

Future of Advertising Spend: How Has It Evolved, and How Will It Continue to Evolve?

The advertising landscape continues to evolve, with new mediums, shifting spend and agency consolidation creating a more complex ecosystem.

In this new *Executive Insights* Spotlight on Media & Entertainment series, L.E.K. Consulting answers the following questions:

- What are projections for future advertising spend?
- How is advertising spend-by-medium shifting?
- How will future economic conditions affect advertising spend?
- Are agencies continuing to consolidate?



or



What is the latest with ad spending? »

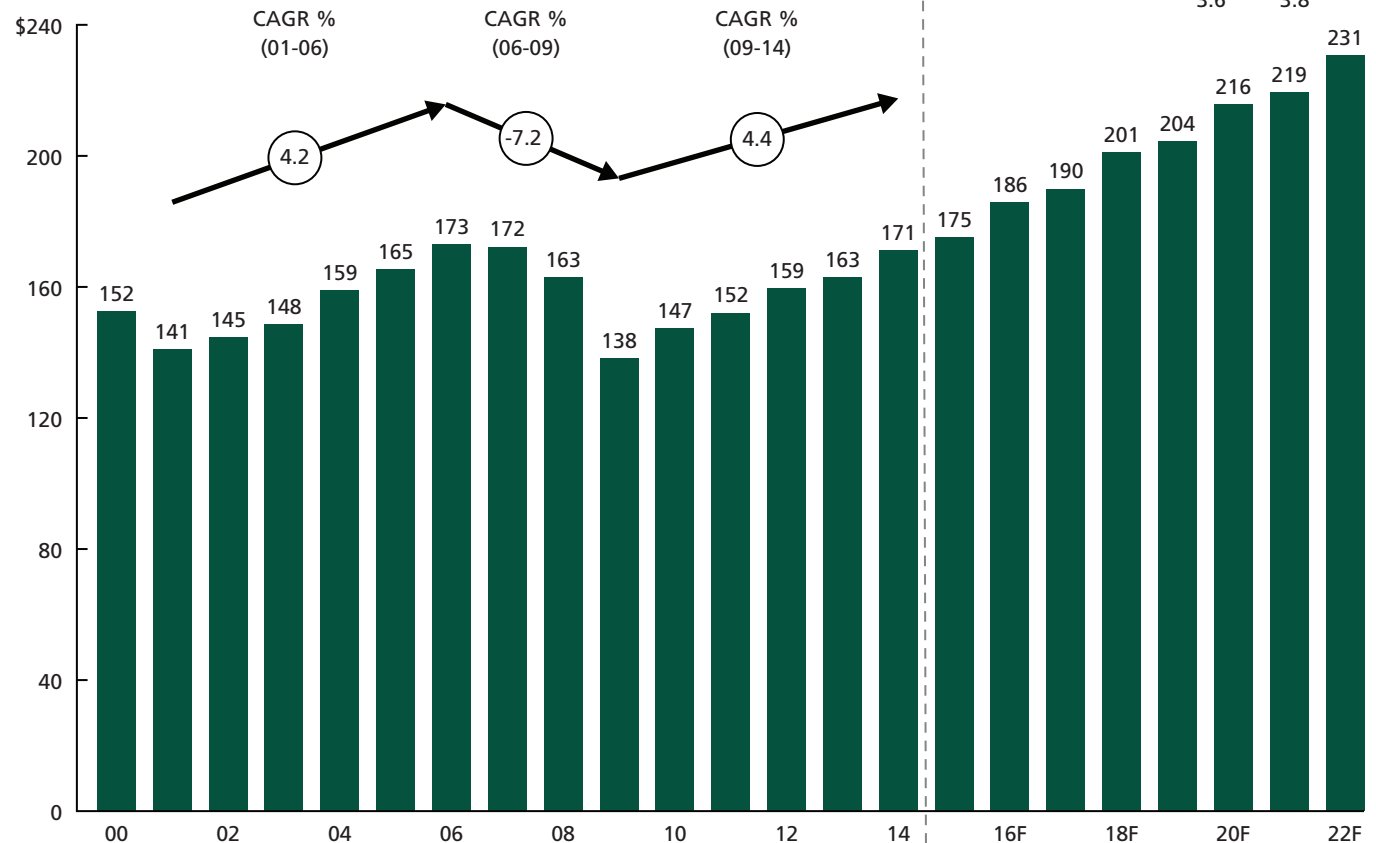
Steady as She Goes: US Advertising Spend Expected to Grow at ~4% CAGR, Reaching ~\$231B in 2022

After some rockiness corresponding to the global economic recession, U.S. advertising spend has returned to historical growth rates in recent years.

Projections indicate that future ad spend will continue to increase at moderate rates, growing between 3.5% and 4% per annum through 2022.

