

Advertising in a recession

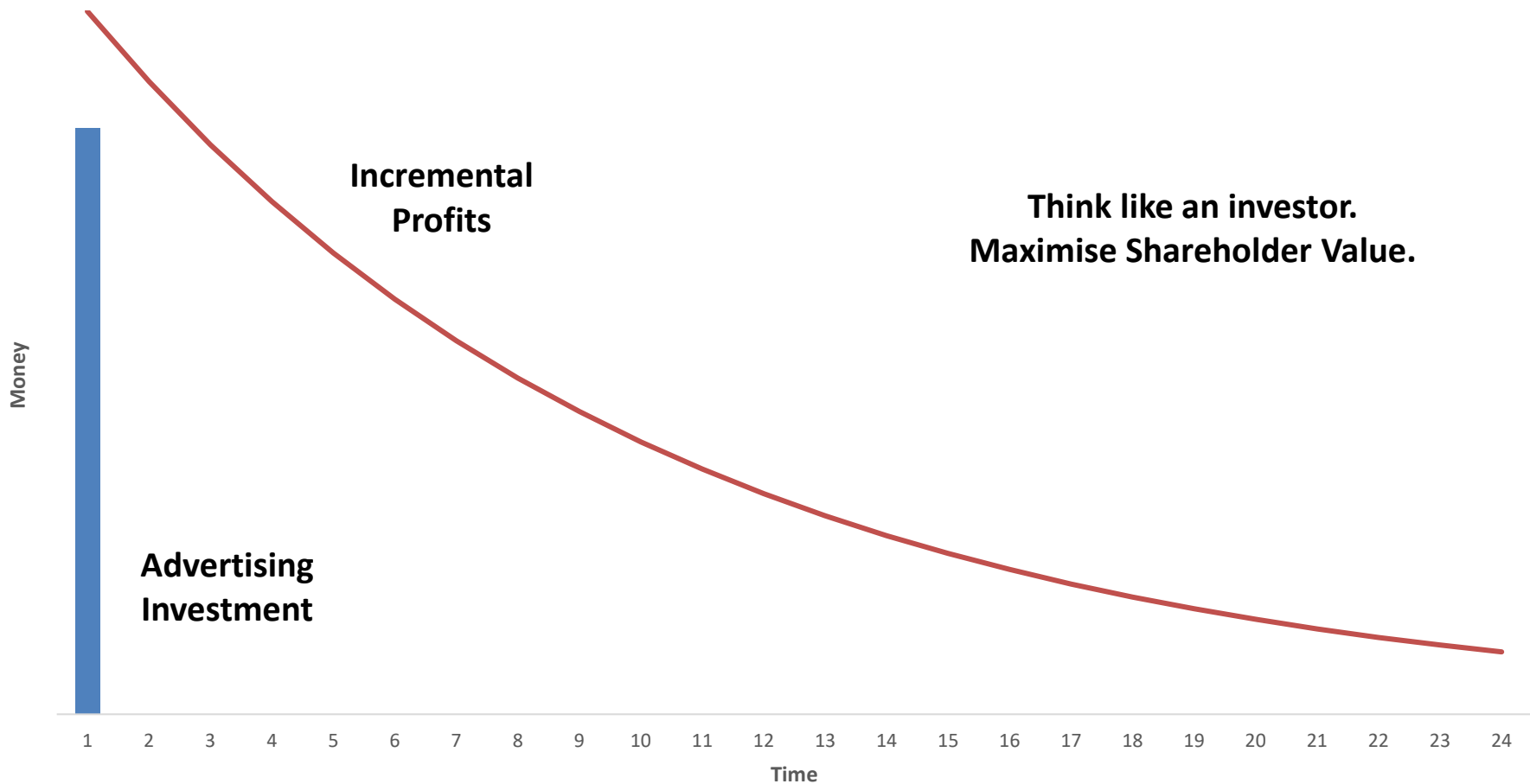
5 keys to maximising profit

The World Turned Upside Down

- Biggest pandemic for over a century
- First European war for 30 years
- Huge mismatches between demand and supply
- Tight labour markets
- Biggest energy shock since 1970s
- Biggest jump in inflation for >40 years
- Biggest jump in interest rates for >30 years
- Recession imminent?

Time to cut advertising?

Advertising is an investment, not a cost



5 keys to optimal ad investment

- Growth prospects
- Profit margins
- Advertising costs
- Risk
- Advertising effectiveness

1) Growth prospects

Don't panic!

How recessions affect spending

Global Recession Year	Global Consumer Spending
2020	-5%
2009	-4%
1991	+5%
1982	+1%
1975	+13%

Source: World Bank (All global recessions since WWII)

This is a high-inflation supply shock, like 1975.

