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Internet Travel Monitor - Marketing & Research
October 22, 2008

Facts on the Value of Marketing During an Economic Downturn/Recession

GROSSE POINTE, MI -

- **1970 recession year** - American Business Press (ABP) and Meldrum & Fewsmith study showed that "sales and profits can be maintained and increased in recession years and [in the years] immediately following by those who are willing to maintain an aggressive marketing posture, while others adopt the philosophy of cutting back on promotional efforts when sales appear to be harder to get." 1
- **1974-1975 recession years** - ABP/Meldrum & Fewsmith 1979 study covering 1974/1975 and its post-recession years found that "Companies which did not cut marketing expenditures experienced higher sales and net income during those two years and the two years following than those companies which cut in either or both recession years." 2
- **1981-1982 recession years**
 - o McGraw-Hill Research's Laboratory of Advertising Performance studied recessions in the United States. Following the 1981-1982 recessions, it analyzed the performance of some 600 industrial companies during that economic downturn. It found that "business-to-business firms that maintained or increased their marketing expenditures during the 1981-1982 recession averaged significantly higher sales growth both during the recession and for the following three years than those which eliminated or decreased marketing." 3
 - o Cahners and Strategic Planning Institute (SPI) produced their report, "Media Advertising When Your Market Is In a Recession." It disclosed, "During a recessionary period, average businesses do experience a slightly lower rate of return relative to normal times. However, expansion times do not generate a higher level of profits than normal periods as might be expected." This phenomenon was explained by an analysis of changes in market share. "During recessionary periods," said the Cahners/SPI report, "these businesses tended to gain a greater share of market. The underlying reason is that competitors, especially smaller marginal ones, are less willing or able to defend against the aggressive firms." The study then pointed out that businesses that increased media advertising expenditures during the recessionary period "gained an average of 1.5 points of market share." 4
- **1990-1991 recession years** - Management Review asked AMA member firms about spending during the 1990-1991 recession. "Fortune follows the brave," it announced, noting that the data showed that most firms that raised their marketing budgets enjoyed gains in market share. Among the magazine's sample, 15 percent reported "greatly decreased" ad budgets. Advertising was "somewhat cut" by 29 percent. "The keys to gaining market share in a recession," concluded Management Review "seem to be spending money and adding to staff. Firms that increased their budgets and took on new people were twice as likely to pick up market share." 5
- **Beyond the statistics, why it may be more important than ever to market despite economic downturn.** Strong consideration should be given to the idea that marketing plays a more critical role now than it did during previous recessions. While marketing's role was once more informational than brand identity building, and considering that never more than today has the clutter factor been so great, relationships between customers and brands are critical. Relationship marketing has surged to the top of effective marketing campaigns as a means to keep an appropriate level of share of mind for purchase loyalty. Marketing serves to foster and maintain consumer-brand relationships. 6

• **The effect on profits.** From the Harvard Business Review, "Advertising as an antirecession tool," comes the effect of cutting advertising on the bottom line. "The rationale that a company can afford a cutback in advertising because everybody else is cutting back [is fallacious]. Rather than wait for business to return to normal, top executives should cash in on the opportunity that the rival companies are creating for them. The company courageous enough to stay in the fight when everyone else is playing safe can bring about a dramatic change in market position." In addition, the article points out "Advertising should be regarded not as a drain on profits but as a contributor to profits, not as an unavoidable expense but as a means of achieving objectives. Ad budgets should be related to the company's goals instead of to last year's sales or to next year's promises." 7

1. "How Advertising in Recession Periods Affects Sales," American Business Press, Inc., 1979
2. ABP/Meldrum & Fewsmith study, 1979
3. McGraw-Hill Research. Laboratory of Advertising Performance Report 5262 New York: McGraw-Hill, 1986.
4. Kijewski, Dr. Valerie. "Media Advertising When Your Market Is in a Recession," Cahners Advertising Research Report. The Strategic Planning Institute, 1982
5. Greenburg, Eric Rolfe. "Fortune Follows the Brave," Management Review, January 1993
6. Khermouch, Gerry. "Why Advertising matters More Than Ever," Business Week, August 2001.
7. Dhalla, Nairman K. "Advertising as an antirecession tool," Harvard Business Review, Jan.-Feb. 1980

Survival Guidelines for Advertising during an Economic Downturn

- Monitor your competitors. If they're cutting back, seriously consider increasing your marketing budget and hitting harder. This will provide a great opportunity to capture - and retain - a larger share of the market.
- Avoid gimmicks. Center your message on the benefits and advantages of your product or service - such as convenience or energy efficiency - rather than making emotional appeals.
- Use direct-response advertising techniques. In direct mail and telemarketing campaigns, use hard-hitting copy with simple but convincing language, a special offer the prospect will find hard to pass up, and a strong call to action.
- Stress benefits and return on investment. Prospects are looking for as much value as possible in a weak economy.
- Focus on your metrics. Know which target segments are most responsive, which offers generate the greatest interest, and so on. Spend every ad dollar carefully.
- Re-examine your marketing mix to ensure it is the most cost effective.