

Advertising In Times of an Economic Downturn and Reduced Credit

Over the past 43 years I've managed publishing companies in 3 continents and during that period have seen a number of business recessions but none as potentially as bad as the one that currently assails us in 2008/2009.

When a recession hits and a company's sales decline the first thing that most financial controllers seek to do is curb costs. Normally this is a prudent decision. One way is to not take on new staff and if the situation is really bad to make redundant a number of existing staff or as in happening in many cases get staff to take a pay cut. Another is to slash staff training. Instead of travelling business class executives may now have to fly economy or even, horror of horrors, travel with one of the low cost airlines.

Another time honoured way in which accountants seek to control costs is to slash a company's marketing / advertising budgets. I have only three words to say about this - Wrong, Wrong, Wrong!

During the Great Depression of the early 1930's Joseph Kennedy (father of the late President Kennedy) made a fortune on the stock market, selling at

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precisely the right moment and then buying back in. Reputedly he chose to sell (the market was then at its peak) when one morning on the way to work he stopped for a shoe shine, and the young lad who had been listening to all the gossip gave Kennedy his tips on what to buy. Kennedy's reaction was that if the shoe shine boy was in on the act then the market was mad and he sold his investments within days. He later bought back in when the market bottomed, and the rest as they say is history, for without old Joe's wealth it highly unlikely that the Kennedy brothers would ever have ascended in politics as they did.

As I write this Warren Buffet, that canniest of investors, and soon to be again richest man in the world, is in the news.

He has been doing his usual thorough analysis of companies and where the fundamentals are sound has been buying large blocks of companies for a fraction of what he would have paid, had he invested months ago. He understands the economic cycle and knows that despite the current turmoil the laws of economics have not been repealed.

The moral of the above anecdotes is that when everybody else is panicking and selling then is the time to buy. It's called a contrarian approach to investing, and adopting this philosophy has been the keystone to the fortunes made by many successful businessmen and women.

What has this got to do with marketing and advertising? Everything!

Over the years there has been a lot of research into companies and how they grew their market share.

Almost without exception it can be shown that the really successful companies were the ones that far from cutting back on advertising in an economic downturn they actually increased it. In this way they were able to magnify their exposure in the marketplace often for little more than they had been paying in the past. This increased exposure came about because many of their competitors, influenced by financial controllers, cut back on advertising and so the marketplace was not as cluttered with ads as it had previously been. Secondly, many of the mainstream media (papers, magazines, TV, radio) were feeling the pinch through lower ad revenues and so were much more willing to negotiate rates or do deals – something they would not have considered when the good times were rolling.

Another benefit that flows from continuing to advertise in the difficult times is that when the good times do come round again and the economy booms once more then the media ought to respond more favourably to deals proposed by advertisers who supported them through the hardship period, rather than from those who had simply abandoned ship when the going got a bit rough.

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Research has shown that advertisers who carried on advertising (albeit it more selectively) during difficult economic times generated a far greater brand awareness among the public so that when the economy improved they had a definite edge over their competitors.

In undertaking research for this paper here is what I found.

A year ago the economic horizon looked pretty bright. Now all that has changed. The FTSE 100 has dropped by a massive 21% in the past few days and companies have seen £250 billion of their values wiped out. Credit has tightened to the point where for many businesses it is now non-existent. People are not spending, fearful for the future. We're on the brink of uncertainty with economists, bankers, business people and politicians unable to stop the freefall that is currently taking place in the market.

Almost everybody is agreed on at least one thing – the economy is about to turn sharply downwards and prudent managers must plan to meet the situation.

Yet for cool heads – these are exciting times, and potentially great opportunities lie ahead.

Cutting Costs

For many businesses when confronted with a falling off in demand for their products or services, the first priority is a pruning of costs and overheads. But where do you start. Many businesses are beginning the process by cutting back on advertising expenditure. This is an easy target. After all, they reason, if jobs are cut and prices continue to rise, people won't buy as much. And there's no point increasing production because the goods will only pile up – hence the 4 day working week now being adopted by some companies.

Advertising, the businessman / accountant feels is the one overhead that can be safely and logically pruned in these uncertain times.

According to history however, such an approach is quite wrong, and cutting advertising could seriously damage or even destroy a company's future. Not only should advertising be maintained but there are great opportunities in the current economic climate for companies to increase their market share.

