

# Digital Marketing and the Recession

By Katie Schmitt

From May 2009 to June 2009, the Consumer Confidence Index fell from 54.8 to 49.3.<sup>1</sup> Similarly, in the same months, the Present Situation Index (a sub-index that measures overall consumer sentiments toward the present economic situation) fell from 29.7 to 24.8.<sup>1</sup> Lynn Franco, Director of The Conference Board's Consumer Research Center, put it this way:

“The decline in the Present Situation index, caused by a less favorable assessment of business conditions and employment, continues to imply that economic conditions, while not as weak as earlier, are nonetheless weak.”

Clearly, we know that we are in a recession. You don't have to work on Wall Street to feel the damaging effects. But while the outlook is glib, the key to coming out of the other end of this not only surviving, but thriving, is to do the best you can with the information you have. Our analysts have compiled research to show you how to make positive gains when everyone else is running for the door.

So how has the recession affected the advertising industry, and how will the industry change as a result going forward?

Let's first take a look at advertising spend. In terms of ad spending growth, it looks like the end of losses are nowhere in sight for TV, radio, and newspapers.

The eMarketer graph in Exhibit A shows the percentage change forecasted in US advertising and marketing spending (by media) from 2006 through 2011.

US Advertising and Marketing Spending Growth, by Media, 2006-2011 (% change)

	2006	2007	2008	2009	2010	2011
Cinema	15.0%	15.1%	14.9%	15.0%	15.0%	15.0%
Internet	25.0%	29.0%	21.1%	7.4%	10.0%	18.3%
Outdoor	10.8%	11.0%	1.3%	5.0%	0.0%	5.8%
TV	5.4%	0.6%	-1.5%	-7.9%	1.4%	-1.3%
Magazines	3.0%	3.0%	-8.0%	-9.6%	-5.0%	0.0%
Radio	1.5%	1.5%	-9.4%	-14.4%	-5.0%	0.0%
Newspapers	2.5%	-3.0%	-12.0%	-15.0%	-10.0%	-7.0%
<b>Total major media</b>	<b>5.2%</b>	<b>2.5%</b>	<b>-4.1%</b>	<b>-8.7%</b>	<b>-1.7%</b>	<b>1.1%</b>
Public Relations	13.9%	11.8%	7.3%	3.0%	1.7%	8.8%
Telemarketing	0.0%	1.8%	2.0%	2.0%	1.9%	1.0%
Event Sponsorship	10.5%	11.6%	22.9%	-1.1%	-2.4%	10.7%
Sales Promotion	3.9%	3.8%	0.3%	-2.9%	-3.7%	3.9%
Direct Mail	3.2%	3.5%	3.3%	-4.5%	2.0%	3.4%
<b>Total Marketing Services</b>	<b>3.2%</b>	<b>3.0%</b>	<b>2.5%</b>	<b>-2.3%</b>	<b>-1.1%</b>	<b>3.4%</b>
<b>Grand Total</b>	<b>4.1%</b>	<b>3.1%</b>	<b>-0.5%</b>	<b>-5.1%</b>	<b>-1.4%</b>	<b>2.4%</b>

Note: based on figures at current prices  
Source: ZenithOptimedia, "Advertising Expenditure Forecasts - March 2009."

Exhibit A

Exhibit A

Though TV ad spending looks like it may be able to post modest growths in 2010, it is projected to fall back down into negative numbers not more than a year later. Similarly, the loss of radio ad spending growth seems to be lessening, but not enough to make it back above zero in the coming years.

While newspaper ad sales have been falling for years, the biggest blow came in the first quarter of this year when newspaper ad sales dropped by nearly 30%. Read: if this trend continues, we could see the end of newspapers altogether before the 21st Century turns 15.

Internet ad spending, however, appears to be the sole medium on a positive trend. Unlike its offline siblings, it is once again increasing and is forecasted to do so for the foreseeable future.

The data presented shows what advertisers should have corrected long ago: there is entirely too much lag time to follow trends. When everyone stops spending ad dollars, the window to fail closes up. As you can see from Exhibit A, marketers are finally starting to catch up with this concept.

This further proves what W. Edwards Deming once said: “It is not necessary to change. Survival is not mandatory.” For a long time, marketers have been able to get away with keeping their tired, traditional offline advertising efforts, thus not keeping up with the changing tides that the Internet and digital media bring.

