Marketing out of the recession: recovery is coming, but things will never be the same again

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The economic recession of the late-2000s has radically changed the business and market landscape. As economic recovery reaches different companies at different times, there is an urgent need to realign marketing strategies with a "new normal". Economic recovery will bring new opportunities but also risks and challenges which demand new strategies. The new market situation is characterised as the "age of thrift" which has radically changed customer purchase behaviour, and provides an environment dominated by public scepticism and lack of trust in business and in marketing offers. The competitive structures of markets have been redrawn by the effects of economic downturn, creating new situations for suppliers. International growth options in recovery will be circumscribed by reduced availability of finance and growing international protectionism. We propose an action agenda for executives to address in preparing their businesses for the challenges of economic recovery. Our agenda is concerned with: overcoming resistance to change; reinventing marketing strategy for a new market environment; prioritising market sensing; innovating radically in product strategy; re-thinking marketing communications; developing value-based competitive advantage; and, repairing damaged value chain relationships. The challenge for executives is to prepare for the post-recession environment by re-examining the fundamentals of their business models and core capabilities to deliver the superior value which will be demanded by post-recession customers.

Keywords Recession, Economic recovery, Post-recession environment, Consumer behaviour, International protectionism, Reinventing marketing strategy

The imperative for strategy evolution

Opinions are divided about whether the "green shoots of recovery" from economic downturn and recession are already apparent, or whether this view is unduly optimistic and heralds a "false dawn". What is undeniable

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is that the economic downturn and recession will come to an end, even though there is a risk of a "double-dip recession" first. Projections indicate that the world's economy will double in the first twenty years of the 21st century, suggesting that economic growth has only been interrupted by the downturn. Forecaster Paul Ormerod notes that, in spite of the sharp fall in manufactured output in 2008-2009, history shows that few recessions last longer than two years, and most recoveries are strong once they start – an optimistic prediction is the deeper the slump, the bigger the bounce.

However, recovery will not come at the same time for every company, and it will bring a radically different reality for many. Consumer confidence and purchasing will rebuild, business investment will grow again and supplier sales will increase in many sectors. Nonetheless, the assumption that conditions will go back to "normal" and things will be as they were before the downturn may be fatally flawed. Many industries have been irrevocably changed by the economic downturn. McKinsey research underlines the picture overall is a radically changed business landscape (Beinhocker et al. 2009).

Perhaps the most important lesson from previous downturns and recessions is that, even though recovery is coming, for most sellers things will never be quite the same again. Indeed, one view is that the downturn will be remembered as the time when many of the business models built in the industrial era finally collapsed – business has to change because markets and people have changed. Appositely, research by consultants Stanton Marris underlines the importance of "*strategy evolution*", or strategic repositioning that adapts to the recession-led change in markets but also changes in the organisation itself (Stern 2009b).

Similarly, Jack Welch observes that simply trying to "*ride out the storm*" is unlikely to work – the goal should be to get in step with new "*dynamic*" times. His logic is that customers, competitors and suppliers will have different expectations and behaviours, so business strategies must anticipate and adapt to the new challenges and opportunities (Welch and Welch 2009). Similarly, Jeff Immelt CEO of GE notes, just "*holding on*" until things get back to normal is an error for most companies – what we are seeing now is the new normal, the new world order (Charan 2009).

Challenges of economic recovery

Importantly, a time of economic recovery brings its own downside. The problems of recovery are different to those faced in recession: coping with plentiful work, finance and optimism brings the problem of designing and implementing business and marketing strategies to meet prevailing conditions. Indeed, there is a risk that as many businesses will get into financial difficulties coming out of recession as going into it. A strain on resources, a land grab for market share at low margins and loading up with debt could severely damage companies in economic recovery (Guthrie 2009). Michael Beer of Harvard Business School sees the recession and recovery as the best, but also the most perilous, time to create change within a company – the dilemma for the CEO is whether to exploit tough times to make risky strategic changes that may produce a lighter and stronger organisation in recovery, or whether to adopt a defensive stance and hope to weather the storm. For many companies this may be make or break time.

Mixed fortunes in the recession

In fact, the downturn has brought mixed and contradictory results for different companies and sectors, which were not predicted. Accenture research suggests while some companies are highly distressed and just want to survive, or are preparing themselves to be acquired, others are suffering less and working to stay relevant, but a third category is actually doing well (Bolgar 2009).

Sectors like chemicals and steel have been hard hit by the collapse in demand, and the demand for luxury consumer goods has collapsed, but for others the effects have been more benign. Many of those who have prospered in the downturn have been those selling: indulgence (e.g., chocolate, plastic surgery); home comforts (e.g., home entertainment); travel (e.g., public transport, bicycles); must-haves (e.g., critical business services); or, those who "*profit from doom*" (e.g., pawnbrokers) (Kaiser 2008). Companies like Research in Motion (maker of the Blackberry), Sigma Designs (chipmaker for Blu-ray players and Internet TV sets) and Sohu.com (Chinese Internet company) have led the way in defying the downturn (*Fortune* 2009). Similarly, discount retailers like Wal-Mart have been extremely effective in attracting value and cost-oriented consumers from rivals.

