Recession Marketing

When a recession strikes, most companies rush to cut their expenses, the most obvious one being advertising. Those in top management (mostly finance guys) don't believe in advertising, anyway; they tolerate it as a form of defensive insurance, not as a profit generator. They have set the whole marketing budget as a percentage of expected revenue, and when expected revenue drops, they see every reason to cut marketing expenditures. But this exposes the illogic of setting marketing expenditures based on expected revenue. This is putting the cart before the horse. One doesn't know expected revenue except by setting the marketing budget. The marketing budget is the cause, not the effect. Set a higher marketing budget and you will get a higher expected revenue.

Kmart's CEO decided to cut Kmart's marketing budget when the recession struck. The result was disastrous, and Kmart lost far more in sales than it had saved in marketing costs as customers moved their business to Target and Wal-Mart.

When a recession appears imminent, the CEO should appoint a multifunctional committee to propose what the company should do to reduce costs. The committee should examine the company's promotion mix, channel mix, market segment mix, customer mix, and geographic mix for activities and expenses that can safely be reduced. Every company has some losing or weak promotions, channels, market segments, customers, and geographic areas. A recession calls for housecleaning.

The basic problem is that in good times companies develop a lot of *organizational fat.* They buy excessively expensive furniture, pay for high-priced country club memberships, acquire company aircraft, hire a lot of consultants, and say good-bye to thrift. Then they painfully lay off a large number of workers when the recession strikes.

Companies can save money by switching their salespeople to economy-class flights and hotels. They can try to renegotiate purchasing contracts. They can delay selected long-term R&D projects and postpone capital projects. They can try to speed up collections and slow down payments.

During a recession, many companies rush to impose cost-cutting measures. But whatever measures they take, they should observe two rules. First, don't compromise your *customer value proposition.* Customers buy from you with a certain set of expectations about product quality and service. Don't reduce the experience that they have come to expect. Second, don't arbitrarily shift the cost burden to your suppliers and dealers without consultation. If you hurt your *partner value proposition*, partners will start shifting their alliances to your competitors.

Companies should consider temporarily lowering their prices, even though this will hurt their margins. It is better to hold on to your customers than to let them switch and sample your competitors. Because customers are highly price sensitive during a recession, price concessions are warranted.

Some smart companies, instead of resorting to cost cutting, may maintain or increase their budgets to grab market share from competitors who are reducing their budgets. If a company has the resources, it may see the recession as an opportunity to grow its business at the expense of its competitors. One study found that companies that maintained their marketing spending during the recession emerged stronger after the recession that those that didn't.[53]

Even smarter companies will build a cost-conscious culture not just when recession strikes but all the time. Winnebago Industries, the leading manufacturer of recreational vehicles in the United States, has built frugality into the heart of its culture. Every week Cost Savings Award checks are handed out for cost-saving suggestions. Because Winnebago practices *lean business* all the time, only minor surgery is called for when recession strikes.

Relationship Marketing

One of the things of most value to a company is its relationships—with customers, employees, suppliers, distributors, dealers, and retailers. The company's *relationship capital* is the sum of the knowledge, experience, and trust a company has with its customers, employees, suppliers, and distribution partners. These relationships are often worth more than the physical assets of a company. Relationships determine the future value of the firm.

Any slips in these relationships will hurt the company's performance. Companies need to keep a *relationship scorecard* that describes the strengths, weaknesses, opportunities, and threats in