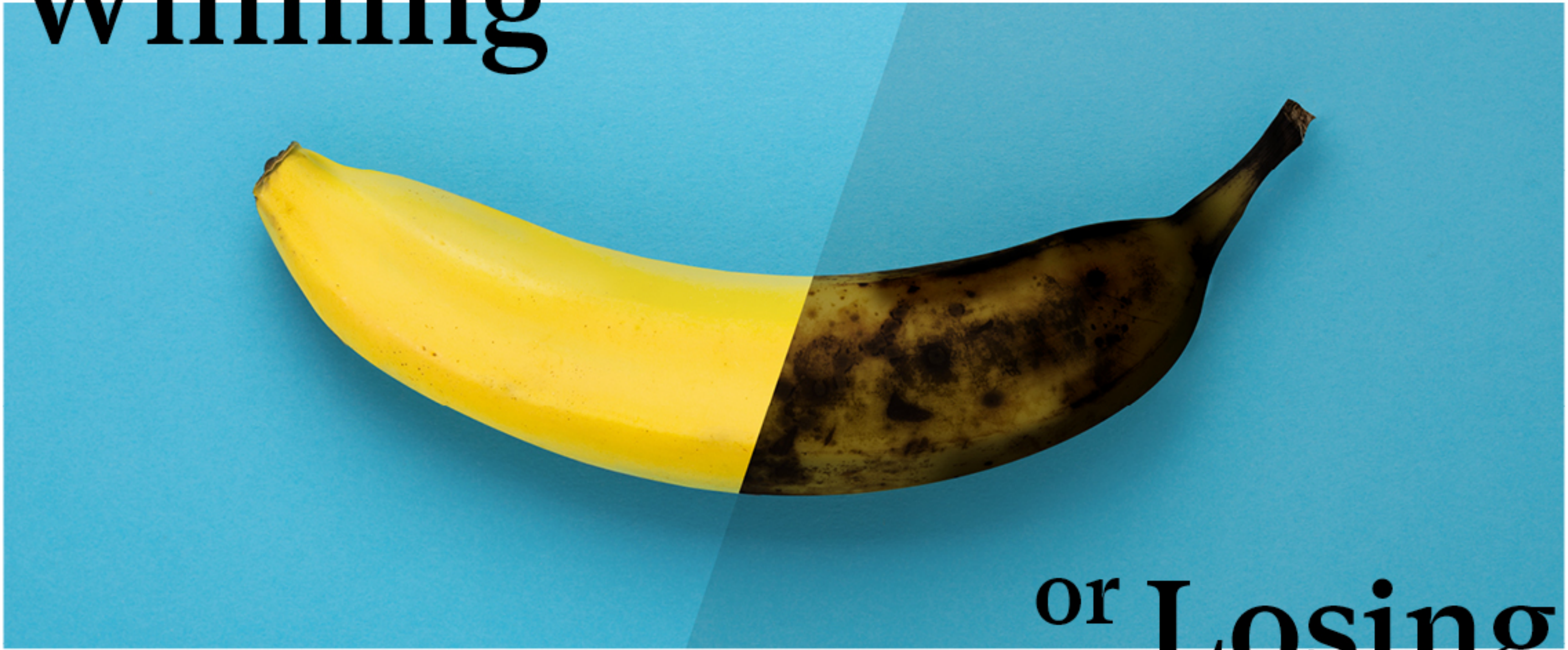
Winning



or Losing

in a Recession

the communications council

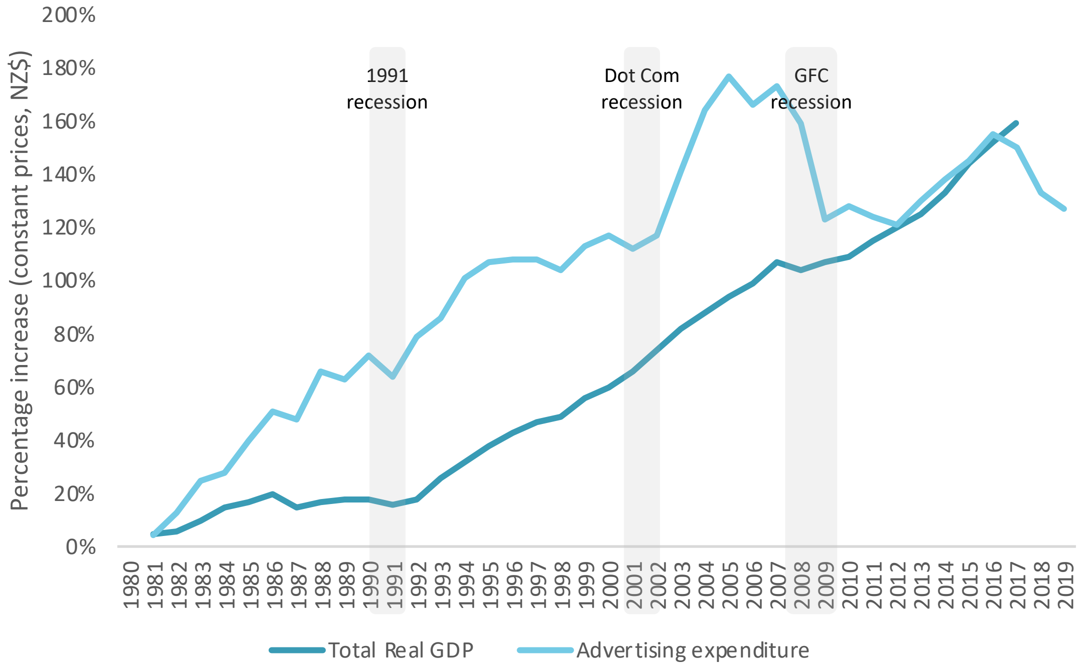
Commercial Communications Council

LinkedIn Marketing Solutions

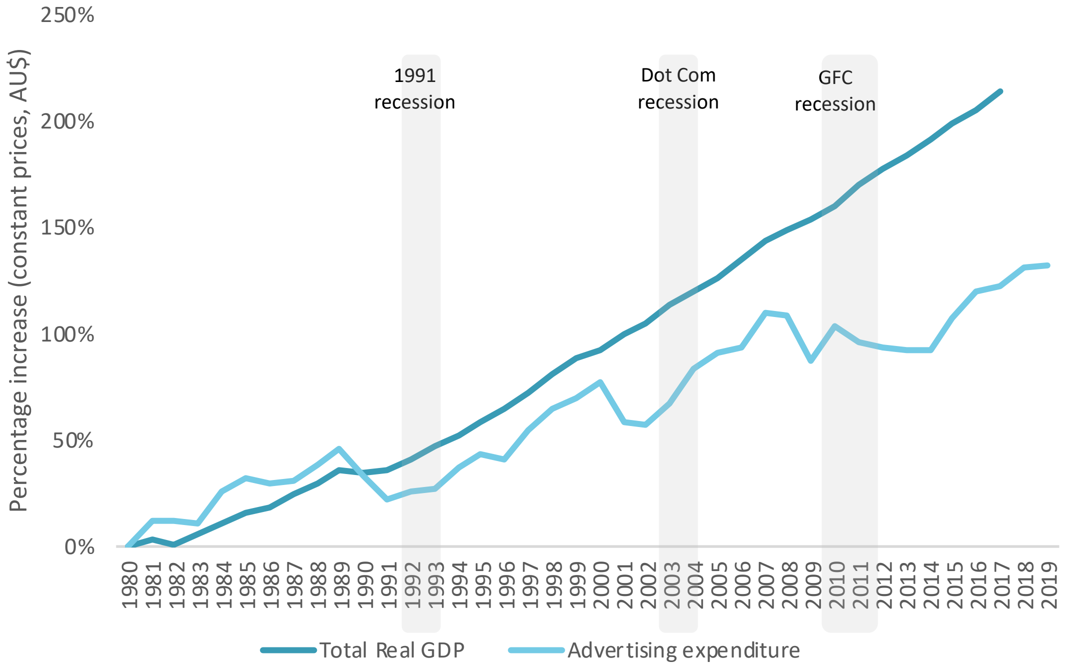
By Robert Brittain and Peter Field

