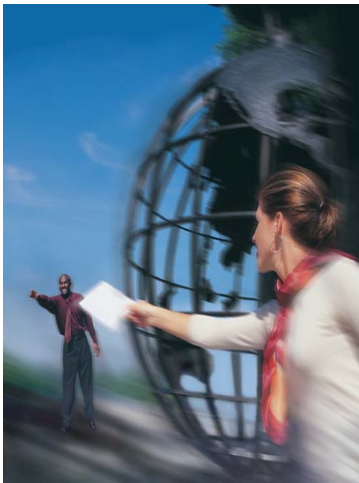


# Market Research Fact Sheet: Marketing in a Downturn

## Key Insights:

- When facing uncertain economic times, consumers reprioritize their spending rather than cut it across the board. They will want to deal with companies they can trust and rely on and present greater value from tighter budgets.
- Businesses need to use advertising to drive saliency with the "product fits my needs" message to current customers and prospects. Focus should be on marketing for current results, not long-term and aligning messages with pain points to better communicate value, build loyalty and keep the brand 'top of mind'.



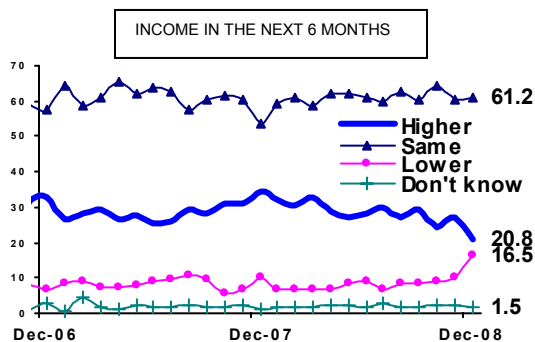
In a down economy, it is particularly important to focus scarce resources on the things that will make the most difference to customers and their willingness to remain loyal, buy more and recommend your organization to others.

The following is a gathering of the latest research available that provides context to the current state of the Canadian economy. What customers are experiencing, what businesses are facing and strategies to help them succeed in these difficult times are presented here.

## Perceptions of the Canadian Economy

Positive perceptions of the economy have declined dramatically during the last six months of 2008:

- The proportion who thinks the **economy is very or somewhat good right now has dwindled from 49% in August to 16% in December<sup>1</sup>**. Similarly, the proportion of those who think there are many jobs available has decreased and the percentage of Canadians who think there are **fewer jobs has increased from 20% to 28%** by the end of the year.
- Canadians have maintained a relatively optimistic view of their own financial wealth however; the emerging trend is a more negative outlook. **Those who feel that their income in the next 6 months will remain the same has declined slightly from 63% in August to 61% in December**. Those who feel their income will be higher however has decreased from 28% to 21% and likewise those who felt that their income would be lower has increased from 9% to 16.5% over the same period<sup>1</sup>.

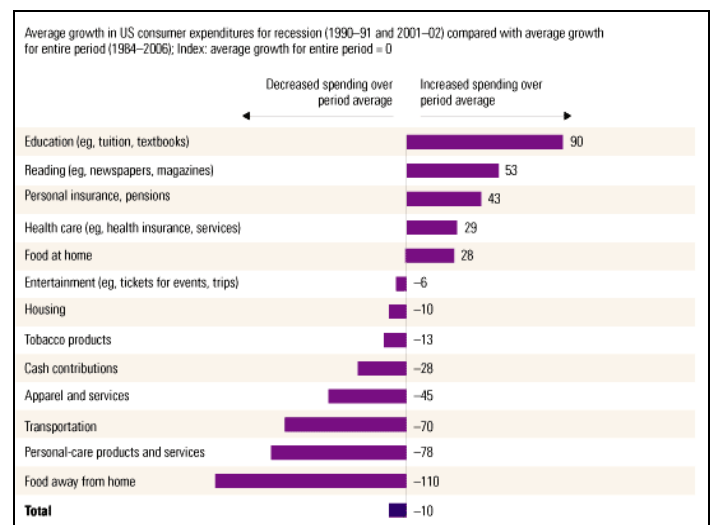


- Not surprisingly, if this trend continues, we should expect consumers to be increasingly cautious over the next few months. If the 1990-1991 recession is any indication, this may continue for up to 4 quarters (last time there was four continuous quarters of negative real GDP growth)<sup>2</sup>.

