

Maintain Your Marketing During Hard Times

By Chris Burke, president, BtB Marketing Communications

“The time to put the pedal to the metal is when everyone is hunkering down...this is a chance to widen the gap...we just breathe in our blood everyday, now's the time to change the game.” Jack Welch, CEO General Electric.¹

During economic hard times, when profits are slipping and stock prices are dropping, drastic measures are often required to preserve the bottom line. Prime targets are marketing communications, particularly advertising - the conventional wisdom being that these two areas of spending are “discretionary” expenses that are not critical if customers slow down their purchasing. While perception is that these programs may be sacrificed with little repercussion and quickly ramped up again when the economy recovers, the reality is that a reduction or suspension in marketing communications activity can do long-term damage to a company's position in the market.

According to numerous studies dating back to the 1920s, cutting back on marketing communications during a downturn can cost much more than the “savings” from reduced budgets. Extensive evidence points to the conclusion that companies that maintain or increase their marketing and advertising programs during a downturn not only recover far more quickly, but do so at the expense of their competitors.

“Corporate giants got where they are in recessions and depressions by making bold moves when their competition was paralyzed by fear and insecurity. Ed McCabe, Scali, McCabe, Sloves, Inc.”²

Individual studies conducted following eight separate recessions from 1923 to 1982 were unanimous in their findings: Companies that reduce marketing communications budgets in a downturn lose sales and market share and take longer to recover. Those that do not deviate from their long-term plans gain market share from their competitors and recover much more quickly.

One such study was conducted by Buchen Advertising between 1947 and 1961. The study tracked a broad measure of industrial and business-to-business advertisers as they conducted business during and following successive recessions. The study examined advertising budgets and compared these to sales trends and profits before, during, and after recessions in 1949, 1954, 1958, and 1961. The conclusions revealed that when advertising budgets were cut during a downturn, sales and profits dropped off. After the economy recovered, these companies continued to trail competitors who had maintained their programs.

The study was revived in 1970 and continued tracking recessions through the decade³. Again, the results revealed that cutting advertising during economic recession has negative results in both the short- and long-term sales and profits. Conversely, the studies presented strong evidence that continuing or increasing advertising expenditures results in much greater sales and profits when compared to companies that cut back (See Figures 1 and 2).

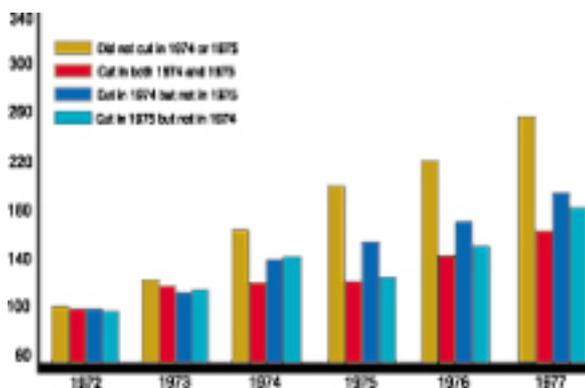


Figure 1. Sales and Advertising Expenditures

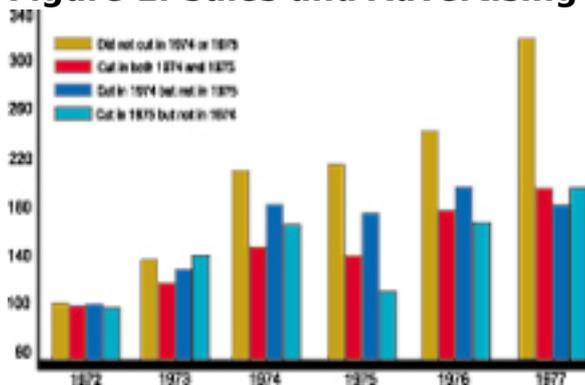


Figure 2. Net Income and Advertising Expenditures

According to a study conducted by Professor Patrick Barwise, following the recession in the early 1990s, the most successful companies ignored short-term economic conditions and stuck to their strategy. They maximized long-term shareholder value by maintaining or increasing their advertising when the economy slowed down, while more shortsighted competitors cut back. Companies that maintain their advertising are able to build market share at lower cost than when the market is growing due to lowered media costs. Barwise concludes that any reductions in a firm's short-term financial performance due to maintaining advertising cost in tough times are more than outweighed by increased revenue and profit growth when economic conditions improve.⁴

Barwise advises that during a recession companies should, "Look for new creative, media or targeting opportunities, strengthen your market position against weaker rivals. Keep going, i.e. hold firm to your long-term strategy."

