@ISSUE
Insights on Important Marketing Communications Issues

Spending MarCom Dollars During a Recession Reaps Revenue Benefits Now . . . and Later!

Times are tough. Budgets are being slashed. And one of the first items to go is marketing communications. Some companies reduce MarCom spending significantly. (They go dim.) Others virtually pinch MarCom spending to a mere trickle. (They go dark.) But spending money in an economic downturn can actually contribute to earnings and profits . . . both during the recession and immediately following.

Conventional wisdom or urban myth?

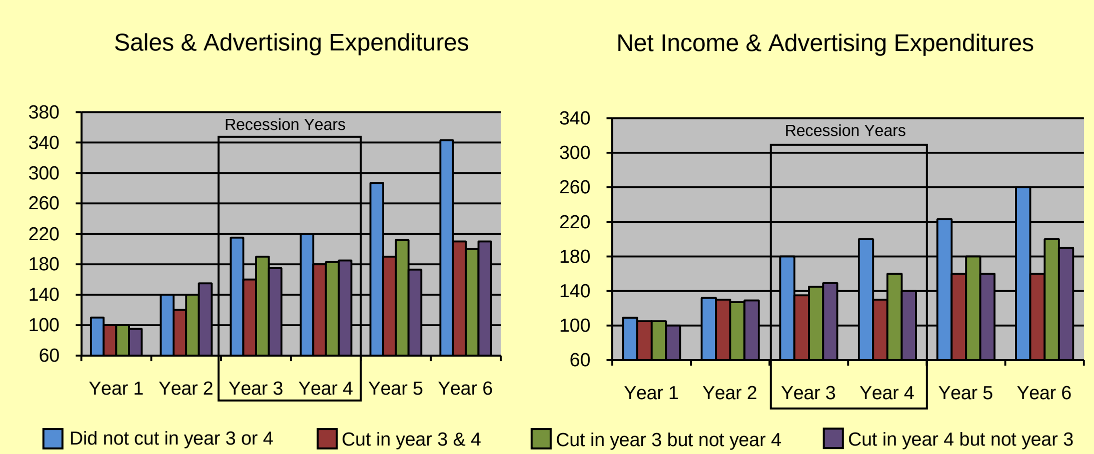
How does +256% revenue growth sound?

Analyzing 600 companies across 16 industries, McGraw-Hill Research found that companies that were aggressive MarCom spenders during a recession average significantly higher sales growth — 256% — over those that didn't. This growth occurred during the [1981-1982] recession years and for the two years following. (Source: McGraw-Hill Research Laboratory of Advertising Performance Report 5262.)

This sounds convincing, and the report is cited a lot. But others are skeptical.

In his column, "Ask an Expert," Steve Strauss quotes Steven Little, author of *Duck and (Re)*Cover, who posits that there is no "causality" between advertising in a recession and sales growth. Little's argument is that the McGraw-Hill study only looked at public companies with annual sales of more than $1 billion, and

continued, next page



See explanation of bar graphs on page 3.

Allerton Marketing Communications Inc. • Reymer House • 1132 West North Avenue • Pittsburgh, PA 15233 • Phone: 412.321.6322 • FAX: 412.321.5117 • www.allerton.com

the study is nearly 25 years old. "Little points out," Strauss writes, "that this piece of conventional wisdom — that advertising more in a recession leads to increased sales growth — is essentially an urban myth." (Source: "Ask an Expert: Getting real about ads' effect in a recession." *USA Today*, June 22, 2009.)

By way of full disclosure, Mr. Strauss acknowledges that he's quoting an "associate" of his whose book is new and "really interesting." Its theme is to call into question not only the McGraw-Hill study, but also other "sacred cows of conventional business wisdom." It is published by John Wiley & Sons, who also published Strauss' book, *Small Business Bible.*

Urban myth? We report, you decide.

