

The MET Report 2003

Marketing Expenditure Trends 2001-04
December 2003

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This report can be accessed at www.london.edu/marketing/met

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About this Report

This MET Report is the second in a series of studies on global marketing expenditure trends. The current (2003) study explores actual and planned marketing expenditure in the top five national markets (USA, Japan, Germany, UK, France) plus China and Brazil. The MET Report covers expenditure trends for advertising, sales promotion, brand PR/sponsorship, direct mail, and interactive marketing over the period 2001 to 2004.

The study was sponsored 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 data, telephone interviews with 908 chief marketing officers, were collected by Kudos Research in July-September 2003. 20% of respondents were recontacted in late October 2003 to check that their responses had not changed significantly. Both Kudos and LBS are wholly independent of Havas.

This report can be accessed at <http://www.london.edu/marketing/met>.

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Top-Line Results

1. The study covers seven countries (USA, Japan, Germany, UK, France, China, and Brazil) accounting for about 70% of global marketing expenditure. Total marketing expenditure for the seven countries taken together is expected to show minimal growth in 2003 (1.1% in current local currencies) with stronger growth in 2004 (3.4%). The cutbacks in expenditure seen in recent years reflect short-term market and economic conditions. As conditions improve, marketing budgets will grow again.
2. China shows very strong growth, followed by the USA and UK. The dramatic growth in China is expected to continue as a result of its rapid economic development and huge long-term market potential. Both Japan and France show a small decline in 2003 followed by a flat expectation in Japan for 2004 and moderate growth in France. Germany displays minimal growth over the two-year period. Whilst significant nominal growth is expected for Brazil in 2004, inflation may well account for much of this growth.
3. Companies in all sectors are investing heavily in interactive marketing. Only Japan and France appear to be lagging somewhat in this area. Interactive already accounts for 10% of total marketing expenditure in business-to-business (B2B) firms and 6% in business-to-consumer (B2C) firms. Online promotions/incentives and permission-based email are areas of particularly fast growth, but firms are also investing to improve the sophistication of their websites (password-protected 'extranets', search-engine optimization, online sales) and web advertising (eg sponsored searches).
4. For Western advertising and marketing services agencies, their limited exposure to the stagnant Japanese market is a benefit: excluding Japan adds about one percentage point to the projected growth of total marketing expenditure in both 2003 (2.0% vs 1.1% if Japan is included) and 2004 (4.4% vs 3.4%). However, the long-term trend towards direct marketing, especially interactive, poses a strategic challenge for these groups because it involves new skills and many of the activities tend to be managed in-house.

Executive Summary

The MET (Marketing Expenditure Trends) Report 2003 explores actual and planned expenditure by large and mid-sized businesses in the top five national markets (USA, Japan, Germany, UK, France) and two important emerging markets, China and Brazil. Taken together, these seven countries account for about 70% of global marketing expenditure. The 2003 survey covers actual and planned expenditure for the three years 2002-04 on:

- media advertising (print, broadcast, outdoor, cinema)
- sales promotion
- brand PR and sponsorship
- direct mail
- interactive marketing

The report also draws on the results of our 2002 study of the top five countries ('MET 2002', also available at www.london.edu/marketing/met), enabling us to present trends for these countries (but not China and Brazil) for 2001-04.

The study was sponsored by Havas and directed by Professor Patrick Barwise at London Business School in collaboration with Alan Styler (EHS Brann).

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 - September 2003. A follow-up call to 20% of respondents in late October 2003 showed little change in companies' expectations. The target population was defined as businesses spending at least a \$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, telephone marketing, and market research.

Usable responses were obtained from 908 businesses out of 2,566 contacted, a response rate of 35.4% ($\frac{\text{usable responses}}{\text{refusals} + \text{usable responses}}$), split as follows:
USA 252, Japan 121, Germany 120, UK 121, France 122, China 87, Brazil 85.

The interview covered the following items: business demographics (industry sector, local/multinational, revenue range, marketing expenditure range); total marketing expenditure trends (2003 vs 2002, 2004 vs 2003); allocation of expenditure across the five categories (2002, 2003, 2004); percent of media advertising budget allocated to the four main media types (print, TV, radio, outdoor); specific current and planned interactive marketing activities; open-ended qualitative questions about the reasons behind any changes in resource allocation.

Report Structure

The aims and method are described more fully in Section 1 of the report. Section 2 discusses the trends for total marketing expenditure, while Section 3 reports how this is allocated across the five types of marketing activity in each of the three years 2002-04. Sections 4-8 then explore the implied expenditure trends for media advertising, sales promotion, brand PR and sponsorship, direct mail, and interactive marketing. Section 4 also includes results for the allocation of media advertising spend across the four main media types (print, TV, radio, outdoor) while Section 8 includes findings on companies' use of specific interactive marketing techniques such as websites, web advertising, permission-based email and online promotions/incentives. Finally, Section 9 summarizes the results and discusses the implications for the agency business. Appendices A to C document the detailed results for (a) the % allocations of marketing spend across the five activities, (b) the trends for each country, and (c) the trends for each of 15 industry sectors.

A distinctive feature of the report is that it includes extensive qualitative data on the reasons businesses gave for any significant changes in their marketing spend and the way it is allocated.

Total Marketing Expenditure

Marketing expenditure in the seven countries is likely to show minimal growth this year (a weighted average of just 1.1% in current local currencies) with a significant recovery in 2004 (3.4%). This conclusion is reinforced by qualitative comments which show that respondents are significantly more optimistic about economic and market conditions for 2004 than for 2003. The budget cuts and difficult trading environment of 2002 and 2003

can, therefore, be viewed as a short-term dip with a return to growth, albeit slow, expected by a majority of respondents.

Within the overall picture there are large differences between countries (Table 1 and Figure 1). The UK and the USA show moderate growth this year with healthy growth predicted for 2004, up by 7% and 9% respectively over the 2-year period 2002-04 (9% and 14% for 2001-04). Germany and France are expected to remain fairly flat, while Japan continues in slow decline this year with a limited recovery in 2004. Of the two countries surveyed for the first time, China is growing strongly in both 2003 and 2004 as it continues its rapid economic development. The analysis for Brazil shows a flat 2003 and return to growth in 2004. Brazil is experiencing high inflation and a somewhat volatile economy, however, so the projections should be viewed with caution.

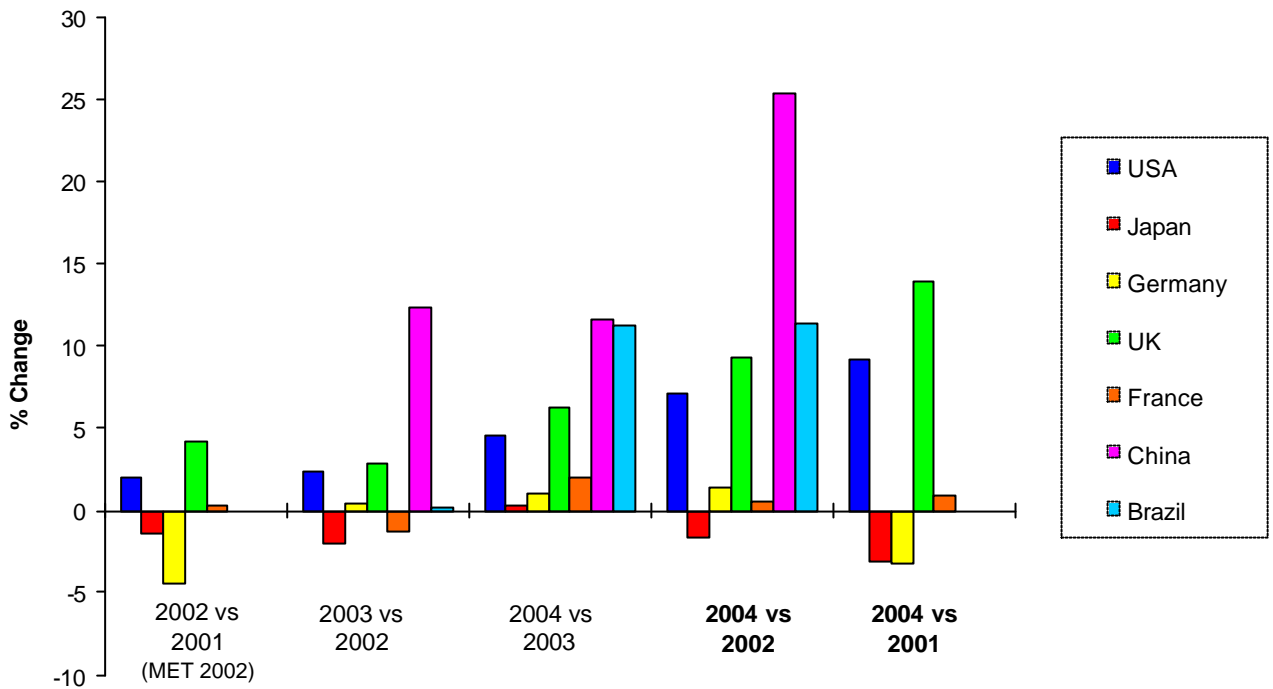
Table 1: % Change in Total Expenditure (Current local currencies)

| Country | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|----------------|--------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------------|--------------------------------------|
| | | % | % | % | % | % |
| USA | (n=251) | 2.0 | 2.3 | 4.6 | 7.1 | 9.2 |
| Japan | (n=115) | -1.4 | -2.0 | 0.3 | -1.7 | -3.1 |
| Germany | (n=113) | -4.5 | 0.4 | 1.0 | 1.4 | -3.2 |
| UK | (n=120) | 4.2 | 2.9 | 6.3 | 9.3 | 13.9 |
| France | (n=120) | 0.3 | -1.3 | 2.0 | 0.6 | 0.9 |
| Total | (n=719) | 0.6* | 0.8 | 3.1 | 3.9 | 4.5† |
| China | (n=85) | | 12.3 | 11.6 | 25.4 | |
| Brazil | (n=83) | | 0.2 | 11.2 | 11.4 | |
| Total | (n=887) | | 1.1 | 3.4 | 4.5 | |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Figure 1: % Change in Total Expenditure (Current local currencies)

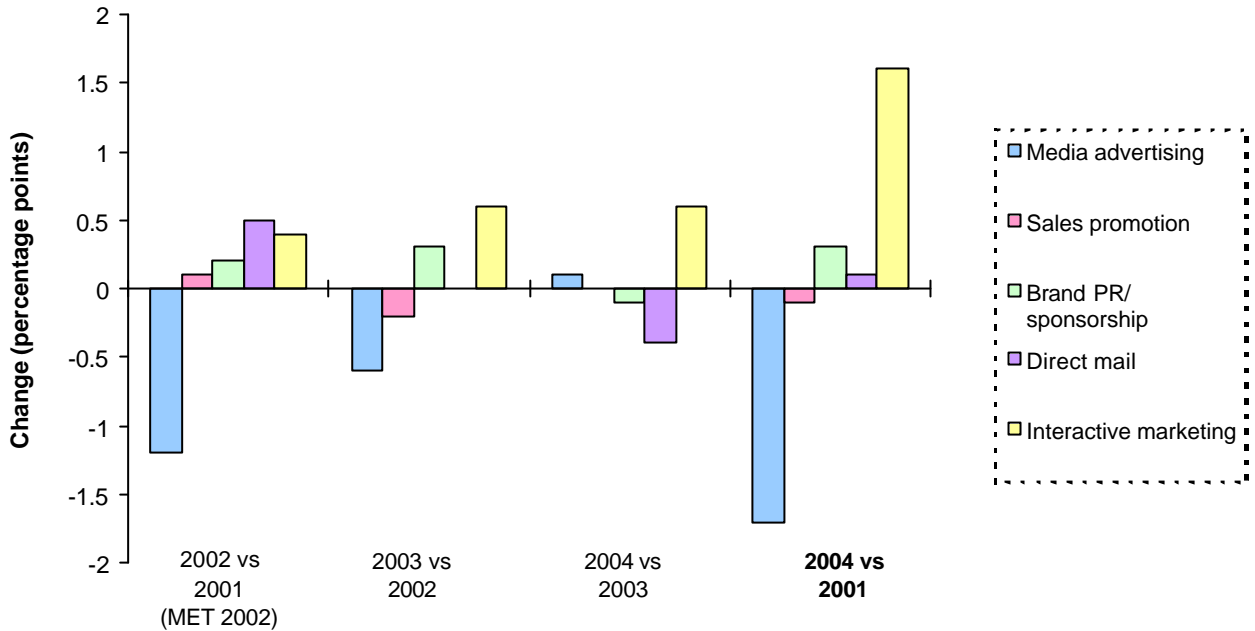


% of Total Expenditure Allocated to Each Category

Section 3 reports how this total expenditure is allocated across the five main marketing activities. Business-to-business (B2B) firms spend less than business-to-consumer (B2C) firms on media advertising (30% vs 50% of total marketing expenditure) and more on brand PR/sponsorship (23% vs 10%) and interactive marketing (10% vs 6%).

These % allocations are changing over time, as shown in Figure 2 for the five top countries 2001-04. The main trends are the decrease in the percentage of marketing spend allocated to media advertising (- 1.7% of total marketing expenditure) and the almost equal increase in the percentage allocated to interactive marketing (+ 1.6%).

Figure 2: Changes in % Allocation 2001-04: Top Five Countries
 (% of total marketing expenditure)



Trends in the Five Marketing Activities

In Sections 4-8 we combine the results for total marketing expenditure with those for how it is allocated to show the implications for the five expenditure categories.¹ The main results for the total market are summarized in Table 2.

Media advertising is projected to fall slightly this year but return to growth in 2004. For the top five countries, however, next year's growth will bring traditional media advertising back to a level only marginally (0.7%) above its level in 2001 in current local currencies.

Sales promotion, accounting for about 20% of total marketing expenditure, is projected to increase slightly this year and more in 2004. Brand PR/sponsorship will continue its fairly steady growth (cumulating to 6.8% for 2001-04 in the top five markets). In contrast, minimal growth is projected for direct mail in 2003 and 2004, although this slowdown

¹The trends for each country are brought together in Appendix B. Results for 15 industrial sectors are presented in Appendix C.

Table 2: % Change in Expenditure 2001-04 (Current local currencies)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|--------------------------------|--------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Media advertising | 40.5 | -2.0 | -0.2 | 3.6 | 3.4 | 0.7 |
| Sales promotion | 20.5 | 0.8 | 0.4 | 3.2 | 3.6 | 3.5 |
| Brand PR/sponsorship | 15.4 | 1.8 | 3.0 | 2.1 | 5.1 | 6.8 |
| Direct mail | 14.0 | 3.8 | 0.4 | 0.5 | 0.9 | 4.6 |
| Interactive marketing | 7.7 | 6.6 | 9.3 | 11.6 | 22.0 | 29.8 |
| Total (incl. Other) | 100% | 0.6* | 1.1 | 3.4 | 4.5 | 4.5† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

follows healthy growth in 2002 (3.8% in the top five markets) leading to a cumulative 4.6% for 2001-04.

It is too early to tell if the slowdown projected for direct mail is long-term. The low growth for 2004 (0.5%) includes a large drop projected for Japan (-11.9%) which seems unlikely to recur so severely. But there are signs that direct mail may at last be starting to lose share to interactive marketing, especially permission-based email. This has been predicted for many years, but up to this point, direct mail expenditure has kept on growing.

The Rise and Rise of Interactive Marketing

The fastest growing category (9.3% in 2003 and 11.6% in 2004) is interactive. The growth is particularly strong in the UK where the trend for 2001-04 shows over 70% cumulative growth in just three years. Strong growth is also seen in the US, with interactive marketing increasing by 13% in 2003 and 15% in 2004. China, too, is experiencing fast growth in interactive marketing, showing that the trend is not confined to the more developed markets. Japan and France lag behind this global trend.

Qualitative responses show that companies are at varying degrees of development in their use of interactive marketing but that the growth is being driven by the perception that it

is fast, adaptable, controllable, measurable and in many contexts low-cost compared to other marketing activities. The growth in interactive marketing is happening in all sectors (see Appendix C for details).

Section 8.3 explores interactive marketing in more detail. Online promotions/incentives and permission-based email are areas of particularly fast growth, but firms are also investing to increase the sophistication of their websites (password-protected 'extranets', search-engine optimization, online sales) and web advertising, including sponsored searches. Some business-to-consumer (B2C) firms are also increasing their use of SMS text messaging (both for 'push' and as a direct-response channel for other media) and a few are testing interactive digital TV.

Implications for the Agency Business

This MET Report is intended to provide insight into marketing expenditure trends for businesses in the top five countries and in two important emerging markets. Its aim is diagnostic – to document not only the trends but also the reasons underlying these trends. It is not primarily a quantitative forecast, and especially not a forecast of the market for advertising and marketing services. For instance, only a small proportion (10%-15%) of companies' expenditure on advertising is revenue for advertising and media agencies. At least 70% goes to the media, the rest to production costs.

Also, the study includes Japan, with easily the second biggest economy in the world at market exchange rates (and weighted accordingly in this report). But Western agency groups have little involvement in Japan, which is dominated by Dentsu and other local agencies and has proved hard for foreign agencies to penetrate. Anyone wishing to use the MET Report to throw light on the agency business should therefore focus on the broad trends, rather than the detailed numbers, and the qualitative data on why clients are changing their marketing resource allocation. They may also find it helpful to consider how different the numbers are if Japan is excluded. This is explored in Section 9.2. Table 3 shows the impact on the estimates of total expenditure growth.

Table 3: % Change in Total Expenditure - Including vs Excluding Japan**(Current local currencies)**

| Countries | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|--------------------------------|-------------|------------------|-----------------|-----------------|----------------|-----------------|
| | | % | % | % | % | % |
| All | (n=894) | 0.6* | 1.1 | 3.4 | 4.5 | 4.5 |
| All Excluding Japan | (n=779) | 1.0* | 2.0 | 4.4 | 6.5 | 6.9 |
| Difference | | 0.4* | 0.9 | 1.0 | 2.0 | 2.4† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

If Japan is excluded, the growth of the total market is increased by almost half a percentage point for the other four top countries (USA, Germany, UK, France) for 2001-02 and almost a full percentage point for the six countries (ie including China and Brazil) in 2002-03 and 2003-04. These are significant differences and are likely to continue until the Japanese economy gets back into a pattern of sustainable growth.

Table 4 breaks down the projected growth, excluding Japan, into media advertising and marketing services, as well as showing the split between direct marketing (direct mail and interactive marketing) and other marketing services (sales promotion and brand PR/sponsorship).

The main pattern is that marketing services are growing faster than media advertising. For the six countries (excluding Japan) in the MET 2003 data, expenditure on marketing services is projected to grow by 7.9% 2002-04 versus 4.9% for media advertising. For the four countries also studied in MET 2002 (USA, Germany, UK, France), the projected growth for 2001-04 is 11.2% for marketing services versus only 2.1% for media advertising. The table also shows that most of the extra growth in marketing services is in direct marketing.

Table 4: % Change in Expenditure Excluding Japan: Advertising vs Marketing Services (Current local currencies)

| Category | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|---------------------------------------|--------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------------|--------------------------------------|
| Media advertising | (n=779) | -2.1 | 0.7 | 4.2 | 4.9 | 2.1 |
| Direct marketing ² | (n=779) | 6.2 | 5.1 | 6.9 | 12.4 | 18.5 |
| Other marketing services ³ | (n=779) | 1.4 | 1.9 | 3.1 | 5.0 | 5.7 |
| Total marketing services ⁴ | (n=779) | 3.8 | 3.2 | 4.6 | 7.9 | 11.2 |
| Total | (n=779) | 1.0* | 2.0 | 4.4 | 6.5 | 6.9† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Our expectation is that direct, especially interactive, marketing will continue to grow at the expense of traditional media advertising, sales promotion and brand PR/sponsorship for the foreseeable future. When the economy slows down, sales promotion may grow a little faster. When the economy grows faster (as, we project, in 2004), advertising and brand PR/sponsorship may recapture some of their lost share of expenditure. But the long-term trend towards direct, especially interactive, marketing seems to us to be inexorable. The challenge for the agencies is to adapt to this evolving market, and especially to provide value-added services which will persuade companies to continue outsourcing key parts of their marketing and communication activity.

² Direct mail and interactive marketing

³ Sales promotion and brand PR/sponsorship

⁴ Sales promotion, brand PR/sponsorship, direct mail and interactive marketing

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

1. Total marketing expenditure for the seven countries taken together is expected to show minimal growth in 2003 (1.1% in current local currencies) with stronger growth in 2004 (3.4%). The cutbacks in expenditure seen in recent years reflect short-term market and economic conditions. As conditions improve, marketing budgets will grow again.
2. China shows very strong growth, followed by the USA and UK. The dramatic growth in China is expected to continue as a result of its rapid economic development and huge long-term market potential. Both Japan and France show a small decline in 2003 followed by a flat expectation in Japan for 2004 and moderate growth in France. Germany displays minimal growth over the two-year period. Whilst significant nominal growth is expected for Brazil in 2004, inflation may well account for much of this growth.
3. Companies in all sectors are investing heavily in interactive marketing. Only Japan and France appear to be lagging somewhat in this area. Interactive already accounts for 10% of total marketing expenditure in business-to-business (B2B) firms and 6% in business-to-consumer (B2C) firms. Online promotions/incentives and permission-based email are areas of particularly fast growth, but firms are also investing to improve the sophistication of their websites (password-protected 'extranets', search-engine optimization, online sales and web advertising (eg sponsored searches).
4. For Western advertising and marketing services agencies, their limited exposure to the stagnant Japanese market is a benefit: excluding Japan adds about one percentage point to the projected growth of total marketing expenditure in both 2003 and 2004. However, the long-term trend towards direct marketing, especially interactive, poses a strategic challenge for these groups.

1. Aims and Method

The study was sponsored 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 data were collected by Kudos Research. The quantitative data were analyzed by Virginia Beal at LBS, supported by Andy Lepki (Kudos). The qualitative data were analyzed by Susan Dean (LBS). Both Kudos and London Business School are wholly independent of Havas.

Aims

The aim of the study is to provide insight into how much and why businesses are allocating resources to marketing as a whole and to specific marketing activities. It covers both the trends and the reasons behind them, by reporting the thinking underlying individual businesses' changes in resource allocation. It is not designed as a quantitative forecast, but it is based on a large sample and the numbers can be taken as a broad indicator of the numerical trends, both overall and for specific countries and activities.

The MET Report aims to complement other annual and quarterly series on marketing expenditure trends. These publications are typically based on confidential client data or simple quarterly surveys of whether budgets are increasing, decreasing or steady. In contrast, the MET Report uses independent market research based on a statistically representative sample to uncover the trends. In addition it explores these trends in more depth than most other studies. Specifically it:

- Covers all of the main marketing/communication expenditure areas, not just advertising
- Analyzes the results by country, sector, and company size and characteristics, where relevant
- Includes extensive qualitative data to give insight into the thinking behind the numbers and to help distinguish between long- and short-term trends.

This year's report also includes more detailed data on interactive marketing activities and trends (see Section 8.3).

Method

The data were collected using structured telephone interviews. The target population was defined as businesses spending at least \$1million (Euro 1million) last year on marketing within the particular country⁵. Sampling lists used were primarily based on leading national advertisers.

