



Realizing Opportunities in Challenging Times

Marketing and Advertising in a Recession, Part 2

“The man who stops advertising to save money is like the man who stops the clock to save time.”

– Thomas Jefferson

The economic crisis appears to be abating, as economic indicators suggest the worst may be past. Yet with each new release of economic data, the market responds with short-term swings which produce varying opinions of the health of the global economy. It is widely agreed that the recovery will be long and trying. In the fall of 2008 when the severity of the downturn was being realized, DDB published a paper called, “Capturing Opportunities in Challenging Times.” The response was overwhelming, with the paper downloaded over 50,000 times and referenced in numerous articles.

Given the recession’s obvious impact, we decided to look at how marketers and advertisers have responded to the economy in their communications. What has been the response in terms of strategy, creativity, messaging and spend? And how have consumers reacted both to the crisis itself and the communications they have received during this dramatic and potentially behavior-altering downturn?

Before addressing those questions, here is a quick summary of the original paper to provide context, background, and a gauge of how accurate our view was at that time. The main points from the first paper included:

- Consumers re-evaluating their purchasing between wants and needs while employing the “consumer price/value equation.”
- Empirically proven negative long-term effects of cutting marketing and advertising spend during past downturns
- The need to manage brands as long-term assets
- Better tactical understanding of consumer behavior
- Retooling brand portfolios to fit the new reality
- Cutting costs but not the brand promise
- Pricing strategies to sustain brand reputation
- Communicating tangible benefits without neglecting emotional connections to the brand
- Employing creativity more than ever and focusing on the key influencers that drive the brand’s awareness and trial



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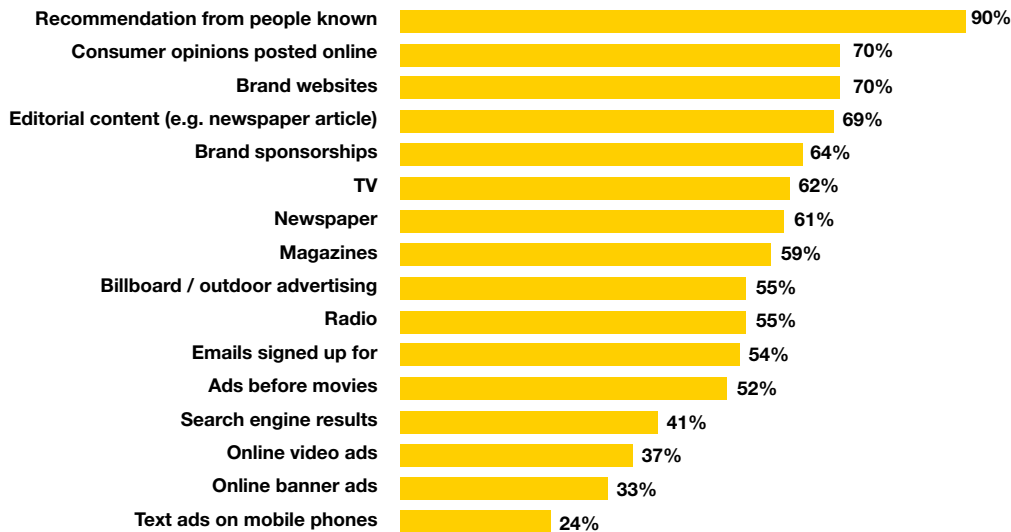
Past downturns have shown that the victors are those who are strategically prudent in tough times, yet execute bravely and brilliantly. This requires an uncanny connection with the target market, down to the individual consumers who comprise it. Without a doubt every economy brings opportunities. And this has been the case for brands that have used the downturn to emphasize or adjust their promise and positioning, whether it is appealing to new-found frugality, stressing value and service, or demonstrating a commitment to innovation.

This opportunity has been incredibly challenging for marketers and advertisers given the macro environment of the past eight to twelve months. A McKinsey Quarterly survey of senior executives noted that 85% of them believed public trust in business had deteriorated. And 62% of respondents in the 2009 Edelman Trust Barometer survey say that they “trust corporations less now than they did a year ago.”

Even prior to the downturn, there was ample evidence that consumers valued peer-to-peer influence substantially more than that of institutions, organizations and advertising. This is a critical change and a theme that runs through this paper. For marketers and advertisers to succeed, “nontraditional communications” must become the norm in order to engage and influence those peers with credibility and far-reaching connections.