A low commitment to advertising investment in New Zealand and Australia has left our brands in a weaker state going into the COVID-19 recession.

New Zealand - Real GDP vs Advertising Expenditure



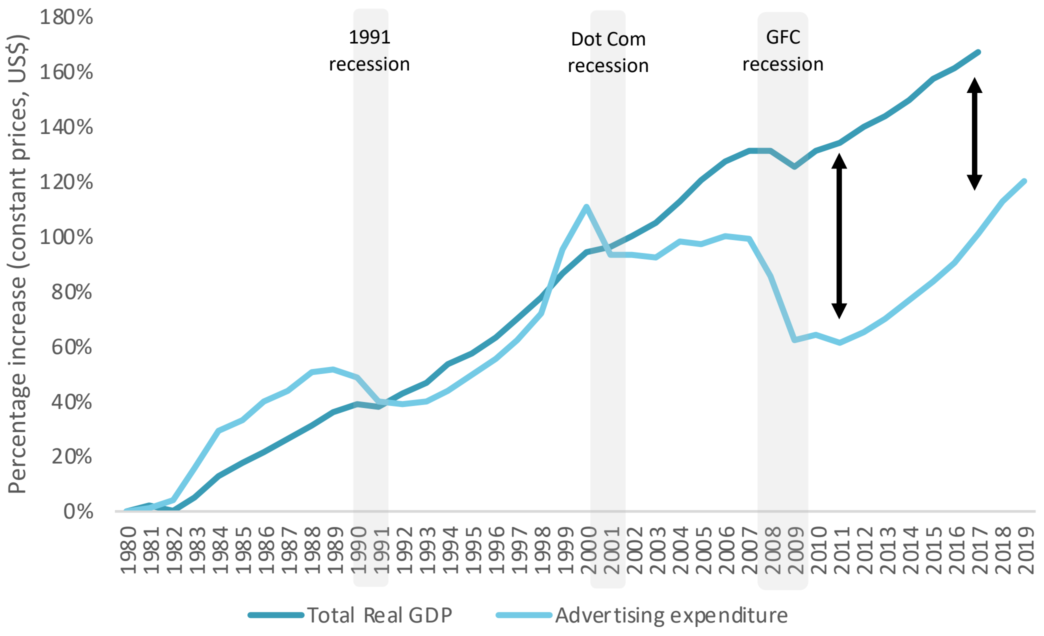
Australia - Real GDP vs Advertising Expenditure



