POINT OF VIEW

When Down Is Up: Building Brands in Recessionary Periods

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> "Take the course opposite to custom and you will almost always do well."
>
> **Jean-Jacques Rousseau**

Managing brands in a recession is a lot like golf. You often must do the opposite of what your instincts urge you to do: when you want to hit the ball high, you have to strike it low; when you want your ball to go far, you have to loosen your grip and imagine you are holding a small bird in your hands; when the wind blows in your face, you need to relax your arms and swing easy. Managing brands in recessionary periods is much the same. During market downturns, experienced brand managers and successful consumer products executives fight fear and take instinctual countermoves decisively.

Executive Summary

The COVID-19 pandemic has propelled the market into a recessionary track faster than ever before. As a result, brand leaders have to be swift but calculated in their actions. To provide insight into the future, we studied consumer product companies during the Great Recession of 2007–2009. During our review, we documented some of the most critical moves successful consumer products companies took during that prolonged market downturn. Interestingly, the best companies did not jump to price reductions to pick up the volume. Instead, they employed one of six key strategies to poise them for growth immediately and during the inevitable rebound. All of these strategies can also be applied to the COVID-induced recession. Successful companies will fight their instincts to drop prices and instead will apply a range of growth strategies, from optimizing their brand portfolio and product assortment to refining their value proposition to emphasize quality, convenience, and differentiation. We have divided this paper into two sections:

1. Brand-Building Lessons Learned from the Great Recession

2. Implications for the Unprecedented COVID-19 Recession

Brand-Building Lessons Learned from the Great Recession

The Great Recession of 2007–2009 was one of the most sustained recessions in our history, and the impact was felt across the retail and CPG industry. While some retail sectors suffered significantly, specific recession-proof CPG categories fared fine, and most importantly, some brands flourished as the recovery began. What was it about the brands that grew, and how can we apply those lessons to today's COVID-induced recession?

First, a little context setting:

The Great Recession resulted in a slowdown across all retail segments. In aggregate, the dollar sales growth rate for U.S. retail fell from 4.2% to negative 4.3% – a decline of 8.5%. Retail stores catering to the automotive sector (motor vehicle and parts dealers, gas stations) and the housing sector (building materials and garden equipment, furniture stores) were most adversely affected as consumers postponed/canceled any large purchases.

Consumer demand for products essential to daily living is less elastic, and thus retail stores carrying these essential products fared better during the Great Recession. In particular, consumer staples such as food and beverage, general merchandise, health, and personal care all grew during the past recession (Exhibit 1, below). So did food services and drinking places, all of which gained dollar sales during that period.

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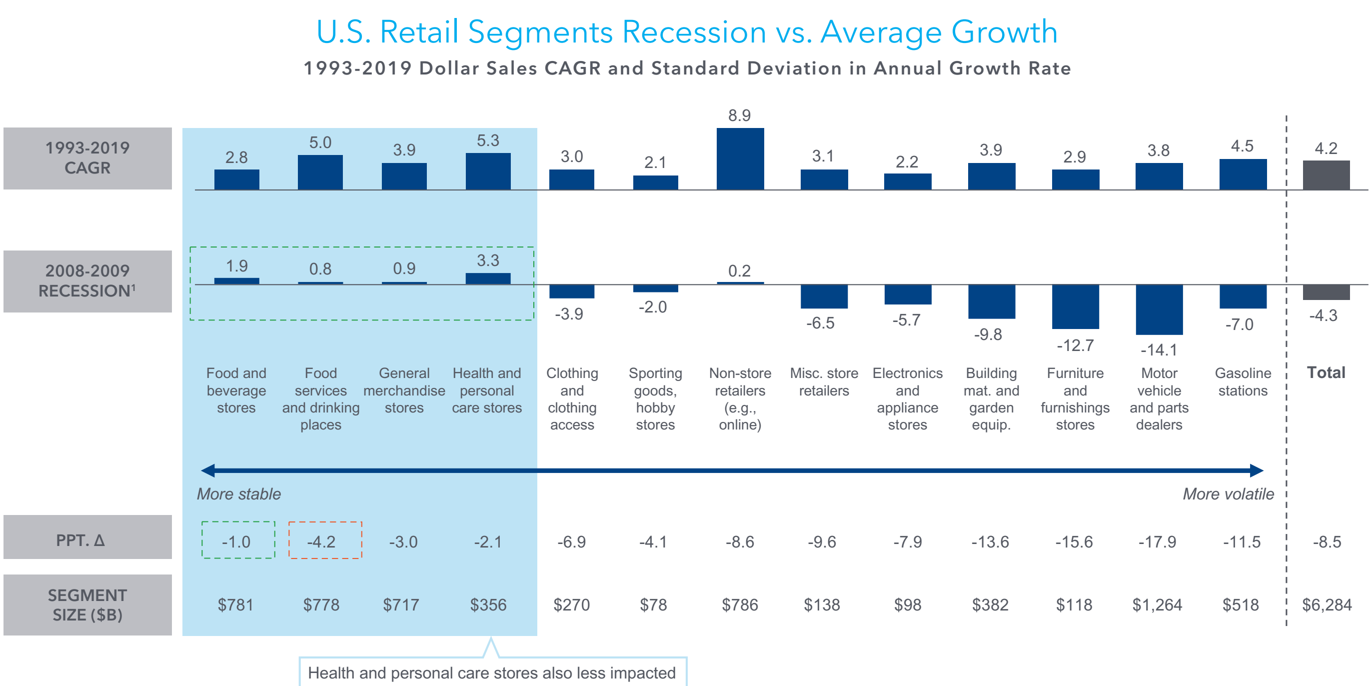
EXHIBIT 1

