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Don't Let Your Brand Falter During a Recession

By Andrew Pierce and Eric Almquist, Senior Partners of Mercer Management Consulting

Brand equity has emerged over the past few years as a key strategic asset. CEOs in many industries now see their brands as a source of strategic control and a way to build stronger relationships with customers.

These new commitments, however, could soon be put to the test as the economy turns down. Brand-building has always been among the first budget cuts when companies tighten their belts in a recession. The next few months will demonstrate which companies and senior managers are truly committed to their brands as strategic assets and which will revert to the habits of the past and slash brand-building investments.

Just before the current slowdown began, Mercer Management Consulting surveyed a select group of fifty Fortune 500 marketing executives.

The responses indicate:

Nearly all senior managers have come to appreciate the importance of brand as a strategic asset.

These executives increasingly understand that brand equity has to be developed, managed, and leveraged just like any core asset. They also understand that brand-building is multi-dimensional. As one respondent remarked, "We are not talking about just advertising; brand-building is much more than advertising. Brand-building includes investments made in areas such as customer service, product development, and the customer experience. "Brands also cut through the noise of product channel proliferation, keep your products from becoming commodities, and provide durable competitive advantage.

Exhibit 1: Brand-building is growing in importance due to a number of pressures.

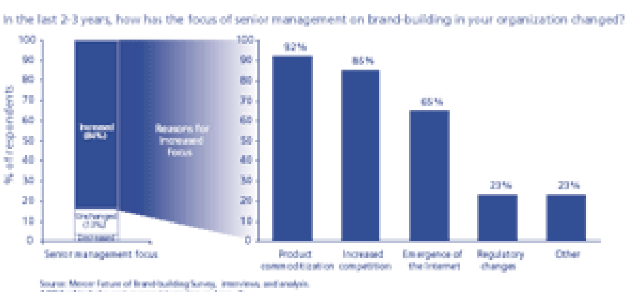
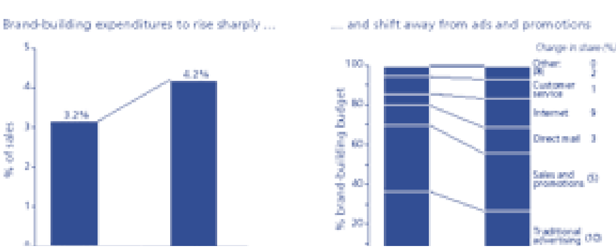
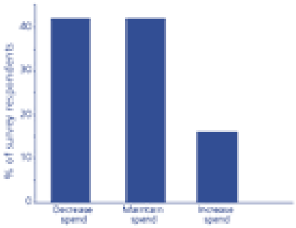


Exhibit 2: Before the economy slowed, a group of Fortune 500 marketing executives expected:



If the economy turned down, their expected reactions differed sharply



Source: Mercer Future of Brand-building Survey, interviews, and analysis.

Brand-building is growing in importance due to a number of pressures.

Brand-building expenditures will shift away from traditional advertising toward new Internet investments. Companies will spend much more on the Web as a means to cross-sell and manage customer relationships. Even so, most marketing executives believe traditional advertising is the best method to reach broad audiences. As one respondent noted, "Most marketing executives cannot afford to stop spending for fear competitors will steal share."

If the economy turns down, about 60% expected their brand-building expenditures to remain stable or rise.

The remaining 40% expected they would fall. The select—and we believe savvy—15% of companies that project an increase come mostly from non-cyclical and service-oriented industries such as financial services, telecommunications, pharmaceuticals, and technology.

Now that the economy has slowed, we expect a sharper divide in brand-building than in prior slowdowns. In past recessions, the great majority of firms cut back. Even companies with tremendous brand equity based on their unique customer-service orientation, for example, reacted by laying off customer-service personnel. There couldn't be a worse decision for the long-term health of these companies. In the current slowdown, many will be tempted to react in a similar instinctive fashion.

However, we expect a significant number of companies to take the opposite tack. Many now understand that brand-building is a long-term, cumulative effort. There is increasing evidence that strong brands influence investment decisions and market capitalization and are significant leading indicators of value growth.This can help stock prices rebound quickly after a downturn. So we believe that smart executives will continue or even increase their spending in a recession. If they are lucky,their competitors will let brand equity erode in order to keep a bit more cash in the till.

The true brand-builders will seize the opportunity that a slowdown provides. They will use all methods available to reinforce their message. They will use the Internet to establish powerful new relationships with customers. And if their competitors pull back, they should capture significant mindshare and market share. We expect these gold-medal brand-builders to leverage and extend their brand equity over the coming year, and to do so in ways that were previously not possible.