

Marketing in a Recession

**A White Paper for
Times Like These**

November 30, 2008



Next Level SMG is a management consulting firm that builds strong brands and compelling marketing strategies that deliver clear, consistent and relevant messages, create meaningful, memorable brand experiences, and, most importantly, drive profitable growth.

1.0 Overview

This is a precarious time for marketers and their budgets. Marketing leaders are being asked to dramatically reduce expenses. Along with hiring freezes and travel reductions, marketing budgets are among the first items to be slashed. We suspect that at least part of this comes from the “fuzzy” nature of marketing: that much of it is not well understood, or is ineffective. And if an expenditure cannot be directly connected to a positive result – and since customers aren’t buying anyway – budget reduction seems a harmless choice.

That’s an unfortunate and short-sighted course of action for two reasons. First, it assumes a strictly transactional approach to marketing in which today’s expenditures relate only to near-term sales. While it is marketing’s job to drive top-line, that effort includes relationship and brand building, which takes time and steady reinforcement, in good times and bad. Second, the tools marketers use are now all on sale, from media to designers to channel programs. The ability to stay in front of consumers, reinforce the value proposition (even if the message gets adjusted to increase relevance in trying times) and grow market share is cheaper now than it has been in 7 years, and may not be this cheap again for another 7. The ability to efficiently strengthen a brand is about to peak, and if marketers bury their heads in the sand waiting for this dark cloud to pass, their task of catching up and re-establishing their brands will be much more difficult on the other end of this cycle.

But pencils will be sharpened in many companies, so, in addition to all of the articles in traditional trade magazines imploring you to keep spending, we wanted to give you three things. First, we offer a review of studies on how marketing investment during a recession netted concrete benefits, so that if you go to the mat and defend spending increases, you have the necessary ammo. Second, we provide a condensed list of current thinking on how to manage marketing through a recession. Third, when you have to cut, we offer what we think are the best candidates for the chopping block.

2.0 Research Summary

Let’s assume you buy into the premise that marketing tools are on sale, and that this is a great opportunity to grow share. Your focus is the top-line, and that has never been more important than right now. But you are going to need support... from your CFO, your CEO and folks who look at the whole enterprise and feel that everyone has to share the pain. What fact-based evidence do you have to support your contentions? Turns out, this subject has been researched, and there are some pearls of wisdom to extract from previous recessions, so long as they are taken with a grain of salt. Past performance is, of course, not always indicative of future results.

“We have a philosophy and a strategy. When times are tough, you build share.”
- A.G. Lafley, former CEO of P&G

“A lot of companies have chosen to downsize, and maybe that was the right things for them. We chose a different path... We’ve been turning out more new products than ever before, and Apple is one of the only two companies making money in the PC business. We’re not making a lot, but other than Dell, we’re the only one. Others are losing money – a lot of money.”
- Steve Jobs, CEO of Apple (during the early 2000s recession)

The correlation between share of voice and share of mind, as well as share of market, is *not* dependent on the direction of GNP. And while consumers are spending less, especially on status and conspicuous consumption goods, they are still spending on products and services to help them achieve their goals. Research has borne out the potential payoff for contrarians with a long-term view. For example:

- McKinsey & Co. studied 1,000 companies over an 18 year period (1982-1999) and found the companies which retained or gained market leadership in the 1990-1991 recession invested

cash reserves on strategic acquisitions and pursued new opportunities that fit its overall corporate strategy rather than focusing on reducing operating expenses.¹

