

# Marketing in a Recession: What Have We Learned?

Robert M. Brecht, Ph.D.  
Director of Research & Education  
DMN3 Institute

Marketing research provides great insight about the effects of marketing in a recession. We have research data from all eleven recessions from the Second World War up to the current one that began at the end of 2007. This recession is the longest and deepest recession since the Great Depression of 1929 - 1933. If there is any time to draw upon validated research, it is now!

## Slash Marketing Budgets at Your Own Peril

The consistency of the results of these studies is remarkable. ALL these studies show that companies that maintain their marketing budgets or increase them during a recession do far better than companies that reduce spending. The results include both business-to-business and business-to-consumer companies. The effects last long after the recession and can be measured in sales, market share and profits. (The latter is significant since maintaining profit margins is often cited as a reason to cut marketing budgets.) The data clearly shows that reducing the marketing budget during a recession is a decision that is not based on facts.

## Impact of Marketing in a Recession: The Published Studies

So what have we learned from the various published studies since World War II? Let's examine them in chronological order.

**Pre 1980 Studies:** While there are studies dating back to the 1920s, it was not until 1947 that a long-term study was launched by Meldrum & Fewsmith. Beginning with the 1958 recession, the tracking of profits was added to the research data. These studies spanned six different recessions (1948, 1953, 1958, and 1960-1961, 1969-1970, and 1973-1974).

American Business Press (ABP), an association of trade publications, sponsored the last two studies. ABP discussed the results of these studies in "How Advertising in Recession Periods Affects Sales," published in 1979. Here is a summary of the findings:

- "The studies of six recessions present formidable evidence that cutting advertising in times of economic downturns result in both immediate and long term negative effects on sales and profit levels."
- "Advertising aggressively during a recession not only increases sales but increases profits, and at a far greater rate than for firms that reduced marketing."

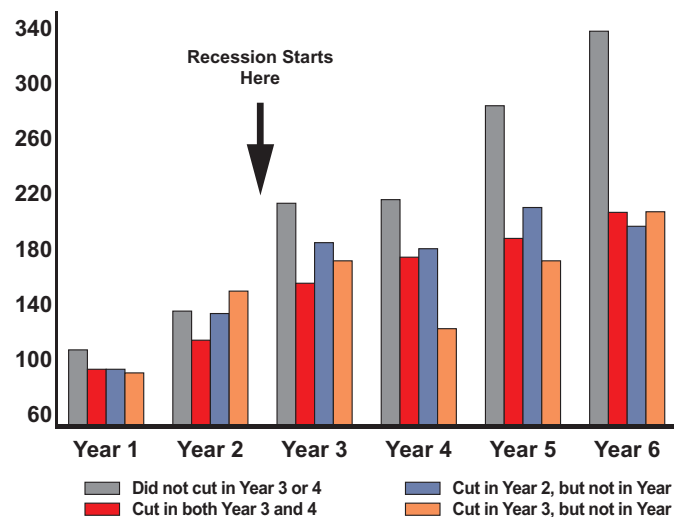
## Results by Recession:

- 1970 Recession Year: “Sales and profits can be maintained and increased in recession years and in the immediate years following by those willing to maintain an aggressive marketing posture, compared to companies that cut promotional efforts when sales decline.”
- 1974-1975 Recession Years – The ABP/Meldurm & Fewsmith study found that “Companies which did not cut marketing experienced higher sales and net income during those two recession years, along with the two years following, compared to companies which cut in either or both recession years.”

**1980s Recession Studies:** Several studies were completed about the effects of marketing on sales and profits during the 1980-1981 Recession. They included the McGraw Hill Research’s Laboratory of Advertising Performance and the Cahners Advertising Research Report.

1. McGraw Hill Research Laboratory for Advertising Performance analyzed the performance of 600 industrial companies during the recession of 1980-1981. The findings were published in the report: Laboratory of Advertising Performance Report 5262. It should be noted that these were business-to-business companies. The findings state that “business-to-business firms that maintained or increased advertising during the 1980-1981 recession averaged significantly higher sales growth during the recession and for the following three years than those which eliminated or decreased advertising.” From 1980 to 1985, those companies that chose not to reduce marketing spending during the two recession years collectively increased sales by between 16 and 80 percent. As can be seen in the graphs below, the gains made during the recession were permanent and expanded during the three years following the recession.

