Advertising to increase sales now and position you for the coming upswing in consumer confidence.

By Cheryl Sullivan and Bob Riggs, GTECH Corporation

Given the current economic climate lotteries, like many industries, are struggling with how best to allocate precious marketing and advertising dollars. However, these economic times may be an opportunity. Taking a contrarian view from the prevailing "tighten all budgetary belts" philosophy, lotteries may now be uniquely positioned to benefit from an aggressive advertising and marketing approach in a recessive economy. Lottery advertising generally follows one of three dominant themes, sometimes combining one or more of them in a single ad: the dream of a life-altering jackpot; how good luck can alter your life; and the impact lottery has on good causes.

These themes also happen to align perfectly with the consumer mindset in a recessive economy. The fundamental premise of lottery—placing a small amount of money on the possibility of a large payout that also helps benefit communities and good causes—is an attractive, village-conscious approach that works in a recession.

Indeed, recessionary times may actually be the ideal time to increase advertising and promotion. If the economy is in fact in the second half of the recessionary cycle, then this is the perfect time to imprint your advertising message on the marketplace. By investing now, when businesses and consumers are beginning to think about how to adapt their behavior when things improve, lotteries can jump out in front of the pack and position their brand for the return of consumer confidence.

In the past 10 years, US lotteries' fiscal year advertising budgets as a percentage of sales have experienced a virtually consistent decline. This experience is shared by other industries as well.

According to the National Bureau of Economic Research, the US has been in a recession since December 2007—based on a number of measures including job losses, declines in personal income, and declines in real GDP. http://www.usatoday.com/money/economy/2008-12-01-recession-nber-statement_N.htm

Given that consumer spending is 70% of the US economy and since lottery spending is part of the consumer spending, it follows that lottery spending may also suffer from lower buyer confidence/optimism and job insecurity. In fact, a recent Ipsos survey of lottery players found that 46% reduced their lottery spending and 8% cut them out entirely. (http://www.mediapost.com/publications/?fa=Articles.showArticle&art_aid=107453)

Because revenue can be the most difficult element of the balance sheet to control—since it's ultimately in the hands of the consumer—company leaders naturally look inward to the expense side of the ledger to reduce costs and improve financial performance.

So, should lotteries really spend more to make more?

The short answer appears to be—'yes'. A recent example from the Missouri Lottery shows how decreasing advertising budgets can prevent lotteries from maximizing revenues. According to the lottery, there was a marked difference in 2008 and 2009 proceeds from a raffle promotion: With advertising in '08, the promotion sold out on the last day, grossing $2.5 million. Without promotion in '09, the game did only $172,000 in sales, failing to sell out. (http://www.arkansas-business.com/article.aspx?aID=113742)

Understandably, spending money to get money sounds risky. However, as more and more states and national governments are relying on lotteries at a minimum to maintain the revenue levels they have provided in the past, and at best produce additional revenues to offset losses in traditional tax generation diminished by the economic downturn, this initial investment is essential.

In The New Yorker Magazine's Financial Page, (Hanging Tough, April 20, 2009) James Surowiecki says studies have shown that "companies that keep spending on acquisition, advertising, and R. & D. during recessions do significantly better than those which make big cuts." In fact, "when everyone is advertising, for instance, it's hard to separate yourself from the pack; when ads are scarcer, the returns on investment seem to rise."

John Quelch, Senior Associate Dean and Lincoln Filene Professor of Business Administration at Harvard Business School (Harvard Business School article, March 3, 2008, "Marketing Your Way Through a Recession") argues convincingly that the very last place leaders should look to trim expenses is in the advertising budget, citing that brands that increase advertising during a recession, when competitors are cutting back, can improve market share and return on investment at a lower cost than during good economic times.

Businesses with larger ad budgets may be able to negotiate favorable advertising rates and lock them in for several years. If a business has to cut marketing spending, Quelch urges companies to try to maintain the frequency of advertisements by shifting from 30-second to 15-second advertisements, substituting radio for television advertising, or increasing the use of direct marketing, which gives more immediate sales impact. Ultimately, no matter how a company chooses to economize, advertising in a down economy is a powerful tool for current and future success.

According to the U.S. Department of Commerce, since 1854, there have been 28 recessions: on average one every four to five years. But what may come as a surprise is that during the recessions of the past 50 years, consumer spending went up, not down, during each one. The following chart substantiates the representation that consumer spending actually increased in the previous 10 recorded recessions in the United States. ◆

BEST PRACTICES

- Maintain your advertising presence
- If you must cut, reduce unit size to maintain frequency or choose less costly media
- Commit to expanded market research

In summary, if you must make some cuts in advertising, make them by reducing the unit size of the advertising unit. Marketing efforts must be designed with a keen eye on the consumer mindset. Lastly, be sure to work with the freshest data possible to ensure that your program is in synch with the mindset of the consumers you are trying to reach.

Consumer Spending During Post-War Recessions Personal Consumption Expenditures During the Quarter when the Economy Peaked and Bottomed ($ = Billions)

Source: U.S. Department of Commerce

RECESSION	PEAK	BOTTOM	%CHANGE
1948-49	$176.0	$178.0	+1.14
1953-54	$233.6	$238.2	+1.97
1957-58	$287.7	$291.9	+1.46
1960-61	$331.6	$334.4	+0.84
1969-70	$614.3	$653.0	+6.30
1974-75	$861.6	$967.4	+12.28
1980	$1,682.2	$1,749.3	+3.99
1981-82	$1,940.9	$2,117.0	+9.07
1990-91	$3,785.2	$3,827.0	+11.04