



Worth Noting

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Worth Noting is the journal of research and conferences company L21. It is focused on issues of relevance and interest to senior executives.

Eighteen months ago, we considered global marketing spending trends that seem to be heading downward and asked whether lower spending on marketing pointed to signs of businesses struggling. (*WN, Volume III, Issue VIII*) The argument often put forward by some marketers was:

Lower marketing budgets → Poorer market penetration → poorer consumer responses → Bad bottom line results.

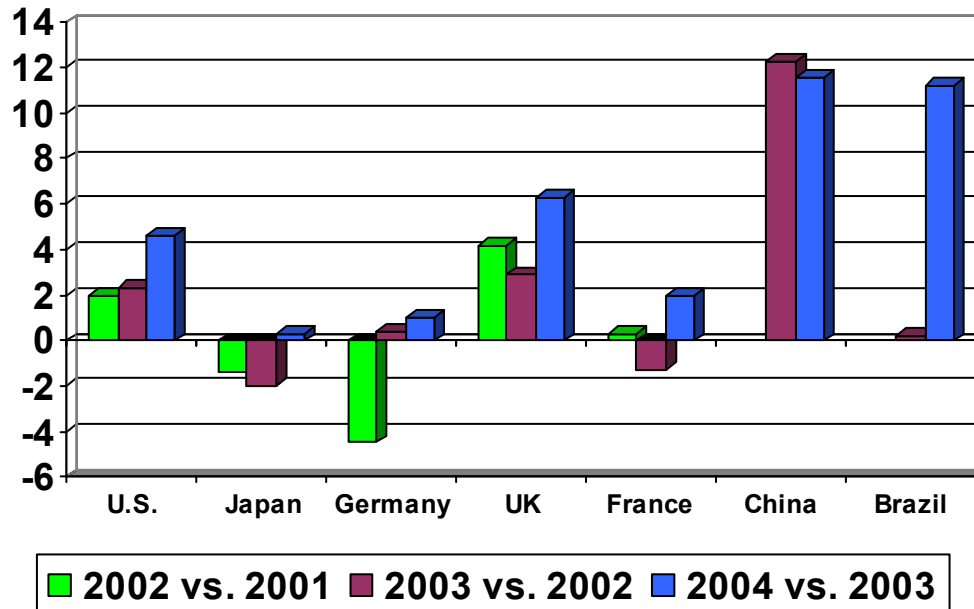
The conclusion we came up with then was that the shift in traditional marketing expenditure was not cyclical but permanent. We were seeing signs that marketing executives were put under pressure to instill discipline in their strategies meaning a more targeted approach to who we market to and how we do it. Indiscriminate, high spend marketing had become less appropriate.

Eighteen months on, we will reexamine trends in marketing expenditure and draw conclusions about what is happening in the global marketing world.

Marketing expenditure in major economies

Marketing expenditure is on the rise compared to the miserable 2001-03 period. The countries below represent about 70% of global marketing expenditure. It therefore makes sense to look at what is happening in these seven countries.

