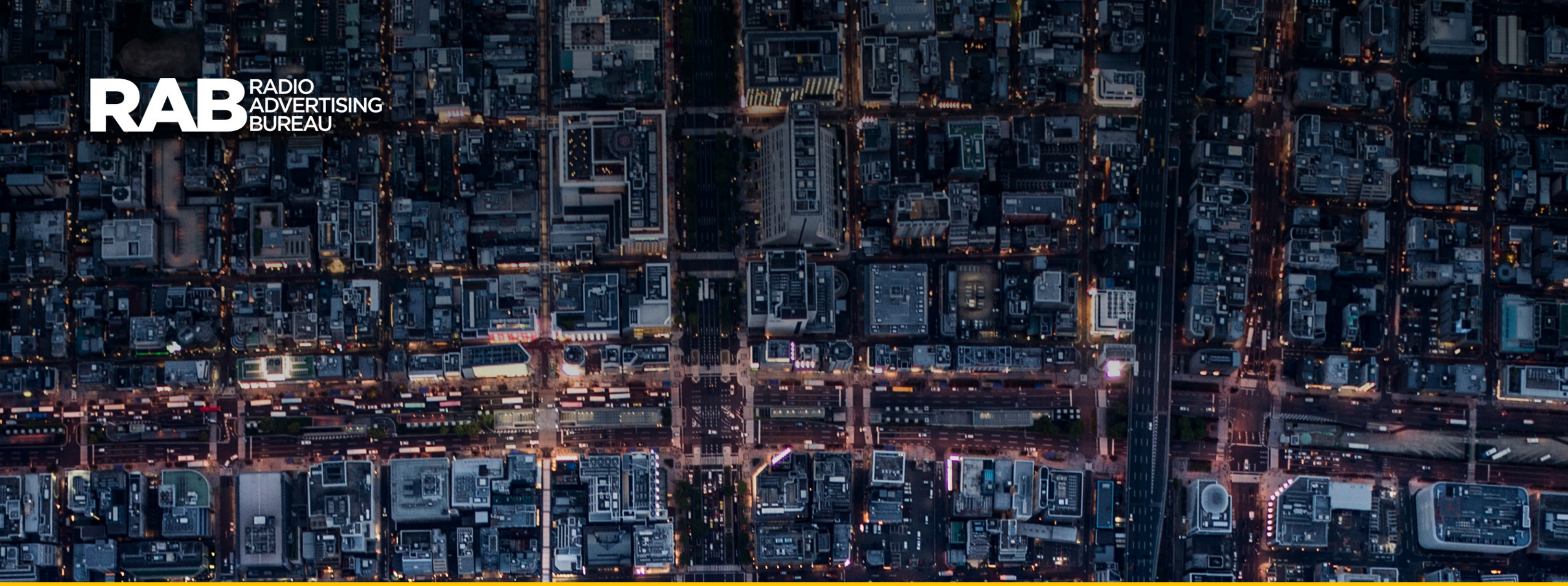
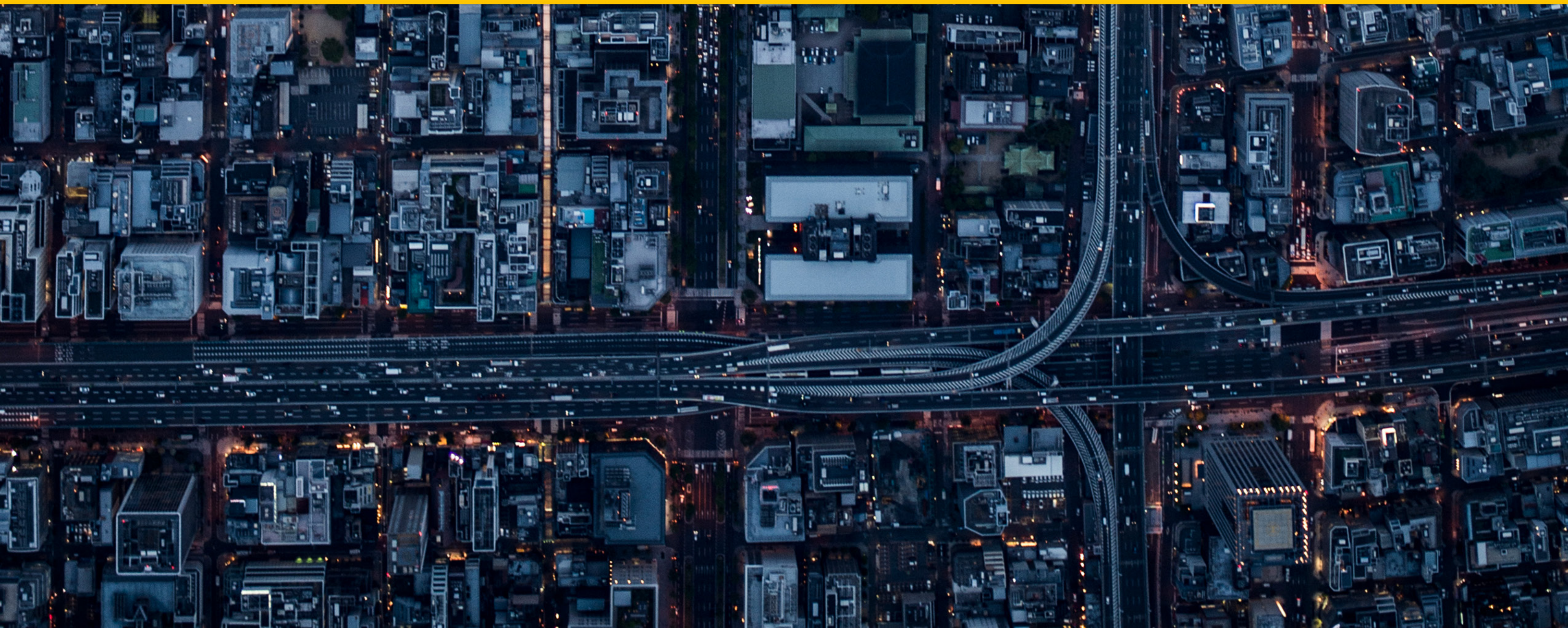
RAB RADIO ADVERTISING BUREAU



