

Wissenschaftliche Hochschule für Unternehmensführung (WHU)
Otto-Beisheim-Hochschule

Antecedents of Marketing Performance in Recession

Dissertation zur Erlangung des akademischen Grades Doctor Rerum Politicarum
(Dr. rer. pol.) an der Wissenschaftlichen Hochschule für Unternehmensführung
(WHU)

vorgelegt

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Wintersemester 2006

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Datum: 25. November, 2006

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Preface

Recessions present immense challenges to managers, and to none more than those engaged in marketing. When sales decline, inventories rise and capacity utilization sinks, marketing budgets tend to be cut; yet, marketing as the sales-generating function is under more pressure to perform during a downturn.

This thesis explores what happens to the market environment, the firm, its marketing strategy and the marketing mix in recession. The largely anecdotal literature is subjected to an empirical test using descriptive statistics to yield a number of stylized facts. On the basis of the collected primary data, we re-test a causal model of “Proactive Marketing”. We confirm the antecedent constructs from which “Proactive Marketing” springs and show its positive relationship with market performance during, and business performance after recession. Finally, we increase the predictive power of the model by including formative marketing mix constructs that show the importance of product and promotion policy.

This thesis was submitted to the Wissenschaftliche Hochschule für Unternehmensführung (WHU) in Koblenz as a doctoral dissertation in the winter semester of 2006. I would like to thank Prof. Dr. Manfred Krafft for his continued academic and personal support. My gratitude also goes to Prof. Dr. Holger Ernst for being an exemplary second corrector. Furthermore, special thanks is due to Dr. Kerstin Lehmann of OC&C Strategy Consultants, who kindly provided the contacts database for primary research, and Dr. Stefan Glänzer, who provided both financial support and excellent entrepreneurial distractions.

Finally, the work presented on the following pages would not have been possible without the continued love and support of my family. My parents, Otto and Sylvia Niederhofer, have provided me with an exceptional education, supporting me financially and emotionally throughout the past eight years and it is to them that this dissertation is dedicated. My brother Ferdinand helped me take my mind off work when I needed to, while my sister ran our model home in London. I am very grateful to all of you.

Max Niederhofer

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Chapter 1: Introduction

1.1 Problem Exposition and Research Objectives

The relationship between the marketing function and a firm's performance is marketing science's most fundamental problem (see Shipp/Lamb, 1996). It encompasses much of the work conducted within marketing science. In a sense, all research efforts in marketing endeavour, at least implicitly, to advance knowledge about this problem. How high should investments in marketing be? Which allocation of the marketing budget is most efficient in terms of performance? Which marketing activity is most profitable?

The breadth of the problem also engenders complexity. For instance, decisions about marketing strategy and its implementation through marketing mix instruments can ultimately explain sales only in relation to environmental factors, such as, for example, consumer, competitor and retailer behaviour. Sales, then, only partially explain business performance, mitigated by factors such as the financial position of the firm as a whole. Marketing strategy and the use of marketing mix instruments in turn depend on meta-decisions about the organization of marketing, for example, sales force control systems (see Krafft, 1999). Specifying a true model of all the variables, dependencies and co-dependencies within the marketing-performance relationship and specifying it in a parsimonious fashion would mean attaining the ultimate goal of marketing science: an integrated theory of marketing.

The objective of the work presented in this Thesis is explore the marketing-performance relationship in the presence of an economic recession. As such, it aims to be a (very small) step along that path. However, our interest is not strictly academic. Or, better, the relevance of the problem for marketing practice is what makes it truly significant for marketing science. Marketing has long been a "pull" discipline. For marketing practitioners, advancement in knowledge about the marketing-performance relationship can "help professionalize the profession", meaning to further the practice's trend away from an intuitive, heuristics-based "art" of decision-making towards a more rational, metrics-oriented approach. Such an approach needs scientific results. Making marketing measurable - in essence, giving marketing managers the arguments necessary for marketing budgets to be treated as an in-

vestment, rather than an expense – is perhaps the greatest practical challenge for marketing science (see MSI research priorities, 2002–2004).

Examining the relationship between marketing strategy and firm performance ultimately depends on a researcher's philosophical standpoint as to the relevance of the environment in the relationship. Mirroring developments in epistemological philosophy, we find what could be construed as positivist, relativist and realist positions. "Positivists" hold that there exist laws of strategy that are universally applicable, that thus transcend environments and hold true in all settings. An example would be the implications derived from the law of cumulative experience, developed by the Boston Consulting Group, a strategy consultancy. The "relativist" position, in contrast, is that the success of strategy is situation-specific, wholly determined by the time and space setting of environmental variables and thus so inextricably linked with the environment that any abstraction from said environment would result in misrepresentation. This view is well-illustrated by the plethora of case research that has become the basis of teaching business administration. Teaching cases assumes that any decision or combination of decisions that make a strategy can only be analyzed, judged and understood within its own context. The two diametrically opposed "positivist" and "relativist" positions are reconciled by a third which might be called, perhaps too optimistically, the "realist" view. It holds that the relationship between strategy and firm performance is indeed mitigated by environmental variables, but that it is possible to simplify the complexity of any given environment by extricating the "important" variables. This third view, frequently called the "contingency" approach, provides a basis for some recent research into marketing strategy (see Hambrick/Lei, 1985).

Suffice it to say that the "contingency" view only superficially consolidates the two extreme positions. It is a compromise between two unwilling parties. Most importantly, it is unspecified – and, in the opinion of the author, irresolvably so – whether the *identification* of environmental variables that strategy and performance are "contingent" on are themselves universally applicable or situation-specific. Most research seems to ignore the question, drawing either on extant findings that have identified the relevant environmental variables (second-degree "positivist" view) or by determining themselves through some method which factors are important in that specific situation (second degree "relativist" view). The few researchers that at least implicitly

address the problem seem to want to skirt it by again taking a “realist” position, i.e. that the selection of environmental factors is in some way contingent on other factors present at the time. Needless to say, this philosophical merry-go-round goes on *ad absurdum*.

Researching the antecedents of marketing performance in recession asks all these questions and more. It is at the heart of marketing science, in that it endeavours to find a relationship between marketing activity and marketing performance (subsuming both market performance, as in sales or market share, and business performance, as in cash flow or relative return on investment). It is also faced with the dilemma of research into marketing strategy, as it specifies a determinant (“recession”) with influence on an array of environmental variables relevant to marketing (for example, consumer, competitor and retailer behaviour). Indeed, taking a clear view on the significance of the environment is crucial to our work. In a sense, however, that view is pre-empted by the object of study. Were we to assume that universally-applicable strategies exist, the presence of recession would be irrelevant for the implementation of a correct strategy. If we believed that performance was situation-specific, no lessons from past recessions could be drawn for the future and normative research would be futile. Researching marketing in recession thus implies believing that a recession is a significantly distinct environment that recurs. We are thus, in reference to the debate around environmental contingency above, taking a “realist-positivist” position. We believe that the relationship between marketing and performance during a recession is contingent mainly on the influence of the marketing environment – consumer, competitor and retailer behaviour – that is in turn determined by the recession. We do not mean that universal strategies (if they exist) will not work during recession or that the antecedents we identify will work during recession if other environmental factors are present. It does mean, however, that we believe that the recession-induced changes in the environment are the most important during a recession. We also believe that recessions as phenomena are recurring, pervasive, persistent and sufficiently similar to other phenomena, e.g. stagnation limited to a product-market or an industry, to warrant a positivist view of the ‘marketing environment during recession’. We thus think that our research is applicable at least somewhat universally, i.e. across several recessions and several countries.

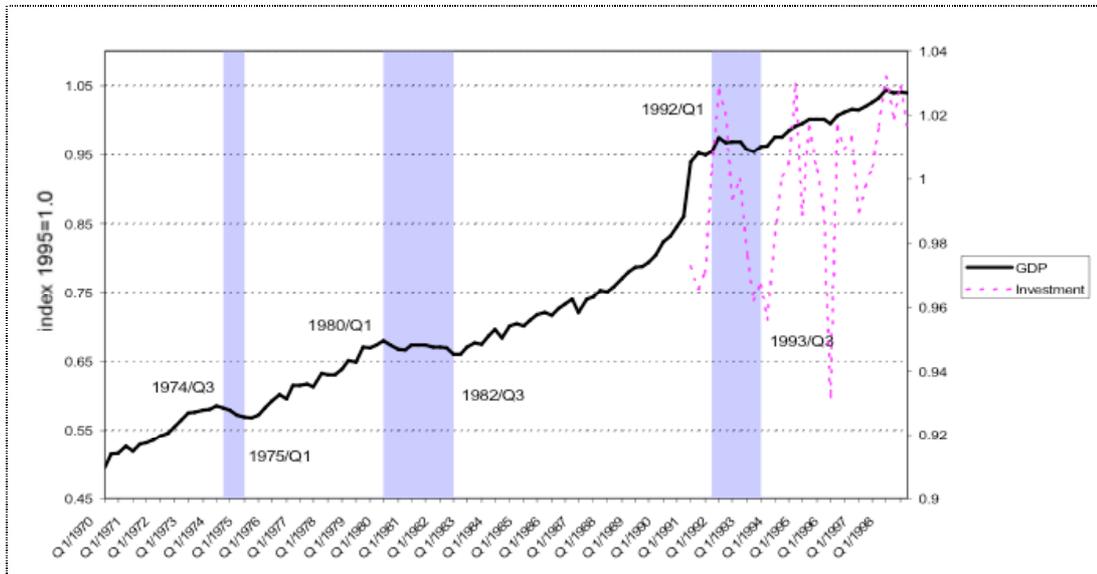
The work presented within the frame of this Thesis is also a subset of ongoing research efforts into the relationship between marketing and performance. It examines the effects of a specific environmental determinant – recession – on the marketing environment, the firm and the individual marketing manager, marketing strategy and the use of marketing mix instruments, and how these changes affect market and business performance. There are two primary motivations for such research: its timeliness and relevance to marketing practice and the paucity of past research both in scope, scale and quality.

The research conducted for this Thesis is timely insofar as most major economies experienced recession during 2001–2003. Early in 2002, the MSI in cooperation with the American Association of Advertising Agencies called for research proposals:

Businesses currently face tremendous economic challenges and uncertainties. For the first time in many years, an economic recession is confronting the U.S. as well as the rest of the world. This has led to calls for information on what works in a recession. ... At least in the U.S., many managers have had little experience in such situations.” (MSI, 2002)

The German economy, like all of its European peers except the United Kingdom, was in recession during much of 2003, the first economic downturn since the early 1990s and only the fourth since the end of the Second World War. Figure 1.1 serves to illustrate recessions in the German economy (shaded areas). This infrequency of recession compared with the United States, which has suffered 11 recessions since the end of the Second World War, implies that European marketing managers have even less experience of marketing in recession than their US counterparts (see MSI, 2002; Zarnowitz, 1992) .

Figure 1.1 The German Economy 1970–1998



Source: Illustration from CEPR, 2003; with permission

Extant research suggests that recessions severely affect an economy’s sectors, its industries and individual firm performance (see Domowitz et al., 1988; Gabisch/Lorenz, 1987; Zarnowitz, 1985; Mizruchi/Stearns, 1988; Yang, 1964). For an individual firm, a series of stylized facts helps illustrate the relevance of recession to marketing practice. In general, the impact of a recession should vary according to how it affects a given firm’s relevant product–markets and how vulnerable this firm is to recessionary pressures (see Niederhofer, 2002). Whether a recession affects a firm’s sales depends on the consumers’ trade–off between needing a firm’s product in recession and needing to decrease expenditures in recession (see Rohlmann, 1977; Meffert, 1994). A firm’s vulnerability to recessionary pressures depends on its debt/asset ratio, its liabilities/cash ratio, its size and its speed of growth prior to recession (see Geroski/Gregg, 1996).

Assuming a given firm’s product–market is affected by recession and market share is constant, sales decline. However, a decline in sales results not only in lower revenues, but potentially higher unit costs because of lower capacity utilization, higher inven–

tories or higher purchase prices because of a lower ordering quantity. Higher unit costs result in lower margins, further decreasing cash flow (see Uphues, 1979). This “double” effect of declining sales can only be alleviated by capturing market share from rivals or by decreasing costs. The pressure on marketing as the revenue-generating function to “do something” that boosts sales will therefore increase in recession (see Wilkening, 1994; Meffert et al., 1993).

Additionally assuming that the firm is more or less vulnerable to recession, financial pressures may dictate cost-cutting. Marketing budgets are a prime target of any such activity, because they are relatively easy to cut, as most represent third party contracts (see Tomczak/Belz, 1993). With less budget to spend, a recession increases the pressure on marketing managers to not only “do something”, but to do the right thing with fewer resources (see Niederhofer, 2002).

While marketing in recession construed as these stylized facts presents significant challenges for the marketing manager, anecdotal evidence suggests that some firms see the recession as an opportunity, marketing aggressively and outperforming their weaker rivals both during and after the downturn (see Dobbs et al., 2002a; Dobbs, et al. 2002b; Rigby 2001; Srinivasan et al., 2002). Some findings, outside academia and primarily backed by advertising agencies, suggest that investing in marketing during the recession will benefit the firm during and after the crisis (see American Business Press, 2002; Dobbs et al., 2002a; Dobbs et al., 2002b; Hillier/Baxter, 2001; McGraw-Hill Research, 2002; Ryan, 2001; Strategic Planning Institute, 2002). If the change in the environment that is the recession can pose both significant risks and be an opportunity, the question of how to market *correctly* in recession becomes highly relevant for marketing managers.

Unfortunately, although the topic is timely and relevant, academic research in the area is limited, weak and presents contradictory findings. The three leading marketing journals (*Journal of Marketing*, *Marketing Science* and *Journal of Marketing Research*) yield only three articles (Coulson, 1979; Cundiff, 1975; Yang, 1964), one of which is a call for research and all of which are significantly outdated (see Srinivasan et al., 2002). Much of the research is conceptual and based largely on anecdotal evidence (see, e.g., Hoon Ang et al., 2000; Rigby, 2001). Especially the area of investing during recession yields equivocal insights (see, e.g., Venktra-

man/Prescott, 1990; Sadhu et al., 1990; Wagner, 1984). Many extant research efforts can be criticized methodologically (see, e.g., Rohlmann, 1977) and most of the research conducted has been insular, not attempting any cumulative gathering of knowledge but repeating similar studies and reporting differing conclusions (see, e.g., Meffert/Mueller, 1993). Extant research has never been structured and comprehensively reviewed before any new research was conducted (see, e.g., Fritz, 1993).

The state of extant research shows that it is not only unclear what marketing strategies and use of the marketing mix instruments work in recession, but that there is uncertainty to what actually happens in the marketing environment and to the firm during recession and how the firm reacts. In summary, we can thus formulate three major research objectives that are the basis of the work conducted for this Thesis:

Identification, review, classification and structuring of literature on marketing in recession to provide the basis for an exploratory-cumulative approach to researching marketing in recession

Formulation of a description of what happens in the marketing environment and to the firm in recession and how the firm's marketing reacts. For this purpose, we have conducted a large-scale structured survey of marketing managers in German consumer goods companies.

Specification and estimation of a model that incorporates organizational, strategic and operational antecedents of marketing performance in recession. This includes a full operationalization of the marketing mix as predictors of market and business performance during and after recession.

On the basis of our findings, we derive implications for both marketing science and marketing practice. For research into marketing in recession, we aim to be the first work that conclusively structures the literature conducted to date and establishes a new status-quo of what actually happens in recession based on primary data. The causal model seeks to be the first work conducted on the cumulative findings from the literature review and the new description of recession. Our work is highly relevant for marketing practitioners, as recessions present them with significant

problems. At the same time, the conclusions derived from both the status-quo and the causal model should allow for a better prediction of what will happen and what will work in the next recession and thus reduce state, effect and response uncertainties for marketing managers (see Milliken, 1987).

1.2 Structure and Methodology

The table below gives an overview of the structure of this Thesis. The phenomenon of recession is discussed in Chapter 2. We define recession (2.1) and give an overview of the economics behind recessions and competing business cycle theories explaining the causes of recession (2.2). We then examine the empirical manifestations of recession in the U.S., Europe and Germany (2.3). Finally, we discuss recession as a problem for management science in general (2.4) and marketing science in particular (2.5).

In Chapter 3, extant research on marketing in recession is structured on the basis of a comprehensive framework. The market environment in recession (3.1) reviews literature on changes in consumer, competitor and retailer behaviour during an economic downturn. We then examine extant work exploring the effect of recession on the firm, the marketing function and the marketing manager (3.2). Finally, work relating to the performance effects of marketing strategy (3.3) and the marketing mix (3.4) in recession is reviewed, classified and structured within the framework. From these reviews, we generate a set of propositions that are presented in their entirety in sub-chapter 3.5.

In Chapter 4, we present the descriptive findings from primary research into marketing in recession, which also serves as a first test of the generated propositions. We introduce the survey sample and methods and instruments of our research in 4.1. We then present our results regarding the market environment in recession (4.2), the effect of recession on the firm, the marketing function and the marketing manager (4.3), as well as the adopted marketing strategy (4.4) and different uses of the marketing mix (4.5) during recession. We summarize our findings by integrating the results from the different areas as a conclusion to the chapter (4.6).

In Chapter 5, we introduce a causal model of the antecedents of marketing performance in recession. We discuss the methodology (5.1), including construct operationalization and the estimation method of latent variable path modelling, and present the specified model in its entirety (5.2). Model results are presented, alongside validity and reliability criteria (5.3), before the results are discussed (5.4) and primary conclusions derived (5.5).

In Chapter 6 serves to conclude the Thesis by deducting implications for marketing science, inducting implications for marketing practice and suggesting paths for future research into marketing in recession.

Table 1.1 Thesis Structure

Chapter 1	Introduction	
Chapter 2	The Phenomenon of Recession	<i>What is recession? What do recessions look like? How are they measured? How do they affect the firm and its marketing?</i>
Chapter 3	Review of Extant Research on Marketing in Recession	<i>What has been published on marketing in recession? Is there a framework for organizing the literature? What are the seminal works?</i>
Chapter 4	Methodology and Descriptive Results	<i>A large scale empirical study of marketing in recession from the perspective of the marketing manager</i>
Chapter 5	Antecedents of Marketing Performance in Recession	<i>An integrated causal model on possible antecedents of marketing performance in recession</i>
Chapter 6	Summary and Conclusion	

Source: own

A short note on methodology is in order. Firstly, we use the AMA definition of marketing as “the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges which satisfy individual and organizational objectives” (AMA, 2004). This includes marketing strategy, as well as the marketing mix, and is thus deemed to be suitable for the purposes of this Thesis. Secondly, we face a not uncommon obstacle in marketing science research: little work has been conducted to date, the work that has been conducted is inconclusive and contradictory, and no theory exists that would allow us to specify hypotheses in one theoretical framework that could then be conclusively tested. We

are thus presented with the conundrum of either rejecting the methodologically poor extant research and starting anew with a blank slate or accepting the deficiencies that have given rise to the findings proposed by other authors and adopting a critical, but cumulative approach. We believe that for the purposes of rectifying the situation that research into marketing in recession is in, namely the insular nature of past research, it is beneficial to draw on extant results while accepting that falsification is quite as likely as validation. The propositions we derive from extant results are thus not hypotheses. They should largely be construed as ad-hoc formulations on the basis of past observations, with little theory behind them. The work that tests them could thus be viewed as empirical-inductive in the sense of Carnap (1953) or, more derogatory, as “theory-less” (see Brown/Eisenhardt, 1995). However, some propositions do have potential theoretical backing and this will be mentioned when they are generated.

Chapter 2: The Phenomenon of Recession

This chapter has several objectives. The first is to define recession. The second is to review the current state-of-the-art research into what explains recessions, mainly business cycle theory. The third objective is to present observations of manifestations of recession over time in an integrated fashion, deriving stylized facts. The fourth objective is to operationalize the definition of recession, using the stylized facts from observation. This fourth objective also has obvious implications for the empirical work presented later in this Thesis. The fifth and final objective is to introduce the theoretical approaches that serve as an underlying bridge between the research into recession, which is primarily situated in economics, and the research on marketing management, which is a field of management science, so as to arrive at a foundation for the literature reviews presented in Chapter 3.

The structure of Chapter 2 closely follows these objectives. In Section 2.1, we will derive a definition of recession from a literature review of economics texts. Section 2.2 presents business cycle theory. Section 2.3 serves to integrate the observations of recession, culminating in a set of stylized facts that mirrors the definition. In Section 2.4, recession metrics, measurement and related problems of operationalization are discussed. Theory that may link recession, the firm and marketing management, are presented in Section 2.5, providing the basis for Chapter 3.

2.1 Definition

We devote some space in this Chapter to defining *recession*. The reasons for such a conscious approach to a definition are methodological as well as practical. From a methodological perspective, the choice of *definiens* has a range of implications for our research into the *definiendum*, not least in that, assuming all other elements to be well-defined (which they are), it ultimately determines its scope. Furthermore, since our ultimate research objective is empirical in nature, the definition of one of the objects of inquiry also has implications for *operationalization*. From a practical perspective, we face the disparity between the popularized meaning of recession and its scientific meaning. Moreover, within economics itself there are a multitude of dis-

similar definitions. As notes Zarnowitz (1992, p. 7): “It may be easy to recognize some manifestations of a business cycle, particularly the more extreme ones, but the history of events suggests that it is anything but easy to define what a business cycle actually *is*.”

Some remarks on the methodology of arriving at a definition are in order. We assume that the premises of a valid definition are that it be explicit, that *definiens* and *definiendum* be exchangeable, that the *definiens* be exhaustive and furthermore separate from the *definiendum*, and that the terms in the *definiens* be clear, thus themselves possessing some, preferably widely accepted, *definiens*. We reject partial and recursive definitions, except where necessary due to the state of research or acceptable due to the clear specification of the conditions of recursiveness, respectively. We postulate that, within a range of positive meanings and while rejecting the relativism of the statement’s absolute meaning, definitions are neither true nor false, but suitable or unsuitable for a given purpose (Wikipedia, 2004).

As in mathematical iteration, the starting point of proceeding towards a definition can be critical. Were we to depart from, say, the most cited operationalization of two quarters of negative year-on-year growth of gross domestic product, the outcome might be considerably different than if we set out historically. Zarnowitz (1992, p. 6), for example, comments on the changing historical meaning of recession: “[A]n old term for the good times was *prosperity*, an old term for the bad times was *depression*. The transition from the former to the latter was called a *crisis* (and occasionally a *recession*, but this designation came to be reserved for a mildly depressed period and is so applied presently).” This quote is useful not only in that it conveys the historically changing *meaning* of the term recession, but also in that it notes the transitory *nature* of the concept as such: recession is not a singular, recurring event, but a *phase* within the more encompassing economic phenomena of *business cycles*.

This has two implications for our methodology. First, it is impossible to understand recession without understanding the business cycle. Secondly, it implies that recession will necessarily be a recursive definition, because it is a phase of the cycle. Thus, it has to allude to the more encompassing concept. While we could describe it sufficiently as a separate entity, this would elevate symptomatic stylized facts about recession above the actual nature of the framework into which these stylized facts

are embedded. From a practical perspective, most literature in economics also deals with recession as a discrete part of the more encompassing concept of the business cycle. It is thus this literature which we will review with the aim of arriving at a definition of both the business cycle and recession.

We structure this section as follows. Section 2.1.1 presents work on the origin of the business cycle. Section 2.1.2 then sets out to follow the popular definitions of the cycle over time. Finally, Section 2.1.3 presents the current problems in economics in defining the cycle and arrives at a preliminary research consensus that will provide the basic definition of the business cycle, and thus recession, for this Thesis.

2.1.1 The Origin of Business Cycles

It is unclear when business cycles originated, the documented history being at least two hundred years old. A number of sources frequently point to the writings of the earliest “economists”, who were clearly aware if not of a persistent business cycle, then at least of some of the possible reasons of economic crisis and financial instability (see Zarnowitz, 1992a; Arnold, 2002).

Many current overviews of business cycles theory begin with the following citation by Lord Overstone (formerly, a banker named Samuel Lloyd). It is, most believe, the earliest reference of the concept of a pervasive and persistent cycle in economics:

“The history of what we are in the habit of calling the ‘state of trade’ is... subject to various conditions which are periodically returning: it revolves apparently in an established cycle. First we find it in a state of quiescence, – next improvement, – growing confidence, – prosperity, – excitement, – overtrading, – convulsion, – pressure, – stagnation, – distress, – ending again in quiescence.” (Overstone, 1857, p. 44)

Whilst Overstone seems the first to realize the wave-nature of business activities, he was by no means the earliest commentator on economic crisis and recession as such. For instance, Adam Smith, in *The Wealth of Nations*, writes that “[W]hen the profits of trade happen to be greater than ordinary, overtrading becomes a general error both among great and small dealers” (Smith, 1776, p. 406). Alfred and Mary Marshall

seem to allude to Pigou (1929) and Keynes (1936) in their blame of inconfidence for economic downturns:

“But though men have the power to purchase they may not choose to use it. For when confidence has been shaken by failures, capital cannot be got to start new companies or extend old ones... In short there is little occupation in any of the trades which make Fixed capital... Other trades, finding a poor market for their goods, produce less; they earn less, and therefore they buy less... Thus commercial disorganization spreads... The chief cause of the evil is a want of confidence.” (Marshall/Marshall, 1881, pp. 154–155).

Zarnowitz notes approvingly of these quotations, that there “is much in these and other early theories of crises and cycles that deserves to be rediscovered and reconsidered today” (Zarnowitz, 1992a, p. 4). However, while citations provide an ample illustration of the fact that business cycles must have existed in the 18th and 19th centuries, there are diverging views on when business cycles started to first appear.

The current research consensus is that the cycle is a phenomenon of the modern, industrialized economy (see Zarnowitz, 1992a). In one of the earliest time-series analysis into business cycles, Juglar (1889) studied monetary statistics for France, England and the United States in his *Crises Commercial et Leur Retour Periodique*. His result was that business cycles recur in industrialized economies and in these economies only, a view that was propagated in much of the ensuing research (see Zarnowitz, 1992a). The era of modern statistical research into economic cycles is generally thought to begin with the establishment of the United States’ National Bureau of Economic Research (NBER) in 1920 (see Fabricant, 1984, <http://www.nber.org/nberhistory/sfabricantrev.pdf>). Its reference chronologies dated cycles (from peak to trough) beginning in 1792 for Great Britain, 1834 for the United States, 1840 for France and 1866 for Germany. These studies echoed, and expanded, the view of Juglar that exogenous shocks, or unpredictable disturbances like weather and harvests or war and civil strife were the main causes of economic disruption in the pre-industrialized eras, while endogenous cyclicity deriving from the fluctuations of investment into “fixed capital”, such as plants, machinery and equipment are the basis of business cycles in modernity (see Zarnowitz, 1992a).

However, other authors differ. Schumpeter says that the cycle “goes as far back as the element of credit creation... there must have been also prosperities and depressions of the cyclical type” (1939, vol. 1, ch. 6B). Furthermore, there are reviews, somewhat limited due to the availability of data, that provide insight into commercial crises from 1720 to 1800 (see Mirowski, 1985; Bouniatian, 1908; Ashton, 1959; Deane, 1967; Moore/Zarnowitz, 1986). The most extreme, but arguably very interesting view is that cyclicality is inherent in human nature. Robertson (1937, p. 171) remarks that in “industrial fluctuations we are up against a problem very deep-seated in the nature of capitalist industry – perhaps of all modern industry – perhaps of man itself.”

Certainly, the question of the origin of business cycles, as illustrated by the Robertson citation, is rather dependent both on the definition of what a business cycle *is* and the *theory* with which one explains business cycles (see 2.2). Not surprisingly, both *theory* and *definition* are themselves interdependent (see 2.1.3). However, be it the Schumpeterian credit creation or Robertson’s belief in the cyclicality of man’s industrial activities per se, we think it indubitable that some correlation between economic activities can always be found, be it in stone age communities, Mesopotamia or medieval Europe. However, it is the breadth and depth of interdependencies which make signals reverberate more strongly in any system (for example, the bull-whip effect: see Forrester, 1961) and we thus believe that the cycle as it can be described by stylized facts today (see 2.1.3), though constantly changing (see 2.2), is probably a phenomenon of industrialization and globalization. The origin of business cycles would thus be concurrent with the rise of an industrialized and internationally trading economy.

2.1.2 The Popular Definition of Business Cycles

The business cycle is an empirical phenomenon, observed before hypothesized, experienced before tested. A plethora of historical documents characterizing business climate thus point to the intuitive understanding of cycles and recessions. Indeed, one of the first projects of the newly created NBER was the compilation of business

annals comprised of materials (public reports, memoranda, accounts statements) that recorded qualitative changes in the general economic climate (see Thorp, 1926). It was these annals, combined with quantitative time series data, that allowed the NBER to infer peaks and troughs of economic activity (see Zarnowitz, 1992a). Mitchell (1927) exhibits the generally good agreement between qualitative and quantitative data, letting Zarnowitz to note: "That many contemporaries were able to diagnose business conditions rather well in the face of great limitations to public data on the economy is... remarkable... and a testimony to the persistence and pervasiveness of business cycles" (Zarnowitz, 1992a, p. 7).

The same realization has led the newspaper *The Economist* to pursue an interesting endeavour over the past decades. Having seen that the leading, coincident and lagging indicators used in business cycle forecasting often yield unsatisfactory results, *The Economist* counts the frequency of the word "recession" used in major newspapers to garner information about an impending downturn. The method is judged by *The Economist* as a successful predictor relative to the official NBER dates. It stands as another piece of evidence for the intuitive popular diagnosis of business cycles.

That said, there is a major impediment of deriving a satisfactory definition from the popular meaning of the cycle: Business cycles vary in relevance to the individual. This means that, firstly, what is described as a "recession" or a "downturn" is often nothing but market stagnation or an uncharacteristically strong seasonal downturn limited to one industry but described by a term felt to be more apt to the arguably dramatic, but very subjective position of an individual. Secondly, recognition does not breed comprehension and therefore limits description. That an individual realizes that the industry is in recession does not mean that he can also identify why or define what recession is. The popular meaning of business cycles is thus heavily tainted with the subjective position of the individual. Recession, for some, means that it is "hard to find work", for others that "asset prices are declining", for still others that "market demand has slowed". Not least, business cycles are then retrospectively explained by the first noted changes, like bad weather, terrorist attacks, stock market declines or similar events. "The concentration on isolated episodes and outside shocks precludes definition of the entire fluctuation or cycle as an economic phenomenon and analytical target" (Zarnowitz 1992, p. 7). The popular meaning of business cycles are thus only partially useful to the researcher.

There is, however, a separate interesting development on how to operationalize the cycle. Having noted the disparity of views within economics, the encompassing definitions of the cycle and the cumbersome methods of peak and trough dating as proposed by the NBER, the financial analysis industry has developed its own coincident indicator to mark a downturn: “at least two consecutive quarters of declining GDP” (Economist, 2002), or gross domestic product, measured in year-on-year growth rates. This operationalization is theoretically deficient and prone to high inaccuracy, as released GDP data is subject to multiple revisions over the course of several months (see Zarnowitz, 1992). However, besides the instant gratification of a binary true/false measure, the metric has been uncannily correct for dating over the past fifty years relative to the official dates published by NBER. Few recessions within the large, developed economies, including the United States, Japan, Germany, the United Kingdom, France and Italy, would have been falsely announced on the basis of this measure. Whether this success of pragmatism in econometrics will spill over to the science of economics remains to be seen. It is, however, a useful indication towards possible operationalization for our own research.

2.1.3 The Economists’ Definition of Business Cycle

While the popular, intuitive understanding of business cycles underlines discrete, diverse disturbances, these fail to capture the nature of business cycles as recurring economic phenomena (Zarnowitz, 1992a). Economic theory is interested in *the* business cycle, an empirical generalization with constant characteristics over time. Unfortunately, just as intuitive understanding over-emphasizes the discrete nature of the cycle, so economists’ definitions have sometimes tended to stress uniformity over empirical fit. As Zarnowitz (1992, p. 7) notes: “In some cases, the theory appears to rule the definition.”

Zarnowitz’ examples include Cassel, who noted that a “period of boom is one of special increases in the production of fixed capital; a period of decline or a depression is one in which this production falls below the point it had previously reached... This means that the alternation between periods of boom and slump is fundamentally a

variation in the production of fixed capital, but has no direct connection with the rest of production” (Cassel, 1932, pp. 550–552). However, this is little but definition by theory, as Cassel evidently believed that changes in cost and value of capital are the causes of cyclicity. Another example is Hawtrey: “The trade cycle is above all a periodical fluctuation in manufacturing activity and in the price level, the two fluctuating together” (Hawtrey, 1927, p. 471). Here, it is clear that the gold-standard era’s prevailing theory of co-movements in credit, inventory and prices are the basis of definition (see Zarnowitz, 1992).

An empirically motivated historical definition that attempts to incorporate *stylized facts* about business cycles as a phenomenon comes from Mitchell (1927, p. 486; restated in Mitchell/Burns, 1946, p. 3), one of the earliest researchers at the NBER:

“Business cycles are a type of fluctuation found in the aggregate economic activity of nations that organize their work mainly in business enterprises: a cycle consists of expansions occurring at about the same time in many economic activities, followed by similarly general recessions, contractions, and revivals which merge into the expansion phase of the next cycle; this sequence of changes is recurrent but not periodic; in duration business cycles vary from more than one year to ten or twelve years: they are not divisible into shorter cycles of similar character with amplitudes approximating their own.”

It is an informative definition in that it abstracts from the necessarily theory-driven *causes* of the cycle and emphasizes empirical generalizations. It contains the synchronism of many variables, leaving open what “aggregate economic activity” may mean. It allows for leads and lags, denies periodicity but stresses recurrence and is highly encompassing in permitting for shorter and longer cycles while denying atomization of the cycle. It thus reduces the cycle to its very essence. Operationally, it denies reductability to any single economic aggregate (see Moore/Zarnowitz, 1986). Finally, it is the emphasis on persistence (numerous indicators show high positive serial correlations) and pervasiveness (diffusion, or time series representing many different variables show high cyclical conformity or coherence, and are accordingly cross-correlated) that make it useful.

Zarnowitz expands on this definition by developing the main stylized facts of business cycles from a more modern perspective. The main characteristics of business cycles according to Zarnowitz (1992a, p. 62–63) are:

a cycle of downturn (contraction) and upturn (expansion) in aggregate economic activity reflected in total employment, output, real income and expenditures,

pervasiveness in that it consists of co-movements and interactions that fluctuate systematically in regularity, magnitude and timing, creating at least a mild procyclicality among indicators that may be coincident, leading or lagging,

a scope that is at least national, involving most industries and regions of a country, though it may be transmitted internationally through trade & finance,

a timeframe of several years and therefore being sufficiently persistent for intercorrelated movements in indicators,

price procyclicality apart from long-term trends,

disturbances in aggregate demand and/or supply, or an instability arising from the cyclical variation of profits, investment and credit, and

a great variation in their manifestation as documented by the history of the last 200 years.

While economics texts usually focus on the whole phenomenon of the business cycle making use of these or similar stylized facts, public policy institutions are charged with “officially” dating business cycles and thus often have clearly operationalizable definitions. The NBER, cited earlier, uses what it calls a “classic” business cycle definition that is very close to an operationalization in that it lists indicators on the basis of which a recession may be identified:

“A recession is a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale–retail sales” (NBER, 2003, p. 1).

In Europe, the picture is more diverse as there is no official business cycle dating. Interestingly, the European Central Bank is agnostic on the subject of a definition of recession: “We do not have a precise definition of recession...” (ECB, 2001,

<http://www.ecb.int/press/pressconf/2001/html/is011108.en.html>). The closest the Euro-area comes to a recognized business cycle dating committee is the independent economist think-tank Centre for Economic Policy Research (CEPR). Their definition of recession is

“... a prolonged period of declining growth in the cyclical component of GDP... Troughs and peaks are defined as the ending points of expansions and recessions respectively, i.e. as points of minimal or maximal growth.” (CEPR, 2004, <http://www.cepr.org/data/EuroCOIN/recession/>)

The CEPR definition is very different from the NBER definition in that it is based on the cyclical component of GDP. The focus of the CEPR is on a “cyclical component” of GDP, defined in relation to a long-term trend, whereas the NBER regards recessions as absolute phenomena. Specifically, for the NBER recessions are periods of low or negative growth, while for the CEPR they are periods of declining growth. As such, “CEPR recessions” should actually predate “NBER recessions”. While their approach to dating peaks and troughs are thus similar (and their graphs remarkably alike), it is important to make the distinction between absolute and trend-based recessions when comparing their data.

For the purposes of our work, we will thus use the original definition of Mitchell/Burns (1946) as our definition of a business cycle, with the stylized facts from Zarnowitz (1992a) and, because trend-based measurement of recessions is still the exception and little historical data is available, the definition of the NBER for our definition of recession.

2.2 Economics and Competing Business Cycle Theories

Business cycle theory is “almost coextensive with short-term macrodynamics” (Zarnowitz, 1992b, p. 21; also, see Zarnowitz, 1985). It is undoubtedly closely linked with the economic theories of growth, money, inflation, expectations – indeed, it could be argued to encompass these and more. Schumpeter, in the preface to his 1939 classic, argued that “analyzing business cycles means neither more nor less than analyzing the economic process of the capitalist era” (Schumpeter, 1939, p. vii). Thus, the “literature is huge; its level of difficulty is generally high” (Zarnowitz, 1992b, p. 21). We will therefore introduce the subject very briefly and effectively only

to the economics-savvy reader, as another treatment would go beyond the bounds of this Thesis. Reviewing how economics views the cycle serves as a reminder that recession is not some *deus ex machina* or a steady environmental variable. In management science, the link between the firm and its economic environment is a complex, under-researched subject and yet the theoretical and practical benefits from inquiry mirror those that operations research into supply chain management has brought in alleviating the bullwhip effect of upmarket demand variations. Economics has made significant advances into understanding the cycle and though mostly subsuming our subject of interest, the firm, in aggregates, management science could benefit from an attempt at tying into macro-economic theories.

We base our brief review on a classification of theories with different assumptions rather than by attempting a chronologically correct, historical review. A review on the basis of a classification incurs the danger of meddling with facts; the theories reviewed are more inter-dependent and closely linked as it seems and often their origins are closer in date than their fruition and mainstream acceptance. Further, they exist in numerous sub-forms, often combining traits from one and more “families” of theories, making them uncategorizable in our classification scheme. However, reviewing by classification is less prone to error than a historical review, which often borders on “story-telling” and we accept the shortcomings mentioned above as a necessary condition of (imperfect) categorization in a generally wide and much differentiated field.

In classifying business cycle theories, several criteria can be used. Zarnowitz (1992b; 1985), for example, provides a simple synopsis (reproduced later) of largely endogenous and largely exogenous models of the cycle, i.e. where fluctuations in output are explained primarily by variables within the model or by one or more influencing factors outside the model (“shocks”). Another classification could be on the basis of the modelling equations, which are either deterministic or stochastic, or on the basis of the variables (output, investment, savings, expectations, etc.) contained within the model. Categorization could also be attempted by separating which output-influencing factor, supply or demand, dominates the model and how. However, the most obvious and most basic classification of a field that is “coexistent” with macro-dynamics is “schools” of macroeconomic thought, as first suggested by Phelps (1990) and further developed by Arnold (2002).

Arnold (2002) categorizes business cycle theories into the schools of Keynesian economics, monetarism, new classical economics, real business cycle (RBC) theory and new Keynesian economics. This is deemed appropriate because all of these streams of economic thought have significantly different views of the causes of the cycle. All but one (RBC) represent significant theoretical frameworks within macroeconomics. Arnold's (2002) classification also results in less overlap than that of Phelps (1990). Furthermore, the schools can be ordered chronologically in terms of when they became widely accepted, keeping the advantages of the historical review without its drawbacks. Finally, a classification into schools of thought are obvious in that most students of management science will have encountered some of these theories, enabling us to start from a sufficiently high level of sophistication.

Because the individual reviews of the theory are generally short, we refrain from dividing them into subsections. We will review Keynesianism, monetarism, new classical economics, Real Business Cycle (RBC) theory and new Keynesian economics in 2.2.1. Because of the differences (and commonalities) inherent in the theories and often the lack of a true focus on the causes of business cycles, Section 2.2.2 presents a summary of the theories from the perspective of our inquiry. Throughout the review, we ignore the formalization in equations that exist in all modern research in economics to keep within the breadth of this Thesis.

2.2.1 Business Cycle Theory

The first widely accepted theoretical approach to explain business cycles in modernity is *Keynesianism*. Keynesian economic thought has its origin in Keynes' 1936 *General Theory of Employment, Interest and Money* (see Keynes, 1973), which emphasized demand in the determination of aggregate production vis-à-vis the older, "classical" models which obeyed Say's law that supply creates its own demand. Keynesian economics was the predominant school of macroeconomic thought until the 1960s (see Arnold, 2002).

The standard Keynesian model showed that equilibrium aggregate production could fall short of full employment by a lack of aggregate demand. In Keynes' perception, only one of the variables that determined demand (consumption, investment, government expenditure and net exports) is a function of total income, with the other variables assumed to be exogenous. In equilibrium, the sum of the autonomous ex-

penditure components multiplied by the *Keynesian multiplier* ($(1/1-c)$, where c is the rate at which disposable income is consumed) must equal aggregate production. Any shortfall in consumption, investment, government expenditure and/or net exports results in actual production being lower than potential production, and thus causing unemployment.

