MARKETING DURING A RECESSION: AN ILLUSTRATION OF HOW ECONOMIC PRINCIPLES GUIDE MARKETING APPROACHES

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Abstract

This article offers a practical way for economic educators to integrate marketing into economics principles courses by connecting economic principles and data to advertisements used during the "Great Recession." While most business students are required to take economic principles courses, few appreciate how economic theory applies to different disciplines. To help economic educators integrate material across disciplines, we provide specific connections to marketing for topics commonly taught in economics principles courses, which we believe is a step toward creating a richer, more integrated business curriculum.

Key words: economic principles, marketing, recession, advertisements

JEL Classification: A20, E32, M31, M37

Introduction

As economic educators who teach principles courses, we are often serving two populations—the students who are exploring economics as a major and the students taking the core classes required of a business major. For economics majors, we try to make economics practical and show connections to the real world in order to enliven classroom discussion and generate interest. We might talk about congestion pricing of highways, the price controls of the 1970s that led to shortages, or the recent fiscal stimulus package's effect on the macroeconomy. Yet, for most business majors, our usual examples may not be quite as relevant to their interests. In order to connect with a wider audience, principles instructors might also try to illustrate that economics is essential to understanding the bigger picture in which firms and decision-makers operate. The goal of this article is to provide specific connections to marketing for topics commonly taught in an economics principles course, which we believe will help create a richer, more integrated business curriculum.

Our personal experience as economic educators suggests that our economics majors do not always appreciate the connections between economics and other business disciplines (even when their major is housed in a business school). And, conversely, many business students do not appreciate the value of economics—they see it as a necessary evil in their curriculum. As faculty members who teach both economics and business, we believe this article will be helpful to both students and educators alike, taking a step toward a more integrated curriculum by exploring the connections between economics and marketing as illustrated through marketing approaches employed during the most recent recession.

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Our own observations reveal that there have been noticeable changes in advertising/promotion tactics employed during the Great Recession which began in 2007, and the application of basic economic theory helps explain this phenomenon. This paper is organized to provide faculty a specific, current events context for integrating disciplines while reinforcing economic principles (like the law of demand and elasticity theory). We intended to write at a level suitable for either professors or students, offering professors the option of assigning this article to students directly. For that reason, some content may be elementary for professors but necessary to include when communicating with students.

The paper proceeds as follows. First, we provide some context for discipline integration, followed by a brief overview of the role of marketing during a recession. Second, we provide the reader with key economic information related to a recession, focusing on how it impacts different industries. Third, we reference actual advertisements and promotions used during the recession to highlight key connections to basic economic theories.

Integrating the Business Curriculum

While students of business tend to concentrate in one specific discipline—economics, marketing, accounting, management, etc. — real world business often does not operate in these silos. Company divisions must interact with each other in order to create a successful operation. The same is true for an organization's employees—they need to understand and apply knowledge from many disciplines to their work in order to function effectively. Despite this, business students tend to compartmentalize their learning and often the curriculum does not do enough to offset this. Given that principles of economics is usually taken early in the business school curriculum, very limited integration generally appears in the course. Hence, steps toward such integration would not only benefit business majors, but our own economics majors (most of whom do not go on to graduate school to become professional economists), giving them an edge in the business world by approaching a business education with an integrated mindset from the outset.

Research shows that a business curriculum that includes the integration of economics provides numerous benefits to students, faculty, and the college (see Kerr and Oana (1984), Miller (2000), and Lorange (2005)). This sentiment is echoed by Crittenden (2009) who argued that business schools must focus on a cross-functional curriculum if they are going to produce innovative graduates, something critical to business success. Moreover, when surveyed, deans at Association to Advance Collegiate Schools of Business International (AACSB) schools agreed that curriculum integration remains an important issue for today's business schools (Athavale, Davis, and Myring 2008). Since economics is usually at the core business school curriculums, economic educators are in a good position for influencing students to consider business as an integrated discipline (where economics plays an important role). At the same time, our own economics majors benefit by seeing applications of elementary principles to practical settings in business.

Marketing during Recessions: An Overview

To effectively implement the right marketing strategy during a recession, not only does a business need to know that it *should* market during this period, but it also needs to understand *how* it should advertise during a recession when it is not simply business as usual. One key factor to consider is *how* the recession has impacted the consumer. How has the consumer's decision-making process been impacted and what motivates them to buy now? Are consumers conducting more research before they purchase? What features and benefits are now most important to them? (Quelch 2008)

Strategies employed during the Great Recession ran the gamut. It will not be surprising to students of economics that many companies focused their advertising on discounts, as consumers became more price-sensitive and spent their money more carefully. As we emphasize later in the paper, making price concessions should be done only when armed with good economic information about consumers and proper context within the market. The success of Walmart during the Great Recession (as their bottom line in 2008 increased by 5.9%) suggests that continuing to emphasize price first and product second can be a successful strategy for motivating consumer spending (Gentry 2009). On the other hand, Gucci marketed its "New Jackie" handbag not as an accessory, but as an investment (Matlack 2009) given that recessions and the resulting changes in income can result in less consumption on high ticket items.

Understanding the macro and microeconomic connections of a recession is important for any marketing agent. The next two sections lay out key economic information and basic theories that marketing students should understand so that they may be better decision makers in both prosperous and tough economic times. Key connections to economic theory and concepts are made so that students of economics can see the economic underpinnings that guide marketing decisions.

Macroeconomic Data and Understanding the Microeconomics of a Recession

With the use of data, economic educators can effectively show economics and business students that business cycles have important microeconomic implications, given that not all industries are impacted the same by fluctuations in the macroeconomy. This section highlights how understanding basic economic data and economic principles can guide marketing strategies and promotional campaigns during a recession, using specific examples from the Great Recession in particular. A number of examples will be cross-referenced with microeconomics theory in the second half of the paper, allowing students to see both the macro and microeconomic connections.

