The Tale of Two Companies: "It was the worst of times. It was the best of times"

Recession for Some Companies = Golden Opportunity for Others

The purpose of this White Paper is to examine past trends and future opportunities in order to show why Strategic Marketing Plans, Positioning and Branding are vital for companies if they are to survive during a recession and provide sustainable growth afterwards.

Consider:

In 1929 only 34% of the households owned a radio. By 1933, ownership of radios had increased to 63%. The Great Depression was a great time for Zenith and Motorola.

Time, Inc. launched <u>Fortune</u> magazine in 1930 and <u>People</u> magazine during the recession of 1973-1975.

Fed Ex, Microsoft and Vanguard mutual funds were all introduced during the 1973-1975 recession.

What self-evident truth did these companies recognize?

Customers may reduce their spending, but they do not stop spending altogether. For Time, Fed Ex, Microsoft and Vanguard, the most obvious objective was to build their companies by growing their share-of-market.

Think about this basic truth: During a declining market a company must grow its share-of-market <u>just to maintain the status quo.</u>

Recessions are the best time to increase share-of-market since so many companies choose to think only in accounting terms and cut their resources (people, customer relationships, product development) during down-turns. Smart companies strengthen their resources during recessions, leading to a stronger competitive position.

"National" recessions are felt differently by different size firms in different regions of the country and different industry segments. In fact, some companies and industries may be facing a growth situation.

- Netflix posted a 45% increase in quarterly profits for the Fourth Quarter of 2008.
- Amazon dot com had a waiting list for its $359 Kindle E-Book in fourth quarter 2008.
- The "Snuggie" blanket sold out during the Fourth Quarter of 2008
- McDonald's US same-store sales rose 6.8% in February 2009.

Overview

This White Paper includes:

- A Long-Term Perspective on Recessions (Fact and Fiction)
- How Hard Nosed Marketing Can Help Your Company Grow During a Recession
- Outline of a Strategic Marketing Plan Format for Your Company's Use

Long-Term Perspective on Recessions

I have the dubious distinction of having worked through the last four major recessions: 1973-75; the twin recessions of 1980-1981 and 1981-1982; the 1990-91 recession and 2000-2001.

In order to refresh my memory I recently did an extensive on-line search of library articles on recessions going back to 1973-75 (53 articles and counting). This has helped gain a long-term perspective about facts and fictions about recessions.

<u>Fact or Fiction?</u>

- *"We are living in the worst economic conditions since the Great Depression."*

<u>Fiction</u>

The current economic conditions are bad, but not that bad. So far (March 2009) we have not fallen into an economic downturn as bad as the twin recessions of the early 1980's when we faced: Unemployment of 10.8%, Inflation of 13.5%, Mortgage interest rates of 18% and an <u>annual</u> GDP decline of -1.9%.

Two-thirds of America's current population lived through the recession of the 1980's. We have survived worse economic conditions and we can survive them again with the right attitude.

The main difference between the 2008 – 2009 recession and previous recessions is news coverage. We can, and have, spread fear farther and faster than at any other time in history.

We now have the 24-hour news cycle, too many cable news channels chasing the same stories, Internet sites and Web logs that constantly remind us of each bump in the road. During past recessions we knew things were bad, but simply soldiered on thinking about the business at hand, rather than concentrating on each quarterly-hour news reports and "breaking stories".

Also, we have just gone through a hotly contested election at the national, state and local level where campaign rhetoric and sound bites make use of phrases like "unprecedented", "dire", "Great Depression" a quarter-hourly occurrence. The news organizations and politicians are actually eroding consumer confidence through their hyperbole about the state of the current economic conditions.

<u>Fact or Fiction?</u>

- *"We have nothing to fear but fear itself."*

<u>Fact</u>

These words were true when Franklin Delano Roosevelt spoke them during his first inaugural speech on March 4, 1933. These words are still true today.

In 2002 Daniel Kahneman, of Princeton University, was co-recipient of the Nobel Prize for Economics "for having integrated insights from psychological research into economic science, especially concerning human judgment and decision-making under uncertainty." (Source: Nobelprize.org)

Once the economic bubble has burst, further economic trends are essentially a confidence game and a self-fulfilling prophecy. If we lack confidence in our ability to control our own destiny and if we think our efforts won't work – they won't work.

