

ADVERTISING IN TIMES OF CRISIS

Belu Mihaela Gabriela

Academia de Studii Economice Facultatea Relații Economice Internaționale Strada Mihai Eminescu, Nr. 13-15, Et. 2. Sala 1212, Sector 1, București Email: mihaelabelu2000@yahoo.com Telefon:012.319.19.00

Paraschiv Mihai Dorel

Academia de Studii Economice Facultatea Relații Economice Internaționale Strada Mihai Eminescu, Nr. 13-15, Et. 2. Sala 1204, Sector 1, București Email: dorelpar@inde.ro

Cărăgin Andreea Raluca

Academia de Studii Economice Facultatea Relații Economice Internaționale Strada Mihai Eminescu, Nr. 13-15, Et. 2. Sala 1205, Sector 1, București Email: andreeacaragin@yahoo.com

The article analyzes some key issues in advertising industry in times of crisis. Marketers are always in search for new and effective ways to reach the target market before the competitors. The general spirit is that by disturbing the markets, the deceleration of the economy, and especially of consumption, creates news, gives the opportunity to reconfigure the strategies marketing. One of the main consequences of the economic crisis is to reduce marketing budgets of major corporations for huge growth markets; after a long time, they will start to lower investment in advertising, at some time on an upward trend.

Keywords: advertising, recession, media markets

JEL Classification: M37, E37

1. Introduction

Financial uncertainty weighs on the cost and the accessibility to the financing, the rise of the raw materials seem to feed a share of inflation, the weak growth is and even more slowed down, the profits of purchasing power are extremely heterogeneous, the movement of globalisation continues and changes. In the short run, these factors weigh on investment, consumption continuing to increase even slightly. Such a climate can worry the advertisers, who, under the pressure of financial, are encouraged to reduce their expenditure in order to maintain the levels of margins.

Reasons to continue to spend in advertising during recession are as follows: to protect the value of the mark at a time when it can be mined by promotional actions of the market actors; in the short run, to facilitate the choice of the consumers who redefine their practices and change their behaviors; from the same point of view, to even maintain or increase the penetration of the mark and the sales, when this one does not reach its potential level (not all the consumers are reached) that economic environment redefines; in the medium term, to support the resumption of the sales at the time of change of cycle; to benefit from what the reduced advertising interference to launch an offensive in terms of market shares; to benefit from the effect of ousting (of the intermediate actors) to maintain and increase, all things being equal, a profitability stronger than the others; to send positive signals to the financial markets to maintain and increase the financial value of the mark and thus to reduce the volatility of the courses.

The three major functions of advertising are as follows: it is informative and gives to the consumer the means for a rational decision, while communicating him the existence of the mark and by informing him on its characteristics, including the price; it is persuasive insofar as it changes certain beliefs in connection with the mark and of the product.

2. Literature review

The variations of the advertising budgets seem to be the consequence of the variations of the economic activity, whether it is seized by consumption or the GDP. Ashley, Granger and Schmalensee (1980) which by a causal analysis return account the fact that the growth of consumption involves the growth of the advertising budgets, without one being able to accept the reciprocal one.

Rohme and Weisser (2007) find that advertising does not Granger-cause growth but Granger-causes consumption. They considered that advertising is good for consumption; consumption is good for output and output growth. Hence, advertising is good for economic growth.

In spite of often contradictory results as for the direction of causality, a point of agreement is established in the fact of a strong correlation of the advertising expenses and GDP and in the short-term impact of advertising when this impact is established. The cause of the correlation probably comes from budgetary determination of the type ratio (pub/sales), which confirms a study of Chakrabarti and Arora (1997) by stressing that this ratio depends mainly on the category and consequently of elasticity price, to a lesser extent by the frequency of launching of new produces and by the price. One includes/understands too easily that to cross in the budgets is an immediate decision which makes it possible to preserve profitability when the sales stagnate or erode whereas the effect of the reduction of the budgets cannot be seen in the immediate future.

The recession does not affect the homogeneous consumption of manner

What is true on a macro-economic level is undoubtedly debatable on a microeconomic level. The recession does not have the same direction for all the actors, certain markets see their growth continuing and others crumble. One can with difficulty expect that the environment affects in a homogeneous way the behavior of the firms. The crucial point is sartorial specificity. The current context is that of a quasi stationary maintenance of the incomes, of a fear of devalorisation of the saving which acts in the direction of a feeling of reduction of the income intended for consumption (returned permanent); it is also characterized by one restarting of the all the more significant inflation as the discretionary share of budget is reduced, and which is occupied by food expenditure and fuels. One thus expects modifications of behaviors of the consumers, some occurring already.

