

Marketing Expenditure Trends

December 2002

By Patrick Barwise and Alan Styler

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About this Report

This report describes a study of actual and planned marketing expenditure in the top five global markets: USA, Japan, Germany, UK, France. It covers expenditure on advertising, sales promotion, direct mail, PR/sponsorship, and interactive marketing over the three years 2001-2003.

The study was commissioned by Havas and conducted by a team at London Business School directed by Professor Patrick Barwise in collaboration with Alan Styler of EHS Brann. The data, telephone interviews with 700 chief marketing officers, were collected by Kudos Research in July/August 2002. 20% of respondents were recontacted in late October 2002 to check that their responses had not changed significantly.

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Executive Summary

This study explores actual and planned expenditure on marketing by large and mid-sized businesses in the top five global markets: USA, Japan, Germany, UK, France. Taken together, these five countries account for almost two-thirds of the world market for marketing and communication services.

The results are based on a survey of over 700 companies. They cover actual and planned expenditure for the three years 2001-2003 on:

- media advertising
- sales promotion
- direct mail
- PR and sponsorship
- interactive marketing.

The study was commissioned by Havas and directed by Professor Patrick Barwise at London Business School.

Method

The data were collected by Kudos Research in London, using structured telephone interviews with chief marketing officers (eg marketing director, VP marketing) in July-August 2002. The target population was defined as businesses spending at least \$1million (€1million, £667,000) last year on marketing, ie the five activities listed above, within the particular country. "Expenditure" excluded in-house staff costs, equipment, overheads, and market research.

Usable responses were obtained from 727 businesses out of 1475 contacted, a response rate of 49.3% $\left(\frac{\text{usable responses}}{\text{refusals} + \text{usable responses}}\right)$, split as follows:

USA	240
Japan	122
Germany	120
UK	124
France	121
	<u>727</u>

The interview covered the following items:

- Business demographics (industry sector, local/multinational, expenditure range)
- Total marketing expenditure trends (2002 vs 2001, 2003 vs 2002)
- Allocation of expenditure across the five categories (2001, 2002, 2003)
- % of media advertising allocated to direct response advertising (defined in Section 4.3) (2001, 2002, 2003)
- Formal evaluation/post-audit of sales promotions
- Whether direct mail execution and database management are mainly outsourced or conducted in-house
- Whether the marketing function is represented at board level
- Marketing metrics (current and planned)

Total Expenditure on Marketing

The main trend (Section 2) is that marketing expenditure in the top five global markets is likely to be more-or-less static this year moving to modest growth in 2003. This conclusion is based on data collected in July/August 2002 but a follow-up call to 20% of the respondents in late October showed that their expectations had changed little up to that point.

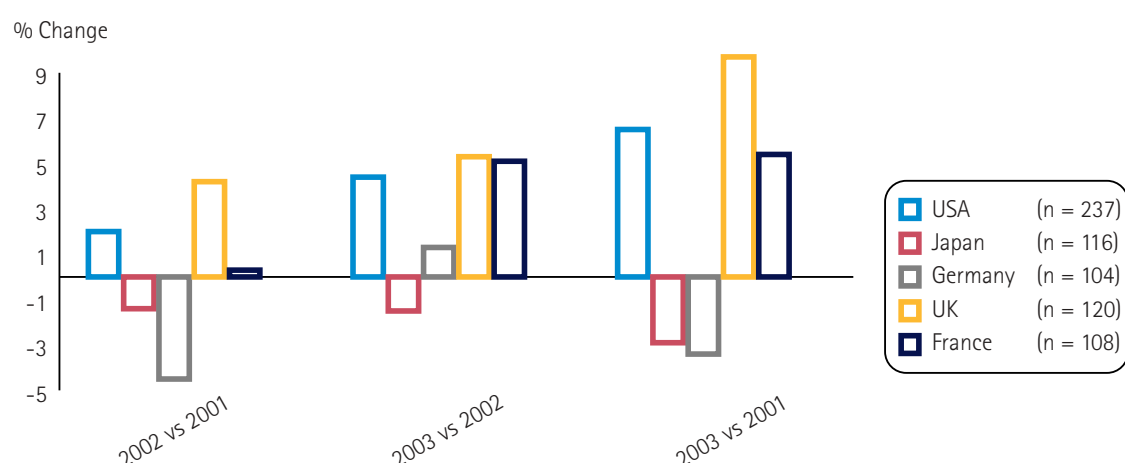
This conclusion is reinforced both by "purchasing diffusion index" data (which simply ask whether firms plan to increase, decrease, or not change their expenditure level) and by the many qualitative comments collected. The overwhelming majority of reasons given for cutbacks in marketing suggest that they are a temporary response to current financial and market conditions.

Underneath the general pattern, there are large differences between countries:

Table 1: Year-on-Year % Change in Total Marketing Expenditure (Current local currencies)

Country		2002 vs 2001	2003 vs 2002	2003 vs 2001
USA	(n = 237)	+ 2.0	+ 4.4	+ 6.5
Japan	(n = 116)	- 1.4	- 1.5	- 2.9
Germany	(n = 104)	- 4.5	+ 1.3	- 3.4
UK	(n = 120)	+ 4.2	+ 5.3	+ 9.7
France	(n = 108)	+ 0.3	+ 5.1	+ 5.4
Total	(n = 685)	+ 0.6	+ 3.3	+ 3.9

Figure 1: Year-on-Year % Change in Total Expenditure

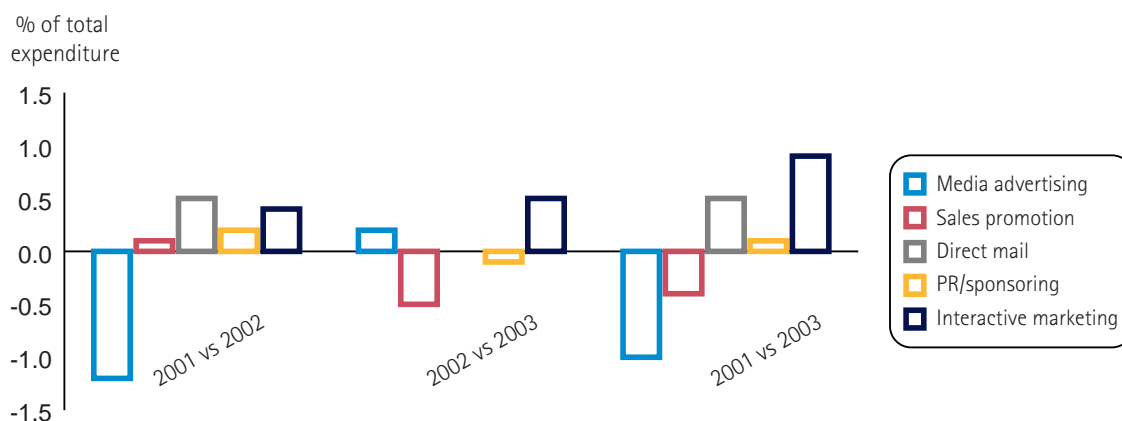


In the UK, USA, and France, a static or growing market in 2002 is followed by clear growth in 2003, leaving these markets 5%-10% up over the two years (in current local currencies). In contrast, Germany is expected to be sharply down in 2002 with little if any recovery in 2003 and Japan is expected to decline slightly in both years.

% of Total Expenditure Allocated to Each Category

Within these total expenditures, we are also seeing shifts in the proportion of resources allocated to each main category of marketing activity (Figure 2). The main winner is interactive marketing, increasing from 6.1% of total expenditure in 2001 to 7.0% in 2003. Direct mail is the other category gaining share (12.8% in 2001, 13.3% in 2003). Traditional media advertising is down (from 45.4% to 44.4% over the two years), as is sales promotion (19.8% down to 19.4%). The share of PR/sponsorship is roughly steady at around 12.8%. These changes are reported in Section 3.

Figure 2: Changes in Resource Allocation (% points): 01/02, 02/03, 01/03



The qualitative comments make it clear that, unlike the cutbacks in total expenditure, the shifts in resource allocation towards interactive marketing and direct mail appear to be permanent.

Implications for the Five Categories

In Sections 4-8 we combine the results for total expenditure and how it is allocated to show the implications for each of the five categories. The main results for the total market are summarized in Table 2.

Table 2: Year-on-Year % Change in Expenditure, by Category (current local currencies)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	45.4	-2.0	+3.6	+1.6
Sales promotion	19.8	+0.8	+0.6	+1.4
Direct mail	12.8	+3.8	+3.5	+7.4
PR/sponsorship	12.7	+1.8	+2.2	+4.0
Interactive marketing	6.1	+6.6	+11.7	+19.1
Total (incl. other)	100%	+0.6	+3.3	+3.9

Concluding Comments

This study is designed to provide depth and insight rather than as a quantitative forecast of the market next year. However, we believe that the trends reported here are real in terms of overall market sentiment and the differences between the five countries and the five categories of expenditure.

In addition to the main findings, the report also includes many more detailed results about particular combinations of country and category, about different types of product market and ownership, and about other specific topics (direct response advertising, sales promotion evaluation, direct mail outsourcing, whether the marketing function is represented at board level, and marketing metrics) together with qualitative comments from respondents giving the reasons behind the trends. We believe it paints a detailed and accurate picture of the state of the market in these top five countries in 3Q02.

The main trends for each country are brought together in Appendix A. Appendix B presents selected results for 15 specific industrial sectors.

In Conclusion, the Top-Line Results of the Study are:

1. Total marketing expenditure for the five countries taken together is expected to be flat in 2002 (in current local currencies) with modest growth in 2003.
2. At an individual country level, the US, UK and France show moderate growth in 2002, increasing in 2003. Japan shows continuing, gradual decline. Marketing expenditure in Germany is projected to be sharply down in 2002 with little if any recovery in 2003.
3. Qualitative data suggest that changes in total marketing expenditure are largely driven by short-term factors, mainly market and economic conditions.
4. Within marketing budgets, there is a shift in resource allocation from media advertising and, to a lesser extent, sales promotion towards interactive marketing and direct mail.
5. Qualitative data on resource allocation suggest that this shift is driven by long-term factors and therefore likely to continue.

1. Aims and Method

This study explores actual and planned expenditure on marketing by large and mid-sized businesses in the top five global markets: USA, Japan, Germany, UK, France. Taken together, these five countries account for almost two-thirds of the world market for marketing and communication services.

The results are based on a survey of chief marketing officers in July/August 2002. They cover actual and planned expenditure for the three years 2001–2003 on:

- media advertising (broadcast, press, posters, cinema)
- sales promotion
- direct mail
- PR and sponsorship
- interactive marketing.

The study was commissioned by Havas and directed by Patrick Barwise, Professor of Management and Marketing at London Business School, in collaboration with Alan Styler of EHS Brann. The survey data were collected by Kudos Research and analyzed by Andy Lepki at Kudos and by Robyn Stevenson, Susan Dean and Adrian Clarke at LBS. Both Kudos and LBS are wholly independent of Havas.

There are already several annual and quarterly series published about marketing expenditure trends, especially advertising. These are typically based either on confidential client data or on a simple quarterly survey of whether budgets are increasing, decreasing, or steady. The aim of this report is to complement these regular series by exploring the trends in more depth. Specifically, this study:

- Covers all the main marketing/communication expenditure headings, not just advertising
- Uses independent market research based on a statistically representative sample
- Analyzes the results by country and by company size and characteristics where relevant
- Includes qualitative data from the same respondents, to give insight into the thinking behind the numbers, and help distinguish between long and short term trends
- Also includes results on more detailed trends in direct response advertising, how businesses evaluate sales promotions, outsourcing of direct mail activities, and marketing metrics.

The purpose of this study is to provide insight into how much and why businesses are allocating resources to marketing as a whole and to specific types of marketing activity. It is not a forecast, but it is based on a large sample and the numbers for expenditure planned for 2003 can be taken as an indicator of the trends for next year, both overall and for specific countries and expenditure categories. It is not designed, however, as a quantitative forecast of marketing expenditure and should not be used as such.

This report is being published at a time of high market uncertainty and nervousness. An equivalent study last year (ie based on data collected in July–August 2001) would have been significantly affected by the impact of 9/11 on the market. Even this year, stock prices and consumer confidence have declined since the data were collected.

To check the impact of these recent shifts, we asked Kudos Research to call back 20% of the respondents in each country in late October. The results of this callback (reported in Section 2) suggest that the impact of continuing market uncertainty has been negative but limited. We therefore believe that the numbers in this report would have changed little if the data had been collected in October 2002 instead of July–August 2002. One possible exception is Germany where economic conditions have deteriorated over the last few months.

Method

The data were collected via structured telephone interviews with chief marketing officers (eg marketing director, VP marketing) in July-August 2002. The target population was defined as businesses spending at least \$1million (€1million) last year on marketing, ie the five activities listed above, within the particular country. Note that this excludes marketing expenditure by governments, political parties, and other not-for-profit organizations. The sampling lists used were primarily based on leading national advertisers. "Expenditure" excludes in-house staff costs, equipment, overheads, and market research.

Usable responses were obtained from 727 businesses out of 1475 contacted, a response rate of 49.3% ([usable responses]/[refusals + usable responses]), split as follows:

USA	240
Japan	122
Germany	120
UK	124
France	121
	<u>727</u>

The interview covered the following items:

- Business demographics (industry sector, local/multinational, expenditure range)
- Total marketing expenditure trends (2002 vs 2001, 2003 vs 2002)
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- Formal evaluation/post-audit of sales promotions
- Whether direct mail execution and database management are mainly outsourced or conducted in-house
- Whether the marketing function is represented at board level
- Marketing metrics (current and planned)

Total marketing expenditure trends were explored using both qualitative and quantitative measures. The qualitative measure asked whether expenditure was expected to increase, decrease, or stay unchanged year-on-year. This enables us to compute a standard "purchasing index" on a 0-to-100 scale, where 50 represents no net change (see Section 2.1). The quantitative measures asked respondents to refine their responses, expressing them as a percentage increase or decrease. The expenditure data were all in current local currencies (USD, Yen, euro, GBP).

An important feature of the study is the collection and use of extensive qualitative data. Respondents were asked to summarize the reasons behind the quantitative responses. These qualitative data are not only useful for interpreting the numbers but also for distinguishing which of the trends are likely to be short term and which long term.

2. Total Marketing Expenditure

2.1 Changes in Total Expenditure

Table 2.1 and Figure 2.1 give the average % changes in total marketing expenditure for the five countries and the whole sample.

