Effective marketing strategies for a recession

For large organisations that operate predominantly in b2b markets

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Abstract

Whilst the principles of marketing stay the same regardless of the prevailing economic environment, it is the practice of marketing that changes, especially in a recession. In response to the slump in demand and decreased sales, many marketing teams have had their budgets slashed and their resources cut back. These challenges, along with volatility in the marketplace and constantly changing customer needs, mean it is difficult for marketers to determine what marketing strategies to employ.

There are a plethora of factors that influence the appropriateness of a certain marketing strategy for a particular company, including the overall objective of the strategy, the level of available human and financial resources to implement the strategy, the geographical scope being considered and the elasticity of demand in the marketplace, to name but a few examples. Common to all strategies is that some kind of payback is required, in that every strategy should seek to provide a return on investment.

This paper explores strategic reactions to a recession and examines the findings from a survey of 310 marketing professionals who work in b2b corporates across the world. Various marketing strategies are discussed, with a particular focus on what makes a strategy effective in turbulent times.

Contents

“A time of turbulence is a dangerous time, but its greatest danger is a temptation to deny reality…
[However] a time of turbulence is also one great opportunity for those who can understand, accept and exploit the new realities. It is above all a time of opportunity for leadership” (Drucker, 1980)

1. Introduction

In Europe, a widely acknowledged definition of a recession is the reduction of a country’s gross domestic product (GDP) for at least two quarters. In the US, the definition of economic recession is somewhat looser: "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP growth, real personal income, employment (non-farm payrolls), industrial production, and wholesale-retail sales."[1] Whatever the definition, there can be no doubt that much of Europe and the US have slipped into a recession.

In virtually all markets, demand has shrunk, there is immense pressure on suppliers to reduce prices, markets are more focused on buying on price, and profit margins are squeezed. The fear of downfall as a result of recessionary pressures has led, and continues to lead, to a fierce slashing of budgets, in particular marketing budgets. For instance, Marks & Spencer has reduced

[1] According to The National Bureau of Economic Research, Business Cycle Expansions and Contractions, 19th November 2008

its marketing budget by 20% (Marketing Magazine, 7th January 2009)[2] and FedEx has cut its marketing budgets by more than 25% (Reuters, 7th January 2009)[3]. Why are marketers feeling the pinch with decreased spending power when it is such a crucial time to understand customers' requirements and meet their needs before they could potentially defect? Given that most businesses lose around half of their customers every five years, it is frightening to think how many customers have been lost in the past few months alone as a result of the faltering economy.

This is particularly worrying for companies that operate in b2b markets, for b2b companies have far fewer customers than b2c companies and in general tend to have strong relationships with their customers, especially their largest customers. According to the Pareto principle, these largest customers comprise 20% of all customers served by a b2b company and yet account for 80% of turnover. In a recession, a b2b company is thus highly dependent on this small clutch of valuable customers and is significantly affected if any of these customers goes bust or cuts demand. For obvious reasons, b2b companies need to work hard on keeping their existing customers during a recession and, of course, on finding new ones.

Marketing is a means of identifying and meeting needs profitably and it plays an instrumental role in retaining existing customers, as well as in attracting and winning new ones. The most profitable companies in a recession are typically those that delineate and execute marketing strategies successfully, but determining which marketing strategy to adopt is not an easy task. Apart from doing nothing at all, the worst that companies can do is presume that the only way forward is to slash prices, for in doing so they are possibly neglecting the other vital elements of the marketing mix, potentially tarnishing their brand image and underestimating the importance of meeting customer needs.

Tighter economic conditions sharpen the focus of business and marketing strategies. Strong economies allow many companies the luxury of indulgence and a profitable bottom line can sometimes be achieved in spite of their (in)actions. Furthermore,

[2] For 2009
[3] For 2009

in buoyant conditions, companies may be able to achieve levels of profitability which delude them into believing that their strategies are working and yet they may never know that they could be much more profitable had they adopted a different strategy. In a recession, the smallest of strategic mistakes could, however, result in a company failing quickly. The right marketing strategies therefore act as insurance against risk, making companies less vulnerable to the vicissitudes and volatility of the business and economic environment, as well as act as an aggressive marketing tool that ensures survival and unleashes potential opportunities. As Harvard Business School Professor John Quelch recently stated, "Successful companies do not abandon their marketing strategies in a recession; they adapt them." (Harvard Business School Working Knowledge, 3rd March 2008).

With this in mind, this paper explores what constitutes effective marketing strategies for a recession, with a particular focus on companies that operate in b2b markets. The paper covers two key aims:

1. *To explore how organisations are reacting to the current recessionary pressures in terms of marketing strategies they have employed.*

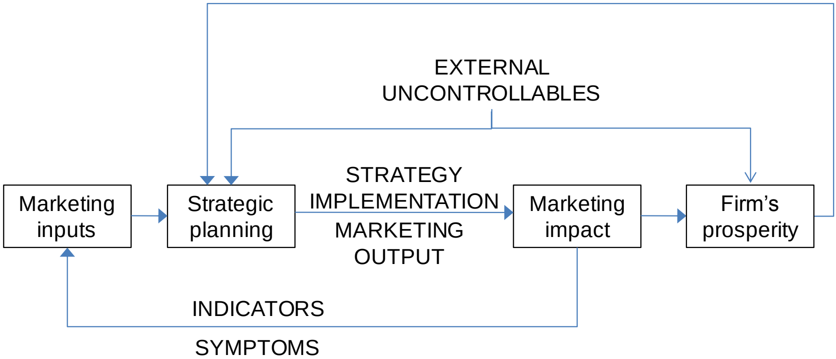
2. *To determine which marketing strategies can be considered the most effective for a recession.*

The next section discusses the role of marketing strategy, which is followed by a description of typical reactions to a recession and effective marketing strategies that can be employed for tough economic times. This is then followed by an overview and analysis of the insights obtained through primary research, in which a survey of marketing professionals explored their attitudes to the recession and how they are responding to it. The paper concludes with a summary of key findings, as well as strategic recommendations for companies that are reviewing their marketing strategies in light of recessionary pressures.

2. The role of marketing strategy

A key strength of marketing in a corporation is that it can generate symptomatic information (Samli, 1993 p50). That is, the marketing department is capable of diagnosing a corporate problem long before the financial statements document the state of health of the company, at which point it could be too late to take corrective action. With the assistance of market research, marketers can identify a company's strengths, weaknesses, opportunities and threats prior to recessionary turbulence and enable the company to consolidate its offering, to become increasingly competitive, and to develop proactive marketing strategies that will enable it to survive and prosper in times of adversity. Hence marketing plays a vital role in stimulating prosperity for the firm, as indicated in Figure 2.1. This input/output model illustrates that factors in the external environment – which Samli (1991 p51) refers to as 'external uncontrollables' – direct the strategic planning of the company as it reviews its strategic options in light of the prevailing market conditions and all external influences. Indicators and symptoms of the marketing impact then provide guidance on corrective actions required on the marketing inputs (such as the firm's products, brands and sales force). Responding early to market indicators and symptoms can eliminate problems and strengthen a company's resistance to recessionary turbulence when it occurs.

Figure 2.1 Modified Version Of Samli's Input/Output Model of Strategic Symptomatology



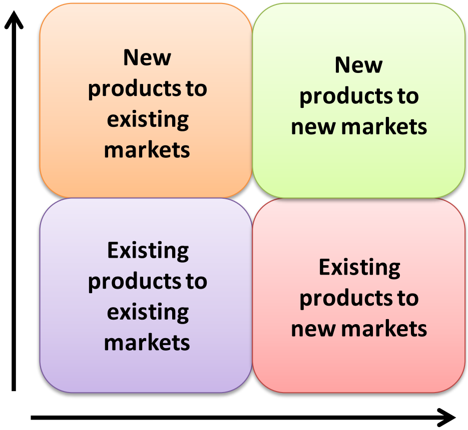
The direction of strategic planning in the input/output model depends on the aim and objectives of the marketing strategy. A marketing strategy can be defined as a means to an end, enabling marketers to apply a process in order to achieve a profitable outcome. It is likely to pursue one of the following goals:

- *To banish or reduce problems*, for example counteracting declining sales of a particular product or new competitors having entered the market; or
- *To strive for improvement*, for example with more effective marketing communications or more effective packaging; or
- *To seek opportunities*, for example through new market entry or new product development.

This may seem relatively straightforward. Indeed most people can recognise weaknesses in a company and suggest a potential strategic resolution. But whilst corporate strategies are in abundance, only few strategies actually bear fruit. According to a survey by the Economist Intelligence Unit, companies typically realise only around 60% of their strategy's potential value due to failures in planning and execution (Syrett, 2007 p11). Many strategies fail due to corporate politics, undefined goals, a lack of appropriate controls or changing circumstances, all of which result in a distorted focus. Thus ensuring that a strategy is executed effectively and with a maximum return on investment is a challenging task, which is made all the more challenging in economically turbulent times.

Marketing strategies are not unique to the prevailing economic climate. For instance pricing strategies, such as discounts and special offers to encourage customers to buy, are employed in times of a booming as well as weak economy. Michael Porter (1980 p34) suggested that companies have three strategic options: to differentiate, to compete on cost, or to specialise in meeting the needs of a niche. Igor Ansoff (1957 p113) argued that companies can adopt one of four strategies – marketing existing products to existing markets, marketing new products to existing markets, marketing existing products to new markets, and marketing new products to new markets, as illustrated in Figure 2.2. All of these options can be adopted, irrespective of business conditions.