Seeing beyond lower prices and cost cutting

Importantly, prospering in the downturn and preparing for recovery is about more than price cutting. It is worth noting that even for non-premium products it is estimated that once discounting has started it takes three to five years to get consumers to pay the full price again (Gapper 2009). Indeed, contrary to the trend towards price-cutting across many sectors, some smart companies have been able to raise prices through the recession – exploiting the uniqueness and necessity characteristics of their products (Colvin 2009a). P&G and Colgate have both increased prices during the downturn to protect their profit margins from the effect of declining sales.

Interestingly, while IBM shares with Intel and Dell the problem of the reluctance of businesses to resume spending on technology – users are wringing more utility out of older PCs and laptops – IBM is looking at a higher profit outlook as it benefits not only from cost-cutting but also from a shift to a richer business mix that includes more software sales and consulting services, far removed from its traditional sales to corporate data centres (Bulkeley and Worthen 2009). General Mills has increased advertising spending during the downturn with brand building objectives and has achieved impressive sales and profit growth as consumers think more about eating at home (Fine 2009b).

Indeed, while globally corporate advertising expenditures have fallen dramatically, successful companies like Procter & Gamble and Unilever (two of the world's biggest advertisers) have maintained their budgets through the downturn (Bradshaw 2008). Many of the world's best global brands have spent aggressively on marketing in the teeth of the recession, determined not to let tough times distract from their brand-building goals.

Developing a management agenda for new economic challenges

Executives planning their marketing strategies for the future need to consider several important issues in preparing for post-recession realities – what some have started to call the "reset economy". Companies like GE, 3M and ITT are changing priorities and building major programmes of change to reset themselves for a new business reality (Bartiromo 2009a). Certainly, companies like Valero Energy, Spain's Inditex, Procter & Gamble, Novartis, and BAT are making large investments to chase emerging growth opportunities, rather than playing it safe and waiting for recovery (Capell 2009).

While the list is not exhaustive, we propose that the marketing strategy debate for the post-recession era should give careful attention to: the changing value requirements of consumers and business customers in their purchasing patterns; the impact of an environment increasingly characterised by a lack of trust in business; the realities of changed market structures and the imperatives for new types of competitiveness; and the emergence of barriers to the international growth on which many companies are relying for their recovery. We conclude with a marketing management action agenda to be considered in developing effective post-recession marketing strategies.

Consumers after recession – a shift to thrift?

Evidence from both the U.S. and Europe underlines that a new type of shopper focused on gaining superior value from purchases looks set to emerge from the recession – a Citigroup report suggests that U.S. consumers have adopted a "*thriftiness*" based on value and quality, while European research points to a consumer desire for "*voluntary simplicity*" and behavioural changes that include cutting back on "*aspirational*" luxury shopping. Shoppers are suffering from what Bain & Co. call "*luxury shame*", and are feeling guilty about buying indulgences.

Importantly, there is some consensus that this type of change in consumer purchase behaviour will continue after the recession is ended. Airlines like BA, for example, are predicting that premium air traffic – a key part BA's business – is unlikely ever to recover fully from the slump. Similarly, U.S. airlines increasingly believe that the drop in air travel will outlast the recession – the fall in revenues is the new "*normal*" (Carey 2009). U.S. retailer predictions are that the new era will last between ten and fifteen years and store groups are rethinking their approaches to the consumer to emphasise simplicity and one-stop shopping (McGregor 2009).

For example, in both the U.S. and Europe there has been a significant trading down by consumers to budget grocers from mainstream supermarkets. Budget operators like Aldi and Lidl in the UK and Wal-Mart and Dollar General in the US are adjusting their offers with the goal of retaining these new customers after the end of the recession (Gray 2008). The "*new age of frugality*" means people who have overconsumed in the past are now rejecting extravagant lifestyles and consumption patterns (Hamm 2008). While there are variations between countries, there is compelling evidence that globally harsh economic conditions have changed the way people shop and the buying patterns that result (Wiggins and Birchall 2008). Consumer tastes which were formed in time of prosperity have altered in line with changing economic conditions.

Accordingly, companies like Unilever are increasingly recognising that customer buying processes have changed and become more complex in very significant ways, and that the severity of the downturn will change behaviour in the long term – we face growing numbers of consumers for whom frivolity is "*unacceptable*" and "*frugality*" is cool (Rigby 2009). Unilever is making substantial changes to its product offerings as a result. For similar reasons, with the U.S. beverage market under continuing pressure, and as part of its preparation for the "age of thrift", PepsiCo Inc is focusing on lower-priced products as consumers continue to pare their spending – to win back consumers who have turned to drinking tap water and have sought deals on snacks during the economic downturn (Bauerlein and Cordeiro 2009).

As a result, many assumptions in traditional marketing, such as those surrounding brand loyalty, have to be challenged. For example, a CMO Council/Pointer Media Network study suggests the recession has seen big brands' best customers defecting in droves – by 2009 more than half of the typical US brand's most loyal customers in 2007 had reduced their loyalty or switched completely to rival products, and in grocery and pharmacy brands the average brand lost more than a third of its formerly highly loyal customers (Edgecliffe-Johnson 2009).