To allow for the importance within the market of higher-spending businesses, the results have been weighted as follows:

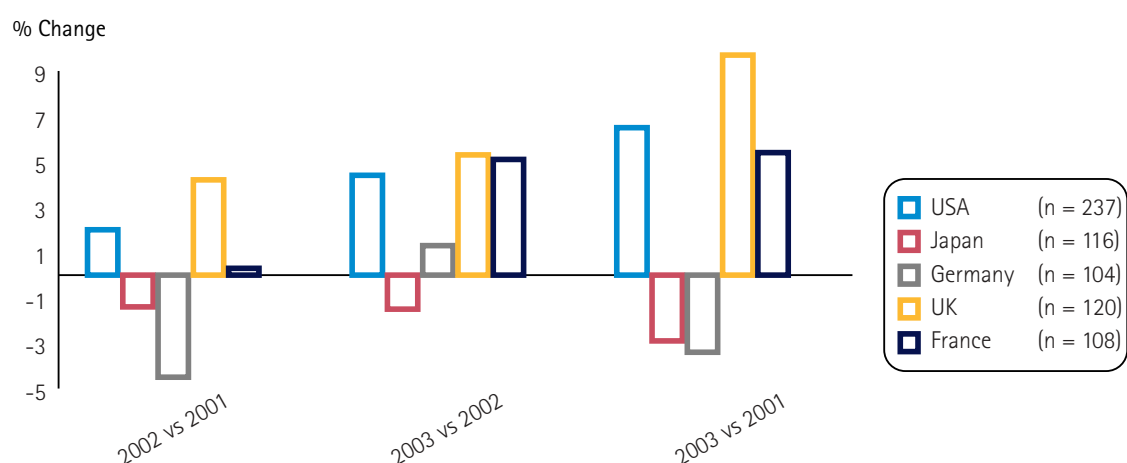
Range (USD or euro)	Weighting
1m - 5m	1.0
5m - 10m	1.5
10m - 30m	2.0
30m+	2.5

Two outliers (with year-on-year increases of over 400% due to one-off events/changes) have been excluded.

Table 2.1: Year-on-Year % Change in Total Expenditure (Current local currencies)

Country		2002 vs 2001	2003 vs 2002	2003 vs 2001
USA	(n = 237)	+ 2.0	+ 4.4	+ 6.5
Japan	(n = 116)	- 1.4	- 1.5	- 2.9
Germany	(n = 104)	- 4.5	+ 1.3	- 3.4
UK	(n = 120)	+ 4.2	+ 5.3	+ 9.7
France	(n = 108)	+ 0.3	+ 5.1	+ 5.4
Total	(n = 685)	+ 0.6	+ 3.3	+ 3.9

Fig 2.1: Year-on-Year % Change in Total Expenditure



The overall picture is of a more-or-less static market this year, with the decline in Germany roughly offset by growth in the UK, and with the other countries in between. The picture for next year is of modest growth, with only Japan still decreasing slightly.

These results are % changes in current local currencies. Table 2.2 shows the equivalent results expressed in constant local currencies, ie adjusted for year-on-year changes in general consumer prices. (In Japan, consumer prices are falling, so the results in Table 2.2 appear slightly better than in Table 2.1).

Table 2.2: Year-on-Year % Change in Total Expenditure (Constant local currencies) ⁽¹⁾

Country		2002 vs 2001	2003 vs 2002	2003 vs 2001
USA	(n = 237)	- 0.2	+ 2.5	+ 2.3
Japan	(n = 116)	- 0.6	- 0.8	- 1.4
Germany	(n = 104)	- 6.4	- 0.1	- 6.6
UK	(n = 120)	+ 2.2	+ 3.2	+ 5.5
France	(n = 108)	- 1.4	+ 3.3	+ 1.9
Total	(n = 685)	- 1.0	+ 1.8	+ 0.8

(1) Consumer price changes from Oxford Economic Forecasting, Economic Outlook, 26,4 (July 2002)

These results are supported by the responses to the qualitative purchasing "diffusion index" questions which asked whether total expenditure was expected to increase, decrease, or not change year-on-year. The index is 1.0x (% saying "increase") plus 0.5x (% saying "no change"). An index of 50 represents a stationary market, with an equal number saying "increase" and "decrease". Table 2.3 shows the results. Again, the data suggest a static market in 2002, with some improvement in 2003 in all countries except Japan.

Table 2.3: Purchasing "Diffusion Index"

Country		2002 - 2001			2003 - 2002			Diffusion Index ⁽¹⁾		
		Decr	N/C	Incr	Decr	N/C	Incr	01/02	02/03	Diff
		%	%	%	%	%	%			
USA	(n = 240)	25	43	33	9	46	45	54	68	+14
Japan	(n = 122)	30	54	16	26	60	14	43	44	+1
Germany	(n = 120)	44	41	15	12	56	33	35	60	+25
UK	(n = 124)	20	35	44	10	40	51	62	70	+8
France	(n = 121)	32	39	29	8	51	40	48	66	+18
Total	(n = 727)	29	42	28	12	50	38	50	63	+13

(1) (Increase %) x 1.0 plus (N/C %) x 0.5

Table 2.4 reports the results of the late October callbacks to 20% of the respondents in each country. In the main survey in July/August, these 145 respondents had given replies corresponding to diffusion indices of 48.6 and 62.4 for 2001/02 and 2002/03, respectively (in both cases slightly lower than the July/August responses for the whole sample of 727 respondents). At the time of the October callback, these had changed little, to 47.6 (01/02) and 60.6 (02/03). These results suggest that the impact of continuing market uncertainty has been negative but limited. We therefore believe that the numbers in this report would have changed little if the data had been collected in October 2002 instead of July-August 2002.

Table 2.4: Results of Callback Survey: "Diffusion Index" (n=145)

2001 – 02			2002 – 03		
Main Survey ⁽¹⁾	Callback ⁽²⁾	Difference	Main Survey ⁽¹⁾	Callback ⁽²⁾	Difference
48.6	47.6	- 1.0	62.4	60.6	- 1.8

(1) July/August 2002 (2) 15-24 October 2002

Size, Ownership, and Sector Differences

Within our sample, mid-sized businesses with annual marketing expenditure in the range 1m-5m (USD or euro) have tended to cut back this year, while larger businesses spending 5m-plus have not, on average. Conversely, the mid-sized firms are planning slightly above-average increases for 2003 (Table 2.5).

Table 2.5 also shows that it is the businesses owned by multinationals, not the local companies, that have been mainly cutting back.

Table 2.5: Year-on-Year % Change in Total Expenditure by Expenditure Range and Company Ownership (Current local currencies)

Size/Ownership	2002 vs 2001	2003 vs 2002	2003 vs 2001
Size (USD or euro)			
1m – 5m (n = 335)	- 2.4	+ 4.0	+ 1.6
5m + (n = 350) ⁽¹⁾	+ 2.0	+ 2.8	+ 3.5
Ownership			
Multinational	-1.0	+ 2.6	+ 1.9
Local ⁽²⁾	+ 2.1	+ 3.8	+ 6.0
Total (n = 685) ⁽¹⁾	+ 0.6	+ 3.3	+ 3.9

(1) Weighted by size (2) 75% of revenue in the local country

In line with economic theory, firms selling infrequently purchased products/services are significantly more volatile in their marketing expenditure than firms in frequently purchased categories such as consumer packaged goods (Table 2.6). The table also shows that there were no significant differences between business-to-business and business-to-consumer firms, nor between those selling products versus services.

Table 2.6: Year-on-Year % Change in Total Expenditure by Type of Product Market (Current local currencies)

Type of Product Market	2002 vs 2001	2003 vs 2002	2003 vs 2001
Low purchase frequency (n = 310)	- 1.5	+ 3.8	+ 2.2
High purchase frequency (n = 315)	+ 2.8	+ 2.9	+ 5.8
B2B (n = 86)	+ 0.8	+ 2.6	+ 3.4
B2C (n = 539)	+ 0.6	+ 3.5	+ 4.1
Products (n = 350)	+ 0.7	+ 3.7	+ 4.4
Services (n = 275)	+ 0.6	+ 3.0	+ 3.6
Total (n = 685)	+ 0.6	+ 3.3	+ 3.9

2.2 Reasons Behind the Changes

Reasons for Budget Cuts

The main reasons given for budget cuts this year are obvious: poor business performance, weak markets, recession, the need to reduce costs:

"Profits and revenues are not what we hoped" (consumer electronics, Germany)

"Our turnover decreased. The market is very slow at the moment, so we have to decrease our marketing and communication budget" (telecoms products/services, France)

"Recession" (luxury/fashion products, Japan)

"We are watching our pennies at the moment" (financial services, USA)

"Business is not very good at the moment. People are saving money like mad"
(media/entertainment/culture, Germany)

"We are reducing costs across the board" (manufacturing, USA)

Most of these comments suggest that the cutbacks are temporary, driven by short-term market conditions. Some US firms referred specifically to 9/11, while several UK financial service firms mentioned the poor state of the stock market. Others referred to slowdowns in markets such as tourism, consumer durables, OTC pharmaceuticals, and industrial products/services.

As would be expected, some companies happened to report a decrease this year because of a higher than normal expenditure last year on company specific initiatives, either one-off or recurring:

"Launches we had last year. We launched [product x] so a major investment there"
(media/entertainment/culture, UK)

"We take our customers overseas to present a new range to them. We do this every other year and this is why it fluctuates" (consumer durables, UK)

"We publish catalogues once every two years" (industrial products/systems, Japan)

About 10% of those reducing their expenditure suggested that the cutback might be longer-term. Many of these again reflected company-specific factors:

"The expiry of a patent for a major product" (OTC pharmaceuticals, USA)

"Deregulation has been postponed" (utility, USA)

"Company restructuring" (media/entertainment/culture, France)

"Joint venture leading to rationalization" (automotive, Germany)

Some were ambiguous about whether marketing budgets might increase again later:

"At the moment we're investing in improving and extending distribution rather than investing in promotion" (consumer electronics, Germany)

There were, however, a few responses which did suggest that the firm was cutting back more permanently because of dissatisfaction with its previous marketing investments or simply because of the pressure on margins:

"We didn't think we were spending wisely. We're trying to be more effective with our funds, shifting from trade shows into more focused image building" (business services, USA)

"Our margins are being squeezed. We simply haven't had the money ... Retailers put pressure on margins so we've had to look at savings throughout the company" (importer/distributor, UK)

The overwhelming evidence from the qualitative data, however, is that the slowdown in marketing expenditure is temporary.

Reasons for Budget Increases

On the plus side, the main reasons for increased expenditure were that the company and/or the market were growing. Most of the upbeat comments for this year came from UK or US companies:

"Because of the growth in the business. We are advertising to help the growth but it is also coming from our established customer base" (retail/mail order, UK)

"Organic business growth makes it a necessity" (business/industrial services, USA)

"We are growing so we are doing more public awareness and more branding" (consumer/retail financial services, USA)

Several French companies were also upbeat, suggesting that revenue and profit growth had provided the funds to invest in marketing:

"Good results leading to increase in volumes, leading to more expenditures" (consumer/packaged goods, France)

"Profits increased, better results, so we're spending more" (luxury/fashion products, France)

Some companies were actively seeking to drive the market:

"We anticipate a big increase in consumer demand. We need to maintain market leadership and maximize share of voice and share of trade" (consumer/retail financial services, UK)

"Seeking to grow the business ... We're a new company and the drive in sales links directly to the marketing spend" (consumer durables, UK)

"Because we're driving certain brands" (consumer/packaged goods, UK)

"Investment in this segment. It's the priority for the company" (consumer/packaged goods, France)

At least for this year, there were few general upbeat comments from Japan and none from Germany. In all five countries, however, there were firms increasing their marketing expenditure in order to launch new brands, products, line extensions, or outlets, or to increase brand awareness:

"Launching new brands" (luxury/fashion products, France)

"New product launches" (OTC pharmaceuticals, USA)

"Introducing new products, investing in restructuring the brand" (automotive, Germany)

"Because we're opening new stores" (retail/mail order, USA)

"We will be doing more TV advertising and print also. We want to identify ourselves more in the marketplace" (retail/mail order, UK)

"We feel it necessary to work on advertisements and PR to overcome the extensive competition nowadays. We really need to keep the brand recognition and expand it even further" (consumer/packaged goods, Japan)

"We are going to have more stores and we want to communicate more than in the past. We want our brand to be well known" (luxury/fashion products, France)

Two respondents in the hotels/tourism/leisure sector were increasing marketing expenditure in response to 9/11:

"It's a practical increase ... to tactically address September 11th" (hotels/tourism/leisure, UK)

Finally, several firms were increasing expenditure in order to invest more in specific marketing activities:

"We are spending more on subscription marketing and [trade] marketing"
(media/entertainment/culture, USA)

"We're focusing on direct response advertising" (healthcare, USA)

"We'll do an increased direct mail program" (hotels/tourism/leisure, USA)

"More into radio advertising and more focus on web-based marketing"
(media/entertainment/culture, USA)

The general tone of the comments about 2003 was more upbeat than for 2002. Many businesses anticipated a general market recovery and a reversal of current cuts:

"We anticipate that our expenditure will be back to the level it was last year"

(consumer durables, UK)

"To get back to previous levels" (industrial products/systems, France)

"Just getting back to the level of last year" (consumer/retail financial services, US)

"I would like to see spending levels back up to levels seen in 2000" (consumer durables, US).

3. Allocating the Marketing Budget

As well as asking about total expenditure on marketing, we also asked for the % breakdown into the five expenditure categories: media advertising; sales promotion; direct mail; PR and sponsorship; and interactive marketing. We asked for the actual and expected breakdown in 2001, 2002 and 2003. Table 3.1 shows the % allocations in 2001 for the five countries.

Table 3.1: % Allocation 2001, by Country

Expenditure Category	Total (n = 645) %	USA (n=228) %	Japan (n=116) %	Germany (n=93) %	UK (n=105) %	France (n=103) %
Media advertising	45.4	42.9	50.8	41.4	51.3	42.1
Sales promotion	19.8	19.4	18.3	23.4	13.0	26.4
Direct mail	12.8	14.6	7.9	10.8	17.2	12.0
PR/sponsorship	12.7	13.0	12.5	16.2	10.4	11.6
Interactive marketing	6.1	7.5	7.2	6.4	4.4	3.4
Other	3.1	2.6	3.3	1.8	3.7	4.5
Total	100%	100%	100%	100%	100%	100%

Both the absolute numbers in Table 3.1 and the differences between countries should be treated with caution due to issues of definition and measurement. In particular, the amount allocated to media advertising is probably overstated as a % of total expenditure, because other categories are likely to be somewhat understated.

Whereas media advertising has clearly defined costs and falls fully within the marketing budget, none of the other categories is quite so clearcut and firms do not all use the same definitions. In addition, the sampling may have led to an overstatement of the proportion of resources allocated to media advertising. In collecting the data, we focused on ensuring that respondents used a consistent definition for all three years, as our main interest is in the trends over time.

