THE SILVER LINING?

No one looks forward to a recession, but economic downturns can provide opportunities.

Some of these opportunities will come from changes in consumer behaviour, others will come from reduced marketing activity by rivals (e.g. reduced costs for advertising media).

In the early 21st Century we now know something about buying behaviour, even if our textbooks have yet to catch up. We know something about how advertising works and how brands compete. We’ve also experienced several recessions in the past 40 years, so we can learn from the past.

Drawing on existing empirical knowledge the Ehrenberg-Bass Institute offers this little guide to marketing in recessionary times. Specifically we answer these questions:

Marketing Spend:

• Can I get away with reducing my advertising spend?

• Is there an opportunity to gain share if I maintain my spend? Or even spend more?

How will consumer spending change:

• Will premium brands suffer more?

• Which categories are most vulnerable?

• Will private label share grow?

Pricing:

• Should I lower my price?

• Should I discount more?

New products/SKU:

• Do lower price introductions thrive in a recession?

• Is a recession a good or bad time to launch a new product?

We start by looking at consumer behaviour......
How Will Consumer Spending Change?

One of the big lessons we’ve learnt from behavioural data (category buying, brand buying, and media consumption) is how habitual consumers are. Underneath the day-to-day randomness lie rather consistent patterns of behaviour. This suggests that even if consumers want to, they will find it difficult to change their behaviour.

The big environmental constraint for consumers in a recession is they have less money (or access to money/credit). However, it is worth remembering that even in a severe recession, the economy is much the same size this year as it was last year. Many consumers have just as much disposable income as ever.

Also, this recession is particularly being felt by consumers in increases for energy and food prices, but households today spend far less on these categories, as a percentage of their household budget than in the past (2).

What this suggests is that in ‘belt tightening’, consumers will find it easier to make changes in non-regular behaviours than to substantially modify their day-to-day lives. The easiest way may be simply to postpone expensive discretionary purchases like overseas holidays, new cars, and large screen TVs (3). Though even these categories do not collapse in recessions.

The 1970s saw probably the most extreme recession since WW2, with an awful combination of high oil prices, high inflation, high interest rates, high unemployment, and negative economic growth (4). Yet Nielsen records over this period do not show a contraction in purchases of consumer packaged goods. From 1972 to 1979 sales in fifty representative categories in US supermarkets grew an average 15% (in spite of prices rising 81% due to inflation). In a data set covering the same categories for 22 other countries the sales gains were near identical. So rising prices, due to energy and other raw material (like food ingredients) cost rises, are unlikely to affect demand for everyday consumer goods and services.

Interestingly, the 1970s showed no flight to Private Label brands, in spite of supermarkets deliberately introducing some budget generic brands to cater for the hard times.

Nielsen data shows that over this recession some categories did much better than others, but whether or not this had anything to do with the recession is not known. Probably not, as at any time (any point of a business cycle) there are categories that are growing and others that are declining. Usually these trends are rather long-term ones, often underpinned by trends in demographics and lifestyle.

Pricing

There is considerable evidence that relative prices matter, this isn’t to say that brands have to have similar prices, only that you should maintain an appropriate differential between your brand and competitors (depending on relative quality). So in a time of rising costs, if competitors raise their prices you are very safe to do likewise.

However, marketers who are trying to milk their brands, by pricing ahead of their quality level, will lose some share and encourage the introduction of Private Label brands. This isn’t always the case but may be especially true during a recession as retailers and consumers become a little more price conscious. Combined with advertising cuts this recipe could produce a downward sales trend that may be difficult to recover from.

James Peckham’s Nielsen analysis (5) suggests a fairly straightforward relationship between price level compared to rival brands and market share. If the differential is increased a brand’s market share moves down to a new level, not immediately but gradually over a year or so. If the differential is reduced the brand’s market share moves up a level, also gradually. This shift overlays the brand’s current
sales trajectory (up, down or, more usually, stable). Thus lowering the price on a brand that is declining boosts sales but without altering the fundamental trend downwards.

The same pattern has been observed for price promotions, they cause sales spikes but once these are accounted for the brand’s fundamental share trend is unaltered.

**Advertising**

There are a number of studies that purport to show that firms that spend more during a recession do particularly well. However, these have been criticised as being funded by vested interests (e.g. media companies), using cross-sectional data, and inappropriately attributing causality to ad spend when something else (e.g. an already growing brand or category) may be the real reason for rising ad spend and sales.

However, a 2003 MSI report (6) based on a longitudinal analysis shows that firms who increased advertising spend during a recession did slightly better than firms who increased advertising spend during other times. Equally importantly it showed no effect of cutting advertising during the recession, perhaps because this was the norm (i.e. most competitors cut advertising). This is important because for some firms cutting advertising (and other expenses) may be necessary to survive a recession – survival being a much more important issue than simply doing better or worse than rivals over the period.

Note that this research is at company rather than brand level. The world appears to lack real knowledge on what happens to brands that spend more or less during a recession. However, what we know about normal periods is that share of voice (SoV) matters. Recessions offer the opportunity to substantially increase SoV if competitors cut their ad spend and media prices drop.

