Marketing During Recession: To Spend or Not to Spend?

It's been proven that an increase in marketing spend during a recession can gain a long-term advantage for a brand. But many marketers, constrained by budgets and circumstances, won't be able to use this strategy. Will this leave their brands in peril? Or should decisions on how much to spend be taken in light of the overall prospects for the brand and category?

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Everyone is talking about recession. The talk alone may be enough to trigger one, whether the underlying economics dictate it or not. From observations of recessions past, we know that consumers are quick to rein in spending when hard times are predicted. Many business leaders behave the same way. Anticipating reduced sales, they are inclined to cut back on variable costs, including marketing, in order to deliver on the expectations of the financial market.

However, a great deal of evidence suggests that it's not a good idea to reduce marketing spend during recession in order to hit financial targets. Doing so may leave your brand in a less competitive position when the economy recovers. Over the years, research studies have confirmed that the best strategy in terms of long-term ROI is to increase marketing expenditure during an economic slowdown. An analysis of the Profit Impact of Marketing Strategies (PIMS) database, presented at a March 2008 IPA conference, provides the latest evidence. This analysis compared the results achieved by companies that increased, maintained, and reduced marketing spend during recession. Metrics used were Return on Capital Employed (ROCA) during the recession, ROCA during the first two years of recovery, and market share change during the same period of recovery. While companies that cut marketing spend enjoyed superior ROCA *during* the recession, they achieved inferior results after the recession ended. During the recovery, the "spenders" achieved significantly higher return on capital employed and gained an additional 1.3 percentage points of market share.

These findings, which may seem counterintuitive, can be explained by three basic factors.

1. ***The relationship between share of market and share of voice***
   The connection between share of market (SOM) and share of voice (SOV) has been proven. The higher your share of voice compared to your actual market share, the more likely your brand is to grow its market share in the subsequent year. So, if you increase your marketing investment at a time when competitors are reducing theirs, you should substantially increase the saliency of your brand. This could help you establish an advantage that could be maintained for many years.

2. ***The relationship between brand size and profit margins***
   Because they enjoy advantages of scale, big brands enjoy an advantage over smaller ones in terms of attracting repeat purchase and recouping their marketing investments. Therefore, a brand that increases share during a recession stands to benefit from this multiplier once the economy rebounds.

Nigel Hollis
Chief Global Analyst
Millward Brown
nigel.hollis@us.millwardbrown.com
www.millwardbrown.com
www.mb-blog.com

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3. *Reduced "noise" during recession provides opportunities*

A new product launch may actually have greater impact during a recession than at other times, for several reasons. A product that is unique or demonstrably better than others should be able to command a higher price, even among price-conscious shoppers. Competitors who are running scared may be late in countering a new product with their "me-too" offerings. And, because media costs are likely to be lower, advertisers should get more bang for their buck. These savings may be compounded by the relative ease of cutting through in a less cluttered atmosphere.

Overall, competing in a recession is like running a marathon. A smart frontrunner will seize the lead and work to increase it while others are flagging. If the other runners allow the gap to widen, it will be really tough for them to regain the lost ground when the pace picks up again.

Experienced brand marketers with deep pockets know this. Procter & Gamble CEO A.G. Lafley, quoted in

The Wall Street Journal states, "We have a philosophy and a strategy. When times are tough, you build share."

But companies that lack the resources of a P&G may simply need to ride out a recession as best they can. In spite of all the evidence suggesting that recessions are a good time to market more aggressively, management teams need to judge each case on its individual merits. The best strategy for your brand — whether it is offense or defense — will depend on a number of things: the nature of your category, your category's size, the inclinations of your customers, your brand's strength relative to others, and, most important, the actions and reactions you expect from your competitors.

The nature of the category

The effects of an economic downturn will vary for different types of product and service categories. Ask yourself how much your category is likely to be affected.

- People are likely to postpone purchases of high-ticket, durable items like household appliances and cars. Customers who do buy will spend more time researching alternatives and will be more inclined to negotiate. Base products with fewer options are likely to sell better than those with lavish features (unless you are willing to include these as an incentive at no extra cost).

- Habitual grocery purchases are likely to be re-examined as shoppers become more price sensitive. Store brands, particularly high-quality ones, may enter the consideration set. On the other hand, affordable luxuries may see an increase in demand as people trade off travel and designer clothes in favor of cheaper indulgences like chocolate, alcohol and cosmetics.

- Service categories such as telecommunications, which rely on long-term contracts or fixed-rate plans, may be less affected than others, since most recessions are relatively short-lived.