Figure 2.2 Ansoff's Four Strategies



However, a tightening of the economic environment may change the game for many companies. A company that was comfortable selling its products locally may suddenly find that its market has dried up. It may be forced to look wider afield and seek another Ansoff option. A company aiming at a niche, such as young city traders, may find that the niche has disappeared and may need to look elsewhere for its custom. Whatever challenges a company may face, from defecting customers to decreasing profit margins, a coherent strategy is required to deal with these challenges, as opposed to meagre and piecemeal actions which many companies consider easier but which are rarely successful in the medium to long term. This leads to the following chapters which explore common reactions to a recession, and effective marketing strategies that not only counteract recessionary turbulence, but also reap the benefits from it.

3. Common reactions to a recession

Companies typically react to a recession in at least one of the following ways: they attempt to carry on as normal (inertia); they lower prices; or they cut costs. Each of these reactions is discussed in turn below.

Inertia

Samli (1993, p1) argues that if firms behave in a reactive or inactive fashion in response to a recession, they are not seeking to counteract market adversities and ultimately take a fatalistic point of view of doing nothing. Such a passive approach to recessionary pressures is dangerous, for it displays indifference to volatile markets comprising customers that are more likely to switch to competitors with more attractive offerings.

The contraction in demand is significant and sustained in a recession, meaning that for many companies it is simply not possible to wait out the storm. Consequently most companies are forced to react in some way. Competitive pressures increase substantially in a downturn as revenues plummet and everyone fights to maintain or grow their customer base. The companies that ultimately cannot fight hard enough fail.

Lowering prices

A collapse in demand can lead to price wars as markets are more price conscious and "price driven" in a recession. Lowering prices is thus a common reaction to recessionary pressures as too many suppliers chase too little demand, meaning that prices are competed down.

Lowering prices is the easiest short-term means of winning sales. This need for an immediate boost in sales is stressed by Charan (2009). Building sales is crucial during a recession (as it is at any other time), but what is not clear, however, is what Charan's views are on marketing expenditure as he appears to favour investment in sales over marketing.

Lowering prices may be more of a tactic than a strategy because it is often very much a short-term course of action with price rises following as soon as possible. And it is dangerous as many companies that slash their prices have a preconceived notion of the price elasticity of their market, i.e. how sensitive the market is to price. For example, it was estimated that in the chemical industry of 1991, for the average European company a 1% fall in prices would cut profits by as much as a 5% decline in volume (Hart, 2008 p49).

Cutting prices is no panacea, especially if it is a knee-jerk reaction as opposed to a long-term strategic response. In doing so, companies are making the assumption that their market segments are price buyers, which is a dangerous trap to fall into. Indeed, customers do not buy exclusively on price but on perceived value, i.e. the trade-off between the benefits a product or service offers and the price tag attached.

Lowering prices is often a desperate attempt of companies to generate sales and to keep up with the competition. Without a commercially sound pricing strategy, however, lowering prices can cut profit margins to fatally low levels.

Cutting costs

In general, companies suffer a recession with a reduction in profits of about a third peak-to-trough (idem p6). Many companies suffer even worse than this, such as in the 1991 recession when the profits of both Whirlpool and Renault were down by 65% respectively and the profits of NatWest bank fell 71% (idem). Faced with squeezing profit margins, many companies are forced to cut costs in an attempt to conserve cash.

Financial pressures force firms to cut costs on a wide range of investments, not only in plant closures, but also in intangibles such as marketing, training and R&D. When the economy is in a downturn, many business expenditures such as promotional, sales and market research outlays are cut first because they do not show tangible and immediate results. What is more, in a recessionary economy companies are prone to curtailing areas that are easy to cut in the short-term, cashing in investments regardless of their medium-term prospects.

Moreover, retrenchment can be dangerously obvious to the market, such as by a deterioration in customer service, an absence in sales reps, delayed delivery times or a lower quality product or service. In spite of tumultuous change, the customer's experience with the product must continue to live up to the promise of the brand, and management must not sacrifice its image and identity by cheapening its product (Charan, 2009 p56).

Geroski and Gregg (1997 p14) argue that the challenge companies face in cutting costs is the difficultly in distinguishing between which overheads are 'fat' and which are 'muscle', especially as intangibles have subtle and potentially very long-run effects on corporate performance. Indeed as the business cycle progresses and marketing activity declines, the company's position deteriorates with decreasing sales and shrinking profits. Samli (1993 p7) posits that this conventional wisdom of non-marketing management in turbulent times contributes substantially to the turbulence itself.

Thus as with lowering prices, cutting costs can be a fatal move, especially if the costs that are cut reduce the company 'muscle', as opposed to the company 'fat'. Such knee-jerk reactions with a view to obtaining a quick fix are, in the main, flawed given that the economy (and markets) will take some time to recover from the recession. There is a clear need for proactive marketing strategies that can be sustained throughout the economic woes and which result in profitable rather than break-even or loss-making outcomes. This leads on to the following chapter on effective marketing strategies for a recession.

4. Effective marketing strategies for a recession

A firm can survive turbulence and even prosper from it by developing an effective value marketing plan. Value marketing can be defined as meeting customer needs by providing as much value as possible in order to retain customer loyalty. With such loyal customers, a company should be able to weather economic turbulence. However, this is not a simple task as emerging or prevailing turbulence causes fluctuating and unpredictable customer needs and wants. Marketers therefore require a marketing strategy toolkit to enable them to be proactive in their marketing, allowing their companies to keep ahead of market changes and developments in such a way that they will not only survive, but also prosper. The following sections of this chapter provide a variety of strategic options available to marketers as ammunition against recessionary forces.

Effective pricing strategies

Determining how to price a product is one of the hardest decisions management has to make. If the price of a product is too high, then the company will lose out to the competition; if the price is too low, it is in danger of leaving money on the table for the customer, and is potentially denigrating the product by placing it beneath comparative products in the marketplace.

It is extremely risky for a company to raise or lower its prices without measuring demand elasticity in relation to price. From a marketing perspective, elasticity is important as an indicator of the competitive advantage or monopolistic power of a company, product or brand (Samli, 1993 p86).

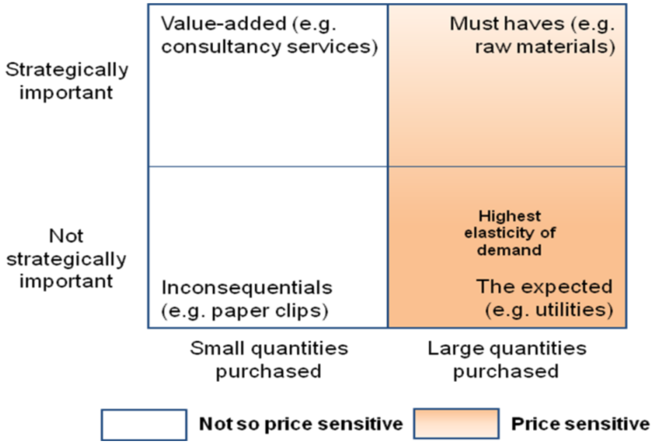
There are a number of factors that need to be taken into account in considering the price elasticity of demand:

Whether the market is in perfect or imperfect competition: In a general sense, and contrary to many consumer products, the elasticity of demand for most industrial products is low in cases where the market is in imperfect competition (for instance, where there is a monopoly, oligopoly, monopsony or oligopsony). In this context, if a company were to reduce or increase the price of a product, there would be no significant change in demand because the product is needed, regardless of changes to price.

The importance of the industrial product to the customer: A further factor to take into consideration is the importance of the industrial product to the customer. Demand is inelastic for products where the customer believes that neither the company nor the brand has close substitutes, and for products where there is urgency in need – both of which indicate the importance attached to the product.

Further factors associated with the importance of the product offering are those illustrated by Figure 4.1 overleaf which shows different types of product plotted on the matrix according to typical quantities purchased and strategic importance. The elasticity of demand varies for these different product groups, but demand is most elastic on the right hand side of the matrix where large quantities of the product are purchased. Hence demand elasticity is likely to be high for products that are taken for granted (classified as “the expected”, such as utilities or insurance, which are not strategically important) and it is likely to be relatively high for products considered to be “must haves” that are of strategic importance (such as raw materials and machinery). If prices are reduced for “value-added” products at the top left corner of the matrix, then the company could potentially denigrate its brand by devaluing its offering. Similarly if prices are reduced for inconsequentials, such as paper clips, the company is unlikely to stimulate sales given that customers in b2b markets normally only buy when they have a need. Thus it is for products that fall into the categories on the right hand side of the matrix where pricing strategies work best.

Figure 4.1 *Elasticity Of Demand By Strategic Importance & Quantity Purchased*



Inertia: In most b2b markets, many buyers and specifiers claim that they are sensitive to price and yet when they are asked how frequently they change suppliers, the reality is that they have seldom done so. There is huge inertia amongst industrial buyers. It is easier for them to carry on dealing with the same supplier than to switch suppliers. In the case of price increases, as a general rule many buyers in industrial markets will stick with their suppliers unless the price difference moves beyond 15% (or around 10% in a recession) of that of a competitor. In the case of price reductions and in times of adversity, demand is somewhat price inelastic as customers are unlikely to increase their purchases in spite of substantially lower prices (Samli, 1993 p88). Hence inertia is an important influence on the theory of elasticity in industrial markets and should be taken into account when considering the most appropriate strategy to adopt in a recession.

