

## Marketing in a Recession

With the official announcement that the US has been in a recession for the past 12 months, many marketers are cutting or stopping their spending out of anticipation of reduced consumer expenditures. However, a recession presents an opportunity for incisive marketers to increase their market share through maintaining or increasing their marketing investment. As most marketers reduce spending, marketers who maintain or increase their spending are easily able to increase their share of voice, especially as media prices become more negotiable. In any economy, aggressive marketing can generate sales through upselling current customers and creating new prospects. In a recession, the long-term benefits include weathering the recession more successfully and showing financial stability in a time of economic crisis. Also, continued marketing increases consumer confidence and gives marketers the opportunity to dominate media.<sup>1</sup>

### *Research and Historical Precedence*

Penn State's Smeal College of Business conducted the most recent and definitive study on marketing in a recession in 2005 – "Turning Adversity into Advantage: Does Proactive Marketing During a Recession Pay Off?" The researchers interviewed 150 senior marketing executives from a variety of industries and used the 2001-2002 recession as the context. They found that "for well-positioned companies, an economic recession should not prompt marketing cutbacks, but rather an aggressive increase in marketing spending to achieve superior business performance."<sup>2</sup> Companies that enter the recession with a "pre-established strategic emphasis on marketing; an entrepreneurial culture; and a sufficient reserve of under-utilized workers, cash, and spare production capacity are best positioned...to strengthen their competitive advantage."<sup>3</sup>

Similarly, a McGraw-Hill study examined close to 600 businesses from 1980 to 1985 and found that "business-to-business firms that chose to maintain or raise their level of advertising expenditures during the 1981-1982 recession had significantly higher sales after the economy recovered. Specifically, companies that advertised aggressively during the recession had sales 256% higher than those that did not continue to advertise."<sup>4</sup> The chart below demonstrates the post-recession success of businesses that did not cut advertising during the recession. Year one represents 1980 and year five represents 1985, while the numbers on the y-axis represent the percentage of sales growth.<sup>5</sup>

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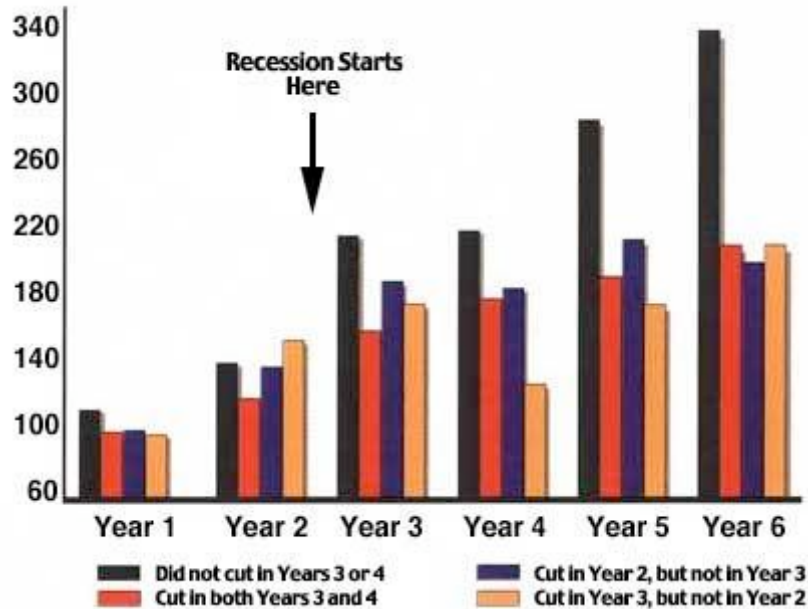
<sup>1</sup> "Advertising Progression Through a Recession." Carat Insight. 7.29.08. and "Accelerate Your Advertising and PR: Surviving the Recession." Chuck McKay. [www.allbusiness.com](http://www.allbusiness.com). 8.21.08

<sup>2</sup> "Research: Proactive Marketing During a Recession." Penn State Smeal College of Business. March 29, 2005.

<sup>3</sup> Ibid.

<sup>4</sup> "The Importance & Value of B2B advertising during times of economic uncertainty 2008." American Business Media – Association of Business Information Companies; 2008.

<sup>5</sup> Ibid.



These results are not new – research studies throughout the past sixty years have found similar results.

- In 1947, Buchen Advertising began tracking advertising spends versus sales trends and was able to measure these figures before, during and after the recessions of 1949, 1954, 1958 and 1961. It found that sales and profits decreased for companies that reduced advertising, and discovered after the recession these same companies continued to see slower recoveries than those who had retained their ad budgets.<sup>6</sup>
- A jointly-sponsored ABP/Meldrum & Fewsmith study of the 1970 recession showed that "sales and profits can be maintained and increased in recession years and in the years immediately following by those who are willing to maintain an aggressive marketing posture while others adopt the philosophy of cutting back on promotional efforts when sales appear to be harder to get." A follow-up 1979 study revealed "that companies that did not cut advertising expenditures during the 1974-75 recession experienced higher sales and net income (during those two years and the two years following) than those companies that cut in either or both recession years."<sup>7</sup>
- Cahner's Publishing Company and the London-based Strategy Planning Institute released a January 1982 report that demonstrated that businesses that spent more in recessionary periods tended to gain a greater share of market.<sup>8</sup>
- During the recessionary period of 1989-1991, MarketSense compared 101 household name brands. JELL-O, Crisco, Hellmann's, Green Giant and Doritos cut back spending and experienced decreased sales by as much as 26 to 64%. However, Jif peanut butter raised ad support and sales increased 57%; Kraft salad dressing increased spending and experienced a rise of 70%. In the beer category, spending dropped 1% overall, while Bud Light and Coors Light, spending ahead of the category, saw sales increases of 15% and 16% respectively. Pizza Hut's sales rose 61% and Taco Bell's rose 40% due to strong advertising support.
- A Yankelovich/Harris study surveyed 505 executives in 2001 and concluded, "Advertising in a down economy clearly creates a competitive advantage." Of the respondents, 86% of