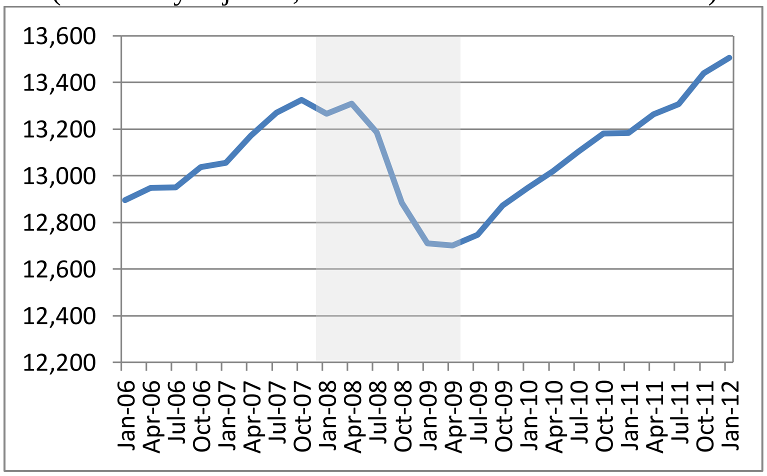
Introducing Aggregate Data and the Great Recession

According to the National Bureau of Economic Research (NBER), what is now called the "Great Recession" began with an acute decline in the US economy in December 2007, as the key economic indicators show. Figure 1 depicts the decline in real gross domestic product beginning in late 2007, which was officially dated by the NBER as ending in June 2009 (see NBER's website for the dates of all US recessions since 1854: http://www.nber.org/cycles.html). The timeframe for the Great Recession is shaded in grey. The NBER Business Cycle Dating Committee looks at a host of data to determine the precise peaks and troughs of recessions, from macroeconomic measures like real GDP to unemployment to other indicators. Students may view US unemployment data here: http://research.stlouisfed.org/fred2/series/UNRATE.

In addition to the more high profile indicators like real GDP and unemployment, a key economic indicator that marketers should keep in mind is consumer sentiment—a measure of how consumers view the prospects for the general economy and their own financial well being. The University of Michigan's index shows a declining trend beginning in the middle part of the decade, as consumer sentiment began to fall well before GDP began its decline in 2007 (see http://research.stlouisfed.org/fred2/series/UMCSENT). For many sectors, consumer sentiment is crucial. Consumers may have the spending resources to purchase goods and services, but as sentiment dips, consumers become more likely to postpone purchases of non-essential items, or items that may have a longer product life.

Figure 1. Quarterly Real GDP

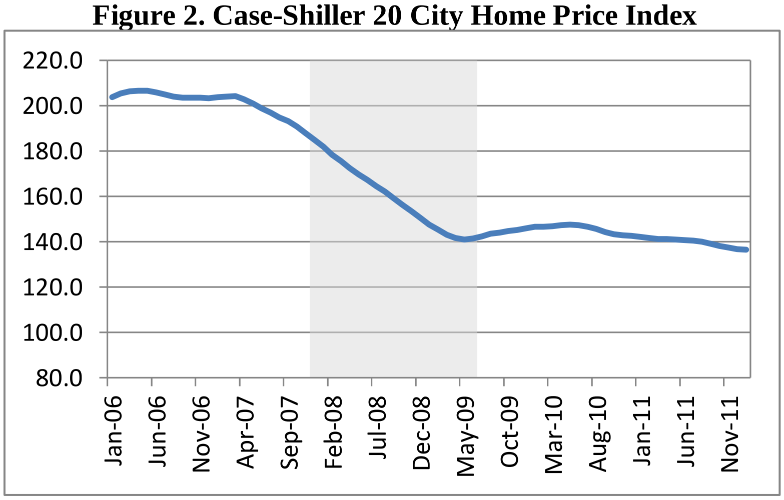
(Seasonally adjusted, 2005 Chained – billions of dollars)



Data from Bureau of National Economic Analysis http://www.bea.gov/national/index.htm#gdp.

So, what caused the fluctuations in GDP, unemployment, and consumer sentiment at the onset of this Great Recession? Economists generally believe a variety of factors may have contributed to these macroeconomic fluctuations, but one of the more high profile contributors stood out for the Great Recession in particular: changes in household wealth, particularly home equity. During the middle of the decade, the US economy experienced a real estate boom and bust, where high property prices gave way to plunging prices in markets around the country, adversely affecting individuals' wealth in many markets nationally. For most homeowners, the equity in their home (i.e. the difference between value of their home and the remaining mortgage balance) is one of their largest financial assets. If housing prices fall then home equity falls as well. Figure 2 depicts the Great Recession real estate bust, as measured by the Case-Shiller 20 City Home Price Index, a commonly cited home price index composed of major markets around the country. The unexpected decline in home prices is quite clear, and there were a host of other inter-related precursors and consequences, including turmoil in the financial/banking sector as well as a decline in the stock market and nominal income more generally.

Figure 2. Case-Shiller 20 City Home Price Index



Data available from the Federal Reserve Bank of St. Louis: http://research.stlouisfed.org/fred2/series/SPCS20RSA

Recession-specific Marketing Guided by Economic Principles and Data

Given the fall in income and wealth at the onset of the recession, economic educators can show students that economic principles have consistent predictions about the microeconomic behavior of consumers, which can be utilized by marketers to formulate a more appropriate response to macroeconomic pressures. For example, economic principles predict that an unexpected or abrupt fall in income/wealth will generally lead to a fall in demand for normal goods and particularly durables. In fact, we see precisely this in the data as consumers delay purchases of big ticket items in a weak economy. Data on US personal consumption expenditures (see http://research.stlouisfed.org/fred2/series/PCEDG) shows the sharp drop in expenditure on consumer durable in the US economy at the onset of the Great Recession. It is also not surprising that new automobile sales had a significant decline since 2006 as well, as seen in aggregate vehicle sales data (see http://research.stlouisfed.org/fred2/series/ALTSALES).

With the weak economy in mind, automotive companies and dealerships marketed ways to soften the pain of such large purchases and perhaps lure borderline customers. These included creative strategies to effectively lower prices for customers, besides simply knocking off dollars from the sticker. Examples that will be tied to microeconomic theory below include Ford, GM, Chrysler, and Suzuki who used a range of strategies from "employee pricing" to free gas to encourage automobile sales. Absent these promotions, motor vehicle sales (along with sales of other durable goods) would likely drop even further, jeopardizing the financial health of auto producers even more. Like automotive sales and durables, purchases of luxury items are also scaled back for similar reasons. For example, American travel abroad sharply declined during the Great Recession, as seen in aggregate travel data for the United States (see http://research.stlouisfed.org/fred2/series/BOMTVLM133S).

