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Bellwether Report

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The Bellwether Report is researched and published by IHS Markit on behalf of the Institute of Practitioners in Advertising.

The report features original data drawn from a panel of around 300 UK marketing professionals and provides a key indicator of the health of the economy.

The survey panel has been carefully selected to represent all key business sectors, drawn primarily from the nation's top 1000 companies.

The Bellwether Report is available via annual subscription, please contact economics@markit.com.

To download an individual pdf go to https://ipa.co.uk/

The next Bellwether Report will be released on:

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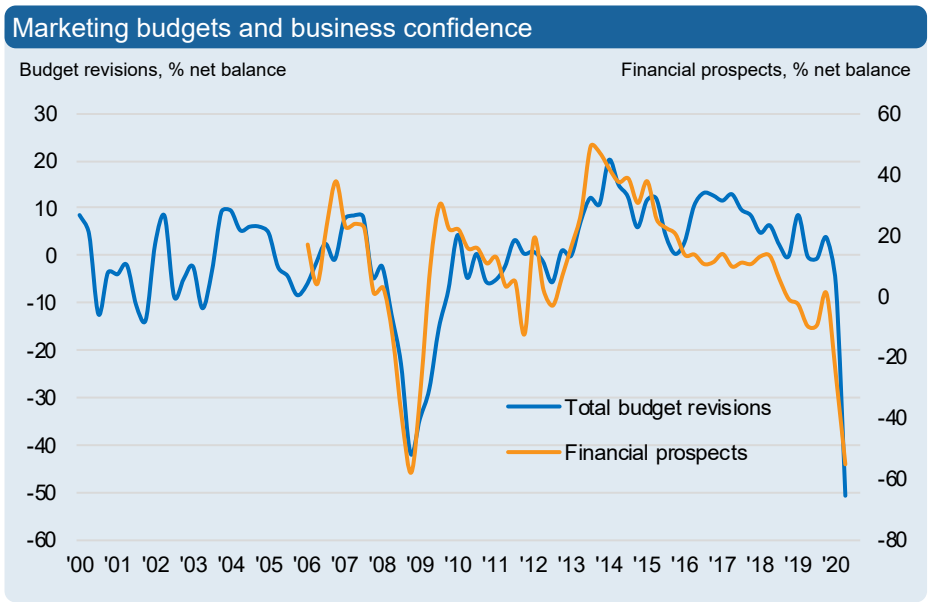
Coronavirus outbreak drives record decline in UK marketing budgets



Key findings from the Q2 2020 survey:

- Total marketing budgets contract at the quickest pace since data collection began over 20 years ago
- Coronavirus impact leads to broad-based reduction in all types of marketing with events spending hardest hit
- Both company-specific and industry-wide financial prospects move deeper into negative territory
- Economic outlook points to a challenging year for adspend but recovery expected from 2021

Commenting on the latest survey results, Paul Bainsfair, IPA Director General, says:

"As we suspected, these Q2 Bellwether figures reveal the very grave impact of COVID-19 on UK companies' marketing budgets, financial prospects and employment plans. Understandably companies in the most severely disrupted sectors have had few options but to preserve cash and operations to survive until trading conditions are more benign. We can only hope that the range of Government aid – from VAT cuts to the Eat Out scheme, in addition to the furlough scheme and more, can help to facilitate this.

"While the future trajectory of the economy is unpredictable, however, that of brands starved of marketing investment is much clearer. Our evidence from previous recessions and periods of buoyancy consistently shows that cutting marketing investment weakens brands in the near-term and limits growth and profitability in the long-term.

"There are positive forecasts for a return to adspend growth in 2021 but a significant part of this coming to fruition hinges on the decisions companies make now. Ultimately, companies must invest in marketing in a recession in order to profit in a recovery."