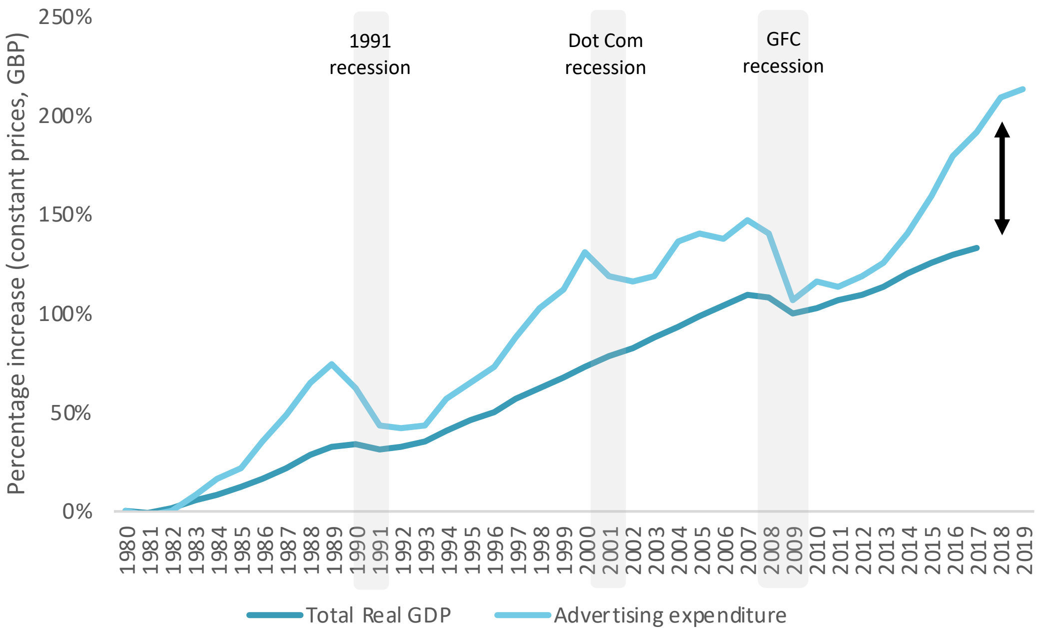
Sources: Ad spend – Zenith Optimedia, all paid media channels (including internet); GDP – publicly quoted GDP figures

The US & UK show strong commitment to advertising. Ad investment growth exceeds GDP during economic expansion, gradually recovering investment losses from the recession periods.

US - Real GDP vs Advertising Expenditure



UK - Real GDP vs Advertising Expenditure



Sources: Ad spend – Zenith Optimedia, all paid media channels (including internet); GDP – publicly quoted GDP figures

There are clear signs of panic.

Country	**Diff in total ad spend** (April 2020 vs April 2019)
New Zealand	-38%
Australia	-35%

Source: Stand Media Index (SMI)

Recessions

Recessions have different causes

Type of recession	Example	Causes
Real Recession	DotCom Recession (2001)	• CapEx boom cycle turns to bust and derails expansion. • Severe external demand & supply shocks e.g. wars, disasters.
Policy recession	1991 recession	Central banks leave policy settings (interest rates) too high and choke off the expansion
Financial crisis	GFC recession (2008-9)	A slow build-up of financial imbalances over a long period that rapidly unwinds, disrupting financial markets and then the economy

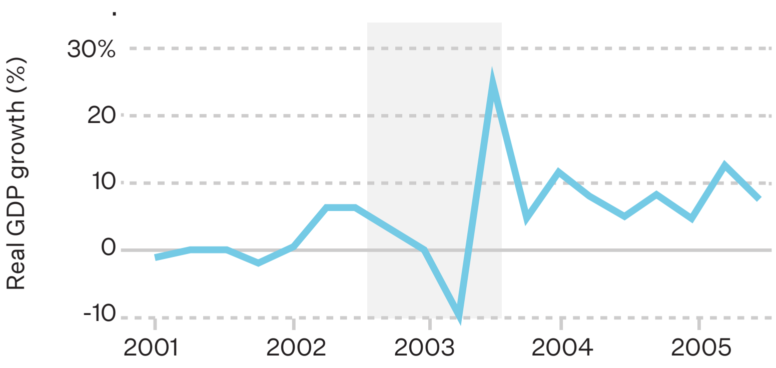
Recessions have different "shapes" of recovery

Type of recovery	Example	Causes
V-shaped	DotCom Recession (2001) 1991 recession	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.
U-shaped	GFC recession (2008-9)	More severe than V-shaped. The shock persists resulting in a long period between decline and recovery with some permanent loss of business output.
L-shaped	The Great Depression (1923-33)	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.

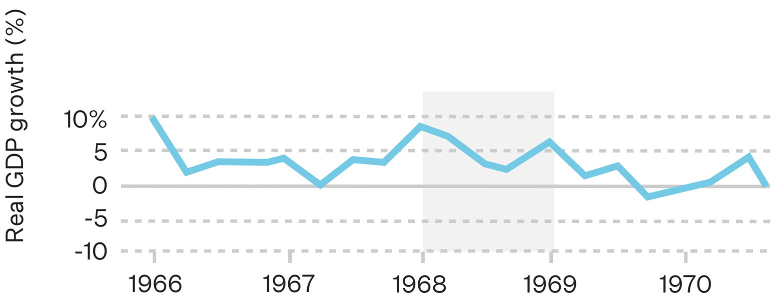
We should be open to the possibility of a fast recovery.

Previous recessions caused by epidemics/ pandemics have all had **V-shaped** recoveries.