Samuelson (1939) extended Keynes' model dynamically to explain the business cycle in the *Multiplier Accelerator Model*. This extension was the standard textbook explanation of business cycles well into the 1960s. Samuelson endogenized investment, by modeling it as a constant investment plus a rate of investment v multiplied by the *growth* of the aggregate production of the preceding period plus noise (ϵ). The rationale behind this dependence is either the buildup of excess capacities or the optimism induced by previous growth in income. The interplay of the multiplier c and the investment accelerator v , combined with exogenous shocks through ϵ causes business cycles. For example, when a positive exogenous shock causes investment to rise, total aggregate production starts to grow. At some point, however, growth in total aggregate production begins to slow (the second differential being negative). This decrease in income growth results in a decline of investment *level*, which ultimately leads to aggregate production first peaking and then declining. The lower turning point is achieved in the same fashion, with the cumulative up- and down-swings repeating themselves with declining amplitudes (see Allen, 1968; Arnold, 2002). Metzler (1941) extends this model to take into account not physical but inventory investment, coming to the same results.

Because the Multiplier Accelerator Model is a pure goods model and thus open to criticism, Hicks (1937) developed the well-known IS-LM (investment/savings and liquidity preference/money supply) model for the closed economy. Fleming (1962) and Mundell (1963) further extend this model to incorporate imports and exports. On the goods side, investment depends negatively on the interest rate and net exports depend positively on the real exchange rate. For the money market relationship, the supply of money is exogenous, as fixed by a central bank. Additionally, prices are exogenized, reflecting "price stickiness". The stickiness of prices means that if there is a lack of aggregate demand, there will be unemployment even though investment is interest-rate elastic. There is another important difference between the models of

Hicks and Fleming–Mundell: the issue of the openness of the economy has a direct influence on policy efficacy. In a closed economy, both fiscal and monetary policies are effective, while in an open economy, fiscal policy is less and monetary policy is more effective than in the closed economy.

An extension resulting from Keynes' focus not on the stickiness of prices but on the rigidity of nominal wages is the AS–AD (aggregate supply and aggregate demand) model (see Arnold, 2002). It assumes that goods prices are flexible, while wages are fixed due to discrete, lagged wage setting negotiations. The aggregate supply (AS) function of the model relates the goods produced inversely to a real wage rate, on the basis of firms' objective to "equate the marginal product of labor to the real wage rate: the higher the wage rate, the higher the marginal product of labor, the lower employment" (Arnold, 2002, p. 24). Setting the exogenous nominal wage to the price of the previous year means that the goods produced are now related to the change in prices, or inflation. This results in the so-called "Phillips curve" of policy-making: output and price stability, or unemployment and inflation, are a trade-off for policy-makers.

From the perspective of business cycle research, the main problem with the income expenditure, the Hicks–Fleming–Mundell and the AS–AD models is wage counter-cyclicity. The cycle is caused by shifts in aggregate demand on a "line" of aggregate supply. Prices are thus positively related and wages negatively related to aggregate production. However, empirical results challenge this supposition (see, e.g. Choo/Cooley, 1995 and the sources contained therein).

In contrast to Keynesians, *Monetarism* states that it is the *supply* side that determines the long-term growth of an economy, while output variations are determined by demand side factors (see Solow, 1997). In the main models used to explain business cycles in monetarism (see, e.g. Laidler, 1976), nominal wages are set in the preceding time period with a set real wage objective in the following period (or, in extensions, influenced by the presence of structural unemployment so that workers aim to achieve a target employment level). The output level realized by the wage setting process is called the natural rate of production or natural rate of output. In the model, the expectations about inflation are adaptive such that aggregate production is greater than its natural rate if inflation is higher than previously expected. This is

termed the *accelerationist Phillips curve*, meaning that the unemployment–inflation trade–off holds if the inflation rate accelerates above expectation. While lagged inflation thus shifts aggregate supply, the quantity of money and inflation shifts aggregate demand.

For monetarists, it is the relation between the accelerationist Phillips curve and aggregate demand with a low interest elasticity of money that explains business cycles (see, e.g., Solow, 1997). For instance, inflation continues to rise after a boom turning point has been reached. When output then falls below the natural rate of production, inflation is decreased, thus reducing the downward movement of output until it has reached a lower turning point because inflation continues to decelerate.

Following Solow (1997), the short–term nature of the presence of the original Phillips curve trade–off makes monetarists skeptical that governments can truly manage demand and thus smooth output variations. For example, there are long and variable data lags, recognition lags, legislative lags, implementation lags and effectiveness lags. These all act as impediments to a successful economic management by governments. Since the long term trends are independent of demand, monetarists propound a *laissez–faire*, supply–side–oriented approach to policy. The main objective should be a stability of economic parameters to let agents act following market forces.

New Classical Economics is a response to the tacit treatment of expectations in both Keynesianism and monetarism. In Keynes' world, investor expectations shape output through the Keynesian multiplier. In monetarism, future inflation expectations drive nominal wage setting and aggregate supply. However, in both cases the models economists have specified made use of mathematical expectation operators to model adaptive expectations. New classical economics was new in that it applied *rational expectations* to macroeconomic models.

Arnold (2002) provides the following example to illustrate the effect rational expectations have. In the monetarist model, wages are set one period in advance. Supposing the central bank decides to increase the supply of money, aggregate demand is expanded. In the adaptive model, output would rise. However, in the rational expectations view, workers anticipate the loosening of monetary policy and thus adapt their target wage by raising wages, resulting in no increase to production, but

a larger increase in prices. Generally, argues Arnold (2002, p. 142), “the new classical policy ineffectiveness proposition states that policies which raise aggregate demand do not have any output effects under rational expectations.”

In Lucas’ new classical model (1973), the natural rate of output changes only if the money supply changes in a not rationally-expected fashion. The policy implication from this, according to the policy ineffectiveness proposition, was independent central banks, which could provide a stable and predictable monetary policy. Lucas (1973) explained his result that only unanticipated shifts in monetary supply mattered by producers misperceiving the shift in prices as a shift in demand, meaning they would substitute work for leisure time and increase output.

New classical economics does not prominently feature business cycles. Output fluctuates according to “unanticipated money”. Arnold stresses that while in the Lucas model, “output is white noise” (Arnold, 2002, p.67), it is relatively simple to introduce business cycle persistence into new classical models, by for example incorporating capital stock dynamics or costs of adjusting inventories (for an implementation, see, e.g., Blanchard, 1979). These then produce fluctuations in the overall output.

In contrast to Keynesianism, monetarism as well as new classical economics focus on the supply-side in determining aggregate production. While skeptical towards the importance of the demand-side especially as a policy tool, both use demand to partly explain business cycles. *Real business cycle theory*, or RBC, is a pure supply-side explanation of the cycle and thus closer to original classical economics. The seminal contributions are Kydland/Prescott (1982), Long/Plosser (1983) and Prescott (1986). RBC assumes that the economy is continually at full employment. Output variability is caused by exogenous fluctuations in total factor productivity. Productivity shocks can have a direct impact on aggregate output, cause procyclical movements in the real wage rate and labor supply and are propagated via the capital stock. The assumptions of RBC are intertemporal utility maximization under rational expectations and market efficiency. RBC thus seeks to demonstrate that classical models with perfect markets are capable of exhibiting business cycles and that cycles are thus consistent with economic efficiency.

Drastically simplified, RBC holds that a variation in total factor productivity leads to variation, for example, in the marginal productivity of labor. This results in decreasing wages and thus intertemporal work–leisure substitution, causing output to fall with productivity. Over time, the pace of technological innovation will change, thus raising total factor productivity (TFP). Wages rise and work will be substituted for leisure time in that period, thus causing output to increase again. Of course, the same holds for capital productivity.

Interestingly, RBC is not interested in qualitatively demonstrating cycles in Frisch's (1933) sense of stochastic second-order differential equations, but in numerical specification. The most important research in this context is King et al. (1988), who successfully calibrate an RBC model. Indeed, “[t]he match between theory and observation is excellent” (Prescott 1986), so that RBC became a significant explanation of business cycles in mainstream economics from the mid-1980s to the mid-1990s (Arnold 2002). Nonetheless, significant doubts remained about RBC assumptions, apart from those of perfect markets and rational expectations. In no particular order, these doubts are the level of variation in total factor productivity, the unspecificity of TFP, the lack of observed adverse TFP shocks, the impact of average TFP variation in a diversified economy which should cause general weakening of shocks, the observed low correlation between TFP in one sector between different countries and the high correlation of TFP across sectors within one country, the lack of empirical correlation between TFP and output, and the random nature of TFP variation in the real world contrasted with the relative forecastability of output. All these doubts can be summarized succinctly: “the very notion of large economy-wide productivity shocks is debatable” (Arnold, 2002, p. 91). While the empirical shortcomings contributed significantly to the decrease in acceptance of RBC over time, the main reason why RBC was viewed as flawed was that, just like Keynesianism, it ignored the role of one aggregate side of the economy, in this case demand, with only minor roles for consumption, investment and net exports. Mankiw (1989) provides a lengthy criticism of RBC from a Keynesian perspective, while Stadler (1994) evaluates its strengths and weaknesses from an impartial perspective.

After monetarism and new classical economics, the demand-side came back to the fore in economics. However, *New Keynesian Economics* is not so much a separate school of thought as a “disparate range of papers” (Arnold, 2002, p. 96), which at-

tempts to prove Keynesian hypotheses in “new classical” models with optimization under rational expectations. Mankiw/Romer (1991) categorize New Keynesian Economics as research concerned with real rigidities, nominal rigidities and aggregate demand externalities.

An example of a new Keynesian attempt at explaining business cycles with real rigidities is Greenwald/Stiglitz (1993a), who theorize output variability based on rigidities in financial markets and the labor market. On the basis of Greenwald/Stiglitz (1993b), Arnold (2002) develops an RBC-like model demonstrating the effects of the interaction between finance and labor markets. In effect, demand for investment and labor becomes a function of a firm’s balance sheet. A firm’s net worth results in differing credit capability, varying investment and thus varying employment. Since net worth, and thus credit availability, is a state variable in the model, there is persistence in the variability of employment. The positive dependence of output on profits results in cumulation. Since output and inflation move synchronically, higher production yields higher interest rates. This procyclical movement of interest rates causes the economy’s turning points. For an overview of the literature, see Mankiw/Romer (1991), Gertler (1988) and Hubbard (1988). Separately, varying models address nominal rigidities as caused by monetary policy (see, e.g., Taylor, 1980). Wage-setting and the determination of interest rates by the central bank differ in their terms: nominal rigidities persist for some time in the labor market. A reduction in the interest rate decreases the burden of debt and raises investment, thus increasing output. In this sense, monetary policy can be effective.

The final, and perhaps best-known, category of New Keynesian thought on business cycle dynamics is uncertainty combined with aggregate demand externalities, often referred to as “sunspots”. Originally, this propensity towards instability was referred to by Keynes himself:

“Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as a result of animal spirits – of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities.” (Keynes, 1973, p. 161)

While new classical economics debunked animal spirits by assuming rational – endogenous – expectations, the sunspot theory shows that autonomous shifts in expectations are possible under rational expectations when there are multiple equilibria. The name “sunspot” derives from a 19th-century business cycle theory by Jevons (1884) that hypothesized sunspots as having a significant effect on harvests; the term was resurrected by Cass/Shell (1983) to describe exogenous expectations shifts. Sunspots are also referred to as “self-fulfilling prophecies” in the sense of an autonomous shift in belief leading to a different outcome. For example, “[i]f strong sunspot activity raises business optimism and business optimism is a self-fulfilling prophecy, then strong sunspot activity causes high economic activity” (Arnold, 2002, p. 127). Interestingly, this implies that economic interventionism can be effective even if it does not change economic fundamentals, but changes beliefs. At the same time, sunspots can also cause business cycles, as aggregate beliefs vary over time.

2.2.2 A Research Consensus for Business Cycle Causes

From the literature reviewed above, the only “consensus” that can be identified is that of the exogenous shock. Indeed, most theories may name the shocks differently, or endogenize them by including the primary shock variables within their model. However, most still presume that the factors which change that variable lie outside the model. The research “consensus” is, of course, no such thing and the debate will continue as long as macroeconomics evolve. For now, it should be sufficient to summarize the main types of shocks that lead to business cycles in the theories reviewed in 2.2.1: “pure” exogenous shocks, Keynesian animal spirits, RBC productivity shocks, policy mistakes and supply shocks.

“Pure” exogenous shocks (“pure” in the sense that they have not been endogenized) are the earliest form of business cycle cause introduced in economic theory. Exogenous shocks are permitted for in most of the theories named above, in that they include an error operator which may spill out into its main equations. An unexpected event – like the rise in oil prices during the 1970s and 1980s – causes a disturbance to aggregate demand or supply and thus disrupts the stability of the economic system. Depending on which model represents our underlying world view, recession may be unpredictable but can be alleviated by government policy.

Animal spirits, or the inherent instability of investment caused by the swings in mood of producers, are also potential causes of recession. As investment decreases, jobs become scarcer and with fewer wages, demand drops further. In essence, animal spirits are nothing else but exogenous shocks changing the expectations and thus the actions of investors. The Keynesian world-view holds that this situation can be rectified by expansionary policies.

Real business cycle theory (RBC) claims that cycles are caused by productivity shocks. Again, these are nothing but exogenous shocks resulting from changes in productivity, through, for example, new production methods or information technology.

Policy mistakes are often cited as the causes for recession as long-term exogenous influences. For example, most recessions in the 20th century were preceded by sharp rises in inflation that then prompted interest rate rises, which led to a drop in demand and, subsequently, the downturn of the economy. Because fiscal and monetary policy are not determined “within” the economic model, the decisions to invest less government funds or to raise interest rates can also be termed “exogenous” shocks.

Finally, overinvestment that may lead to a shock from excess supply may also lead to recession. In a sense, this is the opposite world-view to that of Keynes. Shocks from outside the model (cheap credit or inflated profit expectations) lead investors to produce more or the wrong kind of goods. Through adaptations in credit or too much capacity, investment is then reduced sharply, creating a recession.

Given these theoretical foundations of business cycle causes, Section 2.3 will present empirical observations of the phenomenon of recession as a part of the cycle.

2.3 Empirical Observations of the Phenomenon of Recession

Part 2.3 summarizes the work on the empirical observations of the phenomenon of recession. There are limitations of data. Business cycle peak and trough dating, as estimated by Burns/Mitchell (1946), is available for the United States and Great Britain between 1790 and 1858. Monthly data is available for the United States and Britain for the period of 1854 to 1938, for France for the period of 1865 to 1938 and for Germany for the period of 1895 to 1932. Since it is generally assumed that the

monthly figures are correct, while the older data may be flawed, we will review only the years from 1854 going forward.

Data for the period post-World War II is widely available; however, business cycle dating here is only available from the NBER for the United States. There is, however, an unofficial dating from the Center for International Business Cycle Research (CIBCR) at the Graduate School of Business at Columbia University. In recent years, the Centre for Economic Policy Research (CEPR) has set up an unofficial business cycle dating committee, which has examined data since 1980. Both the data from the CIBCR and the CEPR will be the foundation of our examination of the phenomenon of recession in European countries. The data for recent years in Germany comes from D-Statistik, the official federal government office of statistics.

2.3.1 United States

The NBER identifies 15 business cycles from 1857 to 1918, six cycles from 1919 to 1945 and nine cycles from peak to trough between 1945 and 1990.

In general, after World War II, recessions tended to be much shorter, and expansions much longer, than before. From 1854 to 1919, contractions averaged 22 months. For 1919 to 1945, this figure declined to 18 months and for 1945 to 1990, it declined further to 11 months. Concurrently, expansions duration rose from 27 to 35 to 50 months, for the phases above. Zarnowitz (1992a) notes that, even allowing for dating errors in the earlier data, that would still be a relatively large difference in relative phase divisions.

There are a plethora of reasons given for the lower duration and magnitude of recession: a shift towards less cyclical service-based industries, automatic stabilizers, a sound financial system with federal guarantees, lower rates of change in money supply, better fiscal and monetary policies and a heightened confidence of investors in the stability of the system over time (see Zarnowitz, 1992a; Zarnowitz, 1992b; Arnold, 2002; Woodall, 2002).

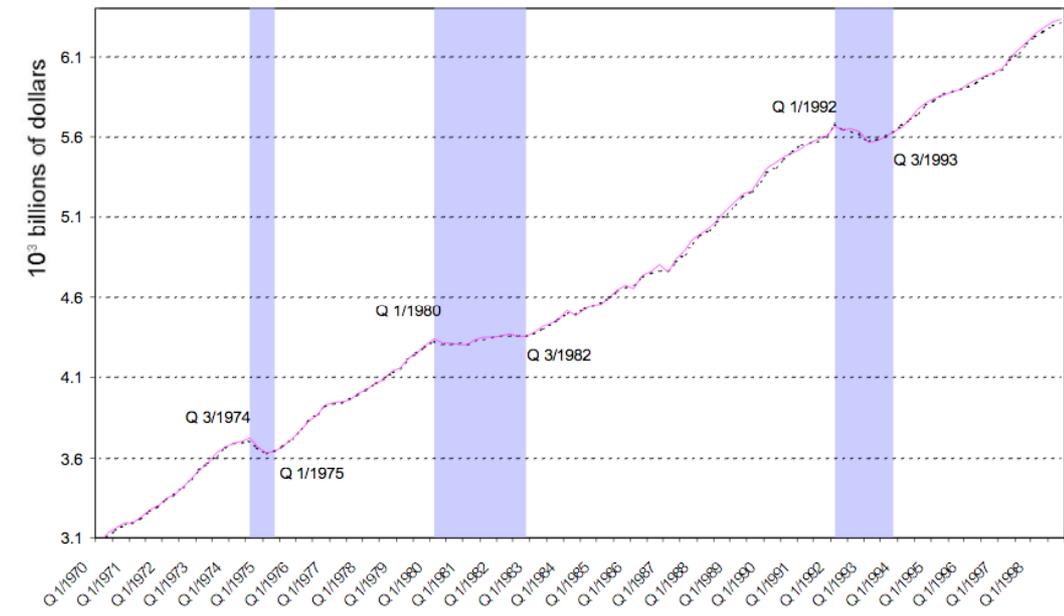
For the US, the NBER has identified two additional recessions in recent years. The first was from the third quarter of 1990 to the first quarter of 1991. The second was

from March 2001 to November 2001, one of the shortest cycles in recent history (see NBER, 2005, <http://www.nber.org/cycles.html>).

2.3.2 Europe

The CEPR reviews data for the Euro zone countries from the 1970s onwards. Here, both oil shocks, as well as the long expansion of the 1990s, is visible in the data. The following graphs show the economic activity measured as GDP for the whole of the Euro zone. The shaded areas identify recessions as dated by the CEPR. Interestingly, it is quite evident how coincident recessions already were across European countries.

Figure 2.1 Eurozone GDP and Recessions

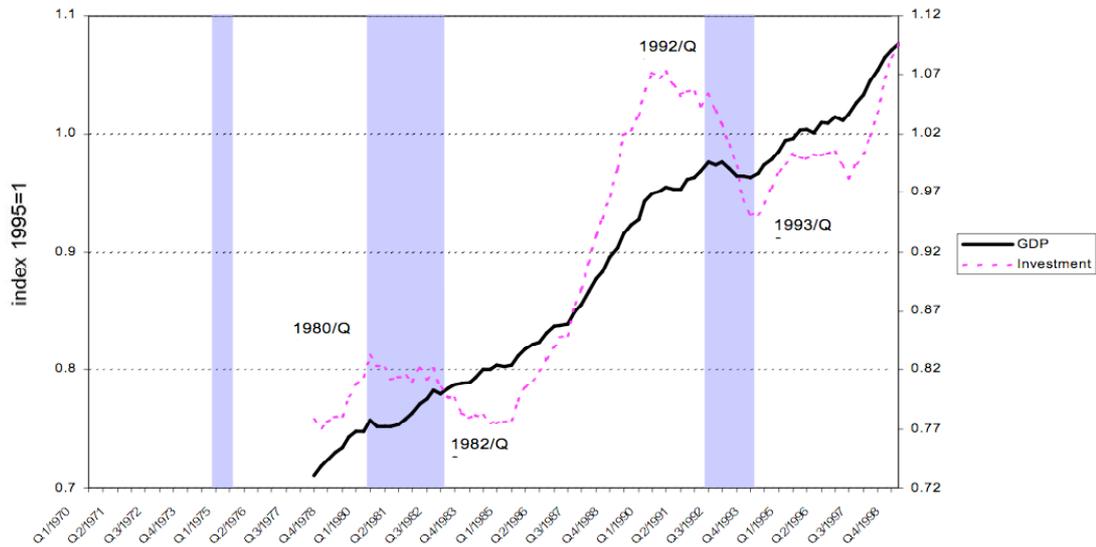


Source: CEPR, Business Cycle Dating Committee, <http://www.cepr.org/press/>, with permission

The higher frequency of business cycles in the US and the UK, compared with those countries that suffered more damage from World War II (Germany and France) and thus a longer period of economic growth from lower levels, is clearly visible in the data collected by the CIBCR and CEPR.

It is interesting to note how closely investment tracks GDP and thus recession in most countries. Figure 2.2 serves to illustrate the French example.

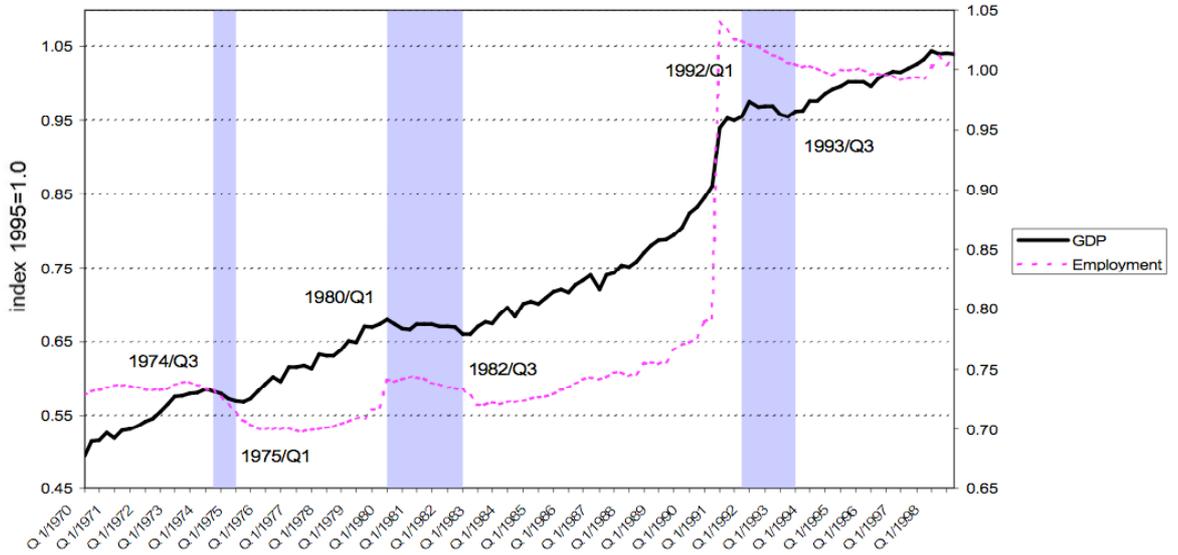
Figure 2.2 French GDP, Investment and European Recessions



Source: CEPR, Business Cycle Dating Committee, <http://www.cepr.org/press/>, with permission

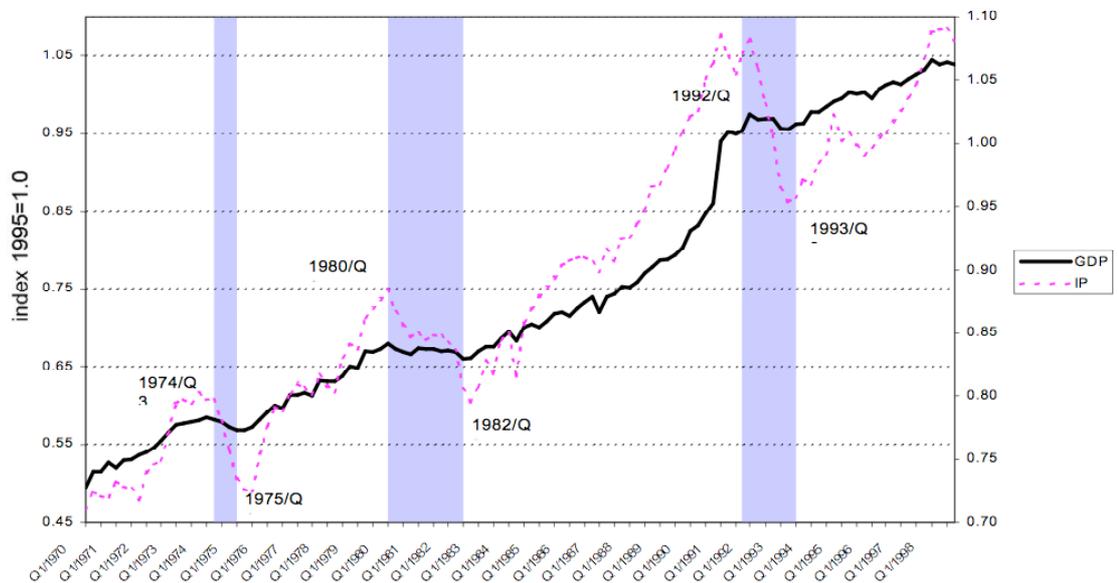
The same is true for unemployment. Figure 2.3 presents GDP and employment and Figure 2.4 GDP and industrial production for Germany (note the reunification effect), alongside the Eurozone recessions (shaded areas).

Figure 2.3 German GDP, Employment and European Recessions



Source: CEPR, Business Cycle Dating Committee, <http://www.cepr.org/press/>, with permission

Figure 2.4 German GDP, Industrial Production and European Recessions



Source: CEPR, Business Cycle Dating Committee, <http://www.cepr.org/press/>, with permission

From the 1970s onwards, recessions became both more frequent and more severe. The global economy entered its first simultaneous recession in 1974 to 1975 after the first oil embargo and increases in the oil prices by OPEC. Between 1980 and 1982, oil prices spiked again and were exacerbated by counterinflationary measures in the United States, again reflected in the data in most countries.

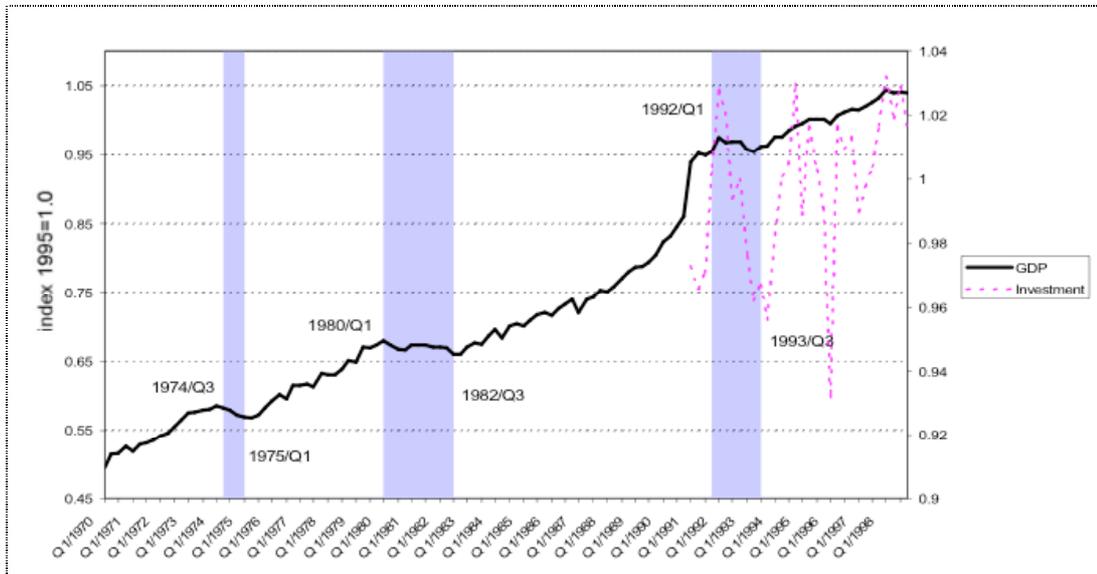
For Europe, the first oil price recession is dated from the third quarter of 1974 to the first quarter of 1975. The second oil price recession is dated from the first quarter of 1980 to the third quarter of 1982. The post-German reunification recession of the early 1990s lasted from the first quarter of 1992 to the third quarter of 1993.

2.3.3 Germany

While there is no official business cycle dating committee in Germany, it is generally agreed that the country suffered the three recessions also identified for Europe by the CEPR: the first oil shock from 1974 to 1975, the second oil shock from 1980 to 1982 and the post-reunification recession in the early 1990s.

Below is the data from D–Statis for real GDP in Germany (West until 1990).

Figure 2.5 Real Gross Domestic Product and Recessions, Germany (West)



Source: CEPR, with permission

The shaded areas represent periods of time in which the quarterly year-on-year growth was zero or negative for two or more consecutive quarters. The recession of the second oil shock in the 1980s actually consisted of a “double-dip”, in that there was a short upturn in between two periods of absolutely declining GDP.

2.4 Operationalization of Recession

In general, the measurement of recession depends on its definition, through which we can derive indicators for operationalization. The varying definitions of recession make an exhaustive overview of indicators difficult. Additionally, countries’ national statistics, while using similar terms, often widely vary in their measuring. In Section 2.4.1, potential indicators of recession are reviewed. Section 2.4.2 outlines potential operationalization based on these indicators while an operationalization based on

evaluative criteria derived from the objectives of this Thesis is chosen in Section 2.4.3.

2.4.1 Indicators

The list of indicators that drive cycles is very large: we could use any indicator that aggregates some form of economic activity (see Hanssens et al., 2002). Such indicators could be procyclical (e.g., GDP) or countercyclical (e.g., the unemployment rate). The aggregational level of data could be monthly, quarterly or annual. We could use leading, lagging or coincident indicators, such as, e.g., stock market returns, employment or total output, respectively. Finally, revisions in data over time change the use of indicators; for example, while stock market returns are fixed at the end of the trading day, net exports can be reviewed many times as account settlement takes time.

Based on our definitions in Section 2.2, we derive possible indicators from both the NBER definition and Zarnowitz' (1992a) stylized facts. We do not derive indicators from the definitions we rejected (CEPR, earlier economists). From the NBER definition, we see that recession generally manifests itself in

real GDP,

real income,

employment,

industrial production, and

wholesale–retail sales.

From Zarnowitz' stylized facts, we can derive the indicators:

total employment,

output,

real income, and

expenditures.

We can see that these two lists of indicators are relatively similar. Real GDP corresponds to output and subsumes industrial production; employment corresponds to “total” employment; wholesale–retail sales correspond to (consumer) expenditures with inventory smoothing further up the supply chain; and real income is identical for both lists. A potential joint list of indicators based on available data would thus be: real GDP, employment, real income and the savings rate (from which we could deduce expenditures on consumption and investment based on real income).

2.4.2 Review and Selection of Operationalizations

There are two possibilities for operationalization (see Zarnowitz, 1992b). Either we specify a composite “recession indicator” based on the list of indicators above, weighting each according to NBER standards, or we use one indicator that sufficiently predicts the other indicators and thereby, recession.

Interestingly, the popular definition of “two quarters of negative year–on–year real GDP growth” tracks the officially dated business cycles by the NBER quite closely and has thus been widely used in the finance & banking communities (see Economist, 2002). It can thus be used as an easy but effective proxy operationalization in the absence of an official business cycle dating committee. As shown in the following Sections, the proxy operationalization coincides with the dating committees both of the NBER and the CEPR.

2.4.3 Germany’s Recent Recession

Based on our own calculations and the business cycle dating committee of the CEPR, the German economy was in recession in the second and third quarter of 2003, with growth in the second quarter negative year–on–year and the third quarter at zero growth. The negative growth in the second quarter led to a slight absolute decrease in real GDP for the whole of 2003, as illustrated in Table 2.1.

Table 2.1 Key Economic Indicators, Germany (East & West), 2000–2003

Indicators	2000	2001	2002	2003
GDP per head (\$ at PPP)	26,114	26,311	26,690	27,060
GDP (% real change pa)	2.86	0.85	0.18	-0.1
Government consumption (% of GDP)	18.99	19.01	19.16	19.7
Budget balance (% of GDP)	1.1	-2.8	-3.6	-4
Consumer prices (% change pa; av)	1.34	1.98	1.36	1.07
Public debt (% of GDP)	60.5	60.21	62.4	63.9
Labour costs per hour (USD)	23.38	23.23	25.08	30.86
Recorded unemployment (%)	9.61	9.37	9.81	10.5
Current-account balance/GDP	-1.38	0.05	2.34	1.7
Foreign-exchange reserves (mUS\$)	56,891	51,309	51,171	50,694

Source: Compiled from Economist Intelligence Unit, ECB, CEPR, D-Statist, based on 2002 version of <http://www.economist.com/countries/Germany/profile.cfm?folder=Profile%2DEconomic%20Data>

The period we are thus choosing as the exemplary recession for our primary research are the second and third quarters of 2003. The period of “normality” should be placed in 2000, when Germany’s economy was still booming based on trend growth (the country has been experiencing mediocre growth since the early 1990s).

2.5 Recession as an Issue considered by Marketing Science

Little research has been conducted as to the nature of the effect of the economic environment on marketing within a firm. It is clear that a recession is conceptually different from stagnation within an industry or a given product-market. Firstly, it is a phenomenon that affects the whole of the economy, across several sectors. Secondly, however, it is of a generally temporary nature, if we extrapolate from the experience of the past hundred years. This means that recessions are more uncertain environments than simple market stagnation. In stagnation, firms can reduce capacities, shrink inventories and downsize gradually. In recession, firms are suddenly faced with a downturn in demand. However, it is uncertain how long and pronounced this downturn will be, whether there will be fiscal or monetary intervention, or what effects an economy-wide recession has on the market. It is thus difficult for marketing managers to respond. In the literature, this has been termed state, effect and response uncertainties to denote the questions of what exactly is happening, how this will effect the marketing function and what marketing managers should do to

counter the phenomenon (see Milliken, 1987). The aspect of uncertainty for the marketing manager will be further discussed in Chapter 3.

Conceptually, we can see that, if a recession affects a given product-market, demand drops and thus sales will decline. Declining sales mean lower cash flows, not only through the direct sales effect but also potentially through lower capacity utilization and higher inventories, both of which depress margins. If on top of these developments, a firm is cash-strapped in recession, budgets are likely to be cut. Given the propensity to cut budgets where it is easiest, third party marketing contracts are often the first victim, given that marketing is more often than not seen as an expense rather than an investment (see Tomczak/Belz, 1993). Recessions thus present some of the most difficult environments for marketing managers: as they are seen as the “revenue-generating” function of the firm, they are expected to quickly achieve more with less.

Chapter 3: Review of Extant Research on Marketing in Recession

3.1 Introduction

Chapter 3 follows a conceptual framework for the review of extant research into marketing in recession. In each part, we review the relevant literature and generate exploratory propositions from both theoretical and empirical work. These propositions, which are meant to reflect an initial research consensus on the basis of the observations reported, are then used as the basis for the empirical work conducted in the context of the Thesis which will be presented in Chapters 4 and 5.

Chapter 3 is structured as follows: In Part 3.2, we analyze the marketing environment of a hypothetical firm (manufacturing consumer goods without a direct sales channel) in recession. Part 3.3 focuses on the effects of recession on the firm in general, the marketing function in particular and the marketing manager as the individual responsible for marketing in recession. Part 3.4 deals with marketing strategy and Part 3.5 with the marketing mix in recession.

3.2 The Market Environment in Recession

The environment of marketing in recession can comprise many elements: human as well as non-human actors, both within and outside the firm, individuals and formal and informal organizations, etc. (see Latour 1998). Because we are interested in conceptualizing the predictable behavioural adjustment of the environment in recession, we will focus on those elements that are guided by identifiable human actors. Because of the marketing manager's perspective of facilitating the exchange of goods, services and ideas (see AMA definition), we will limit this analysis to actors influencing the exchange transaction directly as market participants. We assume a classical, at least duopolistic manufacturing organization without a proprietary distribution channel as our generic firm. We believe that the description of the environment of this most general of cases is in the interest of a first, exploratory approach: results may be transferred more easily from the general to the specific than vice-versa.

In this view, the environmental actors of a firm are consumers, competitors and retailers. Their behaviour in recession as discussed in the relevant theoretical, conceptual and empirical literature will be addressed in Sections 3.2.1, 3.2.2 and 3.2.3, respectively.

3.2.1 Consumer Behaviour in Recession

The difficulty of examining consumer behaviour under conditions of economic adversity is that variations in the economic environment are hard to simulate in a laboratory setting with experimental subjects (see Estelami et al., 2001). This significantly determines the paucity of research within such a context to date and necessitates drawing upon neighbouring research disciplines, especially psychology and economics, in order to generate exploratory propositions.

In Section 3.2.1.1, we summarize the extant research on consumer behaviour in recession. On this basis, we generate exploratory propositions in Section 3.2.1.2.

3.2.1.1 Literature Review of Consumer Behaviour in Recession

The main assertion propounded in the literature is that consumers decrease expenditures during recession. Assuming constancy of net income and debt, consumers save during the downturn. Two disciplines have independently demonstrated this result: psychology and economics. Unsurprisingly, both these disciplines are often the basis of theories in consumer behaviour. While marketing's roots can be traced more directly to economics, the subdiscipline of consumer behaviour has been drawing more extensively on psychology in the last decades (see Mittelstaedt, 1990). However, because recession is an economic issue, it is unsurprising that economics has spawned the larger and often more sophisticated literature on the subject at hand.

Most research on consumer behaviour in recession within economics and psychology is complementary. However, it is important to note that the field of economics has a macro-perspective on behaviour, explaining aggregate phenomena, while psychology differentiates between different modi of individual behaviour, often rejecting aggregation. We present brief reviews of the lines of argument within both fields.

The main post-Keynesian economics concept of the relation between income and consumption is Friedman's permanent income hypothesis (see Harland, 1985). This states that the assumedly rational aggregate of actors consume based on a permanent income representing the average of current and future expected incomes. Essentially, consumers "smooth" expenditures over time to maximize the inter-temporal utility of consumption. Further, these rational, risk-averse actors will *increase* savings when the *uncertainty* of future income streams increases. Leland (1968) first formalized this intuitive result by presenting a two-period model of consumption illustrating "precautionary saving" as a positive function of future income uncertainty.

The precautionary savings approach subsequently generated a wide literature. That uncertainty of future incomes lowers current consumption is now firmly established (see Leland, 1968; Dehavri/Srinivasan, 1969, Sandmo, 1970, Merton, 1971; Drèze/Modigliani, 1972; Lyhagen, 2001). Furthermore, saving is a positive function of uncertainty; the higher the uncertainty, the higher the propensity to save (see Weil, 1993; Hahm/Steigerwald, 1999; Lyhagen, 2001). Precautionary savings are a significant portion of total savings (see Dardanoni, 1991). Finally, perceived income uncertainty changes significantly over time and is gradually incorporated into the savings decision (see Hahm/Steigerwald, 1999). If recession means more uncertainty regarding future income streams of consumers - which *must* be true for the aggregate of consumers (see Part 2.1) - then economic theory suggests that the savings rate will increase, i.e. consumption decrease (in value).

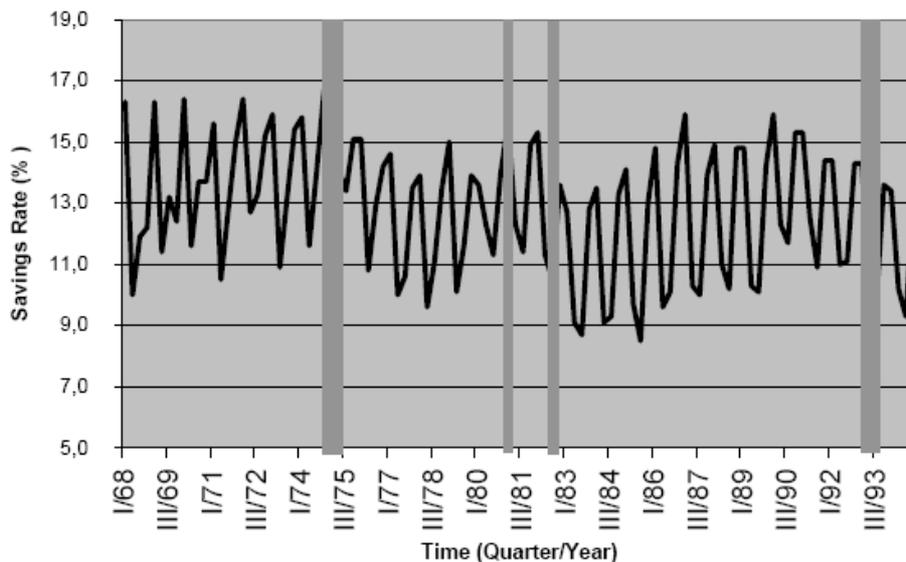
Psychology first approached the subject differently. Katona, one of the early "economic psychologists", argued that results obtained from psychological research show "findings that differ from generalizations presented by traditional economic analysis" (Katona, 1974, p. 1). In his seminal article (Katona, 1974), he analyzes consumers' economic behaviour in recession and hypothesizes four factors which affect personal expenditures: installment buying, unusual cash expenditures, frequency and size of income increases and strength of the savings motives. The first two are thought to negatively, the second two to positively affect savings. In a recession, installment buying and unusual cash expenditures decline, while the strength of savings motives may rise in response to the perception of a volatile economic environment. However,

since income may fluctuate procyclically with gross domestic product (GDP), the total effect on savings remains undetermined. If net income is constant, savings will rise.

