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Indian firms spend a mere 3.4% of sales revenue to advertise

The study also says that the coming years will see changes in the media used by advertisers as well as the allocation of work by companies to advertising agencies

Marion Arathoon and Anushree Chandran

Mumbai: Advertising executives in India have always claimed that Indian companies don't invest enough in marketing. Now, they have hard numbers to validate their hypothesis.

A new study based on 400 interviews with top marketers here shows that on average, Indian companies invest 3.4% of their sales revenue in advertising; the comparative numbers are 5% in Europe.

Interestingly, the proportion is higher for the local arm of multinationals, at 4.6%, than home-grown firms, which invest a mere 2.4% of their revenue in advertising.

"In India, due to lack of focus on measurement of RoI (return on investment) from marketing investments, companies tend to invest less in brand building and marketing programmes," says Sanjay Tripathy, executive vice-president and head, marketing, HDFC Standard Life Insurance Co. Ltd.

The marketing and agency trends study conducted by Asia-based marketing consultancy R3 in conjunction with European consultancy **Grupo Consultores** (GC) also shows that the marketing budgets of a little more than half the companies in Asia will decline this year. That's not a good sign, says R3 co-founder Greg Paull. "As marketers look to rework their budgets in order to cut costs, the already low sales/ad ratio may deteriorate." The budgets of only 6% of the companies in Asia will increase this year, he added.

Arvind Sharma, chairman, India subcontinent, **Leo Burnett India Pvt. Ltd.**, says India being an under-advertised and under-branded market is a big opportunity for the advertising industry. The rationale: unlike the West, many commodities here are not branded; the extent of branding in services, too, is low; and there's enough legroom for growth.

That's a popular view in the advertising business. According to Ambi Parameswaran, executive director and CEO, **Draftfc+Ulka Advertising Pvt. Ltd.**, advertising spends in India are less than 1% of gross domestic product while they are at least 1.5% in Malaysia.

The study also says that the coming years will see changes in the media used by advertisers as well as the allocation of work by companies to advertising agencies.

"With digital, database and activation high on the new list of media activity in these lower-cost times, we see marketers reviewing their agency mix," says Sally Warren, general manager, agency consulting, R3. "The study showed that currently many local advertisers (companies) here are still handling these functions internally; 33% of advertisers still manage digital marketing themselves, 47% for direct and 42% for event management. As the need for talent and bandwidth in these areas increases, it will be interesting to watch who the outsourcing goes to and which agencies are best placed to service it."

This is already happening, says an advertiser, but the benefit doesn't always go to advertising agencies because companies may prefer to work with independent specialist agencies for services such as direct marketing and event management. "I think it's happening already. Geography plays an important role here. For instance, you may want to deal with an efficient direct marketing agency that specializes in a particular region," says Abdul Khan, adviser to the managing director and head, GSM, Tata Teleservices Maharashtra Ltd.

In many cases, even agencies that run specialized divisions don't have the requisite skills, he adds. "Most agencies have what I call 'tick-marked' divisions. They have divisions for the sake of having them, without the expertise."

That could explain why agencies and companies here have shorter relationships. According to the study, the average creative agency-advertiser relationships

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lasts just 3.6 years on average here, compared with at least six years in Europe and the US.

Shorter agency-client relationships are a characteristic of rapidly developing economies, says Sharma of Leo Burnett. "Rapidly developing markets such as ours have advertisers who are like teenagers. They think one way, look another way, and then go the third way."

The problem lies elsewhere, say the advertisers themselves.

HDFC Standard Life's Tripathy says agencies need to be more accountable and the success of a solution offered by an agency should be measured against its ability to solve the advertisers problem or meet its business objective.

That view is shared by Khan.

Agencies, he says, are not able to prove that they deliver hard numbers.

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