ADVERTISING THROUGH ECONOMIC DOWNTURN

A SYNTHESIS OF MARKETING RESEARCH EVIDENCE TO SUPPORT CONTINUED INVESTMENT

JUNE 2020

Contents

There is a body of marketing research evidence that brands should continue to invest in advertising throughout economic downturn otherwise face detrimental effects in the longer term.

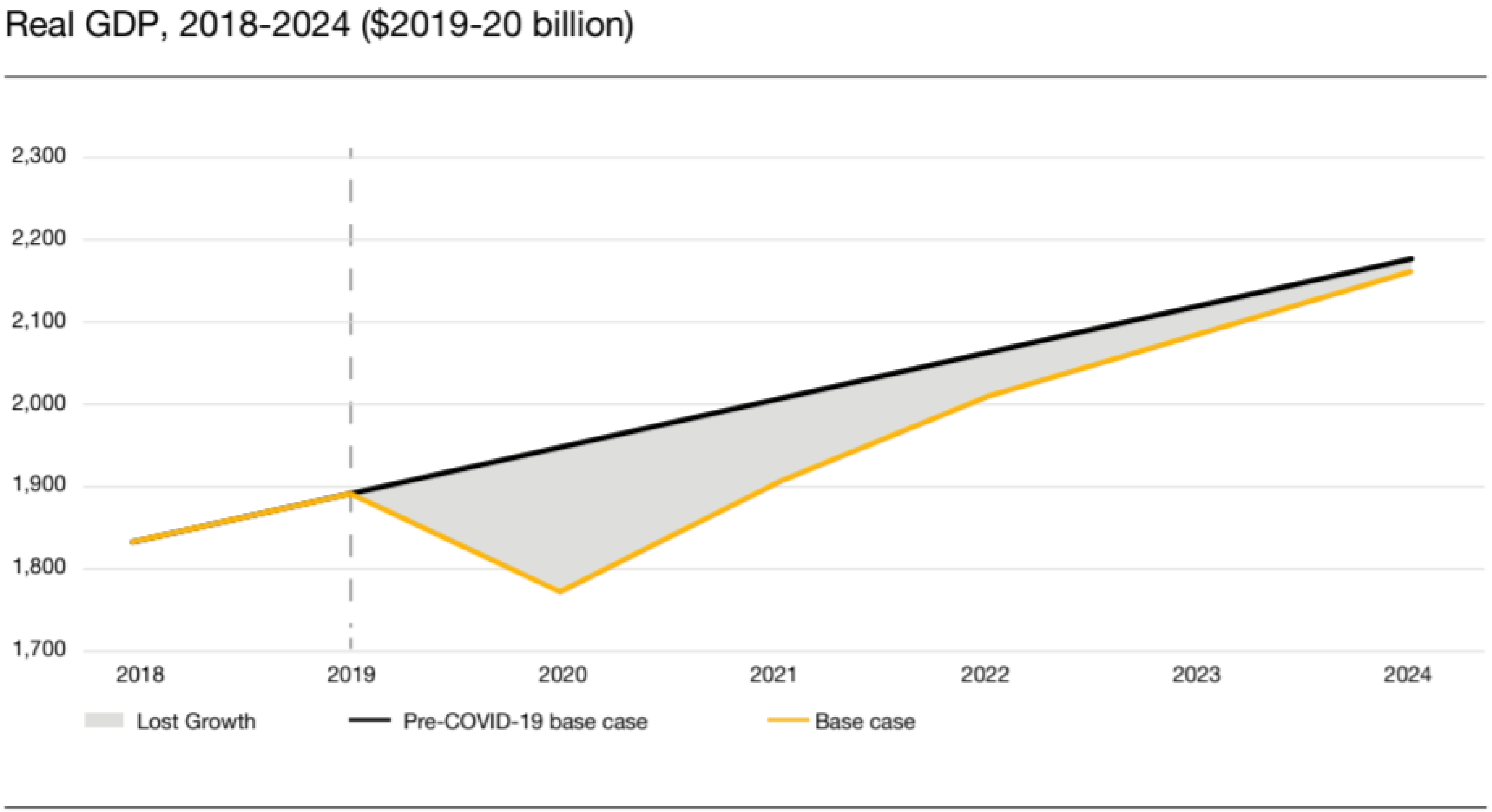
The IAB have synthesised some of the key points from these important research studies into one place.

This report includes:

- Overview of the current economic context
- Marketing evidence of the cost of turning off ad spend
- Guidance for advertising during a recession

