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ECONOMIC DOWNTURNS: A Time of Uncertainty, *A Window of Opportunity*

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Overview

Forget Paris Hilton. The 2008 - 2009 recession was the biggest celebrity of the past year, dominating daily headlines from checkout-aisle rags to major financial newspapers. But as the globe watches intently for the next major corporation to fail, greater perspective can be gained by taking a step back and examining the situation through the panoramic lens of history.

Like celebrities meteorically shooting to superstardom, crashing back to obscurity, only to resurrect their careers on *Dancing With The Stars*, recessionary downturns represent just one chapter in the open-ended, decades-long book of economic history. To understand downturns, what causes them and how to capitalize on the next, one must become familiar with the past.

Recessions are not isolated incidents, rather, elements of larger business cycles. A greater understanding of driving forces behind business cycles and the defining characteristics can be fundamental in preparing for a downturn and ultimately, thriving while others suffer. The key is to accept business cycles as unavoidable, natural fluctuations in a global economy and be prepared to face the highs and the lows. This paper aims to reveal quantitative and qualitative information, as well as historical facts about business cycles and the strategic investments in marketing a company can make in order to prosper during both tough and bountiful times:

■ Economic cycles are characterized by periods of growth or expansion, as well as periods of decline or contraction. Periods vary in duration and are not predictable, yet subtle hints can forecast a coming shift in the cycle. **Business cycles are inevitable, and preparation is key to survival.** Consumer confidence often mirrors economic atmosphere but does not necessarily drive the economy, however consumer perception is very important for marketers to track.

■ By the time recessions are formally declared, the majority of the downturn has already been experienced and the market is on the cusp of recovery or expansion. The best time to begin investing, therefore, is at the point or right before a recession is declared. **History reveals companies that dare to invest aggressively in marketing, innovation and customer quality make significant gains during downturns.**

■ Loyalty marketing relationships can deliver mutual benefits for consumer and customer, especially in hard economic times. **Maintaining and growing customer relationships through a recession can ensure steady revenue base without the need to focus on costly acquisition campaigns.** Optimize the value proposition to alleviate consumer fears.

■ **A balanced marketing plan with an emphasis on customer loyalty will pay heavy dividends in market share during the years following the downturn.** Recessions provide opportunity, as evidenced by a number of examples from past business cycles. Manage costs in other areas to ensure steady investment marketing and advertising to carry the company through a recession.

A Primer on Economic Cycles

Recessionary pressures are upon us. In fact, the current economic recession is already worse than the previous 9 post war recessions making it the most severe recession in our lifetime. Yet, we only learned in December of 2008 the recession began twelve months earlier in December 2007. This lag is not unusual because actual economic data must be gathered, analyzed and interpreted before the technical definition of a recession can be met. A recession is defined as two or more consecutive quarters of negative GDP. So, this recession like all of those before was not declared until significant levels of economic activity had already declined.

U.S. Business Cycle Expansion and Contraction			
Recession (Peak to Trough)		Duration (Months)	
Peak Ends	Trough Ends	Contraction	Preceding Expansion
Aug 1929	Mar 1933	43	21
May 1937	Jun 1938	13	50
Feb 1945	Oct 1945	8	80
Nov 1948	Oct 1949	11	37
Jul 1953	May 1954	10	45
Aug 1957	Apr 1958	8	39
Apr 1960	Feb 1961	10	24
Dec 1969	Nov 1970	11	106
Nov 1973	Mar 1975	16	36
Jan 1980	Jul 1980	6	58
Jul 1981	Nov 1982	16	12
Jul 1990	Mar 1991	8	92
Mar 2001	Nov 2001	8	120
Dec 2007			73

Economic cycles though, are just that, cycles with periods of growth or expansion as well as periods of decline or contraction. The period between an economic peak and trough is a recession. So, like the lyrics to Blood, Sweat and Tears classic Spinning Wheel, “What goes up must come down, spinning wheel got to go round.” And so it is with economic cycles. What goes up must go down. The wheel spins so after each recession there is expansion. So, what goes down must also go up.

