



# **MARKETING IN A RECESSION**

**FALL 2008**

An Installment in JWT's Series on Understanding and Navigating the Recession

JWT is launching a series of research papers that will examine consumer attitudes and behaviors during a recession and dissect what they mean for marketers.

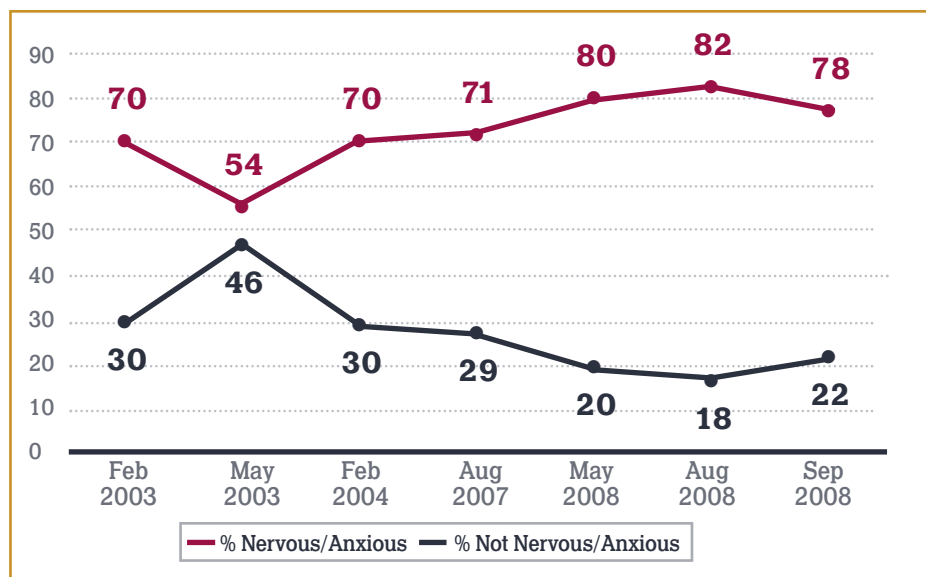
The following paper—a short audit of existing thinking on the topic of marketing during a recession—is a synthesis of historical and current material published by ad agencies and organizations, marketers, journalists and research and consulting companies based on findings from past recessions. It highlights key recurring ideas about why marketers should continue to spend during down times and strategies for how best to go about it.

In the days and months ahead, we'll publish our own point of view based on our original research. And as we go forward, we'll re-assess the validity of the points outlined here through our custom work.

JWT founded the first research and planning departments in advertising (in 1900 and 1968, respectively). A keen understanding of the changes in consumer attitudes and behaviors that inevitably follow or exacerbate a recession has long helped us lead our clients during uncertain times.

Our most recent contribution to this dialogue is the AnxietyIndex, which we launched in February 2003 during the run-up to the war in Iraq. It tracks the levels and intensity of consumer anxiety and, importantly, the drivers of anxiety. The index examines safety and security concerns—the threat of terrorism, potential and current military hostilities, crime, etc.—and economic worries, such as the cost of health care, the cost of living and job security. The AnxietyIndex is also designed to uncover consumer insights that will help inform strategies for marketing during times of high or low anxiety.

Our most recent AnxietyIndex shows that the current level of anxiety is in line with the heightened anxiety that JWT has recorded since May—and that this level is higher than at any time since the AnxietyIndex began (when anxiety was around 70 percent). Not surprisingly, the economy is the top cause of people's anxiety.



Look for more of this original research, which will help us and our clients navigate this period in the smartest and most strategic way possible.

## EXECUTIVE SUMMARY

A multitude of studies have confirmed the upside of spending through bad times and the potential downside of cutting back.

