



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.

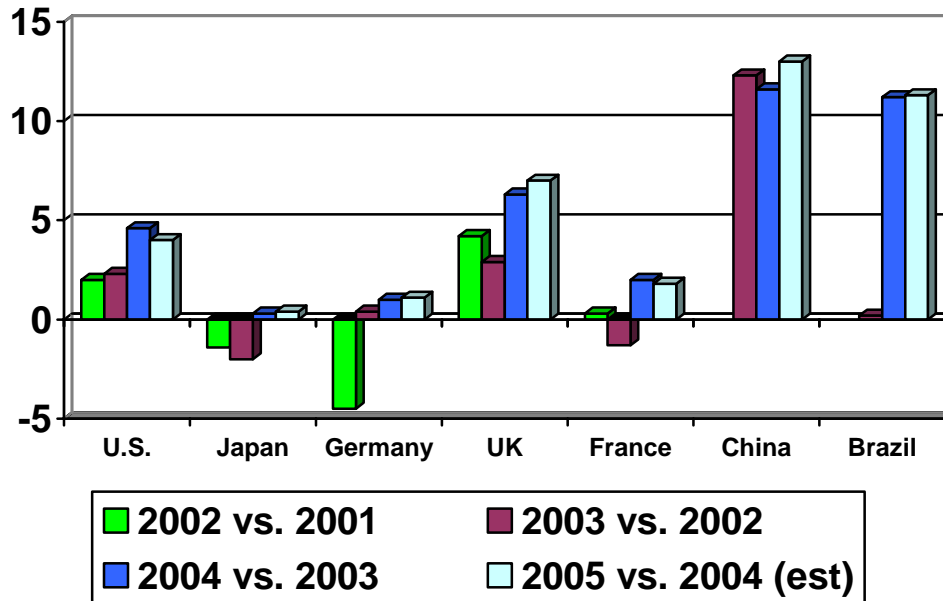
For the past two years, we considered global marketing spending trends in various Worth Noting articles. The argument then was that there was a permanent (rather than cyclical) shift in marketing expenditure as marketing executives were put under pressure to instill discipline in their strategies. This meant a more targeted approach to who we market to and how we do it. Indiscriminate, high spend marketing had become less appropriate.

A year 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 72% of global marketing expenditure. It therefore makes sense to look at what is happening in these seven countries.

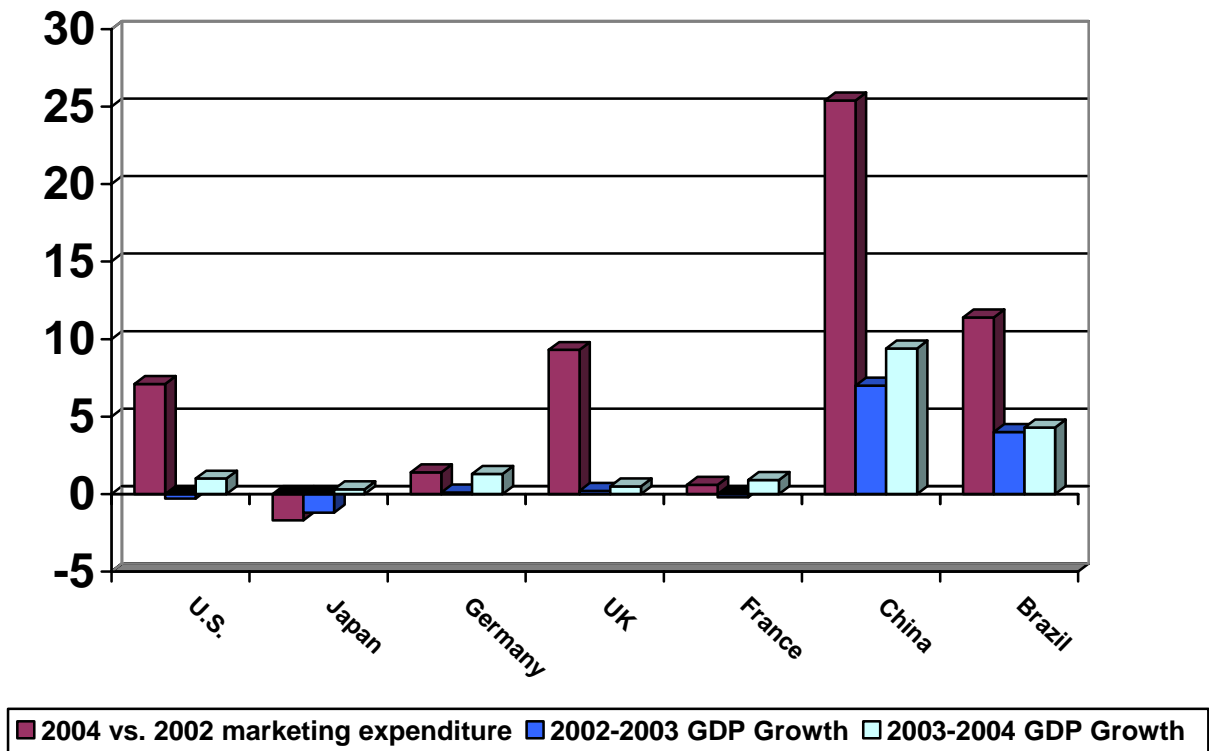
Percentage Change in Total Marketing Expenditure



Source: Marketing Expenditure Trends, London Business School 2005; L21 Analysis

All markets represented have remained fairly constant except the UK which is bucking European trends and China which continues to expand rapidly. Total marketing expenditure for the countries above taken together is expected to show growth of about 2%, slightly less than the 3.4% in 2003-2004.