Recessions are practically over by the time they are announced

In fact, by the time most recessions are declared, the majority of the downturn has already been experienced and we are on the cusp of a recovery or expansion.

This aspect of recession recoveries is a key finding of Joseph H. Ellis in his book *Ahead of the Curve*. Ellis is an authority on business cycles based on his years as a Retail Analyst at Goldman Sachs. *Institutional Investor* magazine acknowledged Ellis 18 times as the Retail Analyst of the year for his work as a partner at Goldman Sachs.

In the book, Ellis states,

“To use the concept and definition of recession – a period of absolute economic decline in real GDP – as the most widespread measure of economic harm is fundamentally tardy and therefore, useless as a pragmatic economic measure for businesses, investors and policy makers.”¹

What does this mean? Quite simply, by the time a recession is declared, it is almost over and we are on the cusp of recovery. He goes on to say,

“And for the businessperson, by the time the economy approaches a recession, it is too late to gear-down – and,

¹ Joseph H. Ellis, “Ahead of the Curve” Harvard Business Press; 2005; 978-1-59139-691-8 (ISBN 13; Pgs. 29-30)

indeed, it may even be time to gear up for the recovery. Basically, too much time is spent by economists and others attempting to forecast the wrong event.”²

The problem according to Ellis is how recessions are defined and how economic data is typically presented. So, what is the definition of recession and what do most economists have to say about them?

The declaration of a recession in the United States is up to the National Board of Economic Research (NBER). The NBER looks at a set of monthly economic indicators (such as employment, real personal income, manufacturing sales, and industrial production) to more accurately identify the ‘peak’ and ‘trough’ of each business cycle. NBER has actually defined the ‘peak’ of the last expansion to have ended in the 4th Quarter of 2007. We learned of this change in the economy around November 2008 almost eleven months after the fact. If you want to know when we’ll hit the trough, or lowest point, and the beginning of the recovery...stay tuned. We need to wait for the data.

What do we know about business cycles?

Understanding of business cycles is important for anyone seeking to take advantage of changes in economic conditions. While we don’t want to delve too deeply into economic theory, we do want to touch on key elements of our understanding of business cycles. In his book, *Recessions and Depressions: Understanding Business Cycles*, Todd A. Knoop highlights business cycle facts worth reviewing.³ Knoop cites six facts:

1. Business cycles are not cyclical and do not follow a regular, predictable patterns. Cycles vary considerably in size and duration. The shortest recession was six months (1980-1981) although it was very severe and the

longest lasted 43 months (1933-1937). As to expansions, the longest has been 10 years and ended in 2001.

2. Business Cycles are not symmetrical. Recession and expansion periods do not balance. On average expansions have lasted 43 months and recessions only 14 months. Output changes tend to be much more dramatic in a recession than an expansion.

3. Business cycles have not changed dramatically over time. Economists once believed recessions in the post war period were shorter and not as severe. New and better historical data on pre-war periods though show the differences are only slight.

4. The Great Depression and the World War II expansion dominate all other recessions and expansions. During the Great Depression, GDP fell by 50% and unemployment rose to 25% dwarfing the next largest recession period from 1973-1975 when the GDP fell by 4.9% and employment rose to 9%. On the expansion side, GDP grew by 64% in the World War II expansion between 1941 and 1944.

5. The components of GDP exhibit much different behaviors than GDP itself. The components of GDP are investment, consumption, government purchases and net exports. Investment and durable consumption are much more volatile than non-durables, such as services, and change more than output during a business cycle. The table below shows the average share of each component within GDP and the average share of fall of each element during a recession.

² Joseph H. Ellis, “Ahead of the Curve” Harvard Business Press; 2005; 978-1-59139-691-8 (ISBN 13); Pg. 46

³ Recessions and Depressions: Understanding Business Cycles; Todd A. Knoop; ©2004; pages 15-19

Component of GDP	Average Share of GDP	Average share of fall in GDP during a recession
Consumption		
Durables	8.4%	15.6
Nondurables	25.8	11.2
Services	29.5	9.1
Investment		
New Residential	4.7	20.9
Fixed Residential	10.7	11.7
Changes in Inventory	.7	40.6
Net Exports	-0.4	-12.3
Government Purchases	20.6	3.3

6. Business cycles are associated with big changes in the labor market. Unemployment is countercyclical and changes in unemployment are much greater in recessions than other changes, such as productivity, to output. Changes in employment account for two thirds of the per capita GDP change while changes in productivity only account for one third in recessions.