OVERVIEW OF THE CURRENT ECONOMIC CONTEXT

COVID-19 will cost Australia $279 billion in national income

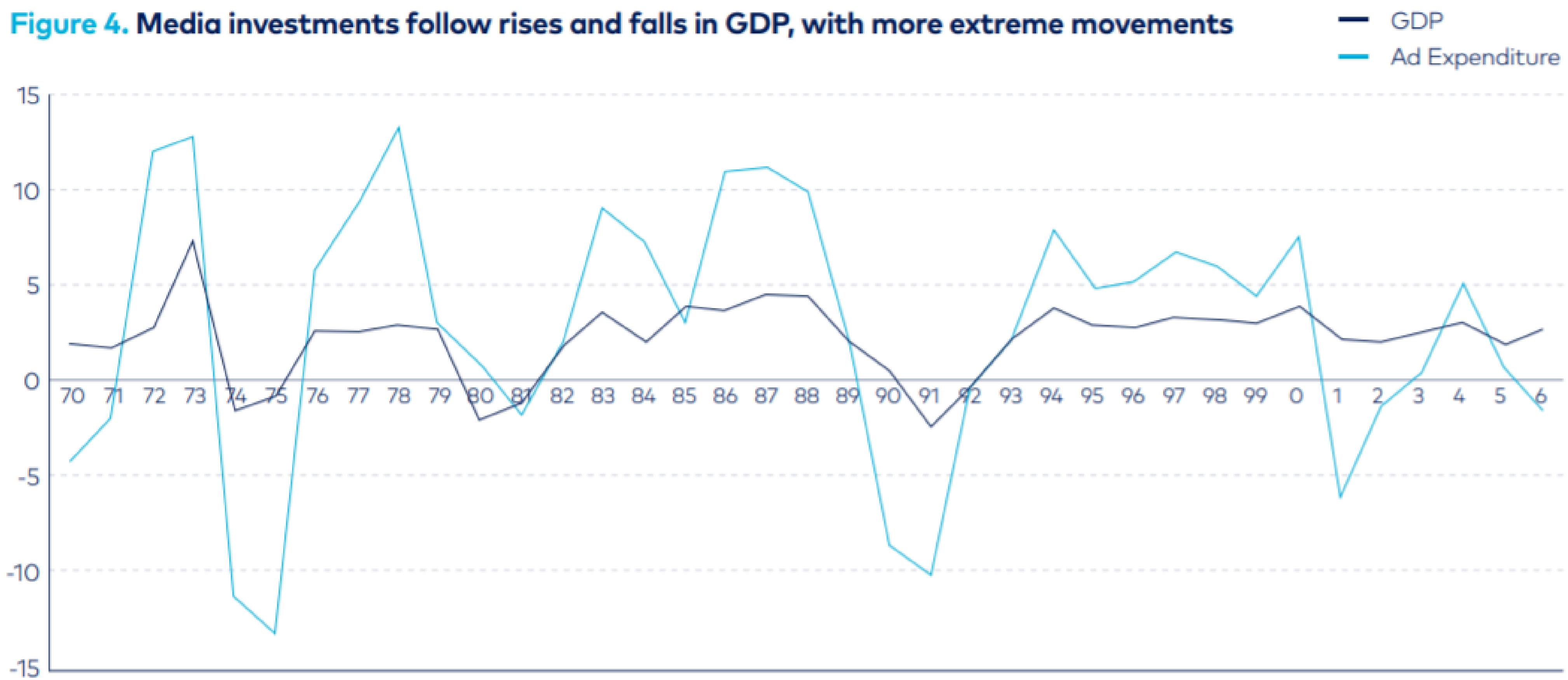


The IMF has forecast the Australian economy to shrink 6.7% this year, with a recovery of 6.1% next year.

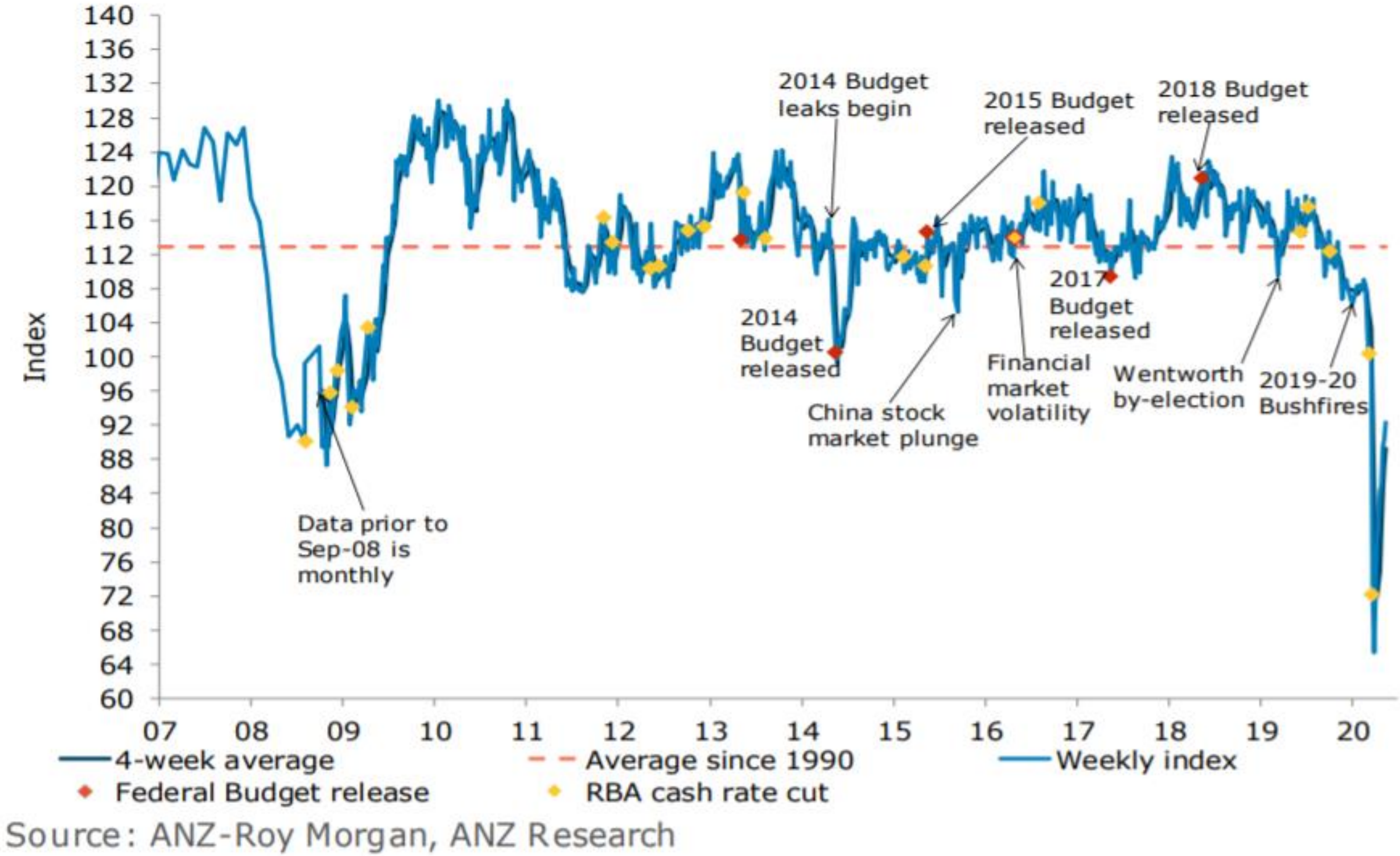
Even with this sharp recovery there will be some challenging economic years ahead. PWC's Australia Rebooted 2020 forecasts 'best case' exit path sees a recovery to pre-COVID-19 GDP levels in little over two years.

