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When the going gets tough…the tough advertise

While speaking at two different regional conferences in the past few weeks, I received a number of questions about selling during an economic downturn. While I don't believe the economy is in trouble, the constant reporting of problems in the financial, real estate and automobile sectors has planted that impression in many people's minds, and in our business – perception is reality. In my sales career, I have been through a number of recessions, starting with the oil embargo of the 1970's. I have found that the best way to deal with an economic downturn, real or perceived, is to keep our advertisers focused on what we deliver – ***CUSTOMERS***. In good times or bad, no business can survive without customers.

Recession and the Community/Free Paper Industry

Sometimes an economic downturn can actually stimulate sales into your paper. When the economy is strong and businesses are meeting or exceeding their goals, they tend to put less thought into the purchase of advertising. They are less likely to measure the return on their advertising investments and less likely to make changes in existing programs. When money gets tight businesses start to look at everything they are doing with an eye to stretching dollars. When customers are flooding through the doors the philosophy is "If it ain't broke, don't fix it." When times get tight they may start to ask "What am I really getting for the money I spend in the daily newspaper?" The person that would not give you five minutes when they were on top of the world will be very interested in hearing how you can provide greater exposure for every dollar spent.

When money gets tight, customers become more interested in value. Our industry offers our clients the best possible value for their advertising investment. Sometimes it takes a tough economy for them to "wake up and smell the coffee."

Even if the glass is half empty, you can still take a drink

When you listen to the 6 o'clock news a downturn in the economy sounds like the "end of civilization as we know it!" The truth is that "Even though the cost of living is getting higher – it is still very popular." At the height of the great depression in the 1930s the unemployment rate rose to 27%. This was a terrible hardship for many people but if you look at it another way – the employment rate was 73%. During the worst times people still need food, shelter; clothes, transportation etc. and they need to buy these things from someone. People may cut back on luxuries and "extras" but history shows that they will continue to buy even these items. The 1930's are remembered for the depression but also for the growth of the film industry and the construction of opulent movie theaters to show them.

The 1930's was also a growth period for American advertising. Research shows that companies that continued to advertise throughout the lean times emerged from the depression stronger than their competitors. These firms were well positioned to reap the benefits of the boom years in the 40's, 50's and into the 1960's.

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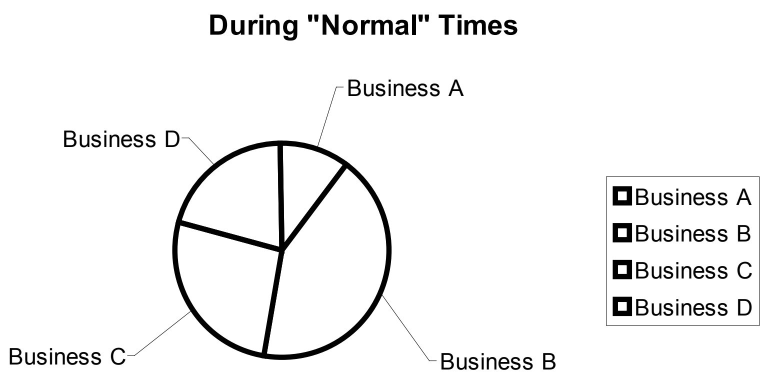
The secret to surviving in a tight economy

Someone once said that trying to save money by stopping your advertising is like trying to save time by stopping your clock. Businesses can afford to cut back on a lot of things but the one thing they will always need is customers. During an economic downturn business people have two choices:

1. They can take actions to protect and expand their market share.
2. They can disappear.

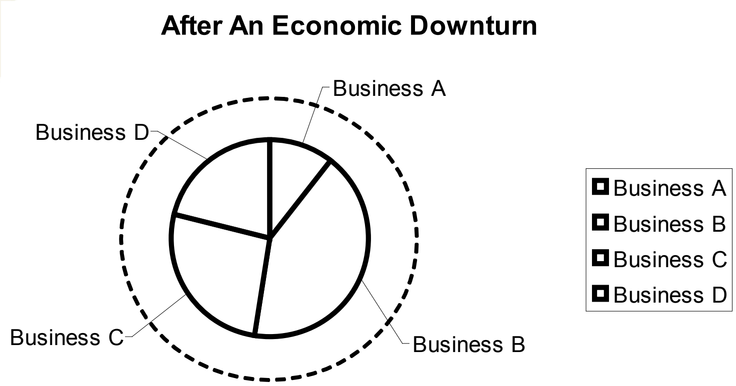
A business may cut corners by cutting back on staffing or other sales related expenses but most of their costs are fixed. Rent, loan payments, utilities will not go away just because business is slow. To meet these obligations a business must have a steady cash flow, which comes from a steady flow of customers coming through the door. Smart businesses actually ramp up their advertising in tight markets. The following graphs illustrate why this is a good idea both in the short term and in the long term.