If we are confident we are doing the right things to help our business, the odds are that we will help our business.

Leo Burnett founded what became one of the largest world-wide advertising agencies of the twentieth century during the depths of the Great Depression. His motto was: "Reach for the Stars". He went on to say: "You may not actually reach a star, but you won't come up with a hand-full of mud, either."

<u>Fact or Fiction?</u>

- *"Marketing Doesn't Work During a Recession"*

<u>This is both Fact and Fiction</u>

Dumb marketing doesn't work

Smart marketing <u>does</u> work during recessions

Studies conducted by McGraw-Hill (publisher of <u>Business Week</u> and other business magazines) were conducted comparing companies who cut marketing and advertising versus companies who did not cut marketing during the recessions of 1974-75 and 1981-82.

The results showed that during the 1974-75 recession <u>companies who cut marketing</u> saw a <u>21% sales decline</u> versus the companies who did not cut marketing. During the 1981-82 recession companies who cut marketing saw a <u>45% decline in sales</u> versus companies who did not cut marketing. (Source: "Capturing Opportunities in Challenging Times" by DDB 2008).

An article titled "Marketing in Troubled Waters" written by Allan S. Boress appeared in March 1993 of the <u>Journal of Accountancy</u>. This had to do with lessons-learned during the 1990-1991 recession and concluded "Marketing efforts don't have to be expensive – and they may be the worst thing for firms of any size to cut in a downturn."

An article titled "Marketing Strategies During Recession: A Comparison of Small and Large Firms" written by Avraham Shama in the <u>Journal of Small Business Management</u> in July 1993 cited that "national" recessions are felt differently by different size firms in different regions of the country and different industry sectors. Some companies may actually face a growth situation during a "national" recession.

The above sentiment was echoed in a June 2005 article titled "Turning Adversity Into Advantage: Does Proactive Marketing During a Recession Pay Off?" in the <u>International Journal of Research in Marketing</u> written by Raji Srinivasan, Arvind Rangaswamy and Gary Lilien, which stated: "All firms are not equally affected by recessions. Some firms view recessions as opportunities to strengthen their businesses, invest aggressively and establish their advantage over their weaker competitors."

Hard-Nosed Marketing During a Recession Will Bring Positive Results

One theme that consistently ran through my past experiences and the review of past articles is that a company must have a strategic plan to make marketing work. While this seems self-evident, many companies abandon the principle of hard-nosed strategic plans during good times and simply throw money at any marketing situation.

Here is a question I have fun asking at seminars and other meetings: "What is the definition of marketing?" I have seen senior marketing people pause and search their memory banks for the definition they were taught in MBA programs. Usually there is a giant pause in the discussion.

My definition:

Marketing is a business discipline for obtaining and maintaining profitable customers.

NOTE: This definition does not include advertising, promotion, public relations or any other expenses. Those are simply tactical elements which may, or may not, be appropriate for your company at this point in time to obtain or maintain profitable customers.

It is impossible to evaluate any marketing program to determine if it is a wise investment or a foolish waste of money **until there is a plan in place with specific objectives and a clear strategy**

This is where a strategic marketing plan comes into play. You need to do an analysis on who are your best, most profitable customers. What makes them different from your least profitable customers? Where can you find more customers like your most profitable customers? How should your business be positioned in a way that is relevant to these customers needs and better than your competition? What is the best way to interact with your best current, and prospective, customers?

At the end of this White Paper is a one-page outline for completion of a strategic marketing plan. This outline has been successfully used over time and across a number of different companies in different industries.

In order to have a strategic marketing plan, it is obvious that a company needs a strategy, which is a frequently misunderstood concept.

My definition of a strategy:

A strategy is a behavioral statement of how the business objectives will be met, such as:

- Draw entirely new customers into the marketplace.
- Attract customers from competition
- Convince current customers to purchase more from your company

There are two parts to a strategy:

1. What changes in customer behavior do you need to meet your objectives?
2. What changes in behavior will your organization make to elicit a change in customer behavior?

Part of strategic thinking is to understand the position of your company's offerings versus competition. Positioning also has two parts:

1. What do our products / services provide customers that are most relevant to their needs?
2. How is what we offer unique, ideally better, from competition?