advertising during difficult times

March 1, 2020



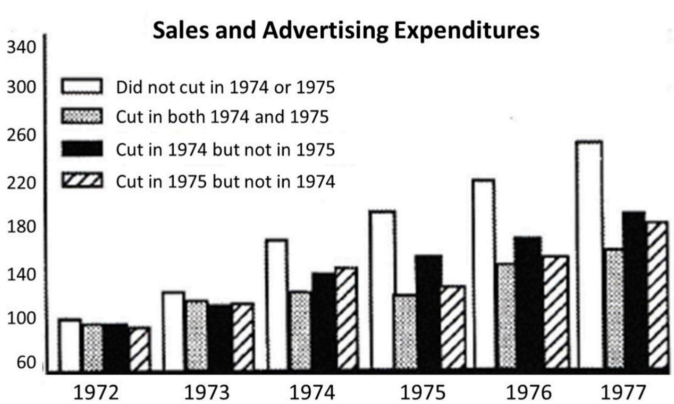
Advertising During Difficult Times

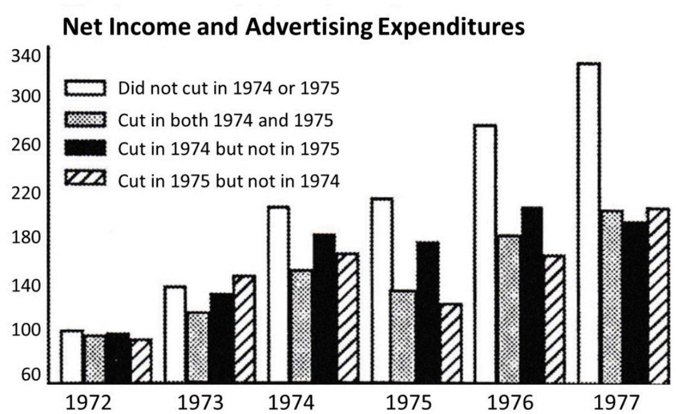
This is a new world for everyone. It is the first time that this country is experiencing an event such as this, so there is no historical data to refer to. There have been instances of natural disasters, terrorist events and recessionary periods where advertising during these times has been analyzed. The impact of the COVID-19 to businesses, the economy and consumers is consistent with the behaviors of an economic downturn.