**Without a doubt
every economy
brings opportunities.**

Have some degree of trust* in the following forms of advertising - April 2009



*E.g. 90 percent of respondents trusted "completely" or "somewhat" recommendations from people they know.
Source: The Nielsen Company

These values are certainly supported by recent research from Nielsen based on a survey of 25,000 people (Trust, Value and Engagement in Advertising). It probed respondents on their trusted sources in various forms of advertising. "Recommendations from people known" is by far the most trusted source. It points to behavior indicating that people treasure belonging to different groups as a means of personal identity and expression, but at the end of the day they only really trust a small group of friends and influencers. Why? Because they know this inner circle. They have come to rely on them and vice versa. They represent authenticity, honesty, and reliability because of shared values. This connection to influencers and peers is driving consumer behavior.

Real Change?

Howard Schultz, Chairman and CEO of Starbucks, went so far as to suggest the economic crisis would drive widespread societal change. Certainly we are seeing people making significant adjustments in their purchase behavior, investment strategies, and generally their expectations regarding quality of life and retirement. In fact, in the United States it has been suggested that many will be working two to four years longer than previously planned to ensure a comfortable retirement because of the immediate personal financial impact of the recession.

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It is difficult to remember, but prior to the official announcement of the recession, consumers were already feeling the pinch. High gas prices were making the news every day and the phrase “gas prices” was the most searched on Ask.com in April 2008. Advertisers and marketers including Aflac, AirTran, and McDonald’s all produced communications that dealt directly with this consumer issue. A McDonald’s Spanish language television spot featured four teenage boys pushing their car as they searched for cheap gas. They opt for the \$1 double cheeseburger at McDonald’s, content to continue pushing the vehicle.



McDonald's "Fill up the Tank," Dollar Menu Campaign, Alma DDB

But of course now the preoccupation is with the recession, and rightfully so. Datamonitor identified six key issues impacting consumer behavior for 2009:

- Record declines in consumer confidence
- Falling home prices
- Lack of trust in financial services institutions
- Unstable commodity prices
- The “credit crunch”
- Shift in consumer attitudes toward saving and spending

Given current conditions, it makes sense to add to this list both rising unemployment and the erosion of investments. This is not solely a U.S. issue: Datamonitor reports historic declines and low levels in consumer confidence in Germany, France, Italy, Spain, the U.K., China, Japan, New Zealand, and South Korea. And business confidence has echoed that of consumers, painting a picture of short-term pessimism. Tactically, consumers have responded to the crisis in different ways, including:

- In November 2008, as the crisis deepened, coupon websites were the fastest growing online category. In fact, they rose 32% from October to 35.6 million visitors, according to comScore
- Consumers meticulously began to research purchases online and moved deftly around online and retail to find the best deals in terms of price, value and service, according to eMarketer
- There has been an association between declines in brand loyalty and the rise in information shopping. When people spend more time researching their purchase decisions they are more apt to switch
- One in four would rather eat cheaply, according to a Which? survey. McDonald's had its best year ever in 2008, while KFC's profits rose 14%. Consumption of fresh vegetables is down 12% because of their relatively high cost
- Datamonitor reports that consumers have retracted their spending and are reluctant to use credit to fund prerecession lifestyles

- The use of shopping lists has increased by 20%. "People can better identify their needs and meet them by shopping in different places," says Dr. Joan Harvey, consumer psychologist at Newcastle University
- Value/cost is the primary determinant, according to Datamonitor (but interestingly this does not seem to apply to consumers' choice of alcoholic beverages, where little change in behavior has been exhibited)

This era is now referred to as the age of the "Recommendation Generation." It is categorized by a general

pullback in consumer spending, with purchases more rigorously researched and friends and family members polled as trusted sources. Marketers and advertisers recognized this trend before the recession turbo-charged it. Savvy practitioners began embracing the notion of swarm marketing, which differs from historic "herd marketing." Herd marketing relied on mass communications that prompt people to try a brand, while swarm marketing pinpoints the influencers who tend to lead larger groups of people (for more information see DDB Yellow Paper "Swarm Marketing" or the book, *The Nature of Marketing* by DDB CEO, Chuck Brymer).