Subsequent research results in economic psychology had different priorities and thus did not expand on Katona's results. However, progress was made in other areas, close to the approach economics had taken. The main common result is that uncertainty induces saving (see Waerneryd, 1999). Das et al. (1997) report that households underestimate their future incomes, resulting in more savings than necessary when uncertainty increases. Alessie et al. (1997) report results that indicate the uncertainty about unforeseeable circumstances being the most important savings motif. Furthermore, consumers are said to be both prudent and impatient, depending on the balance of their target wealth and future income expectations (buffer stock theory).

Confronting the result that savings rise in recession with aggregate data for German recession, we first note the interesting characteristics of fluctuations in real GDP, income and consumption. While the mean-variance ratio of GDP is 0,055, the same number is 0,075 for income and 0,084 for consumption. Consumption seems to prove considerably less volatile than GDP, a result that the permanent income hypothesis would predict.

Figure 3.1 German Recessions and the Savings Rate.

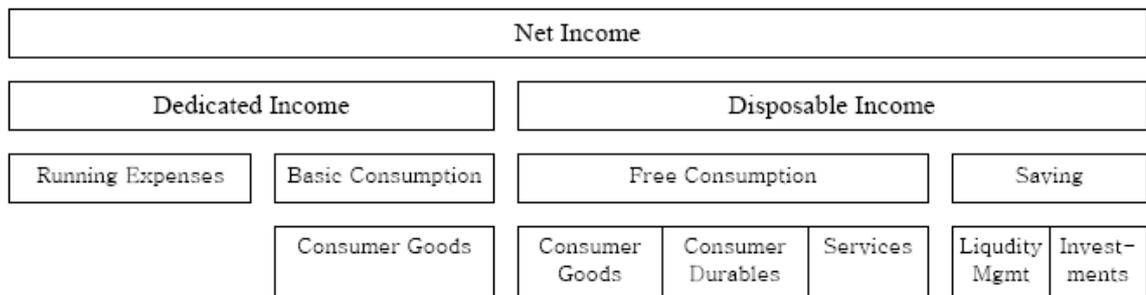


Germany (West), Savings Rate in % of Net Income, Source: D-Statist, Series 4; own illustration

Figure 3.1 presents the West-German savings rate as a percentage of net income. The average savings rate for the period of 1968 to 1994 is 12,8%. As can be seen, the rate increased considerably during the first oil crisis in the mid 1970s, in line with expectations. This behaviour was repeated during the first recession in the 1980s, though the rate subsequently decreased and increased out of line with the business cycle. The lower levels of savings during the early 1980s coincided with the first real decline in consumer net income from the third quarter of 1982 to the second quarter of 1983, after which the savings rate reverted to an historically normal level. Both the second recession of the 1980s and the recession of the 1990s provide some support for Katona's four factor concept, namely that income in a recession may outweigh the other three factors driving savings.

If consumers are thus hypothesized to save during recessions, the question relevant to marketing is what they save on, i.e. which product categories or types of consumption are influenced by decreasing expenditures. Figure 3.2 provides a framework for discussing changes in the use of net income (see Rohlmann, 1977; Meffert, 1994).

Figure 3.2 Potential Uses of Net Income



Source: Rohlmann (1977, p. 47) as adapted by Meffert (1994, p. 26)

Net income consists of dedicated income and disposable income. Dedicated income is used for fixed running expenses (rent and other contractual obligations) and necessary consumption (basic food and clothing), while disposable income may be used for consumption or saving. Disposable consumption is "luxury" or non-basic con-

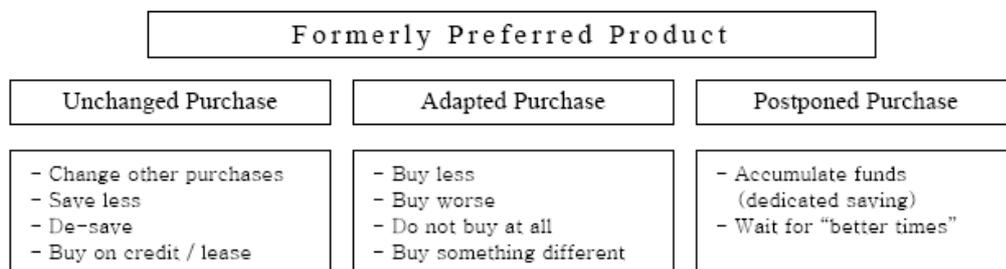
sumer goods, durables or services, while saving may take the form of liquidity management or investments. As savings increase in recession, we may expect dedicated income to remain immune to higher savings, but free consumption to decline.

Jung (2001) supports this intuitive result. She analyzes German consumption panel data for several time periods (“Einkommens- und Verbrauchsstichprobe“) to estimate Engel-curves, which relate income to consumption levels, and derives income elasticities for product group consumption on the basis of household types. Across these types, she finds spending on food, rent and energy to be relatively unelastic to changes in income. Personal supplies (e.g. travel, non-basic consumer goods, watches, jewellery) prove highly and health/hygiene somewhat elastic, while expenditures for education, entertainment and recreation increase almost proportionally with rising income. These results are reported to be largely in line with elasticity estimations to date (see Jung, 2001).

However, Jung’s data is cross-sectional, and although she uses several instances of panel data, several other “real” effects may distort these results significantly. The first is the effect of habitual consumption (see Kannacher, 1982), which may persist if the magnitude and length of recession is perceived to be small, i.e. real incomes do not decline or are not expected to decline very much (see Rohlmann, 1977, p. 62). The second is the effect that perceptions of the economic effects of a recession differ greatly among consumers, given that recessions may have a direct, indirect or no impact on the consumer at all. For instance, luxury products may still be bought if the well-off or elderly are less influenced by a recession that is marked primarily by low-income unemployment of young people. The third effect that may skew results is that some product groups may actually be favoured by environmental uncertainty. While consumers may make less large, high-value purchases, they may console themselves by purchasing smaller, branded luxuries more frequently than before (see Rohlmann, 1977). The fourth and final effect is that all these contentions are made *ceteris paribus*: when an environmental factor changes significantly, purchases may swing in a wholly different direction. This is well illustrated by the recent extensive price promotions of U.S. automobiles. While cars are a product not generally favoured in economic downturns, the special offer motivated many consumers to spend anticyclically.

While the sources presented above illustrate *that* consumers save and *what* consumers save on, the remaining question is *how* consumers save during recessions. Do they buy quantitatively or qualitatively less, do they buy cheaper products, substitute purchases or do they postpone some purchases altogether? Figure 3.3 provides a framework analyzing the different mode of saving in relation to a formerly preferred purchase (a “certain” purchase before recession set in).

Figure 3.3 The Changing Purchase Decision in Recession



Source: Meffert (1994, p. 27)

Meffert (1994) relates three potential behavioural changes: an unchanged purchase decision, an adapted purchase decision or a postponed purchase decision. An unchanged purchase decision necessitates changing other purchase decisions or lowering the savings rate (by saving less, saving negatively or building up debt). An adapted purchase decision can mean a quantitative, qualitative or substitutional behavioural change relative to the originally planned purchase. Postponing a purchase decision means either building up capital or waiting for better times to purchase at a later date. However, while this framework is conceptually informative, it has never been subjected to an empirical test. Thus, the following questions remain open: for what product category, under which conditions and for what reasons do which consumers adapt their purchase decisions?

Two recent studies may be cited in this context. The first, Estelami et al. (2001), uses a meta-analytic framework to research macro-economic determinants of consumer price knowledge. Their synthesis of 297 previous price knowledge studies reveals a significant positive relationship between price recall error and GDP growth, as well as

inflation. While this only indicates a higher price consciousness in recession, heightened awareness levels could also signal an increased price elasticity of demand. Sinha/Batra (1999) argue that a lower price consciousness does not imply that consumers will “maximize quality – merely that they will be relatively less willing to conclude in that category that a higher price is unjustifiably large” (Sinha/Batra, 1999, p. 239, their emphasis). By inference, higher price consciousness in recession does not mean consumers will seek to minimize price, but it may make them less willing to pay for price differences in some categories, making the demand in these categories more price-elastic.

Sinha/Batra (1999) find further that price consciousness is a significant predictor of private label brand (PLB) purchases and that price consciousness is higher in categories in which consumers perceive lower risk (in this study, the low-risk categories were paper towels and frozen plain vegetables). This would imply that, in recession, over-all PLB purchases will increase and that this increase will be greatest in categories perceived to be low-risk. Similarly, price elasticity should increase in low-risk categories. This last statement is confirmed by economists’ studies showing procyclical price elasticities in some low-risk category industries, notably food manufacturing (see e.g. Field/Pagoulatos, 1997).

While low-risk category demand may become more price-elastic, we may expect high-risk category demand to adapt quantitatively or remain unchanged in recession: durable purchases and other high-risk items are shunned by consumers in recession (Rohlmann, 1977). Unfortunately, this clear distinction between low-risk and high-risk categories does not always hold. For instance, the heightened environmental uncertainty may lead consumers to purchase brands for reassurance-seeking reasons (see Rohlmann, 1977) in low- as well as high-risk categories. Furthermore, consumers may engage in substitutional (or “escapist”) consumption of consumer goods, making higher priced brands a more likely purchase in “indulgence” categories (snacks, hygiene, liquor) to substitute for other unfulfilled preferences.

The effect on advertising (or other promotion) elasticity is equally hard to determine. Price-sensitivity may lead to more cognitive processing (see, e.g., Hoyer/MacInnis, 1997). More cognitive processing regarding consumption should reduce impulse purchases and make the consumer more reactive towards rational, cognitive-

processing advertising content (e.g., price/quality ads) or promotional pricing. However, in a meta-study commissioned by the American Association of Advertising Agencies (AAAA), Ryan (2001) makes the contention that:

“consumers are looking for reassurance during recession. The feeling that risks are great may prevent more buying than does actual financial hardship. Any marketing strategies that allow consumers to minimize risk may be welcome during recession” (Ryan, 2001, p. 12)

Uncertainty-reduction must not necessarily be achieved by rational cognitive-processing content. Rather, affective communications focusing, for example, on strong “traditional values” promotion of brands may be equally successful.

While these arguments concerning elasticity are intuitively reasonable, they have never stood for empirical testing. Furthermore, we cannot assume that general advertising elasticity will increase, but only that the effectiveness of some message content (price-quality, uncertainty reduction, substitution-induction) is higher during recession.

3.2.1.2 Propositions on Consumer Behaviour in Recession

Within this section, we generate propositions reflecting a first “research consensus” on the basis of the work reviewed above. The propositions will serve as the departing point for the empirical work presented in Chapter 4.

Both the work reviewed in economics and psychology indicate that, if uncertainty is high enough and net income and consumer debt are constant, theoretical consumer behaviour research postulates that:

P1: Consumers decrease expenditures in recession, lowering total market sales.

The work by Jung (2001) and conceptual contributions by Meffert (1994) and Rohlmann (1977) indicates that:

P2: Expenditures are reduced more in non-basic, luxury consumption and expenditure for durables versus basic, non-luxury consumption and expenditure for consumables.

The study by Estelami et al. (2001) indicated that:

P3: Consumers become more price-conscious in recession.

Combined with the results of Sinha/Batra (1999), we postulate that:

P4: Demand is more price-elastic in recession.

and that

P5: Private label brand purchases increase in recession.

Ryan (2001) postulated that consumers are uncertain over purchasing in recession and that therefore:

P6: Cognitive processing of information increases in recession.

However, the effects on information processing regarding advertising are undetermined on the basis of extant research. While price/quality advertisements use a cognitive approach, uncertainty-reducing advertising tries to reassure affectively. Substitution-inducing ads may appeal both cognitively and affectively. Thus, exemplary:

P7: Demand elasticity to price communications increases in recession.

3.2.2 Competitor Behaviour in Recession

The relationships that form a market are not only those of sales response (which relate directly to consumer and intermediary behaviour), but also those of competitive reactions and feedback effects (see Hanssens, 1980). Formulating a marketing strategy and implementing it through the marketing mix must therefore take into account the competitive environment and likely competitive reactions that may offset the effectiveness of policy. It is not our aim to present the options competitors have for managing recessions; that would replicate the work presented in Part 3.4 and 3.5. Instead, we will focus on the nature and intensity of competition in recession, i.e.

does competition change dependent on the environment and if so, in what dimensions (Section 3.2.2.1)? Section 3.2.2.2 will serve to summarize the contentions made and derive propositions.

3.2.2.1 Literature Review of Competitor Behaviour in Recession

From a company perspective, a constant market share in a growing market still implies sales growth. In a recession, however, many companies may face declining sales, which represents not only a loss in revenues but also higher costs when capacity is under-utilized or inventories increase (see Uphues, 1979). A return to sales growth, or even sales stability, is only possible by capturing market share from competitors. All else equal, this indicates that the intensity of competition is likely to be higher in recession than in normality (see Rohlmann, 1977; Meffert, 1994). With all companies having similar incentives to compete, competitive reaction, while also dependent on market transparency, competitive situation and product life cycle, will become more rapid and more directed at competitor behaviour (for example, quickly responding to a competitor's price promotion by running a similar promotion) to offset competitive actions (see Rohlmann, 1977).

Additionally, two factors influence a generic company. First, budgets available for marketing programs to gain market share may be tight due to declining sales and higher costs (see Berndt, 1994). Second, consumers generally become more price conscious in recession (see 3.1.1). This makes the use of price decreases or temporary rebates as a primary marketing tool more likely: price is perceived to be both less costly and more effective than other marketing instruments in recession (see Meffert, 1994). Rohlmann (1977) reports the findings of an empirical study among German consumer durable companies, where 84% of the companies cite intensifying price competition as one of the characteristics of their market during recession. Only 17% believe price competition not to play a role in their respective industry. This result is replicated by a study of 375 German manufacturing and service companies, where increasing price competition is ranked the number one management problem during recession (see Meffert/Mueller, 1993).

Combined with rapid competitive reaction aimed to offset competitive actions, price competition presents a real problem to many industries, because it may lead to lower reference prices, permanently decreased margins and cutthroat competition. The result is a “price war”, spoiling the industry’s margins even after the recession has passed (see Garda/Marn, 1993; Meffert, 1994).

Besides increasing competition on price, competitive action may also be more oriented towards short-term sales increases (see Tomczak/Belz, 1993), making use of promotion instead of advertising as a primary tool to capture market share (see Hoong Ang et al., 2000).

Consumers, because of their underestimation of future income or overestimation of uncertainty, aggravate recessions by saving more than necessary. They are therefore a source of volatility. Similarly, because competitors may overestimate effects of the companies’ mutual actions on each other’s brands, overreaction may make recession, already turbulent times, more volatile than necessary.

Leeflang/Wittink (1996) develop a framework integrating a marketing instrument’s effects on own and competitor market shares. Assuming a competitor wants to keep his market share constant, the product of reaction elasticity and own market share elasticity should theoretically equal cross-market share elasticity. In other words, competitive reaction is only sensible when the impact of another brand’s marketing activities on one’s own brand is non-zero. The empirical study of 7 consumer goods brands in the Netherlands indicate that, though competitive reaction elasticities are a positive function of cross-market share and a negative function of own market share elasticities as expected, competitors tend to overreact to a given company’s marketing activities. Technically speaking, cross-market share elasticities prove to be smaller than the product of competitive reaction and own market share elasticities. Leeflang/Wittink list reasons for such behaviour: managers may have competitor-oriented objectives, be evaluated on relative performance measures, overestimate consumer comparisons among brands and perceive reaction costs to be asymmetric, i.e. believing it to be more costly not to react at all.

Within Leeflang/Wittink’s framework, recession may provide even more incentive to overreact than normality. Suffering from a decline in the market as a whole, managers will be less willing to face the uncertainty of market share eroding. Changing

consumer behaviour leads to more uncertainty about the relative competitive position. Consumer price-consciousness may raise the probability of inter-brand comparisons. These uncertainties increase the perceived cost of no or under-reaction for managers in recession and imply a greater incentive to overreact than in normality (see Niederhofer 2002).

3.2.2.2 Propositions on Competitor Behaviour in Recession

Within this section, we derive exploratory propositions from the literature review presented above.

Because of increased incentives to act or react (see Rohlmann, 1977; Meffert, 1994), the intensity of competition (force, speed and focus) is thought to increase, meaning:

P8: Competition increases in force during recession,

P9: Competition increases in speed during recession, and

P10: Competition is more focused on directly responding to competitors' actions during recession.

Because price is perceived to be the less costly and more effective instrument (see Meffert, 1994), we expect:

P11: Price competition is more prevalent in recession than in normality

Because of incentives for managers to increase sales rather than achieve long-term profitability objectives (see Tomczak/Belz 1993), we expect:

P12: Competition is more oriented towards short-term goals and objectives than in normality.

Because managers over-estimate the effects of recessionary competition on their own brands (see Leeflang/Wittink 1996), we propose:

P13: Competitors are seen to overreact more in recession than in normality.

3.2.3 Retailer Behaviour in Recession

Intermediaries are the third relevant actor in consumer goods markets in turbulent times. Retailers have two functions we are most interested in: the purchasing function and the re-selling function. Section 3.2.3.1 will focus on the changes that may occur in these functions due to retailer behaviour in turbulent times. Section 3.2.3.2 will then serve to derive propositions.

3.2.3.1 Literature Review of Retailer Behaviour in Recession

Much research has been conducted on the “wheel of retailing” approach and the associated hypotheses of institutional retail change (see, e.g., Brown, 1987). Three theories have emerged, namely environment-, cycle- and conflict-induced institutional change. However, while the first specifies that the macro-economic environment in fact determines structural change of retail techniques, little conceptual research exists predicting how a retailer actually behaves in such environments.

Walters (1994) observes that management decisions of European retailers during the 1990–1993 recessions across Europe focused, unsurprisingly, on sales volume and margin management. He notes the increased importance of the margin spread, or relation between gross margin (roughly, revenues minus cost of goods sold) and operating margin (further deducting branch, personnel, management and other costs) in recessionary periods. Declining sales volume may mean lower gross margins because of lower discounts, though this depends on the negotiating power of the retailer vis-à-vis manufacturers. If gross margins are reduced, retailers must focus on improving sales generation and operating margins. However, increasing operating expenses by investing in expansion may raise sales volume and thereby increase gross margins (Walters, 1994). Retailers thus face a dilemma of entering a self-reinforcing process of shrinkage or expanding aggressively and incurring the risk of short-term lower profitability. Additionally, it may be hypothesized that the effects of a recession on competitive behaviour in the manufacturing industry as outlined in Section 3.1.2 also hold true for the retail sector.

Rohlmann (1977) relates that German retailers in the 1970s tended to buy procyclically to reduce the financial burden of inventory and increased pressure on prices.

Besides changes in volume and value of orders, structural adaptation, i.e. changing the suppliers, became increasingly common. With the 1990s advent of closer supplier-cooperation and supply-chain management techniques made possible by information technology, inventory should follow the demand cycle more closely, i.e. be even more procyclical, but structural adaptations may be less common than in the 1970s due to the closer cooperation such a system necessitates (see OXIRM 1994a and 1994b). Confirming this hypothesis, Ganesan (1994) finds no proof that environmental volatility significantly affects the foundations of supplier-retailer relationships.

The literature suggests that retailers' pressures on price should increase recession (see, e.g. Rohlmann, 1977; Meffert, 1994) with negotiating power being skewed towards the retailer, *ceteris paribus*. However two other factors give negotiating power back to the manufacturer (see Meffert, 1994): market position (market share, repeat purchase rate, awareness, image) and traditional price positioning. Companies with a strong market position may not feel any price pressure at all in recession: the "high-price" innovators play a long-term role in assortment; the "low-price" recession-champions have a significantly low price already to be competitive in recession. It is the companies with a weak market position that may be troubled by recession: those with a low-price positioning may be de-listed as margins fall further; those with a high-price positioning are put on sale (see Meffert, 1994).

While ordering behaviour will adapt to changing demand in the downturn, the uncertainty of recession may change retailers' attitudes towards assortment decisions. Rohlmann (1977) reports retailers' willingness to accept new product launches declining significantly during the 1975 recession. However, Walters (1994) observes many retailers taking significant assortment and merchandising decisions in the period from 1990–1993 in order to improve customer targeting. The trade-off between increasing sales volume and gross margin versus decreasing operating expenses was apparently more often decided in favour of the former two than not. In contrast, Meffert/Mueller (1993) cite retailer resistance to manufacturer-led initiatives (e.g., new product launches or promotions) as a general worry of manufacturing companies in the German recession of the early 1990s and hypothesize that this may be due to a reduced willingness to cooperate (Meffert/Mueller, 1993).

The re-selling function of a retailer may also undergo significant changes in turbulent times. In the period of 1990–1993, retailers tried to generate sales not only by expanding aggressively, but also by setting up loyalty programs, extending operating hours (in the U.K.), running promotions and repositioning offers (Walters, 1994). There was less focus on cutting direct operating expenses than on trying to improve productivity by investments in information technology and expansion, though some retailers did cut costs significantly (see OXIRM 1994a).

An interesting aspect of German retailing is the prevalence of large private-label discounters (primarily Aldi, but also Lidl). One may hypothesize that if consumers are expected to tend towards PLB purchases for every-day goods in recession, they may switch their preferred distribution channel from brand-supermarkets to a discounter, so that discounters actually benefit from turbulent times. However, the consumers' need for uncertainty-reduction may conflict: shopping at a discounter can increase uncertainty because of perceived varied quality of PLBs. Channel-switching may therefore depend on consumer demographics as well as psychographics, i.e. is the need to save higher because income uncertainty is very high or does the consumer want to keep uncertainty low? The effect is, again, undetermined.

3.2.3.2 Propositions on Retailer Behaviour in Recession

Within this section, we derive exploratory propositions from the literature review presented above.

Rohlmann (1977) and several other authors indicate that:

P14: Retailers generally behave procyclically regarding ordering quantities during recession.

However, while recessions mean selling less (see OXIRM, 1994a; Ganesan, 1994),

P15: Structural adaptations, or ceasing to do business with a given supplier, are as uncommon in recession as in normality.

Though unclear in theory (see Rohlmann, 1977; Walters, 1994; Meffert/Mueller, 1993), we hypothesize that:

P16: Retailer resistance, especially towards product launches, increases in recession.

Because of the need to maintain operating margins (Walters 1994):

P17: Retailer pressure on manufacturer's prices increases in recession.

Because of the need to generate sales (Walters 1994):

P18: Retailer pressure to join or engage in promotional activities increases in recession.

Because private label brand purchases increase and consumers more expected to be more price-conscious:

P19: Discount chains increase market share during recession.

3.3 The Effect of Recession on the Firm, the Marketing Function and the Marketing Manager

Within Part 3.3, we review the extant research on the effect of recession on the firm (Section 3.3.1), the marketing function (Section 3.3.2) and the marketing manager (Section 3.3.3).

3.3.1 The Effect of Recession on the Firm

Section 3.3.1.1 will serve to develop the arguments by reviewing the relevant literature. In Section 3.3.1.2, we will summarize contentions while deriving propositions.

3.3.1.1 Literature Review of the Effect of Recession on the Firm

Very little has been published about the concrete effects of recession on the firm as a whole. Most research consists of normative heuristics based on positive assumptions stemming from anecdotal evidence.

We suggest the “effect” of recession on the firm can be divided into two, separate effects: that of the product–market and that of the firm’s vulnerability. The more a recession affects the firm’s relevant product–markets and the more vulnerable the firm is to recessionary pressures, the greater the effect of recession on the firm should be.

Whether the recession affects a given firm’s product–market depends on the consumers’ trade–off between needing the firm’s products in recession and needing to decrease expenditures in recession. However, even when product–markets are significantly affected, some firms endure decreases in sales very well. Geroski/Gregg (1996) identify factors that make firms more vulnerable to recession, by relating the extent of the presence of these factors to a firms’ post–recession profitability. Significant factors that make firms more vulnerable according to Geroski/Gregg are

a high debt–to–asset ratio,

a high liabilities–to–cash ratio,

a small size,

fast pre–recession growth, and

two or more acquisitions prior to recession, incurring adjustment costs.

Geroski/Gregg theorize thus that vulnerability is a question of dependence on free cash flow to finance prior commitments. By induction, firms that are largely equity–financed, have low fixed costs or flexible capacity and a management attuned to the need of adjustment will not be as adversely affected by recession as other firms.

Over all, the main immediate effect of recession on the firm is significantly decreased cash flows (see 3.1.2.1). Uphues (1979) outlines that, given a constant market share, when consumers spend less in a given product–market, revenues for a firm will decline. However, the value effect of declining sales on cash flows is exacerbated by a volume effect. As capacity utilization decreases, unit costs increase, thus depressing margins. Lower sales thus do not just affect revenues, they also have a direct effect on profitability (assuming the presence of fixed capacity costs).

3.3.1.2 Propositions on the Effect of Recession on the Firm

Within this section, we derive exploratory propositions from the literature on the effect of recession on the firm.

We hypothesize that:

P20: On average, firm sales decline in a given market that is affected by recession.

P21: On average, firm capacity utilization in recession in a given market declines.

3.3.2 The Effect of Recession on the Marketing Function

Section 3.3.2.1 will serve to develop the arguments by reviewing the relevant literature on the effect of recession on the marketing function. In Section 3.3.2.2 we summarize contentions while deriving propositions.

3.3.2.1 Literature Review of the Effect of Recession on the Marketing Function

Similar to the argument advanced for the intensity of competition in 3.1.2, recession is expected to increase the incentive to market aggressively: sales will decline, unit costs rise, profit margins decline and cash flows are decreased. The effect of declining sales can only be alleviated by trying to boost market share, i.e. gaining sales which would otherwise have gone to competitors, or by decreasing costs. Of course, the leverage on cash flow of a sales increase is higher than that of a cost reduction. In any case, the pressure on marketing as the “revenue-generating” function to “do something” in recession increases (see Wilkening, 1994; Meffert et al., 1993).

At the same time, financial pressures may also dictate that marketing expenditures be cut (see Tomczak/Belz, 1993). As discussed earlier, these budgets are often the first “costs” to be reduced, as many represent third party contracts that are relatively easy to terminate. With less budget to spend, it may be argued that a recession increases the marketing manager’s incentives to not only “do something”, but to do the *right* thing *quickly*.

We therefore postulate that the marketing function, or marketing “department” is under increasing internal pressure to perform and that there is an increased urgency in recession.

3.3.2.2 Propositions on the Effect of Recession on the Marketing Function

While marketing is the “revenue-generating” function, we expect that:

P22: The marketing function is under more organizational pressure to perform during recession than in normality.

Because top management sees the time-critical nature of marketing in recession, we expect to not only see organization pressure for results, but also for the delivery of these results in a shorter time frame. We thus postulate that:

P23: The urgency to perform well increases in recession.

Because of these two propositions, the activity within a marketing department is hypothesized to increase during recession. We would expect, for example, a greater number of initiatives for promotions, repositionings, changes to advertisements and reviews of product lines. We thus postulate that:

P24: The internal marketing activity increases in recession.

3.3.3 The Effect of Recession on the Marketing Manager

Besides the marketing function, recession also has specific effects on the individual marketing manager.

3.3.3.1 Literature Review of the Effect of Recession on the Marketing Manager

In recession, the marketing manager is faced with the task of adapting the marketing strategy, and consequently the marketing mix, to cope with the changed environment. However, recession is characterized not only by a simple reduction in sales and the associated problems referred to above, but also by a persistent and pervasive uncertainty: Are we already in a recession? Is a recession about to come? What effect will a recession have on the firm’s market and on me? What can I do to counter a recession? The more volatile the environmental parameters, the more difficult it becomes to formulate a plan that remains valid for some time. Though incentives to act are high in recession, uncertainty makes acting difficult.

The research consensus is that uncertainty is a consequence of inadequate information (see Eisenhardt, 1989; Eisenhardt/Bourgeois, 1988; Groenhaug/Haukedahl, 1988; Lawrence/Lorsch, 1967). Adequacy denotes information relevance, clarity, accuracy, comprehensiveness and timeliness (see Wilson, 1994). If recession means more uncertainty, the adequacy of information must somehow decline.

A possible explanation for decreasing information adequacy is instability. For example, rapid incremental change may decrease timeliness, accuracy and clarity of information, as information is captured and analyzed in an unsuitable way to represent frequent change. Fundamental structural shifts may decrease relevance and comprehensiveness of information, as old metrics do not reflect new structures. As information reflects clearly what is happening, managers' "objective" uncertainty as measured by informational deficits increases.

Within marketing literature, uncertainty typically consists of three types: *state*, *effect* and *response* uncertainty (see Milliken, 1987). State uncertainty is "not being able to predict what is going to happen"; effect uncertainty is "not knowing the impact of changes in the external marketing environment on the organization and marketing management decision-making"; response uncertainty is "not knowing how to respond to what is happening in the external marketing environment" (Ashill/Jobber, 2001, p. 523). State, effect and response uncertainties were confirmed to be relevant to and understood by marketing managers in the depth interviews conducted in preparation of this thesis (see Niederhofer, 2002).

However, "objective" uncertainty as arising from decreased information adequacy does not capture that uncertainty is as much dependent on information as it is on the interpreter, in this case, the marketing manager. Whilst the rate of change of environmental factors may indeed increase or their structural relationships change in recession, any uncertainty arising from such an environment is fundamentally subjective.

Concordantly, many authors have cited changing perceptions of the environment as the cause of uncertainty (see Groenhaug/Haukedal, 1988; Piercy/Giles, 1989; Milliken, 1990; Wilson, 1999; Ashill/Jobber, 1999; Ashill/Jobber, 2001). Wilson (1994) defines perception as the "conceptual distance" between an organization's collective frame of reference and its environment. Because of the difficulty of aggregating per-

ceptions, it may be better to speak of a lack of isomorphism between *one* manager's cognitive schemes, or "mind models", and the marketing environment. Such a gap may arise not only from inadequate information, but also from limitations of a manager's cognitive capacity ("bounded rationality").

Uncertainty due to recession becomes a problem because any marketing plan is essentially predicated on some conviction of future developments (see Wilson, 1999). If there is no continuity, prediction is impossible and there can be no solution: Every prescriptive heuristic or model needs at least somewhat robust informational inputs to generate valid normative results.

Recession is thus a precarious period for the marketing function: while the pressure to perform is high, instability makes marketing managers uncertain of what is happening, what the effects will be and what to do to counter these effects. As predictability declines and in case cash is increasingly tight, budgetary demands become harder to justify. Add to this an assumed time-critical nature of responding to recession and the difficulty of marketing in turbulent times is immense.

For these reasons, we believe that both the individual marketing manager's perceived stress level, as operationalized by "work load", as well as the effort of the entire marketing function, as operationalized by "internal marketing activity", should increase in recession.

3.3.3.2 Propositions on the Effect of Recession on the Marketing Manager

Uncertainty increases in recession, though it is unclear what *type* of uncertainty increases. Our literature review has shown that effects of recession on marketing managers is a rather neglected area. Based on some theoretical and conceptual foundations as well as on observations from in-depth interviews, we postulate the following propositions:

P25: State uncertainty increases in recession.

P26: Effect uncertainty increases in recession.

P27: Response uncertainty increases in recession.

Because there is pressure on the marketing manager to make the right decisions, we expect:

P28: Marketing managers are under more pressure to perform during recession than in normality.

P29: Marketing managers have a higher workload during recession than in normality.

3.4 Marketing Strategy in Recession

Section 3.4 presents a literature review of research on effects of recessions on marketing strategy. As outlined in Chapter 1, this is a field in which little literature exists and that which exists is of questionable quality. Where applicable, we will identify sources as primarily practitioner-oriented, based on anecdotal evidence or more laudable large-scale empirical research. We will attempt to skew our focus towards the latter, without omitting interesting observations of the former. As in the sections above, the first subsection will always present a literature review, while the second subsection will present a summary of the review by deriving the propositions that are the basis for the empirical work presented in Chapter 4.

For the purposes of this Thesis, strategy is defined as

“the pattern of major objectives, purposes, or goals and essential policies and plans for achieving those goals, stated in such a way as to define what business the company is in and the kind of company it wants to be” (Jain, 1993, p. 9).

While corporate and marketing strategy is not identical, we believe that marketing’s boundary-spanning role implies considerable overlap with the corporate mission (see Wind/Robertson, 1983). Furthermore, the process of strategy development and evaluation tools of planning are sufficiently similar to cite corporate planning literature when speaking of marketing strategy planning.

3.4.1 Literature Review of Marketing Strategy in Recession

There is a plethora of literature from institutions and individuals outside academia (see, e.g., American Business Press, 2002; Dobbs et al., 2002a; Dobbs et al., 2002b; Hillier/Baxter, 2001; McGraw-Hill Research, 2002; Ryan, 2001; Strategic Planning In-

stitute, 2002). Most of these texts suggest that firms that increase expenditures in recession benefit significantly during and after the downturn. Most of these sources could be rejected both from a perspective of rigor in research and institution-incentivized bias. However, and perhaps most interestingly, they give little guidance as to which firms could benefit most and under which circumstances (see Srinivasan et al., 2002). Empirically, few firms increase marketing expenditures during recession (see Meffert/Mueller, 1993; Picard, 2001; Tomczak/Belz, 1993). The slump of the advertising industry in the period 2001–2003 is ample illustration of firms reducing marketing spending (see Srinivasan et al., 2002).

Academic research is notable for its scarcity, its paucity in attempting large-scale empirical studies, its unintegrated nature and its inconclusive results. The key literature is summarized in Illustration 3.1 below. It is interesting to note that some authors unequivocally champion an increase in marketing expenditures in recession to improve performance in recession (see, e.g., Bonoma, 1991; Fields, 2000; McMaster/Strout, 2001; Porter, 2001; Rigby 2001; Venkatrama/Prescott, 1990), while others argue that investments during recession are counterproductive (Sadhu et al., 1990; Wagner, 1984). Srinivasan et al. (2002) report, and we can confirm, that a review of leading marketing journals (*Journal of Marketing*, *Journal of Marketing Research*, *Marketing Science*) yields only three articles (Coulson 1979; Cundiff 1975; Yang 1964), all quite dated and none founded on significant empirical results. Furthermore, Srinivasan et al. (2002) report a review of 20 U.S. standard marketing textbooks, of which only seven refer to marketing in recession. Among these, three recommend increasing expenditures in recession, while the others do not recommend any strategy. All in all, the academic literature lacks rigorous contributions, yields few empirical results and propounds contradictory suggestions for marketing practice.

Table 3.1 Key Literature on Marketing in Recession, English

Source	Theoretical Focus	Context; Sample	Results
Coulson (1979)	Problems of market planning in turbulent environments	Conceptual	Issues of market planning in volatile economy
DeDee/Vorhies (1998)	Contrarian human resources strategy of hiring employees on performance in recession	Multi-industry; n=110	Retrenchment activities of firms during an economic downturn improved their performance
Dhalla/Blodgett (1980)	Effects of changes in advertising expenditure on market performance	Multi-industry; n=?	Increased adspend by airlines during first oil crisis increased sales and share while airlines that decreased spending lost sales and share
Graham/Frankenberger (2003)	Advertising in recession	PIMS data base; n=2622	For most firms, advertising in recession has a positive influence on future earnings
Hoon Ang et al. (2000)	Marketing during the Asian economic crisis	Conceptual	Low-level marketing is one of the most important activities during the crisis and in recovery
Mascarenhas/Aaker (1989)	Marketing strategies over the stages of a business cycle	Crude exploration industry; n=679	Firms adjust their strategies significantly and asymmetrically over business cycle stages.
Mizuchi/Stearns (1988)	Effects of environment on organizational decision making	Multi-industry; n= 22	Interlocking directorates from financial institutions are a function of business cycles.
Pearce/Michael (1997)	Effect of firm's marketing strategy of entrepreneurial firms on their performance during a recession	Multi-industry; n=118	Firm's marketing strategies preceding a recession strongly impact the effects of the downturn and its subsequent recovery. In addition, an emphasis on efficiency alone results in poor performance.
Picard/Rimmer (1999)	Impact of the recession on newspaper companies	Newspaper publishing; n=15	Larger firms in the newspaper industry were more affected by the recession than small firms and non-newspaper diversification reduced the effects of the recession.

Source	Theoretical Focus	Context; Sample	Results
Rigby (2001)	Contrarian strategy of investing on performance during a recession	Conceptual	During an economic downturn, firms that employ a contrarian strategy outperform slumping competitors and strengthen company for the upturn.
Ryan (2001)	Meta-review of studies about anticyclical advertising	Literature review	Generally, junk science conclusion that advertising is more effective in recession than in normality, dubious given the publishers
Sadhu et al. (1990)	Investment intensity and firm performance during a recession	PIMS data base; n=269	Increased investments during a recession negatively affect current profitability.
Shama (1993)	Difference between large and small firms in the effects of, and response to the recession	Fortune 500 firms; n=120	The meaning, perceived impact of, and the response to a national recession to marketing managers varied by firm size and business sector.
Srinivasan et al. (2002)	Proactive marketing in recession	Multi-industry; n=154	Proactive marketing is predicted by a strategic emphasis on marketing, slack, entrepreneurialism and flexibility and has a positive effect on performance
Venkatraman/Prescott (1990)	Relationship between market share and profitability in different stages of the business cycle	PIMS data base; n=899	Relationship between market share and profitability varies with different business cycles.
Wagner (1984)	Effects of investments on firm performance	PIMS data base; n=460	Profit growth and not the level of investment influence a firm's return on investment during a contraction in the business cycle.
Yang (1964)	The relationship between sales and advertising during a recession	Product categories; n=11	A strong effect of the cyclical nature of advertising—with reduction in advertising during a recessionary situation.

Source: extended from Ryan (2001), Srinivasan et al. (2002), own research

Table 3.2 Key Literature on Marketing in Recession, German

Source	Theoretical Focus	Context; Sample	Results
Berndt (1994)	Marketing management quality as a tool against crisis	Conceptual	Marketing management has three options in recession, aggressive, defensive and changing objectives
Fritz (1994)	Market orientation versus cost and production orientation in recession	Multi-industry; n=147	Market orientation has a stronger effect on performance in recession than cost- or production orientation
Hinder (1986)	Strategic company management in recession	Conceptual	Strategic planning in light of recession and newer social philosophies (aesthetic-rationalist)
Krommes (1972)	Organizational behavior of the firm within economic growth theory	Conceptual	Links early sales theory to economic growth theory of economics
Meffert (1994)	Practitioner-oriented, impact of recession on objectives, marketing heuristics for recession	Multi-industry; n=375	Companies focus mainly on customer loyalty, cost reduction, product-pull and contracting-push policies in recession
Rohlmann (1977)	Marketing programs in recession, theory-building, German seminal book	Consumer durables; n=90	Description of changing market environment in recession, development of generic strategies depending on recession type, marketing programs
Tomczak/Belz (1993)	Use of marketing budgets during recession	Multi-industry; n=78	Some instruments are cut during recession (advertising), while others are increased (sales promotion); little anticyclical
Uphues (1979)	Corporate change in recession	Conceptual	Companies must focus on adapting to changing environmental variables in recession

Source: own

In the German literature, the main sources are Rohlmann (1977) and Meffert (1994), the latter of which significantly draws on the former. Rohlmann (1977) is based on an empirical study of durable goods producers (n=90), while Meffert (1994) conducted a large-scale cross-industry study of German consumer goods, industrial goods and services companies (n=375), outlined in Meffert/Mueller (1993). The significant contribution that makes them the main sources is a framework for generic marketing strategies in recession developed by Rohlmann (1977) and later adapted by Meffert (1994).

Strategies are labeled in relation to the economic cycle: acyclical, procyclical and anticyclical. Meffert categorizes them by aggressive/defensive strategic posture, while Rohlmann calls this the “habitual use” of product/program policy and whether it actively counters the recession or not. Meffert’s (1994) illustration is provided below.

Figure 3.4 Generic Strategies in Recession

		Type of Posture	
		<i>Defensive</i>	<i>Aggressive</i>
Recession Taken Into Account?	Yes	Procyclical	Acyclical
	No	Partially anticyclical	Anticyclical

Source: Meffert (1994), own adaptation

We note briefly here that both Meffert’s and Rohlmann’s classification schemes are flawed. For example, depending on which framework one follows, the procyclical and acyclical strategies are argued not to take the economic environment into account (see Meffert, 1994) or to be characterized by their defensive reaction to a recession (see Rohlmann, 1977). Both these assertions are unjustified. Procyclical behaviour certainly takes the recession into account and acyclical behaviour can hardly be called defensive. Furthermore, the difference between partially anticyclical and wholly anticyclical policies is described as, in both cases, timing, or lag between perception of recession and implementation of policy. However, time lags can also be due to uncertainty or risk aversion, rather than to a general strategic posture (see Meffert, 1994) or the habitual use of marketing instruments (see Rohlmann, 1977). Either as classification criteria or as a conceptual framework for the adoption of a certain strategy (“heuristic”), the categorizations prove to be of low informative value. Finally, the “partially anticyclical” strategy seems to be hardly more than a “filler” for a 2x2 matrix based representation than an empirically supported strategy cluster. While we will discuss this issue later, we believe the true continuum of strategy behaviour relative to the cycle to lie between the pro-, a- and anticyclical.

