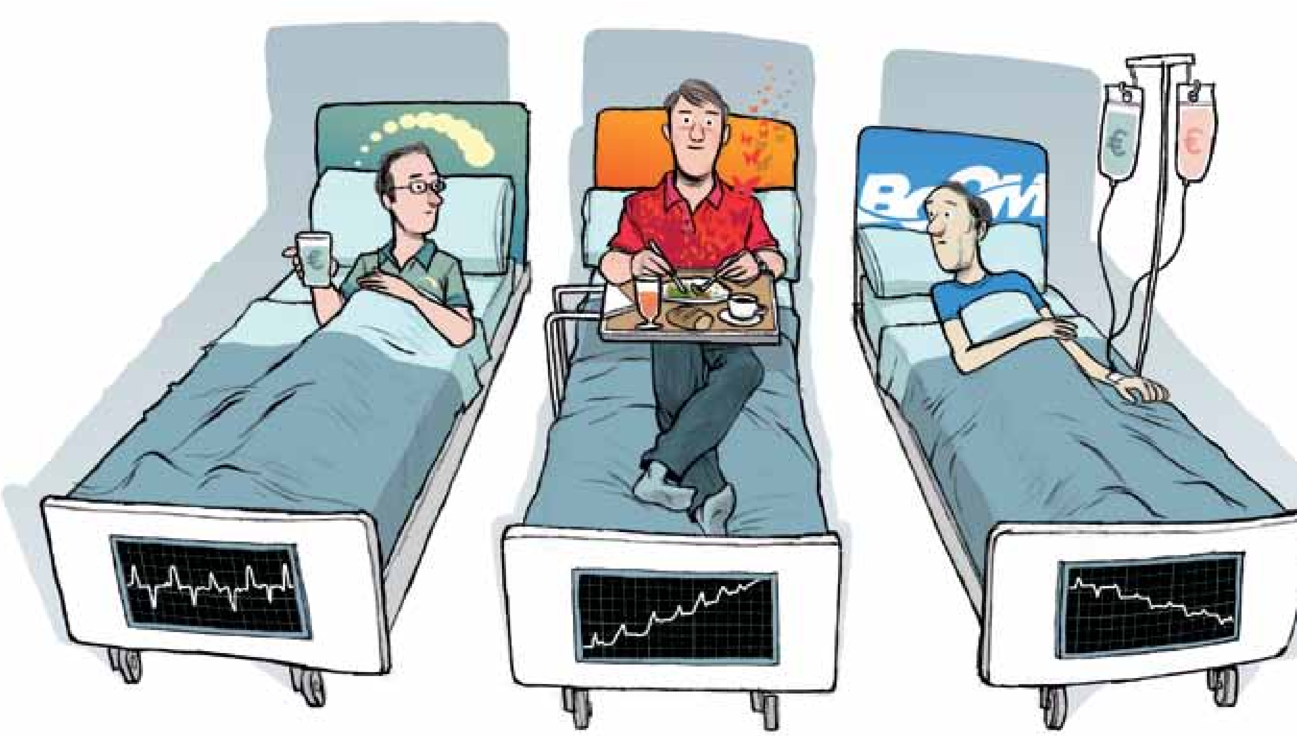

Illustration by MARTÍN TOGNOLA

STABILITY, GROWTH, DECLINE

Beating Recession Fatigue Requires Right Diagnosis

By DOMINIQUE HANSSENS

Marketing managers in mature markets are faced with the Herculean task of improving the sales and profit performance of their brands. Today, various pundits have predicted the imminent demise of once-powerful brands such as Blockbuster, Borders and Palm, due to the virulence of the economic crisis. What can companies do to keep established brands alive?

When products or markets are young, sales growth is driven by market expansion, which can produce upward sales trends for an extended period of time. A prime example is the Japanese car industry in the 1970s and 1980s. During this period, *all* Japanese car brands managed to increase sales and share in North American and European export markets.

But in mature markets, the situation is very different. Mature product categories are often called *equilibrium* markets. Changes in market share are only temporary, and over the long run, there is minimal change in market position. There are myriad reasons: Expansion may be curtailed by extensive consumer awareness, saturated demand or stabilized prices. Distribution may have reached limitations. Adding to these obstacles, the reaction of competitors to marketing initiatives is fast and furious.

Against this backdrop, marketing managers are faced with finding ways to boost their brands' performance. A slight downturn can trigger calls for an immediate marketing intervention or even a top management shake-up, which can have a short-term effect on brand performance. At the same time, top management's natural "quest for more" also drives market investments, which can fuel brand performance.