When You Stop Advertising

There is the story told that during the Great Depression (the name of the company escapes me) there was a very successful business that not only

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maintained but was actually growing its market share while others were falling by the wayside. In part this was due to an aggressive and high profile ad campaign run by the company's founder. The business was so successful that the elderly owner had been able to send all his children to college and then on to university. In particular he looked forward to the day when his eldest son graduated with his business degrees and would be able to join him in the enterprise. Well that day arrived and his son joined the company with a view to eventually taking over and allowing his dad to retire in comfort.

Remember now that this was 1932/33 and the Depression was at its height.

So the first thing the son does when he comes on board is to say to his dad that he has to cut costs. "Don't you know that there is a Depression on?" the young college graduate intoned. The old man acknowledged this but also said that so far he had been lucky and that he hadn't felt any adverse effects from it. "But Dad" the son protested "You've got to cut costs. Otherwise we'll go out of business". And so duly persuaded by his son (who after all did have a university degree and was therefore much wiser!) the old man cut back a little on his advertising in order to reduce costs.

There were no immediate effects on the business but after a while sales did seem to tail away a little, and armed with this evidence the son now said "Don't you see Dad, we're losing sales. We've got to cut back". And so by a process of falling sales and gradual cutbacks the business finally ended up doing no advertising at all – and within 12 months of the son having joined the company it failed along with all the other businesses that had also ceased to advertise during those difficult times.

When you stop advertising here is what happens.

Awareness and sales of your product or service will drop dramatically. This will be in direct proportion to the extent to which you cut back.

An Arthur D. Little study of advertising budgets summed it up this way. "...If advertising support for an established product is withdrawn or substantially reduced and if there are no new economic or competitive developments of note, then sales of the product will decline exponentially".

Many professional studies, controlled experiments and case studies underline the point. A classic study is that performed by research psychologist Dr H. Zielske and reported in the "American Journal of Marketing". Dr Zielske found that advertising tends to be forgotten at a surprisingly rapid rate. Studying a 12 month advertising campaign with exposures once every four weeks, he observed a 'saw tooth' increase in awareness (i.e. after each exposure, a greater percentage of respondents could remember the advertising than at the

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previous exposure, but awareness invariably dipped sharply in between exposures).

He then did a second experiment which demonstrated even more dramatically the decline of awareness when advertising ceases. This study centred upon a 13-week advertising campaign, involving weekly exposures. Immediately after the campaign, 63% of respondents could remember the advertising but a month later, the percentage had decreased by half. Six weeks later, it had dropped by two-thirds.

The implications for sales and profits are obvious.

In April 1964 the American magazine “Mediascope” reported on the findings of Dr J. Stewart who had been undertaking media research under the auspices of the Harvard Graduate School of Business.

The test focussed on the market introduction of two new products and their accompanying newspaper advertising. Dr Stewart reported that:

- The advertising caused a rapid initial rise in awareness and sales – eight weekly insertions doubled the number of customers. Repeated advertising maintained awareness, but did not further increase it.
- When advertising was stopped awareness almost immediately began to fall – **and business simultaneously began to fall too.**

Dr Stewart strongly advised advertisers to “give thought to viewing advertising programmes as capital investments rather than current expenditure.”

Following are three examples from the United States showing what happens when advertising is reduced.

- A major cigarette brand was advertised on national television until July 1968. After that date, the ad budget was reduced and television was eliminated from the schedule. Advertising awareness (recall of having seen ads for the brand in the previous month) immediately began to decrease. In the first three months it fell from a peak of 69% to 32%. Over the following year it dropped still further to 24%.
- Another campaign was designed to create awareness of the availability of a new service on a nationwide basis. Over its 13 week duration, the advertising raised unaided awareness of the service from a benchmark level of 1% to 25%. Use of the service during this time rose to 6%. But when the advertising stopped, the use of the service dropped by more than a third in the first month alone.

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- A household product was advertised on television from 1985 to 1989. During that time its advertising budget remained unchanged – but as media costs were constantly rising, the actual amount of advertising steadily decreased. Throughout that period, a corresponding decline in brand preference was observed. Then in April 1989, advertising was stopped altogether. Immediately the brand preference curve turned downward more steeply than ever – and continued to fall.

