

creative
thinking
approach
execution
juices are flowing

HIP
ADVERTISING

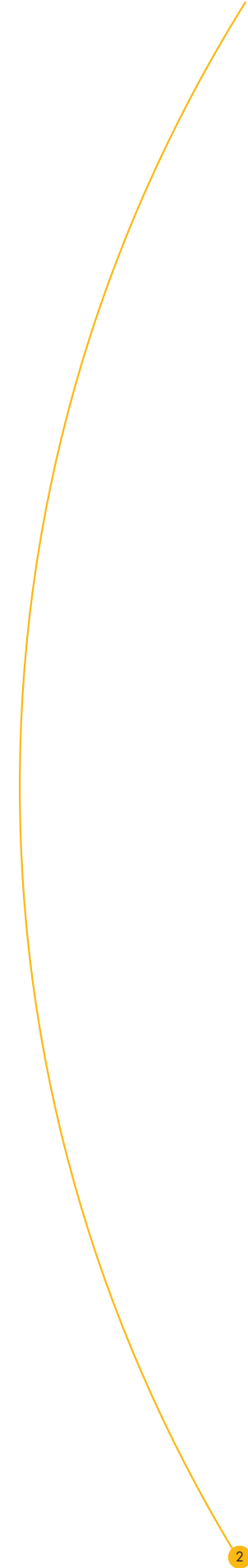
BRANDED MARKETING IN TOUGH ECONOMIC TIMES

*A white paper by HIP Advertising
January 2009*

10% — Customers not buying because of a poor economy.
84% — Customers who find “brand” more important than the economy.
(Survey based on 500-plus brands and 6,000-plus customers.)

Another thought ...

During the depression years, W. K. Kellogg continued to aggressively market his cereals as rivals cut back. By doing so, he pulled ahead of Post Cereals in sales — a change that has never been reversed.



In response to clients who've asked how they should — or can — market in tough economic times, HIP Advertising has tapped the expertise of our own client base, the experience of our contemporaries in the marketing industry, and business leaders in general.

We believe you'll find the collective wisdom insightful.

"This is a great time to buy."

Donald Trump, January 2009, in response to a question about the value of U. S. stocks.

"I'm buying nothing but stocks of U. S. companies for my personal portfolio."

Warren Buffett, October 2008

Trump and Buffett buy while others retract into shells. It's hard to argue with their success; they know the value of staying in the game. While competitors sit on the sidelines waiting for the economy to turn around, Trump and Buffett improve their market position. Maybe there's a lesson here for even the smallest of businesses.

At HIP Advertising, we approach a client's business with the philosophy, "We want to be your best salesperson." It's not a pandering cliché. Our success as a business is directly dependent on your success as a business. We strive to establish long-term relationships with clients, not merely search out project work.

Many of you have heard us quip that we spend about 20% of our time talking clients out of what they think they should do even though it would be more revenue for HIP. Why? Because in our opinion it would not be the best marketing move for the client for the long term. And we want to be there with you in the long term.

We understand the economic scenario that hits you between the eyes every morning when turning on the news. For those of you who remember leisure suits, you've been there before: 1973 - '74 the Standard & Poor's 500 Index declined for 21 months. In the early '80s short-term interest rates exceeded 20%, inflation was in the teens, and the market lost 27%. (One HIPster recalls being ecstatic at getting a new car loan rate of 16% in '81.) During a single day in 1987 the market lost 20%. Not even a decade ago the tech bubble burst and the S&P 500 lost 49% while the Nasdaq Index dropped 78%.

Yet we're still here.

As we weather the current recession, it's helpful to reflect on marketing steps over the years that have positioned your business where it is today. A marketing budget tends to be a visible target during slower times. If people have truly reduced their spending somewhat now, they will spend again. When they do, HIP Advertising wants your business to be top of mind.

Most businesses realize it's counter-intuitive to reduce a marketing budget when times get tough. Marketing builds awareness, establishes a brand image, communicates solutions for customer needs, and drives traffic into your business — just the activities a business needs even more of during a recession. So why is the marketing budget one of the first items on the chopping block?