Total US advertising spend (2000-2022F)

Billions of dollars



Source: L.E.K. analysis, Magna Global, Pivotal Research, PQ Media

How does U.S. ad spend break down by medium? »

Digital Takes Charge: US Market Shifting to Digital but, Importantly, Not at Expense of TV

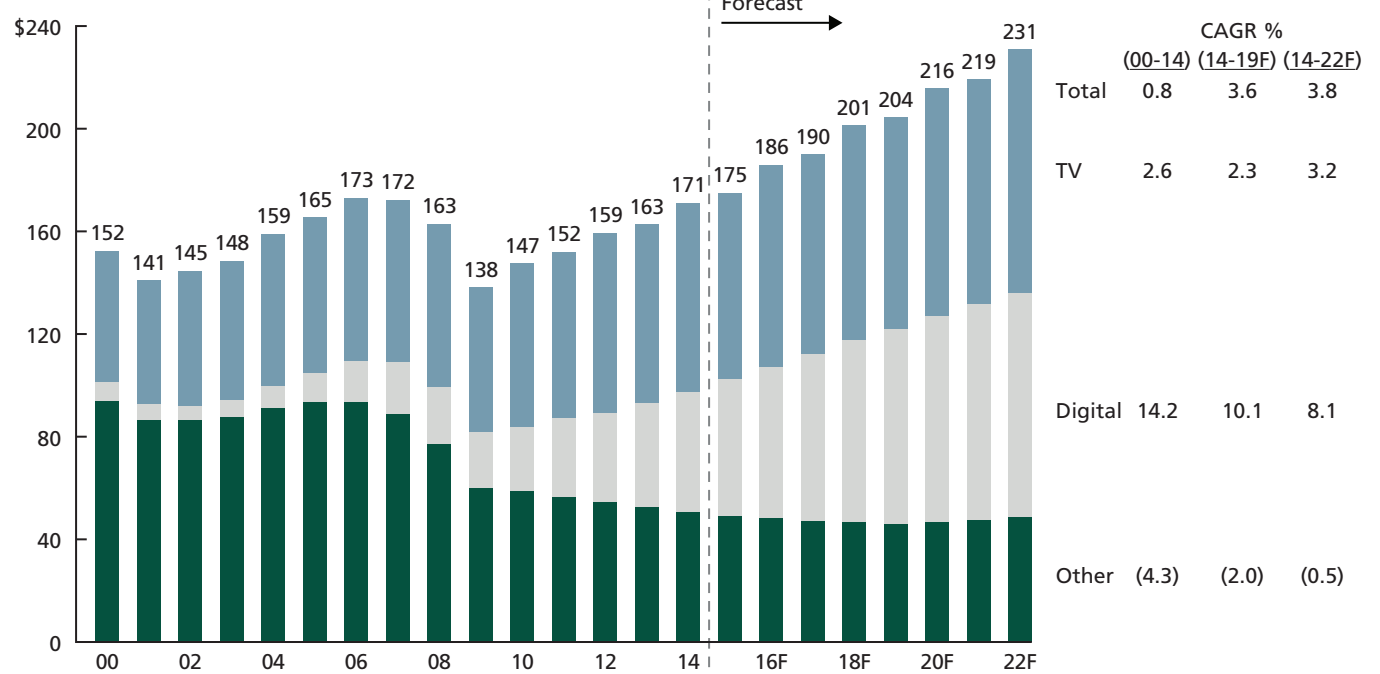
Digital advertising spend is expected to drive total U.S. advertising spend through 2022, although growth rates will likely slow down slightly from historical rates.

Interestingly, digital spend dollars are not being redirected from TV ad spend but rather from other media, including newspapers, magazines, radio, outdoor, out-of-home and cinema.

Growth in TV ad spend is, in fact, expected to accelerate in the coming years, increasing from 2.6% annually from 2000-2014 to 3.2% from 2014-2022.

Total US advertising spend by media type (2000-2022F)

Billions of dollars



Mix composition	00	05	08	09	14	19F	22F
TV	34%	37%	39%	41%	43%	40%	41%
Digital	5%	7%	14%	16%	28%	37%	38%
Other	62%	56%	47%	43%	30%	22%	21%