In regard to the above three examples the conclusion is obvious. Brand awareness, brand preference and sales can be built quickly with proper advertising expenditure but will turn downward again when advertising stops or is reduced. The advertiser who withdraws his/her advertising spend in order to save money may in reality be sacrificing a major capital investment – an investment in brand awareness and brand preference – that could be very difficult and expensive to regain at a later stage.

More Research

In 1980 Fairchild Publications (division of Capital Cities Media) publisher of Women's Wear Daily published the following document.

Advertising in a Recession

As business executives look to cut overhead and become a “lean, mean machine” in this recession, it's easy to view advertising as an expense that's easily expandable. However there have been a number of studies whose findings contradict this theory and come to the same conclusion: It pays to advertise in a recession.

A 1979 study by the research company ABP/Meldrum & Fewsmith examined sales and net income of companies that cut advertising budgets during the 1974-75 recession and compared them to sales and incomes of companies that did not cut. A total of 173 companies were studied and their results tracked from 1972 to 1977.

Companies that cut advertising budgets had minimal sales growth in 1974, suffered a decline in 1975, and increased sales by only 70% during the five-year period. On the other hand, companies that did not cut their budgets suffered no slowdown during the recession and increased sales 150% over the five years. Net income showed a similar pattern.

The most significant finding was that the momentum gained by steady advertising during the recession helped companies grow at a faster rate in 1976 and 1977 once the recession had ended.

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In a separate study the publishing group McGraw Hill (publishers of Business Week) found that companies which cut their advertising in 1974, 1975 or both experienced no increase in sales and by 1979 their sales were up 79% from 1973. Again, on the other hand companies that did not cut their advertising had a 15% increase in sales between 1974 and 1975 and their sales rose by 132% between 1973 and 1978.

The conclusion from these studies is that increased brand awareness creates an improved potential for market share, which in turn creates a better potential for higher return on investment. The data demonstrated that most businesses succeeded in realising these potentials once the levels of brand awareness were achieved. The start of the process is brand awareness – without it, both market share and ROI are severely jeopardised.

All available evidence indicates that advertising can be the BEST INVESTMENT a marketer can make during a recession. Advertising aggressively in a recession can not only boost sales and market share but can also open a company's lead on its more timid competition. It can skilfully reposition a product to take advantage of new purchasing concerns, give the image of corporate stability within a chaotic business environment and give the advertiser a chance to dominate its chosen advertising media.

Another study worth considering is the work of American marketing consultant-economist Vernon Van Diver who in the 1960's developed a way of predicting a company's sales based on its share of the total advertising in its product category. Many case studies led him to this conclusion: An increase or decrease in an advertiser's share of marketing results in a corresponding increase or decrease in his share of market. And his belief that levels of sales are directly tied to levels of advertising was strikingly confirmed by his classic study of Westinghouse sales for 1962.

That year, Westinghouse cut its advertising budget to \$8.3 million from its 1961 figure of \$9.5 million. The cut-back dropped its share of total advertising in its competitive field from 28% in 1961 to 22% in 1962. Westinghouse's market share in 1962 dropped 10% from its 1961 level – a direct consequence of the reduction in advertising.

So sure was Van Diver of the cause and effect relationship between advertising levels and sales that he was prepared to estimate well ahead of time the 1962 sales results for Westinghouse, General Electric and Allis-Chalmers. He did this by relating each company's advertising budget to its previous budgets since 1958, and to the total outlay for all three in 1962, thus arriving at what he called an 'advertising trend'.

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Believing that every dollar deviation up or down from the advertising trend has a certain ultimate value in determining final sales figures, Van Diver calculated that value for each of the three advertisers. He then related it to the amount by which each was over or under the trend line to arrive at his estimates of their 1962 sales figures.

The results were startling.

Van Diver's estimate for Westinghouse sales was \$1.99 billion. The actual figure proved to be \$1.954 billion, a difference of just 1.829%. His estimate of \$4.79 billion for General Electric was an incredibly small 0.068% off the actual total of \$4.792 billion. And for Allis- Chalmers, Van Diver estimated sales of \$558 million, only 4.26% off target from the actual result of \$516 million.

The whole exercise was a powerful endorsement of the principle that sales levels are heavily dependent upon advertising levels. And Van Diver was critical of companies that cut back on advertising because of changes in the economy. As he noted, "Advertising volume is up now, down later, according to the economic weather, according to last year's sales or what these sales are expected to be". He says it is silly for a company to invest millions of dollars in a marketing programme they let be controlled by such erratic and diverse factors."