- The PIMS (Profit Impact of Market Strategy) Program database tracks data from over 3,500 Strategic Business Units (which are divisions, product lines or other profit centers within a parent company) in over 200 companies from mostly North America and Europe. An analysis of this database presented at a March 2008 Institute of Practitioners in Advertising (IPA) conference illustrates that companies, which cut marketing spending during recessions, enjoyed superior Return on Capital Employed (ROCE) during the recession, but inferior results in the recovery. The “spenders” achieved significantly higher ROCE during the *recovery* and gained an additional 1.3 percentage points of market share. It also bears repeating that typical recessions are 6-15 months, so the bump in ROCE that “cutters” received was short-lived.²
- Tony Hillier published a paper in 1999 analyzing the PIMS database. He revealed that those companies, which cut advertising in a recession, tended to have a 2% higher increase in profitability than those that increased advertising during the recession. But the companies, which did increase advertising during the recession, saw 5.1% higher increases in profitability during the *recovery* than those that had decided to cut. The “increasers” also had a market share gain 2.8 times higher than those that cut advertising.³
- Through a study of advertising in the 1981-1982 recession, McGraw-Hill’s Laboratory of Advertising Performance showed for the period between 1980 to 1985, those companies that did not reduce advertising spending during the two recession years collectively increased sales between 16 and 80 percent. These gains were permanent and even expanded during the three post-recession years. Companies that cut back advertising saw little, if any, growth in sales.⁴
- Another McGraw-Hill study analyzed 468 industrial companies during the 1974 recession and 600 industrial companies in 16 different industries during the 1981-82 recession and found that companies that maintained or increased advertising spending averaged significantly higher sales growth, both during the recession and in the 3-5 years following. The analysis of the 600 industrial companies also found that by 1985, those companies, which aggressively advertised in the 1980s recession, saw sales rise 256% over comparable companies, which cut back.⁵
- The American Business Press (ABP), an association of trade publications, conducted a study, which tracked the sales and profit growth of 173 industrial companies between 1972 and 1977. Those companies that reduced advertising spending achieved minimal sales growth in 1974, suffered a sales decline in 1975 and increased sales by 70% in a five-year period. For companies that maintained their ad budgets, sales suffered no slowdown during the recession and grew 150% for the entire period.⁶
- In 1982, Cahners Publishing Company & The Strategic Planning Institute conducted a study involving 2,000 businesses. It found that businesses that increased media spending by up to 28% had a .5 market share points increase during periods of recession, and those that increased media spending by 28-80% increased market share by 1.5 share points. Those that increased spending up to 28% in expansion times only saw a .2 share increase, and those that increased by 28-80% also only had a .2 share increase.⁷
- Yet another McGraw-Hill study found that aggressive advertisers in the 2001 recession increased market share 2.5 times the average for all businesses in the post-recession economy. The Strategic Planning Institute showed that even though 80% of businesses increased their advertising spending during economic expansions, market share did not improve because competitors had also increased spending.⁸

3.0 Collective Wisdom: Top Five Marketing Strategies

We have assembled the condensed version of the top 5 marketing strategies during a recession. Some themes have been covered by others – we do not pretend to be the first to think of each one, though we may be the first to make a top five list (these things tend to run in tens, for some reason). Of course, your exact strategy will depend on your company, category, consumers, competition and brand strength, but here is what we deem to be the most effective steps to protect a brand and build business during a recession.

- 1. Don't chase consumers down the price hole**
- 2. Offer more value and increase product accessibility**
- 3. Evaluate and adjust product portfolios**
- 4. Continue to innovate**
- 5. Strengthen customer relationships**

1. Don't chase consumers down the price hole

While it may be tempting to follow your fleeing customers down the price ladder and conform to their current, more frugal, needs, think before you leap. Strong brands deliver premiums – in price and loyalty. You do not want to give up the premium your brand worked so hard to gain, or jeopardize long-term brand equity. It is important to offer value, but cutting price too much sends the not-so-subtle message that either previous margins were unnecessary, or that the brand will now be using cheaper ingredients. Oftentimes these moves do not bring customers into the market, they just give up margin and equity. Look at the hotel industry. After 9/11, demand just vanished. Lowering prices did not lure anyone back into the market; it simply lowered margin. With consumer goods, there may also be a sense that a lower price is a great opportunity for consumers, but doing so only stimulates bad consumer habits: to wait for the sale, and to believe that the full price is neither the real price nor reflective of value. “Renting” customers who come only for price is a slippery slope; yes, their money is green but they are not loyal, and to sustain their business, the prices need to stay low. Vlasic pickles had that experience when they sold a gallon of pickles in Wal-Mart for less than they sold their quart size in groceries. Consumers didn't buy the pickles because they were Vlasic; they bought them because they were cheap. Vlasic was buying the business, not building the brand. Sales were cannibalized, profits evaporated, and compounded by other issues, the company went bankrupt. Long term, maintaining price integrity, even in a recession, is the preferred path. To do that...