Some sectors do better than others

Losers

- Travel
- Hospitality
- Recreation
- Culture
- Paid entertainment

Winners

- Food
- Drink
- Utilities
- Tobacco & narcotics
- Free entertainment

TV viewing rises in recession

Some people do better than others

Losers

- Borrowers
- Poorer people
- Younger people

Winners

- Savers
- Richer people
- Older people

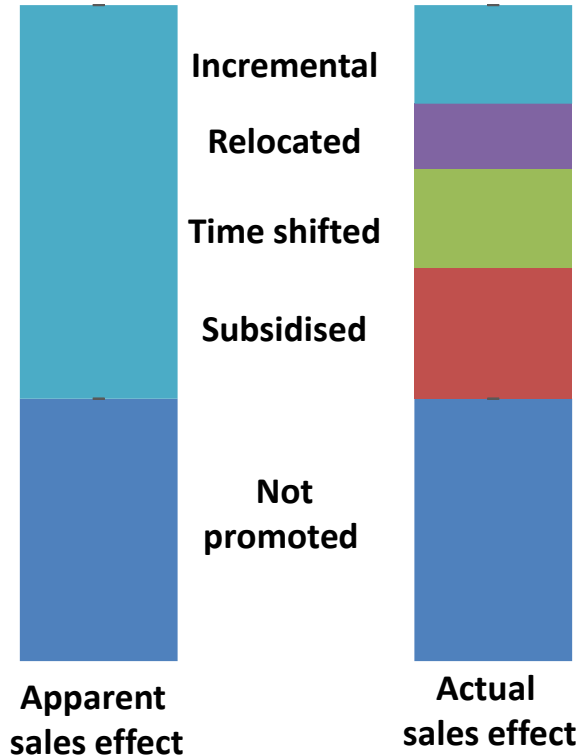
Older people watch more TV

2) Profit margins

**The big problem now is not
revenue, but costs and margins**

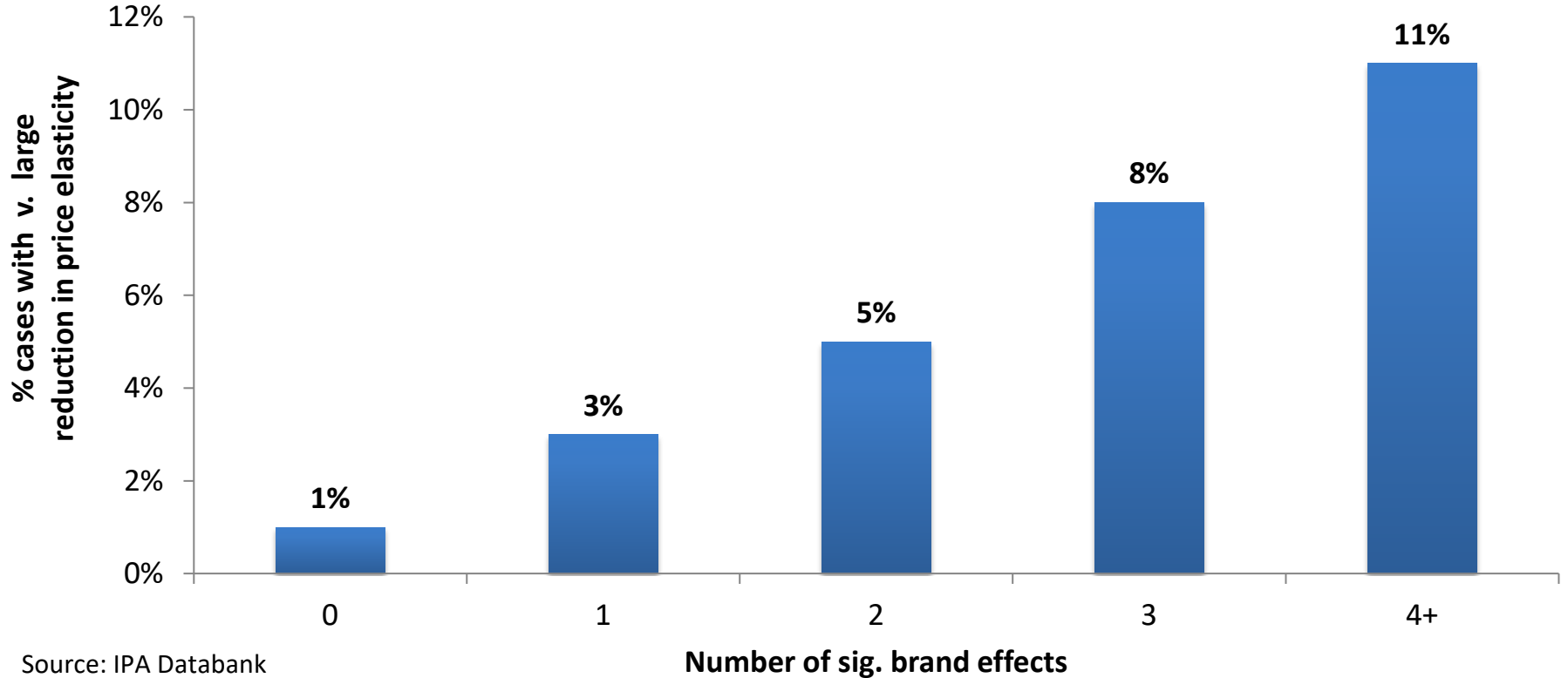
Price promotions are not the answer

What econometrics reveals



- Most volume is not incremental.
- Most promos reduce profits.
- Repeated promos increase price sensitivity, reduce pricing power & erode margins.
- Excessive discounting makes little sense when prices are rising or supply is tight.
- Case study: Brand A faced supply problems. Turning promos off increased profits by 20% immediately and increased ROI from other marketing.

Use brand ads to support firmer pricing



Kantar/Oxford 2022: emotional brand perceptions key to pricing power, financial performance & resilience

3) Advertising costs

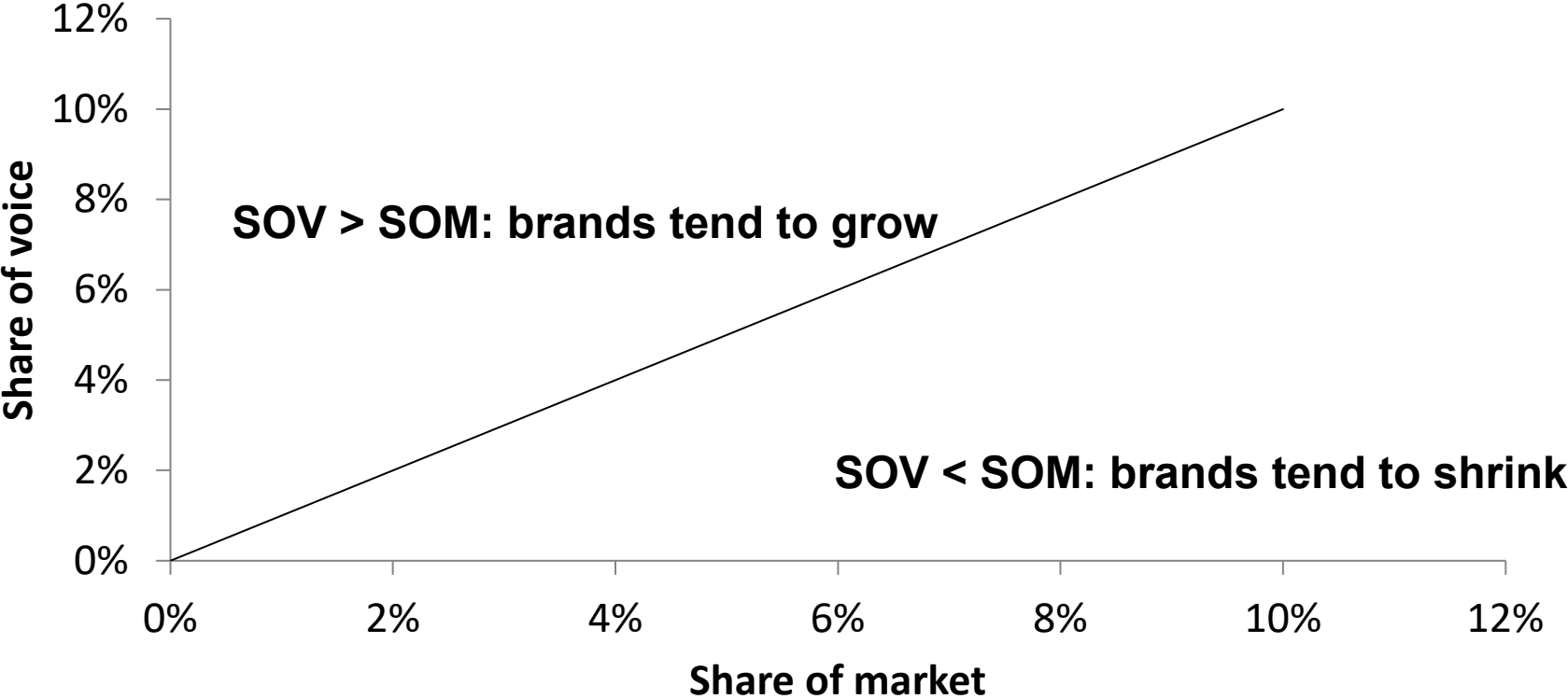
Advertising gets cheaper in a recession

Economic Contraction	Real Change in TV Cost per Thousand
1974 recession	-18%
1981 recession	+2%
1990/91 recession	-19%
2001 dotcom collapse	-13%
2008/09 recession	-25%
2020 Covid recession	-20%