Because it's easy ... and because it's a good short-term fix. (Hint: The key phrase here is "short-term.") There's a sentiment that marketing can always be increased later without any long-term damage. Hmmmm.

Think back over the last 5 - 7 years of building your brand. A lot of time, effort, and money have been expended. Unfortunately, the public has a short memory — nothing remains static, including your brand image. If they're not seeing, hearing, or being impressed by your message, it will be someone else's.

In a study by The Economist Group, 79% of businesses say that a marketing budget is no longer dispensable. It has to be part of an on-going, long-term business plan. Successful businesses see the marketing budget as a solution to withstand a recession instead of viewing it as a budget item to cut.

As you're aware, HIP Advertising is a strong advocate of establishing an annual marketing plan and following that plan throughout the year (with, of course, flexibility built in to capitalize on unexpected opportunities that arise.) A viable plan thoroughly addressing the objectives of the business should withstand a recessionary period. Budgets, competitive factors, target audiences, and the proper messages to reach your marketplace all have been factored into the plan.

Client: *"My concern with the economy is that customers will put off — not totally stop using — some of our services. They feel some services are essential, but others are more discretionary. So, I have to advertise more to keep capacity where it is. We can't let a blip of a down economy get in the way of our long-term plan. It's not a matter of cutting back tactics to make the plan work. It's a matter of fine tuning those tactics."*

MOST BUSINESSES USE STRATEGY TO DRIVE BUDGET



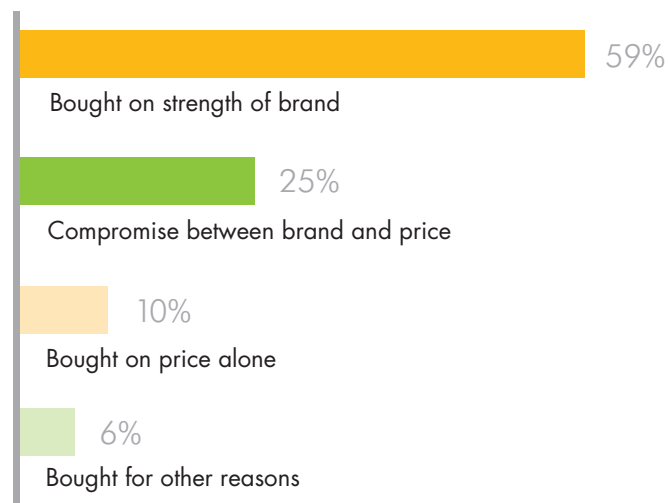
Source: Advertising on the edge. Economist Intelligence Unit survey conducted on behalf of The Economist Group

What you sacrifice now, you pay for later. One client says that if she stops advertising for two months, sales won't drop. The drop comes approximately six months down the road. This is a common short-term mistake — and result — during slower economic times. The brand image erodes from the consumer's mind much faster than it took to establish it there.

Another client uses the analogy of a plane. Shut down an engine at 36,000 feet and the plane doesn't drop out of the sky immediately. The initial change is imperceptible to passengers. Before long, however, the plane has lost a great deal of altitude and passengers notice that the ground is awfully close.

It's the same with the brand of a business. Short-term benefit, long-term risk and serious damage to a brand.

PRICE-DRIVEN/BRAND-DRIVEN BREAKDOWN



Source: Milward Brown, BRANDZ UK 2007, 33 categories, 500+ brands, 6,000+ consumers

Examples of price-driven purchases:

- Bottled water
- Office supplies
- Gasoline
- Cell phone packages

Examples of brand-driven purchases:

- Upscale vehicles
- Spa services
- Perfume
- Banks

Brands that increase advertising during a recession when competitors are cutting back can improve market share and return on investment at lower cost during good economic times. During a downturn economy, consumers buy brands they equate with quality and longevity. If a brand scales back its presence noticeably during a recession, consumers lose confidence in the brand — buyers do not associate staying power with the brand, and thus question its quality. Consumers want to buy “winners.”