Source; PWC Australian Rebooted 2020

Media investments follow rises and falls in GDP with more extreme movements



Consumer confidence is a key indicator of advertising spend



As at 19 May 2020, confidence lifted for the seventh straight week, up 2.2% to 92.3.

Economic downturns are challenging, but some brands see this as a time of opportunity

JUNE 2008

UNILEVER AND P&G HOLD BUDGETS STEADY.

"Overall we are sustaining levels of total support. It's marketing wisdom that the advertisers that sustain advertising at the optimum level in a downturn are the ones who emerge with a much more sprightly step when they come out of a recession."

Simon Rothon
Senior vice-president of global marketing services
Unilever
Source; Financial Times

April 2020

P&G DOUBLES DOWN ON MARKETING

"There is a big upside here in terms of reminding consumers of the benefits they have experienced on our brands and how they have served them and their families' needs. That is why this is not the time to come off air. …
With more media consumption now than ever, this all ties back to doubling down, and moving forward not backward. This is not a time to retrench – and that is a service to our consumers, our retail partners and to broader society. ..
We really do expect to come out of this stronger than we went into it. There is a bright future ahead and we need to be very deliberately keeping aware of opportunities and putting steps in place to seize those opportunities to fully serve consumers."

Jon Moeller
CFO
Proctor & Gamble
Source; Marketing Week

THE COST OF TURNING OFF AD SPEND

The cost of turning off ad spend

- The often immediate response in tough times is to cut costs and focus on what brings in immediate revenue but there is a lot of marketing analysis conducted across the years to indicate this could be a detrimental decision.
- Many studies from various respected research providers has found that, while the impact may not be felt immediately, the longer-term negative effects of cutting marketing investment include:
    - not regaining sales and profit of pre downturn levels
    - loss of market share
    - loss of brand salience

Cutting marketing investment can have longer-term effects in not regaining sales and profit

HBR analysis recommended mastering the balance between cutting costs to survive today and investing to grow tomorrow.

From their analysis:

- 80% of companies had not regained their prerecession growth rates for sales and profits three years after a recession
- 40% of them hadn't even returned to their absolute prerecession sales and profits levels by the end of that time period
- Companies that cut costs faster and deeper have the lowest probability—21%—of pulling ahead of the competition when times get better
- Companies that reduce costs selectively by focusing more on operational efficiency, while investing relatively comprehensively in the future by spending on marketing, R&D, and new assets, are the best performers out of a recession.

Harvard Business Review

Method: In 2010 HBR analyzed strategy selection and corporate performance during three global recessions: the 1980 crisis (which lasted from 1980 to 1982), the 1990 slowdown (1990 to 1991), and the 2000 bust (2000 to 2002). HBR studied 4,700 public companies, over three periods: the three years before a recession, the three years after, and the recession years themselves.

Source; Harvard Business Review Roaring Out of a Recession 2010

Sales recovery takes five years if budgets cut for one year

data2decisions

Econometric consultancy Data2Decisions modelled budget cutting scenarios for a typical brand -

- Following a budget cut, a brand will continue to benefit from the marketing investment made over the previous few years. The longer-term business harm will be more considerable but will not be noticed at first.
- The long-term effects of two different budget-cutting scenarios were modelled for the brand. In the first scenario the budget was cut to zero for just one year and then returned to usual levels. In the second scenario the budget was halved for one year and then returned to usual levels. Sales recovery to pre-cut levels took five and three years respectively.

Long term case history

	Budget saved	Sales foregone	Profit on foregone sales	Impact on bottom line	Time to recover
Zero budget year 1	£1.8m	£8.6m	£3.5m	£1.7m	5 years
Half budget year 1	£0.9m	£4.3m	£1.7m	£0.8m	3 years