The "smart shopper" will be the customer looking hard at price, value and quality and deferring purchases when this is advantageous, showing a sharp swing away from discretionary expenditure. Companies looking to prosper in economic recovery will adapt to the searching scrutiny of the "smart shopper".

New post-recession priorities for buyers and sellers

One recent review suggests that the post-recession consumer will show behaviour shaped by several key trends – some accelerating and some slowing. Four key trends that have been accelerated by the recession are: consumer demand for simplicity; calls for ethical business governance; a desire to economise; and, a tendency to flit from one offer to another. Important trends which are slowing are: green consumption; a decline in respect for authority; ethical consumption; and, extreme experience seeking (Flatters and Willmott 2009). It may be that the "*Great Recession*" will be followed by the "*New Caution*", changing spending habits and lowering future growth (Yergin 2009).

Certainly, it is already apparent that successful marketing strategies for the post-recession recovery will depend on deep understanding of the new priorities and buying processes of the post-recession consumer.

A different though no less challenging situation will be faced in relationships with value chain participants from suppliers to end-users. While in the past many value chains have been associated with considerable levels of conflict – the pressure, for example, by manufacturers and retailers for lower prices from suppliers regardless of raw material cost rises – the long-standing imperative to collaborate with important suppliers in areas like product innovation promises to become yet more critical in the post-recession world.

On the seller side, Ernst & Young research reveals that situations have already arisen where international companies have terminated contracts with customers they fear will collapse (Cookson 2009). Supply chains that went global before the recession became vulnerable with the downturn, prompting big companies to offer assistance to smaller supply chain members – for example, French aerospace company Safran runs a "*crisis cell*" to monitor its 4,000 suppliers and prevent supply problems. The credit crisis has forced some of Europe's biggest carmakers to prop up dealers with financial assistance. Volkswagen, for example, has established a special team in its purchasing department which aims to prevent its suppliers from collapsing (Schafer 2008).

The need for mutual support and collaboration in supply chains is likely to extend into the future, not least while damaged supplier companies repair the effects of the downturn.

An environment of scepticism and lack of trust

There are strong signs through the downturn that trust in business is running out – the Edelman Trust Barometer found nearly two-thirds of adults in 20 countries trusted companies less at the end of 2008 than a year earlier (Beinhocker et al. 2009). Many commentators are gloomy about the chances of greater levels of trust returning to corporate life, yet without trust some businesses may struggle to recover. Corporate behaviour has soured the public mood with business, and there is little sign of action to rebuild trust. The move from frustration and disappointment to hostility from some customers suggests that pre-recession marketing messages are unlikely to resonate with them.

Concerns about the attitudes and behaviours of the cynical customer also extend to people inside the organisation. Employees and managers have experienced: high levels of uncertainty about their futures; lay-offs; pay-cuts; requests to work without pay; and, changing job requirements. Consequently, they may be reluctant to commit to new strategies needed for the company to benefit from economic recovery. Quite simply, people are likely to feel differently about the jobs they are doing in the new economic environment (Stern 2009a).

An emphasis on core values that align with changing consumer perceptions is becoming an imperative. Research by workplace consultancy Involve suggests that the majority of company directors feel their customers have lost confidence in them, while only a minority think their businesses are taking serious steps to try to generate and rebuild trust (Stern 2009a). On the other hand, financial services giant Axa is attempting to establish trust as a key market differentiator, investing in a programme to get line managers and staff to understand the competitive importance of delivering on basic promises made to customers. Similarly, pharmaceuticals firm GlaxoSmithKlein features trust as one of the five key pillars in its code of conduct for doing business.

The real recovery of consumer confidence in the new post-recession competitive era may rely as much on rebuilding trust and corporate reputations, as it does on innovation in value and aggressive pricing.

Indeed, the strategic importance of regaining trust extends to a broader group of stakeholders and includes employees, customers, suppliers, communities, the media, unions, government and civil society, as a company addresses the need to rebuild credibility. This will be a challenge for U.S. and U.K. companies in particular, who have been more shareholder-centric in decision making, compensation and performance management than companies elsewhere in the world (Beinhocker et al. 2009).

Relatedly, the recovery is likely to see a continued close involvement of government in business decisions, particularly in sectors like financial services and automotive where large amounts of public money have been invested. In the UK, retail banking is close to being a nationalised industry, and this "bail-out" brings closer government control and involvement. In effect, government is back at the centre of economic life, and it seems likely that the era of small government to which many business leaders had become accustomed is over (Plender 2008). Indeed, some see a scenario where governments in the West increasingly dominate business as states do in the East (Lynn 2009). Certainly, governments will to search for regulatory environments which will make the occurrence of economic crises less likely in the future.

Companies in the recovery will need to give careful attention to the impact of government intervention on their freedom to act, and the ability of the state, in an era of distrust of business, to change important commercial outcomes.

