Marketing in an Economic Downturn – Challenges and Opportunities: Marketing in an Economic Downturn

Pratap Chandra Mandal, Indian Institute of Management, Shillong, India

ABSTRACT

The business environment is uncertain. It becomes even more turbulent during recession. This uncertainty directly affects the investments made by firms. Firms hesitate to invest during a recession because of the belief that the returns will not be commensurate with the investment made. Nevertheless, there are firms which develop strategies and invest during recession. The article discusses various strategies which firms may adopt to survive and also excel during recession. The advantages and the disadvantages of the following those strategies are discussed. The article also focuses on firms which implemented strategies to overcome recession and established themselves in the minds of customers. This article might help firms and practitioners in identifying the most effective strategies to be adopted for excellence during an economic downturn.

KEYWORDS

Budget Allocation, Consumption, Customer Requirements, Economic Environment, Pricing, Product Offering, Recession, Value Proposition

1. INTRODUCTION

Success or failure of a product depends to a large extent on the economic conditions prevailing in the marketplace. There may be tough times, such as 2008-2010, in many parts of the world depending on the economic cycles. Recession is a phenomenon which affects all firms by making the economic environment uncertain which in turn affects the business environment. Companies tend to do reduced funding for marketing programs during economic recessions (Lay, Hewlin, & Moore, 2009). Companies also face intense pressure to justify spending on marketing programs during times of economic downturn. However, some marketers survived or even thrived in the recession (Srinivasan, Rangaswamy, & Lilien, 2005). Companies need to develop strategies to survive and thrive during times of recession.

Companies must always be moving forward with marketing programs, innovating products and services, staying in touch with customer needs, and seeking new advantages rather than relying on past strengths. This is especially true in the tough times of economic downturn (Rollins, Nickell, & Ennis, 2014). During such times accountability becomes a top priority and returns on investment are expected from every marketing activity (McGregor, Boyle, & Burrows, 2009).
2. STRATEGIES IN TIMES OF ECONOMIC DOWNTURN

Companies need to rethink about the best practices of management. Some experts (Hamm, 2008; Haluk Köksal & Özgül, 2007) see management entering a new age of turbulence in which chaos, risk, and uncertainty characterize many industries, markets, and companies. Experts (Hamm, 2008; Martin, 2008) believe that turbulence caused by economic downturn and recession should be considered as normal. There may be periodic and intermittent spurts of prosperity. However, companies should be equipped well enough to sustain and prosper during recession or even depression (Williamson & Zeng, 2009). Experts foresee many challenges for the future. There may be no assurance that a return to past management practices would ever be successful again.

According to Kotler and Caslione (2009), marketers should always be ready to face tough and challenging situations. Companies should be ready with automatic responses when there are turbulence and chaos in the environment. They suggest different chaotic marketing strategies to sustain in the environment.

1. **Securing Market Share from Core Customer Segments:** Economic downturn or recession is a phase when most of the customers may switch to companies offering the lowest price. So, marketers need to make sure that the core customer segments are firmly secured and that they do not switch to the competitors. Companies should be prepared to ward off attacks from competitors seeking their most profitable and loyal customers;

2. **Aggressive Campaign for Greater Market Share from Competitors:** All companies fight aggressively for a larger market share than their competitors. During tough times only companies offering the highest value proposition at the lowest price have chances of survival. So, in turbulent and chaotic times many of the competitors might have weakened. A company can find out which of its competitors are unable to withstand the competition based on whether they are slashing their marketing budgets and sales travel expenses. In such situations, companies may put every effort to develop their core customer segments at the expense of their weakened competitors;

3. **Investment in Market Research to Know Customers Better:** Every company is under pressure in times of economic downturn. Even the customers in the core segments may switch to competitors. In these turbulent times it becomes extremely important to know the customers to serve them better. So, investments should be done in conducting market research. Companies should replace old, tried-and-true marketing messages that no longer resonate with the customers, with communications which convince the customers to remain loyal to the company;

4. **Focusing on and Maintaining the Marketing Budget:** Many companies consider cutting down costs by reducing their marketing budgets during an economic downturn. However, experts (Williamson & Zeng, 2009) believe that recession is the worst times to think about cutting anything in the marketing budget. The competitors of any company will do aggressive marketing to the core customers of the company. So, it becomes important for a company to retain its customers by increasing its marketing budget. Companies should also invest in attracting new customer segments during these times of turbulence;

