

# Why Advertising Remains Essential in an Economic Downturn.

At this point, just about every CMO and agency executive is asking themselves what impact the COVID-19 health crisis will have on their respective industries. The reality is we're most certainly going to be facing an economic downturn, but it's still anyone's guess as to how exactly this will take shape and for how long. What we do know is that every business needs to be prepared to justify marketing investments if revenue projections are in question.

And the investment that's usually first to the chopping block? Ad budgets.

To be fair, this is a financially responsible decision for many companies. All organizations should have at least three months of liquid assets if you plan to maintain your current outlay of ad dollars. But the brands that can afford to stay in the game, are going to weather this downturn better than those that pull out entirely.

Historically, previous recessions have demonstrated that brands who continue to advertise in a down economy, not only fare better than their competitors, but can increase their market share at a lower cost.

**“This is not the time to cut advertising. It is well documented that brands that increase advertising during a recession, when competitors are cutting back, can improve market share and return on investment at lower cost than during good economic times,” says Harvard Business Review.**

COVID-19 will continue to bring new challenges, but the very nature of how this pandemic has unfolded has almost exclusively directed people online for shopping, social engagement, education and work. According to AdExchanger, BuzzFeed is seeing double digits across every metric stating, “Much of that traffic is for entertainment and utility-focused articles that aren't about the coronavirus.”

The key is to remain calm. History is filled with success stories of brands that capitalized on a market downturn and leapfrogged competitors in market share. Just over a decade ago – at the height of the 2009 Great Recession – **Amazon grew sales by 28%**. At a minimum, don't give up your current footing. Do your best to maintain market share as it's much harder to earn it back later.

In 2009, Adweek outlined ten rules for navigating an economic downturn, many of which still hold true today.

## Don't panic.

People are still spending money. The need for everyday goods and services hasn't stopped, and in some cases, receipts have never been longer.

### Consumer Segments' Changing Behavior

		RISK OF SALES DOWNTURN				
		LOW			HIGH	
		ESSENTIALS	TREATS	POSTPONABLES	EXPENDABLES	
Slam-on-the-Brakes		Will seek lower-cost product and brand substitutes such as private labels	Will deeply reduce or eliminate treats or seek lower-cost substitutes	Will put off all durable purchases unless forced to make emergency replacements; will delay repairs and personal services, such as dental cleanings	Will eliminate purchases in this category	↑ HIGH ↓ LOW BEHAVIOR CHANGE
	Pained-but-Patient	Will seek out favorite brands at lower prices but settle for cheaper, less-preferred alternatives; will stock up on good deals	Will cut back somewhat on frequency and quantity and emphasize value	Will delay major purchases, repair rather than replace, seek value and low ownership costs rather than extra features, and negotiate at point of sale	Will deeply curtail expendables	
	Comfortably Well-Off	Will continue to buy favorite brands at pre-recession levels	Will be more selective in purchasing luxuries	Will seek better quality for the price; will negotiate harder at point of sale	Rarely regards any purchase as unjustifiable but may reduce the most conspicuous consumption in this category	
	Live-for-Today	Will continue to buy favorite brands at pre-recession levels	Will continue to buy favorite brands at pre-recession levels	May buy if there is a great deal; otherwise may postpone	Is reluctant to regard any customary purchase as unjustifiable; may not want to expand consumption to new types of purchases	

**KEY** ■ **STABLE MARKET** Slight or no change in opportunities for companies  
■ **MIXED MARKET** Slight or no change for stronger competitors; a reduction for others  
■ **DECLINING MARKET** Substantial reduction in opportunities for companies

According to Harvard Business review, making purchases is as much a game of psychology as it is access to disposable income. Depending on how confident people feel about their future and level of trust in the economy, different consumer segments still consider purchasing treats, postponables (i.e. painting your house) and expendables (i.e. a vacation).

*Quick Definitions:*

**Essentials** are necessary for survival or perceived as central to well-being.

**Treats** are indulgences whose immediate purchase is considered justifiable.

**Postponables** are needed or desired items whose purchase can be reasonably put off.

**Expendables** are perceived as unnecessary or unjustifiable.

## Cut the right costs.

This is a good time to ensure your tracking, measurement and analytics systems are buttoned up. If the impact of your ad dollars are quantifiable and trusted – it’s essential to lean on the tactics that are providing the greatest return to the organization. Look for smart cost-savings within production and administrative costs before pulling from your demand engine.

Remember to confirm that all ad dollars are attributable to organizational objectives. If you can’t clearly measure or quantify the impact of a particular channel, move budgets elsewhere. And if all stakeholders aren’t aligned on your media strategy, now is the time to ensure all KPIs are crystal clear with your team.

If you do need to cut back or reallocate budgets, split each media buy into “luxury” vs. “necessary” tactics. You’ll want to keep your brand top-of-mind with your best performing customer segments. This is also key for maintaining site-traffic and keeping retargeting pools from dwindling.

With a clear view of how campaign, site-side and sales data work in unison, you’ll be able to confidently maintain investments in the strategies that are best for your organization. It might be unrealistic to think you’re going to get a 5X return on ad spend, but it will ensure you’re at least breaking even.

Remember, as long as you’re not losing money, keep going.

## Cutting ad budgets will stunt growth.

Any boost to your bottom line when cutting ad spend is generally a short-term play. According to Adweek,

**“Firms that cut ad spend during a recession typically see sales and income fall by 20-30 percent over the next two years as a result.”**

All media teams should be applying analytics and attribution data against digital tactics to quickly delineate which efforts are key contributors to revenue.

### LONG-TERM EFFECTS

The immediate impact on revenue is just one piece of the puzzle. Brands that remove top-of-funnel tactics will have to factor in additional time to jumpstart demand for their products and services once consumer spending begins to improve.

