THE CASE FOR ADVERTISING IN A DOWNTURN

Amidst the COVID-19 pandemic, global markets are in turmoil and warnings of an imminent recession are spreading.

The instinct of many business leaders is a focus on cashflow preservation. Marketing budgets are often the first to be cut as leaders seek to yield noticeable returns quickly. And in the short-term, this can help.

However, economist Peter Field, backed by numerous studies, has warned that while cutting ad budgets is a temporary fix to a short-term deficit, it could put brands at a significant competitive disadvantage during the recovery period.

> “WHEN TIMES ARE GOOD YOU SHOULD ADVERTISE, WHEN TIMES ARE BAD YOU MUST ADVERTISE.”

This report offers insight to marketing leaders who are working hard to protect their brand during the recovery period:

5 reasons brands should continue advertising during a downturn.

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CONSUMER SHARE OF MIND IS HARD TO RECOUP

Consumers tend to make decisions using "System 1" thinking – at the subconscious level

Nobel Prize winner Daniel Kahneman uncovered that most consumer decisions, are made subconsciously and automatically – known as 'System 1' thinking. It is said that only 5% of our cognitive activity is experienced at a conscious level.

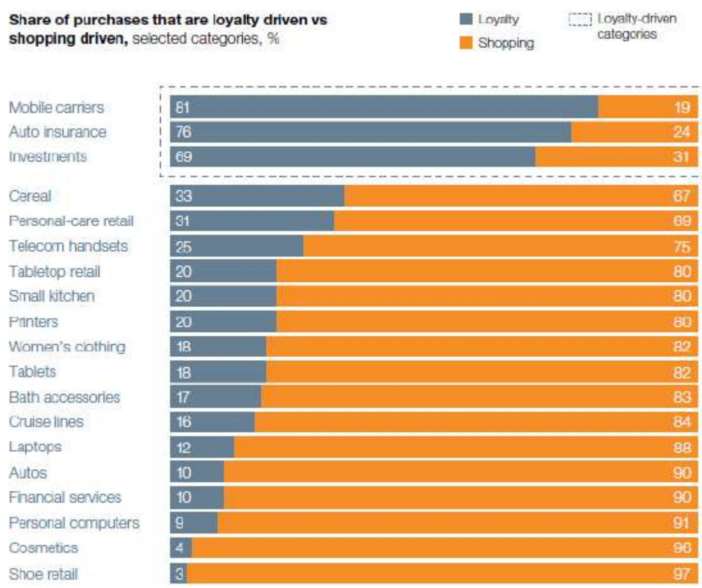
Brands within a consumer's initial consideration set are 3X more likely to be purchased

The brands that reach consumers at multiple touchpoints become part of a consumer's initial consideration set of brands. McKinsey & Company has discovered that **brands within this initial consideration set can be up to three times more likely to be purchased.**

Even though consumers readily switch brands at the time of purchase, McKinsey & Company discovered that **69% of the brands that consumers switched to were part of their initial consideration set when they started shopping**.

95%

OF OUR COGNITIVE ACTIVITY IS EXPERIENCED AT A SUBCONSCIOUS LEVEL



Sources: Inc.com, Graph from McKinsey & Company

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INCREASED RECOVERY COSTS OUTWEIGH SHORT-TERM SAVINGS

CASE STUDY: MCDONALD'S

In the recession of 1990-91, McDonald's made the decision to cut ad budgets.

Pizza Hut and Taco Bell took advantage, and saw dramatic sales increases (Pizza Hut: +61%; Taco Bell: +40%), while **McDonald's sales declined by 28%.**

A Detriment to Future Sales

Various studies about advertising during times of economic downturn have shown that companies that fail to maintain share of mind during those times are likely to jeopardize current and future sales.

Cutting media and marketing spend can save a company money in the short-term, and they may not see any negative effects. However, over time their share of market and share of voice will deteriorate, and the impact to sales will be felt.

Binet found that firms that cut their ad spend increased 20-30% decreases in sales and income. Likewise, a study by Tony Hiller of 1,000 firms in the USA and Europe found that firms that decreased their ad spend saw a 0.8% loss during their recovery period.

The Path to Recovery

Economist Peter Field found that it can take up to five years for brands to recover from cutting their budgets during a recession.