5. **Emphasis on Core Values and Focus on Safety:** Consumers adopt a cautious approach during turbulent times. They are concerned more about whether their money is invested in the right places. They need to be assured about the safety and security of the company and its products and services. Companies should assure their customers that doing business with them is safe. Companies should also sell only those products and services which make the customers feel safe;

6. **Elimination of Marketing Programs not Working Quickly:** Companies should keep a close watch on their marketing budgets. Stakeholders always scrutinize marketing budgets both in good times and also in bad times. Companies should eliminate ineffective marketing programs before competitors spot them. Otherwise, competitors may take advantage of the ineffective marketing programs of a company and capitalize on them;
7. **Maintaining Prices of the Best Brands:** Companies should not discount their established and most successful brands in times of economic downturn. Discounting the best brands sends out negative signals to the market. One indication may be that previously the brands were priced too high. Another indication may be that the products will not be worth the price in the future once the discounts are gone. A company trying to target price-sensitive customers should create a new brand with lower prices to protect its premium brand. This strategy will help a company in keeping both value-conscious customers and premium customers satisfied. Premium customers may still be willing to pay for the high-priced brands. The company may consider discounting the value product line once the downturn is over;

8. **Protecting the Strong Brands and Losing the Weak Brands:** Companies should focus on making their strong brands and products even stronger during the turbulent times. At the same time, companies should rethink investing time, energy, money, and resources on marginal brands or products that lack strong value propositions and a solid customer base.

Various companies have analyzed and understood the dynamic and turbulent situations arising due to economic downturn. The companies have developed marketing strategies and also excelled in the competition.

3. **UNDERSTANDING THE CHANGES IN THE ENVIRONMENT**

Dramatic changes have taken place in the marketing environment over the recent years. Changes have taken place in the economic, natural, and technological environments (Rollins et al., 2014). Marketers had to adapt themselves to economic downturns and recessions. These new marketing realities make it more important than ever for marketers to be holistic in what they do (Elliott, 2009).

Marketers have to understand the changes taking place in the environment and respond quickly to those changes (Rollins et al., 2014). Marketers have realized that for many of their products, the coveted 18- to 34-year-old age group is their target segment. Starwood conducted market research for more than six months in the baby boomer market. After that the company launched a “style at a steal” initiative to offer affordable but stylish hotel alternatives to its high-end W, Sheraton and Westin chains. The company also realized that some of its consumers demanded both thrift and luxury simultaneously. For them it introduced two new low-cost chains: Aloft, which was designed for urban people desiring loft apartments, and Element, suites for the premium segment with all the amenities of modern daily lives, including healthy food choices and spa-like bathrooms (Welch, 2009).

4. **UNDERSTANDING THE PSYCHOLOGY OF CONSUMERS DURING ECONOMIC DOWNTURN**

Psychology of consumers changed due to recession. One relevant question is: “Did new consumer spending patterns during the 2008-2009 recession reflect short-term, temporary adjustments or long-term, permanent changes?” (Sullivan, 2009). Some experts (Sullivan, 2009; Hamm, 2008) believe that recession and the resulting economic downturn have forced consumers to be cautious in judging the economic situation. Recession has fundamentally shaken consumers’ faith in the economy. It has made them wiser in evaluating their personal financial situations. Consumers exercise caution in mindless spending. Willingness to comparison shop, haggle, and use discounts are slowly becoming the norm. Other experts (Rollins et al., 2014; Welch, 2009; Deckler, 2008) believe that restriction in spending resulted from a temporary economic constraint and does not reflect a fundamental behavioral change of consumers. These experts believe that the aspirations of consumers are the same and have been subdued by recession. Spending would resume once the economy improves.
5. UNDERSTANDING OF CUSTOMER REQUIREMENTS

Customers invest cautiously during tough times. Customers may try to change their wants based on what they will be able to afford (Lay et al., 2009). They may change their shopping behaviors and the places from where they shop. During tough times customers may also want to see and hear from a firm based on not only their requirements, but also based on their individual affordability (Fine, 2009). A downturn gives marketers better opportunities to learn about what consumers are thinking, feeling, and doing. Marketers also need to ensure the retention of their loyal customers. This might affect a brand’s profitability (Quelch & Jocz, 2009).

