



Television Bureau of Advertising

Advertising in an Economic Downturn

2008



Economic Silver Lining

A weak dollar, financial rescues, rising fuel prices and falling home values have led to cautious consumer spending in today's uncertain economy.

But can some of the worst times for the economy mean some of the best times for advertisers?

Can an Economic Downturn Have a Silver Lining for Marketers?



What Defines a Recession?

A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales.
... most recessions are brief and they have been rare in recent decades.

-National Bureau of Economic Research

In March 2008 Martin Feldstein, President of NBER,
predicted that the U.S. is in a recession.

-Boston Globe March 15, 2008 speech to financial sector

Consumer Confidence

Economic unrest has led to cautious consumer spending, but it doesn't mean consumers STOP spending. They become more choosy.

Consumers look for brands they know. They shop the competition for the best value.

Consumers Don't Stop Buying. They Become More Choosy.



Maintaining Advertiser Share of Voice

Counter-intuitive as it may sound, marketers who maintain or increase advertising budgets during a recession realize growth in sales and long-term market share over less aggressive competitors.

The proof is in the history of past recessions.

Marketers Who Maintain Advertising Budgets Gain Market Share.



Top 3 Reasons To Advertise

Top 3 Reasons to Advertising in a Slow Economy:

1. No better time to increase share of voice and top-of-mind awareness as less aggressive advertisers leave the door open to consumer brand switching.
2. Maintaining market share is less expensive than trying to rebuild it later.
3. Studies show that increased spending in a slow economy leads to long-term profitability.

Evidence based on studies by:

McGraw Hill 1980-85 US Recession / American Business Press 1974-75 / NW Ayer Inc Advertising During a Recession
as reported by All Business D&B Sept 1991/ Penton Research 1990-91 / Meldrum & Fewsmith

Increased Spending Leads to Long-Term Profitability.



The Proof is Historical

“ I have yet to see any study that proves timidity is the route to success.

Studies consistently have proven that companies that have the intelligence and guts to maintain or increase their overall marketing and advertising efforts in times of business downturns will get the edge on their timid competitors.”

-J. Welsey former Senior VP, Meldrum & Fewsmith

(as noted by The Clark Company Recession Marketing Strategies 1991)

Increased Spending Leads to Long-Term Profitability.



The Proof is Historical

Previous Recessions Spawned Revenue Blockbusters

- In October 2001 after 9/11, Steve Jobs unveiled the first iPod.
- During the 1990-91 recession Wal-Mart opened stores across the Midwest, making it the fastest-growing period in its history and posted double-digit profits.
- During the 1980-82 recession, Ted Turner founded CNN in 1980 and MTV launched a year later.
- In 1981, American Airlines and Delta launched miles-based loyalty programs.

Increased Spending Leads to Long-Term Profitability.



The Proof is Historical

Brands who advertised converted competitors customers:

- Kellogg took market share from C.W. Post during the Great Depression
- Sears, Roebuck & Co. took share from then-giant Montgomery Ward during WW II
- Pizza Hut and Taco Bell stole share from McDonald's during the 1990-91 dip.

Maintaining Advertising Can Grow Customer Base.



Consumer Spending

Consumer spending increased during post-war recessions:

Recession	Peak	Bottom	% Change
1948-49	\$176.0	\$178.0	+1.14
1953-54	233.6	238.2	+1.97
1957-58	287.7	291.9	+1.46
1960-61	331.6	334.4	+0.84
1969-70	614.3	653.0	+6.30
1974-75	861.6	967.4	+12.28
1980	1,682.2	1,749.3	+3.99
1981-82	1,940.9	2,117.0	+9.07
1990-91	3,785.2	3,827.0	+1.10

Source: US Department of Commerce Personal Consumption Expenditures

Consumer Recession Spending Has Increased



Historical Employment Impact

Three out of the last five recessions showed employment drops of less than 1%

<u>Recession</u>	<u>Change in Employment</u>
The Great Depression	-18%
1948-49	-2.0%
1953-54	-2.4%
1957-58	-2.1%
1960-61	-0.6%
1969-70	-0.3%
1974-75	-1.6%
1980	n/a
1981-82	0.0%
1990-91	-0.9%

