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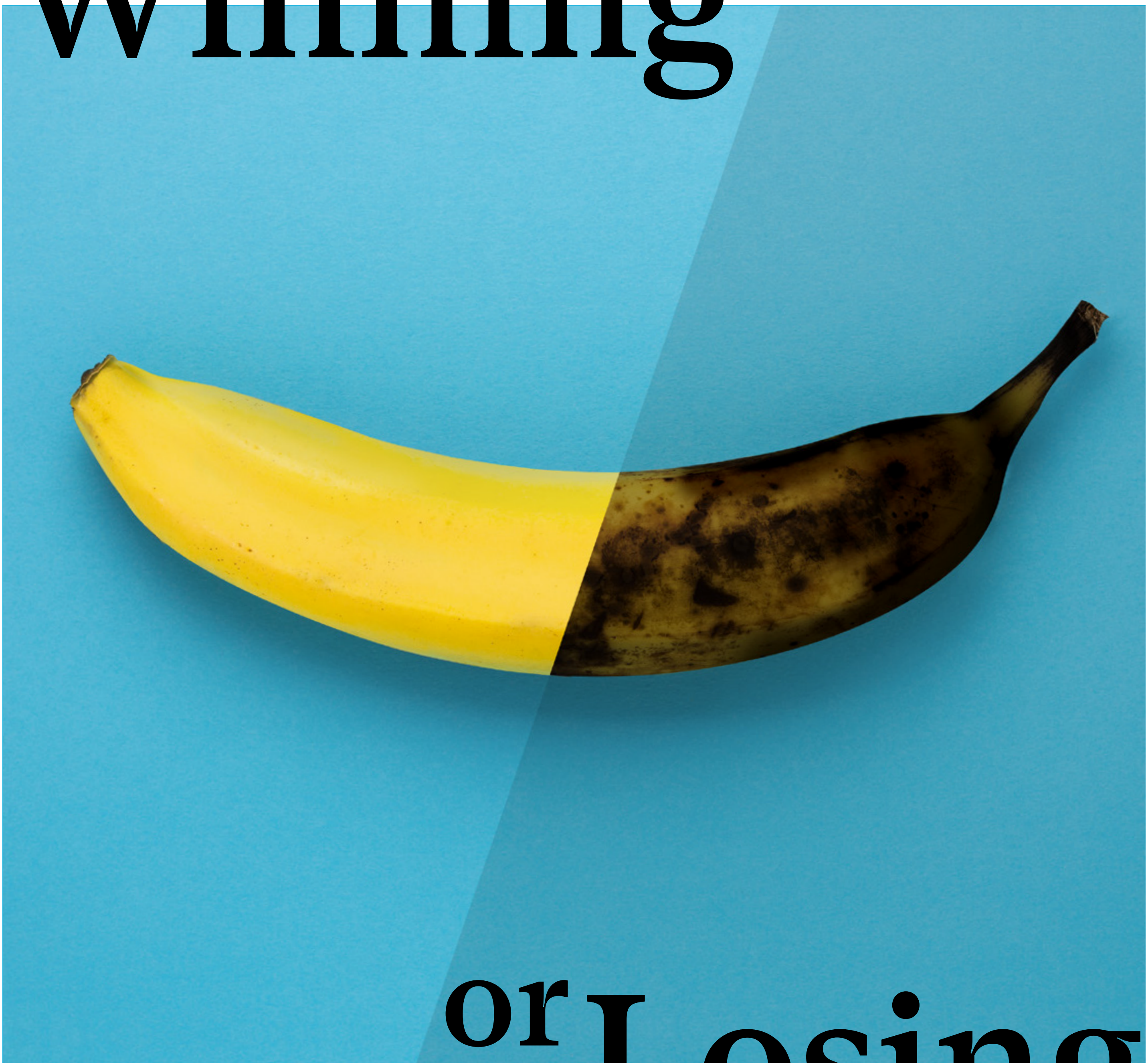
# Winning or Losing in a Recession



the communications council

Commercial Communications Council

LinkedIn Marketing Solutions

BY ROB BRITTAIN
& PETER FIELD

CONTENTS

# About the authors

**Robert Brittain /
Robert Brittain Consulting**

**Over the last 15 years, Robert has worked with some of the world's leading FMCG and financial services brands both within Australia and across the Asia-Pacific region.**

Building marketing effectiveness capability has been the focus of his work, leveraging marketing analytics to develop a deep understanding of the drivers of marketing effectiveness and their implications for marketing planning and execution. Prior to becoming an independent marketing consultant, Robert led Marketing Effectiveness at ANZ Bank Banking Group and Marketing Analytics at Mondelez International (formerly Kraft Foods) across the Asia-Pacific region.

**Peter Field /
Peter Field Consulting**

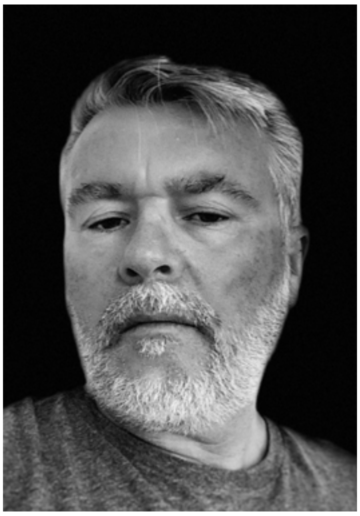
**Peter spent 15 years as a strategic planner in advertising and has been a marketing consultant for the last 22 years.**

Effectiveness case study analysis underpins much of his work, which includes a number of important marketing and advertising texts: Marketing in the Era of Accountability, The Long & The Short of it, Media in Focus, Brand Immortality, The Link Between Creativity and Effectiveness, Selling Creativity Short, Why aren't we doing this? and chapters in Eat Your Greens and the Sage Handbook of Advertising.

Peter is an honorary Fellow of the UK Institute of Practitioners in Advertising. He is a regular visitor to Australia and has been dubbed 'The Godfather of Effectiveness'.

# Foreword by Tony Hale and Paul Head

Tony Hale
CEO The Communications Council



Paul Head
CEO Commercial Communications Counci

**It seems a lifetime ago since we first heard the word Coronavirus. We have now adopted a whole new vocabulary, freely using terms like self-isolating, zooming, social distancing, WFHing and even the movre scientific COVID-19. We are all living in a fundamentally altered world - but we are managing.**

There has been plenty of speculation as to whether marketers are adequately equipped to deal with the consequences of what we are being told is a looming and inevitable economic downturn. It is nearly 30 years since the last recession in Australia and more than a decade in New Zealand. If the average tenure of a CMO is about 2 years, the average brand will have seen between 5-15 CMO's at the helm since their organisation last had to operate in a recession. Few CMOs in New Zealand will have experience operating at a senior level in a recession and none will in Australia.

Not that there's a lack of advice for marketers coming from all quarters: the trouble is so much of it is conflicting. No wonder we seem to be in the midst of a mind-numbing mess. Deloitte Access Economics quantified in 'Advertising Pays' that advertising generates $40b of benefits to the Australian economy and represents 2.5% of GDP. In New Zealand those numbers are $6b and 2.4% respectively.

So we do know that advertising will play an important role both during the crisis and the recovery phase. Fortunately, we are in the enviable position of having the valuable insights of  Peter Field and Rob Brittain.

After the successful launch of Australian Advertising Effectiveness Rules last year, they have now turned their attention to shedding light on how to make the most from the COVID-19 induced recession.

Our objective in developing this report is to provide marketers in both countries with an evidence-based case for continuing to advertise during a recession. We believe this evidence not only supports the case but also clearly establishes the premise that those companies that advertise in a downturn continue to reap the benefits long after the economy recovers.

We would also like to thank and welcome LinkedIn as our sponsoring partner, whose network will ensure the learnings from this report are widely spread throughout our business communities.

Both our countries have led the world in getting the virus under control.

Together we have an opportunity to get our economies restarted in a way that also leads the world. Marketing and advertising are critical growth engines for brands and business.