Firms bring in a number of changes in their operations for survival during recession. Firms have to decide whether those adjustments are temporary to suit the requirements during tough times or whether they are permanent shifts (Fine, 2009). This issue is explained well by Eaton CEO, Alex Cutler. He urges firms to look forward during a recession. He noted, “It is a time when business shouldn’t be assuming that the future will be like the past. And I mean that in virtually every dimension whether it is economic growth, value propositions, or the level of government regulation and involvement.” (Bartromo, 2009).

Research has found that consumers become frugal in spending during tough times (Hamm, 2008). A survey conducted by Booz & Company based on 1000 US households found that people are interested in cutting back on their expenses by eating at home more and sacrificing their hobbies and sports activities. The survey found that 43 percent were eating at home more. 25 percent were saving money by spending less on their hobbies and sports activities (Hamm, 2008). Consumers who have experienced recession once are willing to continue with similar lifestyles which they were following during recession even when the economy improved (Fine, 2009). Recession has caused a major shift in consumer confidence and their spending habits. This was noted by a retail analyst, “Moms who used to buy every member of the family their own brand of shampoo are buying one big cheap one” (Porter & Heim, 2008).

Consumers always look for the best value at the lowest price. This becomes even more important during recession (Porter & Heim, 2008). Consequently, the value provided by a customer to a company and the profitability obtained from the value-conscious customers may be affected negatively. So, a company might incur losses unless it understands the psychology of its customers during tough times (Jakob, 2013). Companies need to modify their marketing programs based on new insights gained from customers. For example, Old Navy had to abandon the idea of targeting their young customers with trendier clothing. Instead, Old Navy generated higher revenues by targeting a brand-conscious mom shopping for herself and the family (Porter & Heim, 2008).

Companies like Dollar General, Family Dollar, Big Lots, and Dollar Tree which were previously considered as unfashionable, are gaining popularity. This popularity may be attributed to some extent to the economic downturn. These four biggest players in the category generated $26 billion in sales with 20000 stores and gross margins of 35 percent to 40 percent (Hamm, 2006). Prices of the products sold by these companies are very low. The price range of the items sold is between $1 and $10. However, the companies developed a simple and successful strategy to attract and switch customers from Target and even Wal-Mart (Fortt, 2009). The stores of these companies are small and easy-to-navigate. They are situated in expensive real estate locations where parking facilities are available. The companies kept overhead costs low by limiting inventory to mostly inexpensive overstocks, odd lots, and buyouts. The companies cut costs by simple inexpensive store décor and depend more on word-of-mouth than other forms of promotion. The companies also request their customers to pay in person and in cash. This helps the stores to avoid the expense of processing a lot of credit card purchases. It also helps the stores to avoid elaborate internet marketing or supporting a significant e-commerce presence online (Williamson & Zeng, 2009). Since the customers pay in person and take the deliveries themselves, the stores are also able to cut down their delivery costs (Quelch & Jocz, 2009).
6. UNDERSTANDING THE FACTORS INFLUENCING CONSUMER CONSUMPTION

A number of factors influence consumer consumption during an economic downturn. Marketers should study those factors carefully. Occupations of people influence consumption patterns. Marketers make every effort to identify the occupational groups and their product preferences (Sands & Ferraro, 2010). Marketers try to tailor products for certain occupational groups. Computer software companies, for example, design different products for brand managers, engineers, lawyers, and physicians.

Recession of 2008-2009 made it clear that both the product and brand preferences of consumers are greatly determined by their economic conditions: spendable income (level, stability, and time pattern), savings and assets (including the percentage that is liquid), debts, borrowing power, and attitudes towards spending and savings (Sullivan, 2009). The luxury brands such as Gucci, Prada, and Burberry are affected the most by an economic downturn. Marketers of such brands may take precaution against such downturns by redesigning, repositioning, and repricing their products or by introducing new brands. They may also provide discounts so that the target customers may continue to receive value from the brands.

