Lessons for Marketers From Past Recessions

PMG DIGITAL MADE FOR HUMANS™

by David Gong

In the fall of 2008, I was on a business trip when Congress rejected the original proposed bill that would later become the Emergency Economic Stabilization Act (also known as the bank bailout). The Global Financial Crisis had already wrought havoc on the world economy; while sitting in my hotel room, I could sense the country's palpable anxiety and anger.

Congress eventually took action, but even so, the onset of the Great Recession was inevitable. I still remember how lucky I felt then. Because I worked in digital marketing, the dire consequences of the recession didn't apply to me. My job was secure because the services offered by my company and other digital agencies were in high demand, even with reduced marketing budgets overall.

That was because brand-side marketers were shifting their investments into channels that were considered more measurable, and allowed for greater personalization and targeting. And when the recession receded, like all recessions do, many of those brands shot out of the gate and were able to leverage the increased market share they acquired during the downturn to drive even greater business results.

I took you on this uncomfortable trip down memory lane because the Great Recession, and other major economic downturns in our history, offers valuable lessons as we deal with the current crisis around COVID-19. We can use our history of experiences similar to the situation at hand to plan for the inevitable time when the crisis' effects recede and we enter a new normal.

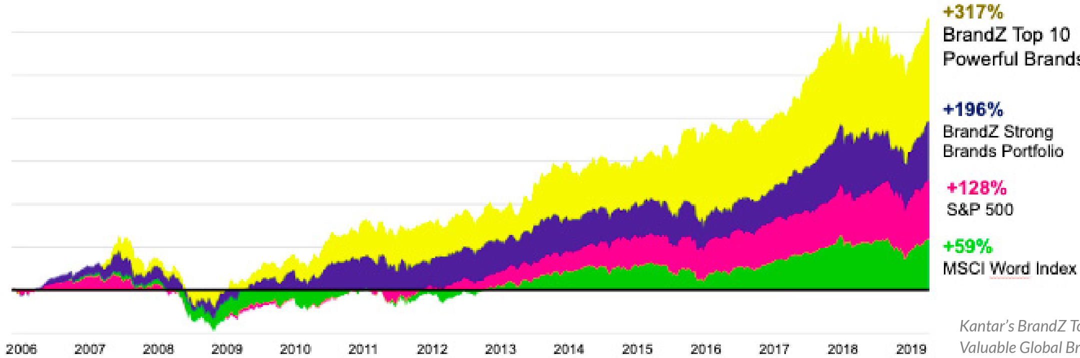
When that time comes, we will see that companies that took the right steps during the crisis will significantly outperform those that took approaches that were too defensive, or were too much on the offensive. Before we dive in, though, know that I recognize the seeming bias that comes from a marketing professional making the recommendation that I do (spoiler alert: don't cut marketing). The case I present comes not from intuition (though my parents will argue I'm the smartest boy in the world), but from actual research conducted by dispassionate entities.

So, here we go:

If you're a marketer, chances are you've already been asked to cut, cut, cut, and then cut some more. The impulse to cut spend that isn't deemed business-critical is a common one that seems logical. It is not without merit — in many cases, the driver behind that decision right now is to save jobs. Marketing, and in particular, ad spend, are seen as costs that don't return immediate dividends. (I disagree, of course, but we'll get to that.) And if you've cut, know that you're merely repeating history. U.S. ad spending plummeted 12 percent in the aftermath of the Great Recession, and global ad spending dropped nine percent, according to estimates from GroupM, Magna, and Zenith.

But as marketers, we also know the value of a strong brand. And history taught us that strong brands recovered from the Great Recession much quicker than weak ones. Look at the chart below from Kantar's BrandZ Top 100 Most Valuable Global Brands Ranking. While all companies were hit hard by the recession, the ones that successfully strengthened their brand during the downtown saw their stock market performance roar back 9X faster than those that didn't.

We've seen before that strong brands recovered 9x faster following the financial crisis of 2008:



Kantar's BrandZ Top 100 Most Valuable Global Brands Ranking

I am going to provide you with evidence and insights from three different sources that outline which companies succeeded after a recession, and which ones didn't. And then I'll provide you with key recommendations on how you can set up your marketing organization to be one of the winners coming out of the impending recession. Those recommendations, again, are based on actual research.

Don't take my word, take it from those who have top-notch academic credentials.

In 2010, the dean of Harvard Business School, the head of the school's organizational behavior unit, and a doctoral student at the Kellogg School of Management teamed up and mounted a yearlong project to study three global recessions: the 1980 crisis (1980 to 1982), the 1990 slowdown (1990 to 1991), and the 2000 bust (2000 to 2002). (Between you and me, I'm going to guess the doctoral student did the heavy lifting in that research.)

