Marketing During and After Recession

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Abstract

This paper is a theoretical review of marketing during and after a period of downturn in economic activity, a recession. A recession is a period of contraction of economic activities. Such a period is usually followed by expansionary economic activities. This paper examines marketing during and after a period of recession. Some companies see recession as opportunities to invest aggressively, establish advantage over weaker organizations and strengthen their businesses. Some other firms will take a different approach to an economic downturn. They cut back on their marketing spending and wait for recession to pass. It also reviews some of the marketing strategies that should be utilized if a company is to successfully navigate the economic downturn. It takes a look at those things the company must do to prepare it for the expansionary economic activity period that follows a recession. Finally, it ends with a conclusion and recommendation.

Keywords: recession, marketing budgets, economic downturn, expansionary period

1.0 Introduction

The state of the economy of any Nation determines the level of business activities in the Nation. During a recession, there is usually a slowdown in economic activity with the attendant decrease in business activities of many organizations. Economic downturn will affect the performance of individual organizations, industries and the entire economy (Domowitz, Hubbard & Peterson, 1988; Gabish & Loranz 1987; Zarnowitz 1985). Demand for products and services fall. Companies and organizations respond to this decrease in demand for products and services by reviewing downwards their budgets. Businesses tighten their budgets and many of them cut their marketing budgets (Lake, 2009). However, not all companies perform poorly as some prosper and grow. Some companies view recession as opportunities to strengthen their businesses, invest aggressively and overtake their weaker competitors (Srinivasan, Rangaswamy & Lilien, 2005). Should companies cut their marketing budgets during a recession? Is it time to cut back on marketing activities and stop spending on marketing? In the words of Harvard Business School Professor, John Quelch, "the key is to understand how the needs of your customers and partners change and adapt your strategies to the new reality". A recession might be time to outsmart your competitors, grow your market share and invest in growing market segments and spend smarter. This paper reviews marketing during recession. An objective of this paper is to examine what strategies to adopt during periods of economic downturn. Such strategies will prepare the company to take advantage of possible growth in business as the economy comes out of recession.

2.0 Overview of Recession

Generally, recession refers to a period of economic downturn. The standard definition of a recession is a decline in the gross domestic product (GDP) for two or more consecutive quarters (www.Investorwords.com). This definition does not take into consideration changes in other variables like unemployment rate, consumer confidence, and real income and so on.

Another definition by a committee of the national bureau of economic research (NBER) considers changes in these variables; it determines the amount of business activity in the economy by looking at things like unemployment, industrial production, real income, wholesale and retail sales. The NBER defines recession as the time when business activity has reached its peak and starts to fall until when business activity bottoms out. When business activity starts to rise again, it is called an expansionary period. What is certain is that in period of recession, economic variables like gross domestic product (GDP), unemployment, investment spending, capacity utilization, house hold incomes, business profits all fall. The contraction in economic activity has a lot of implication for the marketing effort of companies. Consumers' disposable income will translate to less sales figure. In a period of recession, consumers are more concerned with needs and not want. The marketer must have this at the back of his/her mind to be able to come up with strategies to successfully navigate through the period of the business slowdown.

2:1 Recession and Business Cycles

After a period of economic downturn, there is usually growth and expansion in business activities. A cycle of low business activities and high business activities over the years results in what is referred to as business cycle. It is a period of macroeconomic expansion followed by period of contraction. The business cycle is the periodic but irregular up and down movements in economic activity, measured by fluctuations in real GDP and other macroeconomic variables (about.com). A business cycle is not a regular, predictable or a repeating phenomenon. Its timing is irregular and unpredictable. Four (4) phases in business cycle are identifiable.

- Contraction- a slowdown in the pace of economic activity
- Trough- the lower turning point of a business cycle where a contraction turns into expansion
- Expansion- a speedup in pace of economic activity
- Peak- the upper turning of a business

A very deep trough is called a slump or a depression.

