

THE IMPACT OF THE FINANCIAL CRISIS ON THE ROMANIAN ADVERTISING MARKET

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Abstract: *The financial crisis reduces the efficiency of advertising rather than its quantum. Many institutions fail to realize that reducing the quantity of advertisement will not save them from the financial crisis. When companies cut their marketing and advertising budgets, they reduce the exposure of goods and services to the consumers. This is the reason why they see their sales going down significantly. Companies should focus on introducing promotional campaigns and build a long term relationship with their consumers. Throughout the article, the author will present a few favourable solutions to get out of advertising crises.*

Key words: *financial crisis, effects, advertising, promotional campaigns.*

1. Introduction

In 2009, the advertising market registered the lowest values in the last eight years. It is only this year when record amounts will be registered due to the rebuilding of the brands by television.

One of the main consequences of the economic crisis is the cut in the marketing budgets of the major corporations on the giant growing markets, such as India and China which, after a long time, began to lower the investment in advertising, a fact which was not always strategic but has lately registered an upward trend.

Russia underwent a difficult period too, as 75% of the expenses in advertising came from multinational advertising, whereas the advertising market would register a 11.2% decrease, experts say.

Media was particularly affected over the past decade. TV became too expensive

relative to the actual purchasing power of the Romanian consumer. Newspapers also experienced falls in circulation, while magazines represented the only means to reach a certain audience. That is why they managed to retain more of their usual advertising revenues than newspapers. Radio went down as fast as it grew a few years ago. Outdoor advertising was also affected. Outdoor market decreased by about 40% vs. 2008. Despite the crisis, there were hopes that online advertising would grow due to its offering of measurable delivery and relative low media and production costs. The online market dropped only about 20% vs. 2008.

The drastic reduction of expenditure on advertising is not a smart strategy. In order for a promotion to be efficient, companies should invest in the right brands and areas and use the most appropriate channels.

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Surviving this period requires innovation, flexibility, quality and cautiousness.

2. European Media Market

The zero-based budget approach is essential for a more efficient allocation of investment in advertising. This approach is based on the following practical observations:

- a. Minimum investment levels in advertising – are usually inefficient and it is better not to invest at all in this particular case.
- b. The expenditure on advertising. This may differ considerably from one category to another. It can vary from 5% to 45% of the income.
- c. The response to advertising on categories. The effects of excessive investment in maintaining market share in a market segment or another. The investment needed to earn a percentage of market share in a year, for example, can vary from 2 up to 4 times the level of maintenance.
- d. Market share of the company. The advertising investments required to maintain market share are directly

correlated with the scale and competitive position.

The advertising market in Central and Eastern Europe declined sharply during the first half of 2009 as the companies decided to substantially reduce investments on promotion.

The Czech advertising market coped best with the economic crisis. Top 20 companies with the largest advertising budgets spent 328 million EUR to promote products and services, 9.4% more than in 2008, according to a report made by TNS Media Intelligence Agency. However, the market fell by 2,1%.

In Hungary, the advertising industry underwent hard times too. Provided that advertising sales fell by 7.5% in the first half of the year, television and newspapers were affected too, according to the daily Magyar Gazdasag Turnips, which cites a report by TNS Media Intelligence Agency. The number of commercials aired on TV in Hungary fell by one quarter, while newspapers declined by 16% and outdoor advertising by 11%. Half of Hungary's top clients drastically reduced advertising expenses in the first six months of 2009.

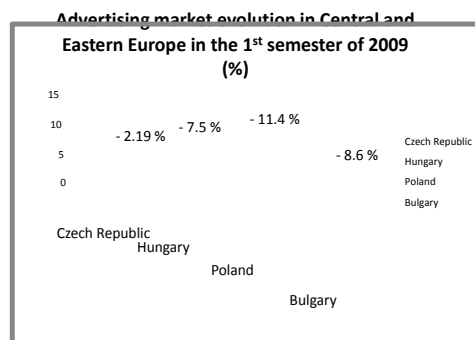


Fig. 1. *Advertising market evolution in Central and Eastern Europe in the 1st semester of 2009*

Similarly, the advertising market in Poland suffered a substantial decline of 11.4% in the first half of the year and the

industry revenues reduced by 826 million EUR, according to Starlink Agency. However, online advertising increased

quite spectacularly, ranking second in the hierarchy of the most popular forms of promoting products and services, after television advertising.

