

A POINT OF VIEW ON MARKETING IN A RECESSION

Doing More with Less

A Point of View on Marketing in a Recession

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INTRODUCTION

We face one of the most challenging business environments in years. Marketers will be asked what actions they intend to take. This document has seven points of advice based on Ogilvy's experience in guiding brands through previous recessions, mixed with some of the latest academic thinking. It is intended as a starting point for a discussion that we would like to have with you.

1. GUARD HIGH-VALUE CUSTOMERS

In a severe recession, share protection through retention of a brand's most profitable customers should be the first priority.

Losing loyal customers can be very costly. According to the Ogilvy Loyalty Index, on average, loyal customers who are "bonded" to a brand spend up to 20 times more than the average customer.

The key is to identify who they are and what their concerns are. Then you can consider whether a special initiative is needed.

At the outset of the 2007 season, Six Flags launched a regional customer marketing program across all parks. Six Flags geographically segmented their best customers and, by email, began to nurture them with special offers, news and more. By the end of the season, those customers who were nurtured in this way were worth 35% more than those customers who were not.

Members of the Starwood Preferred Guest® program wanted to choose their own rewards from the points earned as loyal customers. Starwood listened and launched the *You Choose* promotion in fall 2008 through Lacey, Ogilvy's loyalty marketing agency. The company received over 35,000 registrations before the first promotional email was sent.

Ogilvy can help by conducting a differential marketing analysis to identify a brand's most profitable customers. For packaged goods brands, this may mean determining key characteristics and targeting marketing dollars to them. For considered purchase brands, this may mean identifying individuals and marketing directly to them.

2. HARVEST CUSTOMERS WHO ARE READY TO BUY

The second most valuable target, after existing customers, is those who are about to purchase. Research into the decision-making process can illuminate what barriers people have at *The Last Mile™*. With this knowledge, there are two areas in particular where marketers can focus attention: search and shopper activation.

We often say that the first dollar a marketer spends should be on search. This is never truer than in a recession. Customers who have raised their hands declaring interest in your product deserve special attention. Marketers can improve “organic” search by tracking existing search capabilities, understanding key words and then developing strategies for content development, page tagging and linking to ensure that as many active shoppers as possible are directed to the brand’s site.

TD AMERITRADE optimized their search campaign to quickly respond to shifting market conditions. After the 778-point drop in the stock market on September 29, 2008, they were able to capitalize on increased demand thanks to their effective campaign strategy. Their search-lead volume multiplied as a result.

The physical equivalent of search is in-store activation. A new global shopper study – *Shopper Decisions Made In-Store (SDMIS)* published by OgilvyAction in June 2008 – revealed that 72% of shoppers make at least one of the four following decisions in the store: choosing a brand, deciding on an impulse purchase, abandoning a planned purchase or deciding how much to buy. The same research also found that visibility drove more purchase decisions than price promotion.

Ogilvy can help with search optimization. Intent mapping looks at the most frequently searched items to determine what people are actually looking for. This can be accomplished with text, tools or widgets that include these terms in title pages, meta tags and website links. OgilvyAction’s CheckPoint Planning can identify opportunities to convert shoppers into buyers by understanding the intersection between shopper behavior, the retailer’s agenda and the brand.

3. OPTIMIZE BUDGET ALLOCATION AND CHANNEL CHOICE

Every marketer will scrutinize the budget during a recession. Is the overall level correct? Is the allocation of dollars as precise as it can be?

Many marketers think first about channel choice. We've found, however, that it helps to first examine the budget breakdown by marketing task. This is usually structured around a sales funnel, or what we call vertical allocation. What are you spending on awareness, consideration, activation, loyalty and so on? Examining budgets in this way gives a channel-neutral view. Then we review channel choice at each level of the funnel. There are often opportunities to alter the channel mix in a recession. As Carlos Grande notes:

Historically, recession businesses have tended to switch budgets from brand media advertising into direct marketing and other channels seen as more measurable...digital, which is already the fastest growing part of the media sector, could further benefit if budget-switching between channels occurs.¹

A 360 degree solution is still usually the best option in hard times. Multichannel campaigns have a better success rate (65%) than single-channel campaigns (58%).

This is definitely *not* an argument against using TV. Far from being dead, TV is one of the most efficient and effective media: campaigns using TV have a higher success rate (66%) than campaigns not using TV (49%). It is more often than not an argument for using TV alongside other channels.