Market structure and competitiveness

In both goods and services sectors, downturn and recession weed out weaker competitors. While downturns may be only part of the economic cycle, they are when major competitive reordering takes place (Colvin 2009b). For example, in manufacturing the recession has provided opportunities for growth for stronger players – taking business from the fallen players has provided one of the few avenues to growth in some sectors. Importantly, few industry structures will remain as they were before the economic crisis (Beinhocker et al. 2009).

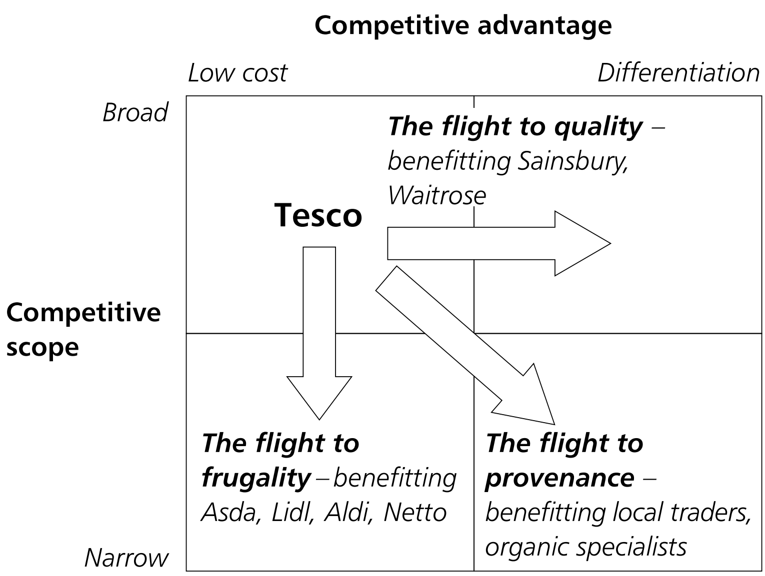
Indeed, some companies have actively taken advantage of hard economic times with strategies aimed explicitly to kill off smaller competitors. Companies like Hewlett-Packard, Southwest Airlines and Fedex have all pursued tactics like hiring extra salespeople, publicising competitors' cut-backs to customers as indicating reduced service levels, entering new markets, and holding down prices, to take business away from competitors. The logic is that while such strategies depress short-term profits, they gain market share which can be held for the longer-term – market share is most up for grabs in a downturn, when competitors are too hard-pressed to defend their position vigorously. In other industries, the hallmark of companies eager to grow in a downturn has been a willingness to acquire weakened rivals.

For example, in spite of competitors cutting capacity, Ryanair, the leading low-cost, low-fare European shorthaul airline has seized the initiative by intensifying its price war against rival carriers during the recession. In spite of declining profit margins, by filling its aircraft Ryanair aims to capture market share which it will retain when demand for air travel recovers. For an aggressive competitor like Ryanair the distress of its rivals provides a major opportunity.

The same effect occurs in retailing – stronger players benefit from the collapse of weaker competitors. In the US retail electronics business, for example, Best Buy has benefited considerably in sales from the demise of Circuit City. When the iconic UK retailer Woolworths ceased trading, rivals immediately began circling to buy the best parts of the operation. Restructuring firm Hilco has acquired nearly £1 billion in retail assets as weaker retailers have closed down. Budget stores in particular have been acquiring bargains as other retailers have failed. Analysts comment on the emergence of a two tier High Street in the U.K. – where the strong are getting stronger and the weak are going to the wall – with secure competitors holding their prices and the weaker panic discounting. It has been estimated that on the UK High Street the survivors in 2009 gained £4 billion of extra business from the collapse of weaker rivals.

Figure 1 The changing UK grocery business

A radical shift in competitive position driven by the economic downturn is illustrated by the UK retail grocery business. Through the 1990s and 2000s, Tesco consolidated a strong competitive position based on extensive market coverage in product and geography. By the mid-2000s, Tesco held around a third of the UK retail market, and competitors seemed able to do little to change this dominance and Tesco continued to grow. However, several consumer perceptions linked to economic downturn have combined to undermine Tesco's UK position. The most obvious effect is the "flight to frugality" by consumers seeking very low prices and migrating business to the extreme discounters like Aldi and Lidl, and to Wal-Mart's Asda. The effect is that as the extreme discounters grow, they are leaving Tesco in danger of being stuck-in-the-middle between the ultra-discounters and the quality-based differentiators. Simultaneously, less price-oriented consumers are strengthening the position of national retailers like Sainsbury and Waitrose by buying quality, and that of local and regional suppliers by purchasing on the basis of provenance. The effect overall is the disruption of the structure of a market where Tesco's dominance had seemed unassailable.



The UK retail grocery sector provides an interesting illustration of profound structural change in competitive relationships, driven by the way consumer behaviour has been shaped by the economic downturn, and particularly the ability of some competitors to exploit these changes better than others. The competitive pressures experienced by Tesco are described in Figure 1.

The result is that many markets will have far higher degrees of concentration of power through processes of attrition, acquisition and market-share driven strategies. This has implications both for competitiveness within those markets, but also for suppliers, who will be dealing with yet smaller numbers of more powerful customers.