Thus, in the first quarter of 2009, internet advertising revenues raised up to 103 million EUR.

Bulgarian TV advertising followed the same downward trend registering a decline of 151 million EUR in the first half of 2009, as compared with 2008, according to a report published by the TNS/TV Plan Agency. The main cause of the decline is the cut in charges levied in the last months of 2008.

3. Romanian Media Market

The advertising market in Romania dropped significantly in 2009, from television and print to online. For 2010, experts are optimistic, but rather reserved, as the world market return is expected to increase by only 1%.

However, due to the international crisis, major advertisers such as Danone, Procter & Gamble, Unilever have started to reduce their media consumption. The players on the Romanian media market increased their focus on:

- budget adjustment;
- media performance;
- cost deflation.

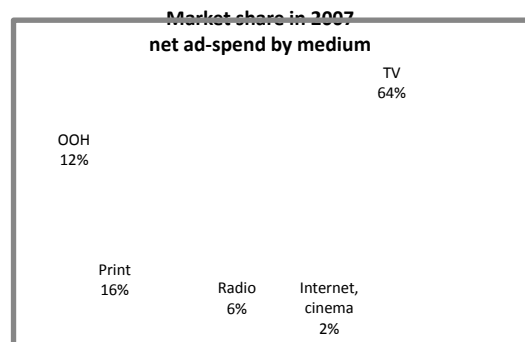


Fig. 2. Market share in 2007 net ad spend by medium

In 2008, the Romanian media market grew in net value by only 12%. The fastest growth belongs to the Internet, ca. 70%, TV increased by 10%, while Print only by 4%. In 2008, new radio stations were launched (the most important is

Radio ZU), some radio stations were rebranded, while others extended their network. In 2008, the Romanian OOH market increased by 20%. Also, the cinema market was more dynamic in the multiplex sector.

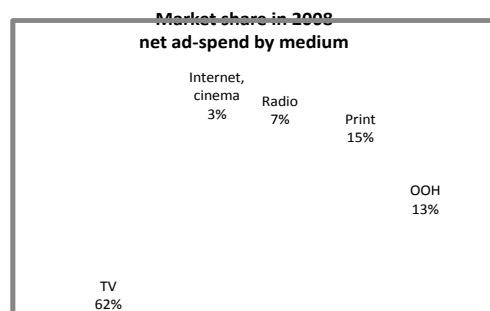


Fig. 3. Market share in 2008 net ad spend by medium

4. Media Research in Romania

The Media Research offers a comprehensive range of qualitative and quantitative approaches to research for operative and strategic marketing decisions in the following media segments: radio, print, Internet, interactive digital media, cinema and direct mail.

4.1. Television:

On January 1st 2008, there were 40 TV stations as registered members of the National Study of Measuring TV Audiences. By May 31st 2009, the number increased to 48.

The size for one rating point on the 4+, national target was of 197,360 individuals in 2008, increasing to 201,820 individuals in 2009.

In 2007, GFK Romania was designed as the new TV Audience Measurement Service (TAM) provider. GFK Romania started to measure the Direct to Home TV Reception Type; it was also able to monitor the promotional clips and the commercial ones, offering complete information about the entire TV broadcasted programs for 24/24h.

4.2. Press:

BRAT (Romanian Audit Bureau of Circulation) is the only provider of performance data concerning the Print media.

The evolution of the press market in 2008 and the first half of 2009 could be described as a black period of Romanian press during the last few years.

When the Internet was considered to be a threat for the print media, print publishers decided to save costs and preserve brands by moving them from print to online editions. Even though, the print advertising market accounts a gross rate value of over 421 million EUR, which is an increase that comes mostly from rate card increases and does not reflect itself in the net figures. Moreover, in 2008, publishers with a market share lower than 1% account together 22.8% of the gross advertising market; this is 20% lower than 2007 and decreasing to 21.5% in the first half of 2009.

In 2010, the printed version of publications should prove the publication's importance and ability to resist in the economic environment.

Meanwhile, advertising revenues will continue to drop, bringing publications in the situation of reviewing their production and editorial costs, and marketing strategy.

