

John Fisher asks how bad the economic situation really is and what we can do about it

What elephant in the room?

For most of this year people in business and politics in Europe have been ignoring a looming financial catastrophe. By the time you read this, Greece may well have been bailed out with plans to provide more funds to other eurozone economies as they all teeter on the brink of bankruptcy.

It may be that good news is no news and that the media tend not to focus on positive issues because readers won't pay to hear everything is going swimmingly. But to read most of the B2B press and websites, you would think that the economy is going through a slight blip at worst on the ever upward curve to greater prosperity and even bigger events. More elephants.

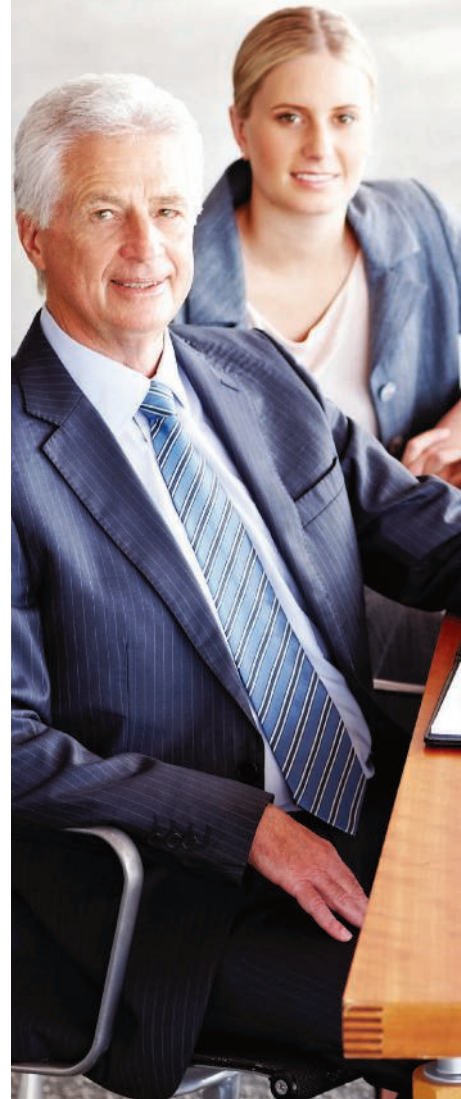
So what should we make of the good news stream of stories announcing yet another 'fantastic' win for ABC Consultancy who are going to have 'their best year ever'? I think we have to take them with a pinch of salt. For every piece of 'new business' there are probably 10 losses, which nobody is willing to talk about. Just like governments.

The economy began to falter in June this year and is still struggling to get any traction. The pattern looks remarkably similar to September 2009 when forward bookings fell off the proverbial cliff and did not get going

again until March 2010. So make no mistake, I'm afraid we are all in for a six month pause.

The logic of the current stagnation is compelling. Since 2009 the FTSE 100 Index – a measure of growth for the top 100 companies listed in the UK – has tottered around the 5,250 mark, with a number of false dawns and rallies going nowhere. The Purchasing Managers' Index, which is a measure of forward orders of manufacturing and other supplies, and therefore of future demand, dipped down from 55 to 50 in September 2011 (on a scale where 50-plus = growth, below 50 = decline). The last time it dipped by this much in one month was September 2008, which eventually led to negative growth for most of 2009.

And then you look at the anecdotal evidence. Europe has been flatlining for a year or more in terms of consumer demand. There's no point in trying to sell consumer goods to a market that has no spare demand or spare cash. Despite the unprecedented manufacturing boom in China and the Far East, in general they have discovered that Europe is a lame duck, at least for now, in its role as customer. That means that electronics and leisure goods are being stockpiled in the East waiting for the upturn. So, as a consequence, new model launches have been put on hold, conferences and incentives



have been cancelled and marketing initiatives have languished while they all wait for European planners to start buying again. Automotive is a similar story. They do see some light at the end of the tunnel in the USA though. So when and if the upturn ever comes, that product is headed for the States, not Europe, as they will need to get their stock levels down quickly to make their figures look good in their home markets.

Traditionally, when the private sector catches a cold, the good old public sector will take up the slack. Not so this time. The effect of sovereign governments in Europe 'acting together' is actually bad news for trade as the prescription to cut public sector spending all at the same time means that there are very few individual markets that have discretionary cash anymore. The old higgledy-piggledy way of managing large economies

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had its advantages in that we were rarely all in the same economic boat at the same time, looking for the same lifeboat.

Because the UK is just a small collection of islands off the coast of France, there is very little we or our government can do to make things easier with our noisy neighbours. The fact we have a different currency is more by accident than design, so we have at least been spared the agony of bailing out beer stein manufacturers and bidet producers. But we do trade with the eurozone, so things will only recover when they recover.

What we can do, though, is spread the downside risk by having clients in diverse markets; doing a number of related services, not just one; and keeping overheads down by using freelancers, of whom there are many. If you are a big agency, now is the time to buy up your niche operators as they

will be hurting due to lack of demand and the cost will never be lower. If you are a small agency you need to trim your prices to ensure that when procurement comes to call – and they will – you will be much cheaper than anyone else.

Some people say this can all be avoided by trading directly with South America and the Far East. Training and show production are probably the only things Brits could sell into these markets and if you are starting from scratch, you are already too late to avoid this particular downturn. But it's not a bad idea. Thanks to the internet, the rapid exchange of market information has shortened the economic cycle to three years rather than the traditional seven years, so not long until the next crisis comes along.

I have no doubt that from time to time in the coming six months I

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will be sent examples of agencies 'having their best year ever', thereby confounding the market. But I bet that such agencies have one big client or have one great service product or have one niche market. And that's the point really. The exception proves the rule. For most marketing services businesses in 2012 it's going to be squeaky bum time, so perhaps we can start talking about those elephants in the room a bit more and provide everyone with some shared solutions as to how to deal with them, rather than ignore them and hope they all go away. ■



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