Consider the following from a summary of citations assembled by Shannon Kavanaugh in "Recession Data on the Value of Marketing Through Downturn," appearing on Ezine Articles.com:

- "Sales and profits can be maintained and increased in recession years and [in the years] immediately following by those who are willing to maintain an aggressive marketing posture, while others adopt the philosophy of cutting back on promotional efforts when sales appear to be harder to get." (Source: "How Advertising in Recession Periods Affects Sales," American Business Press, Inc. 1979.)
- "Companies which did not cut marketing expenditures experienced higher sales and net income during two years and the two years following than those companies which cut in either or both recession years." (Source: ABP/Meldrum & Fewsmith Study, 1979.) This is one of six studies conducted by the research firm of Meldrum & Fewsmith showing conclusively that advertising aggressively during recessions not only increases sales but increases profits. This has held true for all post-World War II recessions studied by the American Business Press, starting in 1949.
- Asked about spending during the 1990-1991 recession, AMA (American Marketing Association) members reported data showing that most firms that raised marketing budgets enjoyed gains in market share. Fifteen percent reported "greatly decreased" ad budgets. Advertising was "somewhat cut" by 29 percent. "The keys to gaining market share in a recession," concluded *Management Review*, author of the study, "seem to be spending money and adding staff. Firms that increased their budgets and took on new people were twice as likely to pick up market share." (Source: Greenburg, Eric Rolfe. "Fortune Follows the Brave," *Management Review.* January 1993.)

New study confirms decreasing advertising spending in a recession results in immediate loss of earnings

A new study conducted by Roger Graham, professor of accounting at Oregon State University, and Kristina Frankenberger, professor of marketing at Western Oregon University, took a look at the relationship between the earnings of companies and their advertising expenditures during five recessions since 1971. Sampling data from more than 3,000 publicly traded firms, Graham and Frankenberger found that, adjusting for inflation, advertising expenditures contributed to increased earnings by firms for up to three years. The greatest impact occurred in the year immediately following the recession,

continued, next page

especially for firms offering consumer goods or industrial products. Decreasing advertising during a recession resulted in immediate loss of earnings. (Source: "Advertising During a Recession May Yield Increased Earnings Later." PHYorg.com. March 30, 2009.)

Harvard Business Review: Advertising in a recession is a contributor to profits

"The rationale that a company can afford a cutback in advertising because everybody else is cutting back [is fallacious]. Rather than wait for business to return to normal, top executives should cash in on the opportunity that the rival companies are creating for them. The company courageous enough to stay in the fight when everyone else is playing safe can bring about a dramatic change in market position."

"Advertising should be regarded not as a drain on profits," the *Review* states, "but as a contributor to profits, not as an unavoidable expense but as a means of achieving objectives. Ad budgets should be related to the company's goals instead of to last year's sales or to next year's promises." (Source: Dhalla, Nairman K. "Advertising as an anti-recession tool," *Harvard Business Review,* January-February 1980.)

Consider these points, too.

- Maintaining market identity costs much less than rebuilding it later on. Advertising through both boom times and down times sustains brand recognition, a company's most important asset.
- Maintaining a robust marketing communications effort during economic downturns projects an image of corporate stability and strength within a chaotic business environment.
- A strong marketing communications effort during a recession enables a company to solidify its customer base, take business away from less-aggressive competitors, and position itself for future growth during the recovery.
- During a recession accountants are running your business. Accounting conserves capital. Sales, marketing, *and marketing communications, which supports and advances sales and marketing,* grow capital.

What Does the McGraw-Hill Research Data Show?

(From page 1)

Comparison of Sales & Ad Expenditures

Sales for the companies studied were relatively even before the recession, but varied sharply during and after. However, companies that maintained their advertising during the recession years experienced significant sales growth both during the recession and the two years after. Companies that cut advertising during the recession maintained flat sales during the recession and only modest sales growth in the two years following.

Comparison of Net Income & Ad Expenditures

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. Those companies that cut their advertising during the recession reduced their profitability during the recession and for the two years following.