Barriers to international growth

Many executives looking to identify growth prospects emphasise the importance of international growth, particularly in the emerging markets. However, drastic reductions in cross-border lending by banks, as they focus on their domestic markets, means even as risk-taking returns, world finance is likely to be depressed for many years, leading to a "*deglobalization*" pressure (Plender 2009). The Bank for International Settlements reports that the sharp withdrawal of banks from international lending is unprecedented and poses serious risks to global trade and finance (Koeppen 2009).

Further, from the onset of the downturn, there have been concerns that recession would bring with it 1930s-style curbs on trade. Already there has been a marked increase in trade investigations against China and other nations in a trend suggesting a surge in protectionist measures (O'Connor 2009). The Global Trade Alert database is tracking protectionist reforms and underlines an outbreak of discriminatory measures like rises in tariffs that importers must pay or bans on products and preferences for local suppliers. The WTO also reports a global increase in trade-restricting measures introduced by governments to support and protect key sectors (Chaffin 2009). Interestingly, trade restrictions are favoured mainly by the small, emerging markets being targeted by Western companies, rather than large, developed countries.

There are distinct signs that, through the downturn, nationalism has become a stronger force, leading to regulations, trade barriers and even sovereign-wealth funds, with the effect that national barriers have risen, as states increase control over resources and protect their own industries from foreign competition and investment (David 2008). While trade restrictions by governments to protect their own companies may be seen as temporary, it may be more difficult politically to reverse such policies once they are in place. Indeed, there are concerns that government bail-outs may undermine the EU single market - by rescuing banks and other industries, governments have effectively started to nationalise parts of the single market.

As a result the post-recession world may be a lot less "flat" than once it was.

Consequently, companies from emerging markets may be better prepared to cater for the growing value-for-money segment in post-recession markets than are Western multinationals (Williamson and Zeng 2009). Strong Asian companies like Haier, Cery and Tata have skills in providing high value products at very low cost to choosy middle-class Asian customers, and are bringing their value-oriented propositions to global markets. Collaboration and partnership may become a priority for Western companies.

Certainly, consultant McKinsey Co. recommends that strategists should stress-test their business models under different globalisation scenarios, subject to restricted movements of goods, capital and talent, and even the return to widespread protectionism (Beinhocker et al. 2009).

New times demand new strategies

There is a compelling case that marketers in changed market conditions should be doing more than cutting costs and discounting prices. Indeed, recovery will discover whether Tiffany and other luxury good companies have destroyed the value of their brands through their discount models during the recession (Burnsed 2009). Many companies are at a stage where the right strategic choices are needed to prepare for recovery with the opportunity to put more daylight between themselves and their competitors (Bolgar 2009). Evidence that the new consumer frugality is global (though varying across countries and product categories) and brand loyalty has been undermined is forcing global companies to revise their strategies and offerings (Kalita 2009).

Indeed, Donald Sull of London Business School argues that a crisis of the kind witnessed in recent years marks the opportunity for a clean break with the past, and creates a rationale for making unpopular but necessary changes in a company – Sull advocates pursuing new opportunities and accelerating the rate of change (Sull 2008). For example, engineering group Siemens has used the recession to reshape the business, from a strategic perspective, to refocus on core markets and reposition the firm as a "*green infrastructure*" company ready for economic recovery (Bartiromo 2009b).

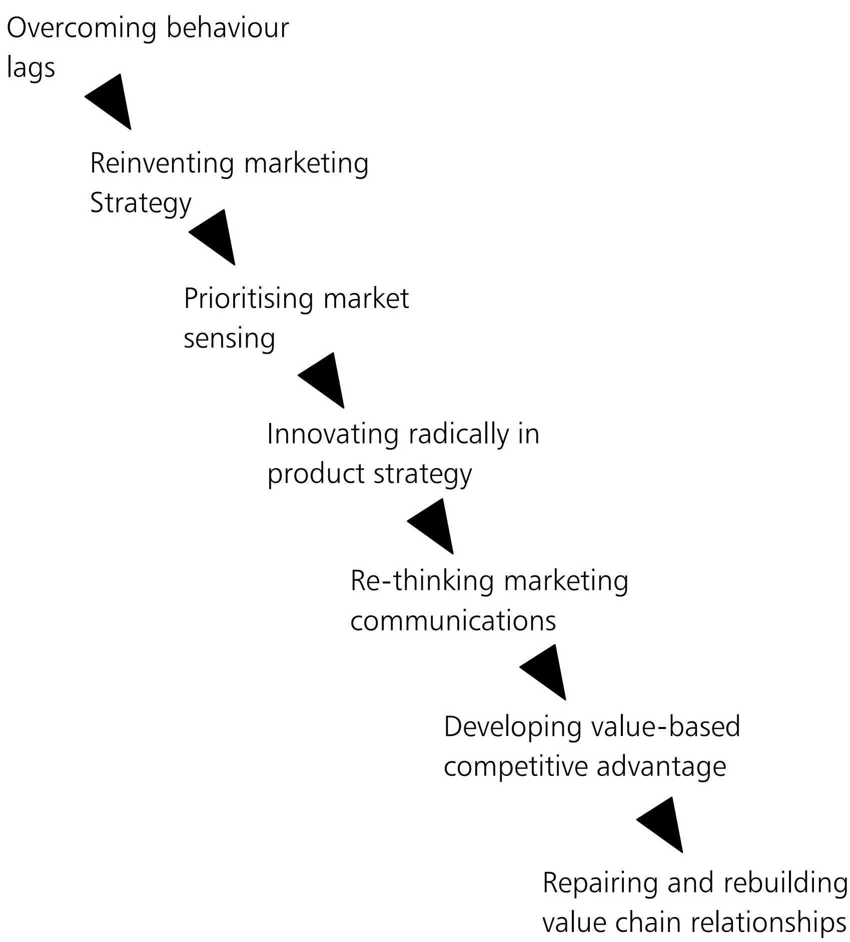
Similarly, Lynda Gratton suggests that recessions provide the space for new ideas to flourish – while the economic effects can be dire, in the long term recession can have a positive effect on work and working habits (Gratton 2008). For many companies, times of turmoil offer new business opportunities, but taking advantage of them requires fast response, aggressive attitudes, and serious changes to the corporate status quo (Thornton 2009). Indeed, one view is that a period of economic recovery signals the need for a company to make decisions in preparation for the next downturn (Colvin 2009b).