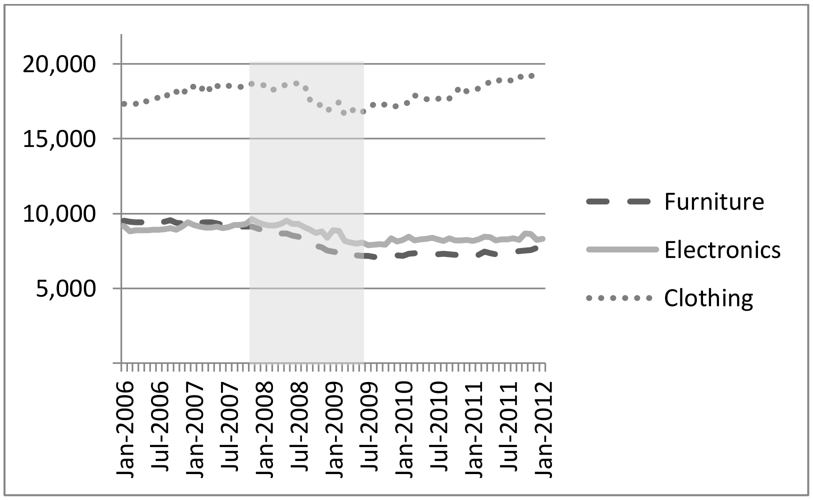
In an economic downturn, consumers often turn to less expensive substitutes or delay major purchases until the economy rebounds. In the automobile sector, for example, there was a sharp decline in demand at the onset of the recession. The fall in demand for new cars and used cars is reflected in the steep declines in prices as shown by Consumer Price Index data for new vehicles (see http://research.stlouisfed.org/fred2/series/CUSR0000SETA01) and used vehicles (see http://research.stlouisfed.org/fred2/series/CUSR0000SETA02).

Prior to the recession, there was a sharp uptick in consumer credit that coincided with the real estate boom. Proceeding the bust, consumer credit fell dramatically during the recession, as shown by debt outstanding in the US household/consumer credit sector (see http://research.stlouisfed.org/fred2/series/HCCSDODNS), despite falling interest rates (which may reflect credit constraints dominating the countervailing effect of cheap credit). Hence, during the recession marketers would strive to create ways to make a product's cost less painful and mindful of the credit constrained, beyond simply lower interest rates. Some of the examples discussed below include revival of layaway programs, payment plans for larger ticket purchases, and opportunities to exchange stimulus checks for greater than their face value when exchanged for gift cards. All of the above represent promotions that we observe primarily when the economy's pulse is weak and consumers are credit constrained.

As consumers tightened their spending at the onset of the Great Recession, the retail industry took a big hit, and while retail and food service industries (see www.census.gov/retail/marts/www/timeseries.html) showed some promising signs at the middle of 2008, sales plummeted sharply as the recession wore on through the middle of 2009. Even though we usually regard food and clothing as staples, consumers find a number of ways to cut back when times are tough. For example, consumers may eat fewer meals in restaurants or might choose to buy more "off brand" products to save money. Figure 3 shows slower declines in the clothing, electronics, and furniture industries during the recession.

Figure 3. Real Monthly Retail Sales by Category

(Seasonally adjusted, in millions of dollars)



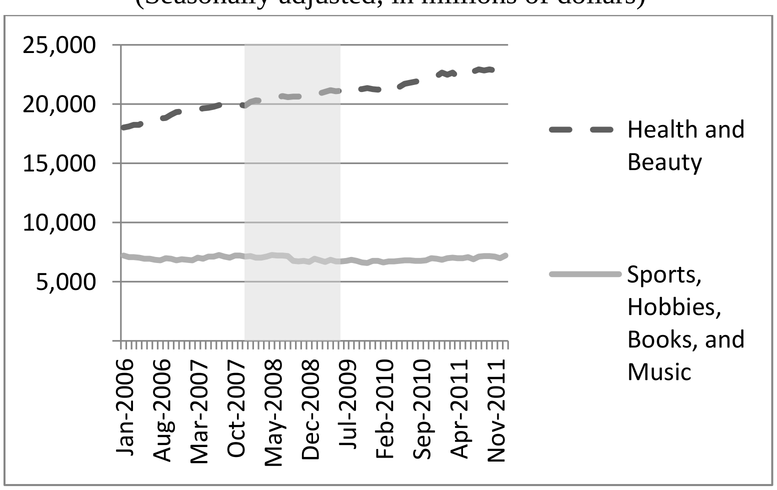
Data from U.S Census Bureau, available at www.census.gov/retail/marts/www/timeseries.html.

Even products that are considered to be "essential" or lack close substitutes showed reduced sales. For example, consumption of gasoline fell during the recession (see www.census.gov/retail/marts/www/timeseries.html). In the short term, consumers can find ways to cut uncessary travel or even carpool. In the medium or longer run, consumers can substitute to more fuel efficient cars.

Some sectors continue successful marketing campaigns, even into a recession, if the sector shows signs of health and stability. For example, retail sales for sporting goods/hobbies and for health/beauty were relatively flat during the Great Recession. This suggests that consumers do not scale back proportionately across all industries, and some markets may fare better than others in the face of an economic downturn, as illustrated in Figure 4.

Figure 4. Monthly Retail Sales by Category

(Seasonally adjusted, in millions of dollars)



Data from U.S Census Bureau, available at www.census.gov/retail/marts/www/timeseries.html.