Based on available data and past research of firms and organizations that have examined large events such as natural disasters, economic downturns have all produced great insights to analyze. However, this event is unique. It was not predicted nor anticipated. As of the publication of this paper, some analysts have suggested the possibility of a typical recession cycle, while others suggest a more v-shaped event (a potential dip with a quick recovery).

Regardless of the cause, careful consideration of marketing strategies and advertiser budgets during economic uncertainty becomes the focus of all advertisers, regardless of size. While the initial reaction may be to immediately cut ad budgets, the long-term effect of such actions should be seriously considered.

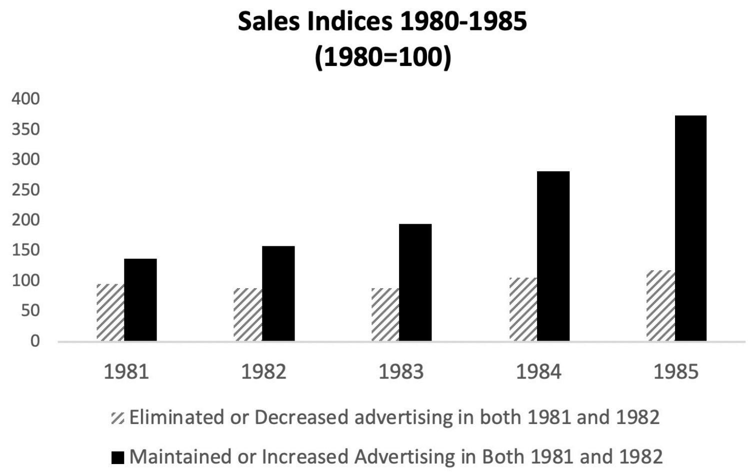
No studies receive more references than those by the American Business Press (ABP) – six in total. Findings were consistent among all studies. “Companies which did not cut advertising expenditures during the recession (1974 and 1975) experienced higher sales and net income during those two years following, than those companies which cut in either or both recession years...” The findings of the recession studies to date present formidable evidence that cutting advertising appropriations in times of economic downturns can result in both immediate and long-term negative effects on sales and profit levels. Moreover, these studies have repeatedly shown that maintaining or increasing advertising budget levels during recessionary periods may, in fact, be necessary in terms of protecting market positions vis-à-vis ‘forward-looking’ competitors – those who consider advertising an integral component of the total marketing mix.” The charts below detail 1) the study’s sales indices, and 2) the net income indices.





Another often-quoted study is one released by McGraw-Hill Research’s Laboratory of Advertising Performance (LAP). After the 1981-82 recession, they analyzed the results of 600 companies during that downturn. They discovered that B2B companies that “maintained or increased their advertising expenditures during the 1981-82 recession averaged significantly higher sales growth, both during the recession and for the following three years, than those which eliminated or decreased advertising.”

They graphed the annual sales, shown as an index with a base of 100 in 1980 and based the analysis on net sales and ad spending.



By the end of 1985, those companies that maintained or increased their advertising during the '81-'82 recession were able to show a 275% average sales growth over the previous five years. Those that decreased their ad spend recognized only an average sales growth of 19%.

In 1990, DDB Needham Worldwide released a white paper "Advertising in Recessionary Times." Within the paper, they analyzed the survey responses that were based on questions relating to financial perspective, buying behavior and brand preferences and provided the following advice:

1. *Consumers are looking for reassurance during recessions.*
2. *Brand equity may be particularly valuable.*
3. *Marketers in certain discretionary categories may have a harder time convincing consumers to go ahead and spend the money.*
4. *Success in discretionary and recession-sensitive categories will be based on understanding the barriers to purchase during recession.*
5. *In some instances, consumer reactions to high inflation may be stronger than reactions to recessions.*

In 2008, Millward Brown released a POV on marketing during a recession, based on analysis of the Profit Impact of Marketing Strategies (PIMS) database. The analysis compared the results of companies that had increased, reduced or maintained their ad spend during a recession. Using Return on Capital Employed (ROCE) as a metric, during the recession, the first two years of recovery and market share change during the same period of recovery. The data showed that while companies that cut ad spend experienced superior ROCE during the recession, they experienced lower results after the recession ended. During the recovery period, those that spent during the recession saw a much higher ROCE and gained 13 percentage points of market share.

