6. Conclusions

Key changes to marketing in a recession

The principles of marketing are the same whether in good times or bad, in that marketing is all about meeting needs profitably and ensuring that the right product is in the right place and at the right price, whatever the economic environment. However, in times of adversity, the needs and behaviours of markets and their suppliers change rapidly as demand becomes stifled. Marketing is one of the first areas to be cut back in a recession and marketers need to adjust their strategies accordingly. Thus while the principles of marketing remain more or less the same, it is the *practice* of marketing that changes in a recession.

The key differences between marketing in good times and bad are shown in Table 6.1 below.

Table 6.1 *Key Differences Between Marketing In Goods Times & Bad*

Marketing in good times	**Marketing in bad times**
Long-term focus	Short-term focus
Maximising profits	Minimising cost
Marketing seen as an investment	Marketing seen as an expense
Marketing has a broad scope	Marketing has a limited and narrow scope
Benefits-driven	Cost-driven
Opportunities-driven	Sales-driven
Proactive	Reactive

In times of adversity, the sales function often displaces the role of marketing. Charan (2009) emphasises the importance of sales (see Chapter 3), but whilst it is vital for companies to generate sales in the short-term, Charan fails to acknowledge that a recession provides an ideal opportunity for marketing to work harder than at any other time.

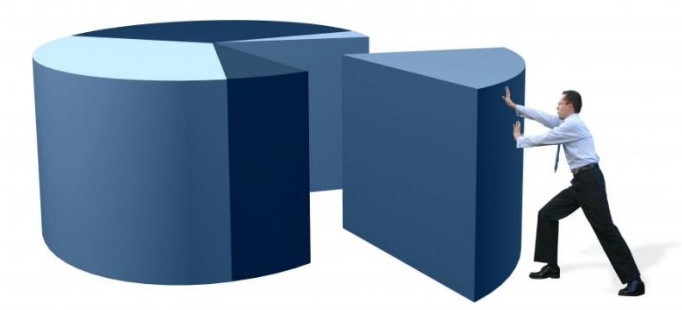
With this sales focus, marketing takes on a much more reactive (as opposed to proactive) role in a recession. A long-term focus involving seeking opportunities and investing in the future is replaced by a short–term focus where marketing is expected to problem-solve on issues such as low sales, defecting customers and lead generation. However short-term solutions do not always lead to long-term success, as Michael Porter recently acknowledged: "*In dealing with a crisis, experience teaches us that steps to address the immediate problem must support a long-term strategy."* (BusinessWeek, 30th October 2008). Thus organisations whose strategies fail to consider the long-term should be cautious not to act in haste and jeopardise their future prosperity. Virtually every business decision should be made with the longer term in mind.

Risk is not only incurred in forcing a short-term focus upon marketing; there is also significant business risk to a company by reducing marketing spend during a recession. Management often believes that slashing the marketing budget will preserve cash, in the way that stopping a machine from running in a production plant will lower the running costs of the plant. However, management fails to realise that the output of the marketing "machine" outweighs the input costs. To support this important point, a case study published recently by Ogilvy and Mather illustrated how cutting the marketing budget reduces profit, as explained in Figure 6.1 below.

Figure 6.1 Case Study On The Importance Of Retaining The Marketing Budget (Ogilvy & Mather)

A client had a terrible year in 2007 because of a shortage of new products. Profit turned to loss. Central finance cut $25 million from the marketing budget, thinking they had made a saving that could be transferred to profit. However, they did not allow for the sales the marketing spend would have created. An econometric model, calibrated by six previous hold-out tests, showed the cut probably lost the company around four million units sold that year, worth over $1 billion. The so-called 'saving' reduced profit.

Similarly, an analysis of the Profit Impact of Marketing Strategies (PIMS) database compared the results of companies that increased, maintained and reduced marketing spend during a recession, and it showed that while companies that cut marketing spend enjoyed superior return on capital employed (ROCA) *during* the recession, they achieved worse results after the recession ended. However, those who had invested in marketing achieved a significantly higher ROCA during the recovery, and gained an additional 1.3% points of market share when growth returned[4]. Indeed a company that increases its marketing spend during a recession has the opportunity to steal market share whilst its rivals are weak. If competitors are decreasing their marketing budget (and with this their share of voice), the organisation that boosted its marketing spend will gain market share and market voice, and it will end up in a stronger position not only in the recession, but when growth returns. Hence financial constraints shackle marketing, and with this market share.



