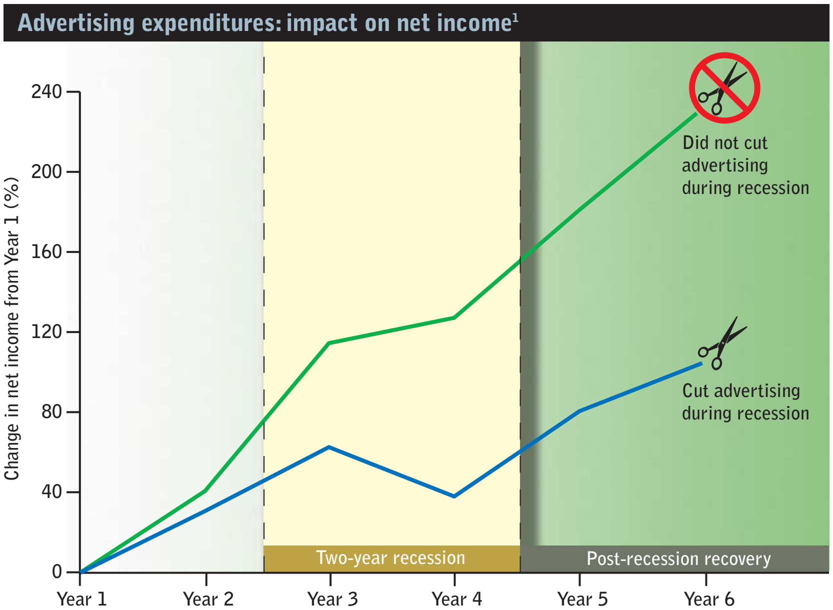
Gain advantage in down markets

Marketing Insights
from 5MetaCom

Companies often respond to shifts in market conditions by adjusting marketing strategy and changing advertising expenditures. Studies suggest, however, that cutting advertising during a recession may result in missed opportunity to gain market share. Companies that advertise aggressively in down markets gain advantage during the downturn as well as once the recovery starts.

About the study

Advertising expenditures of 133 firms were studied over a six-year period that included two recessionary years. Firms were classified by advertising expenditure pattern. This graph summarizes the financial performance of each group over the study period.



Businesses maintaining or increasing advertising expenditures grew earnings during the recessionary trough. Cutting advertising appeared to be counterproductive; companies that cut advertising expenditures saw earnings erode during the downturn.

Observations

- Companies that maintained or increased advertising outperformed firms that reduced advertising during the same period, as measured by both short- and medium-term income growth.
- The benefits of advertising during a recession are cumulative, as suggested by the widening spread in income between the two groups over the six-year study period.
- Companies that cut advertising experienced a period of negative income growth; those that maintained or increased advertising operated profitably even in the trough of the recession.

The relationship demonstrated above was not limited to the six-year period studied. Analysis of other recessionary periods during the past 30 years demonstrates similar patterns and results.

Executive Summary

- Recessions create an opportunity to increase profit and market share due to potential marketing scale-back by competitors.
- Data shows companies that reduce advertising expenditures during a recession surrender market share both during *and* after the recession.
- Businesses that maintain—or increase—advertising during a recession, relative to competitors, leverage the opportunity to gain share-of-voice, awareness and preference for their product.
- Advertising during a recession can be a short-term tactical decision and a strategic move toward higher long-term return on capital invested.

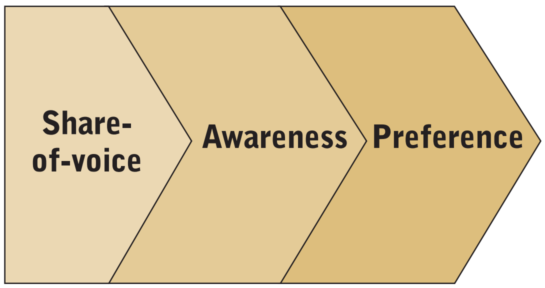
Capturing market share: understanding marketplace dynamics

Maintaining or increasing advertising expenditures in a down economy can be an effective short-term and long-term strategy. Proactive companies understand the marketplace dynamics at work, gaining confidence from the fact their actions, relative to the competition, present opportunity for growth. When efforts exceed those of the competition, companies gain a greater presence (share-of-voice) in the marketplace. Increased share-of-voice leads to awareness, the first step toward results.

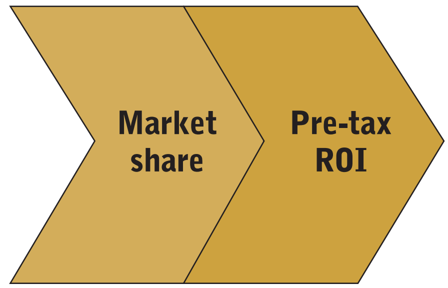
Defining market recessions

Conventional thinking defines recession in the context of the national economy—when overall consumer spending, business output and employment are decreasing[4]—but most companies are more directly impacted by the conditions of the unique markets they serve.

In any particular market, a recession can be identified when short-term growth lags long-term trends by four percentage points or more, regardless of national economic conditions.[2]



Advertising works cumulatively. Increasing share-of-voice, relative to competitors, results in greater awareness, which leads to higher levels of preference (being favored over other considered brands).



Higher market share leads to potentially higher pre-tax return on investment (ROI). A study of 57 companies demonstrated a nearly one-to-one relationship between market share and pre-tax ROI.[2]

The strong get stronger

To fully benefit during a market downturn, companies in a position of strength can get stronger with aggressive advertising expenditures. According to some strategists, aggressive advertising requires increasing expenditures by 28% or more[3]—a strategy only one out of four companies adopts. In contrast, during market expansion periods, over 80% of businesses increase advertising expenditures.

Smaller, marginal or short-term-minded firms tend to think defensively. Typically, companies scale back advertising as a cost-saving measure for one of two reasons.

- First, they believe the severity of the recession affects everyone the same. Therefore, all competitors will reduce advertising expenditures.
- Or second, they scale back due to the stark reality that without cutting expenditures, their business cannot survive.

In either case, more aggressive competitors likely benefit from the sales and market share surrendered by weaker firms.

[1] *How Advertising in a Recession Period Affects Sales*, American Business Press, re-printed in Cahner's Advertising Research Report No. 2000.5.
[2] W. Burke, S. Schoeffler, Strategic Planning Institute, *Brand Awareness as a Tool for Profitability*, Cahner's Publishing Co., 1980.
[3] V. Kijewski, Strategic Planning Institute, *Media Advertising When Your Market is in a Recession*, Cahner's Publishing Co., 1982.
[4] W. Zikmund, M. d'Amico, *Marketing,* 7th Ed., South-Western College Publishing, 80:2001.