## What Customers Are Experiencing

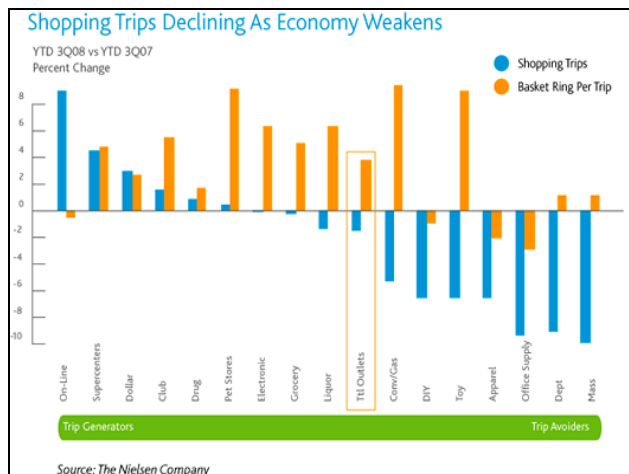
Based on 1990-91 and 2001-02 downturns, US consumers reprioritized their spending rather than cutting it across the board<sup>3</sup>:

- Consumer spending dropped in discretionary categories like dining out, personal care products and charitable donations.
- Expenditures for groceries, reading materials, and other options that substitute for more expensive ones actually rose, including insurance, health care and education.

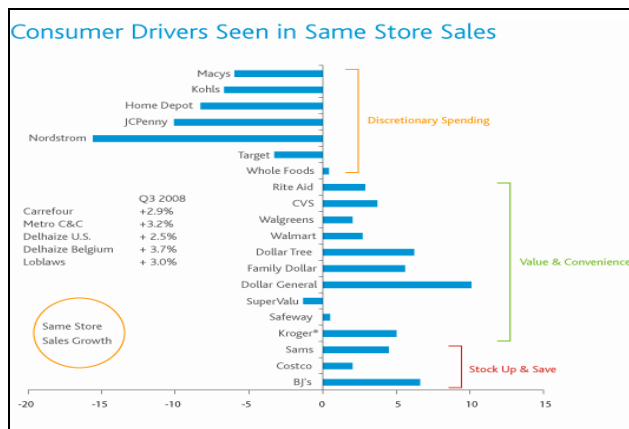


- While discretionary expenditures have again been taking a toll on low, mid and high-end department stores, select **retailers within grocery, dollar, club and drug stores have fared better in same store sales growth as well as number of shopping trips<sup>4</sup>**.

- **Offsetting the negative trip count was the general trend of higher basket rings per trip**, with convenience/gas, pet and toy stores recording the largest percentage increases in register rings per trip<sup>4</sup>.

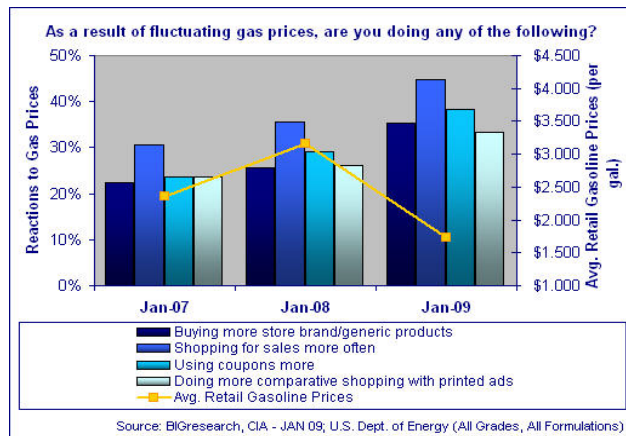


- **Online, supercentres, dollar, club and pet stores all posted an increase in trip count.** Hardest hit on the trip count measure were mass merchandisers, office supply and department stores<sup>4</sup>.
- **Consumer drivers such as 'value and convenience' as well as 'stock up and save' were seen in same store sales.** Retailers who carried more "need-to-have", not "nice-to-have" products have registered positive same store sales growth from 1% (grocery) up to 10% (primarily dollar type stores)<sup>4</sup>.