If the restriction of consumption is very probable, another behavior can be observed: consumption turned towards quality. Economies are made on functional products while turning to white promotions, products and other marks of distributors, but for hedonic consumption by reducing volume or frequency, a preference for products of the first quality can appear - to drink less wine but of the middle-class vintages! Substitution effects can also occur between the categories: if the idea to leave on holiday is deferred, the budgetary economy can be affected with expenditure of decoration or gardening, to give only one example. One understands with this argument that the effect of a recession (or a deceleration of the economy) plays less quantitatively than qualitatively by moving the request, in redefining the segments, and naturally the nature of the offer. It would be thus an error to stick to an average effect, they are the effects differentiated by segments which must be retained. This change in the preferences is the occasion for certain actors to reinforce them by the adequate publicity, centered on the economy on the one hand, or the exceptionality on the other hand. These phenomena encourages less the budgets reduction than the reformulation of the messages. For the company it is thus necessary before acting to understand what the deceleration of the economy involves, individually, by examining the impact on the incomes and consumption.

Cycle business and effectiveness of advertising

A long time ago, one was interested in the relative effectiveness of the variables of the marketing mix in the various phases of the life cycle. The life cycle of offered product as a succession of different modes of growth, it is the old assumption of Mickwitz. Unfortunately, this work was little developed even if recently some researchers reconsidered the question. Naturally we are at the level of analysis of the markets and either of the economy as a whole. But this level has more relevance for the advertiser. The general environment is less important than that of the sales. The phases of growth correspond to an extension of the market; the role of advertising is informative, in particular on the new consumers of the category. One thus expects a strong response of the market to the requests, and definitely positive advertising elasticity. It is the result obtained by Abraham et al., or Parker and Gatignon (1996). On the other hand price elasticity is likely to be increased by advertising of the informative type (the case of I-pod is rather revealing from this point of view. In spite of its success, a notable fraction of the market resisted the purchase, speculating in falls to come). In the phase of maturity the advertising effect is supposed to be weaker. He plays volume with difficulty, but can have effects in terms of considerable market shares. With a more persuasive type of advertising, one expects little effect on the sales of the category, but a paramount effect on the market shares. If one cannot confuse recession and cycle of business, the recession can be considered as a disturbance which affects them, slowing down the phase of growth and accelerating the maturity of the markets. It is thus a question of considering the interaction of these two tendencies, and of carefully distinguishing the type of advertising and the types of effects.

Supporting the sales in economic period of deceleration

When the economy even slows down contracts, the main aim of the firm is to resist the erosion of the sales. This resistance can be passive, and results in a correlative reduction of the expenditure to the contraction of the sales aiming at maintaining the margin; it can be also active and pass by a reinforcement of the effort marketing. This objective of resistance privileges the short term insofar as the variation of the sales is recorded instantaneously. There will be thus preference for the immediate effects, mechanics, calculable. The hope of the support by the sales is however moderate insofar as the elasticity of advertising is low in period of maturity. A great part of the advertising effectiveness comes from its information effect; the effect of seduction is longer to settle. It thus seems to us not very reasonable to propose advertising a role of support of the sales in period of recession. However, this point of view deserves a thorough examination. The evolution of the sales is function of the penetration and of average sales by purchaser. Insofar as the deceleration of the economy affects consumption (and thus the purchasing power), one can understand that advertising does not strongly support the level of consumption per purchaser. On the other hand, the things are different in terms of penetration. The problem is thus not to reduce the advertising expenses, but to reorient them to the marks which can profit from a greater penetration.

One expects that the effect of advertising in period of deceleration exploits more the market share than the volume of the sales. This effect is more pronounced for the marks with strong Brand equity. Thus, the investments will be more effective as the interference advertising-executive decreases. In conclusion, independently of the growth targets or the maintenance of the sales, to make advertising in period of recession is the occasion to increase market shares.

Creating mark value. One of the principal effects sought by advertising great media is the construction of the image; positioning consists in creating a value, that of the reputation, legitimacy, statute, reference and to support thus the prices. Persuasive advertising plays this part by decreasing the sensitivity to the prices. One imagines a famous brand not to be based on a strong legitimation and to shine without occupying in the space of the media a paramount place. We must underline that if the variations of sales relative to a price change are immediate and that the effects of remanence are moderated, the elasticity-price is constant.