Source: Bureau of Labor Statistics

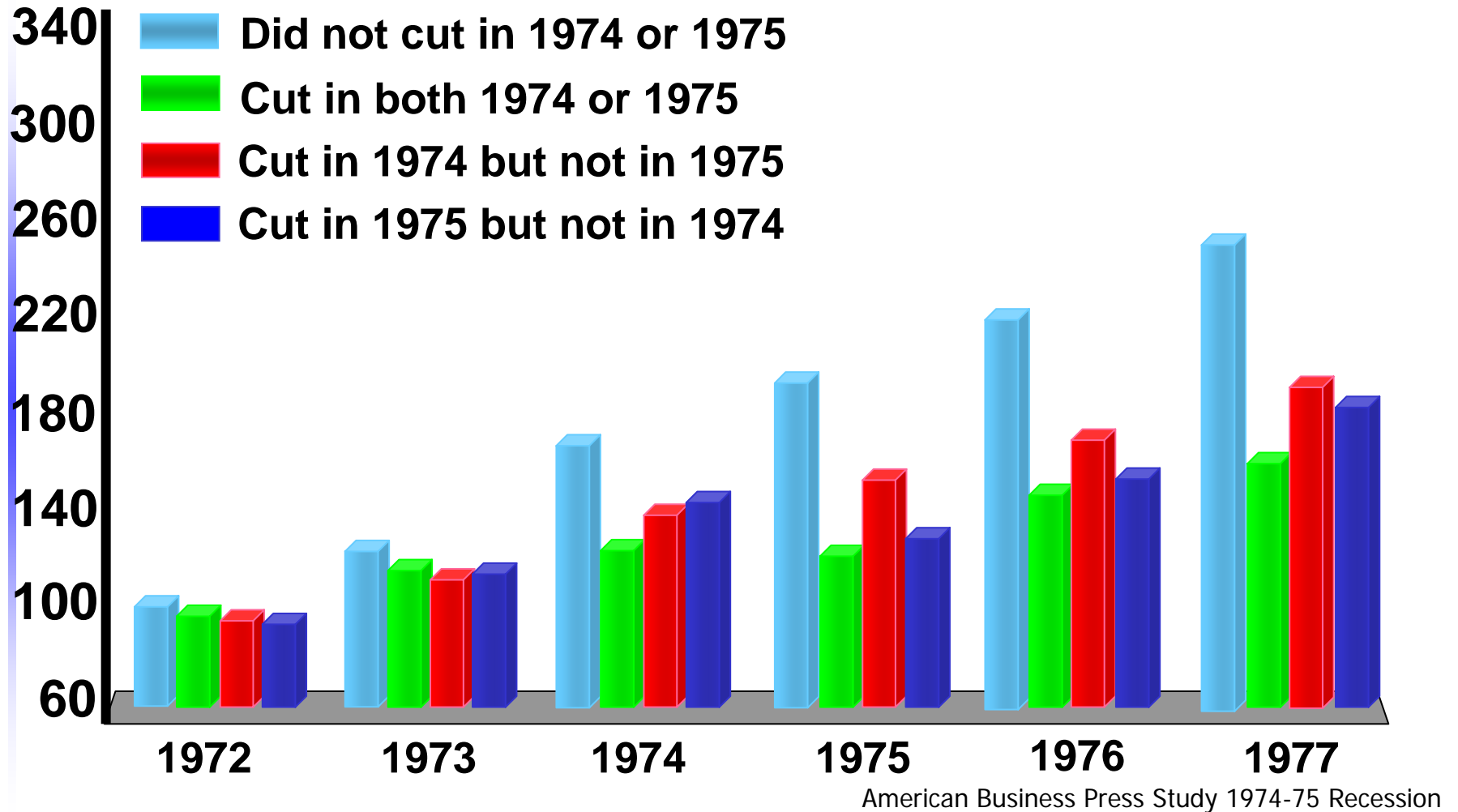
Recent Recession Employment Drops Have Been Minimal