Marketing Expenditure Growth vs. GDP Growth (%)

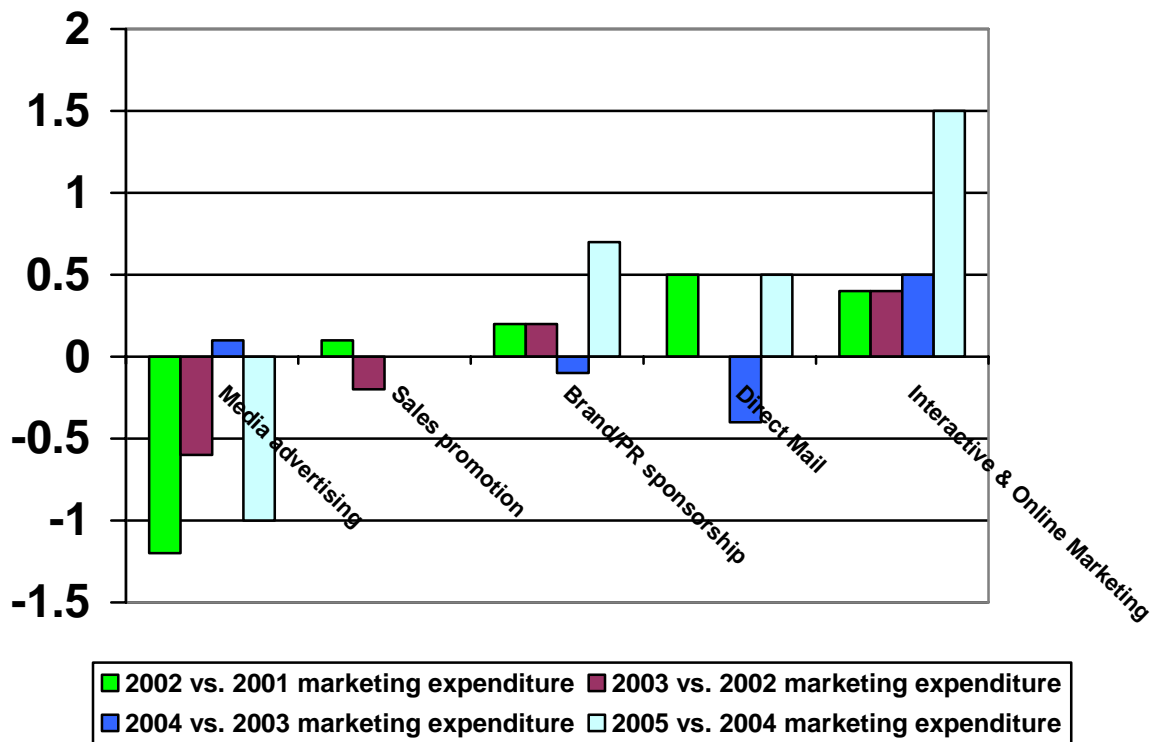


Source: Marketing Expenditure Trends, London Business School 2005; OECD; L21 Analysis

In previous editions, we saw that 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.

Certainly there are signs pointing to long-term decline in marketing spend in traditional areas: television advertising and print media advertising. Spend in areas such as direct sales and direct mail tend to rise and fall. The real uptrend is in interactive and online marketing.

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



Source: Marketing Expenditure Trends, London Business School 2005; L21 Analysis

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 measured alternatives.

The fastest growing category is interactive and online marketing. This growth is particularly strong in the UK where the trend for 2001-2005 shows over 75% cumulative growth. Strong growth is also evident in the U.S. for this category with 13% in 2003, 15% in 2004 and 17% in 2005. 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 & online marketing is being preferred because the category is seen as adaptable, controllable, measurable, and generally lower in cost. France and Japan are the only two major countries lagging in this area.

Interactive and online marketing now accounts for over 10% of total marketing expenditure in B2B firms and just under 10% in B2C firms. Online promotions/incentives and permission based email marketing are the fastest growing sub-categories, while firms are spending record amounts improving the look and functionality of their websites and web advertising pages.

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 2001-2005 has been about 30% compared to a 1.9% growth in media advertising firms.

It would be fair to say that an examination of marketing expenditure trends from 2005 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 will continue to move up and down. 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. This is now the major strategic challenge for traditional media and it is no surprise that many of these firms are moving toward interactive and online marketing to complement traditional businesses.

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. Spend in China is currently unpredictable but can be expected to settle down and follow these worldwide trends provided that the Internet is given greater freedom (hence encouraging more users.)

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.