The most important answer, particularly during "down" economic conditions is relevancy to customer needs. Do not get caught up in simply being unique. The ill-fated Edsel automobile was unique, but not relevant to car buyers.

A Recession is a Great Time to Strengthen Your Brand

Many people will argue that recessions are not the time to spend money on branding. This is due to a misunderstanding about branding. Many people erroneously think of branding as logos, advertising tag lines and other expenditures of marketing funds.

My definition of a brand:

<u>A brand is an economic relationship between a buyer and seller based on a consistent experience with the product or service that meets or exceeds the buyer's expectations.</u>

This relationship can be rational, emotional, or both. And the economic relationship is strengthened or weakened by every contact between the buyer and seller.

A strong brand needs to be built before the first advertisement should appear. There is much that can be done internally during a recession that can strengthen a brand so that your company has a sustainable competitive advantage during the recession and also during the recovery after the recession.

Examples of internal branding efforts that should take place under any economic conditions include:

- Market research to determine unmet needs in your market place.
- Research & Development to innovate new solutions to customer needs.
- Development of strategic marketing plans to take advantage of competitive weaknesses.
- Greater emphasis on customer service in order to cement the economic relationship between your brand and your customers.
- Improvements in existing products / services.
- Stronger warranties to take the worry out of purchasing by buyers.

One of the themes that ran through all of the literature I read on past recessions is that smart companies will invest in future growth during down times to take advantage of their competition, which will reduce their presence in the market place. This gives the smart companies a competitive advantage both during the recession and the subsequent recovery.

Having a great learning experience of working on a wide-range of strong brands over the years, I have summarized the <u>benefits from strong brands</u> as follows:

- Increased cash flow, margins and profits.

- Increased sales and market share.
- Generation of marketing and sales efficiencies.
- Establishing a clear position in the minds of your stakeholders.
- Protecting future business if additional competitors enter the market.
- Helping to isolate your company from any negative industry news / publicity.
- To help justify the value of your business to the financial community.

To add academic rigor these points, I found a scholarly article in the July 2005 Journal of Marketing titled "Customer Satisfaction, Cash Flow and Shareholder Value", written by Thomas S. Gruca and Lopo L. Rego. Part of the article summary said: "the authors strengthen the chain of effects that link customer satisfaction to shareholder value."

In 1989 Phillip Morris acquired Kraft and paid a premium of 30 times earnings when most food companies had a P/E ratio of 20:1. The reason for the premium price was the strength of Kraft's brands. In 1991 an entrepreneur in Indianapolis sold his business at a much lower price than he hoped for. Asked why the low price, the buyer said: "Because you have no brand, just depreciated assets."

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A one-page outline for a strategic marketing plan can be found on the following page.

Strategic Marketing Plan Outline

A marketing plan should be a realistic action document that is a comprehensive review of the current business and a clear direction for future business. Since it is comprehensive, the plan should provide both strategic direction and tactical execution to increase revenue and profits.

1. Situation Analysis (Background)
    a. Recent sales, share-of-market, revenue, spending and profit trends.
    b. Any sales force changes that impacted the above results.
    c. Recent marketing and sales force activities.
    d. Competitive situation – Strengths and Weaknesses.
    e. Current customer behavior.
    f. Environmental issues – Economic, Political, Technological, And Weather.

2. Problems and Opportunities
    a. What factors could hurt future growth.
    b. What factors could aid future growth.

3. Objectives (Quantitative statement of goals to be achieved)
    a. Unit Sales.
    b. Share of Market.
    c. Revenue.
    d. Spending.
    e. Profits.

4. Strategies (Qualitative statement of what we should do to achieve the objectives)
    a. What changes in customer behavior are needed for us to make objectives?
        i. Example – bring new customers into the market, bring competitive customers to our brand, have current customers buy more from us.
    b. What changes must we make to achieve the desired customer behavior?
        i. Examples, offer new products, increase awareness, reduce price, provide a promotional offer, or change channels of distribution.

5. Tactics (Specific programs, or how we will execute the strategy, includes cost and timing statements)
    a. Products.
    b. Pricing.
    c. Additional sales coverage.
    d. Promotions.
    e. Communications.

6. Measurements
    a. Actual results versus objectives.
    b. Changes in desired customer behavior.
    c. Tactical executions (specific program, cost and timing) versus plan.
    d. Spending.
    e. Profits.

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