So we can clearly see what trends the various advertising channels are taking, but what about consumers - the people whose behavior can impact your business the most? It is important to understand consumer behavior, how the recession is changing that behavior, and what the most effective marketing tactics are to address this.

We’ll start with a real-life example. When asked how he has seen consumer behavior shift during the recession, John Himwich, Director of Operations and User Experience for Diapers.com, responded with the following:

“People are becoming much more price-sensitive. We’re spending a lot more time thinking about our prices, in general, and especially our prices in comparison to our competition. It’s really clear that everybody is really gunning for the word ‘sale.’ We now have ‘sale’ in our top navigation, and there are core products we’ve left on semi-permanent sale.”

In a May 2009 Marketing VOX survey, 73% of respondents reported cutting back on expenses due to economic fears. When asked what they are specifically cutting back on, 59% said they are postponing purchases of high-end electronic devices such as HDTV’s and laptops, 56% are postponing furniture purchases, and 55% are postponing household improvements. At the same token, 46% did say they are making their homes more energy-efficient, which could be directly correlated to efforts to save money in the long-run.<sup>2</sup>

Limiting spending and expenses in response to the recession is one foreseeable behavior of consumers, but how are they changing their behavior when they do shop?

THEY ARE SEEKING BARGAINS. According to ComScore spokesman Andrew Lippsman, coupons have been the second-most-visited category on the Internet – behind jobs – for about a year. In March, Coupons.com reported a 192% increase in the value of coupons printed from its site, compared with a year ago. The total value of the coupons was \$57 million.<sup>3</sup>

An ROI Research Inc. study conducted in May 2009 further proves that consumers are actively seeking ways

to save; almost 70% of survey respondents reported using coupons when making purchases to save money.<sup>4</sup> The writing is on the wall that consumers are actively seeking better deals.

THEY ARE DOING THEIR RESEARCH. As the economy worsened in late 2008, consumers increased their reliance on the Internet to do product research. Over time, the Internet has become more important when making buying decisions, but the recession has accelerated this trend. Consumers not only utilize the web as a shopping research tool more than ever, but they are also evolving into savvier, more educated buyers.

More specific to the internet, ROI Research Inc. found that 72% of consumers search online to find better deals, 44% use comparison shopping sites or search engines to find the best prices, and over one-third said they are more likely to click on banner ads or paid search listings to find better deals while shopping online.<sup>5</sup>

### Most Frequently Used Source of Product/Service Information for Making Purchase Decisions According to US Online Shoppers, October 2008 (% of respondents)

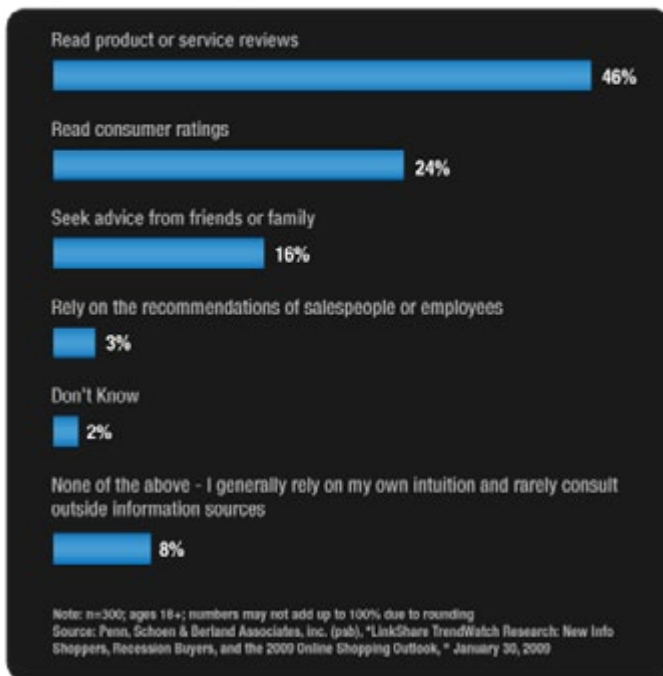


Exhibit B

Value shoppers are sharpening their online skills by trying different tactics, including new and different kinds of e-commerce sites. Rather than just buying from the first site they come to, they are visiting multiple sites to compare prices and look at alternative products. Customer reviews, online product videos, and personalized product recommendations are also becoming increasingly popular as a decision making tools.

The eMarketer graph in Exhibit B depicts the sources consumers most frequently turn to when making purchase decisions.