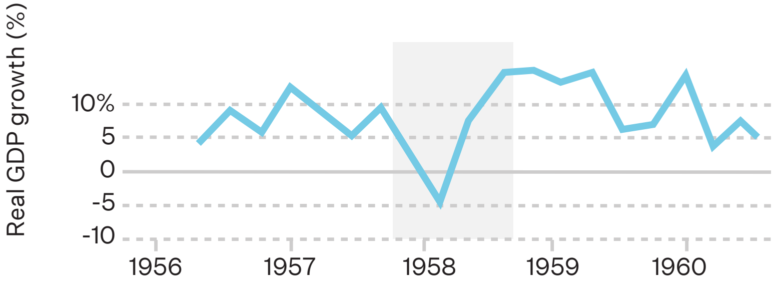
SARS (2002) : 286 global deaths



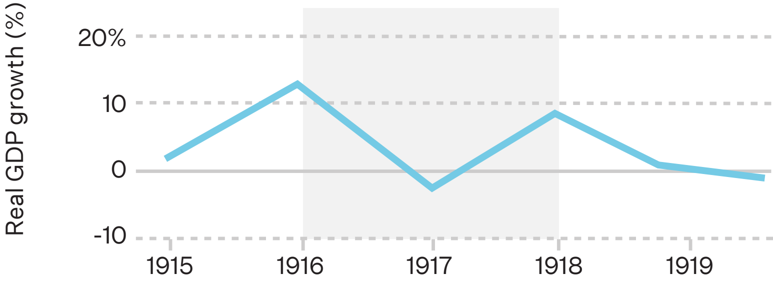
Hong Kong Flu (1968) : 1 million global deaths



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



Spanish Flu (1918) : 50 million global deaths



Notes: 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.
Source: "What Coronavirus could mean for the global economy", Harvard Business Review, 3rd March, 2020.

Winners in recession are in the minority

In a 2010 Harvard Business Review study of three recessions…..

20%

of firms had regained pre-recession growth rates for sales and profits 3 years after the recession had ended.

Analysis covered 4,700 public firms over 3 recession periods (1980-82, 1991, 2000-2002.)
Source: “Roaring Out of Recession”, Harvard Business Review, March 2010 issue.

Key questions for marketers

1. What is your plan to maximize your brand’s bounce back during the recovery?

2. How can you take advantage of the recession?

2 core concepts in this paper

SHARE OF VOICE (SOV)

- The intensity of a brand's advertising investment <u>relative</u> to its competitors.
    - Defined as the brands share of total category working media investment.
- Brands require an *excess* share of voice (ESOV) to grow their market share.
    - Share of voice > share of market.
- **Many of your competitors are investing less.**
- **ESOV is currently much less expensive to achieve.**

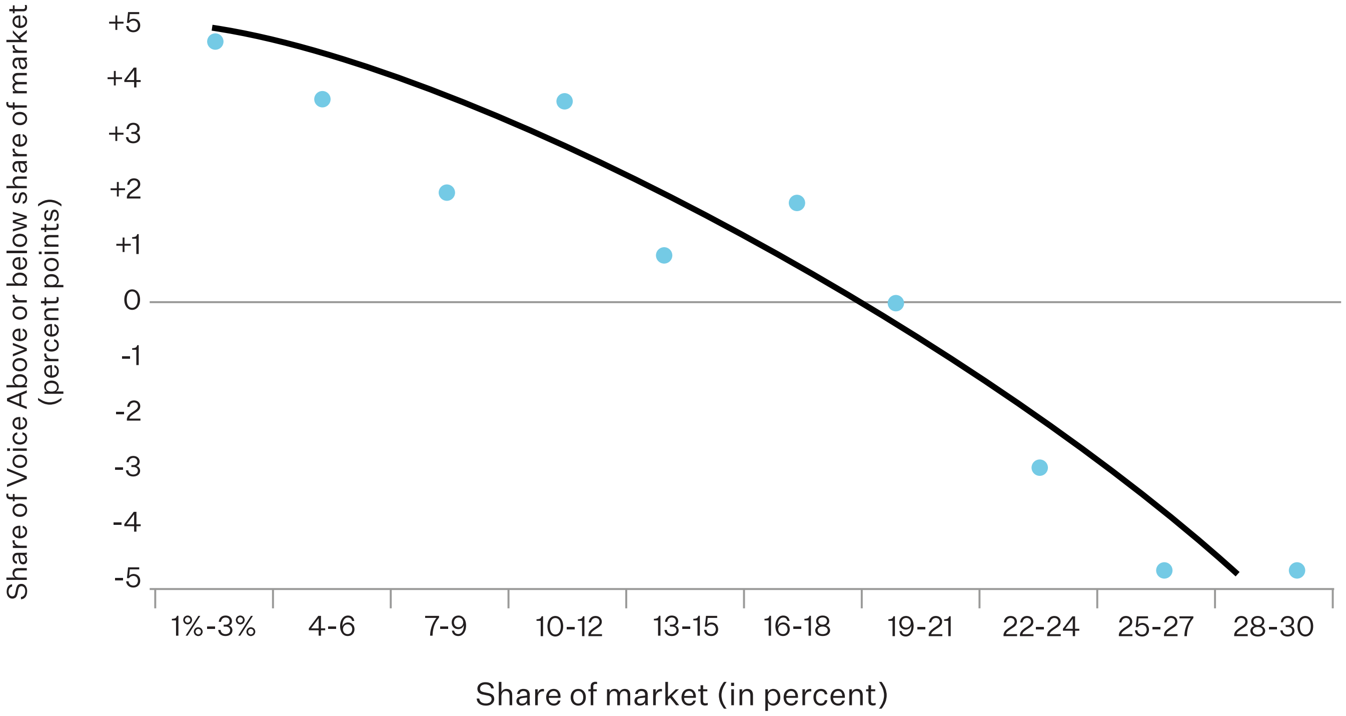
BRAND BUILDING ADVERTISING

- Delivers significant, cumulative long-term effects on market share, customer acquisition & brand profit growth
    - The power of brand building has increased in the current environment
- Optimal level is ~60% of total advertising spend dedicated to brand building.
- **Most brand owners allocate <60% of advertising investment to brand building.**
- **The most powerful effects of brand building advertising, if done now, will be experienced during the recovery phase.**

Most brands require an **excess** share of voice (ESOV) just to maintain their market share.