### Six key reasons brands should advertise in a recession:

- **Brand-building is a long-term proposition.** Diverting funds to short-term solutions means a brand is not defining itself at a crucial time. In addition, the effects of advertising generally last well beyond the short term.
- **It's important to protect share—and ideally to boost it.** The goal of advertising during a recession is generally to guard market share at minimum and ideally to expand it, positioning the brand to perform well post-recession.
- **Tough times can open up opportunities.** Recessions upset the status quo: Gains and losses are more pronounced than usual. Advertising can help a brand be a gainer: Research shows that boosting ad spend in a recession is more beneficial than at other times.
- **There's less noise.** A marketer that's spending will claim a greater share of voice when there's less brand clamor. And research has found that market share is likely to grow in the subsequent year when share of voice is greater than share of market.
- **Absence is often damaging, and more costly in the long run.** When a brand significantly slows its marketing, consumers are quick to forget it's there and the brand image can get distorted. It's more costly to get momentum going again than to maintain it.
- **Advertising should be considered an investment, not merely an expense.** Marketing is a strategic asset: Numerous studies show that the downside of reducing spend is most likely greater than any short-term benefits to the bottom line.

### Smart strategies for a recession:

- **World-beating work can change the game.** Difficult times require firing on all cylinders—heightening the level of creative becomes more important than ever. Aside from market size, creative is the biggest potential multiplier of profit, according to a recent meta-analysis of econometric sales.
- **Re-evaluate messages.** Justify the customer's spending: Assure consumers they're getting real value and making the smart choice. Or add an emotional component that can override a rational response.
- **Re-evaluate insights.** Old habits can change quickly in a recession: Loyalties are questioned, attitudes are re-analyzed, new patterns take shape. Understand what's driving customers right now.
- **Re-evaluate media channels—and everything else.** Traditionally, budgets shift into cheaper, more measurable and more targeted media during recessions—the Internet and mobile phones fit these criteria perfectly. And as consumers research purchases more carefully, there are new opportunities to connect at every touch point.
- **Focus on existing customers rather than new ones.** Anxious consumers tend to stick with brands they know. Work overtime to keep these customers happy.
- **Plan a post-recession strategy now.** How will the brand retain any new customers and win back those who have abandoned it? The cycle will swing back up—be ready to make the most of it.

One of the most frequently quoted success stories about brands that won by advertising through tough times goes all the way back to the Depression: Cereal brands Kellogg's and Post were close rivals until Post cut its spending in the 1930s and Kellogg's kept going—gaining the edge it still enjoys today. Of course, spending alone does not guarantee success, but since then, a multitude of studies have confirmed the potential upside of spending through bad times and the potential downside of cutting back.

In the words of Ed McCabe, founding partner of old Madison Avenue heavyweight Scali, McCabe, Sloves: "There's no more exciting time to be in the advertising business than during a recession. All great enterprises move forward in a recession, and the weaklings move back. The dumbbells cut back on advertising. The smart people don't."

Need further inspiration? McCabe used to cite another Depression-era story: the one about Leo Burnett deciding to launch his agency in 1935. There were many skeptics, among them a man who said Burnett would end up selling apples on the street. The agency now proudly uses apples as its icon.

Of course, marketing spend does inevitably drop during recessions. But there are a slew of well-supported reasons for smart brands to keep spending—and even increase spending—in a recession. And there are several ways in which smart agencies can help them.

## WHY ADVERTISING IN A RECESSION MATTERS

### **Brand-building is a long-term proposition.**

Recessions are inevitable: There have been nine in the last half-century. In the long view, they're bumps in the road. "We never change the long-term strategy because of short-term problems," Louis Vuitton CEO Yves Carcelle recently told *Business Week*.

Diverting funds to short-term solutions (promotions and the like) means that a brand is not defining itself at a time when doing so is crucial. Plus, the positive effects of advertising generally last well beyond the short term. About 45 percent of the return on TV spend is seen more than a year later, according to recent PricewaterhouseCoopers research. A 2004 report published by the American Association of Advertising Agencies (4A's) found that advertising contributes to financial performance for up to three years in the future.

This means that while cutting ad spend may boost short-term profits—because the brand is still benefiting from its advertising of the past few years—profits will slide once the effect wears off.

### **It's important to protect share—and ideally to boost it.**

The goal of advertising during a recession—at a time when sales and profits may be down for all players in a category—is generally to boost market share, positioning the brand to perform well post-recession. For some products, especially those that carry a price premium, retaining existing share may require higher spending than in flush times.

“We have a philosophy and a strategy,” P&G chief A.G. Lafley told *The Wall Street Journal*. “When times are tough, you build share.”