A procyclical strategy is adopted by companies that believe a strategic reaction to the economic environment not to be useful or possible (see Uphues, 1979; Rohlmann, 1977; Meffert, 1994). Marketing activities thus vary with the economic cycle, representing a “natural adaption” to sales stagnating with the economy (see Meffert, 1994). However, procyclical behaviour may also be the result of firm-specific constraints, such as an insufficient equity basis, aggressive retailer behaviour, past investment commitments and competitive intensity (see Rohlmann, 1977). Tomczak/Belz (1993)

argue that procyclicality may be a dominant strategy in recession because marketing budgets, especially advertising, are easy to cut. Meffert (1994) warns that while a procyclical strategy may generate higher short term returns, e.g. through budget cuts, lowering capacity or cutting capital expenditures on new investments, it significantly lowers the firm's chances for success in an ensuing economic recovery by reducing the degree of freedom of strategic action. Procyclical strategies are also argued to lead to a "stagnation spiral", resulting in an acute financial crisis (see Ghemawat, 1993).

An acyclical strategy is characterized by product and program policies that do not take the recession into consideration (see Hinder, 1986; Rohlmann, 1977; Meffert, 1994). This "business-as-usual" attitude leads to a high degree of continuity and may be appropriate for cash-rich companies with strong brands pursuing long-term goals (see Meffert, 1994) or for all companies in short, light recessions (see Rohlmann, 1977). Companies focus on recession-independent competitive advantages (see Meffert, 1994), but give up recession-specific opportunities, such as lower media rates, less clutter and lower competitive advertising-to-sales ratios (see Rohlmann, 1977). The partially acyclical strategy is characterized as a "delayed strategic reaction" to recession, either because strategy in general or the use of marketing instruments in particular is "defensive" and uncertainty is high (see Rohlmann, 1977; Meffert, 1994). In general, such behaviour will likely be found when the recession has a large impact on the firm, increasing the firm's incentive to react over time (see Rohlmann, 1977). Meffert sees merit in the partially acyclical approach because it guards against panic reactions (see Meffert, 1994). However, as noted above, it is not clear why only the anticyclical strategy should have a partial, delayed counterpart and why procyclical or acyclical strategies cannot be partial or delayed as well.

Its inverse relation to the economic cycle characterizes an anticyclical strategy; as sales decline, marketing activities increase to counter stagnation (see Uphues, 1979; Rohlmann, 1977; Meffert, 1994). The anticyclical approach is certainly the most fascinating for marketing research, as evidenced by multiple publications of advertising agencies (see Ryan, 2001), because it makes marketing activities central to weathering a recession. Meffert (1994) see the anticyclical approach making use of a high degree of innovation (recession-specific new product launches), increased image advertising, a high specialization (niche strategy) and recession-specific loyalty

programs. Rohlmann (1977) does not believe this strategy to have a higher risk–return ratio than other strategies in recession; rather, he thinks it possibly benefits from recession–specific opportunities, increasing the degree of freedom of strategic action in recovery. However, marketing practice remains sceptical of anticyclical (see empirical research results by Meffert/Mueller, 1993). Rohlmann (1977) and Meffert (1994) argue that the adoption of the four generic strategies depends on length and duration of the recession (see Rohlmann, 1977, p. 37 for a management-oriented classification typology of recessions). Rohlmann implies that the shorter the recession, the easier to ignore it altogether and the stronger the recession, the higher the need for anticyclical (see Figure 3.5). While intuitively reasonable, this proposition has never stood for empirical testing and, it seems to us, would be rather hard to operationalize correctly. Furthermore, an excellent argument can be made for strategy adoption also depending on competitive dynamics, consumer behaviour in specific product–markets and the level of resistance of intermediaries, which influence both the applicability and the implementability of a strategy.

Figure 3.5 Recommended Strategies for Duration/Strength of Recession

	Short, weak	Short, strong	Long, weak	Long, strong
Procyclical	+	++	-	-
Acyclical	++	-	-	-
Partially anticyclical	-	-	+	++
Anticyclical	-	+	++	++

Source: Rohlmann (1977), Meffert (1994), own adaptation

Berndt (1994) is less interested in the direction of strategy in relation to the economic cycle than in the degree to which strategy is adjusted to fight recession. He hypothesizes three alternate responses to recession: changing objectives, reactive behaviour and proactive behaviour. Changing objectives means that the firm adapts to the recession not by adjusting strategy or the marketing mix, but by simply changing its goals. Reactive behaviour means the tactical use of marketing instruments to counter recession, e.g. an advertising campaign or promotional pricing to

stimulate demand. Proactive behaviour is a “strategic change”, e.g. the firm changing its product mix or acquiring new distribution channels to cope with recession. Which path a firm follows, argues Berndt, should depend on length and strength of the recession as well as impact on and vulnerability of the firm (see Berndt, 1994).

The concept of proactive marketing to counter recession has been revived recently by Raji Srinivasan, Gary Lilien and Arvind Rangaswamy (see Srinivasan/Lilien/Rangaswamy, 2002). The authors specify proactive marketing as a construct consisting of perceiving the recession as an opportunity to market aggressively and then implementing an aggressive response to recession.

Srinivasan, Rangaswamy and Lilien (2002) is the only recent paper that addresses the question of what strategic antecedents predict marketing performance in recession, also identifying the key literature (see Illustration 1, adapted from Srinivasan/Lilien/Rangaswamy, 2002). They formulate a new construct of “Proactive Marketing”, containing both the operationalization of whether a firm sees the recession as an opportunity rather than a threat and whether a firm develops an offensive response to recession to capitalize on this opportunity. The authors hypothesize that “Proactive Marketing” should have a positive effect on market performance and business performance during recession. Furthermore, they ask which organizational traits may determine whether a firm engages in “Proactive Marketing”. Here, they hypothesize that the constructs “Strategic Emphasis on Marketing” (adapted from Miller 1988), “Entrepreneurial Culture” (adapted from Covin and Slevin 1989), “Organizational Slack Resources” (adapted from Chattopadhyay, Glick and Huber 2001) and “Strategic Flexibility” (Grewal and Tansuhaj 2001) predict “Proactive Marketing”.

A strategic emphasis on marketing leads firms to adopt a proactive marketing approach in recession for several reasons. Firms with a strategic emphasis on marketing aim to create a distinct, favourable image relative to competition (Miller, 1988; Moorman/Rust 1999; Porter, 1980). Marketing results in higher margins and customer loyalty. Internally, marketing managers in these firms have more say over where budgets are invested (Hitt et al., 1982; Homburg et al., 1999). Externally, longstanding relations with marketing agencies mean that firms with a strategic emphasis on marketing enjoy better buying rates in recession (Cahners, 2002). Both

factors make it more likely that firms with a strategic emphasis on marketing act anticyclically in recession.

Entrepreneurial culture is the extent to which managers take on risks and embrace change to generate higher returns (Covin/Slevin, 1989; Johnson/Sohi, 2001). This attitude leads to a perception of adversity as an opportunity. Investing in recession is a risky strategy (DeDee/Vorhies, 1998). Firms with an entrepreneurial culture are thus more likely to take a proactive stance in recession than firms with a more risk-averse culture.

Slack is “the pool of resources an organization has that is in excess of the minimum necessary to produce a given level of output” (Srinivasan/Lilien/Rangaswamy, 2002, p. 12; see also Bourgeois, 1981; Nohria/Gulati, 1996). Slack resources permit firms to respond to unusual environments or experiment with new strategies (see Kamin/Ronen, 1978; Meyer, 1982; Nohria/Gulati, 1996; Levinthal/March, 1993). If budgets are available, firms are more likely to spend money if an investment opportunity is present. If they perceive the recession as an opportunity, organizational slack resources make a proactive marketing approach to the downturn more likely.

Strategic flexibility is the organizational ability to manage risks and pursue opportunities by promptly responding to environmental changes (Grewal/Tansuhaj, 2001). Strategic flexibility allows firms to quickly re-allocate resources (see Evans, 1991). Such nimble management thus makes a proactive response to recession more likely.

Srinivasan/Lilien/Rangaswamy (2002) test their hypotheses through a covariance-based causal model estimation using LISREL. Satisfactory results are reported for both the prediction of proactive marketing determined by organizational traits and market performance from proactive marketing. Furthermore, the mediation of the effect of organizational antecedents on performance by the construct of proactive marketing increases the explanatory power of the model. It follows that proactive marketing is a significant construct for explaining market performance during recession.

3.4.2. Propositions on Marketing Strategy in Recession

While normative speculation in the academic literature abounds, very few authors actually address *what happens* in recession. Furthermore, lacking data about the relative strength and length of the recession we studied, we find it difficult to transform any of the German literature frameworks into propositions. The one resounding, if largely anecdotal, fact from the literature, however, is:

P30: Few companies engage in anticyclical marketing in recession,

where anticyclicality is defined as an increase in marketing budget for the duration of the recession.

From the work by Srinivasan/Lilien/Rangaswamy (2002), we may derive hypotheses rather than propositions. These hypotheses will be tested in the causal model in Chapter 5, rather than reviewed in Chapter 4, which is more exploratory and descriptive in nature; they are included here for consistency reasons. Based on the organizational antecedents proposed by Srinivasan, we hypothesize that:

H1: The greater a firm's strategic emphasis on marketing, the greater its proactive marketing during recession.

H2: The greater a firm's entrepreneurial culture, the greater its proactive marketing during recession.

H3: The greater the availability of slack resources in a firm, the greater its proactive marketing during recession.

H4: The greater a firm's strategic flexibility, the greater its proactive marketing during recession.

Furthermore, based on the conclusions by Srinivasan/Lilien/Rangaswamy (2002), we hypothesize:

H5: The greater a firm's proactive marketing during recession, the greater its market performance.

Contrary to Srinivasan/Lilien/Rangaswamy (2002), we view a firm's business performance resulting from its market performance, rather than directly from its proactive marketing approach. We also introduce an aspect of temporality to reflect

that investments in marketing during recession are expected to benefit firms after rather than during the recession, and thus we hypothesize:

H6: The greater a firm's market performance in recession, the greater its business performance after recession.

3.5 The Marketing Mix in Recession

Kotler (2000, p. 15) defines the marketing mix as "the set of marketing tools that the firm uses to pursue its marketing objectives in the target market", "eliciting desired responses" if successful. Lilien/Kotler/Moorthy (1992, p. 170) speak of decisions rather than tools or instruments. They define marketing decision variables as "those variables under the firm's control that can affect the level of demand" (Lilien/Kotler/Moorthy, 1992, p. 170). In being under the firms control, these variables are distinguished from other factors influencing demand, such as the environment or competition.

It is difficult to find a conclusive statement of what instruments or decisions constitute the marketing mix: the array of instruments is vast, their names vary and decisions often include several instruments rather than just one. A grouping of decisions is thus necessary to present an analysis.

There are many historical classifications of marketing mix decisions. Perhaps one of the earliest, McCarthy (1960) proposes the classic "four P's", product, price, place and promotion. Frey (1961, p. 30) argues that a two-dimensional categorization is sufficient, "offering" (product, service, brand, price) and "tools and methods" (distribution, promotion, sales force). Lazer/Kelly (1962, p. 413) propose three factors: the "goods and services mix", "distribution mix" and "communication mix."

Most authors use some form of the four P's (see Kotler, 2000; Jain, 1999) which is the most familiar to readers with a business background. We will therefore classify marketing mix decisions in product, pricing, communication and distribution policy categories. Product policy includes decisions taken with a focus on the offering, be it product, associated service or brand. Pricing policy includes decisions determining the "effective" price, including all contracting conditions between the retailer and

manufacturer and price promotions for the end consumer. Communications encompasses all decision regarding the passing of a message from the manufacturer to the consumer (or retailer), including level and allocation of communication expenditures, message content and media selection. Distribution policy focuses on manufacturer/retailer relations, including channel selection, relationship management and logistics.

We examine product policy in Part 3.5.1, pricing policy in Part 3.5.2, promotion policy in Part 3.5.3 and distribution policy in Part 3.5.4.

3.5.1 Product Policy in Recession

As in earlier sections, the literature review in section 3.5.1.1 is followed by the derivation of propositions in 3.5.1.2.

3.5.1.1 Literature Review of Product Policy in Recession

Product policy concerns what products, i.e. bundles of attributes, a company offers to potential customers (see Brockhoff, 1993). This is a long-term, if not strategic, decision. All other marketing instruments heavily depend on the product policy decision. Any strategic adjustment to changing consumer or retailer demand therefore means product policy adjustment, at least in the medium term (see Berndt, 1994).

The literature suggests that changing product policy can be a successful instrument in recession (see Hinder, 1986; Rohlmann, 1977; Meffert, 1994), especially if the current product mix is vulnerable to the downturn. A review of product policy may lead to decisions about innovation, variation (modification) and elimination within the product mix.

Innovation and modification are demand-stimulating activities that necessitate additional investment, aiming to adapt the product mix to changing demand in recession (see Waltermann, 1993). Elimination is a cost-cutting activity that decreases associated budgets (see Rohlmann 1977).

Berndt (1994) argues that product innovations catering to recession-induced consumer needs may be best adapted to revive demand and thus diversify the product

range to reduce risk. We categorize product innovation as an anticyclical policy, because it involves investing inversely to the economic cycle to counter the downturn.

However, most authors, including Berndt (1994), note that innovating is not easy in the turbulent times of recession. Lower cash flows, increased retailer resistance and internal politics may make new product launches increasingly difficult (see Meffert, 1994; Brockhoff, 1993). Furthermore, a timely adjustment to recession may be urgent, while research and development and launching a new product take considerable time. Even if feasible, the risk of new product failure increases with volatile consumer behaviour and intensifying competition in recession (see Berndt, 1994). Meffert (1994) notes the dangers of brand extension, i.e. launching products under an umbrella brand, during stagnation or recession. Such activity may lead to a loss of brand identity, negative feedback effects in case of failure and growing coordination cost in managing the brand.

Berndt (1994) recommends coping with these recession-associated problems of innovation either by using a “second-brand” policy, i.e. launching under a different name or a brand family that is of lesser importance to the company, or by introducing private label brands (see Rohlmann, 1977). This seems problematic for two reasons. First, a lower-priced brand has to generate proportionately greater unit sales to compensate for revenue lost by a higher-priced brand. Secondly, there are considerable strategic implications of producing private label, not least of all capacity trade-offs and intra- and inter-channel conflicts with intermediaries and brands from within the same corporate group.

The final objection to product-mix innovation as a policy to fight recession is brand continuity, given that the average recession in Germany lasted no more than two quarters. If investments in research and development and new product launch are considerable, could a company really want to launch a recession-only product and, further, would it like marketing a recession-oriented product, possibly under a corporate umbrella brand, when recovery begins?

The second possibility of product-mix policy attuned to changing needs in recession is product variation. This can mean modifying and repositioning a product offering (see Berndt, 1994; Meffert, 1994) and represents another anticyclical policy adopted

to revive demand. Variation may include changing physical, functional and symbolic attributes of a product (see Brockhoff, 1993).

The need for product variation depends on consumer, retailer and competitor behaviour (see Tennhagen, 1993; Meffert, 1994) and may be induced by all three (see Schaber, 1993). A changing *consumer* value system implies a changed need structure, which changes the attitudes towards product attributes. This may lead to declining sales, increasing *retailer* reluctance to devote shelf space to the product. Furthermore, *competitors* may have already reacted to the changed need structure by introducing a modified product offering. Market research is vital to adjust variation to consumers' needs (see Jain, 1993), all the while trying not to disillusion current users by varying too many of the product's attributes (see Rohlmann, 1977).

Product variation may be superior to product innovation in recession, because it is generally faster, retains current customers without cannibalization and provides continuity for recovery (see Berndt, 1994). Further, and perhaps most convincingly, while variation has a similar chance of success or risk of failure as do product innovations, the costs involved are generally much lower.

The third possible outcome of a product policy review in recession is the elimination of a product or products from the mix (see Brockhoff, 1993). Such a policy is procyclical, because it aims not to invest, but to cut costs to increase return. A systematic analysis of economic (contribution, return) and strategic factors (changed needs structure, contractual obligations, brand image feedback effects) is needed to prepare for elimination decisions (see Rohlmann, 1977). The economic review must take into account both revenue and cost structure interdependencies between products (see Krommes, 1972).

Sometimes, costs can be decreased without eliminating a product entirely, for example by adopting modular or "platform" strategies (see Meffert, 1994). Elimination should therefore be approached with caution if variations are easy. Eliminating products could also be considered a form of recession-myopia (see Berndt, 1994). Even if revenue and cost interdependencies are considered, image interdependencies may prevail that provide unnoticed long-term returns. Berndt (1994) advocates keeping flagship products, even if their contribution is marginal or negative in recession and reviewing product performance with the scenario of recovery in mind.

Many authors cite the importance of rethinking service offerings during recession (see Krommes, 1972; Rohlmann, 1977; Laakmann/Mueller, 1993; Waltermann, 1993; Meffert, 1994). The study presented by Laakmann/Mueller (1993), drawing on the same data as Meffert/Mueller (1993), cites 81% of German companies surveyed using increased service quality as a primary instrument to combat recession. While only indirectly important to consumer goods companies, services to retailers (see Rohlmann, 1977) and added attributes for end consumers, such as extended warranties (see Meffert, 1994), increase in importance during recession and may constitute a differentiating competitive advantage.

While both procyclicality (elimination) and anticyclicality (innovation, variation, services) are recommended depending on economic and strategic considerations, no heuristics exist that recommend acyclicity. However, leaving product policy unchanged during recession may be sensible in the absence of radically changing retailer, competitor and consumer behaviour. Given a short, weak recession, brand continuity may be better than launching innovations or variations (see Niederhofer, 2002).

3.5.1.2 Propositions on Product Policy in Recession

Again, a derivation of descriptive propositions is difficult, since most authors make normative, rather than positive statements. Furthermore, statements are rather too general with respect to product policy as to make individual observations about product policy measures, such as a different design or new packaging. We thus limit ourselves at this point to deriving propositions for the general direction of product policy. In general, authors see firms as rarely behaving anticyclically, thus:

P31: Few companies engage in anticyclical product policy investments in recession.

On the basis of the studies presented in Section 3.5.1.1:

P32: Few companies launch new products in recession (product innovation)

P33: Few companies launch modified products during recession (product modification)

P34: Many companies cut underperforming products in recession (product elimination)

On the basis of Srinivasan/Lilien/Rangaswamy (2002), we propose that proactive marketing leads to a greater market performance in recession. To increase the specificity of this causal relationship, on the basis of the numerous studies propounding an anticyclical product policy in recession (see, e.g., Hinder, 1986; Rohlmann, 1977; Meffert, 1994), we propose that

H7: The greater a firm's investment in product policy in recession, the greater its market performance in recession.

3.5.2 Pricing Policy in Recession

As noted earlier, price is seen as one of the most important instruments during recession because of potential budgetary cuts for marketing. Because it acts a stimulant for demand, potentially doubly so as consumers' price elasticity and consciousness increases, and because it is a non-investive policy, marketing managers would be expected to use price more frequently in recession than in normality. However, price also decreases sales value and, when set in a competitive environment, may lead to permanently decreased margins.

Part 3.5.2.1 serves to review the literature on pricing policy in recession, while in Part 3.5.2.2, we derive propositions for the empirical test in Chapter 4.

3.5.2.1 Literature Review of Pricing Policy in Recession

This section will consider heuristics for pricing and contracting policy in recession. Price is a special instrument because it is simultaneously part of the offering ("price positioning"), part of the transaction (monetary and "perceived" value) and a tool to stimulate demand (see Krommes, 1972; Wilkening, 1993; Zaho, 2000). Due to its short-term availability and "immediate effect on demand", it is considered one of the most important tools of marketing in recession (see Meffert, 1994).

In contrast to the three other policy groups, pricing policy has no associated budget. While a change in revenues resulting from a price decrease could be considered an “opportunity cost budget” given the separation of the value from the volume effect, the necessary elasticities to estimate such a budget are difficult to derive. It is thus pragmatically impossible to say whether a price increase (decrease) is a procyclical (anticyclical) policy. We therefore only distinguish between a pricing policy adjustment, which can be positive or negative, and pricing policy continuity as an acyclical policy.

As noted in the section on consumer behaviour in recession, demand may become more price elastic during the downturn. At the very least, consumer price consciousness increases. Furthermore, retailer pressure on prices may increase depending on a company’s market position and price positioning. Finally, the focus of competition may shift towards price, resulting in a “stagnation spiral” of a given category or industry (see Garda/Marn, 1993). The longer the recession, the more pressure to reduce price (see Meffert, 1994).

The question of whether or not to decrease price is thus of paramount importance. When considering price decreases in recession, price elasticity, long-term effects, probable competitive reaction, interaction with product policy and likely length of the recession must all be taken into account.

Even if price elasticity increases in recession, it is unsure whether the resulting sales increase from lowering prices is enough to keep contributions stable. Garda/Marn (1993) illustrate this point by constructing a fictional “average” company from the Standard & Poor’s 1000, a stock market index. Decrease this average company’s price by 1% leads to a reduction in contribution by over 12%. Demand would have to surge by 4% for every percentage point decrease in price just to keep contribution stable, assuming linearity. Historical price elasticity estimations, though conducted in normality, are significantly lower for most product categories (see, e.g., Danaher/Brodie, 2000). It is thus questionable whether decreasing prices in recession pays off (see Wilkening, 1993; Meffert, 1994).

Furthermore, the associated long-term effects of a price decrease are difficult to predict. Price signals quality (see Krommes, 1972; Zhao, 2000) and lowering price in recession may decrease the perceived “quality-distance” between high- and low-

priced products, inducing trial purchases of low-price brands and PLBs (see Wilken-
ing, 1993). Furthermore, a single price decrease or even a temporary price
promotion may have separate effects on consumer price consciousness, perception
of the category and retailer attitude towards current price levels.

As noted in the section on competitor behaviour in recession, rapid competitive re-
actions during recession may lead to downward price spirals in a category. This may
be due to competitors' misperceptions: prices are believed to have been permanently
lowered, when a specific decrease is only a price promotion (see Garda/Marn, 1993).
Transparency of pricing policy is therefore vital to avoid price wars in recession. The
temporary nature of price decreases, or quality increases with price stability, should
be openly communicated to consumers, competitors, retailers and institutional mar-
ket analysts (see Meffert, 1994).

Finally, price continuity or decreases should always be considered in light of the as-
sociated change in product policy (see Hoon Ang et al., 2000). Charging the same
price for higher quality may maintain brand equity and customer loyalty. Though
market share and profitability will decrease in the short term due to some customers
departing, this strategy makes it easier to raise prices once recovery begins. Charg-
ing a lower price for the same quality will reduce profitability but allows maintaining
or increasing market share, which can be of value if repurchase rates are high. How-
ever, this strategy makes it difficult to raise prices in recovery (see Hoon Ang et al.,
2000). Lowering price while lowering quality is an aggressive penetration strategy for
recession. It runs the risk of diluting brand equity and may be difficult to reverse in
recovery.

While decreasing prices thus may not pay off and even be dangerous, not decreasing
prices at all in recession may also estrange customers. With its long-term effects and
the length of recession being uncertain, Meffert (1994) recommends making every
price decrease temporary and/or regional. This temporary/regional nature of price
promotions attempts to circumvent the establishment of new reference prices, the
primary source of adverse effects of price decreases. "Flexible pricing capabilities"
(see Meffert, 1994, p. 118), which may eliminate these effects altogether, are bun-
dling and unbundling (see Simon, 1992) or adjusting contracting policies (see
Garda/Marn, 1993). As with any price promotion, the disadvantages of a temporary

decrease in price is the threat of inducing demand shifts in time rather than real demand increases.

Besides price itself, contracting policies may be used to combat the effects of recession. Contracting instruments are rebates financing and shipment and payment conditions (see Diller, 2000). Rebates are decreases in price; there are functional rebates (for services rendered), quantity rebates (for size of order) and time rebates (depending on season or product launch). Financing subsumes all methods of transferring ownership besides purchasing, for example granting credit to the retailer or setting up special arrangements to finance inventory while it is on the shelf. Shipment and payment conditions include specifications on when the delivery of goods and transfer of funds must take place. In addition to these contractual features, there are two main non-ordinary payments between manufacturers and retailers: joint promotion payments (“Werbekostenzuschuesse”) and listing prices (“shelf space” premia), both paid from manufacturer to retailer.

The variation of contracting policies changes the “effective price” paid by the retailer (see Uphues, 1979). Different costing methods of contracting have led to manufacturers ignoring effective prices in the past. Estimates of effective price deviation from quoted prices have revealed differences of between 15 and 30 percent, depending on the category (see Marn/Rosiello, 1992; Meffert, 1994). Monitoring effective prices and “waterfall” revenue leaks from contracting policy can therefore provide important leverage for manufacturers in recession.

Contracting policies can be used to implement “hidden price increases” (see Meffert, 1994) or to stimulate demand (see Krommes, 1972). Hidden price increases are possible in areas where retailers do not pay attention to effective prices, for example payment targets and some shipping and handling charges (see Meffert, 1994). Demand stimulation may result from the use of contracting policies to overcome retailers’ barriers to purchase, for example financing to raise retailer short-term liquidity or lowering effective price and communicating this to the retailer (see Krommes, 1972).

3.5.2.2 Propositions on Pricing Policy in Recession

Again, the literature is not specific enough to derive detailed propositions on such pricing policy instruments as list prices, shipping & handling rates, rebates & discounts, recommended prices, effective prices or relative competitive pricing. We will report on these in Chapter 4 nonetheless. From the literature above, we can propose:

P35: Most companies lower prices in recession

On the basis of Srinivasan/Lilien/Rangaswamy (2002), we propose that proactive marketing leads to a greater market performance in recession, and postulate that the specificity in the relationship is increased by an anticyclical price policy. We therefore hypothesize that:

H8: The more a firm lowers its prices in recession, the greater its market performance.

3.5.3 Promotion Policy in Recession

Section 3.5.3.1 reviews the literature of promotion policy in recession. Section 3.5.3.2 goes on to derive propositions.

3.5.3.1 Literature Review of Promotion Policy in Recession

The contribution-maximizing trade-off between reviving demand and lowering costs in recession is most obvious for marketing mix instruments when setting a promotions budget. While more promotion may increase sales, promotions also represent direct cash outflows. If returns are unsure, the tendency is to decrease the total budget (see Tomczak/Belz, 1993).

Managerial heuristics for setting the communications budget are plentiful: all-you-can-afford, percentage-of-sales, per-unit, competitive-parity and objective-and-task methods (see Rahders, 1989). All of these methods are problematic compared to quantitative modelling, but still widely used (see Rahders, 1989).

Heuristics for testing the promotions budget in recession have focused on the adjustment of the budget relative to the economic cycle (procyclicality, acyclicity, anticyclicity), rather than proposing own heuristics, related to sales, units or objectives/tasks. The most interesting question is, of course, whether anticyclical policies can be profitable.

A Lintas study showed that over 50% of German companies decreased communications budgets in the 1970s recession, while only 8% behaved anticyclically (see Meffert, 1994). However, 34% of surveyed companies in Germany had implemented some form of anticyclical communication policy in the 1990s (see Meffert/Mueller, 1993). Still, a study of Swiss companies reported only 13% practising some form of anticyclicity in the 1990s recession (see Tomczak/Belz, 1993).

Rigorous empirical proof that anticyclical promotion policies are profitable in the long term does not exist. Of course, many advertising agencies have conducted studies propagating as much anticyclicity as possible (see, e.g. Ryan, 2001). Some general proof that anticyclicity may be beneficial is provided by Dhalla/Blodgett (1980), Dobbs et al. (2002) and Rosberg (1976). However, these are studies that have neither been peer-reviewed, nor do they represent large-scale surveys.

The argument implicit in most analyses of anticyclical promotion is that competitors' promotion activities decline in recession (see Hoon Ang et al, 2000; Ryan, 2001). This leads to a proportionately greater return from promotions in recession than in normality, *ceteris paribus*. Furthermore, assuming a high repeat purchase rate, market shares tend to depreciate slowly. Recession therefore provides an opportunity to gain competitive advantage for recovery by spending anticyclically (see Dobbs et al., 2002).

If we assume competitive response to be intense, as suggested by our section on competitor behaviour, this should not hold true. As sales decline, spending on promotion means inviting a competitive (over-) reaction; if cross market share elasticities are comparable to normality, spending anticyclically does not lead to higher sales because competitive reaction offsets potential market share gains. Much therefore depends on likely competitor behaviour in recession.

Besides potentially higher returns from promotion in recession if competitors do decrease activities, proponents of anticyclical policy relate that media is cheaper: “some of the best deals [in advertising] occur in the slump” (see Ryan, 2001, p. 33). Thus, even if promotion elasticities do not change, expenditures for media that is cheaper may generate a higher return than in normality, assuming constant capital costs.

A common arguments advanced by champions of acyclicity in communications is brand continuity to support brand equity in the long term. Assuming a depreciating communications good will, upholding previous spending levels is recommended for companies trying to “weather” the recession. As Ryan (2001) points out: “Maintain continuity to sustain awareness. Advertising works cumulatively. People forget rapidly without frequent reminding.” This applies to the level of communications as well as to the message.

Not surprisingly, there are no heuristics expressly recommending procyclicality. Implicitly, it is assumed that procyclicality is induced by firm-specific constraints (see Rohlmann, 1977), the ease with which promotions budgets can be cut since they represent third-party contracts (see Tomczak/Belz, 1993) or because management is merely habitually defensive (see Meffert, 1994). However, procyclicality in promotion may be a rational reaction to recession if, for example, elasticities decline, competitive intensity is high, capital costs increase or if the recession is expected to be short and weak. Expenditures should then be allocated to other instruments in the marketing mix or postponed in time.

Beside the level of the communications budget, some observations exist regarding the changing allocation within the communications budget. The status quo of marketing budget allocation in recession was established by Tomczak/Belz (1993). Four clusters of “changing significance” of marketing instruments were identified in their Swiss study: “Luxury”, “Decrease”, “Recession” and “Ambivalent” instruments. “Luxury” instruments are cut completely in recession; they comprise sponsoring, public relations and internal sales force. “Decrease” instruments are perceived to be useful for building long-term good will and are decreased during economic hardship; these include advertising and trade fairs. “Recession” instruments are increased during recession, because they are seen as more effective; these instruments are distribution and retail rebates, sales promotion, merchandising and direct marketing. The “Am-

bivalent” instrument is the external sales force; marketing managers have increased the sales force budgets in past recessions, but believe them to harbour future cost cutting potential.

Tomczak/Belz (1993) conclude that two principles underlie marketing budget decisions in recession: (i) budgets for instruments that will stimulate short-term sales are increased and (ii) budgets are decreased in areas where it is easiest, namely where mainly third parties, not customers or employees, are involved. The results also indicate that besides focusing on price, competition is likely to intensify by becoming more short-term oriented, by using direct-effect instruments such as cooperations with retailers, sales promotions and direct marketing. While advertising may be less expensive in recession, the gain in efficiency is believed to be offset by a more aggressive competitive behaviour.

Meffert (1994), who takes a normative, rather than positive perspective but may nonetheless be interesting to provide a contrasting view, recommends changing allocation within the communications budget by keeping advertising constant to maintain share of voice. He believes that cutting advertising would sharply reduce brand loyalty and have significant long-term negative budget effects. He argues that sponsoring and public relations activities are counter-productive and should be decreased. Personal selling and sales promotion should increase to prove closeness to customers increase customer retention and allow products trials and demonstrations. Direct communications should increase to allow for differentiated and focused consumer contact, also providing the possibility for response. Sales promotion should increase to overcome short-term barriers to purchase and revive demand (see Meffert, 1994).

Hoon Ang et al. (2000) differ in recommending decreasing advertising’s budgetary weight in favour of more sales promotion, personal selling and public relations. Sales promotion generally has ten times the elasticity of advertising (see Vakratsas/Ambler, 1999) and is therefore useful to generate short-term sales in recession, even if effects dissipate more rapidly than for advertising or merely shift demand in time. More spending on public relations provides credibility when customers are uncertain (see Hoon Ang et al., 2000). Personal selling does justice to the consumer’s increased need for information and high cognitive procession (see Hoon Ang et al.,

2000). In analogy, if advertising is continued, then the allocation to different media within the advertising budget should change more towards print, which is the correct medium to convey rational, argumentative information in a high-involvement setting.

Other authors are sceptical of sales promotion as a useful instrument in recession (see Bryan, 2001; Dhalla/Blodgett, 1980). What better way, ask Dhalla/Blodgett (1980), to counter a mass phenomenon like recession than “the mass selling equivalent of mass production” (Dhalla/Blodgett, 1980, p. 1980)? Their doubt over cuts in advertising arises primarily from the fact that it is easier to cut than other marketing activities, e.g. sales force or retailer-coordinated promotions. Piercy (1987) agrees: budgeting is political. The implicit accusation contained in this line of reasoning is that most authors which advocate sales promotion in recession have engaged in ex-post justification rather than really weighing the pros and cons of different promotional instruments. Focusing on sales promotion in recession ignores advertising’s effect on current customers: advertising may reduce uncertainty for existing customers by reaffirming the purchased good’s value, thereby inducing repeat buys and word-of-mouth, something which sales promotion does not do (see Meffert, 1994).

The final communications heuristic proposed by authors writing about marketing in recession is that of message content. Two approaches may be identified, reassurance/continuity and information/argument. While advocates of reassurance/continuity stress the continued importance of affective processing of a message in recession, the authors propagating information/argument messages insist that cognitive processing increases in recession.

Reassurance/continuity means that messages must comfort consumers that they are “minimizing risk” by purchasing (see Ryan, 2001). This can either be achieved by adopting messages that are reassuring or by reverting to fundamental brand communication, provided that the brand is well established. In the former case, advertising should communicate that “this is the right choice in these times”, perhaps represented by a credible personality which symbolizes stability. The latter tactic allows for the brand itself to reassure by communicating: “the world may have changed, but we have not”.

The information/argument advocates believe affective advertising to be less effective in recession. Messages should be informative, aiming to overcome the barriers to

purchase by simple, logical argument (see Meffert, 1994). Benefits should be discussed in a rational manner and endorsed by expert sources. The more high involvement the decision is for the customer, the more informative and balanced the message should be (see Hoon Ang et al., 2000).

Besides the German literature, a recent articles has approached the topic of advertising in conjunction with research and development in recession with a more sophisticated methodology. Graham/Frankenberger (2003) examine aggregate effects of changes in advertising expenditures in recession compared to normality on current and future earnings. Their research highlights increases in earnings resulting from recessionary spending, especially for industrial products firms in the year following the recession. However, they also find little omission costs from reducing advertising in recession over time in a “flat-maximum” reasoning. Graham/Frankenberger is seminal in that it approaches the problem on a very large scale using historical data from Compustat (PIMS), with a final sample of 2,622 firms from 1972 to 2000. Their model encompasses both advertising and research & development, as these both are hypothesized to span larger time periods through long-term brand equity/market share and technology/product development effects. The approach taken by Graham/Frankenberger is interesting from a variety of perspectives. Firstly, it is the first large-scale, secondary-data based, academic, i.e. not advertising-agency sponsored, examination of the effects of advertising over the business cycle. Secondly, the incorporation of various assumptions of temporality makes for a holistic view, treating advertising as an investment that becomes profitable over time. Thirdly, the combination of advertising and R&D as the two “equity-creating” functions within the firm is worthy of a follow-on research.

3.5.3.2 Propositions on Promotion Policy in Recession

From the more specific literature on promotion policy in recession, we derive the proposition that:

P36: Most companies cut promotion policy investments in recession.

The research by Tomczak/Belz (1993) suggests that

P37: Promotion policy instruments with less immediate effects (advertising, PR, sponsoring) are cut, while instruments with more immediate effect (sales promotion, personal selling, marketing) are increased.

Furthermore, based on Graham/Frankenberger (2002):

H9: The greater a firm's investment in promotion policy in recession, the greater its market performance.

3.5.4 Distribution Policy in Recession

Section 3.5.4.1 reviews the literature on distribution policy in recession, while section 3.5.4.2 derives propositions for testing in Chapter 4.

3.5.4.1 Literature Review of Distribution Policy in Recession

Comments on distribution policy in recession are sparse. Some authors do not comment at all, while others limit themselves to a paragraph (see, e.g., Hoon Ang et al., 2000). Referring to our framework, distribution policy in recession may have three objectives: to decrease costs, to increase (or stabilize) revenues and to build flexibility for dealing with uncertainty.

Cost reduction in distribution should focus on those costs that have minimal revenue impact, for example logistics or administration (see Meffert, 1994). Increasing or stabilizing revenues should focus on managing the retailer–manufacturer relationship to lower retailer resistance to product, pricing, or promotions initiatives by the manufacturer (see Meffert, 1994). Building flexibility needs to change cost structures to allow variations in capacity as necessary. A worthy discussion in this regard is the outsourcing of logistics management (see Meffert, 1994).

There are three basic areas of distribution policy decisions: channel selection, relations with intermediaries and sales force management (see Kotler, 2000). The selection of channels is assumedly a long–term decision, but adding channels during recession may significantly help if revenues elsewhere are flailing. Both relations with intermediaries and sales force management are instruments that can counter the adverse effects of recession.

As discussed in the section retailer behaviour, retailers react to the recession by reducing purchasing quantities, reducing inventory and adapting assortment to changing consumer needs. Manufacturers should react to this by directly supporting the retailer by providing services like shelf space optimization or sales analysis. Indirect support may also be useful, for example by changing internal organizational structure for a better fit with the retailer (see Meffert, 1994). While hardly recession-specific behaviour, the emphasis here is to improve relations in recession to decrease channel enmity and induce cooperation.

Decreasing costs in manufacturer–retailer relationships usually focuses on supply chain integration to increase efficiency (see Meffert, 1994). Integration, however, is a long–term process that needs investments in infrastructure and thus is not a useful instrument to counter recession. Decreasing costs may also result from outsourcing logistics (see Meffert, 1994). Similarly, this is a strategic decision that will build flexibility to counter the recession, but it is not a short–term

tool to limit the effects of recession.

Sales force management in recession may be more adapted to counter recession in the short term. The focus here must be on increasing the efficacy of selling. This may include better data analysis of clients to prioritize, increase salespeople efficiency by giving them access to information technology, changing the sales force incentive structure to increase revenues in recession or changing management style to increase motivation (see Meffert, 1994). Decreasing the sales force may have an adverse effect on revenues, both directly, if sales per head stay constant, and indirectly, if the motivation of salespeople declines. It should therefore be treated with caution.

3.5.4.2 Propositions on Distribution Policy in Recession

The literature on distribution policy in recession is again quite general. We thus derive only one proposition, namely that in contrast to other marketing mix instruments:

P38: Distribution policy, including investments in distribution, is largely stable in recession.

On the basis of Srinivasan/Lilien/Rangaswamy (2002), we propose that proactive marketing leads to a greater market performance in recession, and postulate that the specificity in the relationship is increased by an anticyclical distribution policy. We therefore hypothesize that:

H10: The greater a firm's investment in distribution policy in recession, the greater its market performance.

3.6 Overview of Propositions

The following table lists all the generated propositions subjected to empirical review in Chapter 3 .