Interviews were conducted with 908 chief marketing officers (eg Marketing Director, VP Marketing) during July-September 2003. Usable responses were obtained from 908 businesses out of 2566 contacted, a response rate of 35.4% ($[\text{usable responses}]/[\text{refusals} + \text{usable responses}]$), split as follows:

| | |
|--------------|------------|
| USA | 252 |
| Japan | 121 |
| Germany | 120 |
| UK | 121 |
| France | 122 |
| China | 87 |
| Brazil | 85 |
| Total | 908 |

To check on the potential impact of market shifts after the main survey, 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 these shifts has been limited. We therefore believe that the results would not have changed materially if the data had been collected in late October 2003.

The interview covered the following items:

- Business demographics (industry sector, local/multinational, revenue range, marketing expenditure range)
- Total marketing expenditure trends (2003 vs 2002, 2004 vs 2003)
- Allocations of expenditure across the five categories (2002, 2003, 2004)

⁵ Note that this excludes marketing expenditure by governments, political parties and other not-for-profit organizations. Also “marketing expenditure” excludes in-house staff costs, equipment, overheads, telephone marketing, and market research.

- % of media advertising budget allocated to the four main media types (print, TV, radio, outdoor)
- Specific current and planned interactive marketing activities

The quantitative results within each country were weighted to reflect the importance of larger companies (relative to their sample sizes) using the following company-size weights:

| <u>Spend Range (US\$ or Euro)</u> | <u>Weighting</u> |
|-----------------------------------|------------------|
| 1m – 2m | 1.0 |
| 2m – 5m | 1.25 |
| 5m – 10m | 1.5 |
| 10m – 20m | 1.75 |
| 20m – 30m | 2.0 |
| 30m – 50m | 2.25 |
| 50m plus | 2.5 |

For the total (5- or 7-country) market estimates, the results for individual countries were also weighted to reflect the importance of the larger countries relative to their sample sizes, using the following country weights:

| <u>Country</u> | <u>Weighting</u> |
|----------------|------------------|
| USA | 1.00 |
| Japan | 1.10 |
| Germany | 0.55 |
| UK | 0.40 |
| France | 0.30 |
| China | 0.15 |
| Brazil | 0.15 |

Changes in companies' total marketing expenditure were explored using both categorical and quantitative measures. The categorical measure asked whether expenditure was expected to increase, decrease or stay unchanged year-on-year. This enabled us to compute a standard purchasing "Diffusion Index" on a 0-to-100 scale, where 50 represents no net change (see Section 2). The quantitative measures asked respondents to refine their responses, expressing them as a percentage increase or decrease. The expenditure data were all collected in current local currencies (USD, Yen, euro, GBP, yuan, real).

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

In addition, results from the 2002 MET Report were used to report the 2002 vs 2001 changes and to calculate the 2004 vs 2001 changes for the five top markets. The same methodology was used for both the 2002 and 2003 MET Reports.

2. Total Marketing Expenditure

2.1 Total expenditure 2001-04

Table 2.1 and Figure 2.1 give the average % changes in total marketing expenditure for the seven countries for 2002-04. Also included are the % changes 2001-02 for the top five countries, taken from the MET 2002 study (the left-hand column) and the % changes 2001-04 for these five countries (the right-hand column).¹

Table 2.1: % Change in Total Marketing Expenditure (Current local currencies)

| Country | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|--------------|----------------|------------------|-----------------|-----------------|----------------|-----------------|
| | | % | % | % | % | % |
| USA | (n=251) | 2.0 | 2.3 | 4.6 | 7.1 | 9.2 |
| Japan | (n=115) | -1.4 | -2.0 | 0.3 | -1.7 | -3.1 |
| Germany | (n=113) | -4.5 | 0.4 | 1.0 | 1.4 | -3.2 |
| UK | (n=120) | 4.2 | 2.9 | 6.3 | 9.3 | 13.9 |
| France | (n=120) | 0.3 | -1.3 | 2.0 | 0.6 | 0.9 |
| Total | (n=719) | 0.6* | 0.8 | 3.1 | 3.9 | 4.5† |
| China | (n=85) | | 12.3 | 11.6 | 25.4 | |
| Brazil | (n=83) | | 0.2 | 11.2 | 11.4 | |
| Total | (n=887) | | 1.1 | 3.4 | 4.5 | |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

¹ For instance, we estimate the growth in US marketing expenditure as 2.0% for 2001-02 (from MET 2002), 2.3% for 2002-03 (from this year's study) and 4.6% for 2003-04 (also from this year's study). Cumulating these, we estimate growth of 7.1% for 2002-04 and 9.2% for 2001-04.

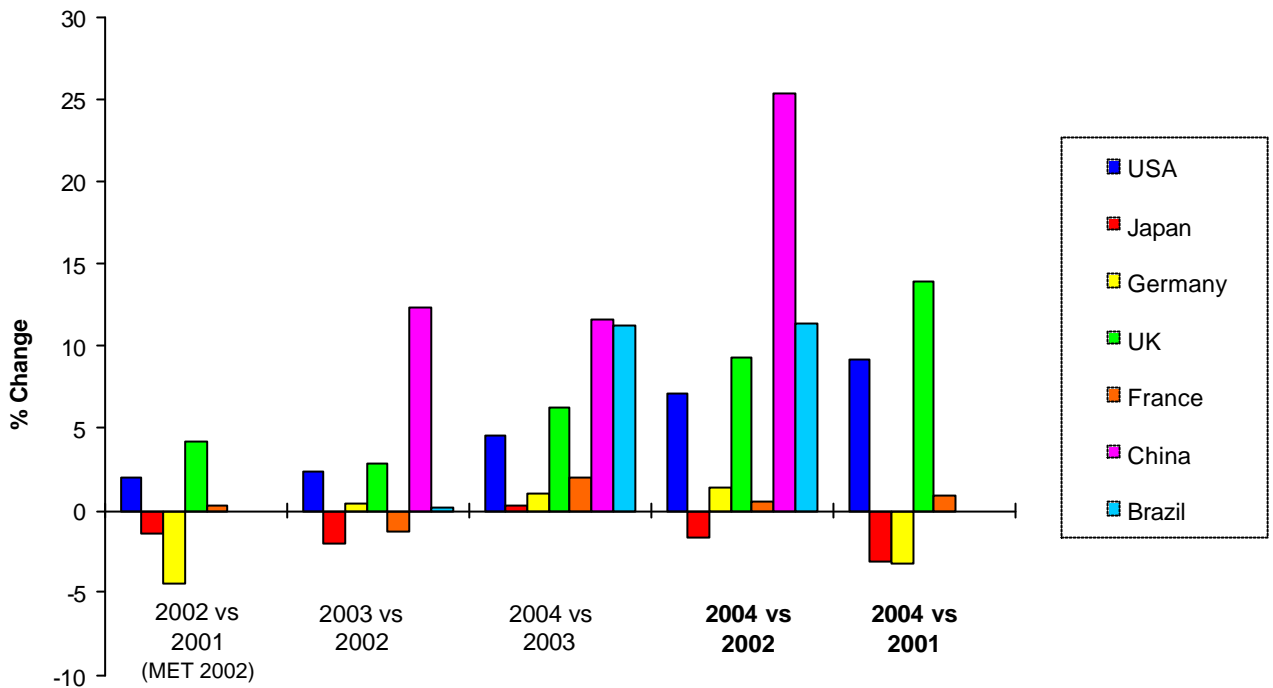
The overall picture for 2003 is one of minimal growth in total marketing expenditure (a weighted average of +1.1% in current local currencies). China is growing strongly, while the USA and UK are both experiencing moderate growth. These are offset by stagnant or declining markets in Japan, Germany, France, and Brazil.

The picture for 2004 is more positive, with continuing rapid growth in China, accelerating growth in the USA and UK, and improved markets in the other four countries, although Japan and Germany are expected still to be sluggish. Most of the 11.2% growth projected for Brazil reflects general inflation.²

Table 2.1 and Figure 2.1 also show the cumulative results for 2002-04 for all seven countries and 2001-04 for the five countries surveyed in both 2002 and 2003. These results reinforce the pattern of very fast growth in China, significant growth in the USA and UK, little if any net growth in France, and moderately shrinking markets in Japan and Germany. After allowing for inflation, Brazil shows some decline in 2003 followed by some likely growth in 2004, but with high volatility and inflation.

² Currently 14% p.a. but falling; some of the Brazilian responses may understate year-on-year changes in expenditure in current Real. Inflation is low (1.5% - 2.0% p.a.) in the USA, Germany, UK, France, and China. Japan is experiencing moderate deflation around - 0.5% p.a., ie in constant Yen, the figures for Japan would be about 0.5% better than in Table 2.1 and Figure 2.1

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



Purchasing “Diffusion Index”

These results are supported by the responses to the robust but less precise purchasing “Diffusion Index” questions, which asked whether total expenditure is expected to increase, decrease or not change year-on-year. The index, widely used in tracking studies of business-to-business (B2B) markets, is calculated as 1.0 times (% saying ‘increase’) plus 0.5 times (% saying ‘no change’). An index of 50 represents a stationary market, with an equal number saying ‘increase’ and ‘decrease’.

Table 2.2 shows the results, which confirm that there will be little overall growth this year (an index of 53) driven by China (71), USA (60) and UK (60). The index for Japan is the unusually low figure of 36. The results for 2004 show clear improvement in all the countries except Germany, which actually decreases from 45 to 40. There is no simple quantitative relationship between changes in the diffusion index and in expenditure, but the results here are very consistent.

Table 2.2: Purchasing “Diffusion Index”

| Country | | 2002 - 2003 | | | 2003 - 2004 | | | Diffusion Index ³ | | |
|--------------|----------------|-------------|-----------|-----------|-------------|-----------|-----------|------------------------------|-----------|------------|
| | | Decr | N/C | Incr | Decr | N/C | Incr | 02/03 | 03/04 | Diff |
| | | % | % | % | % | % | % | | | |
| USA | (n=252) | 17 | 45 | 37 | 6 | 48 | 47 | 60 | 70 | +10 |
| Japan | (n=121) | 46 | 38 | 17 | 18 | 62 | 20 | 36 | 51 | +15 |
| Germany | (n=120) | 37 | 36 | 27 | 53 | 14 | 33 | 45 | 40 | -5 |
| UK | (n=121) | 19 | 42 | 39 | 9 | 45 | 47 | 60 | 69 | +9 |
| France | (n=122) | 32 | 46 | 23 | 10 | 62 | 28 | 46 | 59 | +13 |
| China | (n=87) | 11 | 37 | 52 | 1 | 32 | 67 | 71 | 83 | +12 |
| Brazil | (n=85) | 26 | 44 | 30 | 4 | 43 | 53 | 52 | 74 | +23 |
| Total | (n=908) | 25 | 44 | 31 | 9 | 50 | 41 | 53 | 66 | +13 |

20% Callbacks (October 2003)

Table 2.3 reports the results of the callbacks to 20% of the respondents in each country in late October 2003. The 179 respondents surveyed in the callback gave replies corresponding to diffusion indices of 53.2 and 63.9 for 2002/03 and 2003/04, respectively, in the main survey. The 02/03 figure is the same as the whole sample average of 53 while the 03/04 figure is marginally lower than the total sample average of 66. At the time of the October callbacks, these had changed little to 55.0 (02/03) and 62.9 (03/04).

These results suggest that budgets for 2003 may have strengthened somewhat more than was expected two months earlier, while the respondents are now slightly less optimistic about next year. The effect in both years is small, however, with index differences being +1.8 (02/03) and -0.9 (03/04). We therefore believe that the numbers reported in the study are robust and would have changed little if the data had been collected in October 2003 instead of July-September 2003.

³ Diffusion Index = (Increase %) x 1.0 plus (N/C %) x 0.5

Table 2.3 Results of Callback Survey: “Diffusion Index” (n=179)

| 2002 – 2003 | | | 2003 – 2004 | | |
|-------------|----------|------------|-------------|----------|------------|
| Main Survey | Callback | Difference | Main Survey | Callback | Difference |
| 53.2 | 55.0 | +1.8 | 63.9 | 62.9 | -0.9 |

Company size and ownership

Companies of varying sizes in terms of turnover and marketing expenditure were surveyed. Table 2.4 reports the changes in total marketing expenditure by turnover, marketing expenditure, and ownership. There is some suggestion that mid-sized companies (turnover less than \$50m or marketing expenditure less than \$2m) may be increasing their marketing spend more than larger companies. There is no significant difference in the trend for local vs multinational companies.

Table 2.4: Year-on-Year % Change in Total Marketing Expenditure**(Current local currencies)**

| Firm Size/Ownership | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 |
|------------------------------------|-----------------|-----------------|-------------|
| Turnover (USD) | | | |
| <50m (n=200) | 2.3 | 4.8 | 7.1 |
| 50 to 300m (n=262) | 1.0 | 2.5 | 3.5 |
| 300m to 1bn (n=167) | 1.7 | 3.7 | 5.5 |
| 1bn plus (n=172) | 0.6 | 3.2 | 3.8 |
| Marketing Expenditure (USD) | | | |
| <2m (n=342) | 0.4 | 6.3 | 6.7 |
| 2-5m (n=196) | 2.1 | 3.2 | 5.3 |
| 5-10m (n=121) | 1.1 | 2.7 | 3.8 |
| 10-20m (n=107) | 0.3 | 2.3 | 2.6 |
| 20m+ (n=142) | 1.3 | 2.2 | 3.5 |
| Ownership | | | |
| Multinational (n=380) | 0.5 | 3.8 | 4.3 |
| Local (n=512) | 1.4 | 3.1 | 4.6 |
| Total (n=892) | 1.1 | 3.4 | 4.5 |

Table 2.5 shows year-on-year changes in total marketing expenditure by type of product market. The results show that the general type of product market a firm is in has little impact on its changes in marketing expenditure. Those selling products and those in business-to-consumer (B2C) markets are on average increasing their marketing spend slightly more than service and/or business-to-business (B2B) firms, but the differences are small. Trends for specific sectors are shown in Appendix C.

Table 2.5: Year-on-Year % Change in Total Marketing Expenditure

| Type of Market | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|----------------|----------------|---------------|--------------|--------------|------------|-------------|
| B2B | (n=385) | 0.8 | 0.5 | 3.1 | 3.6 | 3.9 |
| B2C | (n=456) | 0.6 | 1.6 | 3.0 | 4.6 | 4.7 |
| Products | (n=458) | 0.7 | 1.2 | 3.6 | 4.9 | 4.7 |
| Services | (n=432) | 0.6 | 0.9 | 3.2 | 4.1 | 4.5 |
| Total | (n=892) | 0.6* | 1.1 | 3.4 | 4.5 | 4.5† |

* From MET2002 (excludes China and Brazil)

† Excludes China and Brazil

2.2 Reasons for increases/decreases in expenditure

Budget increases in 2003

The most frequently quoted reason for a budget increase this year (40% of those commenting) was *growth in the business and its markets*. This was either being experienced, anticipated or actively driven using marketing/communications:

"Increase of profits and sales. We always spend a percentage of turnover"
(IT/telecoms products/services, Brazil)

"In proportion to sales increases" (consumer/packaged goods, China)

"Our sales have been growing" (other industrial products/systems, USA)

"The network's turnover influences our marketing budget. We take a percentage of it, so it raised 10%"(business/industrial services, France)

"Last year's profit was the best so we'll spend more for ads this year" (IT/telecoms products/services, Japan)

"We are doing more business. Generating more sales. More money on growth" (retail/mail order, UK)

"Increased profits, therefore increased our budget" (travel/transport, Germany)

"Management is cautious about the marketing budget until they see that it generates revenue, when they see the results they become more liberal" (IT/telecoms products/services, USA)

"We are growing very fast" (consumer/packaged goods, UK)

"To drive sales" (business/industrial services, UK)

"Direct consumer advertising to increase demand" (other industrial products/services, USA)

"Increase in sales. More potential new market" (consumer/packaged goods, China)

The second most frequently quoted reason for the marketing budget to increase was the introduction of *new products, brands or services*. One fifth of those commenting cited these:

"New product launch" (luxury/fashion products, France)

"Increased number of new products so it needs more spending in marketing" (consumer electronics, China)

"Our new products program is very active" (retail/mail order, USA)

“Implementation of new products” (other incl utilities, Brazil)

“We brought a new range of products on the market and had to promote them”
(pharmaceuticals, Germany)

“New product and new brand launches” (consumer/packaged goods, UK)

“Opening more shops and employing more people” (retail/mail order, Japan)

Some (10%) are increasing their marketing spend as a result of a *strategic change* or a *restructuring*:

“Strategy of our company. More aggressive” (other consumer durables, Brazil)

“We are more marketing focused, more aware that we need to concentrate on marketing” (consumer/retail financial services, UK)

“Due to marketing management restructuring” (consumer/packaged goods, China)

“In the middle of changing the business structure” (consumer/retail financial services, Japan)

Increasing the spend on particular activities has caused some companies to increase their total marketing budget:

“We advertised for only two months in 2002. This year we're doing it for the whole 12 months” (consumer/retail financial services, USA)

“We are spending more money on media advertisement” (consumer/packaged goods, Japan)

“Investments in TV ad” (other consumer durables, France)

“Will have more exhibitions overseas, and build more website” (other industrial products/systems, China)

"We're spending more of our budget on advertising like direct response and direct mail" (IT/telecoms products/service, UK)

"Because we're interested in investing a little more money into events and events sponsorship in order to promote our products to a wider group of potential customers" (business/industrial services, USA)

A few companies explained that general external factors, including the economy, had influenced their increased expenditure:

"Slight economic recovery" (other incl utilities, Germany)

"Due to the improving business climate" (other incl utilities, USA)

"As the SARS virus affected the region badly last year, expenditure increased a bit for the travel business" (hotels/tourism/leisure, China)

"Inflation in Brazil" (business/industrial services, Brazil)

Several were raising their marketing spend in response to increasing competition:

"Everything is getting more expensive, the competitors invest more so we too have to invest more in the channels" (pharmaceuticals, Germany)

"Increase in the number of competitors" (consumer/packaged goods, Brazil)

"More competitive market" (consumer electronics, China)

"Because we're fighting the competition for further business" (media/entertainment/culture, USA)

In contrast, one company is increasing its budget to take advantage of cutbacks by other companies:

“Others are pulling back, we are the opposite, anti-cyclic times for us. We are getting a stronger presence in the market” (pharmaceuticals, Germany)

Next Year: 2003 vs 2004

Comments about next year are significantly more upbeat. Many more comments were made about an increase in spending, than a decrease.

Reasons for increases next year mirrored the reasons for increases this year – growth of the business; new products and services, with a few anticipating the economy and the market improving and a few experiencing stronger competition (mainly in China and Brazil). A few are changing strategy or marketing mix or simply reinvesting in their brands:

“Expand market share, improve brand image, new products, expand overseas market” (consumer electronics, China)

“Increase in sales, new products, better economy in Brazil” (consumer/packaged goods, Brazil)

“Its just the way things are working out here. We are slowly but surely making it happen but budget-wise its not something that we can just do today, its a long-term effort” (consumer electronics, USA)

“The company's business activity is increasing and expanding. New products which we need to communicate, a new family range of products. We need a strong marketing action on our distributors' network to give value to that new range of products” (consumer electronics, France)

“Because I believe that the economy will turn around and we'll turn around with it” (IT/telecoms products/services, USA)

“Just because of the way the stock markets are behaving. We've been through a couple of bad years with the stock markets and they look as if they're turning up now and hopefully if they continue to turn up then we will spend more money” (consumer/retail financial services, UK)

“We are getting into a very competitive market. That means we need to invest more in marketing and communication” (consumer/packaged goods, Brazil)

“We've clearly identified those vehicles that are producing successful returns and we will invest more in those” (business/ industrial services, USA)

“We've demonstrated fairly good ROI on the expenditure during this period, so we'll be given a bigger budget next year” (IT/telecoms products/services, UK)

“We need to re-invest in advertising because we have to place the brand in the market. The brand has not been advertised for some years now”
(consumer/packaged goods, Brazil)

“We have realised that it doesn't make sense to cut the marketing budget, we have to keep in contact with our customers especially in times when everyone else spends less on marketing” (IT/telecoms products/services, Germany)

Budget Cuts in 2003

The major reasons for decreases in marketing expenditure this year are similar to those given in last year's study. Nearly 40% of those commenting blamed poor business performance and cost-cutting – with a disproportionate number of comments from Japan. Several (13%) blamed the state of their specific industry. A few saw these as long-term trends within the industry. There were few negative comments from the UK and China:

“Cost cuts. Less expense than last year” (retail/mail order, Japan)

“It is our company strategy that this year we want to meet our budget, so we have to decrease our expenditure and increase our profit” (consumer/packaged goods, China)

“Reduction of costs in the company” (media/entertainment/culture, Brazil)

“We had a steep decline in profits. The fastest, most cost-effective measure is to save with marketing budget. We are a joint-stock company and we have to show up positive numbers at the end of each year” (media/entertainment/culture, Germany)

“Much more selective on how we spend the money. More ROI. Our revenues are down” (business/industrial services, USA)

“The budget for marketing and advertising is authorised and managed by [US parent company] and in the last year it has reduced, by 20%. And also for this year it continues in that way” (other incl utilities, Brazil)

“Due to competitive pressures, i.e. in order to make the numbers that we have shared with Wall Street, we are constantly reducing expenses” (consumer/retail financial services, USA)

“In January we installed a cost reduction policy. Later in the year we had to do more cuts in spending as we have faced a very difficult market” (retail/mail order, France)

“For the travel industry lots of bad things have happened” (transport/travel, Japan)

“Because we've had absolutely dreadful markets” (consumer/retail financial services, UK)

“Revenue loss, lower marketing rates through downloading, illegal copying, and the general state of the economy” (media/entertainment/culture, Germany)

Wider macroeconomic and other external factors are cited by around 20% of commentators as being responsible for the budget cuts:

“The USA had a rather tough year. We're suffering under a variety of things like overall decreased store traffic, slowed economy, the war with Iraq. There was a lot of worry pre-war and we're still struggling a bit on the economic fallout from 9/11”
(retail/mail order, USA)

“The economic situation in the region is not very good at the moment, the retailing business was affected by the economic downturn and weak [local] property market
(luxury/fashion products, China)

“Devaluation of the currency” (consumer electronics, Brazil)

“Because of the Gulf War and SARS” (transport/travel, Germany)

“Due to SARS virus, a sharp reduction in receiving orders. Regional dealers visit HK and China less frequently” (consumer electronics, China)

“Trading conditions. 9/11, SARS. When revenue goes down, so does marketing”
(hotels/tourism/leisure, UK)

Several had reduced budgets via changes in their marketing mix, many by reducing their use of advertising:

“We haven't done any off-the-page advertising” (consumer/retail financial services, UK)

“We have been cutting down on advertising almost completely” (other industrial products/systems, USA)

“More money into events. Reaching customers directly” (IT/telecoms products/services, Germany)

“The demand for paper catalog lower due to demand of 'internet' tool”
(business/industrial services, France)

“We negotiated to have a 10% discount for advert rate” (retail/mail order, Japan)

“More focus on point-of-sale activities, away from classical advertising” (retail/mail order, Germany)

“Last year there were some inefficiencies in what we did so we weren't effective with all of our investments. We're trying to be more effective by eliminating some of the expenditure that did not produce results like direct mail” (business/industrial services, USA)

In some cases decisions concerning general strategic goals, marketing operations or restructuring of the business had caused the cut in expenditure, while a few had simply had a large one-off spend the previous year, making their current year's spend comparatively low:

“We've just been through a massive merger so our expenditure has been less” (IT/telecoms products/services, UK)

“Our management has been changed” (consumer/packaged goods, Japan)

“Internal restructuring, cost reductions” (IT/telecoms products/services, Brazil)

“We are getting more control over our budget than we ever had so there is less waste” (hotels/tourism/leisure, UK)

“Last year it was the company's 50th anniversary so we increased our investment in marketing for that year 2002. This year our budget returned to normal” (other incl utilities, Brazil)

Next Year: 2003 vs 2004

The reasons for decreases in next year's budget were similar to those for this year: cost-cutting, poor business performance, and poor markets. A few cited fewer new products or a changed approach:

“Cutting costs. Will be less than this year” (retail/mail order, Japan)

“Saving measures” (automotive, Germany)

“Due to our revenues decreasing and margins being slim” (retail/mail order, USA)

“Our turnover is decreasing” (hotels/tourism/leisure, Japan)

“No increase in the pharmaceutical sector” (pharmaceuticals, Brazil)

“Economic conditions. Less sales. Lower margins” (consumer/retail financial services, UK)

“General economic situation in Germany, difficult to get investment payback” (hotels/tourism/leisure, Germany)

“We will have fewer new products for the market” (business/industrial services, France)

“We do not have new products. No need to advertise” (luxury/fashion products, Brazil)

“Greater efficiency. Targeting customers” (hotels/tourism/leisure, USA)

Finally, a few businesses which boosted their budgets this year to deal with hard times are bringing them back in line next year:

“Plan to reduce 10% next year so that it returns to the same level as last year which would be considered more appropriate” (pharmaceuticals, China)

“As we go through our boost which is now, we will need to decrease our spend again” (hotels/tourism/leisure, UK)

3. Allocating the Marketing Budget

This section reports the way the marketing budget is allocated across the five main categories of marketing expenditure: media advertising, sales promotion, brand PR/sponsorship, direct mail, and interactive marketing. Table 3.1 shows the % allocation across the categories in 2003 for the seven countries.