Further, share of voice is restricted by many companies in a recession due to limitations placed on the marketing toolkit. The survey carried out revealed that almost all media employed by marketers are on the decrease as a result of the recession, in particular trade shows and events, magazine advertising and directories. Only one medium - the internet - is on the increase significantly as marketers acknowledge the low cost but high ROI of utilising electronic media effectively.

4 As reported in Marketing During Recession: To Spend Or Not To Spend, Millward Brown

Effective marketing strategies for a recession

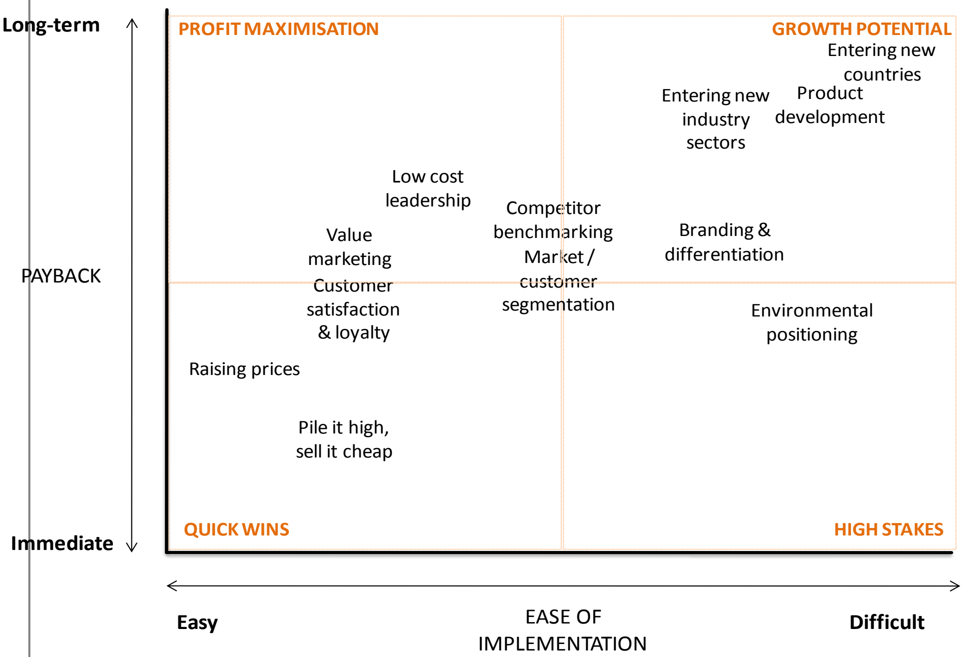
Numerous experts attempt to forecast how long the recession will last, but nobody really knows. What is more, nobody can predict exactly how and to what extent customer behaviour is changing and will continue to change as a result of the recession. This makes it difficult to determine what marketing strategy to employ.

There is no one-size-fits-all approach, as what may be effective for one organisation may be totally ineffective for another. 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, the level of inertia in the market and the level of demand for the product (for instance, niche versus commodity product), to name but a few examples. Common to all strategies, however, is that some kind of payback is required, in that every strategy should seek to provide a return on investment. For companies that are struggling for survival in a recession, the payback tends to be required in the immediate term. In addition, given that these flailing companies are strapped for resources (financial and human), they seek the easiest of strategies to implement. Such strategies are shown in the bottom left quadrant of Figure 6.2 overleaf.

"Quick win" marketing strategies tend to be price related, such as a "pile it high, sell it cheap" strategy, whereby the goal of lower prices is to help the company maintain and win market share. However, an increase in market share in a recession does not necessarily mean increased sales given that the absolute market size has most probably shrunk. Companies that pursue a low price strategy should therefore be cautious that they do not denigrate their brand in the long-term. Furthermore, lowering prices can cut profit margins to fatally low levels. Thus a low price strategy is one that may be successful in the short-term for boosting sales, but not effective in the medium- to long-term for achieving sustainable profits and maintaining brand health.

Companies that seek to achieve low cost leadership may underestimate the difficulties of such a strategy in terms of speed of payback and ease of implementation. It may well be that plants need to be shut down, staff need to be made redundant and a complete new business model required in order to achieve low cost leadership. Hence low cost leadership is not a quick win strategy, but rather a profit maximisation strategy, if appropriate and successful.

