Outlook - Australia's advertising market punching through to 2023

By Chris Pash | 22 December 2022

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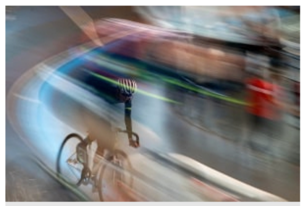

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It's tough out there. Cost of living is rising. Consumer confidence is challenged. War in Europe. Where does that leave advertising?

The latest forecasts show growth, not as stellar as 2022 but still strong, in the Australia adverting market but the journey isn't as clear for all.

Everyone in Martin Brown's industry (he is general manager at Nestlé Oceania) has supply chain issues, with the topic of conversation pallets of goods and a shortage of talent.

However, now there's something different. Brown, the chair of the AANA (Australian Association of National Advertisers), speaking at the Effies, an in-person event for the first time in three years: "We're leaning into a period of inflation, which is the most significant spike in 40 years.

"It's new ground for all of us. We are asking consumers to pay much higher prices for products than ever before and we're doing that at the point in time where their real incomes are dropping. So it's a fantastic test of brand loyalty right now.

"We're also going into boardrooms and we're asking for more money to invest behind brands.

"And really the case study behind why you get that YES to investment in brands is the ROI behind that investment."

In Forrester's September quarter 2022 CMO Pulse Survey, B2C marketing executives cited changes in the supply chain and rising inflation among the top systemic risk factors influencing marketing strategies.

Principal analyst Kelsey Chickering at Forrester told *AdNews*: "Consolidation and focus is the big theme for next year.

"Marketing teams are facing budget scrutiny from internal stakeholders, and they need to prove that every single dollar put into the market will have a strong return.

"This pressure will push marketers to consolidate, and work with fewer partners that they know will give them the return they need.

"On the other side, media companies will also embrace focus, letting go of strategies, products, or parts of the company that aren't working as hard, and acquiring in areas that help bolster their offering for advertisers."

At advertising agencies, talent is still hard to get and costs are rising. However, the industry has flexibility to adjust costs to meet any downturn.

The pandemic had its lessons. When it first hit, many agencies cut hard, reducing costs quickly but also losing talent. When business returned, stronger than before, many were left with holes in their capabilities. Next time, if needed, they will be more precise.

And with the move to working from home, or a hybrid model of days in office plus days at home, the big agencies have been able to retire some real estate overheads, and the fixed expenses they bring. Who needs those big offices?

But next year will be one of expenses, managing the talent pool and staying close to clients. The surge in inflation, and the rising cost of finance via surging bank interest rates, has put pressure on costs.

John Vlasakakis, co-founder, Next&Co: "Our current forecasts show that advertising costs could increase by up to 20% in 2023. This means that agencies will be under significant pressure to think outside the box in order to retain existing clients and attract new ones.

"The agencies that succeed will be the ones who can quickly adapt and innovate to stay competitive in the changing economic landscape. In short, deals, partnerships and new business remain readily available for those willing to go the extra mile and provide creative solutions with exceptional value."

Media industry analyst **Steve Allen**, Pearman's director of strategy and research: "We are in for a rocky time.

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“Inflation will still be eating our lunch for some of the first half, and this will stem the stellar growth in retail sales Australia has enjoyed for the past two, going on three, years, particularly the spectacular 2022 YTD (2020 was a COVID shopping from home year, and 2021 largely catch up year for normal retailing).

“Inflation might not have peaked as regardless of monetary policy, the eastern states flooding has put a major spike in Spring crops and food supply. This of course leads to shortages and fuels price rises off the back of short supply across a wide range of produce.

“The RBA method (like all central banks) for dealing with Inflation is to try to choke off demand through, at times, punitive interest rate escalation. With 32+% of the population paying off home, and 30+% renting, these interest rates will crimp discretionary spending. Much of the Advertising sector depends on this.

“We expect Australia will avoid a technical recession. However at times it will not feel like it. The new federal government is certainly, presently, not instilling any optimism, no doubt in large part to project their own narrative. Right now this is very unhelpful, and we feel sure the remarkably strong and resilient Morgan Business Confidence levels will fall under this cloud of negativity.