Knowing what to do with pricing in volatile markets, especially those where there is high price elasticity in demand, is challenging as prices are under scrutiny and constantly changing. A selection of pricing strategies is discussed below.

Reducing prices

Many companies choose the option to reduce prices in order to stimulate sales and to remain competitive against their rivals who are also reducing prices. However, it is crucial to reduce prices with minimal effect to margins, for it is impossible to be profitable in the medium to long term if prices are slashed without consideration to profit margin. For most b2b marketeers, finding the right price is a judgment which many get badly wrong – usually charging too little because they do not realise the value of their offerings.

As discussed above, reducing prices is most effective in markets where customers are sensitive to price. That said, it may well be that customers do not respond to price reductions, especially if all suppliers are reducing prices and there is little differentiation.

A way of seeking minimal effect to margins when reducing prices is to adjust the product offering to be aligned with the reduced price, or vice versa. Hart (2008 p71) suggests unbundling whereby features within a bundled package are stripped apart to enable the company to focus on its core offering, and to provide customers with only the specific components of the product offering that they require. Hart does not, however, acknowledge that bundling can enable a company to offer added value and to extract more value from the buyers of the bundled product, and so a company could be leaving money on the table by unbundling its offering. Whether a company pursues a strategy involving bundling or unbundling, it is vital to determine what trade-offs its customers really value and to segment its customers by needs, which is not an easy task but will nevertheless indicate how sales potential can be optimised from different customer segments.

Reducing prices is more of a short-term tactic than a medium- to long-term strategy. This is particularly the case with marginal pricing where prices are set above the average variable cost, but below the average total cost. Clearly not sustainable in the long term, it can nevertheless be successful in the short term, especially for filling excess capacity and shifting obsolescent and spoiled goods (Hart, 2008 p76). Similarly discounts, which are more common in consumer than b2b markets, can be successful in stimulating sales, but are also more of a tactic than a strategy given that they are launched to deal with a short-term threat or opportunity, rather than a long-term intention. Discounts should be used with caution in b2b markets for they should not set a precedent for customers to expect low prices, deals or negotiations on future purchases. Discounts can, however, be effective when used as one of many tactical manoeuvres under the strategic umbrella of the company's pricing strategy.

Raising prices

Raising prices enables companies to increase cash flow, but caution should be taken if there is no disciplined, long-term pricing strategy in place, for without this revenue can dry up extremely quickly, sometimes with fatal consequences. Mazda's CEO once increased prices across the board by 5% which led to demand falling by a significant 20% (idem p51). Once again, managers need to understand the price sensitivity of their market and have a feel for just how much they can change prices in order to generate more revenue and to maximise profits, without having the adverse effect.

As discussed earlier, the significant inertia in certain b2b markets offers opportunities for price increases given that many customers are unlikely to switch suppliers as a result of higher prices. In every industry sector, the majority of companies do not know what the optimum price points are of their products, meaning that endless opportunities are missed to extract more revenue. Raising prices to their optimal level (i.e. which the market will stand) can provide one of the fastest ways of increasing cash flow, so long as the loss of volume is offset by the rise in profit per unit. Thus if management does not know the price elasticity of demand for its products, it could quite clearly be missing a trick to maximise profits.

Many companies provide extraneous services which are either not acknowledged or appreciated by customers, or worse still, which customers are not paying for. Examples include delivery, invoicing the customer for non-warranty repairs on purchased equipment, fulfilling last-minute orders and late payment fees – all of which customers could be paying (more) for. In addition, more revenue could be generated by seeking to increase the minimum order size, obtaining a higher margin by using different mark-ups on different size products, incorporating re-ordering structures and charging extra for special orders (idem p67).

Presentation of prices

Particularly in a recession, customers need reassurance that they are obtaining value for money and companies need to seek new ways of making their products all the more attractive. Pricing using lifetime cost of ownership is an underused tool to illustrate that over the life of the product, the upfront payment made represents only a small percentage of the whole cost to the customer. Hence customers can be persuaded that life-time costs can be minimalised by purchasing a more expensive product.

A further powerful argument to support price increases is communicating the return on investment of the product, in that companies should show how their products can save or make their customers money. General Electric's Ecomagination programme, for instance, develops and markets environmentally-friendly products that are appealing to the market, not only because they are green, but also because they enable customers to reduce their own operational costs.

In b2b markets in particular, there is also a need for clarity in pricing. Industrial customers want to see exactly what they are paying for and so they prefer to see products and services unbundled and priced separately (Harvard Business School Working Knowledge, 3rd March 2008). Presenting a breakdown of prices to customers can also highlight value for money in terms of illustrating the many components of the product offering, so long as the company's pricing strategy is not transparent to its customers or competitors.

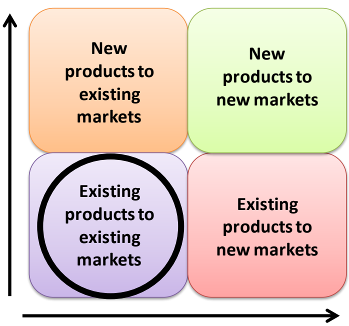
Finally, companies may need to adjust payment terms and pricing structures in order to accommodate the changing needs of customers who are also faced with recessionary pressures. Alternative pricing options, such as leasing versus up-front payments, are likely to attract certain customer segments and may prevent existing customers from defecting.

Effective strategies in the context of Ansoff – determining which products and which markets

In a downturn, managers tend to focus too much on managing threats and lose sight of seizing golden opportunities. A recent article in the Financial Times (22nd January 2009) encouraged managers to ask themselves the following questions:

- *Are competitors retreating from opportunities that we can seize?*
- *Should we double down in growth markets, such as BRIC economies, rather than retrenching to our core?*
- *Does our customers' or competitors' pain create an opportunity for us?*
- *Can we snap up key resources at bargain prices?*

It is necessary for managers to acknowledge that it is possible to seize the upside of a downturn by seeking opportunities, as well as by minimising threats. The following section discusses four effective marketing strategies in the context of Ansoff, as illustrated earlier in Figure 2.2.



Existing products to existing markets

As discussed earlier, it is important to retain existing customers in order to ensure survival through times of adversity. The top 20% of customers in a business may generate as much as 80% of the company's profits, half of which are lost serving the bottom 30% of unprofitable customers (Kotler and Keller, 2008). It is therefore necessary to focus on the existing customers that matter. This means that companies should be prepared to allow certain customers to defect.

Further, companies should accept that competitors will steal customers by offering lower prices. Certain customers could be worth more to these competitors than to other companies; they may have underestimated the true costs of serving these customers; or they may have a higher fixed cost structure which means sales at almost no marginal profit are still worthwhile to them. Retrenchment of this kind can be beneficial, for allowing the rotten apples to fall will enable the tree to focus its nutritional resources into its healthy and profit-maximising fruit.

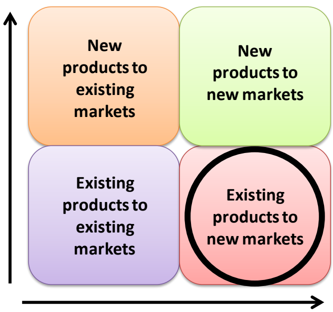
All good marketers need to closely target their offering against segments that value their offerings. In other words, they need to think carefully about segmentation and who they are aiming at. In a recession, there almost certainly will be groups of customers who are more resilient than others. That said, re-orientating a company such as a retailing group towards a segment takes time and most companies are ill-prepared for this. Indeed many reacted to this recession too slowly and too late as they did not see it coming or denied its severity.

Effective marketing strategies for a recession are not devised following the outbreak of a recession; rather effective marketing strategies for a recession are considered in advance of an economic downturn. It is the responsibility of management to deal with any of the company's weaknesses or threats prior to turbulence of any kind, for not doing so leaves the company vulnerable to recessionary pressures. This was the case for Woolworths which, with no differentiation and no unique selling point, collapsed in the recessionary storm.

In addition to rationalising the customer base, companies should also rationalise their product lines and focus on their core offering. Most firms have valuable assets such as certain customers, skills and an established brand identity. These should be protected so that they can weather the storm, as well as sharpened and strengthened in order that the company can remain resilient and competitive. This is what Google appears to have done as it pulled the plug on some of its products including SearchMash (a website to organise search results), Dodgeball (a mobile phone service) and Lively (a virtual world), explaining that it did so in order to prioritise its resources and to focus on its core search, ads and apps business (Wall Street Journal, 3rd December 2008). Charan (2009 p80) supports the rationalisation of product lines, encouraging companies to be "merciless in weeding out product lines and their myriad versions and extensions that create unnecessary complexity", and reinforces the 5 and 50 rule that 50% of parts in a company's inventory generate just 5% of its revenue.

This same argument applies for certain parts of the service offering. For instance, resources can be freed by jettisoning superfluous activities, such as unnecessary face-to-face meetings with customers which could be conducted through more cost effective means (by telephone or online, for example).

