Advertising In A Recession: It pays to maintain marketing pressure

A review of the evidence

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INTRODUCTION

The Periodical Publishers Association of Ireland (PPAI) commissioned me to write this report to assess the research evidence about the importance of advertising in a recession.

Contrary to most marketers' actual behaviour, the evidence clearly shows that it pays to maintain advertising expenditure in an economic downturn.

To quote Peter Fader of the Wharton School[1], "As companies slash advertising in a downturn, they leave empty space in consumers' minds for aggressive marketers to make strong inroads."

The compelling analyses summarised in this report did not break out results for individual media used in the marketing investment, such as magazines. For the most part, the sources do not contain sufficient data to conduct similar analyses based only on those brands for which magazine advertising is a major component. Nevertheless it is clear that in principle the lessons apply to magazine advertising campaigns as well as to campaigns using other media. Keith Roberts of Malik PIMS (one of the sources reviewed here) wrote to me[2] "magazine advertising has all the characteristics that we would believe makes advertising especially valuable during a recession".

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SUMMARY

Immediate profits may be protected by reducing marketing expenditure in a recession, but the benefit will be very short-term.

Neglecting brand promotion during an economic downturn will result in weakening the brand and making it less profitable post-recession.

A key consideration is to maintain pre-recession share of voice (i.e. share of the market's promotional expenditure). It has been shown that share of voice matters.

If share of voice is kept at or above share of market in a recession, the medium- and long-term improvement in market share and profitability is likely to be substantial, easily outweighing the short-term protection of profit from cutting budgets.

An advertiser who maintains expenditure while his competitors are cutting theirs will automatically increase his share of voice, thus setting himself up for long-term benefits.

Business decision makers think that when they see a company advertising in a down economy, they feel more positive about that company's commitment to its products and services, and it keeps the company top-of-mind when purchase decisions are made.

In a recession the price of buying media space or time will fall, so there will be excellent opportunities to secure very good value when buying media. The budget employed pre-recession will go considerably further during the recession.

Recession actually provides opportunities for marketers, for it is a chance to invest to gain market share and market leadership, and attack timid rivals. This can also improve the stock market valuation of the company.

Price promotions can be tempting in a downturn, and are widespread in consumer markets, but they are likely to damage not only profits but also brand values. Brand values that are impaired in bad economic times will be hard to restore when the economy expands again.

There is a striking unanimity about these conclusions among the various studies examined. Some of the evidence comes from consumer markets, some from business to business markets. The findings are the same.

ADVERTISING IN A RECESSION: IT PAYS TO MAINTAIN MARKETING PRESSURE

A REVIEW OF THE EVIDENCE

Institute of Practitioners in Advertising (IPA): 2008 seminar
The IPA, the professional body for advertising agencies in the UK, held a seminar in 2008[3] which presented evidence showing that it pays to maintain advertising during a recession. The IPA convened a seminar of leading consultancies in the field of the business effects of marketing communications. The objective was to see what lessons could be learned from the consultancies' experience about the most profitable response to an economic downturn.

The consultancies sharing their experiences were Millward Brown, Data2Decisions, Malik PIMS, and Peter Field using the IPA Databank.

Millward Brown presented evidence from their extensive database showing a strong correlation between market share and consumer 'bonding' – an aggregate of several measures of brand performance. Cutting marketing expenditure is liable to reduce consumer 'bonding' with the brand, and thus depress market share. Brand image and brand usage – two crucial elements in 'bonding' – suffered considerably when brands went dark (i.e. ceased to spend on communications) for a period of six months or more. This was particularly true in the more price-sensitive product fields.

This may well be accentuated in the present economic downturn, where 'buzz' (online and offline word-of-mouth communication) spreads consumer views of brands much more quickly and extensively than in previous recessions. A brand judged by consumers to be on the way down because it has fallen silent will rapidly see this manifested in word of mouth buzz, which will accelerate the perception of failure.

Data2Decisions, an econometric modeling consultancy, provided evidence about the time-lag effect. Advertising's long-term effect is typically greater than the short-term effect. During a budget cut-down, the brand will continue to benefit from the marketing investment of previous years, creating a dangerously misleading increase in short-term profitability. The long-term effect of the budget cuts will operate for several years, however; the short-term cutbacks will damage the brand for years to come.