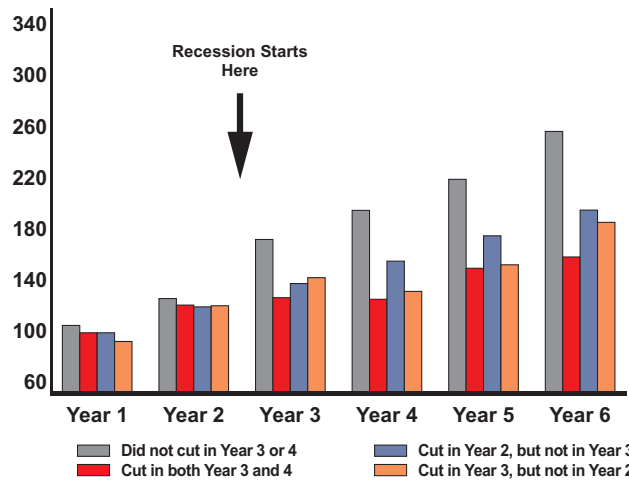
Comparison of Sales & Ad Expenditures<sup>iii</sup>



Sales for the companies studied were relatively even before the recession, but varied sharply during and after it. Companies that cut advertising during both of the recessionary years maintained flat sales during the period and only modest sales growth in the following two years. In contrast, the companies that maintained their advertising experienced significant sales growth throughout the four-year period.

- Another study of the 1980-1981 Recession titled: “Media Advertising When Your Market is in a Recession”, by the Cahners Advertising Research Report published by the Strategic Planning Institute in 1982 concludes that economic downturns reward the aggressive advertiser and penalize the timid one. Aggressive marketers gained a greater market share because weaker competitors fail to match the increase in advertising. Businesses that increased advertising by 28% or more gained an average of 1.5 points of market share.

Comparison of Net Income & Ad Expenditures<sup>iii</sup>



According to the study and contrary to popular belief, cuts in advertising during a recession decrease net income over the long haul. Companies that maintained advertising during the recession enjoyed measurably higher net income gains not only during the recession, but even more so, two years after the recession. This in stark contrast to those companies those companies that cut advertising both years and significantly reduced their profits during the recession, and for years following.

**1990s Recession Studies:** Several studies were published dealing with the 1990-1991 Recession and the impact of marketing on company performance. They included one by Management Review, one by Coopers & Lybrand and Business Science International and one published in 2002 in the Journal of Brand Management. The latter attempted to validate the former using more reliable data sources and a more robust research design.

- In its 1993 report , “Fortune Follows The Brave” Management Review published the results of a survey of AMA member firms about spending during the 1990—1991 Recession. The data showed that most firms that raised their marketing budgets enjoyed gains in market share. Management Review concluded that the keys to gaining market share in a recession seem to be spending money and adding to staff. Firms that increased their budgets and took on new people were twice as likely to pick up market share.

2. Also in 1993, Penton Media published a report by Coopers & Lybrand and Business Science International, titled “Companies that Maintain Aggressive Marketing Programs are Less Affected by a Recession.” They concluded that businesses that maintain aggressive marketing programs during a recession outperform companies that rely on cost cutting measures. During an economic downturn, a strong marketing effort enables a firm to solidify its customer base, take business away from less aggressive competitors, and position itself for future growth during the recovery.
3. In 2002, the Journal of Brand Management published an article titled, “The Brand Manager’s Dilemma: Understanding How Advertising Expenditures Affect Sales Growth During a Recession.” The study re-examined the 1990-1991 Recession, assembling new well respected data sources in a statistically reliable framework. The results confirmed previous studies, finding a measurable relationship between the two -- even when controlling for other factors such as company size and past sales growth.

**2000s Recession Studies:** Several studies are published about the 2000 Recession. In 2003, a study was published in the Journal, Strategy and Leadership titled, “What Strategic Investments Should You Make During a Recession to Gain Competitive Advantage in the Recovery?” Another study was published in 2005 titled “Turning Adversity into Advantage: Does Proactive Marketing During a Recession Pay Off?” in the International Journal of Research in Marketing.