“Overall Media revenues, at best, flat. Excluding digital (in all its various forms)…. a very modest decline. We still expect modest continuing recovery for Outdoor and Radio, and better than modest recovery for both Magazines and Cinema, both less of an overall contribution to the total Media Advertising pie. Television will continue very modest growth, but all of this we predict, will come from BVOD and FAST.

“Digital, we forecast to come off its high growth circa 35% for 2021, to flat, a complete contrast to what is behind us in trajectory, as it has been progressively slowing through 2022.

“This will be a tough year, all of 2023.”

Rachida Murray, chief digital officer, Spark Foundry: “Going into 2023, we have had a big year of adaptation, adjusting our people & culture practises to face the talent challenges. Brands, agencies and media partners have for the most part had much more focus on ‘post-COVID’, rather than on ‘managing during COVID’. And most of the advertisers who went dark during the period are back. We have momentum.

“Yes, the possibility of a recession is very real and at the current rate of inflation, we will absolutely feel an impact on advertising and media dollars. I expect we will continue to see brands demand efficiency and effectiveness – and choose partners who can deliver both and measure it with accuracy. That’s a trend I’d be happy to see continue as it’s our bread and butter at Spark Foundry.”

Megan Kay, managing director, Zenith Melbourne: “When it comes to media, I expect 2023 will continue to see fragmentation of screens, but growth of new screen opportunities through the impact of SVOD advertising on the FTA/BVOD market, connected TV blurring what is ‘linear’ and ‘digital’ content, and the increasing reach and influence of TikTok and Twitch.

“By the same token, 2023 will bring better understanding of the blurring and interplay of traditional ad content, integrated content, and creator content. I feel more consideration now needs to go into how the audience is experiencing a brand in media. Going beyond a traditional TVC and having true fit-for-purpose video is no longer a consideration, but a given, if you want to successfully reach your audience and build brand metrics.”

In Australia, the advertising market continued a strong run despite global reports of brands pausing or pulling back ad spend. SMI (Standard Media Index) numbers show the surge continuing.

Natasha Pelly, media analytics director, PMX: "With news of many brands cutting ad spend abroad and a number of global media companies forecasting revenue losses, most did expect some softening of the ad market to follow in Australia.

"Yet again though, we have been strongly reassured by the latest (September) SMI figures. From a year-to-date perspective, the 2022 growth figures are incredibly strong at +9%, despite the rapid resurgence we witnessed in 2021.

"Importantly, we are seeing recovery accelerate across channels worst-hit by the pandemic (outdoor, linear radio, cinema). This is happening in tandem with digital ad spend growth, evidence that advertisers aren’t simply switching their ad spend from more ‘traditional’ channels to digital – ad budgets are growing.

"It is good to see brands recognising the value of the whole media mix and of the synergies that can emerge through cross-channel planning and optimisation."

Australia’s ad market continues to disprove the pessimists, according to **Jane Ractliffe**, SMI AU/NZ managing director.

"Overall ad demand is clearly very robust and as there’s a very strong correlation between ad spend and GDP, it does suggest the current wave of economic gloom maybe misplaced,” she says.

"There may be a few advertisers taking a very cautious approach and reducing media investment, but the SMI data proves the vast majority are continuing to grow their ad spend.”

The story of 2022 was one of plenty when it came to revenue, at least among the big global agencies. The results came each quarter and each time, the holding companies upped their forecasts, despite increasing inflationary pressures, the war in Ukraine and supply chain constraints.

But they have an eye on uncertain economic conditions going into 2023.

At **Omnicom**, CEO John Wren: “We retain a healthy level of caution due to macro factors, including the ongoing war in Ukraine, the continuing disruption of global supply chains, the economic risk posed by rising interest rates here in the United States and higher inflation around the world.

“In light of these risks, we are actively taking actions to mitigate the potential negative effects of these macro factors on our business. I’m confident we are well equipped to handle any economic downturn and have the leadership teams in place to minimise the impact on our top and bottom lines."

Internally, Omnicom is acting as if the markets are going to be extremely difficult.

"Increasing our productivity in a couple of different areas is extremely important, and we're in the process of taking action and having very detailed conversations on a couple of fronts," Wren says. "One is real estate. We have real estate, where the leases expire throughout 2023 and 2024.