Performance decline gets the most managerial and media attention because of the negative implications for investors and employees. It's considered harder to reverse a decline than to maintain stability, because it often requires a "turnaround strategy." These strategies might include replacing everyday low pricing with a strategy of high-low pricing; or a few advertising campaigns might be replaced with many; or low levels of point-of-purchase activity may be switched for high levels of feature and display.

In mature markets, any change in brand performance cannot last for a prolonged period of time. That is because a prolonged period of decline is incongruent with managerial objectives, and a prolonged period of growth is incongruent with market realities.

EXECUTIVE SUMMARY

In periods of reduced consumption, like now, managers may be anxious to kick their "turnaround plan" into high gear. But before prescribing any wonder remedy, it's vital to make a correct diagnosis, otherwise you may be administering placebos.

Using research from the food industry in the United States, the author attempts to expand the scope of marketing-mix modeling beyond the typical actions resorted to by top management, whose desperate life-saving attempts may register a small blip for a time, but won't bring about a lasting cure. Product promotions and temporary price reductions, for example, may be better antidotes than launching an invasive advertising campaign, no matter how good an idea it may seem at the time.

You first have to decide which state your brand is in – stable, growing or deteriorating – and make different interventions accordingly. Ask yourself: What is it about my value-proposition as a brand that is going to help me through this difficult time? The answer to that question will depend on the brand: price concessions, "share of voice" or selective promotions that price discriminate.

Throughout the treatment, maintaining good databases, and using social media and other Web-based tools, are vital instruments that companies can use to refine their practices. With a deep understanding of their place in the market, and by taking the right actions, established brands can survive the crisis and emerge healthier for the future.

My colleague, Koen Pauwels, of the Tuck School of Business at Dartmouth, and I set out to provide a deeper understanding of what really happens to brands that appear to be in long periods of stability. That is, we wanted to put a magnifying glass on their behavior, and relate changes in performance to change in marketing actions and regimes. Our overall aim was to expand the scope of marketing-mix modeling to account for such important trends.

Analyzing Turnarounds

Surprisingly, research about marketing turnaround strategies is mostly anecdotal. For example, the turnaround of the ready-made food brand Budget Gourmet, as reported in the publication *Advertising Age*, was attributed to a highly effective advertising campaign. Yet no scientific evidence existed to link the brand's improved performance with the advertising campaign, or that took into consideration other factors that occurred during the same time period, such as pricing strategy change or increased point-of-purchase activity.

One important study, published in the *Journal of Marketing*, examined the impact of marketing policy changes on Procter & Gamble's shift from promotion-intensive to advertising-intensive marketing support. However, the research focused on a single identifiable regime shift in the data and provided no formal metrics for diagnosing gradual performance turnarounds over time.

Other research has measured the effects of single actions – such as a price change or an ad campaign – on current and sometimes future sales performance.

We, on the other hand, wanted to analyze the effects of *strategic change* in marketing regimes, such as moving from a low to high promotional intensity. By analyzing extensive data in a specific sector (frozen foods), we found that sales performance in mature markets goes through successive "windows of performance": stability, growth or decline. We then examined how different performance regimes are created over time, how these impact marketing decisions and how these decisions, in turn, affect business performance.

The Problem With Trends

After implementing a turnaround plan, a DaimlerChrysler executive was once quoted in the *Financial Times* as saying, "Admittedly, we have a setback in the third year, but if you look at the trend, we are moving in the right direction."

When products or markets are young, sales growth is driven by market expansion. But in mature markets, a prolonged period of growth is incongruent with market realities.

This comment reflects how managers often interpret their companies' performance in terms of trends and trend changes. In mature markets, however, sustained trends over long periods of time are unrealistic. This is because the term suggests that a predetermined pattern has been set, whose momentum is, therefore, independent of any subsequent managerial and competitive interventions. The notion of "trend" does not take into account the fact that marketing actions can turn negative trends around, leading to stable or even improving performance. Similarly, positive growth inevitably faces the gravitational forces of competitive reaction.

In the summer of 1992, the management of the frozen food brand Budget Gourmet said that the company's sales had dropped over the past year, and survival of the brand was in question. A new division president was brought in, who dramatically altered the marketing policy. Among the areas changed were pricing, with a 30 percent reduction over a prolonged time period; point-of-purchase activity, with a major increase in feature in display; and advertising, through a new media campaign.

The brand saw strong improvement after a few months, and the marketing campaign won the *Advertising Age* "Star" award for brand turnaround. Yet there was no data linking the turnaround to advertising. This suggests a dangerously superficial understanding of the turnaround that had taken place.