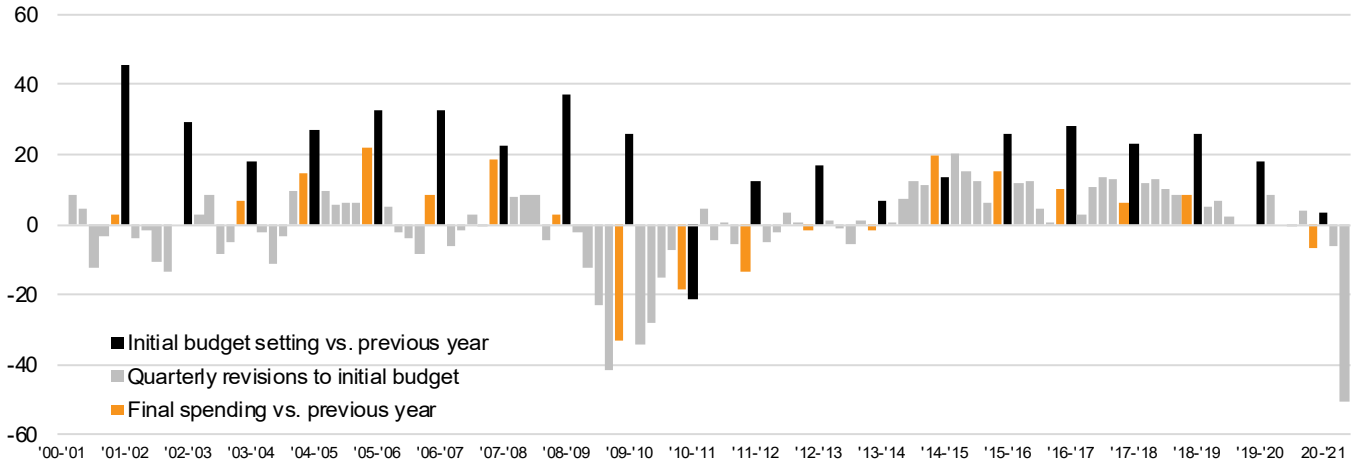
Commenting on the latest survey results, Eliot Kerr, Economist at IHS Markit, says:

"Given the steady flow of awful economic data that we've seen since the start of the UK lockdown in March, a further reduction to marketing budgets in the second quarter was anticipated. However, the sheer scale of the latest decline, unprecedented since we first started producing this report over 20 years ago, shows the catastrophic impact that this crisis has had. Despite the weak headline figures and the corresponding hardship that many businesses will face for the rest of this year, we do expect a strong bounceback in 2021."

Total marketing

Evolution of total marketing budgets

% net balance (% companies reporting an increase minus % companies reporting a decrease)



The latest *Bellwether* survey shed further light on the devastating impact the coronavirus disease 2019 (COVID-19) outbreak had on the UK economy during the second quarter of 2020. With a large proportion of businesses temporarily closed or operating at reduced capacity due to COVID-19 restrictions, total marketing budgets were slashed at a rate previously unmatched in over 20 years of data collection.

The net balance of firms that cut marketing budgets fell to -50.7% in Q2 (down from -6.1% in Q1). The result supersedes the previous nadir of -41.7% in Q4 2008. Almost 64% of panel members registered a decrease in spending compared to the first quarter, while only 13% posted an increase.

Anecdotal evidence suggested that many businesses were focused on cutting costs amid the severe declines in revenue caused by the pandemic. Although firms utilised the UK government's furlough scheme to ease the burden of staff costs, other reductions were required in order for many businesses to survive. Service sector companies faced particularly challenging circumstances, with little-to-no access to their clients amid enforced closures.

The decline in overall marketing budgets was driven by a broad-based reduction across each of the underlying categories.

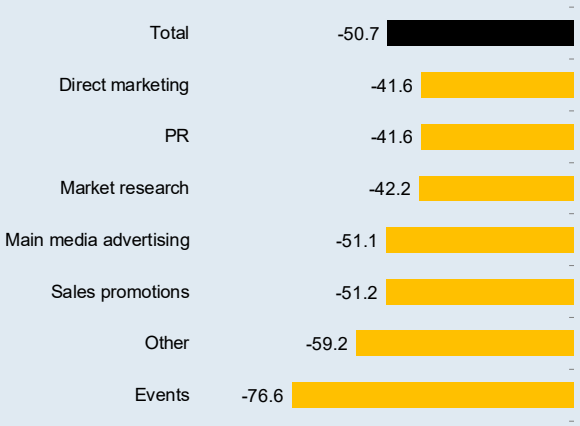
With coronavirus restrictions prohibiting anything other than small gatherings, funding for marketing events saw the sharpest reduction in the second quarter. A net balance of -76.6% of panellists registered a decline in events budgets, with more than 80% reporting a decrease. Just 3.6% posted a rise.

