

After the apocalypse.

What will marketing be like when this recession is over?



On April 2nd, Fed Chairman Ben Bernanke finally used the "R" word and made the recession official. We're kind of relieved that he did, because we'd hate to think that what the economy has been going through lately might be considered normal.

Like all recessions, this one is going to a catalyst for change.

That change will come in many forms. Some will be the result of a shrinking-sum game, as companies battle for share of withering markets.

Some will come from acceleration of trends which are already underway. And some may be paradigm shifts that alter the marketplace in unexpected – and possibly tectonic – ways.

So fasten your seat belts, it's going to be a bumpy ride. Here are some things we expect to see when the trip is over:

- **Internet video will be a significant mass-reach branding medium.** The web already delivers as many total advertising impressions as television. A recent Harris Interactive study found that :30 branding commercials in three different product categories all had higher recall when viewed online than when viewed on TV. So online video won't just be for direct-response advertising or sales-funnel-filling anymore. And consumer package goods marketers will divert larger and larger portions of their \$11 billion media spending to the web.
- **Search is going to be the essential element in any marketing communications campaign.** When customers are in short supply, no marketer can afford to miss any of them. And

search is a nearly universal part of any considered purchase decision. A carefully-targeted combination of paid and optimized search puts brands in front of prospects at key steps in the purchase-decision process. Marketers may initially turn to search in desperation during the recession, but when they realize how valuable it is, search will become the principal tool of marketing communications.

- **Ink-on-paper newspapers will be seriously weakened.** Last Friday's *Wall Street Journal* reported that March ad revenues were down substantially versus year-ago for three major newspaper chains: New York Times Corporation down 12.5%; Media General down 22.3%; Tribune Co. (now a private company which doesn't publicize its numbers) a "double digit" decline. And these losses are in comparison to 2007, which was also way down from the previous year. A big chunk of newspapers' ad shrinkage is coming from losses in classified. In the 2001 recession, ink-on-paper newspapers lost about a third of their classified revenues. They never returned to their previous levels when the economy rebounded. That's likely to be the case this time as well. The revenue that migrates to the internet is probably going to stay there when the recession is over.

- Airline price-based marketing will be a distant memory. The two-tier structure of the airline industry, with expensive legacy carriers at one extreme and new discount carriers at the other, is over. The massive increases in fuel costs have erased most of the price differential the newcomers got through lower labor costs. And without a price advantage the discount carriers don't have a competitive niche. ATA, Skybus and Aloha all went bust in the same week. If any of the other discount airlines survive they'll have a very hard time coming up with a strategy to compete with the older airlines now that their price advantage is miniscule.

- **Direct (online) banking will be a critically important component of financial institution marketing, especially for local and regional banks and credit unions.** Three key factors will drive this change:

1. Regional banks and credit unions need online services to compete with the major money market banks and direct banks for "mass affluent" customers. Mass affluents have migrated to online services offered by HSBC, ING, Chase, B of A, Citi and a flock of others. Mass affluents – customers with between \$100,000 and \$1,000,000 in liquid assets – are "mobile, sophisticated and extremely busy" according to a Booz/Allen report. The report goes on to note: "Mass affluent customers are 30% more likely to prefer the online channel. Increasingly they are demanding the opportunity to purchase products and transact online, and this trend is likely to accelerate."
2. Direct banking dramatically reduces the cost of acquiring accounts. Javelin Strategy & Research reports that with "straight-through" [simplified] online account opening systems, direct banking customer acquisition costs are just one-fourth of traditional customer acquisition costs.
3. Direct banking builds business. Media Post's "Marketing Daily" reports that financial institutions implementing effective direct

banking programs have experienced from 3% to 15% net growth in deposits.