The smaller the brand, the higher the ESOV required.

Curve Comparing Share of Voice with Share of Market



Source: Jones, JP, "Ad spending – maintaining market share", Harvard Business Review, Jan-Feb 1990 issue.

Brand building advertising is powerful

BRAND BUILDING ADVERTISING

- Small short-term effects, large cumulative long-term effects
    - Significant impacts on long term market share, customer acquisition & brand profit growth.
    - Reduces price sensitivity
- Grows brand equity by building brand memory structures
- Focused on empathy, human connections.

SALES ACTIVATION ADVERTISING

- Large short-term sales effect, no cumulative long-term effects
- Exploits brand equity – has negligible impact on brand memory structures
- Focused on facts & things, offer-based/hard sell.

The characteristics of post recession winners

Post recession winners are those who master the balance between cutting costs to survive today and investing their capital in the right areas to grow tomorrow

DEFENSIVE

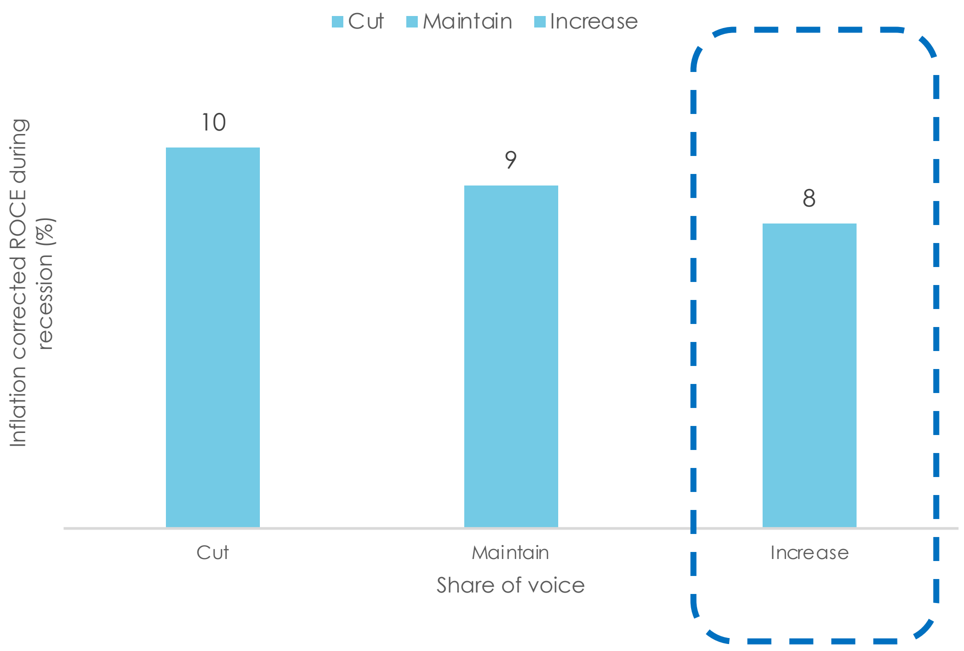
- Strong focus on operational efficiency
- Some reduction of administration costs (but headcount reduction is less than peers)

OFFENSIVE

- Increase customer preference through investment in R&D, new products & advertising
- Maintain price (relative to competitors)
- Invest in assets (e.g. plants & machinery)

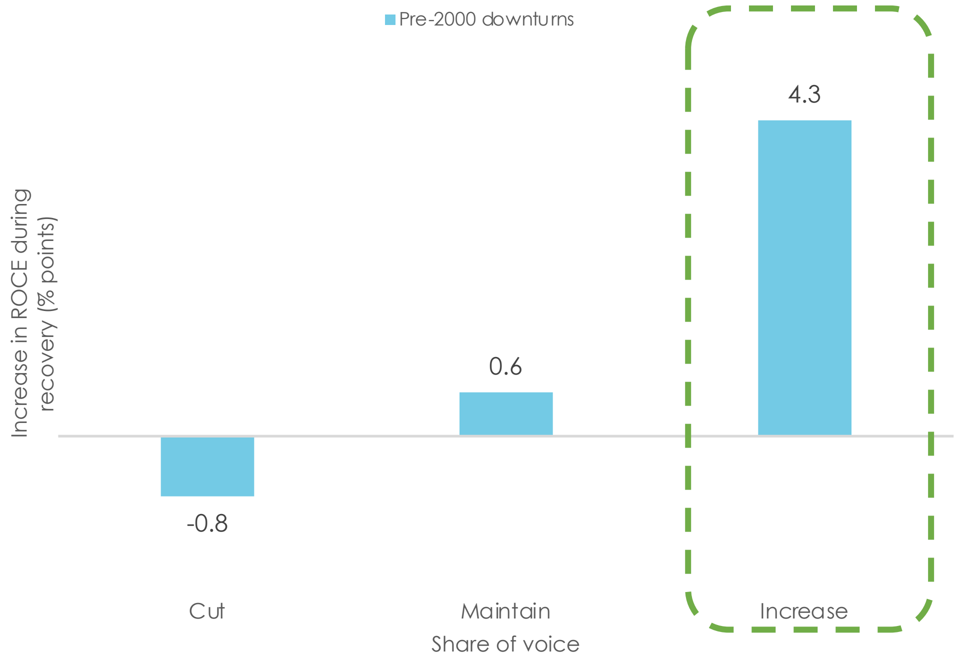
Increasing share of voice is a drag on profitability during recession but aids significantly faster profit growth during the recovery.