People seek out companies that exude forward momentum. Those companies are active marketers; they keep communicating through thick and thin. In times of uncertainty, people need words of assurance (think Roosevelt's fireside chats during the depression and WWII). If your business isn't one speaking out, people will find the businesses that are.

Be visible. Visibility conveys strength, leadership, and progressiveness. It's businesses with those qualities that meet the material — and psychological — needs of consumers.

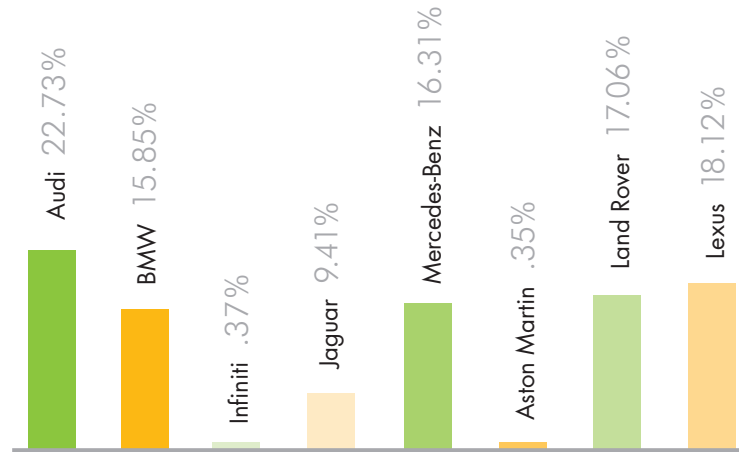
Client: "The thing that has worked well for us during slower times in the past is to use key customers as testimonials. If you have customers who really find value in your product, use their stories. No one sells a potential customer better than a current customer."

During slower times, some businesses find that it makes more sense to focus on ways to hold their most loyal customers rather than devoting the bulk of a marketing budget to searching for new customers. Current customers already know you and have vested their money and trust in you. They are also the individuals most likely to offer positive word-of-mouth advertising for your business.

Getting inside (and staying inside) a customer's head is crucial. As an example, consider the market for upscale cars. What "voices" are in the customer's head?

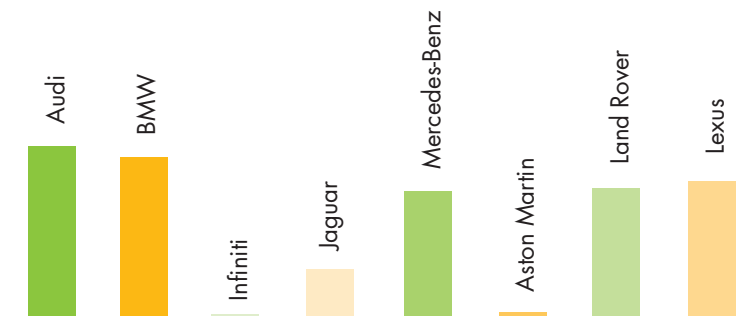
SHARE OF VOICE

2008 ad spending for most premium car manufacturers

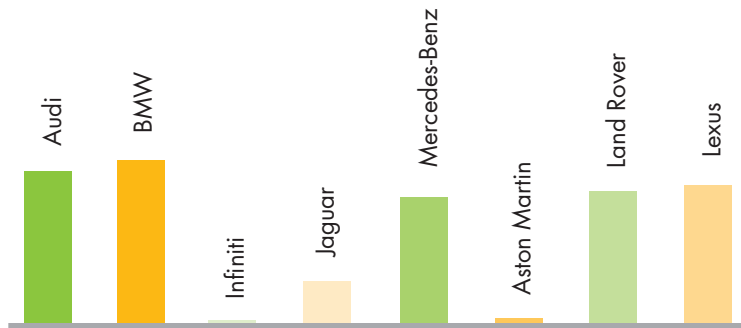


Source: Nielsen Media Research, 2008

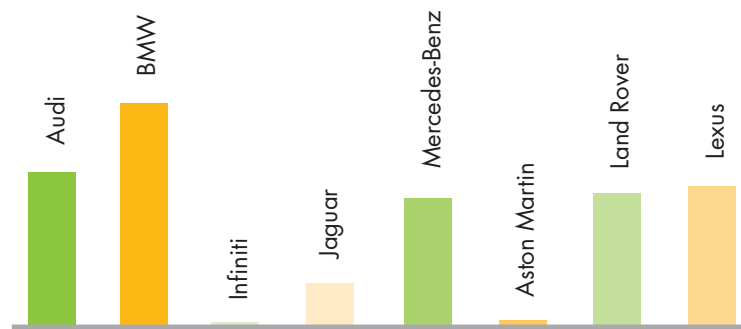
Assume in a slow economy every company cuts the marketing budget by 10% ... except BMW.



