



How to Make a Recession Work for You

how contrarians win market share in a recessionary environment

‡ The second in the series of strategic marketing white papers by Hiebing, an integrated brand development and marketing firm

The dramatic decline in stock values and the resulting recessionary environment have many firms cutting back expenditures across the board—labor, R&D, capital investment and marketing.

During such times it is easy to view advertising, an important part of marketing, as a luxury, and many firms do. Prior to the disastrous events of September 11, 2001, Merrill Lynch media analyst Lauren Rich Fine estimated that media expenditures in 2001 would decline 0.7 percent. The terrorist attacks in New York City and Washington, D.C., led her to revise her estimates dramatically downward, forecasting a 4.0 percent decline.

While this behavior is understandable, expected and historically in line with many managers' experience, it may not be the winning strategy according to several studies of how firms have performed during and after recessionary times in their industry. According to the results of the studies reviewed here, the contrarian view that a recessionary environment is an opportunity to gain market share with aggressive marketing appears to be, in fact, the winning strategy, both in the short and long term.

First let's better understand the decision-making dynamic most managers go through in setting their firm's course through rough economic waters.

Common Reactions to Downturns

In his excellent *Harvard Business Review* article, Darrell Rigby (Bain & Co.) looked at the actions of 377 firms over the last two decades, examining how companies reacted to recession, how they approached the several recessionary periods during that time and what the outcomes were (*Harvard Business Review*, June 2001).



Rigby identifies three phases managers appear to go through in developing their situation assessment and action plan:

The Conventional Approach

- 01. Storm Clouds on the Horizon:** Managers express confidence that although the industry appears headed for rough times, their company is insulated from harm. Many managers in this phase, however, begin to hedge their bets and look to diversify from their core (threatened) business.
- 02. Battling the Elements:** As it becomes evident that their firm is not immune to the downturn, managers cut costs dramatically. Marketing and R&D are often the first to get slashed.
- 03. Here Comes the Sun:** As the economy pulls out of recession, management approves dramatic increases in spending to win back customers.

The Contrarian Approach

- 01. Storm Clouds on the Horizon:** Managers continuously update strategic and contingency planning as the economic and competitive environment changes, but that planning focuses on core business and strengthening and evolving the company's core competencies.
- 02. Battling the Elements:** Managers partner with customers, suppliers and employees alike to work together to preserve business and intensify investment in core business, including strategic acquisitions, marketing and R&D.
- 03. Here Comes the Sun:** Management makes an easy shift to growth cycle, ramping up production and other expenditures smoothly.

Evidence That the Contrarians Win

Numerous studies point to the bottom-line value of taking the contrarian approach in a marketing context.

◆ The famous PIMS (Profit Impact of Market Strategy) study conducted by the Strategic Planning Institute gathered performance and operating data on over 450 companies in the 1970s and 1980s, providing a rich research database. In 1982 Dr. Valerie Kijewski used this data in *Media Advertising When Your Market Is in a Recession* (Cahners Publishing, 1982). Her study indicated that firms which spent aggressively on advertising and marketing during a recessionary period outperformed those firms that did not by almost 250 percent. Specifically:

- Aggressive recessionary spenders on average came out of the recession with a 0.2 point market share gain; marketing expenditure cutters lost an average 1.0 points.
- Moreover, during the recession period itself, the aggressive companies gained an average of 1.5 share points.
- Finally, there was no significant difference in the ROI between the firms that spent during a recession versus those that did not.



◆ Part of the answer to the neutral ROI effect found in the PIMS study may be found in a study by the Industrial Advertising Institute in the 1960s. This study compared 893 companies, ranking firms into three groups based on the percentage of sales spent on advertising—high, medium and low. The companies in the high group showed average reduction of 25 percent in selling expense versus the low group.

◆ In addition, the Morrill Study (*Laboratory of Advertising Effectiveness, Report #7025*, McGraw-Hill) showed purchasers in business-to-business markets were up to 375 percent more likely to buy in situations where a sales call had been preceded by advertising than when it had not.

