Does it pay to advertise in a recession period?

In a study of U.S. recessions, McGraw-Hill Research analyzed 600 companies from 1980-1985. 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.

In addition, a series of six studies 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 The American Business Press starting in 1949.

Some advertisers believe that boosting advertising during recessions provides an added benefit in increased sales and profitability. However, evidence for this argument has been weak, first, because it fails to address firm-based (earnings and market value) outcomes, and second, because it has been studied primarily in non-consumer goods industries.

In this report, Frankenberger and Graham extend the investigation of recessionary advertising spending increases and decreases to include financial measures of performance, and compare performance across consumer products, industrial products, and services industries. They conduct an econometric analysis employing cross-sectional time series regression on a sample of 2,662 firms over 16,147 firm-years.

They analyze the economy-wide and industry-specific effects that average advertising spending has on earnings and market value, and compare those effects with the effects of increased and decreased advertising spending during recessionary periods.

Their results indicate that advertising creates a firm asset by contributing to financial performance for up to three years in the future. Further, increasing spending on advertising during a recession leads to benefits that exceed the benefits of increasing advertising during non recessionary times. However, the effect varies by industry: A performance boost is observed during the recession year and one year following for consumer and industrial products firms, but not for services firms. When firms decrease their advertising during recession, financial performance is eroded only for industrial products firms, and only during the year of the recession.

Frankenberger and Graham conclude that firms should support advertising budgets whenever possible, as advertising in general translates to an asset that is valued by stock market participants. For firms experiencing soft economies in the consumer and industrial products industries, it makes sense to increase budgets during a recession to realize an incremental gain in financial performance. Firms that decide to cut advertising spending during a recession may do so with little cost beyond the recessionary year.

Cutting Advertising During Recession is Not an Option!

These are challenging times for businesses. Many local operations -- big and small -- are struggling to ecoup difficult losses sustained during this year. And companies everywhere are faced with tight budgets and tough decisions. Small retail stores are struggling to stock their shelves, meet the cost-cutting tactics of competitors, and draw in now-frugal consumers whose purchases they scrutinize more so now than ever.

But the reality stands that everyone still needs petrol for his or her cars. Families need to eat. Children returning to schools need clothes and supplies. And, people still need supplies from light bulbs to gardening tools. Businesses, large and small, who sit back and weather the storm with the belief that, once the economy picks up, so will business are missing out on tremendous opportunities. Companies must show the consumer that they are stable enough to withstand hard times.

Now is the time for smart companies to seize market share and position themselves to lead the inevitable economic turnaround. Business owners must remember what it was like to start a new business, gain name recognition and entice customers. Withdrawing from the public until the economy picks up and cash-flow increases will mean having to reinvent the company all over again. A cost that will weigh far more than a few quarters with lower than average profits.

The way for companies to maintain their market share is simple: To Advertise.

Take, for example, the real estate and development industry. Despite a decrease in revenue, The Ritz Carlton continues to rise, realtors continue to show property, and even fast food establishments continue to race to fill the orders of those hungry patrons who only have time for a quick bite. Why? Because these businesses continue to advertise. Construction is beginning to pick up, the availability and need for owner-occupied homes has not waned, and the consumption of food has not been put on hold.

In a study of the United States recessions, McGraw-Hill Research analyzed 600 companies in 16 different industries. The results showed that businesses that maintained or increased their advertising expenditures during a recession averaged significantly higher sales growth, both during the recession and for the following three years, than those that eliminated or decreased advertising. Sales of companies that were aggressive recession advertisers had risen 256% over those that didn't keep up with their advertising.

History shows that companies that fare the best during hard economic times do so by continuing to communicate with customers and build their brands regardless of temporary economic conditions. These companies actually increase their advertising and marketing spending during economic recessions, and later reap huge dividends on their investments. If a company fails to maintain its market identity during an economic downturn, current and future sales are jeopardized.

Maintaining market identity costs much less than rebuilding it later on. Advertising through both boom and down times sustains the necessary brand recognition. And, here in Cayman, there are institutions set up to assist the business owner in maintaining their market share. There is help for the companies who shudder at the idea of having to close their doors after years of service to the community and revenues for the company.