Growth of Retail Segments



1. CAGR 2007-2009. Source: U.S. Census Retail Trade, data ending February 2020. IRI Consulting analysis

Following the recession, specific categories also rebounded better. The exhibit below provides an assessment of the categories that performed best during and after the recession. These include comfort snacking categories in food and beverage, such as ice cream, cookies, carbonated beverages, salty snacks, and breakfast meats. Comfort snacks are an allowable indulgence, and consumers are willing to pay for a treat, regardless of the overall economic climate. Furthermore, categories related to health and cleanliness remained relatively insulated from recessionary pressures. Toilet tissue, paper towels, vitamins, soap, shampoo and hair coloring all performed well during and after the recession. With the spread of COVID-19, these categories command an increasingly important share of consumer spending. Hence, we expect these categories to fare well in a recessionary environment.

EXHIBIT 2

Category Performance

Spending During, After Recession Shows Consumers Gravitate to Comfort and Personal Indulgence; Likely to Repeat in COVID-19-Induced Recession and After

Categories Performance During and Post-Recession | Volume Sales Impact (Percentage Points)

Source: IRI POS archived data FDMx (Food, Drug, Mass excluding Walmart). CY 2006-2011. IRI Consulting analysis.

Now that we have reviewed which retail segments and which categories performed well during the recession, let's discuss which brands performed best and why.

How Did Brands Perform During and Immediately After the Great Recession?

By studying top brands in 2008–2010, we can derive clues as to what decisive actions these top-performing brands took during the recession to position themselves for revenue, operating, and/or shareholder growth. Here are some of the brands that fared best in terms of shareholder value, revenue, and profitable growth during, and immediately following, the Great Recession. For reference, high profile Consumer Staples ETFs had compound annual growth of ~14–15% during the same time period. (year-end 2008 to year-end 2010)

Company	Revenue Growth (2008-2010 CAGR)	Op. Income Growth (2008-2010 CAGR)	Stock Price (2008-2010 CAGR)
PEPSICO	16%	9%	9%
Coca-Cola	5%	0%	21%
Heinz	2%	0%	14%
John B Sanfilippo & Son Fisher	2%	65%	52%
Nestlé	2%	4%	19%
	2%	68%	84%
DANONE ONE PLANET. ONE HEALTH	0%	3%	9%
L'ORÉAL	0%	2%	16%

Sources: Yahoo Finance, Macrotrends LLC, CSIMarket Inc, HistoricalStockPrice

What did some of these brands have in common during recessionary times? They employed bold growth strategies. While other companies hunkered down, dropped prices, and focused on fending off private label, these growth leaders doubled down and continued to invest in the future.

Here are a few examples of the winning strategies employed by these recession-defying brands:

- Coca-Cola and Pepsi both continued to invest in advertising and building goodwill with consumers using uplifting campaigns, such as Coca-Cola's "Open Happiness" campaign and Pepsi's "Refresh Everything" campaign. Media becomes much more affordable during recessions, and people are home more, so it can be a great time to reach consumers with positive, optimistic messaging.