American Business Press Study

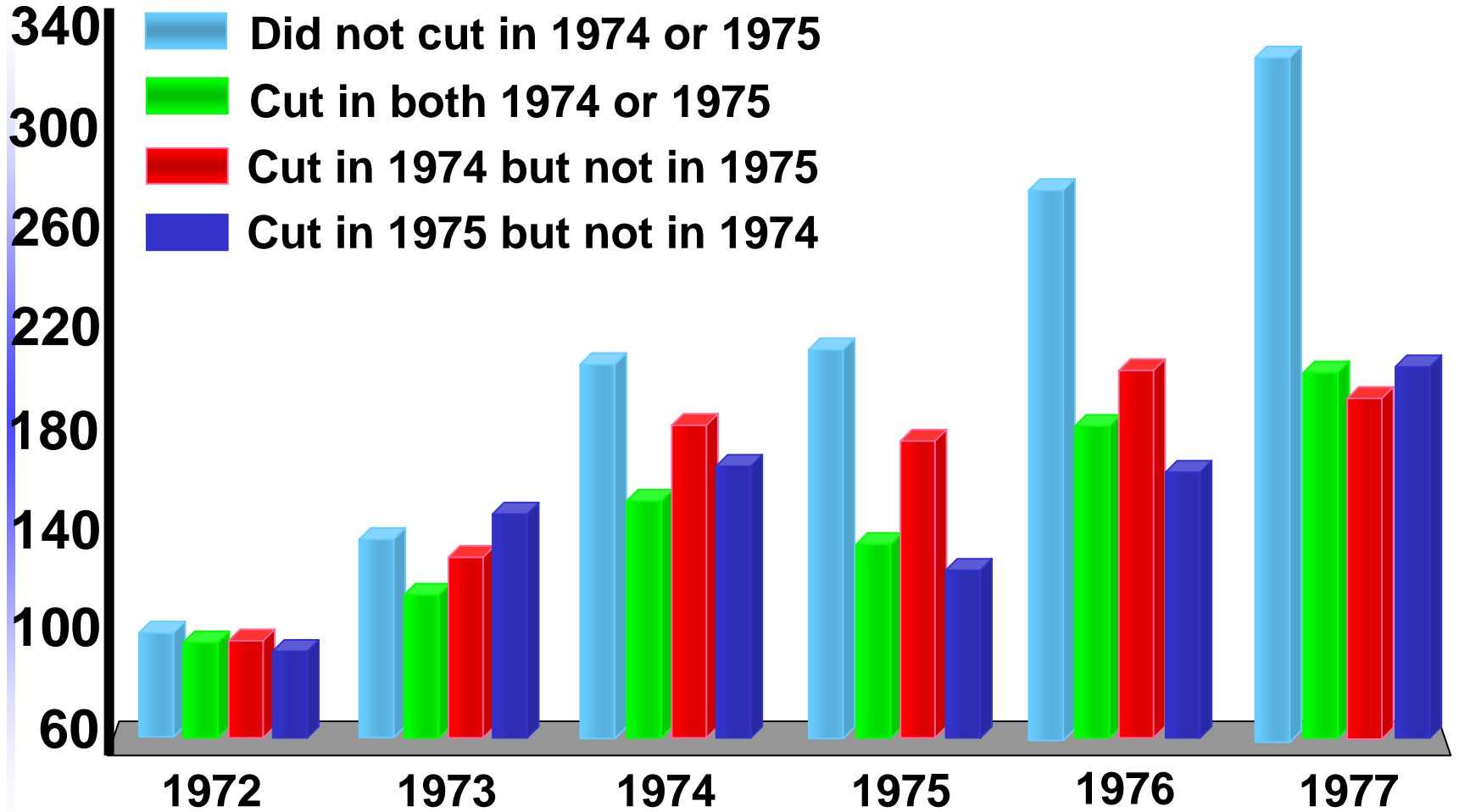
The American Business Press analyzed the 1974-75 recession and found:

Companies that didn't cut advertising during the 1974-75 recession experienced higher sales and net income during those years and the two years following than those which cut in either or both recession years.