Maintaining a company's advertising during an economic downturn will give the image of corporate stability within a chaotic business environment and give the advertiser the chance to dominate the advertising media. During an economic downturn, a strong advertising/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.

Simply put, advertising during an economic downturn should be regarded not as a drain on profits but as a contributor to profits. Increases in market share brought about by advertising can be achieved more cost effectively during a recession. A company that advertises aggressively during this period will be better placed to increase profitability once the market in which it operates returns to a condition of stability or expansion.

Recessions Provide a Perfect Opportunity for Advertising to Do Its Job

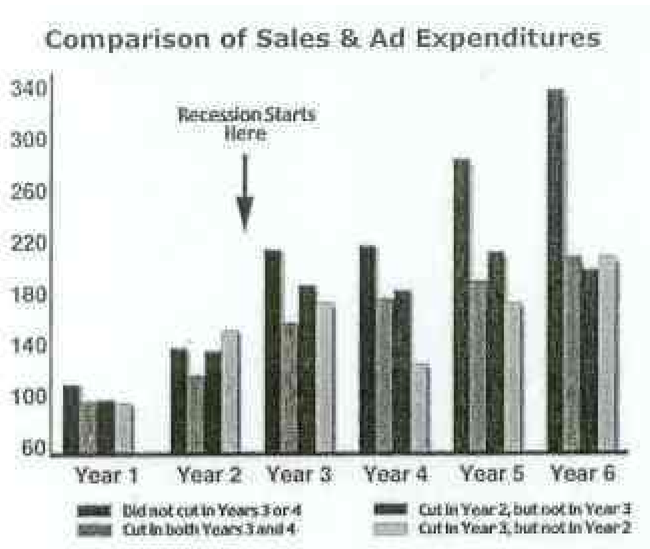
Recessions are different from other economic periods and need to be looked at differently to benefit your business. There are two focuses that you should have when looking at marketing and advertising in a recession:

•Increasing Short- and Long-Term Profits
•Increasing Market Share

If you focus in this way, you'll be better off in almost every case both during and after the recession. Recessions clearly reward the aggressive advertiser and penalize the timid one.

Increasing Short and Long Term Sales and Profits

In a study of U.S. recessions, McGraw-Hill Research analyzed 600 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.



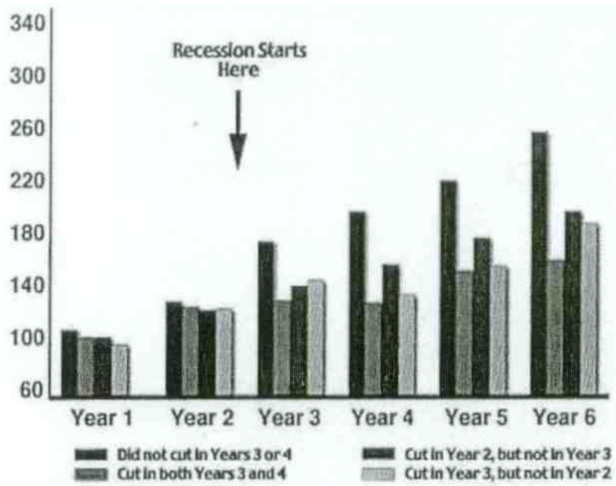
Sales for the companies studied were relatively even before the recession, but varied sharply during and after it. Companies that cut advertising during both of the recessionary years maintained flat sales during the period and only modest sales growth in the following two years. In contrast, the companies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

In analysis of the 1990-91 recession, Penton Research Services, Coopers & Lybrand, in conjunction with Business Science International, found that better performing businesses focused on a strong marketing program enabling them to solidify their customer base, take business away from less aggressive competitors, and position hemselves for future growth during the recovery.

Increasing Market Share

A recessionary market can provide an opportunity for businesses to build a greater share of market through aggressive advertising. This according to The Strategic Planning Institute of Cambridge, MA. Correspondingly, businesses that reduce media expenditures suffer loss of market share. It was demonstrated that aggressive businesses can accomplish these gains through greater expenditures without reducing short-term profitability.

Comparison of Net Income & Ad Expenditures



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.

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.

Conclusion

A series of six studies 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 American Business Press starting in 1949.

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