## Marketing lessons from 100 years of economic cycles – recessions/ expansions and brands

In the summer of 1971, the Pakistan army decided to launch a major offensive against the Bengali nationalist movement in East Pakistan. An estimated 1 million refugees fled into India and India willy nilly got involved in this war that eventually led to the creation of Bangladesh. Chief of Staff, Eastern Command, **JFR Jacob** was assigned the task of leading the India offensive. The plan given to the Eastern Command by the chief of army staff targeted the capture of the provinces of Chittagong and Khulna. Jacob stepped up to present a *different plan* – capture capital Dhaka as that would ensure capture of the whole of East Pakistan and avoid a protracted war. On 16th December 1971, during a lull in the battle; Jacob flew down to Dhaka and obtained the Pak Army Commander Niazi's *unconditional surrender*. India won decisively with only 3 thousand soldiers against 26 thousand Pak soldiers at Dhaka and secured the surrender of 90 thousand Pak soldiers.

Fast forward to **June 2020** amid the COVID-19 war. The *extended lockdown has been lifted* but revenues have come to a grinding halt, every corporation is evaluating its priorities and resources are being conserved. Marketing (demand generation/ brand building/ even, lead generation) is taking a back seat. Advertising, the most visible marketing activity; could be reduced or stopped. We are in a **recession/ major slowdown**.

The corporation is asking marketing to **step forward** and share its **point of view**/ **plan of action** for the journey ahead.

This document will arm you to articulate an optimal way forward with data from the last 100 years for 100s of firms across major economies, across recessions/ expansions.

**A:S logic**: Conventional thinking assigns a % of sales to advertising ('optimal' spend). During a recession, sales drops and corporations drop their level of advertising (keeping it 'optimal').

**SOV logic**: Conversely, since the *clutter* in mass media and competitive activity in the category drops, a recession is the best time to gain share of voice and market responsiveness to a brand.

It's important to go beyond these (obviously) simplistic assumptions, to learn what happens when:

- Brands ***reduce*** advertising investments during a recession
- Brands ***increase*** their advertising investments during a recession

We took a deep dive into marketing literature (*10 different studies*) of over the last *100 years* (1920 onwards) to check advertising or the absence of it during a recession and its effect on three key variables: ***Sales (Section II), Market Share(Section III), Profitability(Section IV)***.

*(click above to go directly to a section)*

| Author | Published | Years Covered | Level of Analysis | *Effect on Ad of* / Ad Impact On |
|---|---|---|---|---|
| Vaile | 1926 | 1920-1924 | 250 firms in U.S. | Sales |
| Meldrum & Fewsmith | 1979 | 1974-1975 | 143 firms in U.S. | Sales, Net Income |
| Kijewski | 1982 | 1981-1982 | 1000 + businesses in U.S. | Market share, ROI |
| McGraw-Hill | 1985 | 1981-1987 | 600 firms in U.S. | Sales, Net Income |
| Biel & King | 1990 | 1981-1982 | 749 businesses in U.S. | Market share, ROI |
| Kamber | 2002 | 1990-1996 | 822 firms in U.S. | Sales |
| Frankenberger & Graham | 2003 | 1971-2000 | 2662 firms in U.S. | Earnings |
| Deleersnyder et al | 2007 | 1980 to 2005 | 37 countries | *GDP* |
| Lamey et al | 2007 | 1975-2002 | 3 countries | *GDP* |

*Note: Not all the studies quoted here have used multi-variate regression models to isolate the effect of advertising on brand fortunes after controlling for other variables. However, the inferences of each study are robust, and limitations do not invalidate the findings of the study.*

## I. Economic Cycles and Advertising:

**Deleersnyder** et al (2007) studied advertising and GDP data for 37 countries (accounting for 84% of world advertising expenditure (adex) at the time) in the 25year period of 1980-2005. They found sensitivity of advertising to change in GDP during a recession – it has a co-movement elasticity of **1.4** i.e. 1% change in GDP results in a 1.4% change in adex, in the same direction.

**Lamey** et al (2007) studied 20-30 years of sales and GDP data for 3 countries (US, UK, Germany) to find that Share of Private Labels **increases** during economic contraction and **decreases** during economic expansion.

