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Marketing Strategies during Financial Crunch

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Abstract:
Recession over the times has always affected the business in one way or the other. The drowning financial economies of some of the robust countries have been proved to be a bolt from the blue to whole world. Businesses during the recession have seemed to be deteriorated into worst looking at the historical trends. Yet there are some silver linings who have flourished during this crunch by optimally implementing some healthy strategies for promoting their business during recession. This paper aims to discuss the strategies to make best use of opportunities available during recession which can turn the gloom into bloom. This paper is written with an objective to discuss the Marketing Strategies that corporates can adopt during turbulence of recession which can prove to be a cushion to save them from bolts of recession. Various strategies, keeping Ansoff's Matrix as base, are supported using the real life examples of corporates who swam across the ocean of recession without drowning experiences.

1. Introduction

There are number of factors that influence the appropriateness of marketing strategy to be adopted by a company. These may include overall objectives of the strategy, availability of resources to implement that strategy, level of demand, change in preferences of consumer, elasticity of demand, geographical factors and many more. While the basic objectives of marketing remains same, but the practice of marketing changes from situation to situation, especially during recession, when there is slump in economy, sharp fall in demand, slashed sales budgets, constraint is on limited resources to get maximum possible benefit within the limited scope.
Recession, in broader terms, means fall in GDP of country over a period of time, significant decline in economic activity, growing unemployment, slowing pace of industrial growth and production, slump in demand and many more incidental adverse conditions that an economy may face. Virtually recession brings in immense pressure on suppliers to reduce price, shrunk demand and squeezing of profit margins to the companies. Recession is both a threat and an opportunity. Worst scenario is when the marketer lowers the marketing budget while his competitor increases his budget. There have been so many brands that have perished this way. On the flip side of coin, recession can be a candid opportunity to deal competitors with a killer blow.

The following table shows the historical trends of recession till date

Date	Duration (Months)
Sept. 1902-Aug. 1904	23
May 1907-June 1908	13
Jan. 1910-Jan. 1912	24
Jan. 1913-Dec. 1914	23
Aug. 1918-March 1919	7
Jan. 1920-July 1921	18
May 1923-July 1924	14
Oct. 1926-Nov. 1927	13
Aug. 1929-March 1933	43
May 1937-June 1938	13
Feb. 1945-Oct. 1945	8
Nov. 1948-Oct. 1949	11
July 1953-May 1954	10
Aug. 1957-April 1958	8
April 1960-Feb. 1961	10
Dec. 1969-Nov. 1970	11

Nov. 1973-March 1975	16
Jan. 1980-July 1980	6
July 1981-Nov. 1982	16
July 1990-March 1991	8
March 2001-Nov. 2001	8
Dec 2007- June 2009	19

Table 1: [Source: National Bureau of Economic Research]

From 1901 till date we had 23 recession periods, which on an average lasted about for 8-16 months. It is all about the decisions during recessions that make a big difference in future growth or decline of the company.

This paper discusses the appropriate marketing strategies that companies adopt during the tough times of turbulence of recession. This paper considers the case studies of various companies that have strived to turnaround in odds by adopting the strategies that have prove to be wonders for the adverse times.

2. Research Methodology

This paper is based on secondary data collected through journals, magazines, newspapers, books etc. Various research papers have been reviewed to study the trends of marketing strategies followed by various companies around the world. Recessionary trend data has been taken from the published sources. A detailed review has been done on strategies adopted by various companies in order to turn adversity into advantage during recession. To explore how companies reacted towards changing business cycle trends, a brief history of some of the brands has been taken under study.