Tony Hale & Paul Head

# Foreword by Peter Field

Peter Field
Director Peter Field Consulting

**Recessions are scary times in marketing – especially if this is your first. It has been twelve years since New Zealand and most of the rest of the world saw a recession and almost thirty years for Australia. Many in marketing will have little or no experience of the best way to respond.**

Unfortunately, the knee-jerk responses most businesses make - slash the brand budget and put what's left into performance marketing - are the opposite of best practice. These destructive behaviours during the GFC left a global legacy of weakness that still persists for many brands today.

In some ways Australian and New Zealand marketers should be able to challenge these knee-jerk responses more confidently than their counterparts elsewhere, thanks to sound low-debt economies and more effective management of the Coronavirus. Yet their response so far in this recession – and in previous recessions - appears to have been considerably weaker. Forecast budget cuts are looking savage. There is clearly a marketing confidence gap in Australia and New Zealand that we must urgently close.

It's going to be tough for CMOs to convince their CFO and CEO that recession is a time to hold the line in marketing and that it could even be a time of opportunity. But this is in fact the truth and in this report CMOs will find the arguments and evidence they need to put the case. I believe that there is no more important time for CMOs to fight their corner than now. Don't give in to the pressure to go into marketing 'lockdown': as a marketer, only you know that it is not in the long-term interest of the brand or the business. It will take guts, but it is your duty to argue for better than the easy, but destructive, knee-jerk response.

Peter Field

# Should we panic?

> "...the effectiveness of containment efforts and consumer's and firms' reactions will be determining factors in the return to growth"

**Marketers in Australia and New Zealand are showing clear signs of panic as an inevitable and possibly deep recession looms in the wake of the COVID-19 pandemic. Perhaps this is not surprising, but this is no way to handle recession. Recessions have always been times when the smart take advantage and the others are left to weaken. There is plenty of learning about best practice we can draw on, but little evidence that we are doing so. This white paper will examine that evidence, its applicability to our current situation and provide an evidence-based guide to how best to respond.**

The lock downs due to the pandemic have caused the effective closure of many sectors, resulting in significant declines in business output, employment, consumer and business confidence. The effect is being felt by most, particularly the small and medium size business sector. As restrictions ease, government policy, the trajectory of the virus, the effectiveness of containment efforts and consumer's and firms' reactions will be determining factors in the return to growth.

However, both countries have excellent credit ratings and relatively low government debt meaning they are well placed to borrow and support their economies; the central banks have healthy balance sheets and the banking systems are liquid and well-capitalised. Policy supporting employment and financial liquidity have been well targeted as has direct support to sectors under pressure.

Australia and New Zealand have been effective in containing the virus, have flattened the infection curve, and overall instances of COVID-19 are low. Much of the lost business activity (with some notable exceptions such as air transport, education, and tourism sectors) is due to social distancing measures and domestic travel restrictions. When these are lifted the economy could be set for a strong rebound.

Australia and NZ, compared to many other advanced economies, are well placed to bounce back.

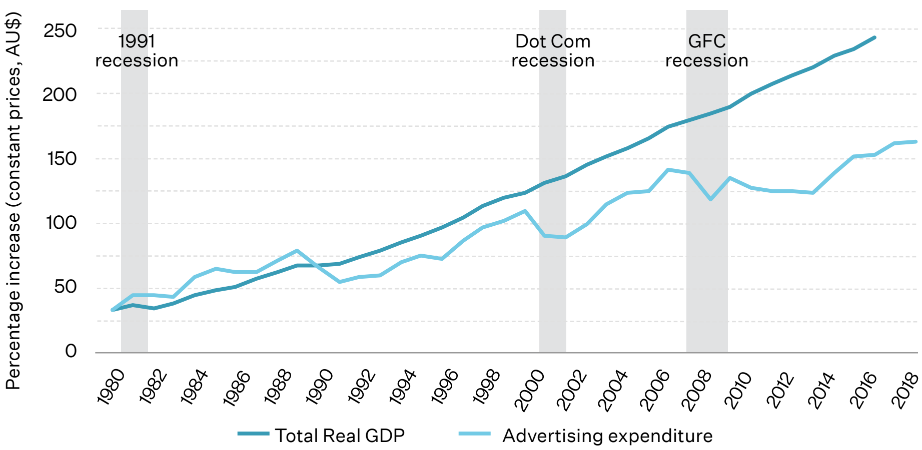
# How is marketing responding?

"These cuts have left our brands in generally poorer shape to take on this recession than previous ones"

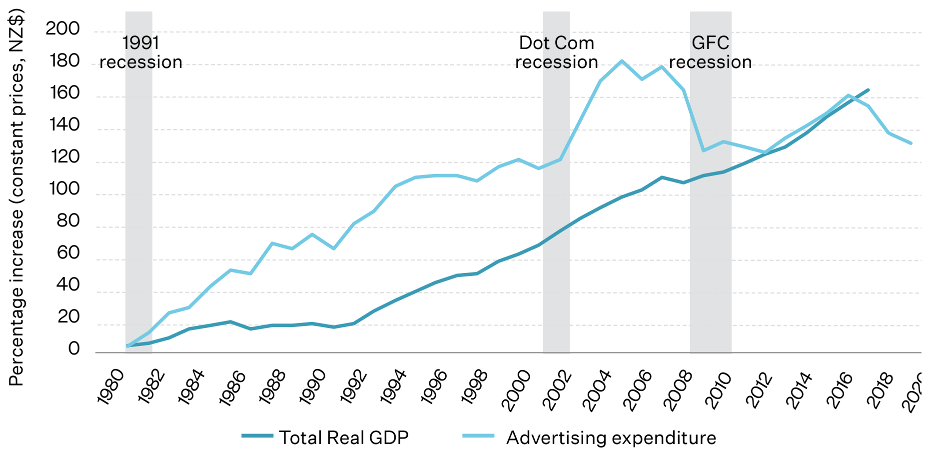
**Marketing behaviour in both countries is showing inexperience of how marketing should respond; already we see widespread evidence of deep budget cutting intentions and history teaches us that when the going gets tough, marketers get cutting. As we will see, the scale of budget cutting planned by Australian and NZ marketers is not globally accepted best practice.**

The omens were never good. Previous downturns, or even just threats of downturns, have all been signals for Australian and NZ marketers to withdraw brand investment. A reduction in overall advertising investment during a recession is not unusual; what sets Australia and New Zealand apart is that this investment has been permanently lost as step changes down at each crisis have not rebuilt afterwards. These cuts, coupled with the diversion of spend into short term 'performance marketing', have left our brands in generally poorer shape to take on this recession than previous ones.

**Australia - Real GDP vs Advertising Expenditure**




**NZ - Real GDP vs Advertising Expenditure**




**SOURCE** Ad spend – Zenith Optimedia – all paid media channels (including internet)

HOW IS MARKETING RESPOINDING?

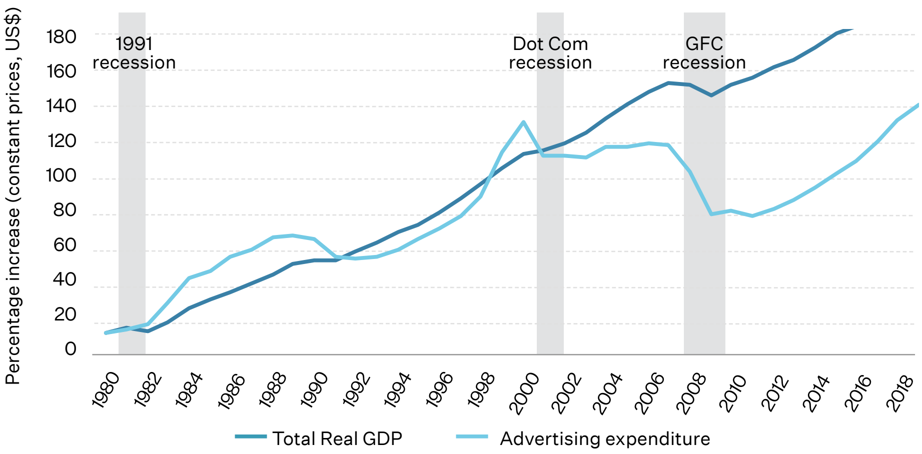
> "The lack of commitment to advertising spend in Australia and New Zealand has implications for the economy as a whole. "

Since the GFC recession, advertising investment in New Zealand has not reached its pre-2008 level and it took Australia until 2015 to achieve this. This lag is also evident in the UK and US, where cuts to ad spend were very aggressive during the GFC recession; the US took 7 years to reattain pre-GFC levels and the UK took 5 years.

