

Marketing During a Downturn

Part 1 – 10 Insights Into How
Marketers Are Handling the Slump

Special Report

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MarketingSherpa's Marketing During a Downturn

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Dealing with an Economic Downturn

By now, you've read the headlines. You've seen the stock market's decline. You know consumer spending is down. You've seen articles about the Bear Stearns sale – a result of last year's subprime mortgage financial crisis – and the forecasts of more bad economic news to come.

You might also know that when the economy heads south, marketing lands on the chopping block. Historically, marketing budgets are among the first to get cut in a budget crunch. And economic downturns give new meaning to the words "survival of the fittest."

What you might not know:

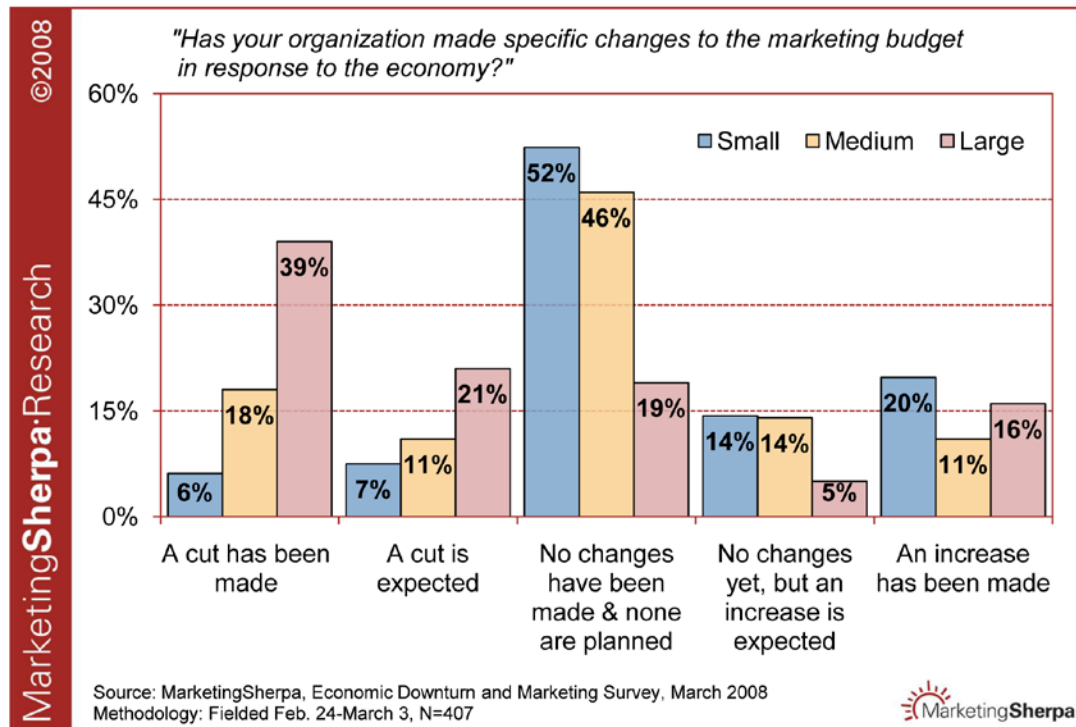
- *Marketers are already feeling the effects.*
Gap, the apparel retail company, reported in Brandweek that it is shelving its spring television campaign and rethinking other marketing spend after a disappointing fourth quarter.
- *Companies are cutting marketing budgets.*
60% of large companies, for example, reported a cut has been made this year or is expected, according to a new MarketingSherpa survey of 407 marketing professionals.
- *Marketers are preparing their contingency strategies.*
What are you doing? You are shifting spend from traditional tactics to online tactics, according to our survey. You are spending more on direct marketing and less on branding. You are definitely spending more on tactics with proven ROI and/or measurable ROI.

Something else you might not know: Not all marketers are thinking the worst.

"Heavier investing in direct mail and online is working well since many competitors are reducing marketing investments, and our collective share of voice is increasing our sales," wrote one of our survey respondents.

"I can't believe how many good leads I have in the pipeline – way more than usual," wrote another survey respondent from a search marketing firm. "All I can figure is that marketers are having to be smarter about where they spend their money."

Read on if you want more of the big picture... and some practical tips for dealing with a downturn.

Chart 1: Downturn-Related Changes to Marketing Budget by Company Size

Insight #1. Large Firms Are Cutting Budgets the Most

Is anyone seeing a smaller marketing budget just yet? Yes – 60% of marketers at larger companies and 29% of medium-sized companies have already cut or expect to cut their marketing budgets. Small companies are an exception – only 13% reported cuts or expected cuts.

This shouldn't come as much of a surprise. Typically, budgets for smaller companies aren't as big and, therefore, these marketers don't have as much to cut in the event of a downturn. Because large companies usually spend more on marketing, it makes sense that they identify marketing as a place to cut corners.

A plurality of our survey respondents, 39%, said that their marketing budgets have not been affected by the downturn yet.

Small businesses were the highest in the "no change" category; 52% of those respondents said their budgets would not change this year. Mid-sized businesses followed with 46% not changing their budgets.

The “no change” attitude could exist for any number of reasons. Lars Hundley, for example, hasn’t noticed a change in buying patterns. And he isn’t touching his marketing budget. He’s hopeful that his small etail company, Clean Air Gardening, which sells environmentally friendly lawn and garden tools online, will continue to do well during a slowing economy because of society’s heightened awareness of green living.

