

Leveraging recession to improve profitability

Brilliant basics for investment deployment





Introduction

With uncertainty gripping world markets and companies preparing for recession, a common question from our clients is 'how should we adapt our media investments during these challenging times?'

Mindshare has established a considerable body of knowledge and learning in driving media efficiency and optimization for its clients; and four key findings from that work are:

1. Cutting media budgets to protect short term profitability reduces long term ROI

A common action during recession is to cut current expenditure (i.e. media budgets) in order to maintain profitability.

Mindshare's work has demonstrated that:

1. A brand in communication hiatus period is more vulnerable to competitive attacks.
2. And in the slightly longer term, brands which spend below a certain Share of Spend / Share of Market ratio have a high probability of market share decline.

Looking at it from another angle, maintaining or even increasing spends when competitors are cutting their budgets opens up opportunities for a brand to grab market share from competitors. Recession provides an opportunity for the relatively strong to wound or eliminate the relatively weak. And higher market share usually creates higher longer term profitability.

2. ROI increases come from investing in brands which are responsive to investments

While this seems obvious, many advertisers make the mistake of allocating budgets across a brand portfolio based on 'brand contribution to company revenue'. Brands which bring in higher revenue get higher marketing budgets to spend and vice versa.

Our sales modeling work has shown that brands respond differently to investments - based on the categories they are in, their life stage, their equity, their quality of communication etc.

Hence in periods where pressure on resources is high, moving from a revenue based allocation to an investment responsive allocation is the key to maximizing returns from those resources. Our work has helped advertisers to define which brands are investment responsive and which are not. This information is essential if investments are deployed in a way that increases the advertiser's return on investment.



3. Invest in channels which deliver a higher return on investment

There are differences in the return on investment from one channel to the next. Media channel budget allocations are too often based on what advertisers feel is true rather than what is actually true. This means that budget allocation is frequently sub-optimal.

It should always be important that investments are made in a manner which enhances the return on that investment. But the necessity is heightened during times where business challenges are at their most severe.

Mindshare's economic and market mix modeling allows marketers to tease apart the multitude of factors which contribute to sales and demonstrates which are contributing the most. These factors then become the highest priority drivers to invest behind when investments are under pressure.

4. Recession creates opportunity

As advertising spends fall, opportunities are created for adding value to media assets.

Besides identifying media assets available at cheaper pricing, Mindshare sees opportunities in

1. Forging long-term partnerships on valuable assets, as media owners look to protect spends through recession
2. Trading (branded) content for media value, as content budgets for media owners decline
3. Using mediums (i.e. magazines, OOH etc.) more innovatively, as media owners are more open to new ideas

So working more closely with media partners, especially in this period, will benefit the business going forward.

Contacts

To find out how you, too, can increase the return you receive from your marketing and media investments please contact:

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