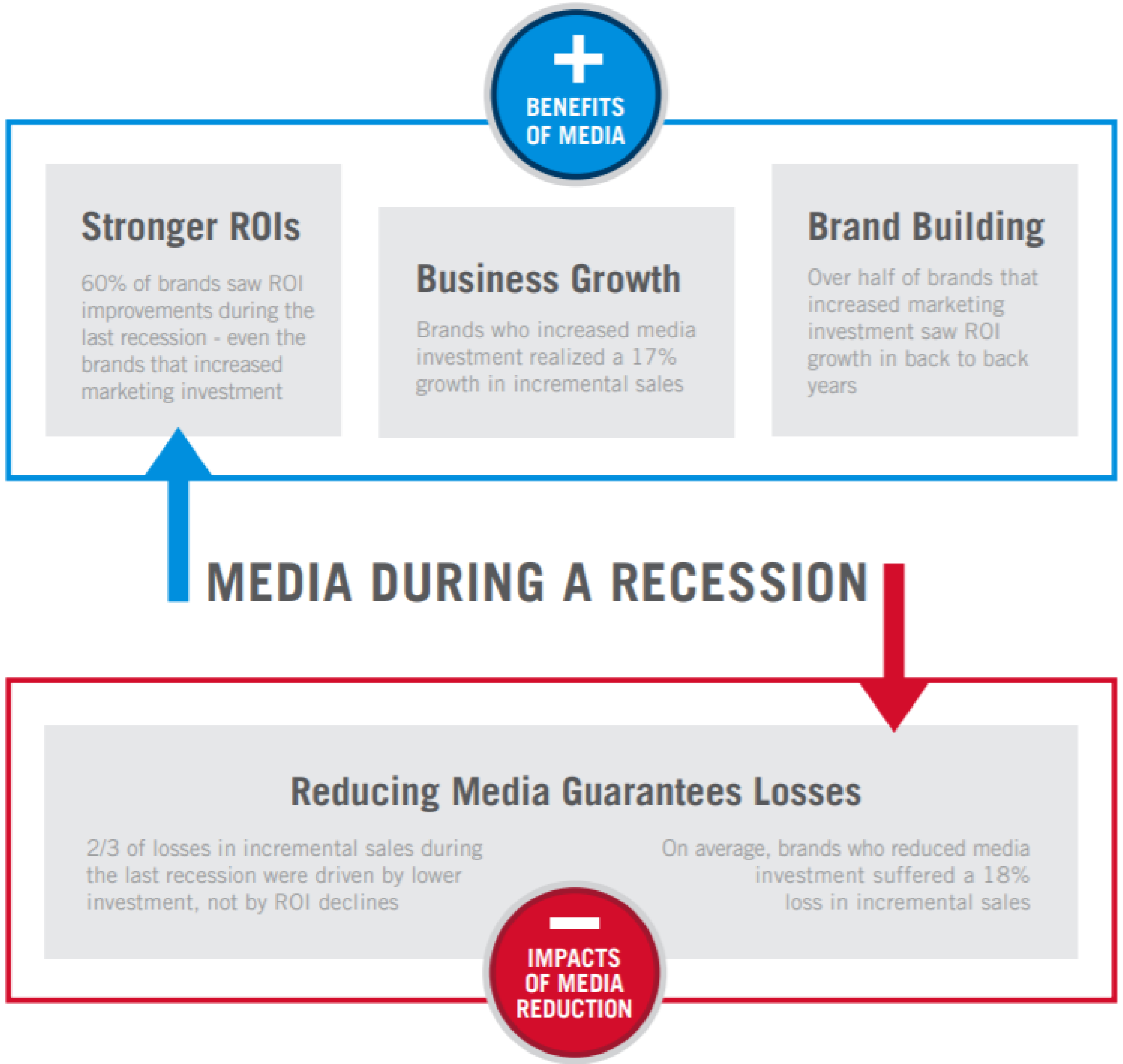
ROI defined as the incremental revenue generated from advertising per unit of spend

Data2Decisions

Reduced media investment during a recession led to on average 18% loss in incremental sales

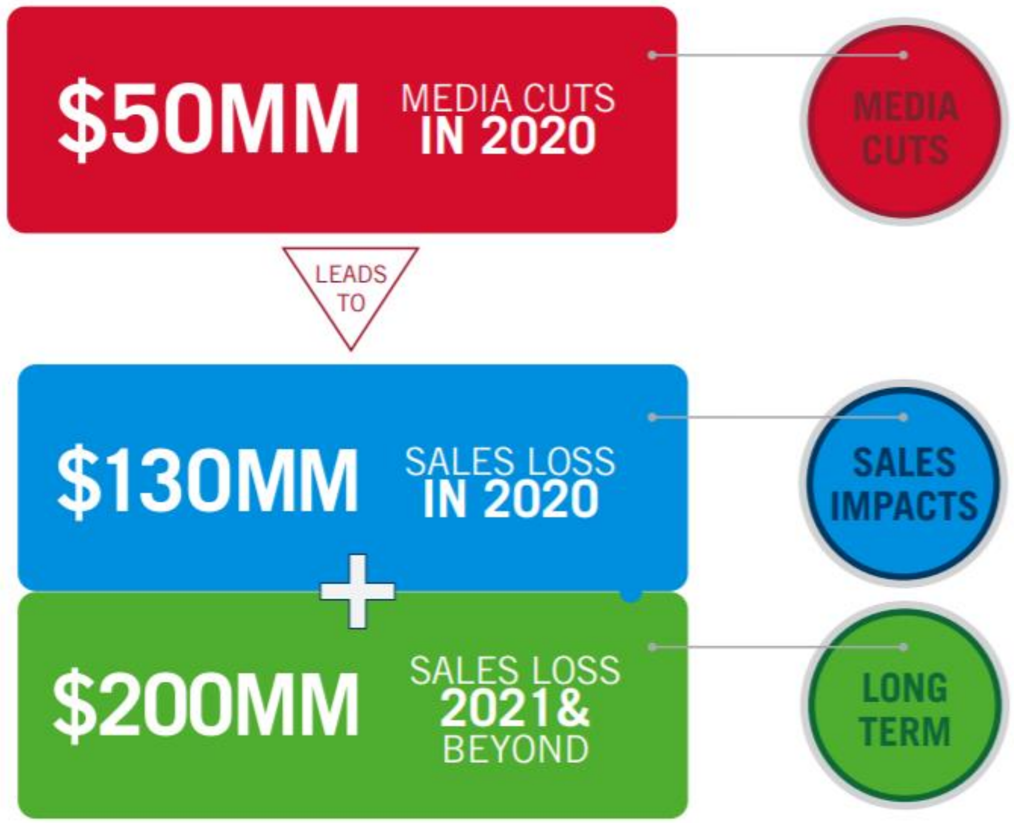
ROI benchmarking from 700+ brands since year 2000 in 45+ countries and cross-section of industries and tactics.