Tip: Spend more on media dollars, less on overhead

When you have less to work with, make sure you spend as much of your budget as possible in actual media dollars, says Jay O’Connor, Sr. VP Worldwide Marketing, NetSuite Inc., a large business management software company. That includes email marketing, direct mail and advertising.

“Make sure you’re not spending too much of your budget on marketing overhead that doesn’t translate into impressions and messaging that prospects will actually see,” O’Connor says. “Spending too much of your budget on overhead isn’t going to drive revenue.”

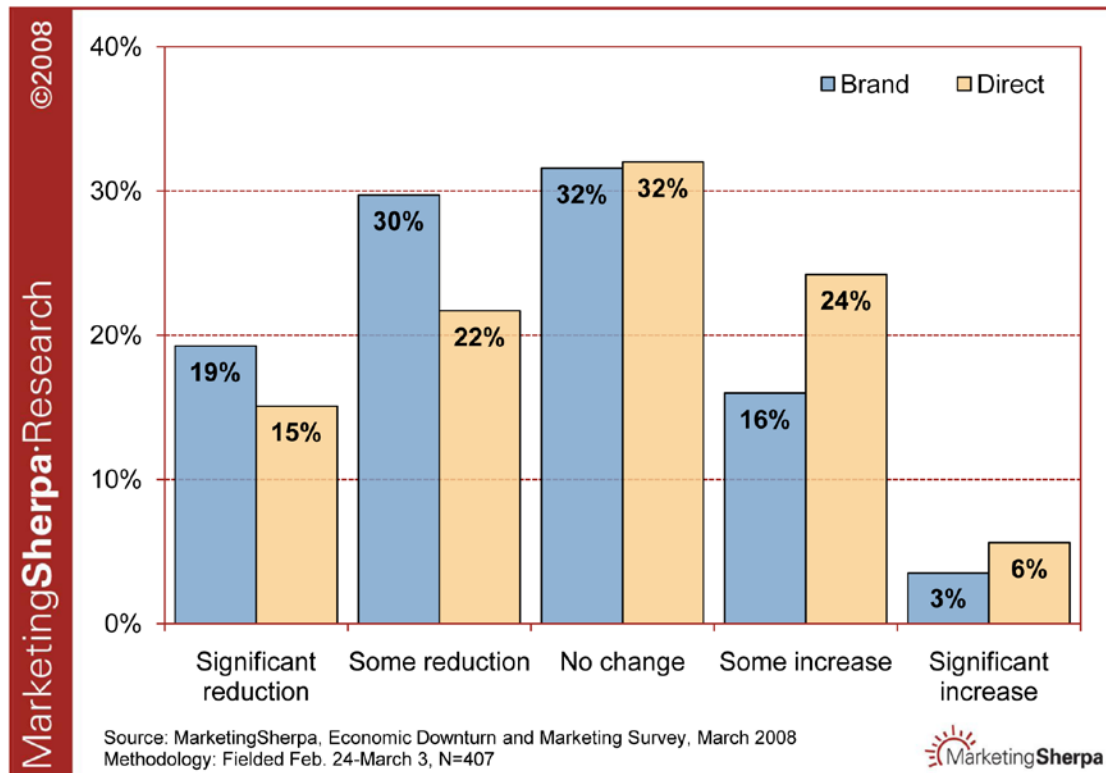
O’Connor also says that marketers should rethink their spending on agencies and on creative, especially if they could reallocate that money to getting their message out there. “In a tight environment you need current results, not long-term results.”

Insight #2. Small Firms ‘Cautiously’ Grow Budgets

More small companies are increasing their marketing budgets. About 34% of marketers at small companies compared to 25% of medium-sized companies and 21% of large companies reported increases or expected increases.

This disparity could be because smaller companies are still growing and need to grow marketing to gain market share. Many mid-sized companies are in growth mode as well. Executives at Indicative Software, for example, are increasing the medium-sized IT management software company’s marketing budget this year because “we’re an emerging growth company,” says Angela Tucci, VP Marketing.

But, even with the increase, Tucci’s department is spending a little more cautiously. “We’re going to dribble a little more than going for the big bang.”

