Crisis = Danger + Opportunity

How economic chaos has led to opportunities for retailers and agencies alike

A white paper by

490

Introduction: Crisis = Danger + Opportunity

At the time of writing, it is May 2010 and the first coalition government since World War Two have begun a term in the House of Commons. In the aftermath of one of the closest fought election campaigns in recent history, the issues surrounding the economy and the budget deficit remain a key battleground for all parties: proof that for both politicians and voters alike, the economic climate remains at the forefront of the nation's mind, and will continue to do so for some time.

Whilst economists suggest that the recession is coming to an end, research reveals that the impact of the economic downturn will continue to be felt by consumers. Recent Mintel research claims that in the UK, 2 in 5 adults have been personally impacted by the deepest recession since the 1930s, with a further 39% personally knowing someone who has been affected.[1] With unemployment figures now standing at 2.51 million, this research is just the tip of the iceberg.[2] Consumers' and retailers' attitudes have been forced to change beyond recognition. As Professor Matthew Robson states, much of the market, even those of the post baby boom generation X, seem to have re-evaluated their consumption practices.[3]

A trip to any local high street will confirm this belief. Research by the Local Data Company estimates that retail vacancy rates now lie at 12%, with some towns seeing up to 24% of shops lying vacant.[4] The past three years have seen the loss of some of the best known UK high street names with Woolworths, Zavvi, MFI, Threshers and Borders, as well as a plethora of smaller ventures, entering into administration. Even those considered 'high-street stalwarts' have had to make sizeable cuts: M&S, for example, announced the closure of 25 of its smaller M&S food stores and two large regular stores last year, leading to the loss of over 780 jobs.[5] February 2009 saw a mammoth 49% of retailers cutting their work force.[6]

Recent figures suggest that the impact the economic downturn is having on retail is beginning to slow down. Deloitte estimate that retail administrations are down 65%; 44 companies fell into administration in the first quarter of 2010, compared with 124 retail companies in the first quarter of 2009.[7] However, many are predicting a double dip recession with consumer spending slowing after the general election.

Whilst it cannot be denied that the economic crisis has had a colossal effect on retail globally, the current climate also has the capacity to lead to enormous opportunities for retailers and brands: a strengthening of client-agency relationships, an increasing focus on innovation, concentrating on improving efficiencies and using partnerships to augment key marketing capabilities can lead to the growth of a stronger brand. As Neil Saunders predicted in 2008, "being good will no longer be good enough to generate growth. Retailers that want to increase their sales will have to excel in every way."[8] The recession has pushed many surviving retailers and agencies to excel in order to survive.

It is fitting, therefore, that the Chinese word for crisis carries two elements: danger and opportunity. This can be likened to the predicament that retailers are currently facing. Although the economic crisis has presented us with a dangerous and worrying situation, at the heart of it tremendous opportunities exist to make a brand work harder, more efficiently and more innovatively. Joseph Wan, CEO of Harvey Nichols contends:

"It is a question of accepting that there has been such a change of the total retail landscape...and focusing our minds on evaluating what these changes are and how we shall adapt to those changes and move on."[9]

What are the changes that we face?

As consumers tighten their purse strings, many retailers have chosen to drastically cut their marketing spend. This in turn has had a huge knock-on effect on the business conditions that agencies face. However, experts have advised that cutting back on marketing in a recession is counter-productive: maintaining spend is integral in order to understand and innovate around the huge changes in consumer opinion that the recession has caused.

According to a McKinsey study on global recession trends;

- Consumers are becoming more price sensitive
- Promotions are becoming more acceptable
- Consumers are becoming less brand loyal
- Consumers are more willing to give up convenience
- Consumers are 'trading down'[10]

The UK has also seen a rapid decline in trust as a result of the implosion of the banks and the MP's expenses scandal. As such, a new culture has developed where brands must prove themselves in order to survive. This is added to by the explosion of social networking and micro blogging: the marketplace is becoming increasingly transparent.

Whilst 2010 continues to see staycations and home improvement at the centre of most consumers' lifestyles as a result of price sensitivity, the marketplace must innovate in order to provide big purchases that consumers look to in order to escape the tyranny of value. Compared with the spending culture of the early noughties, the past three years has seen the marketplace evolve almost beyond recognition.