Changes* in Shopping Behavior due to the Economic Downturn According to US Internet Users, August 2008 (% of respondents)**

Limiting behaviors	
Buying only things I truly need	65%
Buying fewer things	55%
Shopping less often	54%
Buying fewer luxury items	51%
Postponing purchases	47%
Buying only items needed in the near term	40%
Using/keeping items longer before buying	35%
Deal-seeking behaviors	
Taking advantage of good sales/deals	65%
Doing more price comparison shopping before making a purchase	52%
Using more coupons	47%
Doing more shopping at discount and value retailers	37%
Buying in bulk quantities	23%
Stocking up on items expected to rise in price	21%
Trading-down behaviors	
Buying less-expensive versions of products	45%
Buying more store brands instead of national or high-end brands	43%
Trading down to less-expensive brands	33%
Other/some other way	4%

*Note: *among shoppers who have "significantly" or "somewhat" changed their shopping habits due to the US economy; **primary household shoppers*
 Source: TNS Retail Forward, "ShopperScape," August 2008 as cited in TNS Retail Forward and PricewaterhouseCoopers (PwC), "How Will This Recession Affect the Future of Retailing," March 2009

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Source: "E-Commerce in a Recession," eMarketer, May 2009

Strategy and Spend

Communications strategy and investment do vary by industry, so by way of example let us examine financial institutions. At a time when financial institutions are pulling back on their advertising, a new study from Nielsen IAG shows that consumer confidence in the long-term health of these companies is dramatically influenced by advertising and marketing efforts.

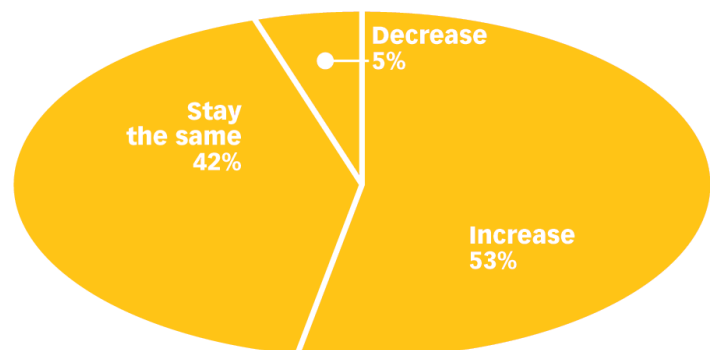
When asked about their own banks, insurance companies and investment firms, 55% of respondents who said they had seen more advertising for their financial institution reported having “complete confidence” in the financial health and soundness of their financial company, and only 18% said they had “little or no confidence” in their company. However, among those who said they had seen less advertising, only 18% espoused “complete confidence” in their financial company and 45% said they had “little or no confidence” in their company. Overall, a minority of respondents said they had “complete confidence” in their financial institutions.

The study comes as data show year-to-year reductions in advertising expenditures in the financial services and insurance categories. Year-over-year ad spending on financial services and insurance was down 13.4% in 2008 compared to 2007. The drop-off was even sharper: -23.3%, for the 4th quarter of 2008 versus the same period in 2007.

Retail is also a revealing industry to examine. Nick Bomberbach, EVP, JCPenny, states, “We haven’t decreased or increased our overall spend. We’ll continue to have advertisements on TV and in print, but we’re definitely focusing a lot on online and nontraditional marketing. We’re on Facebook and Twitter now. We’re advertising on blogs. During the (holidays and) back-to-school season, we focus a lot more on nontraditional elements – online stuff, creating microsites, virtual games and doing mobile marketing.”

What is interesting about this view is that it is largely shared across industries. Nontraditional advertising was growing at a greater rate before the recession but is now receiving incredible attention and spend. With decreasing overall budgets, marketers are experimenting with a broad range of social media and digital applications because of their ability to reach specific segments efficiently and effectively. As well, they are proving (relatively) easy to measure.

Change in Social Media Investment According to Social Media Marketers Worldwide, December 2008 (% of respondents)



Note: n=114

Source: Forrester Research, "Q4 2008 Global Social Media Planning Online Survey" as cited by ReadWriteWeb, March 16, 2009

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There are several strategic themes or responses during this downturn:

