Should brands cut back on marketing during a recession?

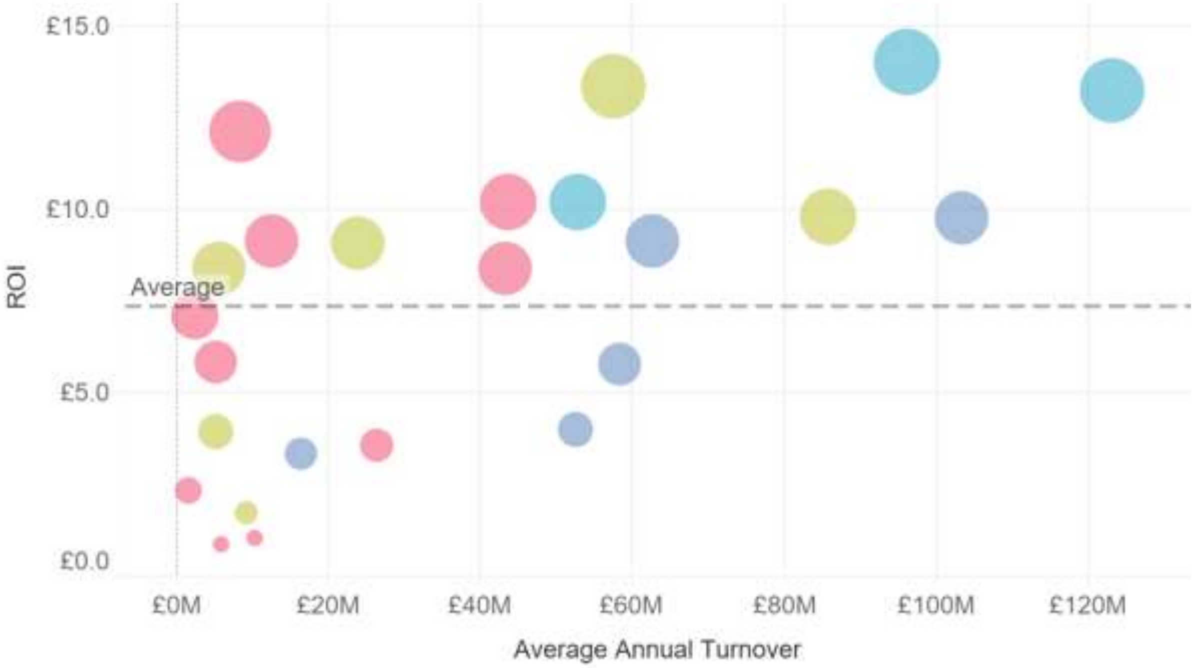
With both the ongoing health pandemic and the uncertainty caused by Brexit last year it is fair to say that a large amount of additional pressure has been put on already stretched company finances. As a result, many businesses are actively looking to cut costs where they can.

Marketing budgets, which are often viewed as a more “discretionary” area of spend are amongst the first to be cut: Indeed, we’ve all heard the adage that marketing is vey much “the ’L’ in P&L”, being viewed more as a cost of doing business rather than an opportunity for growth.

However, as we will see in the remainder of this article, this viewpoint could not be further from the truth with marketing, if evaluated properly, providing a real means to deliver incremental profit to the businesses bottom line over other forms of investment.

As a business, we have evaluated thousands of different types of marketing campaigns covering a wide variety of sectors. Although we have come across the odd underperforming campaign, we find that overwhelmingly most campaigns pay back or indeed add significant amounts of incremental profit to a businesses’ bottom line, as highlighted in Figure 1 below:

Figure 1: Retail Marketing Campaign ROIs vs Average Turnover



Source: Retail Alchemy Client database

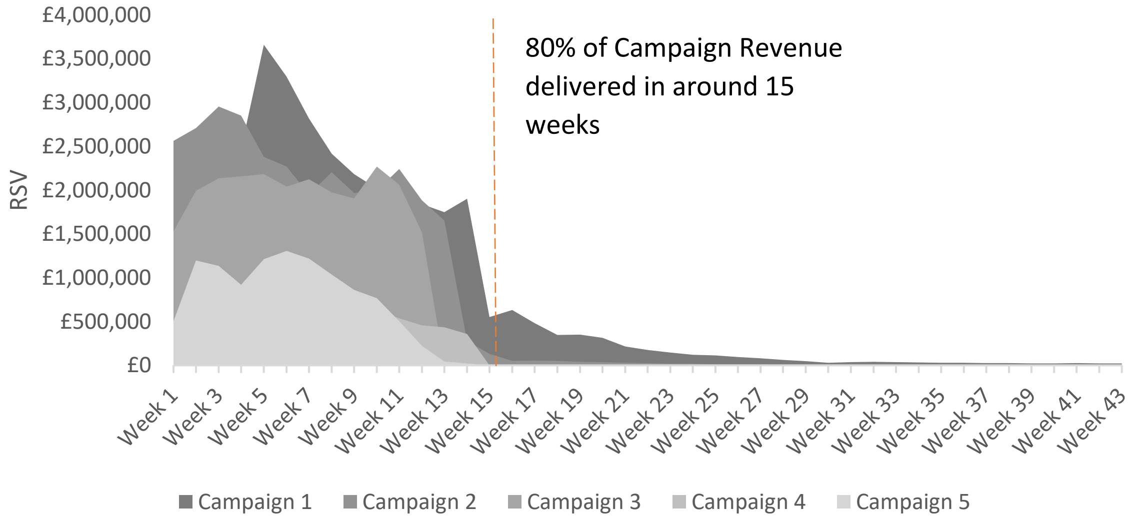
As you can see from the chart, the average ROI for a typical retail marketing campaign is £8.30 on a Retail Sales Value (RSV) basis. Given that, on average, most retail brands operate on a margin of circa 25%, this means that the average campaign will effectively deliver double (£2.1) the level of spend invested in a typical campaign. With interest rates now at a historical low and the stock market largely in free fall, it’s pretty obvious to point out that investing in something that deliver returns of that magnitude should, therefore, be an easy decision to make.

But the fact remains that many businesses, faced with a perceived need to cut costs, make marketing budgets one of their first ports of call. Why is this? Well the answer lies in the fact that detecting the true impact of marketing is, by nature, complicated. At any one time, a brands sales can be influenced by a myriad of factors meaning that impact of marketing can be extremely hard to detect at first glance.

Given the business we are in, we would obviously say that the answer to this problem lies in the application of a robust econometric analysis to help tease apart the different drivers of sales so that the true value of marketing can be understood. But businesses themselves need to recognise that marketing, in contrast to more direct types of investment produces very subtle and more nuanced uplifts to sales.

First and foremost, it is important to recognise that the uplift marketing generates is often distributed over time. Rather than produce an uplift directly at the time it was introduced, marketing, by nature, uplifts sales over an extended period of time that often goes unnoticed at the very top level. As figure 2 below shows, revenue generated from a typical retail campaign can be spread across as much as 15 weeks in total, rather than produce the “short sharp spike” generated by other activities such as in-store promotion.

Figure 2: Distribution of campaign revenue over time



Source: Retail Alchemy Client Database

For more “brand led” forms of marketing, where the messaging is less direct and more geared towards changing consumer perceptions of the brand, the effect can be even more distributed with the bulk of the return only captured after a year or more.

To add to this, many businesses view all marketing in the same way, when the reality is that each type of marketing is designed to do a different job, thus creating an impact that is far more nuanced. Figure 3 below depicts the type of role each form of marketing plays in the consumers path to purchase. Fairly obviously, those forms of marketing at the start of the journey are likely to produce far more nuanced and time distributed effects than those at the bottom but crucially, all forms of marketing need to work together to ensure that the overall campaign is successful.