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



ROCE = Return on capital employed

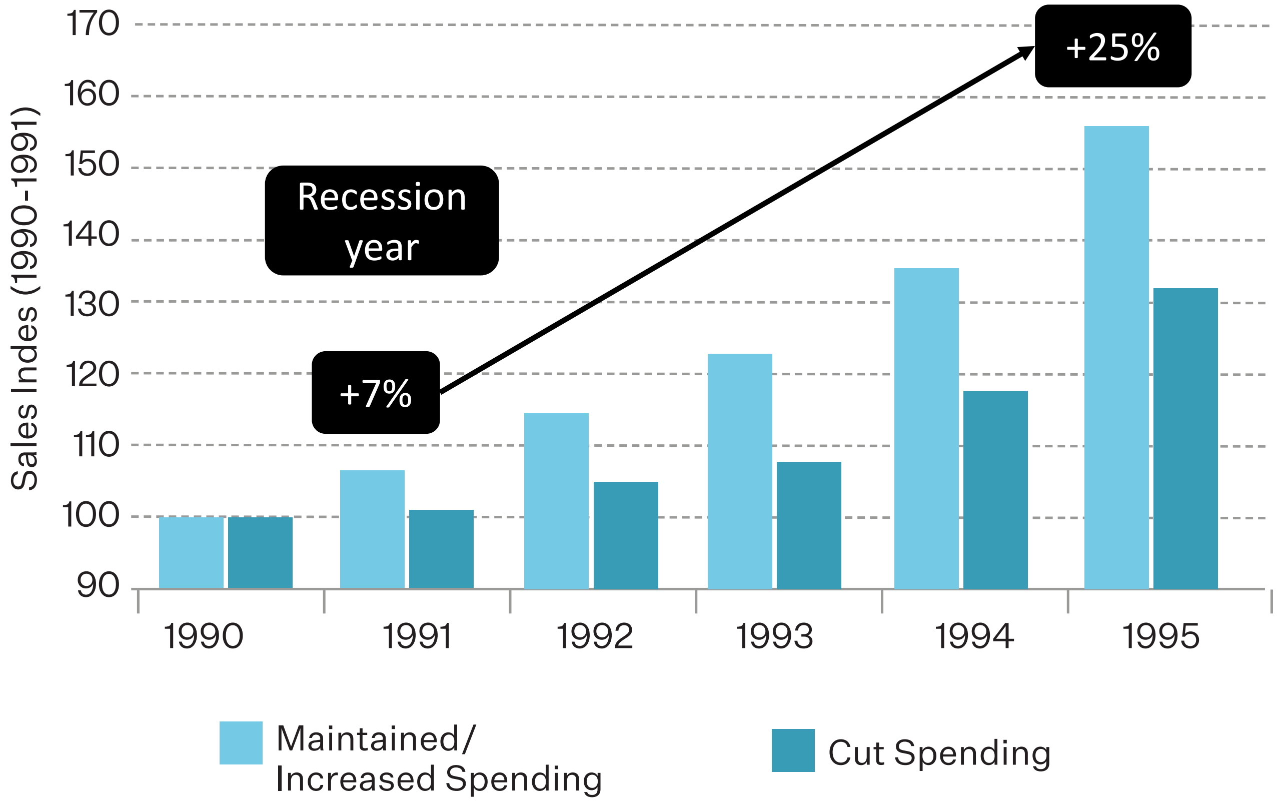
Increasing share of voice during a recession helps profit recovery post recession



Source: Research by Malik PIMS, sourced from “Advertising in a downturn”, a report of key findings from an IPA seminar.

Faster profit recovery is aided by stronger sales growth

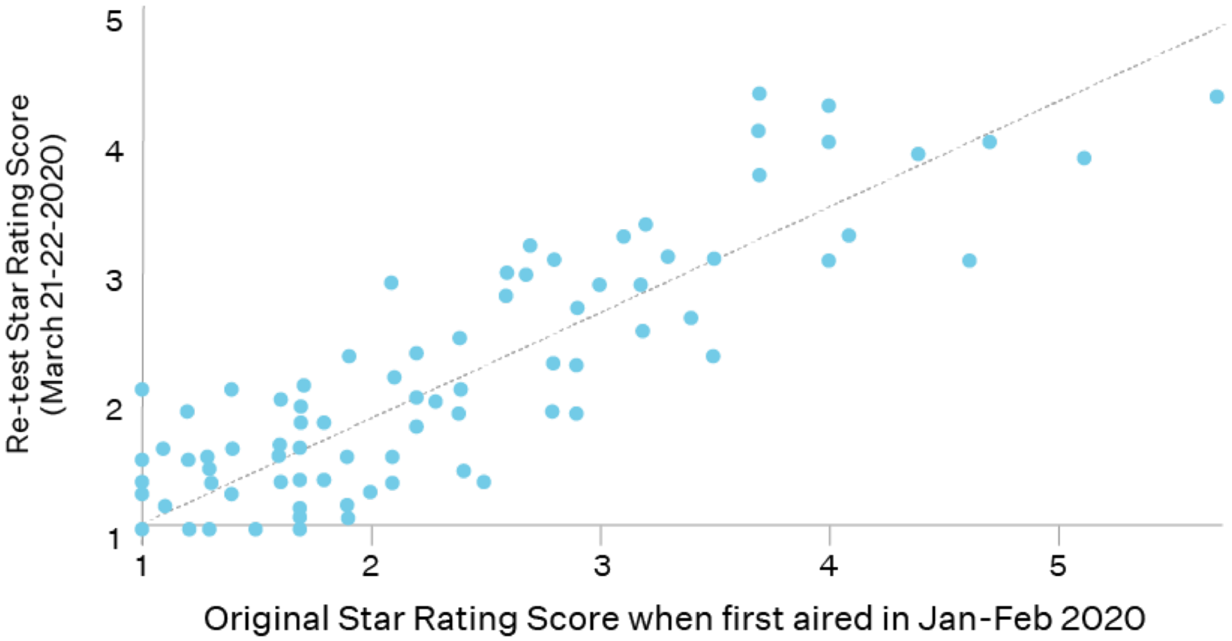
The firms which maintain/increase advertising investment during recession continue to significantly outperform post recovery