These and many more case histories that could be quoted provide impressive evidence that advertising expenditures should never be cut, even in periods of economic downturn. But the question remains – why is it so? Why does a well-established product immediately lose market share merely because its advertising frequency is reduced. Why doesn't its popularity with consumers carry it through a period of communication cutback?

Making it simple

An interesting answer has been suggested by Dr Paul M. Carrick Jr, former Assistant Professor of marketing at San Diego State College, California. In his Ph.D. thesis, "The Psychology of Rationality" Dr Carrick casts doubts on the traditional explanations of the need for continued advertising – educating the young, the rate of forgetting, and the character of the learning process. Instead he saw the answer in terms of one characteristic of the decision making process under conditions of uncertainty. People deal with uncertainty by means of extensive simplification of reality – and hence continued advertising is necessary because of a simplification consumers make to facilitate brand selection.

"Brand selection", said Dr Carrick "is resolved in many ways. One way seems to occur very frequently – consumers assign significance to alternative brands

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by comparisons of the relative frequencies with which each has been recently advertised. Frequencies are computed in rather large units over a short period of time preceding the actual choice.

“Quality and advertising frequency are believed to be positively correlated: The higher the frequency, the better the quality. Such a procedure is economical for consumers.”

Dr Carrick went on to validate his hypothesis by appealing to a host of psychological studies. And he was quick to point out the weight of marketplace evidence for it. “In terms of an explanation that views advertising frequency as a criterion for brand selection, a fall in advertising expenditure relative to competitors should result in a loss in sales”, he stated. “Available evidence substantiates this explanation.”

Dr Carrick’s thesis is basically simple – yet it explains so much. If consumers, faced with proliferating products and reams of conflicting claims, simplify their buying choices by equating quality with advertising frequency, then it becomes obvious why even a popular product cannot survive a lack of advertising. People assume, subconsciously, that its quality has slipped – or that competitive products still being advertised must be of higher quality.

And in today’s competitive marketplace, unfavourable assumptions like that about your product would be disastrous.

What happens when you don’t stop advertising?

So far we’ve looked upon the negative side – gloomy tales of woe about companies that cut back on advertising. We’ve glanced at a suggestion that may explain why dire consequences so often follow such a cut-back. But if that suggestion and our hypothesis are correct, the opposite should hold good. Are there any spectacular success stories of companies that kept on advertising – especially in times of recession or shortage when their competitors slashed their budgets.

There are indeed. And they are thought provoking stories that show why the next year or two is a time of rare opportunity – a time when some alert companies will achieve a new market dominance that could persist for many years.

Such thinking was a favourite theme of Charles H. Brower, a former president of BBDO. Writing in ‘Sales Management’ he noted:

“The winner (in times of an economic downturn) is likely to be the manager who keeps the pressure on as strongly as he can at all times. When I was a

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kid in advertising, the elderly cynics of the era were fond of saying that there were two times when advertising was likely to be cut. These were when sales were good – so that it wasn't needed; and when sales were bad – so that the business couldn't afford it. That may well have been true years ago but today you will find few subscribers to such an ancient practice.

“Philco knew the answer half a century ago. Following the crash of 1929, the advertising of radios by all manufacturers dropped from \$16 million to an eventual low of \$2 million by 1933. In contrast Philco expanded its advertising after 1929 and maintained a high level throughout the Depression. Naturally Philco did not just spend money. It had something to talk about – a new, low priced table model. The two things – courageous advertising plus product news – brought it out ahead.

“I will hasten to point out that the combination of product news and sound, unrelenting advertising is open to any company. For few, if any, products have had their news value rung dry. There is almost always a new use, a new time to use it, a new place to use it, or something new to use it with. I have said it before; Put news in your product and it will put your product in the news.

“Don't go into your shell when the going gets tough. Get tough yourself – the time to scare competition is when it is already scared by circumstances.

“Actually there is no time when ingenuity cannot create advertising that will build your product name and ensure the healthy growth of your company. And there are few things as detrimental as a lapse in advertising. It costs much more to get up advertising momentum than it costs to keep going. And once you let momentum die you must start almost from scratch again.