<sup>6</sup> "When the Going Gets Tough, the Tough Ramp Up." Alf Nucifora. *San Diego Daily Transcript*. 5.2.01

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

the executives felt that a company advertising in a down economy keeps them top-of-mind when making purchasing decisions, and they felt more positive about that company's dedication to its products and services.<sup>9</sup>

### *Consumer Insights and Messaging*

While it is critical to market during a recession, marketers need to also think of the shifted mindset of consumers who are experiencing a decrease in spending power. John L. Jacobs, executive VP and CMO for Nasdaq states, "Most market research we've done shows that when a stock market says, 'Don't worry,' people worry."<sup>10</sup> Distressed consumers feel that they do not have control and have lost all power of choice in the marketplace. Offering educational opportunities and encouraging consumers to do product research helps restore balance and emphasizes that consumers have command over their marketing decisions.<sup>11</sup> For example, financial institutions could offer a daily blog on their website with tips on how to manage money and weather the recession.

Consumer habits are likely to shift during a recession, presenting great opportunities for innovative marketers. Through identifying new opportunities, marketers can create product or service innovations that are a result of the recession and pinpoint a new and untapped consumer need.<sup>12</sup> In addition, marketers that accentuate value, reliability and durability can alleviate consumers' negative concerns about products.

For the past six to eight months, banks and insurance companies have been running ads referencing the recession, but consumer goods are just now beginning to address it directly. The headline in a recent ad for Crate and Barrel cookware reads, "Oven-proof. Dishwasher-proof. 401(k) proof." An ad for Denny's Weekday Express Slam (a \$4 version of its signature \$5.99 Grand Slam breakfast) begins, "It's one thing to bail out Wall Street. But who's gonna bail you out?" Using borrowed interest, these ads emphasize value in light of the current economic situation.<sup>13</sup>

However, marketers must evaluate how well borrowed interest works for the product and the brand. For example, Volkswagen has stated that they will not create ads focused on the recession because the emotional basis for their brand is optimism.<sup>14</sup> It is important to be cognizant of consumers' situations and be sensitive to messaging; for example, LG Electronics is currently backing off of its "Life's Good" slogan to take a more sobering approach to the current economic state.<sup>15</sup> While LG phones used to primarily focus on style, they now promote durability and lasting value along with style.

### *Trends and Suggestions*

As budgets get cut, the return on investment of marketing spends will be examined closely. Many marketers will shift their budgets to more "accountable" media, such as direct response and interactive. Multiple surveys and forecasts have shown that marketers plan to increase online spending at the expense of traditional media, especially print and television.<sup>16</sup> An email survey of

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<sup>9</sup> "The Importance & Value of B2B advertising during times of economic uncertainty 2008." American Business Media – Association of Business Information Companies; 2008.

<sup>10</sup> "With Economy Volatile, Financial Firms Start to Stress Stability." New York Times, Wednesday, September 19, 2007.

<sup>11</sup> "How to market through recession jitters." Advertising Age, March 24, 2008.

<sup>12</sup> "Recession can be a marketer's friend." Advertising Age, March 24, 2008. and "Different approaches to recession advertising and marketing." WARC.com. February 2008.

<sup>13</sup> "Striving for Balance between Losses and Laughs." *New York Times*. October 14, 2008.

<sup>14</sup> Ibid.

<sup>15</sup> "When the Going gets Tough, the Tough Don't Skimp on Their Ad Budgets." Knowledge.wharton.edu. 11.26.08

<sup>16</sup> "Advertising Progression Through a Recession." Carat Insight. 7.29.08.

175 small and medium-sized enterprises reveals that website updates, SEO and direct mail are considered the best ways of reaching target markets when budgets are tight.<sup>17</sup> Public Relations also presents a cost-efficient way to maintain a brand's presence in the marketplace.

Researching the consumer will show how they are redefining value and responding to the recession in specific industries and allow marketers to sharpen their strategic focus to lead to the most growth. To retain current consumers, marketers should focus on relationship marketing and database management to determine current needs.<sup>18</sup> Research will also allow marketers to identify new, profitable consumers and prioritize the most effective marketing and sales vehicles for reaching them.<sup>19</sup>

Regardless of media channel choices, marketers should focus on tactics that can be measured against tangible goals. Marketers that maintain or increase their advertising spend with enhanced knowledge of their consumer and a focus on accountable media will retain their share of voice and weather this current recession much better than timid marketers.

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<sup>17</sup> "Effective marketing crucial to ride out downturn." Leisure Report: 12, May 2008.

<sup>18</sup> "Investing in a Bad Economy." Chuck McKay. Fishingforcustomersblogspot.com. 10.29.05

<sup>19</sup> "The Downturn's new rules for marketers." David Court. *The McKinsey Quarterly*. December 2008.