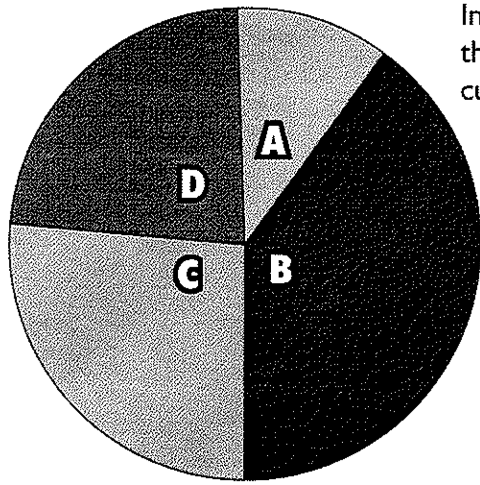
# advertising in an economic downturn

**PIMS:**
**PROFIT IMPACT OF MARKETING STUDY**
*Started by GE in the 1960's and taken over by Harvard Business School in the 70's.*

According to a 1998 PIMS Study:

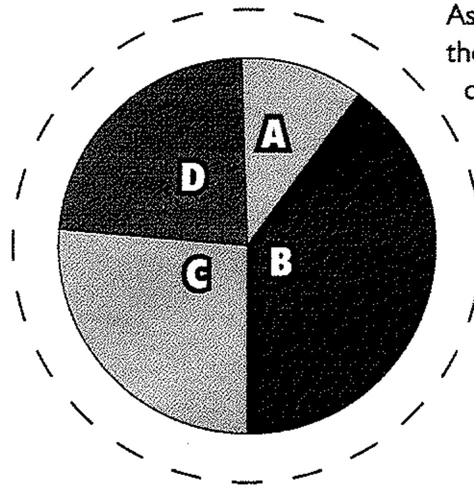
- Businesses that increased their marketing expenditures in the last recession achieved an average return on capital employed of 43%
- Businesses that maintained their marketing expenditures in the last recession achieved an average return on capital employed of 0.6%
- Businesses that decreased their marketing expenditures in the last recession achieved an average return on capital employed of -0.8%

## MARKET SHARE OF FOUR BUSINESSES DURING "NORMAL" TIMES



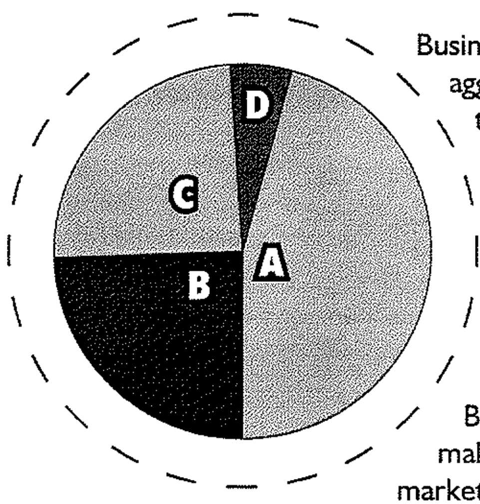

In a robust market there are enough customers for all four businesses in the market.

## HERE ARE THE SAME BUSINESSES AFTER AN ECONOMIC DOWNTURN




As the market contracts, the pool of customers decreases. Each of the four businesses experience decreased cash flow.

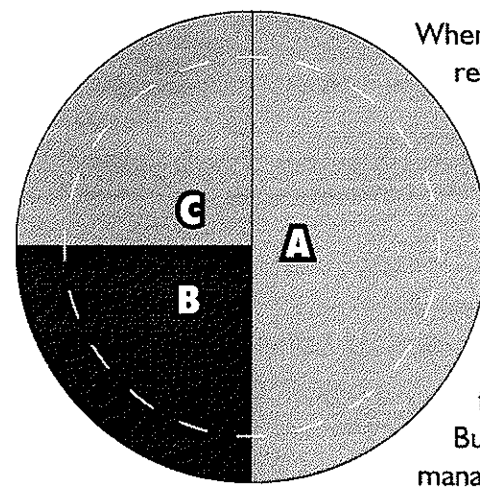
## EFFECT OF ADVERTISING CHOICES




Business A chooses to aggressively advertise to attract a larger market share. Business D chooses to make across-the-board-cuts, including advertising, losing market share. Businesses B & C make no changes in their marketing.

Business A's expanded share provides the cash necessary to return profitability to pre-recession levels. Businesses B & C continue to struggle but manage to survive. Business D continues to lose share and to lose money.

## THE ECONOMIC REVIVAL




When the economy revives, each business retains its market share.

Business A emerges from the downturn with a larger market share and in a stronger financial position. Businesses B & C managed to survive, but have lost share to Business A. Business D became a "victim" of the recession and was forced into bankruptcy by lack of customers.