Across the broad scale of brand impact, Analytics ROI Genome research has shown that during any period of economic difficulty, media cuts carry large financial implications. A potential recession does not mean brands should stop advertising.



Brands reducing media investment in 2020 stand to lose revenue this year, next year and beyond

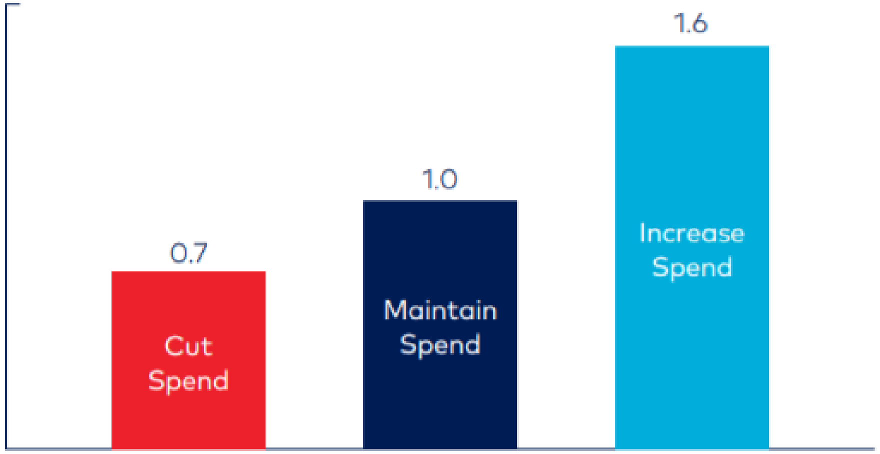
Analytic Partners ROI Genome research shows that a brand that reduces its media spend in 2020 by $50MM will on average stand to lose $130MM in revenue in 2020 alone… and when factoring in the long-term implications of this reduction, the number increases to well over $300MM.



Brands that cut ad spend during a recession see their market share shrink once recession is over

ebiquity

Figure 5. **Changes in market share (percentage points) for brands cutting, holding, and increasing marketing spend during recessions, 1980s-early 2000s**[7]



Ebiquity reporting data from Malik PIMS (Profit Impact of Market Strategy) collected from around 1,000 business units in developed economies during periods of market downturn and subsequent market recovery shows:

- Those brands that cut ad spend see their market share shrink after a recession typically by around 0.7% points
- Those that maintain spend are the benchmark
- The upside being advertisers that boosted spending levels in a recession gained 1.6% points in market share in the first two years of recovery.

Source; PIMS – the Profit Impact Marketing Strategy database as published in Ebiquity Viewpoint – Advertising Through a Recession

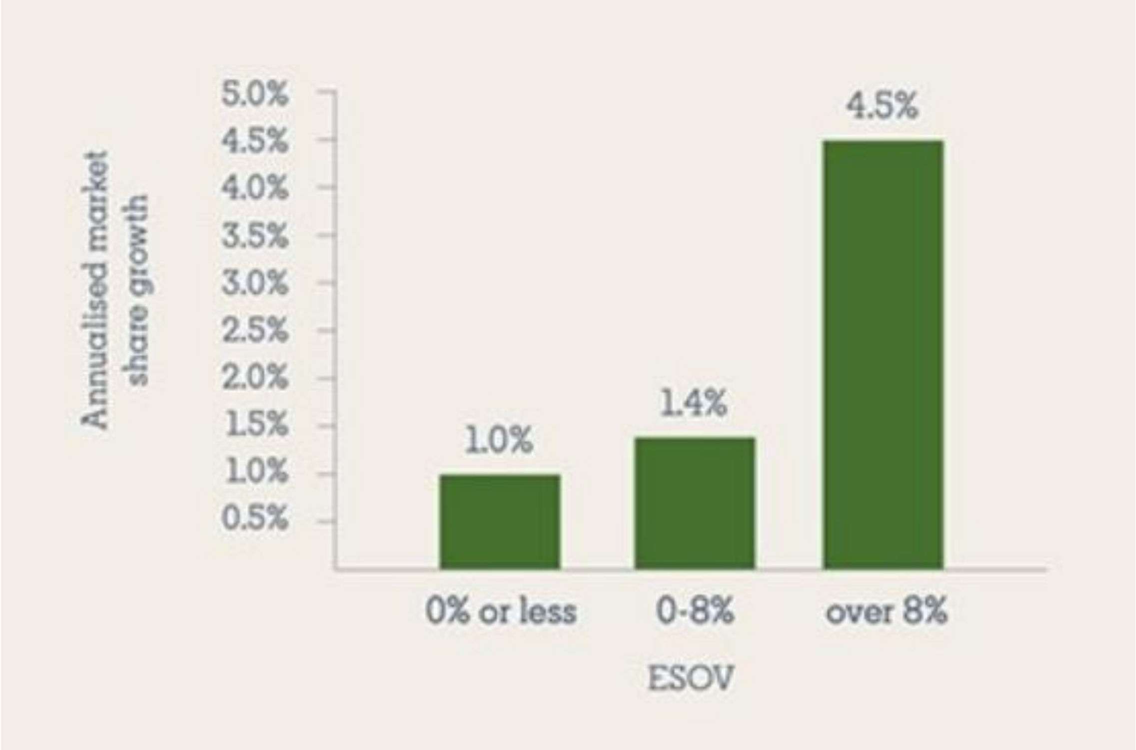
Defend share of voice during a recession to protect market share

Peter Field, marketing consultant used the IPA dataBANK of case studies in 2008 to examine the relationship between share of voice and share of market.