While our immediate future will be trying, the reality is everyone will recover from the financial strains of COVID-19 and nobody wants to start from ground zero. Expect returns to be slower, but the long-term impact of pulling all ad budgets could prove to be even more damaging. In short, don’t throw away years of hard work and brand authority to capitalize on short-term risk prevention if you can afford it.

### BRAND RISK

In the world of brand strategy, it’s more advantageous to be different than it is to be better. When you strip away advertising, storytelling becomes more challenging, leaving marketers with few options but to focus on how their offering is incrementally better than the competition – like price. And competing on price is a slippery slope when a drop in profit margins risks ripple effects throughout the organization.

## Tailoring Your Tactics

	ESSENTIALS	TREATS	POSTPONABLES	EXPENDABLES
<b>Slam-on-the-Brakes</b>	<ul style="list-style-type: none"> <li>Emphasize price; hit wallet-friendly retail price points</li> <li>Offer smaller pack sizes for less money</li> <li>Expand retailer private labels</li> <li>Promote low-cost value products</li> <li>Introduce fighter brand</li> </ul>	<ul style="list-style-type: none"> <li>Shrink sizes</li> <li>Hold prices down</li> <li>Advertise as a “you deserve it” small indulgence</li> </ul>	<ul style="list-style-type: none"> <li>Offer layaway plans</li> <li>Provide low-cost financing</li> <li>Promote exceptional deals</li> <li>Challenge penny-wise, pound-foolish behavior (such as dangerously postponing tire replacement)</li> </ul>	<ul style="list-style-type: none"> <li>Offer do-it-yourself alternatives to doing without</li> <li>Continue awareness advertising (for instance, for future vacations)</li> </ul>
<b>Pained-but-Patient</b>	<ul style="list-style-type: none"> <li>Offer a lower-priced option</li> <li>Hit retail price points</li> <li>Promote bonus packs to encourage stockpiling</li> <li>Emphasize dependability of branded product or service</li> </ul>	<ul style="list-style-type: none"> <li>Reward loyal consumers, even if they consume less (for example, offer frequent-patron points)</li> <li>Advertise products as morale raisers</li> <li>Advertise products as affordable alternatives to more expensive luxuries</li> </ul>	<ul style="list-style-type: none"> <li>Offer simpler models, lower prices</li> <li>Promote lower-operation-cost models</li> <li>Promote repair services</li> </ul>	<ul style="list-style-type: none"> <li>Continue awareness advertising</li> <li>Invest in core product improvements that will accelerate customers’ reentry into the market</li> </ul>
<b>Comfortably Well-Off</b>	<ul style="list-style-type: none"> <li>Continue awareness advertising</li> </ul>	<ul style="list-style-type: none"> <li>Emphasize outstanding quality</li> <li>Advertise as a product you deserve because you are successful</li> </ul>	<ul style="list-style-type: none"> <li>Promote savings from buying now</li> <li>Advise customers they’re “missing out” by postponing</li> </ul>	<ul style="list-style-type: none"> <li>Enable discreet purchasing that avoids the appearance of flaunting in front of less wealthy people</li> <li>Advertise benefits of impressing wealthy friends</li> </ul>
<b>Live-for-Today</b>	<ul style="list-style-type: none"> <li>Continue awareness advertising</li> <li>Remind consumers, “You can’t live without it”</li> </ul>	<ul style="list-style-type: none"> <li>Offer convenient automatic credit card billing</li> <li>Promote as opportunity to seize the moment</li> </ul>	<ul style="list-style-type: none"> <li>Offer monthly payment plans</li> <li>Promote quality-of-life benefits of buying now</li> </ul>	<ul style="list-style-type: none"> <li>Offer exciting new products and promote as “must have”</li> <li>Advertise as products you can aspire to buy when your income grows</li> </ul>



## Empathy is key to brand strength.

Put another way, marketing is a battle of perceptions and it's much easier to connect to customers on an emotional level than it is to offer a discount. Promotions educate buyers not to buy at regular prices, for this reason alone it's essential to focus on messaging that reinforces an emotional connection with the brand and demonstrates empathy during uncertain times.

### AVOID PROMOTIONS IF YOU CAN

If a brand didn't previously rely on regular promotions, a recession isn't necessarily the time to start. Instead, focus on more flexible offerings like smaller quantities of the same product to ensure the price point is more approachable. Remember, maintaining or even increasing profit margins is essential if revenue is in jeopardy of taking a hit. According to Harvard Business Review, "marketers must balance efforts to pare costs and shore up short-term sales against investments in long-term brand health. Streamlining product portfolios, improving affordability, and bolstering trust are three effective ways of meeting these goals."

### BRAND SAFETY

It's important to take a balanced and tactful approach when serving ads alongside COVID-19 related content. If you can't afford to have your brand next to negative COVID-19 related topics, use a solution like Grapeshot which allows media buyers to safeguard against all Coronavirus related content.

However, understanding the context of COVID-19 related content is essential.

**"We advise brands to think about context rather than a strict keyword block. A story about how to best work from home is very different from a story about an analysis of regional death rates," says AdExchanger.**

And while it's easy to be wary of the weeks and months ahead, take a moment to be thankful for the technology that keeps us all connected. When push comes to shove, remember that advertising remains one of the most important investments you can make to ensure your organization makes it through an economic downturn in stride.

Questions? Contact your service representative or shoot us a message at [contact@lumenad.com](mailto:contact@lumenad.com)

*Sources: Adweek (Marketing in a Recession: 10 Things to Remember), AdAge (RECESSION REINVENTION: 5 WAYS TO FIND THE UPSIDE IN A DOWNTURN), AdExchanger (Coronavirus Puts Digital Media In A State Of Flux), HBR (How to Market in a Downturn, How to Market in a Recession).*