The size of the category

Like it or not, your potential return on investment is largely dictated by the size of the category in which you compete. A one-point gain in share produces different returns in a million-dollar category than a billion-dollar category.

Findings from the U.K.'s Institute of Practitioners in Advertising dataMine suggest that to gain one point of market share, advertisers should set SOV 10 points higher than SOM. In a category that is growing (or is likely to grow as a result of the recession), the long-term gain may justify the investment. But in small or declining categories, where the long-term return will be lower, brands might do better to cut spend and ride out the storm.

> *Whether or not you increase your absolute level of spend, what is crucial is that you increase — or at least maintain — your relative level of spend.*

The inclinations of your customers

In most categories, and particularly during a recession, people want to believe they are making the right purchase decision. According to WPP's brandz database, on average, 10 percent of consumers in a category are exclusively motivated by price. Even if this proportion doubles during a recession the impact of these price-driven consumers will be relatively small. Those who switch to price-based buying when under financial pressure were probably not inclined to be brand loyal to begin with. True brand loyalists will look for ways to continue getting their favorite brand. They may watch for opportunities to buy on deal, or buy a larger, more economical package, or seek out the retail outlet that offers the brand at the best price.

In Argentina, after the recession of 1999 turned into the crisis of 2001, many people had to abandon their preferred brands of consumer goods in favor of economy brands. The premium brands that successfully weathered the storm did so by offering affordable new formats and cheaper packaging, focusing attention on performance and value, and, when the crisis ended, celebrating with positive and upbeat communication.

So unless people simply cannot afford to buy their preferred brand or you are dealing with inveterate price shoppers, the key issue is perceived value. Do consumers believe that your brand offers a better value than the competition? Provided that its price is in an acceptable range, people will be more likely to bet on a known and trusted brand than a cheap one. During a recession you need to remind people why your brand is worth the price by focusing on functional advantages.

The strength of your brand

In difficult economic times, a brand must reinforce the attributes that make it appealing and differentiated in the eyes of existing customers. Different strategies suggest themselves depending on the existing status of the brand.

- Small or niche brands would do well to focus investment on the core brand offering rather than spread existing resources too thin. Aggressive trial-building activities will likely pay dividends, provided they do not undermine the perceived quality and desirability of the brand.

- Larger brands may find more scope in category extension, particularly if the new category offers better growth prospects. The PIMS database analysis suggests that companies with a high percentage of sales coming from new products tend to outperform others.

- Weaker brands that offer acceptable products should be able to weather the storm. If relaunching these brands is not a possibility, the next best alternative is to protect existing share by focusing on your most loyal and valuable customers. What are these customers looking for? Is their definition of value changing? Decide if it is worth trying to keep the consumers who seem most likely to defect to cheaper alternatives.

The likely competitive response

Of course, if every brand increased investment during a recession, SOVs would remain consistent and little would be achieved. While that is unlikely to happen, you must consider the probable response of your key competitors. Whether or not you increase your *absolute* level of spend, what is crucial is that you increase — or at least maintain — your *relative* level of spend, i.e., your share of voice. If you increase spending, are your competitors likely to fight fire with fire and increase their own spending? Which brands are likely to respond with price promotion? While you may not be able to ignore aggressive price cutting by a key competitor, the worst thing to do is to react in kind and start a price war.

In 2003, the premium Dutch grocery retailer Albert Heijn found out the hard way that cutting prices is

not an effective strategy. Two days after the company announced that they were committed to narrowing the price gap that existed between Albert Heijn and other retailers, the competition reacted by matching the initial price decreases. Six more rounds of price decreases followed. Food prices in the Netherlands dropped 11 percent, and Albert Heijn lost share to the hard discounters.

Stand Up For Your Brands

Without doubt, the biggest barrier to action during tough economic times (apart from the size of your budget) is the mindset of a company's senior management. Even if funds are available, managers who don't value marketing may be unwilling to maintain existing levels of support for brands, let alone condone increases in spending. The need to prepare quarterly financial reports for investors will keep them focused on the bottom line. When innovation and marketing budgets are scaled back, little appears to be lost in the short term even though the evidence suggests that many brands will suffer as a result.

If, however, your management team is entrepreneurial in spirit and your analysis suggests your brand could gain long-term advantage from increased marketing spend, then now might be a good time to pitch your case. Identify exactly what that additional budget will achieve and what the likely return will be. A savvy management team may realize that they are not risking too much by supporting the brand; in fact, they may actually increase the company's standing in the eyes of financial analysts and investors who appreciate the value of a strong brand.

To learn more, look for our May POV on marketing tactics for surviving a recession.

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