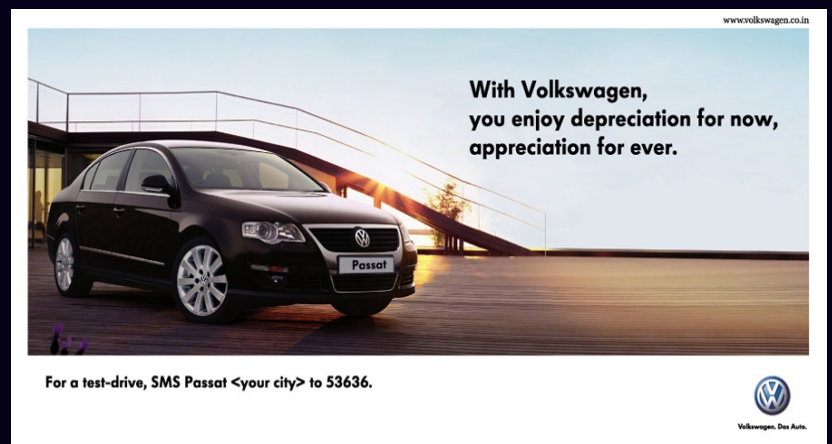
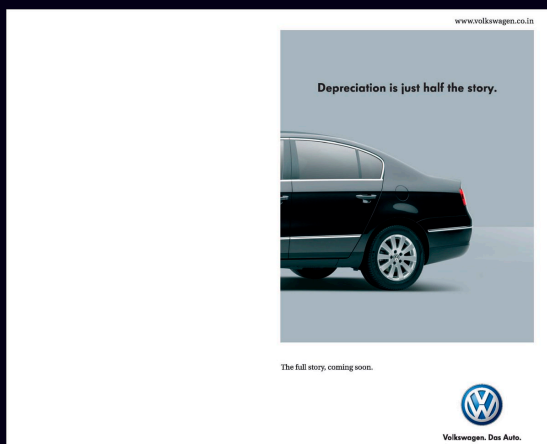
- It is important to ensure you are working from a brand platform that communicates trust, integrity, and honesty. Consumers want to believe and they desire a real relationship with their brands
- Humor can be used but should be employed moderately and with caution because of the decline in trust in advertising and the serious economic issues facing consumers
- Listen and understand the market more intensely than before and engage consumers in a real dialogue. And given this age of information shopping, focus on providing more information that is relevant and deeply segmented, because no two shoppers are alike
- Talk to your audiences with a real voice, avoid jargon, and show off your brand's personality and values
- Emphasize the value that your brand offers, not the price, by focusing on both its tangible and intangible benefits

Every day there is news about layoffs, service compromises, or outright bankruptcies. Consumers have always engaged in long-term brand relationships, but even the best relationships are now being tested. The need to engage with consumers honestly has never been more important, and any slight inconsistency between brand promise and delivery will produce immediate negative impact on company performance in the short and long terms.

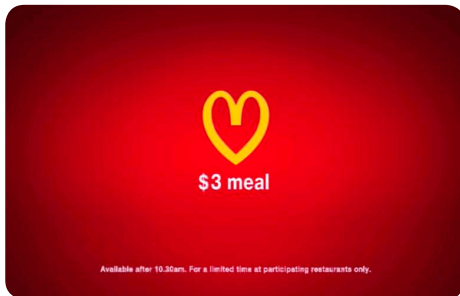
Creativity and Messaging

At DDB we believe that creativity is the most powerful force in business. And creativity has never been more important, given the constraints and challenges of the economy. What follows are a series of examples of communication campaigns that employ various techniques for engaging consumers during a downturn.

A recent campaign from India provides a clear link between value and price. In India car sales rise dramatically during the tax period of February through March, when businesspeople invest in assets to enjoy the tax benefits of depreciation. Volkswagen launched a special campaign to speak to its target audience, which was already in a value-seeking mind-set. It used the downturn as a backdrop to convey that a Volkswagen depreciates only on paper. This intriguing insight was introduced with teasers in outdoor and print. It had the message "Depreciation is just half the story," and a week later it went on to reveal the promise that with Volkswagen you enjoy "Depreciation for now. Appreciation forever." The full story was revealed in print, outdoor, television, radio, web banners, and direct marketing.



McDonald's in New Zealand has experienced great results in recent years with double-digit growth in same store sales and guest counts. Yet almost concurrent with the release of McDonald's year-end 2008 business results (exceeding the forecast), the local economy plunged into recession and both consumer and commercial behavior changed overnight. Fueled by an avalanche of discounting, value-adds and eternal sales, consumers quickly adapted for leaner times, adopting bargain buyer attitudes and trimming all nonessential purchasing, just to survive.



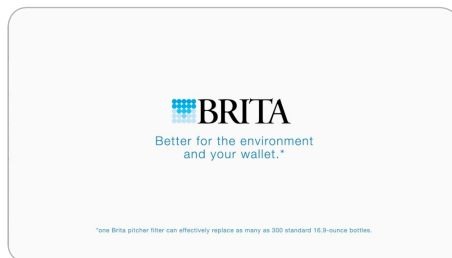
While McDonald's branded affordability platform (Value Picks) was due to re-hit in April 2009, the intense competitive activity as early as February was already impacting McDonald's performance and an immediate shot in the arm in advance of Value Picks activity was required. To respond to such a rapid and extraordinary change in consumer behavior, McDonald's needed to do something extraordinary themselves and totally disarm consumers in the process. The \$3.00 cheeseburger combo was introduced.

