

New Jersey Advertising Club White Paper

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The State of Advertising in the State of New Jersey: Issues and Opportunities

Most people hear the word “advertising” and they immediately think of Madison Avenue. Perhaps for some it conjures up a long-buried mental tid bit from pop culture that slots neatly into their particular age-related frame of reference – *Bewitched* for some, *Bosom Buddies* for others, and lately *Mad Men*. Few, if any, would come up with “New Jersey” as their first-thought answer in this game of free association.

Yet, surprisingly, New Jersey is home to one of the largest and most vibrant advertising and marketing communications communities outside of New York, Chicago and LA.

How important is the advertising and marketing communications industry to the State of New Jersey? In 2008, the top 25 advertising and top 25 PR firms taken in aggregate drove over \$1.5 billion in “top line” fees and billing through the economy of the state – and those dollars helped companies not only from within the state, but from countries around the planet to increase their sales and power their profits. And those figures are expected to grow as they have historically, through multiple economic cycles, as the storm clouds over the national economy begin to lift.

Despite the economic slump of recent months, smart companies and brands still see the necessity to advertise. They realize that if you are not continually priming the pump, especially in a time of sluggish consumer demand, your sales will quickly dry up.

Times are tough, and everyone is looking for ways to cut expenses and squeeze the most out of every dollar. No doubt you’ve been wrestling with the question of whether or not to continue to advertise during what is now being referred to as “The Great Recession.” Fortunately, there is a good deal of published data on the subject, conducted by a wide swath of companies, educational institutions and individuals, which provides a reasonable framework against which companies can make sound decisions that will assist them in achieving both short- and long-term advantage during recessionary times.

The first known study that attempted to answer the question of whether to advertise or not during a recession dates to the 1920s, when advertising executive, Roland S. Vaile tracked the revenues of 200 companies before, during and after the 1923 recession. In April 1927, Vaile reported that the companies that had advertised the most had the biggest sales increases throughout the period. Coming from an ad man, though, the study was generally viewed as biased. Regardless, the study was valuable in that it framed the “to advertise during a recession or not” question that has subsequently challenged American companies for decades.

Most everyone who has taken a college business class is at least vaguely aware of the famous McGraw-Hill studies of the effects on cutting advertising during various recessions. In their most famous recession study, McGraw-Hill Research analyzed 600 companies covering 16 different SIC industries from 1980 through 1985. The results showed that companies that maintained or increased their advertising expenditures during the 1981-1982 recession averaged considerably higher sales growth, both during the recession and for each of the following three years, than those that eliminated or decreased advertising. By 1985, sales and revenues in those companies that were “aggressive” recession advertisers had risen 256% over those that didn't keep up their advertising.

These findings were later validated in a series of six studies conducted by the research arm of Meldrum & Fewsmith, which showed conclusively that maintaining an aggressive advertising posture during recessions not only resulted in increased sales, but also, in substantial increases in profit margins (and isn't that what it's all about?).

More recently, in an analysis of the 1990-91 recession, Penton Research Services, a division of Coopers & Lybrand, in conjunction with Business Science International, found that “better performing” businesses coming out of the recession had focused on a strong marketing program during the 1990 – 91 recession. The study showed that maintaining a dedicated marketing focus enabled these companies to solidify their customer base, and to take business away from less aggressive competitors during the recession. Perhaps more significantly, these aggressive advertisers positioned themselves for better-than-category-average growth during the subsequent economic recovery period.

The Strategic Planning Institute, a non-profit institution aligned with Harvard University, manages strategic data that includes information on markets, competitors, quality, structure, environment and financial performance, enabling business managers to "reality test" and strengthen their strategic thinking by comparing it with the experience of comparable businesses. Their take on the issue is enlightening. According to the SPI, a recessionary market can provide an unprecedented opportunity for businesses to build a greater share of market through aggressive advertising. Conversely, businesses that reduce media expenditures often suffer disproportionate loss of market share.

One company that certainly seemed to prove the point is The Stanley Works of New Britain, Connecticut. In 1974, Stanley, one of the world's largest manufacturers of hand tools, sensed a softening in demand for its consumer products. So, in the heart of a recession, it launched the biggest advertising campaign in its history to drive home the value and durability of the Stanley brand to the broad consumer market.

The campaign – "Who says they don't make tools like they used to any more? STANLEY makes tools like they used to anymore!" – worked like a charm. Stanley's consumer hand tool business saw the largest sales and profit increase in their history. Even more significantly, Stanley's hand tool business continued to grow at an 8 percent annual rate when the recession ended – more than twice the rate of its competitors.