Chart 2: Effect of Downturn on Marketing Tactics – Brand vs. Direct Marketing

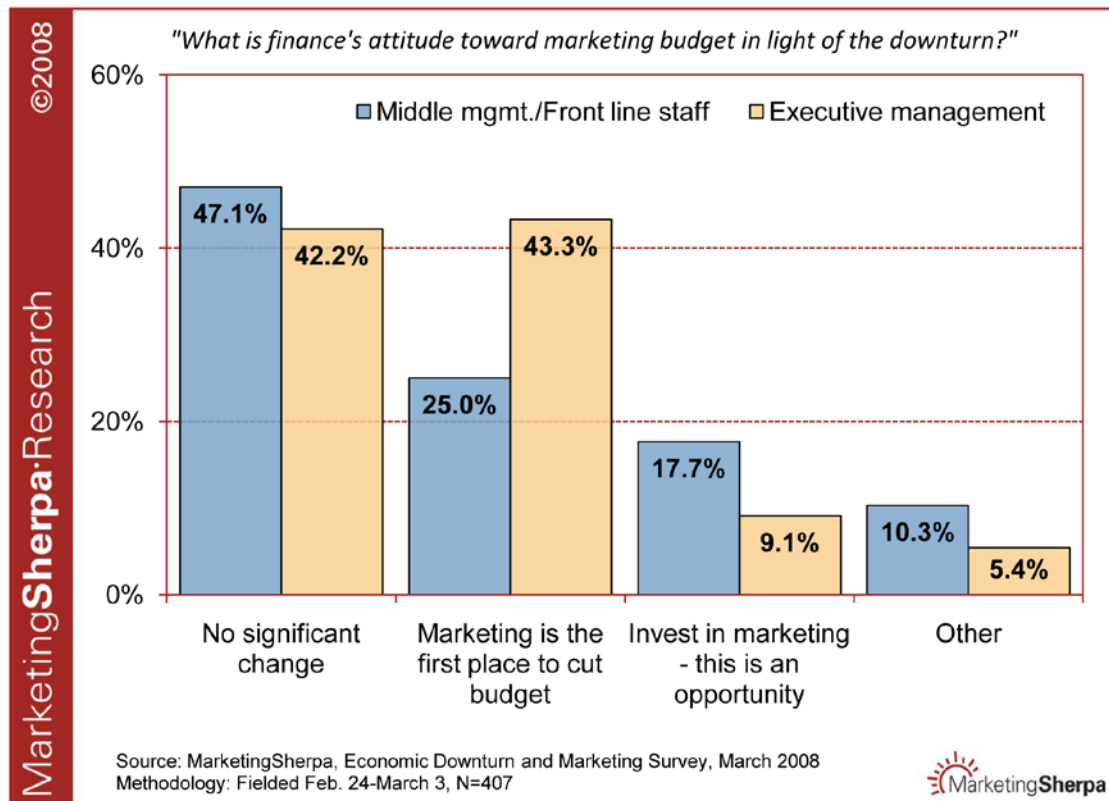
Insight #3. Marketers Return to Direct Marketing

30% of survey respondents said they are increasing direct marketing investments this year in response to economic conditions. Only 19% are increasing brand investments.

Direct marketing is more measurable and trackable in terms of ROI. It also aims to get the company's name, brand and message in front of as many eyes as possible. Marketers are putting more money into direct marketing because "they're getting smarter," says David Sable, Vice Chairman and CEO, Wunderman, a large consumer-focused marketing agency.

More and more recognize that they don't need to separate branding and direct marketing budgets because they can acquire and brand at the same time, Sable says. Additionally, some of the increase in direct marketing spend could be coming from branding budgets.

Marketers are cutting their spending on branding (49%) at a higher rate than on direct marketing (37%).

Chart 3: CFOs' Attitudes Toward Budgets During Economic Slowdown

Insight #4. Some in Finance Department Eye an Opportunity

It seems as though most CFOs are heeding experts' top advice for marketing in a downturn: don't panic, now is NOT the time to cut back on marketing. More than half of executive management respondents, 51.3%, said their attitude toward marketing budgets was either, "no change" or "invest."

One survey respondent wrote: "Those organizations that cut back on their marketing budgets in tough economic times are hurting themselves." Another wrote, "If feasible, increase marketing spend to gain a larger voice in your marketplace as your competitors cut back."

Still, a large group of CFOs, 43.3%, said the first place to cut in a downturn is marketing. Most middle managers, about 65%, prefer no change. Only about 25% of middle managers agreed that marketing is the first place to cut.

But if your CFO says, "Cut it!," here's a tip for justifying your spend.

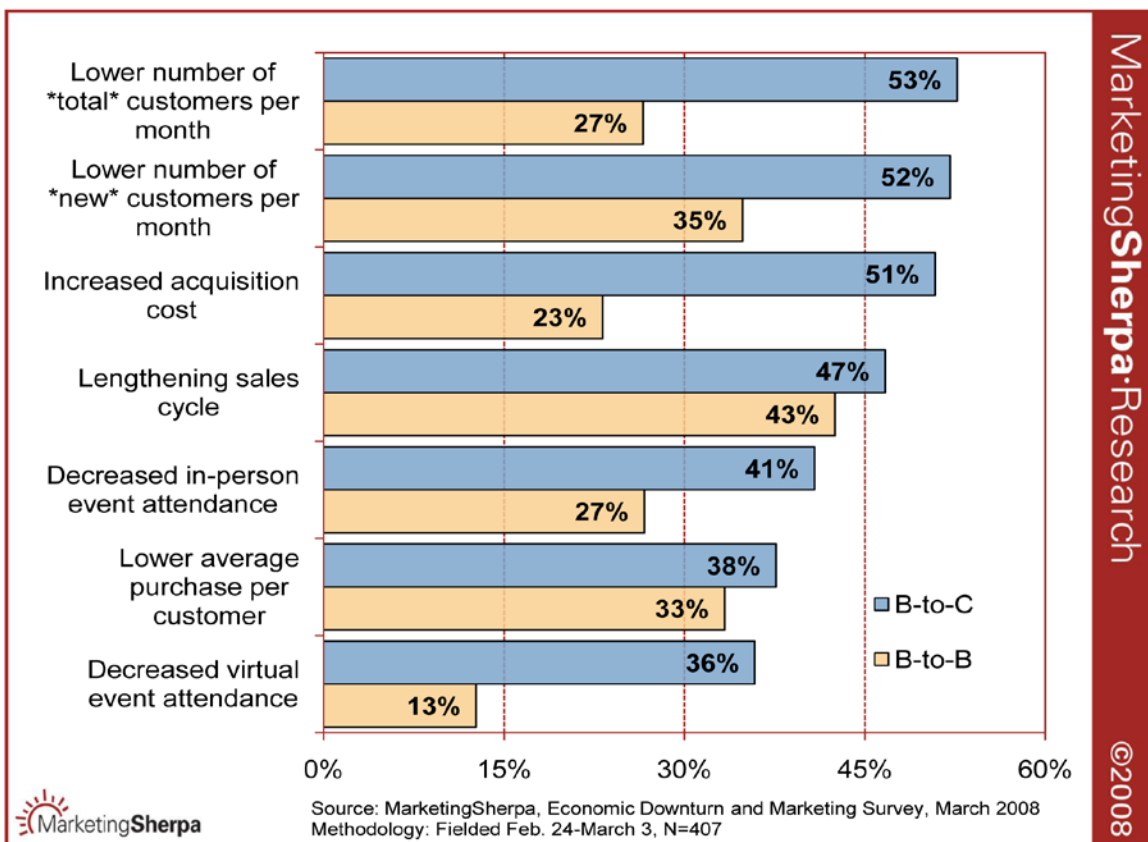
Tip: Let numbers do the fighting for you

