

How Economic Confidence Affects Marketer Spending

BY CHRISTINE MOORMAN

moorman@duke.edu

Many critics complain that marketing spending is tied too closely to macroeconomic cycles. However, in practice, we know very little about how marketers do or do not spend in different economic conditions. Do marketers contract spending as the economy contracts or do they spend more in pursuit of a competitive advantage?

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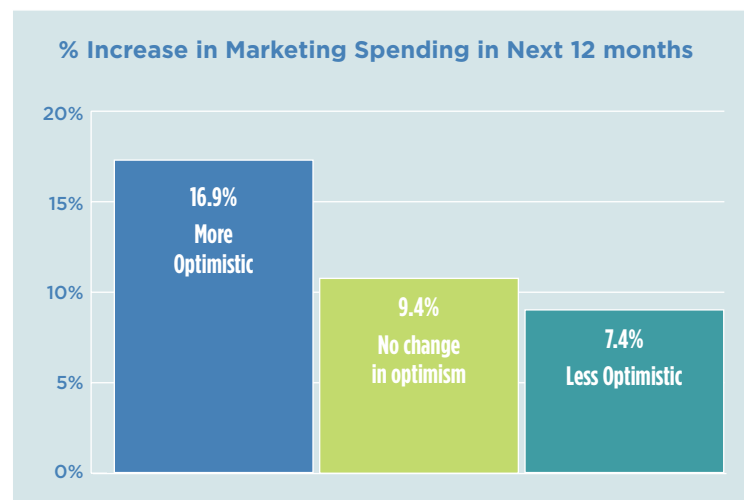
The idea of studying economic confidence as a predictor of spending behavior is most often traced to George Katona, who is widely considered the first behavioral economist. Katona developed a “theory of consumer sentiment.” In his theory, Katona challenged the idea that income was the best predictor of consumer purchasing behavior. Instead, he argued that consumer expectations or confidence in the economy is most important, particularly as a predictor of durables. These purchasing behaviors, when aggregated, would have a formative effect on the economy overall. This idea was first developed by Katona after he helped co-found the Survey Research Center at the Institute for Social Research at the University of Michigan in the 1950s. It worked very well in practice—so much so that the U.S. Department of Commerce still uses this Index of Consumer Sentiment as one of its leading indicators.

Are marketers a type of customer who spends or does not spend company resources in response to economic confidence? Let’s look at how economic confidence affects marketer spending as revealed through The CMO Survey.

The CMO Survey, which I administer twice a year, asks top marketers about their confidence in the economy in order to predict the future of markets. The survey asks two different types of economic confidence questions. One set asks marketers to rate their optimism for the overall U.S. economy on a scale of 1 to 100. The average score has ranged from a low of 47.69 in February 2009 to a high of 63.30 in February 2011. By August 2011, the score dropped to 52.20. The other set of questions asks marketers to denote whether they have more, less or no change in their optimism about the economy. I am going to focus on the latter metric because the insights are intriguing.

