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ADVERTISING | OCTOBER 20, 2008

In Asia, Too, Marketing Budgets Face Pinch

Global Economic Woes Are Expected to Damp Spending Next Year in a Region Once Deemed Resistant to an Ad Downturn

By GEOFFREY A. FOWLER

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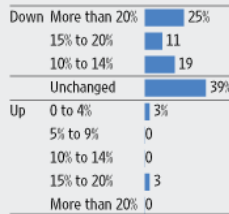
Hong Kong

Global economic woes may soon hit the marketing business in Asia, a region once thought to be relatively immune from an advertising downturn.

Over the past decade, ad agencies have invested in China, India, South Korea and other Asian-Pacific markets, as a counterbalance to slowing ad-spending growth in the U.S. and Europe. In the first half of this year, according to Nielsen Co., advertising spending in China grew 17% from a year earlier.

Tough Going

Fifty marketing managers across Asia were asked how their 2009 marketing budgets compare to 2008. The results:



Source: R3 (Beijing-based marketing consultancy)

But a new survey of marketers across Asia has found that the majority expect their ad budgets to shrink next year, with a quarter expecting a decline of more than 20% from this year. The survey, conducted by Beijing-based consulting firm R3, included 50 senior marketing managers responsible for a total of more than \$3 billion a year in ad spending.

"The events of the last two weeks have hit marketers hard," said R3 principal Greg Paull. "There will be significant reductions in the coming year, even in typical growth markets, such as China and Taiwan."

Big Australian retailer Harvey Norman Holdings Ltd., which also has a presence in Malaysia, Singapore and other countries, says it is considering cutting its marketing budget by 20%.

Financial-services companies in Asia are already shelving plans for branding campaigns, say media buyers. And, after years of increases, the global ad budget for South Korea's Samsung Electronics won't grow next year.

Much of the pessimism in Asia has developed in the past two weeks. When R3 first conducted its research in September, only 15% of the respondents said they expected tighter marketing budgets next year. But when the firm called the same executives back Oct. 9 and 10, the proportion of marketers saying their budgets were being cut had ballooned to 55%.

In a separate analysis, Publicis Groupe media-buying firm ZenithOptimedia predicted Oct. 7 that ad spending growth in Asia, including Japan, would slow to 5.2% next year, down from 6.6% this year. Zenith predicts the U.S. ad market will grow just 0.7% next year.

Media-buying companies say many of their Asian clients are taking a "wait and see" approach and that multinationals facing pressure from headquarters will be the first to slash marketing budgets in Asia. Local brands may cut their spending later, once local economies start to feel the economic pinch directly.

The money will go to digital ads, direct marketing and efforts such as in-store promotions, says Ashutosh Srivastava, chief executive of WPP Group's Mindshare Asia. "In a downturn when your ad dollars get restricted, you move them into areas that are more direct and measurable."

But where some marketers see trouble, others see opportunity. "In recession times, it is quite good to continue to advertise, because it is an opportunity to take market share," says Patrick Stahle, chief executive of Aegis Group's Aegis Media Asia-Pacific. He thinks smaller, fast-moving consumer-goods companies as well as luxury-goods makers are most likely to boost spending.

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In making ad-buying choices, marketers must balance shorter-term budget concerns with longer-term opportunity in Asia. "A bigger dynamic than what is happening in the global financial markets is the emergence of the mid- and lower-income economies in those bigger Asian markets," says Bruce Haines, the global chief operating officer at South Korea's Cheil Communications Inc., the agency of record for Samsung. "With that growth potential, we certainly still want to be a part of those markets," he says.

While multinational agencies in Asia have been spared many of the layoffs now spreading across the industry elsewhere, growth through aggressive acquisition of local firms is likely to slow.

"We continue to grow with caution," says Aegis's Mr. Stahle, who expects to hire 100 employees in the region before year end.

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