Main media advertising, crucial for brand exposure, also reported a steep decline in Q2. In fact, the reduction in budgets was the most severe since the survey's inception, with a net balance of -51.1% of marketing executives seeing a decline in available spend. Underlying data suggested the worst performing sub-category was out of home advertising (-61.2%), followed by audio (-50.0%) and published brands (-49.2%) respectively.

Across each of the seven broad marketing types, direct marketing and public relations saw the joint-softest budget cuts in the second quarter, although with net balances of -41.6%, the

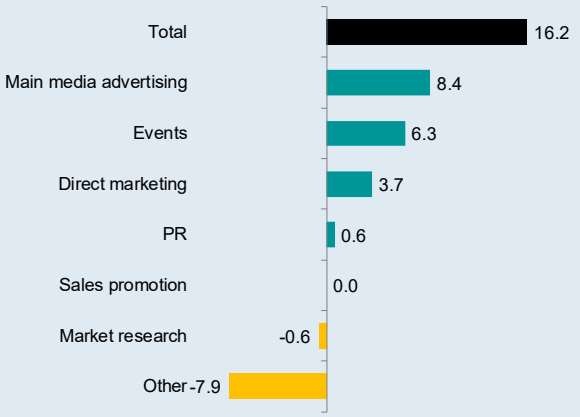
Breakdown of revisions to current budgets

% of all companies reporting an upward revision to current budgets minus % reporting a downward revision.



Breakdown of 2020/21 budget plans

% of all companies reporting an increase in spend for 2020/21 minus % reporting a decrease.



downturns were still severe overall. Meanwhile, market research (-42.2%), sales promotions (-51.2%) and other marketing expenditure (-59.2%) each saw historic reductions for their respective categories.

Opportunities and Threats

Despite the easing of some coronavirus-related restrictions in the latest *Bellwether* survey period, it is unsurprising to see that the majority of our panel members are preparing for an extremely difficult year in the wake of the severe disruption caused by the COVID-19 pandemic.

Chief on the list of concerns is the potential for a second wave of infections. With no clear indication of when a vaccine might be available, and further outbreaks likely to bring the reintroduction of tighter restrictions, some firms fear for the long-term sustainability of their business models.

Aside from coronavirus worries, businesses remain aware of the UK's looming departure from the EU when the Brexit transition period finishes at the beginning of 2021. At present, there has been limited progress on negotiations over a future trading agreement between the UK and EU, with efforts to manage the COVID-19 pandemic taking precedence. There is also a similar level of uncertainty surrounding the future trading relationships between the UK and other countries after the completion of the Brexit process. Some firms are therefore anticipating higher costs and preparing for restricted access to some export markets in early 2021.

That said, other panel members have highlighted the potential for more favourable trading terms after the UK's departure from EU bloc rules.

There was also positivity towards the UK government's upcoming plans for fiscal expansion, with panellists hopeful that spending will boost the economy and accelerate trends that could provide growth opportunities, such as the transition towards greener energy.

On a similar note, some firms were optimistic that the coronavirus pandemic itself could facilitate areas of business development. With the potential for a long-term rise in remote working, businesses providing home improvements or digital services foresee opportunities for significant revenue growth. Moreover, there is anticipation for a backlog of pent-up demand to flood back into some markets as restrictions are eased further.

Overall, *Bellwether* panellists remain anxious about the long-term effects of the coronavirus outbreak, with uncertainty surrounding the duration of the crisis driving firms to tighten their belts rather than focus on growth plans. However, the virus has brought about an acceleration in trends that will benefit some sectors of the economy and companies facing difficulty are putting in place plans to adapt to the 'new normal'.