"It's a real simple conversation with the CFO about whether to maintain current spending or increase spending if you have bulletproof numbers on the revenues and ROIs of marketing programs," O'Connor says.

He's talking about real data that shows, for example, not just how many clickthroughs you got on that banner ad campaign but how much actual revenue was generated for the company as a result. "If you can't prove the results you're going to deliver then you're at risk of having your budget cut because your spend can be seen as discretionary."

Takeaway: If you don't have a way to measure the ROI from marketing campaigns and programs, now would be the time to invest.

Chart 4: Effect of Downturn – B-to-B vs. B-to-C



Insight #5. Consumer Marketers Feel Effects More Than Others

Economic factors are already hitting the business-to-consumer realm much more than the business-to-business sector. More than 50% of B-to-C responders reported that they are seeing lower numbers of total and new customers per month, and the cost of acquisition increasing.

This isn't surprising, considering that the B-to-C sector, namely retail and financial services, are usually the first to get hit when a downturn occurs. Consumers are less likely to spend on items that aren't a necessity.

Tip: Align messaging with pain points

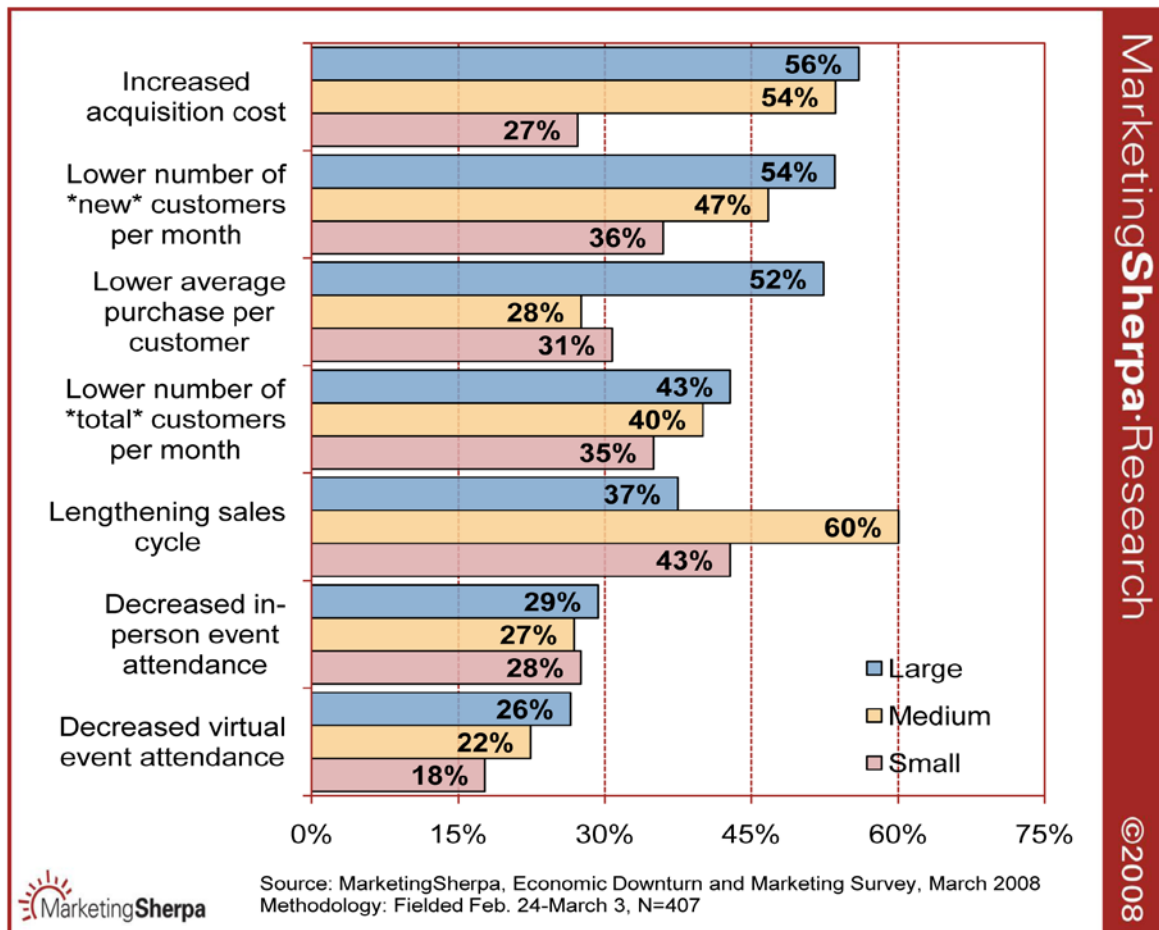
- Fine-tune messaging to emphasize value, cost savings
- Rework website content to better communicate value
- Be specific about what clients can expect for their investment
- Emphasize free trials, special discounts
- Emphasize customer testimonials centered on increased revenue