They looked at thousands of public companies and segmented their data into three periods: the three years before the crisis, the recession years themselves, and the three years after the crisis.

You can read their full findings here but here's the gist: 80% of the companies did not regain their pre-recession growth rates even three years after a recession. In fact, firms that cut the fastest and deepest ended up with the lowest probability of outperforming the competition when times got better. The researchers classified the companies and their approaches into four types, see Figure A.

Which will your company be? *Figure A*

Prevention-focused companies — These firms made primarily defensive moves and were more concerned with loss avoidance and risk minimization. Those focuses led to employees having a siege mentality, and inadvertently drove them to aim low and keep both innovation and cost-cutting incremental.

Promotion-focused companies — These firms used the recession as a pretext to act opportunistically in order to get upside benefits. Their insistence on an overly optimistic perspective caused them to overlook warning signs and get blindsided by poor financial results.

Pragmatic companies — These firms combined defense and offense, and tended to do better than the first two types. However, these companies often combined three defensive approaches with three offensive approaches, yielding nine possible combinations; some of those were more effective than others.

Progressive companies — These firms deployed the optimal combination of defense and offense.

Progressive companies pursued the combination that gave them the best chance of being a post-recession success. Their defensive moves were centered primarily on improving operational efficiency rather than slashing the number of employees or long-term investments. Their offensive moves, though, were comprehensive. Progressive companies recognized that even though there would be modest benefits from R&D and marketing during the recession, they still invested in both at higher levels compared to the competition. As a result, they captured new business opportunities when the economic climate improved.

The popular retailer Target is a company that took actions befitting a progressive company across multiple recessions. During the 2000 recession, the company increased its marketing and capital expenditures. They opened more stores and tripled its Super Target stores. They made other significant investments, and also focused on costs, operational and supply chain efficiency. Target's sales and profits grew by 40% and 50% respectively, and they had a higher profit margin after the recession than before. While the study didn't delve too much into the Great Recession, Target took a similar approach by launching initiatives to enhance its food offerings (seen as a "key need" by consumers), increasing media spending, and reaffirming its positioning with the slogan Expect More, Pay Less. By the end of 2008, its Market Pantry sales had increased by 30%, and food became a nearly $2 billion business for them that year.

Don't take my word, take it from a "Big 3" management consultant firm

In 2019, Bain & Company conducted research into the Great Recession and published a brief in anticipation of an impending recession. They had data that suggested our economy was due for one, and while no one would have predicted the cause behind it, we can still gain from the learnings coming from the study.

They looked at 3,900 companies worldwide and found that losers of the recession tended to follow common dead ends. Like the academic researchers mentioned above, they saw companies that engaged in extreme cost-cutting (e.g., cut R&D across the board, scaled back sales and marketing, laid off talent, and held off on offensive moves) often did not survive the downturn. Companies that strayed too far outside their core business and invested in hot sectors and tools (similar to promotion-focused companies) also underperformed when times got better.

Don't take my word, take it from the expert who *literally* wrote the book

Jenny Darroch is the dean of the Drucker School of Management at the Claremont Graduate University. She is also author of "Marketing Through Turbulent Times", a book that won praise from other academics like Philip Kotler and marketers alike, including the head of global marketing at The Coca-Cola Company.

According to Darroch's research, firms that spent more on marketing than their competitors during the 1980s recession enjoyed a higher market value five years after the recession ended. This reflected the strong long-term effects of marketing expenditures. She found that during a recession, marketing budgets are not only being cut, but marketing funds are reallocated. It is tempting for marketing managers to focus on areas that provide the greatest short-term gain, but that focus comes at the expense of maintaining and building the long-term value of a company's brand.

Marketers that had too much of a short-term focus ended up with new customers reliant on discounts and promotions, or found their irrelevant and confused brands abandoned by their core customers.

Hopefully the above has convinced you that short-termism can easily rear its ugly head during recessions and crises, and it is especially dangerous during this time of unprecedented uncertainty. If you want to not only survive the current tempest, but also position yourself to succeed during the crisis as well as outperform your competitors after, then you must resist the urge to slash and cut marketing expenditures, and make sure you take actions that solidify the foundation from which to propel your organization forward.

Before we get to those actions, we must remember to have proper expectations of the rebound that will eventually come, using the Great Recession as a potential guide. Based on the Ipsos Affluent Survey from 2009-11, economic anxiety is likely to persist for years. While the economic pain from the Great Recession peaked in 2009, consumer anxiety about the economy declined just 10% each year, even as the financial outlook improved at a higher clip. Moreover, while many discretionary behaviors (e.g., style, fashion, home improvement) resisted immediate change at the onset of the downturn, they didn't return to normal right away once the economy improved. And purchase intent in some categories softened when the recession hit, and continued to decline for several years, while other verticals took an immediate hit but were able to rebound quickly.