Opportunities

Panellists were asked to comment on the main opportunities for their industries over the coming 12 months. A selection of responses are summarised below:

"Shoppers will be preparing more meals at home - this will stimulate sales for core grocery lines." **FMCG**

"Potential for leap forward in online sales" **Retail**

"Companies are moving their IT to monthly subscription models rather than traditional capex purchases." **IT/Computing**

"Urgent funding support required for SMEs emerging from lockdown." **Financial Services**

"Huge and growing opportunity for health and wellbeing brands and in the e-commerce space." **FMCG**

"Customers sat in their homes for extended periods, now wanting to improve their surroundings/living space." **Consumer Durables**

"Huge backlog of weddings and other celebratory events will give us a large boost." **Travel/Entertainment**

"Reopening of the housing market should provide opportunities for lending." **Financial Services**

"The need for people to find digital activities will strengthen our online offering." **Public/Charities**

"New requirements for COVID-19 related technology that we can provide." **Industrials/Utilities**

"Businesses who have traditionally only been storefronts or face-to-face selling have seen the threat of not being online." **Media/Marketing**

"Accelerated transition to a greener economy." **Other Services**

Threats

Panellists were also asked to comment on the main threats to their industries over the coming 12 months. A selection of responses are summarised below:

"A prolonged recession in the hospitality industry would be extremely detrimental for us." **FMCG**

"Reduction in physical retail sales could offset any online gains." **Retail**

"Second wave of coronavirus infections would likely see clients tighten their purse strings further." **IT/Computers**

"Subdued consumer confidence will make it very difficult for us this year." **Automotives**

"Reputation damaged in insurance because of coronavirus." **Financial Services**

"Our high street stores are set to have lower footfall." **Consumer Durables**

"We are anticipating a huge decline in the Oil & Gas segment." **Industrials/Utilities**

"Potential for a slow restart of sport and entertainment events which we cover." **Media/Marketing**

"Prospect of a no deal Brexit looms large." **FMCG**

"A weak currency would increase the cost of imports." **Retail**

"Nervousness surrounding a second wave of COVID infections will be a big headwind for us." **Media/Marketing**

"We anticipate a downturn in R&D from corporate companies and reductions in budgets across the board." **Other Services**

"We are losing customers as we cannot provide the cover required." **Financial Services**

"Our supply chain is still very vulnerable to further coronavirus outbreaks." **Consumer Durables**

Financial Prospects

Bellwether panellists remained pessimistic towards financial prospects in the second quarter of 2020, casting more downbeat assessments on both own-company and industry-wide finances.

Sentiment on own-company prospects plunged far deeper into negative territory compared to the first quarter, when the severity of the COVID-19 pandemic was only just beginning to become apparent. In the second quarter, precisely two-thirds of survey participants reported a pessimistic outlook for finances against 11.5% that expected an improvement, taking the net balance to -55.1%. The result represented the most severe degree of negativity since the fourth quarter of 2008.

Reporting on industry-wide prospects, firms were also more pessimistic in the second quarter. In the latest survey period, 72.4% of businesses were pessimistic on financial prospects compared to just 6.4% that were optimistic. As a result, a net balance of exactly -66% of firms were downbeat, eclipsing the recent low of -42.0% registered in Q1. The latest reading pointed to the most negative outlook since the final months of 2008, at the nadir of the global financial crisis.

Economic Forecasts*

Following the global coronavirus outbreak and resulting lockdown measures, we anticipate steep contractions in several key economic indicators during 2020. With many businesses temporarily closed throughout the majority of the second quarter, we are expecting a -11.9% decline in GDP for the year as a whole. This forecast assumes that the gradual easing of UK lockdown measures continues over the coming months, allowing an increasing number of businesses to fully reopen and begin to claw back some of the lost revenue from the months of March, April and May. Given the current economic climate, our model points to a -11.3% reduction in adspend during 2020. However, this figure is heavily dependent on most sectors in the UK economy remaining open for the rest of the year, with a second wave of coronavirus infections a significant downside risk.