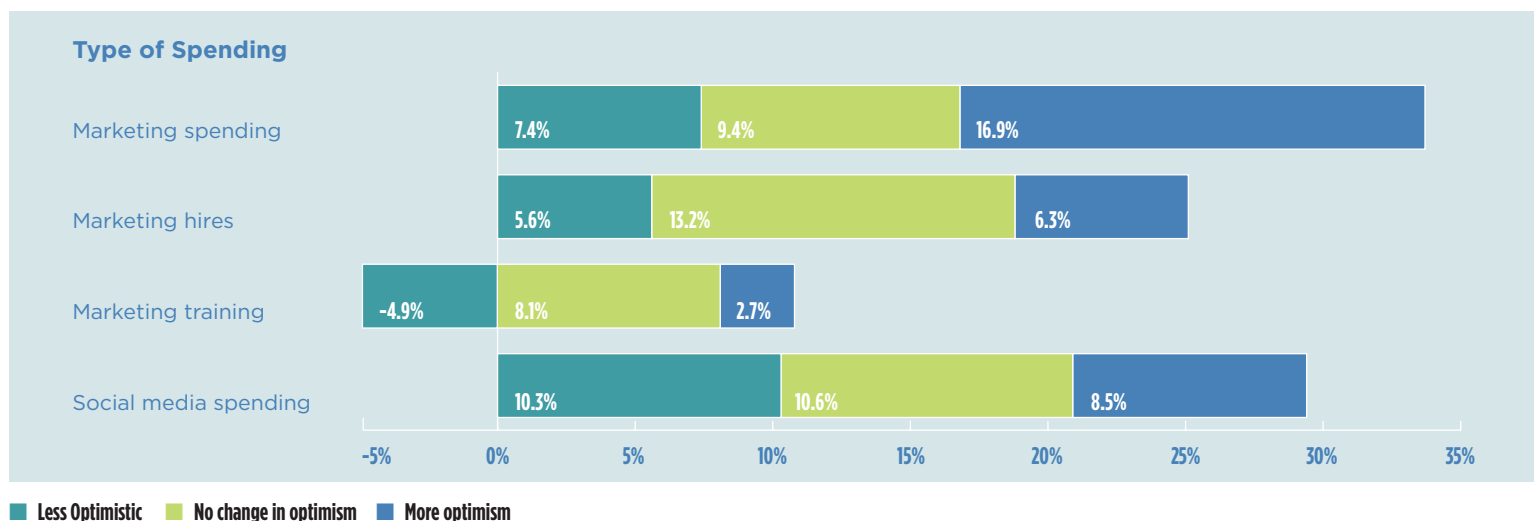
Results indicate that when marketers expect the economy to improve, they report that marketing spending in general will increase. Specifically, the planned increase in marketing spending more than doubles from 7.4% when marketers are “less optimistic” about the economy to 16.9% when they are “more optimistic” about the economy. Those marketers reporting “no change” in optimism report a 9.4% increase in marketing spending as shown in Exhibit 1. Point for Katona.

EXHIBIT 1
Impact of Marketer Confidence on Marketing and New Product Spending in the Next 12 Months



Importantly, we see that confidence does not drive spending for other types of marketing activities in the same way. When we look at spending on marketing hires or marketing training, we see that the highest-spending group is the “no change” group. Exhibit 2 shows that spending on marketing hires is highest for this group (13.2%) and lower for the “less optimistic” (5.6%) and “more optimistic” (6.3%) groups. A similar pattern occurs for spending on marketing training with “no change” (8.1% increase) as the highest increase, and weaker results for the “more optimistic” (2.7% increase) and “less optimistic” (-4.9%) groups. Investments in marketing that are focused on human capital, therefore, follow a different pattern than expected by Katona. Marketers spend more on acquiring and developing human resources when they expect no change and have a moderate level of uncertainty.

EXHIBIT 2
How Marketer Confidence Affects Spending in the Next 12 months



Given this information, how do you think marketing confidence about the economy affects spending on social media? On one hand, social media spending could go the way of marketing spending and rise with confidence. On the other hand, social media spending could go the way of marketing hiring and training, by which marketers plan to spend more when they expect no change and are moderately confident. Results indicate that marketers expect to spend the most when they are “less optimistic” (10.3% increase) or have “no change in optimism” (10.6%). When marketers are “more optimistic,” they plan to spend less on social media (8.5%).

These results are not what Katona or I would have expected. Follow-up research is necessary to validate an explanation for this pattern, but I will speculate about some reasons now. The results show that how marketer confidence affects spending depends on the type of spending. Differences in how confidence affects spending decisions likely are based on how marketers weigh the costs and benefits of different types of spending. For example, social media may still be a relatively unique marketing activity and one that marketers think that they can use to build an advantage in a weak economy when they expect that other firms may be sitting on the sidelines. Alternatively, social media is a higher uncertainty expenditure and hence we would expect marketers to be more likely to take these risks when they are down on their luck in a tough economy. Investments in

human capital, on the other hand, may be considered traditional and known and therefore low-risk strategies to “ride out the storm” until tomorrow. While it is true that marketing spending is not without risks, companies regularly manage these risks. Hence, companies take these measured risks as they gain more confidence in markets.

Now that we know how marketer confidence affects spending, let’s examine who was more or less confident in August 2011 when The CMO Survey was administered. Exhibit 3 indicates that optimism varies dramatically across industries with energy, tech and consulting being the most optimistic, and mining/construction, banking/insurance/finance and communications as the least. It will be interesting to follow the marketing expenditures and hiring/training spending in these industries into the next survey to see if Katona’s theory or this more contingent view of how economic confidence affecting spending holds. **■**

Christine Moorman is the director of The CMO Survey and the T. Austin Finch Sr. Professor of Business Administration at Duke University’s Fuqua School of Business. For more information on The CMO Survey, visit CMOSurvey.org.

EXHIBIT 3
Marketer Optimism by Industry

