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Marketing in a Recession

to cut, or not to cut?

That is the question Chief Executives are asking. Mike Rigby of PR and Marketing agency, MRA Marketing, says recent research has the answer.

Marketing in a Recession: to cut, or not to cut?

Marketing people often take it as read that marketing works and assume most people accept that it works too. But it doesn't take more than a slight downturn in the market to show that they are wrong.

Most people probably do accept that marketing has some effect, but they don't know how well it works or what exactly it adds. Many think marketing adds just a little extra. That it's something you can only afford to do when things are going well, something you can cut when times get rough. The fact that marketing people are slow to show others proof of how well it works only reinforces this view.

But last year the Institute of Practitioners in Advertising (IPA) held a seminar to examine the behaviour of companies in recessions. Robust research and detailed analysis from research organisations Millward Brown, Data2Decisions, Malik PIMS, and IPA DataMINE were presented and later reported to the Marketing Society by Peter Field who set up the IPA databank in 1996. It was probably the most comprehensive marshalling there has ever been of trends and case studies to prove marketing works - and just how effective it can be.

The four presentations analysed the impact on brands and their profitability of cutting spending on marketing communications during a downturn. If all brands cut their marketing equally then there would be little effect on the performance of individual brands, although collectively we'd expect an increase in sensitivity to price. In reality, however, while some brands maintain or increase their expenditure on marketing during downturns, others cut theirs. So the real question is: what is the impact on those who cut their marketing and on those who maintain or increase it?

Has your brand 'gone dark'?

The first presentation by Millward Brown demonstrated the damage to both brand image and brand usage of brands that 'went dark' ie ceased to spend on marketing communications for six months or more. It also highlighted the strong link between share of voice and market share, and showed that brands that cut their marketing relative to competitors are at greater risk of market share loss. The risk is greatest in categories that are more price-driven.

Brands that go quiet and stop communicating are judged by customers, prospects and the market generally to be on their way down and the effect becomes self fulfilling. But a particular new risk comes from the internet, where emails, blogs, social networking and mobile communications have accelerated word of mouth.

Time-lagged time bombs

A key finding from the second presentation by Data2Decisions focused on the time-lag effect. Cutting your marketing in a downturn will help cashflow only in the very short term, and the brand will emerge from the downturn weaker and much less profitable. The long-term profitability in maintaining your marketing budget greatly outweighs the short-term gain. And if other brands are cutting budgets then the longer-term benefit of keeping your spend the same (or more) is even better.

Data2Decisions also showed that price incentives quickly lose their power to attract incremental volume and they weaken profitability. Shifting the focus from marketing to price in order to gain volume has the effect of increasing the need to reduce prices to maintain volume. This increased dependence on discounting is also time-lagged and cumulatively has a very damaging effect on profits.

During recession markets become less predictable and more risky, so it is harder to determine the effect of a given level of marketing. In normal markets, running out of marketing budget means you just miss the opportunity. But in troubled markets, cutting your marketing is like making savings on lifejackets, and you may find there isn't enough marketing spend to save the business when it counts!

Comparing the effects of recessions

The third paper by Malik PIMS (Profit Impact of Market Strategy), a widely known and respected source, analysed data from around 1,000 businesses during market downturns and subsequent recoveries. PIMS has been collecting data for three decades so is able to compare the effects of a number of recessions.

The PIMS analysis proved that while maintaining or cutting fixed costs was desirable, the opposite was true of marketing communication, New Product Development (NPD) and longer term research and development (R&D).

By improving customer preference while maintaining relative prices, increased marketing spending drives success. Analysis shows that both market share and Return on Capital Employed (ROCE) are considerably improved after a slump by increased marketing spending during the downturn. Return on Capital Employed suffers slightly from increased spending on marketing during a recession, but it's not significant. And the long term gains greatly exceed the short term downside.

New Product Development has a strongly positive effect on ROCE in a downturn but has less benefit coming out of recession, when competitors start spending and catch up on your initiatives. Maintained or increasing investment in R&D during a downturn has a very positive effect on market share during the downturn and in the recovery.

But can they hear you?

A final presentation from IPA DataMINE analysed a total of 880 IPA case studies submitted to the IPA Effectiveness Awards since 1980.

Brands that spend above average Share of Voice (ie more than the average of the total marketing communications spent by all brands in a category) will grow, while those spending less will shrink. The more marketing you do relative to the average of other brands, the more you will gain. And the less you spend relative to other brands, the more market share you are likely to lose. The relationship holds true in good times and bad.

The more you cut, the more you lose

What the research also demonstrated was an inherent time-lag between relative marketing spend and growth in market share. Because of the lagged effects of marketing on sales, deceptive short-term improvements mask the long-term effect on profits and often provide the stimulus for further budget cuts.

Any company that panics and slashes its marketing budget to zero for two years, for example, can expect a short-term improvement in profitability, overtaken swiftly by a severe decline. The more you cut and the longer you cut, the more you lose. By the time the marketing budget is restored in the third year, it is probably too late and the company is likely to be fatally damaged.

Brands you can rely on

Recessions are dangerous and full of risk. Prudence suggests you reduce risk where you can. So, it's no surprise that in a crisis people migrate to trusted brands, brands they know and can rely on, and brands that are still speaking to them with a relevant message. Opportunity doesn't die in a downturn.

Marketing helps you grow when your rivals are downsizing by helping to retain existing customers and reminding them why they are using your brand. Marketing also attracts new business by giving prospects reasons to switch if their own brand 'goes dark'.