Table 3.3 Generated Propositions

Proposition	Statement
1	<i>Consumers decrease expenditures in recession, lowering total market sales</i>
2	<i>Expenditures are reduced more in non-basic, luxury consumption and expenditure for durables versus basic, non-luxury consumption and expenditure for consumables</i>
3	<i>Consumers become more price-conscious in recession</i>
4	<i>Demand is more price-elastic in recession</i>
5	<i>Private label brand purchases increase in recession</i>
6	<i>Cognitive processing of information increases in recession</i>
7	<i>Cognitive processing of information increases in recession</i>
8	<i>Competition increases in force during recession</i>
9	<i>Competition increases in speed during recession</i>
10	<i>Competition is more focused on directly responding to competitors' actions during recession</i>
11	<i>Price competition is more prevalent in recession than in normality</i>
12	<i>Competition is more oriented towards short-term goals and objectives than in normality</i>
13	<i>Competitors are seen to overreact more in recession than in normality</i>
14	<i>Retailers generally behave procyclically regarding ordering quantities during recession</i>
15	<i>Structural adaptations, or ceasing to do business with a given supplier, are as uncommon in recession as in normality</i>
16	<i>Retailer resistance, especially towards product launches, increases in recession</i>
17	<i>Retailer pressure on manufacturer's prices increases in recession</i>
18	<i>Retailer pressure to join or engage in promotional activities increases in recession</i>
19	<i>Discount chains increase market share during recession</i>
20	<i>On average, firm sales decline in a given market that is affected by recession</i>
21	<i>On average, firm capacity utilization in recession in a given market declines</i>
22	<i>The marketing function is under more organizational pressure to perform during recession than in normality</i>
23	<i>The urgency to perform well increases in recession</i>
24	<i>The internal marketing activity increases in recession</i>
25	<i>State uncertainty increases in recession</i>
26	<i>Effect uncertainty increases in recession</i>
27	<i>Response uncertainty increases in recession</i>
28	<i>Marketing managers are under more pressure to perform during recession than in normality</i>
29	<i>Marketing managers have a higher workload during recession than in normality</i>
30	<i>Few companies engage in anticyclical marketing in recession</i>
31	<i>Few companies engage in anticyclical product policy investments in recession</i>
32	<i>Few companies launch new products in recession (product innovation)</i>
33	<i>Few companies launch modified products during recession (product modification)</i>
34	<i>Many companies cut underperforming products in recession (product elimination)</i>
35	<i>Most companies lower prices in recession</i>
36	<i>Most companies cut promotion policy investments in recession</i>
37	<i>Promotion policy instruments with less immediate effects (advertising, PR, sponsoring) are cut, while instruments with more immediate effect (sales promotion, personal selling, marketing) are increased</i>
38	<i>Distribution policy, including investments in distribution, is largely stable in recession</i>

Source: own

Chapter 4: Methodology and Descriptive Results

4.1 Methodology

4.1.1 Survey Sample

We conducted a total of five in-depth interviews to understand the significance of marketing in recession from a practitioner's point of view. Based on an extensive literature review, a structured questionnaire intended for a large-scale, primary data survey was developed to descriptively investigate the propositions derived in Chapter 3. This questionnaire was then pre-tested in five additional field interviews to ensure adequate understanding of the domain for practitioners, to improve the phrasing of questions and their applicability to the industries in our survey.

The survey is based on a non-random, convenience sample of 604 contacts. The database used was the potential clients list of a consumer goods strategy consulting firm, located in Duesseldorf, Germany. Each questionnaire contained a one-page letter from the firm, asking its potential clients to complete the survey, a one-page letter from the author and 11 pages of questions (see Annex).

To increase the generalizability of findings, we decided that our industries should consider firms that mostly offer either non-durable or durable consumer products. On the basis of the address list of prospects, we chose selected companies in the food, textile, beauty and furniture manufacturing industries in Germany. The food industry was limited to dry, packaged, non-perishable, retail consumables, sold under the manufacturer brand through supermarkets. This therefore excludes products sold through discount markets, retailer brands and private labels, as well as wholesale commodity foods. The textile industry was limited to non-lingerie, branded wearables sold through retail intermediaries (non-proprietary sales channels). The beauty industry was restricted to firms selling cosmetics and toiletry brands in supermarkets. The furniture industry was limited to branded furniture makers selling goods through furniture intermediaries and excluded manufacturers with a proprietary sales channel.

Because of our focus on the whole of marketing decisions, we decided to target managers with marketing responsibility at the level of the strategic business unit

(SBU) as key informants. Position titles of respondents were allowed to vary from product and brand managers at multi-brand corporations to chief executive officers at small and medium-sized enterprises without a separate marketing department.

Of the 604 questionnaires sent out, a total of 165 responses were obtained (response rate of 28%). Of these, 4 were followed up to complete missing data. 23 were returned to sender because of wrong addresses. The relatively high response rate can be attributed to the personal contacts maintained with many of the managers in the database and follow-up emails and telephone calls by the author to boost returns.

28% of our responses stem from the food industry (47 returns), 34% from textiles (56 returns), 25% from the beauty industry (42 returns) and 12% from the furniture industry (20 returns). Overall, there is a bias towards smaller firms in the sample. While there was no firm with sales below a million Euros, 13% of firms that participated had sales in the region of 1 to 9.9 million Euros and 68% had sales from 10 to 100 million Euros. Only 19% of our respondents were from companies with sales of over 100 million Euros. In terms of work force size, no firms with less than 49 employees participated, while 21% of respondents worked in companies with 50–499 employees and 54% in companies with 500 to 9999 employees. 25% of participating firms had over 10000 employees. Table 4.1 summarizes the statistics of the sub-samples.

Table 4.1 Descriptive Statistics of the Sample

Industry	Number of Responses	Percentage of Sample
Food	47	28%
Textile	56	34%
Beauty	42	25%
Furniture	20	12%

Sales (EUR)	Number of Responses	Percentage of Sample
< 1M	0	0%
1-9.9M	21	13%
10-100M	112	68%
>100M	32	19%

Employees	Number of Responses	Percentage of Sample
0-49	0	0%
50-499	35	21%
500-9999	89	54%
>10000	41	25%

TOTAL	165	
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Source: own

4.1.2 Development of Measures

This first part of the survey was aimed to directly investigate the propositions put forward by the literature (see Chapter 3). Since this part of the study was not intended to test causal relationships, we did not develop multi-item scales which would be appropriate for testing directional hypotheses. Instead, our items in this part of the study were derived directly from the propositions. Exceptions are, of course, the constructs within the causal model put forth in Chapter 5. For the development of the latter measures, see Construct Operationalization (Section 5.1.1). Items were measured on a 7-point Likert-like scale. All questions were asked as a comparison between the current “recession” (defined as the time period between April and October 2003) and the previous “normality” (suggested as the middle to end of 2002 to separate as far as possible from the introduction of the Euro and the terrorist attacks in 2001/2002, but left to the marketing manager to define for his or her industry in case this time frame was not suitable). There are several limitations to the development of measures in this form. For one, making the measures relative

suggests a “zero point” on the 7–point Likert–like scale at 4. Any general perceptive positive or negative change thus limits responses to only three points. As evidenced from the data available in the appendix, this reduces the standard deviation of responses substantially. Furthermore, leaving the definition of “normality” to the respondent invites a “change–induced” bias that may be influenced by a pervasive pessimism to yield answers that deviate too much from normality. Additionally, the comparability of measures is much reduced when the time horizon of “normality” is too variable across respondents. However, we saw no alternative to developing the measures in this way, as being more restrictive would have reduced the potential pool of respondents to very few. Furthermore, the advantage of directly testing propositions this way is its close relationship to the reviewed literature.

4.1.2 Validity of Measures

We included two items intended to measure the quality of the respondents’ information in the questionnaire. The first was an item addressing the degree of certainty with which respondents were able to respond to questions, measured by the difficulty they felt in answering them. The second was an item addressing the degree of confidence they had in themselves as key informants, measured by whether another person in the company could have answered the questions better than they did. Both questions were answered on a 7–point Likert–like scale ranging from 1 (disagree) to 7 (agree).

On the question of difficulty in completing the survey, the average response was 2.9 with a standard deviation of 1.4, exhibiting a relatively high ease in completing the survey. For the individual industries, the average responses were 2.4 (standard deviation of 1.3) for food, 3.1 for textile, 2.6 for beauty and 2.5 for furniture. On the question of their confidence in themselves as key informants, the average response was 2.2 with a 1.3 standard deviation. Since this question was reverse–coded, this result shows a strong confidence of the respondents in themselves. For the individual industries, the average responses were 2.2 for food, 1.5 for textile, 2.5 for beauty and 3.3 for furniture.

4.2 The Market Environment in Recession

4.2.1 Consumer Behaviour in Recession

4.2.1.1 Presentation of Results

For consumer behaviour in recession, the survey focussed on eight areas of behavioural changes during times of economic hardship: whether market value (sales) declines, whether market volume (units) declines, whether consumers are more price conscious than during normality, whether consumers are less or more eager to trade in quality for a lower price, whether purchases of private labels tend to increase, whether information processing during recession is more or less cognitive than during normality, whether responsiveness to promotions increases or decreases and whether that relationship also holds for promotions aimed primarily at price rather than product communication. It is important to note that for all these responses, we used key informants as respondents rather than a sample of the consumer population for the respective industries. All measures are based on a 7-point Likert-like scale, with the value 4 indicating “no change” of the respected areas from recession versus normality.

For the whole of our sample, market sales decreased somewhat (average of 2.9). For textiles, the average value was 2.7, for foods 3.2, for beauty 3.0 and for furniture 2.9.

Units sold (market volume) in the total sample decreased as well with an average of 3.1. For textiles, the average was 2.9, for food 3.2, for beauty 3.0 and for furniture 3.7.

The marketing managers' views of the change in price consciousness during recession yields the result that increased relevance of price permeates our four markets during recession. The average across the sample was 5.8. Textiles revealed an average of 5.9, food 5.7, beauty 5.6 and furniture 6.3.

In the whole of our sample, consumers are judged by marketing managers as more likely to trade off quality for price decreases in times of recession, as compared to normality. The average value is 5.3 for the whole of the sample. For textiles, the trade-off likelihood is particularly high at 5.9. For food, it is 4.9, for beauty 5.1 and for furniture 4.8.

Private label purchasing increases during recession compared to normality with an average value across the sample of 5.1 with textiles at 5.4, food at 5.0, beauty at 5.2 and furniture at 4.3. Here, it must be noted that there may exist a long-term trend towards private label purchasing that is not solely due to the presence of recession.

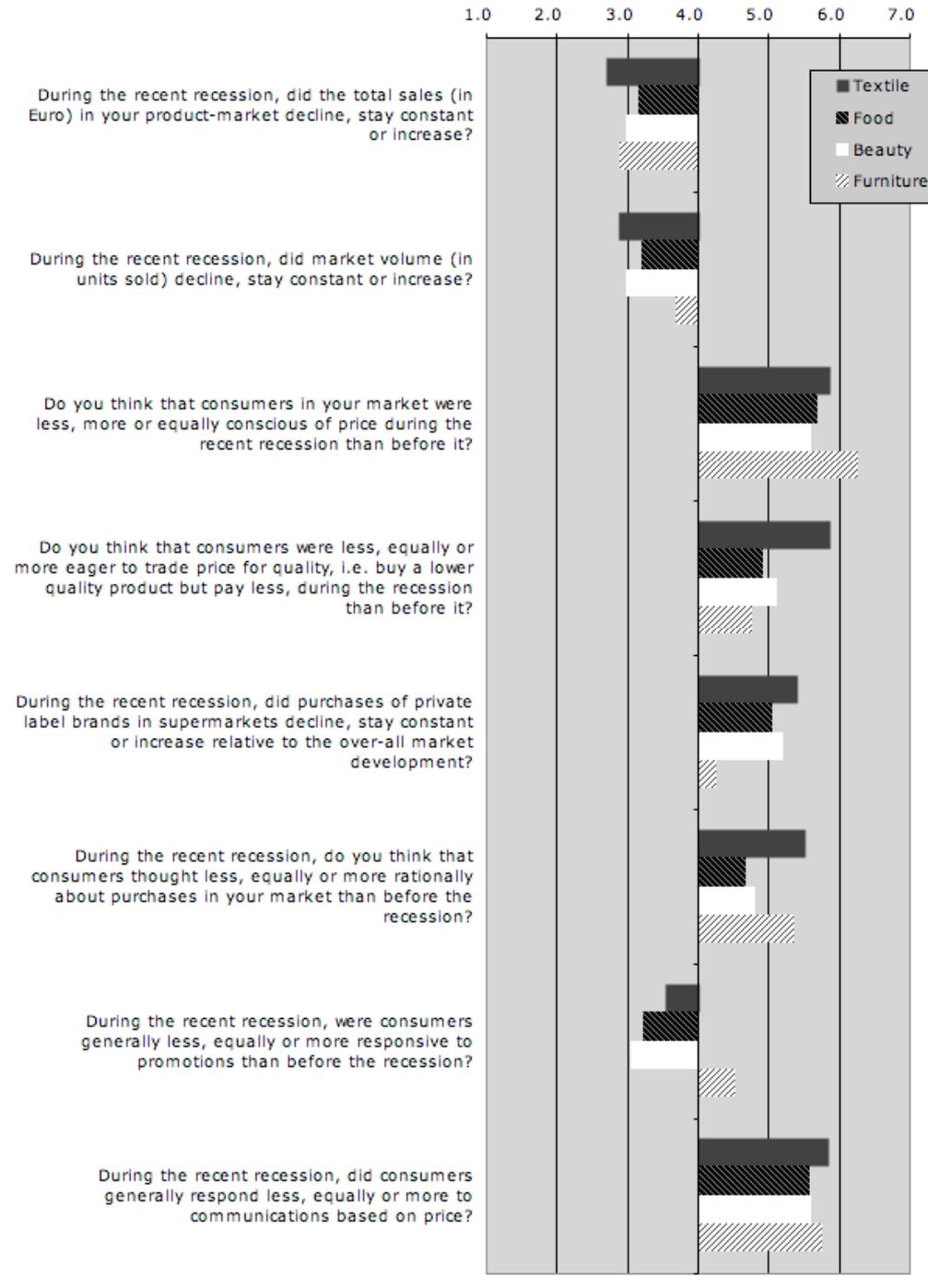
Cognitive processing in consumer behaviour also increases in the sample with an average value of 5.1. For textiles, this is especially pronounced with an average of 5.5. For food, it is at 4.7, beauty at 4.8 and furniture at 5.4. For the two durable categories, we thus see cognitive processing increase more than for the affective category beauty and the lower-value consumable category of food.

While the responsiveness to promotions is judged by marketing managers to decrease somewhat during recession, the responsiveness to price communications increases substantially. Marketing managers estimate consumer responsiveness towards general promotions across the sample at 3.4, with textiles at 3.5, food at 3.2, beauty at 3.0 and furniture at 4.8. For price communications, the respective values are 5.7 across the sample, with surprisingly similar values of 5.8 for textiles, 5.6 for food, 5.6 for beauty and 5.8 for furniture.

For the whole of these results, we see several clear trends. On the one hand, sales decline across all industries. Units sold also decrease across all industries, except for furniture, where prices declined. Price consciousness increases during recession as compared to normality, especially for furniture and textiles, the two durable categories considered in our study. Across all categories, consumers are judged by our respondents to value price higher than quality during recession, a result that is especially pronounced in the food category. Private label purchases increase across categories, but not as much in the furniture industry, where the distinction is less relevant due to the different make-up of the distribution network (by dominant discounters like IKEA, wholly private chains like Habitat and retail department stores). For all industries, consumer information processing becomes more cognitive during recession. For all categories but furniture, this can be linked to lower promotions responsiveness during recession. However, communications that focused on price actually created a higher responsiveness in consumers in recession compared to normality.

The following illustration provides an overview of the average responses across industries. It should be interpreted in the following way: an answer of “1” is always “strongly decreased”, “a lot less” or “disagree strongly”; an answer of “7” is always “strongly increased”, “a lot more” or “agree strongly”. The “4” value is a neutral point, where nothing has changed in recession compared to normality. Thus we see, in the first question in the figure below, sales decreased on average according to the informants in all industries..

Figure 4.1 Consumer Behaviour in Recession



Source: own

4.2.1.2 Discussion of Propositions

The descriptive evaluation of the survey responses yields the following results. In all markets, consumers decreased expenditures; P1 is thus supported. In textiles and furniture, the expenditures were perceived to have been reduced even more than in consumables; P2 is thus confirmed, with the caveat that true comparability based on key-informant data from different industries is not given.

The proposition that consumers' price consciousness increases in recession (P3) is supported across all markets. Price elasticity of demand is also perceived as increasing; we thus see P4 to be confirmed.

Though the effect was less pronounced in furniture, our respondents indicated that private label purchases did increase across all industries. We thus consider P5 to be supported. Marketing managers saw cognitive processing of information increasing during recession; P6 is thus confirmed as well. Finally, in recession demand elasticity to promotions focused primarily on price; we therefore consider P7 to be supported.

4.2.2 Competitor Behaviour in Recession

4.2.2.1 Presentation of Results

For competitive behaviour in recession, we aimed to investigate whether the speed, force and focus of competition changed in recession compared to normality. We also wanted to find out whether competition on price decreases, whether competitive behaviour tends more towards the short term and whether marketing managers feel that competition during recession is more receptive to over-reaction in competitive responses.

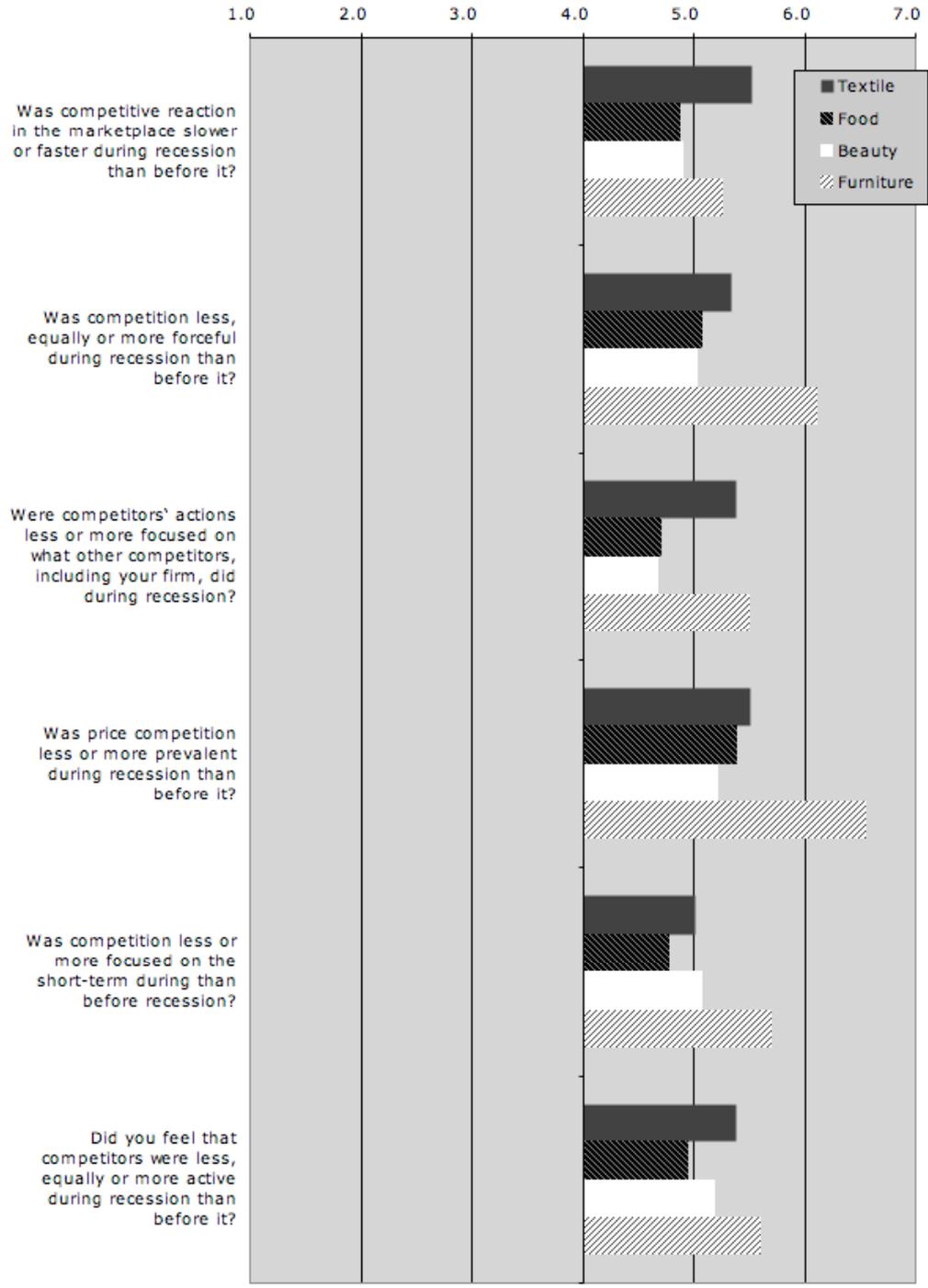
The speed of competition is seen as increasing across all categories (5.1). For textiles, the value is 5.5; for food, 4.9; for beauty, 4.9; and for furniture, 5.3. The force of competition is deemed to increase with an average of 5.3 across samples, with textile at 5.3, food at 5.1, beauty at 5.0 and furniture at 6.1. Competition is seen as more directly focused on competitors' actions than during normality. The average for

the sample is 5.0, with textiles at 5.4, food at 4.7, beauty at 4.7 and furniture at 5.5. Speed, force and focus of competition are measures of competitive intensity. These results indicate that competitive intensity increases in recession compared to normality.

Price competition is also seen as increasing, with an average of 5.5 across samples. Textiles are at 5.5, food at 5.4, beauty at 5.2 and furniture is at a very high 6.6. At the same time price competition intensifies, the short-termism of competition increases. The average value for all industries is 5.0, with values for textiles at 5.0, 4.8 for food, 5.1 for beauty and 5.7 for furniture. Concordantly, a higher reaction of competitors than in normality is present in all industries with an average of 5.2. The individual values for the industries are 5.4 for textiles, 4.9 for food, 5.2 for beauty and 5.6 for furniture.

Again, all questions below are coded with "1", as the lowest, "4" as a neutral or "zero" value, and "7" as the highest. Thus, in the first question, competitive reaction was faster, on average, during the recession than in normality.

Figure 4.2 Competitor Behaviour in Recession



Source: own

4.2.2.2 Discussion of Propositions

All propositions regarding competition intensity, i.e. the force, speed and focus of competition during recession, are confirmed based on the responses of key informants (P8, P9 and P10). Competition focused primarily on price increases in recession; P11 is thus accepted. P12 is accepted since across industries, marketing managers perceive competition in recession to be oriented more towards the short-term than in normality. Finally, the proposition that competitors are more reactive in recession than in normality is accepted across all industries (P13).

4.2.3 Retailer Behaviour in Recession

4.2.3.1 Presentation of Results

Our focus in retailer behaviour in recession was on the propensity to order more or less, to delist suppliers and/or products, to exhibit a resistance to change, especially the introduction of new products, pressures on both prices and joint promotions and the performance of discounters during recession.

Order volumes during recession decreased slightly across industries. For textiles, they actually increased somewhat at 4.1. For all other industries, they decreased with food at 3.7, beauty at 3.9 and furniture at 3.5. Surprisingly, supplier delisting was seen by marketing managers to be slightly less likely than in normality across the samples with an average of 4.5. For textiles, this was at 4.9, for beauty at 4.1 for food at 4.3 and for furniture at 4.6. Similarly, the risk of product delisting was equally low. Across industries, product delisting was seen as less likely with an average of 5.1. For textiles, this was 5.2, for food 5.0, for beauty 5.2 and for furniture 5.9.

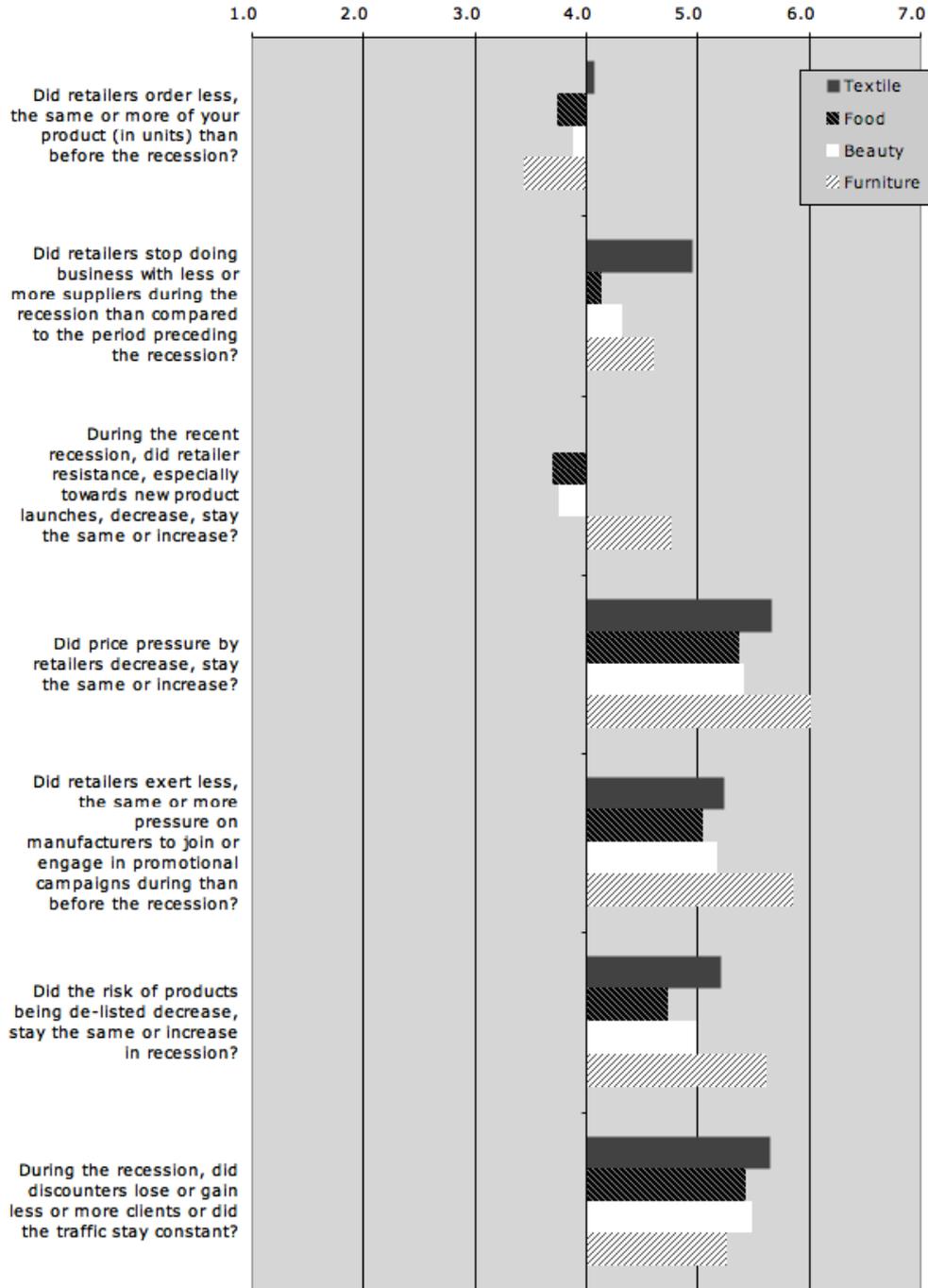
Retailer resistance was seen as less prevalent than in normality with an average value of all industries at 3.9; the respective values were 4.0, 3.7, 3.8 and 4.8 for textiles, food, beauty and furniture. Interestingly, the furniture market again exhibits a different propensity during recession than the other industries. Pressure on price by retailers is judged by marketing managers to increase with an average of 5.5. For textiles, this was 5.7, for food 5.4, for beauty 5.4 and for furniture 6.0. Pressure to promote products jointly by sharing promotion costs with the retailer also rose, with

an average of 5.2. For textiles, this was 5.2, for food 5.0, for beauty 5.2 and for furniture 5.9.

According to marketing managers, discounters gained significant traffic during the recession, with an average of 5.5 across the samples. Textiles were at 5.6, food at 5.4, beauty at 5.5 and furniture at 5.3.

Again, values should be read as having decreased (1), stayed the same (4) or increased (7) in recession compared with normality.

Figure 4.3 Retailer Behaviour in Recession



Source: own

4.2.3.2 Discussion of Propositions

The descriptive evaluation of the survey response data indicates the following fate of propositions. The proposition that retailers generally behave procyclically regarding ordering quantities during recession (P14) is supported for food, beauty and furniture products; while it is not supported for textiles. Structural adaptations, or ceasing to do business with a given supplier, are not only as uncommon as proposed, but even less common during recession than in normality. While we thus consider P15 to be confirmed, it is actually a matter of the proposition being over-fulfilled. In other words, the decreasing number of delistings in recession as compared to normality calls for a respecification of our proposition on structural adaptations.

In general, retailer resistance is not seen as increasing in recession, except in the furniture market. P16 is thus rejected for all but the furniture industry. However, retailer pressures on prices increased during recession across all industries; we thus consider P17 as being confirmed. Similarly, the proposition that retailer pressure to join or engage in promotional activities increases in recession (P18) is supported. Finally, as expected, discount chains were perceived by our respondents as having increased their market share during recession according to marketing managers; we thus see P19 as being supported.

4.3 The Effect of Recession on the Firm, the Marketing Function and the Marketing Manager

4.3.1 The Effect of Recession on the Firm

4.3.1.1 Presentation of Results

The focus of our investigation of the effect of recession on the firm is on the absolute growth of the SBU in sales, the sales growth of the SBU relative to sales growth prior to the recession and the capacity utilization (including inventory). Our interest in capacity utilization is due to the fact that these lead to higher unit cost and thus would further decrease cash flow when sales slump during a recession.

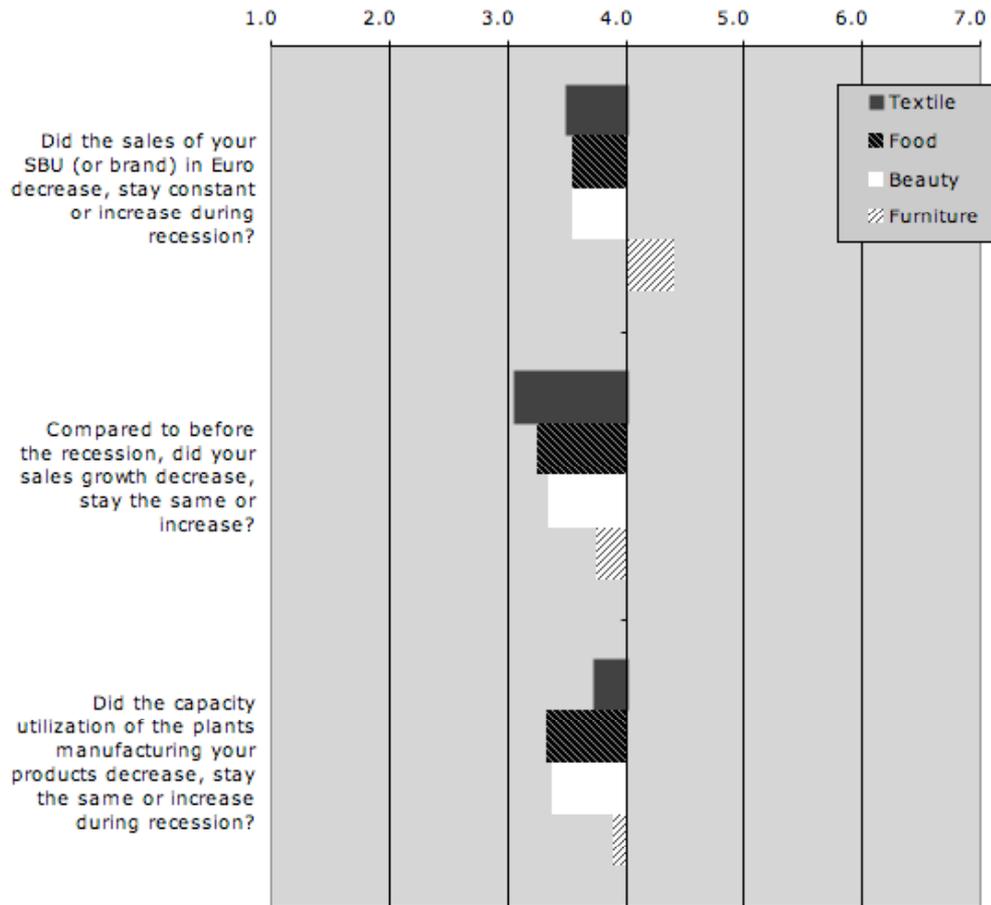
Absolute sales of firms in our sample decreased slightly across industries (an average of 3.6). For textiles, the value was 3.5, for food 3.6 for beauty 3.5 and for furniture 4.4. Especially for furniture, since a value of 4.4 means a slight increase, this may mean that our sample deviates substantially from the market average as reported by furniture marketing managers, if the average were expected to decline as specified in proposition 20.

Relative growth (sales growth rate in recession compared to the growth rate prior to recession) was also lower with an across-industry average of 3.3. For textiles, the mean response was 3.1, for food 3.3, for beauty 3.4 and for furniture 3.8 .

Capacity utilization for companies in the sample decreased somewhat during the recession compared to normality. The average across industries was 3.6 with a standard deviation 1.2. For textiles, this was 3.7, for food 3.3, for beauty 3.4 and for furniture 3.9, which is almost equivalent to no change.

Values in the figure should be read as having decreased (1), stayed the same (4) or increased (7) in recession compared with normality.

Figure 4.4 Effect of Recession on the Firm



Source: own

4.3.1.2 Discussion of Propositions

On the one hand, Proposition 20 states that on average, firm sales decline in recession in a given market. While P20 is supported for textiles, food and beauty based on the results described above, it is not confirmed for furniture. However, distortions that may have led to a bias in our sample mean that P20 cannot be fully rejected. Further research seems to be necessary. On the other hand, capacity utilization de-

creased marginally during recession, meaning that P21 can neither be rejected nor supported based on our findings.

4.3.2 The Effect of Recession on the Marketing Function

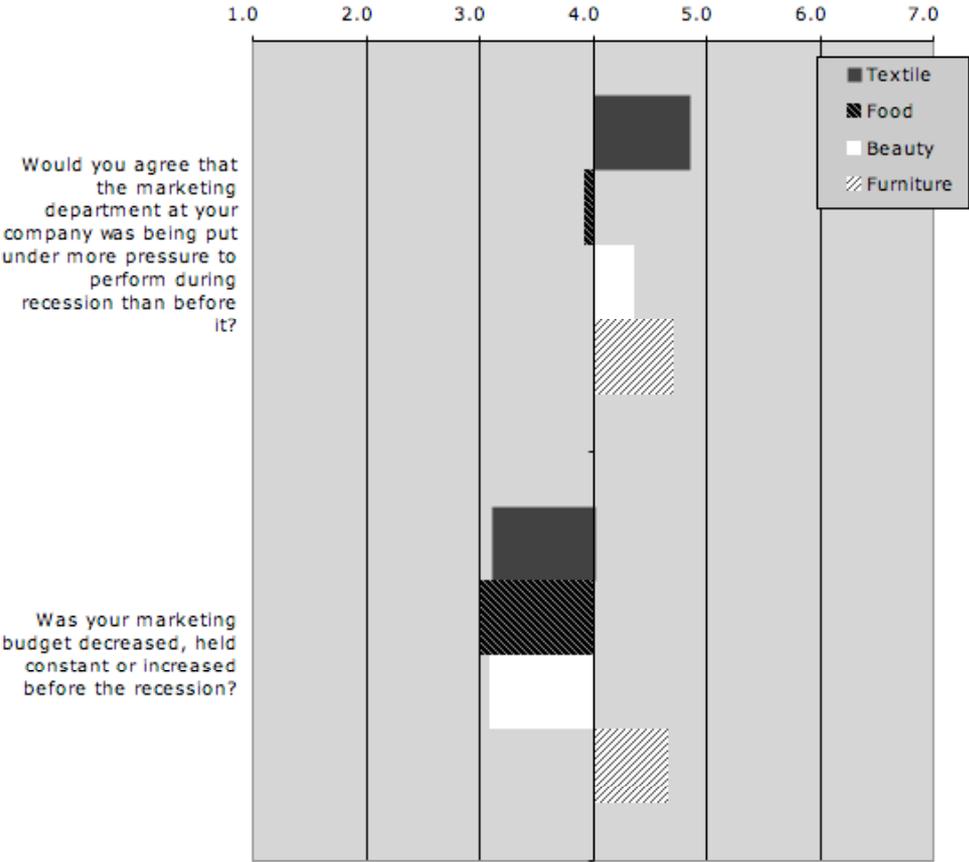
4.3.2.1 Presentation of Results

The examination of the effect of recession on the marketing function was to yield both an organizational indicator of how much pressure is put on the marketing department to perform during a recession and to ascertain how the marketing budget changed during recession.

Marketing managers reported across industries that the marketing department was under somewhat higher pressure during recession (average 4.4), with the exception of the food industry sample. Textiles were at 4.8, food at 3.9, beauty at 4.4 and furniture at 4.7. There was also somewhat more urgency to perform well during recession compared to normality. Across samples, the average was 4.8. Textiles were at 5.2, beauty at 4.1, food at 4.5 and furniture at 5.5.

In the figure below, the first question is coded strongly disagree (1) to strongly agree (7), while the second is coded strongly decrease (1) to strongly increase (7).

Figure 4.5 Effect of Recession on the Marketing Function



Source: own

4.3.2.2 Discussion of Propositions

The proposition that the marketing function is under more pressure to perform in recession during normality (P22) is confirmed for textiles, beauty and furniture markets; however, it is rejected for food, based on the results presented above. Our proposition that the urgency to perform well increases in recession is supported by our findings across all industries (P23). The proposition that the internal marketing activity increases during recession cannot be supported for all industries but furniture (P24).

4.3.3 The Effect of Recession on the Marketing Manager

4.3.3.1 Presentation of Results

The examination of the effect of recession on the marketing manager was aimed at finding out about the effect of uncertainty on decisions by marketing managers, as well as the organizational pressure on him necessitated by decreased sales. As discussed in our theoretical chapter on the effect of recession on marketing managers, uncertainty consists of state, effect and response uncertainty. The organizational pressure is measured by the perceived pressure of our key informants to perform, the urgency present in the work and the quantitative amount of work (i.e., the work load).

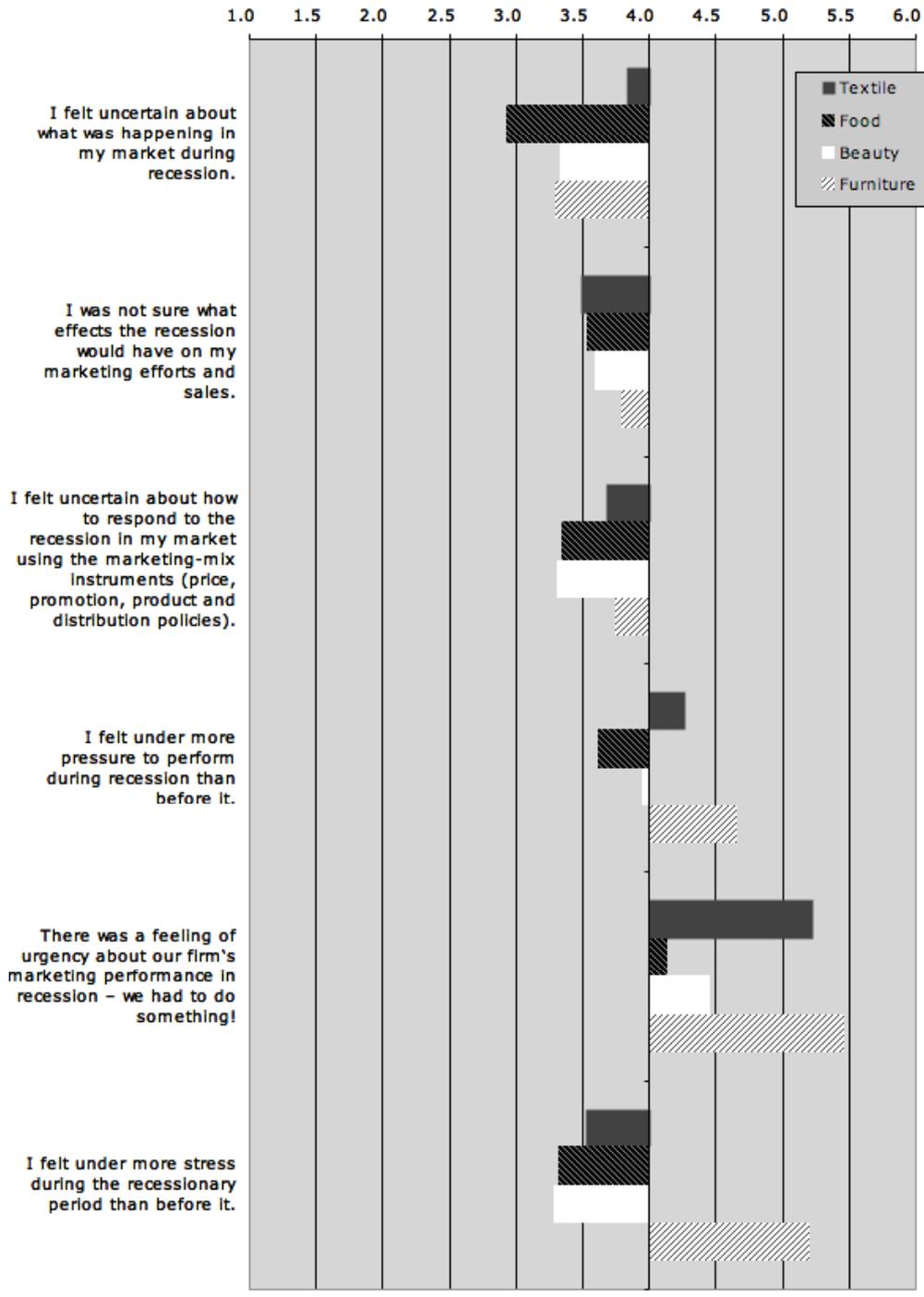
As to state uncertainty, the average marketing manager felt less uncertain about the state of his environment than in normality, with an average response of 3.4. For textiles, this was 3.8, for food 2.9, for beauty 3.3 and for furniture 3.3. Effect uncertainty was also less pronounced with an average of 3.6 across samples. The results were 3.5, 3.5, 3.6 and 3.8 for textiles, food, beauty and furniture, respectively. Marketing managers were also less uncertain about how to respond to their environment than prior to recession, with an across-industry average response at 3.5. For textiles, the average response was 3.7, for beauty 3.3, for food 3.3 and for furniture 3.8. While this result may be surprising, a large portion of the variance from the mid-point of our scale ("no change" = 4) can possibly be attributed to a bias regarding uncertainty in surveys: no professional likes admitting that he is uncertain about the environment in which he is working. His or her self-judgment about being more or less uncertain may thus be skewed in favour of more uncertainty. Another possibility is the heightened sensibility to the environment during periods of uncertainty. These and other perceptual effects of "turbulent times" are discussed in Wilson (1999).

