HOW TO MAKE IT THROUGH AN ECONOMIC RECESSION?

Two issues drive the outcome:

(i) How strong are you (how prepared are you) going into the recession? What is your pre-recession equity, strong or weak? Reflects capacity to fight back.

(ii) What do you do during the recession? (expansion versus reduction of marketing support).

How strong are you (how prepared are you) going into a recession?

Underlying intuition:

(a) Prior research (e.g. Cleeren et al. 2008) suggests that strong-equity brands suffer less (and recover more quickly) from a product-harm crisis. A similar phenomenon can be expected following an economic crisis.

(b) During economic downturns, consumers are expected to switch to private-label brands (for empirical evidence, see Lamey et al. 2007). High-loyalty brands are better insulated against such switching behavior, if only because loyal customers incur higher switching costs when buying non-preferred items (Campo et al. 2000). As argued by Aaker (1996, p. 319), the presence of a loyal customer base is a key indicator of brand equity.

(c) As private labels will become more popular because of the recession Lamey et al. (2007), retailers will devote more shelf space to their own brands (especially since they also have a higher margin). This will put a pressure on the number of national brands the retailer will still carry. Retailers are less likely to delete brands with a strong and loyal customer base (Broniarzczyk et al. 1998).

Hence, the higher your pre-recession strength/equity (as measured e.g. by market share, brand loyalty, familiarity or recency of latest purchase), the better.

What do you do during a recession?

Dominant practice of national-brand manufacturers:

(i) cut back on ***advertising*** (Deleersnyder et al. 2008);
(ii) cut back on ***New Product Introductions*** (Lamey 2008);
(iii) cut back on ***marketing research*** (Lamey et al. 2007).

There is increasing evidence that this <u>not</u> the best solution. For example, in a study covering 37 countries across all continents, Deleersnyder et al. (2008) show that private-label growth is higher in countries characterized by more cyclical advertising spending. In addition, an examination of 26 global companies showed that stock-price performance is lower for companies that exhibit stronger pro-cyclical spending patterns. The impact of cutting back on NPIs (especially on *innovative* new products) on private-label growth is shown in ongoing work by Lamey et al. (2008).

This cutting back on advertising, marketing research & NPI can be driven by two forces: (a) a reduction in total marketing support, and (b) a re-allocation of marketing resources to promotional support measures. Indeed, the latter are known to have a stronger short-run impact on the bottom line.

For promotional support, it is less clear what typically happens: they also suffer from the overall reduction in marketing support, but on the other hand, they may benefit from the re-allocation tendency. Across 90+ FPCG categories, Lamey (2008) reports that temporary price reductions behave pro-cyclical, while display and feature activity behaves counter-cyclical. Research is underway to assess the performance implications (in terms of private-label growth) of such practice on the part of national brand-manufacturers.

In sum, *for advertising, marketing research, and NPI* (those weapons known to be most effective against private-label encroachment, also in regular times – Kumar and Steenkamp 2007), there is growing & consistent evidence that *it pays to not follow the general trend of cutting back during a recession*, but rather to go against the general trend of reducing those activities in times of economic hardship. Put differently, one should start to see those tools as strategic investments, rather than as short-run costs than can easily be cut when the going gets tough.

Note that this “going against the trend” activity can take place in absolute terms (strong form) or in relative terms (weak form). Indeed, by reducing expenditures less than one’s competitors, one may still increase one’s share of voice.

For price-promotional activity, the debate is still going on (but some insights are expected soon).

Combining both dimensions:

		Advertising, NPI, Marketing Research	
		Reduction	Increase/ No reduction
Brand Equity	High	(1) High loss potential	(2) Recession may be opportunity
	Low	(3) Survival game	(4) Try to fight back?

Brands in cell (1) have a lot to loose: they start from a favorable position, but their behavior ("paniekvoetbal") may cost them dearly. They should focus on activities that keep their customers satisfied (and hence, retain them), rather than focus on cost-saving activities (Rust, Moorman and Dickson 2000). Indeed, customers lost during the recession may never come back, even when the economy's outlook improves again (Lamey et al. 2007).

For brands in cell (2), the recession may be an opportunity to considerably strengthen their (relative) position, not only in the recession period, but also in the subsequent periods (Frankenberger and Graham 2003; Srinivasan et al. 2005). Put differently: "Each disadvantage has its opportunities…".

Brands in cell (3) should not be envied, they start weak, and their management makes the wrong decisions. They are the prime candidates to not make it till the next expansion period.

The brands in the fighting-back cell (4) start in an unfavorable position, but do the right thing to overcome this deficit. The relative strength of both dimensions will determine whether they can succeed, or whether it is anyway a lost race.

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