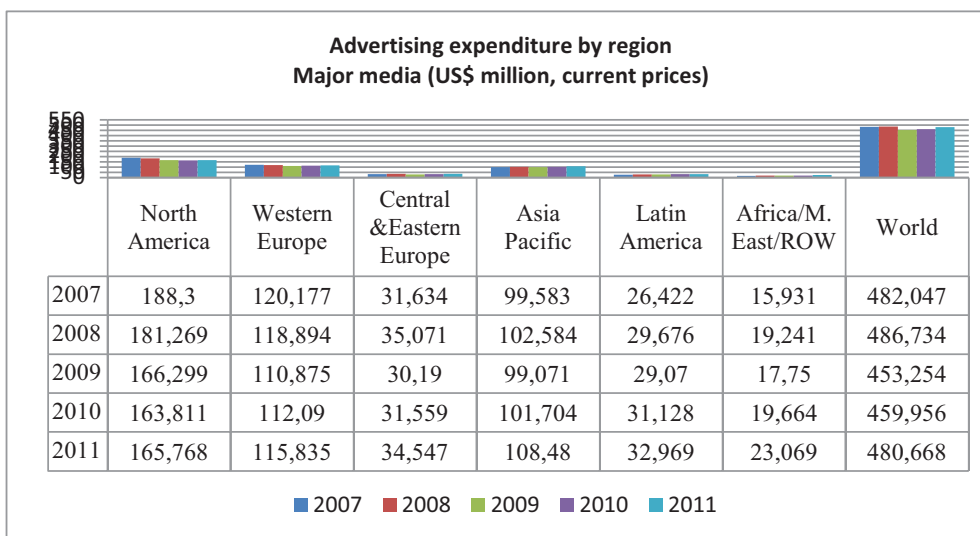
Benefiting from opportunities. The recession leads to a redistribution of the market shares insofar as the marks do not have all an equal capacity to resist the contraction of the market. Those of which profitability is reached quickly are strongly encouraged to disinvest, offering opportunity for their competitors of taking market shares to them. There are serious arguments to think that this inequality is systematic. To reinforce the expenditure thus amounts exerting a pressure on the competitors more threatened in the incentive to maintain their investments, even if it means to reduce their profits. With this argument, from an extreme point of view, it is not necessary for the advertising effort to have important effects on the sales, the market shares or elasticity price. It is enough that it influences the level of relative profit, and consequently the competitive advantage of the firm (i.e. the difference between its level of profit and the mean level of profit of the market). In other words, if the recession by the weakening of the sales which it involves, led to a general reduction in the profit, the strategic use of advertising can allow the most profitable marks, to preserve or even to increase their “excessive profit”.

3. Media markets

Forecasts from Zenith Optimedia predict that global ad spend will decline with 6.9% over the course of 2009. Ad spend in North America will shrink by 8.3% in 2009 in the absence of quadrennial events such as the Olympics and presidential elections. This includes an 8.7% decline for the US and stable 0.2% growth for Canada. All major markets in Western Europe currently are suffering substantial decline in ad expenditure and the overall market is expected to drop 6.7%. With regard to specific countries, a 7.3% decline is expected in France, a 5.5% drop in Germany, a 5.0% drop in Italy, 10.1% drop in Spain and an 8.7% plunge in the UK. Overall spend is expected to drop 6.7%.

In 2010, all major markets are expected to grow with the exception of Italy, which will shrink another 0.8%. Central and Eastern Europe will suffer the sharpest drop-off in 2009, at 13.9%. The Asia Pacific area is expected to drop by 3.4% in 2009, including 5.4% growth in ad spend in China (down from 18.8% last year), 6.4% growth in India (down from 18.9%) and 7.9% growth in Indonesia (again down from 18.9%). Though these and several smaller markets are also still growing, they are being counterbalanced by sharp falls in other markets (-11% in Taiwan, -16.5% in Singapore and -20.0% in South Korea) and a 5.0% fall in Japan, which contributes with 38% of the region’s ad expenditure. Most markets in Latin America are still growing, but the region as a whole is being dragged down by two markets (Brazil and Colombia). Overall ad spend is expected to shrink 2.0% but will return to strong 7.1% growth in 2010 (See Graph 1).