UK data

Sources: Ad Association, Thinkbox, ONS

Recessions are a cheap time to gain share



Sources: various analyses 1974-2020 including Nielsen , Unilever, Buck, Jones, Millward Brown, Binet & Field, DDB, Ehrenberg-Bass

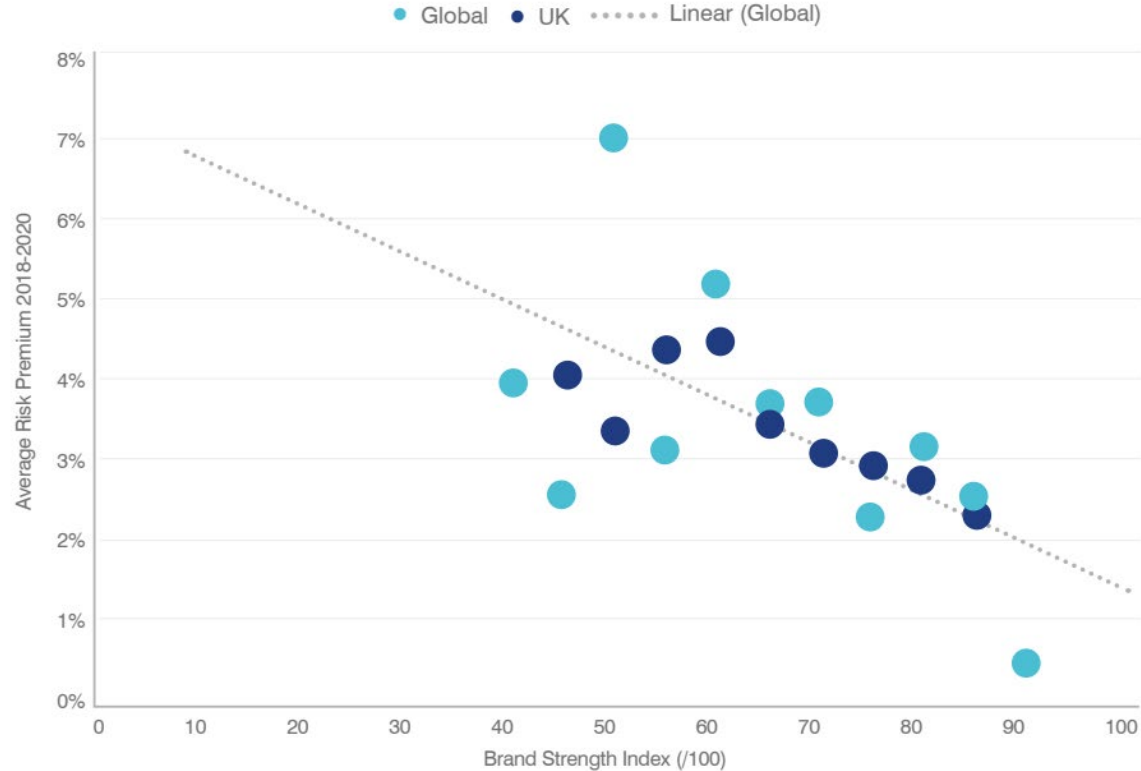
4) Risk

Capital costs are rising

Strong brands pay a lower risk premium

Calculated Brand Risk Premium 2018-2020

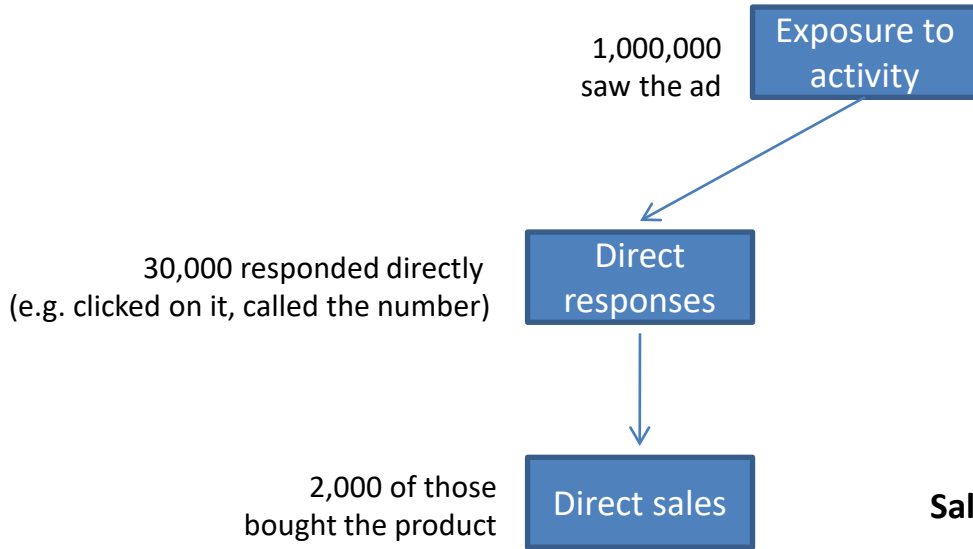
© Brand Finance Plc 2022



Brand Finance 2022: brand strength key to financial performance and attractiveness to investors