Diverting marketing expenditure into short-term price promotions usually damages the brand values and is also likely to be unprofitable.

Malik PIMS has a database tracking the economic performance indicators of more than 1,000 businesses over a period of many years. It showed that the most successful policy was to increase, not decrease, marketing effort during a downturn. The heightened share of voice leads to increases in consumer preference, and in sales and profitability post-downturn. This gain in profitability after the downturn (if maintaining marketing spend) far outweighs any short-term gain in profit that might be achieved during the recession through cutting marketing spend.

Recession provides a window of opportunity for inexpensive gains in market share for those brands which increase marketing investment in the recession.

IPA Databank: Peter Field, marketing consultant, analysed 880 case studies from the IPA Databank. Field was able to show that during downturn (and indeed during buoyant times) brands whose marketing share of voice was higher than their share of market tended to grow their share of market. An approximate rule-of-thumb is that for every 10 points that share of voice exceeds share of market, a brand can expect to gain one point of market share per annum. Conversely, brands which allow their share of voice to fall during a recession can expect their share of market to fall, to the same degree. By modelling a series of scenarios, Field showed that when cutting budgets in a recession, the short-term improvement in profitability was rapidly overtaken by a severe decline in profitability in the medium and long term – a decline that was liable to be acute by about the third year. Because of the partially-lagged effect on sales of marketing investment, the short-term result of cutting expenditure looks attractive for a short while but masks the considerable damage being done to longer-term profitability.

Ehrenberg-Bass Institute, University of South Australia (2008)

During a recession, brands should lower their growth targets but maintain marketing support. They should also avoid price promotions because they are likely to damage profits and brand values. These are key conclusions of Ehrenburg-Bass Institute's 2008 review of appropriate marketing strategies during a recession.

The Ehrenburg-Bass Institute (EBI) is an independent not-for-profit marketing research institute of the University of South Australia. It has published a short five-page marketing guide called 'What to do in a recession'[4], based on reviewing existing evidence.

It points out that a recession can provide opportunities for marketers, partly because of likely reduced marketing activity by rivals – which enables a brand to increase its share of voice if it simply maintains its marketing spending. And it has been shown many times that share of voice matters. Recessions offer the opportunity to substantially increase share of voice if competitors cut their ad spending and media prices fall.

EBI reports that a big lesson from behavioural data (category buying, brand buying, and media consumption) is that consumers are strongly habitual. Brand share lost, or potential share gains foregone, in a recession are very hard to recapture when the economy expands again. Thus there remains a need to advertise in a recession, especially to protect a premium-priced brand or win new customers for a low-price brand.

Recessions tend to change the marketing activity of one's competitors. In particular, ad spending tends to be cut far too drastically in a recession, and reacts with excessive increases during the economic recovery. There is an opportunity in going against this pattern by being more consistent.

McKinsey & Company (2002)

Some companies emerge from a recession stronger and more highly valued that they were before the recession. To see how recessions can be used to advantage, McKinsey studied nearly 1,000 US companies over the period 1982-1999, including the recession of 1990-91[5] Companies were identified which either remained industry leaders (i.e. in the top quartile of performance in their industries) or became industry leaders by joining the top quartile ('successful challengers'). Several things marked out these industry leaders. They maintained a greater appetite for acquisitions during the recession, instead of halting their deal-making activities. They increased their spending on R&D during the recession, by comparison with their competitors. And they increased their share of advertising expenditure during the recession.

The financial markets rewarded companies willing to take these steps. Their stock market valuations (market-to-book ratios) had risen by the end of the recession, relative to their competitors. For example, for the 'successful challengers' their average annual changes in market-to-book ratio, compared with industry averages were:

1989 (pre-recession)	-7.0%
1990 (1st year of recession)	-1.5%
1991 (2nd year of recession)	+3.5%
1992 (post-recession)	+10.4%

Each year the performance grew significantly better than the year before, rising from 7.0% below the industry average in 1989 to 10.4% above the industry average in 1992.

While most companies saw only risk during the recession and battened down the hatches, the more successful companies saw opportunity and pressed their advantages. Managing risk doesn't mean avoiding it.