While this may appear a bit mundane, these facts are important because within them we begin to understand key aspects of business cycles. They are not completely predictable. Some are longer and the period between them varies considerably. Lows are more severe than peaks and most of all, some components of the economy change more from peak to trough than others. For instance, changes in employment have a greater affect than changes in productivity. This means capital investments to improve productivity, such as new plants or equipment, may not be as beneficial as stimulating consumption such as marketing or advertising.

Smart organizations will shift capital investments for increasing production to efforts to increase advertising, marketing and customer

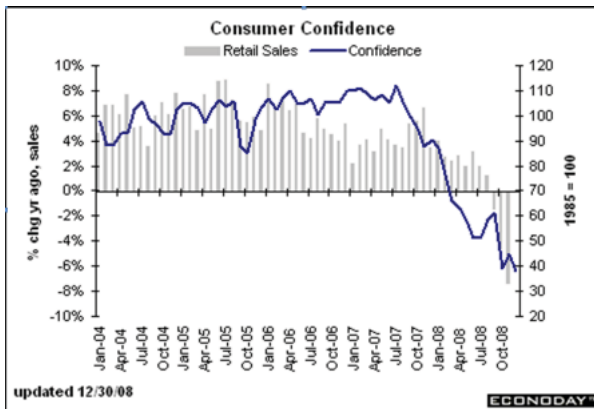
Consumer perceptions as an indicator of business cycles

We have all been too keenly aware of the current economic problems. The daily press and events in the marketplace have painfully pointed out the economic slowdown. And, while hard economic data is required to determine business cycle status, consumer perceptions or feelings regarding the economy are monitored as indicators of the economic future.

Consumer confidence is measured by several organizations although two are the most widely cited. TNS develops the Consumer Confidence Index for the Conference Board and the University of Michigan's Survey Research Center develops the Consumer Sentiment Index for the Federal Reserve. False signals are present though because the indexes are based on perception, or actually expectations, and not hard data. While there are differences between the two, both are used to forecast economic future.

The following two charts are samples of the two indexes. The chart on the left shows the University of Michigan's Consumer Sentiment with recessionary periods over the last two decades. Notice how drops in consumer confidence align with recessions. The chart on the right shows TNS's Consumer Confidence with Retail Sales over the past 5 years. Again, note how closely confidence tracks with increases or declines in retail sales.





So, consumer perception is an indicator of our economic condition. Some question whether consumers can really diagnosis changing conditions or if they are influenced by news or statements from the media and governmental leaders. In reality, it is probably a combination of both. This evidence suggests perceptions leads to reality.

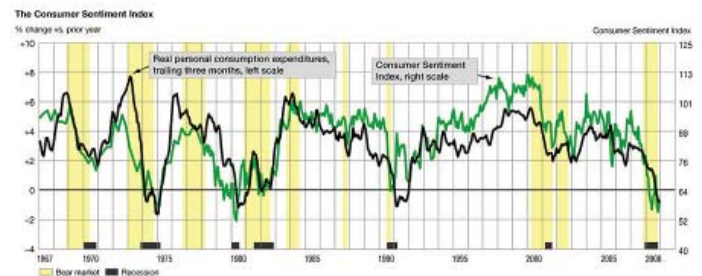
This aspect of consumer perception is very important for marketers. If consumers draw conclusions about the state of the economy based on perceptions, consumers will also draw conclusions about the state of companies they chose based on their perceptions.

An example of how perception can affect consumer behavior is the drop in store gift card sales this past holiday season. The Tower Group reported store gift card sales fell almost 13 percent to \$61 billion from \$70 billion in 2007. Why the drop? Consumers were concerned about retail bankruptcies and whether or not the retailers would still be in business for the card to be redeemed.