Table 3.1: % Allocation 2003

| Expenditure Category | Total (n=891) | USA (n=251) | Japan (n=112) | Germany (n=118) | UK (n=121) | France (n=121) | China (n=86) | Brazil (n=85) |
|-----------------------|------------------|----------------|------------------|--------------------|---------------|-------------------|-----------------|------------------|
| | % | % | % | % | % | % | % | % |
| Media advertising | 40.5 | 40.9 | 44.1 | 34.9 | 40.0 | 35.8 | 43.0 | 34.7 |
| Sales promotion | 20.5 | 19.0 | 21.2 | 23.5 | 16.1 | 26.4 | 23.5 | 26.5 |
| Brand PR/sponsorship | 15.4 | 14.3 | 15.6 | 17.9 | 15.0 | 15.9 | 16.9 | 22.6 |
| Direct mail | 14.0 | 16.1 | 9.5 | 13.4 | 20.0 | 12.5 | 6.6 | 7.3 |
| Interactive marketing | 7.7 | 8.1 | 7.4 | 8.2 | 7.7 | 6.2 | 6.4 | 6.7 |
| Other | 1.9 | 1.6 | 2.2 | 2.1 | 1.3 | 3.2 | 3.4 | 2.3 |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Media advertising is the largest expenditure category by far, taking on average just over 40% of the total marketing budget. There is, however, some variation between the countries, with businesses in Germany, France and Brazil typically allocating less than average and those in Japan and China slightly more than average.

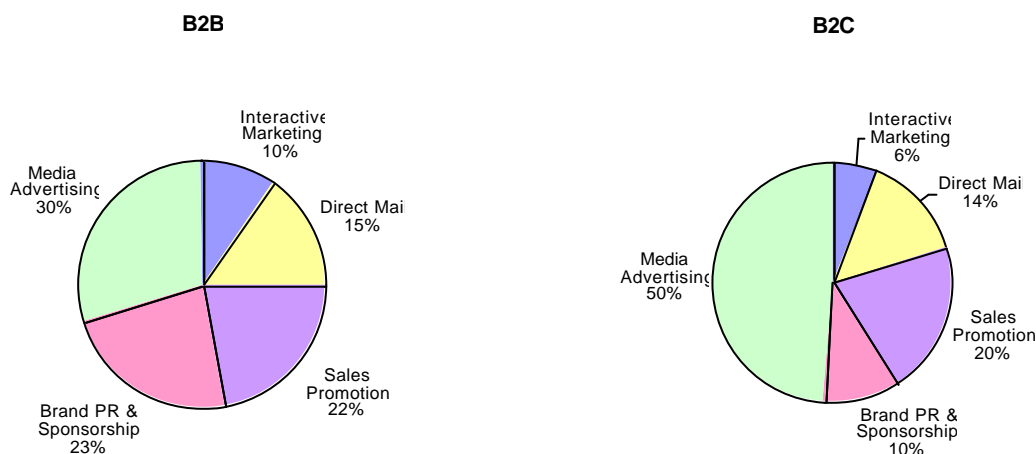
Sales promotion accounts for roughly 20% of marketing expenditure (ranging from 16% in the UK to 26% in France and Brazil), *brand PR/sponsorship* about 15% (23% in Brazil), and *interactive marketing* about 7% or 8% (slightly less in France, China and Brazil). These three proportions are fairly consistent across countries.

In contrast, the proportion of expenditure allocated to *direct mail* varies widely between countries, from only 7% in China and Brazil to 20% in the UK.

Both the absolute numbers in Table 3.1 and the differences between countries should be treated with some 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 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.

As one might expect, there were large differences between firms in business-to-business (B2B) and business-to-consumer (B2C) markets (Figure 3.1). B2B businesses allocate only 30% of marketing expenditure to media advertising (versus 50% for B2C firms) while allocating significantly more than those in B2C markets to brand PR/sponsorship (23% vs 10%) and interactive marketing (10% vs 6%).

Figure 3.1: % Allocation of 2003 Marketing Budget: B2B vs B2C



Changes in % Allocations

Table 3.2 and Figure 3.2 show the expected changes in % allocations from 2001 to 2004 for the five countries covered by both studies. The two main trends are a large increase (+1.6% of total marketing expenditure) in the share allocated to interactive marketing and an equivalent decrease (-1.7% of total expenditure) for media advertising. Most of the loss

of share to media advertising happened in 2001-02 and this activity is projected to maintain or fractionally regain share next year, but at a much lower level than 3-4 years ago.

The percentages of expenditure allocated to sales promotion, brand PR/sponsorship, and direct mail are roughly constant, although there is some suggestion that brand PR/sponsorship may be gaining share and that direct mail will lose in 2004 most of the share it gained in 2002. This is due to a projected drop in direct mail in Japan in 2004, discussed in Section 7. However, it may also reflect a shift in direct marketing expenditure from direct mail to interactive marketing, especially permission-based email and, for some businesses, SMS text messaging (see Section 8.3).

Table 3.2: Changes in % Allocation 2001-04: Top Five Countries
(% of total marketing expenditure) (n=723)

| Expenditure Category | 01/02* | 02/03 | 03/04 | Change |
|----------------------------|------------|------------|------------|------------|
| | 01/04 | | | 01/04 |
| | % | % | % | % |
| Media advertising | -1.2 | -0.6 | 0.1 | -1.7 |
| Sales promotion | 0.1 | -0.2 | 0.0 | -0.1 |
| Brand PR/sponsorship | 0.2 | 0.3 | -0.1 | 0.3 |
| Direct mail | 0.5 | 0.0 | -0.4 | 0.1 |
| Interactive marketing | 0.4 | 0.6 | 0.6 | 1.6 |
| Total (incl. Other) | 0.0 | 0.0 | 0.0 | 0.0 |

* From MET 2002

Figure 3.2: Changes in % Allocation 2001-04: Top Five Countries
 (% of total marketing expenditure) (n=723)

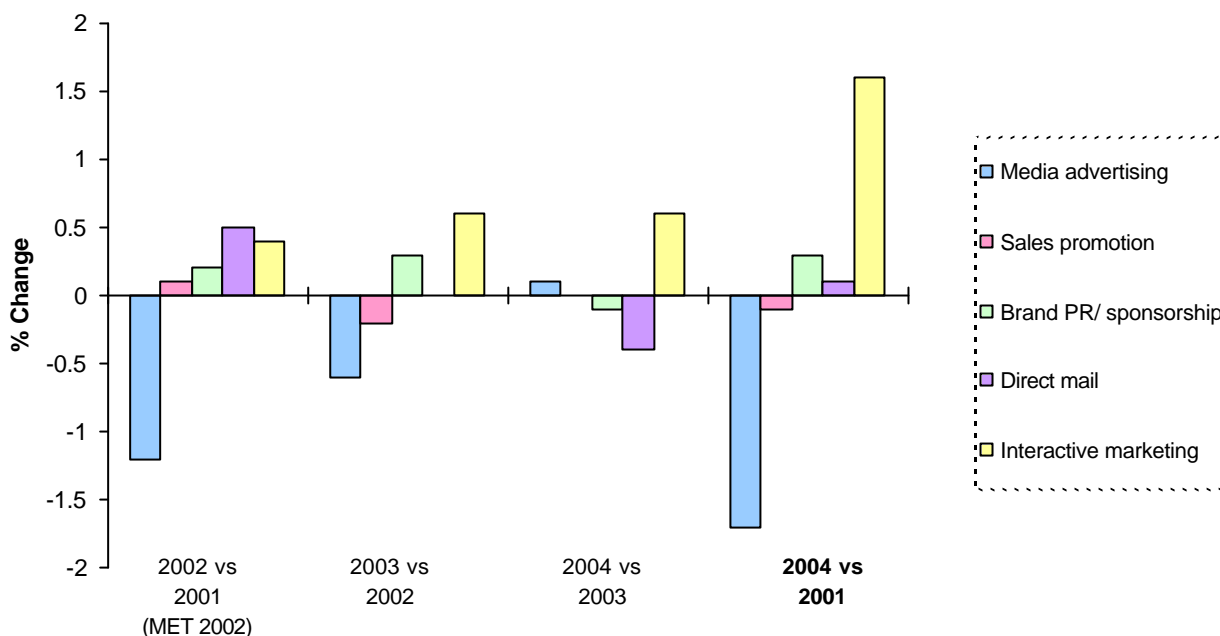
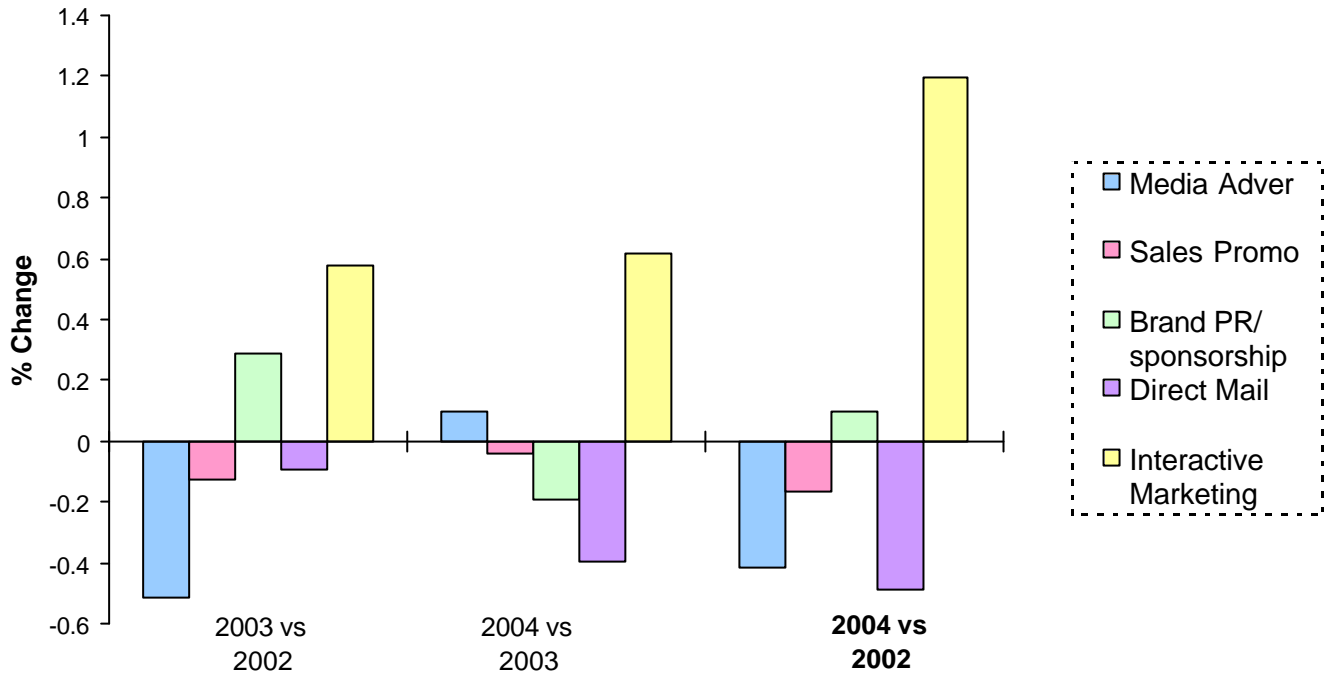


Table 3.3 and Figure 3.3 show the actual and expected changes in expenditure allocation 2002-04 for all seven countries covered this year. The main trend is again the large increase in the % allocated to interactive marketing (+1.2 percentage points). On this shorter timescale, media advertising, direct mail, and possibly sales promotion are all losing share.

Table 3.3: Changes in % Allocation 2002-04: All Seven Countries
 (% of total marketing expenditure) (n=891)

| Expenditure Category | 2002 | 2003 | 2004 | Changes (% points) | | |
|---------------------------|-------------|-------------|-------------|--------------------|------------|------------|
| | % | % | % | 02/03 | 03/04 | 02/04 |
| Media advertising | 41.0 | 40.5 | 40.6 | -0.5 | 0.1 | -0.4 |
| Sales promotion | 20.6 | 20.5 | 20.5 | -0.1 | 0.0 | -0.2 |
| Brand PR/sponsorship | 15.1 | 15.4 | 15.2 | 0.3 | -0.2 | 0.1 |
| Direct mail | 14.1 | 14.0 | 13.6 | -0.1 | -0.4 | -0.5 |
| Interactive marketing | 7.1 | 7.7 | 8.3 | 0.6 | 0.6 | 1.2 |
| Total (incl Other) | 100% | 100% | 100% | 0.0 | 0.0 | 0.0 |

Figure 3.3: Changes in % Allocation 2002-04: All Seven Countries**(% of total marketing expenditure) (n=891)**

There were some differences between countries in the % allocations (see details in Appendix A). The data suggest that, relative to other countries:

- In the USA and UK, interactive is gaining share even more rapidly, while media advertising and sales promotion are losing share.
- France may have been moving against the general trend, allocating more of the average marketing budget to media advertising while decreasing the allocation to sales promotion and direct mail.
- Japan and France lag behind the other countries in the percentage of expenditure companies are allocating, and planning to allocate, to interactive marketing.

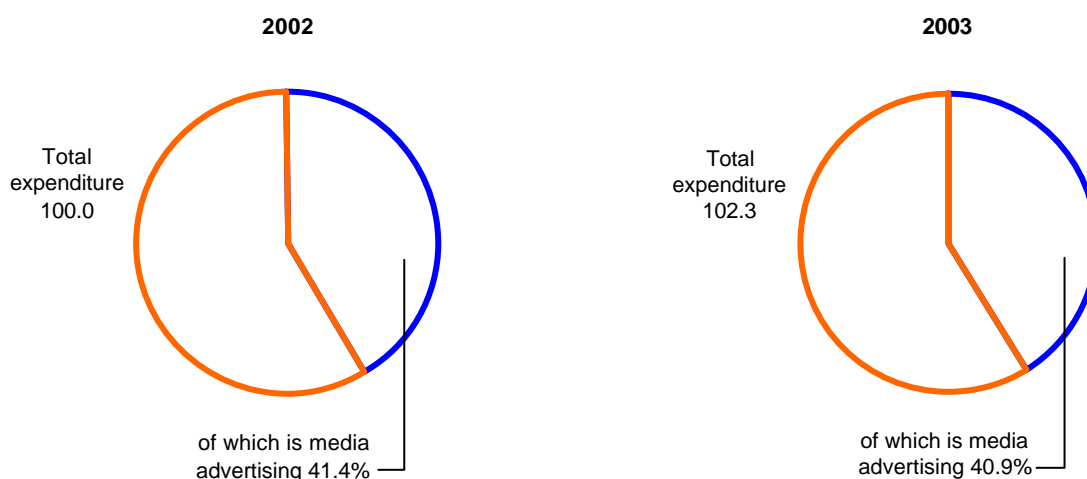
We discuss these differences more fully in the following sections covering the five marketing activities.

4. Media Advertising

In Sections 4 to 8 we combine the findings from Section 2.1 (changes in total marketing expenditure) and Section 3 (changes in % budget allocation to each marketing activity) to give an indication of the implications for each expenditure category over the period 2002-04 for the seven countries in this year's data and 2001-04 for the five countries in MET 2002.

For example, Section 2.1 reports that total marketing expenditure in the USA in 2003 is expected to rise 2.3% from the 2002 level (see Table 2.1). Appendix A and Section 3 report the percentage of the total allocated to each marketing activity. In the case of media advertising in the USA, the allocation is expected to decrease from 41.4% in 2002 to 40.9% in 2003. Combining these results, we can estimate that US expenditure on media advertising will change from 41.4% of 100 (taking 2002 total expenditure as 100) to 40.9% of 102.3, see Figure 4.1. Numerically, $102.3 \times (40.9/41.4) = 101.1$, corresponding to a 1.1% increase in US advertising spend from 2002 to 2003.

Figure 4.1: Change in US Media Advertising Expenditure 2002–03



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 trend within each country.

Sections 4.1 and 4.2 present the numerical results for media advertising expenditure and the reasons given for increases/decreases in expenditure. Section 4.3 gives a further breakdown of the media advertising budget into the four main media types (print, TV, radio, outdoor) and Section 4.4 shows the reasons given for changes in the % of advertising spend allocated to each main media type.

4.1 Expenditure 2001-04

Table 4.1 and Figure 4.2 show the year-on-year and cumulative % changes in expenditure on media advertising 2002-04 for all seven countries and 2001-04 for the five countries also covered by the MET 2002 study (see explanation in Section 2.1).

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

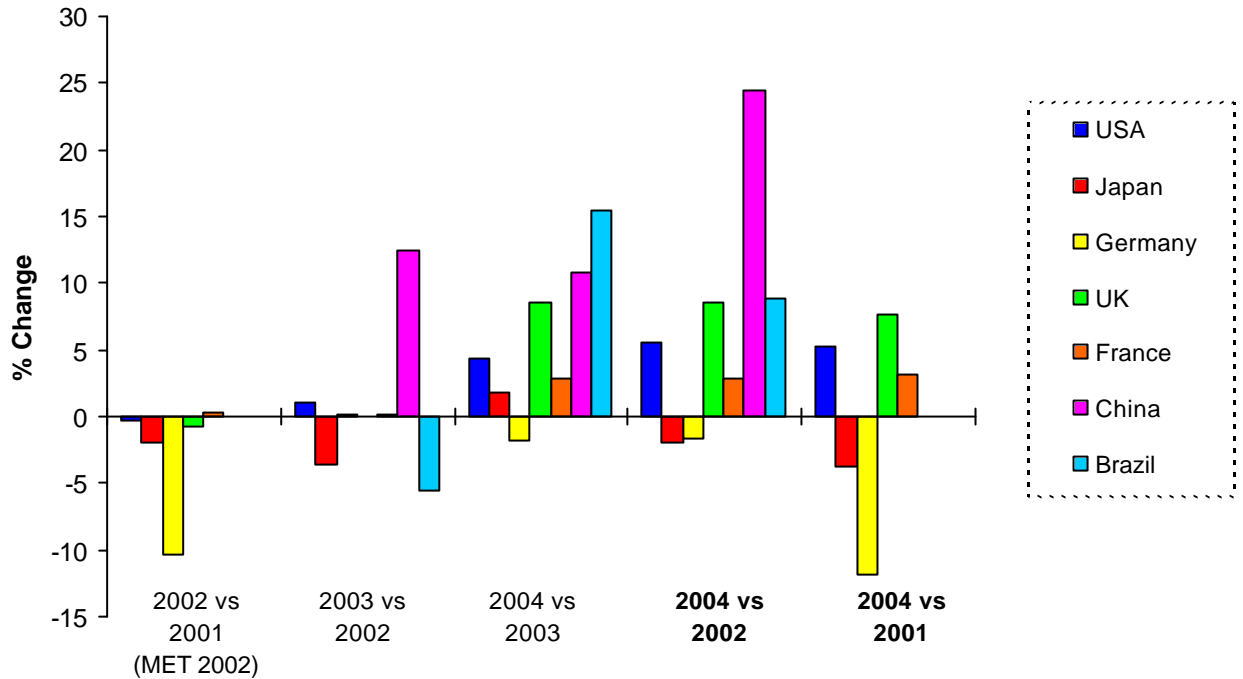
| Country | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|--------------|----------------|------------------|-----------------|------------------|----------------|-----------------|
| USA | (n=248) | -0.3 | 1.1 | 4.4 ¹ | 5.6 | 5.3 |
| Japan | (n=112) | -2.0 | -3.6 | 1.8 | -1.9 | -3.8 |
| Germany | (n=118) | -10.4 | 0.1 | -1.8 | -1.7 | -11.9 |
| UK | (n=121) | -0.8 | 0.0 | 8.6 | 8.5 | 7.7 |
| France | (n=121) | 0.3 | 0.1 | 2.9 | 2.9 | 3.2 |
| China | (n=86) | - | 12.4 | 10.8 | 24.4 | - |
| Brazil | (n=85) | - | -5.6 | 15.4 | 8.9 | - |
| Total | (n=891) | -2.0* | -0.2 | 3.6 | 3.4 | 0.7† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

¹ Note that the 4.4% growth projected for the USA excludes political advertising, likely to be significant in an election year (the MET study is about marketing expenditure by businesses and excludes both governments and nonprofit organizations).

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



Overall the market is slightly down this year (-0.2%) but looks set to move into growth in 2004 (3.6%). However, there are significant differences between countries. Media advertising spend this year is expected to be well down in Japan and Brazil and flat in the other markets apart from China, where growth of 12.4% is projected. For 2004, fast growth is expected for most markets, ranging from 2.9% in France to 15.4% in Brazil (in current local currencies). Some recovery is also projected for Japan, but the market in Germany is expected to decline again.

The decrease in advertising expenditure this year is primarily driven by cuts in business-to-business (B2B) firms (-3.2%). Business-to-consumer (B2C) firms are on average maintaining their advertising spend (+1.3%). The projections for 2004 show little difference between B2B and B2C firms, or between those mainly selling products vs services.

4.2 Reasons for increases/decreases in expenditure

Increases

Many companies gave comments as to why their media advertising budgets were increasing. The reasons given were much the same for each year.

