Marketing in Uncertain Times

In times of economic uncertainty, marketers tend to shift their focus from long-term strategy to short-term sales. However, lessons from recent recessions provide powerful arguments for maintaining a longer-term view, even in the face of pressure to cut advertising in favor of promotions. Marketers who resist this pressure and use their budgets effectively and creatively will find that their brands emerge from the tough times in good competitive shape.

While most parts of the world have been officially out of recession since the summer of 2009, the economic recovery in most Western countries has not been strong. The current uncertainty about the economic climate, especially the speculation that we may experience a double-dip recession, is making both consumers and marketers nervous.

During the 2008 downturn, there were regular reports of consumers struggling with their finances. For example, two-thirds of Australians reported that their spending habits were affected by the financial climate, with four in ten reporting that they spent less on staples. (And technically, Australia was not even in recession.) In the United States, spending on credit cards increased markedly in areas of high unemployment, and fewer consumers reported paying their credit card bills in full every month.

During times such as these, in the face of pressure on people's budgets, many marketers choose to meet profit targets by using promotions to maximize short-term sales while cutting investment in long-term build-branding activities.

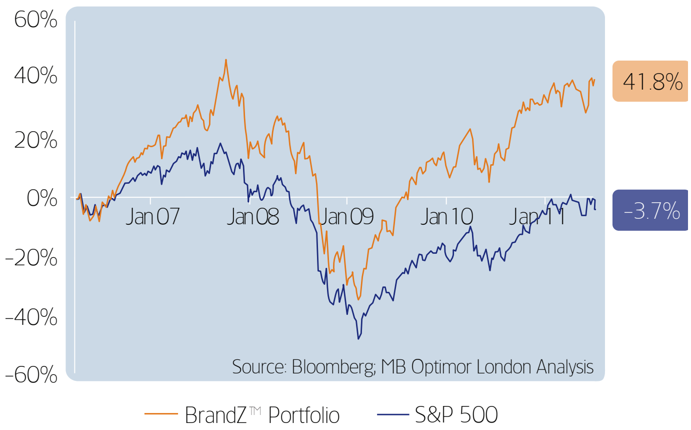
The Importance of a Strong Brand

While the reaction to cut investment in seemingly non-essential activity is understandable, it doesn't bode well for brands in the long term. Our analysis (see chart below) shows that as a group, the strongest brands—those in the BrandZ Top 100—have outperformed the S&P 500 since the recovery began.

Conversely, brands that were already weak going into the recession tended to suffer disproportionately.

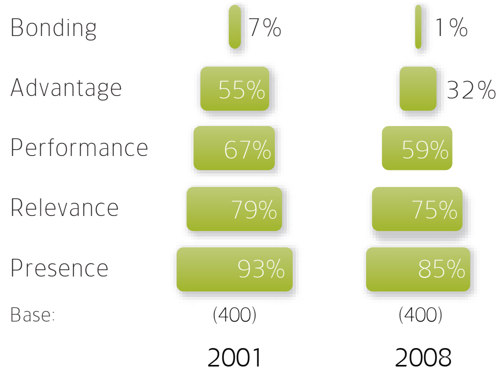
BrandZ Portfolio Performance vs. S&P 500 (2011)

BrandZ™ Portfolio vs. S&P 500 (Apr 2006 – July 2011)



A powerful example is the retailer Woolworths. Though the chain went out of business in the United States in 1997, it was still conducting business in the UK during the first decade of this century. However, its brand equity pyramid had shrunken considerably from 2001 to 2008, and Woolworths failed to survive the recession, closing its doors in 2009.

The Decline of Woolworths



Clearly, brand strength needs to be nurtured and maintained through good times and bad. Based on our decades of experience studying and advising brands, we can make five recommendations for marketing and maintaining brand health in uncertain times.

1. Review your marketing plans

It is never a bad idea to review your marketing plan, but during challenging times, it is especially important to re-examine the fundamentals; both vulnerability and opportunity could be uncovered.