**What if my ad budget is slashed?**

Don’t panic. Firstly, it’s most likely that rival brands will follow suit and advertise less too. In which case you should be able to maintain your SoV.

But you can always do better with the money you have. Today its a fair assumption that less than 20% of your ad budget does any good. Most ad exposures aren’t noticed, of those that are most aren’t attributed to your brand. Then there are media effects, many ad exposures hit the wrong people, too often, and at the wrong time.

If your budget is halved you can fix it by doubling effectiveness. That sounds impossible but (the good news is that) there is evidence that it is possible.

**New Products**

Peckham reports that the grocery categories that grew most during the 1970s recession showed the highest levels of new product introduction. This suggests that new products can certainly still succeed during hard times. We can again turn to the 1970’s to understand what happens to new products in a recession.

Indeed, lower media costs may be particularly advantageous for new brand launches. Whatever the economic climate, new brands need advertising...
A Marketing Guide: What to do in a Recession

and sales efforts to win some mental and physical availability. If competitors are making cuts in marketing effort this makes sales and advertising efforts cheaper and more productive.

We'd expect that premium quality, higher priced new products and established brands can still do well. While recessions tend to result in slumps in expensive holiday travel, smaller luxuries can do well(7). Reporting on the 2001 recession, The Economist noted that Estee Lauder had very strong sales of lipstick, it concluded that “lip-colouring provides women (and some of the men who will be looking at them) with a bit of cheap and instant cheer when times are gloomy”(8).

Professor David Corkindale recalls working on the Kit Kat account at JWT during the 1970s recession when the cost of chocolate rose a great deal. Rowntree’s reaction was to make the chocolate coat on the Kit Kat much thinner so as not to change the price. At the same time, Mars kept the Mars bar product the same and raised prices. It was Kit Kat which suffered share losses that took it years to recover. Professor Gerald Goodhardt tells a similar story where Rowntree got it right. In 1976 they launched a small chocolate bar with traditional large chunks of chocolate in response to an industry trend to make chocolate pieces thinner due to rising chocolate costs. Rowntree’s efforts were very successful, and this was the making of the UK brand Yorkie.

The lesson would appear to be that the market isn’t stupid and is prepared to pay for quality that consumers understand.

In Summary

There does appear to be real advantage in a ‘business as usual’ strategy, i.e. maintaining marketing support and the introduction of new improved products.

Recessions don’t change fundamental consumer behaviour much, at least not for products and services that are ‘everyday’ items. However, they do change marketing activity of your competitors. For example, advertising spend tends to react dramatically to changes in economic activity, contracting far too drastically during recessions and expanding far too fast during booms. There is opportunity in going against this pattern, by being more consistent.

It is also worth remembering that recessions do hurry along some existing trends. For example, the recent price hikes in gasoline in the US have seen smaller cars steal share from larger models. But this was a long-run trend throughout the developed world driven by big slow moving trends (smaller household size, females taking on more paid work, multiple car ownership, increased urbanisation with increased traffic and parking problems, and technological changes that delivered safer more comfortable small cars). This trend had been evident for decades in the US before the gasoline price increases, and was only slightly obscured by a few one-off factors, the marketing practices of Detroit, and wishful thinking on behalf of some large car marketers.
A Marketing Guide: What to do in a Recession

Key Actions:

❖ Lower your growth targets but maintain your marketing support. Otherwise you’ll have to spend more when the recession ends trying to regain your momentum.

❖ Don’t try to price promote, this is one reason to be realistic and lower your growth targets, otherwise brand managers will feel pressured to increase promotions, out of fear or to hold sales in a temporarily contracting category. Discounting is more likely to damage profits, particularly as competitors follow, rather than maintain sales. Dropping price won’t save you from a recession.

❖ Finally, be wary of newspaper stories. These are commonly exaggerated, and seldom based on widespread evidence. Bad news sells papers. It also sells market research - ignore over-the-top market research reports claiming large changes in consumer behaviour.

References:

1 One lesson is that negative economic growth isn’t unusual, nor does it usually last for much more than a year. So if it is recession now you already need to start planning for growth again.

2 For example, food and drink takes up about 22% of UK household expenditure today, fifty years ago it accounted for 45% of their expenditure.

3 In Australia in 2008 the economy is still running rather hot, largely on booming commodity prices. Negative economic effects are largely only being seen in high interest rates, and bad news from overseas which together are depressing consumer sentiment. One of the early sales effects reported by newspapers is the near collapse of the Sydney luxury boat market. Suggesting that when rich people get a bit nervous about the economy they too cut back on the more ‘one-off’ type expensive purchases.

4 At the end of the 1970s the misery rate, the combination of unemployment % and inflation %, had reached an all time high of 22% in the USA which very much hurt President Jimmy Carter’s reelection chances.


7 Champagne sales are never good during recessions, this is probably not just due to the expense, Champagne is a wine of celebration and there is less to celebrate during recessions.