Consistent Advertising Produced Long-Term Profits



Net Income



Cutting Advertising Means Negative Profit

American Press Concluded:

- Cutting advertising in times of economic downturns can result in both immediate and long-term negative effects on sales and profit levels.
- Maintaining or increasing advertising budgets during recessions may be necessary to protect market position from competitors who consider advertising integral to the total marketing mix.

Maintaining or Increasing Ad Budgets Are Necessary



McGraw-Hill analyzed the performance of 600 industrial companies following the 1981-82 recession

It found that business-to-business firms that maintained or increased their advertising expenditures averaged higher sales growth, both during the recession and for the following three years.

Recession Advertising = Recovery Profits

- Growth at companies who cut back on advertising during the recession stalled out during the recovery.
- Recession advertisers Kraft, Jiff, Bud Lite, Coors Lite, Pizza Hut and Taco Bell grew 17% - 70% from 1989-1991.
- Jell-O, Crisco, Hellmann's, Green Giant, McDonald's and Doritos cut their marketing budgets and dropped sales 26% - 40% post recession from 1989 - 1991.

McGraw-Hill Study 1981-82 Recession

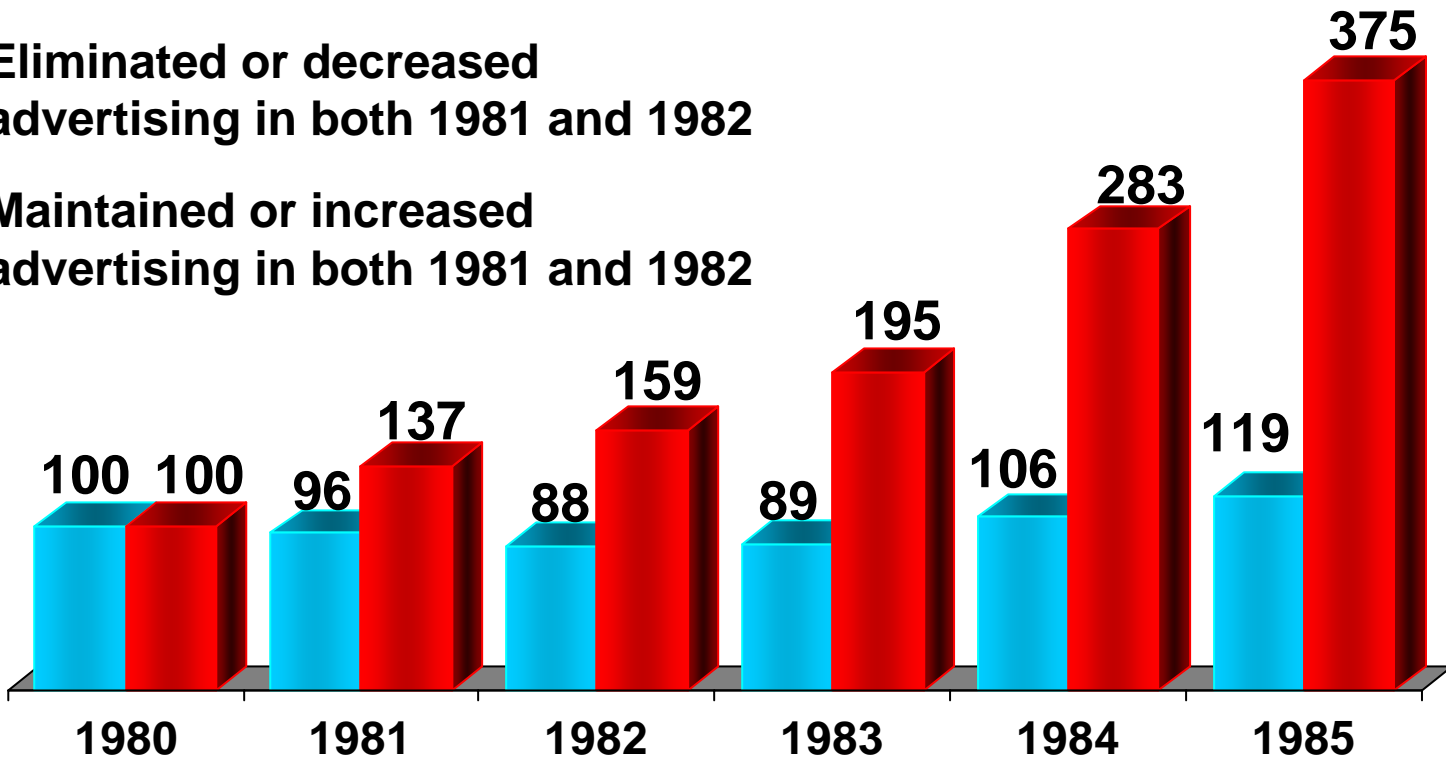
Maintaining Advertising Can Grow Customer Base.



