

## Marketing in a Recession: 10 Things to Remember

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These are frightening times for any CMO. Financial markets are in chaos and now the real economy seems to be taking a nosedive. How should you be prepared to react? What's the optimum marketing strategy in a recession? Here are 10 important rules for dealing with the downturn:

**Don't panic:** Most marketers assume that consumers cut their spending when recession bites. In fact, total consumer spending rarely falls in nominal terms -- it just grows more slowly and so fails to keep up with inflation. And some categories, such as packaged goods, tend to do well in a recession. So don't panic -- your sales may be healthier than you expect.

**Cut the right costs:** If you do have to cut costs, make sure that you cut the right ones. An analysis by PIMS (Profit Impact of Marketing Strategy) of how over 1,000 firms have reacted to previous downturns shows that some cost-cutting strategies are more profitable than others. Firms that cut manufacturing and administrative costs tend to do well, as do firms that cut spare capacity. But firms that reduce product quality or cut budgets for marketing and NPD tend to underperform.

**Cutting adspend will reduce your income:** Cutting the ad budget is a quick way to cut costs, but beware there is a penalty to be paid. Research shows that firms that cut adspend during a recession typically see sales and income fall by 20-30 percent over the next two years as a result. So any boost to the bottom line is usually small and short term.

**Cutting adspend causes long-term damage:** Research shows that advertising has long-term effects on sales -- up to five years after the ads are shown. So cutting advertising does long-term damage to one's business. In particular, analysis by PIMS shows that firms that cut advertising take much longer to recover when the economy begins to improve.

**Cutting adspend puts your brand and company at risk:** Cutting ad expenditures doesn't just depress sales and market share. Without advertising support, distribution becomes harder to maintain and the pressure to cut prices becomes harder to resist. With lower sales *and* lower margins, non-advertised brands often find profits spiraling down, sometimes with fatal consequences. Financial markets know all this and tend to punish the share prices of companies that cut advertising.

**A recession is both a threat and an opportunity:** The worst-case scenario is a marketer lowers an ad budget while a competitor increases his. The literature is full of examples of brands that have perished this way. But the flip side is that a recession can be a marvelous opportunity to deal competitors a killer blow. Because media prices tend to fall much faster than sales for most firms, the ROI from advertising often increases in a recession. The combination of low media prices and weak competition gives companies a unique opportunity to buy market share on the cheap.

**Promotions are not the solution:** When times are tough and consumers are looking for bargains, promotions may seem like the obvious solution. But beware promotions that are really just price cuts in disguise. Research shows that, for most brands, trade promotions are a mixed blessing at best. They may help to keep the retailers happy, but the extra sales they

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generate are purely short term and the net effect on profits is often negative. Heavy reliance on promotions tends to erode brand values and destroys profit margins.

**Emotions are the key to brand strength:** The key to maintaining a profitable brand is not to offer discounts or buy one, get one free promos, but to build and maintain a strong emotional bond with customers. An analysis of nearly 880 case studies published by the World Advertising Research Centre shows that ad campaigns that focus on emotional engagement tend to be more profitable than ad campaigns that focus on rational messages (such as low prices or special offers), even when times are tough.

**Aim for fame:** The same study showed that the most profitable ad campaigns of all are those that get consumers talking about the brand -- and its marketing. Word of mouth is a powerful amplifier. To get your consumers talking, you need to do something remarkable. Unfashionable as it may seem, big broadcast media still have an important role to play here.

**Harness the power of integration:** Stimulating word of mouth is one way to make a budget go further. Another is to harness synergies between different marketing channels. Our research shows that the most effective campaigns mix emotionally rich, publicly consumed media and direct response media like. Getting the mix right can more than double your payback.

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