## **Tough times can open up opportunities.**

Recessions upset the status quo: Gains and losses are more pronounced than usual. “Like dangerous curves on a racetrack, economic downturns create more opportunities for companies to move from the middle of the pack into leadership positions than any other time in business,” according to consultancy Bain & Co.

For marketers on the offense, recession can be the best time to overtake competitors. “Athletes often choose times of stress to mount attacks: strong runners and bicycle racers may increase their pace on hills or under other challenging conditions,” Penn State business professors Gary Lilien and Arvind Rangaswamy observe in a 2005 paper. “In a similar vein, proactive marketing includes both the sensing of the existence of the opportunity (a tough hill and fatigued opponents) and an aggressive response (possessing the necessary strength or nerve) to the opportunity.”

Smaller or weaker competitors are more likely to wither in the face of sustained ad spending; peers may be more risk-averse than usual. And in a downturn, consumers put much more thought into their brand choices—which means they may be unusually open to a marketer’s messages. Perhaps this is why a 2004 study published by the 4A’s found that for consumer and B-to-B companies (but not for services firms), additional ad spending during a recession is more beneficial than at other times.

## **There’s less noise.**

A marketer that’s spending will claim greater share of voice when there’s less brand clamor and clutter. (This is one reason a recession can be conducive to new product launches.) Millward Brown’s analysis of the correlation between share of voice and share of market found that when the former is greater than the latter, a company’s market share is likely to grow in the subsequent year.

“Companies that increase their marketing investment when most others are cutting back have an opportunity to substantially improve the standing of their brands,” Millward Brown concluded, emphasizing that at minimum brands should retain a relative (if not absolute) level of spend. It’s important to note the time lag between marketing investment and measurable results—the corollary is that when investment is cut, profitability is likely to rise in the short term but fall in the long term.

## **Absence is often damaging, and more costly in the long run.**

When a brand significantly slows its marketing, consumers can be quick to forget it’s there. “There are few things as detrimental as a lapse in advertising,” the late Charles H. Brower, a former president of BBDO, once said. “It costs

much more to get up advertising momentum than it costs to keep going. And once you let momentum die, you must start almost from scratch again.”

Millward Brown data shows that when brands stopped spending on communications for six months or more, brand usage and brand image declined by 13 percent and 6 percent, respectively. Thomas Garbett, who studied 30 companies that stopped advertising during the 1981-82 recession, found that loss of top-of-mind awareness happens first, then loss in awareness, then a change in attitudes toward the company. “The image of the company may become distorted and different from the one the company would like,” he noted.

Garbett concluded: “There is such a thing as memory decay, and it can happen faster than most communicators think.” And because word-of-mouth now spreads so quickly among consumers, misperceptions of the brand can get quickly magnified.

### **Advertising should be considered an investment, not merely an expense.**

Marketing should be seen as a strategic asset for the brand, not a drain on profits. The downside of cutting spend will most likely be greater than any short-term benefits to the bottom line. Indeed, research shows that ROI for companies that advertise during recessions is not significantly different than for companies that cut advertising. Among the results from several key studies:

- Various reports over the decades have analyzed the Profit Impact of Marketing Strategies (PIMS) database and found that cutting spend during a recession is detrimental in the longer term. Most recently, a study presented at a March 2008 IPA conference showed that companies that cut spend saw superior return on capital employed (ROCE) during the recession but inferior results and reduced market share once the recession ended. During the recovery, the “spenders” achieved significantly higher ROCE and gained an average 1.3 percentage points of market share. Companies that increased spend did not see a significant dent in ROCE during the recession.
- The American Business Press and Meldrum & Fewsmith in Cleveland conducted a series of studies of B-to-B advertisers in recession years. In 1979, they reported: “The findings of the six recession studies to date present formidable evidence that cutting advertising appropriations in times of economic downturns can result in both immediate and long-term negative effects on sales and profit levels.”
- McGraw-Hill Research’s Laboratory of Advertising Performance analyzed 600 B-to-B companies in the U.S. and found that maintaining or increasing ad spend during the 1981-82 recession resulted in significantly higher sales growth during the recession and for the next three years. This echoed results seen in a study of the 1974-75 recession.

