DDB

Capturing Opportunities in Challenging Times

Marketing and Advertising in a Recession

The Yellow Papers Series

Our seventeen years of largely uninterrupted growth have left many businesses ill-prepared to make the decisions necessary to ensure survival, let alone grow in the marketplace today.

The current global financial crisis has hit with such speed and severity that it appears entirely unique. Even with the various economic downturns experienced in 1990-91, 1997, 2000-01, and 2003, our seventeen years of largely uninterrupted growth have left many businesses ill-prepared to make the decisions necessary to ensure survival, let alone grow in the marketplace today.

In these previous downturns, we must credit the undaunted consumer as the hero who came to the rescue with largely unaltered spending and optimism. The current situation is much more challenging because it is global and the impact falls directly on the consumer. Home prices are facing steep declines, falling share prices have dramatically reduced nest eggs, unemployment is increasing, and prices are rising faster than wages. Tighter access to credit has hit consumers as well as business, impacting industries seen as the engines of the global economy.

The situation has forced consumers to re-evaluate their spending along the fundamental lines of "wants" and "needs." In fact, they are being counseled to do so. ING Direct recently sent an e-mail to its customers with the instructions to "avoid splurging; identify and cut out unnecessary expenses and save for what's essential." The daily news and these types of communications have undeniable impact on consumer mindset and behavior.

But the plain fact is every economy brings opportunity for those who make brave and intelligent decisions. For companies the critical question now is: Are we proactively managing our brands as long-term assets through this downturn and beyond? For consumers the question is: What factors influence my purchase decisions in tough times?

This paper explores those questions in four sections: the cut versus invest debate in marketing and advertising, brands as long-term assets, the consumer price/value equation, and steps to take in managing brands in a downturn. The objective is to clearly establish the challenges and opportunities that are available to brands in severe market conditions.

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Cut versus Invest

There is ample empirical evidence that budget cuts during recessions in marketing and advertising have both short- and long-term negative impact. It makes sound business sense to evaluate all expenditures to determine their return at any time. And every recession puts marketing and advertising under the microscope, often labeling those activities as "nice to have." But the evidence shows that budget cuts in these areas actually depress sales, reduce market share and income, and erode profits:

- McGraw-Hill studies of the 1974/75 and 1981/82 recessions saw declines of 21% and 45%, respectively, in sales effect over two years for companies that cut investment in marketing and advertising versus those that did not.
- A study of PIMS data by Alex Biel from the 1990 downturn showed that companies that cut advertising investment gained only 0.2% market share, while those who maintained or grew investment modestly experienced a 0.5% increase and those who upped their investment experienced a 0.9% growth in market share.
- One hundred and forty-three US firms that cut advertising investment during the 1974/75 recession were studied by the American Business Press, which found that income effect over two years saw a 38% decline.
- A 1998 PIMS study demonstrated that companies that increased investment during the last recession achieved an average return on capital employed of 4.3%, compared to 0.6% for those that maintained marketing investment and negative 0.8% for those that cut.

Actual examples to support the analytics abound:

- Revlon and Phillip Morris gained market share during the recession in the 1970s by maintaining intensive marketing investment while competitors retreated.
- In the recession in the late 1980s and early 1990s, while Jell-O, Green Giant and Doritos saw sales drops of 26% to 64% after cutting their advertising investment, companies that raised or maintained their investment saw huge lifts: Jif 57%, Kraft 70%, and Bud Light 15%.
- Nike tripled its marketing investment and saw profits nine times higher going out of the 1990 recession than going in.

In a downturn most companies get hurt, but brands with strong support are affected less severely than their competitors. Importantly, budget cuts put business at additional risk not only during the downturn itself, but in the economic cycle immediately following. Studies show that cuts hinder recovery in many areas, including sales, share, profits, and income. The McGraw-Hill study of 1981/82 showed the four-year sales effect to be negative 53% for companies that cut investment during the recession. Not an enviable position from which to recover.

This leads us to the next discussion and that is about recognizing your brand as a source of strategic value in good times and in bad.

Brand as Long-term Asset
It has taken decades of practice but we know now that:

- Brands are strategic assets rather than purely symbolic tools.
- Effective branding is a matter of profit – not just share.
- Competitive advantage is gained in all economic environments through smart, ongoing brand investment rather than treating it as a variable cost.