Source: L.E.K. analysis, Magna Global, Pivotal Research, PQ Media

What is the outlook in other markets? >>

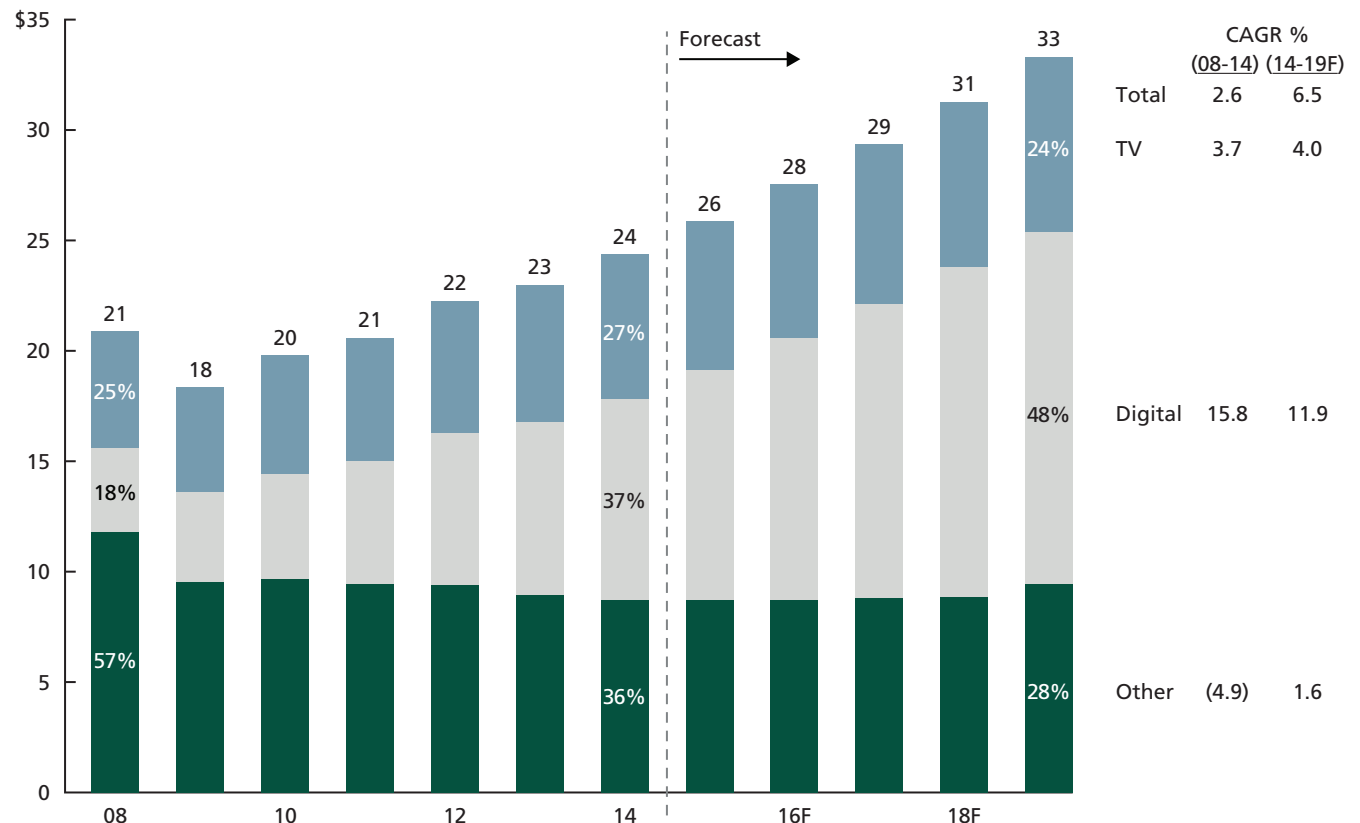
The Queen Goes Digital: UK Shift to Digital During Recent Recession Will Continue

U.K. advertising spend has been similar to that in the U.S. in recent years, with moderate overall growth driven in large part by strong growth in digital ad spend.

Similarly, strong growth in the digital space will drive future growth, with TV expected to see slightly higher growth rates for 2014-2019 than 2008-2014.

Total UK advertising spend by media type (2008-2019F)

Billions of dollars



Source: L.E.K. analysis, eMarketer, PQ Media

What is the global outlook? »

Changing Center of Balance: Global Growth Largely Driven by APAC and EMEA Markets

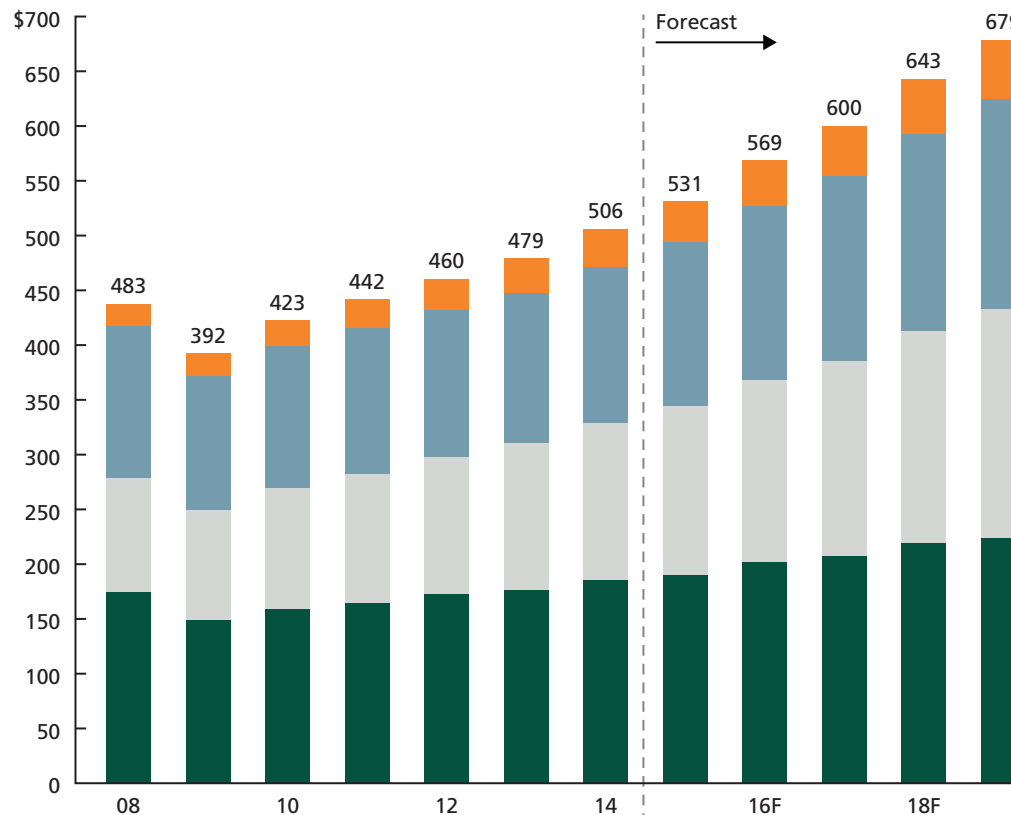
Forecasts of global advertising spend indicate that APAC and EMEA will drive future growth, with the industry reaching ~\$679B by 2019, up from ~\$506B in 2014.