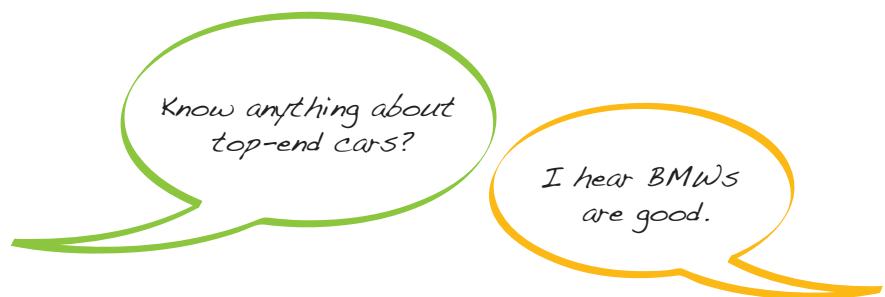
BMW "share of voice" nears that of Audi and surpasses Mercedes-Benz and Lexus. What if BMW increases ad spending (thus "share of voice") by 10%?



BMW is now larger than Audi for "share of voice" in the consumer's perception. What if BMW increases ad spending another 10% the next year, too?



BMW surpasses all competitors and is now "top of mind" for upscale cars. "Share of voice" is closely related to "share of market," so the positive messaging earns BMW larger market share.



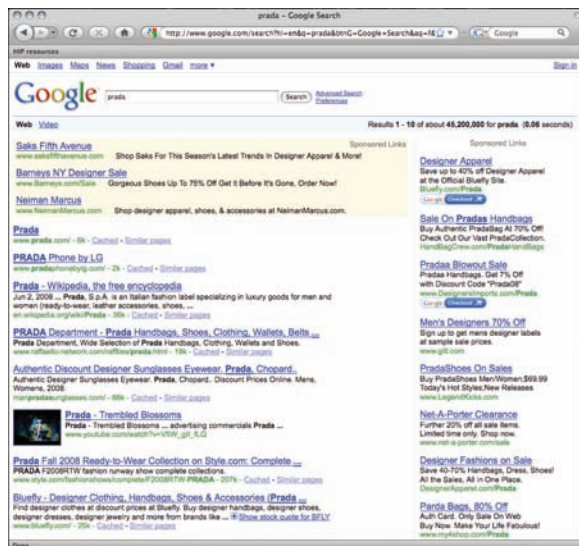
BMW's consistent marketing presence over the long term has built an exceptionally strong brand. As is true with an individual's personality, a brand with behavior that is consistent day in and day out is perceived as having a solid personality. It follows that consistent marketing campaigns are more likely to build strong brand personalities. In the case of BMW, a consistent marketing presence has generated robust consumer demand and has helped BMW sell more cars at high margins.

Client: "The best thing to do in a slow economy is to get back to your core customers — stay on your strategy and just refine it. Don't deviate from your long-term plan unless business conditions absolutely require it. And if that's the case, you better write a whole new plan instead of going down rabbit paths for the short term."

It's not to say that a recession does not alter the direction of a marketing budget. Marketing dollars might be shifted to more online marketing or direct mail — vehicles that traditionally have metrics more easily tracked compared to image advertising.

Something like an online campaign alone, however, will always rely on brand-building advertising in other media. Continually question if the medium or venue for your message is enhancing your brand.

This doesn't build the brand.



This does.



Make the message a staple in people's lives and they perceive stability in the business. In the end, we want your marketing to convey that your brand is successful even in recessionary times, and certainly afterwards.