The purchasing power parity of consumers depends largely on disposable income, prices, savings, debt, and credit availability. An economic downturn affects all these factors which determine purchasing power, willingness, and affordability of consumers to buy. The recent economic downturn of 2008-2009 clearly indicated that trends affecting purchasing power can have a strong impact on business, especially for companies whose product prices are high and whose customers are price-sensitive (Sullivan, 2009).

7. REVIEW OF BUDGET ALLOCATIONS

Expenses incurred by a firm may not change because of recession. So, budget allocation can be a sticky affair for many firms and will not change with changes in the business environment. Business environment, on the other hand, may change very fast with improvement in technology and several other macro and micro-economic factors. For example, the vast penetration of the Internet, and improved functionality of mobile phones have changed the marketing environment dramatically in the recent years (Sands & Ferraro, 2010).

A recession provides any firm with an opportunity to review its budget allocation in the ever-changing business environment. It gives an opportunity to understand how the firm has been managing their expenses. Review of budget allocation gives an indication of whether money has been allocated optimally to the required areas. It may open up promising new options and eliminate those ventures which do not generate sufficient revenue and are no longer profitable for the firm. Underperforming areas may be identified and eliminated, and the resources saved may be deployed in other promising ventures.

Firms have applied the above-mentioned strategy in areas like marketing communications. T-Mobile created spontaneous, large-scale, interactive communications to convey its brand positioning that “Life’s for Sharing” and generated enormous publicity (Taylor et al., 2009). Its “Dance” video which featured 400 dancers was viewed millions of times on YouTube and communicated its brand positioning (Taylor, Nichols, Kerner, & Charonneau, 2009).

Firms have also increased their expenses on marketing activities during recession. Firms like Century 21 and Red Robin gourmet burgers increased their Internet marketing activities during the recession (Kirtiş & Karahan, 2011). There are instances where patients stopped visiting doctors during recession. In USA many dentists realized this and increased personal communications with their patients through a number of marketing communication tools like e-mail newsletters, personalized calls to set up appointment, and even Twitter messages to share new product or service developments (Kirtiş & Karahan, 2011).
8. INCREASING INVESTMENT DURING ECONOMIC DOWNTURNS

Marketers argue whether it is advisable to invest during a recession. Firms become cautious while investing during economic downturns. Also, economic downturn forces companies to enter unexplored territories. Evidence suggests that those willing to invest during economic downturns have, on average, fared better and improved their fortunes than those firms who chose not to invest (Lay et al., 2009).

The amount of investment which a firm does is important. However, what matters more is the manner in which that investment is made. Firms making investments during times of recession need to realize that they should exploit the marketplace advantages such as an appealing new product, a weakened rival, or development of a neglected target market (Jakob, 2013). Marketers need to analyze the potential upside and positive feedback of an increased investment before making such investments. Firms should be confident that they will be able to seize market opportunities. There are cases where firms have invested during recessions and generated positive returns (Lay et al., 2009).

General Mills was aware of recession. Nevertheless, the company increased marketing expenditures for the 2009 fiscal year by 16 percent. This resulted in increased revenues by 8 percent to $14.7 billion, and increased operating profit by 4 percent. The decision was explained by the CEO of General Mills, Ken Powell as: “In an environment where you have consumers going to the grocery store more often and thinking more about meals at home, we think that is a great environment for brand building, to remind consumers about our products.” (Fine, 2009). UK supermarket giant Sainsbury also increased advertising expenses during recession and it paid off. Sainsbury launched an advertising and in-store point-of-sale campaign called “Feed Your Family for a Fiver”. The campaign was in line with its corporate slogan, “Try Something New Today”. It encouraged its customers to buy new recipes that would provide meals to families for only £5 (Boyle, 2008).

9. COMMUNICATION OF VALUE PROPOSITION

Firms tend to be overly focused only on price reductions and discounts during recession. However, this may affect the brand equity and price integrity for the firm in the long run (Scarpelli, 2009). During recession, it becomes more important for any firm to reinforce the value by its products and brands. The firm should increase and clearly communicate the value their brands offer. Firms should communicate the benefits – financial, logistical, and psychological – provided by them compared with the competition (Williamson & Zeng, 2009). Communication about value becomes even more important for expensive items. For example, during the recent recession, GE changed its ad messages for the $3500 Profile washer-and-dryer set to emphasize its practicality. The communication emphasized the use of soap and water per load to reduce waste. Also, the product is gentle on clothes. This extends the life of clothes thereby increasing the value of the product to the customers (Heim, 2008).

