

Sound reasons for advertising, even in a recession

By Darel LaPrade

With the recession deepening, our sales teams are hearing a common refrain more and more often – clients or would-be clients claiming they can't afford to advertise.

As an objection, it seems logical enough, at least at first glance – consumers are cutting their spending, so a business should cut its advertising commensurately.

For businesses seeking to survive, or thrive, during an economic down-turn, eliminating advertising is a serious mistake. In fact, most research on the topic suggests advertising in difficult economic times can actually provide a significant opportunity to capture market share:

* In a study of U.S. recessions, McGraw-Hill Research analyzed 600 companies from 1980-1985. The results showed that business-to-business firms that maintained or increased their advertising expenditures during the recession from 1981 to 1982 averaged significantly higher sales growth, both during the recession and for the following three years, than those that eliminated or decreased advertising. By 1985, sales of companies that were aggressive recession advertisers had risen 256 percent over those that didn't advertise.

* Businesses that aggressively increased media advertising expenditures during the last recession (just 25% of all businesses) increased their market share 2 1/2 times the average for all businesses in the post-recession period.

* Another study documented a 1.5 point increase in market share among businesses increasing ad spending during recessionary periods. By contrast, during expansion periods, 80 percent of businesses increased advertising budgets with no improvement in market share, since most competitors did the same thing. In other words, cutting an advertising budget in a recession is actually counter-productive. Advertising now is, in reality, one of the best ways to weather the storm.

Cost-Effective Ways a Business Can Make Advertising Work in a Recession

* Placing advertising in complimentary media can save money and produce results. For example, combination ads in multiple newspapers, supported by a sensible internet campaign on newszap.com, can reduce costs and reach thousands of extra readers.

* Paying attention to trends and taking advantage of how these trends shape our media can pay big dividends during a recession. In our company, the conversion of our newspapers to a compact format provides wary advertisers with just this sort of opportunity to take advantage of a new approach in print advertising that can positively affect the bottom-line.

* Don't go black or drop out of sight. In an attempt to optimize spending, some advertisers may decide to spend for advertising in waves figuring that periodic spending in bursts is the key to driving sales. This is not the case. Other advertisers will simply discontinue their advertising – another strategy that ends up costing more money – in lost sales – than it saves in the long-run. If you reduce your advertising budget, avoid spending the rest of it in bursts, because continuous spending even at lower levels is more effective.

The bottom-line is that advertising during a recession presents a business with unique opportunities to solidify an existing customer base while building new customers. By maintaining a consistent advertising campaign, a recession can give a business a chance to make serious in-roads against its competitors that may have cut back advertising.

Excuses for not Advertising

The three most commonly mentioned excuses for not advertising during a recession are these:

* People do not have money, so our advertising would be wasted

* We can afford to slash, since competitors are doing the same

* The money saved on advertising helps our profits.

People do not have the money, so our advertising would be wasted: Studies of every recession since 1940 indicate that recessions have little adverse impact on total employment (the size of the employed labor force has never declined by more than 2 percent) and, similarly, little adverse impact on disposable income. (Real disposable personal income per capita has never declined by more than 2 percent.) The pessimism among advertisers is mainly myth, hardly warranted by facts. Because families start curtailing their purchases during a recession, not less but more advertising is required to prevent consumption from eroding.

We can afford to slash, since competitors are doing the same: Equally fallacious is the rationale that a company can afford reducing its advertising spending because everybody else is cutting back. Rather than waiting for business to return to normal, owners and managers should cash in on the opportunity that the rival companies are creating for them. The company courageous enough to stay in and fight when everyone else is playing safe can bring about a dramatic improvement in market position. Some progressive small companies have recognized this. Instead of withdrawing “into their shells” and waiting for something to happen, they expand their programs during slowdowns. As a result, they better position themselves to benefit when the eventual upturn occurs.

The money saved on advertising helps our profits: Even more tenuous is this excuse: Advertising should be cut to help sagging profits. Attempts to retain the same profit margin during a recession, as a business enjoyed prior to the recession, actually costs more in the long run than continuing to advertise. There is likely to be a fast erosion of the customer-base that the advertiser has taken years, even decades, to build. It is nearly impossible to regain the old customers once they have switched to competitive businesses.

Recognition decreases when advertising decreases. But an increase in advertising, especially during a recession when others are cutting back, causes an increase in recognition. The bottom-line is our clients need to advertise more now than ever before.

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