Percentage Change in Total Marketing Expenditure

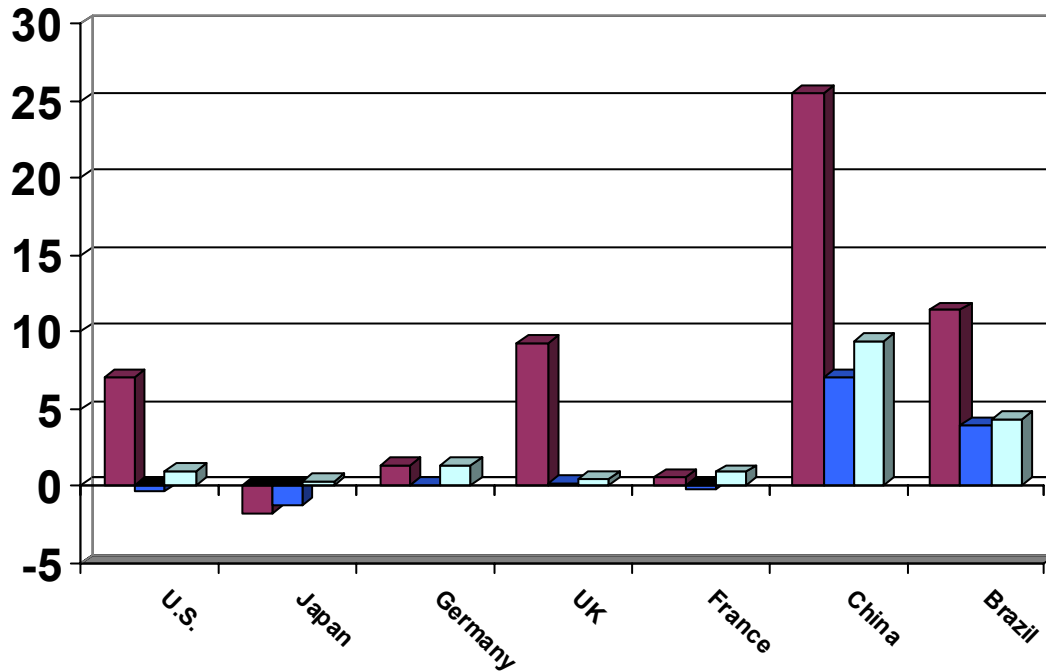


Source: Marketing Expenditure Trends, London Business School 2004

The U.S. and UK have remain strong throughout the 2001-2004 period whilst recently produced figures for China and Brazil show double digit increases over the past year.

Marketers sometimes like to point to neat proportional increases/decreases between marketing expenditure and GDP growth. Let's see how this stack up against the figures.

Marketing Expenditure Growth vs. GDP Growth (%)



■ 2004 vs. 2002 marketing expenditure ■ 2002-2003 GDP Growth ■ 2003-2004 GDP Growth

Source: Marketing Expenditure Trends, London Business School 2004; OECD; L21 Analysis

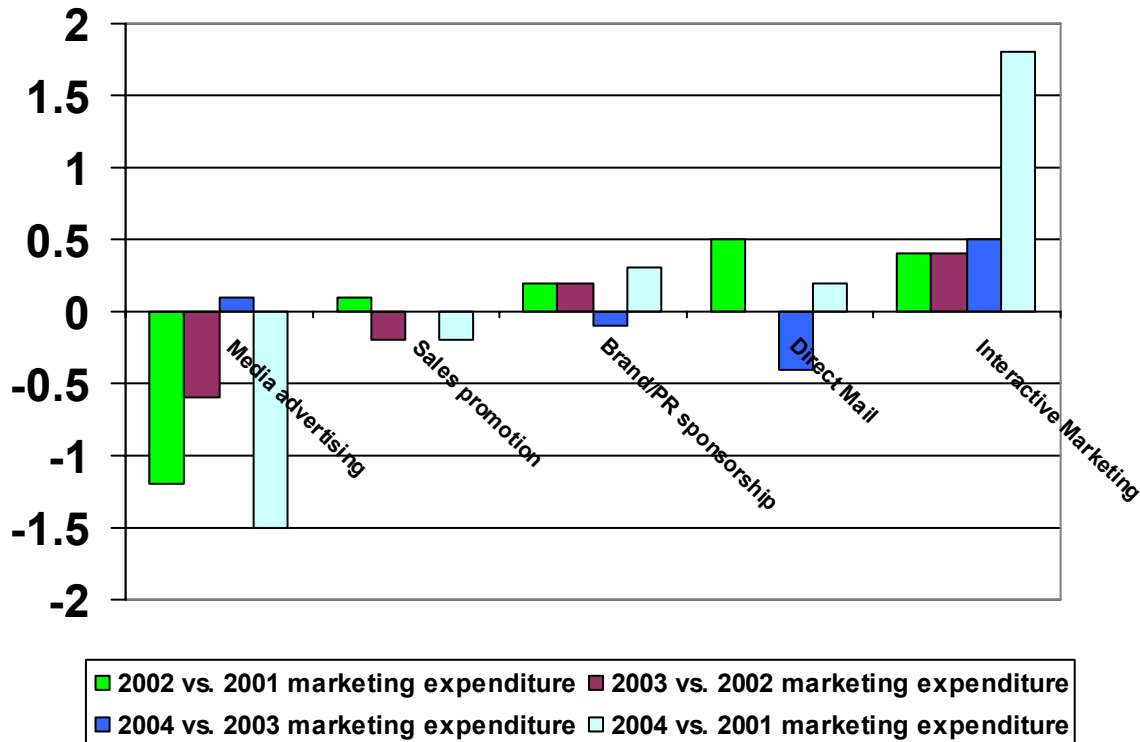
Growth in marketing expenditure tends to preempt economic growth by 1-2 years. It is therefore not surprising that in economies where optimism is at its lowest such as Japan, decline in marketing expenditure tends to precede a decline in GDP growth. Likewise, where Japan is showing small growth in marketing expenditure in the 2003-4 period, estimates of GDP growth for 2004-6 in Japan are expected to be slightly positive.