Figure 6.2 Considering Marketing Strategies For A Recession



As with the “pile it high, sell it cheap” strategy, a strategy that raises prices could also be effective temporarily, but detrimental in the long run as high prices could lose a company market share in a recession. The success of such a strategy therefore depends on how strong the brand is and how much people need the product – the stronger the brand, and the more people need the product, the more likely a rise in prices will be effective in a recession.

Furthermore, the success of any strategy depends on whether the strategy is appropriate for the level of (in)elasticity in the market. Where pricing strategies are concerned, if the marketing team in a company does not know the price elasticity of demand for its products, it could be missing a significant opportunity to maximise profits. For a marketing strategy to be effective, it must take into account factors that influence elasticity, such as those shown in Table 6.2. As the table indicates, a pricing strategy that involves raising prices is most likely to be effective where demand is inelastic on certain factors, such as where the product is perceived as differentiated, where the product has high switching costs, where price is used as an indicator as quality, and where there is inertia in the marketplace.

Table 6.2 Factors Influencing Elasticity

	Elastic	Inelastic
Product is perceived as differentiated	No	Yes
Product has high switching costs	No	Yes
Price is used as an indicator of quality	No	Yes
Expenditure is insignificant to the customer	No	Yes
Market inertia	No	Yes
Many substitutes are available	Yes	No
Product is easily compared with the competition	Yes	No
Prices are easily compared with the competition	Yes	No

It has been seen from the survey findings that value marketing has become the most popular marketing strategy in the recession. As illustrated in Figure 6.2, a value marketing strategy is relatively easy to implement and offers payback in the medium term. Despite the popularity, value marketing strategies are not necessarily being used effectively, as marketers need to frequently ask themselves how their customers' definition, perception and expectations of value are changing – and whether their customers' needs are being met profitably. With this in mind, companies need to act on meeting the different needs of their customer base, and market and customer segmentation will help them do this. This is particularly important in a recession as customer value segmentation will provide strategic direction on the most attractive segments to be targeted and how. These segments are almost always the most profitable to a business and are where a company enjoys the greatest competitive advantage. Thus value marketing is critical in a recession to ensure that profits are maintained for short-term survival and long-term growth.

In addition, it is advisable that companies carry out frequent customer loyalty and satisfaction research in order to lock customers in and competitors out. This is relatively easy to do and offers a speedy ROI. Moreover, the size of the ROI can be substantial: just a 5% reduction in the customer defection rate can increase profits by 25% to 85%, depending on the industry[5]. Hence if customer satisfaction and loyalty research is acted on appropriately and successfully, it can be very effective in reducing customer churn, which is never more important than in a recession.

Competitor benchmarking has a similar speed of payback and is also relatively easy to implement. It can provide strategic direction on where competitive advantage can be sustained and achieved, which in a recession, is arguably easier and more beneficial when competitors are weak.

As seen in the survey, companies that have been only minimally affected by the recession are capitalising on the weak economy to invest in the future in that they are launching new products, entering new industries or countries, or continuing to build their brand whilst their competitors are weak and whilst costs are lower than in strong economic times. These growth strategies are in the top right quadrant of Figure 6.2. Companies that employ these strategies in the recession will reap the benefits when growth returns.

A particularly risky strategy to pursue in a recession is an environmental positioning strategy. This is difficult to implement and is unlikely to resonate with the bulk of the market as the colour green has, for many, become eclipsed by fears of becoming in the red. Environmental offerings are usually more expensive and tend to be more effective in boom rather than recessionary times.

Whatever the marketing strategy being considered, one of the most difficult challenges faced by marketers is convincing senior

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[5] As stated on the Customer Satisfaction Research page of B2B International's website

management of the value of marketing and the need to invest in it, especially in bad times. It is often too late to prove marketing ROI in the depth of a recession when management is obsessed with preserving cash and reluctant to part with it. Marketing teams need to prove the ROI of their actions at all times so as to obtain buy-in to marketing efforts and acknowledgement of the importance of marketing as a strategic approach to business which impacts the bottom line.

In summary, an effective marketing strategy is one that has:

- Met the key objectives of the strategy;
- Understood the elasticity of demand in the marketplace;
- Delivered an ROI, and in the anticipated timeframe;
- Deployed the necessary resources, and in an appropriate manner for maximum impact.