- **Some brand – a quick-service food chain is a likely bet – will price itself into serious trouble.** It happens every recession. Our previous posting, *The Price is Wrong*, notes that price is the third or fourth determinant in most purchase decisions. That's true in normal times, but not right now. In most studies, price has shot up to #1. So a lot of brands will cut prices in order to maintain volume. There are two problems with that tactic:

1. Since it's a pretty predictable response, everybody else in the product or service category is probably doing it, too. So the net effect is to negate any possible marketing advantage a price cut might provide.
2. The cheap image lasts a lot longer than the recession does. Just ask the folks at Taco Bell. During the 1990 recession they introduced a 59¢/79¢/99¢ value menu to steal share from McDonald's. According to *Advertising Age*, the tactic worked. Taco Bell did nibble away at McDonald's share. But Ed Rensi, who headed McDonald's at the time, says the tactic indelibly etched the image of Taco Bell as a source of cheap food in consumers minds. According to Rensi, "Discounting as a tactic that's event-driven is one thing. Discounting as a strategy is something else. It's a very bad idea, because it cheapens your product and your brand." Rensi attributes the fact that today McDonald's sales per unit are 66% higher than Taco Bell's to the divergent strategies each followed in the 1990 recession.

One candidate for this recession's pricing blunder? Burger King. Their "barbell" pricing clusters some items at \$1 on a value menu and others upmarket from BK's usual prices. Presumably the value menu is intended to give their regular customers a lower price-point to which they can migrate as they feel an economic pinch, and the higher-priced items are there for customers migrating to quick service establishments like Burger King from casual dining restaurants like Friday's or Ruby Tuesday's. Problem is, the regular customers will get used to the idea that BK means cheap food. And the émigrés from casual dining will be heading back to their usual haunts when the economy recovers.

- **A company that's slow to respond to a marketing challenge will go bust.** Maybe Blockbuster. Blockbuster stumbled when Netflix out-marketed them with one-price, no-late-fee pricing and the convenience of in-home delivery. Blockbuster's multi-channel response isn't effective at competing with the simple, customer-friendly Netflix formula.

Blockbuster had an opportunity to leapfrog Netflix and regain the entertainment distribution lead. They could have built an all-digital distribution system. That would have wrung cost and time out of the delivery system, so they could have offered consumers cheaper, faster service.

Instead, Blockbuster is putting its resources into the purchase of faltering electronics retailer Circuit City. The move reinforces the theory that there are few urges stronger than that of two failing companies to merge into one company that fails even faster.

- **Middlemen (and women) will be cut out of the marketing mix.** Disintermediation is already happening fast, but the financial imperatives of a recession will accelerate the decline of intermediaries who add nothing but cost to a sales process.

What on earth justifies Realtors' 6% commissions? They're already discounting their services in many markets. This recession could be the time they disappear entirely. Especially since housing seems to be one of the hardest-hit sectors of the economy.

How long has it been since you've booked a business trip through a travel agent? Only a select few who can offer genuine knowledge for vacation travel will survive long term. This may be the final stage of the great extinction for most of them, as travelers can book on line every bit as well as travel agents, and do so more conveniently.

- **A company – or maybe even an entire industry – is going to change the marketing paradigm and grow exponentially.** A recent *Advertising Age* article on the opportunities that exist in

recessions pointed out that in the 1990 recession the every-day-low-price concept displaced department stores. It was the period of Wal-Mart's most expansive growth. It was also a period of fast expansion for Target.

So who's going to be the big winner this time? Probably someone who can take advantage of new technologies to cut costs and improve a product or service quality. Maybe pure-play online automobile sales. Offering a lower car prices and not subjecting customers to dealership sales sleazeoids would be a powerful marketing advantage. Almost certainly all-digital entertainment distribution. Or something that's now just the germ of an idea in an entrepreneur's mind that, once realized, will have us all slapping our foreheads and saying "It's so simple! Why didn't I think of that?"

- **Someone is going to apply the principles in BrainPosse's white paper, "Good marketing for bad times," to build a massive success story.** Aggressive marketing during a recession can increase sales an average of 22% and profits 16%, according to an American Business Press Association study. And a McGraw-Hill study showed that companies which maintained strong marketing communications through a recession experienced 14 times more growth four years out than companies which curtailed marketing.

Want to learn more about surviving – make that *thriving* – in this recession? Get in touch with BrainPosse by visiting www.brainposse.com or calling (865) 330-0033.

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