The big question is how often change occurs, and whether specific marketing actions are really what instigate that change.

The Three Windows

As a point of departure, we posit that there are three general "windows of performance" that brands in mature markets generally find themselves in.

WINDOW 1: STABILITY. When a brand is in a window of stability, the business has become habitual. Consumers may buy out of habit and manufacturers deliver out of habit. On the surface, nothing appears to be changing. But this is an illusion because, in reality, these are periods when one brand may be stronger than another. Any subsequent managerial input, in turn, alters the situation.

In our research, we have found that among mature brands, approximately two-thirds of the time things are stable. In a stable period, managers have to be vigilant and take nothing for granted. Even though distribution and product may be established, companies should look at their brand frequently and ask whether it's time to do something differently. This may be the time to set aside some resources, invest in product innovation and anticipate what changes may occur. It's a key time to carry out these actions because companies are usually in a financial position to do so.

WINDOW 2: GROWTH. Periods of increased performance do not just signal a time to open the champagne bottle. Companies should be preparing themselves for some kind of competitive reaction, for the very simple reason that if your business performance keeps on improving, and you are in a stable market, then somebody else is hurting.

And if your competitors are *really* hurting, you can anticipate that there will be some form of competitive reaction, for example, at the price point, or in product reformulation and product expansion, or tapping new distribution channels. The key is to realize your gain is coming at the expense of somebody else, so you should be ready for the consequences.

WINDOW 3: DECLINE. The third scenario is the deteriorating position – a situation many well-known brands battle today, as consumers continue to spend less. Our research shows that when performance declines, things generally don't get better all by themselves. It's sometimes tempting to think, "I'm losing market share, but what the competitor is doing is not all that interesting, so consumers will come back to me." But our research shows that it is vital for companies, at this point, to plan an intervention that includes more than one element, in order to turn things around.

Making the Diagnosis

There are various frameworks for making a diagnosis of a firm's situation. First, you have to identify periods of poor performance in a brand's history, particularly the beginning and the end of the decline.

Second, you isolate the causes associated with the turnaround. The causes could be economic downturns and upturns that affect the entire category, a single marketing action or a sustained marketing policy change.

Assessing performance periods can be achieved in three ways: through direct trend assessment, filtering methods and time-varying parameter models.

Direct trend assessment refers to a relevant time window, and measuring the sign and significance of a trend in the window to classify the performance regime.

Filtering, meanwhile, means taking the performance data and separating the high-frequency from the low-frequency movements that represent the performance "baseline."

Finally, a performance trend can also be measured as a time-varying parameter.

One of the reasons that companies have difficulties evaluating brand performance is that they are usually in "execution mode," and have little opportunity for last-minute changes. Some sectors – such as fashion and entertainment, where more attention is paid to recent changes in market conditions – may have more flexibility in this regard.

Another reason is that managers are more interested in their brand's performance during pre-specified shorter periods – for example, annual or quarterly.

To confirm this, we posted the following question on **www.marketingprofs.com**, a well-known website for marketing professionals: "In your company, how long does performance have to be in decline before the company rethinks its strategy and executives on a turnaround strategy?" We received the following responses:

- "In my company (a well-known global brand and a key contributor to strategy know-how), there is a quarterly review of all the major performances in terms of fresh orders, revenues, margin, collected cash, past dues. All of these financial performance measures are projected for one year in advance through a rolling strategic planning process."
- "Being from the information technology sector, in my organization, the 'rolling window' is semi-annual, that is, six months is targeted for reviews and assessment, and for fine-tuning the strategies. But to completely set new targets and develop new strategies, a year's timeline is what we look at."
- "Performance is evaluated year-over-year and versus the plan."

These answers showed us that managers evaluate performance trends based on pre-specified windows, and the choice of window length may vary across industries.

The Case of Frozen Dinners

To understand how brands shift in mature markets, we analyzed a comprehensive marketing data set for frozen dinners. This is the largest category within the frozen-food market, with more than $5.9 billion in annual sales in the United States. The sector underwent massive change in the 1980s, with technological innovations such as newly designed cryogenic railcars for transporting frozen foods, as well as the introduction of single-serve packages and low-calorie entrees. By the 1990s, category sales and marketing expenditures were fairly stable.

Our sample covered 156 weeks, and we analyzed data covering category and brand sales, regular price and temporary price reductions, display, feature and advertising. We also included product-line additions.