## FIVE BRAND PERSPECTIVES

A bold approach to recession-era advertising will make healthy brands even stronger, help keep weak brands alive, and give both premium brands and discounters an edge.

**Premium brands:** Advertising helps keep lower-priced players at bay. Price may not be a barrier if the consumer believes in the brand. In 2007, as commodity costs rose and raising prices came to seem inevitable, Kellogg's put \$1 billion behind U.S. advertising for the first time. "We believe it's critical, when the economy gets tougher, that people should be seeing the value of our brands constantly," CMO Mark Baynes says in a recent *Business Week* report. "Brands are much more than flakes in a box." In the same article, Kimberley-Clark CEO Tom Falk notes: "The worst thing you can do is

pull in your brand-building spending and become more of a commodity."

**Discount brands:** Now's the time to shine. As many other retailers struggle, Wal-Mart is advertising aggressively, telling consumers: "Save money. Live better." The discounter is taking an empathetic tack—as an advocate for the struggling consumer—while also making the hard sell: Its latest campaign claims that shopping at Wal-Mart instead of a supermarket can save shoppers \$700 a year.

**Image-driven brands:** Marketing is at the heart of the brand's success. "Our goal is to build a brand over the long term," a marketing manager for Levi Strauss & Co. explained in 1998. "In a sense, we're not selling jeans at all, we're selling originality, independence, and youthfulness. Those tend to remain constants despite what the economy is doing."

**Strong brands:** This is the opportunity to quash weaker rivals, which may not have the resources or the stomach to keep spending. And at a time when consumers want to make the safe, comfortable choice, well-established brands have a lot of leverage. Some marketers have increased corporate image advertising to assure customers that they're choosing a solid, valuable brand.

**Weaker brands:** Spend to retain core customers and to avoid digging a deeper hole. "By cutting your marketing spend, you risk compounding your troubles today and your bottom line will shrink even further tomorrow," marketing exec David Warschawski advised recently in *Mediaweek*. "Not only will you sell less than if you had kept your marketing steady, but you'll cede your core customers to the competition."

## SMART STRATEGIES FOR A RECESSION

**World-beating work can change the game.** Difficult times require firing on all cylinders—heightening the level of creative becomes more important than ever. In fact a significant number of landmark campaigns have launched in tough economies. Consider *Ad Age's* "Top 100 Ad Campaigns of the 20th Century": A quarter of those that debuted after WWII did so in a recession, as *Business Week* points out. "The Ultimate Driving Machine," for example, launched in the U.S. in 1974, propelling BMW to its current status as a powerful luxury brand.

Aside from market size, creative is the biggest potential multiplier of profit, according to a 2006 meta-analysis of econometric sales modeling by Paul Dyson and Karl Weaver. A Millward Brown report notes that across categories, brands and channels, the study found that creative had a significantly greater impact on profit as budget allocation.

"Advertising usually becomes more mundane during a tough economic period," Jay Chiat once said. "But just being competent is riskier than going out on a creative limb."

**Re-evaluate messages.** Consumers are looking for empathy, reassurance and a trusted voice of authority to provide guidance. Some consumers may have the means to spend but are hesitant—they need to be assured they're getting real value and making the smart choice (this may mean more budget friendly but it can also mean more nutritious, more eco-friendly, more effective, etc.). While messages may need changing, however, it's important to stay true to a brand's values.

Brands need to justify the customer's spending. That might mean focusing on different product benefits: In one recession, Quaker Oats successfully promoted the message that its products are inexpensive sources of protein. "Consumers are more conscious they're spending their hard-earned money," notes Interbrand chief Jez Frampton in *Business Week*. "It increases what they expect they should receive in return."

Adding an emotional component that can override a rational response is effective in some cases. That's what JWT did in 1991, a recession year, to promote diamonds for De Beers. The agency appealed to the heart, not the head, according to the head of account planning at the time. To "turbo-charge" the emotional response, the advertising campaign switched from women's magazines to TV and cinema advertising, creating a strong visual and emotional impact around the idea of giving diamond jewelry. De Beers reported that sales took off in the three years after the recession ended.

**Re-evaluate insights.** Old habits may die hard, but in a recession they have been known to turn on a dime. Loyalties are questioned, emotional needs evolve, attitudes are re-analyzed, patterns are redrawn. "The rate of change can be phenomenal," American Express CMO John Hayes told *Business Week*.