Tip: Don't forget about your customers

Even when consumers are spending less, keep in contact with them. Make sure they know you haven't forgotten them. Keep sending them direct mail and emails. Keep advertising.

If you have a retail store, for example, hold a private sales event for best customers, says Wunderman's Sable. Remember that it's more cost-effective to market to existing customers than it is to get new ones, especially in a downturn.

"Even if they're not buying today, it doesn't mean they won't buy tomorrow," he says.

Chart 5: Effect of Downturn by Company Size

Insight #6. Sales Cycles Are Lengthening

A sizable number of medium-sized companies, 60%, are seeing increasing sales cycles. Even small companies are noticing this more than other measures.

Additionally, a decent number of B-to-B and B-to-C marketers, 47% and 43%, reported a longer sales cycles (see chart #4). B-to-B marketers, in particular, are observing a lengthening sales cycle more than any other measure.

Tip: If you can increase the volume going into your pipeline now, do it.

A lengthening sales cycle is one of the first things to happen in the event of a downturn, says Scott Gillum, Sr. VP Financial Services, MarketBridge, a mid-sized marketing agency for several Fortune 500 companies.

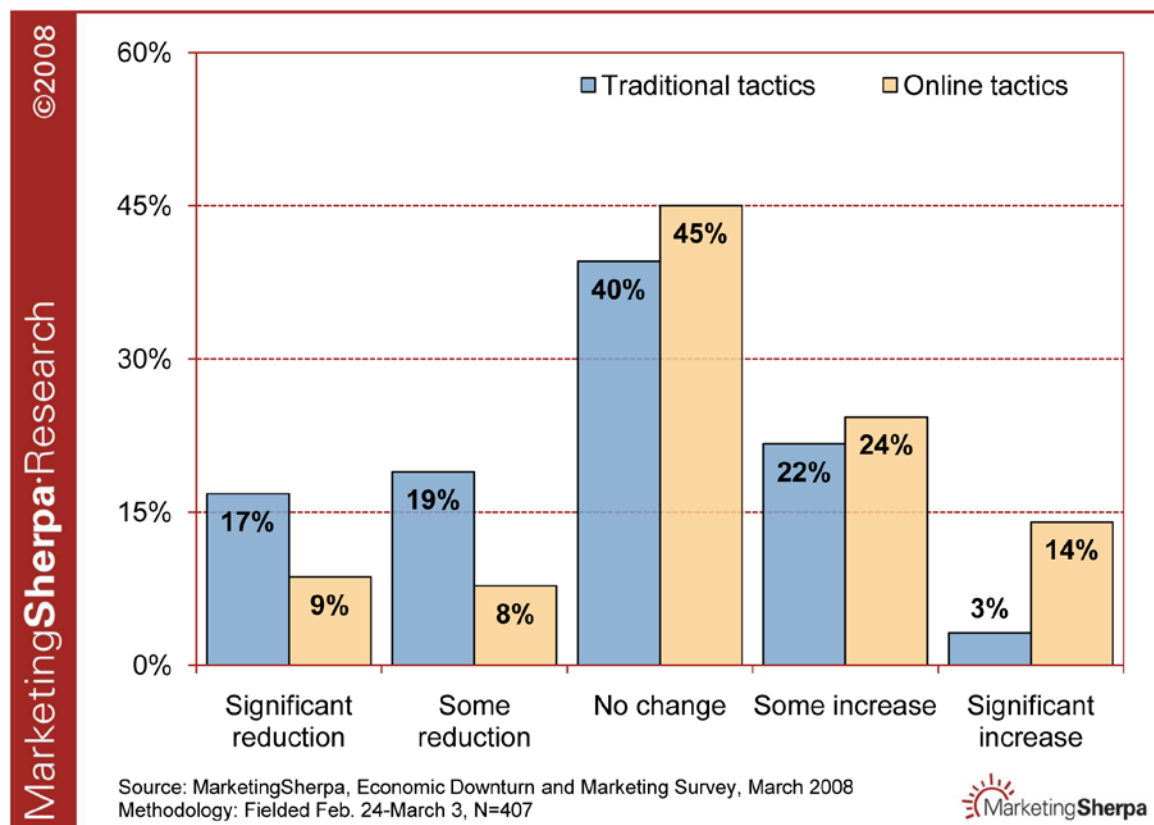
To combat that lengthening, “marketers need to have a very good view of their pipeline and the historical performance of their pipeline,” he says. “If you know you needed 10 deals to make your revenue target last year, you’re going to want to have at least 20 opportunities identified.”