"Think Murderous. If you're strong, look at recession as an opportunity to deliver the death blow to some marginal players," Edward Lawler III, USC.

Rather than cutting back on advertising and marketing, turn an economic downturn into an opportunity to build your brand and aggressively pursue new customers. According to Professor Edward Lawler of the University of Southern California,⁵ advertising can be one of your most potent weapons. In this struggle during an economic recession, the costs of marketing fall with lowered demand. By maintaining spending and negotiating wisely, you can get more marketing firepower per dollar and gain advantage over competitors who cut budgets, said Lawler. This will help increase market share faster and more economically than when the market is growing.

By aggressively marketing during a recession, you not only gain a larger share of a shrinking market, but you also place yourself in a very favorable position when the economy turns around. A joint study conducted in 1990 by Ogilvy & Mather and the

Maintain Your Marketing During Hard Times

Published on Wireless Design & Development (<http://www.wirelessdesignmag.com>)

Strategic Planning Institute found a clear link between increased spending on advertising and increased market share. "Companies spending 'much more' on advertising than their leading competitors (as a percentage of actual or projected sales), captured 32% to 40% of the market...companies that spent about the same as their rivals gained a 23% market share, and those spending 'much less' had to be content with less than 15% of the market. Market share, in turn, has a dramatic effect on profitability. Those companies with greater than 40% enjoy an average return on investment of 41%, while those with shares under 10% return profits around 9%."

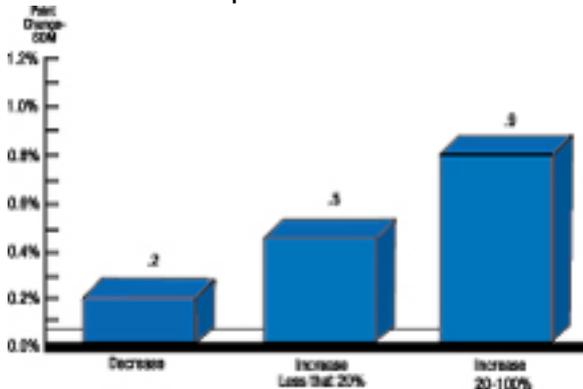


Figure 3. Changes in Share Related to Changes in Advertising Spending During a Recession

"I have yet to see any study that proves that timidity is the route to success. Studies consistently have proven that companies that have the intelligence and guts to maintain or increase their overall marketing and advertising efforts in times of business downturns will get the edge on their timid competitors," J. Wesley Rosberg.⁷

Advertising maintains your market share and attracts new customers. When sales drop off and budgets must be cut, a wise manager will think of the long-term effects of their actions. Cutting marketing and advertising may result in small benefits in the short-term, but will result in negative impacts on sales and profits in the long-term. Recession is not the time to hide. In fact, hard times are the time to get aggressive. Attack your competitor's strengths. Exploit the competition's weaknesses. Promote your strengths. Defend your market share and go after your competitor's share. It is the time to take advantage of lower media rates and your weaker competitor's impulse to reduce spending. With these actions, you will save your market share, recover more quickly when the economy recovers, and boost future sales and profits.

References

1. "Charlie Rose," interview, episode R2901, originally aired 03/16/2001
2. Bernard Jr., Ryan, "Advertising in a Recession: The best defense is a good offense," American Assoc. of Advertising Agencies, 1991.
3. American Business Press Study in conjunction with Meldrum & Fewsmith, Inc., "How Advertising in Recession Periods Affects Sales," 1979.
4. Barwise, Patrick, "Advertising in a Recession: The Benefits of Investing for the Long Term," London Business School, 1999.
5. Lawler III, Edward, Fortune, October 5, 1990
6. Ogilvy Center for Research & Development, "Options and Opportunities for Consumer Businesses: Advertising During a Recession," 1990.
7. Bernard Jr., Ryan, "Advertising in a Recession: The best defense is a good

Maintain Your Marketing During Hard Times

Published on Wireless Design & Development (<http://www.wirelessdesignmag.com>)

offense," American Assoc. of Advertising Agencies, 1991.

Source URL (retrieved on 09/20/2014 - 6:23pm):

<http://www.wirelessdesignmag.com/product-releases/2001/08/maintain-your-marketing-during-hard-times>