We have observed that many health and beauty products maintained relatively consistent marketing strategies over this time period, one of the more famous being L'Oreal's "Because you're worth it" slogan (L'Oréal Group 2009). Sporting goods brands like Nike continued marketing premium products endorsed by big name athletes, consistent through the years. A 2012 FoxNews.com article entitled, "What recession? Nike unveils the $315 LeBron X sneaker," chronicles Nike's roll out of its priciest sneaker yet, despite the fact that employment had not rebounded from is recessionary levels. These companies continue to appeal to uniqueness and quality more than price, despite the tough economic times. As a result, they are seemingly immune to the recession (at least relative to other industries).

However, each industry is different, and this certainly holds true during recessions. Marketing approaches may need to be adapted based on the specific situation facing each industry during difficult economic times. Thus, the more marketers understand the economic data specific to their industry, the better marketers become at devising optimal strategies for weathering the storm of (or, in the case of the health and beauty sector, sustaining sales during) an economic downturn.

In the next section, we make connections between economics principles that students learn in introductory economics classes and specific marketing strategies used during the Great Recession. We will expand on some of the examples above and will also offer additional ones.

Linking Economic Principles to Marketing

The following discussion highlights additional advertisements and promotions that emerged during the Great Recession to show where and how economic data is useful for marketers. Some of these strategies were employed as a direct result of the recession and were temporary. Other strategies might have been employed in a non-recessionary time, but appear timely during the recession nonetheless. Either way, the connections to basic economic theory are interesting and help provide a real world context for the theories economic educators teach in their classrooms.

Law of Demand

One strategy used by marketers is simply to exploit the inverse relationship between price and quantity demanded (Law of Demand). Except for in the very rare case of perfectly inelastic demand (e.g. a medicine essential to someone's life), decreasing the price of a product leads to an increase in the number of units demanded. Firms might reduce listed prices or use promotions to generate the same result. And in the case of a contracting market, firms slash prices to maintain market share or prevent sales from slowing quite as much as they otherwise would. For example, during the Great Recession, Quiznos advertized that "over 35 items now have lower prices" where previous ads focused more on quality (Quiznos 2009). Pepsi and Frito Lay offered 20% more product for the same price—both effectively changing price per unit (Cordeiro 2009).

Coupons are also an important element of this type of marketing approach since they are an obvious way to lower prices for consumers willing to use them. CNN Money reports that use of coupons was on the rise during the Great Recession, as was membership on free sites (such as www.couponmom.com), where shoppers could learn other money saving ideas (Bassett 2009). To offset the "stigma" of coupon clipping, retailers used technology, offering online coupons, ways to save coupons to loyalty cards (for example, Kroger), or and ways to use via Apple's iPhone (Bassett 2009). Though we see an array of different approaches, these marketing tactics are all exploiting one simple economic theory—the Law of Demand.

Price Elasticity of Demand

Economic principles show that increasing (or decreasing) prices may not always be a good idea when trying to increase revenues. The theory of price elasticity of demand underscores the importance of knowing how responsive consumers are to changes in price. For example, an accountant might not wish to lower his or her prices during a recession. While some households might prepare their own taxes, accounting firms tend to retain the bulk of their clients, suggesting that some tax preparers enjoy "inelastic" demand for their product given that tax returns must be filed every year (recession or not). For price discounts to increase revenues, the lost revenue from the lower price must be more than offset by increases in quantity. As economic educators explain in the classroom, this will only be the case if price reductions are targeted at products that have more elastic demand, where consumers are relatively more responsive to changes in price. Marketers who recognize the price sensitivity (or insensitivity) of their customers will be better equipped to make revenue maximizing pricing decisions.

For example, one study reports that the elasticity of demand for movies by American adults is 2.0 (a 1% increase in price would decrease quantity by 2%) but elasticity of demand for teenagers is 0.2 (a 1% increase in price would decrease quantity by 0.2%) (Melvin and Boyes 2002). During a recession, this phenomenon might be compounded by the fact that teenagers have a lower opportunity cost for their leisure, as teenage unemployment typically increases during a downturn. US data (see http://research.stlouisfed.org/fred2/series/USAURTNAA) shows this uptick in teenage unemployment, rising from around 15% prior to the recession to over 25% during the recession. Thus, given their elasticities, a decrease in the price of movie tickets could result in net revenue increases for adults and revenue decreases for teenagers.

Yet, sometimes changing price is not the best strategy depending on the product, consumer, and the firm's marketing strategy. The example discussed earlier of L'Oreal maintaining its "because I'm worth it" marketing approach (and using celebrities such as Gwen Steffani to endorse their products) is one such example. Nike's successful launch of its high priced LeBron X sneaker confirms that, depending on the product, not every consumer is price sensitive during a recession. It is important to note that marketing strategies vary greatly from product to product, and firms may explore other strategies beyond lowering prices.

Determinants of Elasticity of Demand

Availability of substitutes

Economic theory also explains what factors influence price elasticity of demand. The number/availability of substitutes is one key determinant—more substitutes make it easier for consumers to switch one product for another (making demand more elastic). For example, there is a high degree of substitutability between burgers, suggesting relatively elastic demand for the fast food hamburger market. It is not surprising that marketing has been very aggressive in the restaurant industry. During the Great Recession, for example, Sonic entered the dollar menu war with their new "everyday value menu" (Ayrouth 2009), while KFC introduced their 99 cent menu to compete with McDonalds and other restaurants with dollar menus (KFC Corp. 2008).

Luxury vs. necessity

Another factor influencing elasticity of demand is whether the good is a luxury or necessity. Consumers might be more price sensitive (i.e. have more elastic demand) when dining out (a luxury) than when using utilities (a necessity), holding all else constant. There are a few interesting examples of businesses that are more likely to enjoy a "recession-proof" status. For example, the short-run price elasticity for hospital and physician services is 0.1 (very inelastic), since families are not likely to put off a trip to a doctor if it is necessary (Miller 2010). Auto mechanics frequently appear on the list of "recession-proof" careers for a similar reason—auto repairs cannot generally be put off for long. This means that, at least in the short run, there are some businesses that might be relatively recession-proof because they offer something perceived as a "necessity." However, this is not the norm. Luxury and big ticket items such as new cars and vacations are adversely affected by a recession. It is, therefore, not surprising that Disney theme parks offered promotions such as free admission on birthdays and free extra nights (The Walt Disney Co. 2008). Suzuki introduced "free gas for summer" where they paid for the buyers' gasoline from May through August 2010 (Suzuki Motor of America Inc. 2010). Ford, GM, and Chrysler used employee pricing and 0% financing to make their luxury items more economical.