Interestingly, across our sample marketing managers felt not much for an additional pressure to perform well as compared to normality. The average response across industries was 4.1, with textiles at 4.3, food at 3.6, beauty at 4.0 and furniture at 4.7. Also, marketing managers did not perceive an increased workload during recession

compared with normality. The average response was 3.6 with a standard deviation of 1.4. For textiles, the measure was 3.5, for food 3.3, for beauty 3.3 and for furniture 5.2. However, the lower values may also be due related to the possible bias of self-reporting mentioned above. Interestingly, the furniture industry seems very distinct in the self-reported measures regarding pressure to perform, urgency and marketing managers' work load.

In the table below, all questions are coded with (1) strongly disagree to (7) strongly agree.

Figure 4.6 Effect of Recession on the Marketing Manager



Source: own

4.3.3.2 Discussion of Propositions

There were three propositions regarding the increase of different kinds of uncertainty during recession: state (P25), effect (P26) and response uncertainties (P27) were proposed to increase during recession. Based on the results presented above, all three propositions cannot be supported.

The proposition that marketing managers are under more pressure to perform during recession than in normality is rejected for food but confirmed for all other industries (P28). That marketing managers have a higher workload during recession than in normality (P29) is rejected for any industry but furniture.

4.4 Marketing Strategy in Recession

4.4.1 Presentation of Results

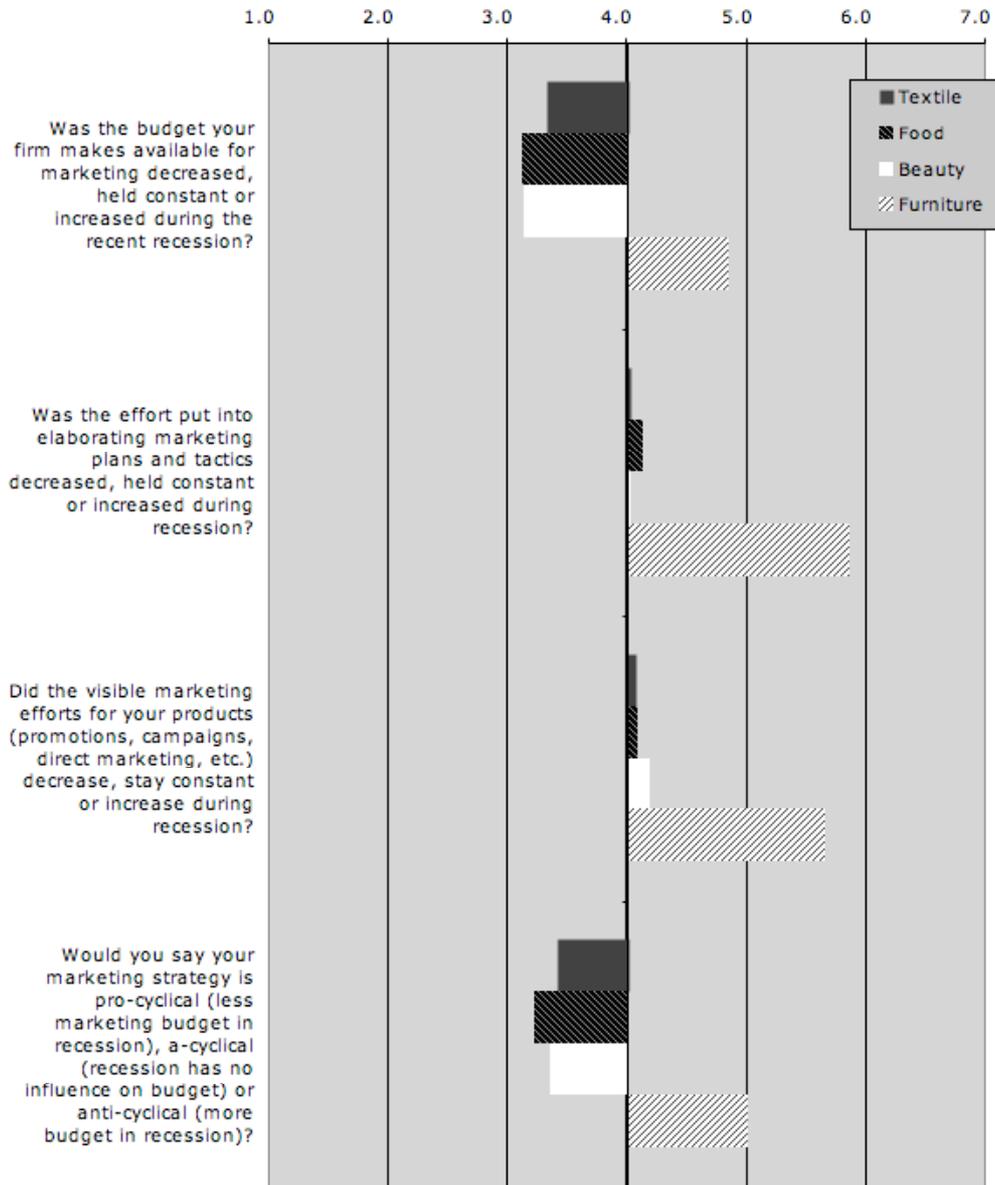
The central question of marketing strategy in recession is whether firms tend to act pro- or anticyclically. We both used proxy indicators for measuring the degree of cyclicity (marketing budget, internal and external marketing activity) as well as asking outright questions. Marketing budgets were lowered across industries except furniture, where budgets were raised. The average across samples was 3.3, with 3.1 for textiles, 3.0 for food, 3.1 for beauty but 4.7 for furniture. In terms of cyclicity, marketing budgets for textiles, food and beauty were thus procyclical, while we observe an interesting anticyclical instance with the furniture sample.

Internal marketing activity, or the “effort put into elaborating marketing plans and tactics” (Questionnaire, see the Appendix), was marginally more intense than in normality and substantially more so in the furniture industry. Across industries, the average response was 4.3 with a standard deviation of 1.7. For textiles, the response was 4.0, for food 4.1, for beauty 4.0 and for furniture 5.9. A specific market dynamic may have led to a higher internal marketing activity across the industry during the time period.

The external marketing activity, or “visible marketing efforts”, was also reported to be higher than in normality. The average response across the samples was 4.3, with 4.1 for textiles, 4.1 for food, 4.2 for beauty and 5.7 for furniture. In contrast to these

responses, however, the self-reported measures by the respondents about their perception of their pro- or anticyclical behavior does not indicate anticyclicality. Instead, marketing managers believe themselves to behave more procyclically. The average response across industries was 3.5. The value for textiles was 3.4, for beauty 3.2 and for food 3.4. The only truly anticyclical exception was furniture with an average response of 5.0.

Figure 4.7 Marketing Strategy in Recession



Source: own

4.4.2 Discussion of Propositions

The proposition on anticyclical marketing in recession yields contradictory results based on which of the items we apply. The proposition that few companies engage in anticyclical marketing in recession (P30) is confirmed based on the results that the actual marketing budget is lowered in textiles, food and beauty (P30) during recession. However, P30 is not supported for the furniture sample based on its marketing budget items measure of 4.7. Furniture is thus anticyclical from a perspective of marketing budgets. Based on the findings on internal marketing activity, P30 is supported for furniture and, though only marginally, for food; P30 is not confirmed for textiles and beauty, which report unchanged internal marketing activity. Based on external marketing activity, P30 is supported for all industries, though the measures suggest only a slight increase in activity for textiles, food and beauty. The only industry reporting a mean increase in its marketing budget (furniture) is also the industry reporting the strongest increases in internal as well as external marketing activity.

Based on the key informants' perception of their own strategy, textiles, food and beauty view themselves as procyclical, while furniture, arguably correctly, views itself as anticyclical. In summary, the textiles industry has lower marketing budgets, an unchanged internal marketing activity, a slightly increased external marketing activity and views itself as procyclical. The food industry has a lower marketing budget, slightly increased internal and external marketing activity, but still views itself as procyclical. The beauty industry has lower marketing budgets, unchanged internal but slightly increased external marketing activity and views itself as procyclical. The furniture industry, finally, is truly anticyclical with increased marketing budgets, increased internal and external marketing activity and a self-perception of anticyclicality.

4.5 The Marketing Mix in Recession

Section 4.5.1 presents results for product policy in recession, 4.5.2 for pricing policy, 4.5.3 for promotion policy and 4.5.4 for distribution policy.

4.5.1 Product Policy in Recession

4.5.1.1 Presentation of Results

The examination of product policy in recession focused on the SBU budget for product policy, decisions to launch new products, modify existing products or eliminate products from the product range, as well as on individual product policy decisions taken regarding product quality design, durability, packaging, range of sizes or options, warranties, after sales service and brand image. The product innovation, modification and elimination as well as the individual product decisions were measured on a seven point Likert scale with disagree/agree endpoints, a low (high) score indicating no (significant) changes. The budget was measured relative to normality on a decrease/increase seven-point Likert scale. The midpoint of this scale (4) served as an equivalent of “no change”.

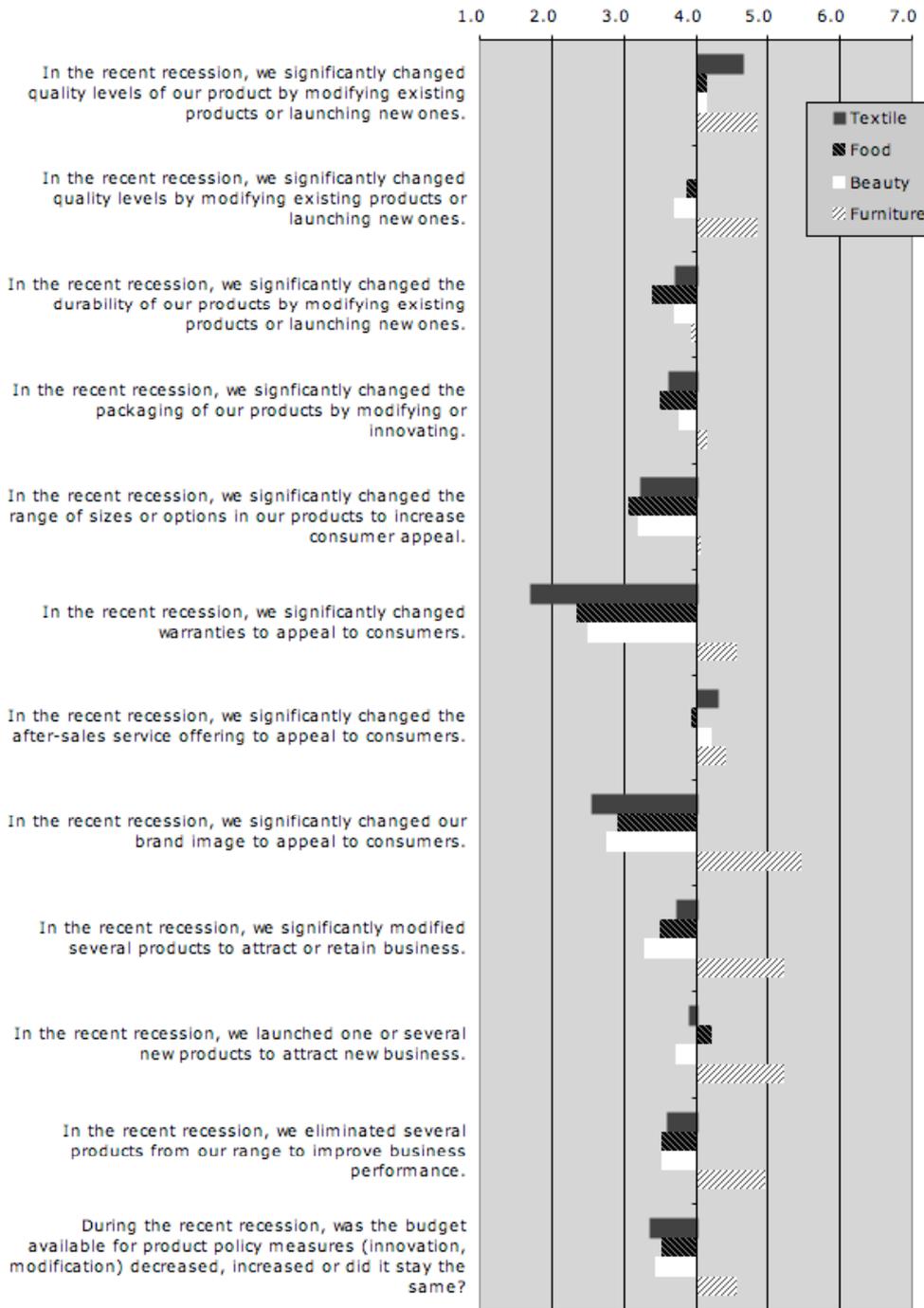
In our sub-samples, budgets for product policy decreased somewhat during recession as compared to before the recession. The average value across industry was 3.6. For textiles, it was 3.4, for food 3.5, for beauty 3.5 and for furniture the budgets increased with an average of 4.6.

New product launches were more frequent during recession compared to normality, with an average of 4.1 across industries indicating some new product launch activity. For textiles, the average was 3.9; for beauty, 4.2; for food, 3.7; and for furniture, new product launches were more frequent at 5.2. In general, most companies left products unmodified with an average value of 3.7 for the sample and 3.7 for textiles, 3.5 for food and 3.3 for beauty. An exception, again, is furniture at 5.2. Eliminations of products were quite uncommon with an average across industries of 3.7. For textiles, this was 3.6, for food 3.5, for beauty 3.5. However, product elimination was frequent in furniture at 5.0.

The results for other product policy activities were as follows. In recession, product quality was changed somewhat across industries with an average response of 4.4. This was 4.6 for textiles, 4.1 for foods, 4.1 for beauty and 4.9 for furniture. Product design was unchanged across industries at 4.0, with textiles at 4.0, food at 3.9, beauty at 3.7 and furniture at 4.9. Durability of products was less likely to be

changed across industries with an average response of 3.7. This was 3.7 for textiles, 3.4 for food, 3.7 for beauty and an average value of 4.0 for furniture. Similarly, the packaging of products was less changed than changed with an average response of 3.7 across industries with textiles at 3.6, food at 3.5, beauty at 3.8 and furniture at 4.2. Options in sizes and ranges were hardly changed with an average response of 3.3: 3.2 for textiles, 3.1 for food, 3.2 for beauty and 4.1 for furniture. Warranties remained almost unchanged with an average of 2.4 across the sub-samples. For textiles, this average response was 1.7, for food 2.4, for beauty 2.5 and for furniture 4.6. After sales services were not changed substantially with at an average across industries of 4.2, with textiles at 4.3, food at 3.9, beauty at 4.2 and furniture at 4.4. In recession, the brand image was more often left the same than changed with an average response across the samples of 3.1. For textiles, a change in brand image was very rare at 2.5, as well as for food at 2.9 and beauty at 2.8. In contrast, a change in brand image was quite common for furniture with an average of 5.5.

Figure 4.8 Product Policy in Recession



Source: own

4.5.1.2 Discussion of Propositions

P31, the proposition that few companies engage in anticyclical product policy investments in recession, is confirmed for the textile, food and beauty sub-samples, where budgets were lowered. It has to be rejected for the furniture sub-sample, where budgets rose. The result for furniture is in line with expectations based on the finding (confirmation of P30), that the furniture industry, on average, engaged in anticyclical marketing with higher general marketing budgets.

The proposition that few companies launch new products during recession (P32) is supported for textiles and food, but rejected for beauty, for which some new product launch activity was reported. It is also rejected for furniture, where there was strong new product launch activity. Product modifications were uncommon in the textile, food and beauty sub-samples; P33 is thus supported. However, P33 is rejected for the furniture industry, where modifications were common. Product elimination was rare across all sub-samples but furniture. P34 is thus rejected for textiles, food and beauty, but supported for furniture.

In summary, the truly anticyclical sub-sample of furniture reports product policy activity in line with expectations: it launches new products, modifies existing ones and eliminates underperformers. The only outlier is the new product launch activity for the beauty sub-sample which, while procyclical in all other product policy measures, launched products more frequently in recession than normality.

4.5.2 Pricing Policy in Recession

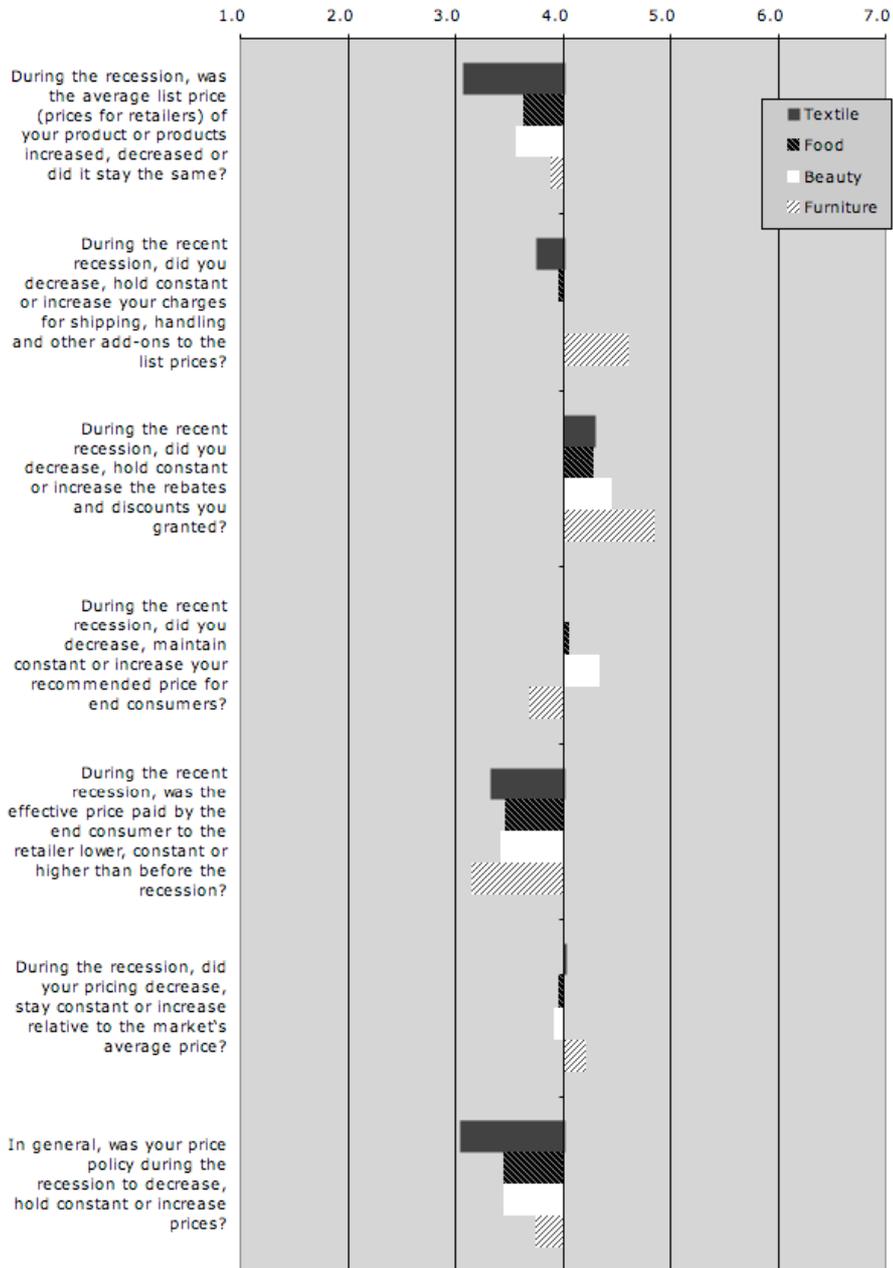
4.5.2.1 Presentation of Results

For pricing policy, we surveyed both the general direction of price as well as the individual indicators of list price, freight charges, discounts, price recommendations for retailers, effective prices and price relative to competition. These were again measured on a seven point Likert-like scale with decrease/increase endpoints.

The reported price policy by marketing managers during recession across the samples was to decrease prices. The average response was 3.3. For textiles, this was 3.0, for food 3.4, for beauty 3.5 and for furniture 3.8.

The list prices were somewhat decreased across categories with an average response of 3.5 and a standard deviation of 1.3. In the textile sub-sample, prices were decreased at 3.1. In the food industry, they were decreased somewhat at 3.6. In beauty, prices were also decreased somewhat at 3.6, and in furniture they were only slightly decreased at 3.9. Freight charges remained unchanged during the recession with an across-sample average response of 4.0. In textile, lower charges were more common at 3.7 than in both food at 4.0 and beauty 4.0. In furniture, freight charges increased with an average value of 4.6. Discounts were increased across the samples with a response of 4.4; textile was 4.3, food was 4.3, beauty was 4.5 and furniture was 4.9. However, the price recommendations to retailers were essentially flat across industries with an average response of 4.1. For textiles and food, price recommendations remained the same as in normality at 4.0. For beauty, recommended prices were increased at 4.3, while for furniture they were decreased with a value of 3.7. Despite these stable or increased recommendations, the effective prices that manufacturers were able to get for their goods decreased slightly with an average across sub-samples of 3.4. For textiles, the decrease was stronger at 3.3 than for both food at 3.5 and beauty 3.4. The decrease was more marked in furniture at 3.2, in line with expectations based on lower recommended prices. Relative prices for our sub-samples were flat at an average of 4.0 with textiles at 4.0, food at 4.0, beauty at 3.9 and furniture at 4.2.

Figure 4.9 Pricing Policy in Recession



Source: own

4.5.2.2 Discussion of Propositions

The only proposition for pricing policy was that most companies lower prices in recession (P35). This is accepted across the sub-samples based on marketing managers' reporting of price policy, with textiles, food, beauty and furniture intending to lower prices in recession. In implementation, however, this policy did not pan out equally along the supply chain. While list prices were slightly lower, recommended retailing prices were higher. This could be seen as an attempt by manufacturers to shift part of retailers' pressure on prices to maintain margin in recession onto consumers. That retailers were unable to receive unchanged effective prices means that there must have been, in fact, price promotions or discounts during recession that disregarded the recommended prices.

4.5.3 Promotion Policy in Recession

4.5.3.1 Presentation of Results

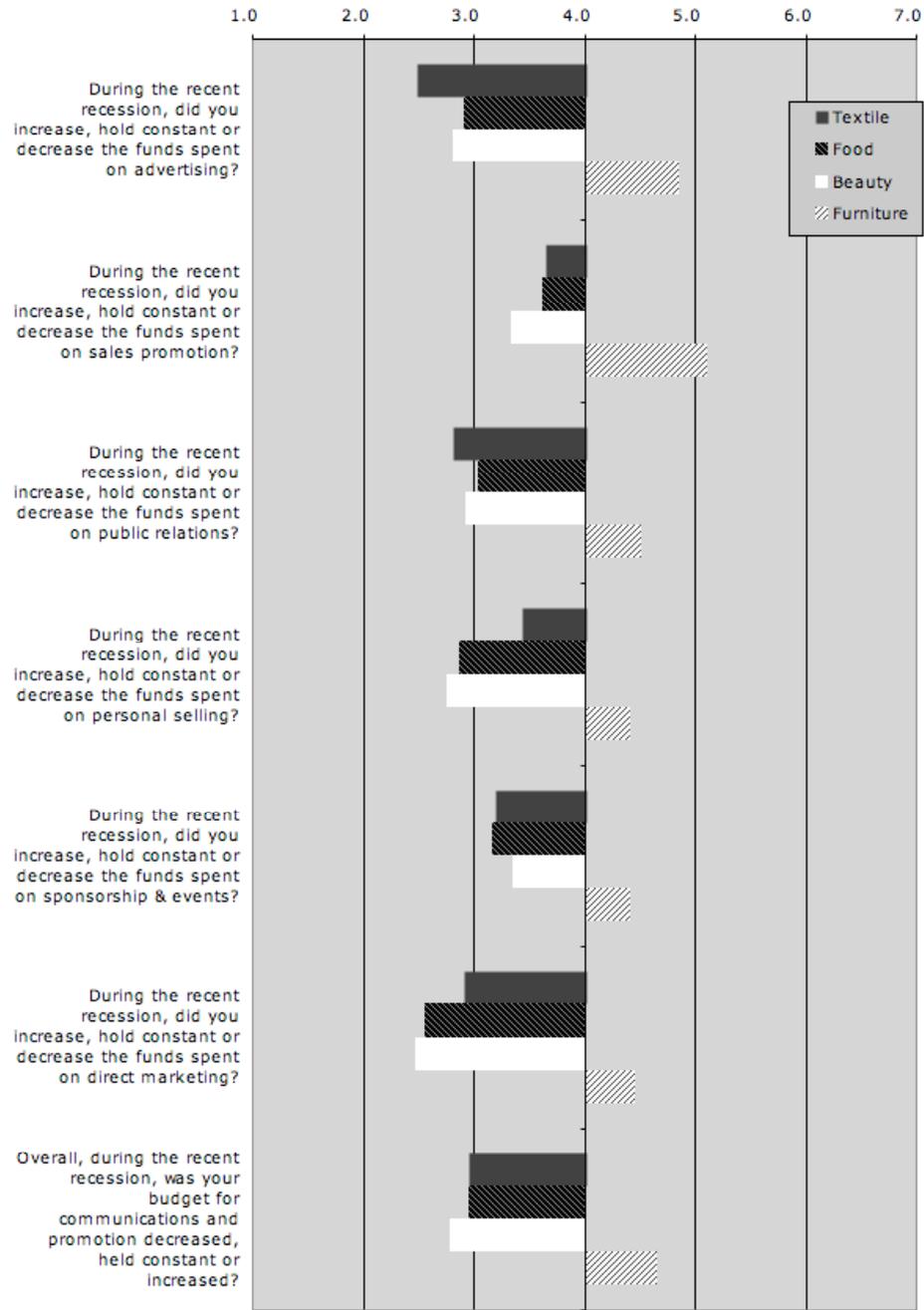
Promotion policy in recession was measured in two ways to yield descriptive results. On the one hand, marketing managers were asked to report the change in the communication budget during recession relative to normality. On the other hand, changes in the instruments advertising, sales promotion, public relations, direct selling, sponsoring and direct marketing were measured to estimate their changing use during recession. Both the budget and the instruments were measured relative to normality on a decrease/increase seven-point Likert scale. The midpoint of this scale (4) served as an equivalent of "no change".

Promotion policy as measured by the total budget for communications was lower during recession than in normality with an average response across the samples of 3.1. For textiles, budgets were decreased at 3.0, as they were for food at 3.0. For beauty, budgets were decreased even more with an average response of 2.8. In the furniture sample, budgets were increased on average with a response of 4.7.

Advertising across the samples was down at 3.0 with textiles declining the most at 2.5. For food and beauty, this measure was 2.9. Furniture advertising was increased

at 4.9. Sales promotions were used less frequently in recession than in normality with an average across industries at 3.7. This value was 3.7 for textiles, 3.6 for food and 3.3 for beauty. Sales promotions were more frequent in the furniture industry with a mean response of 5.1. Public relations was used less during recession than in normality with an average response of 3.1, with 2.8 for textiles, 3.0 for food, 2.9 for beauty and 4.5 for furniture. Direct selling as a promotion tool during recession was also less frequently used with an average across the sub-samples of 3.2. For textiles, this value was 3.4; for food, 2.9; for beauty, 2.8; and for furniture, 4.4. Sponsoring as part of the promotion mix was also used less frequently during recession than before, with an average response at 3.4. While it was down for textiles and food at 3.2, it was less decreased for beauty at 3.4 and again increased for furniture at 4.4. Direct marketing was, somewhat surprisingly, affected very hard by the recession, with an average of 2.9 across the sample. For textiles, this was 2.9, for food 2.6 and for beauty 2.5. However, in the furniture industry, direct marketing was used more frequently during recession than before with a reported mean of 4.5.

Figure 4.10 Promotion Policy in Recession



Source: own

4.5.3.2 Discussion of Propositions

Based on our review of relevant literature, we postulated that most companies would cut promotion policy investments in recession (P36). This proposition is confirmed for the textiles, food and beauty samples. It is rejected for furniture, where there was anticyclical investment in promotion policies.

The proposition that long-term promotion policy instruments are cut, while short-term activities are increased, cannot be supported by our findings. While long-term investments such as advertising, public relations and sponsoring were decreased during recession in the textiles, food and beauty sub-samples, short-term instruments like sales promotions, personal selling and direct marketing were also decreased. Even when viewed in relative order of magnitude of change across instruments, the more modest drop in sales promotions relative to advertising is rendered irrelevant by the strong drop in direct marketing. Thus, P37 has to be rejected for the textiles, food and beauty sub-samples. It can also not be supported for the furniture sub-sample, since long-term effective investments in advertising there actually increased.

4.5.4 Distribution Policy in Recession

4.5.4.1 Presentation of Results

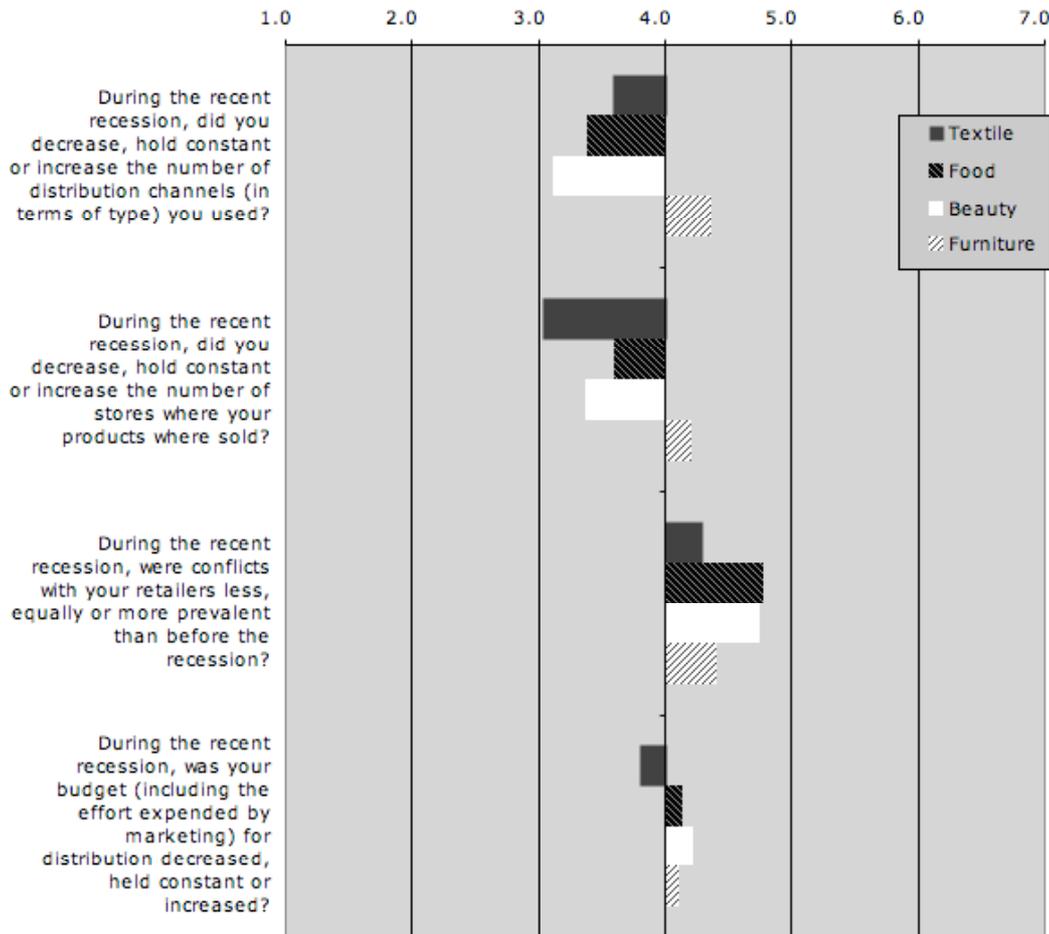
For distribution policy, we again measured this instrument of a firm's marketing mix directly as a budget to indicate pro-, a- or anticyclicality. Additionally, we measured three distinct indicators: channel breadth (how many channels), channel intensity (how many outlets per channel) and channel relations (number of conflicts between manufacturer and intermediary). The budget and channel breadth, intensity and relations were measured relative to normality on a decrease/increase seven-point Likert scale. The midpoint of this scale (4) served as an equivalent of "no change".

The distribution policy budget was stable across the sub-samples with a mean response of 4.0. For textiles, budgets were decreased with an average of 3.8. For the

food sub-sample, budgets were increased at 4.1, as they were in both the beauty and furniture industries with mean responses of 4.2.

On average, manufacturers decreased the number of retail channels they served during the recession. The average response across sub-samples was 3.5. This was 3.6 for textiles, 3.4 for food and 3.1 for beauty. Our respondents from the furniture industry, however, reported a slight increase in the number of channels (4.4). Distribution intensity, measured by the number of stores per retail channel, declined across the sampled industries with an average response of 3.4. It was down significantly for textiles at 3.0, slightly decreased for food at 3.6 and beauty at 3.4. It increased marginally only for furniture with an average response of 4.2. Channel relations were not as smooth as expected. Our respondents reported increased channel conflicts across industries with an average response of 4.6. For textiles, this was 4.3; for food, 4.8; for beauty, 4.7; and for furniture, 4.4.

Figure 4.11 Distribution Policy in Recession



Source: own

4.5.4.2 Discussion of Propositions

Our proposition on distribution in recession stated that activities of this element of a company’s marketing mix, including investments in distribution, are largely stable in recession (P38). As visible from the responses to the question about investment in distribution to recession, we can see that P38 is generally confirmed across the sub-

samples in terms of budgetary investment. However, the detailed questions reveal a more differentiated view which may imply that distribution policy is not as stable as it first seems. For the textiles, food and beauty industries, the number of sales channels declined, the outlets per channel were decreased and there were more channel conflicts than in normality. Even for the furniture industry, where the number of channels and outlets per channel rose, increased channel conflicts were reported for the period of recession compared with normality. This more detailed view suggests at least a moderately procyclical policy for the textiles, food and beauty sub-samples, even if the investment amounts in total budgets spent on distribution were acyclical.

4.6 Conclusions

Chapter 4 served to test the 37 propositions which were formulated in Chapter 3 based on the review of relevant literature. Taken in its entirety, the empirical test of proposition provides a description of what happens in recession from the perspective of a marketing manager:

Consumers lower their expenditures in recession compared to normality. Their price consciousness and hence the price elasticity of demand increases. More private labels instead of traditional brands are bought during recession than in normality. Before buying, consumers reflect more cognitively on their purchasing than prior to recession. Price-related communications are more deemed more effective during recession. At the same time, the speed, force and focus of competition increase. Competitive over-reaction is reported to be more frequent than in times of economic growth. In general, retailers are perceived to behave procyclically. Structural adaptations of manufacturers, however, are uncommon and retailers resistance, for example to new product launches, is not seen to generally increase. Pressure on price and pressure to engage in joint promotions is reported to be higher. Branded retailers tend to lose shoppers' traffic to discount chains.

For a firm, recession generally means that sales decline and capacity utilization decreases. This means higher unit costs and lower cash flows. Consequently, marketing departments are under more pressure to perform well during recession. However, our empirical study implies that recessions do not represent uncertain environments

for the marketing manager. Generally, the manager knows what is happening, what this will do to the SBU and what a response should be. The pressure to perform well and personal work load for the individual marketing manager does not increase.

In general, anticyclical marketing has to be perceived as still being rather uncommon. Most firms invest less in marketing during a recession. At the same time, however, they stretch their funds by attempting to increase external and internal marketing activity even on a lowered budget.

In product policy, new product launches are rather uncommon, but not as uncommon as suggested by the literature. Contrary to our expectations, product modification and elimination, however, seldom happen. Marketing managers do tend towards a lower price when deciding on their pricing policy in recession. In general, promotional budgets decline; however, they decline across all instruments, not favouring either short- or long-term measures in recession. In general, distribution policy is reported as stable in recession, even though three of the sub-samples reported using less channels, less outlets per channel and all four reported more channel conflicts than in normality.

The following table serves to summarize the descriptive results both for the sub-samples and the propositions in their entirety.

Table 4.2 Overview of Tested Propositions

Proposition	Statement	Proposition supported (*), not applicable (NA) or not confirmed (blank)				
		Textile	Food	Beauty	Furniture	Over-all
1	Consumers decrease expenditures in recession, lowering total market sales	*	*	*	*	*
2	Expenditures are reduced more in non-basic, luxury consumption and expenditure for durables versus basic, non-luxury consumption and expenditure for consumables	NA	NA	NA	NA	*
3	Consumers become more price-conscious in recession	*	*	*	*	*
4	Demand is more price-elastic in recession	*	*	*	*	*
5	Private label brand purchases increase in recession	*	*	*	*	*
6	Cognitive processing of information increases in recession	*	*	*	*	*
7	Cognitive processing of information increases in recession	*	*	*	*	*
8	Competition increases in force during recession	*	*	*	*	*
9	Competition increases in speed during recession	*	*	*	*	*
10	Competition is more focused on directly responding to competitors' actions during recession	*	*	*	*	*
11	Price competition is more prevalent in recession than in normality	*	*	*	*	*
12	Competition is more oriented towards short-term goals and objectives than in normality	*	*	*	*	*
13	Competitors are seen to overreact more in recession than in normality	*	*	*	*	*
14	Retailers generally behave procyclically regarding ordering quantities during recession	*	*	*	*	*
15	Structural adaptations, or ceasing to do business with a given supplier, are as uncommon in recession as in normality	*	*	*	*	*
16	Retailer resistance, especially towards product launches, increases in recession	*	*	*	*	*
17	Retailer pressure on manufacturer's prices increases in recession	*	*	*	*	*
18	Retailer pressure to join or engage in promotional activities increases in recession	*	*	*	*	*
19	Discount chains increase market share during recession	*	*	*	*	*
20	On average, firm sales decline in a given market that is affected by recession	*	*	*	*	*
21	On average, firm capacity utilization in recession in a given market declines	*	*	*	*	*
22	The marketing function is under more organizational pressure to perform during recession than in normality	*	*	*	*	*
23	The urgency to perform well increases in recession	*	*	*	*	*
24	The internal marketing activity increases in recession	*	*	*	*	*
25	State uncertainty increases in recession	*	*	*	*	*
26	Effect uncertainty increases in recession	*	*	*	*	*
27	Response uncertainty increases in recession	*	*	*	*	*
28	Marketing managers are under more pressure to perform during recession than in normality	*	*	*	*	*
29	Marketing managers have a higher workload during recession than in normality	*	*	*	*	*
30	Few companies engage in anticyclical marketing in recession	*	*	*	*	*
31	Few companies engage in anticyclical product policy investments in recession	*	*	*	*	*
32	Few companies launch new products in recession (product innovation)	*	*	*	*	*
33	Few companies launch modified products during recession (product modification)	*	*	*	*	*
34	Many companies cut underperforming products in recession (product elimination)	*	*	*	*	*
35	Most companies lower prices in recession	*	*	*	*	*
36	Most companies cut promotion policy investments in recession	*	*	*	*	*
37	Promotion policy instruments with less immediate effects (advertising, PR, sponsoring) are cut, while instruments with more immediate effect (sales promotion, personal selling, marketing) are increased	*	*	*	*	*
38	Distribution policy, including investments in distribution, is largely stable in recession	*	*	*	*	*

Source: own

Chapter 5: Antecedents of Marketing Performance in Recession

The fifth chapter presents a causal model intended to explain the antecedents of marketing performance in recession. The model tests the organizational antecedents to proactive marketing, a marketing strategy construct intended to encompass a company perceiving the recession as an opportunity rather than a threat and acting upon this opportunity. It tests whether such a proactive marketing strategy is can be implemented through anticyclical marketing mix policies, that is policies which invest more during recession than in normality. And it tests whether proactive marketing has a positive influence on market and, finally, business performance, and whether the inclusion of marketing mix constructs heightens the specificity of the model.

In Section 5.1, we describe the derivation of the model. Section 5.2 serves to illustrate the operationalization of constructs and the methodological bases of specification and estimation. In Section 5.3, we report the results of model estimation. We interpret the model results in Section 5.4 and present a summary of the Chapter in Section 5.5.

5.1 Derivation of the Model

In contrast to our earlier investigation of propositions in Chapter 4, the causal model proposed for the antecedents of marketing performance in recession is based on prior research and founded on theoretical approaches (see Srinivasan/Lilien/Rangaswamy, 2002). It thus differs from our earlier exploratory approach and rather resembles a form of critical rationalism. The model focuses on a central construct called proactive marketing. “Proactive Marketing” describes a strategic approach to recession that “views the recession as an opportunity and develops marketing responses to capitalize on this perceived opportunity” (Srinivasan/Lilien/Rangaswamy, p. 3). In their operationalization shown in the table below, it is clear that “proactive marketing” in their sense is a pure construct of “Proactive Marketing in Recession”, as every item refers to the “downturn” or “recession”.