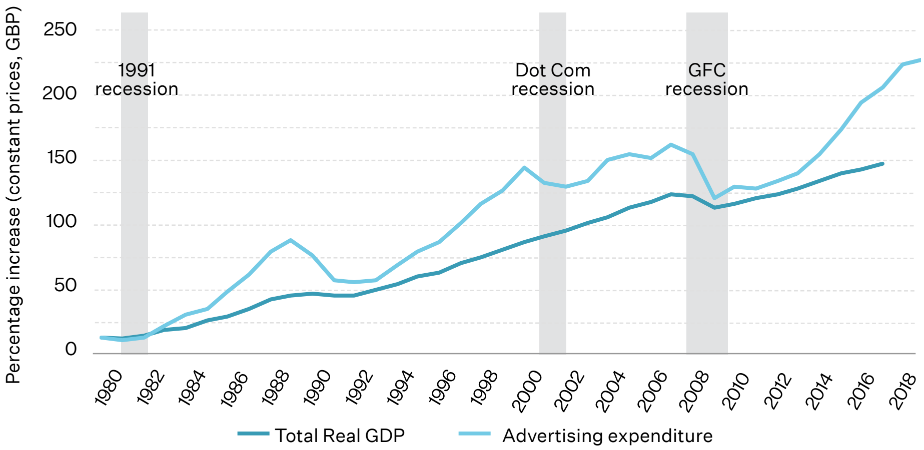
However, there has been a spectrum of commitment to advertising investment observed post-GFC. New Zealand's investment has lagged GDP growth and Australia's has (just) matched it. In the US, advertising growth matched GDP until 2014 and has since accelerated ahead, ensuring not all of the losses are permanent. Investment in the UK, which shows the strongest commitment of the four countries, also matched GDP until 2013 before surging well ahead.

The lack of commitment to advertising spend in Australia and New Zealand has implications for the economy as a whole. The productivity of the economy declines during a recession and the reversal of this is a key driver in returning to growth. The role advertising plays is creating consumer demand for brands; as demand grows it stimulates firms to improve their individual competitiveness through innovation and investment, the result is in an increase in productivity. Advertising needs to play its role in leading the return to growth.

**US - Real GDP vs Advertising Expenditure**




**UK - Real GDP vs Advertising Expenditure**




**SOURCE** Ad spend – Zenith Optimedia – all paid media channels (including internet)

Budget cutting intentions in Australia and New Zealand, so far during this pandemic, whilst variable by business sector and by category, is widespread and generally deep. For guidance we can look at advertising spend data from SMI. SMI's data is aggregated from media agency systems and reflective of ~50% of total spend given media agencies typically represent larger advertisers.

Advertising spend in April 2020 saw year-on year declines of -35% in Australia and -38% in New Zealand, with all major media impacted. This level of decline is almost twice that seen during the depths of the GFC (-19%.)

Advertising investment is being significantly reduced by the larger advertisers. The full picture is likely to be worse given direct media bookings from the heavily impacted small and medium business sector are not included.

Negotiating leverage is likely to increase but will vary by media channel and media property. In some there will be considerable opportunities to take advantage of reduced costs or to negotiate more added value (bonus.)

> **“...and the channels with increased consumption will be working harder for advertisers than ever before, at prices that are much lower than during normal times.”**

So media costs are likely to be falling now, which presents something of an opportunity for any advertiser with an eye for a bargain. This is usually the case in a recession, but in this pandemic, there has been the added opportunity of surging media consumption amongst locked-down consumers. Big jumps in viewership of live TV, broadcast video on demand (BVOD), subscription video on demand (SVOD), online video, radio and certain types of content. The lockdowns have resulted in these changes being larger than those normally seen in recessions and the channels with increased consumption will be working harder for advertisers than ever before, at prices that are much lower than during normal times. Faced with an opportunity of this magnitude, some global advertisers, such as Procter & Gamble, have publicly revealed their intention to maintain their adspend to take advantage. But these opportunists are clearly in a minority.

But who is being smart here? Should brands cut their budgets on this scale in a recession, or is there an argument for defending or even increasing budgets?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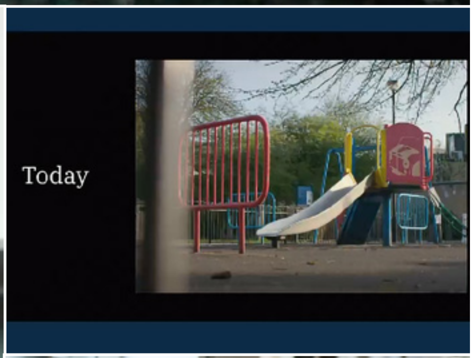
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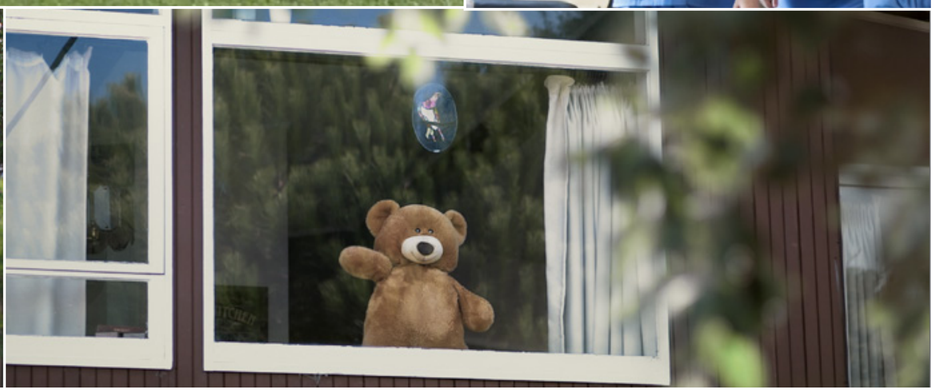


# How should marketers respond?

“Whilst this is the first pandemic related recession in living memory, recessions caused by epidemics and pandemics have occurred before...”

**It is exceedingly rare for something to happen that hasn’t occurred before. Recessions are a part of economic cycles, varying in length and severity. Typically, they fall into one of three categories:**

1. Real recession. A CapEx boom cycle turns to bust and derails the expansion. Severe external demand and supply shocks, such as wars, disasters, or other disruptions can also push the economy into this type of contraction. This was the case with the DotCom recession.
2. Policy recession. Central banks leave policy settings (interest rates) too high and choke off the expansion. This was the case with the 1991 recession.
3. Financial crisis. A slow build-up of financial imbalances over a long period that rapidly unwinds, disrupting financial markets and then the economy. This was the case with the GFC recession.

When it comes to the “shape” of recovery, they are classified in 3 ways:

a. “V-shaped”. These are seen with real recessions and involve a steep decline and fast recovery. Output is displaced but growth rebounds and annual growth rates fully absorb the shock.

b. “U-Shaped”. More severe than V-shaped. The shock persists resulting in a long period between decline and recovery with some permanent loss of business output. This was the case with the GFC.

c. “L-shaped”. The worst-case scenario. The downturn is long with greater permanent loss of output and it is many years until economic output recovers to pre-recession levels. Think of the Great Depression here.

Whilst this is the first pandemic related recession in living memory, recessions caused by epidemics and pandemics have occurred before (SARS in 2002, Hong Kong Flu in 1968, Asian Flu in 1958 and the Spanish Flu in 1918.) With the exception of the Spanish Flu, these recessions were more localised but, as in our current situation, were caused by a sudden supply and demand shock due to an unforeseen external factor - a virus.