Multichannel campaigns are also more *efficient*. The average market share gain for every 10 percentage points of surplus share of voice is 1.1 percentage points with traditional advertising alone, but 2.6 percentage points with traditional advertising plus other channels.

As Binet and Field point out in "The Pursuit of Effectiveness,"² campaigns using multiple direct channels are more *effective*. Effectiveness rises with the number of direct channels used, from 55% for campaigns using one direct channel to 80% for campaigns using four or more channels.

However, don't spread your budget too thin across too many channels. You may end up doing nothing much in any of them. The crucial metric in every channel is always share of voice relative to competitors. Depending on the size of the brand budget, you might find three or four channels optimum.

Ogilvy can help by examining allocation with its "funnel optimizer." This model establishes response curves for each level. Secondly, we examine channel choice at each level of the funnel and measure these against norms from the "compose" survey to help inform channel choices.

¹ Carlos Grande, *Are We Heading for an Advertising Recession?* WARC, February 2008. ©2008 Copyright and database rights owned by WARC.

² Les Binet and Peter Field, "The Pursuit of Effectiveness," *Market Leader*, Issue 39, Winter 2007. ©2008 Copyright and database rights owned by WARC.

4. CUT STRATEGICALLY WITHIN A BRAND PORTFOLIO

If you have to cut spending, some cuts are better than others. Generally, you should cut the budget for smaller brands rather than for bigger brands. Small brands often take a disproportionate share of marketing spend because they are trying to grow, but bigger brands are likely to deliver bigger returns in the short term.

You should also exploit seasonality to make cuts in off-peak sales periods. The sales losses will be lower.

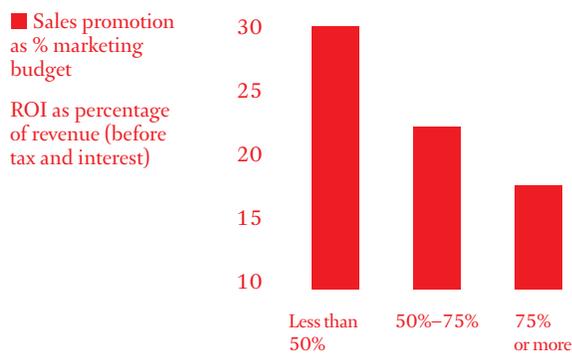
This is also the time to take a hard look at the contribution of different brands to profit as well as at their growth potential. Prune your product lines. Drop support for stagnant brands.

Ogilvy can help with a portfolio audit. We can work with marketers to make a comprehensive assessment of different brands and sub-brands, including responsiveness to marketing and a competitive analysis. We will then recommend where to spend limited marketing dollars within a portfolio.

5. USE PRICE PROMOTIONS SPARINGLY

In a recession, marketers are under tremendous pressure to offer price promotions (such as temporary price cuts, premiums, couponing, BOGOFs, etc.). These are the easiest part of a marketing program to measure, and therefore the easiest to justify when budgets are tight, but they can truly damage long-term profitability (see Figure 1). You need to work out the *right balance* between promotion and stimulating primary demand in your particular case.

Figure 1: ROI falls as price promotion increases share of marketing budget³



(Base: 314 companies in PIMS database)

³ Alex Biel, *Long-Term Profitability: Advertising versus Sales Promotion*, WARC, 1999. ©2008 Copyright and database rights owned by WARC.

6. CONSIDER REASSURANCE OR VALUE MESSAGES

Your brand may be so sensitive to recession that a different, short-term message is called for. Many brands are already following this course. Stuart Elliott noted in *The New York Times* that:

In advertising, many financial institutions are racing to reassure consumers with soothing messages – that focus on important “S” words: strength, safety, stability, security.⁴

Reassurance messages don’t need to be purely rational, of course. Indeed, there is growing evidence that emotionally based messages are more persuasive than rational ones.

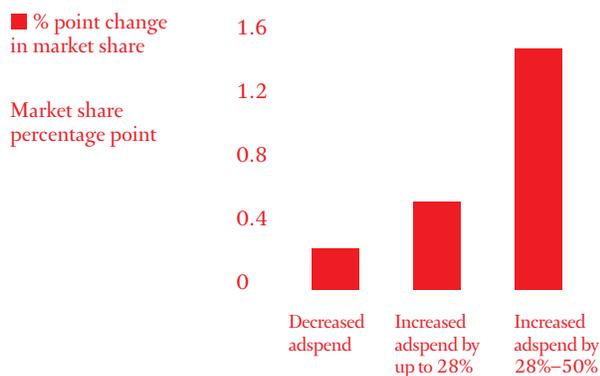
Kraft has enjoyed success with tactical value messages for several of its brands this year. For Kool-Aid, Ogilvy has developed TV, radio and in-store messages that point out that “for the price of one bottle of soda, you can mix up five big pitchers of Kool-Aid, and for pennies a glass, keep the whole family refreshed and smiling.”