The need to *promote new products* and the desire to *develop or maintain brand image* were the principal reasons given for budget increases, especially for 2004:

“We’ll be launching a new core product and therefore launch a media campaign”
(other industrial products/systems, Germany)

“A lot of changes concerning the range of products offered. On certain types of product we need to build awareness” (consumer electronics, France)

“We are embarking on a marketing awareness campaign to change the perception of our company, to target influencers” (consumer/retail financial services, USA)

A few businesses cited the cost effectiveness of advertising, while others indicated that they had *shifted their budgets from other forms of marketing/communication* to advertising:

“More value for money” (consumer/packaged goods, UK)

“Due to a decrease of the consumer market we decided to strengthen media advertising (which is more effective but expensive)” (consumer electronics, Brazil)

“One of the vehicles that has helped our market share more than any others for the last year or so” (media/entertainment/culture, USA)

“Our sponsorship commitments are expiring and will not be renewed. The money will be spread evenly among the other categories” (other incl utilities, USA)

For a few, *media price increases* were forcing them to increase their budgets:

“Advertising TV costs more and more. The cost of TV advertising spots has increased” (media/entertainment/culture, Brazil)

Several businesses had a variety of *strategic reasons* for using media advertising including dealing with competition and attracting new customers, particularly as they saw improving markets. Finally, a few had *organizational reasons*:

“We need to increase media advertising in a way to support nationally what is happening locally” (consumer/packaged goods, France)

“We are moving more into a consumer marketing space” (IT/telecoms products/services, USA)

“Usually in the pharmaceutical industry marketing is very focused on sales force and doctors, but with the advent of 'generic' products, we need to reach the final consumer and strengthen the brand, hence redirecting investments into media” (pharmaceuticals, Brazil)

“Attract more customers and beat competitors” (consumer electronics, China)

“Last year we were merging a bunch of companies together, so that wasn't high on our list of priorities. We were working out how they all fitted together. We're less confused now, more ready to promote them” (consumer electronics, USA)

“After the [reorganization] we'll be targeting not only our previous banks but also other banks and insurance companies. This will be addressed in media advertising rather than through the internet” (IT/telecoms products/services, Germany)

Decreases

Media advertising budget cuts prompted a large number of comments. Over 50% concerned *redirecting funds to other types of marketing/communication*, especially interactive marketing:

"We're concentrating more on interactive marketing because it's very measurable and very effective" (other incl utilities, USA)

"We have to reduce this category in order to increase interactive marketing" (IT/telecoms products/systems, Brazil)

"Transfer funds to interactive marketing" (consumer/packaged goods, China)

"More into direct mail - more targeted. Media is too broadly targeted. Direct is more precise" (transport/travel, USA)

"Other categories are more effective so we transferred budget" (transport/travel, China)

"We have only one budget so basically we're stealing from one pot and putting it in another" (consumer/retail financial services, USA)

Nearly one fifth of businesses stated that the *high cost and low perceived effectiveness* of media advertising deterred them from using it. Those in Brazil were particularly concerned about the high cost of media. However, a few indicated that a *reduction in the cost of media* had allowed them to reduce their budgets:

"There is little value in spending a heavy amount in the media area" (consumer/retail financial services, UK)

"Too general, and lack of focus and feedback" (consumer electronics, China)

"Inefficient spend due to fragmentation of audience; what used to work for \$5 million - now we need 20% more" (consumer/packaged goods, USA)

"It is the most expensive spend with the slowest response, in terms of ROI" (retail/mail order, France)

"Media advertising is too expensive in Brazil" (consumer/packaged goods, Brazil)

*“We’ve done a deal with a TV channel so no need to spend so much on it”
(hotels/tourism/leisure, Brazil)*

Other comments were split between *strategic reasons*, and pure *cost cutting*. A few showed a decrease in budget because they had spent an abnormally large amount the year before:

“Media advertising will decrease as we have established our brand name. We made a big effort last year to consolidate our awareness and to build a new image in the public mind. Now we can transfer funds to other areas” (consumer electronics, France)

“Once products are known to consumers through TV, we can reduce TV advertising” (IT/telecoms products/systems, China)

“Our product range lends itself more to direct marketing. We are a niche in the market” (automotive, Germany)

“We launched two new products last year and no new products this year so media goes back down to the original level” (pharmaceuticals, UK)

4.3 Allocation across main media types

Here we look at the way in which the media advertising budget is allocated across the four main media types: print, TV, radio, and outdoor. From Table 4.3 we can see that print media account for about half of the average budget, TV for about 30%, and radio and outdoor for most of the rest.

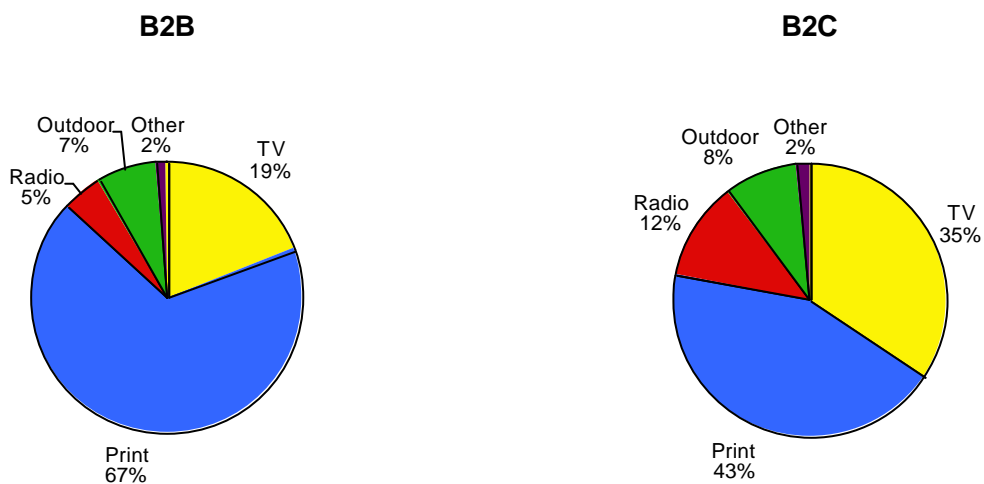
There are, however, large differences between countries. The UK and Germany allocate a larger proportion (60+%) on average to print advertising. In China the trend is reversed, with a much lower proportion of advertising spend being allocated to print media (34%) and a higher proportion to TV (37%) and outdoor (17%). Radio accounts for 13% of advertising expenditure in the USA versus only 4% in Japan and the UK. Outdoor captures 13%-17% of expenditure in France, China and Brazil but only 6%-8% in the top four countries. Some of these differences reflect sampling, but the general pattern is

consistent with other data. As one might expect, print is especially important for B2B businesses (67%, vs 43% for B2C, Figure 4.3).

Table 4.3: % of Media Advertising Spend Allocated to each Main Media Type (2003)

| Media Type | Total (n=847) | US (n=240) | Japan (n=107) | Germ (n=112) | UK (n=116) | Fra (n=108) | China (n=81) | Brazil (n=83) |
|--------------------------|---------------|-------------|---------------|--------------|-------------|-------------|--------------|---------------|
| | % | % | % | % | % | % | % | % |
| Print | 53 | 52 | 55 | 60 | 65 | 43 | 34 | 43 |
| TV | 28 | 27 | 33 | 26 | 23 | 28 | 37 | 35 |
| Radio | 9 | 13 | 4 | 6 | 4 | 11 | 5 | 10 |
| Outdoor | 8 | 7 | 7 | 8 | 6 | 14 | 17 | 13 |
| Total (inc Other) | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Figure 4.3: % of Media Advertising Spend Allocated to each Main Media Type (2003)



Changes in Allocation to Different Media Types

Respondents were also asked about whether they expected the % of their media spend to increase, decrease or stay the same for each media type over the next year. The findings of this categorical purchasing “diffusion index” question (similar to that used in Section 2.1)

suggest that globally the percentage of advertising spend allocated to each media type is likely to change little in 2004, as indicated by a diffusion index of almost 50 for each category (Table 4.4). However, the index of 48 for print media is in line with their very slowly declining share of advertising expenditure over several decades.

Table 4.4: Change in Spend on Main Media Types 2003-04

(All Countries: n=847)

| Media Type | Decr% | N/C% | Incr% | Diff Index |
|-----------------------|-------|------|-------|------------|
| Radio | 4 | 89 | 7 | 51 |
| TV | 9 | 82 | 9 | 50 |
| Outdoor (inc Ambient) | 5 | 91 | 4 | 50 |
| Print | 12 | 81 | 8 | 48 |

4.4 Reasons for changes in allocation

Overall, a decrease in expenditure on print advertising prompted the largest number of comments from respondents. There were also many comments about a decrease in TV advertising. Effectiveness and value for money were the main reasons given for increasing the spend on a media type.

Print

Increases

For a third of those making a comment, the reason for increasing the print budget was its perceived *cost-effectiveness*:

"Print has a longer shelf life. It is more effective, more successful for us"
(consumer/packaged goods, USA)

"Good prices and easy to get discounts" (consumer electronics, France)

"*This is the most cost effective method*" (consumer/packaged goods, China)

Many mentioned that print media allow efficient *targeting*:

"*More focusing on target customers*" (pharmaceuticals, China)

"*To reach a more specific segment market*" (transport/travel, Brazil)

"*More able to focus target specific group on print media*" (pharmaceuticals, Germany)

Decreases

Many were diverting some of their print budget into TV, a few into outdoor or radio, while a few were switching to other activities such as direct marketing:

"*Decrease due to increase in TV budget*" (consumer/packaged goods, UK)

"*Due to increase in TV*" (consumer electronics, China)

"*Down 15%. The data that we have shows that our customers tend not to read or see our adverts when they're in print, but are more responsive to our TV ads*" (hotels/tourism/leisure, USA)

"*Posters are better adapted to support our commercial organization, so we will decrease the percentage spent on press advertising*" (consumer/packaged goods, France)

"*We will probably look at local radio and target local markets more*" (media/entertainment/culture, USA)

"*More direct marketing, one-to-one, as we are a niche*" (automotive, Germany)

A number of businesses regarded print as *ineffective*, and a few, as *expensive*:

"*Budget/efficiency is being questioned*" (transport/travel, Germany)

"Reducing response rate so less activity" (consumer electronics, UK)

"Not effective enough" (consumer/packaged goods, China)

"Rates keep rising. Better cost opportunities on TV and radio" (consumer electronics, USA)

For some, cost cutting prompted the cut in print advertising:

"Because of a decrease in turnover" (other consumer durables, Japan)

"A slight decrease because the whole marketing budget is going down"
(automotive, France)

"You've got to take money off something" (consumer/packaged goods, USA)

Television

Increases

Amongst those businesses commenting on their increased expenditure on TV advertising, almost one third indicated that they did so because of its *effectiveness*. Many Chinese and Brazilian businesses gave this reason:

"For our specific product the best way to reach our target group is TV" (other incl utilities, Germany)

"The TV is one of the most expensive media but it's also the best one to reach new customers" (transport/travel, Brazil)

Other frequently quoted reasons for an increased TV spend were the launch of *new products or services*, and the enhancement of *brand image*:

"We want to increase brand awareness and TV is the ideal medium for that"
(consumer/packaged goods, Brazil)

"It's the strongest most vivid form of branding we have" (hotels/tourism/leisure, USA)

"*Branding - to build up image*" (automotive, China)

A few businesses were *experimenting with TV advertising for the first time*. For some, a *larger turnover* prompted the increase in TV budget, for others it was the *increased price of TV airtime* that forced the increase in budget:

"*We are testing a TV campaign and if successful it will go national*"
(consumer/packaged goods, UK)

"*We will have more revenue and money available so we can afford TV. We would always like to have used TV but just haven't had the money to do so*"
(media/entertainment/culture, USA)

"*Every year it costs more to advertise on TV*" (automotive, France)

Decreases

The *expense and lack of demonstrable effectiveness* of TV advertising were the most frequent reasons for a decrease in the TV budget:

"*Broadcast sponsorship costs are increasing so our willingness to use these services is diminishing*" (consumer/packaged goods, UK)

"*A more and more expensive medium*" (consumer/packaged goods, France)

"*It is too expensive and we are not getting enough results from consumers*"
(consumer/packaged goods, Japan)

"*High cost. Remote. You never know if you are reaching the audience*" (other incl utilities, Brazil)

"*We did a TV advertising campaign in the past which was not very effective. Print produces better results*" (other incl utilities, UK)

"*Costs too high, media less efficient, too much clutter*" (consumer electronics, France)

Several businesses explained that they were transferring expenditure away from TV advertising to other media or direct marketing:

"As other types of activities take over. TV is four or five times more expensive than other media" (business/industrial services, UK)

"Less on TV as print got better results in the countryside than TV"
(consumer/packaged goods, Brazil)

"New product launch will be done through direct mail so drop in budget for TV"
(consumer/packaged goods, UK)

Other businesses had a variety of *strategic reasons* for reducing their TV advertising budget, such as its limited ability to allow efficient targeting:

"Our focus is more target group specific - not possible via TV" (pharmaceuticals, Germany)

"TV will not reach specific groups. That is what we want now" (IT/telecoms products/systems, Brazil)

"It depends what product we are launching and some products don't respond to TV" (other incl utilities, USA)

One business just found TV advertising *too much effort*:

"It's a pain to get the production done the way I want it done....We have two different brands and so we have to produce the spot two different ways each time which is a hassle" (retail/mail order, USA)

Radio

Increases

Nearly half the comments explaining an increased budget for radio cited its *effectiveness* and *cheapness*, especially compared with TV, to focus on markets:

"Works for us. Cost effective. We like radio" (media/entertainment/culture, UK)

"A more effective and less expensive way to reach our customers. Covers our audience better. TV is becoming less effective now because with cable TV there is too much channel hopping" (consumer/packaged goods, USA)

Some mentioned its ability to target *local* markets and/or *consumer segments*:

"Better regional optimization" (hotels/tourism/leisure, Germany)

"Easier to support local stores effectively" (retail/mail order, USA)

"More regionally, locally based radio ads will achieve what we are hoping, to target customers for special offers" (consumer/packaged goods, Germany)

"We're moving towards radio advertising to target specific audiences" (business/industrial services, USA)

Finally, a few were *experimenting* with radio for the first time:

"We'd like to try this new medium for testing reasons" (transport/travel, USA)

Decreases

Some businesses were switching funds from radio to other media (especially TV), price promotions, etc:

"TV is more efficient" (consumer/packaged goods, Brazil)

"It is more specific and easier to make a price offer" (automotive, USA)

"Not as effective as print and posters" (consumer electronics, China)

A few indicated that they found radio *expensive* or *ineffective*, especially among Chinese businesses. Others gave *strategic reasons* for reducing radio advertising:

"Budget and efficiency is being questioned" (transport/travel, Germany)

"We can't get much response" (other incl utilities, Japan)

"Performance compared to target" (automotive, France)

"The numbers of radio listeners have reduced" (pharmaceuticals, China)

"Company strategy" (automotive, Brazil)

"It lacks focus" (hotels/tourism/leisure, UK)

Outdoor/Posters

Increases

Effectiveness and value for money accounted for half of the reasons that businesses gave for increasing their budget on outdoor/poster advertising:

"A very good medium, targeting primary zones (5-10 minutes away from our stores) and secondary zones (20 minutes away from our stores). Allows a strong presence in those areas" (retail/mail order, France)

"We think posters on trucks that drive on the motorway are a more effective way to attract customers to us" (consumer/packaged goods, Germany)

"A more effective and less expensive way of reaching our customers, covers our audience better" (consumer/packaged goods, USA)

"Better value than TV" (consumer electronics, Germany)

Others gave a range of other reasons:

"Improve the brand image" (consumer/retail financial services, UK)

"The issue of trying to reach people in the morning. Just pulling back from TV and going for the media that will help us reach our sales objectives" (consumer electronics, Germany)

Decreases

As with print advertising, the majority of businesses reducing their expenditure on outdoor/posters are transferring it to other media, principally TV:

"Better and quicker ROI when we use TV, than outdoors" (consumer/packaged goods, Brazil)

"This decreases as we make room for TV budget" (other incl utilities, France)

"We want to boost TV" (media/entertainment/culture, Germany)

"Don't want to take from TV because it's the most persuasive medium" (media/entertainment/culture, USA)

"Transfer funds to print and radio" (transport/travel, China)

"We're not finding it as effective because most of our marketing is promotion-driven. Outdoor is better conceptually but doesn't work very well if you're trying to promote yourself" (retail/mail order, USA)

Finally, a few businesses are inhibited by government regulation:

"Possibility of restriction from government and supermarket" (consumer/packaged goods, China)

"Legal issues - Mayor's office limiting advertising on buses" (pharmaceuticals, Brazil)

"It is forbidden to advertise [our product] outdoors" (consumer/packaged goods, France)

5. Sales Promotion

5.1 Expenditure 2001-04

Table 5.1 and Figure 5.1 show the % 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: % Change in Sales Promotion Expenditure (Current local currencies)

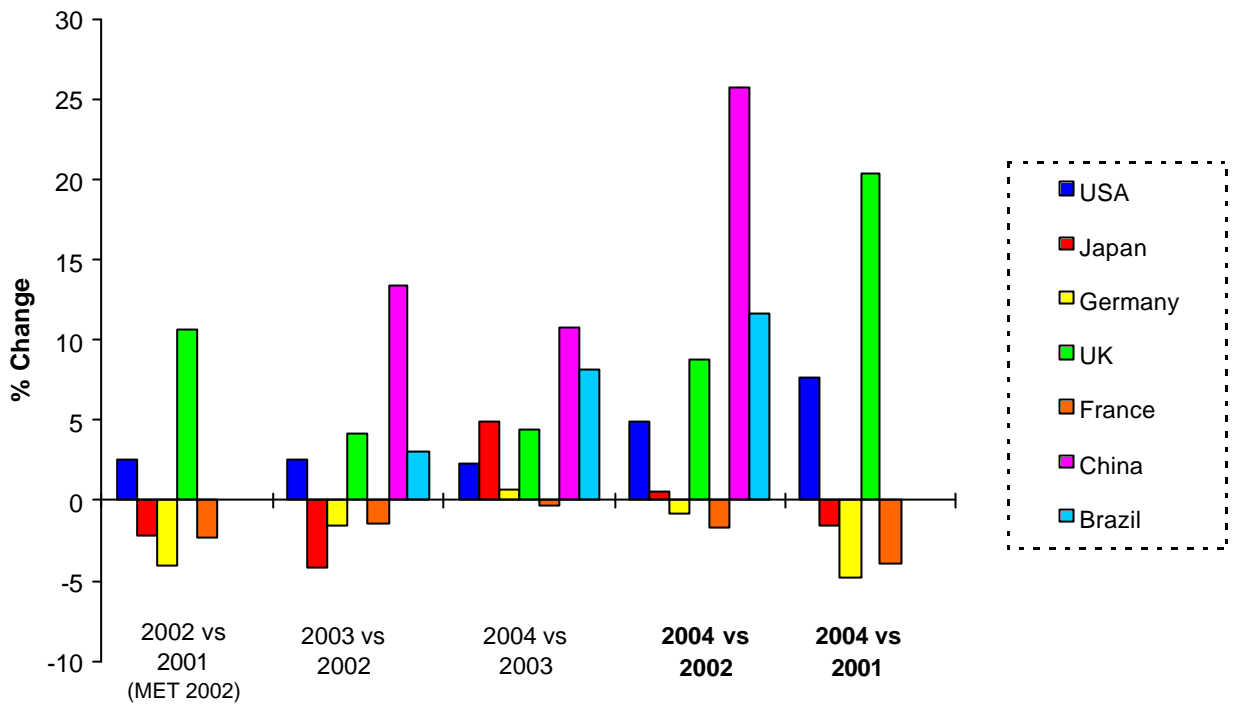
| Country | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|----------------|--------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------------|--------------------------------------|
| USA | (n=248) | 2.6 | 2.5 | 2.3 | 4.9 | 7.6 |
| Japan | (n=112) | -2.2 | -4.2 | 4.9 | 0.6 | -1.6 |
| Germany | (n=118) | -4.0 | -1.5 | 0.7 | -0.8 | -4.8 |
| UK | (n=121) | 10.7 | 4.2 | 4.4 | 8.8 | 20.4 |
| France | (n=121) | -2.3 | -1.4 | -0.3 | -1.7 | -3.9 |
| China | (n=86) | - | 13.4 | 10.8 | 25.7 | - |
| Brazil | (n=85) | - | 3.1 | 8.2 | 11.6 | - |
| Total | (n=891) | 0.8* | 0.4 | 3.2 | 3.6 | 3.5† |

*From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

The overall pattern is of a static market in 2002 (from last year's report, which did not cover China and Brazil) and 2003, followed by some growth in 2004. Again, there are large differences between countries, with projected growth 2002-04 ranging from -1.7% in France to +25.7% in China. Among the top five countries, sales promotion is projected to have grown over the period 2001-04 by almost 8% in the USA and 20% in the UK, but declined by 2%-5% in Japan, Germany, and France.

Figure 5.1: % Change in Sales Promotion Expenditure (Current local currencies)



5.2 Reasons for increases/decreases in expenditure

Increases

A variety of *strategic* factors were the most commonly cited reasons for an increase in sales promotion budgets:

“To build up trust and loyalty from customers” (IT/telecoms products/systems, China)

“Sales promotion increase as the market has become much more difficult. We need to invest more to reach the same results” (media/entertainment/culture, France)

“Because of government and economic changes this year, we invested more in sales promotions, price wars, targeted impulse consumption” (consumer/packaged goods, Brazil)

Several businesses stated that the *cost-effectiveness* of sales promotion had caused them to increase expenditure on it.

"Sales promotion has proven to be more effective in the past" (consumer/retail financial services, China)

"Sales promotion is cheaper and more effective" (consumer/packaged goods, Brazil)

"We have transferred the sponsorship budget to sales promotion as these two budgets were related. Very logical transfer" (media/entertainment/culture, France)

"We will have a small reduction in PR to accommodate giving it to sales promotion" (consumer/packaged goods, UK)

Decreases

Significantly more companies were cutting their sales promotion budget for the next year than for this. The main reason was to *spend on other marketing activities*, especially media advertising and interactive:

"We think that through media it's more effective and we can build up our reputation" (consumer electronics, China)

"Interactive marketing is easier to measure than sales promotion" (media/entertainment/culture, UK)

"We expect a shift of business going into ecommerce rather than through sales and promotion" (business/industrial services, UK)

"Reduce spend here due to increase in interactive marketing" (consumer/packaged goods, China)

"I will be looking at doing more media-based and direct mail marketing specific to office instead of cookie cutter marketing" (business/industrial services, France)

“With a smaller investment this year we’re narrowing the focus in order to communicate at the point of sale” (consumer/packaged goods, Brazil)

“We are trying other routes to marketing, relying on the sales team” (other consumer durables, UK)

Strategic reasons were another frequent reason for budget cuts, particularly *brand building*.