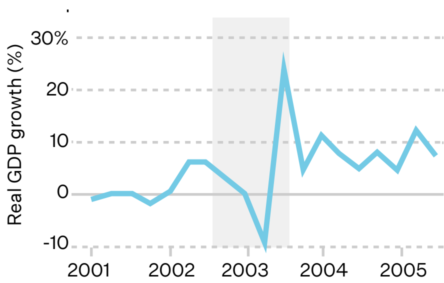
These virus-related recessions were all short (around a year) with fast “V-shaped” recoveries. In each case the virus was the cause of the recession, not policy settings or financial liquidity.

This is the situation we are in now.

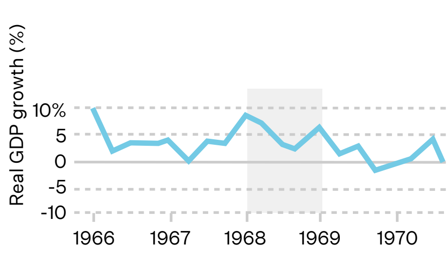
If we compare COVID-19 to the 1918 Spanish Flu pandemic, the Spanish Flu took a much larger human toll. It is estimated to have infected 500 million people worldwide (1/3rd of the population at that point) with a mortality rate of 10%; despite this devastation the economic rebound from the recession was fast.

**NOTES**
SARS's chart is for Hong Kong (in HKD). All charts are for US GDP, except for SARS (2002), which is for Hong Kong. Real GDP growth is quarterly except for 1918, when it's yearly.

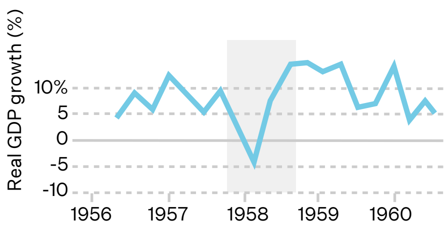
**SARS (2002) :** 286 global deaths



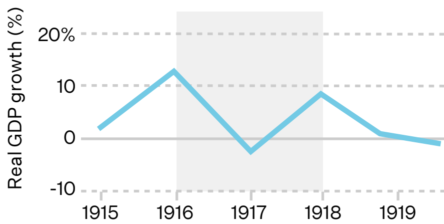

**Hong Kong Flu (1968) :** 1 million global deaths




**Asian Flu (1958) :** 1.5-2 million global deaths




**Spanish Flu (1958) :** 50 million global deaths




**SOURCE** "What Coronavirus could mean for the global economy", Harvard Business Review, 3rd March, 2020.

> "... there is a strong possibility of a fast "V-shaped" rebound across many sectors."

Whilst recovery will not be uniform across all sectors (tourism, hospitality and airlines are likely to see slower recoveries), government and central bank policies in Australia and New Zealand appear to be well targeted. Therefore, unless the recent lockdowns and COVID-19's ongoing presence causes widespread structural damage impeding the recovery, there is a strong possibility of a fast "V-shaped" rebound across many sectors.

So instead of unquestioned knee-jerk budget cutting (which only applies for businesses in survival mode, such as airlines), most marketers should be asking themselves these questions:

- What is your plan to maximise your brand's bounce back in recovery?
- How can you take advantage of the recession?

> *"These big events make marketers, CEO's and boards suddenly get a shock that the brand is a really important thing to invest in. We're going to see more and more business leaders understand that brands are vital and that building brands is not an expense, it's an investment and it needs to be prioritized. It's not a choice, you have to build strong brands if you want to have a strong business."*
>
> Brent Smart (CMO), IAG Australia

There have been many studies investigating best practice marketing investment during a recession and, as we will see in this paper, there is very strong consistency in the insights.

This report will not reference every study but will highlight important examples. For those who want to look deeper it is recommended they review the reading list provided at the end of this report. In particular, the paper by Tellis & Tellis (2009) "A critical review and synthesis of research on advertising in a recession" provides an excellent overview of research studies looking at the effects of advertising investment over many recessionary periods.

# Do not abandon marketing

01

## How the war is fought often determines who wins the peace. A 2010 Harvard Business Review study (Roaring out of Recession) looked at 4,700 US public firms and 3 recessionary periods (1980-82, 1990-91 and 2000-02), examining performance in the 3 years pre-recession, the recession itself and the 3 years following.

Of these companies 80% hadn't regained their pre-recession growth rates for sales and profits 3 years after the recession had ended. Only 9% flourished, doing better than they had before, outperforming their industry and their rivals by at least 10% in sales and profit growth.

The winners weren't those who cut costs faster and deeper than their rivals; boldly investing more than rivals wasn't always a winning formula either. It was those that mastered the balance between cutting costs to survive today and investing their capital in the right areas to grow tomorrow that had the highest chance of success.

Marketing is generally a highly effective use of capital during a recession for the majority of businesses. But in this recession, there are some exceptions due to the measures taken to combat the pandemic. Restrictions on domestic and international travel have decimated demand for airlines, travel, and tourism. Social distancing measures have heavily impacted discretionary retail, recreation and hospitality. And many small and medium sized businesses are currently reliant on government and central bank support for their survival. Whilst the lock down is in place advertising is not an option for these business sectors. Conservation of cash and the ability to borrow are paramount.

Where immediate survival is not at risk, marketing should not be reduced.

Research by Malik PIMS (Profit Impact of Market Strategy) analyzed data from ~1,000 business units in developed economies during periods of market downturn and subsequent market recovery using three performance metrics.

1. Inflation corrected ROCE (return on capital employed) during the downturn.
2. Inflation corrected ROCE (return on capital employed) during the first 2 years of market recovery.
3. Market share change during the first 2 years of recovery.

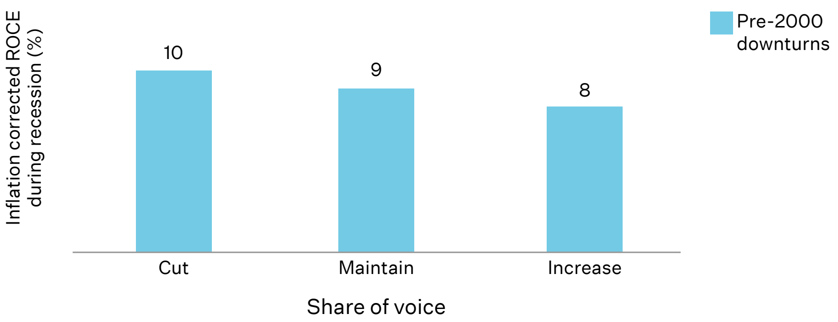
The analysis shows that whilst the reduction of fixed costs during a recession is desirable, the opposite is true of marketing costs.

Advertising, R&D and new product development – all of which contribute to improved customer preference and reduced price sensitivity, are areas where increased expenditure is associated with business success during downturns.