With these provisos, we note that traditional media advertising was the largest expenditure category and interactive marketing the smallest category in all five countries, with media advertising especially high in Japan and the UK.

The suggestion that interactive marketing is further developed in the USA than elsewhere is consistent with other evidence. The relatively high figures for interactive marketing in Japan and Germany versus the UK may reflect the particular firms sampled and/or differences in respondents' interpretation of which expenditures to include.

Across the five categories, the USA is close to the average % allocation; Japan appears low on direct mail; Germany slightly high on sales promotion and PR/sponsorship; the UK low on sales promotion and high on direct mail; and France slightly high on sales promotion and low on interactive marketing.

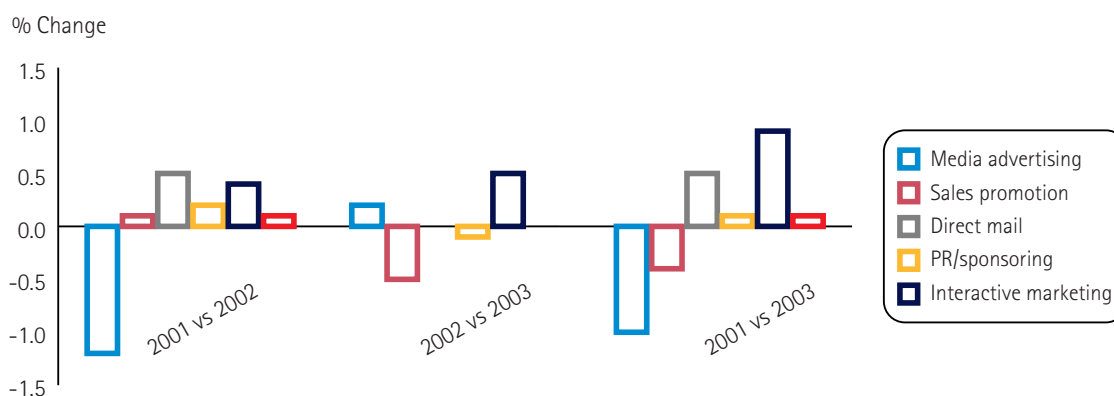
Changes in % Allocations

Table 3.2 and Figure 3.1 show the actual and expected changes in % allocations over the three years for the total sample. The growth areas are interactive marketing (up from 6.1% to 7.0%) and direct mail (up from 12.8% to 13.3%). The main reduction is in media advertising, down from 45.4% to 44.4%, despite a slight recovery 2002–2003. Sales promotion is also down from 19.8% to 19.4% due to a loss in share in 2003. The share of PR and sponsorship is steady.

Table 3.2: Changes in % Allocation 2001–2003 (Total five countries, n = 645)

Expenditure	2001	2002	2003	Changes (% points)		
Category	%	%	%	01/02	02/03	01/03
Media advertising	45.4	44.2	44.4	- 1.2	+ 0.2	- 1.0
Sales promotion	19.8	19.9	19.4	+ 0.1	- 0.5	- 0.4
Direct mail	12.8	13.3	13.3	+ 0.5	0	+ 0.5
PR/sponsorship	12.7	12.9	12.8	+ 0.2	- 0.1	+ 0.1
Interactive marketing	6.1	6.5	7.0	+ 0.4	+ 0.5	+ 0.9
Other	3.1	3.2	3.2	+ 0.1	0	+ 0.1
Total	100%	100%	100%	0	0	0

Fig 3.1: Changes in % Allocation (% points) 01/02, 02/03, 01/03



There were some differences between countries in the changes in % allocations (Table 3.3). Comparing the results for each country with those in the Total column, the data suggest that, relative to other countries:

- In the USA, interactive marketing is rapidly gaining share and sales promotion and PR/sponsorship are losing share.
- In Japan, direct mail is losing share and PR/sponsorship is gaining. Interactive marketing is gaining, in line with the general trend.
- In Germany, media advertising is significantly losing share while sales promotion and PR/sponsorship are gaining. Interactive marketing is barely gaining share.
- In the UK, both media advertising and PR/sponsorship are losing share while direct mail and interactive marketing are gaining.
- In France, media advertising is gaining slightly, against the trend elsewhere, while sales promotion is losing and interactive marketing growing only slowly (from a base which is already lower than in the other countries).

Table 3.3: Changes in % allocation 2001–03 by Country (% points)

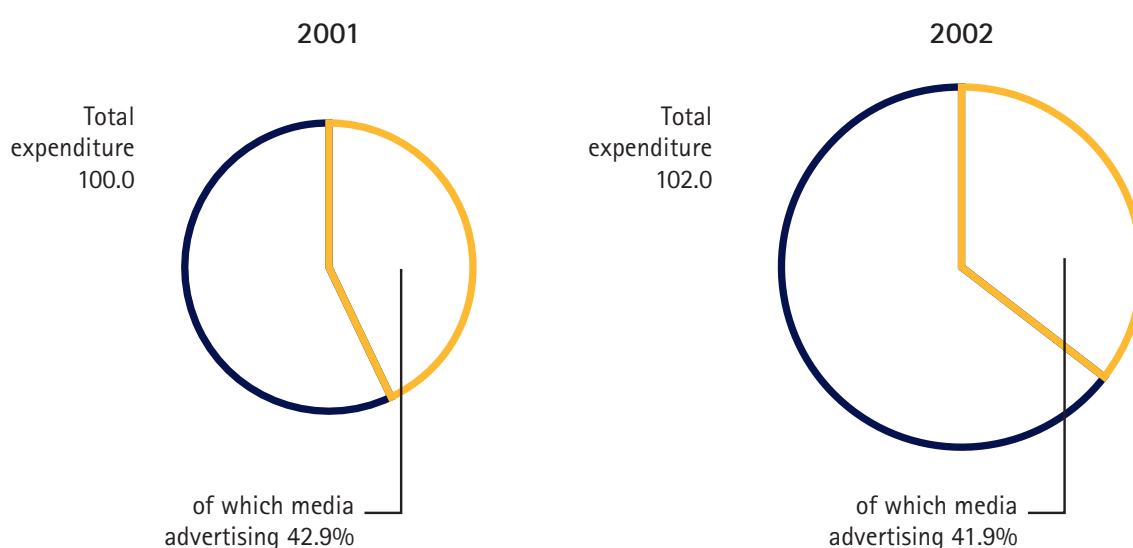
Expenditure Category	Total (n = 645)	USA (n = 228)	Japan (n = 116)	Germany (n = 93)	UK (n = 105)	France (n = 103)
<i>01/02</i>						
Media advertising	- 1.2	- 1.0	- 0.3	- 2.5	- 2.4	0
Sales promotion	+ 0.1	+ 0.1	- 0.1	+0.1	+ 0.8	- 0.7
Direct mail	+ 0.5	+ 0.4	- 0.1	+ 0.4	+ 1.5	- 0.1
PR/sponsorship	+ 0.2	- 0.3	+ 0.4	+ 1.8	- 1.0	+ 0.4
Interactive mktg	+ 0.4	+ 0.7	+ 0.1	+ 0.2	+ 0.7	- 0.1
<i>02/03</i>						
Media advertising	+0.2	+0.4	- 0.3	+ 0.2	- 0.2	+ 0.6
Sales promotion	- 0.5	- 1.0	- 0.3	+ 0.6	- 0.7	- 0.5
Direct mail	0	+ 0.1	- 0.1	- 0.2	+ 0.3	+ 0.1
PR/sponsorship	- 0.1	- 0.3	+ 0.1	- 0.6	+ 0.2	0
Interactive mktg	+ 0.5	+ 0.6	+ 0.7	0	+ 0.9	+ 0.3
<i>01/03</i>						
Media advertising	- 1.0	- 0.6	- 0.6	- 2.3	- 2.6	+ 0.6
Sales promotion	- 0.4	- 0.9	- 0.4	+ 0.7	+ 0.1	- 1.2
Direct mail	+ 0.5	+ 0.5	- 0.2	+ 0.2	+ 1.8	0
PR/sponsorship	+ 0.1	- 0.6	+ 0.5	+ 1.2	- 0.8	+ 0.4
Interactive mktg	+ 0.9	+ 1.3	+ 0.8	+ 0.2	+ 1.6	+ 0.2

4. Media Advertising

In Sections 4-8, we combine the results from Section 2.1, on the changes in total marketing expenditure, and Section 3, on the % allocations in the three years, to give an indication of the implications for each expenditure category over the three years.

For instance, in Section 2.1, we reported that total marketing expenditure in the USA was expected to be up 2.0% in 2002 versus 2001 (current USD, see Table 2.1). In Section 3, we reported that the % of this expenditure allocated to media advertising was 42.9% in 2001 (Table 3.1), falling by 1.0 percentage points in 2002 (Table 3.3), ie to 41.9%. Combining these results, we can estimate that US expenditure on media advertising will change from 42.9% of 100 (taking 2001 total expenditure as 100) to 41.9% of 102.0, see Figure 4.1.

Figure 4.1: Change in US Media Advertising Expenditure 2001-02 (Current USD)



Numerically, $102.0 \times (41.9/42.9) = 99.6$, corresponding to a 0.4% decrease from 2001 to 2002. ⁽¹⁾

Using this method, we can estimate the year-on-year changes in expenditure for each of the five categories in each country (and for sectors and other company characteristics). Note that the results should be taken as indicative only: both the total expenditure and the % allocation are subject to sampling and measurement errors, and the estimates here are based on a combination of these data. Nevertheless, the results do indicate the general trends within each category.

Sections 4.1 and 4.2 present the numerical results for media advertising expenditure and the reasons given for increases/decreases in this expenditure. Section 4.3 gives the further analysis of direct response advertising as a % of total media advertising.

⁽¹⁾ Using unrounded numbers, the more accurate estimate is a 0.3% decrease – the top left figure in Table 4.1.

4.1 Expenditure 2001–03

Table 4.1 and Figure 4.2 show the year-on-year % changes in expenditure on media advertising in the five countries, computed using the method outlined above. Media advertising includes TV, radio, press, posters, cinema and all production costs. Program sponsorship and product placement are also included. Classified advertising and interactive advertising are excluded.

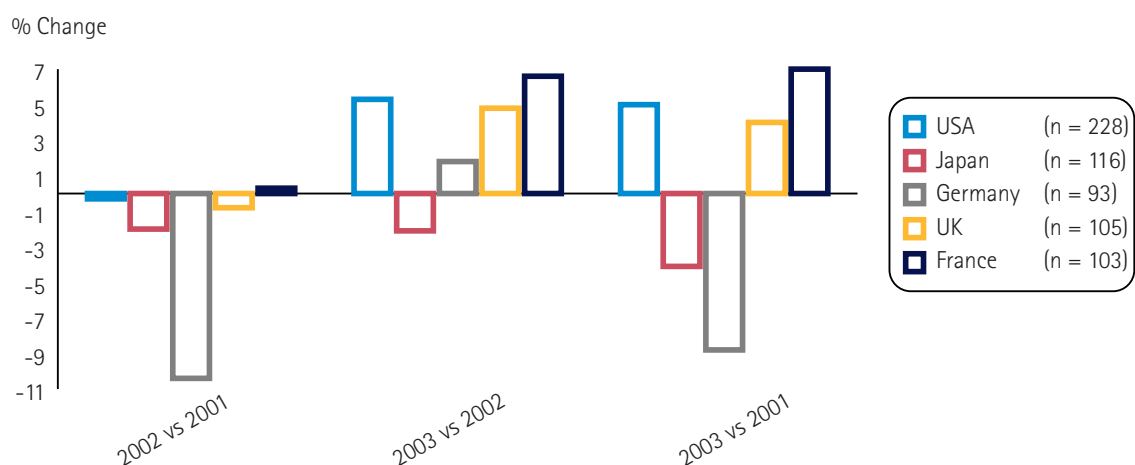
Table 4.1: Year-on-Year % Change in Media Advertising Expenditure (Current local currencies)

Country		2002 vs 2001	2003 vs 2002	2003 vs 2001
USA	(n = 228)	- 0.3	+5.3	+5.0
Japan	(n = 116)	-2.0	-2.1	- 4.1
Germany	(n = 93)	-10.4	+1.8	- 8.8
UK	(n = 105)	-0.8	+4.8	+4.0
France	(n = 103)	+0.3	+6.6	+7.0
Total	(n = 645)	- 2.0	+3.6	+1.6

For the total market (ie these five countries taken together), 2002 is 2% down on 2001. The market looks set to recover next year, leaving it slightly ahead of 2001 (in current local currency terms). However, beneath this are some marked differences between countries. In particular, the data confirm a large drop this year in Germany, with the other countries showing little change between 2001 and 2002. Next year sees clear, if unspectacular, growth in the USA, UK, and France, with a partial recovery in Germany still leaving it nearly 9% down on 2001, while Japan continues to decline.

There were no significant differences in the results for firms with different types of product market (infrequent vs frequent purchases, B2B vs B2C, products vs services).

Figure 4.2: Year-on-Year % Change in Media Advertising Expenditure (Current local currencies)



4.2 Reasons for Increases/Decreases in Expenditure

Increases

The main reason for increases in the proportion of the total budget allocated to media advertising was that there were new aspects of the business to promote in the form of new products, new facilities or stores, new markets to enter or some other new initiative:

"This year the strategy is to use media advertising a lot for new products. It is faster communication and really powerful" (consumer/packaged goods, France)

"More adverts because more products" (energy company, Germany)

"We are entering a new market and advertising to a larger audience, in particular via print" (utilities, US)

"Small increase in media advertising with new store opening" (retail/mail order, UK)

Continued brand building was another important reason:

"We need to communicate more to make our brand better known" (luxury/fashion products, France)

"Image improvements" (consumer durables, Germany)

"Continuing to put money above the line to address image problems of brand" (consumer/packaged goods, UK)

Improved economic conditions facilitating a larger budget justified the increased spend for a few, especially for 2003:

"Because our marketing expenditure is economy led - a forecast recovery in domestic and world markets will lead to increasing marketing expenditure, in line with a stronger economy" (retail/mail order, US)

"Hopefully the economic situation will improve" (consumer/packaged goods, US)

A few simply cited their long-term commitment to media advertising:

"As a company we totally believe in media advertising. We went against what our hearts said and followed our heads, but we're going back to it" (consumer/packaged goods, UK)

Finally, some referred to improved value for money in media buying or performance:

"We have not tried a heavy media approach for a while. A lot of bargains available in media this year" (luxury/fashion products, US)

"We have received a good result from a radio ad" (retail/mail order, Japan)

"I believe media to be more effective, especially TV and billboards" (consumer/packaged goods, US)

Decreases

At least for 2002, there were many more comments indicating decreases in media advertising allocation than increases, in line with the quantitative results. Allocation of budget to a different expenditure category accounted for nearly half of the reasons given. The new categories being embraced are principally direct mail and interactive marketing, and the implication is that this shift will be long-term:

"Not working as well as direct marketing. We have sophisticated measuring tools and know it is not working" (consumer durables, UK)

"We need to target more our customers for some products, we're spending more on direct mail, buying a database to get the customers we want" (automotive, France)

"More focus on interactive online marketing. Importance of web media environment. Invest in those. It's a strategic change where we're looking for our customers" (media/entertainment/culture, UK)

"So we can fund more of the interactive side. It's easier to reduce the media budget" (business/industrial services, US)

A perception of media advertising as ineffective and expensive was cited by many:

"There are better ways of reaching target groups more efficiently" (telecoms products/services, Germany)

"Mass media, mainly TV, has a limit to appeal to consumers individually" (consumer/packaged goods, Japan)

"It is very costly and not very accountable" (hotels/tourism/leisure, US)

"Don't get value for money from it. We get a response but it's not relative to spend. More profitability needed, and profit from media advertising relative to spend is poor" (media/entertainment/culture, UK)

Continuing financial pressure causing reduced budgets affected nearly one fifth of those who commented, and particularly Japanese companies:

"Smaller budget available due to turnover in retail decreasing" (consumer/packaged goods, Germany)

"We want to save money and in our company this is done by cutting costs in media advertising" (telecoms products/services, Germany)

"Because of recession there will be less budget this year" (industrial products/systems, Japan)

"That's the biggest pool that we can take money out of" (automotive, US)

A few businesses reported one off, company-specific issues:

"We haven't had a new product launch so this year was quiet. Also had a change of agency" (automotive, UK)

Overall, the reasons for a decreased proportion of the budget going to media advertising predominantly indicated a long-term change in resource allocation, with more resource going into direct and interactive marketing.