"And with a new approach towards flexible working hours, where we believe we're going to be able to reduce our real estate footprint globally, that's in process. We'll see what the market does. Additional opportunities may come up where we'll be able to take advantage of lower prices in other markets where the leases maybe are a little longer. So that's number one.

"In terms of people and payroll, we're taking it seriously to look at our processes at a very granular level through each of our subsidiaries … looking to offshore where it's appropriate.

"And there's a big push on automation in terms of some of the things that we can do from an automated basis that in the past we couldn't. All of these we've recently met with all of our management teams together where we, frankly, discussed all of these things and they're part of our weekly agendas in terms of the progress that we're making. And as we get into profit planning for next year, we'll be setting targets and expectations for each of those companies."

Philippe Krakowsky, CEO, **IPG**, says some clients have asked for help to scenario plan, how they might best redeploy media and marketing investments in the event of a downturn.

"The majority of our clients are now asking us to engage in this kind of contingency planning, prioritisation of activity, and a focus on actions that will drive performance in sales," he told analysts. "To a lesser degree, we are also seeing some deferral of digital project work.

"Historically, we know that marketers that continue to invest through the cycle come out ahead in the long run with measurable gains in market share and growth. These days that's a conversation that's ongoing with many of our clients who also know that given the duration of past downturns, reductions are generally short-lived.

"At IPG, our differentiated resources of creative and marketing talent, data and technology, as well as outstanding agency brands along with our diversified and flexible business model and proven management teams position us well.

"You can expect that we will hold true to our history of managing effectively even in more challenging times, while also continuing to invest in and advance our offerings for success in an increasingly digital economy. We are of course staying close to our clients and to our people."

Krakowsky says embedding digital across the portfolio as well as adding a layer of data and tech to offerings have been important parts of that playbook along with a commitment to talent and strong agency brands.

"Now the convergence of media and entertainment with the impact of technology on the retail sector is leading to another major growth opportunity for brands," he says. "And that's the evolving world of commerce and direct-to-consumer business models.

"To-date, we've been successful in helping our clients creating engaging and effective customer experiences across a range of physical and digital environments. During the quarter, we took another important step along this journey when we announced our acquisition of RafterOne. The company is a leading Salesforce implementation partner that works with marketers and brands to deliver personalised content that engages and converts in a measurable, precise and repeatable way across a range of marketing technology channels."

Mark Read, CEO, **WPP**, told market analysts in a briefing: "We're going into 2023 with confidence despite the challenges that we know we will face, and our plan, as it is in other times, is to come through them stronger as we did with COVID.

"There's a number of reasons for this confidence: first, client demand remains strong and our underlying growth has accelerated during the year.

"Secondly, we have a strong offer, excellent talent, significant investments in technology and this is really what's driving our current performance. And I'd say that each element of our business is contributing to our overall performance.

"Creatively I'd call out AKQA which is growing mid-single-digit growth, and a really strong performance at Ogilvy … we see an excellent new business performance most recently with H&R Block and SC Johnson, and they have a good pipeline of opportunities. Wunderman Thompson continues to perform well.

"Hogarth, our production agency – particularly importantly, I'd call out their relevance as we go through slightly tougher times, as their ability to deliver the breadth of production that clients need while saving money through efficiencies and offshoring is critical.

"In media, we continue to lead in new business tables, in public relations, public affairs we've talked about -- that business has been much more resilient both through COVID and continues strongly. And our integrated offer is proving particularly powerful.

"I think the third reason we approach 2023 with confidence is the strength of our performance this year. We've upgraded our growth and will deliver 30 basis points to 50 basis points of margin improvement despite the investments that we're making in our people and some headwinds in China.

"The performance this year demonstrates the resilience of our business and our ability to help clients navigate a more challenging macro environment in 2023."

2022 was marked by the return of so-called **traditional media**, such as News Corp and Nine Entertainment -- and the healthy advertising revenues of television, including Nine, Seven West Media and Paramount's 10.

The advertising revenue recovery post COVID lockdowns has been benefiting media players, with strong advertising spend and good take up on digital subscriptions, showing that news is still strong.

Part of the story, but not all of it, is the cash extracted from the big platforms, including Google, for the use of news. The actual sums received are confidential but are reported to be substantial.