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

Advertising has not declined in effectiveness since COVID-19 emerged. People are not rejecting ads that ran before the pandemic hit.

High correlation between original and re-tested scores



Re-tested ads where significant differences were seen

Performing better	Performing worse
Empathy	Rational facts & things
Human connections	Power & control
Humility	Hard sell
Music	
Humour	

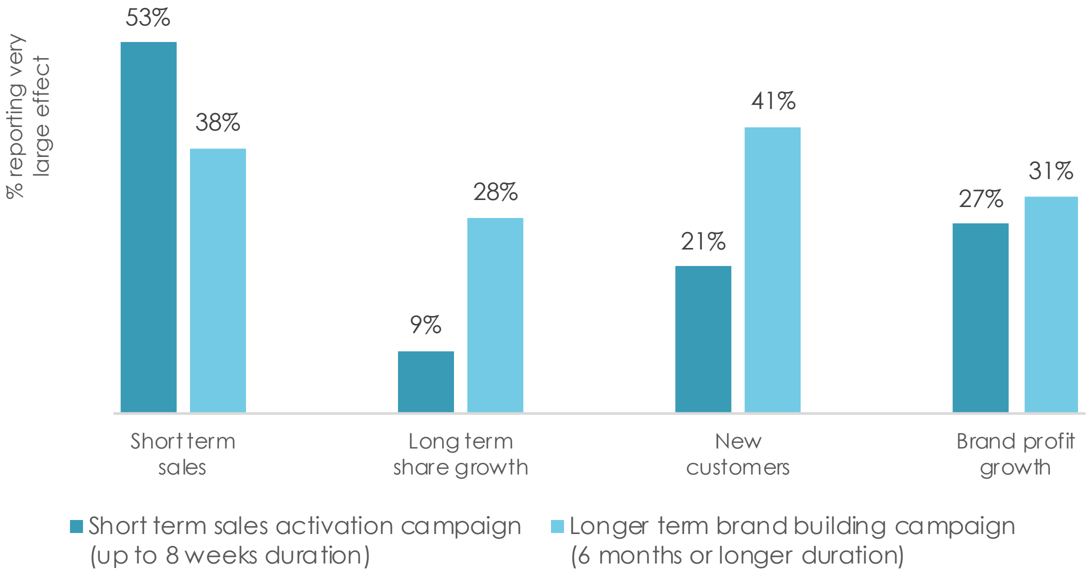
Brand building characteristics

Sales activation characteristics

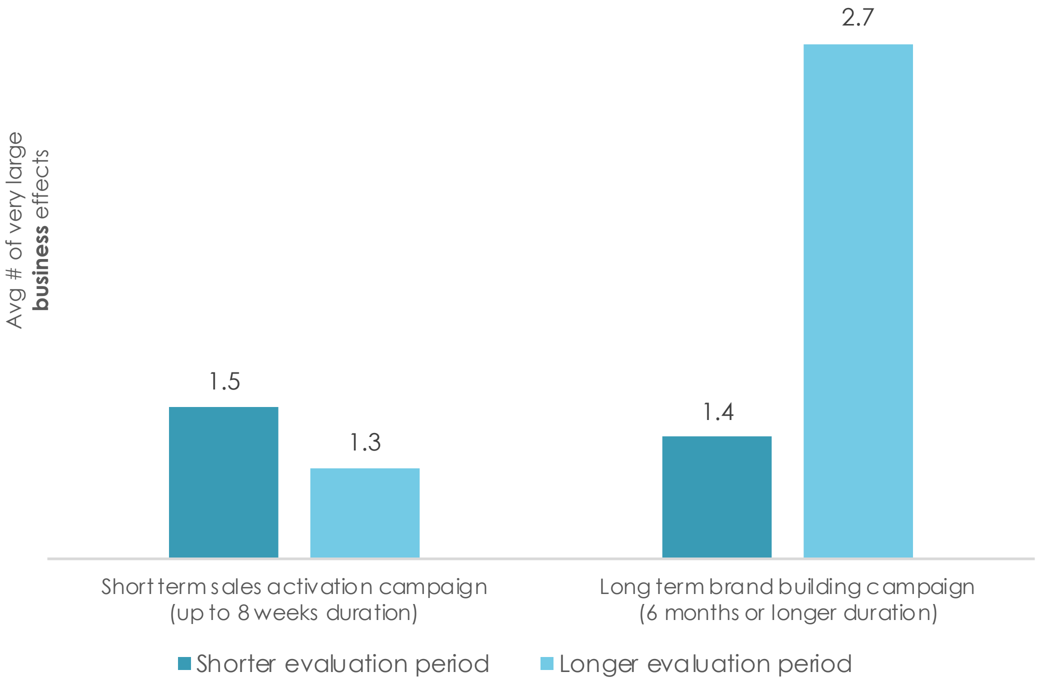
Source: Wood, O (System 1), "What should ads look like in the time of recession"; LinkedIn Solutions marketing blog, April 21st 2020

The most powerful effects of brand building advertising, if done now, will be experienced during the recovery phase.