2. Offer more value and increase product accessibility

Rather than cut prices, increase the real (and perceived) brand value. Wendy's played up their value in the 1990s recession by messaging, “I know you have less money to spend these days, but that doesn't mean you have to eat less.” Better customer service or better financing plans are particularly welcome at this time. La-Z-Boy launched its iconic reclining chair months before the stock market crash of 1929, but extended better financing terms, allowing more consumers access to their product. This, coupled with increased customer service, created unparalleled customer loyalty and strengthened the La-Z-Boy brand. Maybe a product has multiple uses that are under-communicated. During the early 1990s recession, A-1 Steak Sauce began advertising, “A-1 Steak Sauce isn't just for sirloin anymore” – it could improve the taste of hamburgers, too. Smaller packages at a lower price point or economy sizes also offer greater value. More value does not mean redefining channel strategy towards value shoppers, but instead entails ways to dial up the relevance of the brand to match current priorities and purchase criteria.

3. Evaluate and adjust product portfolios

Brand portfolios are often viewed as the proverbial sacred cows: much planning and deliberation goes into crafting the brands and sub-brand architectures, with their complex line extensions for every taste

and purpose, so no one wants to tear down the house. But that is exactly what a recession can, and sometimes should, do. It is Darwinian, and once you accept that not all brands will thrive, you have to make the jump to realizing that not all may survive either. You are in a recession and have to concentrate on the strongest brands. Let others sink or swim. This means conducting a serious evaluation of the portfolio. Prune any unnecessary product or sub-brands to focus on building the equities of the strong brands. A quarter of the world's 50 most valuable brands predate 1900 and have thrived because they concentrate investment activities on their core brand equities. And the world's leading CPG companies have for years been shedding smaller brands in favor of power brands which carry more clout with channel partners and consumers, as well as the scale to increase marketing efficiencies. Luxury brand Coach learned the lesson well. During the 2007 holiday season they launched a line of less expensive handbags, which did not sell very well. Why? They had deviated from their core equities, failed to understand their consumer base, and spread their resources too thin.

Line extensions, licensing, and value brands have their place and can retain customers looking to trade-down, only so long as they fit with the long-term strategy. For example, Ziploc introduced a new line of freezer bags that protects the freshness of leftovers to much success in the early '90s. This line extension focused on a newly emphasized consumer need in a recession: stretching money as far as possible. The same need consumers are expressing today.

4. Continue to innovate

The temptation to turn off the innovation spigot is perhaps the most tempting way to lower expenses, since the benefits are deferred (if they come at all). Recession pressures can and should be used to ensure that innovation efforts are optimized to meet business goals. "Nice-to-have" initiatives may be shelved. But severe recessions are like system shocks. They act like a "reset button" on consumer priorities, values and goals. It's those priorities, values and goals that drive needs and the use of brands as solutions. This means that now is an especially important time to gather deep customer insights, opening the door to innovation and to developing the solutions to these readjusted needs. Obviously, as priorities shift, spending is adjusted. Consumers goals and frames of reference change and they seek different brands, and sometimes different product categories, to meet them. A recent *New York Times* article profiled a Michigan man for whom the recession caused a "reset" of emotional and spending priorities. He purchased his first sailboat – and a large one at that - as both a family sanctuary and a means to save money. He reasoned that the boat gave his family more togetherness than four trips to Disneyland, and at a lower lifetime cost. The lesson is that a recession doesn't necessarily have to be about trading-down to less expensive products in the same category. In fact it may open up new avenues of consumption – in this case a yacht – justified by consumers' new goals and priorities, as well as a major shift in the frame of reference. Companies that anticipate how changing attitudes will impact consumption can innovate to address new market demand.

5. Strengthen customer relationships

Right now, consumers are hurting, making it the worst possible time to distance your brand from them. When consumer sentiment is at an all time low, brands have an excellent opportunity to build loyalty through relationship marketing. Consumers will notice and appreciate companies that reach out to them rather than reduce customer service to save a buck, especially if competitors are cutting down on service to reduce expenses. Sincere demonstrations of appreciation always go a long way, but never more so than when each purchase is carefully considered and likely represents a sacrifice in terms of other nice-to-haves. In categories where purchase is more frequent and consumers may divide loyalties among a small group of similar competitors, this is the time to up the reward for consumers to consolidate and choose your brand or family of brands. Look at Hilton Hotels. They are currently focusing on their Hilton HHonors Loyalty program now that they have begun to see some slow down in the market. Senior VP-customer loyalty Adam Burke has said, "Our HHonors members tend to be the group that buoys us through a downturn. They are the core audience and tend to stay loyal and sustain the business especially through those downturns." You can bet that many Hilton frequent business travelers are also Marriott and Starwood frequent travelers, and the ability to get that customer to spend all of their nights,

instead of just one-third, in one family of brands is worth showering them with extra points, upgrades, or some spa services.