A study by Getzler & Co., a New York-based turnaround consultancy, examined 190 firms facing cash flow problems. Forty-six of the firms responded by focusing on cutting sales and marketing costs while 25 of the firms focused on cutting operating costs. The firms that focused on cutting sales and marketing costs saw losses more than double, while those that focused on operating costs saw their sales declines stabilize.

Your decisions on marketing investments during a recessionary period also seem to have long-lasting effects. A McGraw-Hill study reviewed the performance of firms in the 1980-1985 period. This study found that those firms that cut advertising during the 1981-1982 recession increased sales by only 19 percent in the 1980-1985 period, while those firms that increased spending during the recession increased sales, by 275 percent in the postrecession period.

So, What Drives the Cuts in Marketing Expenditures?

Given the evidence outlined above, it is appropriate to ask why managers look to marketing and advertising as an easy line item to cut during a recession. The answer is multifaceted. Even in the best of times,

many corporate managers are skeptical of the effectiveness of their marketing dollars. This grows out of the complex nature of the relationship between awareness, attitudes and their impact on customers' actions (trial and sales). While the exact mechanism of this dynamic is understood, it is clear that awareness does lead to share of mind and, ultimately, to share of market as evidenced by the studies cited previously in this article. But beyond lack of understanding is the investment community, which seeks short-term, highly visible actions to bolster the income statement in times of recession. Marketing expenditures, which often have low fixed costs associated with them, are a fast source of such income statement improvements. However, here, too, the empirical evidence suggests that, in the long run, these actions have a negative impact on the firm's stock price and market capitalization. A Northwestern University study tracked 731 corporations and found that those whose management invested in corporate, image-building advertising enjoyed a 2 percent greater stock value than those whose management did not.

And What Seems to Drive the Results Enjoyed by the Contrarians?

The results enjoyed by the contrarians seem to be driven by the very basics of consumer/customer behavior. Nancy Koehn, *Harvard Business Review* historian and author of *Brand New*, notes that talking *and* listening to consumers during times of economic transitions are key. It is during these times that buying patterns change, driven by changes in values, tastes, business models and production methods.

Fred Langhammer, CEO of Estée Lauder, also asserts that during times of recession, consumers' emotional connection to your brand becomes paramount in their decisions of how they spend their more precious dollars. Given that the utility between many brands is the same as the added value of consumers' emotional connection to the entire experience



of your brand, that emotional response can become the deciding factor during those times when purchases come under a higher level of scrutiny.

Conclusions

While most management groups react to economic downturns by diversifying and aggressively cutting spending across the board, including expenditures associated with marketing, the evidence suggests that the contrarian view of bolstering the firm's core business provides substantial support for increased share gains. Furthermore, in the long run reduced marketing expenditures seem to have the exact opposite of the intended effect on the firm, insofar as they do not appear to provide improved ROIs or enhanced stock valuation.

Instead, look at the recessionary period as a time to increase your focus on your core business and maximize your execution behind it. See this time as an opportunity to widen your lead over competitors with smart, focused investments in marketing and advertising. If necessary, look for unique and low-cost ways to increase the frequency of your marketing message such as co-op programs. The last thing you want to do during times when your customers are cutting back themselves is to take yourself off their radar screens. Make sure that as they are making more limited purchases, your company/brand is among the considered set.

During our current economic downturn, several major companies have publicly announced plans to increase marketing expenditures, most notably technology blue chips IBM and Hewlett-Packard. It will be interesting to watch the results these contrarian players enjoy over the coming months.

Comparing historical results, firms that continued to spend aggressively during recessionary periods not only fared better during the recession but came out stronger.

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- ◆ Aggressive marketers gained an average of 1.5 share points during the downturn, plus an additional 0.2 points afterward.
- ◆ During the same period, companies that cut back on marketing suffered a 1.0 decline.
- ◆ Sales calls have been shown to be up to 275 percent more effective when combined with advertising.
- ◆ The costs of continuing to spend against marketing were offset by positive impacts on selling expenses and, ultimately, ROI.
- ◆ Those companies that invest in developing corporate advertising messages have enjoyed a 2 percent greater stock value than peers that did not develop corporate advertising.