Action agenda for management

Urgent management attention should be given to preparation for economic recovery and most particularly the realignment of marketing strategies with the new realities faced. The environment faced by firms will be one where patterns of purchasing and consumer behaviour have changed radically as a result of the downturn. Buyers display signs of thrift and frugality which will extend into the economic recovery. These changes undermine many assumptions underlying conventional marketing, particularly concerning brand loyalty and responsiveness to conventional marketing messages. Challenges are also faced in rebuilding damaged value chains and establishing effective relationships with value chain partners. Moreover, the marketing environment is likely to be characterised by a lack of trust in business and scepticism about marketing actions – rebuilding trust and reputation will be a priority, along with a multi-stakeholder approach that responds to renewed government involvement in business. The structure of many markets will have changed significantly with greater concentration of power among strong competitors. International growth may be restricted by lack of finance, protectionism and growing competition from capable emerging-market competitors.

In addressing these challenges and opportunities confronting marketing executives a strategic process is needed to guide analysis and decision making. A proposed action agenda for management is shown in Figure 2. A discussion of each stage in the process follows.

Figure 2 Action agenda for management



Overcoming resistance to change

While this changed environment poses challenges, the significance of the new post-recession era facing executives is underlined by several other factors, including lags in companies' response to change and managers' risk aversion. Part of the problem is that often company behaviour tends to lag behind changing conditions, so responses lag behind both entry to the downturn and the beginning of recovery, leading to missed opportunities or worse. Certainly, Ernst & Young's European office reports research suggesting that the corporate "*I don't know factor*" is higher than ever before because business leaders have lost their sense of direction in the global economic crisis and are unable to identify and focus on growth opportunities appropriate for their businesses (Hollinger 2009). Relatedly, Roland Berger's research underlines that companies are risking their prospects of capitalising on economic recovery by delaying or abandoning their international expansion plans in the face of the recession (Kavanagh 2009). The Future Foundation research warns that companies have been so traumatised by the economic crisis that they may be risk-aversive for years, missing opportunities, experiencing slower growth and reduced prosperity. Managers over-reacting to selective reports of bad news become highly risk averse as a result (Groom 2009).

Indeed, one interesting argument is that the economic crisis was unexpected by many, because of the tendency for people to ignore predictions they dislike (Kay 2008). It would be ironic if the same human tendency led managers to underestimate the degree of change demanded by the new trading era which is looming. To this can be added the fact that many executives facing the recovery are too young to remember the last downturn – the so-called "recession virgins" – and may struggle with developing appropriate strategies for the recovery.

Reinventing marketing strategy for a new market environment

Insightful and active management leadership is likely to be critical to surviving economic recovery in the complex and rapidly changing post-recession marketplace. A Stanton Marris study of strategy evolution in meeting economic recovery challenges proposes four tasks in a successful strategy reinvention: (1) uncovering hidden risks that undermine strategy because people in the organisation do not believe in what is being advocated for the future, (2) using the power of organisational identity by designing strategies compatible with the firm's culture, (3) reviving the strategy process to gain peoples' beliefs in the strategy rather than just their understanding of tactics, and (4) adapting leadership styles, particularly in sharing important information (Stanton Marris 2009).

It is fundamentally important that marketing executives understand how purchase and consumption patterns are evolving and align their strategies with these changes. Management analysis and action should encompass market sensing capabilities, product strategy, marketing communications, value-based competition, and value chain relationships.

Prioritising market sensing

There has never been a time when it was more important to know how customers are redefining value and changing their buying preferences and behaviours. The requirement for learning and knowledge has never been greater, and goes far beyond conventional market research.

