

Ideas



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Some Thoughts on a Recession and the Effects on Your Business

Are we in a recession? You bet we are, and we've been there for several months. The danger signals started in the winter of 2006. The government has been trying to avoid using the "R" word because of upcoming elections and an all out attempt to try to create a soft landing. If you know anything about economics, we're there.

Just What Is A Recession?

How do we know when we are in a recession? The people who officially decide when we are in a recession make up the National Bureau of Economic Research.

What is the real definition of a recession? It is a period of at least six straight months of downturn in the Gross National Product (GDP). Other definitions include a "retraction" as three consecutive monthly declines in the composite index. During periods like this, unemployment increases and consumer confidence declines.

But, not everybody is affected. In each recession, some industries prove to be recession proof, as do some geographic areas. So, you'll have to study the history of your clients' industries in an attempt to arrive at a long-term sales trend. Officially, the Strategic Planning Institute defines a period of industry recession as those times in which short-term growth lags behind long-term growth by at least four percentage points. Conversely, a period of industry expansion is then growth exceeds the long-term average by at least the same amount, four percent.

There have been 32 recessions since 1854, or one every four to five years. It would seem that recessions are a real part of life in the United States. You might keep that in mind even though we have been through a thriving economy in the late nineties, a mild recession after 2000.

Here we go again, and this one is going to present us with untold opportunity in our industry.

Total Employment Down Only Slightly

Let me remind you that we will see some initial sharp increases in unemployment. However, the total number of people at work has actually gone down only slightly in recessions over the past 60 years. Employment dropped only 2 percent in 1948-49, 2.4 percent in 1953-54, 2.1 percent in 1957-58, only .6 percent in 1960-61, only .3 percent in 1969-70. Employment actually increased in the 1981-82 recession. Compare this with the beginning of the Great Depression in 1929-32 when unemployment rose to 18 percent and non-farm employment fell 23 percent. The unemployment rate rose to almost 25 percent in those three years.

Consumer Spending Increase

Would you believe that consumer spending actually increased during recessions since the early fifties? It's true. The increase in consumer spending is especially important to advertisers. Spending went UP, not DOWN. When spending is measured between the quarter in which the economy peaked and when it hit

bottom, the change ranges between just over to one percent and has high as numbers in the low teens.

It's too early to tell whether we will experience those kinds of increases or not in this recession. Increasing numbers of sophisticated companies are aware that a cut in market-spend accelerates sales and market share reductions. They also know that when they reduce their investment in advertising/promotion, their recovery period is more drawn out. Their competitors that continue to spend, and even increase their advertising/promotional budgets, do recover faster and gain market share and brand awareness.

Why? Because studies done over many years and through many recessions, remind them that their continued investment does in fact lead to faster recovery and increase in market share following the recession.

How Long? Recession and Recovery

Historically, the recessions last about 12 months. It isn't like they last for years, but sometimes when you add the recovery period; it can stretch out over more than two to three years before the economy recovers completely. The shortest recovery was the last one. It took us 12-18 months to officially be out of the recession.

Today's housing situation and consumer debt will affect this recession. It may be more than 24 months before the housing situation sorts itself out. Consumers are going to learn a serious lesson about credit card debt and 7 to 8 year auto purchase plans. It is not going to be positive. The increase in bankruptcies and real estate foreclosures will haunt the economy and the value of the U.S. dollar.

A Lot of Opportunity for Your Agency

If you are an agency that deals in "stuff" that you produce, instead of being involved in solving client business problems, you could be in for tough sledding. We lose a lot of agencies during recessions, but that is primarily from bad fiscal management by the agencies.

I believe that there is a lot of opportunity for well run agencies who have already transitioned from a production driven "stuff" factory over to an agency that is involved in the new media strategies and consulting work. Sell business solution IDEAS not STUFF you produce.

PROSPECTS LOOK FOR BARGAINS - This isn't about your clients. It's about new business with new clients. It is an opportunity to prospect among larger prospects, an opportunity to introduce yourself to larger clients and start a relationship with a sizeable project. Yes, you can start as a "vendor" and build the relationship. You don't have to compete on price, because large agencies generally charge a great deal more than smaller agencies. You can charge your normal fees and keep the client as the recession abates.

USE YOUR KNOWLEDGE TO DRILL DOWN DEEPER IN YOUR CATEGORIES – Because you know the business categories you've been working with, you have a chance to get deeper involved with your current clients. It works with new business too. Prospects want to save some money, but still want their "vendors" to know their business. Use your experience to expand your business at the expense of the generalist agencies.

STAFFING OPPORTUNITIES – There will be some cutbacks at agencies in your market. If they lose significant revenue and AGI they don't have a lot of choice but to cut staff. Their actions put good people on the street. As other agencies trim back on staff, you have a chance to pick up a key person if your business is expanding. Or, you can replace the weakest staffers and upgrade.

TRANSFER OF TRADITIONAL MEDIA TO THE WEB – Interactive is going to remain hot. Web marketing will continue to grow and grab larger portions of the budgets. At the end of last year Advertising Age reported that more than 30% of marketers advertising budgets were transferred from traditional broadcast and print media to web marketing and the new media. This is just the beginning, and you will find that companies will continue to expand the web strategies

right through the recession. New media is going to “carry the day” for agencies who are deeply involved. If you don’t have a new media strategy and in-house capability, you will have problems.

MARKET NEEDS BUSINESS SOLUTIONS – Recessions magnify client business issues. This is the perfect arena to transition from a producer to a consultancy. Of course you’ll have to have the people on board who have a background in business and can talk the language. Knowing that a recession is about 12 months long and the recovery is up to two years, you have a lot of time to transition.

Other Important Observations: From My Own Experience Through Seven Recessions

Clients are more prone to pay a monthly fee for service. It is perceived as “cost control”

Our clients’ customers may change. We are all dealing with a new, more powerful consumer today in the younger demographics. They will ignore the recession and increase their debt load.

The affluent market will continue to spend at a high level. Quality will continue to sell.

You will hear from all kinds of vendors that you have never heard from before. They are all looking for new business, just like you. Try to stay loyal to the people you’ve worked with over the years.

Remember, companies who continue to advertise and promote during a recession gain greater penetration into the markets, build profits faster as we recover from the recession and gain greater market share.

If you lose more than 15% of your AGI\$ you MUST cut staff to bring numbers back in line. Don’t wait. Run your business with smarts, not emotions.

The U.S. is Still the Best of Class in the Global Economy

The world looks to the United States as the biggest and strongest economy in the world. We like in a global economy and what U.S. business does is watched by all. They definitely follow our lead but their economies have too much governmental control, while U.S. business complex is nimble and can move faster than other global economies. Other countries look at the U.S. to lead the way.

Upcoming AMR Workshops & Network Meetings

March 6-8	Strategic Marketing Network	Tempe, AZ	If you would like a program brochure that includes meeting information, an agenda and a registration form, go to the AMR website and download the PDF brochure for the meeting. You’ll find the link on the home page, and on the appropriate workshop page. www.agencyroundtable.com
April 9-10	Marketing Resources Network	Scottsdale, AZ	
April 21-22	AE BootCamp	Chicago, IL	
April 23-24	Financial Firepower Management Roundtable	Chicago, IL	
May 2-3	Alliance of Marketing Communication Agencies	Carmel, CA	
May 15-16	Roundtable of Agency Management Principals	Santa Fe, NM	

Check the AMR website for meeting scheduled after July 2008.