2.1. General Strategies followed during Recession

Companies typically react to recession in following ways

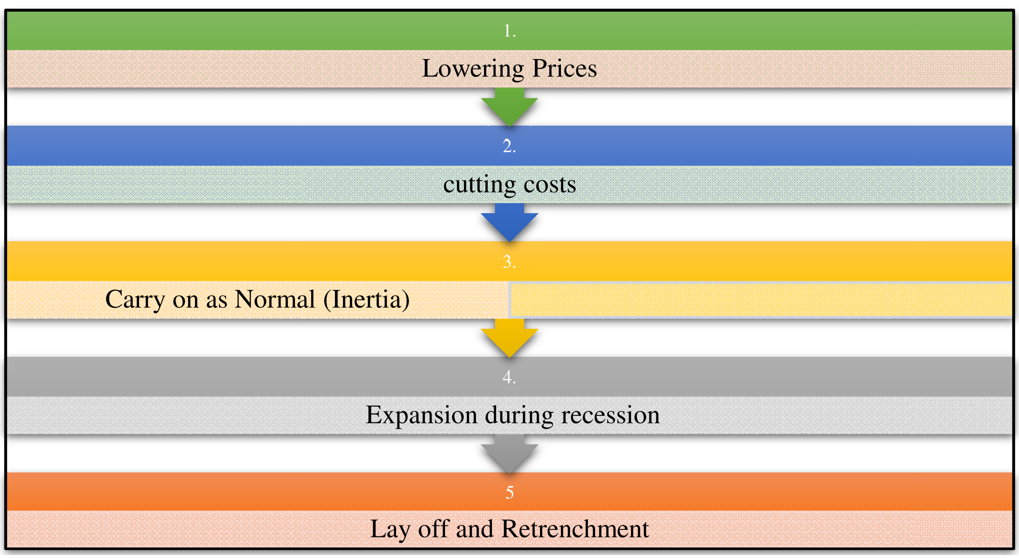

Figure 1

2.1.1. Lowering Prices

As markets are more price-driven in recession, slack in demand can lead to price wars. Thus, reducing the price is the most common reaction to recession as large numbers of suppliers chase little demand. Lowering prices is often a desperate attempt of sellers in order to grab a lion's share in declining market which fatally cuts the profit margin. It is not a suggested reaction for long term survival of the company.

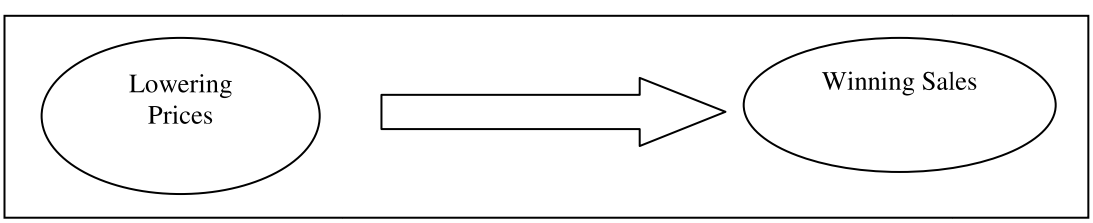

Figure 2

Wal-Mart used its low cost advantage to keep grocery prices low during U.S recession with its tagline "save money, live better" while the competitors struggled with poor profit margins.

2.1.2. Cutting Costs

Financial pressures force the companies to cut costs on administration and on investments like R&D, HR Training as well. During the downfall, business expenditures like marketing promotion, sales advertising are cut first because of the obvious fact that these activities do not show the immediate result. Cutting cost can lead to deterioration of product quality, delayed customer service and sub standardization of company practices. Cutting cost is not the solution to the downsizing trend of company's profit as it is important that customer's experience should live up to the commitment of the brand he is loyal to.

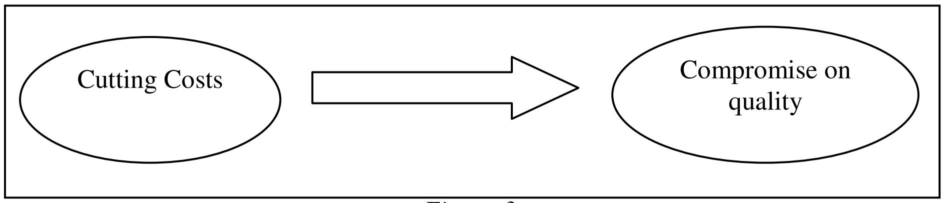

Figure 3

An excellent example of this is Sony, which announced a cost reduction target of $6.2 bn in 2008. The company planned to shut down various factories, fire employees and delay investments in new technologies. It cut its workforce by 11% and R&D expenditure by 12% and capital expenditure by 23%, helped the company to increase its profit margins

2.1.3. No Reaction

No reaction stage also called as Inertia is the stage where company behaves as inactive or ignorant to the downsizing trends that have come up in economy. It is passive to the external changes and continues to work as it is indifferent to the changes occurring. Such a reaction is also dangerous for sound health of company as such indifference in volatile market can force customers to switch to competitors who are offering the services at lower prices.