Here is the market share of four businesses during "normal" times



In a robust market there are enough customers for all four businesses in the market.

Here are the same four businesses after an economic downturn



As the market contracts the pool of customers decreases. Each of the four businesses experience decreased cash flow.

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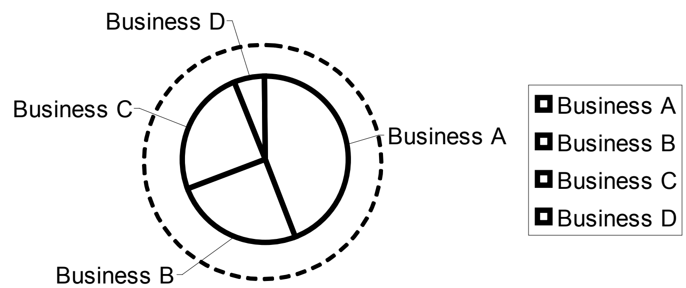
Business A chooses to aggressively advertise to attract a larger market share. Business D chooses to make across the board cuts, including advertising losing market share. Businesses B & C make no changes in their marketing.

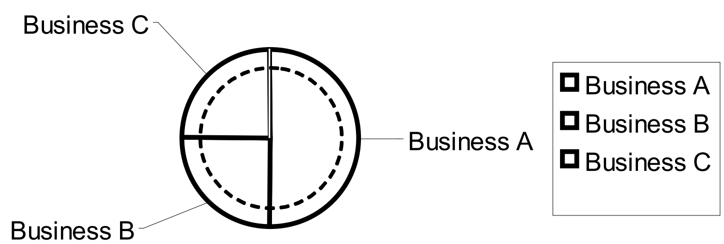
Effect of Advertising Choices



Business A's expanded share provides the cash necessary to return profitability to pre-recession levels. Businesses B & C continue to struggle but manage to survive. Business D continues to lose share and to lose money.

When the economy revives each business maintains its market share.

The Economic Revival



Business A emerges from the downturn with a larger market share and in a stronger financial position. Businesses B & C managed to survive but have lost share to Business A. Business D became a "victim" of the recession and was forced into bankruptcy by lack of customers.

This illustration may be overly simplified but logic is right on the mark. When the economy is tight – individual consumers will spend less on your product – if each person is spending less – you need more people to make the same amount of money – how do you get more people in your store – Advertise and advertise aggressively with great offers and expanded service. When the economy is tight, buyers need more incentives to spend their money with you. I have found drawing out these diagrams for customers during a sales call quite useful in helping them understand this concept.

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"My ad isn't getting the results I used to get, isn't anyone reading your paper these days?"

When the economy contracts, people will naturally try to cut their spending in any way they can. They will not go out to dinner so often or will go to less expensive restaurants, they will try to get another year out of the old car, or they put off remodeling the kitchen. This means that there are fewer dollars being spent on any given good or service in your market. An advertiser may see a measurably smaller response to their advertising because of this contraction. What they can not measure is how much of a decline in business they would have seen if they were not advertising. If the customer wishes to maintain the same level of profitability in an economic downturn, they need to take share away from competitors. To do this they must increase their program. The question is not "can they afford to advertise in a tight economy?' the question is "Can they afford to not advertise when they need a larger share of the market just to maintain the status quo?" Maintaining their current program is a life preserver for their business – increasing their representation is a Jet-ski.

"Here I come to save the day!"

Advertising is always important, but in tough economic times it is critical. At a time when our clients are concerned about the economy, we need to use all of our selling skills and persuasive powers to help them make the right decisions for their business. The Wal-Mart's of the world will weather the economic storm with flying colors due to their size and financial reserves. Our advertisers need our help to keep their heads above water. In times of recession we are an important part of keeping our advertisers and our local economies strong. The choice is simple, people can take a beating from the economy or they can fight back. When times are tough, our job is to give our customers the tools they need to not only survive but thrive in a tight economy.