A further strategy to consider is exploiting channels to market so as to extract more from existing products in existing markets. This appears to be Microsoft's strategy at this point in time as it is planning to open retail stores to improve the PC-buying experience and to boost revenues (New York Times, 13th February 2009). This strategy has additional benefits as it could introduce new customers to its offering, plus it could introduce existing and new customers to new products in its stores.



Existing products into new markets

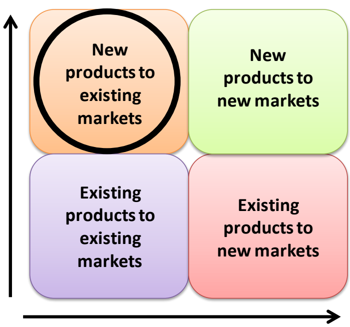
Against the backcloth of a gloomy recession, companies desperately attempt to maintain their position and steal market share in what has ultimately become a stagnant market. Entering new markets into which existing products can be sold – new industrial sectors or new geographical areas – offers opportunities to build cash flow, profits and market share.

Finding new customers is easier said than done. Some b2b companies are lethargic in seeking expansion in normal times; their capacity is full or nearly full and so they continue without change. A jolt from the recession could cause these companies to look towards markets which they would have otherwise eschewed. However, many companies fear change; they would rather stick with the stagnating old but familiar, than seek new opportunities that are challenging and risky.

Nevertheless, if market intelligence confirms that there is an opportunity in a new market, then there could be a significant return on investment if the company has the required resources to enter and establish itself in the new market. For example, Honeywell acknowledged that IBM was stronger in larger and more urban cities, so Honeywell attacked the more rural cities where it could penetrate the market easier and increase its market share (Hart, 2008 p120).

Some companies could consider targeting consumers as well as businesses. This is what the large automotive parts supplier Dana Corporation did to boost its sales. The company found that manufacturers of power transmission drives could charge consumer end users 25% more than they could OEMs because the replacement part is of more value to the end user than to the OEM which sees it as a major cost of the machine (idem p114).

There are often opportunities in new geographies, especially if the domestic market is saturated or stagnant. For example, HSBC recently announced plans to expand further into Vietnam, Laos and Cambodia (Wall Street Journal, 6th February 2009), and a portable electrocardiogram monitor that GE Healthcare developed in India to serve local rural markets has ultimately found markets in numerous other countries (Financial Times, 5th February). The BRIC countries in particular offer opportunities as many markets in these areas are still growing in spite of the global economic crisis – the biofuels and aluminium markets in Brazil; the marine market in Russia; the IT and telecoms market in India; and the market for tyres in China, to name but a few examples. Expanding into new markets requires market intelligence, considerable planning and ample and sustainable resources, but the payback can be considerable, enabling a company to survive and thrive through a recession.



New products into existing markets

The need to innovate to survive is often the mantra of those who are successful in business. This is because innovation by its very nature means doing things differently. In three years' time, if a company looks the same as it does today, it is likely to be dead in ten years. Every company needs to innovate to maintain a competitive edge, which is all the more important in turbulent markets.

Charan (2009 p88) argues that in downturns, most companies focus solely on research to improve *existing* products and that this is a mistake, stating:

> *"You will need to seize opportunities to make quantum leaps by focusing on new products [...] Your competitors are scared, may lack liquidity, and may be afraid of taking risks. That's a superb set of conditions for you to set up your company as a winner for decades to come. If you seize the opportunity, you can go from fourth or fifth in your industry to first or second when the downturn ends."*

The case is clear: product development should take place at all times and should not be neglected but rather embraced in times of adversity.

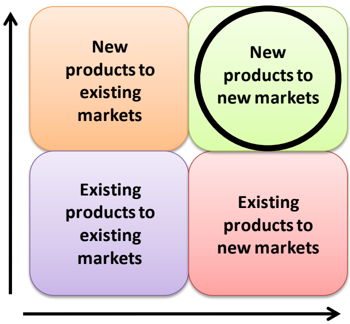
Market research can play an instrumental role in uncovering new product opportunities. A study by Eric von Hippel found that 80% of industrial innovations came from customers themselves (Hart, 2008 p99). Companies that do not actively listen to the market could, therefore, be closing their ears to new product opportunities.

Another study has shown that over three quarters of companies in the 2001 downturn used customer segmentation and surveys in developing new product offerings (idem p97). In fact many companies underestimate the importance of segmenting the market by needs. They stop at segmenting their customers by firmographics such as industry segment, geographical location or customer size. If a company segments the market by needs, it will not only better serve its customers by tailoring its offering according to what each segment values (and therefore extract more value from these segments), but it will also discover opportunities for new products in accordance with what the market wants.

Product development can be a costly and lengthy process, but there are means of obtaining speedier cost efficiencies in a recession, such as new product development through substitution.

Substitutes allow companies to circumvent entry barriers erected by former market leaders, making the new product strategy easier, quicker and cheaper to implement in a downturn.

New product opportunities can cover intangibles such as the service offering, as services can be faster, and in many cases cheaper, to get out into the marketplace than new products. Moreover, a new service may have more of an impact on customers than a new product and could strengthen the customer value proposition, thereby providing companies with increased competitive strength to survive and prosper in the recession.



New products into new markets

This final quadrant of the Ansoff matrix is where companies seek to find new opportunities in new businesses either by acquisition or by greenfield development. It is very risky, especially in a recession given that considerable investment is required (at a time when most companies want to conserve cash) and that new products take time to grow organically (and time is of the essence when the boat is sinking).

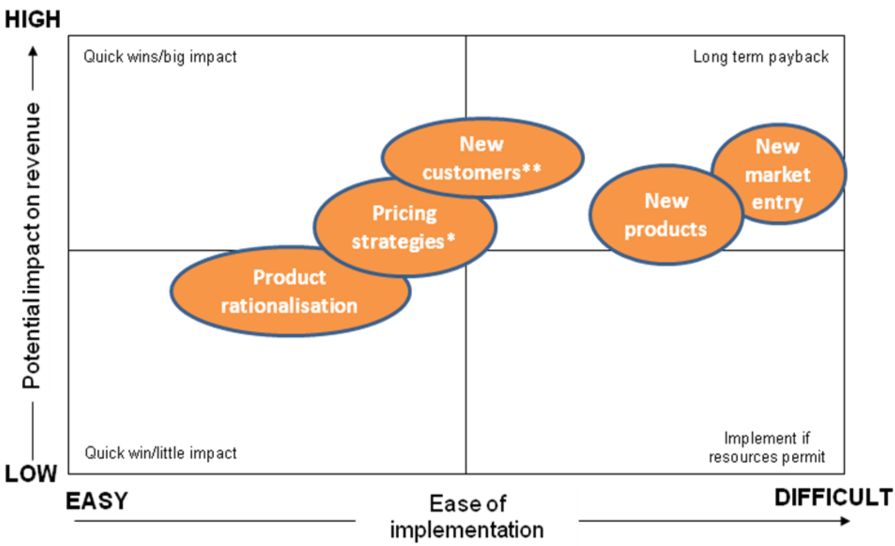
Nevertheless, there are examples of companies pursuing this strategy in this recession, such as Procter & Gamble which recently acquired car wash franchises, explaining that it was looking for growth opportunities which are not limited to its current business model (Wall Street Journal, 5th February 2009). Acquisition can be particularly attractive in a recession when distressed sellers are under pressure to dispose of valuable assets at low prices.

Devising a strategy around new products into new markets goes beyond the marketer's remit as acquisition is more of a business than marketing strategy. Such a strategy is to be avoided if a company is seeking a quick-win solution with minimum risk.

Summary

Numerous strategies have been explored in this chapter, all of which can be effective in a recession if they are appropriate for the market and if they can be implemented by the company (for example, if the company has the necessary resources required, such as R&D expertise to develop new products). The main strategies discussed can be summarised according to their ease of implementation and potential to generate revenue (see Figure 4.2). In considering which strategy to pursue, marketers need to determine whether they require a quick-win but lower cost and less risky strategy (the left-hand side of the matrix below), or whether they need a long-term strategy which involves a larger investment but which provides a more substantial return over time (the right-hand side of the matrix).

Figure 4.2 Main Marketing Strategies According To Ease Of Implementation & Potential Revenue



* Including raising prices, reducing prices and pricing alternatives such as leasing versus up-front payments
** Seeking new customers in existing markets; not to be confused with new industrial sectors or new geographies with new market entry

5. Survey on marketing in the recession

About the survey

An online survey was conducted in March 2009 with professionals listed on B2B International's client and potential client databases. The vast majority of these databases comprise senior marketing executives who were well positioned to participate in the survey and who represent large and well-known organisations.

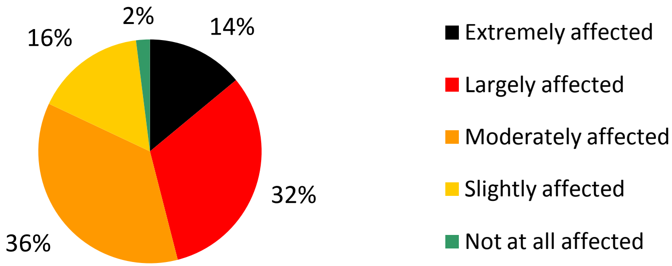
The survey yielded a total of 396 responses of which 310 were from organisations that market mainly to businesses (as opposed to mainly consumers). Such a sample size provided a robust data set with a statistical error of plus or minus 5% of the answer that would have been obtained had a census been conducted (stated at 95% confidence levels). Given that the focus of this paper is b2b, the following sections are based predominantly on the responses from the 310 organisations that market mainly to businesses, but differences between b2b and b2c organisations are nevertheless highlighted where necessary.