Today especially, behaviors are likely to bend under the pressure provided by the rising cost of living and the credit crunch, acting in combination with anti-consumerist sentiments, as noted in a report on marketing in a recession by Henley Centre HeadlightVision. "The challenge for brands is to remain pertinent to these changing consumer behaviors," the report observes, "while the changes in themselves present opportunities for brands to align themselves with the most important consumer values, or reframe their products or categories to meet emerging needs."

Experian Integrated Marketing advises marketers to understand "what drives customer value, what they expect and what is important to them in the slowdown." *Ad Age's* Eric Spahr notes that emotions are intensified in tough times: "Different emotions may drive different behaviors, or they may reinforce existing behaviors." Spahr also advises re-evaluating the brand's competitive set and tracking consumer behavior outside of a brand's traditionally defined category or region; a consumer might drop a gym membership, for example, in order to keep up his TiVo habit.

**Re-evaluate media channels—and everything else.** A recession requires not only sharper creative but also greater innovation in media channels. Traditionally, budgets have shifted into cheaper, more measurable and more targeted media during recessions, such as direct marketing; today, the Internet

and mobile phones are the platforms most likely to fit these criteria. And as the Henley Centre report points out, the potential of online marketing to foster word-of-mouth and peer-to-peer recommendations—via social networks, communities and other tools—may prove especially valuable in a downturn.

Since recession-era consumers spend more time researching purchases and talking to salespeople, it's essential to sharpen communication at every touch point. Brands must ensure the right message is conveyed by salespeople and customer service representatives, and messages on packaging become more important than usual.

**Focus on existing customers rather than new ones.** "It is more practical and prudent in this situation to generate more value from current customers," advises Experian Integrated Marketing in a report on marketing in a slowdown. "In these economic conditions, customers are feeling more vulnerable, and they are more likely to stick with what they know and trust and take fewer risks." Still, these consumers can't be taken for granted: Work overtime to keep the brand's most loyal and valuable customers happy and to meet their needs (understanding that these may be changing).

**Plan a post-recession strategy now.** How will the brand retain any new customers and win back those who have abandoned the category or switched to lower-priced competitors? No one knows if we've hit bottom, but we do know the cycle will swing back up—be ready to make the most of it.

## RECOMMENDED READING

A shortlist of current sources for more information:

Butterfield, Leslie, ed. *Advalue: Twenty Ways Advertising Works for Business*. Butterworth-Heinemann, 2003: A book of essays put out by the IPA, some of which specifically addressed advertising in a recession

Helm, Burt. "Best Global Brands: Gutsy Marketers Spend Into the Teeth of a Recession." *Business Week*, September 18, 2008

"Key Lessons for Marketing in a Recession." HenleyCentre HeadlightVision (September 2008)

"Marketing During a Recession: To Spend or Not to Spend." Millward Brown (April 2008) and "Marketing During a Recession: Survival Tactics." Millward Brown (May 2008)

Field, Peter. "Marketing in a Downturn: Lessons from the Past," *Market Leader* Issue 42, (Autumn 2008): 26-31



466 Lexington Avenue  
New York, NY 10017  
[www.jwt.com](http://www.jwt.com)  
[www.jwtintelligence.com](http://www.jwtintelligence.com)

**ABOUT JWT:** *JWT is the world's best-known marketing communications brand. Headquartered in New York, JWT is a true global network with more than 200 offices in over 90 countries employing nearly 10,000 marketing professionals.*

*JWT consistently ranks among the top agency networks in the world and continues its dominant presence in the industry by staying on the leading edge—from producing the first-ever TV commercial in 1939 to developing award-winning branded content for brands such as Freixenet, Ford and HSBC.*

*JWT's pioneering spirit enables the agency to forge deep relationships with clients including Bayer, Cadbury, Diageo, DTC, Ford, HSBC, Johnson & Johnson, Kellogg's, Kimberly-Clark, Kraft, Nestlé, Nokia, Rolex, Schick, Shell, Unilever, Vodafone and many others. JWT's parent company is WPP (NASDAQ: WPPGY).*