“Want to increase other areas ... so that the greater strength of the brand could reduce the amount in discounts/promotions” (consumer/packaged goods, China)

“Next year we will be doing holistic corporate campaigning” (consumer/retail financial services, UK)

“We want to try targeted marketing, it is more expensive but effective” (retail/mail order, Japan)

“Trying to specifically home in on product launches that were in the plan to be introduced to the market place this year” (consumer/retail financial services, USA)

A few questioned the *effectiveness* of sales promotion, and were reducing their spending accordingly, and for a few it was simply a matter of *cost cutting*:

“Its effectiveness is not easy to measure and it might possibly be not as effective as expected or as in the past” (media/entertainment/culture, Germany)

“We had to take money from somewhere” (automotive, France)

“Due to the financial situation of our company we cut some promotions” (other incl utilities, Brazil)

6. Brand PR and Sponsorship

6.1 Expenditure 2001-04

Table 6.1 and Figure 6.1 give the results for brand PR and sponsorship. This category covers PR and sponsorship for brands, as opposed to corporate communications aimed at investors, regulators, etc. It includes events (ie exhibitions, trade shows, etc) and event sponsorship (eg sports, culture, education) but not broadcast program sponsorship, which is included under media advertising (Section 4).

Table 6.1: % Change in Brand PR/Sponsorship Expenditure

(Current local currencies)

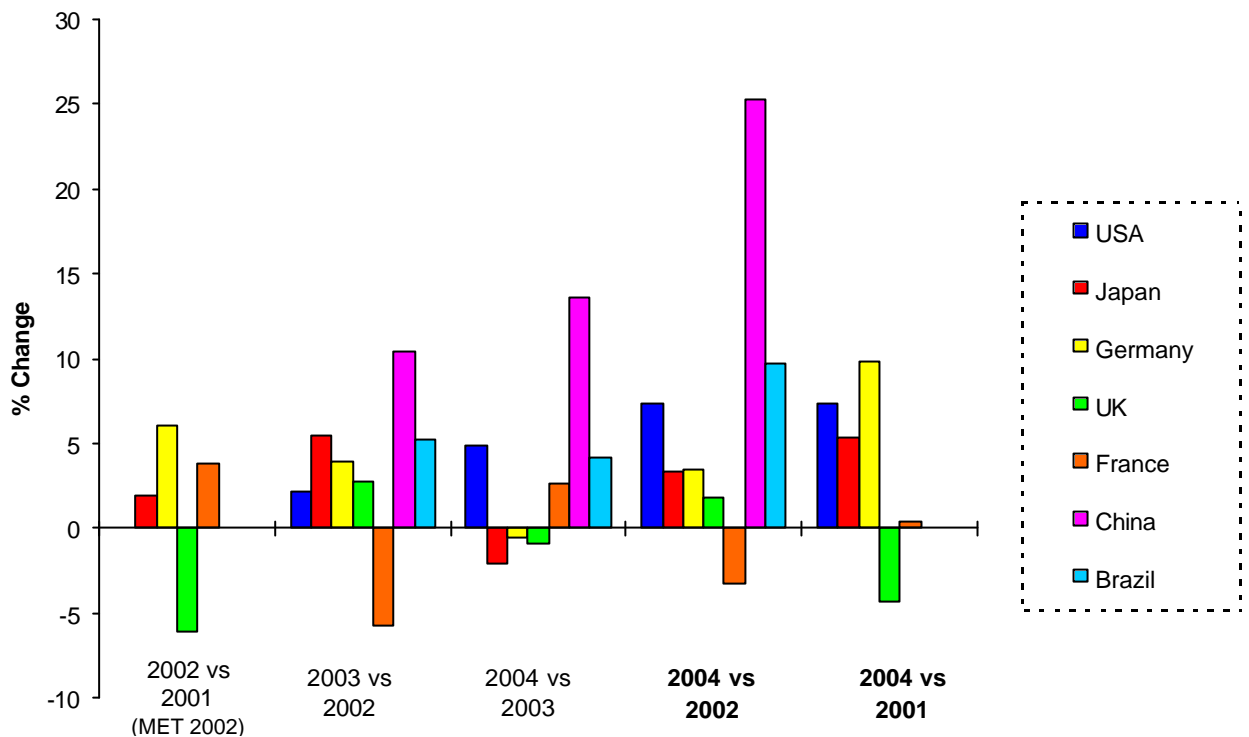
| Country | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|----------------|--------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------------|--------------------------------------|
| USA | (n=248) | 0.0 | 2.2 | 4.9 | 7.3 | 7.3 |
| Japan | (n=112) | 2.0 | 5.5 | -2.1 | 3.3 | 5.4 |
| Germany | (n=118) | 6.1 | 4.0 | -0.5 | 3.5 | 9.8 |
| UK | (n=121) | -6.0 | 2.8 | -0.9 | 1.8 | -4.3 |
| France | (n=121) | 3.8 | -5.7 | 2.6 | -3.3 | 0.4 |
| China | (n=86) | - | 10.4 | 13.6 | 25.3 | - |
| Brazil | (n=85) | - | 5.3 | 4.2 | 9.7 | - |
| Total | (n=891) | 1.8* | 3.0 | 2.1 | 5.1 | 6.8† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

The main pattern is one of fairly steady moderate growth 2001-04. However, this trend masks significant year-on-year changes in individual markets such as the downturn projected for 2004 in Japan, Germany, and the UK and the recovery projected for France. Brand PR/sponsorship in the USA is expected to increase by almost 5% next year, perhaps partly driven by the upcoming Olympic Games. Again, strong growth is predicted in China for both years.

**Figure 6.1: % Change in Brand PR/ Sponsorship Expenditure
(Current local currencies)**



Companies selling products are predicted to increase spending on brand PR and sponsorship more this year than those selling services, while B2B firms are expected to rebuild over 2003/04 the PR/sponsorship budgets cut in 2002 (Table 6.2).

**Table 6.2: % Change in Brand PR/ Sponsorship Expenditure
(Current local currencies)**

| Market Characteristic | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------|----------------|---------------|--------------|--------------|------------|-------------|
| Products | (n=457) | 4.0 | 4.8 | 1.9 | 6.8 | 10.1 |
| Services | (n=434) | -0.3 | 1.1 | 2.4 | 3.5 | 3.6 |
| B2B | (n=386) | -5.4 | 2.9 | 2.4 | 5.5 | -0.2 |
| B2C | (n=457) | 4.4 | 2.6 | 0.6 | 3.3 | 7.1 |
| Total | (n=981) | 1.8* | 3.0 | 2.1 | 5.1 | 6.8† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

6.2 Reasons for increases/decreases in expenditure

Increases

Most of those businesses that increased their brand PR events sponsorship budget said that they were spending it on *events* of various types, some of which are biannual, leading to fluctuating expenditure year-to-year:

“Every other year we have a conference” (other consumer durables, UK)

“There's a big biannual fair in Berlin we attend. Since this is held at our front door we have to make all efforts to be well presented there” (other incl utilities, Germany)

“We will be reallocating resources to sponsor a major Samba school this year for carnival” (other industrial products/systems, Brazil)

Several businesses stressed the *effectiveness* of events while some said that they were trying to *get closer to their customers*:

“We don't do enough and everyone is realising the direct immediate benefit so we will be increasing that. It's a quick win” (hotels/tourism/leisure, UK)

“Public events have been successful and increased sales. So we are increasing public events” (other incl utilities, China)

“It's easier to reach uneducated people via events and trade shows” (other incl utilities, Brazil)

“Promotion is the core tool of our industry - through TV shows and touring we achieve more authenticity for our artists” (media/entertainment/culture, Germany)

“We prioritise proximity communications that allow us to reach directly the client: VIP events” (IT/telecoms products/systems, France)

Finally a few were increasing this budget to develop their *brand or image* or to launch *new products*:

“To improve product image. Last year our products already became quite well known in the country” (automotive, China)

“PR is great in terms of creating impressions of a brand. If a little bit of money is put in there some great results can be achieved” (consumer/packaged goods, USA)

Decreases

The majority of those who reduced their PR and events budgets had used another form of marketing/communications tool instead. The most popular alternative was *interactive*, followed by *media advertising*:

“Because we will sacrifice in this area, rather than one of the others, to give more to spend on interactive advertising” (other industrial products/systems, UK)

“We want to increase other advertisements i.e. internet, to attract worldwide customers” (consumer electronics, China)

“It's better to spend more money on media as it is more effective than this” (hotels/tourism/leisure, Japan)

About 15% commented that they found PR and events *ineffective* and/or poor value:

“We're slowly pulling out of events as they don't really work. People can find out anything they want about a vendor without going to an event” (IT/telecoms products/systems, UK)

“Trade shows generally are not working and in fact we stopped attending a few” (other consumer durables, USA)

“Costs are too high. There wasn't a good opportunity to do events” (other consumer durables, Brazil)

Several simply had been involved in *events that did not occur on an annual basis*, making their PR & events budget fluctuate from year to year:

"The event is open every two years. Next year it's not going to open that's why expenditure is going to decrease" (transport/travel, Japan)

"Our 40th anniversary in 2002 resulted in an increase in spending on events" (consumer/packaged goods, USA)

For a few, *strategic reasons, market conditions or increased efficiency* had caused the reduction in budget:

"Need to increase the spend on sales reps and [trade-related] education due to launch of new product. That was not suitable for events" (luxury/fashion products, Brazil)

"The nature of the business is very much 80:20, i.e. the bigger customers are counting for 80% of our business. We tend to see them one-to-one therefore the expense of going to trade shows doesn't actually reflect in the return so we are going to tone those down" (retail/mail order, UK)

"We're just being a bit more sensible about where the money goes" (other consumer durables, USA)

For a few, market conditions or simple *cost-cutting* had led to the budget decrease:

"Shows gone down the tubes. Employees not allowed to travel that much due to low turnout, economic ripples; businesses are spending less" (IT/telecoms products/systems, USA)

"Preferable area for cuts since success in PR initiatives etc cannot be measured exactly" (media/entertainment/culture, Germany)

"It will come out of the PR and events budget as the other budgets are set" (business/industrial services, UK)

7. Direct Mail

7.1 Expenditure 2001-04

Table 7.1 and Figure 7.1 report the results for direct mail, defined to include expenditure on mail packs, mailed leaflets/brochures and the cost of printing, postage and outsourced database management.

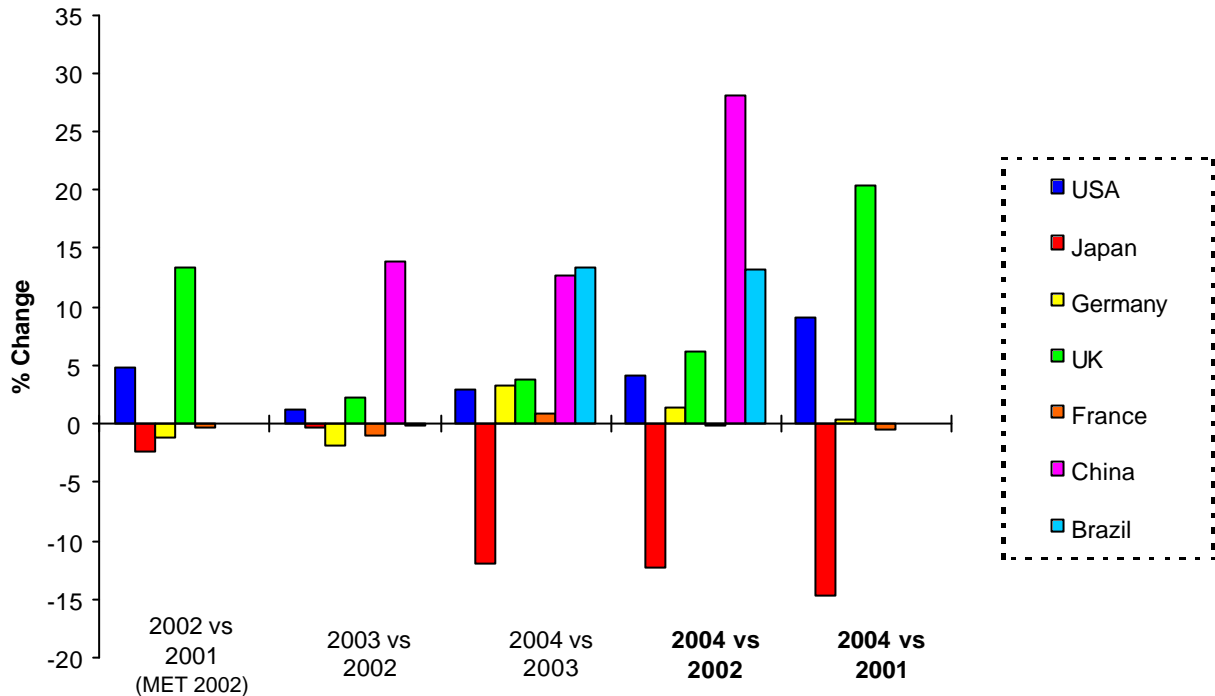
Apart from China, where fast growth is projected for both 2003 and 2004, expenditure on direct mail is expected to be static this year, with growth figures ranging from -1.8% in Germany to +2.3% in the UK (in current local currencies). For 2004, the market is expected to grow in all the countries except Japan, where a sharp drop is projected (-11.9%).

Table 7.1: % Change in Direct Mail Expenditure (Current local currencies)

| Country | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|--------------|----------------|------------------|-----------------|-----------------|----------------|-----------------|
| USA | (n=248) | 4.8 | 1.2 | 2.9 | 4.1 | 9.1 |
| Japan | (n=112) | -2.4 | -0.4 | -11.9 | -12.3 | -14.7 |
| Germany | (n=118) | -1.1 | -1.8 | 3.2 | 1.4 | 0.3 |
| UK | (n=121) | 13.3 | 2.3 | 3.7 | 6.2 | 20.3 |
| France | (n=121) | -0.3 | -1.0 | 0.8 | -0.2 | -0.5 |
| China | (n=86) | - | 13.8 | 12.6 | 28.1 | - |
| Brazil | (n=85) | - | -0.2 | 13.4 | 13.2 | - |
| Total | (n=891) | 3.8* | 0.4 | 0.5 | 0.9 | 4.6† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Figure 7.1: % Change in Direct Mail Expenditure (Current local currencies)

7.2 Reasons for increases/decreases in expenditure

Increases

A variety of reasons accounted for the increase in expenditure on direct mail for many businesses. Many cited making marketing more targeted and personalized:

“Trying to do more targeted marketing. Direct mail will allow us to do that”
(media/entertainment/culture, USA)

“There is a trend towards one-to-one customer relations, accompanying the consumer more than just transmitting a message” (consumer/packaged goods, Germany)

“The willingness to do one-to-one business” (business/industrial services, France)

“Moving away from mass marketing more into personalized” (transport/travel, UK)

“Keeping our focus in the direct access to a known client at a reduced cost” (other incl utilities, Brazil)

“With these means we feel we reach our target group better” (other consumer durables, Germany)

Several mentioned the effectiveness of direct mail. A few indicated that they were transferring budget away from other activities to direct mail, while some were still experimenting with it:

“As an efficient way to raise more money. Mailing and operational marketing to help the activity of our branches nationwide” (consumer/retail financial services, France)

“We think we have a better chance to communicate with our customers more effectively with direct mail” (consumer/packaged goods, USA)

“The money withdrawn from media will be evenly spread among the other categories. We hope to reach more people that way” (automotive, Germany)

“Consider this to be more effective so are trying it out” (other consumer durables, Japan)

A few stated that it was inevitable as their customer base extended, or that access to a database had caused them to use direct mail:

“More money being put into this - as our customer base gets bigger so do our direct mail campaigns” (IT/telecoms products/systems, UK)

“We have never had a database before so the ability to use lists will increase our budget. We will do more direct mail because of this” (other incl utilities, UK)

“Direct contact to customers easier due to restructuring” (consumer/retail financial services, Germany)

Decreases

Businesses decreasing their direct mail budget were switching predominantly to *interactive marketing*, and this appeared to be a permanent shift.

“We're concentrating on interactive marketing as it's measurable and effective” (other incl utilities, USA)

“More emphasis on interactive marketing than direct mail as it seems to be cheaper and more effective” (pharmaceuticals, Brazil)

“Mailing is going to become emailing” (other consumer durables, France)

“Using internet service to replace manual labor. International customers are able to login to our website for purchasing or information. Efficiency and security of using the internet” (IT/telecoms products/systems, China)

“Interactive is a much more cost effective customer acquisition channel for us. Response rates for mail are better in the interactive space” (business/industrial services, USA)

A few were simply *cutting costs*:

“Change in direction of information. Change in delivery of information. Less mail, more internet email contact” (media/entertainment/culture, UK)

“To balance our budget. We are most likely to take from here as it represents the biggest part of our marketing budget” (consumer/retail financial services, France)

Several businesses (mostly in the UK and the USA) had turned away from direct mail, finding it *ineffective and/or expensive*. Conversely, a few were able to reduce their budget as a result of *more efficient* direct mail:

“Too expensive. Not enough value, not effective enough to justify costs”
(consumer/retail financial services, UK)

“Mainly because we don’t see it as very effective anymore. It’s less valuable as a prospecting tool these days. Less cost effective. To stand out from the clutter you have to spend too much” (consumer electronics, USA)

“Too much of it - not ideal, not fresh, not brief. The cost” (consumer/packaged goods, China)

“Direct mail continues to increase in cost. Postage increases, and papers increase in cost every year” (media/entertainment/culture, USA)

“Because more expensive, more difficult. You need to match promotions and operations in shops otherwise we confuse our customers. Media like local radio are less precise but cheaper and reach more customers” (retail/mail order, France)

“We simply print less. We now use [new technology] and we print as required rather than having large amounts of brochures sitting in our storerooms”
(IT/telecoms products/systems, UK)

8. Interactive Marketing

We here discuss expenditure trends for interactive marketing (Section 8.1), the reasons behind these trends (Section 8.2), and businesses' use of specific interactive marketing activities (Section 8.3). Interactive marketing is defined to include marketing websites and extranets, internet advertising and sponsorship, email marketing, and new media (eg wireless, iDTV). Note that, throughout this report, "expenditure" excludes in-house staff costs, equipment and overheads, telephone marketing, and market research. Again, the results for individual years and countries are only indicative because of their limited statistical base.

8.1 Expenditure 2001-04

Table 8.1 and Figure 8.1 show the trends by country. Worldwide, businesses are allocating more and more resources to interactive marketing and this trend is, if anything, accelerating. Dramatic growth is projected for the UK (74% 2001-04), the USA (45% 2001-04), and China (53% 2002-04). Interactive marketing in Germany, which declined slightly in 2002 (-2.2%) is expected to grow 5% this year and 11% in 2004. Expenditure in Brazil is projected to grow by 36% 2002-04, although much of this is attributable to inflation.

The two countries apparently falling behind in this area are Japan (minimal growth over the whole period) and France (growth of only 5.5% 2001-04 in current Euro, despite growth of 5.9% next year). In 2004, we estimate that Japanese and French firms will be allocating 7.5% and 6.4% of their marketing budget, respectively, to interactive marketing. This compares with 8.6%-9.0% for the USA, Germany, and the UK, 7.0% for China, and 7.4% for Brazil (see Appendix A, Table A2).

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

| Country | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04† vs 01 |
|----------------|--------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------------|--------------------------------------|
| USA | (n=248) | 11.3 | 13.2 | 15.3 | 30.6 | 45.3 |
| Japan | (n=112) | -0.6 | 0.3 | 1.3 | 1.6 | 1.0 |
| Germany | (n=118) | -2.2 | 5.1 | 11.4 | 17.1 | 14.6 |
| UK | (n=121) | 19.7 | 22.0 | 18.8 | 45.0 | 73.6 |
| France | (n=121) | -2.3 | 1.9 | 5.9 | 8.0 | 5.5 |
| China | (n=86) | - | 26.0 | 21.4 | 53.0 | - |
| Brazil | (n=85) | - | 11.0 | 22.3 | 35.8 | - |
| Total | (n=891) | 6.6* | 9.3 | 11.6 | 22.0 | 29.8† |

*From MET 2002 (excludes China and Brazil)

†Excludes China and Brazil

Figure 8.1: % Change in Interactive Marketing Expenditure

(Current local currencies)

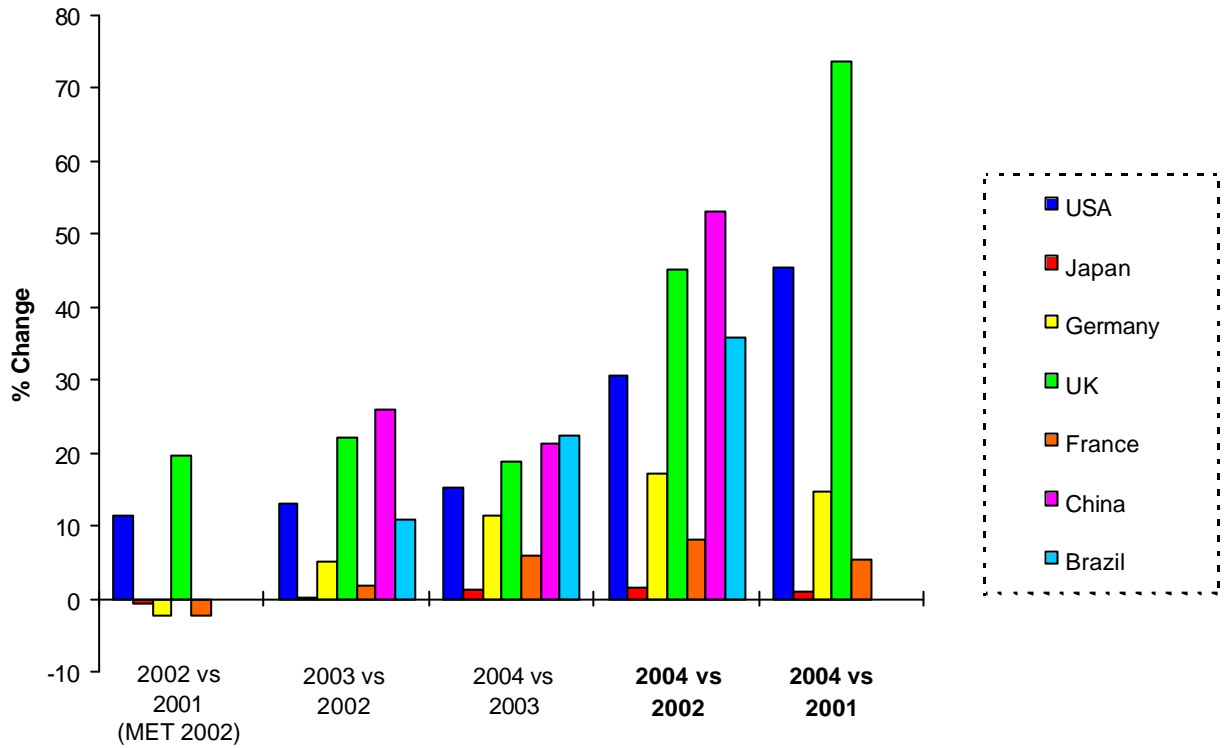


Table 8.2 shows that the growth in interactive marketing cuts almost equally across both product and service markets and both B2B and B2C businesses, although from a higher base in B2B than in B2C.