- Heinz remained committed to its health and wellness innovation platform during the recession. It continued to roll out its Bisphenol A–free products and capitalized on the "dine at home" trend to introduce these new products. This commitment to innovation despite the recession resulted in a 9% organic sales increase on ketchup in 2009.

- Fisher Nuts, a regional nut brand, set its sights on becoming a leading national snacking nut brand. While already a national leader in baking nuts, Fisher set a goal of gaining national distribution by better articulating the brand's unique positioning. It invested in consumer and competitive research and repositioned the brand as a Fresh Nut Brand. Fisher rolled out new packaging (transparent can that popped with freshness) and also introduced resealable, stand-up baking nut packaging. It was not afraid to steal share and aggressively grow during the recession.

- Nescafe also increased its advertising by more than 5% and leveraged the increased advertising to reset the value proposition with consumers, emphasizing the taste and quality of its products.

- Starbucks continued to invest in innovation, as well as store expansion, and launched its game-changing instant coffee, VIA, in September 2009. This offering addressed consumers' pent-up demand for an instant version of their favorite café coffee.

- Danone did not abandon its premiumization strategy and continued to invest in brands like Activia, as the company was well armed with solid research that gave it the confidence of specific segments' willingness to pay for premium features despite the economic downturn.

- L'Oréal, the leading cosmetics company in the U.S., doubled down on its investment in R&D in recession-proof categories like hair coloring. As consumers opted for in-home hair coloring solutions and steered away from expensive salons, L'Oréal rolled out new offerings for underserved sub-segments, such as men and minorities. Gillette also ramped up its innovation, introducing several new products for men during the recession.

- Even some smaller, private CPG companies used the recession to invest for future growth and ramped up, rather than ramped down, innovation efforts. Vosges Chocolate, a premium confectionery company, selling its high-end chocolates in specialty retail and the natural channel, used the recession as an opportunity to introduce a lower-priced chocolate, called Wild Ophelia, for the mass channel. Vosges invested a significant amount in discrete choice research to gather more economically impacted consumers' perceptions of functional and emotive features and willingness to pay. Ranir, a private equity–owned private label manufacturer of oral care products, ramped up its adjacency expansion strategies and identified several adjacencies in related personal care categories.

Some smaller, private CPG companies used the recession to invest for future growth

Implications for the Unprecedented COVID-19 Recession

The COVID-19 pandemic is posing an unprecedented and unknown risk to the global economy. Most countries, having to choose between the economy and the health of their citizens, have chosen the latter, shuttering businesses and restricting residents' movement. The U.S. economy is predicted to go into recession this year, as consumer demand and appetite for shopping are going to be curtailed. Manufacturers and retailers are struggling to get their arms around this issue and prepare for what is almost certainly going to be a major downturn. They are therefore looking at the Great Recession of 2007–2009 to see what lessons can be learned from it.

Unlike the Great Recession, which was driven by fundamental financial market instability, the COVID-induced recession is primarily a healthcare crisis with deep economic ramifications. Assuming we can medically address the crisis with a vaccine and/or a proven treatment, and/or find a way to ramp the economy back up, using social distancing, testing, and other measures, it is possible that the economic restart could be fast and powerful.

What can CPG companies do now to drive growth despite the looming COVID-induced recession, and what can they do to be poised for rampant growth upon a market rebound?

What can companies do now to position their brands for growth during both the recession and the inevitable rebound? Just as in golf, when you want the ball to go high, you have to keep your head down. The same applies to brand building during a recession. When you want your brand to soar, keep your head down and stay committed to brand building, innovation, and advertising.

> The COVID-induced recession is primarily a healthcare crisis with deep economic ramifications.

Here are six key strategies for driving brand development and growth during a recession:

- **Optimize brand portfolio** to focus on the strongest brands in the most attractive categories
  Companies with complex brand portfolios should use this time to segment their brands on two dimensions: (1) category attractiveness; and (2) brand strength. Evaluate each brand in both of these dimensions against its risk in a recessionary environment. Brands that have low growth potential and high risk and are in high-risk categories should be candidates for potential divestiture. These brands can be a drain on management focus and take up needed trade and marketing dollars. Lightening the portfolio and allowing marketers and the sales team to focus on the higher-potential brands will pay dividends post-recession.

