Hard sell

Ad-spending usually plunges when economic growth slows. Will it be any different this time?

WHEN the American arm of Hyundai, a South Korean carmaker, said last week that it was worried about the economy and may cancel its plans to advertise in the Super Bowl, American football's grand finale, on February 3rd, the advertising and media industries shuddered. Marketing spending is one of the first things companies decide to cut when faced with slowing sales. Suddenly a recession in ad-spending seemed imminent. In the event, Hyundai decided to stay in, but buyers and sellers of ad-space know that it is only a matter of time before someone somewhere pulls out for real.

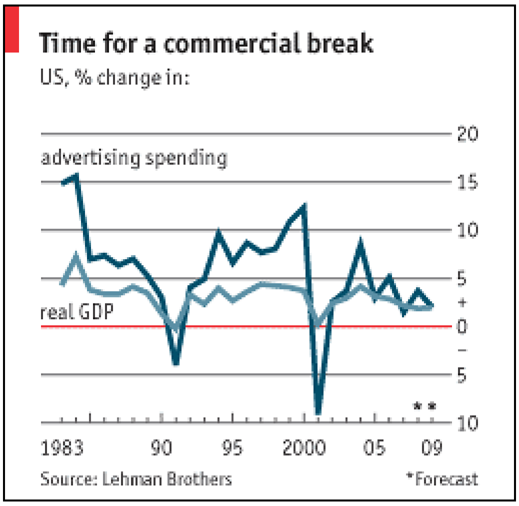
Yet, even as stockmarkets tumble and economies falter, some ad-men expect the knife to cut most deeply in 2009 rather than in 2008. Maurice Lévy, chief executive of Publicis Groupe, a French advertising firm, reckons that despite the chance of a recession in America, 2008 will be a good year for sellers of ad-space. Three big-ticket events—America's presidential election, the Olympics in Beijing and the European football championship—could add as much as 1% of additional growth to advertising expenditure, he says, which could partially offset economic weakness.

Sir Martin Sorrell, chief executive of WPP, another big advertising group, acknowledges that people are anxious. But his clients are not cutting their ad budgets yet and he expects 2008 to be a reasonable year. By contrast 2009 does not have big “quadrennial” political or sporting events, and so could be painful. A new American president will dole out any unpleasant economic medicine immediately, ahead of the mid-term elections, says Sir Martin. That would hit 2009 too.

It is just possible that advertising budgets may prove more resilient than in the past. That is because the internet has brought greater accountability to advertising. Marketing chiefs can now prove that a click on an online ad produces a sale. Firms are trying to impose the same discipline on television and other media spending.

“Now when companies raise their budgets they do so more responsibly,” says Jonathan Barnard, head forecaster at ZenithOptimedia, a unit of Publicis, “and they're less likely to see marketing as a frivolous expense ripe for cutting.” In past booms, he says, money spent on advertising grew much faster than the economy, and ad-spending as a share of GDP shot up. That effect was marked in 1999-2000, when dotcom start-ups ploughed much of their newly raised capital straight into marketing. This has not happened today, so ad-spending may not have as far to drop.

In fact, forecasters disagree about advertising spending in 2008. UBS, a bank, predicts that expenditure on ads will increase by 5%, whereas Goldman Sachs, a rival, forecasts that it will decline by as much as 5%. Most, however, agree on one thing: underlying growth in ad spending will come mainly from emerging economies and from advertising on the internet. Emerging markets now represent one-fifth of global expenditure on advertising, and are contributing ever greater sums. The price of ad-space has risen quickly in some emerging markets, such as Russia and China, and growth is slowing there. Even so, ZenithOptimedia expects developing countries will add $50 billion in new ad-spending in the next three years whereas developed markets will add only $38 billion—the first time that emerging markets have come out top over such a period.



In rich countries the internet is claiming a growing share of advertising—at the expense of traditional media, such as TV and print. There is still a gap between the time people spend online as a fraction of their media consumption (about a fifth) and the fraction of marketing budgets spent on the internet (about 7.5%). Many companies are trying to narrow the gap, which will sustain internet advertising during a downturn. Search advertising, the most effective kind of all, should be safest.

Indeed, some people say an economic slowdown is likely to accelerate the shift to the internet. Trevor Kaufman, chief executive of Schematic, an interactive agency based in Los Angeles which was recently bought by WPP, says that one of his clients, an American "big-box" national retailer, intends to devote more of its marketing resources to the internet as the economy slows. The internet's interactivity and wealth of product information make it the best means of generating short-term sales—whereas television is best for long-term brand-building. During a downturn clients see internet ads as easier to measure and hence easier to justify to shareholders, says Mr Kaufman.

But online advertising cannot hope to escape an ad recession altogether. The quadrennial effects of 2008 will mainly benefit television and newspapers. In addition, argues Deloitte, a consultancy, online ads face new obstacles. It points to a recent survey of American consumers which found that more than three-quarters of respondents said online ads were more annoying than those in print. Concerned about their privacy, people have started to lobby against online tracking of sales, which is a vital element of the internet's much-vaunted effectiveness.

Some industries will cut ad-spending more deeply than others, says James Walker of Accenture Marketing Sciences. Many banks, hit hard by losses, have already cut back on their spending, according to media executives. Makers of cars and luxury goods and other dispensable items will be more exposed to a recession than companies that sell necessities. Bart Becht, chief executive of Reckitt Benckiser, a British consumer-goods company that makes dishwashing powder and other basic goods, says his firm is not planning to cut its media budget for this year, "though we may advertise less on TV." Watch this space.