

EMBARGOED UNTIL
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IPA/BDO Bellwether Report – 2009 Q3

Marketing budgets fall again in Q3, but rate of decline eases sharply

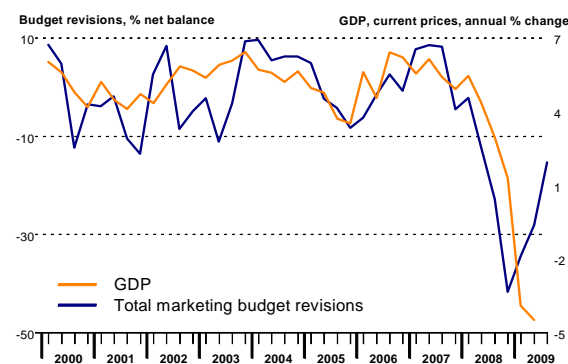
Key points

- Marketing spend falls for the eighth quarter running in Q3, but at slower pace.
- Optimism regarding financial prospects surges.
- GDP set to rise in Q3.

Marketing spend downgraded at the weakest rate since Q2 of last year

The Bellwether survey, compiled by Markit, signalled a further fall in marketing spend, as the number of companies cutting their marketing budgets exceeded those reporting a rise for the eighth consecutive quarter in Q3. However, the proportion of survey respondents reporting a decline eased to 28%, while the number reporting a rise moved up to 13%. At -15%, the resulting net balance fell sharply from -28% in Q2 and the low of -42% seen at the height of the financial crisis in Q4 of last year. The latest reading signalled the smallest downward revision to budgets since Q2 of last year.

Chart 1: Revisions to total marketing budgets



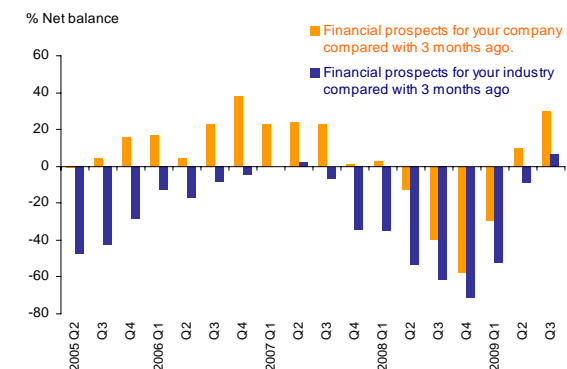
The ongoing trimming of current year marketing budgets suggests that spend will have fallen for the second year running in 2009.

Companies financial prospects surged in Q3

The slower rate of decline of marketing spend was attributable to a steep improvement in business confidence since the last survey. Bellwether respondents reported that the degree of optimism about financial prospects for their companies was the strongest since the final quarter of 2006, with 47% of them seeing improved prospects. Survey respondents continued to be less upbeat about financial prospects for the industries in which they

operate relative to prospects for their own companies – a tendency which has been evident throughout the survey’s history.

Chart 2: Marketing executives’ business confidence



GDP set to rise in Q3, although outlook for adspend deteriorated

The strong rebound in business confidence is consistent with the economy returning to growth in Q3, but the further decline in marketing spend suggests that companies remain wary of the robustness of the recovery and longer-term prospects. As such, although the most intense phase of the downturn has passed, firms remain in cost-cutting mode, especially in relation to main media advertising and below-the-line marketing activities. This suggests that economic recovery is likely to be weak as we move beyond the current stimulus-related and inventory rebuilding growth phase.

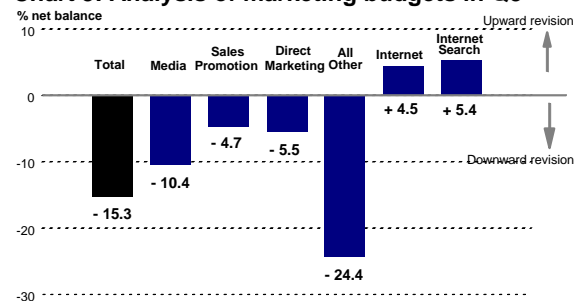
Interestingly, in contrast to the consensus prediction for GDP for next year, which has become more optimistic in recent months, the forecast for adspend has become more pessimistic.