Tip: Test, test, test

NetSuite has used multivariate testing tools to improve form conversion and Web page conversion, O’Connor says. It involves real-time A/B split tests for different headlines, graphics and copy, often performed simultaneously.

“We’ve known that to be a good way to improve our results without spending more money,” he says.

Chart 6: Effect of Downturn on Marketing Tactics – Traditional vs. Online



Insight #7. Marketers Boost Online Spending

It's pretty clear that marketers are investing more in online tactics than in traditional methods. Although most respondents aren't changing budgets for either, 38% are increasing online investment while 36% are decreasing investment in traditional tactics. Only 17% of respondents are decreasing spend for online tactics while 25% are increasing investment in traditional tactics.

Marketers could be investing more online because it's less expensive and easier to measure ROI than it is for traditional tactics.

"We definitely reallocated spend over the years, including post-9/11 and post-dot-com bust, to spending our money on what generated the highest ROI," O'Connor says. "We used to do more print advertising. We used to do a lot of events and trade shows."

But during the last recession, NetSuite shifted its spend toward trackable online tactics, including paid search, natural search and email marketing.

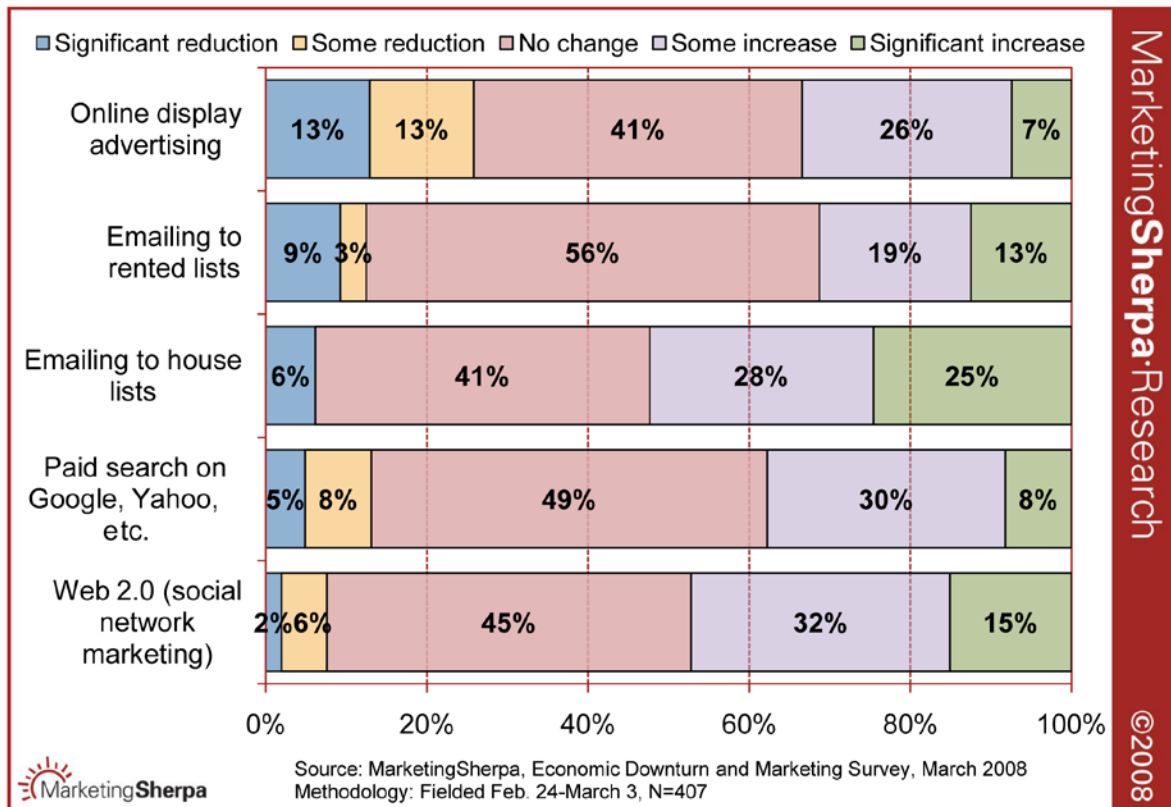
Attendance to online and in-person events also remains strong. Fewer than a third of respondents from small, medium and large companies are experiencing a decrease in attendance to virtual or in-person events (see chart #5). That's good news for marketers getting successful conversion rates from online events, such as webinars.

Tip: Invest more in online events

Indeed, online events will experience higher attendance levels than in-person events during a downturn, says Gillum. Attending an online event costs little more than the time of the person attending. Sending employees to an event could require sizable transportation, hotel and food costs.

Chart #7, which breaks down tactic by tactic how economic conditions are affecting online spending decisions, suggests that most marketers aren't changing their budgets for things like online display ads, email marketing to rented lists and paid search. In fact, more marketers are increasing budgets for these tactics than decreasing them. (For more on event marketing, see Insight #10.)

The three tactics experiencing the greatest cuts in spending are the most expensive of the group. Spending for online display ads is shrinking by 26%; paid search, 13%; email to rented lists, 12%.