While some of these results seem unusual, Millward Brown's reasons are as follows:

1. **The relationship between share of market and share of voice.** The connection between the share of the market and the share of voice has been proven. The higher your share of voice compared to your actual market share, the more likely your brand is to grow their market share in the subsequent year. So, 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 an advantage that could be maintained for many years.
2. **The relationship between brand size and profit margins.** Because they enjoy advantages of scale, big brands enjoy an advantage over smaller ones in terms of attracting repeat purchases and recouping their marketing investments. Therefore, a brand that increases share during a recession stands to benefit from this multiplier once the economy rebounds.
3. **Reduced "noise" during recession provides opportunities.** A new product launch may actually have greater impact during a recession than at other times, for several reasons. A product that is unique or demonstrably better than others should be able to command a higher price, even among price-conscious shoppers. Competitors who are running scared may be late in countering a new product with their "me-too" offerings. And, because media costs are likely to be lower, advertisers should get more bang for their buck. These savings may be compounded by the relative ease of cutting through in a less cluttered atmosphere.

The message is clear in all the aforementioned studies and documentation. During difficult times, those companies that continue to advertise will increase market share.

There is one additional item to consider – messaging. As noted in the previous white paper, "consumers are looking for reassurance during recessions." This reassurance should be incorporated into the advertiser's message along with sensitivity to the events. For example, parent company Constellation Brands was promoting a new product – Corona-branded hard seltzer. Part of the promotion included a sponsored tweet "coming ashore soon." The brand was quickly criticized after already experiencing sales declines due to the similarity of the brand's name to the virus.

There was also a recent case where a brand's longstanding message was considered inappropriate or in poor taste during this pandemic. KFC's long-standing slogan "finger lickin' good" was flagged as inappropriate in the U.K. Although consumers filed complaints, KFC had already decided to pull that campaign, in light of current events.

However, there have been companies that have positively shifted their messaging during these times. Lush, a U.K. cosmetics retailer, invited consumers to enter their locations to wash their hands – a key preventative measure suggested by the World Health Organization. Fast casual restaurant Chipotle understands the importance of connecting with fans and is creating a virtual lunchtime hangout daily with celebrity appearances/Q&A, exclusive content and more. Dunkin' recently began offering social distancing rewards – giving members who use on-the-go ordering extra points in their DD Perks program.

Advertisers should carefully consider the mindset of the consumer they are trying to reach. As events progress, consumer behavior patterns will shift, and those shifts will potentially differ among generations. Market research firm GlobalWebIndex, recently surveyed over 2,300 U.S. and over 2,200 U.K. internet users ages 16-64 about their behavior and perspective on COVID-19. Only 20% of respondents are concerned about the impact this will have on their current finances, but there were vast differences among the various generations. Based on all surveyed, Generation Z was the lowest at, only 12%, while Gen Y/Millennials were the highest, at 25%. Their buying habits have also shifted, as 28% of U.S. respondents are now doing all shopping online. That figure increases to 39% for Gen Y/ Millennials and drops to 10% for Boomers (among total surveyed).

So, what lessons can we learn?

1. It is important to continue to advertise. Any short-term reduction in ad spending can have long-term effects.
2. Make sure the ad message is relevant – now more than ever. It is important to build trust and confidence with both current and potential consumers.
3. Understand the mindset of the consumer you are trying to reach. Consumer behaviors are shifting, and your positioning should be aligned, not only with the consumer's expectation, but also reflective of the current situation, needs and concerns.

This is a new world for everyone. To continue to support your local community, business and economy, your decision to continue to advertise can be beneficial and rewarding to all.