Find out what your customers and prospects really value. Build on it. Keep your promises. And above all, tell people.

Your share of voice in the market has to be bigger than your market share. Remember, building share of voice precedes market share. You can't just defend your customer base in an economic downturn – it will shrink whatever you do. You need to fight furiously to expand it. Fluffy slogans and bland adverts won't work. You have to offer better service and better products - then market the real advantages you offer in a clear and compelling way. You should leave people in no doubt as to why they should use your brand more than any other.

If you don't market your business effectively, your customers and prospects will migrate to those who do. **Fact!**

Running faster than your rivals in a recession

Even in the direst recession there is money around. People are still spending, because they need to or because they have money and they want to. But there isn't enough to go around so it's a relative market.

There is an old story that makes the point. Two men are being chased by a lion on the plains in Africa. One stops to put on his running shoes while the other looks amazed and says: "They won't help you outrun the lion". The first one says: "They don't have to. I just have to run faster than you."

You need a competitive edge to win in a relative market. Think of marketing as your running shoes. Marketing works, but it works best in a recession because other companies stop marketing. It makes it easier for you to outrun them.

10 tips to make your marketing work

1. **A business always thinks its target audience knows it better and knows more about it than they do. That's a barrier to winning new business. Do they know you? Do the right people know you? Do they know the right things about you? They won't switch until they do.**
2. **Don't forget about time lags. It takes time for actions to take effect. It takes time to make people aware of you and what you offer, to get to know you, think well of you and give you a try. A strong campaign will achieve results from the more alert and accessible sooner but generally it takes around three years to get most of the market to see you in a new light and be willing to buy from you.**

3 You must win the battle for share of voice first, including word of mouth, then share of mind. Only then can you win share of market. There are no short cuts, and only on the rarest of occasions does volume precede share of mind. You may have a better product or service, but how will prospects hear about it? Possibly the most exciting lighting product in the last 20 years failed to achieve its potential because its owners believed the product would speak for itself.

4 Word-of-mouth is the strongest form of advertising. Your PR, direct marketing and web presence should be designed to create and amplify the good things people say about you.

5 Critical mass – you must say it often enough and loud enough to be noticed and heard. There is a lot of noise out there. Doing the odd bit of brilliant PR, advertising or direct mail might make you feel good, but it won't move the mountain or bring the thundering hordes to your door! Doing less than the critical mass is money wasted.

6 Be consistent. It takes time for your message to sink in, so don't keep changing it. Refresh the look of your advertising, or the way you tell it, but don't keep changing the story. It's known as the marketing manager's disease: don't let them lose the plot and weaken your brand because they get bored or want to make their mark with a shiny new campaign.

7 Repetition builds reputation. Repetition builds reputation. Repetition builds reputation. Don't change the message because you get tired of hearing it. Bang home the message until you hear the echo as it is repeated back to you by customers, suppliers and prospects.

8 Differentiate your brand and build your brand magnetism. If your brand is the same as other brands why would prospects go through the effort, upheaval and cost of changing to it? If you offer the same as everyone else you will only have price to talk about.

9 If your product or service is the same, change it. Change your offer. Find something meaningful and different to add value to your brand and tell everyone. And keep on telling them. Build on the difference.

10 If you do promotions and deals, know that they work best with a strong brand. Promotions on their own will weaken your brand and only achieve short term gains. Price effects fade quickly.

In a recession when the overall market shrinks there isn't enough volume to go around. If everyone maintains their share of market then everyone loses because it's a zero sum game. Winners survive by taking the share they need from weaker brands to maintain their volume or grow.

What now?

Never mind the evidence that marketing works, what do most companies do?

When markets go haywire and demand slumps most companies seek the comfort of consensus. Instinct says cut and when others cut deep most companies lose their nerve and cut marketing, along with everything that isn't nailed to the floor. Doing what others are doing feels the safest thing to do.

But as sales continue to fall they discover that following the herd isn't safe at all. In fact, doing what everyone else is doing is dangerous.

We should have learned. It was herd-thinking that led to the destruction of the financial and banking system and triggered this recession. Crowds aren't always right.

Some who did cut are realising that if they don't market themselves, there is no floor, no safety net and no end to shrinking until they collapse.

Meanwhile, a few more independent, bolder firms who decided to market their way to success are racking up record sales at their expense.

Easier said than done? Need some help?

MRA Marketing has the creative talent and marketing skills to hit the spot, to influence buyer behaviour and buying decisions for our customers. It's no accident that our customers are doing better than their markets. Most, significantly better. Some are achieving record results. As four times finalist and a winner of the Construction Marketing Awards Agency of the Year, our record - for helping them grow - is also no accident.

Our formula of youthful energy and brains, plus the benefit of a few grey hairs and experience in the construction, building products and home improvement markets in previous recessions gives our customers the edge. We know what works, and what doesn't.

Still think it can't be done? As, President Obama says: "Yes, we can!"

For help with growing your business in a recession contact Abel Roche on 01453 521621, or email him at Abel@521621.com.

Mike Rigby is Managing Director of Michael Rigby Associates, which incorporates market research company Rigby Research, and PR, marketing and design company MRA Marketing. Mike's previous experience includes both consumer and trade markets at Dulux paints, head of marketing at a national builders' merchant, marketing director of a national home improvement company and a director of a listed company supplying the building and home improvement sector.

Mike is a full member of the Marketing Society, the Market Research Society, and the IOD.

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