The economy has fundamental issues that need to be addressed. These economic challenges cannot be addressed or solved by marketers. However, marketers can find opportunities for their organizations to understand customers, work to build confidence and

trust in the brands we represent. Consumer confidence, at the national level as well as the organizational level, is critical to business and economic recovery. But, do perceptions become reality or are they reality?

Over his years of studying economic data, Mr. Ellis has found consumer confidence to be coincident to economic conditions and not a reliable, leading indicator of the future. Perceptions basically tell us where we are and not where we are going. Ellis charts both the Consumer Confidence and Consumer Sentiment Indices to the change in real personal consumption expenditures. Both track closely with year over year changes in real

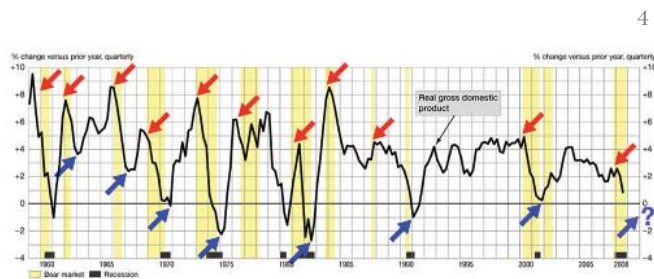


personal consumption suggesting they truly are more reality than forecast. Again though, does this mean we as marketers should ignore consumer perception? Not at all. We need to do all we can to help shape it. What we should not do is allow it to influence our thinking about the future. Perceptions reinforce or confirm where we are. It is up to us to shape where we are going.

Business Cycles as Investment Opportunities

Ellis believes approaches exist to forecast economic cycles. His approach begins with accepting the inherent flaws in how data is presented by analysts and governments. These flaws and the basic definition of a recession result in more confusion than understanding of economic cycles. Confusion results in uncertainty and fear, which in turn leads to panic. Knowledge of economic cycles removes the uncertainty and allows us to take advantage of the opportunity.

Several graphs and charts provided in his book, *Ahead of the Curve*, illustrate the problem with most economic reports and data. The one most illustrative shows how year over year changes in Real Gross Domestic Product provide the best view of business cycles. The following graph shows the change in Real Gross Domestic Product over the prior year for the past 40 years. Notice the RGDP peak typically signals the beginning of a bear market (the areas shaded in yellow). Recessions (the small black bars at the bottom of the graph) don't appear until more than 60% to 80% of the downturn has happened. The blue arrows mark the bottom of RGDP change in each cycle, and signal the beginning of the expansion or recovery.



Fear not, be brave, take action...It is time to be optimistic and positive

By monitoring year over year changes in economic data rather than the pure reporting of monthly or quarterly economics, we gain a much better view to events within

each cycle. The best part of this view is seeing recoveries typically begin 9 to 12 months after the peak. So, by the time a recession is declared we are on the cusp of a recovery.

Therefore, the best time to begin investing is when the recession is declared. But, people tend to be concerned during downturns and don't panic until a recession is declared. When it is declared, action is taken and often it is draconian with across the board cuts. The cuts are the worst thing businesses can do.

Smart leaders do just the opposite and invest in key areas to take the greatest advantage of a recovering economy.

The result is that they accelerate their business and capture share.

Today, we find ourselves a full twelve months after the peak of the last economic expansion during December 2007. We have had twelve months of dismal reports on the state of the economy. And yes, the events surrounding this recession are resulting in potentially the most severe post war recession. Are there events yet to play out? Quite possibly, yes. But, there are signs that we are approaching the bottom, and as with all previous cycles, what goes down must go up. It is time to prepare and act to gain advantage in a time of opportunity.

Exactly where is the best place to invest?