Figure 3: Where different forms of marketing typically impact the consumers Path to Purchase

Many businesses fall into the trap of focusing too heavily on above the line (ATL) and digital execution at the expense of their retail offering only to find that the overall campaign underperforms as a result. As can be seen above, ATL and Digital activity do play a role on the path to purchase in that they help drive consumers to store. However, if the brand isn't ranged properly, or consumers struggle to find it then it is highly likely that those consumers will either not purchase the brand (thereby wasting the initial ATL/Digital investment) or worse, go on to purchase a competitor brand.

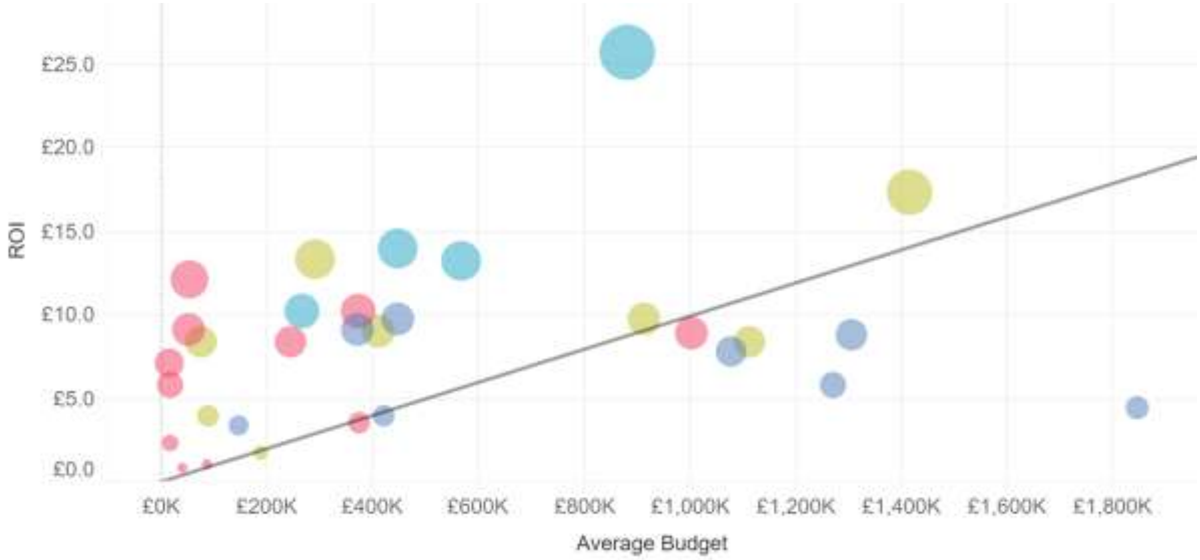
Finally, businesses need to recognise that in order to generate a strong performance, the level of investment made at the start of the campaign needs to be equally as strong.

This may sound obvious, but many businesses fall into the trap of either being overly cautious in terms of the amount of money spent on a campaign, or indeed try to do too much with a relatively small budget.

Spend too little and the campaign will likely get lost in the general marketing "clutter" present in the marketplace as well as, ultimately, within the minds of consumers. Spread yourself too "thin" by making relatively small investments in lots of channels results in the same, with no one channel achieving a significant breakthrough with consumers.

As can be seen from Figure 4 below, businesses should be mindful to not to set themselves up to fail by investing too little, with larger ROIs associated with larger investments.

Figure 4: ROI vs Size of Investment



Source: Retail Alchemy Client Database

We at Retail Alchemy recognise that the current environment represents a tough period for most businesses, but we would urge those businesses to think twice before a wholesale cut in marketing investment. Marketing campaigns do not fail because they fundamentally not work, rather they fail because the execution and support is poor or because there is a fundamental failure to understand both the role of each form of marketing investment and the change it is likely to illicit in consumer behaviour.

If you'd like to know more about how we help brands understand and maximise the returns from their marketing investments, please get in touch via the details below or visit our website at www.retailalchemy.co.uk

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