Marketing During Recession: Planning On Recovery

When sales are down and budgets are cut, it would seem that the most important thing for a business to do is to focus on survival, not plan for growth. But recovery will come, and marketers who are not ready to seize that opportunity will lose out to those who are. Brands must develop plans to regain lost customers now. And effective planning requires a detailed understanding of how consumer behavior and attitudes have changed (and how they might change again).

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In his inaugural address, U.S. President Barack Obama said, "The state of the economy calls for action, bold and swift, and we will act — not only to create new jobs, but to lay a new foundation for growth." In the first 90 days of his administration, the government moved fast to make good on that promise. Marketers would do well to follow his lead. A recession is not a time to slow down. It is a time to speed up. And while it is difficult to ignore the current bad tidings, now is the time to make plans for the anticipated upturn. The brands that are prepared for recovery and are able to execute their plans quickly and effectively will be the ones that will win in the long term.

The Strategic Challenge

Most premium and mainstream brands face the same fundamental challenge when considering recovery. They need to regain the sales volume that was lost when economic circumstances forced consumers to reappraise their purchasing priorities and brand choices. In order to make their disposable income go further, consumers adopted one of three tactics: they curtailed purchasing in a category altogether, they deferred or decreased their purchasing, or they traded down to a less expensive brand.

Curtailed purchases
Luxuries or items that are perceived as "nice-to-haves" are most likely to be eliminated when consumers need to cut spending. Affected product categories range from cruises and designer goods to more mundane categories like insurance or window cleaner.

Deferred purchases
Purchases of high-ticket items such as cars and appliances will be deferred when consumers are under financial pressure. People will also reduce the frequency of purchasing in categories such as casual dining and gasoline.

Traded down purchases
We see evidence that consumers have reappraised their brand choices in virtually all product and service categories. Millward Brown's tracking database finds a strong rise in the number of premium brands perceived as too expensive in 2008.

The key to successfully regaining lost sales lies in understanding consumer mindsets and motivations. Among people who have stopped purchasing a category, how many have really adopted a more frugal mindset, and how many merely need to feel more confident before they resume purchasing? When it comes to people who have chosen to buy value-priced products or store brands,

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how many were forced by their circumstances to trade down? How many are unhappy with their new brands? The challenge is the same in both cases — to regain sales — but the solution will vary by category and brand.

Strong Brands Weather Recession Best

A weak economy and poor consumer confidence have proved to be an asset for some categories and brands. Sam Walton, the late founder of Wal-Mart, was often quoted as saying, "I was asked what I thought about the recession. I thought about it and decided not to take part." It makes a nice sound bite, but Wal-Mart has very much taken part in the current recession. The company reported a sales uplift of $500 million in the second quarter of 2009 as people flocked to Wal-Mart in search of cheaper prices. But not every value retailer has performed so well. It is the combination of a strong brand and a value proposition that allowed Wal-Mart to thrive.

Many companies and brands have been similarly well-positioned to take advantage of the tough economic times. McDonald's reports strong U.S. sales as a result of drawing customers away from casual dining restaurants. But if your brand is perceived as being worth paying more for, you don't have to espouse a value positioning to thrive during a downturn. On January 21 of this year, Apple announced that robust sales of iPods and laptops had allowed it to shrug off one of the worst holiday sales seasons in years. The January release also reported that the company's quarterly profit had jumped to $1.61 billion, or $1.78 a share, which was more than 25 percent higher than analyst expectations.

Analysis of the Profit Impact Marketing Strategy (PIMS) database, which contains information on the financial performance of companies relative to their investment in various activities, confirms that increased innovation and marketing support are central to a successful recession strategy for many brands. Analysis of company performance during past recessions identified the strategies shown in Table 1 as most likely to result in market share and profit growth once the recession was over.

Table 1

Cost Area	*Winning Strategy*
Innovation	Increase
Marketing	Increase
Customer Preference	Improve*
Relative Price	Maintain*
Administration	Cut
Working Capital	Cut/Maintain
Fixed Assets	Cut/Maintain
*Source: PIMS database analysis**	*Relative to category average*

Apart from the recommendation to increase marketing support, perhaps the most surprising recommendation from the analysis is to maintain price relative to the competition. But there is good reason for this. By cutting prices, companies encourage customers to regard the depressed price as normal, making it very difficult to return prices to previous levels when the economy recovers. The result is an almost permanent loss of profit margin, sometimes not just for one company but for an entire industry.

Furthermore, because consumers often look to price as a signal of quality, by cutting prices a brand may undermine perceptions of quality. Lowering price should be the tactic of last resort. And whatever a company does, it should not cut product or service quality. If consumers believe they are being shortchanged, they won't think twice about changing brands.

The fundamental lesson of the PIMS analysis is that companies that invest in their brands are far better positioned to gain market share and profit margin when the economy recovers.