3:0 Marketing in Recession

During periods of economic downturn, consumer purchasing power is reduced as a result of increased unemployment, and in some cases reduction in allowances and salaries. There is a drop in production and a general decline in the gross domestic product (GDP). Consumer confidence and consumer spending are weakened. The end result of all this is a downward slide in the sales volume of the company. In a recession, consumers become value oriented, distributors are concerned about cash and employees worry about their jobs (Quelch, 2008). Perhaps, this is the time to really understand how the needs of your customers and partners (even competitors) change. A period like this may lead to a discovery of new uses for a product due to necessity. The marketer in a recession should adopt strategies to take care of the new reality. Glen Gow (2008) identifies five tips for marketing in a recession.

- Spend Smarter- the company in a time of recession is likely to cut budgets across the board. All your investment in the area of marketing must have a clear-cut justification by being able to create a compelling business case for each investment. All CEO's and CFO's always need to see sound business reasoning behind any investment and even more so during a recession.
- Double- down on your current customers- it is not easy to get new customers when the economic clime is normal not to talk of periods of economic downturn. Ask current customers what they need from you. Enable the sales teams to be more effective as the competition might get tougher. Care for your current customers and they will likely stick to you if the going gets tough.
- Outsmart your competitors- an economic downturn is an opportunity to win market share from your competitors. By watching how customers are reacting to a recession and paying close attention to your target market, you can act quickly with changes in the product/service price and positioning as perceived needs of the customers change.
- Invest in growing market segments- in any recession, there are market segments that grow faster than others. Being able to locate and understand these market segments present an opportunity to quickly win businesses in the fast-growing market segments

- Fight for your resources- If the chief marketing officer is not deeply involved in strategy formulation of the company, the marketing budgets are always disproportionately cut, and the result of this is that marketing plays less important roles during a recession leading to the company losing out to the competitors. It is marketing's responsibility to fight for its resources.

John Quelch (2008) in his "Marketing your way through a Recession" opines that rather than stop spending, a downturn is the time to understand how the needs of your customers and stakeholders change. Such changes will call for adapting your strategies to the new realities. His write up identified eight factors that business organizations must take into consideration when making their marketing plans in a period of economic downturn.

- **Research the customer**. The organization needs to know how the customer is redefining value and responding to the downturn in the economy. Consumers will of necessity attach more value to durable goods during a recession and will therefore take their time searching for durable goods. They will also negotiate harder and will be more willing to postpone purchases and buy less. Conspicuous consumption will reduce. The must have of yesterdays will become today's can do without. Customer's interests in new brands and new categories will wane.
- **Focus on family values.** Generally people tend to retreat to the home front during economic downturn. People are likely to stay more at home and connect to the family and friends. Advertisement during periods of recession should focus on home and family scenes instead of images of extreme sports, adventure and rugged individualism.
- **Maintain Marketing spending.** If advertisement cannot be increased, maintain the current level instead of reducing it. Maintaining or increasing your advertisement when others are cutting back can improve market share. It pays to maintain market pressure. It pays to maintain advertising expenditure in an economic downturn. In a study conducted for the American business Media during the 2001 economic downturn, business decision makers were asked questions about their attitudes during economic downturn. 97% of the respondents to the questions agreed that it is important to continue to invest to remain competitive in the future. Another study by Tony Hiller in 1999 examined marketing and financial data in 1,000 firms in Europe and USA. Hiller divided the firms into three categories. The categories were based on whether they had cut, maintained or increased their marketing spend during economic downturn. The profitability (defined as inflation corrected return on capital employed) for each category during the economic downturn and during recovery was examined. The results indicated that the category of businesses that increased their marketing spend averaged 8%, those maintaining it averaged 9% while those cutting back averaged 10%. Though the figure for the category that increased their marketing spend is the least, this is not unexpected because the increase in market spending can be viewed as investment and the returns may not be evident immediately especially if the increase in the market spending was in the area of advertising. Studies have shown that it takes time for advertisements to have impact on the profit levels of organizations. The benefit of increasing the marketing spend during an economic downturn is very well manifested in the profit level during the recovery period and afterwards. During recovery, businesses that had cut their market spend during the economic downturn averaged a fall in profits of 0.8%, firms which maintained their market spend had a 0.6% increase in profit while those businesses that increased their marketing spend during recession enjoyed an average increase of 4.3% in profit. The same trend was observed in the market share in the first two years of recovery. The businesses which cut their marketing spend during economic downturn gained an average of 0.6 percentage points of market share and those that maintained their marketing spend gained 0.9 percentage points while those that increased their marketing spend gained 1.7 percentage points of market share in the first two years of recovery. The American business media (ABM) has conducted a number of studies and has listed several points based on research findings in a document titled "The values of advertising during an economic downturn".
- If a company fails to maintain its share of mind during an economic downturn, current and future sales are jeopardized. Maintaining "share of mind" costs much less than rebuilding it later
- If during an economic downturn you maintain a strong advertising presence while your competitor cuts his budget, you will automatically increase your "share of mind"
- Advertising through both boom and downtimes sustains the necessary brand recognition.
- Maintaining a company's advertising during an economic downturn will give the image of corporate stability within a chaotic business environment and give the advertiser the chance to dominate the advertising media
- Economic downturns reward the aggressive advertiser and penalize the timid one.

