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Marketing Cuts Budgets By 3% In A Downturn

Advertising And Traditional Media Will Get The Biggest Hit

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EXECUTIVE SUMMARY

Forrester interviewed more than 100 marketing leaders about their response to the looming recession. On aggregate, they expect to reduce by 3% their total budgets and cut branding, advertising, and traditional media. To reduce the impact of these cuts, agencies will accelerate the integration of new media — an element few CMOs economize on. The TV industry will speed up offering addressable ads to increase the returns on traditional media budgets. Small brands will benefit most from these changes. Large advertisers will gain in the long run if they start to compete on consumer knowledge, by investing in social media, marketing analytics, and a leaner go-to-market process.

MARKETING LEADERS ANTICIPATE AN ECONOMIC DOWNTURN

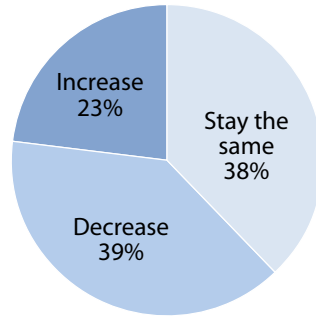
With consumer confidence in the US at a 15-year low and the stock of their firms dropping, many marketing leaders are receiving the dreaded email from their CFOs with a “request for budget review.” To understand how they deal with this challenge, Forrester surveyed the members of its global CMO panel. The members of this panel share their concerns and best practices and guide Forrester’s research in supporting senior marketers meeting their business goals and challenges. The responses from the panel members show that:

- **Many marketing leaders are bearish — yet some remain bullish.** Only 40% of the respondents expect to be able to hang on to their agreed 2008 budget, and about as many foresee a budget cut as a result of an economic downturn (see Figure 1-1). One in four marketing leaders, however, are bullish, expecting to raise their budgets even when an economic crisis hits them.
- **Across the board, marketers expect to cut budgets by 3%.** Almost all market leaders expect to get away with modest budget decreases or increases — between 0% and 10% (see Figure 1-2). A closer analysis of the survey responses shows that the bullish marketers control only a fraction of the budgets that their bearish peers have — an aggregate \$55 million versus \$5 billion. This means that the largest advertisers are anticipating the largest cuts, resulting in an expected 3% average marketing spending decline in an economic downturn.
- **Branding, advertising, and traditional media are on the cutting board.** Two out of three of the bearish executives said they would cut line item branding and advertising, and more than half would also cut traditional media spending (see Figure 2). Most of the bullish marketers say that they will shift their extra funds to branding and advertising, but since these optimists control small budgets, they won’t make up for the anticipated decline by their pessimistic peers.