- **Curate item assortment,** culling low-performing SKUs
  Recessions are also a good time to curate the overall assortment for retailers and for the company in general. Years of market expansion often mean a plethora of small brand extensions and niche brands that do not create incremental growth for the category or the company. Many flavor and size extensions erode core brands. The recession offers a good opportunity for companies to simplify the brand portfolio and proactively work with retailers to help them curate their aisles and categories as well.

- Remain committed to **investment in innovation**
  Best-practice companies double down on innovation during market downturns. They use extra trade dollars to support innovations and take advantage of less well-capitalized companies that are forced to hunker down during recessions. Continuing to invest in innovation research, concept and prototype development, and commercialization is critical if companies want to be poised for fast growth post-recession.

- **Hyper-segment consumers** and tailor products for the economically bifurcated market, leveraging **price pack architecture**

  So often in the last month, we have heard clients say they don't want to field surveys during unusual times like the COVID-19 crisis, as they worry that consumers' responses might not be reflective of their true status quo beliefs and attitudes. While this is true, it is also perhaps one of the most important times to be keeping tabs on your consumers' changing attitudes and behaviors.

  American consumers' fear and emotional turmoil during this crisis are significant, and the impact will linger for not just months, but years. Just as our grandparents and great-grandparents who lived through the Depression saved every scrap of tinfoil, rubber bands, and glass containers, so too will today's consumers have lingering fears and compulsive behaviors due to COVID-19 fears, shelter-in-place mandates, and economic fallout. It might be a crucial time to conduct pulse surveys of your consumers and monitor their changing perspectives, so that when the world returns to some semblance of normalcy, we can understand how consumers have shifted within and across segments. We also recommend tracking consumers closely on social media and mining the raw social verbatims to understand how their relationships to categories and brands are changing, and what new need states and occasions might be emerging.

  The recession itself will also have a significant impact on consumers. It is important to keep tabs on how the economic impact is affecting specific consumer segments. It will not have an equal impact across all segments. Even during deep recessions, some consumer segments are insulated from the economic downturn. The bifurcation of wealth in our country ensures that some consumers will still seek premium products during a recession. Of course, other segments have no choice but to buy less expensive products. We recommend that best-practice companies invest in portfolio profitability strategies and dissect their key items so that they understand consumer willingness to pay for each feature and benefit. Only then will they know how to re-engineer or reskin products to meet consumers' new desired price points. Doing this effectively does not just mean dropping prices to opening price points or matching private label prices. It does mean being very disciplined about explaining the new value proposition to consumers (and retailers) and being able to justify the new price point and revamped features/benefits using analytical data.

- **Build goodwill** with consumers using optimistic messaging and ramp up advertising, leveraging inexpensive media

  Media is cheap during recessions, and it is a great time to bring fresh messaging to consumers. Many consumers stay home more during recessions, and certainly, with COVID-19, most consumers have no choice but to stay home. They are eager for uplifting, positive, feel-good advertising and stories. Using this time to reach out to consumers via traditional advertising or social media is a terrific strategy for reaching the hearts of consumers and building goodwill that will pay many dividends as the market recovers.

- Pursue **opportunistic acquisitions**

  A recession, especially one as unpredicted and deep as the COVID-19 recession, provides opportunities for acquisitions. Many insurgent brands will run into capital issues as investors get cold feet and debt covenants are blown. This recession could be a perfect opportunity for larger, well-secured companies to consider making acquisitions of the insurgent brands that have been nipping at their heels for years.

Summary

Growth strategy is often a game of opposites, especially during a recession. While most marketers and executives will want to retreat and protect cash, leading growth companies will take bold action: they will invest when other companies withdraw; they will advertise when other companies cut media budgets; they will double down on innovation when other companies cut R&D budgets; they will advertise positive messages when other companies go silent; they will redefine and defend their value propositions when other companies panic and drop prices. As Gertrude Stein once said, "Action and reaction are equal and opposite." It is an excellent adage to remember during recessionary times.

Leading growth companies will take bold action: **they will invest when other companies withdraw**.

ABOUT THE AUTHOR

IRI's Growth Consulting Practice provides large and mid-sized companies with strategic solutions powered by IRI's granular and proprietary data, including purchase, media, social, causal and loyalty data. This is integrated with external data and advanced analytics to identify specific sustainable and profitable organic and acquisition growth opportunities within demand spaces, channels, retailers, shopper cohorts and geographic regions.

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