Incorporated
by Royal Charter

UK brands are spending again big time

The smart ones never stopped

Although unexpected events can wreck any forecast, 2021 is ending amid expectations of sustained future growth in advertising spend.

But some businesses may already have limited their upside in recovery by decisions they made during the COVID-inspired economic shocks of last year.

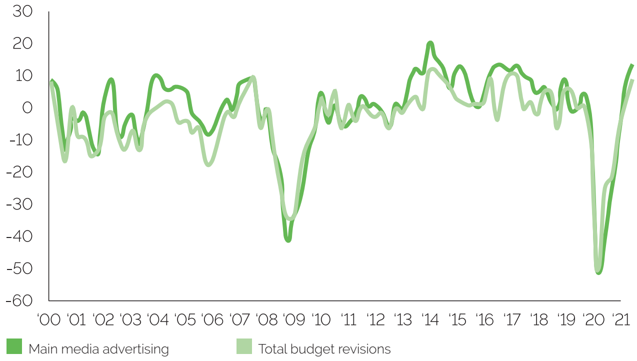
If history repeats itself, brands that did not cut marketing spend in recession can be expected to grow faster in the early part of recovery, than those that maintained or slashed marketing budgets.

Further, our evidence has repeatedly shown that brands investing in Extra Share of Voice (ESOV) – namely, when a brand accounts for a higher share of all ad spend in its category than its market share – can expect to grow their market share over time. But acquiring such ESOV is also usually more expensive in an upturn.

So while news that brands are turning the funding taps back on is welcome, the most effective advertisers will not have turned them off in the first place.

Businesses are increasing ad spend to grow
The IPA Bellwether report for Q3 2021 indicated the highest marketing expenditure by respondents since 2017. In the survey, which calculates the balance between businesses with different spending decisions, a net +12.8% of firms reported revising marketing budgets upwards, up from +6% in Q2. It is the first time in three years that net positive results were registered in successive quarters.

Figure 1: More companies expect to increase their budgets



Data source: IPA Bellwether Report, Q3 2021[1]

Likewise, the latest Advertising Association/WARC Expenditure Report forecasts UK ad spend will grow by 24.8% this year, the highest annual rise on record, to reach a total of £29.3bn.[2]

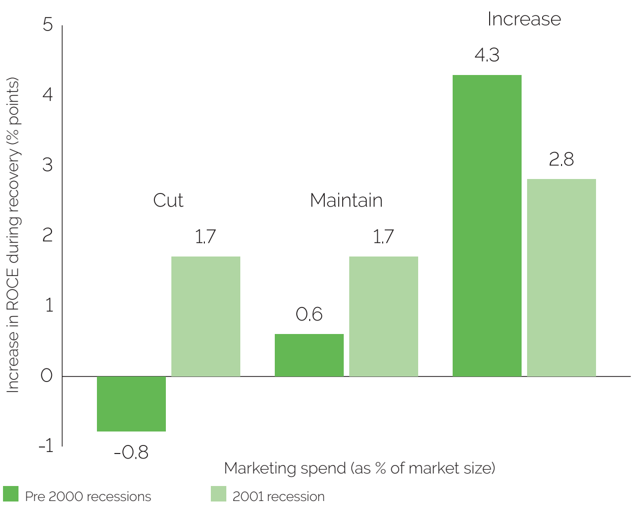
And Mark Read, Chief Executive of WPP, the world's largest marketing services group, recently told the FT that increased advertising spend was more than a bounce back from the pandemic, and signalled clients wanting "to invest to restart their businesses".[3]

Recession cuts can curtail recovery growth
Some businesses may find it harder to kick-start growth than others, however.

The data in Figure 2 was collated by Profit in Market Strategy (PIMS), from 1,000 business units in the 2001 downturn and earlier recessions.[4] It 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. They also grew market share fastest.

Figure 2: Companies increasing marketing spend in recession grew faster in recovery

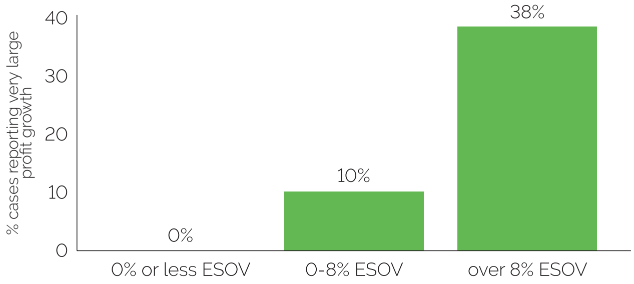


Data source: Malik PIMS

If you go dark, others can be more visible
Analysis of IPA Effectiveness Databank cases involving the 2008-2009 recession by marketing consultant Peter Field for LinkedIn's B2B Institute demonstrates why brands' relative spending levels in recession are so important.[5]

Brands that invested in creating ESOV of more than 8 per cent in recession were significantly more likely to report subsequent very large profit growth during the recovery (See Figure 3).

Figure 3: Brands with high ESOV in recession grew profits faster in recovery



Data source: IPA Effectiveness Databank cases covering 2008 recession

The IPA believes that after the value of the creative work itself, media budget is the lead determinant of the likely effectiveness of an advertising campaign.[6] This has been demonstrated in different economic environments.

Between 2015 and 2017, for instance, the discount supermarket Lidl committed to high ESOV to encourage consumers to re-appraise the chain. The strategy contributed to its steady rise in market share and £2.7bn of direct and long-term sales over four years.[7]

And analysis of Specsavers, the optician group, between 1984 and 2012, has attributed the bulk of its sustained revenue growth to its media investment which was consistently high, including during both downturns and upswings.[8]

These are demonstrations of the power of continuous advertising investment from which other businesses can learn.

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 'Marketing growth at strongest in over four years', IPA website, Oct 2021 | 2 UK ad spend to exceed £29bn this year with increased recovery expectations', AA website, Oct 2021 | 3 FT.com, Oct 28, 2021 | 4 From 'Advertising in a Downturn', IPA 2008 | 5 'Advertising in Recession – Long, Short or Dark? A guide to advertising best practice in recession', LinkedIn's B2B Institute 2020 | 6 'Media in Focus', IPA, 2017 p.16 | 7 See Lidl 2018 IPA Effectiveness Awards case | 8 See Specsavers 2014 IPA Effectiveness Awards case