2001-2003 were the really important years of rationalization as far as marketing expenditure is concern. In the major economies (with the exception of UK), expenditure for marketing activities was the lowest in absolute terms in many economies and certainly in terms of growth for quite some time.

We had argued eighteen months ago that this was in fact a period of opportunity for businesses to rethink old marketing philosophies and strategies.

Let's now look at the kind of marketing strategies business have use from the difficult period of 2001-2003 to the present.

Changes in Marketing Expenditure Allocation (% of total marketing expenditure) of the Top Five Countries



Source: Marketing Expenditure Trends, London Business School 2004

Traditionally, media advertising had dominated marketing expenditure reaching a peak of around 50% of all marketing expenditure in the mid-late 1990s. The last year has seen a consolidation of the trend since 2001-2002 to move away from indiscriminate marketing which tends to have a greater reach in principle but is less targeted than more precise and meticulously analysed alternatives.

The fastest growing category is interactive marketing. This growth is particularly strong in the UK where the trend for 2001-2004 shows over 70% cumulative growth. Strong growth is also evident in the U.S. for this category with 13% in 2003 and 15% in 2004. Even less developed economies like China is catching onto to this trend.

Research has also shown that since 2001 when businesses began to look for more targeted, measurable marketing forms, interactive marketing is being

preferred because the category is seen as adaptable, controllable, measurable, and generally lower in cost.

This has led to a trend that sees growth in marketing services firms that seek to take advantage of businesses that are seeking advertising beyond traditional media advertising. For example, in studies of the U.S., U.K. and Germany, figures suggest that the growth in direct, interactive and other marketing services firms from 2001-2004 has been about 25% compared to a 2.1% growth in media advertising firms.

It would be fair to say that an examination of marketing expenditure trends from 2004 onwards backs up our conclusions eighteen months ago that direct and interactive marketing will continue to grow at the expense of traditional media advertising, sales promotion and brand PR/sponsorship for the next decade. As economies slow, sales promotions tend to pick up and as the economy quickens, expenditure on media advertising and brand/sponsorship tend to pick as well.

However, indiscriminate marketing strategies will not be as popular as a decade ago and the trend toward interactive marketing will continue to eat away at these more traditional forms.

We can see the ramifications of this for advertising and marketing agencies – the one's doing well are the ones that have adapted to these trends and seek to provide value-added services for clients in the form of helping clients utilise more circumspect interactive marketing strategies. Merely performing the role as facilitator or middle-man for mass media advertising becomes less and less valuable.

On a country basis, we are also seeing differences in marketing expenditure trends. Countries like France and Japan are losing out in the innovation stakes and have been slow to catch on to more modern marketing expenditure preferences. Only now are many firms in these two countries catching on.

For example, greater demands for measurable ROI have led to changes in media advertising expenditure. The U.S. and U.K. are benefiting greatly from using DRA (Direct Response Advertising) which offers a direct and fairly immediate response from the consumer in the form of an order or purchase inquiry. The proportion of mass media advertising expenditure by U.S. and U.K. firms on DRA is 54% and 43% respectively. This is compared to 29% in France and 6% in Japan.

This does bring up interesting questions which we mention in our *WN* article eighteen months ago. Our research suggest that CEOs, CFOs and Marketing Directors in the Anglo Saxon countries (U.S., U.K. and Australia) are held more accountable for the quantitative benefits of marketing monies spent (and hence favour shorter-term DRA strategies.) Counterparts in Continental Europe and

Japan focus more on building a brand designed to last several generations as the more important priority.

We can view this issue another way. All companies seek market leadership. Anglo Saxon countries tend to favour the immediate strategy of increasing sales in order to gain market leadership. Continental European countries and Japan tend to favour the longer-term strategy of building a superior brand to gain market leadership.

This is the excuse offered up by some executives in low DRA countries like France as to why they seem to be left behind by relying on traditional mass media strategies. Whether you prefer to gain market leadership through mass sales or through building a superior brand is up to you and should be taken on a case by case basis.

However, it is worth noting that even if we favour the latter strategy, there is no reason in principle why marketing expenditure should not be measurable and closely analysed, or why indiscriminate media advertising has to be the preferred method for building superior brands. As once new media technologies like radio, television and now the Internet become more commonplace, the capacity to advertise through these mediums also become more commonplace. As these technologies thrive, the number of radio stations or TV channels or web portals will multiply. This might or might not be accompanied by a decrease in the price of radio, TV or Internet advertising. If not, then it is clear that there needs to be a rethink about alternative forms of marketing expenditure and a greater focus on measurable marketing ROI as has already occurred especially in the U.S. which leads the way in advertising innovation and accountability.