In the book *The PIMS (Profit Impact of Market Strategy) Principles*, authors Robert Buzzell and Bradley Gale⁵ examined market recessions or when a product sales dip lasts for at least two years and then recovers. The goal was to determine what separated the winners from the losers in a category during a market recession. While a market recession can often happen at the same

⁴www.aheadofthecurve-thebook.com/charts.html; Figure 4.1

⁵Robert D. Buzzell & Bradley T. Gale; "The PIMS (Profit Impact of Market Strategy) Principles; 1987; ISBN 0-02-904430-8

time an economic recession happens, it can also happen independently. Therefore, the understanding they provide around market recession has been implications to economic recessions.

To separate the winners from the losers, the *PIMS* research focused on three measures: Return on Capital Employed (ROCE), change in profitability during the first two years of recovery, and change in market share during the first two years of recovery. A key finding was that all costs, or investments, were not equal when looking at winners versus losers. ‘Good costs’ delivered increases in one or more of the key measures. ‘Bad costs’ did not. And, ‘it depends cost’ varied based on other factors such as the specific type of business or strategic position of the company.

PIMS resulted in a clear finding,

“In a recession, dare to invest aggressively in marketing, innovation and customer quality.”

Investments in these areas have high probability of driving organizational performance even in the worst of times.

The evidence is strong to invest in advertising and marketing to make significant gains during market downturns. In each of the works cited in this paper, the authors provide numerous examples of organizations that took the initiative and won.

Loyalty Marketing is a Key to Success during a Recession

Keep in mind, loyalty is a relationship between parties with the mutual expectation of gain. Mutual

expectations of gain are always sought by companies and customers but it is even more finely honed during a recession. Both seek to survive and in fact even thrive during tough economic times. Both seek opportunity in an environment of uncertainty. And, both are faced with a whirlwind of emotion. Working together, through the framework of a loyalty strategy, both parties have the opportunity to survive and grow during a recession.

Revenue (Sales) will decline and it's important to understand where

First, understand economic conditions will cause consumers to realign their ‘values’. These consumers will trade down or eliminate usage simply because they must. While an organization may view this as a lack of loyalty, most consumers are simply reacting to the reality of their situation. For some, the trading down may be a permanent change in their value set. For the majority, the change will be temporary and they will seek to return to their traditional values when the economy improves.

Therefore, maintaining relationship through the recession will enable organizations to recapture affected customers without excessive re-acquisition cost.

Marketers should accept trading down will happen. The focus with these segments should be to maintain the relationship but not attempt to drive sales with deep discounts or heavy sales tactics. Heavy discounting will hurt the organization’s profitability while strong product sales pitches may alienate customers to the extent they may not return.

Of course, trading up, maintaining or growing usage will also occur with other consumer segments not adversely affected or see the recession as an opportunity. These segments should receive significant marketing resources

and attention. These customers represent the core base that will help the organization during the recession.

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Understand consumer and market emotions are high

Second, uncertain economic times will generate security or risk concerns driven by emotions as much as facts. Consumers will want to avoid relationships perceived to involve increasing any risk to them. Communicating with consumers to address or alleviate concerns will be critical.

To align the value proposition, customer understanding is critical. With consumer insight, organizations will be able to segment customers, align the loyalty value proposition based on the customer situation, current value and potential value and identify new approaches or innovations to serve key segments in this challenging period.

Effort and resources applied to the marginal customers can and should be redirected to customers with high value

Improve your portfolio of customers where value is high and seek to reduce costs serving marginal customers or even be willing to lose them...albeit temporarily. Remember, a recession provides opportunity and aligning resources to capture the potential opportunity needs to be the focus.

Avoid draconian, across-the-board devaluations of the value proposition

Be careful in making general changes in a loyalty marketing effort simply to reduce the overall cost. The goal should be to optimize the investment being made in attracting and retaining the best customers.

A retrenchment or an across-the-board reduction in the value proposition can be very detrimental. Blanket reductions signal trouble and give consumers a reason to defect. Even high value customers can be affected. This recession is already generating ‘concerns’ with loyalty programs as evidenced by these excerpts from the Wall Street Journal of January 13, 2008 headlined, “Banks Make Rewards Plans Less Rewarding”⁶:

Robert Axelrod, a psychiatrist in Longview, Wash., says he is trying to use up all the points he has earned through Citi’s ThankYou program as quickly as possible, before the program is devalued further. “I participate in a lot of reward programs and I feel like they’re all at risk,” he says.

