Are You Ready For The Next Recession? Written by Spike Santee

The violence against the pro-democracy demonstrations in Libya and other Arab nations could put an end to our fragile economic recovery and plunge the United States back into a recession, possibly even more severe than the most recent, what is now known as The Great Recession.

Oil prices are climbing to record level as investor fears over the unrest drive up the price. At these record prices, $4 gas is expected in the next few months. The last time gasoline prices rose above $4 was in July 2008, right at the beginning of the Great Recession.

History now shows the Great Recession as caused by a collapsing housing market. The increase in oil prices drove the economy down even further because of our economic dependency on affordable oil prices.

When gas prices rise, the price of everything else rises. It takes higher priced gas to grow the food so food producers pass those costs on to the food distributors. It takes higher priced gas to deliver food to grocery stores so the suppliers charge more and the grocery store passes those costs on to the consumer in higher grocery prices.

According to economists, the average household spends an extra $500 a year for a $1 increase in gas prices and reduces spending on other items by $250. Consumers start cutting out discretionary spending first. Among the first to go is spending on travel, entertainment, dining out and retail purchases.

This article isn't about the morality of our economic dependency on oil. This is an article to help you prepare your business to weather another economic downturn. This article is about specific steps you should take right now to protect your market share without damaging your future prospects when the economy improves again.

There have been eleven recessions since the Great Depression. They tend to average about 18 months long. In other words, we spend about one year out of seven in recessionary times. So you would think American business owners would be experienced at dealing with the challenges of a recession. But that's not the case. When the economy starts to slow down, far too many locally owned businesses over react. The do so because they are affected by the slowdown on two levels. The slowdown not only affects their business but it also affects their personal life.

The local small business owner lives in two worlds. They live in the world of the consumer and they live in the world of the small business owner. The economic pressure the small business owner feels in the world of the consumer creates feelings and perceptions about the economy that a consumer would naturally feel when times get tough. But those feelings from the world of the consumer don't have a place in the world of the small business owner when it comes to making strategic decisions on how to navigate the business through the economic slowdown.

During the Great Depression of the last century, Gross Domestic Production fell by a stunning twenty seven percent. During the Great Recession of the past couple of years, Gross Domestic Production fell only four percent. That means 96% of the economy was still intact.

Unemployment rose to ten percent recently. While that is tragic news, that means that 90% are still employed.

Consumers don't exit the market during a recession, they change and they adapt to the new economic challenges. They are still out there spending money; they are now spending it differently.

When a local business owner allows their personal feelings about the recession to cloud their decision making as a business owner, they can lose sight of those components of the economy that could fuel their business through the recession and into the future when things pick back up again.

One of the biggest mistakes a business owner can make is to cut back on their advertising when times get tough. They see cutting advertising as a quick way to preserve cash flow. Most of the time they won't see any immediate negative affect to their business so they begin to think cutting their advertising was a good idea.

A pilot can cut the engines on a jet plane and it won't immediately fall out of the sky. In fact the plane can glide for hundreds of miles before reaching the ground. Just like the jet, the business that cuts out advertising during a recession begins a slow and gradual decline. But the business owner doesn't know what the pilot knows. The pilot knows that it will take more fuel to return to the original altitude than it would have taken to maintain the original altitude. It would have cost less to keep the engines on all the way to the destination.

But the pilot knows the danger of turning off the engines in mid flight. They may not be able to restart the engine before the plane reaches the ground. It may lead to a premature ending of the flight far short of the destination. A business owner who cuts out their advertising begins a slow decline that could result in a premature ending for the business.

The question whether to advertise or not to advertise during a recession has been asked over many years, and the evidence indicates that advertising during a recession is smart business.

The first known attempt to prove that companies should maintain advertising during bad times dates to the 1920s, when advertising executive, Roland S. Vaile, tracked the revenues of 200 companies before, during and after the 1923 recession. In April 1927 Vaile reported that the companies that had advertised the most had the biggest sales increases throughout the period.

An ambitious study was begun after World War II, It was a long-term project to plot the profits of a large group of companies through a series of recessions.

Beginning in 1947, the study measured the annual advertising expenditures of each company and correlated the figures with sales trends before, during and after the recessions of 1919 and 1954. For the recessions of 1958 and 1961, this study included tracking profits. Not only did sales and profits

almost invariably fall at companies that cut advertising, but after the recession had ended, they continued to lag behind companies that had maintained their ad budgets.

After a period of time, the study was then picked up by the American Business Press (ABP), an association of trade publications, which continued the investigation. The ABP project has become widely known throughout the advertising industry because of its analysis of the severe 1974 to 1975 recession. Relying on questionnaires submitted by advertisers, the study tracked the sales and profits growth of 173 industrial companies between 1972 and 1977. The companies were divided into two groups: those that reduced advertising during the recession; and those that did not reduce advertising,

The study found that the companies that reduced advertising achieved minimal sales growth in 1974, suffered a sales decline in 1975 and increased sales by 70 percent during the five-year period. For companies that maintained their ad budgets, sales suffered no slowdown during the recession and grew 150 percent for the entire period. Profits showed a similar pattern. Most notably, the momentum gained by the steady advertisers during the recession helped them to grow at a faster rate in 1976 and 1977.

The NW Ayer Inc.'s report: Advertising during a Recession: Key Issues anti Opportunities indicates that during the recession of the mid 1970's, Avon Products and Hershey Foods cut back advertising and lost market share. Philip Morris and Revlon increased their advertising during the same period and saw significant market share growth.

