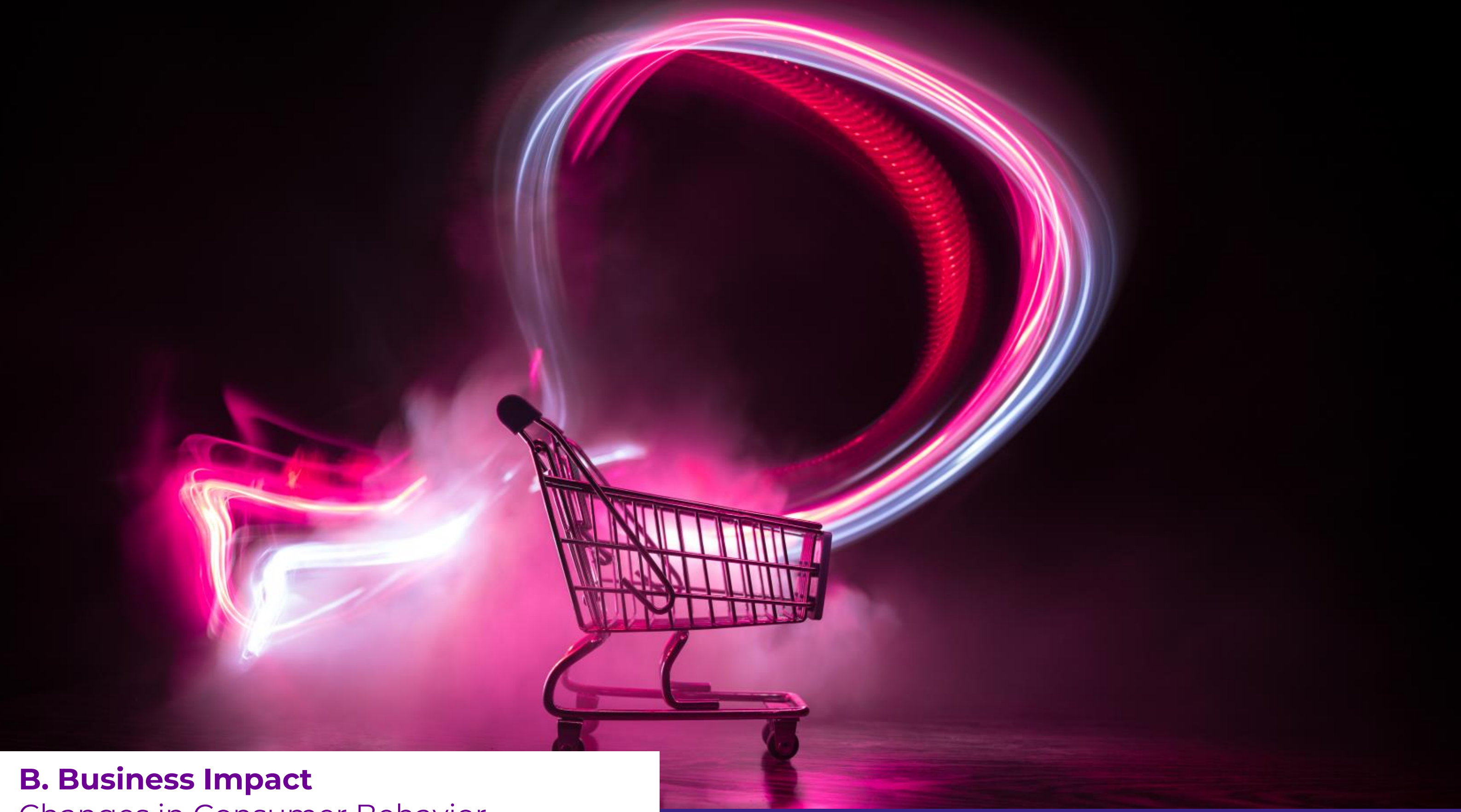

B. Business Impact
Changes in Consumer Behavior

Marketing in post COVID-19 era: A guide for marketing managers

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Abstract

The economic recession caused by the recent pandemic has significantly affected consumer shopping and media habits and altered firms' marketing activities and performance. Marketing research over the last decades has provided insight into how economic recessions affect consumer behavior and how firms should adjust their marketing mix activities in response to these macro-economic contractions. In this paper, I review the related marketing literature and demonstrate that recessionary periods may provide opportunities for marketers to grow their brand's market share with the right marketing-mix spending management.