And:

“You also have to worry that airlines are going to go bankrupt,” says Steve Rosenbaum of Portland, Ore., who spreads his reward points across programs in order to maximize value and protect himself. “If you have tens of thousands worth of these points, it’s a serious concern.”

These comments reflect two problems.

First, the consumer concern over devaluation. The reality is some elements of a program may need to change. Care should be taken when making these changes to ensure best customers and high potential customers are not adversely affected. If necessary, lower the overall value

⁶Jane J. Kim; “Banks Make Reward Plans Less Rewarding”; January 13, 2009; Wall Street Journal

proposition but add tiers or special offers to support your best customers.

Second, consumers are already participating in multiple programs because programs are perceived as purely economic devices. This is a prime opportunity to capture more share of customer as they evaluate their needs, choices and relationships. Customers will redirect their focus to those programs most aligned with their current value set. The recession provides the opportunity to refocus your loyalty efforts, build relationship components to capture the best customers and increase your share of customer.

To make the shift, organizations need to invest in customer understanding, segmenting customer, developing insights around those segments, innovating to develop solutions for each segment and then communicating succinctly and specifically the value to each consumer segment. Few programs today have these capabilities in infrastructures in place to support the effort. Loyalty programs are still largely supported and operated as ‘point banks’ for the accrual and delivery of economic value propositions.

Understand customers, segment and communicate uniquely to each segment

Developing a relationship requires understanding and relevant, timely communication. Again, customer segmentation and insight is key.

A solid loyalty strategy seeks to generate dialogue with customers to enhance or improve understanding about customer segments.

Relationships require dialogue and two-way communication. By providing customers the opportunity to engage in dialogue, the consumer has a level of control and involvement in the process. In a *Harvard Business*

Review article by Darrel K. Rigby, Frederick F. Reichheld and Phil Schefter titled, “Avoid the Four Perils of CRM”, they comment:

“Relationships are two-way streets. You may want to forge more relationships with affluent customers, but do they want them with you? Fail to build relationships with customers who value them, and you are bound to lose to a competitor. Try to build relationships with disinterested customers, and you will be perceived a stalker; annoying potential customers and turning them into vociferous critics.”

Today’s technology enables various approaches to manage dialogue with customers across channels. The question is, ‘what is the basis for the dialogue?’

The opt-in component of a loyalty program clearly creates this opportunity. Customers join a loyalty program to have a relationship with the brand. Do more than tell them to buy and earn. Establish a dialogue. A sound loyalty strategy works to use this platform to gain valuable information about the customer, their needs and wants from your product, service and brand. Then, using this information you can segment and target communication unique to customer segments. If investments are not made in dialogue the only value created between the customer and the brand is the economic value of a reward.

Loyalty platforms provide considerable transactional data. This data should be augmented with self-reported information from customers via profiles, preferences or surveys and third party data overlays. Segment, develop insights and target objectives for each segment based on this rich understanding. Then, invest in the infrastructure to enable on-going interaction with customers to deliver on your objectives across channels at every customer touchpoint.

Quick pointers if you have, or don't have, a current loyalty strategy

If you don't currently have a program, give considerable thought about your current status with customers and the potential risk or reward of launching a program. Too often, companies already in trouble prior to recessions grasp at loyalty to save them. If you're not in good physical shape, it's not time to run the Boston Marathon. Teetering balance sheets may not handle the added cost pressure associated with launching a loyalty program.

Loyalty programs are not a short term fix to inherent problems with the brand, product mix, service delivery or a number of other factors. Long term, they can be used to focus the organization on the most critical problems through surveys and other feedback channels. And, the program's value proposition can be used to 'compensate' key customers when problems do arise. A long term view combines both the feedback and value proposition to build stronger relationships with key customer groups.