* Analysis by Keith Roberts in presentation for Malik, Management Centrum St. Gallen

Growing confidence

third day in a row

Positive news

Buyers return

The "Five R's" of Recovery

Whatever survival tactics companies have been forced to employ during the recession, recovery is the time when they need to focus on rebuilding their brands. Analysis of Millward Brown's BrandZ database against scanned sales data from IRI finds that the probability of future market share growth depends on both the strength of existing attitudinal loyalty and a brand's momentum. The more successful a brand is in convincing people of its appeal and its difference from the competition, the greater its chance of growing market share.

The recipe for success will differ for each brand, but when planning your brand's comeback, consider these five basic strategies:

Remind people about your category and brand
Remind people that your brand still offers the best solution in the product category. Increase above-the-line advertising and, in particular, increase your effective share of voice in order to grow brand familiarity and perceptions of product performance, brand appeal and differentiation.

If you can't spend more, make sure your copy is working harder. Set the bar high and leverage your media budget as effectively as possible. Test a range of solutions for each channel. Pre-testing is cheap in comparison to wasting millions on ads that fail to evoke the desired response. To maximize the benefit of increased advertising, ensure that your brand has good visibility at the point of purchase, and consider how best to trigger positive perceptions when people are making their purchase decisions.

Restore confidence
In Argentina, after the recession of 1999 turned into the crisis of 2001, many people had to abandon their preferred brands of consumer goods in favor of economy brands. The premium brands that successfully weathered the storm did so by offering affordable new formats and cheaper packaging, as well as focusing attention on performance and value. When the crisis ended, these brands celebrated with positive and upbeat communication. Confirm your brand's core benefits and adopt a positive tone of voice to help restore consumer confidence.

Re-establish differentiation
During a recession, premium brands should maintain their relative price premium and seek to reframe perceptions of value. During recovery, restoring perceptions of differentiation will lead to growth and the ability to sustain a price premium.

The key to successfully regaining lost sales lies in understanding consumer mindsets and motivations.

Few consumers make choices based on price alone. A recent analysis of 209 consumer-packaged-goods brands in the United States found that consumer esteem was the key underpinning of a brand's ability to command a price premium. Brands that scored especially well on the statement "I have a higher opinion of it than others" commanded a median price advantage of 11 percent.

Focus on functional benefits to establish perceptions of advantage. Convenience and effectiveness always sell, particularly when people can afford to be doing something more enjoyable. If your brand lacks a compelling functional benefit, focus on sustaining emotional differentiation. If people have an emotional connection to your brand, they will want to return to it even if they must choose cheaper alternatives until the slowdown is over.

Relaunch
A compelling innovation can help regain customers who have traded down. But do not launch new variants just for the sake of it. In the UK, Nestlé's Kit Kat grew by 19 percent after it simplified its complicated brand lineup. Less clutter makes it easier for consumers to make selections and allows the brand owner to focus marketing and sales activities more effectively.

A shift in positioning might make the brand more attractive to new customers. In 2001 the UK's Halifax Bank, faced with the threat of acquisition, set aggressive targets to double the number of new accounts. As part of "The Extraordinary Growth Strategy" they took advantage of perceptions that all banks were the same to adopt a retail strategy and sell substance instead of image. They created a new current (checking) account paying 4 percent interest to provide a rational reason to switch. However, a value proposition is easy for competitors to match, so Halifax also employed new positioning.

The "Extra Value, Extra Friendly" proposition was founded on the insight that Halifax was, at its heart, "human." The Halifax staff took pride in being people, not bankers, and customers recognized that "Halifax people are people like us." A staff competition was held to identify spokespeople to represent the company in its advertising.

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The new campaign helped Halifax outperform the competition. Strong branded impact helped improve consideration of Halifax for a new account from seventh place to first among UK banks. The relaunch led directly to a significant uplift in sales and profitability with new accounts exceeding the target by 25 percent, acquisition costs decreasing 28 percent, and profit per account up 43 percent.

Rally the troops
The example of Halifax brings us to the fifth R. When the upturn comes, it will be mission critical for service brands to have staff energized and focused on delivering a positive customer experience. The involvement of Halifax staff in the brand's campaign motivated employees and gave them renewed faith in the company. Eighty-four percent of them agreed that the advertising had "given Halifax real momentum."

Identifying the Right Turning Point

The road to recovery is likely to be a bumpy one. Faced with uncertainty, marketers cannot rely on the media to tell them when to ramp up spend. Some categories may lead the economic recovery while others lag. By the time economists confirm that the recession is over, it will be too late to take advantage of the upturn. Only by keeping a close eye on key category and brand indicators will marketers be able to identify that the time has come to put their plans into effect.

The companies and brands that are ready for the recovery will be the ones that win back customers and consumers. Speed of response will be crucial, whether it be to take advantage of improved consumer sentiment or to counter competitive initiatives. Critical to an effective return to prior sales volume and brand growth will be a detailed understanding of both consumer behavior and mindset. Many customers who defected to cheaper brands can be won back if they are identified and targeted appropriately.

To read more about marketing during recession, visit www.mb-blog.com.

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