Table 8.2: % Change in Interactive Marketing Expenditure**(Current local currencies)**

| Market Characteristic | n (2003) | % 2003 Marketing spend | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04† vs 01 |
|------------------------------|-----------------|-------------------------------|----------------------|---------------------|---------------------|-----------------|------------------|
| Products | (n=457) | 7.5 | 7.5 | 7.6 | 10.5 | 18.9 | 28.0 |
| Services | (n=434) | 7.9 | 5.3 | 10.6 | 12.5 | 24.4 | 30.4 |
| B2B | (n=386) | 9.4 | 6.3 | 8.7 | 12.2 | 22.0 | 30.6 |
| B2C | (n=457) | 6.5 | 6.9 | 10.3 | 9.9 | 21.2 | 28.2 |
| Total | (n=891) | 7.7 | 6.6* | 9.3 | 11.6 | 22.0 | 29.8† |

*From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

The relationship with industry sector is shown in more detail in Table 8.3. By 2002, interactive marketing already accounted for a weighted average of 7.1% of total marketing expenditure among these large and mid-sized businesses. This is projected to reach 8.3% in 2004, corresponding to a 22% increase in expenditure on interactive marketing.

The three sectors allocating significantly less than average to interactive marketing are consumer/retail financial services (4.8% of total marketing expenditure in 2002), retail/mail order (3.5%) and consumer packaged goods (2.8%). All three are increasing their interactive spend by above-average percentages (26%, 33%, 29%, respectively, for 2002-04). The other sectors with above-average percentage growth projected for 2002-04 are hotels, tourism and leisure (37%) and business/industrial services (35%).

The only sectors with less than 10% growth projected for 2002-04 are pharmaceuticals and luxury/fashion products. Even these have significant growth of 7% projected, on an above-average base (10.7% of 2002 marketing expenditure for pharmaceuticals, 9.0% for luxury/fashion products).

In summary, the continuing growth in interactive marketing cuts across all industrial sectors. Only the details vary, with interactive being generally used more in B2B than in B2C markets.

Table 8.3: % Allocated to Interactive Marketing and % Changes 2002-04

| Industry Sector | | % of Total Spend 2002 | % of Total Spend 2004 | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 |
|--------------------------------|----------------|------------------------------|------------------------------|---------------------|---------------------|-----------------|
| Business/industrial services | (n=61) | 12.1 | 14.9 | 22 | 11 | 35 |
| Telecoms products/services | (n=76) | 11.2 | 12.3 | 7 | 9 | 17 |
| Pharmaceuticals | (n=50) | 10.7 | 11.2 | 2 | 5 | 7 |
| Luxury/fashion products | (n=20) | 9.0 | 9.1 | 0 | 6 | 7 |
| Travel/transport | (n=28) | 9.0 | 10.8 | 0 | 20 | 20 |
| Consumer electronics | (n=40) | 8.9 | 9.8 | 6 | 11 | 17 |
| Other ind products/systems | (n=57) | 8.6 | 10.2 | 12 | 6 | 19 |
| Hotels/tourism/leisure | (n=52) | 8.3 | 11.0 | 24 | 10 | 37 |
| Automotive | (n=44) | 8.2 | 8.8 | 3 | 8 | 11 |
| Other (including utilities) | (n=76) | 7.5 | 8.5 | 3 | 16 | 20 |
| Other consumer durables | (n=38) | 7.5 | 8.1 | 10 | 3 | 14 |
| Media/entertainment/culture | (n=83) | 6.5 | 7.6 | 4 | 14 | 19 |
| Cons/retail financial services | (n=58) | 4.8 | 5.7 | 9 | 15 | 26 |
| Retail/mail-order | (n=68) | 3.5 | 4.5 | 5 | 27 | 33 |
| Consumer packaged goods | (n=140) | 2.8 | 3.4 | 11 | 17 | 29 |
| Total | (n=891) | 7.1 | 8.3 | 9 | 12 | 22 |

8.2 Reasons for increases/decreases in expenditure

Increases

A very large number of businesses commented on increases in their interactive marketing, and most of these comments reflected a permanent readjustment of budgets. Slightly

more made comments in relation to next year's budget than this year's, reflecting the fact that more businesses intended to increase their interactive marketing budget next year.

The main rationale given for the increase in budget was a belief in the *cost-effectiveness* of interactive marketing. Many businesses were cutting other marketing activities to fund their interactive marketing, but no strong trend emerged as to where these cuts are falling:

"It is cheaper and quicker" (other consumer durables, Brazil)

"Increase slightly as some consumers are attracted by internet surfing"
(consumer/packaged goods, China)

"Continue project on the internet. Cheaper and more effective" (IT/telecoms products/systems, Brazil)

"Technology more advanced than mail. Wider acceptance and more cost effective"
(transport/travel, Germany)

"There is a saturation in media so we are planning to use other marketing like interactive" (business/industrial services, France)

"Looking into our annual record we found interactive marketing is very effective in many ways - cost, speed, communications in between staff and consumers. Therefore we have started looking into interactive more than media advertising"
(hotels/tourism/leisure, Japan)

"We are spending more money on websites, and media advertising is the logical place to take that money from" (hotels/tourism/leisure, UK)

Many companies saw interactive marketing as presenting them with *new opportunities*. There were some differences by country. Businesses in the US and UK were particularly enthusiastic about the new opportunities that interactive marketing presented, while those in China and Brazil emphasized the growth of online penetration:

"It's becoming bigger as a channel of distribution" (transport/travel, USA)

"Medium getting stronger and more important" (media/entertainment/culture, Germany)

"There is \$64billion worth of predicted sales for hotel rooms online by 2006" (hotels/tourism/leisure, USA)

"Interactive is becoming more and more prominent for us as more people access our services through a PC" (consumer/retail financial services, UK)

"The reason is basically the increase in the number of computer users" (media/entertainment/culture, Brazil)

"Exploring this area because it became more important in use for offices and companies" (consumer electronics, China)

"People are using the internet more and more" (luxury/fashion products, Brazil)

"The younger consumers have increased their consumption power and become a significant part of the consumption population. They use the internet a lot" (consumer/packaged goods, China)

Several companies were increasing their budget in order to develop their interactive offering, while others were just starting with interactive marketing:

"We are going to overhaul our website to make it more of an educational tool for our customers. We have a very old interactive site" (business/industrial services, USA)

"We are building a database-driven website at quite a considerable cost. The site was quite static. We want to make it much more interactive" (business/industrial services, UK)

"We need to put more money into interactive marketing since nowadays we cannot supply information on a short-term basis via traditional email, e.g. news on imminent trade fairs" (business/industrial services, Germany)

"We have just launched a new site linked to our official website. We have just created an extranet for our independent agent networks" (consumer/packaged goods, France)

"It's just testing different formats within the online medium. We had some free e-zines so those didn't require a budget, but now we're starting to promote these" (media/entertainment/culture, USA)

"We are in the middle of an evaluation process of how effective interactive is. So there will be lots more money going into this" (consumer electronics, Germany)

Several had a variety of specific strategic reasons for an increased focus on interactive marketing. Others detailed the particular type of interactive marketing which they intended to devote their budget to:

"The internet is going to enable a much more personal sales opportunity. I can tailor my message, e.g. if you're going to a travel site, I can align a benefit in my discount program to your purchase. It's more precise" (business/industrial services, USA)

"We are going to launch a loyalty program" (other consumer durables, France)

"Publication of a new e-magazine" (IT/telecoms products/systems, Brazil)

"We've made a major push on our web marketing including email marketing, and search engine optimization" (hotels/tourism/leisure, USA)

"We introduced an e-commerce site" (IT/telecoms products/systems, UK)

Finally, attitudes to the cost of interactive marketing varied. A few were using interactive marketing to *reduce cost*. Conversely, others used it because they had more money to spend. A couple of companies had increased their budgets despite finding interactive marketing more expensive:

"I just believe you can have a much faster turnaround on the web for much lower costs" (IT/telecoms products/systems, USA)

"It's something we wanted to do but didn't have the resources to oversee it. The staff are now there. We are growing quickly so now have the resources for this" (business/industrial services, UK)

"This budget increases as turnover increases" (IT/telecoms products/systems, France)

"The cost of updating the internet is increasing more and more" (retail/mail order, USA)

Decreases

Very few businesses commented that their interactive marketing budget had decreased. For most of those that did, the budget decrease was simply because the large investment made in setting up the interactive program made the subsequent year's budget relatively smaller:

"Because last year we spent a lot of money on setting up our website, this year we'll spend less money on it and just use it" (retail/mail order, USA)

"We will have set up and modernised our interactive marketing and now it only needs 'ticking over' - less costs" (IT/telecoms products/services, Germany)

"Probably more on a maintenance mode on our websites. Last year we spent a lot on development, we no longer need this so more keeping things going. (other incl utilities, USA)

A few were allocating their interactive marketing budget to other forms of marketing/communications. Fewer still were reducing the following year's budget because they felt that interactive marketing was ineffective:

"We believe media advertising puts across a more controlled message
(business/industrial services, USA)

"Because of lack of budget it has to come off this to be spent on events and PR. We do a lot of in-house web development anyway" (consumer electronics, USA)

"The response is not as good as we expected. (consumer electronics, China)

8.3 Specific interactive marketing activities

Table 8.4 shows which specific interactive marketing activities companies are currently undertaking.

Websites

91% have one or more *websites*, including 79% with public marketing websites. 63% claim to do some search-engine optimization, ie that they actively manage their site to ensure that it appears at or near the top of search engines' results pages. 59% have private password-protected websites ('extranets') and 41% have different sites for different groups. 51% are selling products/services through one or more of their sites.

The majority of comments about companies' own websites were made by UK and US companies. A number of businesses commented that they had password-protected websites for a number of reasons, or described the type that they had. A few were considering developing them:

"There's a website protected by password used in B2B communications"
(business/industrial services, Brazil)

"Within our website there is a loyalty program that entitles people to specials"
(retail/mail order, USA)

"Going to be completely revamped, possible private password protected website"
(IT/telecoms products/systems, UK)

A few businesses indicated that their websites were relatively simple:

"Not sales focused, just informational" (consumer/packaged goods, USA)

Table 8.4: Interactive Marketing Activity Undertaken Now

| Type of Activity | Total (n=875) | US (n=246) | Japan (n=115) | Germ (n=114) | UK (n=119) | Fra (n=113) | China (n=83) | Brazil (n=85) |
|-----------------------------------|--------------------------|-----------------------|--------------------------|-------------------------|-----------------------|------------------------|-------------------------|--------------------------|
| Website(s) | | | | | | | | |
| Public marketing website(s) | 79 | 79 | 72 | 91 | 83 | 84 | 83 | 91 |
| Search-engine optimization | 63 | 68 | 51 | 75 | 65 | 56 | 33 | 65 |
| Private password-protected | 59 | 65 | 40 | 70 | 59 | 65 | 52 | 53 |
| Sell prod/services on site | 51 | 55 | 48 | 48 | 56 | 34 | 40 | 35 |
| Diff sites for diff groups | 41 | 42 | 34 | 50 | 44 | 39 | 19 | 33 |
| Any website(s) | 91 | 93 | 87 | 94 | 94 | 89 | 91 | 98 |
| Web advert/sponsor | % | % | % | % | % | % | % | % |
| Fixed-fee web advertising | 30 | 34 | 21 | 30 | 36 | 21 | 45 | 24 |
| 'Cost per' lead/sale | 22 | 28 | 14 | 9 | 32 | 9 | 35 | 10 |
| Web advertising barter | 20 | 20 | 16 | 32 | 17 | 20 | 28 | 15 |
| Website sponsorship | 11 | 16 | 3 | 8 | 15 | 6 | 17 | 16 |
| Any web advert/sponsor | 48 | 56 | 35 | 48 | 60 | 35 | 58 | 41 |
| Email | | | | | | | | |
| 'Opt-out' email | 42 | 50 | 31 | 34 | 56 | 36 | 17 | 46 |
| 'Opt-in' email | 37 | 44 | 21 | 43 | 34 | 35 | 12 | 55 |
| Any email | 49 | 59 | 30 | 50 | 65 | 42 | 18 | 60 |
| SMS | | | | | | | | |
| Customer response w/SMS | 17 | 17 | 22 | 15 | 14 | 14 | 15 | 9 |
| Contacting using SMS | 14 | 9 | 21 | 15 | 15 | 13 | 19 | 14 |
| Any SMS | 19 | 18 | 25 | 16 | 18 | 16 | 21 | 15 |
| Other interactive activity | | | | | | | | |
| Online promo's/incentives | 48 | 55 | 31 | 59 | 52 | 38 | 39 | 35 |
| Interactive digital TV | 6 | 4 | 8 | 6 | 7 | 6 | 6 | 4 |
| Other interactive technique | 9 | 10 | 4 | 24 | 5 | 9 | 2 | 4 |

A number were intent on developing their websites:

"Improvement of website is considered. More educational value" (other incl utilities, Japan)

"From October, we're offering subscribers to read, file and archive our paper online" (media/entertainment/culture, Germany)

Comments about the use of websites in marketing were numerous, although a few were dissatisfied with the results they had obtained so far:

"Clients can use some services on the website, like printing bills, that sort of thing" (other incl utilities, Brazil)

"Internet is a new technology for us, still best for certain types of products so can't get too excited. Difficult to show ROI on the web" (consumer/packaged goods, USA)

Various comments were made about the different aspects of website design and operation, as well as the effectiveness of websites overall.

There were a variety of comments from both those businesses that sell products/services through their websites, and those that do not:

"We have a website for customers' convenience. We do have online order forms but didn't receive any online orders as customers still prefer to talk face-to-face" (hotels/tourism/leisure, China)

"We sign up and give quotes but don't really sell over web" (other incl utilities, USA)

"Introduce our brand and product to customers and have some promotional activities through the net to attract customers" (consumer/packaged goods, China)

A few businesses explained how they used different websites for different customer groups:

"Different websites, one for the general public, whoever is interested, one for journalists, and one protected website for doctors only" (pharmaceuticals, UK)

"Our portal subdivides into three different interests" (consumer/packaged goods, Brazil)

Web advertising/sponsorship

48% are using one or more type of *web advertising/sponsorship*, based on a combination of:

- fixed-fee web advertising (eg paying a fixed fee to place banner ads on a third-party website) (30%)
- cost per lead or sale (ie a third-party deal on a 'cost-per' basis, including sponsored search engine searches) (22%)
- barter (firm places ads on a third-party's site and vice versa) (20%)
- sponsorship (ie sponsoring a third-party website) (11%)

The fact that they were using their own website for marketing rather than web advertising or sponsorship was emphasized by several companies:

"Our principle: no clients allowed to advertise on our website or all would want to" (transport/travel, Germany)

A number of companies indicated that they were able to obtain web advertising or leads from other websites for free or on a reciprocal basis:

"Not paid for, we have a relationship with some contacts so it's a trade-off" (consumer/packaged goods, USA)

Of those who were using web advertising and sponsorship, there were a variety of comments relating to the various forms. Of the categories, there were most comments about links to and from 3rd party websites:

"We sponsor other company websites, we have links for them and them for us"(other incl utilities, Brazil)

"We pay per click for traffic directed by a 3rd party site. One way system only"
(hotels/tourism/leisure, USA)

"Listed on other sites as links. Direct link from our retailers. Not advertising"
(consumer electronics, USA)

Permission-based email

49% are using *permission-based email* marketing, with 42% using 'opt-out' email (users have to check a box if they *do not* want to receive emails) and 37% using 'opt-in' (users have to check a box if they *do* want to receive emails). Only a few companies commented on the use of e-mails:

"Email messaging to 'opt-out' customers who have contacted us will be more of a priority to us in the future" (media/entertainment/culture, USA)

"The customer doesn't like to receive emails, they receive too much junk, they don't like email companies" (other industrial products/systems, Germany)

Online promotions/incentives, SMS, and iDTV

48% are using *online promotions or incentives* and 19% *SMS text messaging* (17% as a direct response channel for customers to respond to the firm's communications or promotions, 14% as a 'push' channel for contacting customers or prospects).

Attitudes to SMS varied, with slightly more negative comments than positive:

"We have done many SMS tests but the results so far have been very disappointing" (hotels/tourism/leisure, France)

"We feel SMS promotion is too intrusive a form of marketing"
(media/entertainment/culture, USA)

"SMS- we contact customers when they have given us permission to do so. We give them offers of new products so that is prospecting but on a permission basis. We don't send any unsolicited text messages" (media/entertainment/culture, USA)

"We are looking at the possibility of using skytext - it is good value for money compared with other forms of SMS advertising" (automotive, UK)

Just 6% are using *interactive digital TV*, and there were few comments about interactive TV. The fact that it is not developed in China and Brazil was the most common. There were no comments endorsing it:

"Interactive digital TV did not work well for us" (retail/mail order, UK)

The cautious comments on SMS and interactive digital TV confirm that interactive marketing is still overwhelmingly internet-based (websites, web advertising, permission-based email, online promotions), especially for B2B firms.

"I don't know enough about interactive TV to use it as a marketing tool" (hotels/tourism/leisure, USA)

Differences between countries

Table 8.4 also shows some differences in the use of interactive marketing techniques in different countries:

- Websites are now almost universal, although fewer French and Brazilian sites are used to sell products/services online and fewer Chinese firms have different sites for different groups or do search-engine optimization.
- Web advertising/sponsorship is especially well-developed in the USA, UK, and China, and less developed in Japan and France.
- Japanese and Chinese firms use somewhat more SMS and less email marketing than firms in the West.
- Online promotions are used more in the USA, Germany, and the UK than in the other countries.

Internal vs external website management

Table 8.5 shows the percentage of company websites that are managed by an internal or external team. Most websites are managed internally. As we can see there is a fair amount of variation across the countries with over 80% of websites in the USA, Japan, the UK and China being managed by an internal team and only 57% and 55%, respectively, being managed internally in Germany and Brazil. The situation in France is in-between (67%).

Table 8.5: Website Management by Country

| Type of Management | Total (n=847) | US (n=240) | Japan (n=107) | Germ (n=112) | UK (n=116) | Fra (n=108) | China (n=81) | Brazil (n=83) |
|----------------------------|------------------|---------------|------------------|-----------------|---------------|----------------|-----------------|------------------|
| | % | % | % | % | % | % | % | % |
| Internally managed | 78 | 82 | 84 | 57 | 82 | 67 | 82 | 55 |
| Externally managed | 19 | 16 | 14 | 39 | 17 | 27 | 14 | 45 |
| Both (ie ext and internal) | 3 | 2 | 2 | 4 | 1 | 6 | 4 | 0 |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Several businesses commented that they use both external and internal management of their website, to varying degrees:

"50/50 split between external and internal" (consumer/packaged goods, Germany)

"Our website is mainly internal but we do outsource sometimes to an advertising company with a specialist website dept" (hotels/tourism/leisure, USA)

Comments about search engine optimization suggested that the majority of those that do it, do so in-house:

"It takes constant vigilance to make sure on top of various search engines" (business/industrial services, USA)

"To appear at the top of search engine's results pages we pay a 3rd party for this service even though we have an internal team for our website" (consumer/retail financial services, UK)

A few respondents indicated that they were not responsible for the company website:

"No cost on interactive marketing. Website maintained by mother company in Taiwan"
(consumer/packaged goods, China)

Planned changes in next 12 months

Table 8.6 shows the percentage of firms planning to introduce each interactive marketing activity over the next 12 months. Top of the list is *online promotions/incentives*, which 11% of firms are planning to introduce, in addition to the 48% who already use them. Based on these responses, by late 2004, 59% of firms in our sample will be using online promotions/incentives.

The second clear growth area is *permission-based email*, both 'opt-in' (10% of firms) and 'opt-out' (8%). In addition, *SMS marketing* is growing relatively fast from a fairly low base, especially 'push' SMS (contacting customers/prospects using text messaging), projected to be adopted by 8% of firms, taking its penetration from 14% to 22%.

Finally, although most firms already have websites and many are already using web advertising, both areas are steadily becoming more sophisticated, with continuing growth in password-protected websites (extranets), search engine optimization, and online sales.

Table 8.6: Planned and Current Interactive Marketing Activities**(All countries, n=875)**

| Type of Interactive Marketing Activity | Planned in next 12 months | Currently have/are | Total (2003 & 2004) |
|---|---------------------------|--------------------|---------------------|
| | % | % | % |
| Online promotions/incentives | 11 | 48 | 59 |
| Sending 'opt-in' permission-based email | 10 | 37 | 46 |
| Sending 'opt-out' permission-based email | 8 | 42 | 50 |
| | | | |
| Contacting customers/prospects using SMS | 8 | 14 | 22 |
| Private password-protected website(s) | 7 | 59 | 66 |
| Search engine optimization | 7 | 63 | 70 |
| | | | |
| Sell products or services on site | 7 | 51 | 58 |
| Fixed-fee web advertising | 6 | 30 | 36 |
| Web advertising barter | 6 | 20 | 26 |
| | | | |
| Customers/prospects can use SMS to respond to communications/promotions | 6 | 17 | 24 |
| 'Cost per' basis for leads/sales | 5 | 22 | 27 |
| Different sites for diff customer groups etc | 5 | 41 | 46 |
| | | | |
| Using interactive digital television | 4 | 6 | 9 |
| Website sponsorship | 3 | 11 | 15 |
| Public marketing website(s) | 2 | 79 | 81 |

Respondents were also asked a “diffusion index” type question about their planned expenditure on a short list of broadly defined interactive marketing activities, ie for each activity, did they expect an increase, decrease, or no change in expenditure next year? Table 8.7 shows the results.

Very few firms are planning to decrease expenditure on any specific interactive marketing activity while many are planning increases. Again, online promotions/incentives head the growth list, with 48% saying they plan to increase expenditure, giving a very high Diffusion Index of 73. Many firms are also putting more resources into web advertising, permission-based email, and websites, with diffusion indices of 69, 68, and 67, respectively.

For SMS, the diffusion index was only 55, but this still reflects continuing growth, with only 2% of firms planning to reduce expenditure and 13% planning to increase it. Among B2C firms, the equivalent percentages are 3% and 16%, giving a slightly higher diffusion index of 57.

Table 8.7: Increases/Decreases in Expenditure in 2004 (All countries, n=862)

| Area of Expenditure | Decrease | N/C | Increase | Diffusion Index* 03/04 |
|--------------------------------------|----------|-----|----------|---------------------------|
| | % | % | % | |
| Online promotions/incentives | 3 | 50 | 48 | 73 |
| Web-adv/sponsorship (incl. searches) | 1 | 59 | 40 | 69 |
| Permission-based email | 2 | 59 | 39 | 68 |
| Website(s) | 2 | 62 | 36 | 67 |
| SMS | 2 | 85 | 13 | 55 |

* Section 2.1 for an explanation of the "Diffusion Index".

In summary, interactive marketing is growing fast across-the-board and the reasons given are long-term not faddish. This growth is happening in all sectors, especially B2B, and in all the countries studied except for Japan and France, which are somewhat behind the other developed countries in the use of interactive marketing, and becoming more so.

Online promotions/incentives and permission-based email are areas of particularly fast growth, but firms are also investing to increase the sophistication of their websites (eg extranets, search-engine optimization, online sales) and web advertising, including sponsored searches. B2C firms are also increasing their use of SMS text messaging (both 'push' and as a direct-response channel) and interactive digital TV, but from a very low base.