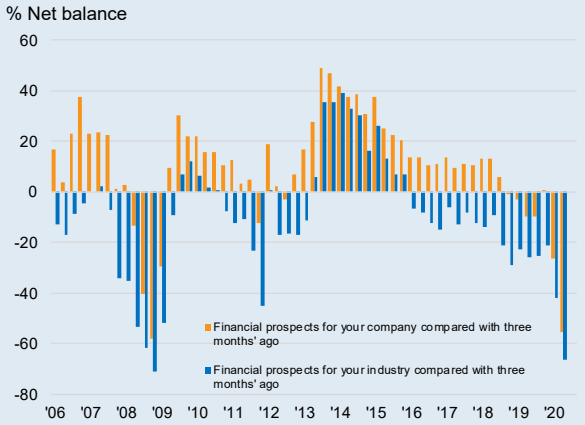
Looking forward, we anticipate a robust recovery in macroeconomic conditions during 2021 as businesses move closer to operating at full capacity. This would translate into a predicted +4.9% expansion in GDP and implied adspend growth of +6.0%. Beyond that, we expect the economy to achieve above-average growth during a further recovery phase, before stabilising near long-run rates in 2024 and 2025.

**A lack of accurate historical data prevents us from being able to forecast marketing in actual spend terms, so Bellwether seeks to predict advertising expenditure, as this forms the single largest component of marketing spend in the UK (an estimated 30%).*

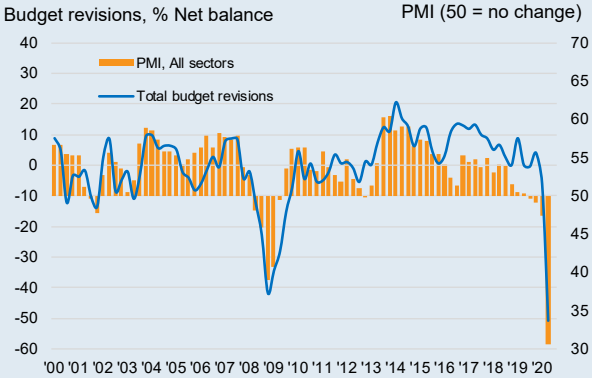
The Bellwether uses a simple model which incorporates the latest economic forecasts published by IHS Markit to infer the resulting trend in advertising expenditure that would typically accompany such economic trends, based on historical relationships.

Business prospects

Taking all things into consideration, do you feel more or less optimistic about the financial prospects for (a) your company, and (b) your industry as a whole, than you did three months ago?



Bellwether and the Business cycle



The above chart plots the Bellwether survey results on revisions to total marketing budgets against the IHS Markit/ CIPS PMI (Purchasing Managers' Index). The PMI is a monthly survey of business conditions that is closely watched by policymakers as it is considered an accurate and timely guide to what is actually happening in the economy and, unlike official data, does not get revised after first publication.

Source: IHS Markit

Adspend Forecasts: 2020-2025

	GDP % change	Consumer spending % change	Business investment % change	**Adspend % change**
2020	-11.9	-14.8	-10.7	-11.3
2021	4.9	6.4	-3.8	6.0
2022	3.2	3.9	2.3	6.1
2023	2.2	2.3	2.8	4.8
2024	1.6	1.7	2.8	4.0
2025	1.5	1.6	2.6	3.7

Adspend forecasts are based on the historical relationships between adspend and its key drivers, in this instance consumption, investment, exports and imports. The forecasts for GDP, consumption and investment are taken from IHS Markit.

Source: IHS Markit

Main media advertising

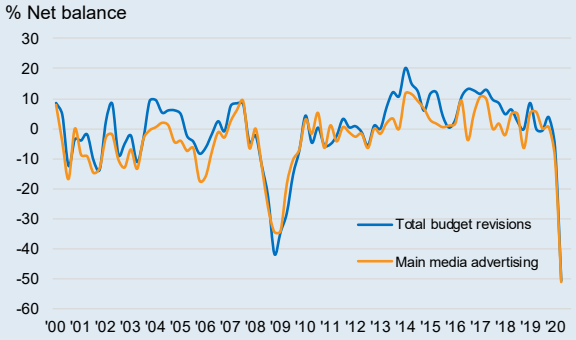
Marketing executives reported another drastic decline in main media advertising* budgets during the second quarter of the year. The result followed a sharp reduction in Q1 2020 when the coronavirus outbreak led governments to begin initiating unprecedented lockdown measures.

In fact, the net balance fell to -51.1% in the latest survey, down from -9.9 in the first quarter. The second quarter reading was the most downbeat since data collection began in the opening quarter of 2000, surpassing the previous record set at the end of 2008.

