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We can't predict the speed of the recovery

But we know how to speed things up

The COVID-19 recession was not driven by economic factors, and neither will the recovery be.

Infections data, vaccine rollouts, and the lifting of restrictions to limit the spread of COVID-19 will have a greater impact on when economies recover from the pandemic.

But growth is an economic phenomenon. So it is worth looking at what types of investment have accelerated economic growth in non-pandemic times, including recessions.

As with other reports in this series, our focus is on the evidence of how advertising investment contributes to faster growth.

This note also looks at evidence that advertising investment has correlated with faster increases in national Gross Domestic Product (GDP), and that in the UK, advertising and marketing industries have added value at a faster rate than the economy average.

None of this is to argue that investing in advertising can by itself lift economies out of a downturn caused by a health emergency and the measures it precipitated.

But it reminds us there is evidence that advertising has historically acted as an accelerator of growth for both businesses and economies.

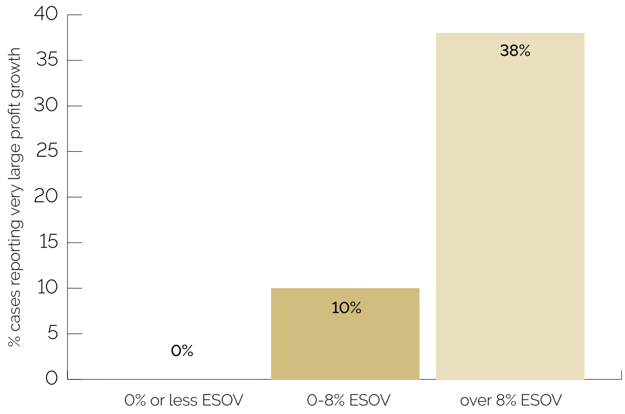
The risk of lost future growth

A review of IPA Effectiveness Databank cases involving the 2008-9 recession was conducted last year by marketing consultant Peter Field for LinkedIn's B2B Institute.

The study investigated outcomes for businesses that invested during the recession in Extra Share of Voice (ESOV), or having a share of advertising spend in their category higher than their market share.

The report found that businesses with high ESOV in the recession were much more likely to report faster growth in profits during the recovery.

Figure 1: Businesses with high ESOV in recession more likely to grow profits faster in recovery

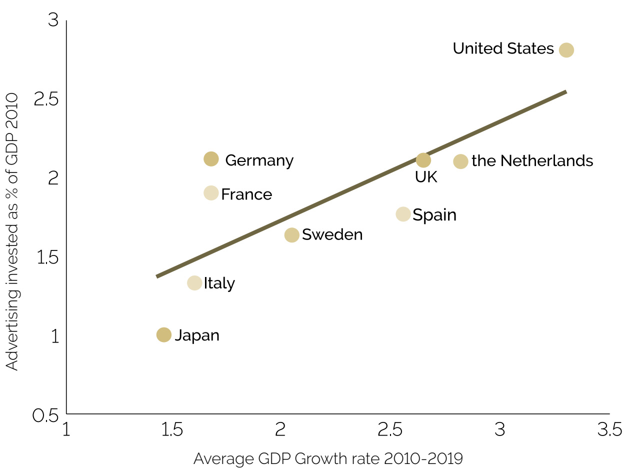


Data source: IPA Effectiveness Databank cases covering 2008 recession [1]

This finding echoed an earlier IPA-published study of the recession in 2001 and earlier downturns that businesses increasing marketing spend during recessions grew Return on Capital Employed and market share in the recovery faster than those that maintained or cut advertising budgets.

Does advertising contribute to economic growth?
A paper from the World Federation of Advertisers (WFA) and French advertisers' association, UDA, demonstrated a correlation between the proportion of their GDP major economies invested in advertising and their GDP growth rates.

Figure 2: Increased ad investment rate correlates with GDP growth.



Data source: Warc, Ad Barometer quoted in WFA/UDA report, 2006. [2]

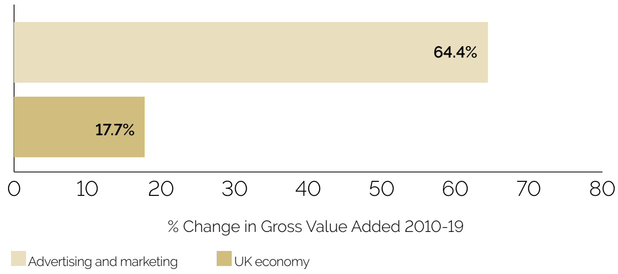
This correlation between faster national advertising investment and faster economic growth was replicated in the 2000s by the Work Foundation and Credos, the Advertising Association think tank[3].

Separately, a Deloitte/WFA paper calculated that advertising investment functioned as a GDP multiplier across the EU worth in 2014 almost seven euros for each one euro invested in advertising.[4]

Such studies typicially argue that advertising drives economic growth by providing consumers with information and choice and incentivising companies to compete more. Advertising's impact has been quantified in terms of direct sales, financial enablement of ad-supported sectors, and induced spend across supply chains and the wider economy.

Sceptics say advertising only grows new markets, and mostly helps re-allocate share between brands.[5]

But advertising is also itself a growth industry
Figure 3: Advertising and marketing has added value faster than UK economy average



Data source: DCMS Economic Estimates, 2020

Judged by the economists' measure of Gross Value Added (GVA), UK advertising and marketing has over the long-term grown faster than the UK economy as a whole, helping to lift the national growth rate.

If an industry consistently adds value more than twice as fast as the UK economy, it makes a strong case that it can 'speed things up'. When conditions allow, it has the potential to do so again.

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.

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1 Advertising in Recession – Long, Short or Dark? A guide to advertising best practice in recession, LinkedIn's B2B Institute 2020 | 2 Advertising and Economic Growth, WFA/UDA, 2006 | 3 The Contribution of the Advertising Industry to the UK Economy, Work Foundation/Credos 2011 | 4 The Economic Contribution of Advertising in Europe, Deloitte/WFA, 2017. See Also 'Advertising Pays' series, AA/Credos | 5 Does Advertising Grow Markets, AA/Credos