

# Marketing in a recession

## Background

The world economy is at the beginning of a deep recession. The credit crunch and the ensuing banking crisis have transformed the business environment to such an extent that most businesses are operating under conditions not seen for a generation, if ever at all. Consequently, everything is up for grabs and all expenditure is subject to re-evaluation.

What should businesses do differently in a recession than in the grand inflationary years? The obvious answer is to cut costs! In broad terms this advice is undoubtedly sound. But cost cutting needs to be selective, and closely related to maintaining shareholder value. Otherwise, the long-term value of the enterprise will be compromised.

Marketing is a good example. Many marketers, with enthusiastic support from their marketing agencies, will be eager to make the case for maintaining marketing spend in a recession. They will be emphasising the importance of the brand and that marketing is an investment and not a cost. Meanwhile, the financiers will be arguing for draconian cuts in marketing spend as a quick win in cutting “soft” discretionary budgets.

## The key realities

In order to set optimum budgets in a recession the following four key realities need to be taken into account.

### Opportunities lost

The obvious consequence of a recession is that the demand for most goods and services will fall. Hence, the response rates for advertising and marketing will fall. Customers that will have responded to a marketing stimulus in good times will reluctantly pass up the opportunity in bad times. Clearly the fall in demand will put downward pressure on marketing budgets across a broad spectrum of brands.

The impact will vary by sector; for some sectors (basic foods, energy, and low ticket items) the impact will be small but others (cars, housing related, and luxury goods) will experience a big fall in demand. But for most brands a fall in demand will lead to lower revenues and lower profits and logically to lower marketing spends.

### Credit Crunched

Even where customers are willing, finance directors will not be. In a recession, profits will fall, often dramatically, sometimes resulting in losses. Marketing opportunities that in good times were profitable may well now be uneconomic. Worse still, some marketing plans will be axed, not because they are inherently unprofitable but because funding is no longer obtainable in the current economic environment.

### Reduced advertising activity

Reduced media purchases – especially broadcast media - can be expected to lead to lower prices which, in turn, should bring down advertising and marketing budgets as the same messages can be communicated to the same audience for less money.

### Profit in adversity

Customers will also become more discerning during a recession. Price promotions and tight budgets will loosen the affinity of customers to brands. Brand “loyals” will become brand “switchers” as financial pressures force customers re-evaluate their spending patterns and become more opportunistic. Markets will become more dynamic and this will create upward pressure on marketing spends.

## Getting the balance right

The factors listed above pull in different directions. Reduced revenues compounded by the reduced margins necessary to respond to greater customer price sensitivity argue for lower marketing spends – if only to avoid an increase in the marketing spend to gross profit ratio. On the other hand, reduced customer loyalty and increased switching represent the following two factors.

- The threat of losing existing customers unless marketing efforts are re-doubled to retain them; but also
- An opportunity to recruit new customers whose loyalty to their current brand is now in question

Both of these factors will, of course, involve new marketing spend.

What is also important, though, is that the types of marketing spend need to change in response to a

recession. Rather than the long-term building of the brand, the focus will become much more on call-to-action and point-of-sale oriented activities, especially with regard to communicating the discounts, promotional offers, and new products designed with the short-term objective in mind of attracting new customers and retaining existing customers.

The overall balance between the downward and upward pressures on marketing spend will be specific to each brand and its market place. The diagram below illustrates how the conflicting pressures trade off in practice.

If you experience a relatively weak impact of the recession on your profitability and the marketplace in which you operate is characterised by low brand loyalty, then you might find it best to increase spending to take advantage of the opportunities to recruit customers from the increased pool of switchers. If, on the other hand, you suffer a significant downturn in profitability and the

marketplace in which you operate is characterised by high brand loyalty, then the natural course of action is to reduce marketing spend. In the other two parts of the matrix, the conflicting factors are more finely balanced and can go either way, depending on the specific situation.

In some cases, therefore, the optimal level of spend will be higher than currently whereas, in other cases, a modest reduction in spend would be best. Dramatic reductions in spend are, however, likely to be the exception rather than the rule and, where they do occur, will bring into question whether the pre-recession level of spend was excessive. But whether spend increases or decreases, the successful brands will be those that respond quickly to re-position their offer – and to communicate the changes – to a customer audience that is more volatile, short-term, cautious and price sensitive than in normal times.