Good research reduces risk further

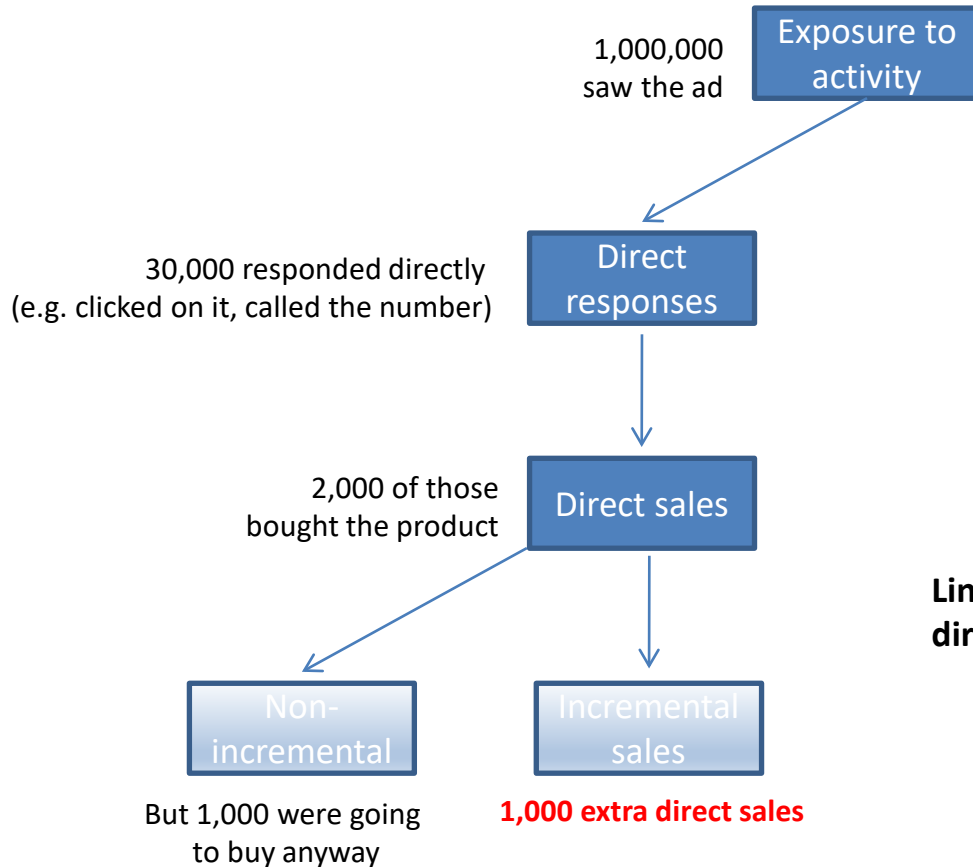
Linear attribution



Sales conversion rate of 0.2%

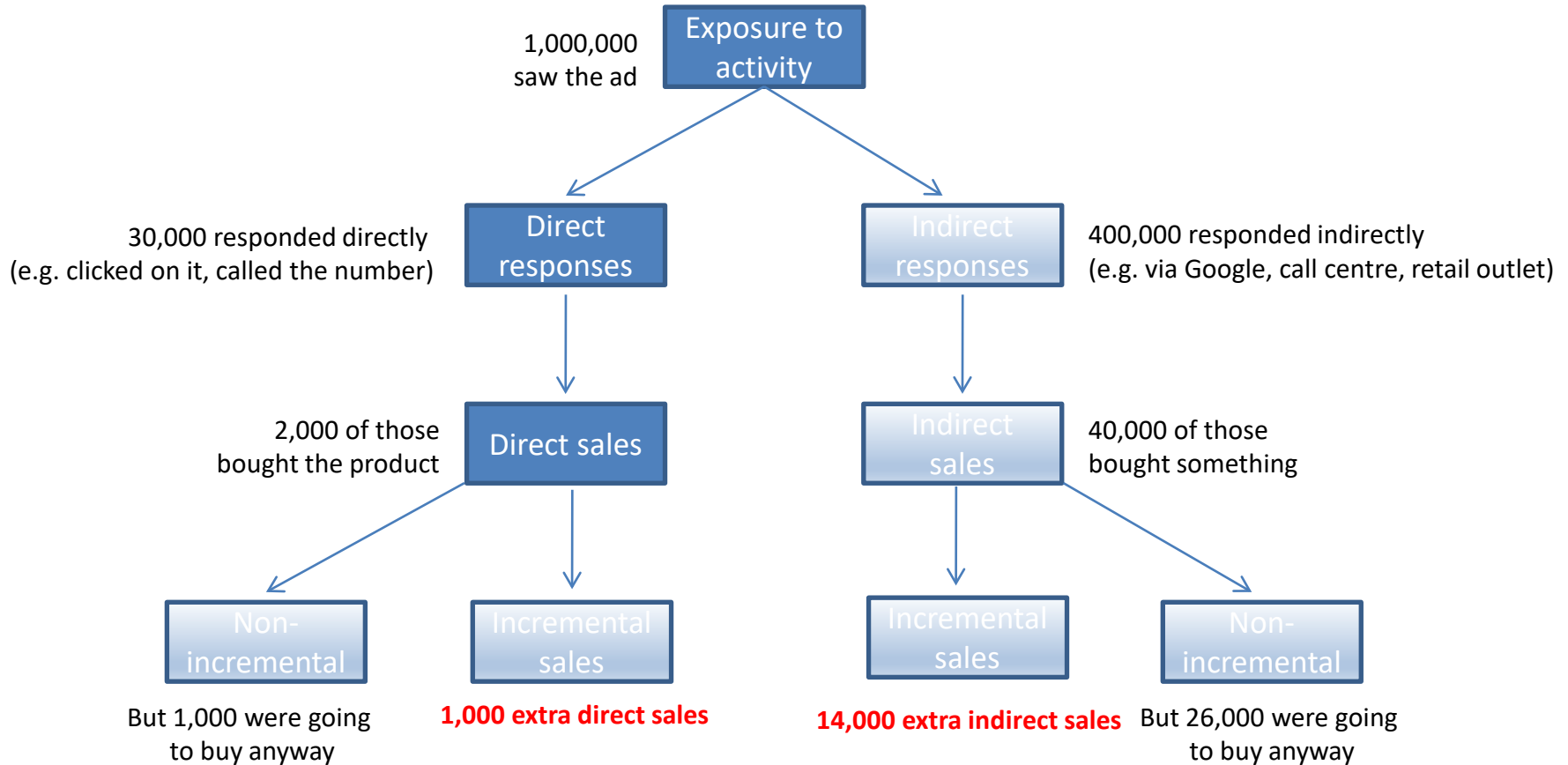
**More sophisticated attribution models
distribute sales across multiple touchpoints**