Despite the historic downward revisions to current budgets, panel members had initially projected a robust expansion in main media advertising spend for this year as a whole, with a net balance of +8.4% anticipating a rise.

Revisions to current budgets

In the last three months, has your main media advertising budget for the current financial year been revised up or down, or is it unchanged?



*includes video (TV, cinema and/or online), audio (radio and any other audio), published brands (print or online), out-of-home and any other online advertising.

Video, audio, published brands, out of home and other online advertising

We asked panel members to provide more information on their main media* advertising budgets during the latest survey period.

In particular, we questioned whether current budgets relating to video, audio, published brands, out of home and other online advertising had been revised up, down, or stayed unchanged when compared to the previous three months.

The results pointed to marked contractions in budgets across each of the five monitored categories, with at least 50% of firms signalling lower spending in each case.

Overall, the steepest decline was recorded in out of home advertising, where 63.1% of *Bellwether* panellists cut budgets during the past three months. That compared to just 1.9% that registered an increase, leading to a net balance of -61.2%.

The second-worst performer was audio advertisement, with a net balance of -50.0% of firms recording a decrease in budgets. Overall, 58.5% of survey respondents reported lower spending in this category compared to just 18.5% that saw an increase.

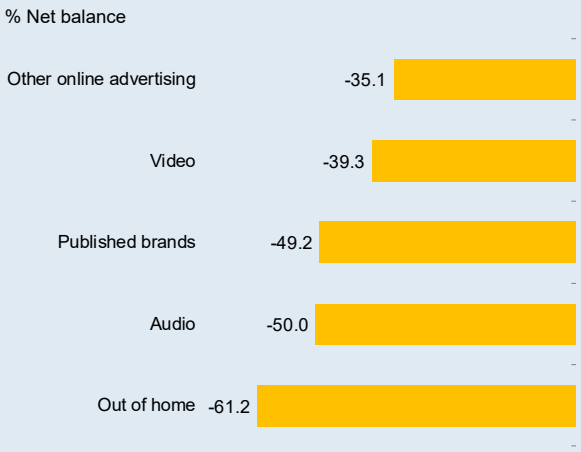
Online advertising not included in other categories saw the softest decline in the second quarter, albeit one that was substantial overall. The survey showed that 17.6% of firms expanded budgets, but that was more than offset by 52.7% that cut spending, resulting in a net balance of -35.1%.

Adspending on published brands also fell sharply, with a net balance of -49.2% giving a reading that was only slightly less negative than in audio. Meanwhile, budgets for video campaigns were also cut sharply, as highlighted by a net balance of -39.3%.

Revisions to current budgets

In the last three months, have your video, audio, published brands, out of home and other online budgets for the current financial year been revised up or down, or are they unchanged?

Q2 '20	Higher %	Same %	Lower %	Net. +/-
Other online	17.6	29.8	52.7	**-35.1**
Video	13.1	34.6	52.3	**-39.3**
Published Brands	10.0	30.8	59.2	**-49.2**
Audio	18.5	33.0	58.5	**-50.0**
Out of home	1.9	35.0	63.1	**-61.2**



We asked panellists to indicate whether their budgets for video (including any television, cinema or online video), audio (including any radio – live or online and any other audio such as podcasts), published brands (print or online), out of home and any other online advertising not already included had been revised up, down, or remained unchanged when compared to the previous three months

Direct Marketing

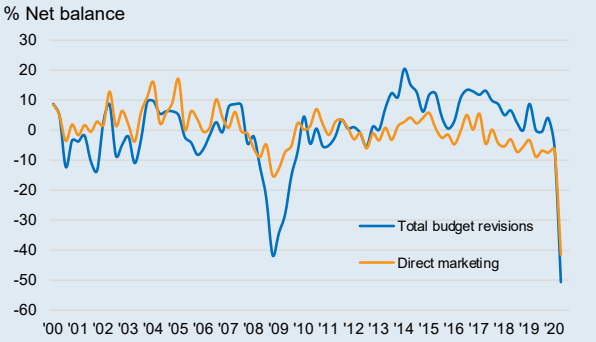
Direct marketing* budgets remained in contraction territory during the latest survey period, extending the current sequence of decline that began in Q4 2017.