Exhibit B

Consumers have, in a sense, evolved into a new breed. Their behavior is rapidly changing, and this new behavior will remain even after the recession. Consumers will continue to do their research and rely on user reviews, comparison shopping sites, and the like even after the economy has come out of its slump. Marketers must realize this and act accordingly in order to gain and retain these “new consumers.”

So, what exactly should you DO?

1. Offer Incentives. Clearly, marketers must have strategies in place to reach cost-conscious consumers if they are going to keep business alive and well. To attract these consumers, offer them incentives or special offers. If you are able to offer lower prices, make sure you are letting them know about the savings they will receive, by using features such as “sale” buttons on your site. We also recommend including discounts and special offers in paid search and display ads you are running.
2. Pay attention to ignored consumers. Often times during a recession, consumers get ignored by marketers as a result of marketing budgets being cut. You can use this to your advantage though, by picking up those customers that your competitors are letting go. Realize that pulling back on advertising budgets can end up hurting you more than helping. For example, neglecting your paid search marketing campaign to save some extra money now can have damaging effects on your search rankings in the long run. Pausing or stopping your campaign altogether can decrease your quality score and you will lose the rankings you’ve gained over time.
3. Exhaust your marketing budgets in paid search marketing. Paid search is the only form of marketing that fulfills demand, rather than creates it. Through search engines, consumers are actively seeking out your product or service as a solution for their needs. Why spend a dime of your budget creating more demand if you haven’t fulfilled all of the demand that is already out there?
4. Invest in analytics. When times are tough, there is not as much room for error. With the granular targeting capabilities digital marketing has to offer, there’s no reason you can’t run a highly effective digital campaign. Invest in analytics tools that will provide you with valuable data. Take the time to analyze this data to find out where your target audience is online, when, in what capacity, what creative messages they respond well to, and more. Use this information to create an effective marketing plan and execute it accordingly to realize the highest ROI. This is one of the best investments you can make, and it will greatly pay off in the long run.
5. Appear in the places consumers are looking for you. Make sure that you are listed on sites where consumers will be doing their research, including comparison shopping sites, online market places such as Amazon and eBay, and coupon sites.
6. Invest in their shopping experience. Promote customer loyalty and create an enhanced shopping experience by having features on your web site that give consumers richer information about your products, such as

product videos. Today's consumers are hungry for information and convenience; give them what they are looking for.

7. Make it easy. Several brick-and-mortar retailers can no longer offer the kind of shopping experience that can be found online. Offer features on your site that bring the experience of shopping in a brick-and-mortar store online, such as rich media applications. Include alternative payment methods, access to live help, and user ratings and reviews as added value features to enhance the shopping experience.

8. Let them know you care. Add value by bridging the gap in communication with consumers between purchases. Email is a great retention tool; use it to send them things like reminders of upcoming sales, discounts for select customers, new product launches, and interesting company updates. This will allow your consumers to see that you care about them all the time, and not just when they making purchases.

9. Strengthen – don't slack on – customer service. This is most important in tough economic times, as customer service is typically the first thing to go. In an Internet Retailer Q4 2008 shopping study of 100 online retailers, the e-tailing group discovered a significant drop-off from the previous year in the percentage of merchants that provided e-mail shipping confirmation, live help and 24/7 customer service. Also, web retailers' customer service representatives exhibited less product knowledge and shipping time was longer in Q4 2008.<sup>6</sup>

The uprooting of the economy has transformed the way consumers think about making purchases. They are savvy shoppers who do their homework and constantly research the information that is out there. These changes will remain even after we find our bull market again.

There is great opportunity now to capture more market share by being present when consumers are looking for you, offering deals and incentives, providing the information they are looking for, and offering superior customer service.

This recession is a small dot on most businesses' continuum, but the actions you take and the ways you handle it will be a very large dot with rippling effects. Be the bull and use smart marketing tactics to plow through and come out stronger than before.

<sup>1</sup>Reuters, June 30, 2009

<sup>2</sup>Marketing VOX survey, May 2009

<sup>3</sup>AdAge, April 2009

<sup>4</sup>Performics and ROI Research Inc. Study, May 2009

<sup>5</sup>Vertical Web Media and ROI Research Inc. Study, May 2009

<sup>6</sup>eMarketer: E-Commerce in a Recession: The impact on Consumers and Retailers, May 2009