Latin America is projected to have the fastest growth rate, coming in just shy of 10% per annum, although its relatively small base limits its impact on the overall market.

The North American market appears to be the most mature and saturated, with moderate growth projected for 2014-2019.

Global advertising spend forecasts (2008-2019F)

Billions of dollars



	CAGR %		
	(08-12)	(12-14)	(14-19F)
Total	1.3	2.5	6.1
LatAM	(8.6)	10.0	9.6
EMEA	(0.8)	3.3	6.0
APAC	4.7	6.9	7.9
North America	(0.3)	3.7	3.8

Source: L.E.K. analysis, Wilkofsky Gruen Associates, Magna Global, PQ Media

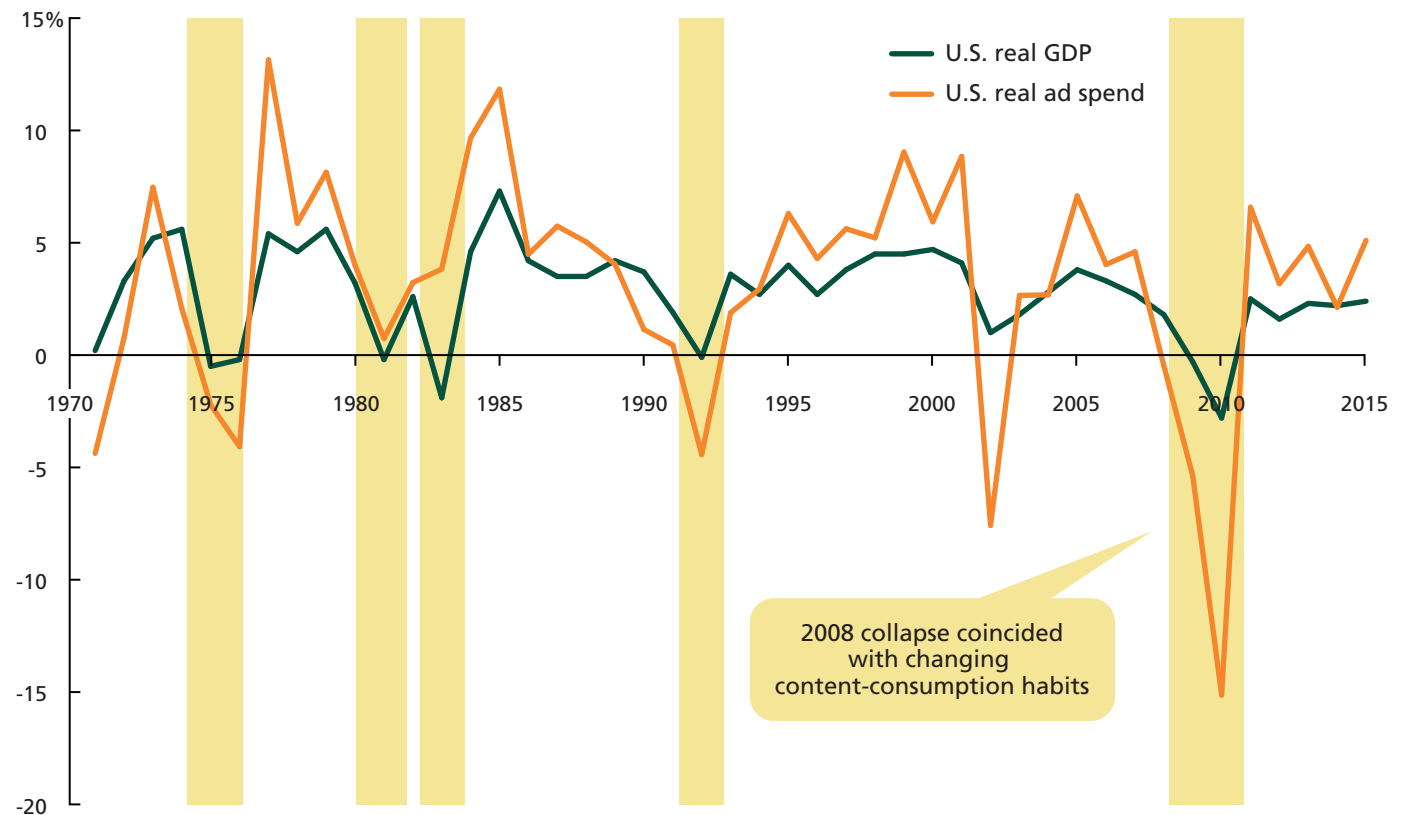
What impact will the economy have on growth? »

