Managing downturn to build stronger brands

2008 was a watershed year for businesses across the globe. The banking industry collapsed, Wall Street declined 41% and the consumer spending took a nosedive. Words like Slowdown, Downturn, Recession and Depression found prime place in corporate lexicon. The Indian story has been similar and hence the sentiment in the country is subdued at the moment.

Good firms and leaders will seize the slowdown as a great opportunity. Evidence suggests that 3 of the top 10 firms drop out of the top 10 list during a slowdown. Companies make more dramatic gains and losses during downturns and not boom times. Gaining in tough times also ensures that companies will make more gains when good times return.

In a slowdown, successful firms do two things - Managing IN and Managing OUT. It is like Formula 1. The driver needs to decelerate through a curve properly so that he can pass a few competitors while picking up speed on the straight. Managing a downturn is exactly like that. The key pieces in Managing In are Mindset, Costs and Scenario Planning.

In India, the mindset issue is critical at the moment. Anyone below the age of 37 hasn’t seen a tough year; they have only seen good times in India and therefore they have had an optimistic view of their capabilities and their future. A lot of the young managers have taken on debt, with the confidence that their jobs are secure. The current slowdown has jolted that confidence.

It is likely that many managers will be going through a combination of fear, paralysis, cowardice and momentum. Good leaders need to move the bulk of the organization to the momentum zone as quickly as possible.

The second element of Managing In is looking at the costs de novo. One should bucket the costs into good costs and bad costs. Any cost-cutting that weakens the brand and the company position is not good. It is important that we do not tamper with quality in our zeal to save costs. Consumers might not overtly appreciate great quality but they are quick to seize on its absence. Brands like Kit Kat in the UK cut quality in recession times by making the chocolate coating around the wafer thin. Mars, their main competitor did the opposite. It took years for Kit Kat to recover from that move.

In marketing terms, we have to think Value and not price alone - alter the proposition so that the consumer sees more value in it. Give price a reference and

then consumers are smart enough to get it. Something like what Ariel basico communicated on their packs - “Cleans everything except your wallet”.

Mixed category is another option. P&G and Ann Taylor are promoting the concept of not needing to dry clean clothes. They are helping consumers see value.

The third element of Managing In is to build scenarios and work at the “worst case” scenario. The worst case scenario can be distributors not having cash, customers not paying up, losing key employees etc etc.By planning for the worst, the firm and the brand would be in a better position to handle any variation of the worst case scenario that comes up.

Managing Out, on the other hand, is far more strategic. It is about the philosophy of what matters in a business. Firms that continue to invest in a downturn - in innovation, advertising and talent - always come out stronger.

If we look back to the Great Depression of 1931, there is data to suggest that there were 5 categories that saw volume growth in that period , i.e. volume growth in 1933 vs. 1929 – the categories were Refrigerators, Butter, Chocolates, Bicycles, Knitwear. That list includes essentials and little luxuries. The reason for the growth of refrigerator category was simply brand and category innovation. And this is, therefore, the most effective antidote to consumer sentiment and deferring purchase in a slowdown.

Research from the 1981 recession shows that companies that invested in innovation grew 40 pc more than the companies that didn’t.

Similarly companies that invested or maintained advertising grew 50 pc more than those that cut back advertising. Most firms see Advertising as dispensable. However, I think that companies need to maintain, if not grow the advertising budget. Cutting advertising is the simplest option because it is seen as a luxury in downturns but if the firms want to succeed they must look at investing the money smartly behind a few big projects. As a marketer, our focus should be to change the way consumers think about our category, the competitive offerings and the brand.

Slowdowns, downturns, recessions and depressions will come and go but Brands are for life. Focus on the long-term goals and continued engagement with the consumers and employees would result in winning and staying on top.