In 2001, brand value accounted for 33% of the market capitalization of the companies in Interbrand's 100 Top Brands ranking; through subsequent downturns, this figure has grown to greater than 38%. This makes brands an undeniable asset.

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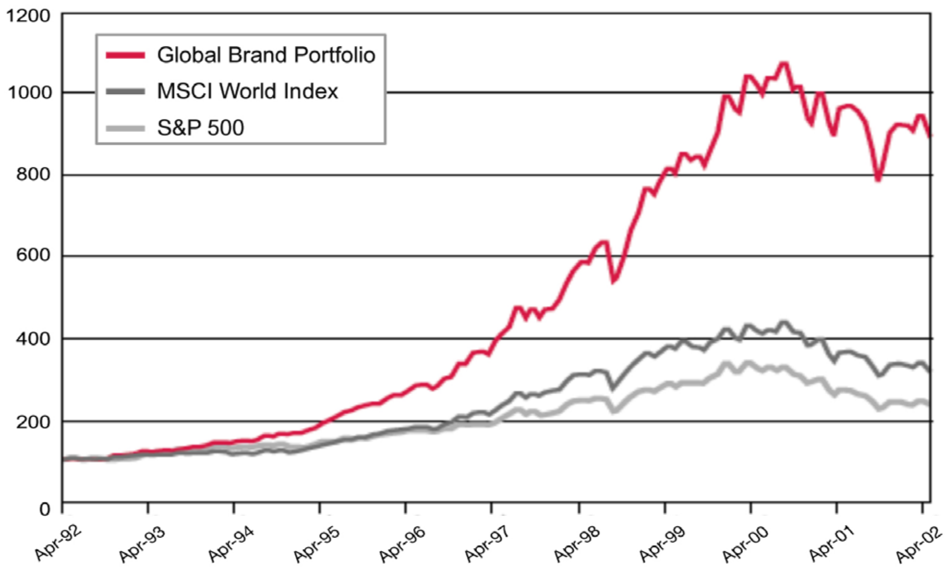
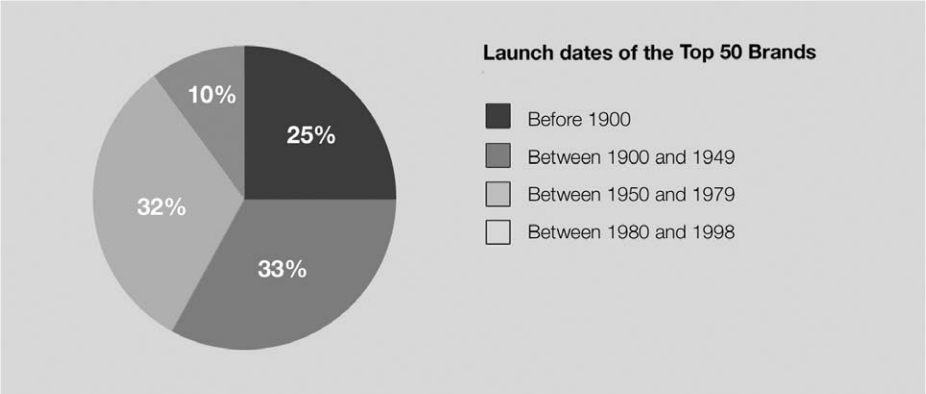
Strong brands also benefit investors. As the figure below shows, companies with strong brands have historically outperformed the market, both in and out of recession.



Clearly recessions force companies to look for the greatest return on investment. It is no coincidence that a quarter of the world's 50 most valuable brands were established before 1900, confirming the resilience they command and the benefits they represent. This data calls into question the strategy of restricting brand investment in a downturn when the asset so clearly pays off over time.



Too often these days, however, companies are opting for the quarterly number over the bigger picture. Brands need to be careful about how short-term revenue schemes will affect them down the road. That's because in their pursuit of sales now, companies forget or neglect core customers and what matters to them.

No matter what brands decide, the important thing is not to lose sight of the loyalty of core customers and what attracted them to the brand in the first place. Recessions are not the time to compromise the integrity of a brand for short-term gain. As brand value is a product of years of time and investment, it is a top priority of most companies to avoid slipping back. This requires a long-term outlook to brand management that begins with understanding how consumer behavior changes with the economic climate.

The Consumer Price/Value Equation
In a strong economy consumers are naturally comfortable with their position and prospects, so they open up their wallets and purses, invest, assume debt, and generally believe the future will be bright. In a downturn, these assumptions change radically and often dramatically. That is certainly the case now and the question is: How will consumers behave during this downturn?