- During an economic downturn, a strong advertising/marketing effort enables a firm to solidify its customer base, take business away from less aggressive competitors and position itself for future growth during recovery.
- Maintaining or increasing advertising budget levels during economic downturns may be necessary in terms of protecting market positions vis-à-vis forward looking competitors.
- When times are good, you should advertise and when times are bad, you must advertise.
- Advertising in an economic downturn should be regarded not as a drain on profit but as a contributor to profits.
- **Adjust product portfolio.** Marketers must reforecast the demand for their products as customers will now be interested in products that stress good value. Difficult or tough economic times favor multi-purpose goods over specialized products. The weaker products should be pruned.
- **Support distributors.** In economic downturn, no distributor will want to tie up working capital in excess inventories. A way of motivating distributors to stock your products is to provide early buy allowances, extended financing and generous return policies. Now may be the right time to drop the weaker distributors and recruit those sacked by other organizations.
- **Adjust pricing tactics.** Consumers will be looking around for the best deals they can get during a recession. Offering price promotions may be the alternative to cutting list prices. Credits may be extended to long standing customers and reduce thresholds for quality discounts. However, during economic downturns, price cuts attract more consumer support than promotions.
- **Stress market share.** At all times, companies are in battle for market share. In periods of recession, companies with good cost structures, strong positions and products that are always in demand can expect to grow their market share. Companies with healthy balance sheet can grow their market share by acquiring weak competitors.
- **Emphasize core values.** Although most business organizations downsize the number of employees during recession, the management can cement the loyalty of those who remain by assuring them that the company will not only survive the economic downturn but come out stronger with bigger market share.

Srinivasan, Rangaswamy and Lilien (2005) in their study “Turning adversity into advantage: Does proactive Marketing during a recession payoff?” opines that business organizations should see a recession as opportunities to strengthen their businesses, invest aggressively, establish advantage over weaker competition rather than cut back on their marketing activities and wait for the recession to pass. They conceptualized a new construct which they called proactive marketing during a recession. A model of the antecedents and consequences of proactive marketing during a recession was developed by them. They hypothesized that proactive marketing will positively influence a firm’s performance during a recession. They propose that organizational and environmental traits or characteristics will influence the extent to which a firm will pursue proactive marketing in a recession (Srinivasan, et.al 2005). The organizational and environmental characteristics determine the firm’s strategic behavior, its resource deployment and its performance (Conant, Mokwa &Varadarajan 1990; Menon, Bharadwaj & Edison, 1999). Four antecedents to proactive marketing during a recession were identified in the model developed by Srinivasan et.al. The four antecedents identified are

- Strategic emphasis on Marketing ; organizations that place emphasis on strategic marketing use market segmentation, product positioning and branding as well as market communications to create favorable and distinct image for their products as compared to the products of the competitors (Miller, 1988; Moorman & Rust, 1999). Such organizations can achieve better marketing activities, price-premiums, higher customer loyalty and overall market performance like higher market share and more stable customer base
- Entrepreneurial culture: organizations whose top managers are inclined to take business related risks and view change as a way of obtaining competitive advantage are firms with entrepreneurial culture (Covin & Slevin, 1989; Johnson & Sohi, 2001). Entrepreneurially oriented firms are inclined to take risks and are likely to view a recession as an opportunity to take some risks and gain an edge over their competitors.
- Availability of slack resources: slack resources are underutilized resources in the firm. Examples are underutilized budgets, staff time, workers, cash reserves, spare production capacity etc. Slack resources enable an organization to adjust to gross shifts in the external environment with minimal trauma and to experiment with new postures in relation to that environment (Bourgeois, 1981). In the context of the recession, slack resources can free firms from a focus on short term cost control and provide them the impetus to invest in offensive marketing actions to enhance their long term competitive advantage (Srinivasan et.al. 2005).