Table 5.1 The Construct of Proactive Marketing

1.	Our firm's top management treated the downturn more like an opportunity than as a threat to the firm.
2.	We view this downturn as an opportunity to leapfrog over some of our cautious competitors.
3.	Top managers of our firm view the downturn as an opportunity that will help us achieve our business objectives.
4.	Our marketing plans extensively capitalized on the opportunities that arose because of the downturn.
5.	We have acted decisively to seize market opportunities generated by the downturn.
6.	We responded more quickly to the market changes caused by the downturn than our competitors.
7.	We are making the necessary investments to grow our business during the economic downturn.
8.	We have been very proactive in developing our marketing plans to counter the downturn.
9.	Our marketing plan for the downturn basically involves hunkering down and riding out the recession (reverse-coded).

Source: adapted from Srinivasan/Lilien/Rangaswamy (2002)

In the strategic marketing literature, organizational traits, along with environmental changes, are major determinants of a firm's strategic behavior. The authors cite several theoretical developments in strategy literature to support the construct of proactive marketing. Firstly, it has been found not only that environments force firms to adapt, but that firms proactively manipulate their environments to achieve higher performance (Bourgeois, 1984). Secondly, the resource-based view of the firm supports the view that specific internal resources may complement a prevailing environment to support higher performance (Teece/Pisano/Shuen, 1997). Srinivasan/Lilien/Rangaswamy thus propose four strategic and organizational antecedents that may predict the adoption of a "Proactive Marketing" strategy, which in turn leads to higher performance (in their case, during recession). These four strategic and organizational constructs are a Strategic Emphasis on Marketing, an Entrepreneurial Culture, Organizational Slack Resources and Strategic Flexibility.

Firms with a strategic emphasis on marketing use positioning, market segmentation and marketing communications to achieve a higher performance relative to competitors (Miller, 1988). Several factors contribute to why firms with a strategic emphasis on marketing should be more likely to adopt a proactive marketing approach during recession: executives realize the importance of marketing to achieve superior performance, marketing managers are more highly placed within the organization and non-marketing executives may be reluctant to cut marketing budgets. Furthermore, such organizations may have strong external ties with marketing suppliers, such as advertising agencies, which will offer better prices during recession. Given an emphasis on marketing, sufficient funds and lower prices, a firm is more likely to seize upon recession as an opportunity and invest into marketing. Thus,

H1: The greater a firm's strategic emphasis on marketing, the greater its proactive marketing during recession.

The second factor which Srinivasan/Lilien/Rangaswamy posit to predict proactive marketing is an entrepreneurial culture. This is defined as "the extent to which the firm and its top managers are inclined to take business-related risks, and to favor change to obtain a competitive advantage" (2002, p. 11). A firm with an entrepreneurial culture is thus more likely to perceive an environmental change as an opportunity (Covin/Slevin, 1989) and invest aggressively. Therefore,

H2: The greater a firm's entrepreneurial culture, the greater its proactive marketing during recession.

The third strategic and organizational antecedent identified by Srinivasan/Lilien/Rangaswamy (2002) is organizational slack resources. Organizational Slack Resources (Chattopadhyay et al., 2001), or resources that the firm has in excess of the required minimum, are necessary to permit investment into marketing during a recession. Hence,

H3: The greater the availability of slack resources in a firm, the greater its proactive marketing during recession

Finally, the authors of the original model propose Strategic Flexibility as a strategic and organizational antecedent of proactive marketing. Strategic flexibility is the ability of an organization to quickly respond to changes in its environment by seizing opportunities (Grewal/Tansuhaj, 2001). Given that the recession presents a large environmental change and resources must be re-allocated quickly and flexibly, strategic flexibility seems a possible predictor of the adoption of a proactive marketing strategy. Thus,

H4: The greater a firm's strategic flexibility, the greater its proactive marketing during recession

In their original model, the authors then relate the construct of Proactive Marketing directly to performance during recession. Thus,

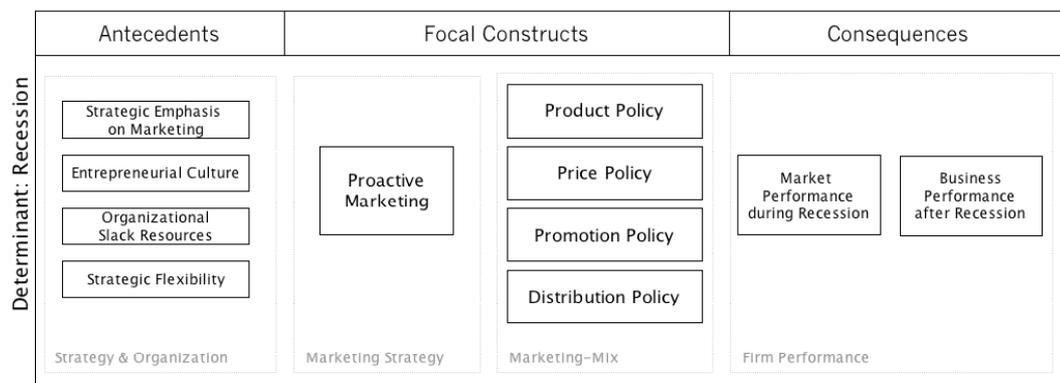
H5: The greater a firm's proactive marketing during recession, the greater its market performance.

However, we perceive two problems with this. Firstly, the specificity of the model is quite low. It is unclear which directional changes in which of its marketing mix policies led to superior performance during recession. Was there additional investment in product policy? Was there more promotion? Were prices lowered? Or does proactive marketing potentially advocate a procyclical approach – lowering investment in promotions and focusing distribution? Furthermore, while satisfactory to increase performance during recession, it is unclear whether firms that achieve higher performance during recession actually perform better during and after recovery.

We therefore decided to extend the model in two ways. Firstly, by specifying marketing mix constructs for each policy area to measure the change in marketing mix policy during recession compared to normality. Secondly, we extended the performance measurement from measuring during recession to measuring the impact of market performance during recession on business performance after recession.

Our final model entails the following constructs:

Figure 5.1 Model Conceptualization



Source: own illustration, partially adapted from Srinivasan/Lilien/Rangaswamy (2002)

The model consists of strategic and organizational antecedents, a strategic and several operational focal constructs and consequences in market performance during and business performance after recession. All these are in the presence of the major environmental determinant recession.

Section 5.2 serves to illustrate the operationalization of each construct, detailing the methodological bases for its specification with implications for the later estimation of the model.

5.2 Methodology and Construct Operationalization

We operationalized the main strategic and organizational constructs according to Srinivasan/Lilien/Rangaswamy (2002). These include a Strategic Emphasis on Marketing (Miller, 1988), an Entrepreneurial Culture (adapted from Covin/Slevin, 1998), Organizational Slack Resources (adapted from Chattopadhyay et al. 2001), and Strategic Flexibility (adapted from Grewal/Tansuhaj, 2001). The marketing strategy construct of Proactive Marketing was developed in Srinivasan/Lilien/Rangaswamy (2002). Due to questionnaire testing results, we discarded the reverse-coding of one item within the Organizational Slack Resources construct.

The marketing mix constructs presented a challenge to operationalize, since to the best of our knowledge, it has not been attempted to comprehensively test entire marketing mix policies as construct scores. We thus relied primarily on current marketing textbooks to guide our understanding as to what each policy contained.

We discarded the earlier operationalization of market and business performance. Srinivasan/Lilien/Rangaswamy (2002) measured only few dimensions of performance. For market performance, they chose sales and sales growth, as well as market share and market share growth. For firm performance, they chose (unspecified) cash flow and (unspecified) profitability. We measured market performance with the construct by Homburg (Homburg et al., 1999), which includes customer satisfaction, customer benefit, customer loyalty, customer acquisition, market share and manager satisfaction with performance. For business performance, we specified cash flow as the operational cash flow and profitability as the return on investment of marketing for the strategic business unit (SBU).

Furthermore, we introduced a tentative concept of temporality for performance measures. We thus measured market share, manager satisfaction with market performance, cash flow, ROI and manager satisfaction with business performance during as well as after the recession. We did not measure the customer performance measures after recession for reasons of questionnaire length.

At the foundation of our thinking about how to represent constructs was the primary question of whether these are naturally formative or reflective (see Diamantopoulos/Winklhofer, 2001). Fornell/Bookstein (1982) postulate that the decision about the relation between data and unobservables, or 'indicator mode', involves three considerations: (i) the objective of the study, (ii) the amount of theoretical foundations for the formation of the unobservables and (iii) empirical contingencies (primarily sample size and multicollinearity). For the proposed research design, a first plausibility check yields the following insights.

The strategic and organizational constructs, as well as the marketing strategy construct of Proactive Marketing, are naturally reflective. However, our objective in estimating the model was not to fully account for observed variance in the formation of the separate marketing mix constructs (product, price, promotion, place), but to explain how different marketing mix policies may affect performance in recession. The extant theory on the marketing mix conceptualizes the individual policies as linear combinations of variables. For example, a company that uses frequent price discounts but has a stable average price over time does not do so because of its pricing policy; rather, these observables are its pricing policy. Given this body of conceptualization, it was necessary to represent the marketing mix constructs with formative indicators (see Fornell/Bookstein 1982).

However, plausible arguments point to the contrary for the constructs of performance. First, the objective of the study is to explain variance in observed performance by way of the unobservable constructs of the marketing mix, not to give explanatory power to a conceptualization of performance. Second, any construct of performance is naturally reflective, in that it 'gives rise' to measurable indicators (e.g., market share, manager satisfaction with results, return on investment), but cannot be wholly represented by them in a theoretically justifiable fashion. Finally, in the formative mode, indicator multicollinearity affects the stability of coefficients, which can be avoided by using reflective indicators since these are based on simple regression. In a similar fashion, the strategic and organizational antecedents and the marketing strategy construct have no underlying theoretical body that would yield sufficient construct validity for a formative mode. Study objective, theory and empirical contin-

gency considerations therefore suggest the use of reflective indicators for all but the marketing mix constructs.

Because the intention is to explain variance of our firm performance constructs by way of the unobservables, the indicators of these endogenous constructs are reflective; those of the exogenous constructs, formative. This results in a 'mixed-mode estimation' as suggested by Fornell/Bookstein (1982). However, formatively specified constructs cannot be easily estimated using covariance-based structural analysis because of parameter identification problems (Bollen, 1989; Wold, 1982). We therefore use the partial least squares approach.

Partial least squares (PLS) is appropriate in this context not only because it solves the parameter identification problems that arise from formative indicators in covariance-based causal model estimation with applications such as LISREL or AMOS, but also because PLS is an exploratory, rather than confirmatory estimation procedure. As such, it is suitable for research that is conducted in a new field (see Chin, 1998).

PLS was developed by Wold (1982). It has several advantages when compared to covariance based causal modelling (see Goetz/Liehr-Goebbers/Krafft, 2006; Gefen et al., 2000; Chin, 1998; Wold, 1982). For instance, PLS can be used even when there is no multivariate normal distribution of the error term of all manifest variables. It also permits smaller sample sizes since it maximizes explanatory power of the model, rather than trying to falsify relationships.

Table 5.2 serves to list the strategic and organizational antecedent constructs. All items were measured on a seven-point Likert-like scale with the end points "Strongly Disagree" (coded as 1) and "Strongly Agree" (coded as 7), with 4 serving as a neutral point of "Neither Disagree nor Agree".

Table 5.2 Strategic & Organizational Antecedents

<p>Strategic Emphasis on Marketing (Miller, 1988)</p>	<ol style="list-style-type: none"> 1. Our marketing capabilities provide us with a key advantage over our competitors. 2. Marketing plays a very critical role in the achievement of our business objectives. 3. Top management views marketing to be critical to the success of this firm. 4. Our customers perceive our products to be of much higher quality than those of our competitors.
<p>Entrepreneurial Culture (Covin/Slevin, 1989)</p>	<ol style="list-style-type: none"> 1. Our firm is very often the first business to introduce new products/services, administrative techniques etc. 2. The top managers of this firm believe that bold strategies are required to achieve our business objectives. 3. When confronted with uncertainty, my firm typically adopts an aggressive posture to exploit potential opportunities. 4. In general, the top managers of this firm have a strong inclination for high-risk projects (with chances of high rates of return).
<p>Organizational Slack Resources (Chattopadhyay et al., 2001)</p>	<ol style="list-style-type: none"> 1. It is easy for our firm to obtain sufficient finances to produce and market our goods. 2. We are always able to implement our business plans because we have the required resources (reverse-coded). 3. Our firm has easy access to resources for growth and expansion.
<p>Strategic Flexibility Grewal/Tansuhaj, 2001)</p>	<ol style="list-style-type: none"> 1. We regularly share investments and costs across business activities. 2. We strive to derive benefits from operating in a diversity of market environments. 3. Our strategy emphasizes exploiting opportunities arising due to variability in the environment. 4. Our strategy reflects high level of flexibility in managing political, economic, and financial risks.

Source: adapted from Srinivasan/Lilien/Rangaswamy (2002)

Table 5.3 lists the items of the construct of Proactive Marketing. Again, all items measured on a seven-point Likert-like scale with the end points “Strongly Disagree” (coded as 1) and “Strongly Agree” (coded as 7):

Table 5.3 The Construct of Proactive Marketing

<p>Proactive Marketing (Srinivasan et al., 2002)</p>	<ol style="list-style-type: none"> 1. Our firm's top management treated the downturn more like an opportunity than as a threat to the firm. 2. We view this downturn as an opportunity to leapfrog over some of our cautious competitors. 3. Top managers of our firm view the downturn as an opportunity that will help us achieve our business objectives. 4. Our marketing plans extensively capitalized on the opportunities that arose because of the downturn. 5. We have acted decisively to seize market opportunities generated by the downturn. 6. We responded more quickly to the market changes caused by the downturn than our competitors. 7. We are making the necessary investments to grow our business during the economic downturn. 8. We have been very proactive in developing our marketing plans to counter the downturn. 9. Our marketing plan for the downturn basically involves hunkering down and riding out the recession (reverse-coded).
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Source: adapted from Srinivasan/Lilien/Rangaswamy (2002)

We developed four marketing mix constructs following McCarthy's (1960) four P's with an adapted nomenclature: product policy, pricing policy, promotion policy and distribution policy. Based on a comprehensive review of marketing textbooks (Cateora/Graham, 2004; Diller, 2000; Brockhoff, 1993; Jain, 1999; Kotler, 2000; Lamb/Hair/McDaniel, 2003; Green/Tull/Albaum, 1999), we operationalized the constructs of Product Policy, Pricing Policy, Promotion Policy and Distribution Policy in recession along with their items. All items were measured on a seven-point Likert-like scale with the end points "Decreased Strongly" or "A Lot Less" (coded as 1) and "Increased Strongly" or "A Lot More" (coded as 7), comparing the period during the recession to the period of normality before the recession. An answer of 4 would mean "unchanged" compared to normality.

Table 5.4 Marketing Mix Constructs

Product Policy	Scale
In the recent recession, we significantly changed quality levels by modifying existing products or launching new ones.	
In the recent recession, we significantly changed the durability of our products by modifying existing products or launching new ones.	
In the recent recession, we significantly changed the packaging of our products by modifying	
In the recent recession, we significantly changed the range of sizes or options in our products to increase consumer appeal.	<i>disagree strongly (1) - agree strongly (7)</i>
In the recent recession, we significantly changed warranties to appeal to consumers.	
In the recent recession, we significantly changed the after-sales service offering to appeal to	
In the recent recession, we significantly changed our brand image to appeal to consumers.	
In the recent recession, we significantly modified several products to attract or retain	
In the recent recession, we launched one or several new products to attract new business.	
<u>In the recent recession, we eliminated several products from our range to improve business</u>	
During the recent recession, was the budget available for product policy measures (innovation, modification) decreased, increased or did it stay the same?	<i>decreased strongly (1) - increased strongly (7)</i>
Pricing Policy	Scale
During the recession, was the average list price (prices for retailers) of your product or products increased, decreased or did it stay the same?	
During the recent recession, did you decrease, hold constant or increase your charges for shipping, handling and other add-ons to the list prices?	
During the recent recession, did you decrease, hold constant or increase the rebates and discounts you granted?	
During the recent recession, did you decrease, maintain constant or increase your recommended price for end consumers?	<i>decreased strongly (1) - increased strongly (7)</i>
During the recent recession, was the effective price paid by the end consumer to the retailer lower, constant or higher than before the recession?	
During the recession, did your pricing decrease, stay constant or increase relative to the market's average price?	
<u>In general, was your price policy during the recession to decrease, hold constant or increase</u>	
Promotion Policy	Scale
During the recent recession, did you increase, hold constant or decrease the funds spent on	
During the recent recession, did you increase, hold constant or decrease the funds spent on	
During the recent recession, did you increase, hold constant or decrease the funds spent on	
During the recent recession, did you increase, hold constant or decrease the funds spent on sponsorship & events?	<i>decreased strongly (1) - increased strongly (7)</i>
During the recent recession, did you increase, hold constant or decrease the funds spent on	
Overall, during the recent recession, was your budget for communications and promotion decreased, held constant or increased?	
Distribution Policy	Scale
During the recent recession, did you decrease, hold constant or increase the number of distribution channels (in terms of type) you used?	
During the recent recession, did you decrease, hold constant or increase the number of stores where your products were sold?	
During the recent recession, were conflicts with your retailers less, equally or more prevalent than before the recession?	<i>decreased strongly (1) - increased strongly (7)</i>
During the recent recession, was your budget (including the effort expended by marketing) for distribution decreased, held constant or increased?	

Source: own

The construct of product policy thus constructed a weighted index from questions regarding product innovation (new product launches), product elimination from the product range and product modification, translated into quality, design, durability, packaging, the range of sizes or options, warranties, service and the brand image. Pricing policy is a weighted index of price policy items starting with the list price, freight charges through shipping & handling, deductions from rebates/discounts, recommended prices to the intermediaries, effective sales prices to the intermediaries and prices relative to the competition. Promotion policy constructed a weighted index from the changes in different promotional expenditures in recession compared to normality: advertising, sales promotion, public relations, personal selling, sponsoring and direct marketing. Distribution policy was specified to ask whether the company had increased the number of sales channels (distribution channels), the number of stores or other distributional units in its extant channels (channel intensity) and the state of conflict with the intermediary (channel relations) all compared to normality.

We differentiate marketing performance in the title of this Thesis into Market and Business performance. Table 5.5 lists the constructs along with their indicators:

Table 5.5 Performance Constructs

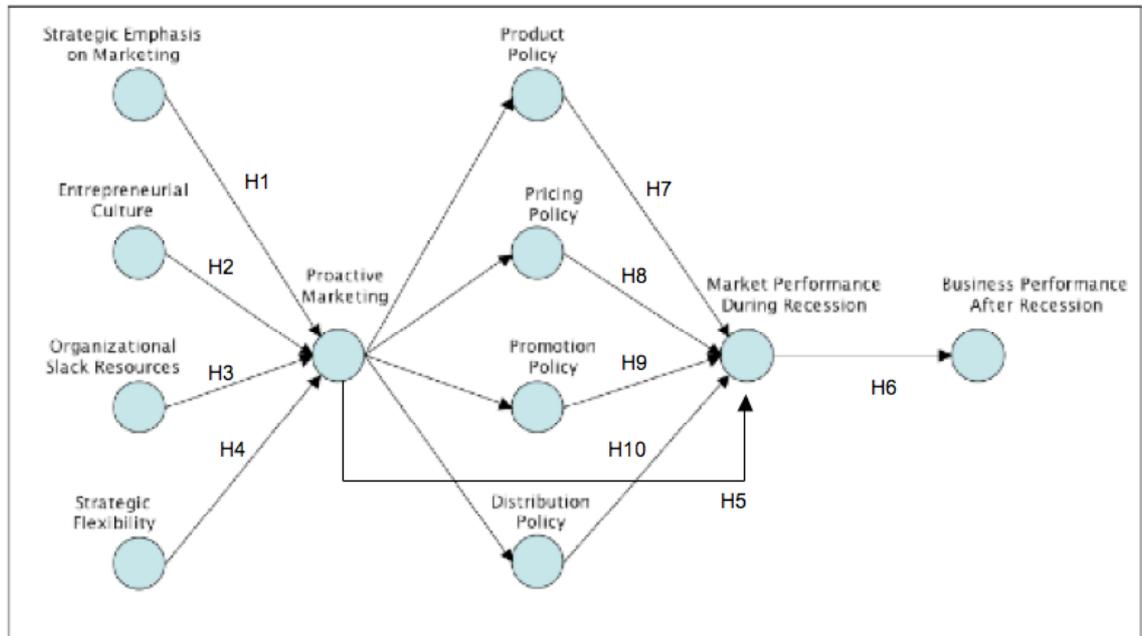
Market Performance During Recession	Scale
Our customers were more satisfied during and after the recession than before it.	<i>disagree strongly (1) - agree strongly (7)</i>
We significantly improved customer benefit during and after the recession than before it.	
Our customer were more loyal during and after the recession than before it.	<i>decreased strongly (1) - increased strongly (7)</i>
I am satisfied with our market performance during the recession.	
Did your market share decrease, stay constant or increase during the recession than compared to before the recession?	
Business Performance After Recession	Scale
Did your operational cash flows decrease, stay constant or increase after the recession?	<i>decreased strongly (1) - increased strongly (7)</i>
Compared with your competitors, do you believe that your Return on Investment was worse, the same or better after the recession?	<i>a lot worse (1) - a lot better (7)</i>
I am satisfied with our business performance after the recession.	<i>disagree strongly (1) - agree strongly (7)</i>

Source: own illustration

The construct of market performance during recession contains the measures customer satisfaction, customer benefit, customer loyalty, customer acquisitions, and market share, all relative to normality, and manager satisfaction with performance. The construct of business performance in recession measured the increase in operational cash flow and return-on-investment (ROI) after the recession relative to during the recession.

Figure 5.2 presents a graphical overview of the integrated model.

Figure 5.2 Graphical Overview of the Model



Source: partly adapted from Srinivasan/Lilien/Rangaswamy (2002), own illustration

The hypotheses that are to be tested using the model:

H1: The greater a firm's strategic emphasis on marketing, the greater its proactive marketing during recession

H2: The greater a firm's entrepreneurial culture, the greater its proactive marketing during recession

H3: The greater the availability of slack resources in a firm, the greater its proactive marketing during recession

H4: The greater a firm's strategic flexibility, the greater its proactive marketing during recession

H5: The greater a firm's proactive marketing during recession, the greater its market performance

H6: The greater a firm's market performance in recession, the greater its business performance after recession

H7: The greater a firm's investment in product policy in recession, the greater its market performance

H8: The more a firm lowers its prices in recession, the greater its market performance

H9: The greater a firm's investment in promotion policy in recession, the greater its market performance.

H10: The greater a firm's investment in distribution policy in recession, the greater its market performance

5.3 Presentation of Results of Model Estimation

We estimated the model using the software PLS Graph v3.0 beta software by Wynne Chin (see <http://disc-nt.cba.uh.edu/plsgraph/>). First, we estimated a model with the raw data within the PLS Graph application. While potentially valid, this model does not account for disturbances based on aberrations within industries. We thus estimated the model using normalized data.

5.3.1 Reliability and Validity

We tested for reliability and validity of the measurement and the structural models according to Goetz/Liehr-Gobbers (2004).

For the reflective construct measurement models, indicator reliability was tested by checking whether more than 50% of the variance in the indicator was explained by the construct. All our loadings are above 0.7, reflecting good indicator reliability. No indicators were below 0.4, meaning there was no need for indicator elimination in the reflective constructs. We tested for convergence validity to see whether different measurement instruments give similar results using the internal consistency test. All internal consistencies of the reflective constructs were above 0.7, thus showing con-

vergence validity. We tested for discriminant validity to determine the difference between measurements using the same instrument by checking whether the average variance extracted (AVE) of a construct was larger than its correlation with the other latent variables. This was the case.

For the formative measurement models, there is no assumption regarding covariation of indicators (thus path weights, not loadings, are for the inner models). We checked for indicator relevance by testing for multicollinearity using the variance inflation factor (VIF). The rule of thumb is that the VIF should be larger than 10. This was the case for all formatively specified constructs.

In PLS, the explained variance can be interpreted as in a simple regression. We tested the strength of relationships between constructs using t-statistics (resampling procedure). The results are displayed in Illustration 5.7. An interpretable “model fit” to test the fit of empirical data to the model is the Stone–Geisser criterium, the rule of thumb being that its value must be larger than 0.

Figure 5.6 provides a summary of the key reliability and validity statistics for the model.

Table 5.6 Key Reliability and Validity Statistics

Reflective Constructs	Internal Consistency	Average Variance Extracted
Proactive Marketing	0.91	0.68
Strategic Emphasis on Marketing	0.81	0.70
Entrepreneurial Culture	0.85	0.66
Organizational Slack Resources	0.96	0.93
Strategic Flexibility	0.81	0.63
Market Performance	0.93	0.75
Business Performance	0.94	0.90
Formative Constructs	Maximum Variance Inflation Factor	
Product Policy	4.7	
Pricing Policy	2.1	
Promotion Policy	4.0	
Distribution Policy	1.4	
Stone–Geisser Criterion	0.5723	

Source: own; software used: PLS Graph and SPSS 10.

5.3.2 The Two Models

Figure 5.3 shows the retest of the Srinivasan/Lilien/Rangaswamy (2002) model and Figure 5.4 shows the full estimated model including our marketing mix constructs.

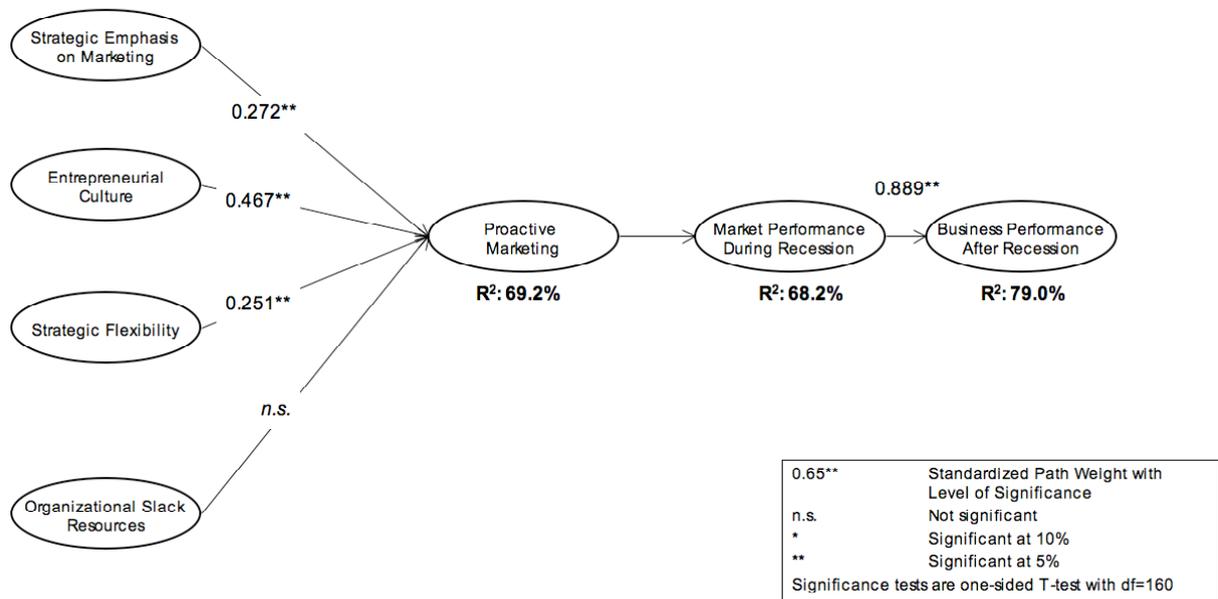
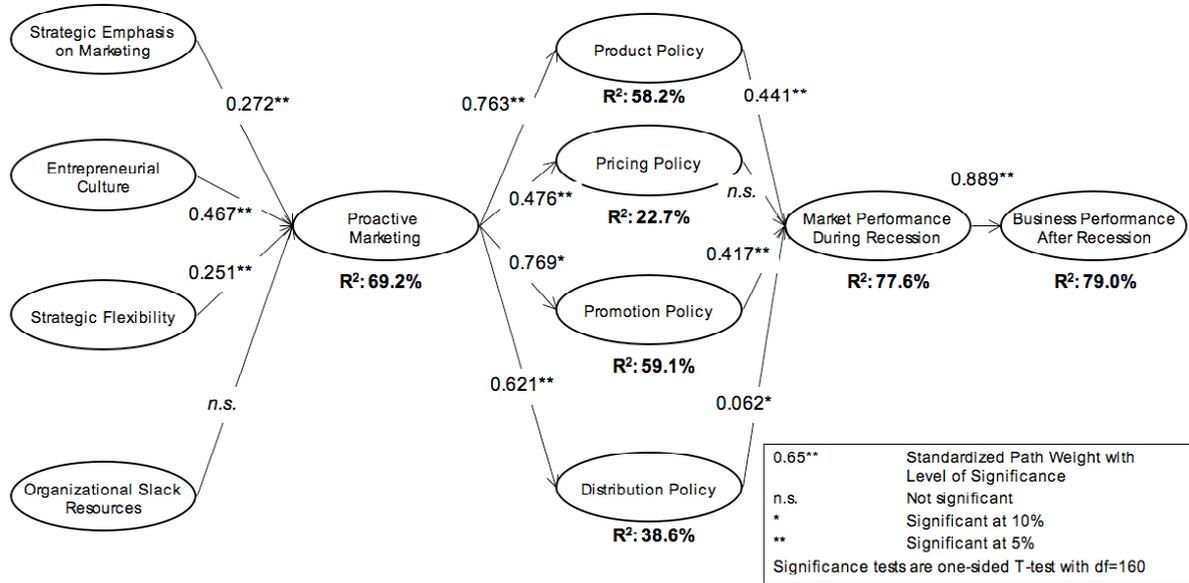


Figure 5.3 The Srinivasan/Lilien/Rangaswamy (2002) Model Retested

Source: own estimation & illustration, software: PLS Graph 3.0 beta

Figure 5.4 The Full Estimated Model



Source: own estimation & illustration, software: PLS Graph 3.0 beta

The first obvious difference between the two estimated models is the higher explanatory value R^2 of 0.776 in the model with marketing mix constructs versus 0.682 in the model without. In general, the explanatory power is very high.

The estimation of the outer models of the reflectively specified antecedent organizational and strategic constructs, yielding high loadings, is reported below.

Table 5.7 Loadings of the Antecedent Strategic & Organizational Constructs

Strategic Emphasis on Marketing	
Loading	Item
0.773	Our marketing capabilities provide us with a key advantage over our competitors.
0.844	Marketing plays a very critical role in the achievement of our business objectives.
0.690	Top management views marketing to be critical to the success of this firm.
0.820	Our customers perceive our products to be of much higher quality than those of our competitors.
Entrepreneurial Culture	
Loading	Item
0.709	Our firm is very often the first business to introduce new products/services, administrative techniques etc.
0.793	The top managers of this firm believe that bold strategies are required to achieve our business objectives.
0.752	When confronted with uncertainty, my firm typically adopts an aggressive posture to exploit potential opportunities.
0.834	In general, the top managers of this firm have a strong inclination for high-risk projects (with chances of high rates of return).
Organizational Slack Resources	
Loading	Item
0.934	It is easy for our firm to obtain sufficient finances to produce and market our goods.
0.952	We are always able to implement our business plans because we have the required resources (reverse-coded).
0.933	Our firm has easy access to resources for growth and expansion.
Strategic Flexibility	
Loading	Item
0.856	We regularly share investments and costs across business activities.
0.532	We strive to derive benefits from operating in a diversity of market environments.
0.791	Our strategy emphasizes exploiting opportunities arising due to variability in the environment.
0.727	Our strategy reflects high level of flexibility in managing political, economic, and financial risks.

Source: own estimation, using PLS Graph v3.0 beta

The following table gives an overview of the loadings of the reflective construct of Proactive Marketing and Figure 5.12 of the consequence constructs of Market Performance During and Firm Performance After Recession.

Table 5.8 Loadings of the Construct Proactive Marketing

Proactive Marketing	
Loading	Item
0.734	Our firm's top management treated the downturn more like an opportunity than as a threat to the firm.
0.817	We view this downturn as an opportunity to leapfrog over some of our cautious competitors.
0.830	Top managers of our firm view the downturn as an opportunity that will help us achieve our business objectives.
0.785	Our marketing plans extensively capitalized on the opportunities that arose because of the downturn.
0.744	We have acted decisively to seize market opportunities generated by the downturn.
0.782	We responded more quickly to the market changes caused by the downturn than our competitors.
0.638	We are making the necessary investments to grow our business during the economic downturn.
0.834	We have been very proactive in developing our marketing plans to counter the downturn.
0.805	Our marketing plan for the downturn basically involves hunkering down and riding out the recession (reverse-coded).

Source: own estimation, using PLS Graph v3.0 beta

Table 5.9 Loadings of the Constructs of Marketing Performance

Market Performance During Recession	
Loading	Item
0.813	Customer Satisfaction
0.829	Customer Benefit
0.850	Customer Loyalty
0.845	Customer Acquisitions
0.867	Market Share
0.868	Manager Satisfaction with Market Performance

Business Performance After Recession	
Loading	Item
0.916	Operational Cash Flow
0.935	Relative ROI
0.947	Manager Satisfaction with Business Performance

Source: own estimation, using PLS Graph v3.0 beta

The following tables give an overview of the weights of the formative marketing mix constructs.

Table 5.10 Weights of the Marketing Mix Constructs

Product Policy	Weight
In the recent recession, we significantly changed quality levels by modifying existing products	0.548
In the recent recession, we significantly changed the durability of our products by modifying existing products or launching new ones.	0.337
In the recent recession, we significantly changed the packaging of our products by modifying	0.246
In the recent recession, we significantly changed the range of sizes or options in our products to increase consumer appeal.	0.293
In the recent recession, we significantly changed warranties to appeal to consumers.	0.577
In the recent recession, we significantly changed the after-sales service offering to appeal to	0.162
In the recent recession, we significantly changed our brand image to appeal to consumers.	0.572
In the recent recession, we significantly modified several products to attract or retain	0.876
In the recent recession, we launched one or several new products to attract new business.	0.785
In the recent recession, we eliminated several products from our range to improve business	0.721
During the recent recession, was the budget available for product policy measures (innovation, modification) decreased, increased or did it stay the same?	0.879

Pricing Policy	Weight
During the recession, was the average list price (prices for retailers) of your product or products increased, decreased or did it stay the same?	0.359
During the recent recession, did you decrease, hold constant or increase your charges for shipping, handling and other add-ons to the list prices?	0.438
During the recent recession, did you decrease, hold constant or increase the rebates and	0.586
During the recent recession, did you decrease, maintain constant or increase your recommended price for end consumers?	0.088
During the recent recession, was the effective price paid by the end consumer to the retailer lower, constant or higher than before the recession?	0.306
During the recession, did your pricing decrease, stay constant or increase relative to the	0.664
In general, was your price policy during the recession to decrease, hold constant or increase	0.731

Promotion Policy	Weight
During the recent recession, did you increase, hold constant or decrease the funds spent on	0.829
During the recent recession, did you increase, hold constant or decrease the funds spent on	0.890
During the recent recession, did you increase, hold constant or decrease the funds spent on	0.893
During the recent recession, did you increase, hold constant or decrease the funds spent on	0.849
During the recent recession, did you increase, hold constant or decrease the funds spent on	0.451
During the recent recession, did you increase, hold constant or decrease the funds spent on	0.800
Overall, during the recent recession, was your budget for communications and promotion decreased, held constant or increased?	0.918

Distribution Policy	Weight
During the recent recession, did you decrease, hold constant or increase the number of distribution channels (in terms of type) you used?	0.966
During the recent recession, did you decrease, hold constant or increase the number of stores where your products were sold?	0.665
During the recent recession, were conflicts with your retailers less, equally or more prevalent	0.217
During the recent recession, was your budget (including the effort expended by marketing) for distribution decreased, held constant or increased?	0.113

Source: own estimation, using PLS Graph v3.0 beta

5.3.3 Estimation of Structural Model

The estimation of the inner (or structural) model yields very good results. The antecedent strategic and organizational constructs present a good prediction of Proactive Marketing with an R^2 of 0.692. Only the construct of Strategic Flexibility does not show a significant effect on Proactive Marketing. In our estimation of the original model, Strategic Emphasis on Marketing has a path coefficient of 0.272 at 5% significance (one-sided T-test with 160 degrees of freedom). The construct Entrepreneurial Culture has a path weight of 0.467, also at 5% significance, as does Organizational Slack Resources with a coefficient of 0.251. Proactive Marketing is a very good predictor (path weight of 0.862 at 5% significance) on Market Performance During Recession, with an R^2 of 0.682. It is already clear that the basic Srinivasan/Rangaswamy/Lilien (2002) model has been confirmed.

In our full model, including the marketing mix policy constructs, we see a higher explained variance of Market Performance in Recession. Given our over-arching objective of increasing the explanatory power by heightening the specificity of the model, this is an excellent result. In the updated model, the R^2 of Market Performance During Recession is 0.776, or 0.094 higher than in the original.

Proactive Marketing, on the other hand, is partially able to explain the variations in the marketing mix constructs. With a path weight of 0.763 (at 5% significance), Proactive Marketing has an R^2 of 0.582 on Product Policy. Proactive Marketing is only able to explain 0.227 of Pricing Policy (path coefficient of 0.476), albeit a 5% significance. While the path value of Proactive Marketing on Promotion Policy is high with 0.769 and an R^2 of 0.591, it is only a weak significance (10%, one-sided T-test). This may be because of a third, potentially moderating effect. Proactive Marketing's path coefficient on Distribution Policy is 0.621 (5% significance) with an R^2 of 0.386.

The relation between the marketing mix constructs and Market Performance During Recession are mixed. Pricing Policy has a very low path weight (0.020) and is not significant, while Distribution Policy has a very low (0.062) but significant (5%) coefficient. The other marketing mix policy constructs have very high and significant values. Product Policy has a path weight of 0.441 on Market Performance During Recession, while Promotion Policy has a coefficient of 0.417; both are significant at 5%. The interesting result is thus that the model gives a very clear indication of which

marketing mix policies to pursue in recession. Clearly, greater changes in product policy as well as greater investments in distribution policy have short-term performance implications.

Finally, the prediction of Business Performance After Recession by Market Performance During Recession is even higher than the prediction of Market Performance During Recession itself, with an R^2 of 0.790 (path weight of 0.889 at 5% significance). However, a word of caution may be in order. While an intuitive result, this may be especially prone to key informant, retrospective justification or common method bias, as may other parts of the model.

5.4 Interpretation of Results of Model Estimation and Discussion of Hypotheses

Our study underlines the significance of Strategic Emphasis on Marketing, Entrepreneurial Culture and Organizational Slack Resources in the adoption of a Proactive Marketing strategy during recession, confirming the result by Srinivasan/Lilien/Rangaswamy (2002).

A Proactive Marketing strategy in turn leads to the adoption of marketing mix policies which pursue both a higher investment in marketing and a higher rate of qualitative change during recession. The adoption of anticyclical Product and Promotion Policies lead to higher Market Performance During Recession. A higher Market Performance During Recession is a strong predictor of above-average Business Performance After Recession.

Returning to our hypotheses, we see that H1–H3, which specify that Strategic Emphasis on Marketing, Entrepreneurial Culture and Organizational Slack Resources increase the degree of Proactive Marketing, are supported by our model. H4 is not supported by our findings due to the weak and insignificant relationship of Strategic Flexibility and Proactive Marketing. Akin to Srinivasan/Lilien/Rangaswamy (2002), we find that Proactive Marketing is a strong predictor of Market Performance in Recession. We thus accept H5. We also find that Market Performance During Recession is a very strong indicator of Business Performance After Recession. We thus accept H6.

The results for the hypotheses regarding the marketing mix predicting Market Performance During Recession are mixed. We find support for H7, that the greater the investment in Product Policy during recession, the greater the Market Performance During Recession. We also consider H9 to be confirmed, as the same is true for investments in Promotion Policy. However, we do not find support for H8, as the relationship between Pricing Policy and Market Performance During Recession is – surprisingly – insignificant. Formally, H10 may be confirmed; however, we believe the effect of investments in Distribution Policy to be very weak and thus worthy of more investigation. Because the theoretical foundations for a clear relationship existing between two fundamental marketing mix policies – Pricing and Distribution – and a marketing performance measure are so strong, we believe that there may have been problems with the measurement of both of these marketing mix constructs. Distribution policy was the marketing mix construct with the fewest measures; while pricing policy was the only construct which did not have an “investment” focus. Both may have led to errors in answering, bias in the data or other distortions by design.