Building effective market sensing processes and establishing learning capabilities are essential for continuously monitoring trends and events in markets, building understanding and predictive abilities ahead of the competition, and actively addressing opportunities and threats (Levinthal and Nardi 1993). Indeed, MSI-sponsored research found that market sensing displayed the greatest impact on performance of ten market-based capabilities (Ramaswami et al. 2004). This provides strong support for believing that market sensing guides more insightful strategic thinking in rapidly changing markets (Cravens et al. 2009). However, research also suggests that many U.S. companies do not respond effectively to rapid change because they cannot "*read*" their markets to understand and adjust to new customer demands (Business Performance Management Forum 2006). Superior market sensing capabilities will be a priority for succeeding in economic recovery.

Importantly, market sensing differs from conventional marketing research and analysis because the goal is not collecting and reporting data, but building processes for management to understand markets and competition and how they are changing. Signs of superior market sensing are competitive insight, advantage, predictive capabilities, and responsiveness to learning. Superiority in market sensing is the basis for the knowledge-based and market-driven strategy, which characterises high performance in many different sectors (Cravens et al. 2009).

For example, the use of scenario planning by several leading companies is illustrative of the need for superior learning capabilities. Preparing responses for several situations can boost flexibility. One relevant application is plotting responses to business upturn and the different ways in which this happens (Tuna 2009).

Innovating radically in product strategy

The product strategy challenge will be innovation at the right price. The way forward is being shown by companies like Henkel, whose Purex detergent brand is succeeding in getting core customers to spend more on their laundry, even in thrifty times – by adding anti-static fabric sheets to the Purex offering. A recent P&G innovation is Olay Pro-X – a range of clinical anti-ageing products that sell for around twice the price of its regular Olay creams. Pro-X is aimed at a more prosperous consumer accustomed to paying much more for similar products in department stores rather than in drug stores. P&G sees Pro-X as one of its "*big ideas*" that represent superior value to the specific target consumer. Pro-X has taken around 5% of the U.S. anti-ageing clinical market. Similarly, Colgate-Palmolive has launched packs of disposable mini-toothbrushes and a mouth freshener called Wisp, to address the unmet need for "*on-the-go tooth cleaning*". At launch, Wisp took 7% of the U.S. toothbrush market (Birchall 2009). The issue is value innovation in the customer's terms and at the right price.

In industrial product manufacturing, the highest added-value lies in technically complex products. Advanced manufacturing processes produce items that require considerable engineering or scientific skills, or special marketing capabilities. Shifting towards advanced manufacturing offers a way of developing strong positions in niche markets globally, although the investment required may be considerable (Marsh 2009).

For example, aero-engine manufacturer Rolls Royce is prospering in spite of the slump in the civil aviation business and cancelled orders for new aircraft by struggling airlines. Rolls Royce's strategy has been to expand after-sales service, instead of relying on sales of new engines, selling airlines outsourcing packages in which it takes responsibility for maintaining their engines. As new generations of complex "low carbon" engines become available, it is likely the outsourcing business will expand further – currently around half Rolls Royce's income is from servicing engines. Interestingly, the company is also diversifying into military, marine, oil and gas industry products to reduce its dependence on the volatile civil aviation market (O'Connell 2009).

Many large companies recognise the innovation challenge and while they have been forced to cut jobs and wages, they have continued and accelerated spending on R&D to achieve innovative products for the post-recession era.

Re-thinking marketing communications

It is illustrative that already companies like P&G, Unilever and Kimberly-Clark have been launching new products without traditional support such as TV advertising – instead relying largely on online communications to reach younger consumers. Recovery is unlikely to bring a return to large expenditures on conventional advertising media (Fine 2009a). Indeed, downturn has seen a seismic shift in expenditure towards digital advertising and new formats, which brings greater issues of integration between different communications channels. For this reason, companies like P&G and Johnson & Johnson have tried to create new types of advertising groups that blend different functions. This re-thinking is likely to lead to a substantially reshaped advertising and promotion sector.

Recognising that we are in the middle of a major marketing transformation, where people are engaging and interacting differently, advertising agencies are finding ways to build brands on tighter budgets – it is likely that this pressure to do more for less will be sustained as economic recovery builds (Edgecliffe-Johnson and Bradshaw 2008). "Austerity marketing" may be here to stay.

New approaches are mandated. For example, the Smirnoff vodka brand has replaced its conventional advertising campaign with a combination of brand events and parties and social networking sites to build a "movement" around the brand. Diageo's chief marketing officer says the difference is that in the past "*The energy in the relationship was with the brand and the brand owner*", while now "*that energy is with consumers*" (Wiggins 2009b).

Developing value-based competitive advantage

Delivering superior value is about more than price and cost-cutting. Providing superior value to customers during and after an economic downturn is a major management challenge. The value proposition "*explains the relationships among the performance of the product, the fulfilment of the customer's needs, and the total cost to the customer over the customer relationship life cycle*" (Payne and Frow 2005, p. 172). Major consumer goods companies like Procter & Gamble have led the move toward value rather than price-based competition, which is likely to characterise successful competitors in the post-recession era. For example, P&G is pursuing "*performance-based value messaging*", communicating to frugally-minded customers that it is worth paying more for products like Tide detergent and Bounty towels, because they save money by doing a better job. It may also be that consumers will pay more for products which have ethical and environmental values. The challenge is becoming one of differentiating products to prove to customers that they are "better" than alternatives. Amid the general issue of whether consumers trading down is permanent, P&G's head of consumer and market research believes that changes in consumer attitudes will be a long-term development with higher consumer engagement as they ask more questions about the value of the products they are offered (Birchall and Wiggins 2009).