Timeframe in which to respond

As economic educators communicate in their classrooms, the time frame within which consumers operate also matters. Consumers have more elastic demand in the long run than in the short run, because they have more time to react to changes in price. For example, it is estimated that the short run demand for gasoline has a price elasticity of 0.2 whereas long run demand (more than a year) has a price elasticity of 0.5 (Miller 2010).

Price of the good relative to one's budget

Finally, the price of the good relative to a consumer's budget impacts elasticity. Holding all else constant, consumers will have a higher price elasticity of demand for something that requires a larger share of the budget. This helps explain the aforementioned statistics about falling durable goods sales, as consumers try to avoid large purchases. As noted above, during the Great Recession, car companies such as Ford, GM, Chrysler, and Suzuki used record discounts and creative strategies to sell such big ticket items, from employee discounts to 0% financing (Tucker 2008) to "free gas for summer" (Degen 2009) programs, acknowledging the price sensitivity customers face. Conversely, relatively small purchases tend to have more inelastic demand. This might explain why Grand's biscuits changed their marketing campaign briefly during the Great Recession, claiming that "at only 25 cents a biscuit you'll use any excuse to eat in" (Lyden 2009). Grand's is not advertising a price change—instead they remind consumers that including biscuits on the dinner table involves a very small expenditure.

Table 1 in the Appendix summarizes the economic principles above (regarding demand and elasticity) and the corresponding advertisements/promotions that link them.

Shifting Demand

Another role of the marketer is to increase demand for goods or services. There are variables other than price that encourage/discourage consumers' willingness to buy: income, strength of preferences, prices of complements and substitutes, consumers' expectations about future prices, and the number of demanders. As economic educators we refer to these as demand "shifters," because they shift demand as opposed to causing movement along a demand curve. Marketers often target these "shifters" in an effort to raise demand for their products, especially to combat the fall in demand that normal goods experience during recessions.

Change in income

The variable most relevant in a recession is the change in consumer income. In recessions, decreases in income (real or expected) lead consumers to decrease their demand for goods and services. Some taxes have also increased as state and local governments wrestled with budget deficits. Most households were impacted in some way, resulting in less disposable income. Marketers cannot literally raise the incomes of their customers during recessions, but they can frame savings as closely approximating a rise in income. In some cases, the savings was more direct. For example, Sears (and also Kroger grocery stores) offered consumers the opportunity to exchange their stimulus checks for gift cards reflecting 110% of the check's face value (Brennan 2008). In other cases, the appeal was less direct. GEICO has made this appeal with its "15 minutes could save you 15% or more" marketing campaigns utilizing the iconic gecko or caveman. However, during the Great Recession, GEICO introduced a new approach utilizing a stack of money with eyes—the "money you could be saving with GEICO" campaign—to remind consumers that this savings represents *real* money (GEICO 2009). Other companies focused on "value" to ensure customers that their money was being well spent. Wrangler commercials had iconic figures such as NFL quarterback Brett Favre stating "When I think of Wrangler I think of value. You can pay more but you won't get more" (Wrangler Jeans Co. 2009).

Some companies made it easier for consumers to pay for purchases. Major retailers like Kmart and Sears revived their layaway programs during the Great Recession, allowing customers to pay over time (PR Newswire 2010). Disney created a payment plan for Florida residents, making it easier to purchase annual passes to their theme parks (see Disney.com).

Uncertainty about future income

Consumers make decisions about consumption based on their current income as well as their future income. With unemployment exceeding 10% during the Great Recession, uncertainty was widespread and may have led consumers who have not experienced a change in income to cut back on spending, perhaps putting off a vacation or the purchase of a durable good. Some producers of high ticket items reduced the level of perceived risk by offering consumers guarantees in the event that their economic situation changed. Hyundai launched its "Hyundai Assurance" to promote "certainty in an uncertain world," allowing consumers to return their cars if they lost their income (Friedman 2009). Saturn's "Total Confidence" program actually poked fun at Hyundai's promise by referring to it in their own ads as "the worst day ever" (losing your job *and* your car) and instead offered to make car payments for nine months for consumers who lost their income (Saturn Corp. 2009). Kia and Sears made commitments similar to Hyundai's (Ottley 2009), and Jet Blue airline offered refunds on vacation packages in the event of unemployment (Schlangenstein 2009). According to Wards Auto, such strategies paid off for Hyundai as they increased market share during the Great Recession (Bunkley 2009). (For data, see wardsauto.com/keydata/historical/UsaSa28summary/)

Substitutes and complements

In a principles course, economic educators usually teach about the role of substitutes and complements on demand. The demand for margarine might increase when the price of butter goes up and the demand for hotdog buns might increase when the price of hotdogs goes down. Real world marketers often make appeals linked to these substitutes and complements in an attempt to raise the demand for their products. As the demand for new and existing homes dropped during the Great Recession, the demand for complements like appliances, furniture, and other durable goods fell accordingly (see http://research.stlouisfed.org/fred2/series/A35SNO).

Marketers are cognizant of the relationships between compliments and may use this in their promotions to shift demand. For example, marketers at Disney World understand that restaurant meals and vacations are complements, as vacationers generally eat out more while on a trip (Peterson 2010). During the Great Recession, Disney offered a promotion where meals were free, attempting to raise demand for vacations to its parks by lowering (to zero) the cost of dining (Peterson 2010). In a similar vein, at one point Hyundai offered a lower gas price guarantee, where customers could lock in gasoline prices at $1.49 per gallon during the summer of 2009 (Shunk 2009) and a Suzuki promotion mentioned above offered free gas for summer. Southwest Airline also focused on the price of a complementary service—the cost of checking luggage. Rather than simply lowering their fares (as they are already known as a low fare airline) Southwest Airlines employed their "Bags Fly Free" campaign, where they point out that, unlike their competitors, they charge no fees for baggage (Southwest Airlines Co. 2009).

