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Revenue Generation
As a Recession Response
*A Memo to the
Chief Marketing Officer*

CMOs should respond to this recession by crafting appropriately empathetic marketing messages, improving their marketing ROI, and taking full advantage of shifting media platforms, distribution channels, and geographic markets. Those who do this best will attract new customers to their brands and build market share for the future.

REVENUE GENERATION AS A RECESSION RESPONSE

The most common corporate responses to this recession are very clear: Quickly cut costs and cancel or defer all but the most essential investments. But in marketing, these actions can negatively affect future revenue, share, and customer relationships—three assets that must be supported and strengthened if companies are to survive the recession and position themselves for recovery. Accordingly, chief marketing officers need to adopt a more measured approach to quickly and accurately identify and eliminate inefficient marketing, reallocate that spending to build profitable volume in the short term and strengthen brands in the long term, and, whenever possible, return savings to the company.

Spending increases, even when accomplished by the reallocation of existing budgets, may sound counterintuitive in this recession. Indeed, senior executives in Fortune 500 companies across industries, surveyed in January 2009 by Booz & Company, reported that “increasing marketing effort” was their lowest priority. Yet, research shows that companies that increase brand investments during downturns reap rewards during recovery. They can also drive growth during a recession: General Mills, the world’s sixth-largest food company, raised its consumer-marketing spend by 19 percent in the first half of fiscal 2009 and recorded an 11 percent sales gain.

To make the most of tight budgets and maintain revenue, share, and customer relationships in this environment, CMOs face three significant challenges. They must realign their marketing efforts to major changes in customer psyches, behaviors, and buying patterns. They must change their marketing mix to

improve ROI. And they must respond to the changes in their distribution channels and geographic markets.

Get on the customer’s side. Customers, whether consumers or businesses, in developed or emerging nations, are cash-strapped and worried about the future. Booz & Company surveys in both the U.S. and the U.K. have revealed that consumers are buying less and, when they do buy, want brands that empathize with their plights and remain relevant in changed circumstances. That means offering visible savings and added value and adapting the tone and content of marketing messages.

If CMOs are to maintain and even enhance revenue generation in this recession, they must show how their brands and products address recession-driven needs and concerns. Price and promotion are the most immediate levers for achieving this in the short term. Korean carmaker Hyundai demonstrated that fact with a promotion that allows consumers who lose their jobs up to a year after buying new cars to return their cars without credit penalty; it also offers 90 days of payment relief to customers in the same situation who wish to keep their new cars. In February 2009, when overall car sales dropped 40 percent, Hyundai’s sales dropped just 1.5 percent.

CMOs should also be scanning their brand promises to make sure they speak to value and some element of reassurance. Many major brands—carmakers, banks, credit card companies, and insurers among the most notable—have been severely damaged in this downturn and now must be rebuilt. Brands that have emerged unscathed or, better, have risen in the customer’s estimation

should be exploited. In the U.K., Nationwide Building Society stuck to its conservative roots through the real estate and financial bubble and is now crafting advertising campaigns around its stable and secure performance.

Make your marketing dollars work harder. With pressure growing to increase the ROI on every marketing dollar, euro, and yen, CMOs must direct their spending to the most effective paid media and below-the-line platforms. This means cutting back, at least temporarily, on programs with poor or indeterminate returns, ruthlessly pruning failed efforts, and pushing hard against those elements of their mix that can deliver a measurable return on specific objectives.

Digital media, which can be sharply targeted, cost-effective, and measurable, are benefiting the most from marketers' desire to increase return on their spend. In fact, the most advanced companies are now investing more than 50 percent of their digital spending on their own "private label" media, such as Kraft's iFood Assistant for the iPhone and P&G's Olay for You interactive skin-care application. In geographies such as the U.S. and Europe, where digital media are more established, CMOs can accelerate the shift from traditional media to digital, and raise their ROI while achieving powerful

branding, relationship building, and lead generation benefits. But no matter which platforms are most effective, CMOs should be pursuing the measurement and continuous improvement of ROI across their marketing mix.

Respond to shifts in markets and distribution channels. Global recession has affected market growth and demand in both developed and developing nations.

As demand levels shift within geographic markets, CMOs must rethink their spending. For some companies, such as the water filtration products company that is postponing plans to expand into the BRIC nations, this means refocusing their attention on established markets. For others, it may mean additional investment in emerging markets. For example, Coca-Cola announced in March 2009 that it was increasing its marketing efforts in China as part of a \$2 billion investment in that market.

Distribution channels are also morphing in ways that will likely endure over a relatively long period. The volume-sensitive retail landscape, for instance, is shifting as the least efficient companies, such as U.S. retailers Circuit City and Linens 'n Things, close; consumers abandon high-priced, premium sellers for

aggressive discounters; exurban malls collapse along with real estate development; and all retailers take a hard look at their working capital and make their most focused effort in years to ensure that all products carry their cost.

As a result, CMOs need to manage reduced "shelf space," whether it is in stores or on plant floors. This will require that product portfolios continue to cover all price segments but be leaner and more efficient than in the recent past. In the short term, this new portfolio rationale may mean eliminating SKUs or shifting emphasis from premium products to lower-priced, midrange offerings, a strategy that is being used by carmakers and steelmakers too.

Customer behaviors and habits have been substantially and, in some cases, perhaps permanently altered by this recession, with immediate benefit to some companies and injury to others. But these changes represent opportunities as well. CMOs who are open, permeable, and prepared to follow their customers may discover that this is the best chance in a generation to attract new customers to their brands and build market share.

For additional insight into the challenges of the current recession and practical advice for leading your function and company through it, please visit www.booz.com/recession.

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