“Take the war years, 1941 to 1945. When a company's products were clean off the market, was there any sense in advertising? Many companies did, nonetheless. And as a direct result many gained a leadership that they still hold today. Others lost leadership that they are still struggling to regain.

“Fortunately, I believe, top management today has learned from the wars, depressions and recessions of the past. Not only do they regard advertising as a necessary business tool, they recognise its value in times of slump. Whereas before, the advertising budget was the first to get clipped in slack times, today this is not necessarily so.

Fast Forward - 2008

Much of the earlier part of this report focuses on the depressions and recessions of the past, and there is indeed a lot we can learn from them and

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how businesses coped when faced with problems not unlike the current recession of 2008-2009.

Today we have a range of communications media unheard of half a century ago when much of the world had no TV and colour TV was in its infancy with only a small number of analogue channels available. Today's TV viewer can receive over 400 channels via terrestrial, cable and satellite TV, can view programmes from around the world on his computer, can surf the internet with its millions of websites and download news and other programming to a mobile phone to watch on the go.

Today there is choice – so much choice. For the advertiser this is both an opportunity and a problem. The marketplace has never been so fragmented but at the same time there is the opportunity for more precise targeting. In recessionary times such as we are now experiencing the ability to target takes on an even greater importance. There is no room for wastage – so zoom in on your target audience like a finely tuned Exocet missile.

Demand a response

When I started out in business in the late 1960's advertising was a relatively laid back industry marked by long lunches and creativity aimed at pleasing the client rather than getting results. The excellent TV series *Mad Men* realistically portrayed the 60's as I remember them.

Agencies were more than happy to spend a client's money on what is known as 'brand awareness'. And when TV came along, all their Christmases came at once for now, with one stroke of a pen, an agency could spend an entire budget on a TV campaign and pick up a healthy 15% commission in the process. This was much easier than having to plan a detailed print campaign which took so much longer to prepare and which at the end of the day yielded the same amount of commission. Which was easier – taking one TV spot for £20,000 or having to plan 40 ads at £500 each in 40 different magazines? Same expenditure, same commission but a big difference in work load and accountability.

Then things started to change. Advertisers started to **demand** accountability and so slowly, and then more rapidly we saw a growth in what is known as 'direct response advertising'. Not that direct response was new – but up until this shift in thinking it had been largely sidelined - the poor relation of high spending, unaccountable brand advertising. Today it is the other way around. Most advertisers cannot afford the luxury of spending millions without seeing results.

What Business Week has to say.

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Writing in Business Week, resident columnist Steve McKee has the following pointers for businesses tempted to cut advertising in the current recession. Ignore them at your peril.

1. **Be smart and thrift, but don't panic.** Here he notes that all economies go through cycles of expansion and contraction. The current recession, whilst undoubtedly very serious is not unique. Academics can pontificate, but real business people have to live through these events. The important thing is to keep your cool. You may have to make some cuts, but be careful to trim fat and not muscle. Ouch!
2. **Marketing is muscle, not fat.** Be careful about cutting it. Smart investors buy when the market is down and everyone else is selling. So too with smart marketers. They understand that by maintaining budgets (or even increasing them) they may not come out ahead during the lean times but they can pick up market share that will reap rewards when the good times come again.
3. **Don't lose focus by chasing business you wouldn't normally want.** When clients and customers get nervous about the economy they cut back on their spending. This can mean fewer transactions, smaller purchases or both. If you try to broaden your core product or service appeal too much you may turn off your existing customers. Try to enhance the value that you provide your best customers.
4. **Don't discount.** Tempted as you are to do this, discounting can be a two edged sword. It may get you some immediate cash, but in the long run you'll devalue your brand. Your clients will hang around waiting for the discount, and in the meantime won't buy. It is far better to add value through giving away bonuses with purchases, but you must 'discount' then simply reduce the price to its true value and don't be seen as a discounter.

By aggressively marketing during a recession, you not only gain a larger share of a shrinking market, but you also place yourself in a very favourable position when the economy turns around. A joint study conducted in 1990 by Ogilvy and Mather and the Strategic Planning Institute found a clear link between increased spending on advertising and increased market share. Companies spending much more on advertising than their leading competitors (as a percentage of actual or projected sales), captured 32% to 40% of the market ... companies that spent about the same as their rivals gained a 23% market share, and those spending 'much less' had to be content with less than 15% of the market. Market share, in turn, has a dramatic effect on profitability.

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