Expectations about future prices

Economic educators also emphasize that demand can be influenced by consumers' expectations about future prices. That is, if consumers expect the price of a product to rise in the future, then they will increase demand for that product now. This helps explain why marketers' promotional strategies are so frequently "for a limited time," especially during recessions. Many Internet retailers offered promotions such as "free shipping" or a price discount only good for the current shopping day to lure consumers into making purchases that might otherwise be delayed.

Preferences and number of buyers

In a principles class, economics educators offer examples of demand shifts that result from an increase in preferences or number of buyers. For example, if the driving age increases and the drinking age decreases, the number of demanders for used cars may decrease and the number of demanders for alcohol might increase. Clorox offers an interesting strategy in attempt to increase number of demanders. Their product is generally thought of as a laundry additive. Yet, during the Great Recession, Clorox began promoting new uses for bleach around the house such as disinfecting children's toys and lengthening the life of flowers (see Clorox.com). The approach is not necessarily selling on price, quality, or asking consumers to substitute from another brand. Instead, Clorox is trying to shift demand directly by capturing new consumers (and selling more to existing consumers) by promoting the versatility of its product more directly. During a recession, more consumers might be receptive of a versatile product with many uses than a product with a very specific use.

Table 2 in the Appendix summarizes the demand "shifters" above and the corresponding advertisements/promotions that link them. Table 3 in the Appendix serves the same function, but for the next section.

Other Marketing Strategies during the Great Recession

Price Discrimination

A favorite topic of many economic educators is price discrimination, where firms charge different prices to different consumers based on price elasticity. Consumers with more elastic demand (more price sensitive) are charged a lower price than consumers with a more inelastic demand (less price sensitive). Professors typically use examples such as airlines charging more for tickets purchased within seven days of travel to illustrate price discrimination. However, during the Great Recession one author of this paper took advantage of an innovative offer from a Pontiac/GMC car dealership. Specifically, Pontiac/GMC offered $1000 off the price of a new car to customers owning a car that was *not* one of these brands. Initially this seems counterintuitive—customers loyal to Pontiac/GMC would not be rewarded for their loyalty. But, on the basis of economics, this promotion makes sense. Owners of Pontiacs and GMCs are more likely to purchase another vehicle of the same make and may already have brand loyalty. The $1000 promotion was used to lure consumers who are less likely to purchase a Pontiac/GMC (and therefore have more elastic demand). Anecdotally, another interesting price discrimination strategy was observed by one of the authors of this paper. Composite Acoustic, known for higher end guitars made from a composite material (durable and not temperature sensitive) offered a line of guitars that had a matte finish instead of the traditional glossy finish. The change resulted in a significant cost savings in production that could be passed on to the consumer, allowing the company to attract the more price-conscious buyer. In both examples, the marketing strategies exploited such segmenting techniques with the goal of generating additional revenues.

Brand Name Capital

While discounting prices can be an effective way to increase sales, firms must consider the potential impact on their image and perceptions of quality. In economics courses, firms' decisions are most often modeled as a function of price and quantity. But, there is a quality variable that enters into the decision process and brand name is also discussed as an important barrier to entry in standard economic models. Firms devote an enormous amount of financial capital toward creating the brand name capital that deters entry of competitors. During the recession, Smucker aired commercials that focused on quality (J.M. Smucker Co. 2009), as they reminded consumers of the value associated with their brand name. Smucker's consistency in its marketing strategy demonstrates its long term investment in its brand, which stands as a significant barrier to entry for many of its products. Allstate Insurance also points to the value of their name and slogan in their "back to basics" ad that ran during the Great Recession:

> "1931 was not exactly a great year to start a business. But that's when Allstate opened its doors. And through the 12 recessions since, they've noticed that after the fear subsides, a funny thing happens. People start enjoying the small things in life—a home cooked meal, time with loved ones, appreciating the things we do have, the things we can count on. It's back to basics and the basics are good. Protect them. Put them in good hands" (Allstate Corporation 2010).

In addition to focusing on family values, Allstate reminds consumers that they have been in business for eight decades and are here to stay. This long-term commitment to quality and differentiating one's product through one's brand could pay dividends for marketing strategists. A recession could be an opportune time to make such an investment in one's brand, because competitors' appeals to value and price could open the door to a separating of one's brand from the pack.

Understanding Sentiment and the Use of Economic Nomenclature during a Recession

Anyone who has experienced a recession understands the general picture painted in the news—increased layoffs, rising unemployment, decreasing income, and an overall sense of insecurity. As the overall economy worsened, the economy was increasingly on the minds of Americans as bad economic data swamped the news. So it is not surprising that marketers utilized economic content and buzzwords as part of marketing campaigns themselves. For example, AT&T has long promoted its rollover minutes as being an advantage of their company compared to others. However, during the Great Recession they added the reminder that "these days we cannot afford to be wasteful" (AT&T Inc. 2008).

The recession affected how consumers spent their time, with more emphasis put on time at home with friends and family (Knowledge@Wharton 2010). In one commercial, Allstate's spokesman deviates from the traditional focus on competitive prices and good customer service to remind consumers about the lessons learned--that "meatloaf and Jenga can be more fun than reservations and box seats" (Allstate Corporation 2010). In addition, Walmart, known for advertising that focuses on low prices, released their "Little Things" commercial where there were no products or prices mentioned. Instead, lyrics reminded viewers that "the little things go a long way" and "it's not the money you spend, but the time" (Wal-Mart Stores, Inc. 2009). Allstate commercials also opened with scenes from the Great Depression as a reminder to appreciate the small things in life (Allstate Co. 2010). Part of these advertisements' effectiveness lay in their ability to capture a common sentiment shared by the entire country.

Other references based on the economy's overall health were sometimes in the form of humor. A Mexican fast food chain's radio ad had a burrito arriving for the "worldwide inter-global micro macro conference," and referenced its low prices by asking, "how is that for a bailout plan?" Domino's Pizza referred to its "big taste bailout," with the CEO claiming (in reference to government bailout programs) "I'm not here to get one; I'm here to give one!" (Domino's Pizza, Inc. 2009). Other ads used a simple play on words, for example, "Danonomics" -- Dannon yogurt's reference to low prices -- and "Digiornomics"—the idea that Digiorno's pizza is cheaper than delivery (Fredrix 2008). Wendy's launched the "3conomics" campaign, promoting three new sandwiches for under a dollar (Friedman 2009). In all of these campaigns, economic references, albeit serious or humorous, capture the attention of viewers as the economy occupies nearly everyone's mind during a recession.