SOV is strongly correlated to market share – if we allow SOV to fall below the brand's share of market then market share is likely to fall over the year following.

In 2008 the brands that took advantage of lower SOV costs to boost their SOV achieved impressive business gains.

The brands that invest in ESOV saw 5 times as many very large business effects (such as profit, pricing, share, penetration etc.) and 4.5 times the annual market share growth.



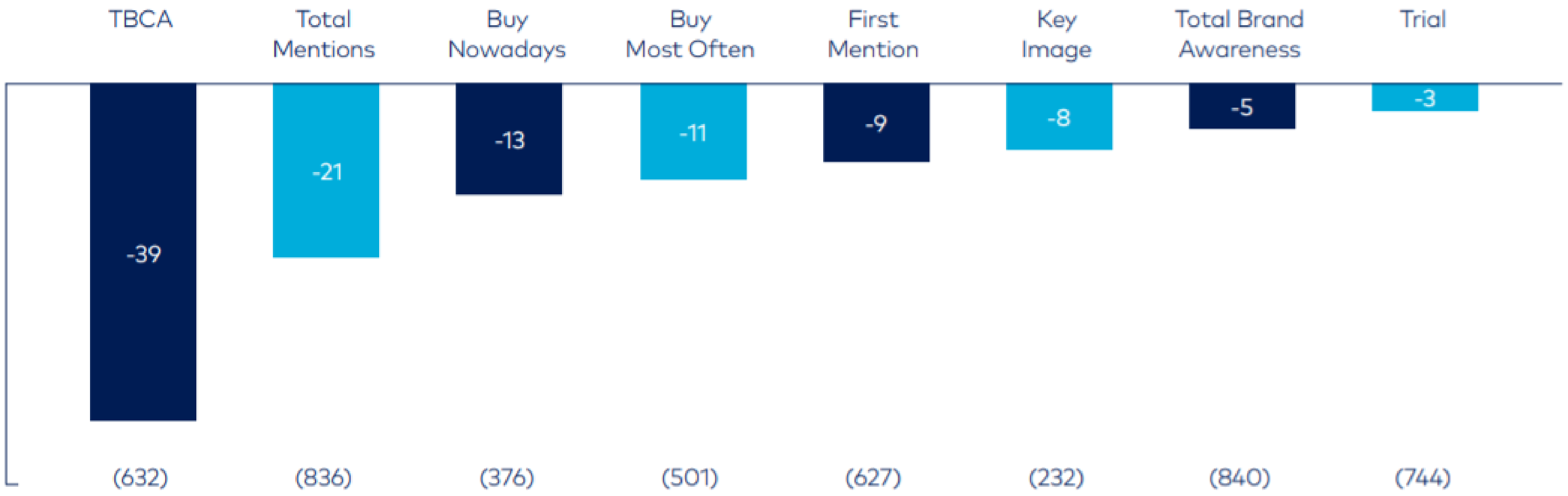
Group one, whose ESOV was zero or less were at maintenance levels or lower, but were still advertising (i.e., they had not gone 'dark'). Group two had modest growth levels of ESOV in the range 0-8%. Group three saw the recession as an opportunity, with over 8% ESOV.

Cutting media investment impacts brand saliency after 6 months

KANTAR

Net effect on brand health six months after cutting TV ads

After 6 months the net change in total brand communication awareness (the percentage of brands experiencing increasing scores minus the percentage of brands experiencing decreasing scores) after cutting TV advertising is -39%.



Source: Kantar "COVID-19 Barometer," March 2020. (Base number of brands analysed in parentheses.).

ADVERTISING DURING A RECESSION

Advertising during a recession

During the next few years marketers should continue to advertise, applying well known, fundamental marketing principles to get the most from media investments and put them in a good position during the economic downturn and beyond:

- Focus on brand building and finding the right balance between brand and activation that is critical for business success for sales today and in the future
- Leverage the synergies of using a combination of media channels to drive greater ROI
- Invest in creative quality to ensure your ad dollar works to the highest potential