If your organization is in good shape prior to the recession and the issue is countering the pressures of a recession, you are a solid candidate to launch an effort. Remember, consumers are looking for added value during a recession and a reason to stay with your brand. The loyalty effort should not be looked as merely a short term fix to the recession pressures but a long term customer strategy that will enhance the organization for years to come.

So, if you are starting out, do it right. Begin with a customer strategy and make certain the strategy is focused on building a relationship beyond providing economic stimulus. Over the long term, the benefits will be more substantial and will provide a foundation to recover from this recession, or other times of turbulence in the future.

In the short term a loyalty program:

- Gives customers a reason to raise their hand and acknowledge they really want to have a relationship with your organization.
- Enables the collection of transactional, behavioral and self-reported data and tracking it to unique customers.
- Provides a platform to communicate to your best customers.
- Reduces the propensity for customers to trade down and identify those who don't feel the recession pressure by continuing to trade up.
- Provides value through either discounts or accrued value (points) to those most engaged in your brand.
- Focuses your marketing dollars where they can be the most effective, maintaining customer spend and profitability. Mass advertising and heavy discounting may only attract price sensitive, low volume buyers doing more harm than good. While you may get more traffic, that traffic will be gained through the sacrifice of margin and potential erosion of your brand image.

As you come out of the recession, the effort will provide a platform to acquire and grow your business in an improved economy. You will be able to:

- Analyze the customer data to identify segments with high potential for development, as well as understand the characteristics of best customers for targeted acquisition efforts.
- Have a clear understanding of your customer base and the various value segments allowing you to allocate your marketing and promotion dollars to high potential segments yielding optimal returns on investment.

- Develop knowledge about your organization's strengths and weaknesses through feedback and interaction with the segments.

For those of you that have a program, how do you extract the most value from your program during the recession?

- Be prepared for weaknesses in your loyalty program to surface, especially if it is centered on reward versus relationship. Design flaws or inefficiencies in the program operation will readily become apparent with the added recessionary pressure. You'll need to act on these issues and it will be tough since money will be tight. Devaluation may be in order to provide funding for improvements to strategy, segmentation, insight and infrastructure. With segmentation and the infrastructure in place, focus efforts on those segments offering the greatest potential.

- Consider adding tiers or clubs to your program to cater to high value or key segments of customers. This will enable you to allocate the value proposition to the right customers and communicate more relevantly to key segments.

- Customers are looking for value and you're looking to retain or even grow revenue. Make the redemption options more attractive and encourage customers to redeem the value they have accrued in the program. This will allow you to recognize your accrued liability and convert it to much needed revenue. The redemption will also result in inventory turns providing numerous benefits to the organization.

- Determine if there are partners or the potential to co-market and share resources. During a recession, all marketers are looking to increase their marketing value. Cooperative efforts, such as exchanges or co-marketing,

may enable you to better serve a segment and stretch your marketing dollars.

- Analyze the accrued liability in the program or hire an outside firm to audit the liability account. Often, accrued liabilities are overstated creating a greater burden on the program than necessary. During recessionary times, customers will leave the program without redeeming or they may lose benefits do to inactivity or default. Make certain liability is transferred to working benefit, reduced cost or profit for the organization.

The Power and Implications of Marketing in a Recession

When it comes to taking action, history shows advertising, marketing and customer interaction are the fuel to power organizations into the recovery. If done properly and balanced with overall corporate goals and status, marketing pays healthy dividends through increases in market share during and the years following a recession.

Learning from past recessions about advertising and marketing investments

Extensive research has been done to support investing in advertising and marketing during recessions. Here are some of the findings from past recessions:

- 1970 recession period – A study by the American Business Press (ABP) and Meldrum & Fewsmith showed that “sales and profits can be maintained and increased in recession years and [in the years] immediately following by those who are willing to maintain an aggressive marketing posture, while others adopt the philosophy of cutting back on promotional efforts when sales appear harder to get.”⁷

⁷“How Advertising in Recession Periods Affects Sales,” American Business Press, Inc. 1979

■ 1974-1975 recession years – ABP/Meldrum & Fewsmith 1979 study found “Companies which did not cut marketing expenditures experienced higher sales and net income during those two years and the two years following than those companies which cut in either or both recession years.”⁸