4.3 Direct Response Advertising

The study also explored businesses' use of direct response advertising (DRA) within their total media advertising expenditure. DRA was defined as:

"Advertising whose main purpose is to generate a specific and fairly immediate customer response such as a direct order, a qualified sales lead, an information request, or a visit to a store or website. (It does not include classified ads.)"

Many advertisements involve a combination of long-term brand-building and short-term direct response generation. We would argue that advertisers should almost always be clear which of the two is the main objective of the campaign, but not everyone would agree. Some campaigns could be categorized either way.

With this proviso, Table 4.2 shows the responses for the five countries in 2001. Looking first at the Total column:

- 93% of respondents used media advertising as part of their marketing activity in 2001
- Of this 93%, 63% (ie 59% of all respondents) used DRA
- Among those who used DRA, it accounted for 54% of their expenditure on media advertising
- Multiplying these last two figures (63% of advertisers each spending 54% on DRA) gives us an approximate figure of 34% for the proportion of all advertising accounted for by DRA in 2001 in these five markets ⁽¹⁾

Looking across Table 4.2, the striking feature is the huge variation between countries in both the % of advertisers who say they use DRA (75% for the USA vs only 22% for Japan) and, among those saying they use DRA, the % of advertising expenditure they allocate to it (75% for the UK vs only 26% for Japan). The effect is to create three groupings in terms of their overall use of DRA (approximate % of all advertising expenditure):

- The "Anglo-Saxon" markets: UK 54%, USA 43%
- The Continental Europe markets: France 29%, Germany 26%
- Japan: 6%

(1) The 34% estimate is approximate not only because of the partly subjective definition of DRA but also because it assumes that the average advertising expenditure was the same among the 63% of advertisers who used DRA as among the other 37% who did not. In practice, this was roughly true. The proportion of mid-sized advertisers (total marketing expenditure USD 1m-5m) using DRA was 65%, slightly higher than the 60% of larger advertisers who used DRA. In addition, those who used DRA allocated a slightly lower proportion of their total expenditure to media advertising than those who used advertising but not DRA (47% versus 49%). Taken together, these two factors suggest that the actual proportion of advertising accounted for by DRA was roughly 32% rather than the 34% in Table 4.2

Table 4.2: Direct Response Advertising (DRA) in 2001

	Total (n = 715)	USA (n = 238)	Japan (n = 122)	Germany (n = 114)	UK (n = 122)	France (n = 119)
2001						
Used advertising (%) ⁽¹⁾	93	95	88	96	97	88
Of whom:						
Used DRA (%) ⁽²⁾	63	75	22	68	74	58
Among whom:						
DRA % of advertising ⁽³⁾	54	57	26	38	74	49
DRA as % of all adv (approx) ⁽⁴⁾	34	43	6	26	54	29

(1) % of all respondents who used media advertising in 2001

(2) % of (1) who used DRA in 2001

(3) Among (2), expenditure on DRA as % of total expenditure on media advertising

(4) (2) x (3) (see text)

Given the somewhat subjective cutoff between brand-building advertising and DRA, these numbers should not be taken as precise, but the differences between the results for different countries are so great that we believe they reflect substantial differences in marketing practice. In the USA and UK, there is strong pressure from CEOs and CFOs for accountability, which inevitably pushes marketers towards DRA (and other activities with measurable short-term results) and away from long-term brand-building advertising, whose value is inherently harder to prove. At the other extreme, we believe that Japanese advertisers see advertising as being primarily about brand-building. Another factor is national legal and regulatory differences.

Table 4.3 shows the results for DRA as a % of all advertising for the three years 2001–2003, using the same method as in Table 4.2. They suggest that this percentage is steady this year and slightly increasing in 2003.

Table 4.3: DRA as % of All Advertising 2001–03

Approximate estimates using the same method as in Table 4.2

Year	Total	USA	Japan	Germany	UK	France
2001	33.8	42.5	5.8	26.1	54.3	28.7
2002	33.7	42.4	5.6	25.9	53.9	29.8
2003	35.7	45.5	6.1	28.1	54.6	30.1

To complement these quantitative results, the study also asked whether respondents were increasing, decreasing, or not changing their expenditure on DRA as a proportion of their total expenditure on advertising this year 2002 versus last year 2001. Table 4.4 shows the diffusion indices derived from these data. They are consistent with the quantitative results, suggesting that DRA is slowly increasing as a proportion of all media advertising.

Table 4.4: Changes in DRA as a % of Advertising: Diffusion Indices ⁽¹⁾ for 2001–02

Total	USA	Japan	Germany	UK	France
(n = 450)	(n = 179)	(n = 16)	(n = 85)	(n = 93)	(n = 67)
56.1	56.4	59.6	58.2	54.3	53.7

(1) ("Increase" %) x 1.0 plus ("No change" %) x 0.5, see Section 2.1

The main reasons given for increasing DRA were to be more measurable/accountable and to generate short-term sales. Other reasons were to communicate special offers and promotions, increase store or website traffic, or generate qualified leads.

Among those using DRA but reducing it, the most frequently cited reason was that their priority is to reinforce long-term brand equity. Some were reducing DRA because its role was being taken over by interactive marketing or direct mail, while one emphasized customer retention:

"Our priority is to retain clients as opposed to actively seek new ones" (consumer/retail financial services, UK).

Why Businesses Do Not Use DRA

Respondents who said they did not use DRA were asked why not. Many said simply that DRA was not relevant to their business:

"Because our industry doesn't work like that" (consumer/packaged goods, UK)

"Not nature of our business" (industrial products/systems, UK)

"We don't use that kind of advertising. Not relevant" (automotive, France)

"Not relevant for our sector" (OTC pharmaceuticals, Germany)

"Not in the nature of our business" (hotels/tourism/leisure, US)

"DRA within media does not match our product profile" (telecoms products/ services, US)

"Not relevant" (consumer electronics, Japan)

Although these comments implied that DRA was irrelevant to the respondent's specific sector, in most cases they came from sectors in which other respondents were users of DRA.

A significant proportion stated that enhancing their brand image and awareness was their priority, and thus they did not spend on DRA:

"We just do brand advertising. We're looking to reach as many eyeballs as possible. We have a huge basket to reach. Our customers are mainly 20–45 males and it does not make sense to hit this audience with DRA" (consumer durables, US)

"We only do image brand advertising. [Our product] needs to be sold through an agent" (consumer/retail financial services, US)

"We don't think advertising is a way to generate sales, we use it only for brand awareness" (industrial products/systems, US)

"We only use classical TV advertising, image advertising" (consumer/packaged goods, US)

"It's not our aim. Our brand image is really important" (luxury/fashion products, France)

"For us it's more on brand" (automotive, UK)

"The types of campaigns are brand building and using creative media" (manufacturing, UK)

A similar number reasoned that DRA was inappropriate as they are B2B businesses and don't sell direct to the consumer:

"We don't communicate with the external consumer. Just B2B" (consumer/retail financial services, UK)

"It is not our market. We only work with professionals not consumers" (telecoms products/services, France)

"We have a B2B approach so this is not relevant to our activity" (industrial products/systems, France)

"We do not approach end customers directly" (hotels/tourism/leisure, Germany)

"We don't really sell direct to consumer, our customers are retailers" (luxury/fashion products, US)

"Our products do not involve ordinary consumers" (industrial products/systems, Japan)

Another group choose not to use DRA because they regard it as ineffective, too expensive or positively damaging:

"There is a limit to our consumers. Not so much effect by doing this" (consumer/packaged goods, Japan)

"Because we sell cheap food. It's not been cost effective in the past. It doesn't pay back when you're selling 50p foods" (consumer/packaged goods, UK)

"We think this kind of communication is not good for our brand image" (consumer durables, France)

"It does not work at all. French people do not answer to that kind of advertising" (consumer durables, France)

"It does not work for us" (consumer/retail financial services, Germany)

"So far I have not seen any valid methods that would justify spending money on DRA" (automotive, Germany)

"It's costly, less direct, and less accountable" (business/industrial services, US)

A few respondents gave lack of budget as a reason for not using DRA:

"Because of the size of our budget" (media/entertainment/culture, US)

"Due to lack of money" (consumer/packaged goods, UK)

"Our budget is too small for that kind of advertising" (consumer durables, France)

Finally, Japanese businesses were the only ones to state that DRA was not necessary to them because they already have relationships with all likely prospects:

"We know all the companies that exist in this field" (manufacturing, Japan)

"Not necessary because we have a list of all relevant companies" (industrial products/systems, Japan)

"Our consumers are locals who do their shopping very often with us" (retail/mail order, Japan)

"Not necessary at the moment. We deal on a personal basis" (consumer/retail financial services, Japan)

5. Sales Promotion

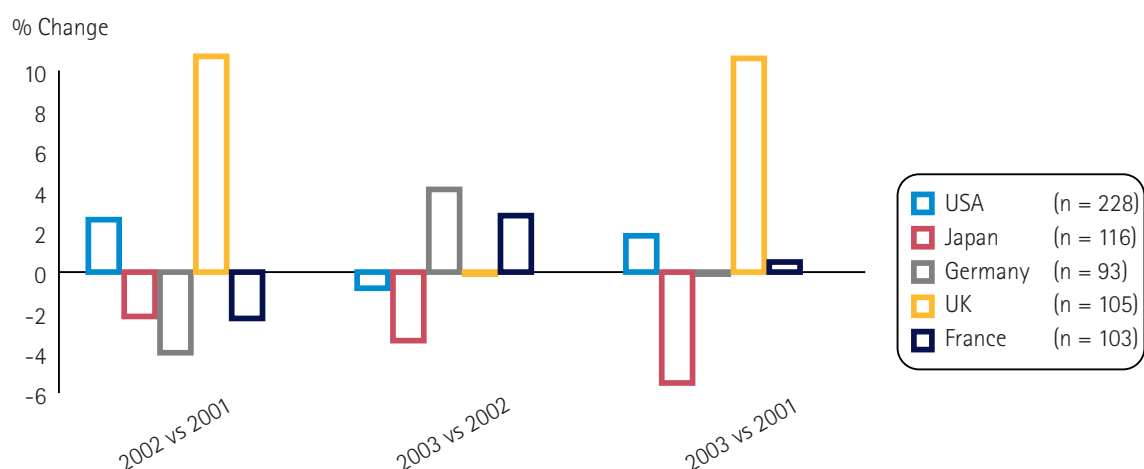
5.1 Expenditure 2001–03

Table 5.1 and Figure 5.1 show the year-on-year % changes in expenditure on sales promotion, defined to include both trade and end-customer promotions, short-term/temporary price cuts, and partnership/affinity programs. The methodology and layout are equivalent to Table 4.1 and Figure 4.2, but for this and the other smaller categories the statistical base is more limited than for media advertising.

Table 5.1: Year-on-Year % Change in Sales Promotion Expenditure (Current local currencies)

Country		2002 vs 2001	2003 vs 2002	2003 vs 2001
USA	(n = 228)	+ 2.6	- 0.8	+1.8
Japan	(n = 116)	- 2.2	- 3.4	- 5.5
Germany	(n = 93)	- 4.0	+ 4.1	0
UK	(n = 105)	+10.7	- 0.1	+10.6
France	(n = 103)	- 2.3	+ 2.8	+ 0.5
Total	(n = 645)	+ 0.8	+ 0.6	+1.4

Figure 5.1: Year-on-Year % Change in Sales Promotion Expenditure



The total market shows virtually no growth in either year (in current local currency terms). The only large year-on-year change is a 10.7% increase in the UK this year, possibly an overstatement due to sampling.

There were some differences for firms in different types of product market, the main one being that B2B firms are on average cutting back on sales promotions while B2C firms are not (Table 5.2).

Table 5.2: Year-on-Year % Change in Sales Promotion Expenditure by Type of Product Market

Type of Product Market	2002 vs 2001	2003 vs 2002	2003 vs 2001
Low purchase frequency (n = 299)	- 0.9	+ 2.2	+ 1.2
High purchase frequency (n = 287)	+ 3.1	- 1.3	+ 1.8
B2B (n = 80)	- 1.3	- 1.8	- 3.0
B2C (n = 506)	+ 1.5	+ 0.7	+ 2.3
Products (n = 322)	+ 0.3	+ 0.4	+ 0.7
Services (n = 264)	+ 2.7	+ 0.5	+ 3.2
Total, incl other (n = 645)	+ 0.8	+ 0.6	+ 1.4

5.2 Reasons for Increases/Decreases in Expenditure

Increases

The primary reason given for increased resource allocation to sales promotion was its demonstrable effectiveness. German companies were especially effusive about this category:

"Marketing through partnership with other companies. It is cost effective and brings good results"
(hotels/tourism/leisure, US)

"We thought that parts of our budget are spent more wisely in below the line marketing"
(consumer/packaged goods, Germany)

"More efficient way to reach customer" (consumer electronics, Germany)

"Value for money. More profitable. Can measure the profitability. It is more measurable than above the line. It is important to be able to measure performance and it's much easier with sales promotion to see the return" (media/entertainment/culture, UK)

Several others gave a variety of strategic reasons for the increase in proportion of the budget - an increased focus on sales, new initiatives, products and channels:

"Changes in philosophy, moving more money to the sales force again" (media/entertainment/culture, US)

"We are seeking a closer contact with the retail business. Retail is our number one customer and consumers number two. We are focusing on trade marketing" (consumer/packaged goods, Germany)

"Because we are now developing more brands, new brands, we need to invest more money on final on-site marketing" (luxury/fashion products, France)

"We have an additional sales channel (the other company that acquired us) and therefore more money will go into sales" (industrial products/systems, US)

A few are spending more on sales promotion because they have reduced their spend in other areas - some temporarily, some permanently:

"Smaller budget. Decrease in direct mail and interactive marketing. Therefore percentage of sales promotion increases" (automotive, Germany)

"Due to PR/events decrease" (leisure goods manufacturer, Japan)

Decreases

Many more companies gave reasons for a decrease in resource allocation to sales promotion than for an increase.