Why attribution is flawed



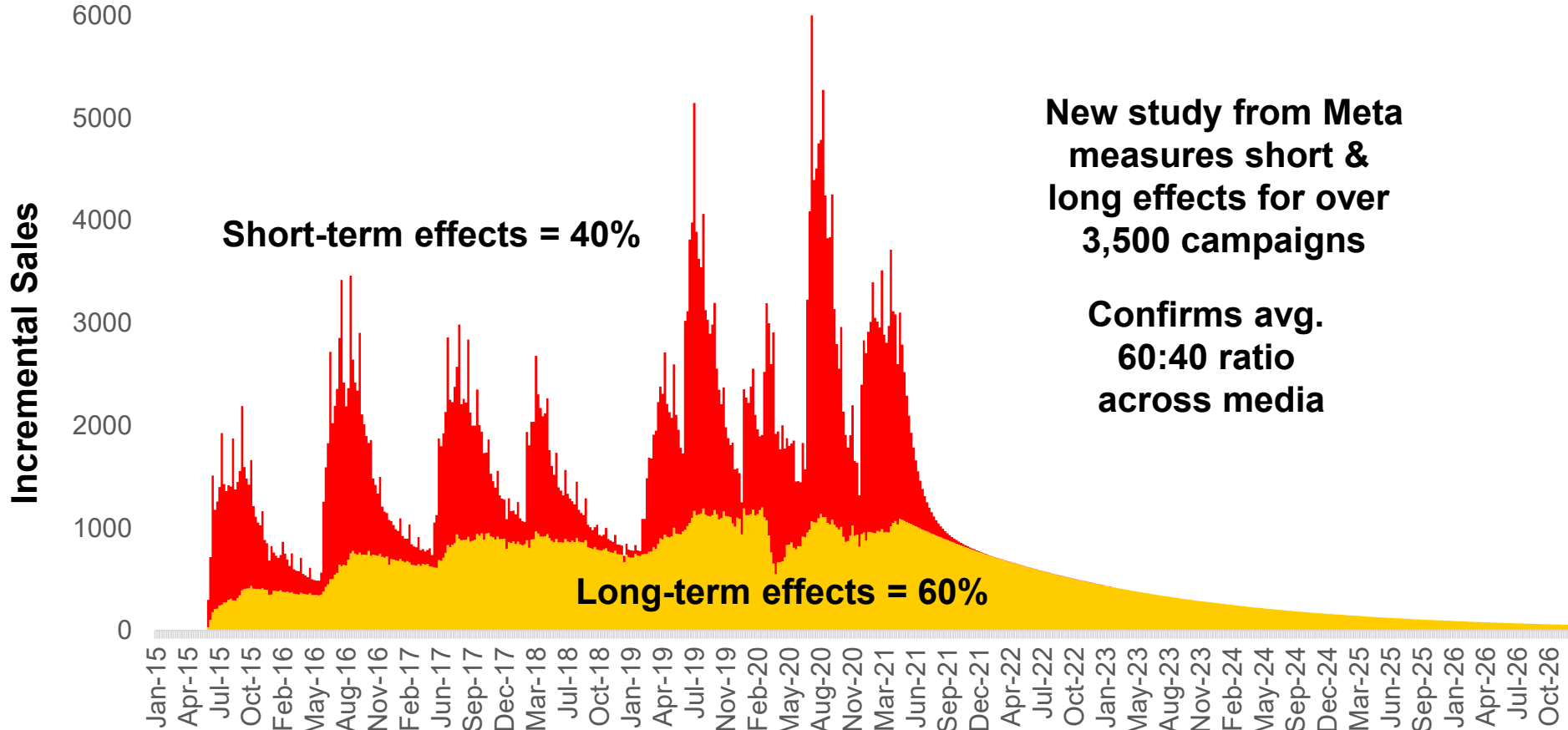
Linear attribution overestimates short-term, direct effects here by a factor of 2

Why attribution is flawed



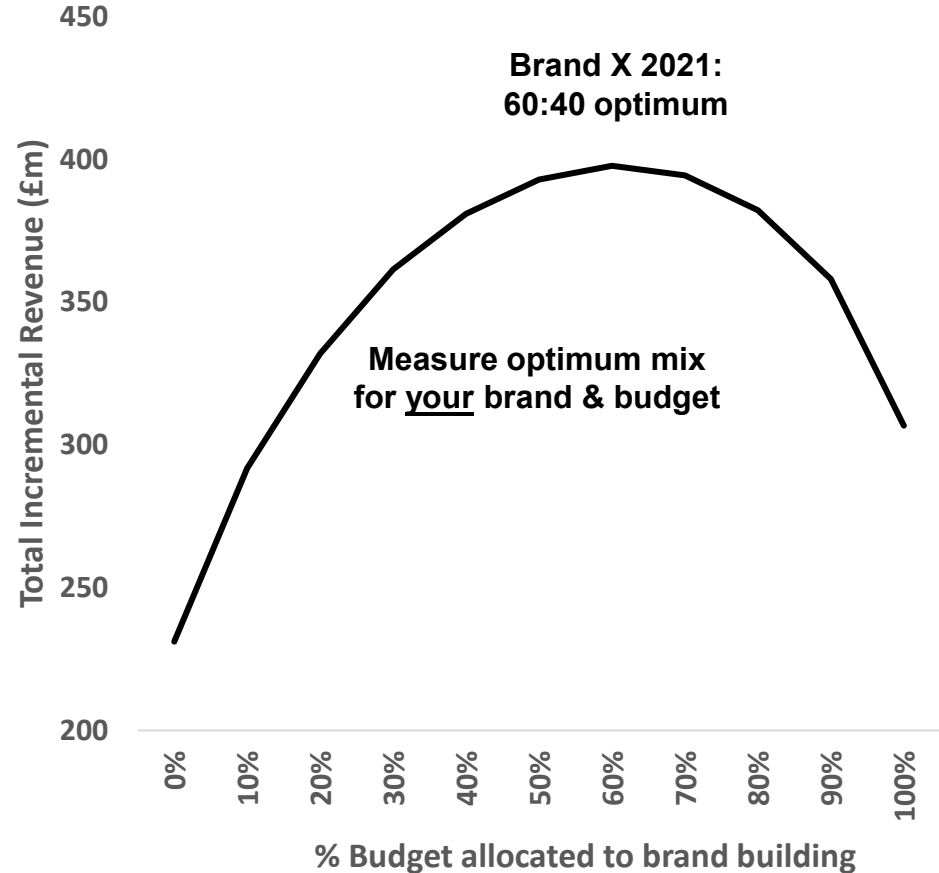
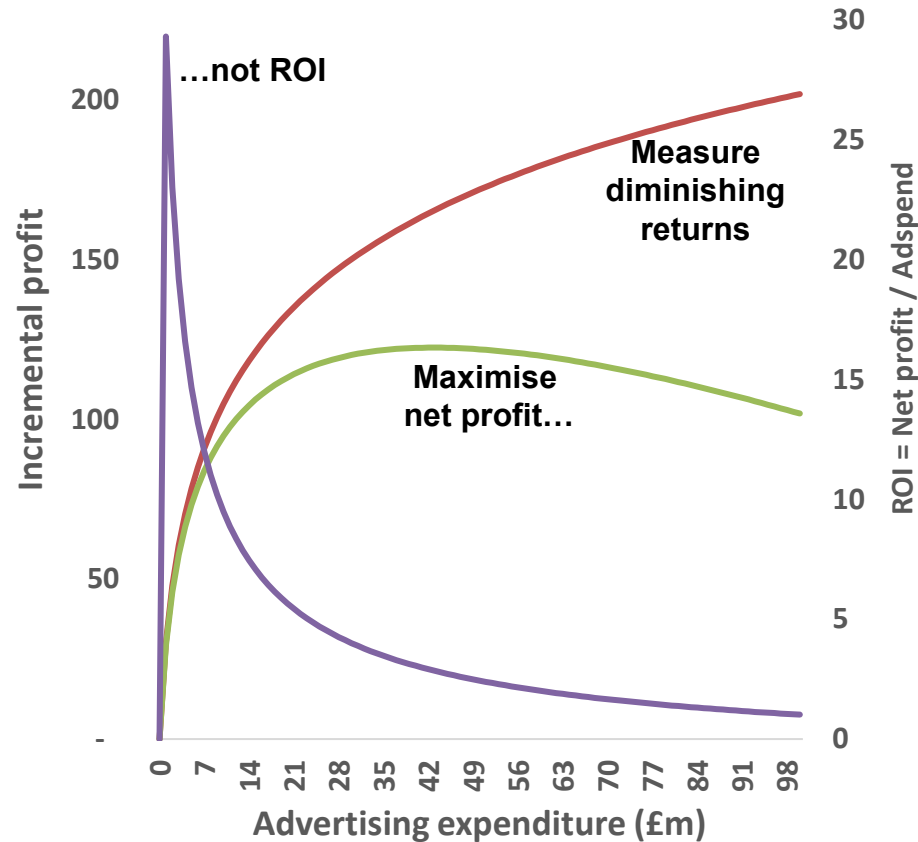
Linear attribution here under-estimates longer term effect by factor of 7