By including marketing mix instruments in the proactive marketing model of antecedents in recession, we have managed to increase both the specificity of the model and heighten its explanatory power. In the updated model, the R^2 of Market Performance During Recession is 0.776, or 0.094 higher than in the original Srinivasan/Lilien/Rangaswamy model. Furthermore, the greater changes in product policy and investments in promotion policy, the greater Market Performance During Recession. We have thus contributed to a better understanding of proactive marketing in recessions.

However, our methodology is limited by several factors. For one, we assume that recession is a market environment that can be clearly delineated from normality. Given business cycles, this may not be the case and our results thus skewed by retrospective justification bias. We were not able to test for key informant bias due to a low level of second informant responses. While common method bias was tested for using extrapolatory factor analysis, this does not wholly eliminate its possible presence. We conducted a cross-sectional study for what may have been better served by a time series view; however, such data was not available on a business unit level. Finally, no formative specification of marketing mix constructs exists; we thus derived

the items from widely accepted textbooks and pre-tested them with practitioners. However, this is theoretically deficient for formative specifications.

5.5 Summary of Model Testing

Chapter 5 specified a causal model of the effects of organizational and strategic antecedents, strategic and operational focal constructs and performance consequences for marketing in recession. We outlined the methodology of estimation, showed the operationalization of constructs, presented the results of estimation and discussed our major findings. The hypotheses proposed in Chapter 3 were tested. Of 10 hypotheses that were tested, seven were supported, while three could not be confirmed.

Table 5.11 Summary of Hypotheses

Hypothesis	Statement	Results
1	<i>The greater a firm's strategic emphasis on marketing, the greater its proactive marketing during recession</i>	*
2	<i>The greater a firm's entrepreneurial culture, the greater its proactive marketing during recession</i>	*
3	<i>The greater the availability of slack resources in a firm, the greater its proactive marketing during recession</i>	*
4	<i>The greater a firm's strategic flexibility, the greater its proactive marketing during recession</i>	f
5	<i>The greater a firm's proactive marketing during recession, the greater its market performance</i>	*
6	<i>The greater a firm's market performance in recession, the greater its business performance after recession</i>	*
7	<i>The greater a firm's investment in product policy in recession, the greater its market performance</i>	*
8	<i>The more a firm lowers its prices in recession, the greater its market performance</i>	f
9	<i>The greater a firm's investment in promotion policy in recession, the greater its market performance</i>	*
10	<i>The greater a firm's investment in distribution policy in recession, the greater its market performance</i>	f

* = supported ; f = falsified

Source: own

Chapter 6: Summary and Implications for Marketing Science and Practice

6.1 Summary

In Chapter 1, we introduced our topic and set three objectives: to review extant literature on marketing in recession, to formulate an empirically founded description of what happens in recession and specify and estimate a model about the organizational, strategic and operational antecedents of marketing performance in recession.

In Chapter 2, we approached the subject of recession from a theoretical and empirical perspective. We operationalized recession and set it into relation to our area of study, marketing science.

In Chapter 3, we reviewed the extant literature on marketing in recession. We created a framework of consumer, competitor and retailer behavior in recession, the effects of recession on the firm, the marketing function and the marketing manager, marketing strategy in recession and the marketing mix in recession. This literature review is the first to take a structured, evolutionary approach to the area of marketing in recession. From the literature review, we generated propositions and hypotheses.

We tested the propositions in Chapter 4, using the descriptive results from a large-scale empirical study in the German textile, food, beauty and furniture industries. From these emerged that while the literature on consumer, competitor and retailer behavior was generally correct, the impact on the firm, the marketing function and marketing manager was not well understood. While anticyclicalities were widely recommended in the literature, few firms implement it during recession.

In Chapter 5, we extended the most promising model on marketing in recession to date, while increasing its explanatory power. We confirmed that the organizational and strategic antecedents of a Strategic Emphasis on Marketing, an Entrepreneurial Culture and Organizational Slack Resources are a strong predictor of the adoption of a Proactive Marketing stance in recession. This, in turn, favours changes in Product Policy and investments in Promotion Policy during recession when compared to normality, which increases Market Performance During Recession. We also showed that

Market Performance During Recession is a strong explaining factor of Business Performance After Recession.

6.2 Deduction of Implications for Marketing Science

Our work presents one of the first structured approaches to a neglected area of marketing science. By reviewing extant literature and embedding it into a framework, the field has become more structured. By testing the propositions of extant literature empirically, we have shown that some, but not many, things are known about marketing in recession. We are relatively certain, for example, about the market environment and consumer, competitor and retailer behavior during recession. There is an apparent gap, however, between how the current literature sees recession and how marketing practitioners perceive it. While all literature says that a recession is a more uncertain environment, most marketing managers in our study said they were not more uncertain in recession than in normality; while much of the literature recommends anticyclical investment in recession, not many firms practice it.

The causal model illustrated that product and promotion policy may hold the key to above-average performance in recession, while the organizational antecedents showed that beneficial organizational and strategic precedents for normality may also lead to preferable behaviour in recession. The construct of Proactive Marketing has been validated as a viable alternative to measure a strategic approach to recession. Formatively-specified marketing mix constructs that compare intertemporal changes yielded very clear results. The importance of investing in product policy and promotion policy in recession has been highlighted.

First and foremost, we have aimed to provide a basis for further research into marketing in recession. One challenge we have encountered is how to measure intertemporally and objectively using a cross-section key informant survey. A first approach to intertemporal aspects of marketing in recession using time-series data has now been provided by Graham/Frankenberger (2003). Using third-party time series alleviates the potential problem of endogeneity in our results: that a firm that was successful prior to recession stayed successful during and after recession. Any

follow-up research must thus also aim to measure marketing and business performance prior to the economic downturn. In our ambition, we encountered potential problems that may have introduced biases into the study: retrospective justification biases, common method biases, question halo effects and, not least, key informant bias. We tried to alleviate the latter by questioning second informants, but did not receive any meaningful number of replies. A potential solution for the problem of key informants could also be the introduction of third-party, objective financial or other performance measures. Limitations to our study were also introduced by our choice of country and industries. A broader approach, encompassing several countries, several recessions and more industries, could yield more reliable results.

A further way to build on this study would be to extend the model by introducing feedback effects, modifiers, new constructs or different measures for extant constructs. Especially the weak or insignificant relations between price and distribution policy and market performance can probably be overcome by different operationalization. Organizational slack resources, for example, could also be a modifying effect between proactive marketing and the implementation of anticyclical investments in product and promotion policies. Marketing strategy is a potentially formative construct that, like the marketing mix policies, could encompass the entire marketing strategy as an index. Finally, respecifying, testing and narrowing the construct of Proactive Marketing as an operationally implementable strategy would increase the practical value of the model.

6.3 Induction of Implications for Marketing Practice

There are several important practical implications for marketing managers that result from the work reported on in this Thesis. First, it has been revalidated that a proactive marketing approach to recession leads to increased market performance during recession. Seeing the recession as an opportunity rather than a threat and seizing that opportunity by investing anticyclically yielded above-average performance in the industries studied. This result alone should be reason enough to rethink the currently wide-spread procyclical approach to marketing in recession. Second, there are

intertemporal benefits from investing during recession. Not only does market performance during recession increase, but business performance after recession is strongly related to market performance in recession. Third, even if no recession is in sight, implementing several strategic and organizational measures in the long-term can make the next economic downturn easier to handle. A strategic emphasis on marketing, an entrepreneurial culture and organizational slack resources can create the organizational and strategic antecedent for the firm's management to perceive the recession as an opportunity rather than a threat, and seize that opportunity.

The study has also highlighted the importance of product and promotion policy during recession. In our sample, changing the product policy and investing further in communications was strongly related to market performance during the recession. Finally, we have provided a thorough and empirically validated overview of what happens in the market environment in recession. Changing consumer, competitor and retailer behaviour in a coming downturn can thus be anticipated and preempted.

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Appendix A: Questionnaire

Annex A contains the questionnaire, 11 pages.

MARKETING IN RECESSION SURVEY

THANK YOU!

Thank you for deciding to take part in the Marketing in Recession Survey. Please do not forget to fill out your contact details on the last page, so that we may contact you with your personalized Benchmarking-Report.

GUIDELINES

The survey contains 105 questions in five sections. You will require approximately 30-40 minutes to complete the survey.

Part 1 deals with the environment of marketing in the recent recession: consumer, competitor and retailer behavior. Part 2 is dedicated to the effects the recession had on your firm, the marketing department and the marketing manager. Part 3 contains questions regarding your marketing strategy. Part 4 focuses on your marketing-mix. Part 5 asks questions relating to market and business performance in recession.

Each question is scored on a 7-point scale. The first check box usually means „decrease strongly“ or „disagree strongly“, whereas the seventh means „increase strongly“ or „agree strongly“. If you are indifferent about a question, mark the fourth box for „constant“ or „neither disagree nor agree“. You can use the remaining boxes to fine-tune your answer between the two extremes: You would check 5 if something „increased only somewhat“ and 6 if it „increased“. Similarly, if you „disagree“, you would check 2, if you „disagree only somewhat“, check 3.

Please note that it is always better to make an educated guess than to leave a question blank.

Questions usually refer to „recession“. By „recession“, we mean the recent economic recession in Germany. According to federal statistics, this took place in the second and third quarter of 2003 (April to October 2003). When we ask you to compare states to „before the recession“, we would like you to choose a period well ahead of 2003. We suggest mid-to-end 2002. When we ask you to compare states to „after the recession“, we would like you to compare them to today.

Please answer every question as it is relevant to your Business Unit (SBU). Even if the question refers to „firm“, please answer for your products and product lines ONLY.

PRIVACY AND CONFIDENTIALITY

All details collected via this questionnaire are fully confidential and will remain anonymous. They will not be shared, sold, traded or published in any way except in anonymized form. Please understand that fields in the datasheet marked with an asterisk (*) are required for research analysis. If you do wish to remain anonymous, only fill out these fields of the datasheet.

SUPPORT

Thank you again for your time and effort. If you have any questions regarding the survey, you may contact us Maximilian Niederhofer on +44 207 702 3924 or via max@marketinginrecession.de at any time.

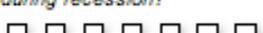
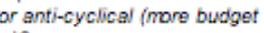
PLEASE SEND OR FAX THE COMPLETED QUESTIONNAIRE TO

Institut für Marketing
„Marketing in der Rezession“
Am Stadtgraben 13-15
D-48143 Münster
Fax: 0251/83 250 24

<p>1.1.1 Total Sales in Product-Market</p> <p><i>During the recent recession, did the total sales (in Euro) in your product-market decline, stay constant or increase?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>	<p>1.1.2 Total Units Sold in Product-Market</p> <p><i>During the recent recession, did market volume (in units sold) decline, stay constant or increase?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>
<p>1.1.3 Price Consciousness</p> <p><i>Do you think that consumers in your market were less, more or equally conscious of price during the recent recession than before it?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">a lot less a lot more</p>	<p>1.1.4 Quality/Price Trade-Off</p> <p><i>Do you think that consumers were less, equally or more eager to trade price for quality, i.e. buy a lower quality product but pay less, during the recession than before it?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">a lot less a lot more</p>
<p>1.1.5 Private Labels</p> <p><i>During the recent recession, did purchases of private label brands in supermarkets decline, stay constant or increase relative to the over-all market development?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>	<p>1.1.6 Cognitive Processing</p> <p><i>During the recent recession, do you think that consumers thought less, equally or more rationally about purchases in your market than before the recession?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">a lot less a lot more</p>
<p>1.1.7 Promotions</p> <p><i>During the recent recession, were consumers generally less, equally or more responsive to promotions than before the recession?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">a lot less a lot more</p>	<p>1.1.8 Price Promotions</p> <p><i>During the recent recession, did consumers generally respond less, equally or more to communications based on <u>price</u>?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">a lot less a lot more</p>
<p>1.2.1 Speed of Competition</p> <p><i>Was competitive reaction in the marketplace slower or faster during recession than before it?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">a lot slower a lot faster</p>	<p>1.2.2 Force of Competition</p> <p><i>Was competition less, equally or more forceful during recession than before it?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">a lot less forceful a lot more forceful</p>
<p>1.2.3 Focus of Competition</p> <p><i>Were competitors' actions less or more focused on what other competitors, including your firm, did during recession?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">a lot less focused a lot more focused</p>	<p>1.2.4 Price Competition</p> <p><i>Was price competition less or more prevalent during recession than before it?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">a lot less prevalent a lot more prevalent</p>

<p>2.2.1 Marketing Department Pressure</p> <p><i>Would you agree that the marketing department at your company was being put under more pressure to perform during recession than before it?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree strongly agree strongly</p>	<p>2.2.2 Marketing Budget</p> <p><i>Was your marketing budget decreased, held constant or increased before the recession?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decreased strongly increased strongly</p>
<p>2.3.1 State</p> <p><i>I felt uncertain about what was happening in my market during recession.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree strongly agree strongly</p>	<p>2.3.2 Effect</p> <p><i>I was not sure what effects the recession would have on my marketing efforts and sales.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree strongly agree strongly</p>
<p>2.3.3 Response</p> <p><i>I felt uncertain about how to respond to the recession in my market using the marketing-mix instruments (price, promotion, product and distribution policies).</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree strongly agree strongly</p>	<p>2.3.4 Performance</p> <p><i>I felt under more pressure to perform during recession than before it.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree strongly agree strongly</p>
<p>2.3.5 Urgency</p> <p><i>There was a feeling of urgency about our firm's marketing performance in recession – we had to do something!</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree strongly agree strongly</p>	<p>2.3.6 Work Load</p> <p><i>I felt under more stress during the recessionary period than before it.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree strongly agree strongly</p>
<p>3.1.1 Top Management</p> <p><i>Our top management saw the recession more as an opportunity than as a threat.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree strongly agree strongly</p>	<p>3.1.2 Competition</p> <p><i>We viewed this recession as an opportunity to leapfrog over some of our more cautious competitors.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree strongly agree strongly</p>
<p>3.1.3 Opportunity</p> <p><i>We acted decisively to seize market opportunities generated by the downturn.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree strongly agree strongly</p>	<p>3.1.4 Objectives</p> <p><i>Top managers of our firm viewed the recession as an opportunity that could help us achieve our business goals.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree strongly agree strongly</p>

3.1.5 Response <i>We responded more quickly to the market changes caused by the recession than our competitors.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly	3.1.6 Investments <i>We made the necessary investments to grow our business during the recession.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly
3.1.7 Proactivity <i>We have been very proactive in developing our marketing plans to counter the recession.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly	3.1.8 Wait-and-See <i>Our marketing plans for the recession basically involved hunkering down and riding out the downturn.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly
3.2.1 Competitive Advantage <i>Our marketing capabilities provide us with a key advantage over our competitors.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly	3.2.2 Critical Role <i>Marketing plays a critical role in the achievement of our business objectives.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly
3.2.3 Success Factor <i>Top management views marketing as critical to the success of this firm.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly	3.2.4 Higher Quality <i>Our customers perceive our products to be of much higher quality than those of competitors.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly
3.3.1 Innovation Leader <i>Our firm is very often the first to introduce new products/services, administrative techniques, etc.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly	3.3.2 Bold Strategies <i>The top managers of this firm believe that bold strategies are required to achieve our business objectives.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly
3.3.3 Aggressiveness <i>When confronted with uncertainty, this firm typically adopts an aggressive posture to exploit opportunities.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly	3.3.4 Risk/Return <i>In general, the top managers of this firm have a strong inclination for high-risk/high-return projects.</i> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> disagree strongly agree strongly

3.4.1 Resource Availability I <i>It is easy for our firm to obtain sufficient finances to produce and market our goods.</i>  disagree strongly agree strongly	3.4.2 Resource Availability II <i>We are always able to implement our business plans because we have the required resources.</i>  disagree strongly agree strongly
3.4.3 Resource Availability III <i>Our firm has easy access to resources for growth and expansion.</i>  disagree strongly agree strongly	3.5.1 Resource Allocation <i>We regularly share investments and costs across businesses.</i>  disagree strongly agree strongly
3.5.2 Diversification <i>We strive to derive benefits from operating in a diversity of market environments.</i>  disagree strongly agree strongly	3.5.3 Environment <i>Our strategy emphasizes exploiting opportunities arising due to environmental variability.</i>  disagree strongly agree strongly
3.5.4 Risk Management <i>Our strategy reflects a high level of flexibility in managing political, economic and financial risk.</i>  disagree strongly agree strongly	3.6.1 Marketing Budget <i>Was the budget your firm makes available for marketing decreased, held constant or increased during the recent recession?</i>  decreased strongly increased strongly
3.6.2 Internal Activity <i>Was the effort put into elaborating marketing plans and tactics decreased, held constant or increased during recession?</i>  decreased strongly increased strongly	3.6.3 External Activity <i>Did the visible marketing efforts for your products (promotions, campaigns, direct marketing, etc.) decrease, stay constant or increase during recession?</i>  decrease strongly increase strongly
3.6.4 Cyclicity <i>Would you say your marketing strategy is pro-cyclical (less marketing budget in recession), a-cyclical (recession has no influence on budget) or anti-cyclical (more budget in recession)?</i>  pro-cyclical a-cyclical anti-cyclical	4.1.1 Quality Level <i>In the recent recession, we significantly changed quality levels of our product by modifying existing products or launching new ones.</i>  disagree strongly agree strongly

<p>4.1.2 Design Features</p> <p><i>In the recent recession, we significantly changed quality levels by modifying existing products or launching new ones.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> disagree strongly agree strongly </p>	<p>4.1.3 Durability</p> <p><i>In the recent recession, we significantly changed the durability of our products by modifying existing products or launching new ones.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> disagree strongly agree strongly </p>
<p>4.1.4 Packaging</p> <p><i>In the recent recession, we significantly changed the packaging of our products by modifying or innovating.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> disagree strongly agree strongly </p>	<p>4.1.5 Range of Sizes or Options</p> <p><i>In the recent recession, we significantly changed the range of sizes or options in our products to increase consumer appeal.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> disagree strongly agree strongly </p>
<p>4.1.6 Warranties</p> <p><i>In the recent recession, we significantly changed warranties to appeal to consumers.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> disagree strongly agree strongly </p>	<p>4.1.7 After-Sales-Services</p> <p><i>In the recent recession, we significantly changed the after-sales service offering to appeal to consumers.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> disagree strongly agree strongly </p>
<p>4.1.8 Brand Image</p> <p><i>In the recent recession, we significantly changed our brand image to appeal to consumers.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> disagree strongly agree strongly </p>	<p>4.1.9 Product Modifications</p> <p><i>In the recent recession, we significantly modified several products to attract or retain business.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> disagree strongly agree strongly </p>
<p>4.1.10 New Product Launches</p> <p><i>In the recent recession, we launched one or several new products to attract new business.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> disagree strongly agree strongly </p>	<p>4.1.11 Product Eliminations</p> <p><i>In the recent recession, we eliminated several products from our range to improve business performance.</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> disagree strongly agree strongly </p>
<p>4.1.12 Product Policy Budget</p> <p><i>During the recent recession, was the budget available for product policy measures (innovation, modification) decreased, increased or did it stay the same?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> decreased strongly increased strongly </p>	<p>4.2.1 List Prices</p> <p><i>During the recession, was the average list price (prices for retailers) of your product or products increased, decreased or did it stay the same?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;"> decreased strongly increased strongly </p>

<p>4.2.2 Shipping, Handling & Other</p> <p><i>During the recent recession, did you decrease, hold constant or increase your charges for shipping, handling and other add-ons to the list prices?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>	<p>4.2.3 Rebates/Discounts</p> <p><i>During the recent recession, did you decrease, hold constant or increase the rebates and discounts you granted?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>
<p>4.2.4 Recommended Prices</p> <p><i>During the recent recession, did you decrease, maintain constant or increase your recommended price for end consumers?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>	<p>4.2.5 Effective Prices</p> <p><i>During the recent recession, was the effective price paid by the end consumer to the retailer lower, constant or higher than before the recession?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">a lot lower a lot higher</p>
<p>4.2.6 Relative Pricing</p> <p><i>During the recession, did your pricing decrease, stay constant or increase relative to the market's average price?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>	<p>4.2.7 Pricing Policy</p> <p><i>In general, was your price policy during the recession to decrease, hold constant or increase prices?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>
<p>4.3.1 Advertising</p> <p><i>During the recent recession, did you increase, hold constant or decrease the funds spent on advertising?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>	<p>4.3.2 Sales Promotion</p> <p><i>During the recent recession, did you increase, hold constant or decrease the funds spent on sales promotion?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>
<p>4.3.3 Public Relations</p> <p><i>During the recent recession, did you increase, hold constant or decrease the funds spent on public relations?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>	<p>4.3.4 Personal Selling</p> <p><i>During the recent recession, did you increase, hold constant or decrease the funds spent on personal selling?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>
<p>4.3.5 Sponsorship & Events</p> <p><i>During the recent recession, did you increase, hold constant or decrease the funds spent on sponsorship & events?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>	<p>4.3.6 Direct Marketing</p> <p><i>During the recent recession, did you increase, hold constant or decrease the funds spent on direct marketing?</i></p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease strongly increase strongly</p>

<p>4.3.7 Promotion Policy Budget</p> <p>Overall, during the recent recession, was your budget for communications and promotion decreased, held constant or increased?</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decreased increased strongly strongly</p>	<p>4.4.1 Channel Breadth</p> <p>During the recent recession, did you decrease, hold constant or increase the number of distribution channels (in terms of type) you used?</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease increase strongly strongly</p>
<p>4.4.2 Channel Intensity</p> <p>During the recent recession, did you decrease, hold constant or increase the number of stores where your products were sold?</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease increase strongly strongly</p>	<p>4.4.3 Channel Relations</p> <p>During the recent recession, were conflicts with your retailers less, equally or more prevalent than before the recession?</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">a lot less a lot more prevalent prevalent</p>
<p>4.4.4 Distribution Policy Budget</p> <p>During the recent recession, was your budget (including the effort expended by marketing) for distribution decreased, held constant or increased?</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decreased increased strongly strongly</p>	<p>5.1.1 Customer Satisfaction</p> <p>Our customers were more satisfied during and after the recession than before it.</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree agree strongly strongly</p>
<p>5.1.2 Customer Benefit</p> <p>We significantly improved customer benefit during and after the recession than before it.</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree agree strongly strongly</p>	<p>5.1.3 Customer Loyalty</p> <p>Our customer were more loyal during and after the recession than before it.</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree agree strongly strongly</p>
<p>5.1.4 Acquisitions</p> <p>We acquired more new customers during and after the recession than before the recession.</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree agree strongly strongly</p>	<p>5.1.5 Market Share During Recession</p> <p>Did your market share decrease, stay constant or increase during the recession than compared to before the recession?</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease increase strongly strongly</p>
<p>5.1.6 Market Share After Recession</p> <p>Did your market share decrease, stay constant or increase after the recession than compared to during the recession?</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">decrease increase strongly strongly</p>	<p>5.1.7 Satisfaction During Recession</p> <p>I am satisfied with our market performance during the recession.</p> <p style="text-align: center;"> <input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/>—<input type="checkbox"/> </p> <p style="text-align: center;">disagree agree strongly strongly</p>

5.1.8	Satisfaction After Recession	5.2.1	Cash Flow During Recession
<i>I am satisfied with our market performance after the recession.</i>		<i>Did your operational cash flows decrease, stay constant or increase during the recession?</i>	
 disagree strongly agree strongly		 decrease strongly increase strongly	
5.2.2	Cash Flow After Recession	5.2.3	Relative Return During Recession
<i>Did your operational cash flows decrease, stay constant or increase after the recession?</i>		<i>Compared with your competitors, do you believe that your Return on Investment in Marketing was worse, the same or better during recession?</i>	
 decrease strongly increase strongly		 a lot worse a lot better	
5.2.4	Relative Return After Recession	5.2.5	Satisfaction During Recession
<i>Compared with your competitors, do you believe that your Return on Investment in Marketing was worse, the same or better during recession?</i>		<i>I am satisfied with our business performance during the recession.</i>	
 a lot worse a lot better		 disagree strongly agree strongly	
5.2.6	Satisfaction After Recession	6.1	Certainty
<i>I am satisfied with our business performance after the recession.</i>		<i>I sometimes had difficulty answering the questions.</i>	
 disagree strongly agree strongly		 disagree strongly agree strongly	
6.2	Second Opinion		
<i>Someone else could have answered these questions better than me.</i>			
 disagree strongly agree strongly			

DATASHEET

Please give us some additional data that is necessary for analysis. Note that required fields are marked with an asterisk (*). Please also note our privacy policy below.

INDUSTRY AND GENERAL FIRM INFORMATION

*Industry: Textiles Food Beauty Other

*If Other, please indicate Industry Name: _____

*If Other, please indicate whether your products are

Durable or

Consumer
goods

*Company Staff: 0-49 50-499 500-9999 > 10000

*Company Sales: < 1 M. 1-9.9M 10-100M > 100M

SECOND INFORMANT INFORMATION

Our research would be greatly enhanced by a second person in your product group or from your brand also completing the questionnaire. We would appreciate if you could indicate such a person.

Email: _____

We would also benefit from a second contact in your firm who works for a different product group or brand. We would greatly appreciate if you could indicate such a person as well.

Email: _____

CONTACT INFORMATION

Your contact information is needed to ensure that you receive our benchmarking report and to follow-up if any ambiguity exist in your questionnaire.

Surname: _____

First Name: _____

Email: _____

Phone: _____

Firm: _____

Brand: _____

Position: _____

Appendix B: Data

Annex B contains the raw descriptive data from the sample, including averages for the total sample population as well as the individual industries.

	MK TSA	MKT UN	PR CON	QUSUB	PRLAB	COGPR	PROMO	PPROM
	1110	1120	1130	1140	1150	1160	1170	1180
Average Value Total Pop	2.9	3.1	5.8	5.3	5.1	5.1	3.4	5.7
Standard Dev Total Pop	1.4	1.4	0.9	1.3	1.4	1.4	1.3	1.0
Average Value Textile (1)	2.7	2.9	5.9	5.9	5.4	5.5	3.5	5.8
Standard Dev Textile (1)	1.0	1.0	0.7	1.0	1.2	0.8	0.9	0.8
Average Value Food (2)	3.2	3.2	5.7	4.9	5.0	4.7	3.2	5.6
Standard Dev Food (2)	1.7	1.7	1.1	1.5	1.5	1.7	1.5	1.1
Average Value Beauty (3)	3.0	3.0	5.6	5.1	5.2	4.8	3.0	5.6
Standard Dev Beauty (3)	1.5	1.6	1.0	1.2	1.4	1.3	1.1	1.1
Average Value Furniture (4)	2.9	3.7	6.3	4.8	4.3	5.4	4.5	5.8
Standard Dev Textile (4)	1.2	1.3	0.7	1.4	1.1	1.3	1.2	0.9

	CSPEE	CFORC	CFOCU	PRCOMP	SHTERM	OVERR	ORDVOL	SUPPD	RETRES
	1210	1220	1230	1240	1250	1260	1310	1320	1330
Average Value Total Pop	5.1	5.3	5.0	5.5	5.0	5.2	3.9	4.5	3.9
Standard Dev Total Pop	1.1	1.1	1.1	1.3	1.3	1.2	1.1	0.9	1.2
Average Value Textile (1)	5.5	5.3	5.4	5.5	5.0	5.4	4.1	4.9	4.0
Standard Dev Textile (1)	0.9	0.9	0.8	1.1	1.2	1.0	1.0	0.8	0.8
Average Value Food (2)	4.9	5.1	4.7	5.4	4.8	4.9	3.7	4.1	3.7
Standard Dev Food (2)	1.2	1.5	1.3	1.5	1.4	1.3	1.1	1.1	1.3
Average Value Beauty (3)	4.9	5.0	4.7	5.2	5.1	5.2	3.9	4.3	3.8
Standard Dev Beauty (3)	0.9	1.1	1.1	1.4	1.2	1.3	1.1	0.9	1.2
Average Value Furniture (4)	5.3	6.1	5.5	6.6	5.7	5.6	3.5	4.6	4.8
Standard Dev Textile (4)	1.3	0.6	0.7	0.5	1.2	0.9	1.6	0.6	1.4

	PRICEP	PROMP	PRODD	DSCTR	GRABS	GRREL	CAPAC	MKDPR	MKTBDU
	1340	1350	1360	1370	2110	2120	2130	2210	2220
Average Value Total Pop	5.5	5.2	5.1	5.5	3.6	3.3	3.6	4.4	3.3
Standard Dev Total Pop	1.1	1.0	1.0	1.1	1.3	1.4	1.2	1.2	1.3
Average Value Textile (1)	5.7	5.2	5.2	5.6	3.5	3.1	3.7	4.8	3.1
Standard Dev Textile (1)	0.9	0.8	0.8	0.9	1.0	1.2	0.8	0.7	0.8
Average Value Food (2)	5.4	5.0	4.7	5.4	3.6	3.3	3.3	3.9	3.0
Standard Dev Food (2)	1.3	1.3	1.0	1.3	1.4	1.6	1.4	1.4	1.5
Average Value Beauty (3)	5.4	5.2	5.0	5.5	3.5	3.4	3.4	4.4	3.1
Standard Dev Beauty (3)	1.2	1.0	0.9	1.1	1.3	1.3	1.1	1.1	1.3
Average Value Furniture (4)	6.0	5.9	5.6	5.3	4.4	3.8	3.9	4.7	4.7
Standard Dev Textile (4)	0.9	0.8	0.9	1.3	1.6	1.6	1.9	1.4	1.3

	STATU	EFFCU	RESPU	PERFP	URGEN	WRKLD	TMGMT	COMPE	OPPOR
	2310	2320	2330	2340	2350	2360	3110	3120	3130
Average Value Total Pop	3.4	3.6	3.5	4.1	4.8	3.6	3.6	4.4	4.4
Standard Dev Total Pop	1.5	1.4	1.4	1.6	1.6	1.4	1.6	1.6	1.5
Average Value Textile (1)	3.8	3.5	3.7	4.3	5.2	3.5	3.7	4.5	4.7
Standard Dev Textile (1)	1.3	1.2	1.0	1.6	1.3	1.2	1.2	1.5	1.2
Average Value Food (2)	2.9	3.5	3.3	3.6	4.1	3.3	3.4	4.0	4.0
Standard Dev Food (2)	1.4	1.5	1.5	1.6	1.8	1.5	1.8	1.7	1.7
Average Value Beauty (3)	3.3	3.6	3.3	4.0	4.5	3.3	3.4	4.1	4.1
Standard Dev Beauty (3)	1.5	1.4	1.4	1.5	1.5	1.3	1.6	1.6	1.4
Average Value Furniture (4)	3.3	3.8	3.8	4.7	5.5	5.2	4.1	5.3	5.3
Standard Dev Textile (4)	1.4	1.5	1.8	1.7	1.7	0.8	2.0	1.6	1.5

	OBJECT	REACT	INVST	PROACT	WTASE	COMPA	CROLE	SUCFAC	QUALI
	3140	3150	3160	3170	3180	3210	3220	3230	3240
Average Value Total Pop	3.6	3.6	4.2	3.9	3.2	4.6	4.5	5.1	4.1
Standard Dev Total Pop	1.6	1.5	2.0	1.8	1.5	1.6	1.8	1.6	1.7
Average Value Textile (1)	3.8	3.8	4.3	4.1	3.3	4.5	4.5	5.1	3.9
Standard Dev Textile (1)	1.4	1.3	1.6	1.5	1.5	1.4	1.4	1.4	1.4
Average Value Food (2)	3.2	3.2	3.9	3.5	3.3	4.3	4.2	4.9	4.0
Standard Dev Food (2)	1.5	1.6	2.2	2.0	1.6	1.7	2.1	1.8	1.9
Average Value Beauty (3)	3.2	3.3	3.8	3.2	3.6	4.3	4.1	5.0	3.8
Standard Dev Beauty (3)	1.6	1.4	2.0	1.5	1.4	1.6	1.9	1.5	1.7
Average Value Furniture (4)	5.0	4.8	5.9	6.0	2.0	5.8	6.2	6.1	5.6
Standard Dev Textile (4)	1.8	1.6	1.7	1.3	0.7	1.3	1.0	1.4	1.3

	INNOV	STRAT	AGGR	RSKPR	RESS1	RESS2	RESS3	RESSA	DVSFC
	3310	3320	3330	3340	3410	3420	3430	3510	3520
Average Value Total Pop	4.1	4.5	3.8	2.8	3.5	3.6	3.8	3.5	4.9
Standard Dev Total Pop	1.4	1.9	1.6	1.5	1.9	1.9	2.0	1.7	1.6
Average Value Textile (1)	4.3	4.7	4.3	3.4	3.1	3.4	3.5	3.5	4.8
Standard Dev Textile (1)	0.9	1.7	1.3	1.5	1.5	1.4	1.4	1.4	1.3
Average Value Food (2)	3.6	4.1	3.2	2.4	3.2	3.3	3.6	3.4	4.4
Standard Dev Food (2)	1.4	2.0	1.5	1.4	1.9	2.0	2.1	1.9	1.8
Average Value Beauty (3)	3.8	4.0	3.3	2.3	3.3	3.2	3.3	3.1	5.1
Standard Dev Beauty (3)	1.3	1.8	1.3	1.2	1.9	1.9	2.1	1.7	1.5
Average Value Furniture (4)	5.5	6.1	4.6	3.4	5.5	5.4	6.1	4.3	5.9
Standard Dev Textile (4)	1.4	1.4	2.2	1.7	1.6	1.6	1.4	1.5	1.4

	ENVIRO	RSKMG	MKTB2	MKTIN	MKTEXT	CYCLC	PRODQ	PDSGN	DURAB
	3530	3540	3610	3620	3630	3640	4110	4120	4130
Average Value Total Pop	4.9	4.2	3.4	4.3	4.3	3.5	4.4	4.0	3.7
Standard Dev Total Pop	1.4	1.5	1.8	1.7	1.3	1.6	1.2	1.6	1.3
Average Value Textile (1)	4.9	4.0	3.3	4.0	4.1	3.4	4.6	4.0	3.7
Standard Dev Textile (1)	1.3	0.9	1.7	1.4	1.4	1.2	1.0	1.5	1.0
Average Value Food (2)	4.7	4.1	3.1	4.1	4.1	3.2	4.1	3.9	3.4
Standard Dev Food (2)	1.5	1.8	2.0	1.8	1.1	1.7	1.3	1.6	1.6
Average Value Beauty (3)	4.7	4.0	3.1	4.0	4.2	3.4	4.1	3.7	3.7
Standard Dev Beauty (3)	1.3	1.5	1.6	1.8	1.2	1.5	1.3	1.6	1.4
Average Value Furniture (4)	6.1	5.8	4.9	5.9	5.7	5.0	4.9	4.9	4.0
Standard Dev Textile (4)	1.3	1.4	1.5	0.9	1.2	1.7	1.4	1.5	1.4

	PACKA	OPTIO	GUARA	SERVI	BIMAG	PMODI	PINNO	PELIM	PBUDG
	4140	4150	4160	4170	4180	4190	4110	4111	4112
Average Value Total Pop	3.7	3.3	2.4	4.2	3.1	3.7	4.1	3.7	3.6
Standard Dev Total Pop	1.7	1.7	1.6	1.3	1.9	2.0	2.0	2.2	1.7
Average Value Textile (1)	3.6	3.2	1.7	4.3	2.5	3.7	3.9	3.6	3.4
Standard Dev Textile (1)	1.5	1.6	0.8	1.6	1.9	2.0	1.9	2.3	1.6
Average Value Food (2)	3.5	3.1	2.4	3.9	2.9	3.5	4.2	3.5	3.5
Standard Dev Food (2)	1.7	1.7	1.6	1.2	1.9	2.1	2.1	2.4	2.0
Average Value Beauty (3)	3.8	3.2	2.5	4.2	2.8	3.3	3.7	3.5	3.5
Standard Dev Beauty (3)	1.7	1.7	1.6	1.2	1.5	1.8	2.0	2.1	1.7
Average Value Furniture (4)	4.2	4.1	4.6	4.4	5.5	5.2	5.2	5.0	4.6
Standard Dev Textile (4)	1.9	1.5	1.8	0.8	1.2	1.2	1.7	1.8	1.5

	LISTP	FREIGH	DISCO	PRECO	EFFEP	RELAP	PRICEP	ADVER	SPROM
	4210	4220	4230	4240	4250	4260	4270	4310	4320
Average Value Total Pop	3.5	4.0	4.4	4.1	3.4	4.0	3.3	3.0	3.7
Standard Dev Total Pop	1.3	1.1	0.9	1.1	1.3	1.2	1.3	1.7	1.9
Average Value Textile (1)	3.1	3.7	4.3	4.0	3.3	4.0	3.0	2.5	3.7
Standard Dev Textile (1)	1.2	1.0	0.9	1.1	1.3	0.9	1.0	1.4	1.9
Average Value Food (2)	3.6	4.0	4.3	4.0	3.5	4.0	3.4	2.9	3.6
Standard Dev Food (2)	1.3	1.2	1.0	1.1	1.4	1.4	1.5	1.8	2.0
Average Value Beauty (3)	3.6	4.0	4.5	4.3	3.4	3.9	3.5	2.8	3.3
Standard Dev Beauty (3)	1.4	1.2	1.0	1.1	1.4	1.2	1.5	1.5	1.8
Average Value Furniture (4)	3.9	4.6	4.9	3.7	3.2	4.2	3.8	4.9	5.1
Standard Dev Textile (4)	1.1	0.9	0.9	0.9	1.1	1.2	0.8	1.3	1.1

	PUBLR	DIRECS	SPONS	DIRECM	COMMP	DSTRC	DSTRI	DSTRR	DISTRP
	4330	4340	4350	4360	4370	4410	4420	4430	4440
Average Value Total Pop	3.1	3.2	3.4	2.9	3.1	3.5	3.4	4.6	4.0
Standard Dev Total Pop	1.6	1.6	1.7	1.7	1.9	1.8	1.4	1.4	1.2
Average Value Textile (1)	2.8	3.4	3.2	2.9	3.0	3.6	3.0	4.3	3.8
Standard Dev Textile (1)	1.7	1.7	1.6	1.6	2.0	1.8	0.9	1.4	1.3
Average Value Food (2)	3.0	2.9	3.2	2.6	3.0	3.4	3.6	4.8	4.1
Standard Dev Food (2)	1.8	1.7	1.9	1.9	2.0	2.0	1.7	1.4	1.2
Average Value Beauty (3)	2.9	2.8	3.4	2.5	2.8	3.1	3.4	4.7	4.2
Standard Dev Beauty (3)	1.4	1.4	1.9	1.4	1.7	1.7	1.5	1.3	1.1
Average Value Furniture (4)	4.5	4.4	4.4	4.5	4.7	4.4	4.2	4.4	4.1
Standard Dev Textile (4)	0.6	0.7	0.7	0.8	1.1	0.5	0.9	1.1	0.7

	CSATI	CUSEF	CLOYA	CAQUI	MKTS1	MKTS2	MSAT1	MSAT2	CASH1
	5110	5120	5130	5140	5150	5160	5170	5180	5210
Average Value Total Pop	3.5	3.8	3.4	3.0	3.3	3.8	3.3	3.3	3.0
Standard Dev Total Pop	1.5	1.5	1.6	1.8	1.9	1.8	1.9	1.8	1.5
Average Value Textile (1)	3.5	3.8	3.1	3.1	3.3	3.8	3.3	3.0	2.7
Standard Dev Textile (1)	1.3	1.2	1.3	1.8	1.9	1.8	1.8	1.4	1.2
Average Value Food (2)	3.4	3.6	3.5	2.7	3.3	3.7	3.2	3.4	2.9
Standard Dev Food (2)	1.6	1.7	1.9	1.8	2.0	1.9	1.9	2.0	1.7
Average Value Beauty (3)	3.4	3.6	3.4	2.6	2.9	3.4	2.9	3.0	2.8
Standard Dev Beauty (3)	1.5	1.4	1.7	1.5	1.6	1.6	1.6	1.7	1.6
Average Value Furniture (4)	4.4	4.8	4.3	4.3	4.7	5.0	4.6	4.7	4.2
Standard Dev Textile (4)	1.2	1.4	1.3	1.6	1.7	1.3	2.1	2.0	1.2

	CASH2	ROIR1	ROIR2	BPER1	BPER2	CONFI	SOPIN
	5220	5230	5240	5250	5260	6100	6200
Average Value Total Pop	3.4	3.3	3.6	3.3	3.5	2.9	2.2
Standard Dev Total Pop	1.7	1.4	1.8	1.8	1.9	1.4	1.3
Average Value Textile (1)	3.3	3.1	3.5	3.1	3.5	3.1	1.5
Standard Dev Textile (1)	1.6	1.2	1.8	1.7	1.8	1.1	0.8
Average Value Food (2)	3.4	3.0	3.5	3.2	3.4	2.4	2.2
Standard Dev Food (2)	1.8	1.5	1.9	1.8	2.0	1.3	1.4
Average Value Beauty (3)	3.2	3.0	3.1	3.1	3.1	2.6	2.5
Standard Dev Beauty (3)	1.6	1.3	1.8	1.6	1.8	1.2	1.4
Average Value Furniture (4)	4.6	5.0	5.3	4.6	4.7	3.6	3.3
Standard Dev Textile (4)	1.2	1.0	0.9	2.1	1.9	2.0	1.3