9. Conclusions

9.1 Summary of Results

Total Marketing Expenditure

Marketing expenditure in the seven countries covered by this report is likely to show minimal growth this year (a weighted average of just 1.1% in current local currencies) with a significant recovery in 2004 (3.4%). This conclusion is based on quantitative data collected in July - September 2003 with a follow-up call to 20% of respondents in late October which showed little change in expectations up to that point. It is reinforced by qualitative comments which show that respondents are more optimistic about economic and market conditions for 2004 than for 2003. The budget cuts and difficult trading environment of 2002 and 2003 can, therefore, be viewed as a short-term dip with a return to growth, albeit slow, expected by a majority of respondents.

Within the overall picture there are large differences between countries as shown in Table 2.1 and Figure 2.1 (reproduced here as Table 9.1 and Figure 9.1):

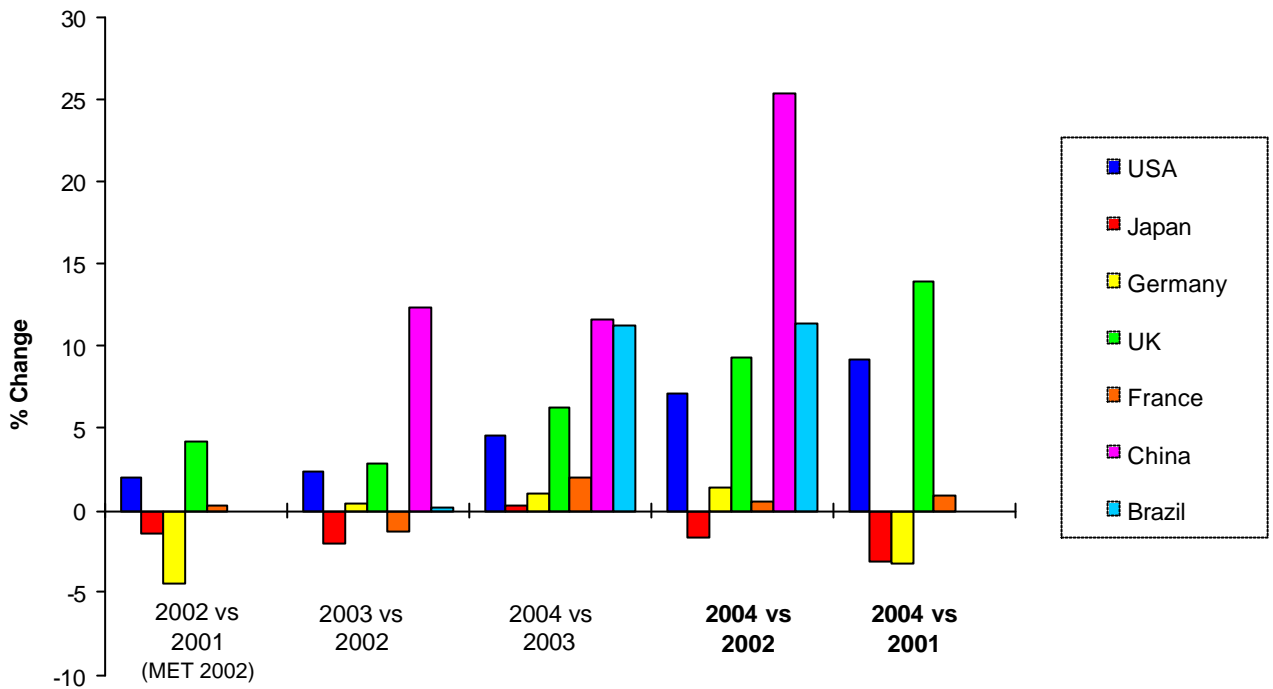
Table 9.1: % Change in Total Expenditure (Current local currencies)

| Country | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|--------------|----------------|------------------|-----------------|-----------------|----------------|-----------------|
| | | % | % | % | % | % |
| USA | (n=251) | 2.0 | 2.3 | 4.6 | 7.1 | 9.2 |
| Japan | (n=115) | -1.4 | -2.0 | 0.3 | -1.7 | -3.1 |
| Germany | (n=113) | -4.5 | 0.4 | 1.0 | 1.4 | -3.2 |
| UK | (n=120) | 4.2 | 2.9 | 6.3 | 9.3 | 13.9 |
| France | (n=120) | 0.3 | -1.3 | 2.0 | 0.6 | 0.9 |
| Total | (n=719) | 0.6* | 0.8 | 3.1 | 3.9 | 4.5† |
| China | (n=85) | | 12.3 | 11.6 | 25.4 | |
| Brazil | (n=83) | | 0.2 | 11.2 | 11.4 | |
| Total | (n=887) | | 1.1 | 3.4 | 4.5 | |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Figure 9.1: % Change in Total Expenditure (Current local currencies)

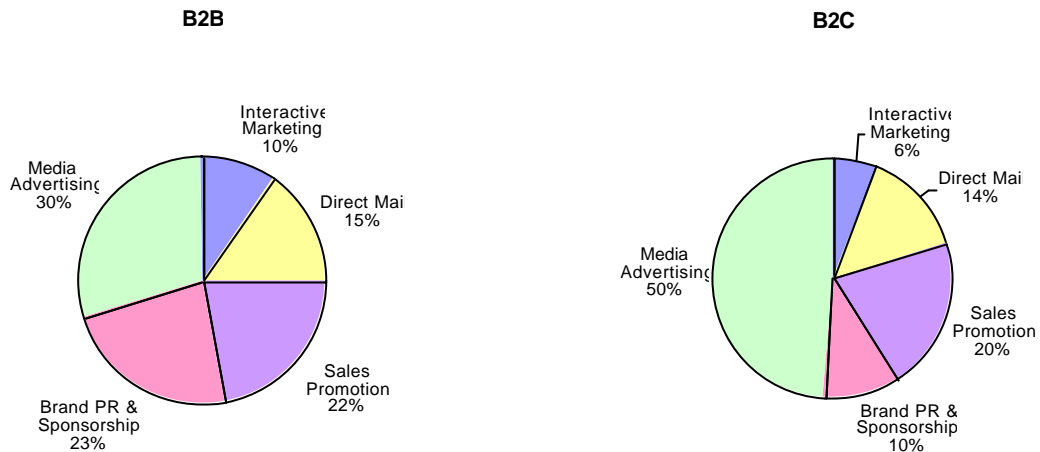


The UK and the USA show moderate growth this year with healthy growth predicted for 2004, up by 7% and 9% respectively over the 2-year period 2002-04 (9% and 14% for 2001-04). Germany and France are expected to remain flat, while Japan continues in slow decline as a result of the economic situation. Of the two countries surveyed for the first time, China is growing strongly in both 2003 and 2004 as it continues its rapid economic development. The analysis for Brazil shows a flat 2003 and return to growth in 2004. Brazil is, however, experiencing high inflation and a somewhat volatile economy so the projections should be viewed with caution.

% Allocation Across Marketing Activities

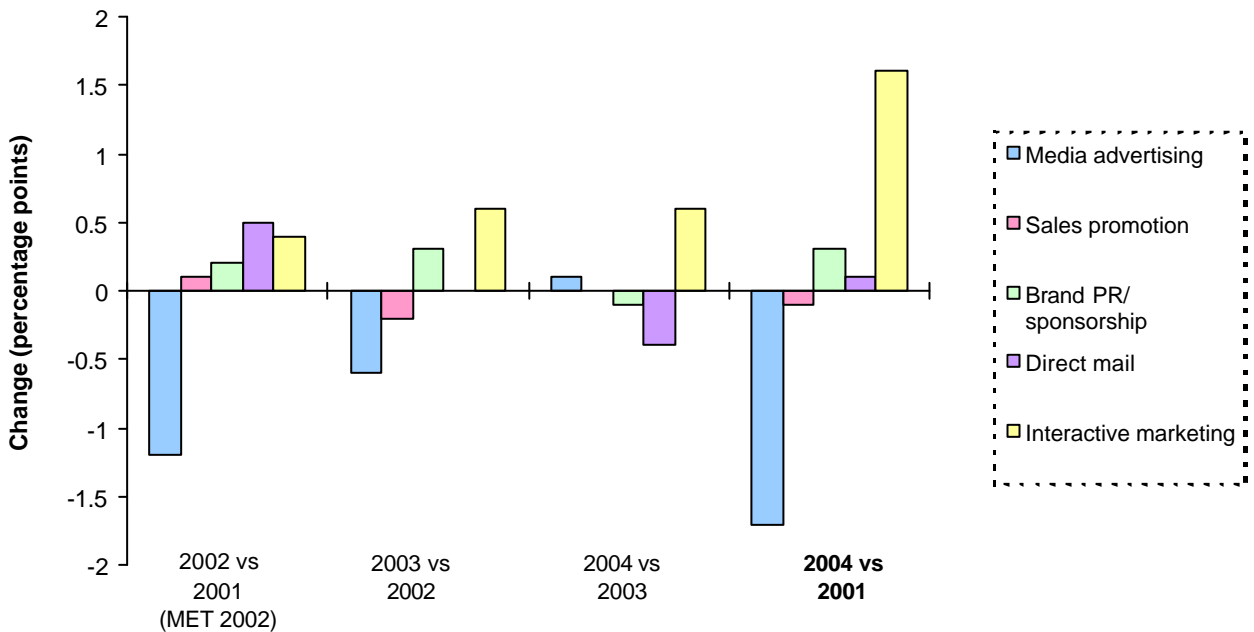
Figure 9.2 (reproduced from Figure 3.1) shows how marketing expenditure is allocated across the five activities for firms in business-to-business (B2B) and business-to-consumer (B2C) markets. B2B firms spend less than B2C on media advertising (30% vs 50% of total marketing expenditure) and more on brand PR/sponsorship (23% vs 10%) and interactive marketing (10% vs 6%).

Figure 9.2: % Allocation of 2003 Marketing Budget : B2B vs B2C Firms



These % allocations are changing over time, as shown in Figure 9.3 (Figure 3.2, reproduced) for the five top countries 2001-04. The main trends are the decrease in the percentage of marketing spend allocated to media advertising (- 1.7% of total marketing expenditure) and the almost equal increase in the percentage allocated to interactive marketing (+ 1.6%).

Figure 9.3: Changes in % Allocation 2001-04: Top Five Countries
 (% of total marketing expenditure)



Trends in the Five Marketing Activities

In Sections 4-8 we combined the results for total marketing expenditure with those for how it is allocated to show the implications for the five expenditure categories.¹ The main results for the total market are summarized in Table 9.2 and Figure 9.4 (based on the 2003 % allocations in Table 3.1 and the Total results in Tables 4.1, 5.1, 6.1, 7.1, and 8.1).

Table 9.2: % Change in Expenditure 2001-04 (Current local currencies)

| Expenditure Category | 2003 % of total | | | | 04 | 04 |
|----------------------------|-----------------------|------------------|-----------------|-----------------|------------|-------------|
| | | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | vs 02 | vs 01† |
| Media advertising | 40.5 | -2.0 | -0.2 | 3.6 | 3.4 | 0.7 |
| Sales promotion | 20.5 | 0.8 | 0.4 | 3.2 | 3.6 | 3.5 |
| Brand PR/sponsorship | 15.4 | 1.8 | 3.0 | 2.1 | 5.1 | 6.8 |
| Direct mail | 14.0 | 3.8 | 0.4 | 0.5 | 0.9 | 4.6 |
| Interactive marketing | 7.7 | 6.6 | 9.3 | 11.6 | 22.0 | 29.8 |
| Total (incl. Other) | 100% | 0.6* | 1.1 | 3.4 | 4.5 | 4.5† |

* From MET 2002 (excludes China and Brazil)

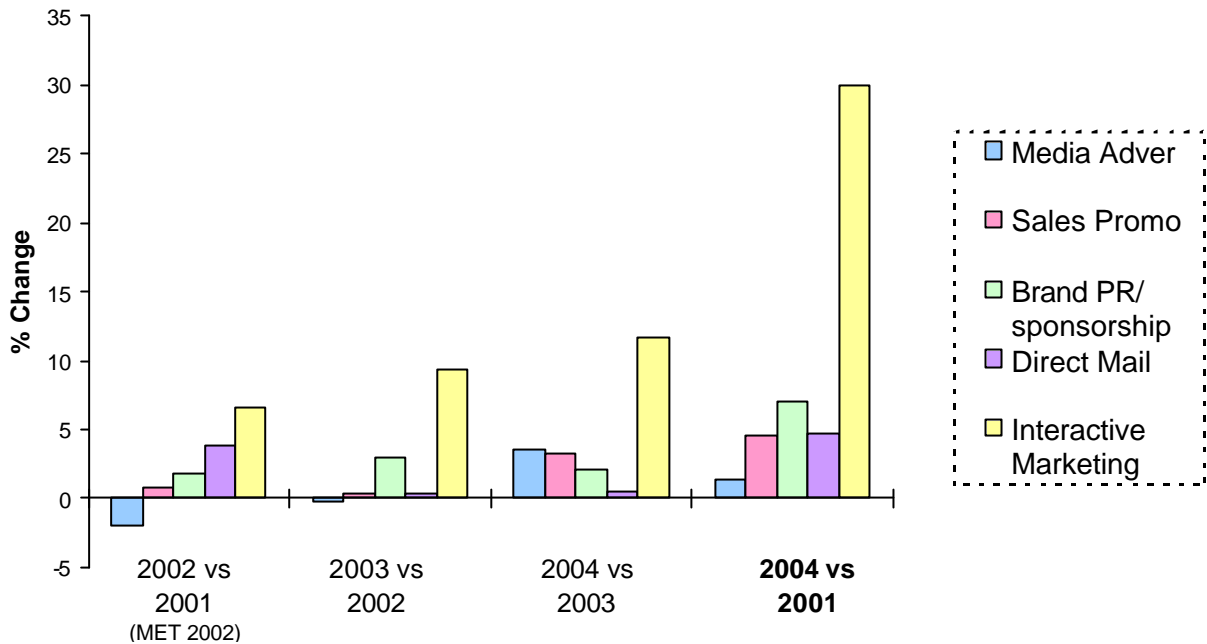
† Excludes China and Brazil

Media advertising is projected to fall slightly this year but return to growth in 2004. For the five top countries, however, next year's growth will bring traditional media advertising back to a level only marginally (0.7%) above its level in 2001 in current local currencies.

Sales promotion, accounting for about 20% of total marketing expenditure, is projected to increase slightly this year and more in 2004. Brand PR/sponsorship will continue its fairly steady growth (cumulating to 6.8% for 2001-04 in the top five markets). In contrast, minimal growth is projected for direct mail in 2003 and 2004, although this slowdown follows healthy growth in 2002 (3.8% in the top five markets) leading to a cumulative 4.6% for 2001-04 (still above the 3.5% for sales promotion and well above the 0.7% for traditional media advertising).

¹The trends for each country are brought together in Appendix B. Results for 15 industrial sectors are presented in Appendix C.

Figure 9.4: % Change in Expenditure 2001-04 (Current local currencies)



It is too early to tell if the slowdown projected for direct mail is long-term. The low growth for 2004 (0.5%) includes a large drop projected for Japan (- 11.9%) which seems unlikely to recur so severely. But there are signs that direct mail may at last be starting to lose share to interactive marketing, especially permission-based email. This has been predicted for many years, but up to this point, direct mail expenditure has kept on growing.

The Rise and Rise of Interactive Marketing

The fastest growing category (9.3% in 2003 and 11.6% in 2004) is interactive. The growth is particularly strong in the UK where the trend for 2001-04 shows over 70% cumulative growth. Strong growth is also seen in the US with interactive marketing increasing by 13% in 2003 and 15% in 2004. China, too, is experiencing fast growth in interactive marketing, showing that the trend is not confined to the more developed markets. Japan and France lag behind this global trend. Qualitative responses show that companies are at varying degrees of development in their use of interactive marketing but that the growth is being driven by the perception that the internet is fast, adaptable, controllable, measurable and in many contexts low-cost compared to other marketing activities. The growth in interactive marketing is happening in all sectors, but especially in business-to-business (B2B) markets where it already accounts for almost 10% of marketing expenditure. (Figure 9.2 above).

Section 8.3 explored interactive marketing in more detail. Online promotions/incentives and permission-based email are areas of particularly fast growth, but firms are also investing to increase the sophistication of their websites (password-protected 'extranets', search-engine optimization, online sales) and web advertising, including sponsored searches. Some business-to-consumer (B2C) firms are also increasing their use of SMS text messaging (both for 'push' and as a direct-response channel for other media) and a few are testing interactive digital TV.

9.2 Implications for the Agency Business

This MET Report is intended to provide insight into marketing expenditure trends in the top five countries and in two important emerging markets, China and Brazil. Its aim is diagnostic – to document not only the trends but also the reasons underlying these trends. It is not primarily a quantitative forecast, and especially not a forecast of the market for advertising and marketing services. For instance, only a small proportion (10%-15%) of companies' expenditure on advertising is revenue for advertising and media agencies. Most goes to the media, the rest to production costs.

Also, the study includes Japan, with easily the second biggest economy in the world at market exchange rates (and weighted accordingly in this report). But Western agency groups have little involvement in Japan, which is dominated by Dentsu and other local agencies and has proved hard for foreign agencies to penetrate.

Anyone wishing to use the MET Report to throw light on the agency business should therefore focus on the broad trends, rather than the detailed numbers, and the qualitative data on why clients are changing their marketing resource allocation. They may also find it helpful to consider how different the numbers are if Japan is excluded.

Specifically, if Japan is excluded, what are the broad trends for total marketing expenditure and for expenditure on traditional media advertising versus marketing services, especially direct marketing? Table 9.3 compares the projections for total marketing expenditure with and without Japan. Table 9.4 (equivalent to Table 9.2, but excluding Japan) gives the results for each of the five expenditure categories and for total marketing expenditure. Table 9.5 compares the trends for media advertising with all marketing services and with direct marketing.

Table 9.3 shows that, if Japan is excluded, the growth of the total market is increased by almost half a percentage point for the other four top countries (USA, Germany, UK, France) for 2001-02 and almost a full percentage point for the six countries (ie including China and Brazil) in 2002-03 and 2003-04. These are significant differences and are likely to continue until the Japanese economy gets back into a pattern of sustainable growth.

Table 9.3: % Change in Total Expenditure - Including vs Excluding Japan (Current local currencies)

| Country | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|----------------------------------|--------------------|--------------------------------|-------------------------------|-------------------------------|-------------------------------------|--------------------------------------|
| | | % | % | % | % | % |
| All | (n=894) | 0.6* | 1.1 | 3.4 | 4.5 | 4.5 |
| All Excluding Japan ² | (n=779) | 1.0* | 2.0 | 4.4 | 6.5 | 6.9 |
| Difference | | 0.4* | 0.9 | 1.0 | 2.0 | 2.4† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table 9.4 shows that 2004 is likely to be a good year for media advertising in the six countries, with slightly higher growth (4.2%) than brand PR/sponsorship (3.8%), direct mail (3.1%) and sales promotion (2.5%). Cumulating over the two years, the projected growth for media advertising (4.9%) is somewhat lower than for brand PR/sponsorship (6.1%) but more than matches direct mail (4.6%) and sales promotion (4.2%).

² In tables 9.3-9.5, results excluding Japan for 2001-02 and 2001-04 are for the USA, Germany, UK, France. Results for 2002-03, 2003-04, and 2002-04 are for these four countries plus China and Brazil

Table 9.4: % Change in Expenditure 2001-04 Excluding Japan**(Current local currencies)**

| Expenditure Category | 2003 % of total | 2002 vs | 2003 vs | 2004 vs | 04 | 04 |
|----------------------------|-----------------------|-------------|------------|------------|------------|-------------|
| | | 2001* | 2002 | 2003 | vs 02 | vs 01† |
| Media advertising | 39.3 | -2.1 | 0.7 | 4.2 | 4.9 | 2.1 |
| Sales promotion | 20.3 | 2.1 | 1.7 | 2.5 | 4.2 | 5.5 |
| Brand PR/sponsorship | 15.3 | 0.6 | 2.2 | 3.8 | 6.1 | 6.1 |
| Direct mail | 15.4 | 4.5 | 1.4 | 3.1 | 4.6 | 8.6 |
| Interactive marketing | 7.9 | 7.9 | 13.3 | 14.2 | 29.4 | 38.8 |
| Total (incl. Other) | 100% | 1.0* | 2.0 | 4.4 | 6.5 | 6.9† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

However, there are several reasons to believe that, over the long term, traditional media advertising will continue to lose its share of total marketing expenditure (see Table 9.5):

- Even in 2004, media advertising is expected to grow slightly less than all marketing services (4.2% versus 4.6%). For 2002-04, the gap widens to three full percentage points (4.9% vs 7.9%).
- These two years follow 2001-02, when advertising declined by 2.1% in the four countries, excluding Japan, covered by MET 2002 (USA, Germany, UK, France) while marketing services grew by 3.8%. For these four countries, which account for well over half of the world market for advertising and marketing services outside Japan, media advertising is projected to grow by only 2.1% over the period 2001-04 versus 11.2% for marketing services.
- The big growth area is direct marketing, with projected growth of 12.4% over just two years 2002-04 in the six countries (USA, Germany, UK, France, China, Brazil) and 18.5% for 2001-04 for the four countries. The big driver is now interactive marketing, and there is some suggestion in the MET 2003 data that so expenditure

is being allocated to permission-based email rather than direct mail, but this is not reducing the growth of direct marketing as a whole or reducing the resulting pressure on traditional media advertising budgets.

- Among the other marketing services, sales promotion also appears to be possibly losing share of spend, especially in 2004 because of the growth of online promotions/incentives, but probably no faster than media advertising. Brand PR/sponsorship, which competes more directly with brand-building advertising, is if anything growing slightly faster than either advertising or sales promotion.
- The qualitative data in the 2002 and 2003 MET Reports show that the reasons behind the shift in resources from traditional media advertising (and sales promotion) into direct marketing – especially interactive – are long-term.

Table 9.5: % Change in Expenditure: Advertising vs Marketing Services Excluding Japan (Current local currencies)

| Category | n (2003) | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|---------------------------------------|----------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | (n=779) | -2.1 | 0.7 | 4.2 | 4.9 | 2.1 |
| Direct marketing ³ | (n=779) | 6.2 | 5.1 | 6.9 | 12.4 | 18.5 |
| Other marketing services ⁴ | (n=779) | 1.4 | 1.9 | 3.1 | 5.0 | 5.7 |
| Total Marketing services ⁵ | (n=779) | 3.8 | 3.2 | 4.6 | 7.9 | 11.2 |
| Total | (n=779) | 1.0* | 2.0 | 4.4 | 6.5 | 6.9† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

³ Direct mail and interactive marketing

⁴ Sales promotion and brand PR/sponsorship

⁵ Sales promotion, brand PR/sponsorship, direct mail and interactive marketing

Our expectation is that direct, especially interactive, marketing will continue to grow at the expense of traditional media advertising, sales promotion and brand PR/sponsorship for the foreseeable future. When the economy slows down, sales promotion may grow a little faster. When the economy grows faster (as, we project, in 2004), advertising and brand PR/sponsorship may recapture some of their lost share of expenditure. But the long-term trend towards direct, especially interactive, marketing seems to us to be inexorable. The challenge for the agencies is to adapt to this evolving market, and especially to provide value-added services which will persuade companies to continue outsourcing key parts of their marketing and communication activity.