During recession, customers become conscious about value for money more than ever. Marketers should monitor the prices of their products regularly and ensure that their prices reflect good value for their customers (Elliott, 2009). Companies sometimes reduce prices for their products when they understand that the customers perceive the prices to be too high compared to the value they perceive to receive from a product. Procter & Gamble adopted such an approach to reduce prices in certain product categories in which brands were perceived as costing too much compared with competitive products (Heim, 2008). At the same time, the company launched communications about the innovativeness and the value delivered by some of its brands and justified the premium prices customers need to pay for those brands (Heim, 2008). Ads for Bounty claimed that it was more absorbent than other brands of paper towels (Elliott, 2009). Headlines in print ads for Olay Professional Pro-X’s Intensive Wrinkle Protocol proclaimed, “As Effective at Wrinkle Reduction as What the Doctor Prescribed. At Half the Price.” (Elliott, 2009).
Hamburger Helper is another company which responded well to the tough economic times. Launched in 1971, the inexpensive pasta-and-powdered mix Hamburger Helper was designed to quickly and inexpensively stretch a pound of meat into a family meal. An estimated 44 percent of evening meals are prepared in less than 30 minutes. There is strong competition from fast-food drive-through windows, restaurant deliveries, and precooked grocery store dishes. Based on such tough competition, it appeared that Hamburger Helper’s days of prosperity were numbered. The company conducted market research and discovered that some customers do not want the fastest microwaveable solution possible. Customers also wanted to feel good about the manner in which a meal is prepared. Some customers on an average prefer to use at least one pot or pan and 15 minutes of time. Based on this information, Hamburger Helper started introducing new flavors of hamburgers to attract the customers with changing taste trends. The company was able to increase its sales by 9 percent in 2009 even during the period of economic downturn (D’Innocenzio, 2009).

10. FINE-TUNING OF BRAND AND PRODUCT OFFERINGS

Marketers should ensure that their products and brands are keeping pace with the changing time. Right products need to be sold to right customers in the right places and times (Elliott, 2009). Companies should review their product portfolios and brand architecture regularly to ensure that the brands are clearly differentiated, targeted, and supported based on their products (Elliott, 2009).

Luxury brands may benefit from lower-priced brands or sub-brands in their portfolios. A classic example is Armani. Armani classifies its product line into three different categories based on style, luxury, customization, and price. In Tier I, the company sells the most expensive and custom-made couture products like Giorgio Armani and Giorgio Armani Prive. Both the brands sell for thousands of dollars. In Tier II, Armani sells products which are of young, modern, and more affordable styles like Emporio Armani. It also sells Armani jeans which convey technology and ecology. Tier III brands have the lowest prices. These brands are more youthful and street-savvy and are sold at retail locations in cities and suburban malls. One of the brands sold in this category is AIX Armani Exchange. The brand architecture has been designed such that each extension reflects the core promise of the Armani brand without diluting its image. At the same time, the company has ensured that clear differentiation exists. This helps in minimizing customer confusion and brand cannibalization. During the tough times of recession, the brands in Tier III help Armani in generating revenue and maintain profitability (Martin, 2008).

Different brands appeal to individuals of different economic segments. The brands which target customers at the lower end of the socio-economic spectrum are expected to generate higher revenue than higher brands. This becomes truer during the tough times of recession when customers become conscious about prices and look for optimum value at the lowest price (Heim, 2008). For this reason, value-driven companies like McDonald’s, Wal-Mart, Costco, Aldi, E*TRADE, Southwest Airlines, and IKEA are able to sustain and also benefit the most during the tough times (Martin, 2008).

Tough times also indicate that companies need to have a relook at their product portfolios and prune brands or products with diminished prospects. In the recession following the 9/11 tragedy, Procter & Gamble divested some of its stagnant brands like Comet cleanser, Folgers coffee, Jif peanut butter, and Crisco oil. Instead, the company concentrated on higher growth opportunities for its other brands with much success (Martin, 2008).