News is also getting the benefit of costs slashed when the pandemic hit and economic uncertainty was the only vision. **Brian Han**, equities director at Morningstar, on **News Corp**: "Operating leverage from continued digitisation, transformation and cost restructuring is coming through, as advertising revenue recovery gains momentum."

Market analysts noted a stronger than expected momentum in publishing at **Nine Entertainment** where digital platforms payments have been added to strong digital subscription and advertising growth.

The outlook isn't as bright for the big digital and social media platforms.

The Google-Meta advertising duopoly is under attack, according to The Economist. "For the past decade there have been two universally acknowledged truths about digital advertising. First, the rapidly growing industry was largely impervious to the business cycle. Second, it was dominated by the duopoly of Google (in search ads) and Meta (in social media), which one jealous rival has compared to John Rockefeller's hold on oil in the late 19th century. Both of these verities are now being challenged simultaneously."

"As China's economy slows and the West slides towards a recession, companies everywhere are squeezing their marketing budgets. Until recently, that would have meant cutting non-digital ads but maintaining, or even raising, online spending."

Snap started the slide. In October, shares in digital media platforms fell after Snap reported slow growth in advertising revenue with brands pulling back their budgets in the face of deteriorating economic conditions. Snap reported revenue growth of 6% to $US1.13 billion in the September quarter, its slowest rate since its stock exchange listing five years ago.

Snap said advertisers across many industries were decreasing marketing budgets, especially in the face of operating environment headwinds, inflation-driven cost pressures and rising costs of capital.

"We have observed reduced campaign budgets as businesses seek to offset input cost pressures," Snap told its shareholders.

"In many high growth sectors, businesses are reassessing investment levels amid the rising cost of capital.

"We experience this on our advertising platform in the form of decreased brand-oriented advertising spending, but also in the form of lower bids per action and lower overall campaign budgets."

And then **Google**'s parent Alphabet posted lower than expected September quarter revenue results. Google planned to slow hiring and was working on "moderating operating expense growth".

The major shakeup is at Twitter where owner Elon Musk went in hard and cut headcount by half, to around 3,750.

And then **Meta**, Facebook's parent, cut 11,000 jobs, about 13% of the work force.

In comparison, the agencies are doing well. But how long can that last? Wren at **WPP** says his company performed better than financial analysts expected in 2022.

But why are the agencies doing better than the digital platforms?

"We're not just dependent on advertising," says Wren. "Advertising is an important part of our business, but not just depending on it means we're a much broader business.

"Secondly, we have a different client mix from the platforms. Our clients tend to be major advertisers, major marketers, who understand the value of continuing to invest. They have strong balance sheets, they have strong consumer demand, and take a long-term approach to their marketing. They're not venture capital backed start-ups looking to acquire customers.

"And then lastly, I think we have more growth opportunity outside of advertising. I think that one shouldn't draw a conclusion from any individual platform like Snap.

"If you think about it, Snap first surprised the market back in Q1 of this year and everyone called the advertising recession on the basis of the Snap results. I think they were wrong at that time, I wouldn't over-infer things into their Q3 results either.

"I think there's a lot of competitive dynamics around data privacy, around the growth of TikTok, around the growth of many different advertising platforms that inform that. So, I think, that's what gives us confidence.

"I think clients recognise and understand the value of what we do. We're a very different business from where we were five years ago or ten years ago. It doesn't mean we're not subject to the macro environment, but I think there's a lot to look at in this year's results to understand where we'll go next year."

Greg Paull, founder and CEO at consultancy R3, told *AdNews*: "The tech winter is sending a shudder through the global, and hence Australian, industry for 2023.

"(Facebook's) Zuckerberg spends more time on the metaverse and less time on improving his core project offerings.

"Privacy concerns continue to raise their heads and linked to this is the ever-impending Google Cookie change

"Marketers need agency partners who can produce content at scale and with a different model.

"The classical approach of Brief-Wait-Respond-Revise is no longer fit for purpose in 2023 – marketers want to iterate work with agencies, their in house teams and with platforms. A new collaborative dynamic for creative thinking needs to emerge."

Pitch doctor **Darren Woolley**, CEO, TrinityP3: "After the roller coaster ride of the COVID pandemic years, 2022 has been a year of evolution and growth with increased levels of activity across all aspects of our consultancy.