However, the latest downturn in spending for this particular category was by far the sharpest since the series began in the first quarter of 2000, with a net balance of -41.6% cutting budgets compared to the first quarter. More than half (53.3%) of *Bellwether* panel members reduced direct marketing resources in the second quarter, which heavily outweighed the 11.7% that registered an increase.

The result marked a stark contrast to the initial expectations for the 2020/21 financial year, where a net balance of +3.7% of firms anticipated a rise in direct marketing budgets.

Revisions to current budgets

In the last three months, has your direct marketing advertising budget for the current financial year been revised up or down, or is it unchanged?



* Includes direct mail, email, telemarketing, door-to-door, catalogues and SMS.

Sales Promotions

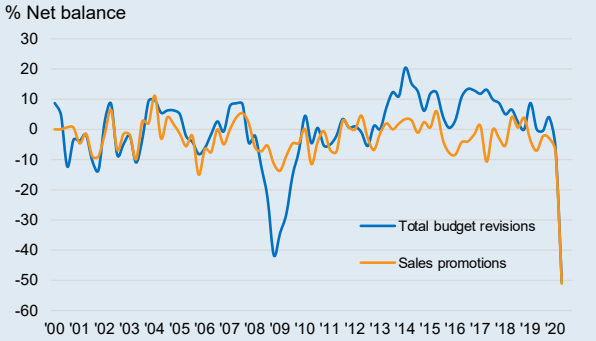
For the sixth quarter in a row, *Bellwether* panel members reported a reduction in sales promotion* budgets. In fact, the latest reduction was the steepest in over 20 years of data collection, with the coronavirus pandemic severely hampering the effectiveness of such spending amid widespread store closures.

With just over 58% of businesses lowering budgets reserved for sales promotions, compared with only 7% recording growth, a net balance of -51.2% of firms cut funds available for promotional activity, down from a net balance of -7.2% in Q1.

The downward revision in the latest survey period contrasted with panel member's initial expectations of no-change in sales promotions budgets for the 2020/21 financial year.

Revisions to current budgets

In the last three months, has your sales promotion advertising budget for the current financial year been revised up or down, or is it unchanged?



* includes in-store/POS promotions (BOGOF and similar), coupons, trade incentives, price discounting, loyalty cards and free gifts.

Public Relations

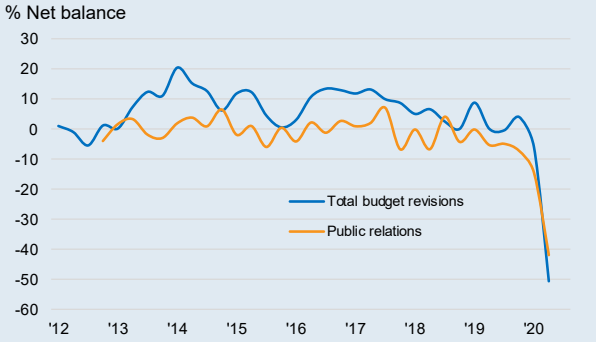
Budgets relating to public relations* (PR) fell further during the second quarter, extending the current run of downward revisions seen in each quarter since Q2 2019. Moreover, the latest reduction eclipsed the previous series record set in Q1, dwarfing all prior contractions registered since the question was first introduced to the survey in Q4 2012.

A net balance of -41.6% of firms cut PR budgets in the second quarter of 2020, with 50.4% of panellists reporting lower planned spending, compared to just 8.8% that saw an increase.

Survey participants had been expecting a marginal upturn in PR expenditure during the current financial year (a net balance of +0.6%).

Revisions to current budgets

In the last three months, has your public relations budget for the current financial year been revised up or down, or is it unchanged?



* includes reputation management, media relations, word-of-mouth, games and competitions, newsletters, and earned (not paid for) social media.