Respondents to the survey represented a broad spread of organisations covering all industrial sectors, many b2c sectors and most countries of the world. Around three quarters of respondents work in organisations that employ more than 250 people and many are occupied in some of the largest corporates of the world.

Effects of the recession

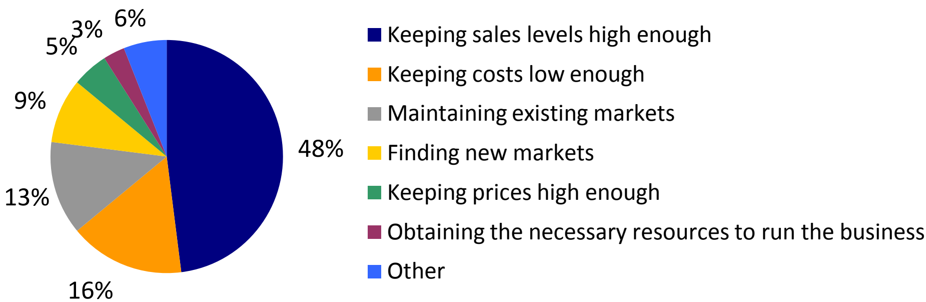
There is no doubt that the recession is affecting everyone, as illustrated in the diagram below. For many organisations, the impact of the recession has been severe, in that around a half of respondents said their organisation's business activities have been *largely* or *extremely* affected.

Figure 5.1 *Extent To Which Organisations Have Been Affected By The Recession (Base 310)*



The main challenge faced by b2b organisations is the struggle to keep sales levels high enough, followed by keeping costs low enough and maintaining existing markets. This reflects the overall slump in demand as markets have contracted, putting pressure on firms to keep afloat financially and to not lose their customers. 9% of respondents said the main challenge faced by their organisation is finding new markets, illustrating the desperate attempt of certain firms to seek new buyers given that their existing markets have dried up.

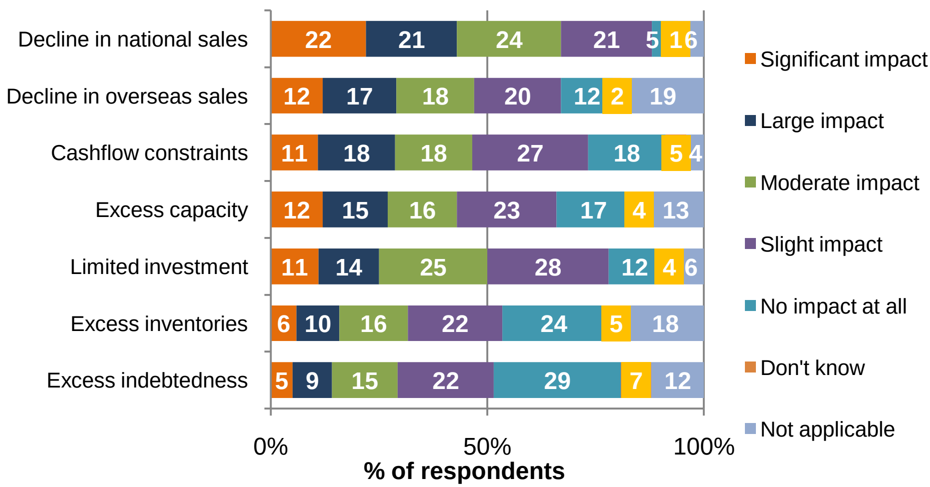
Figure 5.2 *Main Pressures Influencing Organisational Strategy In The Recession (Base 310)*



Respondents were asked the extent to which various aspects of their organisation have been affected by the recession. Figure 5.3 shows that declines in national and overseas sales are two areas where organisations have been worst hit by the economic downturn. However, on all issues other than a decline in national sales, less than a third of organisations have experienced a large or significant impact, indicating that the overall effects of the recession are bad as opposed to catastrophic.

Nevertheless, it can be seen that the issues at the top of the chart (where more organisations have been seriously affected) are areas where immediate effects occur, whereas the issues at the bottom of the chart, such as excess indebtedness and excess inventories, are more long-term issues which are unlikely to have affected many organisations significantly yet, but which are likely to affect an increasing number of organisations over time as the recession and its knock-on effects continue to have an impact.

Figure 5.3 Impact Of The Recession On Specific Aspects Of Business (Base 310)



There is a correlation between marketing spend and the impact of the recession on the various business aspects discussed above. Table 5.1 shows the top two box scores by least impact, i.e. all those who said "no impact" and "slight impact", from organisations whose marketing spend is higher and organisations whose marketing spend is lower than that of other similar organisations. On every business issue, organisations that spend more on marketing are stronger than those that spend less, as the proportion of organisations that have been hardly to not at all affected is higher amongst the high spenders compared to the low spenders.

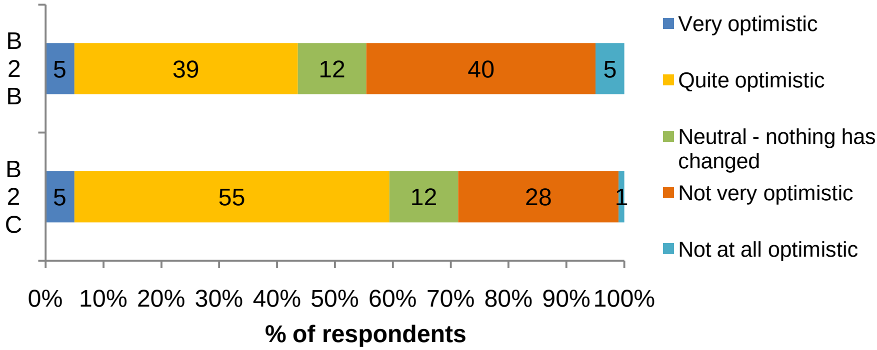
Table 5.1 Effect Of The Recession By Marketing Spend: Who Is The Strongest? Top 2 Box: "No impact" & "Slight impact"

Aspect of business affected by the recession	% of organisations with a ***higher*** marketing spend than other similar organisations	% of organisations with a ***lower*** marketing spend than other similar organisations
Decline in national sales	31	25
Decline in overseas sales	41	33
Limited investment	51	34
Excess capacity	49	41
Cash-flow constraints	52	44
Excess inventories	57	50
Excess indebtedness	59	58

The economic outlook

There were polarised views on respondents' views on the economic outlook of their organisations over the next twelve months. 44% of b2b organisations were optimistic (versus 45% who were pessimistic) compared to 60% of b2c organisations being optimistic (versus 29% who were pessimistic). The increased optimism amongst b2c organisations is likely to be because they typically have more customers and their offerings tend to be broader (and more appealing to the masses) than b2b organisations that usually operate in more focused areas. Furthermore, b2b organisations in particular can suffer a whiplash effect in a recession. A small movement at the front end of the whip ends up being a huge movement at the back end. This is because stock levels down the value chain are used up as the recession begins to bite which means that there is almost no demand for production since everyone is consuming products already in the value chain.

Figure 5.4 Optimism Of B2B & B2C Organisations Regarding Their Economic Outlook (Base 396)



An indication of the effectiveness of marketing in helping fight the recession is the greater level of optimism amongst those companies with the highest marketing spend. 58% of all organisations (b2b and b2c combined) with a higher than average spend on marketing were optimistic about the economic environment over the next twelve months, versus only 44% who were optimistic amongst organisations with a lower than average marketing spend.

Attitudes to marketing in a recession

9 out of 10 organisations use marketing in some way as an aggressive weapon in the current business environment. Around a quarter of organisations use marketing to either a large or significant extent.

An issue is the degree to which senior management supports marketing as a tool to fight the recession. Over a quarter of respondents believe that their senior management does not value marketing as a tool for this purpose. That said, around three quarters consider marketing of medium or major importance.

Respondents who are most optimistic about the economic outlook are in organisations where senior staff considers marketing to be of very high importance. Hence there is a direct correlation between marketing that is taken very seriously in an organisation, and the organisation's positive economic outlook.

A further indicator of the importance of marketing within an organisation is where the organisations sits compared to others in terms of marketing spend. Only 15% of respondents believe that their organisation is more marketing focused (with increased marketing spend) than their competitors and other similar organisations. The rest consider their marketing spend to be around the same as other organisations or lower (48% and 37% of respondents respectively).

Marketing challenges in a recession

The most common challenge faced by respondents in marketing in a recession is budget constraints. Marketing teams have had their budgets slashed and voiced frustration over the extreme cost focus of senior management that does not recognise marketing ROI. One respondent explained that he is *"ruthlessly prioritising a very limited budget"*, indicating the difficulties in allocating a smaller marketing budget, inevitably resulting in limited to no investment in certain areas.