The principal reason was that businesses are allocating this spend to other activities, predominantly to media advertising and interactive marketing, but to other categories also:

"More effort given to TV campaign which explains decrease in other categories such as public relations and sales promotion" (consumer/packaged goods, France)

"In order to invest more into media adverts we take it away from here" (telecoms products/services, Germany)

"To meet costs of interactive advertising" (industrial products/systems, US)

"A lot of our sales tools will go interactive, so it's only logical to take this money from sales promotions" (industrial products/systems, US)

"Because we only have one pot to spend and if we spend more in one part we spend less in another [increased spend on PR]" (consumer durables, UK)

Several companies commented that they found sales promotion ineffective, or that they had no need for it. (There were more comments to this effect for 2002/2003 than for 2001/2002):

"In the current financial situation they are not effective" (hotels/tourism/leisure, US)

"A lot of our budget is in sales promotion and we find they don't pay back particularly well in the current economic situation" (consumer/packaged goods, US)

For several other businesses more general strategic issues came into play:

"Desire to drive longer term activities instead of short term gain" (industrial products/systems, US)

"Next year the strategy will change slightly to add value to brands and to reduce our dependence on price promotion" (consumer/packaged goods, UK)

"Our strategy follows strengthening of marketing and communication. Generate greater demand that doesn't need as much sales promotion anymore" (automotive, Germany)

"New product launches" (consumer/ packaged goods, France)

5.3 Evaluating Sales Promotions

Respondents were asked whether they always (or usually) quantify the net impact of sales promotions on sales volume and on profits. Table 5.3 shows the results.

71% of respondents claimed that they always (or usually) quantify/post-audit the net impact of sales promotions on sales volume, while 59% claimed that they quantify the impact on profits. The outlier is Japan, with only about half as many respondents as in the other countries claiming to post-audit their sales promotions.

Table 5.3: Always (or Usually) Quantify/Post-Audit the Net Impact of Sales Promotions on Sales Volume and Profits

% Saying "Yes"	Total	USA	Japan	Germany	UK	France
Sales volume	71	78	35	82	75	70
Profits	59	58	33	70	65	66

As one might expect, larger businesses and businesses which were part of multinational corporations were somewhat more likely to claim to quantify the impact on sales volume and profits, although the differences are not dramatic (Table 5.4).

Table 5.4: % Quantifying the Net Impact of Sales Promotions by Size and Ownership

% Saying "Yes"	Total	Marketing Expenditure (USD or euro)				Ownership	
		1-5m	5-10m	10-30m	30m+	Multinational	Local
Sales volume	71	70	68	77	73	73	69
Profits	59	53	57	71	68	60	58

There was also significant variation between industrial sectors (Table 5.5.):

Table 5.5: % Quantifying the Net Impact of Sales Promotions by Industrial Sector

Sector		% Claiming to quantify the impact on:	
		Sales volume	Profits
Consumer durables	(n = 48)	81	75
Business industrial services	(n = 92)	80	70
Consumer/packaged goods	(n = 35)	77	6
Luxury/fashion products	(n = 64)	75	64
Consumer electronics	(n = 27)	74	78
OTC pharmaceuticals	(n = 23)	74	61
Consumer/retail financial services	(n = 25)	72	56
Electronic products/systems	(n = 59)	70	63
Hotels/tourism/leisure	(n = 32)	69	62
Retail/mail order	(n = 27)	63	44
Media/entertainment/culture	(n = 36)	58	43
Telecoms products/services	(n = 36)	56	42
Automotive	(n = 51)	57	37
Total, incl Other	(n = 647 incl. other)	71	59

Those claiming to post-audit their sales promotions were then asked whether they did this formally (eg using a computerized measurement model) or in a more informal, ad hoc way. Table 5.6 shows the results by country.

Both for sales volume (57%) and for profits (62%), about 60% of those claiming to post-audit their sales promotions said they did this using a formal measurement model (or a mixture of formal and informal methods). Combining these responses with those in Table 5.3, 40% of all respondents claim to use formal methods to post-audit the impact of sales promotions on sales volume and as many as 37% for the impact on profits. These percentages vary widely between countries, from 17%-18% for Japan to around 50% for France.

Table 5.6: % of Those Claiming to Post-Audit Sales Promotions Using a Formal Measurement Model

% Claiming to Use a Formal Measurement Model (or a Mixture)	Total	USA	Japan	Germany	UK	France
As % of those claiming to post-audit promotions ⁽¹⁾						
Sales volume	57	55	52	50	60	73
Profits	62	63	52	50	64	72
As % of all respondents ⁽²⁾						
Sales volume	40	43	18	41	45	51
Profits	37	37	17	35	42	48

(1) eg % of those claiming to post-audit net impact of sales volume who also claim to do this using a formal measurement model

(2) eg % of all respondents who claim to use a formal measurement model to post-audit net impact on sales promotions

Methods for evaluating sales promotions vary widely in their sophistication. For a valid assessment of the net impact on short-term profits, one needs a combination of:

- A prediction of what sales and realized prices would have been without the promotion, after allowing for both delayed purchases (due to customers waiting for the promotion) and accelerated purchases (due to customers stocking up at the promotional price).
- A valid estimate of the full incremental cost of the promotion itself and of the extra volume it generated.

This requires an advanced modeling and costing system available in few firms today. Most of those claiming to use formal methods to post-audit their sales promotions are likely using simplifying assumptions (including about longer-term effects too) to make decisions which are "roughly right". The validity of these assumptions will depend on the product category, eg purchase acceleration is a significant issue for detergents but not for impulse ice cream.

6. Direct Mail

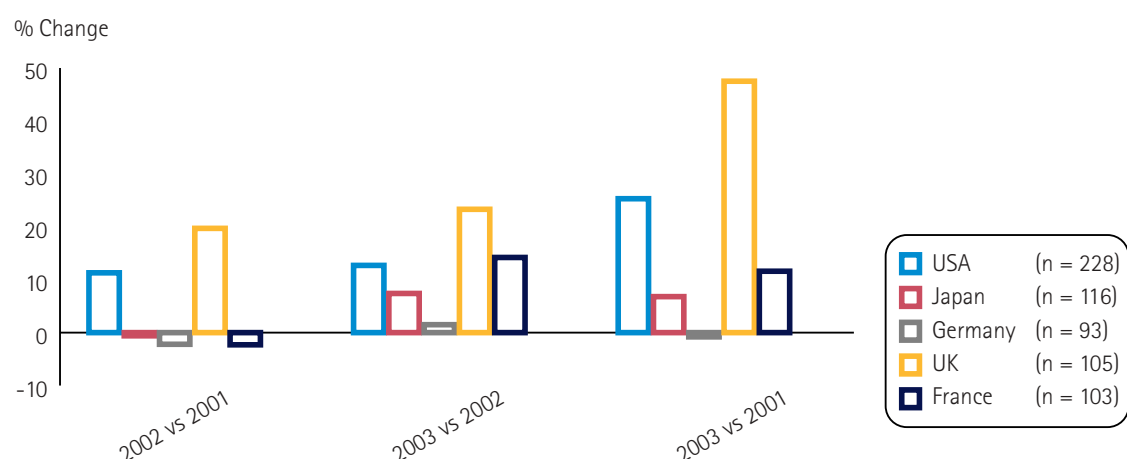
6.1 Expenditure 2001-03

Table 6.1 and Figure 6.1 show the results for direct mail, including expenditure on mail packs and mailed leaflets/brochures: print, postage, and outsourced database management.

Table 6.1: Year-on-Year % Change in Direct Mail Expenditure (Current local currencies)

Country		2002 vs 2001	2003 vs 2002	2003 vs 2001
USA	(n = 228)	+4.8	+4.9	+9.9
Japan	(n = 116)	-2.4	-2.5	-4.8
Germany	(n = 93)	-1.1	-0.9	-2.0
UK	(n = 105)	+13.3	+6.8	+21.0
France	(n = 103)	-0.3	+5.7	+5.4
Total	(n = 645)	+ 3.8	+3.5	+7.4

Figure 6.1: Year-on-Year % Change in Direct Mail Expenditure



The total market appears to be growing steadily, regardless of the general economic slowdown, driven by substantial growth in the UK (especially this year, according to our respondents) and a strong performance in the USA. Japan and, to a lesser extent, Germany are down. France is steady this year, growing again next year. As with sales promotion we believe the UK figure for 2002 may be overstated.

Growth is especially strong for frequently purchased goods/services and for firms in B2C markets (Table 6.2).

Table 6.2: Year-on-Year Change in Direct Mail Expenditure by Type of Product Market

Type of Product Market		2002 vs 2001	2003 vs 2002	2003 vs 2001
Low purchase frequency	(n = 299)	+1.2	+ 3.9	+ 5.1
High purchase frequency	(n = 287)	+ 6.6	+ 3.7	+10.6
B2B	(n = 80)	- 1.0	+ 4.4	+ 3.4
B2C	(n = 506)	+ 4.6	+ 3.7	+ 8.5
Products	(n = 322)	+ 3.4	+ 5.4	+ 9.0
Services	(n = 264)	+ 4.2	+ 2.6	+ 6.9
Total, incl Other	(n = 645)	+ 3.8	+ 3.5	+ 7.4

6.2 Reasons for Increases/Decreases in Expenditure

Increases

As might be expected from the quantitative data, Japanese companies had little to say about allocating more resources to direct mail. Of those who did make comments, the principal reason for increasing spend on direct mail was its effectiveness – businesses cited its ability to show good returns, its speed, targeting and value for money. Businesses from Germany particularly emphasized its ability to address the consumer directly. Respondents in the automotive, hotels/tourism/leisure and consumer durable sectors gave the most responses of this type, suggesting that direct mail is particularly well suited to their marketing needs.

"DM working really well. We can see a direct return" (consumer durables, UK)

"Better ROI in direct mail" (automotive, US)

"It's more cost effective and targeted compared to traditional marketing" (hotels/tourism/leisure, US)

"Now we want to target our customers more, we want to go to them and not wait for them to come to us" (consumer durables, France)

"It's much cheaper to reach customers directly than publish in magazines and newspapers" (automotive, US)

"It's the future. One-to-one marketing is increasing steadily, addressing the consumer directly" (automotive, Germany)

"We know our customers and therefore communicate better if we address them directly" (consumer electronics, Germany)

Many companies gave strategic reasons for investing in direct mail – including a heavier emphasis on more targeted marketing and promotion of new aspects of the business – new initiatives/products/markets:

"More emphasis on target marketing" (consumer/retail financial services, US)

"We are trying to get more targeted in our approaches. We can be much more efficient by generating

leads for sales people" (industrial products/systems, Germany)

"Driven by major campaigns with existing customers, so writing to them to replace their existing models. Also done some marketing to a new target group, company cars" (automotive, UK)

"Because of new audiences we have to reach that our sales force does not call on" (business services, US)

"More direct mail products. Basically advertising is first in line and then we use direct mail" (consumer/packaged goods, UK)

Just one company gave a reason related to 9/11:

"Because of consumer confidence. We stopped in 2001 because of the anthrax scare, we 'll start again this year as the scare is beginning to subside" (manufacturer, US)

Decreases

Few businesses gave reasons for decreasing the proportion of their spend going to direct mail (reflecting the quantitative results). Most of those decreasing their spend were allocating it to another specific category of the marketing mix - usually interactive marketing or media advertising (split roughly 50/50):

"Because of the potential for sales on our website" (media/entertainment/culture, US)

"We want to switch more to the internet" (transport/travel, Germany)

"Slight decrease in this category due to expenditure from resource allocation model being moved to increase [media ads]" (hotels/tourism/leisure, UK)

"To even out the budget [higher spend on media advertising]" (luxury/fashion products, France)

Some businesses also expressed dissatisfaction with the effectiveness of direct mail:

"We tested but were not satisfied with the outcome and decided to cut back and free our budget for more classical media advertising again" (luxury/fashion products, Germany)

"There is just too much clutter in that marketing channel" (media/entertainment/culture, US)

"Due to postage increases direct mailing has become less cost effective. Whereas you can accomplish a lot more online for a lot less" (industrial products/ services, US)

One cited increased buying efficiency for the reduced spend:

"Tightening up on the wastage in direct mail, buying better, less spend due to better return from media" (consumer/retail financial services, UK)

6.3 Outsourcing Direct Mail

Respondents were asked two questions about outsourcing direct mail: first, was most direct mail execution (preparing packs, etc) conducted inhouse or mostly outsourced; second, was the DM database managed/main-tained inhouse or outsourced.

On average, 55% said their direct mail execution was mostly outsourced (including 6% who said "a mixture") and 32% said their DM database was outsourced (including 4% who said "a mixture"). There was some, but not dramatic, variation by country (Table 6.3) and annual marketing spend (Table 6.4).

Table 6.3: Outsourcing Direct Mail by Country (%)⁽¹⁾

Activity	Total (n=529)	USA (n=208)	Japan (n=56)	Germany (n=78)	UK (n=97)	France (n=90)
DM execution	55	54	48	64	55	56
DM database	32	32	23	23	37	41

(1) % of respondents saying "outsourced" or "a mixture"

Table 6.4: Outsourcing Direct Mail by Annual Marketing/Communication Spend (USD/euro) (%)⁽¹⁾

Activity	Total (n=529)	1–5m (n=261)	5–10m (n=105)	10–30m (n=91)	30m+ (n=72)
DM execution	55	52	48	69	61
DM database	32	31	32	38	28

(1) % of respondents saying "outsourced" or "a mixture"

There was also variation by sector (Table 6.5, note small sample sizes for some sectors). In particular, the top five sectors in the table, all primarily B2C, tend to outsource DM execution and are also more likely than average to outsource their DM database. Among the sectors towards the bottom of the table (ie those that tend to conduct their DM execution in-house), retail/mail order includes a significant minority (38%) who outsource their database.