Events

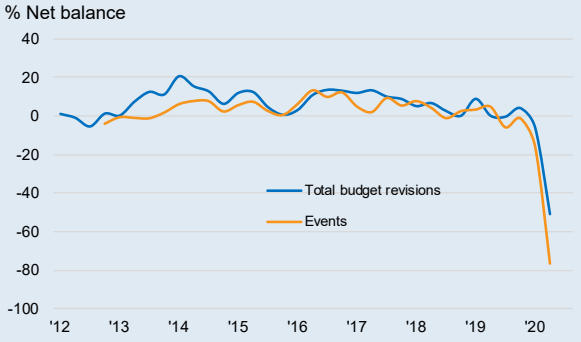
As one of the categories most severely impacted by the ongoing public health crisis, marketing events* budgets were slashed drastically in the second quarter.

A net balance of -76.6% reduced spending related to events in the latest survey period, down further from the -15.9% recorded in Q1. The latest reading pointed to the strongest reduction in events budgets since data collection began in the final three months of 2012. Over 80% of panel members cut events funding in Q2 compared to just 3.6% that increased spending.

The unprecedented contraction was a marked departure from the robust expansion that was initially anticipated for the current financial year. When questioned on initial budget planning, a net balance of +6.3% of panellists expected a rise in events expenditure during the 2020/21 fiscal year.

Revisions to current budgets

In the last three months, has your events advertising budget for the current financial year been revised up or down, or is it unchanged?



* Includes exhibitions, conferences, experiential, event marketing, event sponsorship, product sampling, corporate hospitality and entertainment.

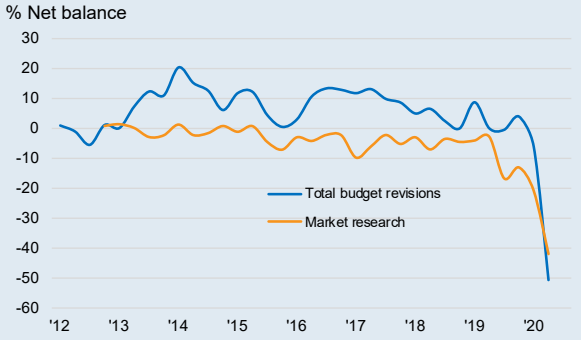
Market Research

Similar to the results in other categories, market research* budgets fell sharply during the second quarter. A net balance of -42.2% of marketing executives recorded a contraction in spending, down from a previous record of -21.0% in the first quarter. The overall trend was driven by 48.4% of panel members reporting a decline in research budgets which more than offset the 6.3% that registered a rise.

Although funds available for market research were cut heavily in Q2, the fall was softer than the wider-market trend for total budget revisions, in which a net balance of -50.7% of firms posted a reduction in spending. That said, the fall in market research expenditure continued to outstrip previous expectations for the 2020/21 financial year, as a net balance of just -0.6% of panel members anticipated a decline in market research funding.

Revisions to current budgets

In the last three months, has your market research advertising budget for the current financial year been revised up or down, or is it unchanged?



* includes qualitative and quantitative, brand tracking, and product development research.

Other

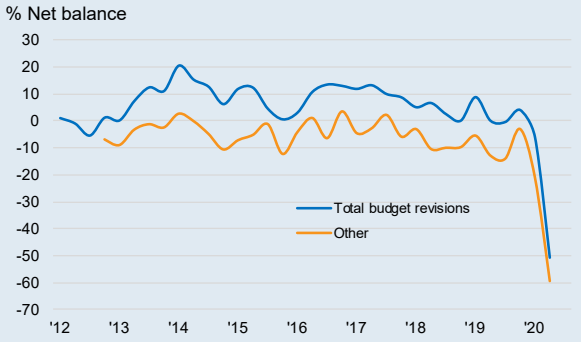
Budgeting related to 'other' marketing, which includes any paid for marketing not already covered by other categories, continued to be cut in the second quarter of 2020. Moreover, not only did the latest result extend the current sequence of downward revision that began in the last quarter of 2017, it represented the sharpest reduction since data collection began (in Q4 2011).

With 62.1% of *Bellwether* panel members indicating a decline in 'other' marketing budgets over the past three months, compared to just 2.9% that noted an increase, the resulting net balance of -59.2% was down substantially from the previous quarter (-20.9%).

The reading contrasted with a net balance of just -7.9% of businesses anticipating a decline for the 2020/21 financial year as a whole.

Revisions to current budgets

In the last three months, has your other advertising budget for the current financial year been revised up or down, or is it unchanged?



* includes any other paid for marketing activity.