While investing heavily in advertising following the crisis could help get back to pre-crisis levels more quickly, **the cost of doing so would be substantially greater than the savings from cost cutting in the first place.**

Sources: Les Binet, Tony Hiller, Peter Field, Forbes

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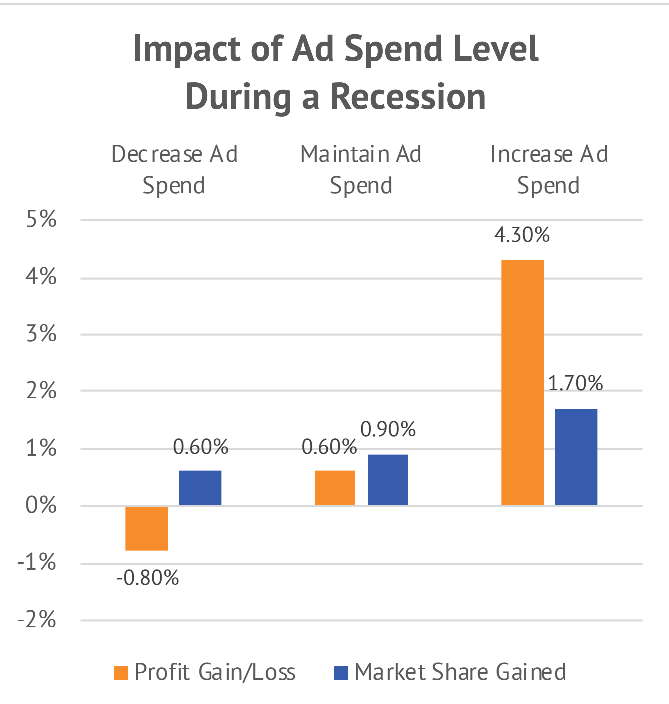
BRAND-BUILDING NOW LEADS TO LONG-TERM PROFITABILITY



Reduced Marketplace "Noise"

Recessions offer a rare opportunity for brands to improve their competitive advantage through increased marketing efforts. If competitors are cutting their budgets, the longer-term benefit of maintaining marketing expenditures will be even greater. What's more, you can do this at lower cost than when times were good.

Short and Long Term Impact on Market Share and Profitability

The studies by Binet and Hiller found that

SHORT TERM: brands that cut their budgets were slightly more profitable than those who maintained or increased their spend. However those gains were overshadowed in the recovery period.

RECOVERY PERIOD: during the first two years of the recovery period, brands that increased their marketing spend gained 1.7% of market share and experienced a 4.3% profit increase. Brand that cut their spend lost 0.8% in profit and only gained 0.6% market share.

Competitive Impact

As competitors cut their advertising budgets, a brand that increases or maintains ad spend will automatically increase its share of voice and share of market.

In essence, the brand's spend will be more effective than it otherwise would be.

Sources: Les Binet, Tony Hiller, Peter Field, Forbes, Ebiquity

4

BENEFIT FROM A BUYER'S MARKET IN ADVERTISING

MEDIA CONSUMPTION IS UP

70%+

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Increased Media Consumption + Increased Media Supply

As consumers are spending more time in their homes, they are consuming an increasing amount of media. In particular, TV and digital consumption are surging. According to IRi Worldwide, it is estimated that **media consumption is up 70%**.

Coupled with the increasing media consumption, media supply is increasing as the demand for it decreases (due to ad budget cuts).

As a result, it is likely that the industry will see **short-term price decreases** for inventory, improving the relative efficiency of advertising spending.

IRi Worldwide estimates that digital media costs are down about 40% and TV spot market costs are expected to decrease by 50%.

Prepare for More Competition, Less Avails During Recovery

Signs have pointed to a rebound as early as late Q2. When this happens, those companies that previously cut ad spend will likely flood the market. The resulting impact would be **fewer avails, combined with increased competition and clutter in the marketplace**.