## II. Impact of advertising on sales:

**Vaile** (1926) studied magazine advertising (dominant share of adex those days) of 250 firms (7 industry groups) in the period 1920-24 including the 1921 recession.

a. Across all 7 industry groups, increase in advertising was associated with increase in sales and a drop in advertising was associated with a drop in sales.

| Sales Indices vs Ad Policy | 1920 | 1921 | 1922 | 1923 | 1924 |
|---|---|---|---|---|---|
| Increased advertising | 100 | 110 | 116 | 121 | 121 |
| No advertising | 100 | 100 | 100 | 100 | 100 |
| Decreased Advertising | 100 | 95 | 96 | 98 | 97 |

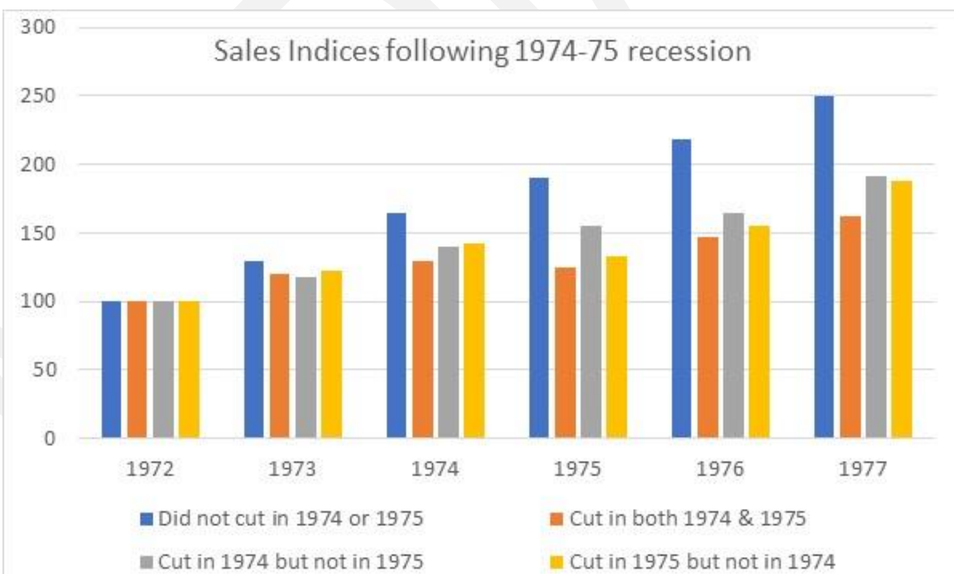
b.

| *Sales Indices in Response to Advertising Strategy by Category* | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Year** | **1920** | **1921** | **1922** | **1923** | **1924** | **Index gap*** |
| Personal items | ↑ advertising | 100 | 116 | 129 | 125 | 127 | **25-30** |
| | ↓ advertising | 100 | 91 | 99 | 100 | 99 | |
| Clothing | ↑ advertising | 100 | 118 | 117 | 118 | 111 | **28-45** |
| | ↓ advertising | 100 | 90 | 77 | 73 | 73 | |
| Home furnishings | ↑ advertising | 100 | 118 | 125 | 115 | 115 | **16-23** |
| | ↓ advertising | 100 | 102 | 102 | 97 | 95 | |
| Automobiles | ↑ advertising | 100 | 80 | 109 | 98 | 95 | 3-13 |
| | ↓ advertising | 100 | 77 | 98 | 85 | 88 | |
| Groceries | ↑ advertising | 100 | 102 | 96 | 100 | 104 | 9-15 |
| | ↓ advertising | 100 | 90 | 87 | 91 | 89 | |
| Building materials | ↑ advertising | 100 | 108 | 103 | 98 | 107 | -2 to 5 |
| | ↓ advertising | 100 | 104 | 105 | 96 | 102 | |

**Index gap = difference between min & max sales index across the years*

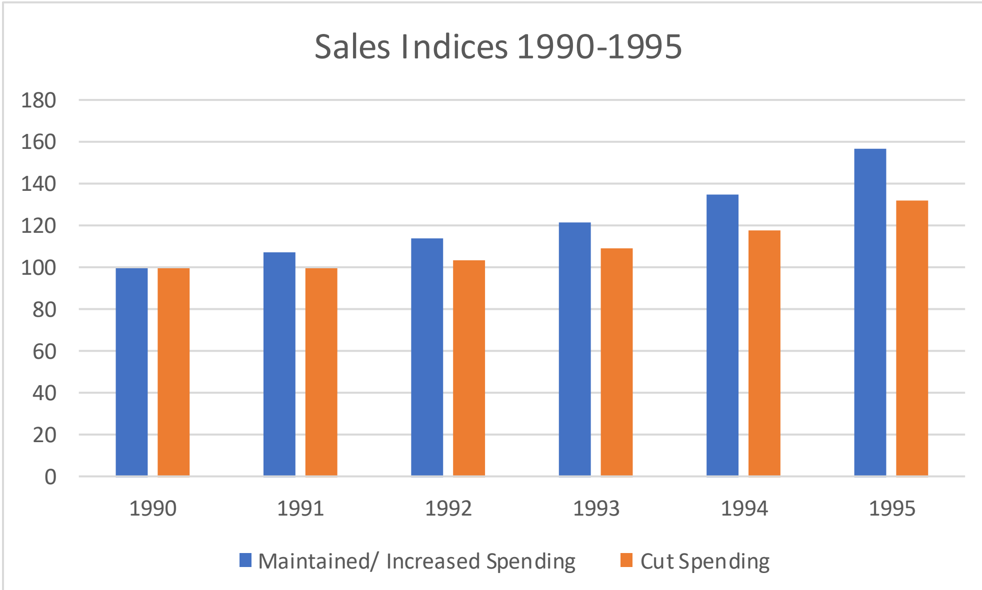
Stronger results for Personal items and Clothing, where sales is *more responsive* to advertising.