- Severity of recession: during economic downturn, the demands for the products of the firm decreases. The severity of the recession is the extent to which the recession has reduced the demand for the firm's products. The greater the perceived severity of the recession, the fewer the choices managers have in responding to the recession and are therefore less likely to treat recession as an opportunity (Srinivasan et.al; 2005). Under pressure from hostile environments, organizations decision makers may seek marketing strategies that are perceived to be less risky and focus on the conservation of scarce resources (Koberg, 1987).

The key to success during a recession is to focus on four things (www.mb_blog.com)

- Your competition
- Your brand
- Your customers
- Your communication

Binet (2009) in his marketing in recession – 10 things to remember talks about cutting the right costs. In his words, "an analysis by PIMS (profit impact of marketing strategy) of how over 1000 firms have reacted to previous downturns shows that some cost- cutting strategies are more profitable than others". Firms that cut budget for marketing tend to underperform. A recession is both a threat and an opportunity. A recession can be a marvelous opportunity to deal competitors a killer blow.

3:1 Effect of Recession on Company's Performance

A recession will have negative effect on the company's performance as the consumers spending will reduce. Even the suppliers may not be able to meet their obligations to the company. The relationship with other business partners and stakeholders is bound to be negatively affected. All these will lead to negative impact on the company's overall performance.

3:1:1 Effect of Recession on Profit

During a period of economic downturn, the consumer will reduce his/her spending. The implication of this is that the sales figure will drop, as consumers will spend their money on essential items. The effect will be more negative for organizations that deal on non-essential goods. Expenses go up as inflation rises during the recession. The effect of a drop in sales figure and increase in expenses is a reduction in the profit figures of most organizations. Results of many companies for 2008 business year showed a drop in the profit figures – no doubt, the effect of the 2008 worldwide recession.

3:1:2 Effect of Recession on Marketing Budget

Companies will generally cut their budgets across the board. When it comes to budget changes, companies typically pull their advertising and marketing budgets (Lake, 2008). A reduction in advertising spend will reduce communication and affect the short term communication and negatively affect profit. Though chief financial officers (CFO's) faced with limited options, will continue to cut all spending that cannot be directly tied to revenue, a large body of evidence show that companies that cut marketing budgets in a recession are generally worse off in the long run than those that don't. Marketing is a long-term discipline that requires an investor's mentality and fortitude. A recession is an opportunity for the strong to get stranger, and the weak to get eaten. It certainly sounds contrarian at first, but with storm clouds looming, it might be time to increase your budget (Thoma, 2008).

3:1:3 Effect of Recession on Advertising

There is generally a downward review of budgets during a recession. Though costs are cut across the board, marketing usually is the first port of call. This is because; the financial benefits of some marketing functions like advertising might not be immediately obvious. Research shows that advertising has a long term effect on sales- up to five years after ads are shown and so CEO's and CFO's will readily reduce their ad spends when looking for areas to cut costs. Should this be so? Research shows that firms that cut their ad spend during recession typically see sales and income fall by 20-30 percent over the next two years as a result (Binet, 2009). So any increase in the bottom line as a result of cut in the ad spend is usually small and short term. Analysis by PIMS (Profit impact of marketing strategy) shows that companies that cut advertising take much longer to recover as such action will not only depress sales and market share, but also increases the pressure to cut prices and distribution becomes harder to maintain without advertising support.