Internet marketing budgets revised up in Q3 for the first time in three quarters

The ‘all other’ marketing spend category (covering mainly below-the-line activities) saw the steepest downward revision to current year budgets, followed by main media advertising. However, the latter saw the rate of deterioration slow to the weakest since media spend budgets began falling in Q2 of last year. Spend was also cut for direct marketing and sales promotion, though both saw only modest falls as rates of decline continued to ease. Internet

advertising was therefore the only category to see an increase in spend, with budgets rising for the first time since Q2 of last year.

Chart 3: Analysis of marketing budgets in Q3



Commenting on the latest survey:

Chris Williamson, Chief Economist at Markit and author of the Bellwether:

"On one hand, the Q3 survey provides further welcome evidence to suggest that the UK has bounced out of recession, with companies' views on their financial prospects surging to a near three-year high. On the other hand, the fact that marketing spend continued to fall despite this rebound in confidence will add to doubts about the ability of the recovery to become self sustaining as businesses appear to remain in cost cutting mode."

Rory Sutherland, IPA President, Vice-Chairman, Ogilvy Group UK:

"Although marketing spend is still falling this latest Bellwether is an encouraging sign that budget cutting is slowing. Whilst companies are still understandably wary the report reveals a strong rise in business confidence and the suggestion that GDP may well have risen in Q3. It will be interesting to see whether the rise in internet spend will presage an upturn in other categories."

Jim Houghton, Head of Marketing Services, BDO LLP:

"It will come as a great relief to the industry that the economic pressures seem to be easing. Evidently this relief won't be uniform, with online and sales focused marketing disciplines the strongest. After two years of dramatic decline, the industry also needs to reflect on what recovery will mean when it does finally arrive. The recession will no doubt have a long-term impact on marketing agencies but with intense competition and continued constrained budgets, companies will have to drive both brand and sales. Well targeted marketing spend will be key to achieving this objective."

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About the Bellwether

The Bellwether is based on a questionnaire survey of around 300 UK-based companies that provide regular quarterly information on trends in their marketing activities. The survey panel has been carefully selected to ensure that the survey data provide an accurate indication of actual marketing trends in the whole economy. Participating companies therefore include a broad variety of advertisers in terms of market sector and geographical location. The survey panel has been recruited from the nation's top 1000 companies. Respondents are primarily marketing directors or similar.

Questionnaires are dispatched to companies in the final three weeks of each calendar quarter, requesting information relating to two key issues:

- (a) whether their marketing budgets for the year (either calendar or financial year) have been set higher, lower or the same as the actual expenditure outcome for the previous year.
- (b) whether their original budgets for the current year – as reflected in their original answers to (a) above – have been revised since they were first set.

The financial prospects data are based on responses from the Bellwether survey panel of marketing professionals at 300 UK firms, which is structured according to industry contribution to GDP. The question asked each quarter is as follows: "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?"

About the Institute of Practitioners in Advertising

The IPA is the industry body and professional institute for leading UK advertising, media planning and buying, and marketing communication agencies. It provides a full range of services to its members: from advice (legal, sector and management), awards and events, best practice, information, research studies and training as part of an extensive CPD programme. It is also the agency industry spokesman.

About BDO LLP

BDO LLP is a UK member firm of BDO International, the world's fifth largest accountancy network, with more than 1,000 offices in 100 countries. The firm offers a range of advisory services to its clients which include accounting and audit, corporate finance, turnaround and business restructuring services, forensic accounting and tax services. Clients span all sectors but the firm has specialisms in retail, real estate & construction, public sector, manufacturing, financial services and technology, media and telecoms.

About Markit

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About Markit Economics

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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