Marc E. Babej and Tim Pollak of Reason Inc. wrote on Forbes.com, "First and foremost, economic downturns instill anxiety. Almost no one is immune. Even people who are doing okay themselves will tread more cautiously as they see their peers cutting back on their spending or worrying about losing their jobs. What's more, in this particular recession, even households with secure incomes will have reason to be on edge. Energy and food prices are likely to remain quite high, while the housing crisis is diminishing almost everyone's net worth. So expect even those who aren't really feeling a lot of pain to act as if they are."

Frugality becomes the modus operandi. Wants and needs become the framework of family discussions. Cosmetic cutbacks limiting the number of cappucinos per week or the price of a bottle of wine can quickly escalate to vacationing at home and selling the second car. According to Babej and Pollack, "Sometimes the savings are material. Other times, corners get cut just to give people the warm feeling that they're being responsible and in control. But for marketers, the result is the same: Usually, predictable behavior is less so during a downturn."

However, consumers still need an escape. The most pragmatic may continue to pay for a movie, a drink or a distraction. In fact, according to annualized increases in consumer spending in the UK 1989-1991, movie revenue grew 16%, alcohol 10%, and sports and toys 6%.

Arguably after years of doing well, people are going to be challenged to do with less. Babej and Pollack believe that "self-image matters. People who are struggling don't want it to show. They will make trade-offs, so they can afford to keep up appearances. This could be bad news for marketers who've justified higher price points, offering convenience or touting image."

In essence, for the majority of consumers under the approximate age of 40, there is no precedent for frugality. Previous generations were reluctant to purchase on credit – and though that seems like charming history, it is quickly becoming the new economic reality. To many, this is a welcome change. "I am happy to observe that the decades of vulgar excess are finally over," the columnist India Knight wrote in *The Times of London.* "There is a strong collective sense of us all coming back down to earth. It's like a huge national reality check and, unwelcome as it may be, there is a possibility that it will result in us straightening out our priorities."

And while many CMOs, VPs and directors of marketing would argue that they are doing just that – that they are marketing, many are now simply reacting.

But just what will those priorities be? At DDB, we believe that consumers will be driven by what we call the Price/Value Equation.

Quite simply, in this economy, consumers will evaluate purchases in the following manner:

1. Is this a want or a need? (Wants will be extremely restricted, especially on bigger ticket items.)

2. If it is a need, the first consideration will be price and consumers will modulate within a tight range based on available budget, confidence of economic direction, and new brand considerations.

3. They will next factor in the notion of value. This step in evaluating a purchase is actually a bundle of attributes rather than one expressed benefit. In a good economy, those attributes include many intangibles meant to drive emotive responses – what does this brand say about me, does it connote a premium position, does it make me feel good about myself. In a challenging economy, the attributes are more tangible and may include quality, guarantees, associated service, and stable performance, amongst others.

The task for marketers now is to communicate value. Each brand will have its own attributes that will need to be identified, bundled and articulated in a compelling way that equates to overall "value." Winning companies will ideally use marketing and advertising to communicate to consumers the story of their brands in a way that moves them from a "want" to a "need." This will entail a clear statement of benefits that represents the overall value and justifies the associated price through a strategic program of communications.

And while many CMOs, VPs and directors of marketing would argue that they are doing just that – that they are marketing, many are now simply reacting. They're muddling through and plowing ahead during these tough times, looking for the cheapest alternative or less costly ways to gain exposure without carefully considering the detrimental effects this course may have in the long run.

The fact is, marketing is active. It's smart. It's focused. It's strategic. It's risk-taking. It's creative. And it's measured. Everything it does and every choice it makes is about building brand, growing share, and sustaining a leadership position regardless of economic cycle. What follows are steps you can take to ensure the leadership of your brand now and beyond the downturn. Standing still is not an option.

Managing Brands in a Downturn
Understandably, every company and industry is unique. However, there are some critical guidelines in a downturn which are solid considerations for the management of any brand:

Step One: Better Understand Consumer Behavior and Insights

By acknowledging and defining changes in your consumer's behavior, you can anticipate strategic and tactical moves to maintain them as a loyal customer or attract them when they are looking to switch from a competitor due to revisions in their price/value equation. Your business must know where your customers are going over a time horizon that sees past the downturn. The biggest risk is to hope to survive doing business as it has always been done.

