



Audi and Hyundai are increasing their marketing budgets during this recession. History and research says that's smart.

Firms that increase advertising during recessions are likely to have stronger future earnings, according to a May 2009 study by researchers at Oregon State University and Western Oregon University.

The researchers studied data from five recessionary periods since 1971, sampling data from more than 3,000 firms listed on the public stock exchange that demonstrated a four-year advertising contribution to earnings.

They found that advertising expenditures during a recession contributed to increased earnings by firms for up to three years.¹

Audi reported that it will increase its 2009 advertising budget by 15 percent to take advantage of the media bargains that are available now.

"Audi has already seen increases in its brand awareness and purchase consideration that executives attribute to the ability to market aggressively while other auto makers cut back," lead researcher Kristen Frankenberger said.

Les Binet, European director at DDB Matrix, advocates taking advantage of the soft media market during a recession. Binet states that, "Because media prices tend to fall much faster than sales for most firms, the ROI from advertising often increases in a recession. The combination of low media prices and weak competition gives companies a unique opportunity to buy market share on the cheap."

In his recent AdWeek article, Binet calls trade promotions a "mixed blessing at best" during a recession. They may help to keep the retailers happy, but the extra sales they generate are purely short term and the net effect on profits is often negative. Heavy reliance on promotions tends to erode brand values and destroys profit margins.

Building and maintaining a strong emotional bond with customers is the key to brand strength. Research shows

that ad campaigns focusing on emotional engagement tend to be more profitable than ad campaigns focusing on low prices or promotional offers, even when times are tough.²

During this recession, Hyundai is running a lot of advertising with a focus on taking its products, price points, and its brand image upscale. And it's working. Through April, Hyundai's U.S. sales in 2009 were down 3.6 percent year to date, while the entire U.S. market fell 37.4 percent, according to AutoData Corp.³

Recessions aren't the time to cut advertising, according to John Quelch, professor at Harvard Business School. Quelch advises, "It is well documented that brands that increase advertising during a recession, when competitors are cutting back, can improve market share and return on investment at lower cost than during good economic times." <http://hbswk.hbs.edu/item/5878.html>

¹<http://oregonstate.edu/dept/ncs/newsarch/2009/Mar09/advertisingeconomy.html>

²http://www.adweek.com/aw/content_display/community/columns/other-columns/e3if2f60011563fe80f856863594dcc7f92

³<http://industry.bnet.com/auto/10001515/hyundai-keeps-building-while-others-retrench/>

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