Table 6.5: Outsourcing Direct Mail by Sector (%) (1)

Sector		DM Execution	Database
		%	%
Consumer electronics	(n = 21)	76	41
Consumer/packaged goods	(n = 56)	75	41
Automotive	(n = 45)	69	49
Hotels/tourism/leisure	(n = 29)	68	38
Consumer durables	(n = 75)	68	38
Travel/transport	(n = 21)	57	29
Electronic products/systems	(n = 22)	55	14
Consumer/retail financial services	(n = 62)	50	26
Telecoms products/services	(n = 14)	50	6
Media/entertainment/culture	(n = 56)	45	29
Industrial products/systems	(n = 29)	45	26
OTC pharmaceuticals	(n = 15)	40	32
Business/industrial services	(n = 15)	40	20
Retail/mail order	(n = 45)	36	38
Luxury/fashion products	(n = 24)	33	33
Total, incl. Other	(n = 529)	55	32

(1) % of respondents saying "outsourced" or "a mixture"

7.

PR/sponsorship

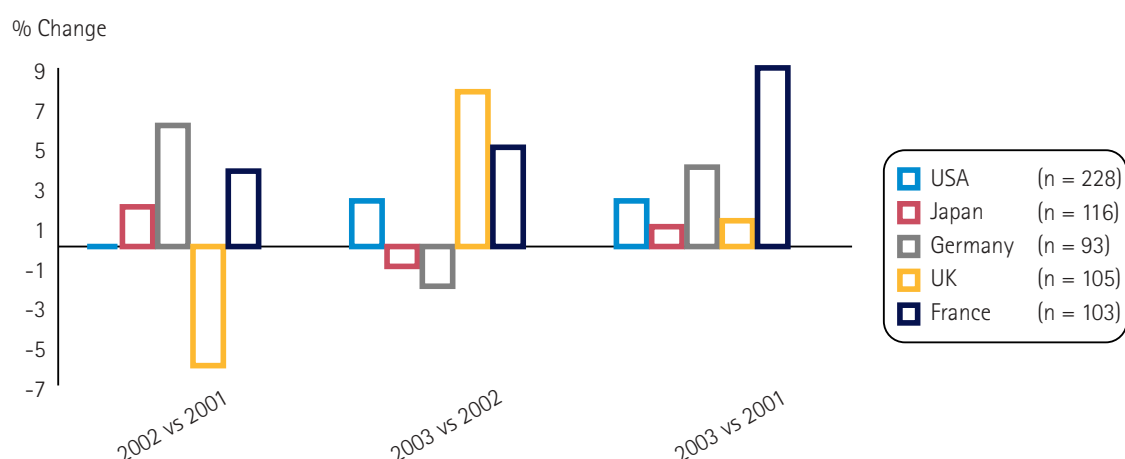
7.1 Expenditure 2001–03

Results for PR/sponsorship are shown in Table 7.1 and Figure 7.1. This category includes events – exhibitions, trade shows, sport, etc – and event sponsorship, but not broadcast program sponsorship, which is included under media advertising (Section 4).

Table 7.1: Year-on-Year % Change in PR/sponsorship Expenditure (Current local currencies)

Country		2002 vs 2001	2003 vs 2002	2003 vs 2001
USA	(n = 228)	0.0	+2.3	+2.3
Japan	(n = 116)	+2.0	-1.0	+1.0
Germany	(n = 93)	+6.1	-2.0	+4.0
UK	(n = 105)	-6.0	+7.8	+1.3
France	(n = 103)	+3.8	+5.0	+9.0
Total	(n = 645)	+1.8	+2.2	+4.0

Figure 7.1: Year-on-Year % Change in PR/sponsorship Expenditure (current local currencies)



The data suggest marginal increases in the total market for PR/sponsorship in both years (in current local currencies). The differences in the results for different countries should be seen as indicative only: the effective statistical base within each country is limited for this and the other small expenditure categories. Nevertheless, there is a suggestion that PR/sponsorship in Germany may be up this year against a background of a largely steady or declining PR/sponsorship market this year in the other countries, and despite a substantial reduction in total marketing expenditure in Germany. This may be a result of sampling.

Over the two years 01/02 and 02/03, there is little difference in the trend for companies selling infrequently versus frequently purchased goods/services, but B2B companies are tending to cut back on PR/sponsorship this year while planning to rebuild this expenditure in 2003. Also, companies selling services are more cautious than those selling products (Table 7.2).

Table 7.2: Year-on-Year % Change in PR/sponsorship Expenditure by Type of Product Market (Current local currencies)

Type of Product Market	2002 vs 2001	2003 vs 2002	2003 vs 2001
Low purchase frequency (n = 299)	+1.5	+2.9	+4.4
High purchase frequency (n = 287)	+3.0	+1.3	+4.3
B2B (n = 80)	-5.4	+4.6	-1.1
B2C (n = 506)	+4.4	+ 1.5	+6.0
Products (n = 322)	+4.0	+3.0	+7.2
Services (n = 264)	-0.3	+0.8	+0.4
Total (n = 645)	+1.8	+2.2	+4.0

7.2 Reasons for Increases/Decreases in Expenditure

Increases

Businesses made few comments about reasons for increases or decreases, reflecting the quantitative figures showing that the proportion of expenditure allocated to this category remained relatively stable.

Among those who did comment, the main reason given for increased spend on PR/sponsorship is its effectiveness and value for money:

"PR stunts and activities are more cost effective than media advertising for us" (hotels/tourism/leisure, UK)

"Better value for money. No problem to reach the target market" (consumer electronics, Germany)

"Through events better positioning in the market, more image, we can stand out from our competitors" (transport/travel, Germany)

"Particular success here, so we wish to continue" (consumer/packaged goods, US)

"More value for the price" (consumer durables, Japan)

A few businesses gave strategic reasons for increasing PR/sponsorship spend:

"Products need more explanation" (OTC pharmaceuticals, Germany)

"Direct contact with our customers. Keeping them would be our first priority in the present economic circumstances" (industrial products/systems, US)

For some, spend was increased because there were exhibitions or trade fairs in the relevant year:

"We have just had two very big trade fairs where we have invested one third of our budget" (consumer electronics, Germany)

"We have a huge exhibition this year and we have to siphon money off our media budget" (consumer/packaged goods, Germany)

"There is a trade show this year" (automotive, Japan)

And a few cited relaxation of budget restrictions allowing an increase in spend:

"Spending more money in total" (business/industrial services, UK)

"We have to increase this category again after cutting it this year" (consumer/packaged goods, Germany)

Decreases

Those businesses that were decreasing their PR/sponsorship spend were mainly doing so to allocate it to other categories of the marcoms mix, evenly spread across direct mail, media advertising and interactive, with a couple allocating it to sales promotions:

"We do not think we reach customers with such activities. We're focussing more on media advertising again" (industrial products/systems, Germany)

"We are cutting back here to increase direct mail" (media/entertainment/culture, US)

"We will still be working on them but reduce a little as we'll increase on DM" (hotels/tourism/leisure, Japan)

The next most frequent explanation was that businesses regarded PR/sponsorship as ineffective and/or poor value for money:

"Trade shows are really expensive and don't pay back that well. Out of \$75,000 spent last year, you may only get 300 leads, 3 deals closed last year. Is that good?" (business/industrial services, US)

"PR will be reduced due to value for money factor" (retail/mail order, UK)

"Associated costs are making us move away from trade shows and go more into interactive marketing" (industrial products/systems, US)

A few justified reduced spend by poor business performance, or simply the fact that the event sponsorship that they were involved with had terminated:

"Overall budget cuts" (consumer electronics, Germany)

"We are going to finish sports sponsorship. Motorshow will end" (automotive, Japan)

8.

Interactive Marketing

8.1 Expenditure 2001–03

We define interactive marketing to include internet advertising, marketing websites and extranets, email marketing, and new media (eg iDTV, wireless). Table 8.1 and Figure 8.1 give the results. Again, the results for individual years and countries are indicative only because of their limited statistical base.

The results amplify the conclusion in Section 3 that interactive marketing is the main growth area within the marketing expenditure mix, driven largely by sustained growth in the USA and UK, and to a lesser extent by strong growth in France expected next year.

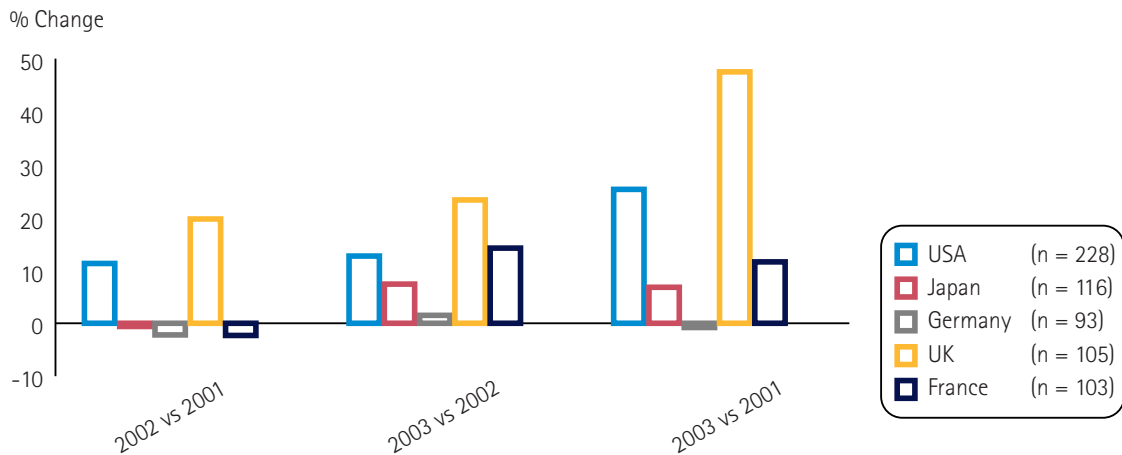
By any normal standards, this is a very fast-growing area of marketing. There are two reasons why many commentators remain skeptical. First, interactive marketing was overhyped during the internet bubble, especially by B2C dotcoms based on optimistic internet advertising business models. Second, internet advertising per se (banners, pop-ups, etc) may well be declining due to lower clickthrough rates (reflected in lower media prices to advertisers) and consumer resistance to some of the newer, more intrusive formats. However, many firms are investing in improved websites and extranets, and especially in permission-based email marketing, leading to continuing growth in internet marketing as a whole.

Increasingly, the focus is on customer retention and relationship marketing, rather than on using the internet mainly for new customer acquisition. In addition, some companies are starting to experiment with other new media, mostly wireless and iDTV.

There were no significant differences in the results for companies in different types of product market (high/low purchase frequency, B2B vs B2C, products vs services). The growth in interactive marketing seems to be happening across all main sectors.

Table 8.1: Year-on-Year % Change in Interactive Marketing Expenditure (Current local currencies)

Country		2002 vs 2001	2003 vs 2002	2003 vs 2001
USA	(n = 228)	+11.3	+12.7	+25.3
Japan	(n = 116)	-0.6	+ 7.4	+6.8
Germany	(n = 93)	-2.2	+ 1.5	-0.8
UK	(n = 105)	+19.7	+23.3	+47.5
France	(n = 103)	-2.3	+14.2	+11.6
Total	(n = 645)	+6.6	+11.7	+19.1

Figure 8.1: Year-on-Year % Change in Interactive Marketing Expenditure

8.2 Reasons for Increases/Decreases in Expenditure

Increases

More businesses gave reasons for their increased spend in this category than in any other. The overwhelming number focus on interactive marketing's effectiveness, accountability and value for money:

"A more cost effective method, better targeted. We'll be able to deliver more timely and relevant information this way. We're looking to expand on our website, email, perhaps video streaming as well"
(consumer/retail financial services, UK)

"It's an inexpensive and targeted way of reaching people" (hotels/tourism/leisure, US)

"It was only to provide information. However, it has begun to be able to do direct sales on the net"
(consumer/retail financial services, Japan)

"The backbone of marketing was traditionally direct mail. Very expensive to produce. Now a reliable way to provide information online means saving millions of dollars on postage costs. We have a website and we mean to expand" (media/entertainment/culture, US)

Many are expanding and redesigning their websites or increasing their use of e-mail marketing:

"A lot of emphasis was put on e-commerce in the beginning. Then there was a drop. Now we are beginning to reinvest into e-business structure in terms of dealing with retailers. It's going to help to save costs in the long term" (automotive, US)

"[Marketing and distribution] will be rolled over to interactive channels" (transport/travel, Germany)

"A redesign of our website" (consumer/packaged goods, UK)

"We are looking at more email campaigns. We can hold email addresses. It's a quicker, more cost effective way" (consumer/retail financial services, US)

A few see themselves as needing to catch up with the trend towards interactivity:

"We are behind in our interactive marketing" (hotels/tourism/leisure, US)

"We feel that we need to catch up with the recent trend. Almost everybody's on the net. It also appeals to the younger generation" (luxury/fashion products, Japan)

"With interactive marketing the problem is that we've only just got into it. We're in the process of learning what works and how to utilize this area. There will be an emphasis to grow steadily in this area. We can see internet marketing works for others" (specialist service business, US)

Many cited (with varying degrees of fervor) the opportunities that the increased market take-up of interactive technologies offer. These comments predominantly related to increased spend for the year 2003:

"A whole new world. New media source. A new way to contact frequent users of our products" (DIY products manufacturer, US)

"It's the market of the future, a new channel leading to growth" (consumer/retail financial services, Germany)

"To reflect where people are picking up information. More people are going online" (media/entertainment/culture, UK)

"Every year there are more and more people who have access to a computer. May increase every year little by little" (retail/mail order, Japan)

Decreases

Few are cutting back on interactive marketing, so few reasons for doing so were given. However, some felt that it was inefficient and that its potential had been overblown:

"The euphoria from at first gave way to a disillusionment. High costs per head" (OTC pharmaceuticals, Germany)

"We did not get the return on investment or the response from customers we expected from the web banners, chat rooms, sponsor portals through Yahoo! etc that we spent up. So we decided to put that money somewhere else" (automotive, US)

A few needed to allocate their spend elsewhere, although it was not clear the extent to which this was a temporary or permanent trend:

"To compensate for extra spending on media and direct mail" (consumer/packaged goods, US)

"Promoting short term sales, it's a difficult time for our sector" (consumer/packaged goods, Germany)

One company had managed to achieve the best of both worlds and was getting its interactive marketing for free:

"We still do direct mail and interactive marketing but we don't spend any money on it due to good cooperation" (consumer electronics, Germany)

9.

Organizational and Market Context

The main focus of this study (Sections 2-8) is on changes in companies' total marketing expenditure and in how this is allocated across the five categories, as well as the reasons behind these changes. In Sections 4-6, we also reported some further results on direct response advertising, evaluating sales promotions, and outsourcing direct mail.