**Meldrum and Fewsmith** (1979) studied impact on sales of ad variation of 143 firms over a 6year period – 2 years before and 2 years after the 1974-75 recession.




Firms that did not cut adex experienced **higher sales** than those that cut adex in 1974/ 75 or both. Moreover, sales of the former firms ***kept growing*** for up to 4 years after the recession.

**Kamber** (2002) studied data of 822 firms over a 6year period that included the 1990-91 recession. He split the data into (a) those who maintained/ increased their adex (b) those who decreased their adex.




Group (a) managed 7% growth in sales while Group (b) did not show any growth in 1991. The gap in sales growth increased to 25% by 1995.

**Kamber** also checked causality by building *regression equations*. The model analyzed % change in sales for a 1% change in ad spend after accounting for other independent influencing variables like sales growth prior to recession, industry sector, total market value etc. The model explained 20% of the change in sales growth ($R^2$ = 0.216/ 0.371/ 0.218/ 0.262 across 1991/ 1994/ 1997/ 2000). The study provided robust evidence to the premise that an increase in advertising during recession helps increase sales.

III. **Impact of advertising on market share (MS)**:

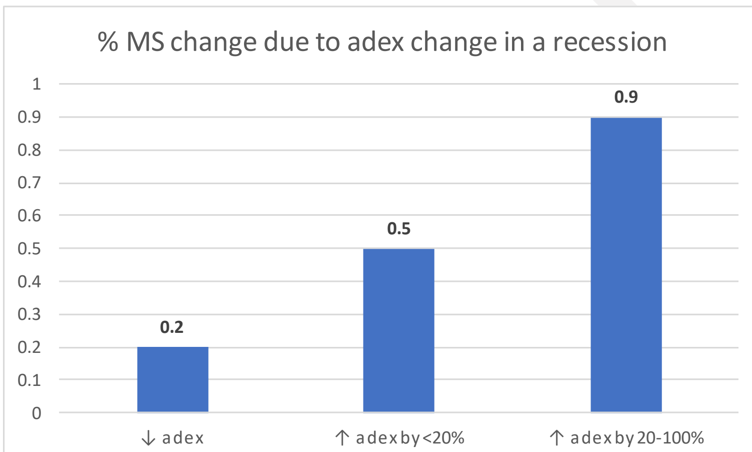
**Kijewski** (1982) used the well-respected PIMS (US) database (data for 1000 business units was examined and included the 1981-82 recession) to track market share performance during recessionary, stable and expansionary periods. She computed % change in MS over these periods. MS *increased* by 0.63% during a recession, 0.15% during normal periods and *declined* by 0.1% during expansionary periods. Her explanation: During recession, marginal firms were less willing/ able to defend against aggressive competitors. However, during expansions many new firms entered the market.

Kijewski studied change in MS across 3 categories of firms (a) those that *decreased* adex (b) those that *increased* adex by a *modest* % (c) those that *increased* adex by a *significant* amount.

| Market Condition | % change in MS | | |
|---|---|---|---|
| | ↓ adex | ↑ adex by up to 28% | ↑ adex by 28-50% |
| Recession | 0.2 | 0.5 | 1.5 |
| Normal | 0.2 | 0.2 | 0.2 |
| Expansion | -1.0 | 0.2 | 0.2 |

**MS** improvement is **better** when there's a modest/ significant adex growth in recessionary times.

**Biel and King** (1990) used the reliable PIMS database for 749 business units that experienced recessionary, stable and expansionary forces during the 4year period including the 1980-81 recession. Similar to Kijewski's study, the authors found firms with some or significant increase in adex during a recession experienced a **MS growth** by 0.5-0.9%.