- **Consumers are learning to trade down to value channels,** reduce purchase frequency, move from on-premise consumption to off-premise purchasing and downscale from premium to mid-tier or value brands.
- **While consumers plan to stick to their budgets in '09, many have also held firmly to the labels they love.** Just under half (46.9%) reveal that familiar fashion labels are important to them, rising more than two points from a year ago (44.4%). However, with the vast majority of shoppers (87%) indicating that they "usually" or "only" buy clothing on sale, these fashionistas will likely scout for designer labels at discount prices<sup>3</sup>.

- With gas prices almost half of what they were in January'08, a slightly increasing number of **consumers (30%, U.S. based) say pump prices are having no major impact on their spending** compared to a year ago (25.5%). "The slight rise at the turn of the year has an increasing number of consumers concerned that <\$2/gas will be short-term. Among the remaining 70% who remain affected, lower prices at the pump have yet to give them cause to forgo their bargain-hunting habits"<sup>5</sup>.

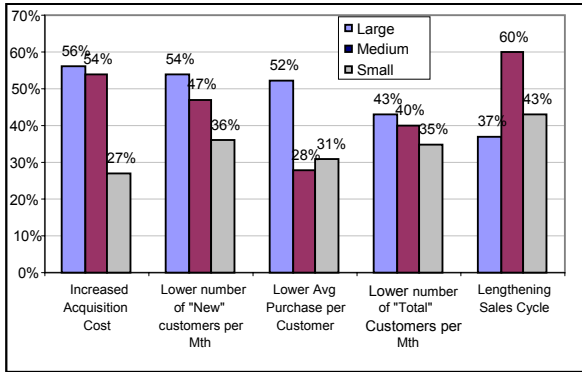


- **Close to half (48.9%) are cutting back by taking fewer shopping trips, scouting sales, clipping coupons, and buying store brands<sup>3</sup>.** All remain popular methods for making the most of household budgets.
- **Fully 40% of shoppers (U.S. based) believe that food and personal care prices have increased over the past 3 months. When offered some ideas for coping, consumers expressed the following suggestions (to businesses)<sup>2</sup>:**
  - A preference for larger sizes with a lower price per serving (47% of shoppers) over smaller pack sizes at lower prices (17%)
  - Modestly downsized packaging at the same price (9%)
  - A proportionate price increase (8%)
  - Fewer sales (8%)
  - The same number of sales but at less of a savings (7%) or,
  - Slight reductions in quality with no price change (4%).

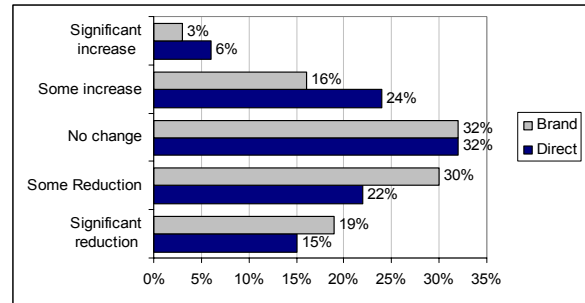
## Current Business Challenges

Economic factors are already impacting the business-to-consumer more than the business-to-business sector.

- More than half of B-to-C and almost a quarter of B-to-B organizations reported **seeing lower numbers of total and new customers per month, and the cost of acquiring new customers is increasing, particularly for medium and large enterprises.** It is not surprising that the B-to-C sector which are primarily retail and financial service organizations, are more significantly impacted as consumers are less likely to spend on items that aren't a necessity when a downturn occurs.



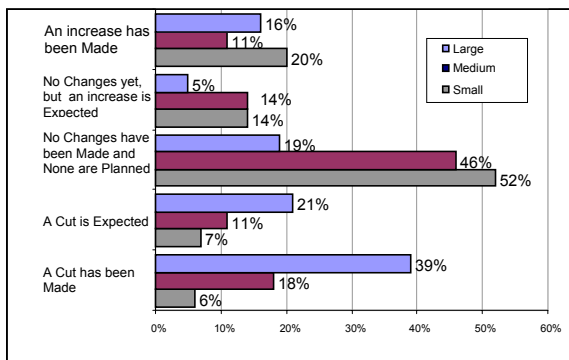
- **30% of businesses said they are increasing direct marketing investments this year in response to economic conditions** whereas only 19% are increasing brand investments. **Direct marketing is more measurable and track able in terms of ROI** and more recognize that they don't need to separate branding and direct marketing budgets because they can acquire and brand at the same time<sup>4</sup>.