Over the years, many studies have shown that companies should maintain advertising during recession. In 1920's, advertising executive Roland S. Vaile tracked 200 companies through the recession of 1923. He reported in the April 1927 issue of the Harvard business review that the biggest sales increases throughout the period were rung up by companies that advertised the most. A post World War II study by Buchen advertising Inc. measured the annual advertising expenditure of each company and correlated the figures with sales and profit trends before, during and after the recessions of 1949, 1954, 1958 and 1961. The result was that almost without exception, sales and profits dropped off at companies that cut back on advertising. The studies also revealed that after the recession ended, those companies continued to lag behind the ones that had maintained their advertising budgets. Studies have also shown that businesses benefits from increased ad budgeting in a recession. A market sense study during the 1989-91 recessionary periods show that companies that increased advertising experienced sales growth- for two particular brands, dif Peanut and Butter and Kraft salad dressing, 57% and 70% respectively. A 1990 study examining 339 (three hundred and thirty nine) consumer marketers found that those who aggressively increased ad spending during recession (by 20% to 100%) gained 0.9% market share (Thoma, 2008). In the great depression of the 1930's, Kellogg maintained its advertising, leading to Kellogg's domination of the dry cereal market for the next half century. You don't have to wait until things pick up again. So keep advertising even during recession, and view advertising as an investment and not an expense.

3:1:4 Effect of Recession on Human Resources

A recession is a period that results in cut in expenses across the board including human resources budgets. Drop in sales and profits will inevitably lead management to consider laying off employees, especially the poor performers. Wages and salaries may be reduced in some organizations. Training programs will also take a hit as training expenses will be affected. All these will lead to unintended consequences. As a result of these cuts, productivity drops and employees suddenly feel less secure in their own jobs. The 2009 worldwide recession had a devastating effect on job loss and unemployment rate especially in the developed economies. General Motors (GM), one of the largest auto manufacturing companies in the U.S.A filed for bankruptcy as a result of the economic downturn. The consequences of this are that some factories in U.S.A and outside the U.S.A were closed with the attendant job loss. It was estimated that job cut by GM will reach about 20,000 (twenty thousand) by the end of 2010. The company posted a loss of about $30 billion U.S dollars in 2008; no thanks to the worldwide recession. Many dealers also had their jobs at risk as it was estimated that about 300,000 (three Hundred thousand) dealership workers (about 30% dealership gone) will be affected. Suppliers and other stakeholders had their sources of income shut. About a million (1,000,000) retirees of the company were no longer sure of retirement stipends

3:2 Recession Marketing Strategies

A recession is traditionally defined as two consecutive quarters of decreasing Gross domestic product (GDP) which measures all goods and services produced in the country. During recession, consumer confidence goes down and unemployment goes up with negative implication for consumers spending. However, studies have shown that customers spend more at the end of each recession, on the average 9% more than they had spent at the beginning, according to the findings of inter public, a major international advertising agency. History also reveals that business that recognized the fact that growth does occur during recessions and took advantage of it, were able to make gains in their market share despite economic hard times. With media rates softening and competitors cutting their marketing budgets, an aggressive business can experience great strides in a recession.

Some strategies that can help a business thrive in a recession are

- Don't cut your advertising budget, increase it and let your competition cut theirs. When you increase your ad spending, you increase your share of voice. If your competitors cut back, your message grows even stronger.
- Develop a strategic marketing plan so you don't waste money advertising the wrong message in the wrong place to the wrong audience.
- Reassure your customers. Implement marketing strategies that allow buyers feel they are minimizing risk by doing business with you.
- Achieve greater media efficiency by taking advantage of softer rates and special promotions.
- Start sponsoring. This type of awareness advertising gives your business valuable exposure to targeted, core business.

- Keep your friends. You know who your loyal customers are. Keep in touch with them and let them know what you have to offer.
- Maintain continuity to sustain awareness. Advertising works commutatively, so you have to remind people frequently about your brand or they will forget you.
- Step up public relations efforts. Be sure to maintain a media presence with smart effective PR programs.
- Don’t cheapen your advertising by trying to save on creative or production costs. Your customers will notice and worry about quality. This is a time to stress quality and value

Recession is a period to step up your marketing effort and give it your best. In the words of Ed McCabe, founding partner of Scali, McCabe, Stoves advertising agency, “all great enterprises move forward in a recession and the weaklings move backward. The dumbbells cut back on advertising. The smart people don’t” Successful companies do not abandon their marketing strategies during recession.

3:2:1 Adjust Pricing Tactics

In a recession, customers will be shopping for deals and it might be necessary to adjust pricing tactics. More temporary price promotions and extending credit to long standing customers will be good pricing tactics during a downturn. You may not necessarily reduce prices.