Econometrics can measure long term effects

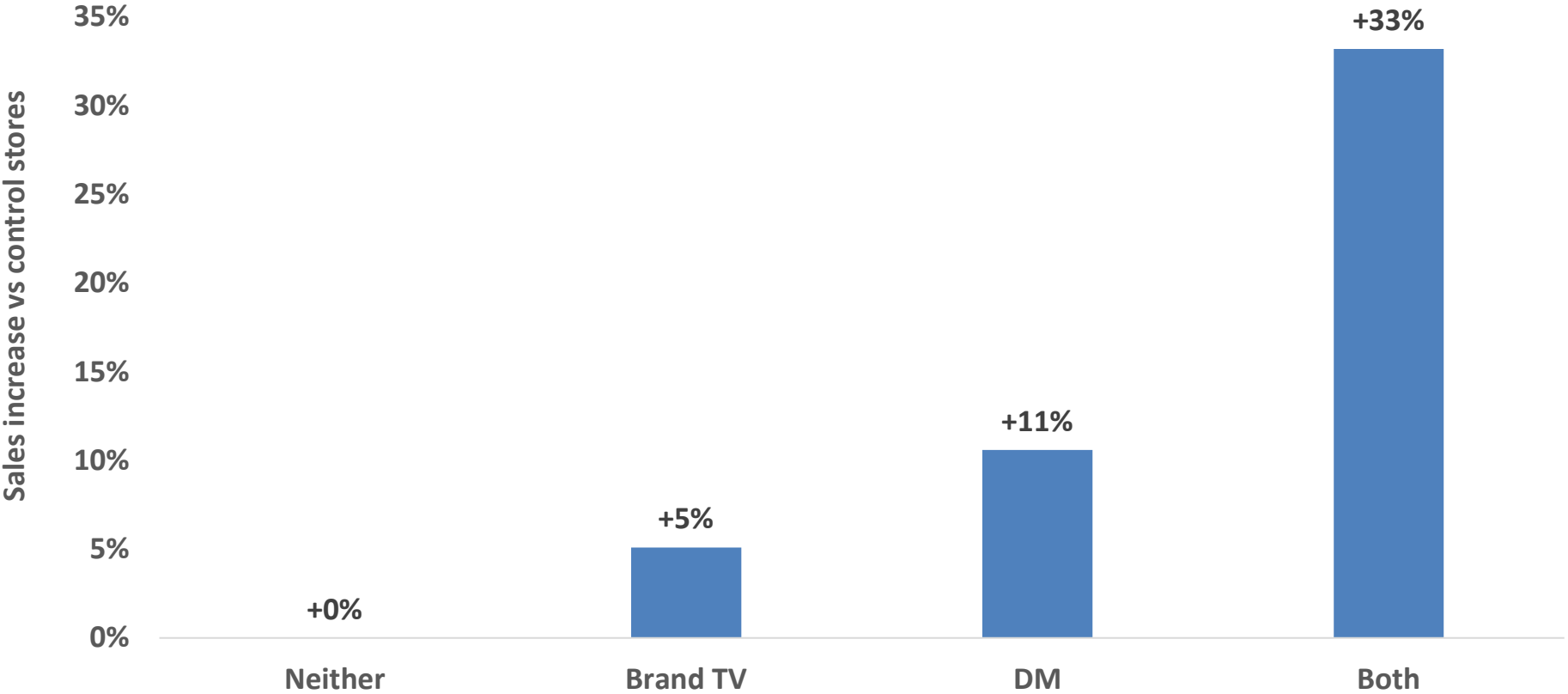


Source: Brand B econometrics 2022

Use econometrics to set budgets

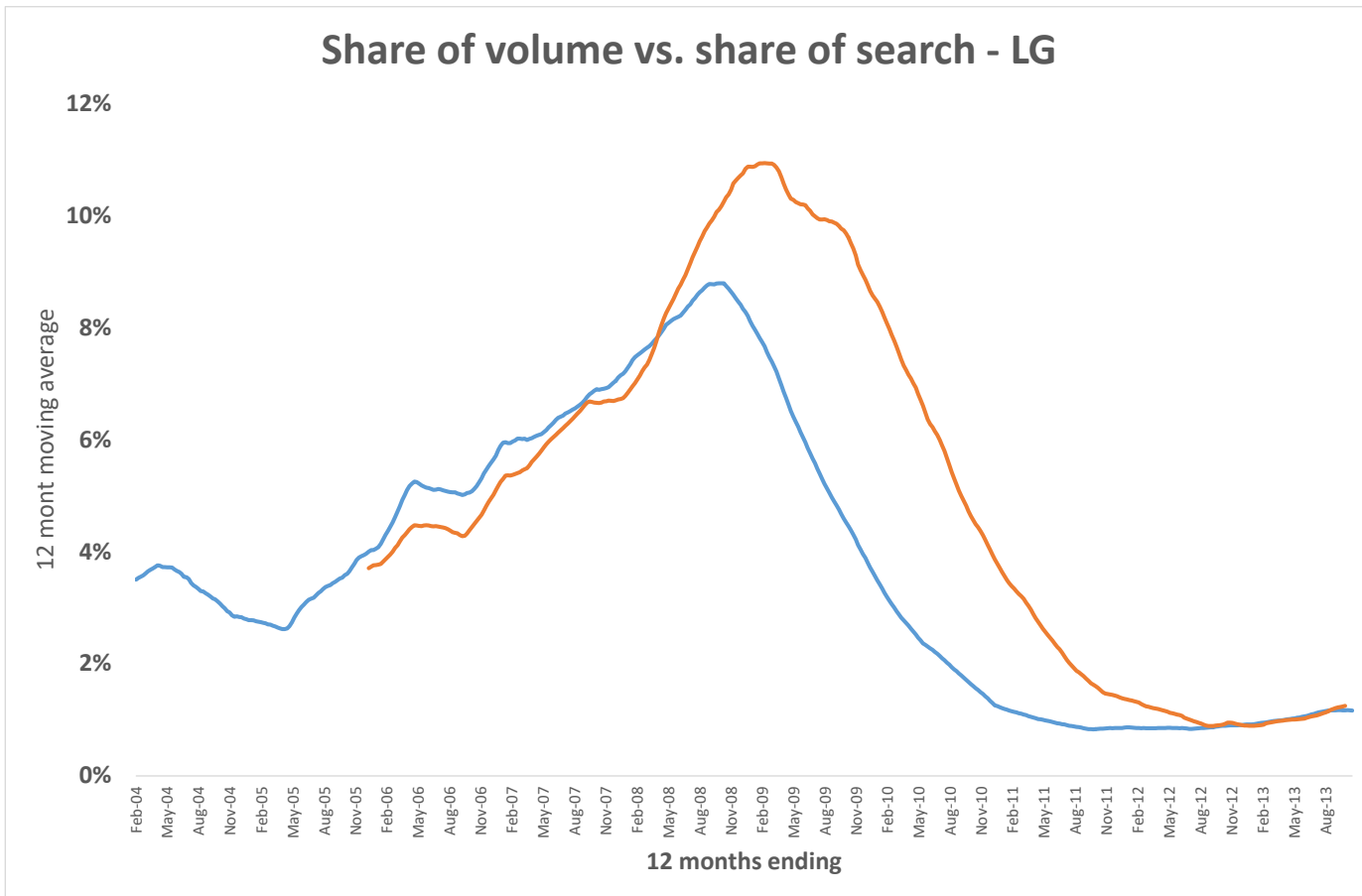


Reduce risk with controlled tests



Source: Cravendale IPA paper 2004

Use search as an early warning system



Econometrics

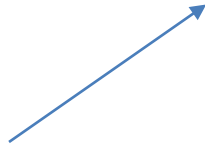
Accurate ROI figures.

Use to set & allocate budgets.



“Triangulation”

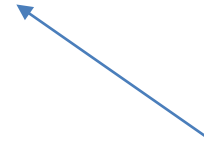
Share of search as
early warning system



Direct Attribution

Good for fine-tuning
performance in real time.

But financial ROIs are wrong.