Conclusion

This paper offers economic context to marketing strategies and promotional campaigns during recessions (and the recent Great Recession in particular) for economic educators to build connections between economics and marketing that more aptly reflect the real world. Marketing and economics departments generally operate independently within business schools, but in the real world there is a higher degree of integration. Our goal is to highlight some of these connections for the classroom so that students can better understand the integrated realities of business in the real world.

Marketing during a recession presents an enormous challenge to marketers, often stretching the limits of creativity when budgets are tight. In fact, research suggests that it is during these difficult times that marketing decisions are the most crucial. Our paper points out that data about the overall economy and specific sectors can play an important role when devising a marketing strategy during a recession. And since every sector is different, understanding the data and current outlook for one's own industry may prove decisive for marketers contemplating the direction of their campaign. We believe that reinforcing these connections in the classroom not only furthers the goal of integration among business disciplines, it also reconciles classroom principles with real world strategies.

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Appendix

Table 1 – Summary of Marketing Strategies/Advertisements Relevant to Demand and Price Elasticity			
Economic Concept	*Explanation*	*Marketing Strategy Used*	*Relevant Examples*
LAW OF DEMAND	Holding all else constant, there is an inverse relationship between price and quantity demanded. As price decreases, quantity demanded increases (ceterus paribus).	Price decreases are a way to increase sales, especially if there is a way to segment the market to capture those individuals who are more likely to respond to the lower price. Besides simple mark downs and sales, firms offered an array of price discounts ranging from value menus to larger packages for the same price to promoting coupon use in order to offer consumers lower prices.	• Quiznos advertizing lower prices on over 35 menu items. • Pepsi and Frito Lay offering more product for the same price, effectively reducing price per unit. • Kroger reducing the stigma of coupons by allowing them to be saved to loyalty cards. • Apple's iPhone application that promotes use of coupons. *Note that other examples below tie into the idea of lower price.*
PRICE ELASTICITY OF DEMAND General understanding of the topic and why it is relevant	Price elasticity of demand measures how sensitive consumers are to changes in price. Lowering prices when consumers are more price-sensitive (price elastic) is revenue-enhancing but it is not when consumers are less price-sensitive (price inelastic).	Marketers benefit from knowing how price-sensitive their consumers are. As noted above, decreasing price can increase sales. But, in limited cases, marketers were possibly better off by *not* lowering prices when it will not be revenue enhancing or when it might dilute the brand.	• L'Oreal maintaining its "because I'm worth it" marketing approach, as opposed to competing over price which could dilute the brand name. • Nike's LeBron X sneaker despite the fact that it was the priciest sneaker in the company's history.
PRICE ELASTICITY OF DEMAND Impact of the availability of substitutes	Price elasticity of demand measures how sensitive consumers are to changes in price. The availability of substitutes impacts how price sensitive consumers are. When few substitutes exist, consumers are relatively less price sensitive than when they have opportunities to substitute.	Firms in highly competitive markets must be concerned about their consumers substituting to other firms. There were examples from the highly competitive fast-food industry where price competition, as opposed to quality competition, dominated the strategy.	• Sonic entering the dollar menu war. • KFC also introducing the 99 cent menu.
PRICE ELASTICITY OF DEMAND Impact of luxury vs. necessity	Consumers have relatively more price-sensitivity (more elastic demand) when considering purchases of luxury items. For example, the demand for vacations is going to be more price elastic than the demand for groceries.	When tightening spending, luxuries are likely to be the first to be eliminated in the household budget. Firms specializing on higher priced luxury purchases offered strategies to make the purchases more economical.	• Disney's free admission on birthday and extra nights free. • Promotions aimed at selling new cars.
PRICE ELASTICITY OF DEMAND Impact of the price of a good relative to one's overall budget	Consumers are more price-sensitive when items take up a larger share of their budget as opposed to when an item takes up a smaller share of the budget.	Marketers acknowledged that large ticket items may be impacted by a recession more than small ticket items. As such, consumers benefited from strategies that reduced the price (noted above) and decreased the proportion of the budget that the expenditure took up. Promoting small ticket items that did not impact the budget significantly was also observed.	• Data showing decrease in sales for consumer durables such as cars. Attempts to lower the price (noted above) serve to lower the overall impact on household budgets. • Employee pricing and 0% interest for Ford, GM, and Chrysler.* • Suzuki's free gas for summer.* • Grand's biscuits focusing on the small price tag of having biscuits on the dinner table. **Also ties into law of demand as these serve to decrease P.*

Table 2 – Summary of Marketing Strategies/Advertisements Relevant to Shifting Demand