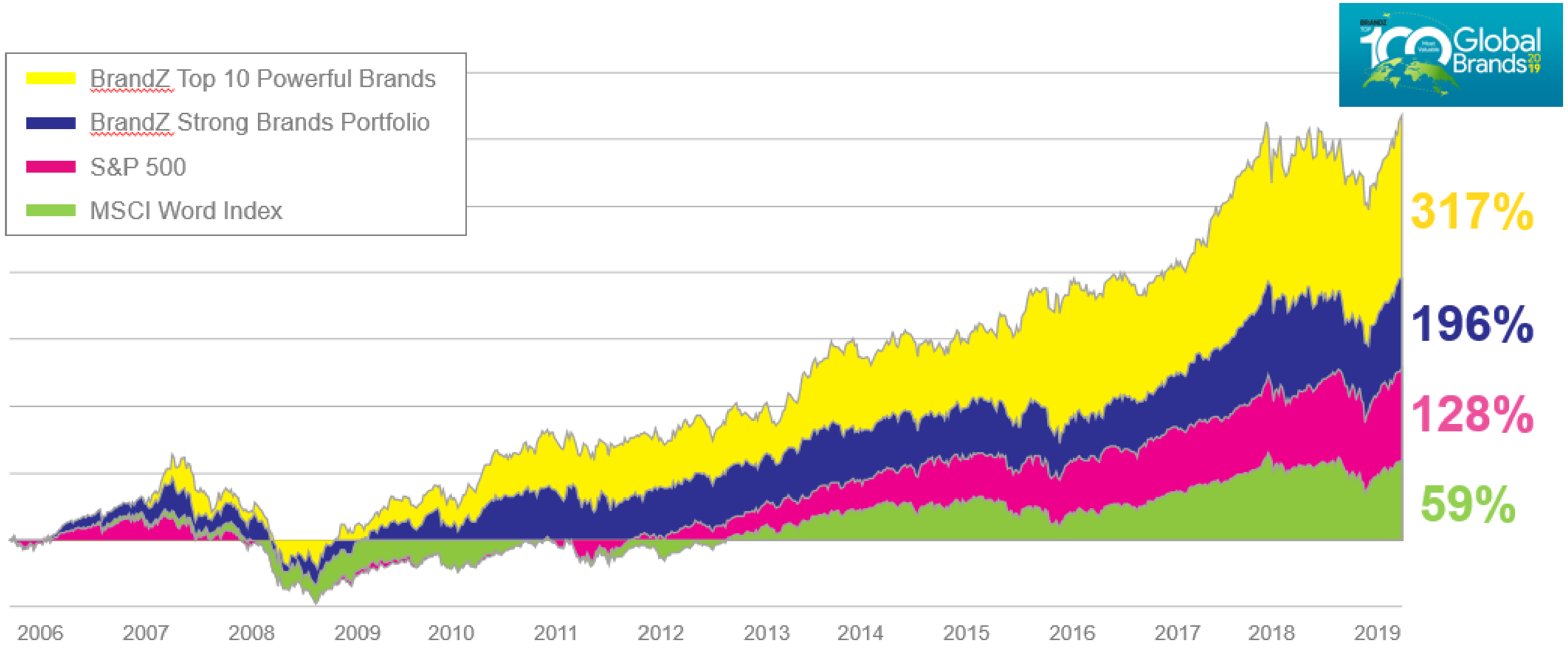
Strong brands help businesses survive turbulent times

BRANDZ

BrandZ brand valuation ranking combines analysis of retailers financial performance with opinions of millions of consumers surveyed in more than 51 markets around the world.

Historical BrandZ data confirms that brands with the strongest brand equity recovered nine times faster following the financial crisis of 2008.

Brand building is vital for business success. In the long term, strong brands generate more superior shareholder returns than leading market indexes.



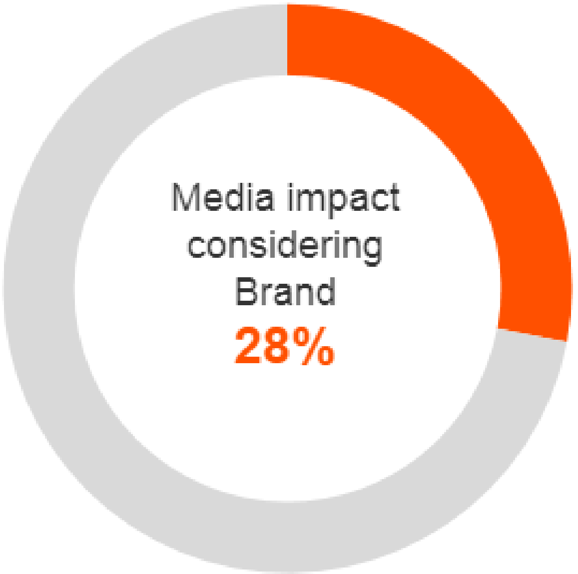
Source; BrandZ

Investing in a strong brand drives future sales, as well as sales TODAY.

Brand is a multiplier of ROI. It more than doubles the impact of media investment on sales

Average sales lift attributed to media investment

Short term sales + Long term equity driven sales attributed to media investment



KANTAR

During challenging times, focus on brand values messaging

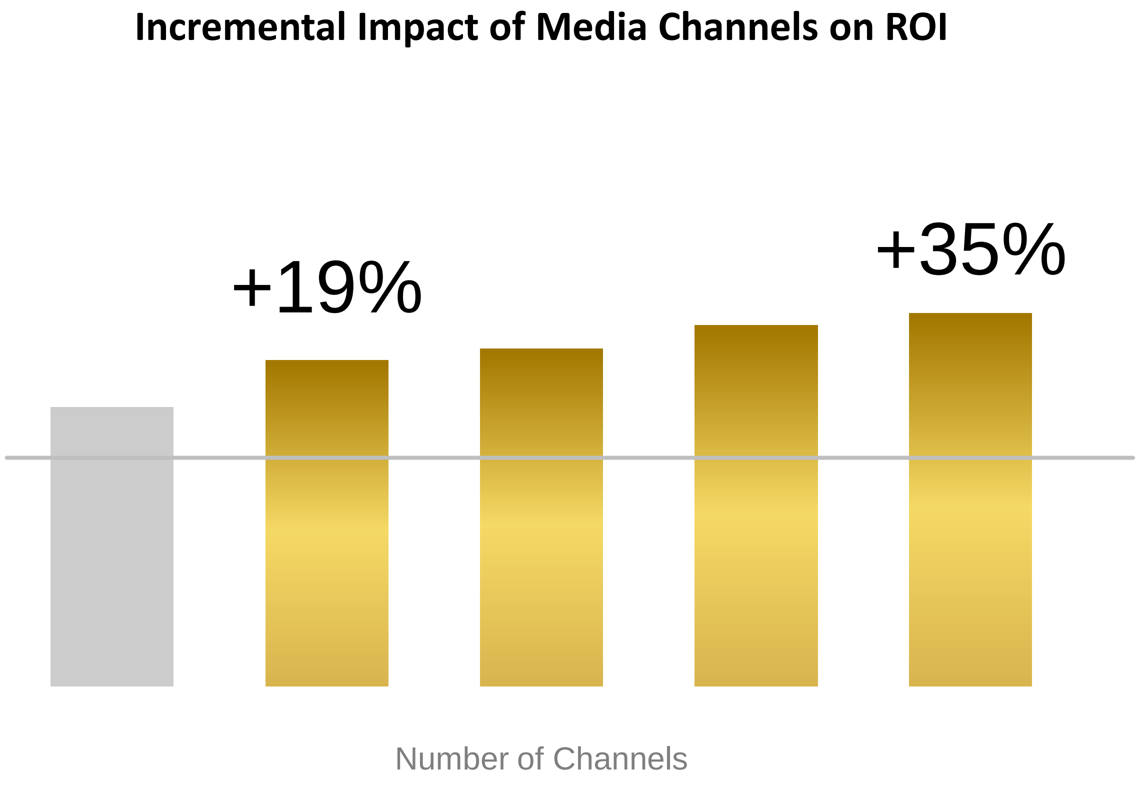
Analytic Partners also recommends during challenging times a focus on brand equity messaging can be the smartest move. Brand equity and messaging that focuses on the values of a brand outperform product, promotion or functionality messaging 80% of the time.