■ 1981-1982 recession years – McGraw-Hill Research’s Laboratory of Advertising Performance studied recessions in the United States. The study analyzed the performance of some 600 industrial companies during this recession. It found business-to-business firms that maintained or increased their marketing expenditures during the recession averaged significantly higher sales growth both during the recession and for the following three years than those which eliminated or decreased marketing. By 1985, those organizations that invested increased sales by 256% over those that did not.⁹

■ 1990-1991 recession years – Management Review surveyed AMA member firms about spending during the recession. “Fortune follows the brave” was their finding. Most firms that raised their marketing spend enjoyed gains in market share. The keys to gaining market share in a recession seemed to be linked to increased marketing spend and adding staff. Firms that took the brave route were twice as likely to gain market share.

■ 2001 recession – A study of more than 2500 companies over an eight year period by Bain & Company focused on the net profit margins and sales growth. They found approximately 24 percent more firms moved from the bottom of the pack to the top in the 2001 compared with the subsequent period of economic growth.¹⁰ The recessionary period provided a window of opportunity for these firms and they took advantage of it.

Recessions provide the opportunity for organizations to capture market share. In all of these cases, advertising and marketing were the primary drivers behind the gains. Of course, the recessionary pressures will force careful evaluation of business operation and appropriate cost cutting or cost reallocation. The key is to determine where costs can be managed to enable the organization to invest in advertising and marketing.

⁸ABP/Meldrum & Fewsmith study, 1979

⁹McGraw-Hill Research, Laboratory of Advertising Performance Report 5262 New York; McGraw-Hill 1986

¹⁰Darrell Rigby, “Winning in Turbulence”; Bain & Company; Harvard Business Press; ISBN-13: 978-1-4221-3908-0

About the Author

John Bartold is Epsilon's Vice President, Loyalty Solutions with responsibility for the development and evolution of loyalty-marketing programs for Fortune 500 companies. He specializes in developing marketing initiatives to build relationships and alter customer behavior to increase profits and reduce churn. Additionally, John serves as a Contributing Editor to COLLOQUY® (www.colloquy.com), a magazine and Web site that report on loyalty-marketing programs across all industries, around the globe.



John is a frequently requested speaker on the subject of marketing and management at conferences around the US. He also serves as a faculty member for the highly popular Loyalty Marketing Workshop offered throughout the USA by the Direct Marketing Association and COLLOQUY®.

John began his career with Maritz, Inc., a market research and performance incentive firm, where he held senior account management and creative director positions over the course of 22 years. He holds a B.A. in Media and a B.A. in Management from Webster University in St. Louis, MO.

About Epsilon Loyalty Services

Epsilon has been supporting the design, implementation and operation of loyalty programs for leading organizations for more than 40 years. Over this span, we have developed extensive insight, understanding and experience in the areas of CRM and loyalty marketing. Our services are used by some of the most cited and recognized loyalty marketers in the United States including American Express, Hilton, Citi and Best Buy. We have learned building relationships with brands and engaging customers is the overarching objective.

Rewards and economic stimulus are important but they are a tactic to be applied in a well defined customer strategy. We have built our service offering on and around this premise. Tactics enable but strategy wins.

Whether you have an effort in place today or seek to begin an effort, our experience and suite of services will enable your organization to take advantage of today's economic environment. Yes, we provide the basics such as proven database, promotional currency management, web and creative agency services. We tackle the day-to-day duties of program operation to allow you to focus on strategy and your internal business stakeholders.

About Epsilon

Epsilon is the industry's leading marketing services firm. Ad Age ranks Epsilon #1 U.S. Marketing Services Firm and #1 U.S. Direct Marketing Agency. Services include strategic consulting, database and loyalty technology, proprietary data, predictive modeling and a full range of creative and interactive services including brand and promotional development, web design, email deployment, search engine optimization and direct mail production. In addition, Epsilon is the world's largest permission-based email marketer. Epsilon is an Alliance Data company. For more information, visit www.epsilon.com or call 1.800.309.0505