Nonetheless, Procter & Gamble is also among the group of consumer goods companies like Unilever and brewer AB InBev which, traditionally able to charge a premium, are introducing cheaper products to compete with own-label brands and discounters (Wiggins 2009a). In what appears to have been a "who will blink first?" contest, both P&G and Unilever have switched their focus to the price dimension of value – P&G is launching products like Tide Basic to compete with retailer own-labels (Byron 2009a), while Unilever is trying to recover volume with lower prices (Patrick 2009). By late-2009, P&G's CEO started a price-cutting strategy in reaction to market share losses across its portfolio in the US and lagging emerging market sales – less expensive versions of household products had dented market share, with Tide costing as much as twice the cost of private label versions (Byron 2009b). A growing challenge may be pursuing radically different value propositions with different customer target groups.

Nonetheless, perhaps the highest risk strategy is to launch a "fighter brand" – a new brand designed to combat lower-priced competitors while protecting a company's premium-priced products. P&G used Luvs in this way, with large price discounts, to fend off private label diapers while protecting its premium Pampers brand. However, more commonly fighter brand strategies fail because they cannibalise sales of the premium brand while they do not actually beat the low-price competition (Ritson 2009).

Repairing and rebuilding value chain relationships

The new era is likely to require more investment in collaborative supply chain relationships. Many suppliers who have adopted lean and efficient supply chains have suffered because as demand declined they were left with excess inventory (Dvorak 2009). The patterns of outsourcing and production built up in rapidly expanding globalisation have proved particularly vulnerable to a fall in demand. Often, when times were good, the combination of just-in-time logistics and the digitisation of information helped fracture value chains into dozens of small stages, particularly in east Asia which has become a disaggregated assembly line for electronics, but these arrangements were difficult to adjust to demand variation (Beattie 2009). For example, in aerospace both Airbus and Boeing have been disrupted by shortages of basic parts like toilets and galleys because small suppliers were unable to gear up for demand. A priority will be shorter and more effective value chains where new approaches to partnering for product development can help companies profit from demand shifts (Sodhi and Tang 2009).

It is already apparent that some large US retailers like Wal-Mart are cutting back on variety and product choice to offer consumers greater simplicity and allowing them to stick to familiar products – benefits include cutting excess inventory and making more room for house brands (Brat et al. 2009). Frugal shoppers are driving grocery stores back to the basics (Martin 2009). Companies like Starbucks are adopting "lean" Japanese techniques to reengineer how they do business to improve service and the bottom-line (Jargon 2009).

In other situations, companies are reinventing channels as a route to market. Barneys and Liberty are part of a group of fashion insiders that have developed social networks on the Internet based on their sense of style and are now opening "pop-up shops" (frequently very temporary) on the main streets of New York and London as temporary showcases for their products. They are reversing the trend of migrating business from the store to the Internet (Friedman 2009). Relatedly, P&G is among several consumer goods companies expanding in non-conventional channels like online selling to reduce dependence on conventional retailers.

Developing new value chain designs that wrongfoot competitors and deliver increased customer service and profitability will be a further priority in benefitting from economic recovery.

Strategy in action

Accepting that radical change is the new "normal" and that the economic recession has fundamentally changed the operation and structure of markets underlines the need for company marketing strategies to evolve and change in line with the new realities faced. Recession will be followed by recovery, but recovery brings both opportunities and risks. The strategic imperative is to see beyond lower prices and cost-cutting to new business and marketing models aligned with new, changed market characteristics.

Our management framework rests on considering the impact of the "shift to thrift" by consumers and the longer-term implications of this change. We examine the challenges of doing business in a market environment increasingly characterised by customer and stakeholder scepticism and lack of trust in companies. Importantly, market structures have changed in significant ways during the harsh economic times with major implications for competitiveness and the concentration of buying power in those markets. Easy assumptions about international growth may be illusory if recession is followed by escalating levels of protectionism and lack of cross-border finance.

From these observations of change we develop a marketing strategy action agenda for management to be addressed in preparing for economic recovery. The agenda starts with the challenge of ***overcoming resistance to change*** – the tendency for organisations to miss opportunities by responding to them too late. The time for action is before the events unfold, not afterwards. We suggest that for many executives the need is to ***reinvent marketing strategy*** for the new environment which is emerging. Superiority in ***market sensing*** provides a foundation for insightful and effective change in preparing for an era of ***value-based competition***, rather than price-based efforts. Rethinking and redesigning ***value chain relationships*** is likely to be a key component of companies' abilities to deliver superior customer value and perform profitably. Strategic marketing thinking should focus particularly on ***product strategy*** and ***marketing communications***, and the changing requirements of new markets.

One of the most important challenges for management as companies come out of the recession is to actively prepare for a new post-recession environment for their businesses, by examining the fundamentals of their business models and their core capabilities to develop the superior value demanded by post-recession customers in their own terms.

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