Look at recessionary times as opportunities to strengthen your company's share position against weaker competitors by focusing on your core business and staying aggressive.



Roman Hiebing Founder/CEO/Partner

Roman Hiebing loves to grow businesses. After launching his advertising career at Leo Burnett in 1968, Roman founded the Brat & Brau Restaurant chain and went on to serve as president of Stephan & Brady Advertising from 1976–1981. At that point, with zero billings and seven employees, he launched Hiebing. He leads marketing planning seminars in partnership with the *UW-Madison Executive Education Program*, *Inc. magazine* and The American Marketing Association. From AAA to Zenith, over 500 businesses have attended his coast-to-coast seminars. He is co-author of five best-selling marketing planning texts. The only thing Roman likes to grow more than businesses is people.

Jeane Kropp Strategy Director/Partner

Over the last decade, clients with brands in over 90 countries have invested over a billion dollars in the new products, strategies and communications that Jeane helped create as a consultant. Her thinking has inspired marketing communication successes such as the MasterCard “Priceless” campaign, the double-digit annual sales growth of Kraft’s DiGiorno pizza and the extremely successful repositioning of 36 brands in 150 SKUs for Canada’s Vachon snack cakes. She has helped pioneer new strategic models for everything from SKU simplification to packaging concept evaluation. Some of Jeane’s other brand experiences include Motorola, Nabisco, Kraft, Jergens, UDV/Guinness, ConAgra, Glidden Paint and Boise Cascade. Jeane knows what it’s like to be a client with an old brand to revive or a new product to introduce. After receiving her MBA in marketing and management from Indiana University, Jeane worked client-side at Procter & Gamble (Scope, Crest Toothbrushes, Old Spice) and at Oscar Mayer (Lunchables, Bologna, Louis Rich Turkey). When she is not caring for her clients’ brands, she and her husband provide foster care for teenagers and dogs, preferably not simultaneously. Jeane has also cliff-dived into Iceland’s glacial waters and walked barefoot on hot coals. Pretty relevant experiences for building brands.

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Dave Florin President/Partner

Dave’s job is to see that our clients are served by the latest and best practices in our tried-and-true area of expertise: target-market-driven communications. So he has continued to attract top talent from around the country, add new areas of knowledge and set new standards of performance across all communication disciplines. Dave’s passion is his proven commitment to client service, creative quality and brand strategy. He has been an invited speaker for organizations like the National Retail Federation, the Retail Advertising and Marketing Association, the International Institute for Research and the Investment Council Institute. His client experience includes Nestlé, Famous Footwear, General Motors, Northwestern Mutual Life, the National Retail Federation, Coors, Coca-Cola, PerkinElmer and JanSport. Dave is married and has three daughters. He is an avid reader who enjoys the great outdoors and anything Wisconsin Badger-related.

Barry Callen Vice President/Partner, Creative Strategy

For over thirty years, Barry has championed effective, emotionally relevant communications for clients like Nestlé, Orkin, Planters-Life Savers, Epic Systems and Dean Health System. Barry’s ability to fuse strategic thought processes with creative development led him to produce some very powerful tools in Hiebing’s branding arsenal—including both Message Strategy and our NameCallingSM process. These days, when he’s not developing strategies, you might find him teaching at the UW Graduate School for Executive Education. To unwind, he writes and performs everything from comedy to music, and tries to avoid getting struck by lightning again.

Since 1981, Hiebing has helped hundreds of clients find, design and deliver powerful communications that have increased brands’ impact and profits. As a brand development and marketing firm, Hiebing delivers fresh insights into the Dynamic Linkages between targets and brands, and creates vibrant communications to improve brands’ relevancy and value in consumers’ lives.

To learn more, visit hiebing.com or call (608) 256-6357.

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