11. FOCUS ON PRICING

Consumers become conscious about price during economic downturn. Many consumers found themselves unable to sustain their lifestyles in the economic downturn of 2008-2009. In such tough situations, many consumers were forced to cut down on their desires, bought more for need, and traded down more frequently in price. They avoided conspicuous consumption. As a result, the sales of
luxury goods suffered. Luxury brands which had no issues in selling were challenged and scrutinized (Horovitz, 2010). Almost one million U.S. patients traveled overseas to cut down on costs and received medical treatments in countries like India with medical facilities at a lower price. Sometimes, this happened at the urging of U.S. health insurance companies (Rice, 2010).

Some companies can command a price premium if their offerings are unique and relevant enough to a large market segment. Pangea Organics expanded distribution of its pricey $8 and $50 oils because of environmentally friendly formulations and clever, seed-infused packaging (Greene, 2009).

Firms adopt strategies so that they are well-positioned to take advantage of good and bad economic times. One such firm is Snap Fitness. Several gym chains struggled during recession. Fitness is viewed as a luxury and consumers try to cut down costs on such products during recession. Ballys’ Total Fitness filed for bankruptcy twice (Perlroth, 2009). However, 24-hour Snap Fitness actually expanded the number of its clubs, and its revenue doubled during the tough times of recession (Perlroth, 2009). The company was able to achieve this even after charging only $35 per month with easy cancellation fees. The secret of this success was based on a no-frills approach reinforced by the motto, “Fast, Convenient, Affordable” (Ebenkamp, 2009). The company has small gyms, each only 2500 square feet. The gyms typically have five treadmills, two stationery bikes, five elliptical machines, and weight equipment. The company cuts down on its costs by not having spa rooms, on-site child care, and juice bars. Only few of the clubs have showers, and most of them are staffed only 25 to 40 hours a week. The company has designed its target segment judiciously. The target market is 35- to 55-year old married individuals with kids and who live nearby. The customers are busy enough that they cannot afford more than an hour a day to go to the gym.

The economic downturn during 2008 and 2009 also affected the semiconductor industry. As a result, overall consumer electronics sales and bottom line were affected for companies in electronic business. To sustain and survive in tough situations, Samsung slashed profit margins, decreased its production, and cut inventories. Based on this strategy, Samsung recorded high quarterly profits at the end of 2009 despite significantly smaller profit margins (Carnoy, 2009).

12. DISCUSSION

Firms face challenges during the tough times of recession. Some firms are able to withstand recession and flourish during recession. Other firms which do not have proper strategies to handle recession perish. The paper discussed various strategies which a firm may undertake during recession. In a recession, marketers must concentrate and explore the positive aspects of increasing investments, getting closer to their customers, review budget allocations, put forth the most compelling value proposition, and fine-tune brand and product offerings. The paper discussed the different pros and cons of the different strategies which a firm may take during recession. It is argued that although majority of the firms hesitate to invest during a recession, those firms who are willing to take risk, those who invest wisely during recession, and those who have proper strategies in place for recession have an advantage over firms who are not willing to take the risk.

The paper will help both the academicians and practitioners. Academicians may study the marketing strategies adopted by firms in fighting recession. Based on the knowledge of recession, market scenario, and the marketing strategies, academicians may suggest future strategies which might benefit firms in the tough times of economic downturns. Marketers and practitioners may analyze the marketing strategies adopted by those firms who excelled during the times of economic downturn. Based on the analysis, firms may choose the effective marketing strategies to excel during times of economic downturn.
13. CONCLUSION

Recession always poses threats to firms by making the business environment turbulent and uncertain. However, firms may fight back recession and win against it by developing proper strategies. The paper focused on those strategies and with the help of different examples aimed to establish the fact that recession does not necessarily pose only threats to business; it may also generate opportunities for firms who are willing to take the challenge. As already mentioned, future researchers and firms may analyze the marketing strategies adopted by firms during recession, and identify the most effective set of strategies for a firm to be adopted during the tough times of economic downturn.
REFERENCES


Kirtiș, A. K., & Karahan, F. (2011). To be or not to be in social media arena as the most cost-efficient marketing strategy after the global recession. Procedia: Social and Behavioral Sciences, 24, 260–268. doi:10.1016/j.sbspro.2011.09.083