Keywords: Marketing research, Empirical generalization, Economic recession, COVID-19

Marketing in post COVID-19 era: A guide for marketing managers

The recent coronavirus (COVID-19) has forced immediate, far-reaching lifestyle shifts for consumers around the world, and these changes are likely to stay beyond the period of pandemic itself. The global retail industry is experiencing an unprecedented crisis in the wake of the COVID-19 lockdown and its economic recession (ER). France's economy, together with several other countries, is expected to experience an ER as it may shrink by 8 percent in 2020 due to COVID-19 (Statistica 2020). U.S. retail sales also dropped by a historic 8.7% in March, and are expected to drop by (at least) 20% moving forward, according to the National Retail Federation.

Faced with uncertainty about the future, many firms are responding to recession by adapting their marketing strategy to changing consumer behavior (The Nielsen 2020). Google, among many other firms, has recently announced a cut in marketing budgets by as much as half, while before the pandemic, they expected to increase marketing spending from the previous year (CNBC 2020), as they did after the ER of 2008.

Marketing researchers over the last few years have studied the impact of ERs on consumer behavior and firms' responses to ERs. Drawing on the existing empirical knowledge, the current review intends to offer a guide to marketing managers on how to respond to the predicted ER in the post-COVID-19 period. This paper addresses the issues regarding the management of marketing-mix spending during an ER in particular. It is worth mentioning that the main focus of this paper is on the consumer (offline) retailing sector, although some of these insights can also be generalized to other sectors.

COVID-19 and the shift in consumer behavior

Although we still have to wait to discover the actual impact of the COVID-19 pandemic on the economy in the long-term, most predictions indicate that there will certainly be a recession in the post-COVID19 period (HBR 2020). Marketing literature shows that consumers become more price-sensitive and more risk-averse during an ER and economize on their expenditure, especially on durable goods (Deleersnyder et al. 2009)

On the other hand, the impact of ER on non-durable industries, such as consumer packaged goods (CPG), could even be positive, given that it is more difficult to cut back on non-durable consumer goods (Van Heerde et al. 2013; Lamey et al. 2007). Therefore, in the CPG sector, consumers are likely to switch to cheaper alternatives (Lamey et al. 2007), to cheaper stores like discounters, or to look for special-deal products (Lamey et al. 2012).

Marketing spending during an economic recession

In the next sections, I discuss the implications of the shifts in consumer behavior during an ER on each of the marketing mix elements.

General marketing spending

During an ER, one of the most common reactions of marketing managers is to cut marketing costs to the minimum, mainly to protect short-term profits (Deleersnyder et al. 2009). However, there is a body of evidence indicating that cutting on marketing is not necessarily the best decision, especially if the focus is on the long-term.

One of the first studies in this area was done by Srinivasan et al. (2005), who empirically demonstrated that pro-active marketing strategies in a recession result in superior business performance during the recession. More recent academic studies have also supported a proactive marketing approach, by maintaining or even increasing marketing spending during an ER (Dekimpe and Deleersnyder 2018; Deleersnyder et al. 2009; Lamey et al. 2012; Steenkamp and Fang 2011). The main reason favoring a proactive marketing strategy during a recession is that as other firms in the industry reduce their marketing activities during a recession, a proactive firm could achieve a superior competitive edge and market share by keeping its marketing budget at the same level as before the ER.

Advertising

The majority of studies have repeatedly shown that maintaining, or even increasing advertising spending during ERs often results in better market share and overall performance (Dekimpe and Deleersnyder 2018; Lamey et al. 2012; Steenkamp and Fang 2011), despite the dominant practice of firms cutting back on advertising during the ER. During an ER, fewer competitors engage in advertising, resulting in reduced clutter. Consequently, a firm that increases its level of advertising activity relative to competitors (i.e., increases its share of voice) in tough times can expect a larger effect on firm performance.