An example of a brand that addressed a vulnerability is Barclaycard. In the UK, Barclaycard ran a successful celebrity-based campaign for many years. But by 2008, it was clear the brand was losing relevance. It was seen as old-fashioned and was not appealing to the new generation of card holders. A major research program investigated the attitudes and behaviors of these younger consumers, and led to the development of the completely new "Waterslide" campaign. Sales modelling showed the new campaign generated £22m profit.

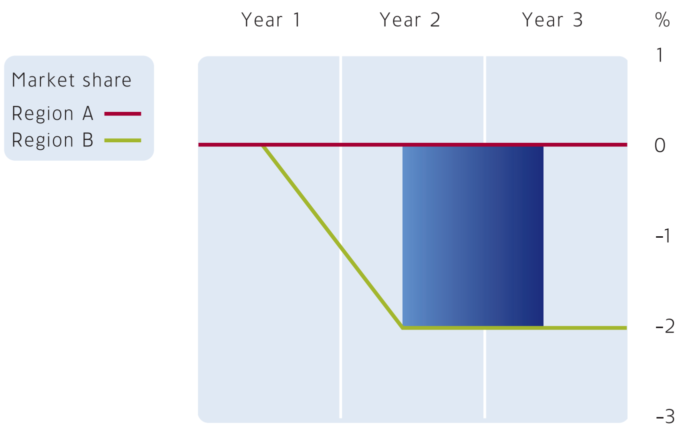
An upscale brand in the personal care category found a way to turn a potential vulnerability— its premium price—into an opportunity. Back in 2000, Dove recognized the challenge for its premium moisturising soap in its Turkish markets. Because it was much more expensive than regular soap, Dove was traditionally targeted at upscale women. But during the 2001 recession, a new brand team crafted a value-oriented appeal to middle-income consumers—a far larger audience—based on the proposition that Dove both cleans and moisturizes. Dove more than doubled its share of spend from 2000 to 2001, resulting in a market share gain of 5 percentage points by the middle of 2002.

2. Beware of reducing your ad spend

While reducing advertising spend can seem to be a logical way to bolster short-term profitability during a recession, it can also deliver negative consequences. This is in part because advertising has both long- and short-term effects on brands. On average, the ratio of long- to short-term effects is about 3:1, though this varies widely across campaigns, and we have seen campaigns with ratios as high as 5:1. (Note: Short-term effects are generally defined as those that occur in the eight weeks following the start of advertising.)

While brands that "go dark" don't seem to suffer major shifts in brand perceptions, 60 percent of them deteriorate on at least one key aspect. Such losses can herald problems in the future, since once declines set in, they can be hard to reverse. The chart below provides an example. A brand came off air in one region (Region B) while it continued advertising in the rest of the country. Within a year, market share had dropped 2 percent in Region B while it held steady elsewhere. And—critically— even when advertising resumed in the dark region, the share in that region continued to lag behind the rest of the country in the two subsequent years.

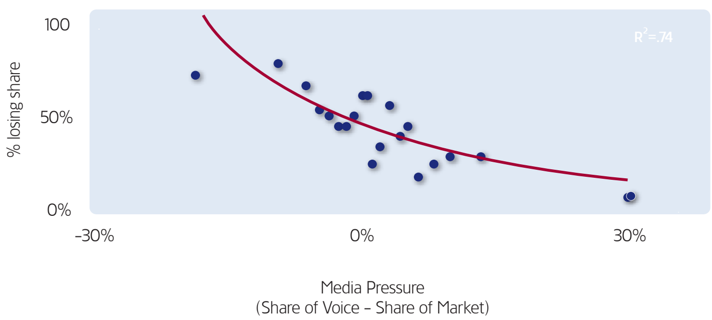
Region B suffers in Year 2 and Year 3



The long-term effects of advertising are also illustrated by the relationship between share of market (SOM) and share of voice (SOV). It has been proven that when a brand's SOV exceeds its SOM, the brand is more likely to gain share in the following year. Decreasing spend might cause your SOV to slip and leave your brand vulnerable. On the other hand, if you increase your marketing investment at a time when competitors are reducing theirs, you should substantially increase the saliency of your brand. This could help you establish a long-lasting advantage.

