Effective marketing strategies for a recession

For large organisations that operate predominantly in b2b markets

By Julia Cupman
B2B International

Abstract

Whilst the principles of marketing stay the same regardless of the prevailing economic environment, it is the practice of marketing that changes, especially in a recession. In response to the slump in demand and decreased sales, many marketing teams have had their budgets slashed and their resources cut back. These challenges, along with volatility in the marketplace and constantly changing customer needs, mean it is difficult for marketers to determine what marketing strategies to employ.

There are a plethora of factors that influence the appropriateness of a certain marketing strategy for a particular company, including the overall objective of the strategy, the level of available human and financial resources to implement the strategy, the geographical scope being considered and the elasticity of demand in the marketplace, to name but a few examples. Common to all strategies is that some kind of payback is required, in that every strategy should seek to provide a return on investment.

This paper explores strategic reactions to a recession and examines the findings from a survey of 310 marketing professionals who work in b2b corporates across the world. Various marketing strategies are discussed, with a particular focus on what makes a strategy effective in turbulent times.

Contents

"A time of turbulence is a dangerous time, but its greatest danger is a temptation to deny reality…
[However] a time of turbulence is also one great opportunity for those who can understand, accept and exploit the new realities. It is above all a time of opportunity for leadership" (Drucker, 1980)

1. Introduction

In Europe, a widely acknowledged definition of a recession is the reduction of a country's gross domestic product (GDP) for at least two quarters. In the US, the definition of economic recession is somewhat looser: "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP growth, real personal income, employment (non-farm payrolls), industrial production, and wholesale-retail sales."[1] Whatever the definition, there can be no doubt that much of Europe and the US have slipped into a recession.

In virtually all markets, demand has shrunk, there is immense pressure on suppliers to reduce prices, markets are more focused on buying on price, and profit margins are squeezed. The fear of downfall as a result of recessionary pressures has led, and continues to lead, to a fierce slashing of budgets, in particular marketing budgets. For instance, Marks & Spencer has reduced

[1] According to The National Bureau of Economic Research, Business Cycle Expansions and Contractions, 19th November 2008

its marketing budget by 20% (Marketing Magazine, 7th January 2009)[2] and FedEx has cut its marketing budgets by more than 25% (Reuters, 7th January 2009)[3]. Why are marketers feeling the pinch with decreased spending power when it is such a crucial time to understand customers' requirements and meet their needs before they could potentially defect? Given that most businesses lose around half of their customers every five years, it is frightening to think how many customers have been lost in the past few months alone as a result of the faltering economy.

This is particularly worrying for companies that operate in b2b markets, for b2b companies have far fewer customers than b2c companies and in general tend to have strong relationships with their customers, especially their largest customers. According to the Pareto principle, these largest customers comprise 20% of all customers served by a b2b company and yet account for 80% of turnover. In a recession, a b2b company is thus highly dependent on this small clutch of valuable customers and is significantly affected if any of these customers goes bust or cuts demand. For obvious reasons, b2b companies need to work hard on keeping their existing customers during a recession and, of course, on finding new ones.

Marketing is a means of identifying and meeting needs profitably and it plays an instrumental role in retaining existing customers, as well as in attracting and winning new ones. The most profitable companies in a recession are typically those that delineate and execute marketing strategies successfully, but determining which marketing strategy to adopt is not an easy task. Apart from doing nothing at all, the worst that companies can do is presume that the only way forward is to slash prices, for in doing so they are possibly neglecting the other vital elements of the marketing mix, potentially tarnishing their brand image and underestimating the importance of meeting customer needs.

Tighter economic conditions sharpen the focus of business and marketing strategies. Strong economies allow many companies the luxury of indulgence and a profitable bottom line can sometimes be achieved in spite of their (in)actions. Furthermore,

[2] For 2009
[3] For 2009

in buoyant conditions, companies may be able to achieve levels of profitability which delude them into believing that their strategies are working and yet they may never know that they could be much more profitable had they adopted a different strategy. In a recession, the smallest of strategic mistakes could, however, result in a company failing quickly. The right marketing strategies therefore act as insurance against risk, making companies less vulnerable to the vicissitudes and volatility of the business and economic environment, as well as act as an aggressive marketing tool that ensures survival and unleashes potential opportunities. As Harvard Business School Professor John Quelch recently stated, “Successful companies do not abandon their marketing strategies in a recession; they adapt them.” (Harvard Business School Working Knowledge, 3rd March 2008).

With this in mind, this paper explores what constitutes effective marketing strategies for a recession, with a particular focus on companies that operate in b2b markets. The paper covers two key aims:

1. *To explore how organisations are reacting to the current recessionary pressures in terms of marketing strategies they have employed.*

2. *To determine which marketing strategies can be considered the most effective for a recession.*

The next section discusses the role of marketing strategy, which is followed by a description of typical reactions to a recession and effective marketing strategies that can be employed for tough economic times. This is then followed by an overview and analysis of the insights obtained through primary research, in which a survey of marketing professionals explored their attitudes to the recession and how they are responding to it. The paper concludes with a summary of key findings, as well as strategic recommendations for companies that are reviewing their marketing strategies in light of recessionary pressures.