9.3 Top-Line Results of the Study

In conclusion, the top-line results of the study are:

1. Total marketing expenditure for the seven countries taken together is expected to show minimal growth in 2003 (1.1% in current local currencies) with stronger growth in 2004 (3.4%). The cutbacks in expenditure seen in recent years reflect short-term market and economic conditions. As conditions improve, marketing budgets will grow again.
2. China shows very strong growth, followed by the USA and UK. The dramatic growth in China is expected to continue as a result of its rapid economic development and huge long-term market potential. Both Japan and France show a small decline in 2003 followed by a flat expectation in Japan for 2004 and moderate growth in France. Germany displays minimal growth over the two-year period. Whilst significant nominal growth is expected for Brazil in 2004, inflation may well account for much of this growth.
3. Companies in all sectors are investing heavily in interactive marketing. Only Japan and France appear to be lagging somewhat in this area. Interactive already accounts for 10% of total marketing expenditure in business-to-business (B2B) firms and 6% in business-to-consumer (B2C) firms. Online promotions/incentives and permission-based email are areas of particularly fast growth, but firms are also investing to improve the sophistication of their websites (password-protected

'extranets', search-engine optimization, online sales) and web advertising (eg sponsored searches).

4. For Western advertising and marketing services agencies, their limited exposure to the stagnant Japanese market is a benefit: excluding Japan adds about one percentage point to the projected growth of total marketing expenditure in both 2003 and 2004. However, the long-term trend towards direct marketing, especially interactive, poses a strategic challenge for these groups.

Appendix A: % Allocations Across the Five Activities

Table A1: % Allocation 2002, by Country

| Expenditure Category | Total (n=891) | USA (n=251) | Japan (n=112) | Germany (n=118) | UK (n=121) | France (n=121) | China (n=86) | Brazil (n=85) |
|-----------------------|------------------|----------------|------------------|--------------------|---------------|-------------------|-----------------|------------------|
| | % | % | % | % | % | % | % | % |
| Media advertising | 41.0 | 41.4 | 44.9 | 35.0 | 41.2 | 35.3 | 43.0 | 36.8 |
| Sales promotion | 20.6 | 19.0 | 21.7 | 24.0 | 15.8 | 26.4 | 23.3 | 25.8 |
| Brand PR/sponsorship | 15.1 | 14.3 | 14.5 | 17.3 | 15.0 | 16.6 | 17.2 | 21.5 |
| Direct mail | 14.1 | 16.3 | 9.3 | 13.7 | 20.1 | 12.5 | 6.6 | 7.3 |
| Interactive marketing | 7.1 | 7.3 | 7.2 | 7.8 | 6.5 | 6.0 | 5.7 | 6.1 |
| Other | 2.1 | 1.7 | 2.3 | 2.3 | 1.4 | 3.2 | 4.2 | 2.6 |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Table A2: % Allocation 2004, by country

| Expenditure Category | Total (n=891) | USA (n=251) | Japan (n=112) | Germany (n=118) | UK (n=121) | France (n=121) | China (n=86) | Brazil (n=85) |
|-----------------------|------------------|----------------|------------------|--------------------|---------------|-------------------|-----------------|------------------|
| | % | % | % | % | % | % | % | % |
| Media advertising | 40.6 | 40.8 | 44.8 | 33.9 | 40.9 | 36.1 | 42.7 | 36.0 |
| Sales promotion | 20.5 | 18.6 | 22.2 | 23.5 | 15.8 | 25.8 | 23.4 | 25.8 |
| Brand PR/sponsorship | 15.2 | 14.3 | 15.2 | 17.7 | 14.0 | 16.0 | 17.2 | 21.1 |
| Direct mail | 13.6 | 15.9 | 8.3 | 13.7 | 19.5 | 12.4 | 6.7 | 7.4 |
| Interactive marketing | 8.3 | 8.9 | 7.5 | 9.0 | 8.6 | 6.4 | 7.0 | 7.4 |
| Other | 1.8 | 1.5 | 1.9 | 2.3 | 1.2 | 3.3 | 3.0 | 2.3 |
| Total | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Table A3: Changes in % Allocation 2002-2004, By country (% points)

| Expenditure Category | Total (n=891) | USA (n=248) | Japan (n=121) | Germany (n=118) | UK (n=121) | France (n=121) | China (n=86) | Brazil (n=85) |
|-----------------------------|----------------------|--------------------|----------------------|------------------------|-------------------|-----------------------|---------------------|----------------------|
| 02/03 | | | | | | | | |
| Media advertising | -0.5 | -0.5 | -0.8 | -0.1 | -1.2 | 0.5 | 0.0 | -2.2 |
| Sales promotion | -0.1 | 0.0 | -0.5 | -0.5 | 0.2 | 0.0 | 0.2 | 0.8 |
| Brand PR/sponsorship | 0.3 | 0.0 | 1.1 | 0.6 | 0.0 | -0.7 | -0.3 | 1.1 |
| Direct mail | -0.1 | -0.2 | 0.1 | -0.3 | -0.1 | 0.0 | 0.1 | 0.0 |
| Interactive marketing | 0.6 | 0.8 | 0.2 | 0.4 | 1.2 | 0.2 | 0.7 | 0.7 |
| 03/04 | | | | | | | | |
| Media advertising | 0.1 | -0.1 | 0.7 | -1.0 | 0.9 | 0.3 | -0.3 | 1.3 |
| Sales promotion | 0.0 | -0.4 | 1.0 | -0.1 | -0.3 | -0.6 | -0.2 | -0.7 |
| Brand PR/sponsorship | -0.2 | 0.0 | -0.4 | -0.3 | -1.0 | 0.1 | 0.3 | -1.4 |
| Direct mail | -0.4 | -0.3 | -1.1 | 0.3 | -0.5 | -0.1 | 0.1 | 0.1 |
| Interactive marketing | 0.6 | 0.8 | 0.1 | 0.8 | 0.9 | 0.2 | 0.6 | 0.7 |
| 02/04 | | | | | | | | |
| Media advertising | -0.4 | -0.6 | -0.1 | -1.1 | -0.3 | 0.8 | -0.3 | -0.8 |
| Sales promotion | -0.2 | -0.4 | 0.5 | -0.5 | -0.1 | -0.6 | 0.1 | 0.0 |
| Brand PR/sponsorship | 0.1 | 0.0 | 0.7 | 0.4 | -1.0 | -0.6 | 0.0 | -0.3 |
| Direct mail | -0.5 | -0.5 | -1.0 | 0.0 | -0.6 | -0.1 | 0.1 | 0.1 |
| Interactive marketing | 1.2 | 1.6 | 0.2 | 1.2 | 2.1 | 0.4 | 1.3 | 1.3 |

Appendix B: Trends by Country

% Change in Expenditure Categories (Current local currencies)

Table B1: USA (n= 251)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|----------------------------|-----------------|---------------|--------------|--------------|------------|-------------|
| Media advertising | 40.9 | -0.3 | 1.1 | 4.4 | 5.6 | 5.3 |
| Sales promotion | 19.0 | 2.6 | 2.5 | 2.3 | 4.9 | 7.6 |
| Brand PR/sponsorship | 14.3 | 0.0 | 2.2 | 4.9 | 7.3 | 7.3 |
| Direct mail | 16.1 | 4.8 | 1.2 | 2.9 | 4.1 | 9.1 |
| Interactive marketing | 8.1 | 11.3 | 13.2 | 15.3 | 30.6 | 45.3 |
| Total (incl. Other) | 100% | 2.0* | 2.3 | 4.6 | 7.1 | 9.2† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table B2: Japan (n=115)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|----------------------------|-----------------|---------------|--------------|--------------|-------------|--------------|
| Media advertising | 44.1 | -2.0 | -3.6 | 1.8 | -1.9 | -3.8 |
| Sales promotion | 21.2 | -2.2 | -4.2 | 4.9 | 0.6 | -1.6 |
| Brand PR/sponsorship | 15.6 | 2.0 | 5.5 | -2.1 | 3.3 | 5.4 |
| Direct mail | 9.5 | -2.4 | -0.4 | -11.9 | -12.3 | -14.7 |
| Interactive marketing | 7.4 | -0.6 | 0.3 | 1.3 | 1.6 | 1.0 |
| Total (incl. Other) | 100% | -1.4* | -2.0 | 0.3 | -1.7 | -3.1† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table B3: Germany (n=118)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 34.9 | -10.4 | 0.1 | -1.8 | -1.7 | -11.9 |
| Sales promotion | 23.5 | -4.0 | -1.5 | 0.7 | -0.8 | -4.8 |
| Brand PR/sponsorship | 17.9 | 6.1 | 4.0 | -0.5 | 3.5 | 9.8 |
| Direct mail | 13.4 | -1.1 | -1.8 | 3.2 | 1.4 | 0.3 |
| Interactive marketing | 8.2 | -2.2 | 5.1 | 11.4 | 17.1 | 14.6 |
| Total (incl. Other) | 100% | -4.5* | 0.4 | 1.0 | 1.4 | -3.2† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table B4: UK (n=121)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 40.0 | -0.8 | 0.0 | 8.6 | 8.5 | 7.7 |
| Sales promotion | 16.1 | 10.7 | 4.2 | 4.4 | 8.8 | 20.4 |
| Brand PR/sponsorship | 15.0 | -6.0 | 2.8 | -0.9 | 1.8 | -4.3 |
| Direct mail | 20.0 | 13.3 | 2.3 | 3.7 | 6.2 | 20.3 |
| Interactive marketing | 7.7 | 19.7 | 22.0 | 18.8 | 45.0 | 73.6 |
| Total (incl. Other) | 100% | 4.2* | 2.9 | 6.3 | 9.3 | 13.9† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table B5: France (n=121)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 35.8 | 0.3 | 0.1 | 2.9 | 2.9 | 3.2 |
| Sales promotion | 26.4 | -2.3 | -1.4 | -0.3 | -1.7 | -3.9 |
| Brand PR/sponsorship | 15.9 | 3.8 | -5.7 | 2.6 | -3.3 | 0.4 |
| Direct mail | 12.5 | -0.3 | -1.0 | 0.8 | -0.2 | -0.5 |
| Interactive marketing | 6.2 | -2.3 | 1.9 | 5.9 | 8.0 | 5.5 |
| Total (incl. Other) | 100% | 0.3* | -1.3 | 2.0 | 0.6 | 0.9† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table B6: China (n=86)

| Expenditure Category | 2003 % of total | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 |
|-----------------------------|-----------------------|-----------------|-----------------|----------------|
| Media advertising | 43.0 | 12.4 | 10.8 | 24.4 |
| Sales promotion | 23.5 | 13.4 | 10.8 | 25.7 |
| Brand PR/sponsorship | 16.9 | 10.4 | 13.6 | 25.3 |
| Direct mail | 6.6 | 13.8 | 12.6 | 28.1 |
| Interactive marketing | 6.4 | 26.0 | 21.4 | 53.0 |
| Total (incl. Other) | 100% | 12.3 | 11.6 | 25.4 |

Table B7: Brazil (n=85)

| Expenditure Category | 2003 % of total | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 |
|-----------------------------|-----------------------|-----------------|-----------------|----------------|
| Media advertising | 34.7 | -5.6 | 15.4 | 8.9 |
| Sales promotion | 26.5 | 3.1 | 8.2 | 11.6 |
| Brand PR/sponsorship | 22.6 | 5.3 | 4.2 | 9.7 |
| Direct mail | 7.3 | -0.2 | 13.4 | 13.2 |
| Interactive marketing | 6.7 | 11.0 | 22.3 | 35.8 |
| Total (incl. Other) | 100% | 0.2 | 11.2 | 11.4 |

Appendix C: Trends by Industry

% Change in Expenditure (Current local currencies)

Table C1 = Automotive (n= 44)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 46.7 | -9.9 | -1.3 | 2.7 | 1.4 | -10.4 |
| Sales promotion | 17.2 | 3.7 | -1.6 | 3.1 | 1.5 | 3.1 |
| Brand PR/sponsorship | 13.2 | 20.0 | 2.1 | 2.1 | 4.2 | 22.5 |
| Direct mail | 12.5 | 10.9 | -0.7 | 7.0 | 6.2 | 15.9 |
| Interactive marketing | 8.4 | 14.0 | 2.9 | 7.5 | 10.6 | 23.4 |
| Total (incl. Other) | 100% | -0.1* | -0.2 | 3.5 | 3.3 | 1.4† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C2: Consumer electronics (n=40)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 30.5 | -22.1 | 10.5 | 3.9 | 14.8 | -10.9 |
| Sales promotion | 22.4 | -16.7 | 2.9 | -1.7 | 1.1 | -19.1 |
| Brand PR/sponsorship | 17.0 | 17.1 | 14.3 | 4.1 | 18.9 | 45.2 |
| Direct mail | 9.4 | -10.5 | -15.0 | 0.4 | -14.6 | -28.5 |
| Interactive marketing | 9.1 | -14.7 | 6.1 | 10.6 | 17.3 | 16.1 |
| Total (incl. Other) | 100% | -12.4* | 3.1 | 2.9 | 6.1 | -6.9† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C3: Consumer packaged goods (n=140)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 48.1 | 3.2 | 1.8 | 4.4 | 6.3 | 8.3 |
| Sales promotion | 27.7 | 0.4 | 2.5 | 3.7 | 6.4 | 5.2 |
| Brand PR/sponsorship | 11.4 | 5.5 | 1.7 | 5.8 | 7.6 | 12.7 |
| Direct mail | 7.6 | 11.9 | -0.9 | -5.9 | -6.8 | 3.0 |
| Interactive marketing | 3.0 | 7.4 | 10.6 | 16.9 | 29.3 | 34.2 |
| Total (incl. Other) | 100% | 3.0* | 2.1 | 3.9 | 6.1 | 7.8† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C4: Consumer/retail financial services (n=58)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 42.7 | -2.3 | -4.6 | 9.8 | 4.8 | 2.4 |
| Sales promotion | 14.4 | 2.3 | 11.8 | 0.8 | 12.8 | 15.6 |
| Brand PR/sponsorship | 14.3 | 9.5 | -1.9 | 7.7 | 5.7 | 15.8 |
| Direct mail | 21.2 | 10.4 | -1.1 | 5.1 | 4.0 | 14.9 |
| Interactive marketing | 5.3 | -0.5 | 9.3 | 15.2 | 25.9 | 25.5 |
| Total (incl. Other) | 100% | 3.0* | -0.8 | 7.3 | 6.4 | 9.6† |

* From MET 2002 (excludes China and Brazil)

Table C5: Luxury/fashion products (n=20)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 39.3 | 9.9 | 1.4 | 3.1 | 4.5 | 14.2 |
| Sales promotion | 25.4 | 13.4 | 1.1 | 5.9 | 7.1 | 22.1 |
| Brand PR/sponsorship | 17.0 | 7.9 | -0.8 | 5.7 | 4.9 | 13.5 |
| Direct mail | 8.1 | 6.3 | 0.2 | 5.0 | 5.2 | 11.8 |
| Interactive marketing | 9.0 | 23.5 | 0.3 | 6.2 | 6.5 | 31.0 |
| Total (incl. Other) | 100% | 10.3* | 0.7 | 4.8 | 5.5 | 16.1† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C6: Media, entertainment & culture (n=83)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 40.7 | -2.8 | -3.2 | 4.9 | 1.6 | -1.3 |
| Sales promotion | 20.5 | 4.8 | -1.3 | 1.1 | -0.2 | 4.7 |
| Brand PR/sponsorship | 13.7 | 0.4 | -0.7 | 3.6 | 2.8 | 3.3 |
| Direct mail | 18.0 | 0.4 | 1.2 | -1.1 | 0.1 | 0.5 |
| Interactive marketing | 6.9 | 6.1 | 4.4 | 13.5 | 18.6 | 25.9 |
| Total (incl. Other) | 100% | -0.3* | -1.2 | 3.5 | 2.3 | 1.9† |

* From MET 2002 (excludes China and Brazil)

Table C7: Other consumer durables (n=38)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 36.9 | -9.7 | 0.3 | -3.4 | -3.2 | -13.2 |
| Sales promotion | 18.0 | 2.7 | -4.1 | 15.1 | 10.4 | 12.6 |
| Brand PR/sponsorship | 20.2 | -8.6 | 3.1 | -1.6 | 1.5 | -7.8 |
| Direct mail | 13.4 | 4.9 | 9.3 | 6.3 | 16.1 | 21.6 |
| Interactive marketing | 8.0 | -1.0 | 10.4 | 3.1 | 13.8 | 11.2 |
| Total (incl. Other) | 100% | -3.3* | 2.0 | 2.3 | 4.4 | 0.2† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C8: Retailing/mail order (n=68)

| Expenditure Category | 2002 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 49.3 | -17.5 | 0.9 | -0.7 | 0.2 | -17.2 |
| Sales promotion | 19.1 | 12.6 | 2.5 | 2.8 | 5.3 | 18.8 |
| Brand PR/sponsorship | 7.4 | -4.5 | 0.0 | 5.8 | 5.8 | 1.3 |
| Direct mail | 16.6 | 5.5 | 1.5 | 5.5 | 7.1 | 13.2 |
| Interactive marketing | 3.7 | 18.1 | 5.1 | 26.7 | 33.1 | 57.5 |
| Total (incl. Other) | 100% | 3.9* | 1.8 | 2.0 | 3.8 | 8.1† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C9: Business/industrial services (n=61)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 28.4 | -7.8 | 0.5 | 7.4 | 8.0 | -0.4 |
| Sales promotion | 15.9 | -6.6 | 8.8 | 0.7 | 9.5 | 2.5 |
| Brand PR/sponsorship | 20.9 | -14.4 | 3.4 | 2.6 | 6.0 | -10.9 |
| Direct mail | 18.3 | -12.9 | 2.5 | 3.3 | 5.9 | -7.5 |
| Interactive marketing | 14.1 | -0.7 | 22.1 | 10.8 | 35.3 | 32.5 |
| Total (incl. Other) | 100% | -5.0* | 5.1 | 4.9 | 10.3 | 4.2† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C10: Hotels, tourism and leisure (n=52)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 41.8 | 4.2 | -0.6 | -0.6 | -1.1 | 2.9 |
| Sales promotion | 20.8 | 1.7 | -2.3 | 2.4 | 0.1 | 1.8 |
| Brand PR/sponsorship | 12.6 | -2.0 | 2.0 | -4.2 | -2.3 | -4.5 |
| Direct mail | 14.2 | 7.5 | -0.5 | 4.0 | 3.5 | 11.2 |
| Interactive marketing | 10.1 | 6.2 | 23.9 | 10.2 | 36.5 | 45.1 |
| Total (incl. Other) | 100% | 3.7* | 1.3 | 1.3 | 2.6 | 6.4† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C11: Other industrial products/systems (n=57)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 27.7 | 1.2 | -14.1 | 4.2 | -10.4 | -9.4 |
| Sales promotion | 18.3 | 4.0 | -3.7 | 2.6 | -1.3 | 1.1 |
| Brand PR/sponsorship | 32.7 | -8.0 | 8.7 | 0.6 | 9.4 | 0.1 |
| Direct mail | 9.3 | 6.0 | -1.3 | -0.6 | -1.9 | 3.1 |
| Interactive marketing | 9.8 | -1.0 | 12.2 | 5.9 | 18.7 | 16.7 |
| Total (incl. Other) | 100% | 2.7* | -2.3 | 2.3 | -0.1 | 1.9† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C12: Other (including utilities) (n=76)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 40.9 | -2.2 | 5.1 | 1.8 | 7.1 | 4.3 |
| Sales promotion | 17.5 | -2.6 | -7.6 | 2.1 | -5.6 | -9.3 |
| Brand PR/sponsorship | 15.3 | 2.9 | 8.3 | 0.3 | 8.7 | 9.5 |
| Direct mail | 16.9 | 3.8 | 3.4 | 1.2 | 4.7 | 13.0 |
| Interactive marketing | 7.5 | 16.6 | 3.1 | 16.2 | 19.7 | 37.5 |
| Total (incl. Other) | 100% | -0.7* | 2.7 | 2.6 | 5.4 | 4.4† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C13: Pharmaceuticals (n=50)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 35.1 | -1.6 | 1.9 | -0.1 | 1.8 | -2.4 |
| Sales promotion | 33.7 | -0.5 | 1.0 | 3.0 | 4.0 | 1.7 |
| Brand PR/sponsorship | 11.1 | -3.8 | -0.7 | -3.4 | -4.1 | -10.1 |
| Direct mail | 6.6 | -6.0 | 3.5 | -3.2 | 0.3 | -10.4 |
| Interactive marketing | 10.8 | -6.1 | 2.1 | 4.6 | 6.8 | -2.3 |
| Total (incl. Other) | 100% | -2.0* | 1.2 | 1.2 | 2.4 | -1.7† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C14: Telecoms products/services (n=76)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 27.3 | -17.5 | -1.9 | 14.2 | 12.0 | -6.7 |
| Sales promotion | 22.6 | -21.4 | -0.3 | 4.7 | 4.4 | -18.1 |
| Brand PR/sponsorship | 23.5 | -19.4 | -0.5 | 3.8 | 3.3 | -17.0 |
| Direct mail | 13.3 | -13.4 | -2.6 | -6.5 | -8.9 | -28.9 |
| Interactive marketing | 12.0 | -10.6 | 6.8 | 9.1 | 16.5 | 3.2 |
| Total (incl. Other) | 100% | -16.8* | -0.5 | 6.1 | 5.6 | -12.2† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

Table C15: Travel/transport (n=28)

| Expenditure Category | 2003 % of total | 2002 vs 2001* | 2003 vs 2002 | 2004 vs 2003 | 04 vs 02 | 04 vs 01† |
|-----------------------------|-----------------------|------------------|-----------------|-----------------|----------------|-----------------|
| Media advertising | 50.2 | -2.6 | 1.6 | 6.9 | 8.6 | 2.7 |
| Sales promotion | 12.2 | -1.5 | 1.7 | 5.2 | 7.0 | 2.5 |
| Brand PR/sponsorship | 11.8 | -15.5 | -4.1 | -3.5 | -7.4 | -9.8 |
| Direct mail | 16.4 | -2.1 | -3.4 | -33.2 | -35.5 | -39.6 |
| Interactive marketing | 9.0 | 4.4 | 0.3 | 19.7 | 20.1 | 22.3 |
| Total (incl. Other) | 100% | -2.8* | 0.0 | 0.0 | 0.0 | -3.9† |

* From MET 2002 (excludes China and Brazil)

† Excludes China and Brazil

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Patrick Barwise is Professor of Management and Marketing at London Business School. He joined London Business School 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 (internet/interactive marketing, wireless, digital TV, long-term trends). His main current project is *Simply Better*, a controversial book on customer focus, to be published by Harvard Business School Press in September 2004. He is also an advisor to Ofcom, the UK communications regulator.

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London Business School (www.london.edu)

London Business School is the University of London's graduate school of business and management. Its mission is to be the pre-eminent global business school, nurturing talent and advancing knowledge in a multinational, multicultural environment. Founded in 1965, the School graduated over 800 MBAs, Masters in Finance, Sloan Fellows and PhDs from over 70 countries last year. The School's executive education department serves 5,000 executives and 60 corporate clients every year. London Business School is based in Regent's Park in central London, the most accessible and international city in the world.

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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