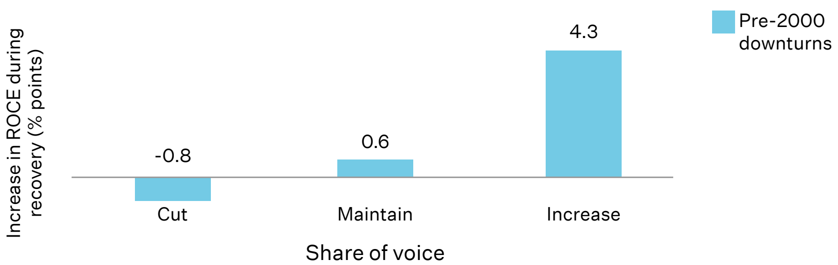
| Cost area | Winning strategy (vs. market size) |
|---|---|
| Marketing (advertising) | Increase |
| R&D | Increase |
| New products | Increase |
| Relative price | Maintain* |
| Customer preference | Improve* |
| Admin | Cut |
| Fixed assets | Maintain/cut |
| Working capital | Maintain/cut |

*Relative to market average

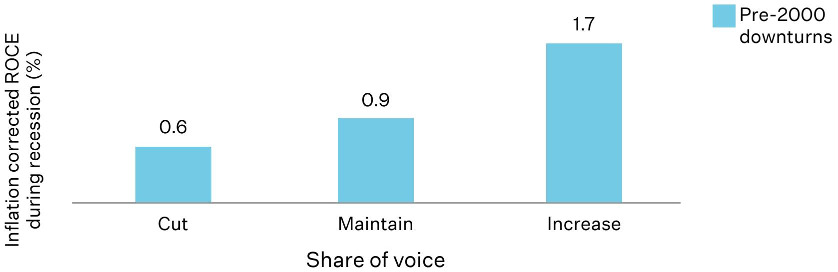
**Increased share of voice has a minor impact on ROCE during a recession**




**Increasing share of voice during a recession helps profit recovery post recession**




**Increasing share of voice during a recession helps market share growth post recession**




**SOURCE** "Advertising in a downturn", a report of key findings from an IPA seminar.

> "The analysis shows that whilst the reduction of fixed costs during a recession is desirable, the opposite is true of marketing costs. "

To invest in advertising when economic conditions deteriorate to such a great extent can appear counter intuitive, however the benefits of advertising in recession are more about strength in recovery than short-term profit. Advertising is a powerful lever, and whilst it does have a short-term impact on business profitability during recession, it enables brands to emerge in a stronger state, driving faster profit recovery for the business when conditions return to normal.

> *"During the lockdown we doubled down on our brand communications. We were already on a 3-year plan to readdress the balance between our retail activity and brand activity, we've now accelerated that. Since the lockdowns have eased, retail activity has been reintroduced but at a much lower level than pre-COVID. We fully intend to keep our focus on the brand."*
> Kamran Kazalbash (Head of Marketing), PAK'nSAVE, NZ

This understanding is clearly in evidence at P&G which recently announced that "this is not a time to go off air", citing the need to continue advertising investment to retain the "mental availability" of its brands at a time when their physical availability may be lacking. This is in stark contrast to Coca-Cola, which has stated it is pausing marketing spend over a "lack of ROI".

The difference in thinking is evident from their language.

**"Advertising is a powerful lever... it enables brands to emerge in a stronger state, driving faster profit recovery"**

P&G is focused on the long term and is willing to take a short term hit to profitability, increasing advertising at the same time it has known distribution issues and will not be able to fully meet demand. The focus is on emerging from the recession in a stronger position and taking advantage of the benefits to profit recovery and market share growth that maintaining advertising investment will deliver.

Near-term demand for Coca Cola's products has fallen substantially which will be damaging both business profitability and short-term marketing ROI, so Coca Cola is redressing this balance by reducing advertising spend as well as shifting the balance towards less expensive digital channels. This is will improve ROCE in the short term, but introduces risk to profit recovery should aggressive competitors take advantage of them stepping back.

> *"Australians respect and appreciate brands that are doing the right thing in times like this and doing it in a timely fashion. We [Coles] need to maintain our agility (as we have through COVID) and be completely in tune with consumer behaviour so that we can make sure we've got the right messages and solutions in market for our customers."*
> Lisa Ronson (CMO), Coles

# Maintain or increase Share of Voice (SoV)

02

## When overall advertising spend is in decline, a reduction in a brand's advertising spend can result in an increase in real terms; the degree to which will vary across categories. For those still able to invest in advertising this can dramatically change the brands share of voice (SoV).

The impact of SoV was first investigated by John Philip Jones and published in the Harvard Business Review in 1990. Seeing that many advertisers determined a brands advertising budget using a fixed ratio of advertising to sales, Jones investigated the effect of a brand's advertising intensity relative to its category competitors and showed that it was the brands whose percentage of the total category advertising spend (referred to as their "Share of Voice" – SoV) exceeded their market share percentage that saw market share gains. This is referred to as Excess Share of Voice (ESOV.)

Jones's budgeting tool is simple and empirically proven beyond any reasonable doubt and the insights underpinning it are fundamental to understanding best practice in advertising investment. However, its use is still not highly prevalent in marketing.

The insights are even more relevant now as overall advertising spend is being cut, meaning that the (normally stable) relative advertising intensity between competitors will change.

As category advertising spend reduces, a brand's SoV can increase, even from a reduced budget. This can be further amplified if reduced overall demand from advertisers decreases the cost of media inventory or increases the level of added value (bonus) that can be negotiated. This is an opportunity to leverage advertising investment in a way that is not possible in a normal economic environment.

> *"When the international borders closed some of our competitors panicked and went dark, but we know that it costs you far more to regain your market share at the other end of a crisis than it does to invest and to stay active. Whilst we aren't investing at our previous levels, we believe it's a wise investment to keep our future customers warmed and primed so that as soon as the borders open we will be drawing down on the demand we've managed to create over these months."*
> Susan Coghill (CMO), Tourism Australia

## 02 MAINTAIN OR INCREASE SHARE OF VOICE (SOV)

An example of the leverage this can provide is as follows. In this example, prior to the recession the brand's market share was 10%, and its SoV was 11%, meaning that the brand had an excess share of voice

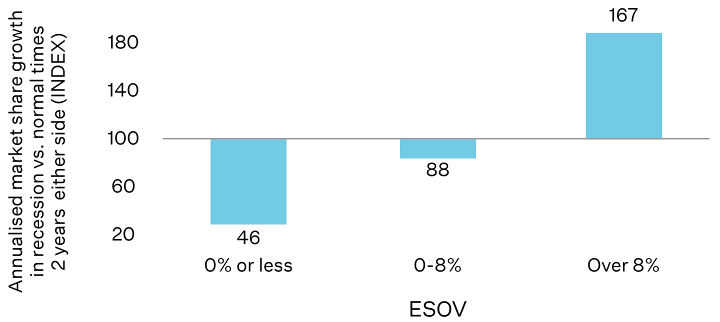
The assumptions are:

- Category advertising spend reduces by -15%
- Media inventory costs decline by -10%

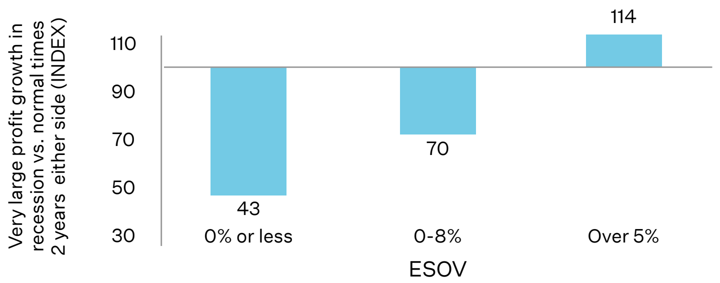
| | Maintain Advertising spend, grow SoV | Maintain SoV, reduce advertising spend |
|---|---|---|
| Change in SOV (pp) | +3pp (11% → 14%) | - |
| Change in Advertising budget (%) | - | -23% |

Case studies from the IPA databank clearly highlight the opportunity that ESOV represents in the current environment. Using case studies covering the 2008 UK recession, a new analysis by Peter Field looks at the effectiveness of ESOV on market share changes and brand profit growth for campaigns during the recession, versus campaigns that were in market either 2 years before or 2 years after.