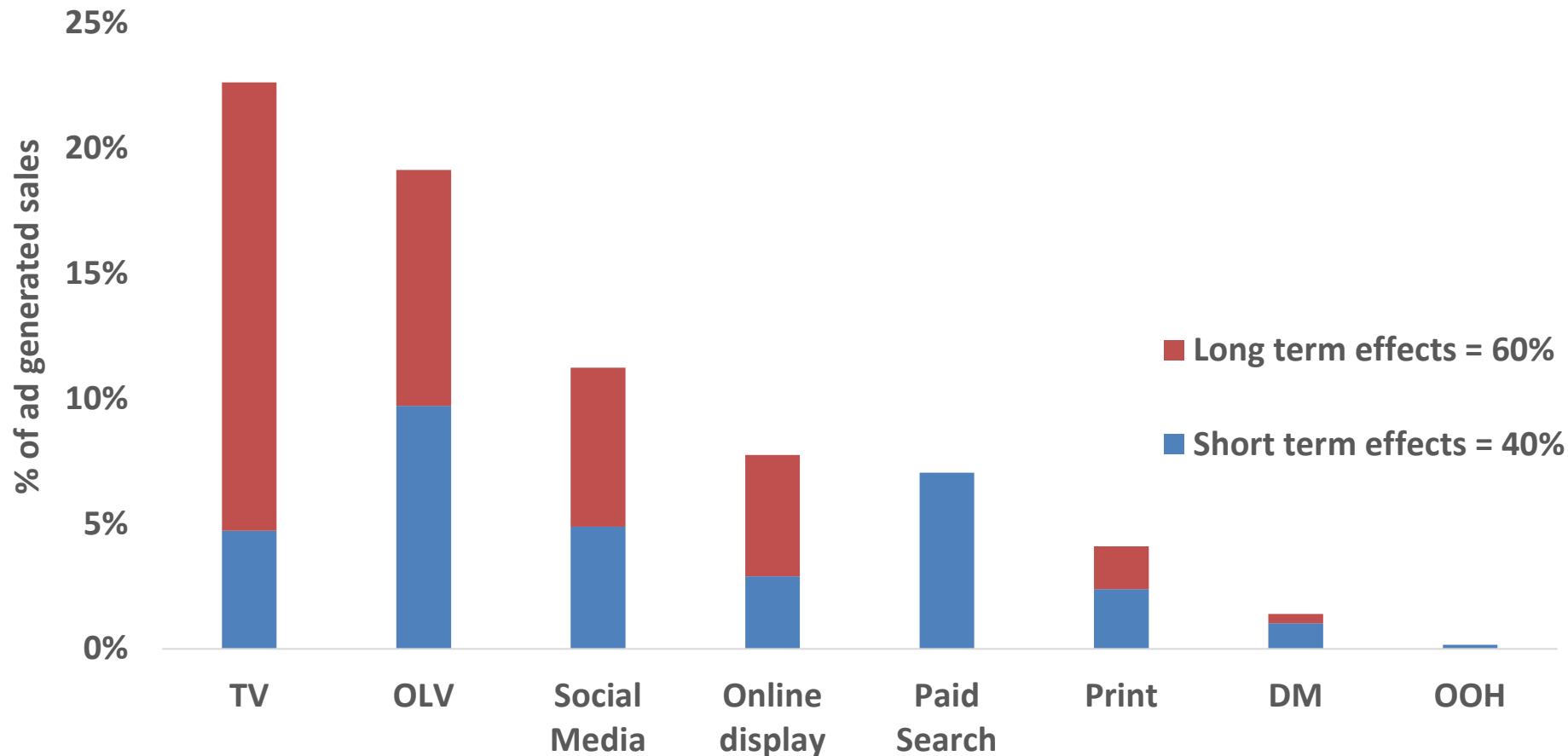
Experiments

Test measurement validity.
Test new initiatives

5) Advertising effectiveness

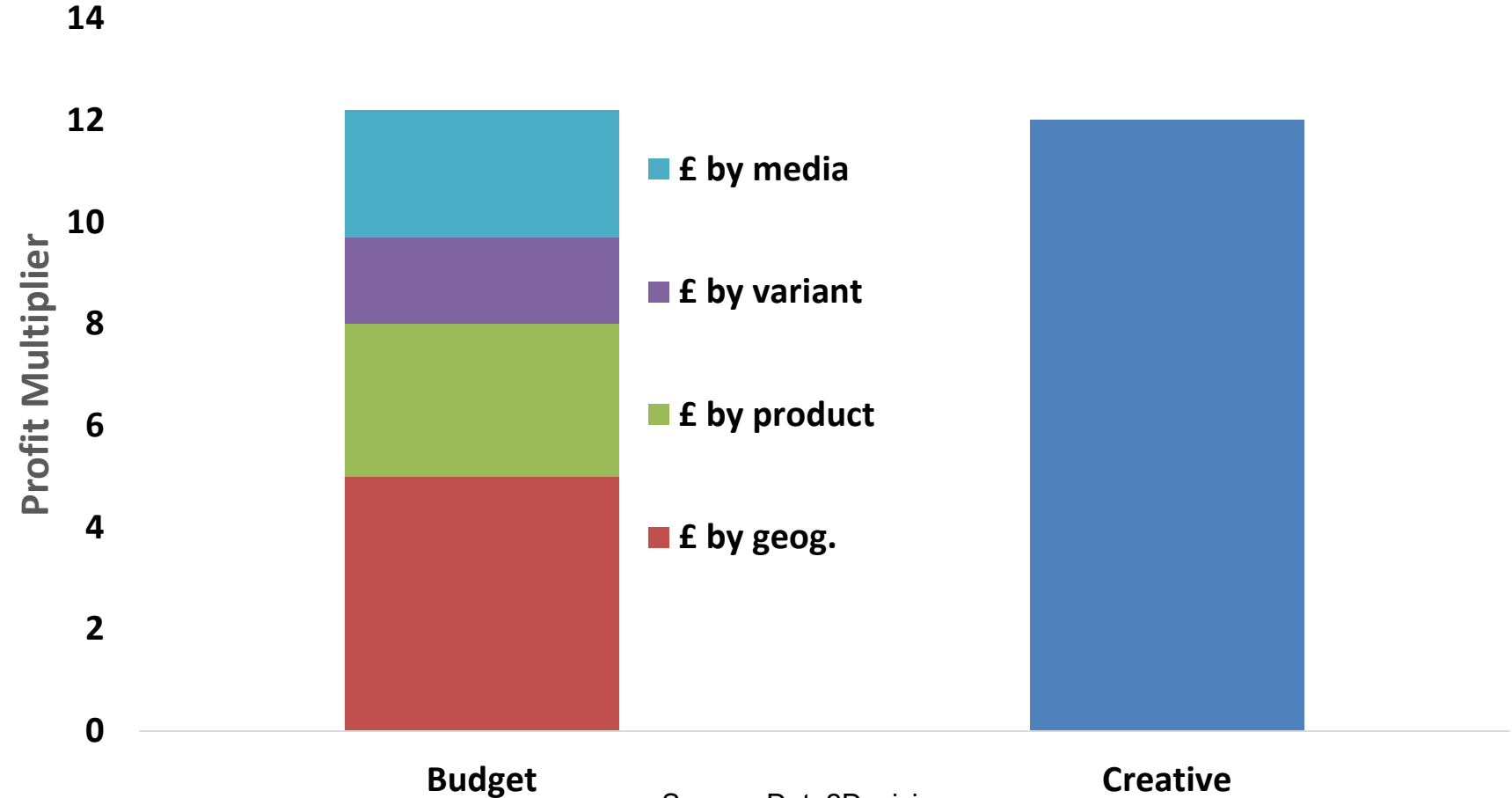
“Doing more with less”

Which media are most effective today?



Source: Meta 2022

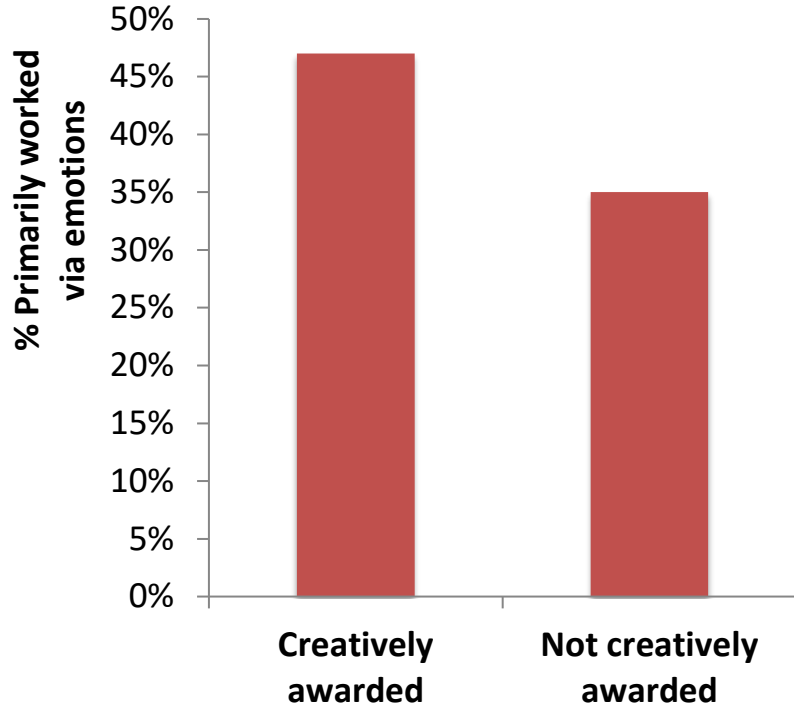
How to increase ad effectiveness



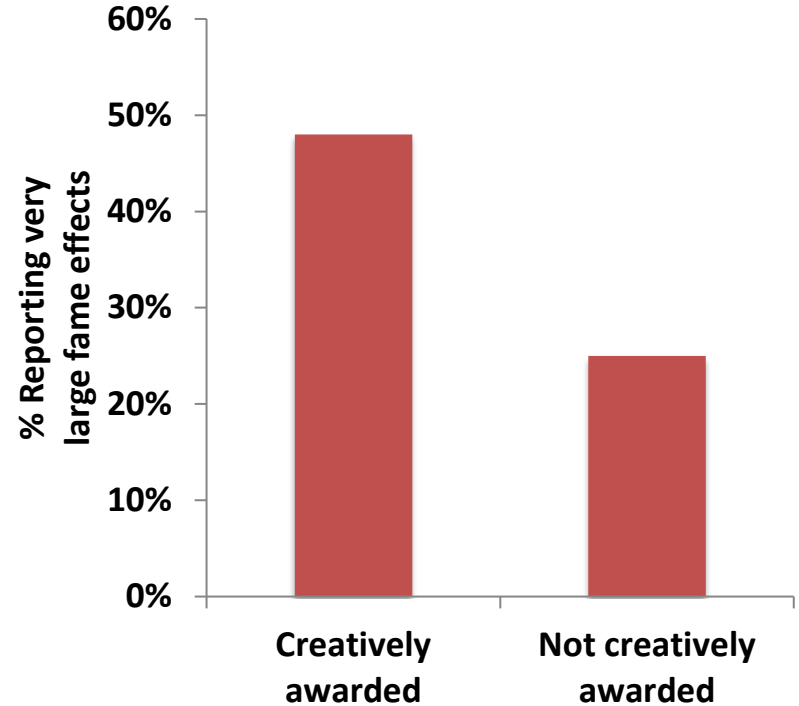
Source: Data2Decisions

Harness the power of creativity

Creativity arouses emotions



Creativity makes brands famous



Summary

5 keys to optimal investment

5 keys to optimal ad investment

- **Growth prospects**
 - Don't panic! Revenues may still grow, especially for FMCG & less discretionary purchases.
- **Profit margins**
 - Shift budget from promos to brand advertising to support firmer pricing.
- **Advertising costs**
 - Exploit cheap media and reduced competition to gain market share.
- **Risk**
 - Reduce perceived risk through brand advertising.
 - Reduce actual risk with better research (econometrics, controlled test, share of search)
- **Advertising effectiveness**
 - Optimise effectiveness & by combining online and offline media.
 - Harness the power of creativity.