Organisations are also struggling to resist reducing their prices in light of market demand for lower prices plus pressures from the competition as industry rivals enforce price cuts to satisfy and steal customers. A respondent exclaimed:

> *"Demand continues to drop and is pressuring our pricing. The competition is faced with the same issue and is using price to maintain or gain market share. We have attempted to maintain share and hold onto as much price as possible but are facing the inevitability of losing both at a rate that is becoming difficult to sustain."*

Figure 5.5 shows a word cloud which has taken the most common verbatim mentions of certain words in response to respondents' views on challenges faced in marketing in a recession. The largest words by font size represent the most frequent mentions of those issues – including “budget” and the need to “maintain” “customers”, “business” and “sales”. The frequent mention of “new” was in relation to respondents struggling to think outside the box in three key areas:

- Finding new ways to boost sales
- Building new business and expanding into new markets, including finding new distribution channels
- Creating and launching new products

Figure 5.5 Common Themes In Respondents’ Views On Marketing Challenges In A Recession

(Base 310)

A further, significant challenge faced by respondents is the lack of resources and impact of restructuring in their organisations. Not only have marketing budgets been slashed, but marketing teams have also shrunk in size, resulting in a significant decline in marketing activity. As one respondent stated, *“Extreme lack of resources to execute strategy in a cost-zero environment”*.

Respondents were also asked about the difficulties their organisations have faced so far in designing, implementing or executing marketing strategies in a recession. The difficulties mentioned were very similar to the challenges faced in marketing in a recession, namely budget constraints and the allocation of a decreased budget. Respondents also explained that they were struggling with limited resources and lack of staff. One respondent stated:

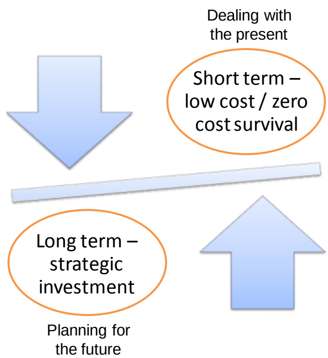
> *"Reduced resource within the marketing team (following restructure/redundancy) and reduced budgets means that we are driven to be reactive rather than being as proactive as we would like."*

A further difficulty faced by many respondents was the speed of the downturn and the rapid pace of change (including a lack of time to respond accordingly and the change from a long-term to short-term focus). With this comes uncertainty and volatility in markets, resulting in fickle customers with a high propensity to switch suppliers and difficulties in forecasting. A respondent explained:

> *"The environment is changing quickly and the needs of our customers and ourselves are changing quickly as well. The ability to keep up with the changes has been difficult. The need to see, understand and adapt to the changes has been critical."*

With this in mind, organisations are trapped between conflicting forces, as shown in Figure 5.6 overleaf. They are feeling the pressure to take defensive and reactive measures to deal with the present, which is to the detriment of long-term strategic planning and investment. As one respondent summarised: *"Priorities have shifted away from strategies to crisis management".*

Figure 5.6 Conflicting Strategic Intent In A Recession

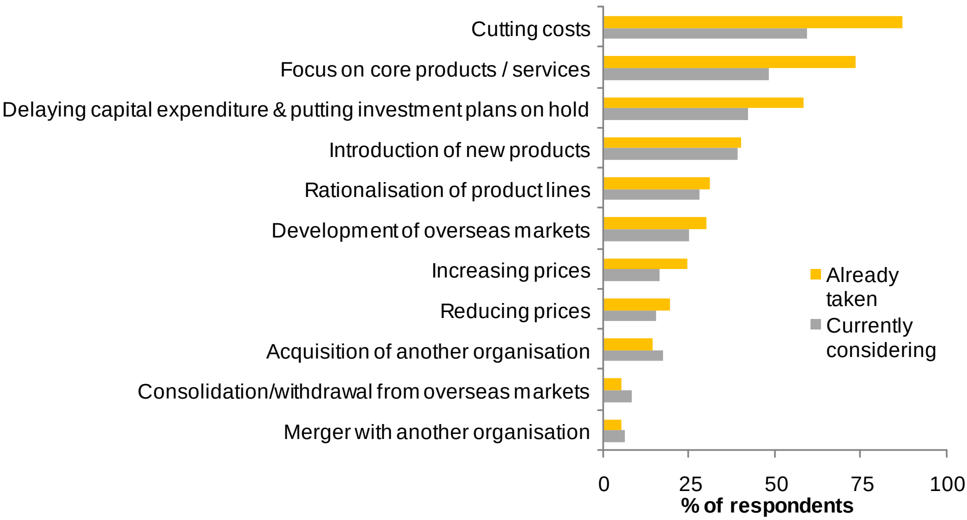


A consequence of this conflict in strategic intent is that organisations have become increasingly cost and operations focused and marketing is viewed, in particular by senior management, as an expense as opposed to an investment. Marketing teams are therefore struggling to justify the need for marketing and respondents voiced difficulties in measuring and proving marketing ROI to support their case.

Strategic responses to the recession

In the main, most organisations have been quick to respond to the recession, as illustrated by the actions already taken in Figure 5.7. Around 9 out of 10 organisations have taken action by cutting costs and around 7 out of 10 organisations have (re)aligned their focus from a wider offering to core products and services. These actions are ongoing and still being considered.

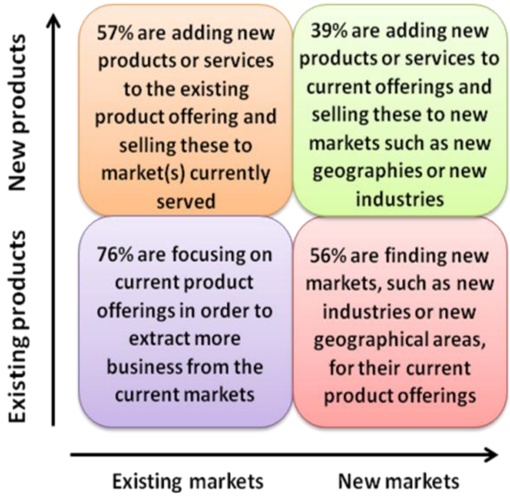
Figure 5.7 Strategic Responses Already Taken & Being Considered (Base 310)



Not surprisingly, the most common strategic responses involve cost reductions (such as budget cuts, redundancies and plant closures) and product-related strategies (focusing on core products or services, the introduction of new products and the rationalisation of product lines). The least common strategic responses to the recession are those that involve major structural changes to the organisation, namely mergers, consolidation or withdrawal from overseas markets and acquisitions.

Figure 5.8 illustrates that at a high level, it appears that one of the most effective strategies for dealing with the recession is to seek more business from existing products in existing markets. However, several organisations are looking for business everywhere, including in new markets and with new products.

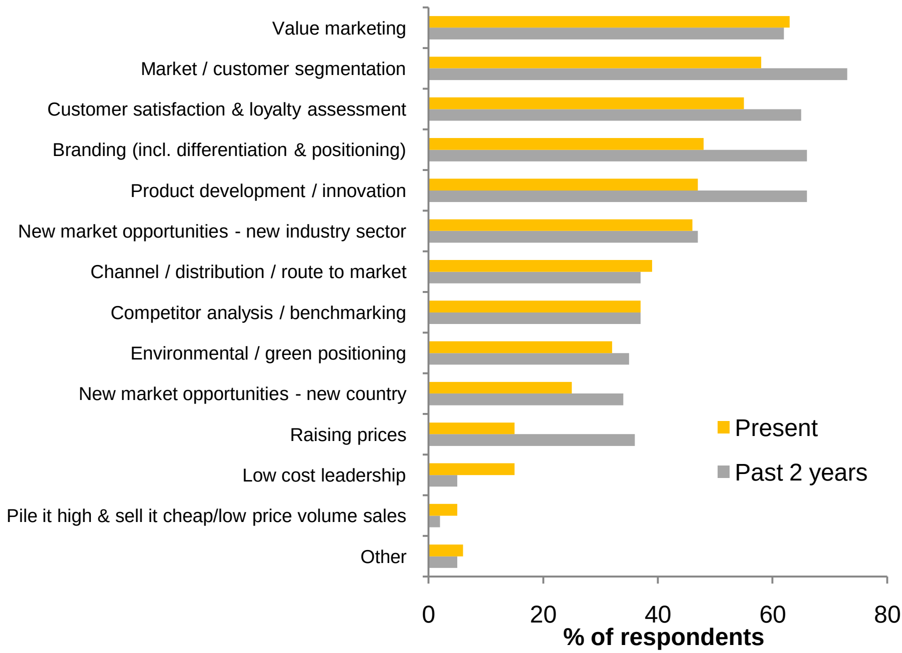
Figure 5.8 Igor Ansoff & The Recession (Base 310)



Respondents were asked which marketing strategies they employed two years prior to the recession, and which marketing strategies their organisations are focusing on in the recession, as shown in Figure 5.9. Prior to the recession, value marketing was not amongst the top four strategies employed by b2b organisations, but taken first place in terms of popularity for strategies during a recession.

The organisations that are focusing on value marketing in the recession have taken a wise, strategic move if their value added offering is in line with the market's definition and appreciation of value. A value marketing strategy is one which will sow the seeds to success leading to prosperity after the recession. This is in stark contrast to the least popular low price and low cost strategies, which are likely to denigrate a brand and position a firm in an unfavourable and uncompetitive position once the recession ends.