A Millward Brown analysis of 354 brands, summarized in the chart below, highlights the value of maintaining advertising investment. Brands were ranked according to their spend in relation to their market share. Then, according to this rank order, they were combined to form 20 groups (the first group consisting of the brands with the highest difference between SOV and SOM, the second group, the next-highest difference). This measure is represented on the horizontal axis of the chart below. Each group of brands is positioned on the vertical axis according to the percent of brands in each group that lost market share in the subsequent year. The declining trend line clearly shows that relative under-investment is linked with a greater risk of market-share decline.

Advertising Investment reduces risk

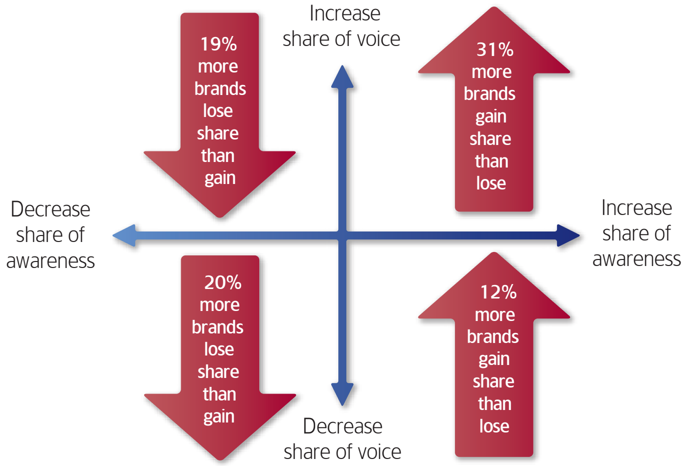


Increasing ad spend at a time when other brands are cutting theirs may seem unnecessary or even wasteful. But at such a time—when demand for media time and space is decreasing— media costs are likely to go down, and you may be in a strong position to strike a good deal. In the UK, Audi, with a new campaign, increased its media spend by 10 percent from 2008 to 2009; as a result, its order book was up 79 percent. Also in the UK, Heinz increased its weight of spend in 2009 to address the threat posed by store (shop's own) brands; as a consequence, Heinz became the fastest growing major CPG company in the UK.

3. Ensure your copy is working as hard as possible

While ideally you should aim to at least maintain your level of spend, you may be able to compensate for reduced spend with stronger copy. That is, with more impactful creative, you may be able to maintain or even increase your level of ad awareness, even with a reduced budget. The chart below summarizes the brand outcomes for various combinations of share of awareness and share of voice. When both of these measures declined (lower-left quadrant), brands tended to lose share. When they both increased (upper-right quadrant), brands tended to gain share. However, when share of awareness increased and share of voice declined (the lower-right quadrant), more brands gained share than lost it. Thus strong creative can provide powerful leverage for your spend.

Share of awareness



So then the question becomes – how do you increase ad awareness with lower spend?

The answer is "creativity." Great advertising is memorable. By 2009, Barclaycard's "Waterslide" campaign was recalled by 46 percent of people, and ranked among the top 10 publicly voted "Ads of the Decade."

Analysis of our Link copytesting database shows that overall average scores did not change during the recession. Despite tightened belts, people continued to find advertising to be relevant or irrelevant, enjoyable or not enjoyable, involving or not involving, in the same proportions as before. The rules of effective communication do not change during a recession; great advertising is still great advertising, even in an uncertain times.

