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When to start advertising again?

Three months ago

Recessions, like brand building, are a phenomenon usually identified retrospectively.

Data showing two consecutive quarters of declining gross domestic product needs to be collated and published before an economy can be officially labelled in recession.

Likewise, it is typically at least six months before brand building can be shown as the advertising driving increased sales or share.

This time lag means that decisions made today on marketing investment will have repercussions well into next year.

And while the future trajectory of the economy is unpredictable, that of brands starved of marketing investment is much clearer.

Our evidence, from both recessions and periods of economic buoyancy, consistently shows that cutting marketing investment weakens brands in the near-term and limits growth and profitability in the longer term.

Those brands that want to take full advantage of a recovery need to re-start investing well before the upturn arrives.

Invest in recession, profit in recovery
Cutting marketing investment carries risks, even during an economic slump when reining in expenditure seems inevitable or at least prudent.

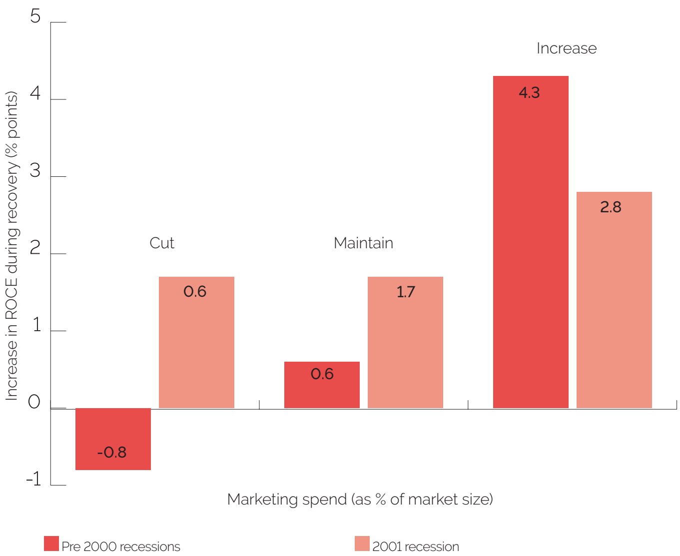
The data in Figure 1 (below)[1] was collated by Profit in Market Strategy (PIMS), from 1,000 business units in the 2001 downturn and earlier recessions.

It was used to contrast the average Return on Capital Employed (ROCE), as a ratio of profitability and efficiency, reported in economic recovery by businesses that in a preceding downturn had cut, maintained or increased their marketing spend (as a percentage of market size).

The analysis found that growth in ROCE during the recovery was highest among those businesses that had increased their marketing spend in recession.

The same group of businesses also grew market share by the highest average increase.

Figure 1: Increasing marketing spend in recession helps grow profits faster in recovery



Data source: Malik PIMS

Going 'dark' weakens you and helps rivals
Some argue that this recession is unique because it has arisen not from economic factors but directly from the restrictions introduced by governments to slow the spread of Covid-19.

And companies in the most severely disrupted sectors, such as travel, hospitality and leisure, have few options but to preserve cash and operations until trading conditions are more benign.

However, businesses that cut brand marketing spend – for whatever reason – run a double threat. They can weaken their own brands and strengthen those of the competition.

First, brands that stop advertising can experience declines in measures such as brand use and image.

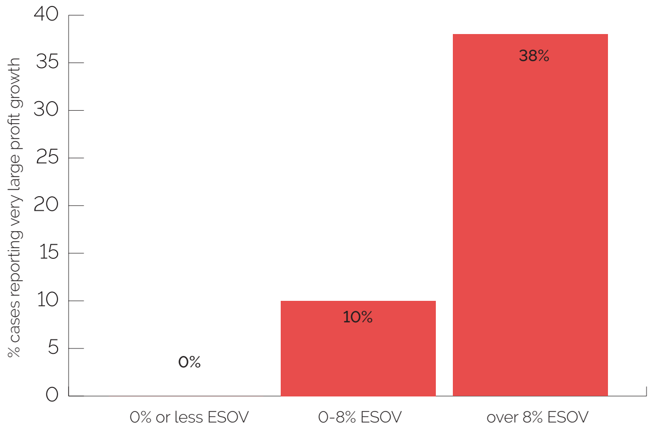
In our report, 'Advertising in a Downturn[2], Millward Brown (now Kantar) estimated that 60 per cent of brands that did not advertise on TV for six months or more suffered a decline in at least one branding measure.

Second, our research has repeatedly shown that brands investing in Extra Share of Voice (ESOV) – namely, accounting for a higher share of the total advertising spend in their category than their market share - are more likely to grow that market share over time.

In an economic recession, total advertising spend tends to fall and media rates get cheaper. If brands cut their advertising spend, competitors have greater opportunities to grow their relative ESOV, often just by maintaining or only trimming budgets.

A recent analysis of IPA Effectiveness Databank cases involving the 2008-9 recession carried out by marketing consultant Peter Field for LinkedIn's B2B Institute has confirmed this insight.[3]

Figure 2: Businesses with high ESOV grew profits faster after recession



Data source: IPA Effectiveness Databank cases covering 2008 recession

As shown in Figure 2 above, brands that invested in creating an ESOV of more than 8 per cent in recession were significantly more likely to report subsequent very large profit growth. They were also more likely to record larger increases in market share.

Those brands that cut spend now and wait for evidence of an economic revival before restoring it are in danger of missing out on this window of opportunity.

The risk is that the longer the recession, the greater the damage from not advertising may eventually prove.

The IPA and the FT, along with EffWorks, a cross industry marketing initiative, have partnered to support more effective advertising by businesses. For more on effectiveness materials, including links to IPA publications, visit **ipa.co.uk/effectiveness**

Please get in touch if you would like our support to help your business improve its marketing and brand effectiveness.

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[1] From 'Advertising in a Downturn', IPA, 2008 [2] ibid;
[3] Advertising in Recession – Long, Short or Dark? A guide to advertising best practice in recession, LinkedIn's B2B Institute 2020