1. In the 2003 study published in the Strategy and Leadership Journal, Keith Roberts investigated where investment pays off during a recession and where it does not. Comparing 1,000 businesses in the unique PIMS database, they investigated three measures to distinguish between successful and unsuccessful strategies, including average profitability during a recession, change in profitability during the first two years of recovery, and change in market share during first two years of recovery. The clear message drawn was: “In a recession, dare to invest aggressively in marketing, innovation and customer quality.”
2. The 2005 publication of research by the International Journal of Research in Marketing titled “Turning Adversity into Advantage: Does Proactive Marketing During a Recession Pay Off?” The authors hypothesize that a firm’s organizational traits will influence its proactive marketing during a recession and influence its business performance. The authors define proactive marketing as the organization’s interpretation of the recession and their response to capitalize on the perceived opportunity created by the change. Viewing the recession as an opportunity is not enough to make a firm proactive...the firm must also implement a marketing program to capitalize on the perceived opportunity. The authors state, “Our results support those who advocate investing in marketing during a recession.” The results of the study:
  - a. Support previous studies that show aggressive marketing in a recession does result in positive performance measures after recovery.
  - b. Showed that firms do not have to wait until a recession is over to realize the

benefits from marketing during a recession.

- c. Revealed that cost-cutting measures had no effect on performance and did not serve as a differentiator in achieving superior performance.
- d. Proved that firms placing a strategic emphasis on marketing were more likely maintain or increase marketing during a recession. A strategic emphasis means that these firms already had programs in place to help them get value from their marketing, e.g., well recognized brands, differentiated products, targeted communications, good customer service, etc.

**Conclusions:** This last study may help validate why some very large companies do not take advantage of the opportunities from an economic downturn. Corporate culture and a lack of strategic emphasis on marketing explain why companies cut marketing in a recession to attempt to retain margins. They tend to see marketing as an expense, rather than an investment in the company's success.

An article titled, "Advertising as an Anti-Recession Tool," published in the Harvard Business Review in 1980, discusses the impact on profits. The recommendations are still valid today. The article states that "The rationale that a company can afford a cutback in advertising (during a recession) because everybody else is cutting back is fallacious. Rather than wait for business to return to normal, top executives should cash in on the opportunity that the rival companies are creating for them. The company brave enough to stay in the fight can bring a dramatic change in market positions." The article also points out that "advertising should be regarded not as a drain on profits but as a contributor to profits...and as a means of achieving objectives. Ad budgets should be related to the company's goals instead of to last year's sales or to next year's promises."

In a way, cutting advertising during a recession is a self-fulfilling prophecy. Similar to the adage that the more the media talks about a recession, the more consumers worry and reduce spending... leading to a more pronounced recession.

Luckily there are a few companies bucking the trend to cut advertising in this recession. They are increasing marketing and altering the message of the campaigns to recognize the current environment. They stress the benefits that are most important to consumers during a downturn, e.g., reliability, longevity, lower priced options, guarantees, etc. They market to the recession, not run away from it.

A good example is the marketing of Hyundai Motors. With automobile sales down 25% to 40% over previous years, most auto makers reduced marketing. Not Hyundai. They increased advertising and came up with the "Hyundai Assurance" program, offering to buy back the cars if a buyer lost their job. In January of 2009, Hyundai sales increased 14% while other manufacturers were down 30 and 40 percent. With that increase in sales, came increased market share. They also solidified their brand in the mind of consumers.

If history repeats itself, Hyundai will continue to reap the benefits of their recession marketing after the economy's recovery. They saw the opportunity, had the products and the corporate culture. Plus, they understood the strategic value of marketing. All are ingredients to take advantage of a recession.

## Definition of Madness: Cutting Marketing Budgets to Increase Profits

*Despite the factual information available, we continue to see large, medium and small companies cut marketing spending during a recession to maintain their profitability. They do it over and over again and somehow expect a different outcome. That is the definition of madness and also a definition of a corporate culture that needs a makeover.*

Sources:

<sup>1</sup> "How Advertising in Recession Periods Affects Sales," American Business Press, Inc., 1979

<sup>2</sup> ABPI/Meldrum & Fewsmith study, 1979

<sup>3</sup> McGraw-Hill Research. *Laboratory of Advertising Performance Report 5262* New York: McGraw-Hill, 1986.

<sup>4</sup> Kijewski, Dr. Valerie. "Media Advertising When Your Market Is in a Recession," *Cahners Advertising Research Report. The Strategic Planning Institute, 1982*

<sup>5</sup> Greenburg, Eric Rolfe. "Fortune Follows the Brave," *Management Review, January 1993.*

Published by the DMN3 Institute

The DMN3 Institute is dedicated to providing thought leadership and education to marketing professionals and students who are passionate about staying ahead of the marketing curve. For more information, go to <http://www.DMN3.com/institute/default.htm>