Chart 7: Effect of Downturn on Online Tactics

Insight #8. Emails to House List and Web 2.0 See Biggest Lift

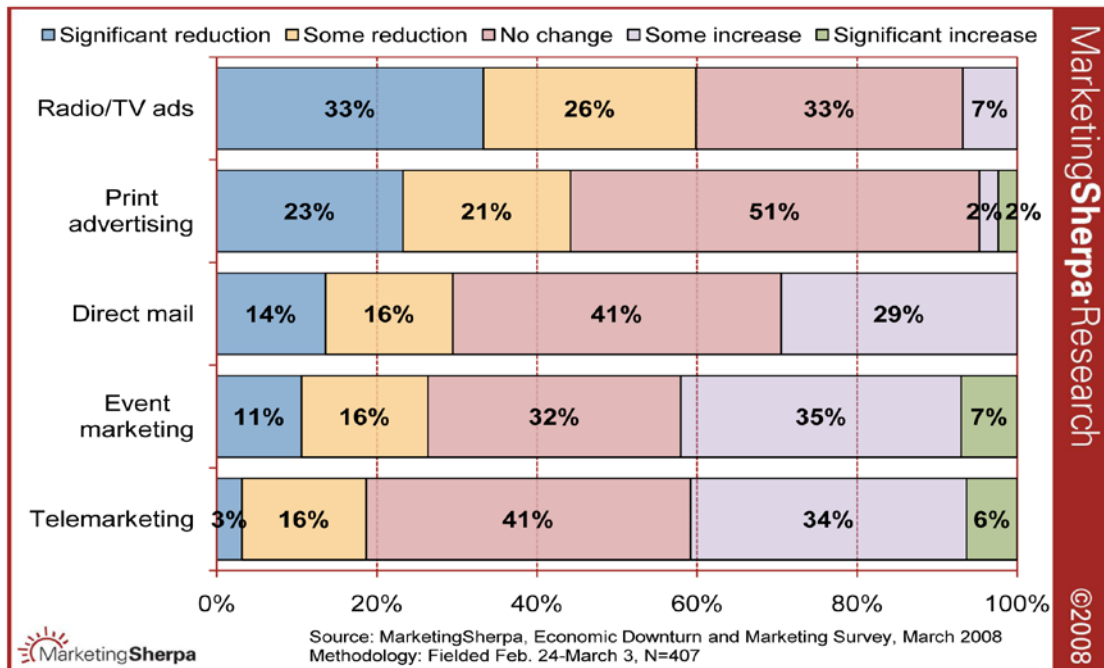
More than half (53%) of respondents are investing more in email marketing to house lists. Only 6% are spending less on this tactic. Likewise, 47% are increasing spend on Web 2.0 strategies; only 8% are decreasing spend.

The low costs associated with these two tactics are probably one reason. Lisa Mathisen, Owner, Realm Dekor, a small online home décor/gift store, is quite happy with email. "It costs maybe 3 cents per email," she says. "It's very, very cost effective."

Tip: Build your email newsletter subscriber list by offering incentives

- Discounts
- Free shipping
- Free gift wrap

Web 2.0 tactics could be seeing an increase because most cost little more than the cost of time to implement and upkeep. It doesn't cost anything else for Mathisen to post daily updates on her company's blog and to link to bloggers who might post comments about her products, something that improves her company's natural search ranking.

Chart 8: Effect of Downturn on Traditional Tactics

Insight #9. TV and Radio Ads Get Largest Cut

Marketers are spending less on radio/TV ads, which confirms the notion that they are investing less on traditional, branding types of marketing tactics. TV and radio are also notoriously expensive; therefore, they are a natural first category to cut.

Only 7% of respondents are increasing investment in this area: 33% are not changing investment while 59% are decreasing it.

Print advertising is also experiencing a decrease – 44% of respondents report some or significant cuts in spending. Only 4% are increasing their investment in print.

Insight #10. Direct Mail, Telemarketing and Event Marketing Increase

As mentioned in Insight #3, marketers will rely on direct marketing tactics quite heavily this year. Event marketing is experiencing the greatest increase, with 42% of respondents reporting a hike. Telemarketing is next with 40%, and direct mail follows with 29%.

When the economy slows, marketers start feeling the pressure to invest more in tactics that show better ROI, such as direct mail and telemarketing, Gillum says. "Marketers are going after better measurement for their dollars."

Still, at least one-third of respondents in each category aren't changing their budgets at all. The highest constant by far is in print advertising (51 %).

Taking the Next Steps

Now that you know where marketers stand on issues like budget, tactics and effects of the downturn, find out what strategies they are implementing to counteract these effects.

Some marketers are rethinking their license agreements, for instance, and changing them from perpetual to term-based. Others are seeking out cost-per-acquisition payment models versus cost-per-thousand impression models for online ads. Another survey respondent says: "Use lower prices [plus] more and better "risk-free" offers (money back guarantee), longer trial periods, etc. In general, [it's] a good time to get a greater market share."

The second half of this special report offers practical information you can use to ride out an economic downturn. And plenty of strategies you can implement that can land you above your competitors when the economy strengthens again.

Survey Methodology

This MarketingSherpa survey was responded to by 407 marketers:

- 36% from the professional service sector
- 25% from consumer products
- 16% from consumer services
- 15% business-to-business
- 8% other

Of the respondents:

- 64% work at companies with fewer than 50 employees
- 25% work at companies with 50 to 1,000 employees
- 11% work at companies with more than 1,000 employees
- 41.52% are executive management
- 23.47% are middle management
- 16.61% are executive directors
- 13% are execution staff
- 6% are other

81% of respondents are from the US and Canada, with the rest spread evenly among the UK, Ireland, Europe, Asia and 'Elsewhere.'