In this section, we briefly put the earlier results into the businesses' organizational and market context:

- Is the marketing function represented at board level? (Section 9.1)
- Marketing metrics (Section 9.2)
- Respondents' comments on market trends (Section 9.3)

9.1 Is the Marketing Function Represented at Board Level?

Table 9.1 shows that the marketing function is represented at board level in 68% of the businesses, ranging from 59% in the USA to 81% in the UK.

Table 9.1: Is Marketing Represented at Board Level? (%)

Total (n = 726)	USA (n = 240)	Japan (n = 122)	Germany (n = 120)	UK (n = 114)	France (n = 120)
68	59	68	79	81	63

Marketing was slightly more likely to be represented on the boards of multinational corporation subsidiaries than on those of local companies (70% vs 66%) but there was no systematic relationship with the absolute size of the marketing budget.

Out of 15 industry sectors, 13 had between 62% and 77% of respondents saying that marketing was represented on the board. The only exceptions were industrial products/systems (51%, n = 41) and hotels/tourism/leisure (87%, n = 38).

9.2 Marketing Metrics

Respondents were asked which of a list of six metrics were regularly reported to the Board and for which there were plans to do so in the near future. Tables 9.2 and 9.3 show the results for each country.

Table 9.2: Current Metrics Regularly Reported to the Board
(% of those mentioning any now or planned)

Metric	Total (n = 697)	USA (n = 224)	Japan (n = 117)	Germany (n = 120)	UK (n = 120)	France (n = 116)
Market share	79	73	57	97	80	90
Perceived prod/serv quality	77	77	68	84	71	75
Customer loyalty/retention	64	67	56	69	58	65
Customer/segment profitability	64	73	40	74	65	59
Relative price	63	65	48	84	53	63
Actual/potential LTV ⁽¹⁾	40	32	35	51	32	58
Average	64	64	51	77	60	68

(1) Customer or segment lifetime value

A majority of the businesses say they already regularly report most of these metrics to the Board, specifically market share (79%), perceived product/service quality (77%), customer loyalty/retention (64%), customer/segment profitability (64%) and relative price (63%). As many as 40% even say they regularly report actual/potential customer or segment lifetime value.

There is significant variation by country. The results for Germany are above average for all six metrics, and especially for market share (97%) and relative price (84%). Those for Japan are all below the average, especially market share (57%) and customer/segment profitability (40%). The USA and UK are fairly close to the average - the UK a bit lower - while France is a bit high on market share (90%) and customer/segment lifetime value (58%).

Table 9.3: Current or Planned Metrics to be Regularly Reported to the Board
(% of those mentioning any now or planned)

Metric	Total (n = 697)	USA (n = 224)	Japan (n = 117)	Germany (n = 120)	UK (n = 120)	France (n = 116)
Market share	81	75	60	98	84	96
Perceived product/service quality	79	79	68	88	82	79
Customer loyalty/retention	72	79	62	78	68	70
Customer/segment profitability	69	78	44	82	71	63
Relative price	66	66	50	84	60	69
Actual/potential LTV ⁽¹⁾	48	42	39	58	48	62
Average	69	70	54	81	69	73

(1) Customer or segment lifetime value

Reporting of all six metrics is expected to increase in the near future, especially customer loyalty/retention (from 64% to 72%) and customer/segment lifetime value (40% up to 48%).

Businesses owned by multinationals tend to use more of these metrics than local companies, as do very large businesses spending over USD/euro 30m on marketing each year (Table 9.4). For businesses spending less than this, there was no relationship between annual expenditure and the use of metrics.

Table 9.4: Current Metrics Regularly Reported to the Board by Marketing Expenditure and Ownership (% of those mentioning any now or planned).

Metric	Marketing Expend (USD/€)					Ownership	
	Total	1–5m	5–10m	10–30m	30m+	MNC	Local ⁽¹⁾
	(n = 697)	(n=340)	(n=140)	(n=128)	(n=89)	(n=371)	(n=326)
Market share	79	74	76	86	92	88	68
Perceived product/service quality	77	76	70	74	83	77	74
Customer loyalty/retention	64	61	64	63	76	65	62
Customer/segment profitability	64	63	64	62	71	64	63
Relative price	63	66	56	62	66	68	59
Actual/potential LTV(1)	40	38	41	39	47	43	36
Average	64	63	62	64	73	67	60

(1) Local: ≥ 75% of revenue generated in that country

9.3 Respondents' Comments on Market Trends

Finally, respondents were asked what they felt were the major trends in marketing in their sector and country.

The strongest trend by far was the role of **new media**, especially the internet, but also to a lesser extent SMS. New media were frequently mentioned along with interactive and/or personalized marketing. They were also referred to in conjunction with cost-saving/efficiency drives:

"More on internet. Everybody is on the web, lower costs flexible to change. You can reach more people"
(consumer/retail financial services, US)

"Eventually we will be increasing internet advertising. Our consumers used to come to the shop and look through the window in old times, however now they require information from the internet and expect to be focused before they come in" (other, Japan)

"Internet, email, electronic media will rise" (consumer electronics, Germany)

"To improve internet utilization for mailing direct" (consumer durables, France)

"The internet and other forms are getting a greater share. People are experimenting more. For example, text messaging is becoming more prevalent" (consumer/packaged goods, UK)

"The interactive side will eventually take off and elements of the more traditional side will deteriorate. There'll be more interaction with [consumers] as it's a lot easier to talk to a customer via a website"
(media/entertainment/culture, UK)

"The major trend is marketing interactively. We're going for micro-marketing" (industrial products/systems, France)

There was, however, some concern about the failure of new media to deliver their earlier promises:

"We still need to learn how to make most of internet advertising, so it'll probably continue to grow"
(media/entertainment/culture, US)

Direct mail was the second most common trend reported, both on and offline:

"Increase in direct mail because of fragmentation of all other media. Direct mail gives you a 100% target of potential customers" (automotive, US)

"Direct marketing will increase in all areas of B2B and B2C" (transport/travel, Germany)

"Far more direct marketing because it reduces cost and improves the sales response. In terms of sales performance you can measure the impact of the marketing expenditure" (consumer/retail financial services, UK)

The rise of **branding** over general product marketing was a third common theme:

"Trend towards brand. There will be only branded or cheap" (consumer/packaged goods, Germany)

"More brand experience marketing" (consumer/packaged goods, UK)

"The mass popularization of brand names" (industrial products/systems, US)

Related to the comments on new media and interactive marketing, many also mentioned **segmentation and database management**:

"More segmentation that I would define as micro-markets. Database management enables us to be very precise about our marketing" (industrial products/systems, US)

"Database management more aimed at specific customers" (transport/travel, Germany)

"Making sure the quality of your database is really good" (business/industrial services, US)

Sales promotion activities and **point of sale** marketing also received significant support:

"Sales promotion is getting stronger than others" (automotive, Japan)

"Strong support for our sales personnel which is reflected in our sales promotion budget" (OTC pharmaceutical, Germany)

"More and more operational marketing (sales, display, shop demonstration) promotional campaign in shops so we get short term results" (business/industrial services, France)

All these items had regular support and little or no opposition. Looking at the strongest of the above trends, namely new media, direct mail and interactive, support did vary both by industry and by country. Consumer/packaged goods, media/entertainment/culture and consumer/retail financial services were the keenest supporters, as was the US as a whole. Japan however showed little interest in these areas and was the keenest on the role of TV advertising, which received the strongest specific support of the traditional media:

"TV advertising, simply because it's effective and the best" (OTC pharmaceuticals, Japan)

"TV adverts for increasing the profile" (telecoms products/services, Japan)

"TV advertising is still very strong for us, people want to see your product" (retail/mail order, US)

"The big trend is using TV and press communication" (consumer durables, France)

There were however some negative comments about TV (and similarly for other traditional media):

"The cost of TV advertising is going up so we get less for our money" (automotive, US)

"People are moving away from television and looking for alternatives" (media/entertainment/culture, UK)

Respondents were also asked whether the trends in their sector differed from those in other sectors in their country. Most felt that the main trends applied across their own and most other sectors, but some felt that their sector was different. For instance, some felt that their sector had been especially badly hit by recession:

"Yes because of the economics of the industry. It's been hit pretty hard compared to most other sectors" (media, entertainment, culture, US)

"Of course yes. This crisis is only for [sector x] companies" (transport/travel, France)

The impact of regulation on the particular industry was also mentioned often:

"Yes because of the restraint caused by the laws on [this sector]" (consumer/packaged goods, France)

"Because of [product Y] marketing laws in France" (luxury/fashion products, France)

"Regulatory restrictions make it more difficult to promote our products than in more straightforward industry sectors" (consumer/packaged goods, US)

Some felt that their industry was more 'conservative' than others. There was not a great deal of agreement across industries about this, but some of the individual responses are interesting:

"Everyone else is obsessed with trying to make their companies seem younger" (luxury/fashion products, UK)

"I think most of the sectors favor direct communication (internet etc) and direct mailing. Not us" (transport/travel, France)

"Other sectors are not stifled by a lack of open competition. They can compete on the basis of innovation and differentiation" (utilities, US)

"We don't follow the fashion" (other, Japan)

In contrast, some US and UK businesses saw themselves as being from industries that were less conservative than the others:

"I reckon other sectors are more traditional in the way they advertise" (consumer/packaged goods, US)

"We are a bit more interactively oriented industry than the rest " (industrial products/systems, US)

"Yes because we're more customer focused " (media/entertainment/culture, UK)

Some respondents however took the view that the trends in their sector were common across industries, but there was no agreement as to what the trends would be:

"Yes there would be an increased use of direct marketing. People will try to measure the effect of their advertising spend and marketing budgets" (consumer/retail financial services, UK)

"Yes any form of productive business is going to the internet " (hotels/tourism/leisure, US)

"Yes the trend is static or slightly down because of world recession" (consumer durables, UK)

"Yes I suppose the competition is for all sectors so all sectors must use a lot of media advertising" (consumer/packaged goods, France)

10. Conclusions

The overall conclusion of this report is that marketing expenditure in the top five global markets is likely to be more-or-less static this year with a modest recovery in 2003. This conclusion is based on data collected in July/August 2002 but a follow-up call to 20% of the respondents in late October showed that their expectations had changed little up to that point.

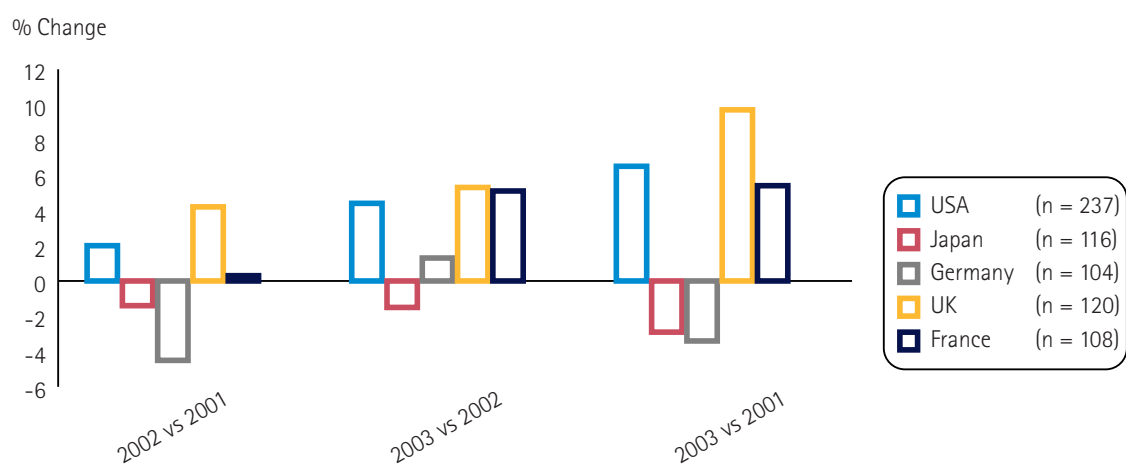
This conclusion is reinforced both by the "purchasing diffusion index" data (which ask whether firms plan to increase, decrease, or not change their expenditure level) and by the many qualitative comments collected. The overwhelming majority of reasons given for cutbacks suggest that they are a temporary response to current financial and market conditions.

Underneath the general pattern, there are large differences between countries. These were reported in Table 2.1 and Figure 2.1, reproduced here:

Table 10.1: Year-on-Year % Change in Total Expenditure (Current local currencies)

Country		2002 vs 2001	2003 vs 2002	2003 vs 2001
USA	(n = 237)	+ 2.0	+ 4.4	+ 6.5
Japan	(n = 116)	- 1.4	- 1.5	- 2.9
Germany	(n = 104)	- 4.5	+ 1.3	- 3.4
UK	(n = 120)	+ 4.2	+ 5.3	+ 9.7
France	(n = 108)	+ 0.3	+ 5.1	+ 5.4
Total	(n = 685)	+ 0.6	+ 3.3	+ 3.9

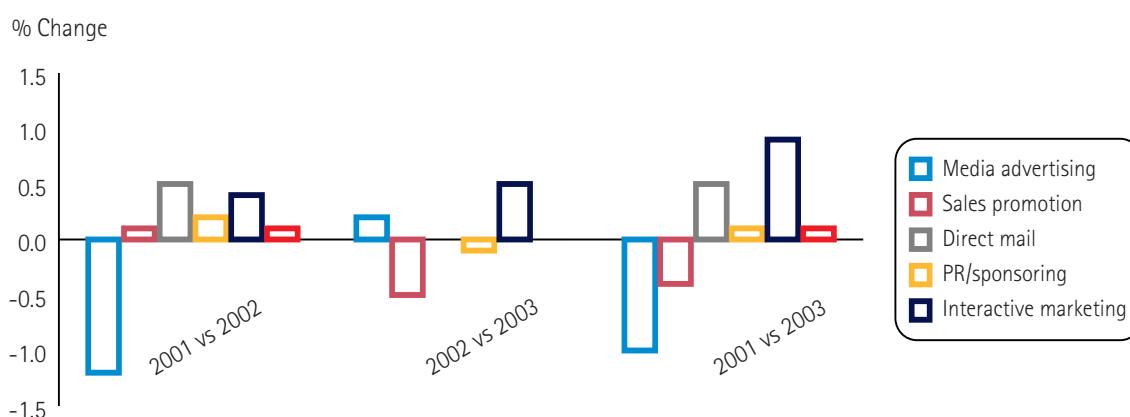
Fig 10.1: Year-on-Year % Change in Total Expenditure



In the UK, USA, and France, a static or growing market in 2002 is followed by clear growth in 2003, leaving these markets 5%-10% up over the two years (in current local currencies). In contrast, Germany is expected to be sharply down in 2002 with little if any recovery in 2003 and Japan is expected to decline slightly in both years.