Moving in Unison: US Ad Spend Moves in Line With GDP, With Typically More Pronounced Declines

Not surprisingly, U.S. advertising spend growth has moved mostly in unison with real U.S. GDP growth over the last 45 years or so, with declines in ad spend corresponding to the five U.S. recessions during this time.

US ad spend growth vs. real GDP growth (1970-2014)

Percentage



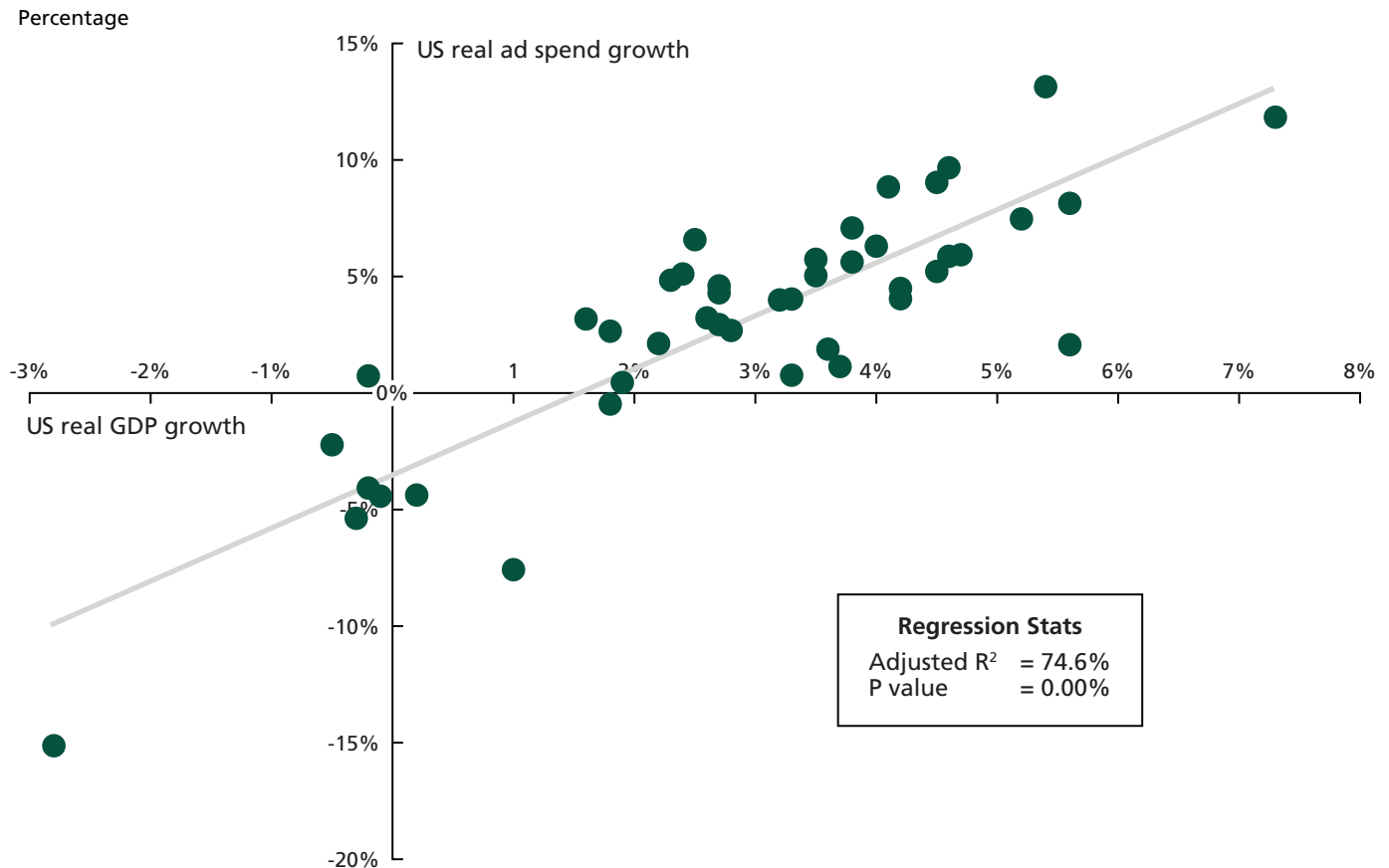
Source: L.E.K. analysis, U.S. Bureau of Economic Analysis, OECD, Universal McCann