Sources: IRi Worldwide

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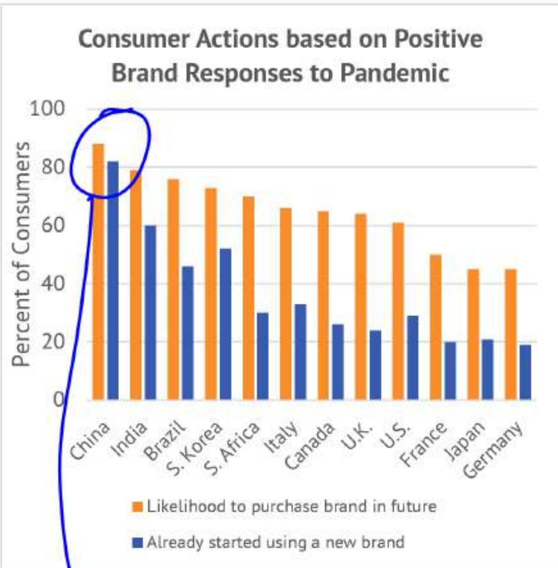
ACQUIRE NEW CUSTOMERS



82%

of consumers in China say they have already started using new brands due to their COVID-19 response

Brand response to the pandemic is affecting consumer behaviour

The 2020 Trust Barometer study by Edelman established the importance of brand response to the COVID-19 pandemic.

65% of consumers in the 12 global markets studied indicated that a brand's response to the crisis will have a huge **impact on their likelihood to purchase that brand in the future**. This index jumps as high as **88% in China**, a market that is already a few months ahead of Canada in terms of its progress against the pandemic.

Similarly **37% of consumers globally say they** have already started using new brands as a result of the way they've responded to the pandemic, along with **82% of consumers in China**.

At the same time, **consumers are punishing brands that they feel are not acting appropriately** : **1/3 of consumers globally**, and **76% of consumers in China** have stopped using certain brands for this reason.

Consumers want brands to take action

Another study by the Angus Reid Institute found that **86% of Canadians say that "companies that take an active role during this crisis will have gained a loyal customer in me."**

Consumers are forming new habits at home

With consumers stuck at home, many are developing new habits and trying out new hobbies. **Customers are trialing products they may not otherwise have considered**. We expect to see brand and category shifts at an unprecedented level as consumers adjust to their "new normal." These shifts provide an opportunity for brands to gain new customers, and remind existing customers of what they stand for.

Sources: Edelman 2020 Trust Barometer, Rogers Newsletter (Angus Reid Institute Study)

1920’s

Roland S. Vaile tracked 200 companies through the recession of 1923. He reported that the biggest sales increases throughout the period were rung up by companies that advertised the most.

1930’s

In the Great Depression, Kellogg maintained its advertising, leading to Kellogg’s domination of the dry cereal market for the next half century.

1949-1961

A study by Buchen Advertising Inc. measured ad spend of companies and correlated the figures with sales and profit trends before, during and after the recessions of 1949, 1954, 1958 and 1961.

Sales and profits dropped for companies that cut back on advertising. Post-recession, those companies continued to lag behind the ones that had maintained their advertising investment.

1989

A market sense study during the 1989-91 recession demonstrated that companies who increased advertising experienced sales growth. Kraft experienced 70% sales growth for its salad dressing.

1990

A study examining 339 consumer marketers found that those who increased ad spending 20%-100% during a recessionary period gained 0.9% market share (Thoma, 2008).

Source: Marketing During and After Recession, George Amissah PHD & Udih Money PhD, International Journal of Business and Social Science

TAKEAWAYS

- Building and maintaining brands that customers recognize and trust remains one of the best ways to reduce long term business risk during a downturn. Advertising during a downturn should be seen as an investment in future profitability, rather than a drain on current profits.

- While brands may save money in the short-term by cutting ad spend to protect their balance sheet, they are risking long-term impacts to sales and profitability, as well as a long recovery to regain what they lost.

- The ad marketplace is currently at a surplus supply – the laws of economics suggest that cost efficiencies and increased share of voice can be gained by taking advantage.

- How brands respond to the current pandemic will influence customer perceptions and behaviour, with indicators from China showing what we may see come to fruition in the near future. There is an opportunity to develop a genuine response today to incite consumer trial of your brand now and in months to come.

- Maintain a strong advertising presence while your competitors cut their budget, you will automatically increase your “share of mind.” Less marketplace noise means a chance to dominate the advertising media at a lower cost, as others pull back.

There’s no one-size-fits-all approach on how to respond to the pandemic, with many category nuances.

We're here to help you navigate now, and plan for next. We may all be amid uncharted territory, but together we achieve more.

Thank you for your partnership.

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