### Marketing in a Downturn

Historically, marketing budgets are among the first to get cut in a budget crunch. Based on a North American survey conducted in March 2008:

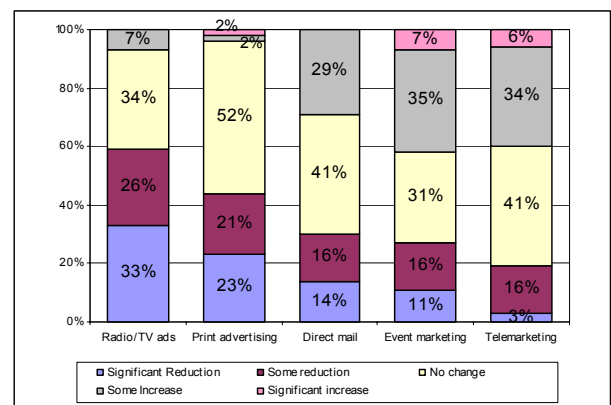
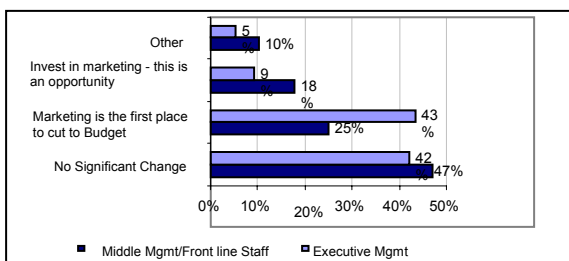
- While 60% of large companies and 29% of medium-sized companies have already cut or expect to cut their marketing budgets, the **majority of businesses (39%), consisting primarily of small and medium sized businesses, said that their marketing budgets have not been affected by the downturn yet. Small businesses (52%) were the highest in the 'no change' category followed by mid-sized businesses with 46%** reporting not changing their marketing budgets in response to the economy<sup>4</sup>.



### Strategies to Cope

- **Focus on marketing for current results**, not long-term results:
  - When you have less to work with, make sure you **"spend as much of your budget as possible in actual media dollars"** says Jay O'Connor, Sr. VP Worldwide Marketing, NetSuite Inc., a large business management software company. **That includes email marketing, direct mail and advertising<sup>4</sup>.**
  - Make sure you're not spending too much on marketing overhead (e.g. agencies) that doesn't translate into impressions and messaging that prospects will actually see...in a tight environment **you need current results, not long-term results<sup>17</sup>.**
- **Prove the results you're going to deliver otherwise you're at risk of having your budget cut because your spend can be seen as discretionary:**
  - Marketers are investing more in online tactics (38%)...and will rely on direct marketing tactics quite heavily with event marketing experiencing the greatest increase (42%) followed by telemarketing (40%) and direct mail (29%) which show better ROI<sup>4</sup>.

- Interestingly, 'CFO's are heeding experts' top advice for marketing in a downturn. More than half of financial executive management (**51.3%**), **said their attitude toward marketing budgets was either 'no change' or 'invest'<sup>4</sup>.** AMA's Management Review also found that after the 1990-1991 recession **'firms that increased their budgets and took on new people were twice as likely to pick up market share.'<sup>6"</sup>**