How strong is the connection between GDP and ad spend? »

GDP Ups and Downs Drive Ad Spend: Strong Correlation Between Real US GDP and Real US Advertising Spend

A regression analysis reveals a strong positive correlation between U.S. ad spend and real U.S. GDP growth, with ~75% of the change in U.S. ad spend explained by changes in real U.S. GDP.

Historical growth of total ad spend vs. real GDP growth (1970-2014)



Source: L.E.K. analysis, U.S. Bureau of Economic Analysis, OECD, Universal McCann

How big is the multiplier effect? »

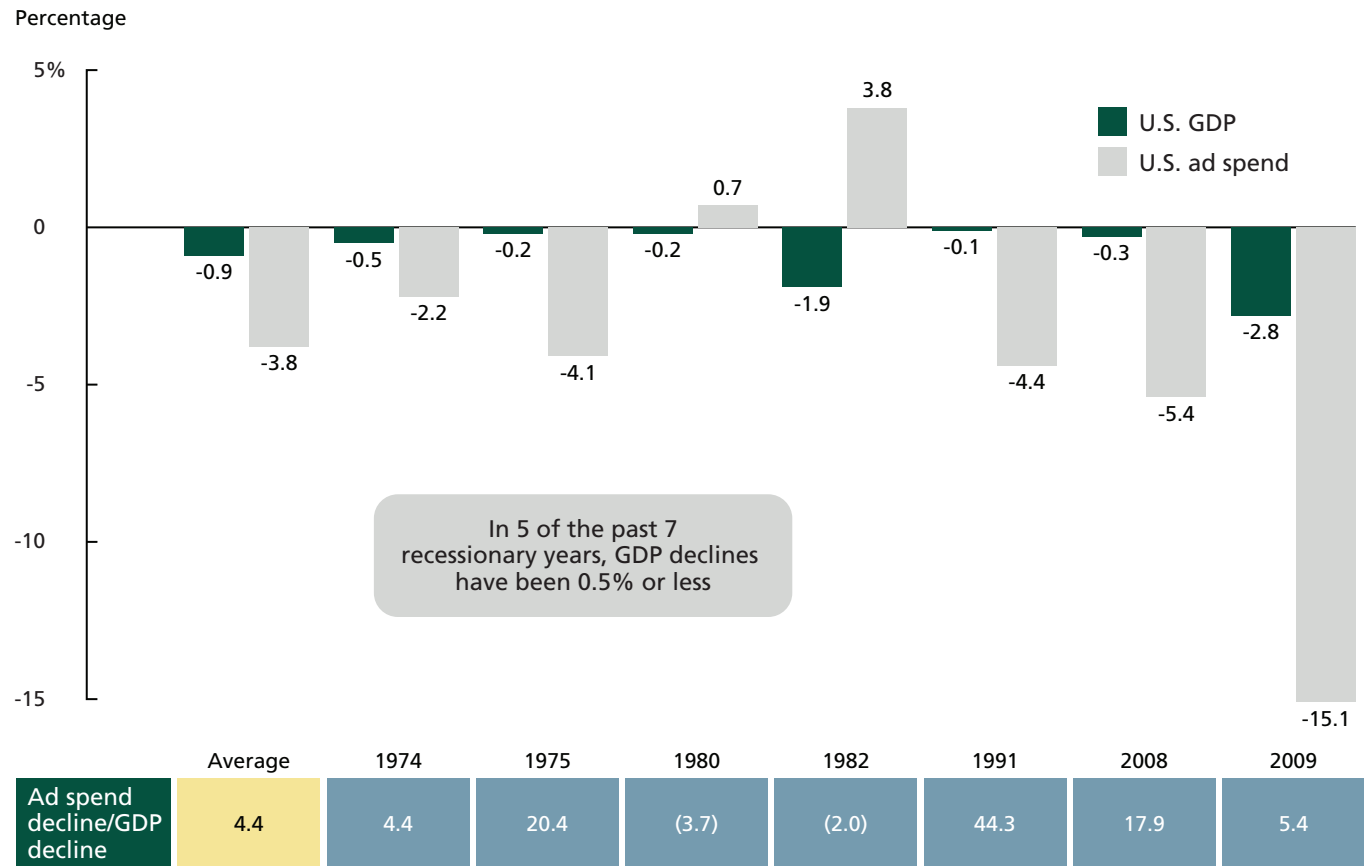
Multiplier Effect: Next Recession Could Be Very Bad for Ad Spend

Advertising spend has declined more during recessions than GDP declines.