Figure 1 Marketers Expect To Cut 3% Of Budgets On Aggregate

1-1 Marketing leaders on aggregate expect a small budget decrease

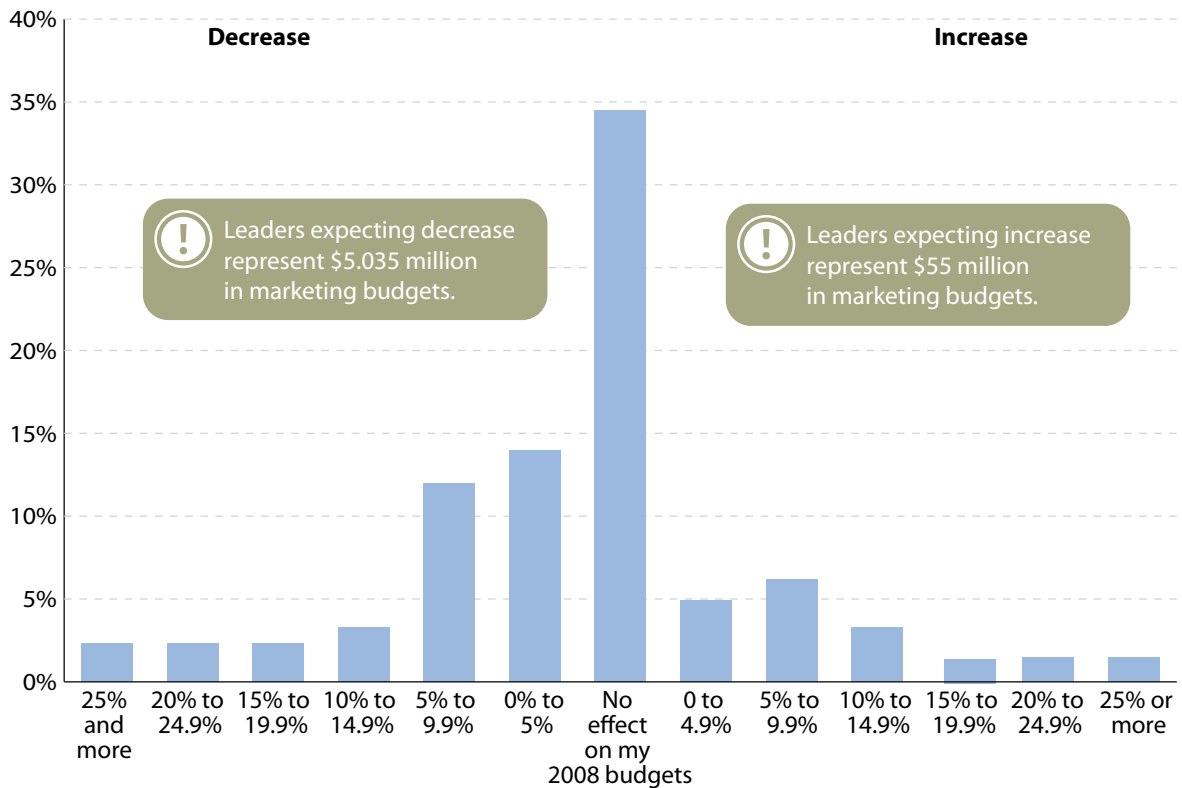
“Could you please share with us how a possible economic slowdown would impact your 2008 budgets?”



Base: 97 marketing leaders

1-2 Both bulls and bears expect a modest budget impact

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Base: 97 marketing leaders

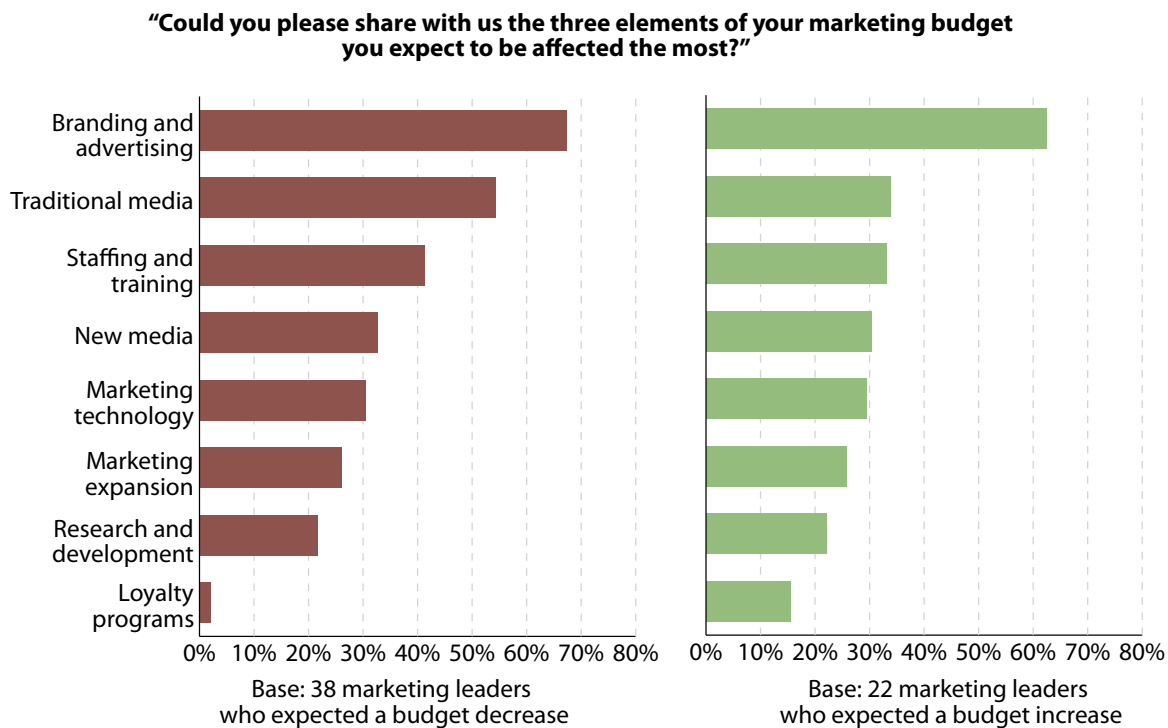
Source: February 2008 Global Marketing Leaders Online Survey

45658

Source: Forrester Research, Inc.