Another example is General Motors' Chevrolet division, which faced mounting inventories in 1975 due to the recession and high fuel prices. The company abandoned its traditional practice of setting its advertising expenditures as a fixed percentage of sales. While volume fell 10 percent because of the economic slowdown, Chevrolet maintained its ad budget and actually increased advertising for its fuel-saving economy models. Ford Motor Company, on the other hand, slashed advertising by 14 percent in an attempt to shore up profits. That may have achieved its goal, but it permitted Chevrolet to increase its market share by 2 percent.

A McGraw-Hill Research study looking at 600 companies from 1980 to 1985 found that those businesses which chose to maintain or raise their level of advertising expenditures during the 1981 and 1982 recession had significantly higher sales after the economy recovered. Specifically, companies that advertised aggressively during the recession had sales 256% higher than those that did not continue to advertise.

The gains made during the recession were permanent and expanded during the three years following the recession.

The research firm of Meldrum & Fewsmith studied all post World War II recessions and found that advertising aggressively during recessions not only increases sales but it also increases profits, and at a far greater rate than those firms that cut back.

American Business Media found that maintaining share of mind during an economic downturn directly related to current and future sales and that maintaining share of mind costs much less than rebuilding it after a period of marketing inactivity.

According to Coopers & Lybrand, marketing during a time of economic difficultly solidifies your client base, portrays you as stable, takes business away from less aggressive competitors and positions your firm well for post recession growth.

There has only been one time in history when McDonalds has cut back on advertising. That was during the 1990-1991 recession. MarketSense Research reports that McDonalds sales fell by 28% while Pizza Hut and Taco Bell enjoyed sales growth of 61% and 40% respectively.

There is not a single study, not one, that suggests cutting back on advertising when the economy slows down is a formula for growth.

The most successful companies don't cut out their advertising when times get tough. They reevaluate their efforts and if necessary, redeploy their assets and resources for a new result. In business this is often called an operational efficiency. An operational efficiency is unique to your business. Only you can decide what is right for you. There could be two very similar companies facing similar challenges and each could develop a new operational efficiency that works for them and they wouldn't have anything in common.

Here are some of the most common operational efficiencies we see local business owners making.

Many local business owners say they are downsizing their presence in the telephone directory. Some are cutting back the number of directories they're in. Rising costs are a factor but consumers now have more convenient ways to search. Instead of lugging around a big directory, consumers have a device that they use to search. Whether it's a Blackberry, iPad, iPhone or Droid, new technology is the big game changer.

Local business owners say they are migrating away from newspaper advertising. The most obvious reasons are rising costs and declining circulation but the device is having an impact on newspapers too. With the device, consumers can get their news and weather now, when they want it. They don't have to wait until tomorrow to get it.

Television was a very powerful medium back in the day when there were only a few channels to choose from. But today, television is fragmented with hundreds of channels. It's very hard to reach a large audience on television or cable. But once again, it is the device that is affecting the effectiveness of television advertising. The consumer now has more control over what they watch, where they watch and when they watch. More than 50% of the commercials are not seen, they are passed over when a consumer watches television using a device like a DVR.

The web site is perhaps the best new marketing tool for the local business owner. But there are many business owners who are overspending on their web sites in hopes of finding that pot of gold at the end of the Internet rainbow. While the Internet does present the local business owner with new ways to compete, it isn't a free road to the land of riches.

Search engine optimization is important. There is no doubt about. Your web site must be properly configured to be found. But to think that your $300-$500 investment in search engine optimization is going to be competitive, think again. In the world of the search engine, you're in the most competitive environment ever created. You're competing against hundreds of millions of web sites. And the world of the search engine is dominated by companies with more money and more staff dedicated to search engine ranking. Search engine optimization is not a onetime thing. The companies that rank the highest do so because they manage their search engine optimization 24/7.

If you're not selling internationally or across the country, there is a much better way to draw traffic to your web site. Let's take a look at what the biggest names in e-commerce are doing to drive traffic to their web sites.

Amazon Dot Com does not want you to go to Google to search for a new book. You might end up at Barnes and Nobel Dot Com. iTunes doesn't want you to go to Yahoo to find out where you can download your favorite songs, you might end up at Amazon Dot Com or CD Now Dot Com. eBay doesn't want you to go to Bing to find out how to sell your baseball collection, you might end up at Craig's List.

The biggest names in e-commerce don't want you going to a search engine; they want you to come directly to their web sites. That's why they are some of the biggest advertisers on Radio, TV and Magazines.

If Amazon, iTunes and eBay don't want you going to a search engine, why do you want your customers to go there? They might end up at your competitor.

The combination of a radio campaign on your local radio station and your web site is proving to be the best way to bring back old customers, increase repeat business and find new customers for the future.

Radio can make an emotional connection with the consumers that will inspire them about your business. Your web site can then inform them about what you do.

Radio continues to be the most robust medium for the local business owner. Nine of out ten adults listen to either an AM or an FM Radio station every week. Facebook can’t make that claim. That is over two hundred and forty million people listening to an AM or an FM Radio. Satellite Radio only has 20 million subscribers. Rush Limbaugh has 50 million listeners every week. Ninety one percent of young people between the ages of 12 and 24 listen to the Radio every week.

New scientific research indicates 92% of listeners stay tuned to the Radio station when the commercials come on the air.

With one of the lowest cost per thousands in advertising, Radio is the most affordable and effective medium for the small business owner in both bad times and good. Before you get cold feet and start to considered cutting your advertising, talk to your local advertising sales person about how Radio can help protect your market share and prepare you for better times ahead. Of course, if gas doesn’t go over $4 a gallon and the country doesn’t fall into another recession, you'll be just that much further ahead. Good luck. Talk to you soon.