"While pitching continues to be a significant foundation, we find that marketers and their procurement teams are increasingly open to our Commercial Review alternative to reviewing incumbent agencies. Providing all the rigour and governance for a contract renewal, but with much less disruption than pitching, this process allows clients who are largely happy with their agency's performance to review the current arrangements without pitching. This is particularly popular for reviewing media agencies, but advertisers seem to delight in the show-and-tell nature of the traditional creative pitch, which we avoid wherever possible.

"We have also seen more major clients coming to us with the challenge of wanting advice on future proofing their roster of agencies, with the view to consolidating the transformation to a data informed or led marketing strategy driving growth while maintaining their brand platform. This work has seen us increasingly optimise relationship and performance between in-house functions across media and creative or content and the existing agencies on the roster.

"Meanwhile, overseas, we have had significant projects in North America designing and implementing new roster models and processes. In Europe and the UK, the pitching business continues to grow, but our global benchmarking capability and array of agency fee models and methodology has led to an increase in projects solving the transactional problems of the project-based way of paying agencies, without returning to the non-transparent retainer models, but using pricing-based output fee models.

"While there are clearly economic challenges ahead, we are finding the smart marketers are looking for more long-term, sustainable solutions to drive value from their agency investment, rather than simply squeezing their agencies on rates and costs, as was the modus operandi in the last global financial crisis."

Talent

The strength of the agency job market is a leading indicator of the health of the advertising sector and a strong pointer of financial resilience. There's plenty of work out there.

However, global consultancy **Forrester**, in its 2023 predictions report: "Yet, agency talent is not immune to the complications of post-pandemic work life or the complexities of today's digital marketing. The rapid adoption of digital behaviour, a shift in the balance of power between employees and employers, and permanent changes to how people work will alter the very culture of agencies and the value that they bring to CMOs in 2023 and beyond."

John Vlasakakis at Next&Co: "We have been fortunate enough to remain unaffected by the talent crunch. We recognise that while the younger generation have far more workplace options than we ever did, they are increasingly looking for purpose-driven companies with genuine values. The brand and environment we've created attracts top talent who want to get behind our purpose of making the world a measurably better place.

"Companies who have neglected their culture will continue to have issues attracting and retaining the talent they need. For any agencies struggling with a lack of ideal candidates, I recommend taking an honest look at their culture and purpose from the outside in. Companies that communicate their purpose effectively and live their values will always win the best talent."

Where is the marketing dollar?

Forrester: "Pressure will mount on CMOs to demonstrate ROI as their budgets get scrutinised. As a result, media planners will consolidate their 2023 ad spend into fewer, stronger channels and partners."

However, dips in the advertising market are usually short lived, according to a study in August 2022 by investment bank Canaccord Genuity. Total ad spend has a strong correlation to prevailing to economic conditions.

"While contemporary economic climates and the broader advertising landscape today are not synonymous with historic periods of decline, we believe there are a number of lessons we can draw upon as an indicator of what we might expect in the coming years."

Reviewing the Australian advertising market from 1961-2018, Canaccord Genuity observed three periods of decline.

Excluding COVID-induced 2020, the market declined 9% in 1991, 6% in 2001 and 5% in 2009. "The bookend years are attributed to economic factors, and the remaining decline is a result of an abnormal boost in spend in the lead up to the 2000 Olympics, making for a tough comp to cycle and representing more of a return to trend growth."

A key finding is that a pullback in total ad spend is not the same across all segments. **Radio** has consistently been the most resilient segment, having weathered various disruptions to the audio market and retaining steady share.

"OOH bears little resemblance to its pre-digitised structure, so we put less weight on a direct comparison of OOH's volatile performance as a read-through for the industry today. Print and TV appear highly sensitive to total ad market decline."

MAGNA, in its 2023 forecasts updated in December, says the advertising marketing in Australia will dip in 2023 but still grow by 5% to $23.5 billion

Australia's advertising market grew by 8% in 2022 to reach $A22.3 billion.

GroupM, in its December update, puts growth in the Australian advertising market at 3.4% in 2023, down from 10.9% in 2022.

Lucy Formosa-Morgan, CEO MAGNA Australia: "With so many global and local pressures (Russia's invasion of Ukraine, China's COVID zero tolerance stance impacting manufacturing, inflation, seven interest rate rises, etc.) impacting consumers, we do envisage that consumer spending will start to reduce in the new year and as such we are forecasting that total ad spend for 2023 will be low single digit growth with only a handful of channels showing growth."