Six national brands competed for the majority of the market: Stouffer (15 percent

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Hanssens studied econometrics at the University of Antwerp in his native Belgium, before obtaining an M.S. and Ph.D. at Purdue University's Krannert Graduate School of Management. He has served as an area editor for *Marketing Science* and an associate editor for Management Science. His has won four Best Paper awards, in Marketing Science (1995, 2001, 2002) and *Journal of Marketing Research* (1999, 2007). His book, *Market Response Models*, with Leonard Parsons and Randall Schultz, has been translated into Chinese. Among his diverse consulting interests, he is a partner with MarketSharePartners, an L.A.-based marketing analytics firm.

> The brand's progress had little to do with advertising. The lesson is clear: turnarounds are strategic, not tactical, and involve other variables, including the promotion and product line.

share), Swanson (11 percent), Healthy Choice (11 percent), Budget Gourmet (10 percent), Lean Cuisine (10 percent) and Weight Watchers (8 percent). According to the data, demand for low-calorie entrees peaks in mid-January and March, reflecting consumers' New Year and springtime resolutions to lose weight. By contrast, family get-togethers and Thanksgiving, Christmas and New Year diminish the demand for frozen food. Our analysis concluded that the frozen-foods market was mature, with no structural breaks, and one growing (Lean Cuisine) and five stable major brands.

Our analysis showed that price, display and feature significantly impact sales for virtually all brands. Yet product-line additions are not significantly related to sales performance for any brand. Through our in-depth analysis of the data, we discovered Lean Cuisine was able to maintain its upward performance through ongoing shifts in temporary price reductions, display, feature and advertising. Additionally, we found that promotions – or temporary price reductions – played a particularly significant role in this brand's ascent.

At the time, a lot of media praise was heaped on Budget Gourmet's advertising agency. But when we analyzed the data very carefully, we saw that the brand's progress had relatively little to do with the advertising itself, but rather it was a complete strategy shift, including the promotion, the product line and other variables. The clear lesson is that turnarounds are strategic, not tactical, and involve more than one element of the marketing mix.

Marketing Actions in a Downturn

Problems for marketers of established brands are particularly acute today, as consumption has dropped in many sectors. As a result, several brands are being curtailed, or even removed from the market. The question is: Why does one brand suffer a lot, or even disappear, during a recession?

In a difficult environment, brands that are not able to survive are usually those that are simply not providing enough customer value. It is imperative that marketers ask the following question: What is it about my value-proposition as a brand that is going to help me through this difficult time?

The answer to that question will depend on the brand. There are some that make price concessions. For example, in Los Angeles there are now restaurants that are advertising "stimulus dinners," at a reduced rate. This is clearly not a long-term strategy, but they are taking an action to keep business running through difficult times, without hurting the brand. And they use humor to signify that "you're not always going to have such a good deal."

Other brands are being more aggressive and, in fact, opportunistic, in this recession period. An example would be those brands that realize that their business performance is a function, in part, of their "share of voice," that is, the share of marketing they pump into the marketplace in comparison with their competitors.

Several marketing academics have developed econometric models that quantify the share of voice effect. If there is an effect, you can reasonably anticipate that during a recession, your competitors will cut their spending for all the obvious reasons. In these cases, a productive strategy may be to simply keep spending the same. Since there is reduced competition, you will have a higher share of voice, resulting in higher impact on business performance and a more unique position in the marketplace.

In the United States, Apple is doing this now, and in the automobile market, the Korean car manufacturer, Hyundai, is implementing a similar strategy. While everybody's cutting back, these brands are actually pushing forward. So, recessions can provide an opportunity to build share, while your competitors are relatively weaker.

How do you know if it's worthwhile to invest in pushing your brand forward? Good databases are key because they can track how consumers are responsive to your marketing actions, which will allow you to "keep your eye on that eight ball."

10 Considerations to Keep Brands Buoyant

Before calling in emergency services, see if you can't make things better with this prescription.

1. To diagnose your brand, identify windows of performance through one of three approaches: direct trend assessment, filtering or time-varying parameters.

2. Decide whether your brand is in a period of stability, growth or decline.

3. Ask yourself: "What about my value proposition as a brand is going to help me through this period?"

4. If you are in a stable period, be vigilant and take nothing for granted. This is a time to set aside resources, invest in product innovation and anticipate what changes may occur.

5. If you are in a period of growth, this means that your competitors are hurting and you can anticipate that there will be some form of competitive reaction. Be ready for them.

6. If you are experiencing a decline, plan an intervention that includes more than one element to turn things around – not just advertising but also innovation.

7. When marketing budgets are extremely tight, consider the use of promotions, but with caution. It is easy to undermine the power of the brand through promotions.

8. Take advantage of the power of social media, particularly when launching new products and monitoring their acceptance in the marketplace.