- **Stay in contact with customers, even when consumers are spending less.** Make sure that they know you haven't forgotten them. "Keep sending them direct mail and emails. Keep advertising...Hold a private sales event for best customers, says David Sable, Vice Chairman and CEO, Wunderman, a large consumer-focused marketing agency. Remember that it's more cost-effective to market to existing customers...and even if they're not buying today, it doesn't mean they won't buy tomorrow."<sup>4</sup>
- **Align messaging with pain points:**
  - Fine tune messaging to emphasize value and cost savings
  - Be specific about what clients can expect
  - Emphasize free trials, special discounts
  - Emphasize customer testimonials centered on increased revenue
  - Rework website to better communicate value
- **Build loyalty by focusing on the end-to-end brand experience** and by ensuring that the brand consistently meets its promise to customers. To begin shifting focus to long-term brand experience and loyalty you must:
  - **Define your core brand experience**, that is, focus on what "trust" and "prior experience" mean for your customer. Understand the features and benefits that are "nice to have" and the ones customers can't live without.
  - **Most customers don't want to change if they don't have to.** Use advertising to drive saliency with the "product fits my needs" message to current customers as well as future ones. **Invite your best customers to become external advocates for your brand.**
  - **Align employees with brand goals and empower them** to step into a situation to make things easier for a customer. During difficult times, customers are likely to be especially appreciative of initiatives that are surprising and that are genuinely helpful.
- Most customers, **when facing uncertain economic times, will want to deal with companies they can trust and on which they can rely**; those that seem to have their interests genuinely at heart. **Experiences must engender those feelings.** This makes solid business sense in "normal" times and is even more important today.
- **Cash will be king.** As credit card companies continue to raise fees on retailers, there is more motivation to offer discounts for shoppers paying cash.
- **Marketers will think "renovation" as much as innovation.** Reinventing established brands can be managed as a lower risk innovation strategy. However making this strategy a success requires a delicate balance of providing continuity to current buyers while offering sufficient novelty to attract new triers.
- **Coupon redemptions will rise.** As consumers look for more deals, expect coupon redemptions to increase. As more manufacturers and retailers make it easier for consumers to gain access to coupons via email, mobile phones and in-store methods, consumers will take advantage of this cost-cutting strategy.
- **Brand prestige will be driven less by premium price.** Expect to see fewer premium-priced new products introduced into the market in 2009. Marketers should look to emphasize a brand's value proposition in new and unique ways.
- **Cooking from scratch will make a comeback.** Sales of cooking and baking suppliers are on the rise and although the motivation may be cost savings, many families will find cooking from scratch may be more tasty and nutritious.
- **Online activities will continue to grow.** With less money to spend, consumers will undoubtedly be spending more time at home. The U.S. experienced year-over-year growth in online activities with increases in time spent daily on videos (+46%), blogs (+20%) and ecommerce sites (+17%).
- **Seasonality seems to be boosting purchasing intent on major home improvements** and lawn/garden care which, while down compared to a year ago, are up from December 2008 levels.
- **Cutting-edge wireless devices will expand and increase value to the consumer.** Expect services such as mobile Internet and mobile video as well as an array of new phone-as-media-devices to broaden the mobile customer experience.
- **Text messaging will broaden its audience beyond teens as it becomes more affordable.** The continued expansion of unlimited text message packages and the increasing use of text-messaging for search and mobile marketing will help grow this medium overall and expand for users aged 25+ who today send fewer than a third as many text messages per month as their younger counterparts.

### Trends for 2009

The products and services that are likely to succeed in 2009 will be those that **help in gaining greater experiential or consumptive value from tighter budgets.** The following are some of the trends that we are likely to see in 2009<sup>8</sup>:

- **Going green will be fueled more by cost-cutting than planet-saving intentions.** For example, consumers will continue saving money on gas by combining errands (lowering car emissions) and manufacturers will continue to move towards more

<sup>1</sup> TNS Canadian Facts, Trends Report, December 2008.

<sup>2</sup> Warrillow and Co. Winning the SMB Market (Statistics Canada), 2008

<sup>3</sup> The McKinsey Quarterly, "Industry trends in recessions", December 2008

<sup>4</sup> Nielsen Customer Insight, "How to Cope During Difficult Economic Times", January 2009.

<sup>5</sup> Bigresearch, CIA, January 2009 Executive Briefing; U.S. Dept of Energy.

<sup>6</sup> EzineArticles.com, "Recession Data on the Value of Marketing Through Downturn" Shannon Kavanaugh, January 2009; Ref: Greenburg, Eric Rolfe "Fortune Follows the Brave, Management Review, January 1993.

<sup>7</sup> Marketing Sherpa, Marketing During a Downturn, 2008.

<sup>8</sup> Nielsen Customer Insight, "2009 Industry Outlook", December 2008.

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