Ogilvy can help with rapid response polling. Recently, we worked with several clients to determine which messages resonate best for them during turbulent times – with a technique borrowed from the world of politics. Rapid response polling has two advantages. It is fast, so that marketers can respond to events quickly. And it is particularly suited to isolating the best articulation of a message. (Thus the “inheritance tax” is perceived very differently from the “death tax,” for example.)

7. IF FEASIBLE, CONSIDER AN INCREASE IN SPEND

A recession can, of course, be an opportunity. Those fortunate companies that are able to increase marketing spend in recessions increase their market share in both consumer and B2B markets. This result is seen in analyses of all recession winners dating back to the 1920s.

Figure 2: Market share gains in recession⁵



(Base: 2,000 businesses in PIMS database)

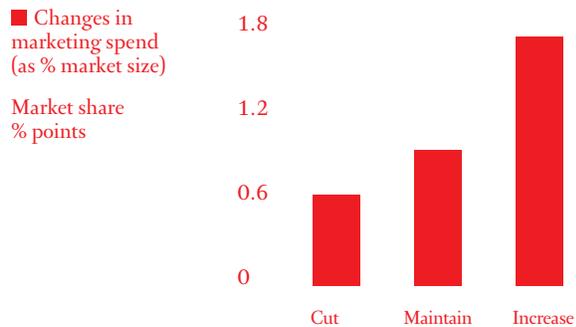
Higher relative share of voice also creates faster growth. On average, every 10 percentage points of “surplus” share of voice (“surplus” means share of voice minus share of market) generate around 2.2 points of market share. The lesson is that when you have an effective campaign, you should spend every last cent you can scrape up on it.

⁴ Stuart Elliott, “Ads That Soothe When Banks are Failing,” *The New York Times*, October 7, 2008.

⁵ Cahners/SPI, “Media Advertising When Your Market is in a Recession,” 1982; cited in Bernard Ryan, *Advertising in a Recession*, WARC 1991. ©2008 Copyright and database rights owned by WARC.

Companies that increase marketing spend in recessions recover *three times faster* in “normal” times. Similarly, B2B companies that maintain/increase spend in a recession achieve higher growth both during the recession and *for three years thereafter*.

Figure 3: Market share change in first two years of recovery from increased marketing spend in a recession⁶



(Base: 1,000 companies in PIMS database)

A recession can also be seen as an opportunity to put weaker competitors out of the market. If they can't match your level of marketing spend, their market share will decline and, with it, their capacity to compete when growth returns.

Advertising usually continues to have an effect on sales for about three years, so there may not be an immediate sales decline when competitive brands cut spend. However, a decline in the strength of consumers' relationships with the brand can be seen in research after six months.

Crucially, further data demonstrates that two key constituent brand relationship metrics – brand usage and brand image – suffered considerably (13% and 6% declines, respectively) when brands “went dark” (i.e., ceased to spend on communications) for a period of six months or more. More broadly, 60% of brands “going dark” see decline in at least one key relationship metric after just six months.⁷

In the 1974–1975 recession, Ford cut spending by 14%. Chevrolet, however, dropped its traditional method of setting the budget as a percentage of last year's sales and increased its spending, particularly for its fuel-saving economy models. Chevrolet's market share rose by two percentage points, while Ford lost share and took years to regain its previous position. However, Ford had learned. In the next downturn, Ford increased spending every year and saw considerable share gains.⁸

Ogilvy can help with investment case planning. Recently, we have helped several CMOs work through different spending scenarios with CFOs and other approvers. By building an econometric model, we can help marketers understand the effects of budget cuts or increases.

⁶ Tony Hillier, “Successful Competitive Strategies for Recession and Recovery,” *Market Leader*, Spring 1999. ©2008 Copyright and database rights owned by WARC.

⁷ Peter Field, “Marketing in a Downturn,” *Market Leader*, Autumn 2008, pg. 27. ©2008 Copyright and database rights owned by WARC.

⁸ Bernard Ryan Jr., *Advertising in a Recession*, American Association of Advertising Agencies, Value of Advertising Committee, 1991. ©2008 Copyright and database rights owned by WARC.

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