Yankelovich/Harris for ABM (2001)
A Yankelovich/Harris study for American Business Media (ABM)[6], conducted during the economic downturn in 2001, asked business decision makers a number of questions about their attitudes at times of recession:

- 99% of decision makers agreed that "Even in a down economy, it's important to keep abreast of new products and services for your business"
- 97% agreed that "In a down economy, it's important to continue to invest to remain competitive in the future"

Having shown that executives maintain a high interest in learning about and investing in new products and services, even in a recession, Yankelovich/Harris asked about seeing advertising during a downturn:

- 86% of decision makers agreed that "When you see a company advertising in a down economy, it makes you feel more positive about that company's commitment to its products and services"
- 86% agreed that "When you see a company advertising in a down economy, it keeps them top-of-mind when you make purchase decisions"

Executives are not about to let their guard down in a recession. They must stay current on what is new in the industry and must position their organisations for the future, and they regard advertising in b2b media as a primary way of keeping up to date.

ABM guidelines (2002)
ABM (American Business Media) has summarised a number of studies by listing the following points in a document titled 'The Value of Advertising During An Economic Downturn'[7]. Each individual point is based on research findings.

- If a company fails to maintain its 'Share of Mind' during an economic downturn, current and future sales are jeopardised. Maintaining 'Share of Mind' costs much less than rebuilding it later on.
- If during an economic downturn you maintain a strong advertising presence while your competitor cuts his budget, you will automatically increase your 'Share of Mind'.
- Advertising through both boom and down times sustains the necessary brand recognition.
- Maintaining a company's advertising during an economic downturn will give the image of corporate stability within a chaotic business environment, and give the advertiser the chance to dominate the advertising media.
- Economic downturns reward the aggressive advertiser and penalise the timid one.
- During an economic downturn, a strong advertising/marketing effort enables a firm to solidify its customer base, take business away from less aggressive competitors, and position itself for future growth during the recovery.
- Maintaining or increasing advertising budget levels during economic downturns may be necessary in terms of protecting market position vis-à-vis forward looking competitors.
- When times are good, you should advertise. When times are bad, you *must* advertise.
- Advertising in an economic downturn should be regarded not as a drain on profits but as a contributor to profits.

Patrick Barwise: three strategies for coping (1999)
Professor Patrick Barwise of the London Business School published an extensive review of the evidence on the optimum advertising strategy in an economic downturn[8]. He concluded that the most successful companies maximise long-term shareholder value by maintaining their advertising investment when the economy slows down and weaker competitors cut back. This enables them – at lower cost than when the total market is growing – to build market share. A prime reason for this is that if competitors cut back, those who maintain or increase their adspend achieve a higher 'share of voice'. Any reduction in these firms' short-term financial performance is typically soon outweighed by their increased revenue and profit growth when economic conditions improve.

Barwise argued that regardless of economic conditions, every firm needs a clear strategy based on classic marketing principles – including how much to invest in advertising. These principles still apply when the economy slows down. The financial markets look for long-term shareholder value, not just short-term financial performance. If a firm has a convincing strategy it can keep investing in marketing even if the economy slows down, without a negative reaction from shareholders.

Based on the accumulated evidence, Barwise advocated three positive strategies for coping in a recession:

1 "Look for new creative, targeting, or media opportunities. In some contexts, the slower market conditions create new opportunities to emphasise different customer benefits or segments.

2 "Strengthen your market position against weaker rivals. The research shows clearly that the strongest, most successful firms can use the opportunity of an economic slowdown to attack their weaker rivals.

3 "Keep going. Arguably this is the best strategy of all. It is based on the idea that long-term shareholder value comes from excellent strategy executed consistently over many years. The concerns about recession – that customers may spend less on the category, that short-term financial performance may be under pressure – are balanced by the advantages – that the same adspend gives a higher share of voice and that the financial markets will support a long-term strategy if they find it credible."