4.0 Where to Sacrifice

We rarely see a slowdown as an opportunity, but it gives us permission to trim some of the fat that should have been shed earlier. With that in mind, there are several areas that historically have been lower ROI in many companies due to a tendency for fees to be inflated relative to received value:

- *Sponsorships* – Great for sales perks and the Board, but do they really factor into purchasing decisions? GM just cut its ties with Tiger Woods one year earlier than planned, a move that some say was long overdue because of poor brand fit and low incremental impact on Buick sales.
- *Partnerships* – Partnerships often look better on paper than they perform in the real world – when evaluating, be sure and include fully loaded costs and overhead to manage, as well as an assessment of risk (what if they implode or are caught up in a scandal?).
- *Line extensions* – Do slotting fees, promotions and unsold product – plus all the overhead – justify the value of so many varieties? In *The Paradox of Choice*, Barry Schwartz cites numerous instances where more choices actually reduce total sales as customers become overwhelmed, confused or in need of more information before selecting a product.
- *Efficiency* – Are you getting as much as you can out of your marketing budget? Can creative from one region be repurposed in another? The momentum of creating new programs from scratch needs to be interrupted, and don't expect the agencies to suggest it.

It's tough to feel good about the difficult decisions that must be made, and making these cuts is a lot harder than simply choosing to look on the bright side. But, this too shall pass, and if the vision is to come out on the other side with a stronger brand, then the decisions made now can help create a better future, and cutting low ROI programs is a great place to start. Together, cuts in these areas should provide marketing budgets with a measure of flexibility that will allow them to focus on promoting, energizing and maintaining the core attributes of a brand strategy.

¹ Dobbs, Richard F., Tomas Karakolev, and Francis Malige. "Learning to Love Recessions," *The McKinsey Quarterly*. McKinsey & Company. June 2002.

² "Advertising in a Downturn," Institute of Practitioners in Advertising Report. March 2008.

³ Hillier, Tony. *Journal of Marketing Society*. 1999.

⁴ "Advertising During A Recession," *Direct Marketing*. September 1, 1991.

⁵ McGraw-Hill Research. Laboratory of Advertising Performance, Report 5262. New York: McGraw-Hill, 1986.

⁶ "How Advertising in Recession Periods Affects Sales," American Business Press, 1979.

⁷ Kijewski, Dr. Valerie. "Media Advertising When Your Market Is in a Recession," *Cahners Advertising Research Report*. The Strategic Planning Institute, 1982.

⁸ Razeghi, Andrew J. "Innovating through Recession: When the Going Gets Tough, the Tough Innovate." 2008.

Bibliography

Bush, Michael. "Marketers Put Emphasis on Loyalty." *Advertising Age*. July 9, 2008.

Goodell, Phillips W. and Charles L. Martin. "Checklist for Developing Recession Marketing Plans." *The RMR Marketing Advisor Newsletters*. October 2008. <http://www.rmr.com/marketingtips.asp?nid=438&lid=1>

Hollis, Nigel. "Marketing During Recession: To Spend or Not to Spend?" Millward Brown. April 2008.

Hollis, Nigel. "Marketing During Recession: Survival Tactics." Millward Brown. May 2008.

Interbrand. "Leveraging Brand Value in a Downturn." February 2001.

Krishnamurthy, A G. "The Axe Effect: Planning for advertising budgets during economic slowdown." *Strategic Marketing*.

Oct 2008. <http://www.etstrategicmarketing.com/smMay-Jun3/art1.html>

Misrai, Pranesh. "Strategic Brand Management: Recession Stress Busters." *Strategic Marketing*. October 2008.

http://www.etstrategicmarketing.com/smmar-apr2/stra_branda2.htm

Quelch, John. "Marketing Your Way Through a Recession." Harvard Business School Working Knowledge. March 3, 2008.