Companies Who Advertised Through the Recession Saw Sales Growth

Sales indices 1980-1985
(1980=100)

- Eliminated or decreased advertising in both 1981 and 1982
- Maintained or increased advertising in both 1981 and 1982



McGraw-Hill Study 1981-82 Recession

Consistent Advertising Created Steady Sales Growth



How Long Will The Downturn Last?

In March 2008 David Wyss, Chief Economist for Standard & Poor's, had the following comments about the current economy:

"The current recession is expected to be short and mild. If financial markets remain locked up and home prices continue to fall, it could turn into a "W"-shaped recession. But it could be better if productivity stays strong."

The Recession Could be Better if Productivity Stays Strong



How Long Will The Downturn Last?

History shows a recession lasts just under a year:

<u>Peak</u>	<u>Bottom</u>	<u>Number of Months</u>
Nov. 1948	Oct. 1949	11
July 1953	Aug. 1954	13
July 1957	April 1958	9
May 1960	Feb. 1961	9
Nov. 1969	Nov. 1970	12
Nov. 1973	March 1975	17
Jan. 1980	July 1980	7
July 1981	Nov. 1982	16
July 1990	March 1991	8
Average		11

Source: National Bureau of Economic Research

The Average Recession Lasts Under One Year

Top Ad Categories Are Quick To Recover

Automotive TV advertising has historically been one of the first categories to recover from a recession:

Local TV Category Ad Spend Changes 1 st Q. 1992 vs. 1st Q. 1991	
Analysis of 1990 – 1991 Recession	
Automotive Dealers	+31%
Department Stores	+29%
Discount Stores	+24%
Health / Reducing Salons	+17%
Restaurants	+12%
Amusements / Entertainment	+5%
Furniture	-1%
Movies	-3%
Medical / Dental	-7%
Supermarkets	-7%
Banks / Savings & Loans	-14%
Total Local	+8%

Source: Robert Coen, McCann Erickson June 1992



Top Ad Categories Are Quick To Recover

In the opening months of 2002 following the 2000-2001 recession; Automotive, Cosmetics, Beverage and Restaurant led Spot TV ad spend increases:

Category	TV Nat'I Networks*	Spot TV	Magazines	Totals
Automobiles	+6	+8	-7	+5
Food	-4	-25	+9	-5
Movies	+23	-5	-23	+11
Toiletries/Cosmetics	+1	+12	-6	-1
Drugs/Remedies	-12	-20	+3	-9
Beverages/Snacks	+6	+6	+11	+7
Restaurant	+14	+3	+105	+10

* ABC, CBS, FOX, NBC, Pax, UPN, WB, Cable TV Networks & National TV Syndication

Source: Robert Coen, McCann Erickson July 2002



Corporate Advertising Strategies in 2008

Advertisers are taking advantage of the federal economic stimulus tax rebates:

- Sears Holdings ads offer discounts to customers who redeem their rebate checks at Sears, Kmart or Lands End stores.
- Home Depot ads urge rebate holders to “buy green” at its stores.
- Sony ads tell customers to “Turn your 1040 into a Sony 1080p”

Source: Spots n dots April 18, 2008

Advertising During the 2008 Downturn is Competitive



TVB's Recommended Strategy

- Protect your market share with your most effective and efficient dollars...television advertising.
- Cut weight levels if necessary, but maintain or add weeks...keep your message out there.
- Take advantage of lower-priced programs and periods.
- Target your best prospects...
Local TV focuses geography to deliver results.

Protect Your Most Effective Advertising Dollars





Television Bureau of Advertising

Thank You