With a range of items all under just \$3.00, the Value Picks menu created unprecedented disruption in a market awash with price offers. Business performance in the launch month of April was higher than any other monthly result achieved since November of 2008. The campaign was greeted by consumers as a break from high prices and a demonstration from McDonald's of its commitment to its customers.

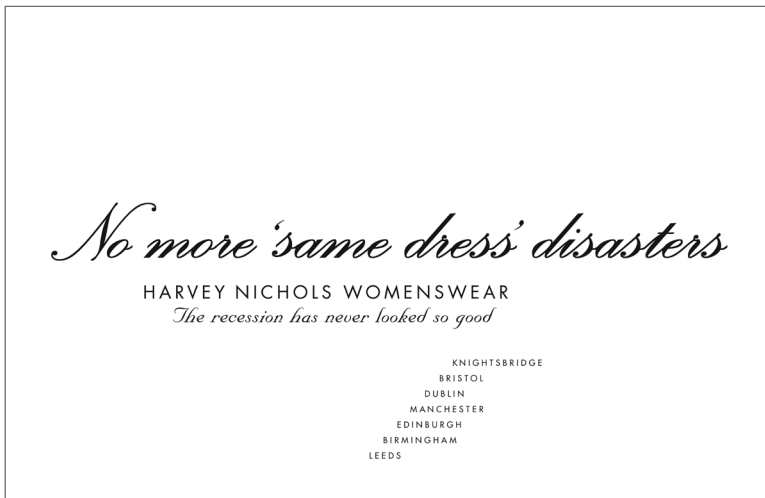


McDonald's "Value Picks" Campaign, DDB New Zealand

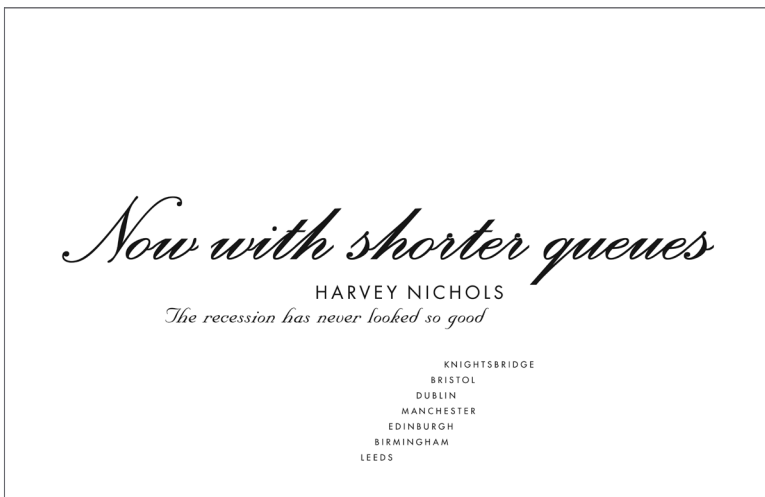
Brita has kept true to its brand with short clips for television and online by tying not only value into their messaging, but the benefits for the environment. The clear and concise copy states, “You could buy 300 bottles of water or just 1 Brita filter. Brita. Better for the environment and your wallet.” This appeal to consumers on two levels is made more relevant given the economy.



