

THE CASE FOR ADVERTISING IN A RECESSION

One of the first business casualties in a recession is often the advertising budget. The instinct is to save money by cutting back on advertising. Though this strategy might seem to make common sense, recessions are times that call for uncommon business wisdom. Recessions reward the aggressive advertiser and penalize the timid one.

A recessionary market can provide an opportunity for an industrial business to break from traditional budget-cutting patterns, and build a greater share of market through aggressive media advertising. This according to The Strategic Planning Institute of Cambridge, MA, in an analysis of more than 1,000 industrial businesses in the PIMS (Profit Impact of Market Strategy) database.

In fact, the study indicated that businesses that are aggressive media spenders can increase their share of market more than the average business during market downturns. Correspondingly, businesses that reduce media expenditures in expansion times suffer loss of market share. It was demonstrated that aggressive businesses may be able to accomplish these gains through greater expenditures without reducing short-term profitability.

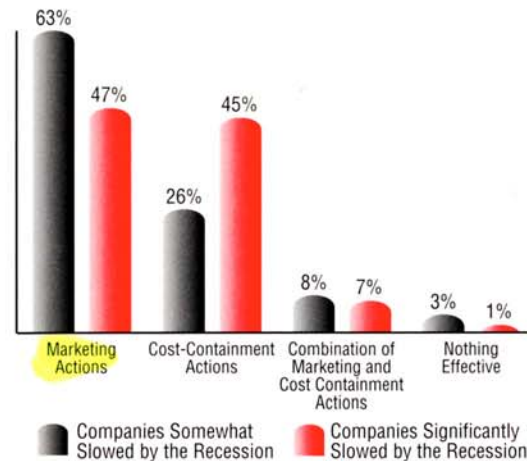
The Best Strategy in a Recession is to Advertise Aggressively

Businesses that maintain aggressive marketing programs during a recession outperform companies that rely more on cost-cutting measures. Penton Research Services reports that shortly after the 1990-91 recession, Coopers & Lybrand, in conjunction with Business Science International, surveyed CEOs from growth companies about the effect the recession had on their profit growth and the actions they had taken in response.

Better-performing businesses were more likely to have taken such actions as selling to new customers, expanding to new markets, and increasing ad spending. A larger percentage of firms only "somewhat" slowed by the downturn than companies "significantly" slowed indicated that marketing actions were the most effective in coping with the recession. A strong marketing program enables a firm to solidify its customer base, take business away from less aggressive competitors, and position itself for future growth during the recovery. (See Chart 1)

Chart 1: Most Effective Actions Taken to Cope with the Recession

Source: PRO Reports, Coopers & Lybrand and Business Science International



Since 1949, Advertising Has Been the Key to Surviving and Prospering in a Recession

When the economy slows down, it's time to make sure you maintain - even increase - your advertising expenditures. A slowdown is one of the best opportunities companies have to increase sales volume and market share, both on a short-term and long-term basis.

In a study of U.S. recessions, McGraw-Hill Research analyzed 600 industrial companies covering 16 different SIC industries from 1980 through 1985. The results showed that business-to-business firms that maintained or increased their advertising expenditures during the 1981-1982 recession averaged significantly higher sales growth, both during the recession and for the following three years, than those that eliminated or decreased advertising. By 1985, sales of companies that were aggressive recession advertisers had risen 256% over those that didn't keep up their advertising.

A series of six studies commissioned by ABP and conducted by the research firm of Meldrum & Fewsmith showed conclusively that advertising aggressively during recessions not only increases sales but increases profits. This fact has held true for all post World War II recessions studied by ABP starting in 1949.

Recessions Provide a Perfect Opportunity for Advertising to Do Its Job

Advertising aggressively in a recession can not only boost sales, profits and market share, it can also open a lead on the more timid competition. Advertising can skillfully reposition a product to take advantage of new buying concerns, give an advertiser a stable image in a chaotic environment, and give an advertiser the chance to dominate the advertising media.

One major business-to-business advertiser summed it up best. "When times are good, you should advertise. When times are bad, you must advertise."