AD BUDGETS SLICED AS BUSINESS WANES

Fear of Inability to Meet Bills, Smaller Return on Dollar, Prompt Curtailment

SWITCHING OF MEDIA DUE

Swing to Profitable Markets Cuts Billings of Magazines, Radio, Aids Newspapers

By WILLIAM J. ENRIGHT

With large national advertisers issuing orders last week to their agencies to curtail budgets, the trend of advertising in coming months will closely parallel the downward movement of business activity, according to opinions expressed here yesterday by executives. Only about 25 to 35 per cent of the country's leading companies have planned to increase their advertising schedules in the early months of 1938, it was said, with the balance adopting a hand-to-mouth policy and approving budgets for only a month to two months in advance.

While theoretically a curtailment of advertising expenditures at a time when business is declining is unsound, two reasons were offered in defense of the practice yesterday by manufacturers. One is that producers fear that they will not have sufficient funds to meet advertising bills when they come due, if business drops off sharply; and the second is that cultivating a declining purchasing power makes advertising unprofitable, as the sales return per advertising dollar drops.

Some Trades Can Hold Up

Discussing this phase of it yesterday, L. D. H. Weld, director of research, McCann-Erickson, Inc., said he thought that some companies could do better by maintaining their advertising volume during periods of business recession. During the last depression, he pointed out, drug companies were particularly successful in holding up sales volume by maintaining advertising schedules. Drugs, however, Mr. Weld said, are stable items and such a policy would not be successful for some other industries.

"Frequently, I have considered the desirability of large companies putting aside during prosperous periods an advertising reserve to be used when activity declines," he said. "The benefits of such reserves are obvious. They would enable companies to buttress their positions in times of declining sales."

But regardless of arguments one way or the other, Mr. Weld said, past experience shows that advertising linage parallels very closely the trend of business activity. When business advances, advertising volumes rise; and when business drops, so does linage. Accordingly, he expected that in the coming months, advertising expenditures would follow very closely the trend of business activity.

One of the major results of the current curtailment of budgets is expected to be a definite switching of media. With the double purpose of moving heavy retail stocks and of cultivating only the profitable markets, national advertisers are expected to switch a portion of their magazine and radio budgets to cooperative newspaper advertising through dealers. Since newspapers' retail rates are lower than national rates, manufacturers will also benefit from a reduction in advertising costs. Within the last two weeks about a half dozen manufacturers in the men's clothing, refrigerator and radio fields have taken such action, it was reported.

The downward trend in linage and billings is still only a moderate one. General monthly magazines for this month had a linage gain of less than 2 per cent, with the women's group showing a loss. Newspaper linage in October dropped 1.2 per cent, with national off 16 per cent, and will probably show another loss this month. Radio billings fell about 8 per cent. These declines, however, are not entirely due to the business situation, as comparisons are being made with a 1936 period in which the tax on corporation surpluses stimulated expenditures for advertising and in which political advertising, both in newspapers and on the air, played a considerable part.

Corporation Tax a Factor

The corporation tax will continue to influence comparisons for the balance of the year, but the early months of 1938 will be on a more equitable comparison basis with previous periods, agency executives pointed out.

A number of industries have announced extensive campaigns for 1938, but apparently they must be regarded as subject to the business curve. While promising larger budgets, the automobile field has reduced auto show schedules 12 to 15 per cent under a year ago, chiefly because there are few new selling points in the 1938 cars, and because the possibility of a general reduction in prices may narrow operating margins. Retail dealers conceded last week that there was considerable talk about a cut in prices but that nothing tangible had developed.

Refrigerator advertising for the balance of the year will be heavier than normal, because of the intensive holiday promotions. Announced budgets for 1938 are all ahead of this year, possibly because the 5 to 10 per cent advance in prices may demand more intensive promotion at a time when other prices are declining.

The chief optimistic note in the entire picture is the promise of advertising managers that as soon as business activity turns upward, advertising expenditures will also be increased.

The New York Times
Published: November 21, 1937