Figure 5.9 Marketing Strategies Employed In The Past & The Present (Base 310)

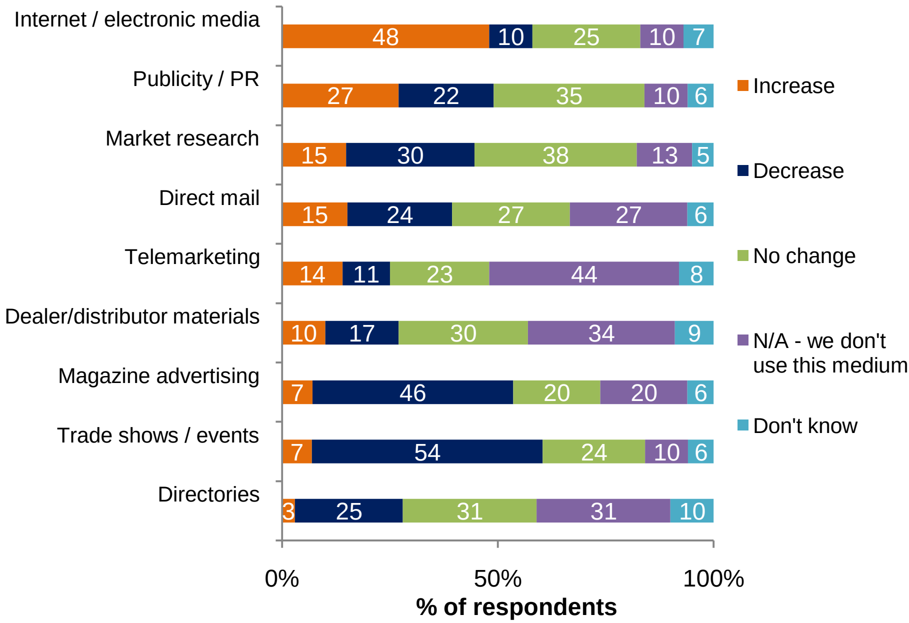


Market/customer segmentation and customer satisfaction and loyalty are the second and third most popular strategies in the recession. Alongside value marketing, they can be considered customer-focused strategies, for they all seek to better meet the needs of customers and extract more value from them. Moreover, these strategies are defence strategies in that they seek to protect and nurture existing market share, as opposed to strategies for attack that seek to win market share, such as through expanding into new markets, serving new industries and low price strategies.

Changes to the marketing toolkit

Electronic marketing has seen a huge boost as a result of the recession. It is considered a powerful and cost efficient tool for stringent times and nearly half of respondents said that its application is on the increase in their organisation. Traditional media advertising is very much on the decline.

Figure 5.10 *Changing Use Of The Marketing Toolkit (Base 310)*



The net increase/decrease table below indicates which media are expected to grow and which are expected to decline the most over the course of 2009. Trade shows and events and magazine advertising are the media where spend is expected to decrease the most, which is in stark contrast to the significant anticipated increase in internet and electronic media.

Table 5.2 Net Increase/Decrease Of The Marketing Toolkit

Medium	Increase (%)	Decrease (%)	Difference (%)
Internet / electronic media	48	10	38
Publicity / PR	27	22	5
Telemarketing	14	11	3
Dealer / distributor materials	10	17	-7
Direct mail	15	24	-9
Market research	15	30	-15
Directories	3	25	-22
Magazine advertising	7	46	-39
Trade shows / events	7	54	-47

Evaluating marketing strategies in the recession

Over half of respondents (56%) were of the view that their organisation's speed of marketing response to the recession has been about right. However, over a third of respondents (38%) expressed concern that their organisation's speed of response was not fast enough. These slow responders tended to be organisations whose marketing spend is lower than that of similar organisations in the same sector, indicating that proactivity comes with increased marketing spend.

Respondents were asked to explain which marketing strategies or actions they have found to be the most and least successful in light of recessionary pressures. The top four most successful strategies and actions mentioned were:

- Online marketing (including e-bulletins, SEO and online lead generation)
- Focusing on core businesses (including core products and key customers)
- Addressing customer needs and providing tailored solutions (including segmentation)
- Focusing on added value

The top four least successful strategies and actions mentioned were:

- Media advertising
- Trade shows, exhibitions and events (including corporate hospitality)
- Price reductions and promotions
- Direct mail

Three out of the top four least successful strategies and actions were marketing media, which stems to respondents' previously mentioned concerns about measuring the ROI of marketing and how it is difficult to do this with certain media. With the constant drive to reduce expenditure, it is not surprising that certain aspects of the marketing toolkit are considered to be unsuccessful in the recession given that they can entail high costs and can be difficult media on which the ROI can be proven and justified – especially in the short-term when the focus is on survival in the present as opposed to investing in the future.

Many respondents accused cost cutting (including decreased marketing spend) as a least successful strategy and expressed their concerns about the future. One respondent highlighted the potential loss of market share:

> *"Panicking and cutting costs without proper thought to the implications and actual cost to the business in the longer term (such as losing significant share to a competitor)."*

The potential damage to customer satisfaction was also acknowledged:

> *"Cutting costs at the expense of customer service. It is short-sighted and has negative impact on future business."*

Similarly, it was argued that decreased marketing expenditure in a recession is the antithesis of what should be done in terms of missed opportunities:

> *"This is a time when spending more on marketing makes sense. Competitors are pulling back, which provides an opportunity to saturate the marketplace with marketing activities and to take market share. However, in a technology driven company, getting upper management to see this is the biggest challenge."*

Finally, respondents were asked to suggest improvements that could be made to their organisations in order to strengthen them in the recession. Investing in marketing (including increasing the number of marketing personnel) was the most desired improvement as it is recognised as a key driver to success once the economic environment improves. Other key improvements required included obtaining a better understanding of customers (highlighting the need to sustain and increase customer satisfaction so as to ensure customer loyalty), and an increased use of online marketing (so as to exploit cost-effective technologies).

6. Conclusions

Key changes to marketing in a recession

The principles of marketing are the same whether in good times or bad, in that marketing is all about meeting needs profitably and ensuring that the right product is in the right place and at the right price, whatever the economic environment. However, in times of adversity, the needs and behaviours of markets and their suppliers change rapidly as demand becomes stifled. Marketing is one of the first areas to be cut back in a recession and marketers need to adjust their strategies accordingly. Thus while the principles of marketing remain more or less the same, it is the *practice* of marketing that changes in a recession.

The key differences between marketing in good times and bad are shown in Table 6.1 below.

Table 6.1 *Key Differences Between Marketing In Goods Times & Bad*

Marketing in good times	Marketing in bad times
Long-term focus	Short-term focus
Maximising profits	Minimising cost
Marketing seen as an investment	Marketing seen as an expense
Marketing has a broad scope	Marketing has a limited and narrow scope
Benefits-driven	Cost-driven
Opportunities-driven	Sales-driven
Proactive	Reactive

In times of adversity, the sales function often displaces the role of marketing. Charan (2009) emphasises the importance of sales (see Chapter 3), but whilst it is vital for companies to generate sales in the short-term, Charan fails to acknowledge that a recession provides an ideal opportunity for marketing to work harder than at any other time.

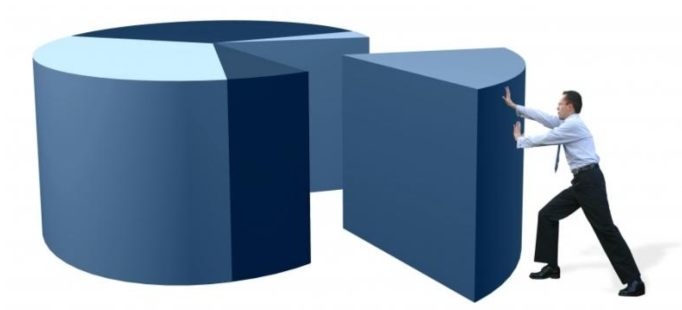
With this sales focus, marketing takes on a much more reactive (as opposed to proactive) role in a recession. A long-term focus involving seeking opportunities and investing in the future is replaced by a short–term focus where marketing is expected to problem-solve on issues such as low sales, defecting customers and lead generation. However short-term solutions do not always lead to long-term success, as Michael Porter recently acknowledged: "*In dealing with a crisis, experience teaches us that steps to address the immediate problem must support a long-term strategy."* (BusinessWeek, 30th October 2008). Thus organisations whose strategies fail to consider the long-term should be cautious not to act in haste and jeopardise their future prosperity. Virtually every business decision should be made with the longer term in mind.

Risk is not only incurred in forcing a short-term focus upon marketing; there is also significant business risk to a company by reducing marketing spend during a recession. Management often believes that slashing the marketing budget will preserve cash, in the way that stopping a machine from running in a production plant will lower the running costs of the plant. However, management fails to realise that the output of the marketing "machine" outweighs the input costs. To support this important point, a case study published recently by Ogilvy and Mather illustrated how cutting the marketing budget reduces profit, as explained in Figure 6.1 below.

Figure 6.1 Case Study On The Importance Of Retaining The Marketing Budget (Ogilvy & Mather)

A client had a terrible year in 2007 because of a shortage of new products. Profit turned to loss. Central finance cut $25 million from the marketing budget, thinking they had made a saving that could be transferred to profit. However, they did not allow for the sales the marketing spend would have created. An econometric model, calibrated by six previous hold-out tests, showed the cut probably lost the company around four million units sold that year, worth over $1 billion. The so-called 'saving' reduced profit.

