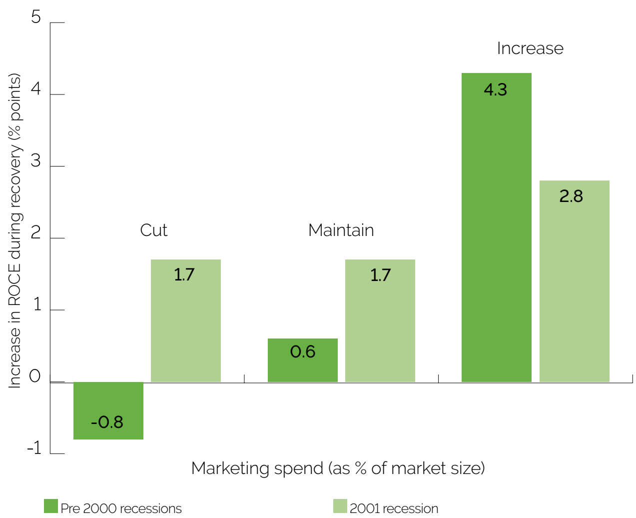
It might seem prudent for businesses, facing today's mixture of surging input costs and weakening consumer demand, to cut their marketing budgets and focus spend on price promotions that aim to speak to consumers dealing with a cost of living crunch.

Businesses that take this course are at a double risk – both of experiencing slower future growth and of losing ground to competitors that have invested in effective long-term brand building advertising.

Investing for long-term growth
The data in Figure 1 was collated and analysed by Profit in Market Strategy (PIMS), from 1,000 business units in the 2001 downturn and earlier recessions, and published in the IPA's 'Advertising in a Downturn' report.[1]

The analysis contrasts average Return on Capital Employed (ROCE), as a ratio of profitability and efficiency, during recovery by businesses that in the previous downturn had cut, maintained or increased marketing spend (as a percentage of market size). It found ROCE growth in recovery was highest among businesses that increased marketing spend in recession. These businesses also grew market share fastest in the recovery.

Figure 1: Increasing marketing spend in recession helps grow profits faster in recovery

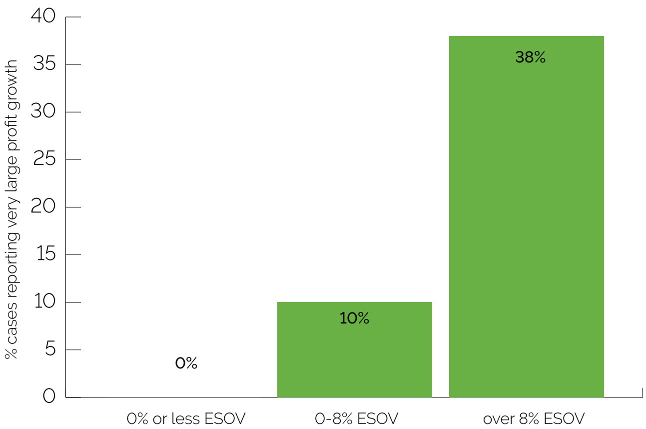


Data source: Malik PIMS

If you go dark, others will be more visible
Our research has also repeatedly shown that brands investing in Extra Share of Voice (ESOV) – namely, accounting for a higher share of the total advertising spend in their category than their market share – are more likely to grow that market share over time.

Analysis of IPA Effectiveness Databank cases involving the 2008-9 recession carried out by marketing consultant Peter Field for LinkedIn's B2B Institute shown that brands with high ESOV are also more likely to grow profits faster.[2]

Figure 2: Businesses with high ESOV were more likely to grow profits faster



Data source: IPA Effectiveness Databank cases covering 2008 recession

As shown in Figure 2 above, brands that invested in creating an ESOV of more than 8 per cent in recession were significantly more likely to report subsequent very large profit growth. They were also more likely to record larger increases in market share.

In an economic recession, total advertising spend tends to fall and media rates get cheaper. If brands cut their advertising spend, competitors have greater opportunities to grow their relative ESOV, often just by maintaining or only trimming budgets.

Those brands that cut spend now and wait for evidence of a stronger economy before restoring it are in danger of missing out on this window of opportunity. The risk is that the longer the recession, the greater the damage from not advertising may eventually prove.

The corollary is consistent investment in attaining ESOV, through good times and difficult ones, has helped drive long-term periods of growth for brands such as Specsavers and Lidl.

Long-term investment pays off for wagamama
With the UK economy experiencing uncertainty in the aftermath of the Brexit referendum, fewer consumers were dinning out and restaurants were experiencing rising costs and pressure on margins. A wave of high profile closures hit the industry. Many operators abandoned brand building and began ramping up promotional discounting to entreat customers through their doors.

By contrast, the Asian casual dining chain wagamama moved away from its previous reliance on growing through promotions to a new strategy of creating memorable cinema ads to make its brand more appealing and increase its audience. TV was later added as a secondary channel for the campaign.

Econometric analysis of the cinema campaign estimated that over three quarters of the profit growth was delivered in the long-term.

Figure 3: Cinema ads paid back for wagamama over the long term

Cinema	Short term profit	Long term profit
% of total campaign revenue	23%	77%

Data source: Wagagama IPA Effectiveness Awards 2020 Case Study[3]

It is estimated that overall this brand building activity delivered 440,000 incremental customers in 2019 and returned £5.21 of profit for every £1 invested.

To quote from the brand's IPA Effectiveness Award winning case, "wagamama not only survived the casual dining crunch, it significantly outperformed the market, by choosing to promote brand while others promoted price."

The lesson from wagamama and others is that while cutting marketing spend or focusing budgets on price promotions may seem to be the right responses to current trading difficulties, investing in effective brand building has been shown to be a better long-term business decision.

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**

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

1 'Advertising in a Downturn', IPA, 2008 | 2 Advertising in a downturn revisited with Peter Field, IPA, 2020 | 3 Wagamama – Stirring souls and selling bowls the wagamama way, through the secret power of cinema, IPA Effectiveness Awards 2020