**Market share responds more strongly to SOV during recession than normal times**




**Long term profit growth responds more strongly to SOV during recession vs normal times**




**SOURCE** IPA databank, Peter Field, 2020

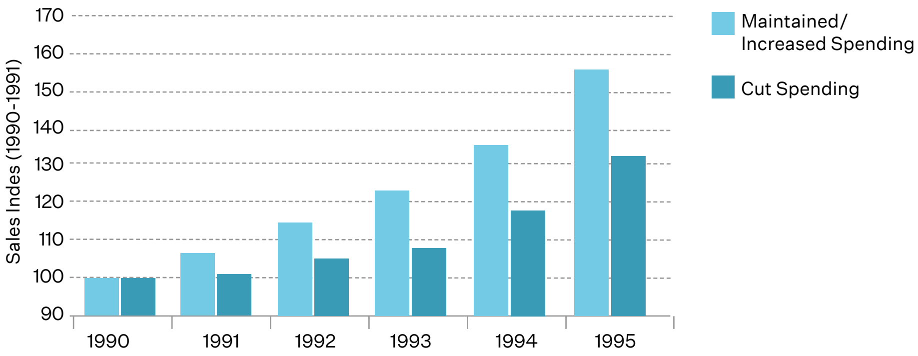
Peter's analysis shows that ESOV above +8% was more effective during the 2008 recession, delivering a greater benefit than it did in a stable (or growth) climate. This was particularly the case with market share. Profit growth was generally harder to come by during the recession reflecting the negative pressure on a brand's contribution margin, but nevertheless the opportunists investing in over 8% ESOV during recession saw greater profit impacts in recovery than they would have seen during normal times with the same investment strategy.

Importantly, it also shows that the penalty for under investing in SOV worsened during the recession. Campaigns with an ESOV of 0% or less were significantly less effective in driving market share and profit growth during the recession when compared to campaigns that under invested in normal times.

Peter's insights are consistent with those from other researchers covering multiple recession periods going back to the first analysis of its type by Roland Vaile in 1929. To further build on the IPA insights on the effectiveness of advertising, the next section of this report is sourced from a study of the 1990-91 US recession by Thomas Kamber. Kamber studied the performance of 822 US firms using four methods to analyse the data, looking at:

1. The overall sales performance of those that increased or maintained their advertising spend in 1990 (vs those that cut spending) and the growth rates for the 5 years following (1991-95.)
2. The continuing effect of the advertising investment made during the recession year (1990) in the following 5 years (1991-95.)

**Sales indices for the 1990-1991 Recession**

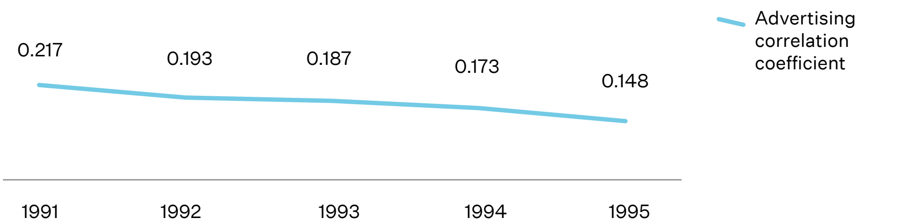



**SOURCE** Kamber, Thomas (2002), "The Brand Manager's Dilemma: Understanding How Advertising Expenditures Affect Sales Growth During a Recession."

> "The advertising was an investment that kept working and working and working. This is a very effective employment of capital."

Kamber showed that the group of companies that maintained or increased their advertising spend had larger sales than those that cut their advertising. Sales growth for those that maintained or increased their advertising spend was 7% in 1991 compared to non-existent growth for the companies that decreased their advertising. This gap in sales growth between the two groups widened to 25% by 1995.

**Advertising investment during the recession year was still working 5 years later**




**SOURCE** Kamber, Thomas (2002), "The Brand Manager's Dilemma: Understanding How Advertising Expenditures Affect Sales Growth During a Recession."

Kamber also showed that the effect of the advertising spend during the recession year (1990) was still statistically significant in 1995. The advertising was an investment that kept working and working and working. This is a very effective employment of capital.

Additionally, the study also investigated the effectiveness of advertising spend during a recession year versus spend in non-recession years, finding that effectiveness was higher during recession. This insight is consistent with that found by Peter in the IPA databank.

The consistent insight seen across all of the studies covered in the Tellis & Tellis paper and highlighted by Peter Field and the Kamber examples above are that businesses that maintain or increase advertising spend during recessions have significantly stronger growth during the recession and for the years following it. Though not quoted directly in this report, additional studies also look at the impact of advertising investment on net income and company earnings, coming to the same conclusions. Overall, the body of studies cover recession periods from the 1920's through to 2008.

For the businesses that are still able to invest in advertising, the recession presents the opportunity to cost effectively increase SoV, achieve a disproportionate increase in advertising effectiveness and set their brand(s) on a higher growth trajectory in the years ahead.

For the businesses that are still able to invest in advertising, the recession presents the opportunity to cost effectively increase SoV, achieve a disproportionate increase in advertising effectiveness and set their brand(s) on a higher growth trajectory in the years ahead.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# Maintain the right balance between brand and activation

03

# In normal times the optimal balance of investment between brand building and sales activation advertising is 60:40 in favour of brand building, with some variations by category, typically further towards brand building. It is likely that this balance needs to be reviewed in the current circumstances.

Any changes to the balance will depend upon whether the category is one of the few beneficiaries of increased demand, or one of the many that is negatively impacted.

Reduced demand means that there are less potential new customers currently in market. In these cases, maintaining or increasing spend on short term sales activation makes little sense. Despite the overwhelming evidence of the power of brand building activity, most businesses spend less than 50% on it, (well below the recommended 60%), so there is little point in cutting brand building further unless business survival depends on it.

It is important to acknowledge that the situation caused by COVID-19 is a driver of digital transformation. Being forced to stay at home makes online shopping more than just a matter of convenience. Discretionary retailers have ramped up their online capabilities and are reporting large increases in demand through their online channels and technology is being leveraged to connect and work at a scale that hasn't been seen before. This development also implies re-balancing advertising in favour of brand building: it was shown in Effectiveness in Context (Binet & Field, IPA 2018) that the optimum balance for brands sold online was 74% brand building.

However, we need to draw the distinction between the change in online usage, overall demand changes and the effectiveness of online performance marketing. Online performance marketing, like other sales activation activities, harvests a brand's equity at the bottom of the sales funnel. If there are less potential new customers at the bottom of the funnel, then having increased focus there is not an effective investment.

If a category or business sector is experiencing reduced demand, then this will be the case and an increased focus on short term activity is likely to be damaging to future sales.

"If there are less potential new customers at the bottom of the funnel, then having increased focus there is not an effective investment."

*"From a marketing POV we're big believers in investing into downturn. We knew we wanted to be in broad reach media, things like TV and press, and these channels have remained relatively strong for us. Our digital spend has of rocketed and a lot of it is out there with the sole purpose of speaking to consumer awareness and consideration as opposed to performance media to just drive sales. We're big believers that if we're mixed right, and we have an incremental dollar to spend, then we're going to put it at the top of the funnel because that will then make everything at the bottom that much more efficient."*

Jonathan Waecker (CMO), The Warehouse Group, NZ

**"The power of brand building is it fills the top of the funnel."**

The power of brand building is it fills the top of the funnel. Growing a brand's mental availability at scale amongst all category users means that when they come into market in the future (especially during the recovery from recession), more of the potential new customers will look for the brand; resulting in more traffic to the brands distribution channels (e.g. website) and an increase in sales conversions. Unless demand for the category has increased in the current environment (and the business is able to satisfy that demand), then increased focus on performance marketing will not be beneficial.