4. Be creative with media

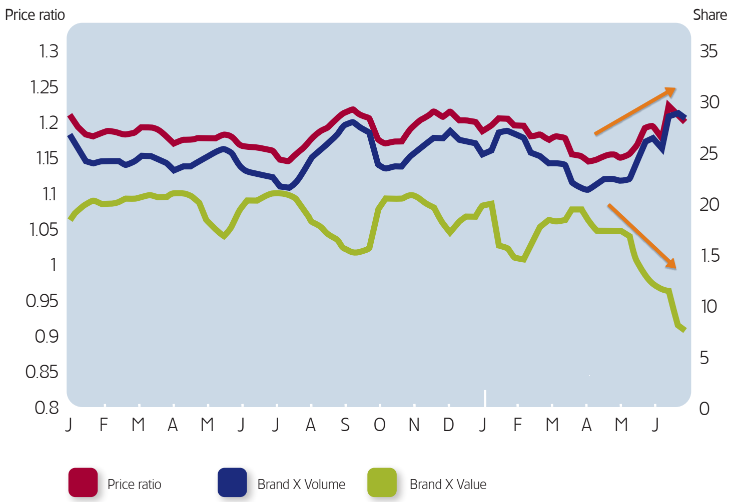
Careful and innovative use of media channels can pay dividends, particularly with the recent increases in the number of media channels. While the Barclaycard "Waterslide" campaign aired on TV, it also aired in cinemas, and was supported in print, online, and with PR. Additionally there was an iPhone game, and the ad went viral on YouTube, with over 7 million hits.

If you use a particular vehicle to make contact with customers, use that vehicle to deliver special offers, relevant news, and information. During Brazil's 2002 recession, Unilever launched a customer magazine, *Diva*, to communicate with key customers. The result of extensive research, *Diva* contained articles on money-making ideas as well as Unilever brands. It also incentivized readers to buy Unilever brands by offering to pass some of the profits on to charity.

5. Don't get defensive; use promotion sparingly

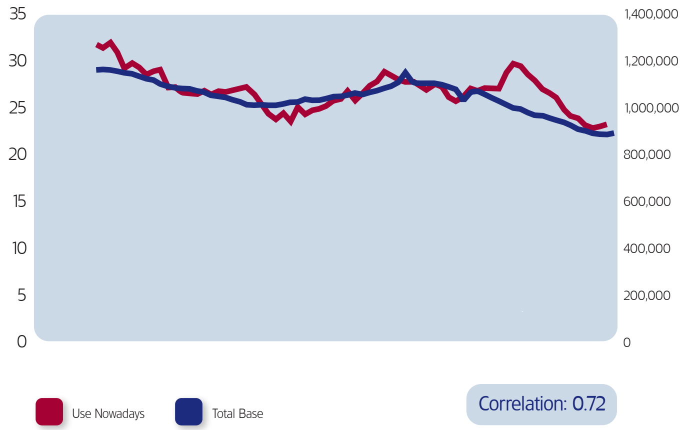
The use of price promotions to help generate consumer spending, while common, can damage brands. One brand that had reduced media expenditure reported increasing share in line with promotions. Analysis showed that, in fact, the share increases were *entirely* due to the price promotions (see chart below).

Share increases coincided with price reductions/promotions



The brand's underlying base sales for the brand were in decline, and this decline was matched by tracking study measures (illustrated in the next chart, by "use nowadays").

Strong correlation between base sales (IRI data) and tracking measures



In product categories where the brand is less important (such as motor fuel, mineral water and grocery stores), price promotions are more likely to be effective, but even so, these are likely to erode brand equity. In the UK, as a result of a price war in an over-the-counter (OTC) brand category, the total volume sold on promotion increased by 15 percent in one year. The result was that value was driven out of the market—the total value of the category fell by 14 percent. At the same time, loyalty to specific brands declined; while 81 percent of buyers were "loyal" to a brand before the price war, just over half (55 percent) remained so afterward.

Premium brands may feel threatened when consumers are keeping a tight grip on their wallets, but being premium in itself isn't necessarily a problem. When the premium car brand Audi reoriented its campaign around the rational message of fuel efficiency, its brand desirability increased. With positive and proactive management, brands—even premium brands—can ensure their long term success even during uncertain times.

Some of the examples and case studies used are from the IPA Effectiveness Awards

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