FINANCIAL WORD

To cut, or not to cut the advertising budget? That is the question. Lucian Camp is not entirely certain what the answer should be.

Let's be honest. On the whole, the financial services industry still has a pretty dysfunctional relationship with advertising. In one or two sectors, it's straightforward enough. Much as we may detest and resent many of the creative executions, advertising and other forms of consumer communication are the life-blood of this industry, and so they consistently spend a lot of money on them.

But this kind of simple and linear relationship between advertising and business performance is very much the exception, not the rule. One hundred and eighty degrees away, you'll find the weirdest part of the market – the strange and topsy-turvy world of the life industry, where you don't understand anything until you understand that the single most effective thing a business can do to increase its profits and strengthen its finances is to stop trying to sell anything to anybody.

In this sector it would literally make more business sense to spend money on advertising, begging consumers to buy from your competitors rather than from you (and, of course, even more business sense not to advertise at all). And if you reply that it would only make sense in the short term, well, it's a short term that could last for twenty years or more, which should be enough to see out about 99.999% of the current generation of decision-makers.

In between the direct general insurance industry where advertising is the life-blood and the life industry where you can argue that it's poison, there are dozens of other sectors where the situation is more ambiguous. Brand advertising doesn't really stand a chance of achieving anything worthwhile if the brand isn't in any significant way differentiated from its competitors, so the huge majority of advertising for high street banks achieves little or nothing beyond temporary boosts in awareness. No-one understands the role of advertising in affecting the success of providers who distribute their products through intermediaries, so all the advertising for intermediated life, mortgage and investment companies is of entirely uncertain value.

Most forms of direct response advertising (for example, in investments) are nowhere near cost-effective in terms of direct response, so the budgets can only be justified by throwing in some notional benefits in terms of increased awareness, or halo effect among secondary target audiences, or whatever. And in any case, outside the top twenty or thirty B2C spenders, very few advertisers can afford really robust tracking methodologies, and so the effects of their campaigns can't be properly measured.

Not least because I earn a big chunk of my living by creating advertising campaigns for financial services clients, I'm very keen that you shouldn't misunderstand the previous paragraph. I'm not saying that financial advertising doesn't work, although I do think that some of it doesn't really work at all and some of it could work a great deal better. What I am saying, though, is that a great deal of it exists because someone, somewhere has faith that it should exist.

Incidentally, I'm also not saying that there is anything very unusual about the situation. In some simple packaged goods and direct response markets, there may be a nice simple linear relationship between advertising and sales. But in the large majority, there isn't. I can think of all sorts of markets – utilities, telecoms, airlines, consumer electronics, automotive – where the market dynamics are sufficiently complicated that a fair degree of faith is needed to justify the adspend, even if typically the markets are made up of smaller numbers of bigger players with a generally better ability to measure their campaigns' business performance.

But the thing about faith is, it's much easier to maintain it when things are going well and you're meeting your targets. This is for two reasons, both pretty obvious. First, you're able to believe that you're meeting your targets at least partly because you're spending money on advertising, and secondly, even if the advertising has nothing at all to do with it, things are going well and everyone's maxing their bonuses so where's the harm?

When things get tighter, faith comes under pressure. It's a straightforward test of strength: in the blue corner, Level of Financial Anxiety (LFA for short), and, in the red corner, Level of Conviction that Advertising Is Beneficial in the Short Term, or LCABST. (The 'short term' point is important. You can believe that advertising is beneficial in the long term, but still decide it would be better to stop it for a while rather than make other financial cutbacks.)

When the LFA is weak, nothing much changes. But as it gets stronger, advertising is typically blown away. I wouldn't expect to see many vigorous new campaigns in the sub-prime mortgage sector this year – or next year. Or very likely ever. Overall, the whole industry's LFA is steadily rising, and I fear we'll soon see the banking and investment sectors sliding down below their respective parapets for a while.

Where LFA is rising, resistance to the pressure will be fiercest among businesses with very strong LCABSTs. They may have these because of indisputable hard evidence, perhaps in direct insurance, or – in a few rare cases – because of very high levels of faith at very high levels in the company. For example, despite their horrendous business problems I would be surprised to see New Star cut their budget dramatically. John Duffield is too important, and his faith is too strong.

All of this is a somewhat long-hand commentary on the simple and obvious fact that on the whole, financial advertising budgets tend to be cut in tough times. Speaking as an advertising person, I can't say I'm surprised: given its uncertain value, it does look extremely cuttable, at least for a while. But I can say I'm increasingly frustrated and exasperated. If there is a business case to maintain it I wish we'd get a better understanding of what it is, and if there isn't I think I probably wish I'd done something more useful with my last 20 years. ☐

Lucian Camp is Chairman and Executive Creative Director at Tangible Financial.