On average, a one percentage point change in U.S. GDP has resulted in an average swing of 4.4 percentage points of advertising spend over the past seven unique years of U.S. GDP decline. And the average of the past three recession years is a large (8.3%) decline.

However, the magnitude of the decline had varied significantly, from as small as ~2.0x to as large as ~20.4x.

US recession real GDP decline and real ad spend change



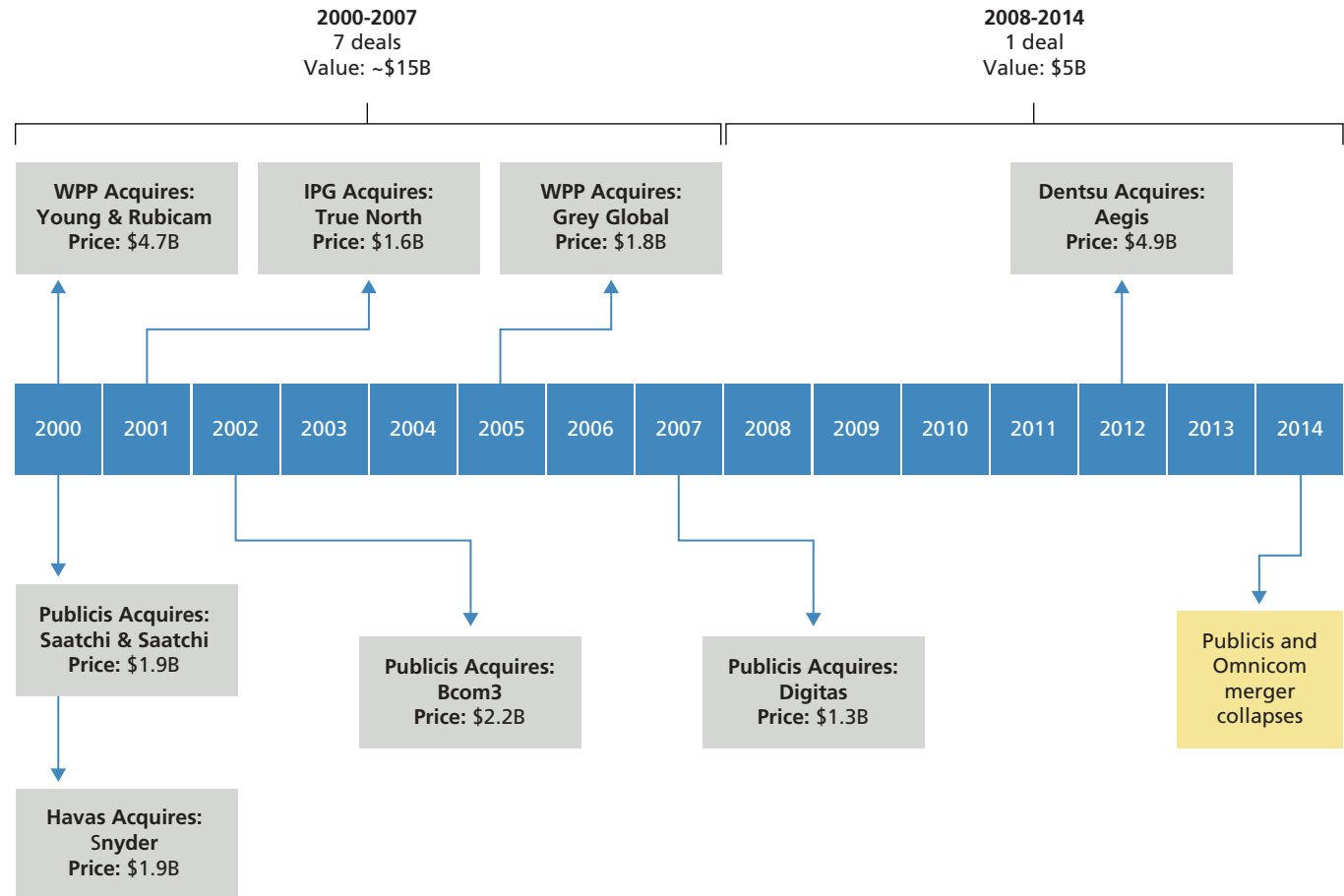
Source: L.E.K. analysis, OECD, Coen

What has happened with large ad agencies? »

Tightening Their Belts: Large Agency Consolidation Has Slowed Since the Recession

Consolidation of large holding companies has slowed in recent years. Only one deal has been consummated since 2008, compared to seven completed deals from 2000 to 2007.

The failed merger of Omnicom and Publicis in 2014 demonstrates the inherent difficulties of combining massive multinational agencies.