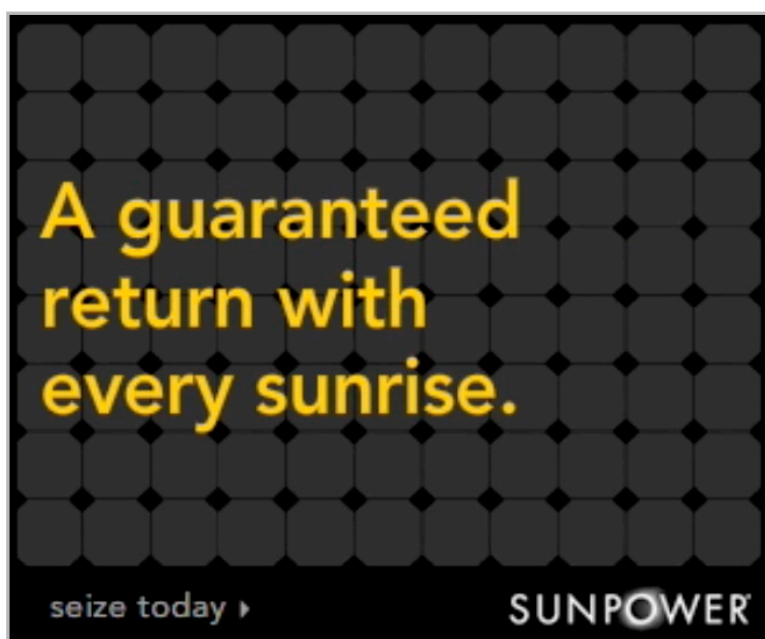
Banquet Food’s Select Recipes also delivers two messages that promote value without directly referencing the economy. This offer’s tagline, “So good for so little,” addresses the quantity and quality of the product along with a reference to its price, which is a genuinely surprising US\$1.50 per meal. Radio, television, and online ads employ humor to communicate the consumer’s shock in reaction to the value/price equation of these menu items.



Harvey Nichols is an international luxury lifestyle store. It offers many of the world's leading brands throughout its network of stores in London, Bristol, Manchester, Edinburgh, Birmingham, and Leeds in the UK, Dublin in the Republic of Ireland, a store in Riyadh, Saudi Arabia, in Hong Kong, China, in Dubai, UAE, Istanbul, Turkey, and a further store in Jakarta, Indonesia. The London flagship store is located in the heart of Knightsbridge, London's exclusive shopping district. The brand is both hip and classic at the same time, with the majority of its communication witty, artistic, and uniquely compelling. Leveraging its brand positioning, they put out a series of print advertisements meant to create a real connection with their clients in tough times.



Harvey Nichols, "The Recession Has Never Looked So Good" Campaign, DDB London



Founded in 1985, SunPower designs, manufactures and delivers innovative solar technology. Its audiences are residential, business, government, and utility customers in North America, Europe, Australia, and Asia. SunPower produced a series of web banner ads with clever copy and a very consistent presentation in which the background simulates a solar panel. Examples of the copy are: "A guaranteed return with every sunrise," "Finally, an investment that rises daily," and "Rooftop stimulus packages now available."

SunPower, Web Banner ad

The environment appears to be set for a recovery, there is potential for a renaissance in advertising.

Confidence Required

Consumers' hopes for an end to the crisis are slowly being fulfilled. The Nielsen Global Consumer Confidence Index, conducted in 28 markets in June 2009, rose to 82 – an increase of 5 points (from 77) from March 2009, which was spurred by renewed consumer optimism and stock market gains in BRIC markets (Brazil, Russia, India, China) and key Asian countries.

“In the previous Nielsen Global Consumer Confidence survey conducted in March, we were seeing the first signs that as far as the world's consumers were concerned, the recession had bottomed out. Three months later, they're starting to embrace the idea of recovery – which is a major turning point,” said Jonathan Banks, Business Insights Director, The Nielsen Company.

The Nielsen study, “Trust, Value and Engagement in Advertising,” showed not only that trust in advertising was up, but that it:

- Increases value for consumers
- Promotes consumer choice
- Powers economic growth
- Creates jobs
- Is the lifeblood of media

So the environment appears to be set for a recovery, there is potential for a renaissance in advertising based on growth in trust and its contribution to the global economy. And just as consumer confidence is hugely important to economic recovery, so is the confidence of marketers and advertisers in the practices of branding, marketing, and advertising. A tough economy can drive a “play it safe” approach to business, so we need to remember what Virgil said: “Fortune favors the bold,” communicating the need to take brave chances. One of our founders, Bill Bernbach, perhaps said it best: “Playing it safe can be the most dangerous thing in the world, because you're presenting people with an idea they've seen before, and you won't have impact.”

The worldwide economic crisis has accelerated the changes previously underway between consumer and brand. Through recovery to a more positive economic cycle, we will find

that what has worked in the past may not have the same impact. Marketers and advertisers will fundamentally have to revisit their relationships with consumers and engage with them on a level of intimacy not seen before. Trust, authenticity, and honesty in communications and brand experience will help regain trust and cement loyalty, ensuring long-term brand health and the ability to weather any future economic storms.



DDB Worldwide Communications Group Inc (www.ddb.com) is one of the world's largest and most influential advertising and marketing services networks. With more than 200 offices in over 90 countries, DDB provides creative business solutions by its proprietary philosophy and process built upon the goal of influence. DDB and its marketing partners create 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.