Tony Hillier: the need to continue advertising (1999)
In 1999 Tony Hillier examined marketing and financial data on 1,000 firms (mostly business to business) in Europe and USA, held in the PIMS (Profit Impact of Market Strategy) database collected by the Strategic Planning Institute in Massachusetts[9]. Hillier divided the 1,000 firms into three groups according to whether they had cut, maintained or increased their marketing spend during recession. For each group, he examined profitability (defined as inflation-corrected return on capital employed) during recession and during recovery.

He found that those businesses which had increased their marketing spend were, on average, not significantly less profitable during the recession than those which had only maintained their marketing, or which had cut it. Profitability averaged 10% for those cutting their spend, 9% for those maintaining it, and 8% for those increasing it.

The big differences came during the recovery and afterwards. During the recovery the firms which had cut their marketing spend in the recession averaged a fall in profits of 0.8%. Firms which maintained their spend had an increase in profit of 0.6% during the recovery, but those which had increased their spend in the recession enjoyed an average increase in profit of 4.3% during the recovery.

A difference was also evident in market share of sales during the first two years of recovery. Those firms which had cut marketing spend in the recession gained an average of only 0.6 percentage points of market share during the first two years of recovery. market share. Businesses which maintained spending in the recession gained 0.9 percentage points in market share in the first two years of recovery. But companies which increased their marketing spend in the recession gained an average of 1.7 percentage points of market share during the first two years of recovery.

Hillier concluded "The natural reaction of many businesses experiencing a downturn is to cut costs in areas like advertising and promotion. Our findings prove that they should do exactly the opposite if they are to ride out the recession and thrive thereafter."

Penton/Coopers/BSI (2003)
Penton Research Service, Coopers & Lybrand, and Business Science International, examined the 1990-1991 recession[10]. They found that the better performing businesses had focused on a strong marketing programme, which had enabled them to solidify their customer base, take business away from less aggressive competitors, and position themselves for future growth during the recovery. They concluded that reducing the marketing budget in a recession is liable to leave the company worse off (in terms of marketing momentum, profitability and market share) than if marketing spend had been maintained

Pennsylvania State University: ISBM Report (2002)
Pennsylvania State University's ISBM Report examined performance by firms in a recession[11]. The authors' conclusions were that "Firms that invest aggressively in marketing send a reassuring signal of confidence to concerned customers about their staying power and provide an incentive for customers to switch from brands/firms that they perceive as weak." During a recession, a firm that is proactive in its marketing can be expected to improve its business performance – assisted by the likely reduction in marketing costs.

"Results confirm business press accounts of companies such as Dell, Microsoft and BMW that view recessions as opportunities and exploit that perceived opportunity with aggressive marketing programs."

The authors stated "Proactive marketing has a strong direct effect on market performance even during the recession and an indirect effect (through market performance) on business performance... Firms do not have to wait until a recession is over to realise benefits from the marketing investments they make during a recession."

Earlier studies (pre-1990) reach the same conclusions
These findings are not new. The same general principles emerged from work on recessions which occurred before 1990.

McGraw-Hill Research's Laboratory of Advertising Performance (LAP) analysed 600 companies from 1980 through to 1985[12]. The results showed that business-to-business firms which maintained or increased their advertising expenditures during the 1981-1982 recession averaged significantly higher sales growth, both during the recession and for the following three years, than those that eliminated or decreased advertising. By 1985, sales of companies that were aggressive recession advertisers had risen 256% over those which didn't keep up their advertising.

Going back to the mid 1970s, American Business Press commissioned a study[13] which concluded "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."

Moving further into the past, Buchen Advertising Inc. tracked a large number of business to business companies during the period 1949-1961[14]. Buchen found that, at companies which cut back on advertising, sales and profits fell, "almost without exception", compared with companies which maintained their advertising budgets. After the recession the companies which had cut back continued to lag behind those which had not.

Travelling back even further, to 1923, Harvard Business Review[15] examined the record of 200 companies. It showed that the largest sales increases were reported by companies which had advertised the most during the recessionary year.

In summary, these early studies corroborate the findings concerning more recent recessions. As ABM expressed it, "advertising aggressively in a recession can not only boost sales and market share, it can also open a lead on the more timid competition. It can skilfully reposition a product to take advantage of new purchasing concerns, give the image of corporate stability within a chaotic business environment, and give an advertiser the chance to dominate the advertising media."

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