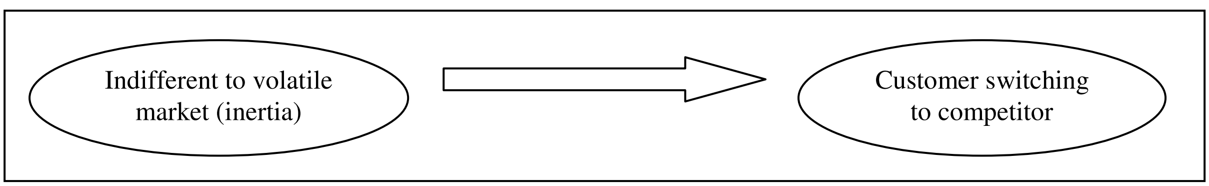

Figure 4

During the last recession, Mattel maintained a clear picture of its business needs. It reduced capacity, eliminated costs, and refocused manufacturing and management resources on its core brands: Barbie and Hot Wheels. It also forged a strategic alliance with Disney. By tending to its core, Mattel was able to grow despite the turbulence; in fact, it achieved double-digit annual growth in sales and income during the boom that followed.

2.1.4. Expansion during Recession

Gains or losses earned during recession tend to endure. Some companies making the best use of comparatively cheaper availability of resources, start expanding during recession.

One of the examples of the companies that expanded during recession was Hewlett-Packard. During the peak time of recession that followed dotcom bust in 2000, the company bought Compaq for $25billion and spent $200million on corporate branding. But these initiatives strained the organization and narrowed own its resource availability due to which, HP could not beat out the competitive edge of Dell and IBM in profit earning after the economy came out of recession

2.1.5. Lay Off and Retrenchment

Among the other common reactions, companies during recession often try to retrench the workforce to cut the salaries and wages expenditure.

General Motors is the excellent example for lay off. During recession of 2009, it cut out nearly 20% of its workforce (107307 employees), certainly a bolt from the blue to entire industry.

Thus, all these immediate reactions to recession are more of knee jerk reactions with a view to obtain quick fix of the fatal problems creeping in slowly. There is clear need of some proactive strategy that can be sustained throughout the economic turbulence and which can result in profitable outcomes

2.2. The Role of Marketing Strategy

- Marketing strategy in a corporation can foresee a problem long before the financial statements of the company may show, at which it could be too late for a company to adopt corrective measures.

- With the assistance of market research, a company can indentify its strength, weakness, opportunities and threats and enable the company to become increasingly competitive well in advance of the upcoming turbulence
- Appropriate marketing strategy can help the company to survive in adversity, hence stimulating the prosperity and growth for the company
- Marketing strategy is a preventive measure rather than a curative one.

2.3. Marketing Strategies during Recession

Strategies during recession focus on how a business should run into its capacity to gain an edge over its competitors. There have been different strategies framed according to various situations. According to [Michael Porter "the essence of framing company's strategy is its relationship with its environment, the key aspect of company's environment is the industry in which it competes" (2004)]. Analyzing the various situations of market, Porter developed three generic strategies named as cost leadership, differentiation and Focus. Under differentiation company gets competitive advantage by offering products with differentiated features whereas in cost leadership, company achieves advantage by reducing cost of the product below that of the competitor to lure the customers. The focus strategy targets a small segment (called as Niche) to achieve advantage through differentiation or Cost Leadership.