Purchase order power of respondents:

- Not sure/Doesn't apply, 27.65%
- Under \$50,000, 25.26%
- \$50,000 to \$99,000, 12.63%
- \$100,000 to \$499,999, 19.11%
- \$500,000 to \$999,999, 5.80%
- \$1 million or more, 9.56%

Resources

Past MarketingSherpa articles

Recession-Beating Marketing - Glories of Opt-in Checkbox Barterers:

<http://www.marketingsherpa.com/article.html?id=30388>

Recession as Marketing Bonanza - a Contrarian (Yet Realistic) View:

<http://www.marketingsherpa.com/article.html?id=30344>

PR in a Recession - CEO Fantasies & Case Studies:

<http://www.marketingsherpa.com/article.html?id=30289>

How to Market Subscriptions During a Down Economy: 6 Strategies That Will Bring Double-Digit Growth:

<http://www.marketingsherpa.com/article.html?id=30284>

How iVillage Is Positioning Itself to Profit (As Soon as the Economy Gets a Little Better):

<http://www.marketingsherpa.com/article.html?id=23134>

Top 3 Low-Cost, High-Impact B-to-B Online Marketing Tactics for the New Economy:

<http://www.marketingsherpa.com/article.html?id=22829>

Two Tactics Hobart Uses to Defy the Recession: 400 Customer Testimonials and 0% Financing:

<http://www.marketingsherpa.com/article.html?id=23124>

Oakwood Uses Advanced Web & Email Tactics to Survive the Recession on a Smaller Marketing Budget:

<http://www.marketingsherpa.com/article.html?id=23105>

How Bankrate Kept Online Ad Revenues Steady Despite the Economy:

<http://www.marketingsherpa.com/article.html?id=23134>

Other resources

MediaPost's Email Insider – Your Email Marketing Recession Survival Guide:

http://blogs.mediapost.com/email_insider/?p=578

TechnoBuzz – Preparing to Market Technology in an Economic Downturn:

<http://technobuzz.tatummarketing.com/?p=119>

RoughStock – Recession-Proof Marketing:

<http://www.roughstockstudios.com/RoughstockBlog/2008/01/recession-proof-marketing.html>

Marketing Productivity – Marketing into a Downturn:

<http://blog.jimnovo.com/2007/12/28/marketing-into-downturn/>

Useful links related to this article

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- Web Optimization Summit '08 – September 2008 – Orlando , FL
- B-2-B East Coast 2008 Summit – October 5-7, 2008 – Boston , MA
- B-2-B West Coast 2008 Summit – October 26-28, 2008 – San Francisco , CA
- B-to-C Demand Generation 2008 Summit – November 2008 – New York City, NY
- Email Summit '09 – March 15-17, 2009 – Miami , FL

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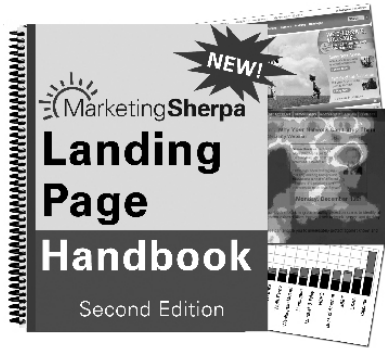
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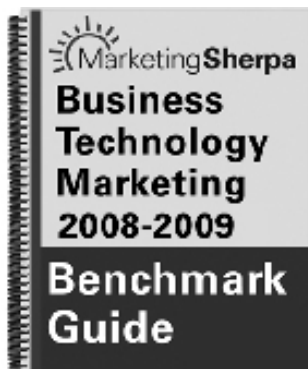
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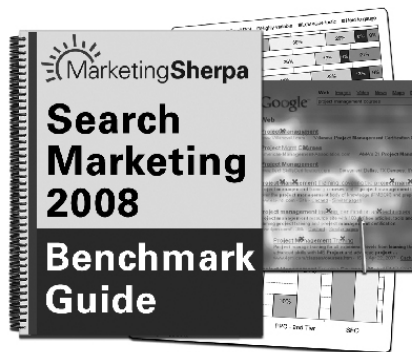
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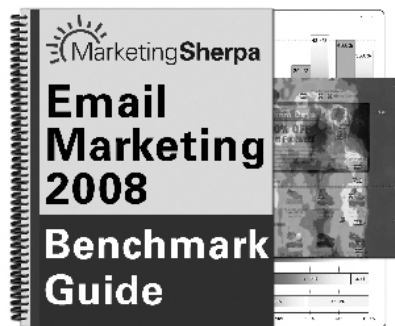
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MarketingSherpa Search Marketing Benchmark Guide 2008

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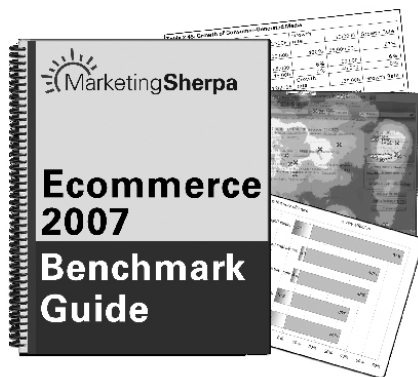
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