Step Two: Evaluate the Brand Portfolio

Business units have a habit of creating new brands for reasons other than to benefit consumers or to help the bottom line. Now is the time to cut unnecessary products or sub-brands because each extension costs real money and distracts from core performers.

Step Three: Do Not Marginalize Your Promise

Smart cuts make sense but avoid the temptation to cut back on product or service quality in order to protect a few margin points in the short term. If you lose confidence in yourself, consumers will sense it quickly and switch, knowing that the price/value equation has been compromised.

Step Four: Ensure Relevant Differentiation

Monitor your competitors to ensure your offer is positioned to take advantage of the constantly changing price/value equation. Engage consumers in an ongoing dialogue to tailor communications and the offer itself to be most relevant and unique at all points in the purchase decision process.

Step Five: Price for Long-Term Brand Value

Another temptation is to cut price or discount generously to maintain share and volume. Think beyond the downturn; take the risk of losing a few customers in the short term and focus on annuity revenue. It will cost a great deal more to reverse the negative impression of "the deep discount" after the event than what accrues to your brand in the short term.

Step Six: Keep Communicating

In any relationship, if one party stops the dialogue, the other moves on. In a downturn, people do not stop buying; they just buy carefully, in a more deliberate and well-informed manner. What if they hear nothing from you? Take advantage of the general decrease in marketing investment to grab a larger share of voice and stand above the usual communications clutter.

In terms of your communications consider the following specific points:

Stress Tangible Benefits, But Appeal to Emotions

People are motivated by how they feel rather than what you tell them, which is another reason to resist brand-eroding tactical activity such as price promotions. Positive word of mouth can increase the efficiency of marketing budgets by upwards of 40%. When communicating value, make sure you appeal to emotional benefits as well as the tangible ones.

Creativity Is the Most Powerful Force in Business

This has been a DDB mantra for years and applies even more so in downturn. In fact, at the recent Advertising Week event in New York, it was noted in a panel discussion that of the 100 Best Campaigns of the 20th Century (*Advertising Age*), the majority were created in tough economic climates. Data2Decisions research shows that creative execution is the second biggest determinant of a campaign's profitability, after market size. Tougher economic conditions must be met with increased creativity, and remember that the idea is more important than the budget.

Be Integrated to Be Heard

According to studies conducted by DDB Matrix, integrated campaigns can increase efficiency by up to 100% because of the interaction between different but complementary channels. Similarly, using one-stop shops for all communication needs will presumably result in significant cost savings.

Focus on the Influencers

The smartest money spent in communications leverages key influencers. In this downturn, marketers must embrace new technologies and channels to identify those smaller groups of influencers who hold sway over larger consumer segments. As articulated in *The Nature of Marketing*, a new book from DDB Worldwide CEO Chuck Brymer, we now live in a world where a small number of people, sometimes even one person, can quickly become the voice of one hundred, one thousand, or one million and more. This means that successful brands today must move from promoting products to engaging communities – and those who do will succeed during this recession and into the next positive cycle.

Make the Market Work for You
At the end of the day, marketing in a recession is a microcosm of marketing in general; it just feels a lot different because of the additional concerns of slowing sales growth, increased competition, and budget pressures. There is one question that truly matters now and that is:

Q: Why market more this year?
A: Next year.

During this downturn, whatever companies do, or importantly don't do, will have far-reaching impact on their customers, company and brand for years to come. When the downturn ends, companies that faced the challenge head-on, retained their wits, and took appropriate risks will be the ones looking at their competitors in the rear view mirror. As one of DDB's founders, Bill Bernbach, was fond of saying, "The future, as always, belongs to the brave."

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DDB Worldwide Communications Group Inc (www.ddb.com) is the fourth largest consolidated advertising and marketing services global network and the most awarded agency network in the world according to Creativity magazine 2006. With more than 200 offices in over 90 countries, DDB provides creative business solutions guided by its proprietary philosophy and process of Co-Creativity. Home to the world's largest multidisciplinary Creative Co-Op, DDB and its marketing partners build and deliver unique, enduring, and powerful brand experiences for competitive advantage.

DDB is excited by ideas. We invite you to visit our website to share yours and keep abreast of ours. We believe that creativity is the most powerful force in business and that ideas get sharper with more minds rubbing against them.

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