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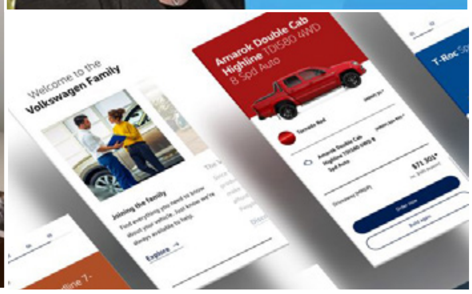

Welcome to the Volkswagen Family
Amarok Double Cab Highline TDI580 4WD 8 Spd Auto

# Get your metrics right

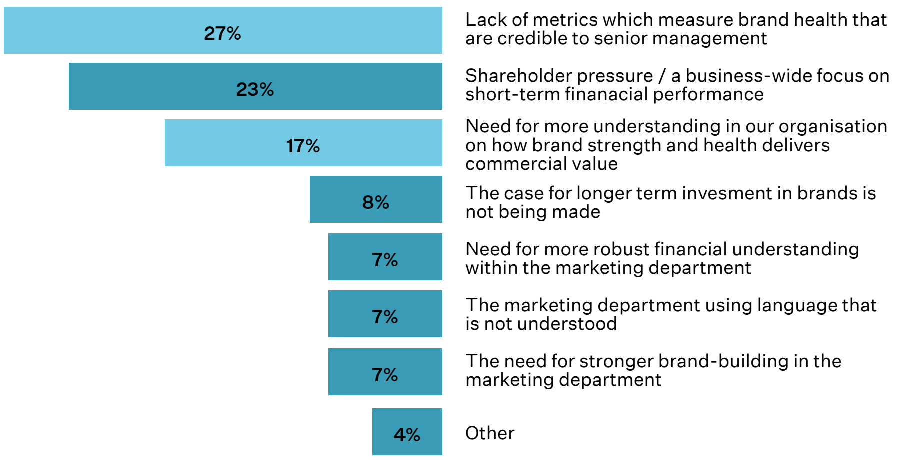
04

“In the current context, market share targets take on a stronger role.”

## The marketers who can grow their marketing budgets are those that are able to articulate the value of the investment in a way that is meaningful to the rest of the business. The 2019 IPA study “the Board-Brand Rift” articulated this issue very simply. Many non-marketers don’t understand the relationship between brand metrics and commercial value and therefore don’t see marketing’s metrics as credible.

You need to interpret marketing speak for them.

**In your opininon which of the following impedes a balanced approach to short and long-term marketing activity the most?**




**SOURCE** IPA (2019), “The Board-Brand Rift. How Business Leaders Have Stopped Building Brands.”

Marketing metrics should be framed in a way that’s meaningful for non-marketers. For example, increasing brand consideration grows the customer base and underwrites future cash flows. Improvements in brand preference decrease price sensitivity and increase the brand’s contribution margin.

In the current context, market share targets take on a stronger role. If revenue growth targets aren’t being met, performance relative to competition is very important context. If the brand is capturing a larger proportion of the in-market opportunity despite lower than forecast growth, then it is performing well in a tougher than expected environment.

## 04 GET YOUR METRICS RIGHT

Understand which business metrics are relevant to marketing and the marketing metrics they link to. Then focus the performance conversation there.

> *"A crisis reveals who has the foresight and determination to adapt and persevere through adversity. As a marketer, you need to convincingly explain to the C-suite of your company how your team creates strategic long-term value. You need to do that in a jargon-free language that they understand, especially finance. If done strategically, marketing is a true entrepreneurial function, not just a cost centre. It creates pricing power and thus increased future cash flows, especially during an economic recovery."*
>
> Jann Martin Schwarz, Global Director, The B2B Institute, LinkedIn

# Do not abandon a good advertising campaign

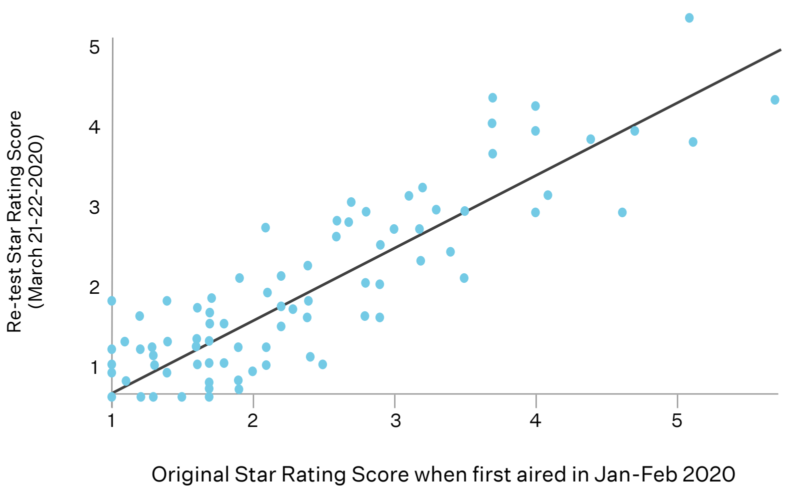
05

# Recent findings in Orlando Wood's essay for LinkedIn "What Should Ads Look Like in the Time of Recession?" have shown that during the current lockdown in the US and UK, there has not been any general reduction in advertising's ability to connect with people. People are not rejecting ads that ran before the pandemic hit.

"Those which are performing better today are focused on empathy, human connections, humility, music and even humour: all powerful tools of brand building. "

In addition to looking at the performance of new ads, a random sample of ads that had originally aired in January and February were retested and, on aggregate, they connected just as strongly in the current environment as they did when first launched.

**High correlaton between original and re-tested scores**




**SOURCE** What should ads look like in the time of recession; LinkedIn Solutions marketing blog, Orlando Wood, April 21st 2020

However, the response to some ads did differ significantly when re-tested and the insights from these are very revealing.

Those which are performing better today are focused on empathy, human connections, humility, music and even humour: all powerful tools of brand building. These are typical of the campaigns that in "Australian Advertising Effectiveness Rules" we demonstrated drive much stronger long-term business and brand effects. It is no coincidence that brand building advertising is important in recession.

## 05 DO NOT ABANDON A GOOD ADVERTISING CAMPAIGN

Those ads which are performing less well are focused on facts and things, with aggressive messages associated with power and control: generally approaches more likely to be associated with 'hard sell' short term sales activation.

The research suggests that very few ads would merit withdrawal, and that now is the time for advertising to engage and show warmth rather than to 'sell hard'.

> *"Over the last couple of years, we've had a significant focus on building NZer's trust in the Toyota brand through our "Drive Happy" proposition. This focus on brand marketing has meant our business remained resilient throughout the COVID lockdown… Our order pipeline has remained strong and we're not as reliant (as our competition) on retail levers to drive demand…"*
>
> Andrew Davis (CMO), Toyota NZ

It is worth delineating here between planned brand campaigns, or special Covid-19 extensions to these such as Budweiser's Wassup rework, and the profusion of generic, tactical "we're all in this together" ads that have been launched during late April and early May. The emerging learning appears to be: if you have a major useful initiative to talk about then do so. If not, do not waste money on special COVID-19 messages. These types of ads have quickly become ubiquitous, are often stark and anxiety-raising to consumers, and do not have the vital links to brand memory structures that are present in brand campaigns

> *"In a market that was flush with communication, we wanted to provide information that would genuinely help our customers. Under an overarching theme of "Here to help", we offered advice on how to bank digitally, how to access financial support and how we were able to help our business customers. Feedback is positive and brand consideration is up, customers understood and appreciated that we were reaching out to help them."*
>
> Astrud Burgess (CMO), ANZ Banking Group, NZ

**"If the current (or planned) brand campaign is sympathetic to the current situation … marketers should move forwards with what they currently have."**

If the current (or planned) brand campaign is sympathetic to the current situation and not dependent on media properties that are not currently available (e.g. sponsorship of live sports), marketers should move forwards with what they currently have.

Dark periods are expensive to recover from and, as evidenced earlier in this article, are more damaging now than in a normal environment.

> *"One of the outcomes of COVID-19 is universities will need to differentiate themselves more, we can't rely on international students to drive growth. The university sector is very brand driven, you can study the same course in many different places, so prospective students need to get a feel for the vibe of the place, will it suit them?  That's why our focus is on "why choose Swinburne?", and how we can even more boldly distinguish ourselves"*
>
> Carolyn Bendall (CMO), Swinburne University

# Can we apply global learnings in Australia and New Zealand?

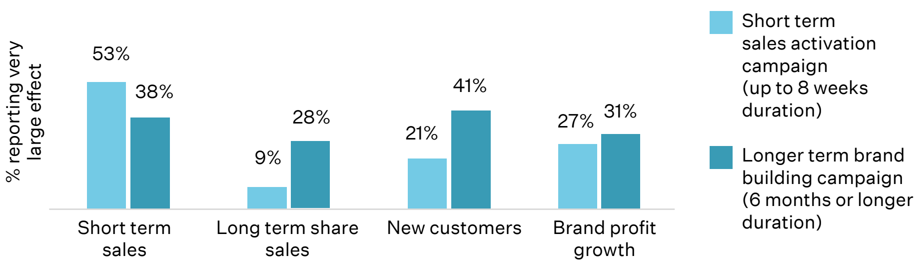
"Since these are precisely the principles that drive best practice in recession, we can be confident that global learning applies in Australia and in New Zealand."