Source: L.E.K. analysis, Ad Age

What has overall M&A activity looked like? »

Buying Bolt-Ons: Major Holding Companies Have Acquired 202 Smaller Agencies Since 2005

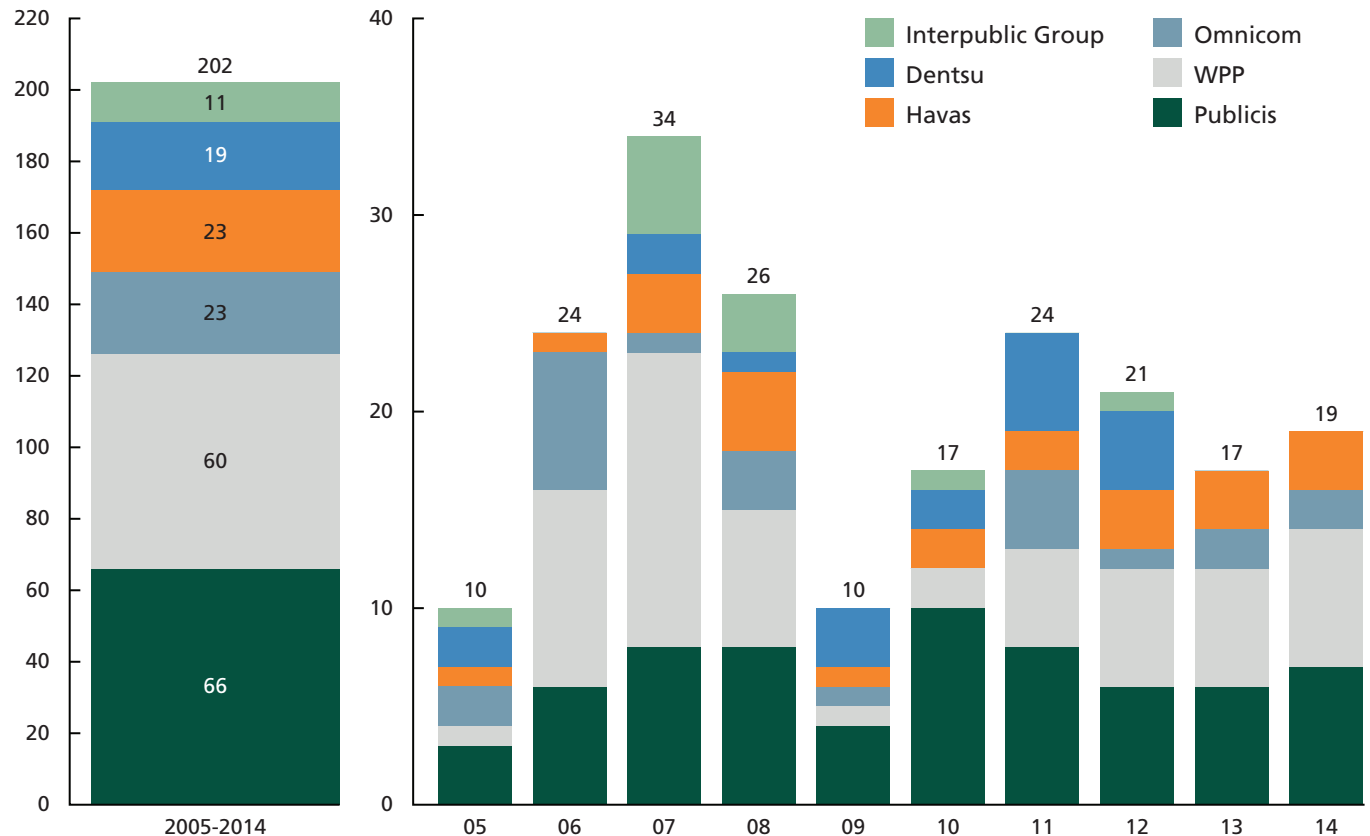
Despite slowing consolidation among major holding companies, they continue to buy smaller agencies.

Although the number of acquisitions is down from its peak year in 2007, M&A activity has picked up since the depths of the global economic recession.

Publicis and WPP have been the most active buyers since 2005, with their 66 and 60 acquisitions, respectively, almost 3x greater than the next most active buyer (Havas and Omnicom at 23 each).

Acquisitions by agency holding companies (2005-2014)

Number of transactions



Source: L.E.K. analysis, S&P Capital IQ

What have we learned? »

Our Outlook: Advertising Spend Will Continue to Be Attractive

This edition of *Executive Insights* clarifies issues surrounding agency consolidation and spending forecasts, as well as their relationship with overall economic activity.

Optimistic forecasts and shifts in spend toward digital make the advertising market particularly attractive.

What Have We Learned About Advertising Spend?

1.

Forecasts for U.S. advertising spend project moderate growth over the next seven years, with annual growth estimated at between 3.5% – 4% per annum through 2022.

2.

The global advertising industry is expected to continue to shift toward digital, although not at the expense of TV advertising, in which moderate growth is expected going forward.

3.

There is a strong correlation between U.S. advertising spend and real U.S. GDP growth, with advertising spend growth seeing larger declines during recessions than GDP.

4.

Consolidation among large holding companies has slowed since the global economic recession, but they continue to buy smaller agencies.

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