Within these expenditures, we are also seeing shifts in the proportion of resources allocated to each main category of marketing activity (Figure 3.1, reproduced as Figure 10.2). The main winner is interactive marketing, increasing from 6.1% of total expenditure in 2001 to 7.0% in 2003. Direct mail is the other category gaining share (12.8% in 2001, 13.3% in 2003). The main loser is traditional media advertising (down from 45.4% to 44.4% over the two years), followed by sales promotion (19.8% down to 19.4%). The share of PR/sponsorship is roughly steady at around 12.8%.

Fig 10.2: Changes in % Allocation



In Sections 4-8 we combined the results for total expenditure and how it is allocated to show the implications for each of the five categories. The main results for the total market are summarized in Table 10.2 (based on the Total results in Tables 4.1, 5.1, 6.1, 7.1, and 8.1).

Table 10.2: Year-on-Year % Change in Expenditure, by Category (current local currencies)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	45.4	-2.0	+3.6	+1.6
Sales promotion	19.8	+0.8	+0.6	+1.4
Direct mail	12.8	+3.8	+3.5	+7.4
PR/sponsorship	12.7	+1.8	+2.2	+4.0
Interactive marketing	6.1	+6.6	+11.7	+19.1
Total (incl. other)	100%	+0.6	+3.3	+3.9

The qualitative comments make it clear that, unlike the cutbacks in total expenditure, the shifts in resource allocation towards interactive marketing and direct mail appear to be permanent.

This study is designed to provide depth and insight rather than as a quantitative forecast of the market next year. We believe, however, that the trends reported here are real in terms of overall market sentiment and the differences between the five countries and the five categories.

In addition, the report includes many more detailed results about particular combinations of country and category, about different types of product market and ownership, and about other specific topics (direct response advertising, sales promotion evaluation, direct mail outsourcing, whether the marketing function is represented at board level, and marketing metrics) together with qualitative comments from respondents giving the reasons behind the trends. We believe it paints a detailed and accurate picture of the state of the market in these top five countries in 3Q02.

The main trends for each country are brought together in Appendix A. Selected results for 15 specific industrial sectors are presented in Appendix B.

In Conclusion, the Top-Line Results of the Study are:

1. Total marketing expenditure for the five countries taken together is expected to be flat in 2002 (in current local currencies) with modest growth in 2003.
2. At an individual country level, the US, UK and France show moderate growth in 2002, increasing in 2003. Japan shows continuing, gradual decline. Marketing expenditure in Germany is projected to be sharply down in 2002 with little if any recovery in 2003.
3. Qualitative data suggest that changes in total marketing expenditure are largely driven by short-term factors, mainly market and economic conditions.
4. Within marketing budgets, there is a shift in resource allocation from media advertising and, to a lesser extent, sales promotion towards interactive marketing and direct mail.
5. Qualitative data on resource allocation suggest that this shift is driven by long-term factors and therefore likely to continue.

Appendix A: Trends in the Five Countries

We here bring together the results for the year-on-year % change in expenditure for each category, by country (current local currencies). These are extracted from the relevant tables in Sections 2-8.

Table A1: USA

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	42.9	-0.3	+5.3	+5.0
Sales promotion	19.4	+2.6	-0.8	+1.8
Direct mail	14.6	+4.8	+4.9	+9.9
PR/sponsorship	13.0	0	+2.3	+2.3
Interactive marketing	7.5	+11.3	+12.7	+25.3
Total (incl. other)	100%	+2.0	+4.4	+6.5

Table A2: Japan

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	50.8	-2.0	-2.1	-4.1
Sales promotion	18.3	-2.2	-3.4	-5.5
Direct mail	7.9	-2.4	-2.5	-4.8
PR/sponsorship	12.5	+2.0	-1.0	+1.0
Interactive marketing	7.2	-0.6	+7.4	+6.8
Total (incl. other)	100%	-1.4	-1.5	-2.9

Table A3: Germany

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	41.4	-10.4	+1.8	-8.8
Sales promotion	23.4	-4.0	+4.1	0
Direct mail	10.8	-1.1	-0.9	-2.0
PR/sponsorship	16.2	+6.1	-2.0	+4.0
Interactive marketing	6.4	-2.2	+1.5	-0.8
Total (incl. other)	100%	-4.5	+1.3	-3.4

Table A4: UK

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	51.3	-0.8	+4.8	+4.0
Sales promotion	13.0	+10.7	-0.1	+10.6
Direct mail	17.2	+13.3	+6.8	+21.0
PR/sponsorship	10.4	-6.0	+7.8	+1.3
Interactive marketing	4.4	+19.7	+23.3	+47.5
Total (incl. other)	100%	+4.2	+5.3	+9.7

Table A5: France

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	42.1	+0.3	+6.6	+7.0
Sales promotion	26.4	-2.3	+2.8	+0.5
Direct mail	12.0	-0.3	+5.7	+5.4
PR/sponsorship	11.6	+3.8	+5.0	+9.0
Interactive marketing	3.4	-2.3	+14.2	+11.6
Total (incl. other)	100%	+0.3	+5.1	+5.4

Appendix B: Industry Sector Trends

Table B1: Automotive (n = 45)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	50.8	-9.9	+10.8	-0.2
Sales promotion	18.1	+3.7	+8.7	+12.7
Direct mail	10.4	+10.9	+11.1	+23.2
PR/sponsorship	12.5	+20.0	-5.4	+13.5
Interactive marketing	5.0	+14.0	+14.8	+30.8
Total (incl. other)	100%	-0.1	+8.0	+7.9

Table B2: Business/Industrial services (n = 18)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	34.8	-7.8	-5.0	-21.9
Sales promotion	14.1	-6.6	-9.0	-15.1
Direct mail	19.6	-12.9	-0.2	-13.1
PR/sponsorship	18.9	-14.4	-5.9	-19.5
Interactive marketing	10	-0.7	-6.5	-7.1
Total (incl. other)	100%	-5.0	-5.0	-13.4

Table B3: Consumer electronics (n = 26)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	43.3	-22.1	+1.3	-21.1
Sales promotion	19.7	-16.7	+16.7	-2.8
Direct mail	8.7	-10.5	+0.3	-10.2
PR/sponsorship	17.0	+17.1	0	+17.1
Interactive marketing	7.4	-14.7	+5.0	-10.4
Total (incl. other)	100%	-12.4	+3.9	-9.0

Table B4: Consumer packaged goods (n = 87)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	48.9	+3.2	+7.6	+11.0
Sales promotion	31.6	+0.4	-0.9	-0.5
Direct mail	3.2	+11.9	+25.8	+40.8
PR/sponsorship	10.6	+5.5	+6.1	+12.0
Interactive marketing	4.0	+7.4	+13.8	+22.3
Total (incl. other)	100%	+3.0	+5.4	+8.6

Table B5: Consumer/retail financial services (n = 69)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	47.4	-2.3	+7.1	+4.6
Sales promotion	13.7	+2.3	+5.9	+8.3
Direct mail	15.7	+10.4	+8.2	+19.5
PR/sponsorship	9.9	+9.5	+1.7	+11.4
Interactive marketing	7.0	-0.5	+15.9	+15.4
Total (incl. other)	100%	+3.0	+7.3	9.5

Table B6: Hotels/tourism/leisure (n = 35)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	50.0	+4.2	+1.1	+5.3
Sales promotion	16.7	+1.7	+6.2	+8.1
Direct mail	14.0	+7.5	+4.9	+12.8
PR/sponsorship	9.9	-2.0	+3.4	+1.4
Interactive marketing	7.0	+6.2	+14.4	+21.5
Total (incl. other)	100%	+3.7	+3.7	+7.5

Table B7: Luxury/fashion products (n = 32)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	41.1	+9.9	+2.9	+13.1
Sales promotion	21.4	+13.4	+0.5	+14.0
Direct mail	11.0	+6.3	-1.9	+4.2
PR/sponsorship	21.1	+7.9	-0.7	+7.2
Interactive marketing	3.7	+23.5	+16.4	+43.8
Total (incl. other)	100%	+10.3	+1.7	+12.2

Table B8: Media entertainment/culture (n = 65)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	52.1	-2.8	-0.8	-3.6
Sales promotion	14.2	+4.8	-2.6	+2.2
Direct mail	17.6	+0.4	-1.1	-0.7
PR/sponsorship	10.4	+0.4	-1.7	-1.3
Interactive marketing	5.7	+6.1	+19.3	+26.7
Total (incl. other)	100%	-0.3	0.0	-0.3

Table B9: OTC pharmaceuticals (n = 21)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	39.3	-1.6	-5.7	-7.2
Sales promotion	31.6	-0.5	-7.1	-7.6
Direct mail	5.9	-6.0	-10.0	-15.4
PR/sponsorship	13.0	-3.8	-4.3	-7.9
Interactive marketing	3.4	-6.1	+0.8	-5.3
Total (incl. other)	100%	-2.0	-0.6	-7.9

Table B10: Other consumer durables (n = 31)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	41.3	-9.7	+11.3	+0.5
Sales promotion	21.8	+2.7	-2.6	+0.1
Direct mail	12.2	+4.9	+1.9	+6.9
PR/sponsorship	10.7	-8.6	+24.4	+13.7
Interactive marketing	5.5	-1.0	+17.3	+16.1
Total (incl. other)	100%	-3.3	+6.3	2.8

Table B11: Other electronic products/systems (n = 25)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	38.6	+8.9	-3.8	+4.7
Sales promotion	26.7	-3.9	+7.6	+3.4
Direct mail	9.9	-1.6	+12.7	+10.8
PR/sponsorship	14.7	+7.6	+0.9	+8.6
Interactive marketing	8.3	+18.9	+13.6	+35.0
Total (incl. other)	100%	+4.7	+11.2	+16.5

Table B12: Other industrial products/systems (n = 37)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	30.4	+1.2	+0.1	+1.3
Sales promotion	24.8	+4.0	-4.6	-0.8
Direct mail	10.9	+6.0	-0.3	+5.7
PR/sponsorship	20.8	-8.0	+9.7	+0.9
Interactive marketing	9.7	-1.0	+8.9	+7.8
Total (incl. other)	100%	+2.7	+0.2	+2.9

Table B13 : Retail/mail order (n = 51)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	47.2	-17.5	+17.8	-11.1
Sales promotion	13.4	+12.6	-9.0	+2.5
Direct mail	24.6	+5.5	-2.6	+2.8
PR/sponsorship	6.5	-4.5	-8.7	-12.9
Interactive marketing	4.0	+18.1	+3.9	+22.8
Total (incl. other)	100%	+3.9	-2.0	-1.9

Table B14: Telecoms products/services (n = 17)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	37.7	-17.5	+7.8	-11.1
Sales promotion	16.1	-21.4	+2.8	-19.2
Direct mail	14.2	-13.4	+6.9	-7.4
PR/sponsorship	18.9	-19.4	+6.9	-13.8
Interactive marketing	11.8	-10.6	+9.4	-2.2
Total (incl. other)	100%	-16.8	+6.9	-11.1

Table B15: Travel/transport (n = 21)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	49.8	-2.6	-0.1	-2.7
Sales promotion	17.5	-1.5	+0.9	-0.6
Direct mail	18.9	-2.1	-4.1	-6.2
PR/sponsorship	7.3	-15.5	+21.5	+2.6
Interactive marketing	6.4	+4.4	+23.4	+28.8
Total (incl. other)	100%	-2.8	+2.2	-0.6

Table B16: Other (including utilities) (n = 65)

Category	2001 % of total	2002 vs 2001	2003 vs 2002	2003 vs 2001
Media advertising	45.4	-2.2	+1.1	-1.1
Sales promotion	16.8	-2.6	+2.4	-0.3
Direct mail	10.0	+3.8	+1.6	+5.4
PR/sponsorship	14.3	+2.9	-2.6	+0.2
Interactive marketing	7.0	+16.6	+8.6	+26.7
Total (incl. other)	100%	-0.7	+2.1	+1.3

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Patrick Barwise is Professor of Management and Marketing and Chairman of the Future Media Research Programme at London Business School. He joined LBS in 1976 having spent his early career with IBM. His many publications include books on *Television and its Audience*, *Accounting for Brands*, *Strategic Decisions*, *Predictions: Media* (www.predictionsmedia.com), and *Advertising in a Recession*; a Harvard Business Review article *Must Finance and Strategy Clash?*; and numerous academic papers and practitioner articles, mostly on brands, consumer/audience behavior, and new media. Most of his current research is about consumer response to digital technology and the implications for consumer marketing. Publications in this area include reports, articles, and book chapters on *Permission-Based Mobile Advertising; Marketing and the Internet* (www.marketingandtheinternet.com); *TV, PC or Mobile?: Future Media for Consumer e-Commerce*; *Business.eu: Corporates vs Web Start-ups*; and *Consumer Responses to iDTV*. Patrick Barwise also writes an occasional column for *FT Creative Business* on marketing, new media, and broadcasting policy.



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London Business School, Havas, and Kudos Research

London Business School (www.london.edu)

Founded in 1965, London Business School is the University of London's graduate school of business and management, based in Regent's Park in central London. Its mission is to generate important new ideas, knowledge and skills that will transform management practice; to create and execute learning opportunities for current and future leaders and managers that will transform their futures; and to communicate its intellectual capital worldwide. It has 93 full-time faculty from 23 countries, 70% from outside the UK. 81 nationalities are represented on the 2002 intake of full-time MBAs and the School has more than 15,000 alumni in more than 100 countries. The School's location in London, a global capital of business, finance, media, technology and culture, is a unique asset in the realization of its mission.

Havas (www.havas.com)

Havas (Euronext Paris: HAV.PA; Nasdaq: HAVS) is the world's sixth largest communications group*. Headquartered in Paris, Havas has three principal operating divisions: Euro RSCG Worldwide which is headquartered in New York, Arnold Worldwide Partners in Boston, and Media Planning Group in Barcelona. A multicultural and decentralized group, Havas is present in over 65 countries through its networks of agencies located in more than 45 countries and contractual affiliations with agencies in over 20 additional countries. The Group offers a broad range of communications services, including traditional advertising, direct marketing, media planning and buying, corporate communications, sales promotion, design, human resources, sports marketing, multimedia interactive communications and public relations. Havas employs approximately 18,700 people.

* Advertising Age Annual Agency Report ranking, April 22, 2002

Kudos Research (www.kudosresearch.com)

Kudos Research is one of the world's leading international business data collection and analysis agencies. Interviewing around the world from the heart of London, Kudos is the invisible power feeding data to research organizations, management consultancies and multinational institutions and corporations. Clients include Research International, Accenture, ABN AMRO and Xerox. In business to business research, Kudos sets the standard for innovative solutions to data capture covering every language and every continent.



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