3:2:2 Adjust Product Portfolios

During recession, there is a new customer reality. Customers will demand for products that stress good value, such as cars with fewer options. Tough times favor multi-purpose goods over specialized products. Reliability, durability, safety and performance are what consumers are looking for during recession. New products that address, these concerns should be introduced and advertising should stress superior price performance, not cooperate image.

3:2:3 Emphasize Core Values

Recession is a period to emphasize the company’s core values. Most companies will make employees redundant during a downturn. Because of uncertainty associated with economic recession, the CEO must try to win loyalty of those who would remain by assuring them that the company has survived difficult times before. Some companies will give additional training to their employees in period of economic downturn. Chief executives must spend more time with customers and employees. The importance of customer relationships should not be sacrificed for the importance of the finance director’s balance sheet. The CEO must ensure that the core values of customer relationship are not abandoned in a recession. Successful organizations do not abandon their marketing strategies in a recession. They adapt them.

3:2:4 Stress Market Share

Companies will generally cut budgets across the board during a recession. Marketing budgets are not left out. During a recession, many companies react defensively, they tighten their belts and brace themselves for slower growth. Recession is an opportunity to gain market share. Make your marketing budget work smarter to deliver more sales. Hard time is actually the best time to take over market share as the weak die off.

3:2:5 Get to Know your Customers Better

You need to know more than ever before how consumers are redefining their values during a recession. Consumers take more time searching for durable goods and negotiate harder at the point of sale. They are ready to buy less, postpone purchases. Trusted brands are especially valued at this period and conspicuous consumption less prevalent.

4:0 Marketing Through and after Recession

Recession is not a time to cut advertising and other marketing expenses. It has been proven that it is sound advice to spend more on marketing during a recession. If the company can, it should in fact up its advertising spend when competitors are cutting down on their ad spend. This will pay off as research has shown that companies that are able to maintain or even grow their advertising budget during a recession stand a better chance of growing their sales and market share. In recession, market spending should be maintained if it cannot be increased. The explanation for this phenomenon lies in the established relationship between share of voice (SOV) and share of market (SOM). When a brand’s share of voice is greater than a brand’s share of the market, it is likely to grow its market share in the nearest future.

For companies that do not have the extra money to increase their marketing spend during a recession, the key to success during a downturn is to maintain focus on competition, customers and communication.

- Have a way of keeping a tag on the competitive pulse, using annual reports, tracking studies, media data, sales force intelligence and feedback from customers and consumers. What does competitor's track record tell you about their likely recession strategy?
- A company's biggest asset during a recession is its existing customer base. This is true whether you are in business to customer (B2C) or business to business (B2B) category. Keep your existing customers happy and reward their loyalty. If possible, deliver special offers, relevant news and information. Meet your customers existing needs as well as you can. Use feedback from your sales force or customer service department to keep track of changing needs. What new offers might be appealing to customers and potential customers?
- During a recession, prices for traditional media may be depressed and so you may be presented with a buyer's market- you may be able to buy more for less. Many competitors will cut ad spend and maintaining your ad spend will give you an edge over your competitors. Comparatively your share of voice will increase and this will eventually lead to an increase in your share of the market. If you have the resources to increase your ad spend during the downturn, your company stands a chance of growth in sales and market share during and after recession. Companies who cut spending will find themselves at a disadvantage when recession ends.

After recession, a period of expansion in economic activity will follow. Companies that were focused during a recession will reap economic gains during the expansionary period.

5.0 Conclusion and Recommendation

Recession is a period of economic downturn. Customers cut down on their purchases, unemployment rate goes up, job insecurity increases, and consumer's confidence dips. Companies cut their budgets across the board. Marketing budgets in most companies is usually the first port of call. The ad spend is usually reduced as the CEO and CFO are likely to go with investments that yield noticeable returns quickly. Studies show that advertising has a long term effect on sales, up to five years after the ads are shown. Usually, an expansionary period of economic activity follows a recession. Researchers have shown that companies that are able to maintain and even increase their marketing budget/spend during a recession experience growth in their sales figures and market share during and after recession. This paper recommends that during a recession, a company should try to maintain its market spend, (especially its ad spend) if it cannot increase it. The company should also focus on its competitors, customers and its communications.

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