Brands and agencies need to work harder in order to source engagement at a wider level and as a Mintel report suggests "harness the growth in partnerships and technology in order to achieve it."[11]

Agencies and retailers face a double-edged sword: whilst the recession has forced drastic cost-cutting, focus must be placed on understanding consumer trends and improving innovation surrounding marketing, products and services in order to survive. In the absence of marketing activities, companies lack the ability to understand changes in consumer behaviour. As Disney Consumer Products Chairman Andy Mooney describes, "to create the emotional bridge between the customer, whether an old or new one, you have to give them what they want and what they didn't even know they wanted."[12]

Whilst investing in marketing and innovation may be seen as a 'risk' in the current economic climate, La Rinacente chief executive Vittorio Radice maintains that "to come successfully out of the recession there is a need to take a risk. You may not think you have the means to do it, but there is a need to do it."[13]

How do we overcome the problems?

Despite the gloomy outlook of 2009 and early 2010, April 2010 saw high street sales rise 6.6% to the highest level in four years.[14] This is solid evidence of many retailers' awareness that in order to survive, repositioning brand strategy and innovation in both product and marketing techniques has had to remain at the forefront of their focus.

For brands such as T-Mobile, Pepperami, OXO and Doritos, marketers have successfully managed to reposition their strategy to make consumers feel 'part' of the brand by asking them to take a key role in product innovation and advertising campaigns, tapping into the consumer excitement surrounding social media. This has been successful in positioning the brand on the consumer's side. The results are clear: in 2009, T-Mobile and Satchi and Satchi's Flash Mob campaign saw a 52% increase in sales from 2008. 80% of these customers were the intended top end of the market who spend more than £30 a month.[15]

For Hyundai Motor America, marketers ensured that the brand profile stayed strong and growth opportunity increased by running a promotion that allowed customers to return any new car that was financed in 2009 if the car buyer unexpectedly lost their income within one year of purchase. As a result of this scheme, the company's market share grew from 2.7 percent to 4.4 percent.[16] Hyundai went from a brand for the budget-conscious to a serious contender on many shopping lists in the U.S.

Innovations in multichannel marketing have been the focus of many leading retailers. The most successful retailers and agencies have become aware that brands need to work harder and more cohesively in all channels in order to maintain consumer loyalty. Marketers must take into account that social networking has the capability to have an extremely swift impact on the popularity of a brand. Many consumers now expect retailers to have an ecommerce capacity, as well as a store presence and a catalogue, all of which should be linked together seamlessly.

Concentrating on multichannel capabilities has seen the most successful retailers focus on making all marketing platforms content rich, well designed and intuitive. Innovations, such as catwalk style videos, allow consumers to interact with a product before purchasing: a well thought out response to combat recent research which suggests that a staggering 87% of customers abandon their baskets before completing their purchase.[17] Retail communications agencies are working hard to develop new innovations which utilise cutting edge technology in order to link catalogue, web and the in-store environment together, allowing customers to interact with the brand at a deeper level. As Sara Weller, Managing Director of Argos, states growth within multichannel is one of the greatest opportunities for retailers.[18] Whilst investing largely in multichannel marketing ventures may seem risky during an economic downturn, it is telling that Woolworths and Borders, who failed to embrace multichannel in any real capacity, are some of the major losses of recent years.

What have we learnt?

Despite evidence of brands working harder, procurement specialist Richard Woodford suggests the current priority for many retailers and brand-owners is to find ways of using less budget to deliver more, ensuring that although agencies may earn less, they maintain the quality of their work.[19] The recession has thus led to important questions about the price of creativity as procurement becomes an ever increasing part of the pitching process. Jim Houghton, former Omnicom director, argues that rather than hindering creativity, questioning traditional methods of the procurement process can lead to braver, more ground breaking work. Although seen as a risk by many clients and agencies alike, systems such as payment by results (PBR) and Revenue Share offer an alternative. Clients and agencies must become more willing to share in each others' successes and failures, working closely to a shared brief in order to build a stronger and more transparent partnership.[20] Moving the basis of the client-agency relationship from initial cost to long term value ensures that everyone buys in to make a brand work harder. As John Lawrence, Business Development Director of retail communications agency Fourninety, contends, "the question for retailers should not be how do we cut costs, but rather how do we grasp the opportunity presented by the downturn and drive value from our spend."