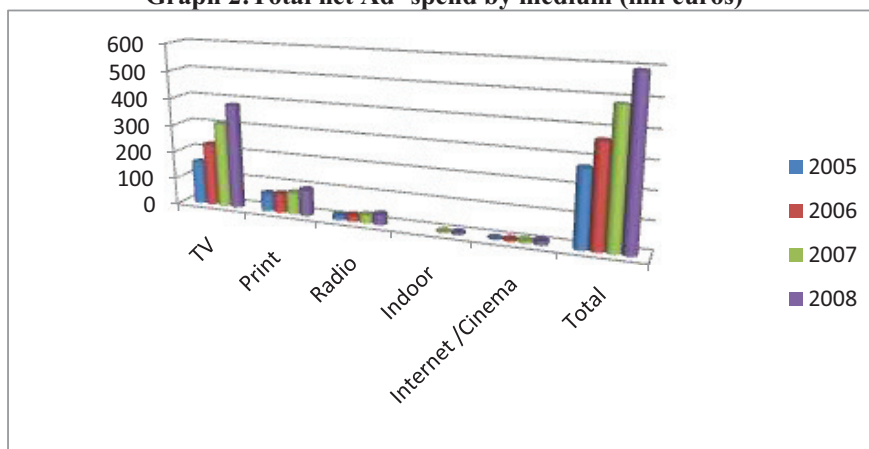
Graph 1: Advertising expenditure by region



- The publishing industry has been building an online presence to balance falling print revenues. But only a few online newspaper and magazine sites have managed to generate sufficient profit to offset declining margins from print versions.

- The Romanian media market has grown in size and diversity in recent years. The media market is characterized by: media fragmentation, media pricing inflation; decreasing inventory on main TV channels. In 2008, the Romania media market grew in net value by 22 %% (See Graph 2).

Graph 2: Total net Ad- spend by medium (mil euros)



As for advertisers, P&G maintains the leading positions from 1999 through 2007, with the biggest TV budget. L’Oreal climbs on second place and Unilever maintains its 3rd positions in top (Table 1)

Table 1: The biggest advertisers expenditures

Advertisers	Exp (000’euro)
P&G	526,909
L’Oreal	345,859
Unilever	315,663
European Drinks & Food	188,160
Danone	177,601
Coca-Cola Co.	163,681
Colgate Palmolive	143,341
Kraft Foods Romania	134,301
Henkel	128,939
Nestle Romania	120,204

Source: TV-TNS AGB International, Press and Radio: AlfaCont

The publishing industry has been building an online presence to balance falling print revenues. But only a few online newspaper and magazine sites have managed to generate sufficient profit to offset declining margins from print versions.

The online advertising continue to grow by 50-60% annually. Even if currently the Romanian media market is geared toward traditional media, we can notice a fast grow of new media.

4. Conclusions

Through this survey a certain number of key ideas appear.

First of all, the recession or the economic deceleration disturbs doubly the market equilibrium and consequently opens a window of opportunity. It redefines the market segmentation and modifies the capacities of action of the advertisers, creating for some an effect of ousting, but for others the occasion offers to redefine their policy in an offensive way.

Secondly there is not obviously less effectiveness of advertising on the sales. This one is related to the life cycle of the market, than with the business cycle. The informative role of advertising can then play full. It is then the occasion to launch out to the conquest of the market shares.

A third idea also sticks to the capital of mark, and obviously of the increase in the sensitivity to the price in difficult period. Not to spend in advertising, it is to be likely to lend the side to the marks of distributors and the whole of the low cost and thus to resort excessively with the price weapon. Advertising would immunize against degradation too much strong of profitability.

Fourth is that on the medium-term, an important issue is given by the exit of the cycle. Those who would have given up the effort are likely not to benefit from the recovery, because they will have let degrade the capital of mark.

References:

1. Ashley, R., C. W. J. Granger, and R. Schmalensee - Advertising and Aggregate Consumption: An Analysis of Causality, 1998, *Econometrica*, Vol.48, No. 5, pp.1149-1167.
2. Günther Rohme and Sara-Frederike Weisser - Advertising, Consumption and Economic Growth: An Empirical Investigation, *Darmstadt Discussion Papers in Economics*, Issue178.
3. Moriarty, S; Mitchell, N.; Wells, W. - Advertising (8th Edition): Advertising: Principles and Practice, Prentice Hall, 2008
4. Parker, Philip M. et Hubert Gatignon. - Order of Entry, Trial Diffusion, and Elasticity Dynamics: An Empirical Case, 1996, *Journal of Marketing Letters*, Volume 7, No 1, January 1996, pp. 95-109
- 5 Chakrabarti, S. Arora, A. P. - Drivers of ad spend trends among global marketers, *International Journal of Advertising*, 2007, Vol.26, No.3, pp. 387-398
6. ***, Media Fact Book, 2008