A number of additional case studies also illustrate the point. Following the recession of 1973-75 – a particularly noteworthy and relevant one to our present situation in that it lasted for 16 months, making it one of the longest-lasting recessions recorded – a number of Wall Street analysts set out to assess "damage" sustained by "blue chip" companies. Several of these analysts attribute the 1975 setbacks of two companies in particular – Avon Products and Hershey Foods – at least in part to advertising cuts, while at the same time crediting an ongoing commitment to advertising and promotion throughout the recession for the improved performance of companies like Philip Morris and Revlon during the same period.

This experience clearly tells us that attempting to regain a favorable position lost during a recession costs more in the long run than to retain it – or better yet, enhance it – by continuing to advertise. Failure to continue to promote your product or service can result in a rapid erosion of the consumer franchise that you've no doubt taken years, even

decades, to build. With experience and common sense telling us that it is nearly impossible to recapture your customers once they have adopted competitive brands, why would you risk it?

One might be tempted to dismiss these results as self-serving claptrap from the advertising industry, had the studies not been conducted by economists, analysts, academics and others not directly aligned with the advertising industry.

A further temptation might be to look to these findings as a reason to continue to advertise in exactly the same venues, with exactly the same pre-recession financial commitments, and exactly the same messaging that “worked” in flush times. That too, could very well be a mistake.

It is important to recognize that recessions are selective, impacting some industries, products and regions of the country harder than others. How you respond to the question of maintaining advertising during a recession will no doubt be influenced by your product or service. Are you in the automobile, travel or real estate business, for example, which are among the hardest hit by this recession, or are you in an industry that has been relatively unaffected, like liquor, “green” technologies, energy or even healthcare?

In addition, the belief that small businesses usually fare poorly in economic slowdowns is not borne out by statistics or experience. As the economy tightens, many larger businesses are outsourcing services that small business can more nimbly (and cost-effectively) step in to supply. Entrepreneurs, after all, by definition find opportunity in unlikely places. So why not during a recession?

Here is one given: It is essential to keep your company’s name at the top of the consumers’ mind, so when they are ready to spend, they will remember your name. Instead of wholesale cuts, take the opportunity during these difficult times to re-balance your marketing mix. Supplement your advertising with new media channels that provide opportunities to engage consumers and create lasting relationships – often at far lower costs than traditional media advertising. Look to the discipline of public relations as a way to positively position your product or service at a fraction of the cost of traditional advertising.

In much the same way you are constantly looking to “right-size” your workforce, take the time to make sure you have a right-sized marketing plan. Focus on those elements that yield the greatest return on investment, and defer those that are just too costly in the current environment.

In the same vein, research indicates that during recessions, it may be important to shift your messaging within advertising executions. In a recession, advertising should reflect the current consumer mentality. Ads placed during a recession should stress value. After all, your consumers are looking for ways to maximize the value of their investment in your product or service. It is incumbent upon you to deliver it.

Speaking of value, take a good, hard look at how you and your company view and value advertising. Correctly executed and placed, advertising and promotion should represent a sound investment in the future of your business – yielding value far in excess of its direct cost. It is important to look at advertising as an investment, and not simply as “overhead,” and to make your advertising and promotional judgments based on just such a disciplined approach.

Even in this “great recession,” you should continue to actively, but intelligently, promote your products or services – to emulate the experience of others who have succeeded during previous recessions. This will tell your consumers that you are still doing business and are surviving the hard times. It is essential that you are sure it’s YOUR name they will remember and turn to when the inevitable upturn comes.

Don’t rely on the consumer’s memory for your brand loyalty, and don’t assume that because they once used your brand they will look for your product on the shelf when the economy picks up. Consumers have short attention spans, and even shorter memories. They will respond to brands that have remained top-of-mind. Recognition decreases when advertising decreases, just as an increase in advertising causes an increase in recognition (and, significantly, message retention).

This recession has produced more than its share of challenges for companies of all shapes and sizes, and across all geographic boundaries. Decisions made now will most likely shape the future of your brand for a long time to come. But regarding advertising in a recession, the lesson is clear: Smart advertising and promotion, properly and

diligently executed, can stem short-term declines, carry you through these difficult times, and build a solid base that can slingshot your company to future success.

Fortunately, for New Jersey-based businesses, the advertising, PR and marketing communications industry is alive and well – thriving, actually – and ready to do what they have always done best: Help companies and brands to succeed in all economic conditions.

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