Ipsos also assert that during the current uncertainty and beyond, building stronger emotional engagement shows greater potential to further drive brand equity than promoting product superiority, which runs the risk of being disconnected from how people are thinking and feeling.

Source; Analytic Partners ROI Genome Report Future Proof your Brand: Marketing Through Crisis and Beyond

Leverage the synergies of using a combination of media channels to drive greater ROI

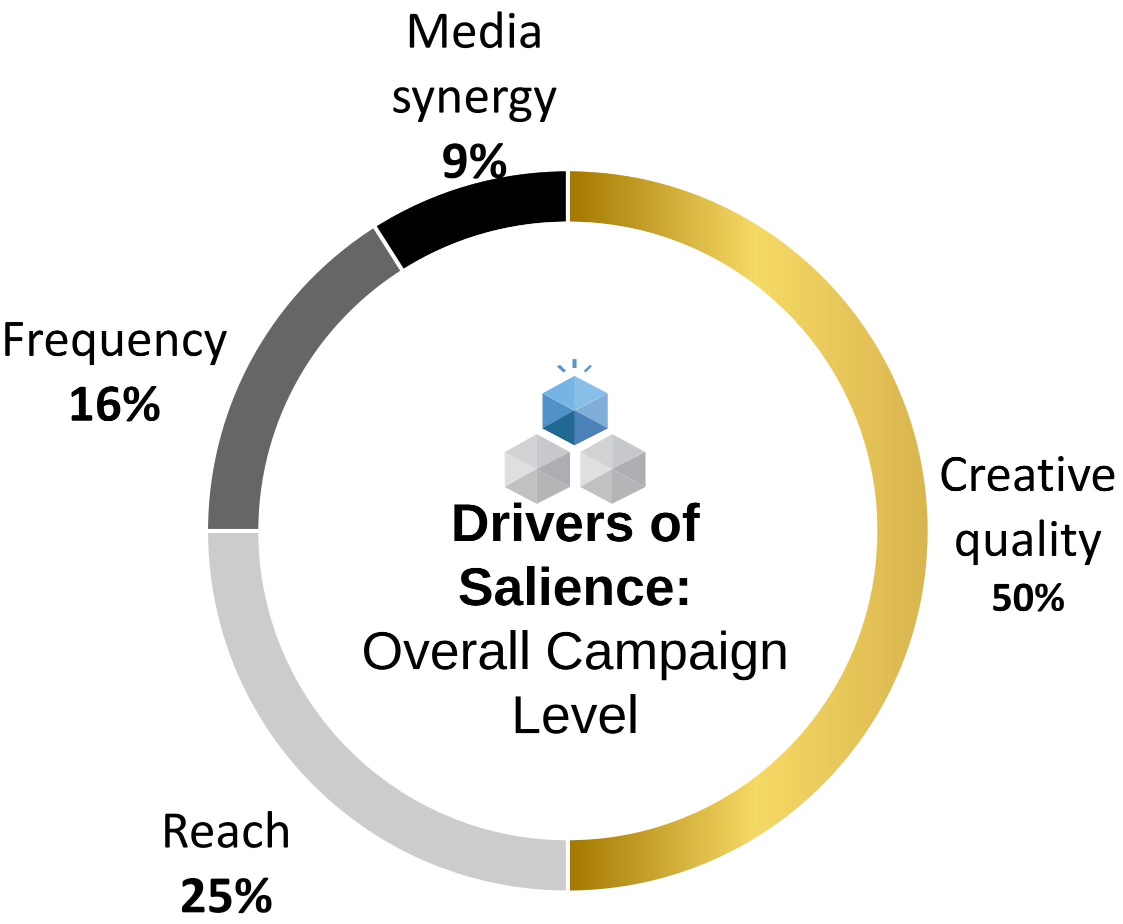
Analytics Partners meta-analysis shows adding multiple touchpoints increases ROI significantly – up to an additional +35% for five channels.



Source: Analytic Partners, 2016; Analysis based on over 3,200 campaigns from 2010-2015, Platforms include TV, Print, Radio, Display, Paid Search, Online Video, PR, Out-of-Home and Cinema

Creative is the largest driver of ad impact, so invest to make ad dollars work to their highest potential

Creative quality contributes half of campaign impact. Design creative with context in mind. Optimise assets to work their hardest makes your ad dollar work to highest potential



More resources

The Role of Context

Outlines the contextual influence of news environments and their influence on advertising during COVID-19.

The Digital Brand Effect

The IAB partnered with Kantar on an Australian first report on the impact of digital advertising on building brands.

Ad Tech Q&A: Brand Safety

Guidance from key verification vendors on better managing blocking of media buying against key topics through COVID-19 period.