With that said, here are four key recommendations for marketers on some actions and goals to work towards:

1. **Truly research your customer**
2. **Focus messaging on family, core values and togetherness**
3. **Maintain marketing spend and grow market share**
4. **Invest in testing**

1. Truly research your customer

John Quelch, current dean of the University of Miami's business school and former professor at Harvard Business School, wrote a series of articles published in the *Harvard Business Review* about marketing during a recession. According to him, understanding the customer is the first and foremost factor for marketers. Now more than ever, brands need to understand how consumers are redefining value and responding to the recession.

Before you can decide which marketing tactics to employ, you must learn how customers are reassessing priorities, reallocating their personal budgets, the likelihood of their switching among brands and product categories, and how their definition of value has changed. As a recession recedes, consumers will regain buying capacity, but there's a good chance they will not return to their old purchasing patterns.

2. Focus messaging on family, core values, and togetherness

During difficult times, customers demand that businesses act in their and society's interests. Those that don't do a good job in being authentic and aren't aligned towards those interests will find themselves lacking in goodwill. Consumers will factor brands' practices into their choices, both during and after a recession.

According to Quelch, the most resonant messages during recessions include those that focus on family (and recognize that we tend to "retreat to our village"), connections with family and friends, and reassurances that we have survived difficult times before and will do so again. He says, "Reassuring the consumer, holding her hand in a 'we're going to get through this together' manner is a vital ingredient of successful marketing during a recession."

Additionally, keep in mind that now is not the time for gimmicks or empty gestures. Although the intent was a good one, the recent attempt led by Gal Gadot with other celebrities to create a viral video around the song 'Imagine' fell flat. Consumers will respond better to messages that center on reliability, durability, safety, and performance — especially given the nature of the COVID-19 crisis.

3. Maintain marketing spend and grow market share

This could be summed up with the old adage, “out of sight, out of mind.” It is well documented that brands that increase advertising during a slowdown, when competitors are cutting back, can improve market share and ROI at lower cost than during healthy economic times. Quite simply, ad inventory is cheaper and there is less noise in the marketplace. Furthermore, consumers find comfort and are reassured by known brands. The companies that have an advertising presence during challenging times project an image of corporate stability.

And the following should make you feel confident about this: Kantar recently conducted a survey of more than 35,000 consumers globally, and found that just 8% thought brands should stop advertising. According to Bain, marketers should strongly consider a shift in marketing mix from traditional media toward digital channels, as the latter enables more personalized outreach with the ability to conduct high-velocity message testing.

To illustrate the dangers of ceding market share during a downturn, we can go all the way back to the 1920s. At that time, Post was the category leader in the cereal category. Then the Great Depression happened (talk about a downer). Post decided to significantly cut back its ad budget. Kellogg, on the other hand, doubled its advertising spend, invested heavily in radio and introduced new products. Their profits grew by 30%, surpassing Post to become the new market leader; Kellogg has maintained that position ever since. According to Quelch, companies with strong positions can expect to gain market share.

4. Invest in testing

It is safe to assume that this recession will be long and difficult. No one knows for sure how long it’ll last. That’s why marketers must stay flexible, ready to adjust strategies and tactics once the upturn comes. That means they must maintain a pipeline of innovation that’s ready to go on short notice. That happens through continuous testing and learning. If you wait to invest in this area until the economy is in full recovery, you risk being passed by better-prepared competitors.

Keep in mind that the above points apply to both consumer-oriented and B2B marketers. McGraw-Hill Research had previously analyzed past U.S. recessions. Reviewing 600 companies across 16 different SIC industries during the 1980s recession, they found that B2Bs that maintained or increased their advertising expenditures averaged significantly higher sales growth, both during the recession and in the three years that followed the recession’s end, compared to those that eliminated or decreased advertising. In fact, those that were more aggressive outperformed those that cut back by 256%.

We are still in the very early stages of the COVID-19 crisis. Things are much more likely to get worse than they are to get better in the coming months. Take heart that most post-war recessions last only 10-11 months, and while the current situation has no precedent, remember that the economy was very robust just prior to this. Nonetheless, while we cannot predict the particulars around magnitude or duration, we hope that the four factors that we shared with you in this article gives you confidence to fight for continued investment in marketing. All recessions end, and this one will too. Now is the time to plan how to position your brand to come out even stronger than before.

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