PwC's annual Entertainment and Media Outlook this year saw concerns ahead but growth was still positive.

Dan Robins, editor and director of the Australian Entertainment and Media Outlook: “While the recent return to consumer and marketer confidence has been positive, our forecasts for the advertising market indicate that these high levels of growth may not last.

“Into 2023 we expect growth to slow to 4.5% (from 8.3% in 2022), dampening further to near-flat in the subsequent forecast years. This will, however, equate to $7.32 billion more being spent annually in 2026 on advertising in Australia than pre-pandemic.”

A much talked about recession (and no-one seems to have a clear view) would change the game.

According to Nielsen Ad Intel, the US advertising marketplace shrank by 7% in the second quarter of 2022 versus the same time last year, signalling that many marketers expect, or have already experienced, cuts to their budgets.

Nielsen: “But while dialling back media spend may seem to make sense for short-term budgetary concerns, marketers focused on mitigating the impact of a recession and maximising the effectiveness of their marketing budgets need to think of—and spend for—the recovery.

“The good news for marketers dreading a protracted downturn is that many recessions are short lived -- historically, 75% of recessions end within a year, and a full 30% only last two quarters. So, any cut in spending will likely only be short-term and result in nominal savings, while putting brands at a disadvantage heading into the bounce-back period that is likely just around the corner.”

What consumers want from brands

Consumers will expect more from brands in 2023, according to Carmen Bekker, partner-in-charge, KPMG Customer Advisory.

“More than ever before, customers are looking for personalisation that goes beyond ‘know me’ to ‘understand me’ – and they want it quickly,” she says. “Consumers are no longer impressed by brands simply remembering their birthdays, they expect more.

“I know many feel as though they’re drowning in data – organisations are being exposed to millions or even billions of data points each day. Modern tools and technologies to wade through the terabytes and mine insights in real-time are now critical to deliver personalised customer experiences, as well as predicting and anticipating customer needs and behaviours.

“In 2023, we will continue to see increased focus on agility as companies become aware that customer experience strategy is not a destination — but rather a process, one where strategies must be monitored and recalibrated as circumstances dictate.

“The problem is that businesses are often not structured or organised to act flexibly and be able to adapt to rapidly changing circumstances.

“When considering leading companies across the globe, they all have one thing in common: the ability to orchestrate and reorchestrate customer journeys as customer needs and desired outcomes change.

“These are companies that take their cue from their customers and the marketplace, and with a customer-first mindset, a strong service culture, and a willingness to test and learn, they demonstrate an ability to be resilient and evolve in a customer-centric way.

Social conscience and consumer behaviour

“Social conscience is resetting customer priorities, as consumers continue to move towards brands with positive environmental and societal practices.

“The last few years have brought about lasting change in the business ecosystem, most significantly the rapid implementation of new channels and new ways of connecting with customers. This has subsequently set new customer expectations, which include an insistence on ethical practices, ESG and purpose.”

“KPMG research has shown that two-thirds of consumers are now seeking brands that demonstrate positive environmental and societal practices, as well as ambitious sustainability and ESG targets.

“We have entered a period of heightened sensitivity about some of the biggest challenges of our time. From a pandemic to war, floods, droughts and fires, consumers are increasingly expecting businesses to not only play their part, but to take a leadership role in resetting their sustainability agendas accordingly.

Bekker: “As companies explore ways to provide better customer experiences, sustainability must be part of the equation. ESG, sustainability and personalised customer experience are now inextricably linked and need to permeate every customer interaction.

“This is more than just brand presence. Brand purpose, personality and voice, tone, consistent messaging (for example, about sustainability and ESG practices), and how customers move across platforms has become much more important as companies see how this contributes to building stronger, long-term customer relationships.”

The emergence of a brave new agency culture in 2023

Forrester: “The culture inside marketing agencies is changing as post-pandemic work realities, demanding employees, new revenue opportunities, and economic uncertainty collide.” Forrester foresees a future in which the creative environments, leaders, and experiments so emblematic of agency life give way to a focus on new product solutions, leadership, lines of revenue, and opportunities to reclaim digital media authority.

breaking stories and campaigns throughout the day.