IV. Impact of advertising on Profitability:

**Frankenberger & Graham** (2003) studied a large sample of 2662 firms (1971-2000) across consumer products (994), b2b (1334) and services (334) using **regression** models. They found an increase in adex led to **significant increase in earnings** during recessions, after accounting for the expenses on advertising. This was pronounced for *consumer products* and *b2b firms* – in the case of *service sector* brands, *no gain/ loss* in MS due to their actions during a recession, was noticed.

**Kijewski** (1982) also studied **ROI** (higher ROI => higher profitability) for varying levels of adex.

Effect of advertising on ROI

| | **AVG ROI** | % change in adex | | |
| --- | --- | --- | --- | --- |
| | | Decrease | Increase | |
| | | | up to 28% | 28-80% |
| Market condition | Recession | 24 | 24 | 25 |
| | Normal | 27 | 25 | **31** |
| | Expansion | 29 | 29 | 27 |

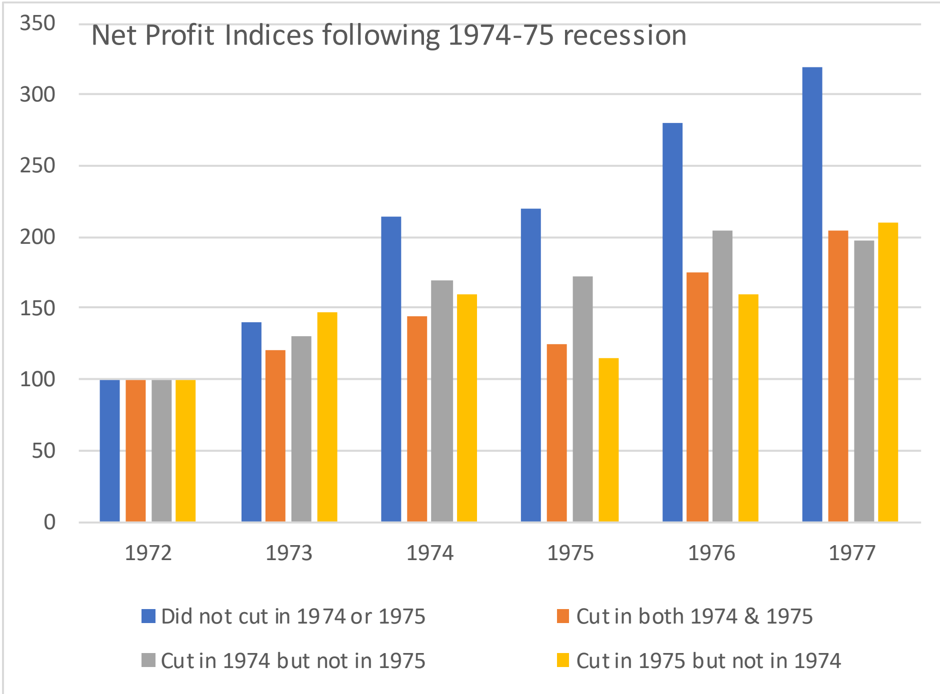
Three inferences:

1. In general, there’s a small **dip in ROI** (across the board) during **recession**
2. Drop in adex during a recession **doesn’t** lead to an increase in profit (jump in ROI)
3. **Major increases** in adex during a recession **did not** cause a major loss (drop in ROI)

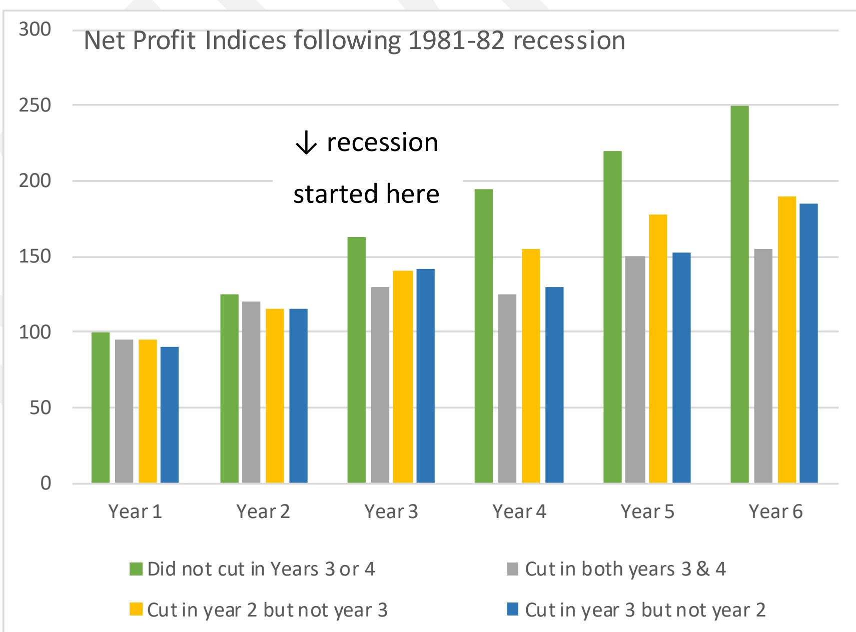
**Biel & King** (1990) also studied change in ROI over recessionary periods. They found **all business units** suffer **losses** during a recession – those that cut back on adex **did not** seem to reduce the losses relative to those that modestly increased adex.