4.3. Radio

In 2009, there were over 700 radio licenses on the Romanian market. During this financial crisis, all the radio stations tried to consolidate their position, to develop their network and of course to win new audience by launching new radio programs, bringing new guests etc.

In 2008, the total radio net ad spend increased by 16% vs. 2007, reaching 35 million EUR (6% of the total net media market), while the total gross ad spend increased by 21%, reaching 110 million EUR. The stations with the biggest ad spend share in 2008 were Kiss FM (30%), followed by Radio 21 (22%) and by Europa FM (20%).

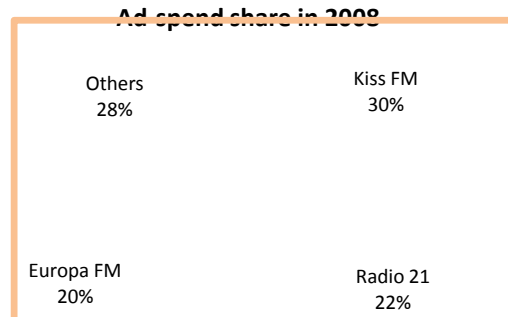


Fig. 4. *Ad-spend share in 2008*

In Jan-Jun 2009, the total gross radio ad-spend decreased by 17%, from 53.6 million to 44.4 million EUR. In H1 2009, the stations with the biggest volume share were Kiss FM (31%), followed by Radio 21 (18%) and Europa FM (17%).

Radio remains a relatively inexpensive media channel, used as secondary media in many advertisers' strategy, considering its volatile audience base, low customization and targeting possibilities.

4.4. Internet

2008 was one of the best years for the development of the Online Market in Romania, with a growth of over 70% vs. 2007. According to World Stats report of June 30, 2009, Internet penetration in Romania is 33.4%, still under the European average of 48.9%. Romania ranks 8th place among EU countries by number of Internet users (7.4 million in June 2009).

In 2008, 51% of the online budget was invested in banners. Video advertising had an impressive growth in 2008, of over 600% vs. 2007.

As a conclusion, 2008 was a good year of development and growing sophistication not only of the online market but, of the way clients and agencies relate to and use online.

4.5. Outdoor and indoor

The Romanian OOH industry was not able to provide standardized audience and efficiency measurement studies at least for Bucharest and main towns.

The total number of permanent locations is estimated around 25,000. Main operators are switching from billboards to scrolling systems or street furniture (bus shelters, advertising cylinders). However, besides using a lot less OOH in the 2009 media mix than before, clients started to reduce the frequency of decoration, which will generate a decrease of the OOH production market.

Indoor advertising market reached ca. 5.5 million EUR in 2008. Indoor media networks were installed in shopping malls, hypermarkets, commercial parks, cinemas, beauty and fitness salons etc.

Despite the fact that international players are controlling it, the Romanian OOH market will continue to face some issues drawing from the past, such as service standards, reliability and accountability.

4.6. Cinema

The number of cinema viewers in Romania is the lowest in Europe. The main obstacles against the development of cinema advertising are: small number of quality cinema halls, price of cinema admission, high rate of piracy for newly released movies, expansion of home cinema usage.

The dynamics of cinema market will slowly change, increasing in terms of number of admissions due to new cinemas opened and attracting public with new technologies.

5. Conclusions

The reasons to continue to spend in advertising during recession are as follows:

- to protect the value of the mark at a time when it can be mined by promotional actions of the market actors;
- to facilitate the choice of the consumers who redefine their practices and change their behaviours;
- to support the resumption of sales at the time of cycle change;
- to benefit from reduced advertising interference to launch an offensive in terms of market shares;
- to send positive signals to the financial markets to maintain and increase the financial value of the mark and thus to reduce the volatility of the courses.

According to the Initiative's estimation, the total ad spend will decrease in 2010. Despite the decreasing trend of spend, TV remains the strongest media channel. Time spent viewing and ratings had increased and the niche channels became significant in terms of audience share.

Most newspapers and magazines decreased in circulation while others gave up the paper edition and moved to the online variant. Few others were closed down.

The online advertising will be considered a good media choice due to its price.

To conclude, we can say that the crisis will determine the survival of media that can offer flexibility, an open-minded approach and excellent value for money, a trend that will continue in the long run as well, even when the crisis will begin to let go.

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