The most successful client-agency solutions work on a partnership basis that begins long before business is won. It is in this way that agencies come to understand what their clients truly want, not what the agency decides they want. By being honest about what skill-set an agency can provide, and not attempting to build a monolithic internal structure that lacks proficiency and depth, a deeply integrated relationship can be formed that is bespoke and offers the best available expertise. Agencies must focus on working collaboratively together, allowing for clearer levels of strategic consistency across all communication disciplines. In this way, seamless solutions can be created that give the customer a consistent experience of the brand, which, as we have learnt, is vital to ensure growth and opportunity.[21]

It is this focus on transparency, a willingness to take risks and questioning outdated processes, which holds the key to combating chaos and maximising growth and opportunity.

Conclusion: a brave new world?

The past few years have been extremely challenging for both retailers and agencies alike. Unfortunately, there is no 'quick-fix' solution for the problems the industry will continue to face. However, there is a need to stay positive in such a climate. Barbara Boyes, Managing Director of Fourninety, believes that "there is little reason in bemoaning the current climate. Agencies simply need to seize the moment and raise the bar."

Companies have been forced to make cuts which have led to more efficient and effective working patterns, questioning outdated processes. Across the board, both agencies and retailers alike have learnt not to ignore the factors they have previously taken for granted, such as a loyal consumer base. The economic climate has the capacity to lead to stronger client-agency relationships and innovative ideas that encourage the consumer to wholeheartedly buy into a brand.

The current issues facing retailers and agencies are a question of evolution: as the market evolves, so must our practices. As marketing practitioner Kotler famously defined, the key to achieving organisational goals is determining the needs and wants of a market and delivering satisfaction more efficiently and effectively than the competition.[22] Agencies and retailers must look to achieve this and not stand still, even in the depths of economic chaos, in order to survive and grow.

References

1 Consumer Behaviour Trends for 2010', Mintel (2010)

2 'UK Unemployment Increases to 2.5 Million', BBC (12th May, 2010)

3 'The Cutting Edge: Is Cutting Back on Marketing in a Recession Counter-Productive?', Professor Matthew Robson (2010)

4 Local Data Company (2010)

5 'M&S to Close Stores and Cut Jobs', BBC (7th January, 2009)

6 'Distributive Trade Survey', CBI Business Group (2009)

7 'Retail Administration Lowest in Four Years', Retail Week (13th April, 2010)

8 'Tesco: Most Likely Retailer to Survive Recession', Telegraph (2nd November, 2008)

9 'Harvey Nicks Boss Says Luxury Needs to Evolve', Drapers (23rd October, 2009)

10 'How Half the World Shops: Understanding Shoppers and Consumers in Emerging Markets', McKinsey & Co (2010)

11 'Consumer Behaviour Trends for 2010', Mintel (2010)

12 'Innovation still key for recession survival', Retail Week (8th May, 2009)

13 Ibid.

14 'Best Retail Sales in Four Years', Marketing Week (13th April, 2010)

15 'T-Mobile Dance Integrated Campaign', www.utalkmarketing.com (2009)

16 'GM Hires Marketing Wizz Who Boosted Hyundai Sales', Associated Press (5th May, 2010)

17 'New Research Reveals 87% of Online Shoppers Abandon Their Basket', Amaze and University of Glasgow (2009)

18 'Retailers Will Expect Multichannel Ventures to Pave Their Way', Retail Week (19th March, 2009)

19 'Is Procurement Killing Marketing Activity ?', Marketing (5th May, 2010)

20 Ibid.

21 'Servicing the Multichannel Future: The Role of Agencies', Fourninety (2009)

22 Kotler (1991) in 'Marketing and Consumer Behaviour', CAM Foundation (2008)

490

Fourninety North, Nepshaw Lane South, Leeds LS27 7JQ. T: 0845 490 4903
Fourninety South, Unit 23, Alston Drive, Milton Keynes MK13 9HA. T: 0845 490 4905
www.fourninety.com