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



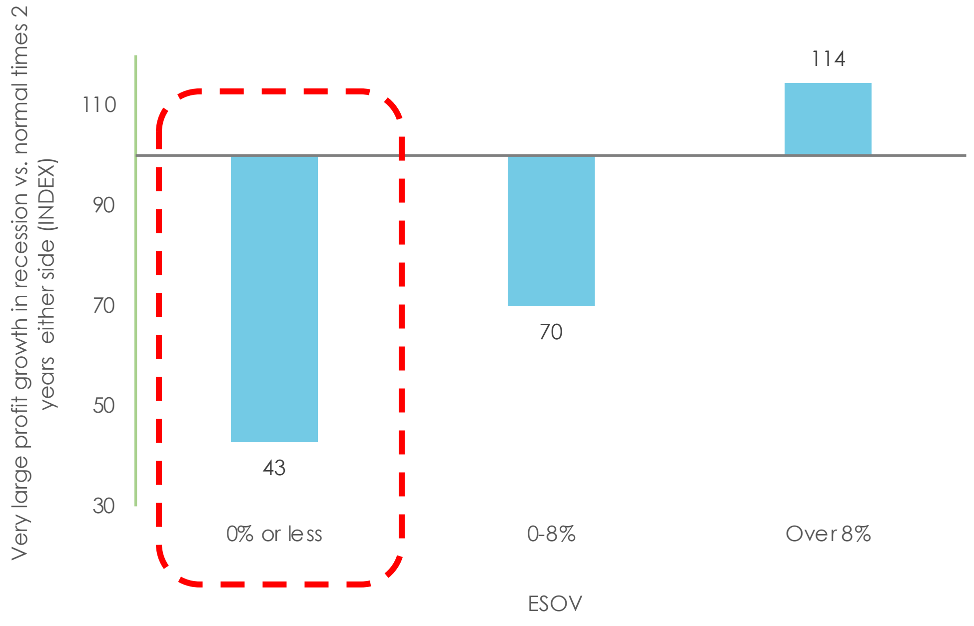
Brand building campaigns deliver significant cumulative effects over time



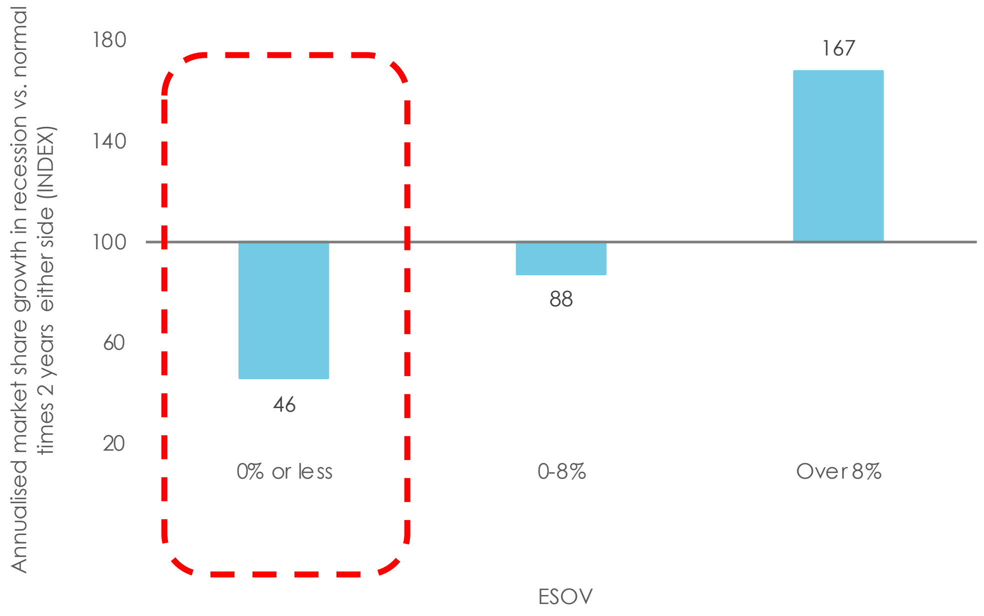
Source: Brittain & Field; "Advertising Effectiveness Rules", 2019

The penalty for underinvestment in share of voice is higher during recession. Long term profit growth and market share both take a greater hit.

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



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



Analysis covers GFC recession (2008/9) vs the 2 years before or after the recession.

Source: Field, P; IPA databank, 2020

Advice for advertisers and agencies

1. Do not go dark.
2. Do not accept decline in SOV as an outcome.
3. See recession as an opportunity for growth.
4. Exploit weakness amongst your competitors.
5. Do no got short – keep the balance between brand building and sales activation activity.
6. Put your budget behind proven brand-building strategies.