How to Bolster Ad Effectiveness in a Sagging Economy

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No one can argue that the economy is shaky. With a double-dip recession in question, digital marketers are asking: "How do poor economic conditions affect ad performance? Can ads still motivate awareness during a weak economy?"

Great questions. We took a look, and here's what we found.

There are strong correlations between economic conditions and ad performance indicators. A weaker economy is generally associated with lower ad impact, both at the top of the purchase funnel (aided brand awareness), and lower down the funnel (purchase intent). And more importantly, declining purchase intent impact might be a leading indicator of a weakening economy.

According to recent data, we confirmed that when the economy weakens, consumers are less swayed by advertising. Price becomes the dominant determinant of purchase intent, and advertising is less likely to persuade.

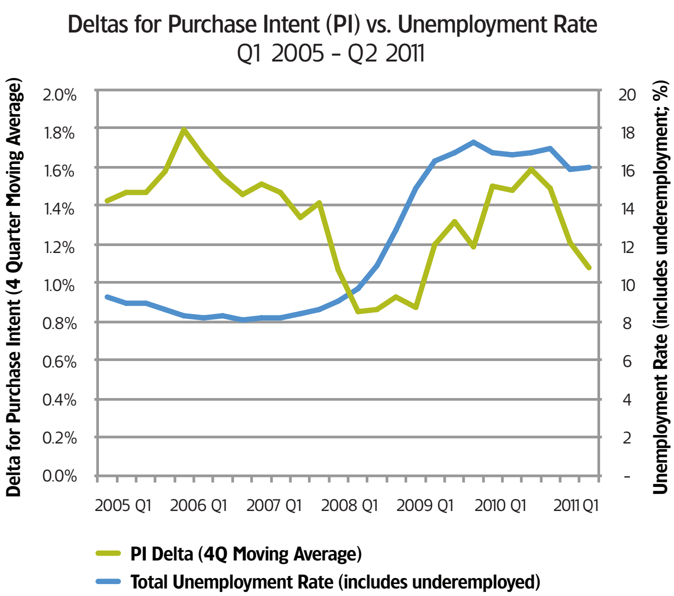
In fact, purchase intent impact actually drops before we see declines in consumer sentiment. Looking at the decline in 2007, and the drop in the first half of 2011, we submit that the impact of advertising on purchase intent is a pretty good leading indicator of declining consumer expectations.

This should be of particular concern to advertisers. During the first half of 2011, online advertising's impact on consumer sentiment remained stable, but its impact on purchase intent dropped precipitously. Advertising does not have the same impact on purchase intent than it did even a year ago, and it might just be picking up the early signs of more trouble for the consumer sector. Case in point: there was a big drop in purchase intent impact even before the onset of the 2008 recession (the same year of Lehman Brothers' and Bear Stearns' storied collapses).

Interestingly, there is no indication of a relationship between unemployment and purchase intent averages. Even as unemployment spiked in 2008 and 2009, purchase intent impact recovered. That said, when unemployment goes up, awareness impact scores go down. Higher unemployment is associated with a lower impact of advertising on brand awareness. (Initially, we thought these correlations were spurious, as we have seen a long-term increase in baseline aided brand awareness and a decline in deltas on aided brand awareness as online advertising has become more ubiquitous. However, even controlling for baseline awareness, there is still a strong, positive, statistically meaningful relationship between deltas on aided brand awareness and consumer sentiment. The same negative relationship holds for unemployment even when controlling for baseline awareness.)

So why is purchase intent not impacted but awareness is? The tune-out explanation: consumers don't have discretionary income to spend and as result, tune-out more advertising, but subconsciously they may still fully intend on making purchases.

The figure below shows purchase intent impact mapped on the left X-axis and unemployment mapped on the right X-axis.



Two recommendations for marketers:

1. As marketing budgets are squeezed, it is tempting to cut corners on creative or media buys. Invest in quality — quality creative and quality placement. Remember that there are big variations in impact across campaigns, and it's proven that strong advertising outperforms weak creative. Better to run one really good campaign than several that go unnoticed.

2. When you conduct research, dig deep on how consumers view your product or service differently given their current economic circumstances. Messaging that works when the economy is good may not resonate with consumers who are hurting.

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