9. Always monitor the effects of social media initiatives on demand. If there is no demand effect, it becomes a fun thing for consumers, but gives you negative return in the market.

10. Use social media to create a knowledge base within the company about what customers react to.

If you have excellent databases, you will see patterns reflecting, for example, that your share of market moves with your share of voice. You can also use response models that will show how customers are living in today's environment. They purchase products and services not in function of yesterday, but in function of today, and if today you have a higher share of voice, then your share of business goes up. This is not always the case, but it's a condition that you can certainly detect with data.

If you cannot detect this with data, then you can run an experiment. For example, pick a regional market and double the share of voice. Then, pick another market and cut it down to zero, and see what happens to your business performance. There are several ways such as this that companies can gain marketing intelligence.

The Power of Promotions

In our research, we found that promotions played an important role in strategic turnarounds. Promotions are positive when they do what they are supposed to do: Take a portion of your customers who are price sensitive, and bring them into the market when they are ready for that.

But the idea is that you don't give that subsidy to everybody, which would be a price cut across the board. Customers for whom the product has full-price value should continue to pay that. The trick is to *price discriminate*, so that a selective price cut is provided only for those who need it.

Research shows that if you utilize promotions excessively, customers will begin to anticipate your marketing actions. They start to *expect* that the price promotion will occur. What happens then is you have consumers who start to behave strategically, and will only buy your product when it's on sale. This is dangerous, as profit margins can erode quickly, i.e., fewer and fewer customers pay full price.

This is what General Motors did in the early years of the 21st century. They were very proud of their turnaround due to promotions, because they were selling cars in abundance. They didn't realize they were undermining the strength of their brands.

Promotions should be very selective, particularly in a recession. This is because everyone understands that there are new conditions, and many expect promotions. The goal is to craft a marketing campaign that takes advantage of this situation, but doesn't undermine the long-term viability of the brand.

The best long-term marketing strategies

> The biggest opportunity for established brands in terms of social media is with new product launches. Companies can monitor conversations to find out how early adopters are receiving what you are launching.

combine relevant innovation with aggressive marketing. But in times when you cannot afford it, the selective and careful use of promotions may be a viable strategy. Just be careful that it doesn't become a permanent feature of your marketing strategy.

Established Brands and the Internet

The rise of the Internet has given companies a highly enhanced ability to understand what is happening with a product in a short time frame, in terms of interest in a new product or innovation. With Google and other publicly available Internet search tools, marketers have moved closer to current market conditions, without having to do laborious consumer surveys. Instead, they can observe what is happening on the Web, which is a subject I've explored in various papers. Via the Internet, you can gain highly reliable indicators on various factors such as price point, quality or supply problems with China – whatever the problem *du jour* is.

Research on the impact of social media and established brands is still nascent, but studies so far tell us that monitoring a certain subgroup using social media tools can provide valuable early warnings or indicators of specific problems. Companies would be wise to invest in Internet monitoring, with a focus on any negative comments or complaints about products, which can be horribly damaging.

The biggest opportunity for established brands in terms of social media, however, is with new product launches. Companies can use social media as a laboratory or test market, and monitor conversations through Web crawlers, in order to form an idea of how your early adopters, at least, are receiving what you are launching in the marketplace. You can then make adjustments to your product according to this information.

Established brands can also launch special campaigns that do not connect to a product category, but instead with the brand. An example might be creating buzz around the World Cup soccer championship in South Africa or the Olympics, and in doing so, create a community around the brand. But you must provide useful information for the consumer in these types of initiatives, if you want to create excitement around your brand.

If you try this strategy, it's imperative to monitor effects on demand. If there is no demand effect, it becomes a fun thing for consumers, but gives you negative return in the market. So, the key is to carefully monitor key business indicators and see if there is any movement or upward trend as a result of your online initiative.

Companies should also build a knowledge base inside the firm about what customers react to, which they can take action on through social media.

Taking the Right Path

Established brands face significant challenges in the face of the crisis. To survive, they must be clear about where they currently stand in the mature marketplace – in a position of growth, decline or stability.

Once they have made this diagnosis, they can craft a marketing strategy that includes a suitable marketing mix, preferably with at least two major elements, such as innovation and advertising.

While promotions are an attractive option for surviving in the recession era, they must be used with much discretion. Online initiatives, particularly for product launches and new product monitoring, can be effective.

With a deep understanding of their place in the market, and by taking the right actions, established brands can ensure their own survival through the crisis and beyond. □

Larisa Tatge served as editor for this article.

TO KNOW MORE

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