**The majority of the insights discussed in this paper are based on global studies; but do these insights apply in Australia and New Zealand?**

The question "does this apply here?" was addressed in our recent paper "Australian Effectiveness Rules" (Brittain & Field, 2019). Using case study data from campaigns entered in the 2018 & 2019 Australian Effie Awards, the study investigated whether the core marketing effectiveness principles seen consistently in global research also applied in Australia. The effectiveness principles examined included the higher effectiveness of broad (vs narrow) targets, emotional (vs rational) communications and; longer-term brand building (vs short term sales activation) campaigns. All these principles held true. Australian effectiveness findings clearly reflect those from global research. Since these are precisely the principles that drive best practice in recession, we can be confident that global learning applies in Australia and in New Zealand.

One of the most important findings of "Australian Effectiveness Rules", in the context of recession best practice, showed that brand building advertising is vital for long term growth. Brand building delivers strong effects on long term market share growth, new customer acquisition and brand profit growth over periods of 6 months or more. It strongly out-performs short-term promotional strategies. It should be noted that brand building does also drive sales in the short term: without short-term effects there is unlikely to be long-term success.

**Brand building campaigns drive stronger business metrics beyond short-term sales response**

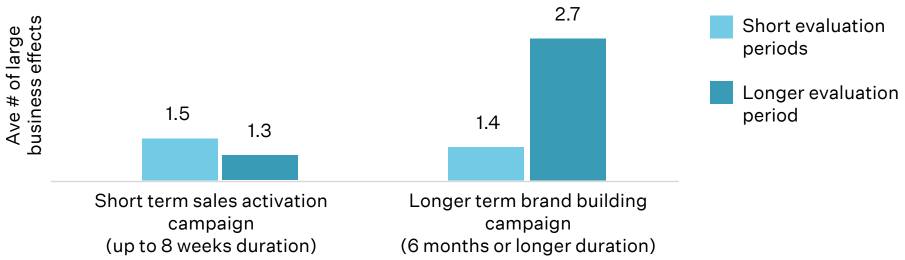



Source: Brittain & Field (2019), "Australian Advertising Effectiveness Rules"

But the key advantage of brand building investment during recession is that the effects are cumulative over the long term. So its most powerful effects are experienced later during the recovery phase when the return is greatest. This is in contrast to short term sales activation focused activity which typically has a stronger initial short term sales effect, but the effect diminishes quickly and will do little to help the brand in recovery.

> “… history tells us that it is the investment in the brand during the recession, that has a disproportionately large influence on its future growth trajectory.”

**Brand building campaigns deliver significant cumulative effects over time**




Source: Brittain & Field (2019), “Australian Advertising Effectiveness Rules”

It is our firm belief that the insights on the impact of advertising during a recession seen consistently in other countries do apply in Australia and New Zealand. We also do not see COVID-19 as having impacted the fundamental principles of advertising. The primary role of advertising is to build and maintain the “mental availability” that helps the brand rise to the top of a customer’s mental shopping list when they come to making a purchase (or usage) decision. The situation caused by COVID-19 has not changed how memory functions.

As we have detailed in this report, history tells us that it is the investment in the brand during the recession, that has a disproportionately large influence on its future growth trajectory. Perversely, this means that the current contraction provides an opportunity for those with a longer-term mindset and the ability to continue investing in advertising to leap forwards further and faster than in a normal environment. There is the opportunity to amplify the level of effects seen in the previous charts.

There is also the question of B2C and B2B. The studies referenced do not distinguish between the two, however the sample sizes are large and contain a mixture of both. Decision drivers vary between B2B and B2C, as does the time taken to move through the different stages of the purchase funnel (typically longer in B2B), but how a B2B customer’s memory functions is the same as a B2C customer. In “The 5 Principles of Growth in B2B Marketing” (LinkedIn 2019), Binet & Field showed that the same principles that drive best practice in B2C marketing also apply to B2B: these include the principles that drive best practice in recession. So we can expect that the approach to recession outlined in this paper will also work for B2B businesses. After all, we are all human.

> *“We’re seeing a pivot away from 1-to-1 sales activity and into marketing programs that are both “one-to-few” and “one-to-many”, this is more upper funnel brand building activity than there’s ever been before. Most [in B2B] are not thinking about when they return to the old strategy, but how they can create this new hybrid approach”*
> Prue Cox, Director of Marketing Solutions, LinkedIn ANZ

# Advice for advertisers and agencies.

## 1.

### Do not go dark

If your business can continue investing in advertising, then don't wait to see how things unfold. Advertising has not decreased in effectiveness and if your campaign is not unsympathetic or tied to an event/property that has been cancelled or delayed, you should go ahead with your current (or planned) campaign. "Going dark" is expensive to recover from and it is proven to carry more risk during recession; resulting in more lost market share and slower profit recovery once things return to normal. Get your metrics in order and show the effect that the advertising investment is having on business metrics.

## 2.

### Do not accept decline as an outcome

As a minimum, retain SoV that will defend your market share: for an average brand this will be close to where SoV = SoM. Certainly do not let SoV decline – you will still be able to bank some savings as costs fall. Remember that whilst maintaining marketing spend has a minor negative impact on return on capital employed (ROCE) during a recession, it will drive significantly faster profit recovery when conditions return to normal.

## 3.

### See recession as an opportunity for growth

In 2021 the Communications Council will be celebrating case studies that took advantage of the recession to drive growth in recovery. This paper has shown how businesses can do so. Overall advertising spend is undoubtedly declining meaning that some of your rivals will be cutting their spend, so gains in SoV can be made without increasing brand advertising investment. Increased SoV will improve your brands market share position, ensuring that it emerges from the recession in a stronger position. Ideally use the evidence to argue a case with CFOs for a budget increase that will raise your SoV significantly – remember it may not require major $ increases to do so.
Your growth trajectory after the recession is largely determined by marketing investment made now during the recession – see this as an opportunity to revise your long-term growth objectives upwards

# 4.

## Exploit weakness amongst your competitors

All boats rise and sink with the tide. Most of the drivers of change in category demand affect all players more or less equally. Therefore, it is the investment in a brand relative to other category competitors that will determine how the brand performs during the recession and its trajectory during the recovery. Watch closely to see if/how competitor's SOV and pricing is changing or if they appear to be having distribution or supply chain issues. Monitor closely, ensure you have the right metrics in place and keep the data for use as case study evidence: this is a valuable opportunity for learning about success and failure in recession.

# 5.

## Do not go short – keep the balance of brand and activation

Reassess the balance of investment between brand building and sales activation to make the most effective use of your brands share of voice. In most cases, a shift in favour of brand building will be beneficial as it works in the short term whilst delivering more powerful long-term effects and is connecting with consumers better in the current environment. Note that we are not recommending to walk away from short term sales activation all together, but to think carefully about the appropriate balance given the current level of demand. An increase in allocation towards short-term, sales-focused performance marketing is highly likely to damage future sales. This trade-off is not worth it unless there is increased demand for your category and/or brand that your business is able to satisfy. If demand has weakened, then focusing on capturing a greater share of future sales is of greater benefit to your business.

# 6.

## Put your budget behind proven brand-building strategies

"Australian Advertising Effectiveness Rules" demonstrated that warm emotional advertising strategies drive much stronger long-term business success. System1 research has shown that these types of campaigns are performing more strongly during this recession than before. Do not pull a successful brand campaign without good evidence that consumers are rejecting it: they probably aren't. Collect the evidence and make the case for continuity wherever appropriate.

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