- **Strategic investments will take minor hits.** Few marketers are expecting to touch the budgets for staffing and training, marketing technology, and research and development — long-term investments strengthening the foundation of their operation. New media is safe too, with only one-third of the bearish marketing leaders expecting to save on this growing line item and bullish marketers ranking new media as their third favorite investment, after market expansion and branding and advertising.

Figure 2 Traditional Media Will Take The Biggest Hit Overall



Source: February 2008 Global Marketing Leaders Online Survey

45658

Source: Forrester Research, Inc.

THE DOWNTURN WILL ACCELERATE MUCH-NEEDED AD INDUSTRY CHANGE

Most marketing leaders are making all the right calls; their responses show that they will resist the stereotypical response to a crisis: “Forget strategy; boost sales.” Instead, the vast majority plan to cut promotional budgets and maintain investments in staffing, technology, R&D, and brand loyalty. These are the very investments that will make their operation healthy and will benefit the firm’s bottom line, even in a crisis.¹ What they say between the lines is: “We’re not going to do less, we’re going to do better.”

But what is “better” for CMOs is “less” for the advertising and media industry, as the cuts by large advertisers will hit them hard. Ironically, the savings in branding, advertising, and media will set

the wheels in motion of a long-needed change in these industries. And when the dust settles, smart advertisers will never have to raise these budgets again, as:

- **Ad agencies will finally integrate new media.** Agencies like Publicis will follow the money. As large advertisers will cut around 5% of below- and above-the-line spending, agencies like Wunderman will further shift resources to their Net operation and make additional acquisitions to strengthen their digital marketing practice.² Agencies will also want a slice of the robust R&D pies and will invest in communities for market and consumer intelligence. The result? The industry will transition to the Connected Agency — agencies offering marketing leaders better market intelligence and more efficient targeting to stop today's mass-marketing waste.³
- **TV will accelerate the transition to on-demand.** The budget cuts in traditional media will motivate Time Warner and Comcast to speed up their project Canoe — which allows targeting of TV ads via set-top boxes — and cable companies like Cox to boost ad-supported video on demand. The result? TV audiences will receive personalized, interactive advertising — the kind they won't skip with their DVRs. And marketing leaders from firms like BMW can save the media budgets they now waste on sending useless ads to soccer moms who just want big people carriers.
- **Niche brands will continue their surge.** As small firms up their ad spend while the big guns cut their budgets, the playing field for brands will level further. By the time a downturn is over, niche brands like French cosmetics L'Occitane will have used addressable advertising to: 1) develop the same mindshare with their target audience as market gorillas like Unilever, and 2) expand in the US, for instance, with a relative small budget.⁴ At the same time, new brands from low-cost economies like India and China will have made it onto the shelves of Aldi or Wal-Mart, serving consumers who had to tighten their belts during the downturn.

RECOMMENDATIONS

SWITCH BUDGETS TO INTELLIGENCE

Both in the short and long run, the cuts in branding, advertising, and traditional media will benefit the media and marketing industry. But today's successful brands risk getting stuck in the middle market — wedged between entrants shooting for the large mass market and those shooting for high margins. What should CMOs do to make sure they benefit more from the downturn than their current competitors and the new entrants? They should compete on consumer knowledge.