In particular, advertising elasticity will be larger in strongly cyclical industries (e.g., durable goods). In strongly cyclical industries, sales fall sharply in an ER, meaning that many customers will be lost. If better economic times arrive again, these lost customers will return to the market. Advertising helps these new entrants update their product knowledge (Steenkamp and Fang 2011).

On the other hand, long-term advertising elasticities are lower in a recession for the CPG category, suggesting that advertising should be reduced during ER for CPG firms. This is because less cyclical industries, such as CPG, exhibit a greater amount of temporal inertia and their sales are less affected during ER, which offers less change for strong advertising effects (Van Heerde et al. 2013).

Price

Several studies have shown that price sensitivity is predominantly counter-cyclical; it rises when the economy weakens, especially for necessary goods (e.g., CPG) (Dekimpe and Deleersnyder 2018). During an ER, consumers reduce their spending by switching to less expensive brands within the category, such as private labels (Lamey et al. 2012). This gradual switch to private labels contributes to the erosion of the market share of national brands. Therefore, it is recommended that national brands consider increasing temporary price reductions (TPR) during an ER, as this helps to attenuate the popularity of private labels induced by the downturn.

Van Heerde et al. (2013) also found that consumers react more strongly to price reductions during an ER and they suggest that brand managers should reallocate marketing budgets from advertising to price discounts during ER, especially for the CPG sector.

On the other hand, there is some evidence that only relative prices matter. This means that brands should maintain an appropriate differential level between their price and that of the competitors. Therefore, in a bad economic situation, if competitors raise their prices, marketing managers could also do likewise (Deleersnyder et al. 2009).

Research and development (R&D)

The research finding on the impact of R&D investments during ER is consistent with the finding on advertising spending, as it is shown that R&D investment has a counter-cyclical pattern. This means that increasing R&D spending during an ER has a significant positive impact on a firm's performance, again due to reduced competitive clutter (Steenkamp and Fang 2011).

Van Heerde et al. (2013) also found that R&D investments during ERs lead to higher long-term gains in market share and profit and that R&D investment is even more effective than advertising during ER. The differential effectiveness of both instruments is especially pronounced in highly cyclical industries such as durable goods. Therefore, if the firm faces tight budget constraints and has to choose between either maintaining R&D or advertising during an ER, results show that maintaining R&D is associated with better company performance.

New product launch

Talay, Pauwels, and Seggie (2012) studied the launch of new products over 60 years in the automobile industry and they found that the new products launched in a moderate recession had higher long-term survival chances. In particular, they found that new products launched immediately after a recession fared better than those launched later.

Lamey et al. (2012) also found that innovative new product launches are critical to fighting against the growth of cheap private labels during an ER, as they are more difficult to imitate. That being said, the severity of the recession presents a boundary condition to the benefits of a new product launch, as the product survival chances are lower when it is launched in a severe recession (Talay, Pauwels, and Seggie 2012).

Summary

Marketing managers should be aware that consumers are acting and changing their behavior in real-time in the COVID-19 pandemic era. Therefore, there is a genuine danger of adopting a "no-action" attitude and waiting until things return to normal to act. Years of (empirical) research in marketing have shown that recessionary periods provide an opportunity for marketers to grow their brand's market share, especially if they are prepared to think long term. Relying on the marketing literature, here, I summarize several actionable insights for marketing managers to effectively re-organize their marketing activities during an ER:

- **General marketing spending:** A proactive marketing approach is a powerful strategy to mitigate the negative effect of an ER on the position of brands in the market and in particular, to prevent consumers from (permanently) switching to cheaper options available in the market (such as private labels).
- **Advertising:** There is an opportunity in maintaining advertising spending during an ER in order to keep or increase the brand's share of voice. It is even cheaper to access higher quality marketing communication during an ER.
- **Price:** Temporary price reductions (TPR) are a very effective tool to retain market share during the ER, especially if there is strong competition in a specific category/brand with many private labels.
- **New product launch:** Firms should continue with their new product launch projects during an ER, in particular in the window immediately after the recession, when advantages of the launch can be more significant.

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