Similarly, an analysis of the Profit Impact of Marketing Strategies (PIMS) database compared the results of companies that increased, maintained and reduced marketing spend during a recession, and it showed that while companies that cut marketing spend enjoyed superior return on capital employed (ROCA) *during* the recession, they achieved worse results after the recession ended. However, those who had invested in marketing achieved a significantly higher ROCA during the recovery, and gained an additional 1.3% points of market share when growth returned[4]. Indeed a company that increases its marketing spend during a recession has the opportunity to steal market share whilst its rivals are weak. If competitors are decreasing their marketing budget (and with this their share of voice), the organisation that boosted its marketing spend will gain market share and market voice, and it will end up in a stronger position not only in the recession, but when growth returns. Hence financial constraints shackle marketing, and with this market share.



Further, share of voice is restricted by many companies in a recession due to limitations placed on the marketing toolkit. The survey carried out revealed that almost all media employed by marketers are on the decrease as a result of the recession, in particular trade shows and events, magazine advertising and directories. Only one medium - the internet - is on the increase significantly as marketers acknowledge the low cost but high ROI of utilising electronic media effectively.

[4] As reported in Marketing During Recession: To Spend Or Not To Spend, Millward Brown

Effective marketing strategies for a recession

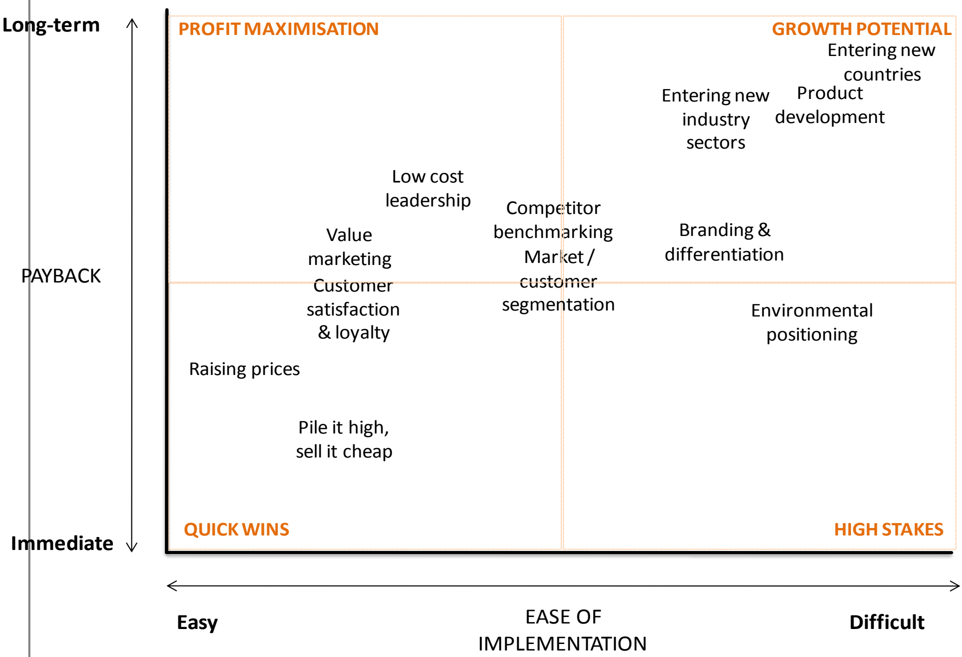
Numerous experts attempt to forecast how long the recession will last, but nobody really knows. What is more, nobody can predict exactly how and to what extent customer behaviour is changing and will continue to change as a result of the recession. This makes it difficult to determine what marketing strategy to employ.

There is no one-size-fits-all approach, as what may be effective for one organisation may be totally ineffective for another. There are a plethora of factors that influence the appropriateness of a certain marketing strategy for a particular company, including the overall objective of the strategy, the level of available human and financial resources to implement the strategy, the geographical scope being considered, the level of inertia in the market and the level of demand for the product (for instance, niche versus commodity product), to name but a few examples. Common to all strategies, however, is that some kind of payback is required, in that every strategy should seek to provide a return on investment. For companies that are struggling for survival in a recession, the payback tends to be required in the immediate term. In addition, given that these flailing companies are strapped for resources (financial and human), they seek the easiest of strategies to implement. Such strategies are shown in the bottom left quadrant of Figure 6.2 overleaf.

“Quick win” marketing strategies tend to be price related, such as a “pile it high, sell it cheap” strategy, whereby the goal of lower prices is to help the company maintain and win market share. However, an increase in market share in a recession does not necessarily mean increased sales given that the absolute market size has most probably shrunk. Companies that pursue a low price strategy should therefore be cautious that they do not denigrate their brand in the long-term. Furthermore, lowering prices can cut profit margins to fatally low levels. Thus a low price strategy is one that may be successful in the short-term for boosting sales, but not effective in the medium- to long-term for achieving sustainable profits and maintaining brand health.

Companies that seek to achieve low cost leadership may underestimate the difficulties of such a strategy in terms of speed of payback and ease of implementation. It may well be that plants need to be shut down, staff need to be made redundant and a complete new business model required in order to achieve low cost leadership. Hence low cost leadership is not a quick win strategy, but rather a profit maximisation strategy, if appropriate and successful.

Figure 6.2 Considering Marketing Strategies For A Recession



As with the “pile it high, sell it cheap” strategy, a strategy that raises prices could also be effective temporarily, but detrimental in the long run as high prices could lose a company market share in a recession. The success of such a strategy therefore depends on how strong the brand is and how much people need the product – the stronger the brand, and the more people need the product, the more likely a rise in prices will be effective in a recession.

Furthermore, the success of any strategy depends on whether the strategy is appropriate for the level of (in)elasticity in the market. Where pricing strategies are concerned, if the marketing team in a company does not know the price elasticity of demand for its products, it could be missing a significant opportunity to maximise profits. For a marketing strategy to be effective, it must take into account factors that influence elasticity, such as those shown in Table 6.2. As the table indicates, a pricing strategy that involves raising prices is most likely to be effective where demand is inelastic on certain factors, such as where the product is perceived as differentiated, where the product has high switching costs, where price is used as an indicator as quality, and where there is inertia in the marketplace.

Table 6.2 Factors Influencing Elasticity

	Elastic	Inelastic
Product is perceived as differentiated	No	Yes
Product has high switching costs	No	Yes
Price is used as an indicator of quality	No	Yes
Expenditure is insignificant to the customer	No	Yes
Market inertia	No	Yes
Many substitutes are available	Yes	No
Product is easily compared with the competition	Yes	No
Prices are easily compared with the competition	Yes	No

It has been seen from the survey findings that value marketing has become the most popular marketing strategy in the recession. As illustrated in Figure 6.2, a value marketing strategy is relatively easy to implement and offers payback in the medium term. Despite the popularity, value marketing strategies are not necessarily being used effectively, as marketers need to frequently ask themselves how their customers' definition, perception and expectations of value are changing – and whether their customers' needs are being met profitably. With this in mind, companies need to act on meeting the different needs of their customer base, and market and customer segmentation will help them do this. This is particularly important in a recession as customer value segmentation will provide strategic direction on the most attractive segments to be targeted and how. These segments are almost always the most profitable to a business and are where a company enjoys the greatest competitive advantage. Thus value marketing is critical in a recession to ensure that profits are maintained for short-term survival and long-term growth.

In addition, it is advisable that companies carry out frequent customer loyalty and satisfaction research in order to lock customers in and competitors out. This is relatively easy to do and offers a speedy ROI. Moreover, the size of the ROI can be substantial: just a 5% reduction in the customer defection rate can increase profits by 25% to 85%, depending on the industry[5]. Hence if customer satisfaction and loyalty research is acted on appropriately and successfully, it can be very effective in reducing customer churn, which is never more important than in a recession.

Competitor benchmarking has a similar speed of payback and is also relatively easy to implement. It can provide strategic direction on where competitive advantage can be sustained and achieved, which in a recession, is arguably easier and more beneficial when competitors are weak.

As seen in the survey, companies that have been only minimally affected by the recession are capitalising on the weak economy to invest in the future in that they are launching new products, entering new industries or countries, or continuing to build their brand whilst their competitors are weak and whilst costs are lower than in strong economic times. These growth strategies are in the top right quadrant of Figure 6.2. Companies that employ these strategies in the recession will reap the benefits when growth returns.

A particularly risky strategy to pursue in a recession is an environmental positioning strategy. This is difficult to implement and is unlikely to resonate with the bulk of the market as the colour green has, for many, become eclipsed by fears of becoming in the red. Environmental offerings are usually more expensive and tend to be more effective in boom rather than recessionary times.

Whatever the marketing strategy being considered, one of the most difficult challenges faced by marketers is convincing senior

[5] As stated on the Customer Satisfaction Research page of B2B International's website

management of the value of marketing and the need to invest in it, especially in bad times. It is often too late to prove marketing ROI in the depth of a recession when management is obsessed with preserving cash and reluctant to part with it. Marketing teams need to prove the ROI of their actions at all times so as to obtain buy-in to marketing efforts and acknowledgement of the importance of marketing as a strategic approach to business which impacts the bottom line.

In summary, an effective marketing strategy is one that has:

- Met the key objectives of the strategy;
- Understood the elasticity of demand in the marketplace;
- Delivered an ROI, and in the anticipated timeframe;
- Deployed the necessary resources, and in an appropriate manner for maximum impact.

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