However, during recession business has to keep in mind its core competencies in order to gain the best out of limited resources. Company has to manage its product mix to cushion the turbulences slapped by the drowning economy. Thus in order to arrive at the decision of forming optimal product mix, and to match company's strategy with its changing environment, the application of SirIgonAnsoff,'s Matrix is inevitable. Following shows the dimensions of Ansoff's Matrix:

	Existing Product	New Product
Existing Market	Market penetration	Product Development
New Market	Market development	Diversification

2.3.1. Market Penetration

Companies with market penetration strategy try to penetrate existing market with existing product at the conquest of prospective users through existing users. This strategy works by inculcating the habit of volume buying by customers, increasing the number of outlets, increasing sample distribution or advertising aggressively even when there is crisis in economy. The benefit of applying this strategy is to turn the tables of competitors who would be expecting the sluggish movement of business during downfall from competitors.

- Example :Pizza Hut and Taco Bell during great depression of 1990-91resorted to short term sales targets and spent chunks on advertising their products in order to penetrate the market. Post -recession the sales of Pizza Hut rose to 61% and Taco bell rose to 40% of the sales before recession whereas McDonalds, reduced the advertising during recession and its sales fell down to 28%

[source: Market sense research report, 2011]

Both Kellogg's and Post were competing neck to neck before recession of 1920. As and soon recession set in, Kellogg's increased the marketing budget by one million dollar that included providing gifts and value added premiums inside package, whereas the Post Cereals cut its spending . As a consequence, Kellogg's sales rose up by $5.7 million post recession in early 1930s

2.3.2. Product Development

Product development is done by innovating the product with new features, packaging, branding or quality enhancements. The purpose of product development is to incline the customer towards the product by adding customer-needed features into the product.

- Example: Coca cola company introduced DIET Coke during turbulent time of 1980's and forced many other big companies to enter into calorie marketing war. It was a huge success even after recession.

2.3.3. Market Development

Companies achieve market development by exploring the new segments with the already existing product line. Against the backcloth of gloomy economy, finding the new horizons of expansion with least expenditure brings in new opportunity to cushion itself against jerks of down-sliding.

2.3.4. Diversification

To diversify means to expand the business into new segments which concentric or conglomerate. Concentric diversification is the process to diversify into that segment which is co-incidental to the existing line or that can be easily expanded using the present line of technology, in contrast to conglomerate which is expanding into totally different line of business. The decision of diversification during recession is supported by favorable prices of inputs and cheap availability of labor.

Diversification can be offensive in case there are extreme cash flows or a gaining a competitive advantage following the decision of diversification. It may prove to be defensive in terms of growth achieved post diversification. Keeping some of the eggs outside the basket can certainly bring laurels.

- Example: In August 2008, during the time of recession, Nuss Truck Group, with head offices in Rochester, diversified by becoming a Volvo CE dealer when it acquired the assets of Sweeney Brothers Tractor

3. Conclusion

There is no one-size-fits-all approach, as what may be effective for one organization may be totally ineffective for another. The principles of marketing are the same whether in good times or bad, in that marketing is all about meeting needs profitably and ensuring that the right product is in the right place and at the right price, whatever the economic environment. However, in times of adversity, the needs and behaviors of markets and their suppliers change rapidly as demand becomes stifled. Marketing is one of the first areas to be cut back in a recession and marketers need to adjust their strategies accordingly. Thus while the principles of marketing remain more or less the same, it is the practice of marketing that changes in a recession.

The above strategies show that recession can definitely be a mode of survival for corporations if they make best use of the opportunities available during recession. Recession can be a two edged sword. The businesses which have been flourishing may find themselves squeezed and least sustainable whereas the organizations can bloom by focusing on their niche segments and strengthening their core competencies. Quick win" marketing strategies tend to be price related, such as a "pile it high, sell it cheap" strategy, whereby the goal of lower prices is to help the company maintain and win market share. However, an increase in market share in a recession does not necessarily mean increased sales given that the absolute market size has most probably shrunk. Short-term solutions do not always lead to long-term success, as Michael Porter acknowledged: "*In dealing with a crisis, experience teaches us that steps to address the immediate problem must support a long-term strategy*." (Business Week, 30th October 2008). Thus organizations whose strategies fail to consider the long-term should be cautious not to act in haste and jeopardise their future prosperity

In summary, an effective marketing strategy is one that : -

- Meets the key objectives of the strategy;
- Understands the elasticity of demand in the marketplace;
- Delivers an ROI, and in the anticipated timeframe;
- Deploys the necessary resources, and in an appropriate manner for maximum impact.

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