| **Adex during a recession** | **Change in ROI** |
| --- | --- |
| Decreased (avg -11%) | **-1.6%** |
| Modest increase (avg +10%) | **-1.7%** |
| Significant increase (avg +49%) | -2.7% |
| Avg change - all businesses (recession) | -1.9% |

**Meldrum & Fewsmith** (1979) also studied *net income* across the 1972-1977 period including the 1974-75 recession. Firms that invested during recession, showed **higher net profit** even after *2-3 years*.




**McGraw Hill** (1985) analyzed data for 600 firms over a 6year period including the 1981-82 recession. The analysis covered 4 groups of firms: (a) those that cut adex in both years of recession (b) & (c) those that cut adex in either of one year (d) those that did not cut advertising.



Firms that did not cut their advertising expenditures during the recession had a larger **growth in net income** than those firms that cut their advertising expenditures in one or both years of the recession.

**Summary learnings**:

The sales and market share studies give an unambiguous verdict: that ad support during a recession delivers **positive change** in sales and market share – both in the short and medium term.

The **profitability (ROI) studies** confirmed **ad investments during recession would largely pay back well.**

A. Frankenberger & Graham's study found an increase in adex led to **significant increase in earnings** during recessions – especially for *consumer products* and *b2b firms.*
B. Kijewski found:
    1. In general, there's a small **dip in ROI** (across the board) during **recession**
    2. Drop in adex during a recession **doesn't** lead to an increase in profit (jump in ROI)
    3. **Major increases** in adex during a recession **did not** cause a major loss (drop in ROI)
C. Biel & King found **all business units** suffer **losses** during a recession – those that cut back on adex **did not** seem to reduce the losses relative to those that modestly increased adex.
D. Meldrum & Fewsmith found firms that invested during recession, showed **higher net profit** even after *2-3 years* (vs those that didn't).
E. McGraw Hill found firms that did not cut their advertising expenditures during the recession had a larger **growth in net income** than those firms that cut their advertising expenditures in one or both years of the recession.

Today **Bangladesh** thanks JFR Jacob for his bold plan to capture Dhaka and liberate millions. Twoe years from now, your business would thank you for taking the right decisions in 2020 – a well thought plan to *sustain sales and build market share without compromising profitability*.

References:

Vaile, Roland S (1929), "The Use of Advertising During Depression." Harvard Business Review

Meldrum and Fewsmith (1979), "How Advertising in Recession Periods Affects Sales." American Business Press

Kijewski, Valerie (1982), "Media Advertising When Your Market is in a Recession", Strategic Planning Institute

McGraw-Hill Research (1985)

Biel, Alex and Stephen King (1985), "Advertising During a Recession," 1990, NTC Publications

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

Frankenberger, Kristina D. and Roger C. Graham (2003), "Should Firms Increase Advertising Expenditures During Recessions," Marketing Science Institute, Working Paper.

Deleersnyder, Barbara, Marnik G. Dekimpe, Jan-Benedict E. M. Steenkamp and Peter Leeflang (2008), "The Role of National Culture in Advertising's Sensitivity to Business Cycles: An Investigation Across Al Continents," Working Paper, Erasmus Research Institute of Management, Erasmus, Rotterdam.

***Mediant** is a 6year old, new age media and communications agency with focus on ROI and Transparency. ROI Focus: Proprietary Cloud Telephony tools, in-house Marketing Analytics, emphasis on a single ROI-metric for every rupee spent - Fund Managers for Brands™ they partner.*

*Locations: Gurgaon, Mumbai, Kolkata, Bengaluru*

*Team – ex-leadership roles at multinational media agencies (pan-India/ China)*
*Capabilities: Strategy, Marketing Analytics, Media Planning, Media Buying and Implementation, Digital Marketing (all verticals), Sports and Entertainment Marketing*

***www.mediant.asia***