Economic Concept	*Explanation*	*Marketing Strategy Used*	*Relevant Examples*
DEMAND SHIFTERS Impact of changes in income	Income is a ceterus paribus assumption for demand (something held constant along a given demand curve and something that, when changes, will shift demand). For normal goods, as consumers' income falls, demand falls (or shifts back).	As would be expected in a recession, household incomes/wealth fall (lack of raises or even pay cuts, reduction in hours, decreased portfolio and investment income, etc.). Firms used strategies that put more money in consumers' pockets and allowed them to spread expenses over time.	• Sears and Kroger exchanging economic stimulus checks for gift cards worth 110% of the check's value. • GEICO introducing the visual representation of money saved by using the stack of money with eyes instead of gecko. • Major retailers such as Kmart and Sears reviving their layaway plans in order to benefit customers. • Disney payment plans for Florida residents so that expenses for annual passes are spread out over time. • Wrangler focusing on value of their jeans with "When I think of Wrangler I think of value" and stating "you can pay more but you won't get more."
DEMAND SHIFTERS Impact of uncertainty about future income	Recessionary periods are characterized by increased unemployment. Even workers who have not been laid off are concerned about the potential for job loss, reduced hours, and pay cuts. That is, expectations of less future income will shift/lower demand.	Firms offered programs that decreased the uncertainty associated with large purchases by offering some guarantee such as returns and refunds. These programs decreased the risk to consumers and were aimed to offset uncertainty that might lower demand.	• "Hyundai Assurance" program allowing consumers to return cars if they lost their income. • Saturn's "Total Confidence" program that would make nine months of car payments for individuals who lost jobs. • Kia and Sears offering a program similar to Saturn's. • Jet Blue airline offering refunds on vacation packages in the event of unemployment.
DEMAND SHIFTERS Impact of complements and substitutes	Demand for a product is impacted by the price of substitutes and complements. As the prices of substitutes to product X decrease, the demand for X will fall. But, when the prices of complements to X fall, the demand for X will rise.	Firms lowered the price of complementary products as a way of stimulating sales of their products. For example, when the price of gas (a complement to autos) decreases, the demand for cars may increase as the total expense associated with the purchase falls. Note that this also ties into the Law of Demand since combined price associated with the purchase is lower than before.	• Disney offering free meals, since dining out it a big expense associated with vacations. • Hyundai offering a lower gas price guarantee where customers could lock into a very desirable price. • Suzuki's free gas for summer program. • Southwest Airline's "Bags Fly Free" campaign where they point out that, unlike competitors, there is no charge for checked baggage on their flights.
DEMAND SHIFTERS Impact of expectations of future prices	Demand is a function of consumers' expectations of future prices. If consumers expect prices to increase in the future, they may increase their demand for a product now, before prices change.	Firms can create an expectation in the minds of consumers by offering short term promotions. By doing so, consumers are aware that the price today is different than the price tomorrow.	• Internet retailers offering a discount or free shipping good for only a single day in order to compel consumers to act quickly (e.g. "for a limited time only").
DEMAND SHIFTERS Impact of preferences and number of buyers	If consumers have stronger preferences for a good than before or if there are more consumers of a good than before (holding price constant), demand will increase.	Firms have an incentive to find ways to influence the preferences of their consumers so that they want to consume more of a good than before. Firms also want to increase demand by finding new demanders for the product.	• Clorox promoting new uses for bleach such as disinfecting toys and extending the life of flowers (whereas Clorox had previously been promoted for use with laundry). This approach is intended to get current consumers of bleach to buy more than before and to capture new consumers who did not respond to the idea of using bleach as a laundry additive.

Table 3 – Summary of Other Recession-specific Marketing Strategies/Advertisements			
Economic Concept	*Explanation*	*Marketing Strategy Used*	*Relevant Examples*
PRICE DISCRIMINATION	Price discrimination strategies (third degree) allow firms to differentiate between customers who have relatively more elastic demand than those who are relatively less elastic. Customers who have relatively more inelastic demand are charged higher prices for the same or similar product, where the price differential is not explained by cost of production.	Firms have an incentive to offer a lower-priced product to consumers who are more price-sensitive. But, they do not want to offer the lower price to consumers who are not very price-sensitive. This requires them to sort between consumers. Both Pontiac and Composite Acoustic find a way to offer their product at a lower price to consumers who are more price sensitive.	• Pontiac offering a discount to drivers who were not currently consumers of their product. Owners of Pontiacs are, in theory, relatively more inelastic than drivers of substitute brands. Offering the discount to non-Pontiac owners allowed the company to target those individuals who were relatively more price sensitive. • Composite Acoustic guitars releasing a guitar with matte finish (less costly to produce) so it could be offered at a lower price point without compromising quality of the instrument.
PROMOTING BRAND NAME CAPITAL	It is not always easy for consumers to measure the quality of products and firms with successful brand names can charge a premium over brands that are not well known. Successful brand names instill a "trust" in consumers who might select a product with a name they recognize and identify with quality. Establishing brand name "capital" can take an investment on the part of the company, but in return they can generate revenue from higher prices and/or sales volume.	During a recession, consumers may be more price-conscious. Products that charge a premium over more generic choices might fare well when companies remind consumers about the high quality associated with their brand. For services that are contracted over a period of time, consumers may want to know that the service provider "weathers the storm." Increased focus on brand-name and a company's long-term success can offer this security to customers.	• Smucker has always used a tag line focusing on the value of its name ("With a name like Smucker's it has to be good.") While Smucker is more than a producer of jams and jellies, they aired commercials talking about the high quality associated with Smucker's jelly, a product that has not changed much since the late 1800s. • Allstate reminded consumers in their "Back to Basics" ad aired during the Great Recession that they opened in 1931 (which they admit was not an easy time to start a business) and have weathered 12 recessions. With this they capitalize on the company name and its reputation.
UNDERSTANDING SENTIMENT AND THE EFFECTS OF THE RECESSION	As discussed in the paper, the Great Recession was accompanied by increased unemployment, decreasing real incomes/wealth and increased uncertainty about the future. As a result, consumer sentiment dipped and households tightened their spending.	Some firms sent general signals that they understand that times are tough. Firms like Walmart and Allstate aired campaigns that did not focus on products, prices, or customer service. Instead they offered uplifting messages that were empathetic.	• Walmart "Little Things" ad reminding consumers that "the little things go a long way" and "it's not the money you spend, but the time…." • Allstate ad reminding consumers that "meatloaf and Jenga can be more fun that reservations and box seats." • AT&T, in reference to its rollover minutes, acknowledging to consumers that "these days we cannot afford to be wasteful."
USE OF ECONOMIC NOMENCLATURE	During the recession, the state of the economy was on the minds of everyone and was a central theme in magazine, newspapers, and television news reports. As such, consumers were regularly exposed to economics terminology.	Firms incorporated economics terminology in their marketing campaigns and tied into current events related to the recession.	• Digiorno pizza introducing "Digiornomics"—the idea that buying their pizza is cheaper than delivery. • Wendy's "3conomics" campaign promoting three new sandwiches for under a dollar. • Danon yogurt's use of "Danonomics." • Domino Pizza's CEO offering customers a "big taste bailout" and suggesting that "I'm not here to get one; I'm here to give one!" (play on the government bailouts)