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BLOG

Invest in your brand if you want to survive the next recession

GROWTH OPINION

STEPHEN ALLAN, WORLDWIDE CHAIRMAN & CEO, MEDIACOM   29 APR 2019

Stephen Allan explains why cutting budgets is counterproductive to growth

“Will there be another financial crisis like 2008? Yes. It’s hard to say when but this is a certainty”. While Bill Gates might not have expected his words uttered during a Reddit AMA last March to make headline news, fast forward almost 12 months and they are looking eerily prophetic.

We don’t need to cast our gaze too wide to see the global instabilities that are causing enormous unease among business leaders. Brexit, USA trade sanctions, unpredictable markets across South America and China’s economic slowdown are the warning signs of only more volatility to come. When faced with economic uncertainty – or worse yet, a financial disaster – business leaders tend to react in the same way. They fix their eyes on the bottom line and they slash it; they find the areas in the business where they can cut costs, and they brutally trim the fat. It's a survival tactic and for good reason. A company that is operating on a shoestring is better than having no company at all. Yet this is almost always a defensive strategy that aims to keep the business here tomorrow, as though looking further into the future is futile.

This 'batten down the hatches' approach is counter-productive, especially when certain areas of the business are concerned. Time and time again, I've watched as CMOs, CEOs and CFOs of multi-national companies pull budget and resources from the marketing function. As a division that is dedicated to creating growth and building new pipelines of profits, many assume it is one that can afford to be cut back. The opposite couldn't be more true.

It was Warren Buffet who said that it is "only when the tide goes out do we see who's been swimming naked". In my opinion and speaking from over 35 years' experience in the media industry, it is the brands that have failed to maintain their presence in the market, engaging consumers and solidifying connections with their audiences, that will be the ones left exposed. For the organisations that are successful post-recession, most of them will have focused on three key areas: operational efficiency gains (aka how to do the work smarter); market development (aka knowing who to connect with and how to connect to them); and asset development (aka understanding consumer behaviours before and during the recession). Marketing is involved in all of them.

When facing a recession, there will inevitably be choices to make about where to direct expenditure, and those choices can have vastly different outcomes. The strategy we adopt in times of economic turmoil can spell business success or financial disaster. It's interesting to note exactly what strategies will lead to the right outcome. In 2010, the Harvard Business School and the Kellogg School of Management came to the end of a two-year-long piece of research examining the performance of almost 5,000 companies before, during and after the 2008 recession. Of the thousands of companies, 17% went bankrupt, were acquired or went private. Of those that survived the economic downturn, 80% did not regain growth to pre-recession levels, while only 9% delivered growth. The most interesting conclusion from the study, however, is that the organisations that thrived post-recession weren’t the ones that turned to dramatic and deep cost-cutting.

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Take Lego for example. Buying toys is almost certainly a luxury during times of economic struggle, and you’d expect consumers to pull back on spending. Yet, the company saw profit growth of more than 63% following the global financial crisis; a record high of profitability. While Lego did place focus on reducing the bottom line, the reason behind their success was its expansion into the global market. As part of a marketing push, the toy giant looked to Asia and Europe to fuel growth, as the American market stagnated, and capitalised on these untapped regions to fuel sales.

The importance of bolstering, or at least maintaining, marketing expenditure during a recession is a glaring omission from many business strategies, even in the face of compelling evidence. Just ask Peter Field – an industry expert who has been researching marketing effectiveness for over a decade. His 2008 study found that cutting budget in a downturn may help to protect profits in the short term but, as a result, the brand would inevitably be weaker and much less profitable post-recession. In contrast, the brands that invested in marketing to gain a larger share of voice compared to their competitors were the ones that saw longer-term improvement in profitability.

The case for investing in advertising and marketing in the lead up to, during and after a recession has been made even more convincing in recent years, thanks to the drastic shifts we’ve experienced in the media sector. In the early days of the GFC in 2007, for a company that wanted to invest in advertising to solidify its consumer base and stabilise profits in reaction to a shaky market, the options were far less mature. While digital advertising was certainly on the rise in the mid-2000s, it was nowhere near the level of sophistication that we are benefitting from today.

Compared to ten years ago, brands can now understand on a far more granular level exactly who they are looking to advertise to, and what content is likely to inspire them to purchase. Rather than just buying double-page spreads in national newspapers or ad spots in primetime programming to capture attention, businesses can now add programmatic, targeted and addressable media to the mix and talk directly to individual consumers. While brands should never ignore the power of traditional media to gain share of voice, such precision targeting can drive conversions and, therefore, increase their share of market. The trick is finding the right balance between reach and precision.

It's important to understand that recessions are not forced upon us; they are created by the millions of decisions being made by business and political leaders the world over. So, when the next crisis knocks on our doors, we should be ready to make the decisions that will help our companies to weather the storm and come out stronger on the other side. This means not simply relying on cost-cutting but striding into disruption to find ways to solidify and build market presence.

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