- **Secure brand loyalty and bottom-up ideas with social media.** Brands like Apple and Kiehl's save enormously on advertising as they rely on clients to pass on the message. They nurture the brand advocates and thus create an enormous barrier for new entrants.⁵ "Doing things better" for marketing leaders means: Hire a social media expert and give him or her

a small budget — \$100,000 or even less — to mobilize clients to take brand ownership and do the promotion and innovation for you in their spare time, as Lancôme and Lego have successfully done in the past few years.⁶

- **Develop a leaner go-to-market template.** Firms like Procter & Gamble and Johnson & Johnson use standardized go-to-market templates, which reduce the risk of wasting large R&D and promotional budgets on products consumers don't want. Brands with active social networks, however, know what consumers want and have a platform to verify marketing decisions every step of the way during a product launch. In sync with developing the social media, CMOs and brand managers should review their go-to-market process and analyze which steps they can omit or speed up with the social network in place, so they can respond faster to market needs.
- **Shift staff to analytics.** Two out of three marketing leaders expect to hold on to their technology budgets. Good call — successful database marketers told Forrester that technology is an issue. But they also said that lacking skilled staff is a bigger concern.⁷ With more consumer metrics coming in through new media and social networks, the complexity of turning raw data into strategic decisions will only increase. Marketing leaders could hire more data analysts, but the job market for such staff is already stressed. Instead, they should assess which members of their current staff have strong data skills and offer them an analyst career — and retrain them using the uncut training budget.

ENDNOTES

- ¹ Forrester interviewed more than 300 marketing leaders about their 2008 business goals and challenges. We found that most CMOs worry about changing markets and customer behaviors. Additionally, they see processes and team structure as their top internal challenges. Forrester agrees that these are important tactical issues, but to thrive in tomorrow's world, CMOs should take more time to focus on the top three strategic issues: globalization, marketing technology, and their agency relationship. See the March 28, 2008, "[The Challenges Of CMOs In 2008](#)" report.
- ² Forrester forecasts that interactive marketing spend in the US will grow to \$61 billion by 2012, an increase driven by marketers who will leverage a distribution of channels rather than pour new spends into a single place. See the October 10, 2007, "[US Interactive Marketing Forecast, 2007 To 2012](#)" report. The value of European online marketing — including email, search, and display advertising — will more than double from around €7.5 billion in 2006 to more than €16 billion in 2012, 18% of total media budgets. See the July 12, 2007, "[European Online Marketing Tops €16 Billion In 2012](#)" report.
- ³ Today's agencies fail to help marketers engage with consumers, who, as a result, are becoming less brand-loyal and more trusting of each other. To turn the tide, marketers will move to the Connected Agency — one that shifts from making messages to nurturing consumer connections, from delivering push to creating pull interactions, and from orchestrating campaigns to facilitating conversations. Over the next five years, traditional agencies will make this shift; they will start by connecting with consumer communities and will eventually become an integral part of them. See the February 8, 2008, "[The Connected Agency](#)" report.

- ⁴ The Web provided niche brands with a distribution channel, as described by the concept of “the Long Tail.” Social Computing gives these niche brands a powerful marketing channel, enabling them to develop deep relationships with communities and increase market share and margins at the expense of big brands and mass media. Incumbents need to change their positioning drastically for damage control. See the March 8, 2007, “[The End Of Mass Marketing](#)” report.
- ⁵ Many firms value customers primarily based on how much they spend with them. However, in this super-connected world of Social Computing, influential consumers drive purchase decisions and have an enormous value for a brand. Marketers should now include the social value of consumers in their valuation algorithms — using the social value scorecard — and offer sophisticated award systems to the most valuable consumers: the Ambassadors. See the February 27, 2008, “[Redefining High-Value Customers](#)” report.
- ⁶ Brands that connect with their target consumers must be more organic in nature: They must align more closely with their core consumers and be developed and nurtured by those consumers as well as by the companies that market them. Consumers have an unprecedented ability to broadcast their brand experiences. Companies that harness that ability and use it to create organic brands will find a way to market that keeps their brand equity and brand dignity firmly intact. See the December 28, 2006, “[Organic Branding](#)” report.
- ⁷ We surveyed 107 direct and database marketers to understand their measurement successes and shortcomings and found that 69% percent of respondents say they are at least somewhat effective at measuring ROI. Despite this success, these marketers face several challenges which limit their ability to improve marketing ROI such as a lack of staff, technology infrastructure, and timely access to data. So what drives success? Leaders in this space tell us they store more data, track more customer value metrics, and make significant investments in testing of new analytical strategies. See the March 12, 2008, “[Database Marketers Evolve Their ROI Measurement](#)” report.