Business Practices during the Great Depression

Despite popular opinion, it wasn't all gloom and doom during the Great Depression. The Depression was a time when those who knew what they were doing made great economic strides often at the expense of their competition. It was a time when some brands benefited from aggressive marketing while their rivals cut back. A good example would be Kellogg besting C.W. Post by remaining consistent with respect to their spending levels. Consumers didn't stop spending during the depression; most simply looked for better deals. The companies that offered value and invested in marketing communications often gained market share and increased consumer loyalty to their brands.

Generally, the companies that thrived during the Great Depression were those who invested while others cut back. They did so in full knowledge of the generally dire circumstances but also with the confidence that their products were still needed and valued. In other words, they advertised. Instead of waiting for demand to return or increase, they spent often more aggressively to instill consumer interest and confidence. Because so many companies cut spending during that era, advertising budgets were dramatically reduced in many industries. This, defacto, created higher "share-of-voice" for those who remained committed. As spending declined, some brands actually dropped out of public consciousness because of short sighted decisions. Advertising cutbacks and lack of brand support in general caused many buyers to feel abandoned. Many brands unwittingly allowed their customers to switch to more aggressive competitors, resulting in long-term erosion of their user base and long-term impact on customer loyalty.

Both anecdotal and empirical evidence support the case that advertising was the main factor in the growth or decline of many venerable brands during those years. The companies which realized the most dramatic growth were those which advertised the most or increased their budgets to the greatest degree. The Great Depression offers classic examples of the power of brand advertising even during times of economic crisis.

Proctor and Gamble – P&G's philosophy has been to avoid reducing advertising spending during times of economic distress and they did not make any material reductions during the Depression. In fact, P&G has made progress in every major recession and that is no accident. As competitors were swinging the budget axe in the early part of The Depression, P&G increased its spending. While the Depression caused problems for many, P&G came out of it unscathed. Radio, in particular, took P&G's message into more homes than ever.

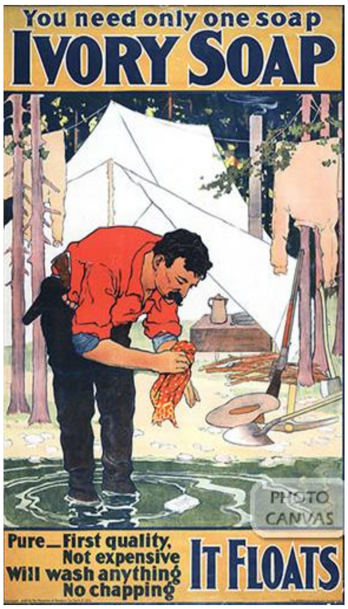
Chevrolet - During the 1920s, Fords were outselling Chevrolets by 10 to 1. In spite of the Depression, Chevrolet continued to expand its advertising budget and by 1931, the "Chevy 6" took the lead in its field and remained there for the next five years.

Camel Cigarettes - In 1920 Camel was the top selling tobacco product. American Tobacco Company then challenged Camel's dominance with the Lucky Strike brand and by 1929 Lucky had overtaken Camel as the number one brand. Two years later in the heart of the Depression, Chesterfield also overtook Camel. Camel countered with a massive increase in advertising spending and by doing so demonstrated the power of advertising during a downturn. By 1935, Camel was back on top.

Many of these examples are anecdotal. But studies have demonstrated that during a recession, companies that maintain advertising levels experience higher sales and profits than companies who cut their advertising budgets.

During The Depression, other structural changes ensued as well. This period spawned two other industries. The first was radio broadcasting.

Let's return to Proctor and Gamble, a leader in the nascent medium of network radio. P&G first turned to radio in 1923, advertising Crisco on a New York station. Other products such as Ivory and Lava soap were advertised on “product oriented” shows which were the forerunners to today’s infomercials. But in the midst of the depression P&G took a step which changed not only that company but the broadcast medium forever.



The president of P&G at the time was Richard Dupree. In spite of strenuous objections from shareholders he remained loyal to the medium and the marketplace. While stock holders were demanding that he cut advertising, he invented a new radio format and a new opportunity for his company’s brands. So he created radio programming that did not focus on a product but on the daily drama of people he imagined were like the people that bought P&G products. His foresight created what we now refer to as “the soap opera.” An enduring cultural phenomena, first hatched during The Depression era.

In 1933, P&G went on the air with its first "soap" - "Ma Perkins," sponsored by Oxydol. P&G was so impressed by the sales results that they went on to introduce "Vic and Sadie" for Crisco, "O,Neills" for Ivory Soap and "Forever Young" for Camay. By the time 1939 rolled around, P&G was sponsoring 21 radio programs and they doubled their radio advertising budget every two years during the Depression.

Radio was one of the fastest growth industries of the depression. P&G virtually built daytime radio with its advertising budgets and programming. Two industries were thriving due to the investments made by one.

The print medium was also a growth industry during the Depression. In the interest of context, let’s return to Chevrolet. The first ads for Chevrolet appeared in print in 1914. In 1927, they began to increase their print budget. As the country moved into the Depression a couple of years later, Chevy did not let its commitment to print advertising falter. Chevrolet ads not only kept some publications afloat, they helped many prosper. And the company made innovative use of the medium, featuring more emotional campaigns for the first time in the automobile industry. Chevrolet also helped boost the outdoor advertising medium during this time. Finally, Chevrolet made extensive use of radio and sponsored such Depression Era classics as Fred Allen and Jack Benny.

The question often raised concerns the theoretical hierarchy of demand from essential consumables to deferrable purchases to capital goods. One theory, for instance, was that non-essential purchases would be more easily deferred during economic an economic downturn. In reality the hierarchy was not as predictive as the economist or consumer behaviorist would imagine. And, even within a slowed-down product category, there were still opportunities to gain share over a less aggressive competitor. We have included examples here across a spectrum of industries and purchasing dynamics. Proctor and Gamble represents essential consumables, Chevrolet represents deferrable purchases and Camel represents non-essential products. Our inference is, the so called hierarchy of necessity was transcended by those who had the marketing commitment and foresight to ignore the traditional wisdom.

In conclusion, one of the discriminating factors that provided measurable and sustained results for companies during the depression was their willingness and commitment to keep their name in front of the public and maintain brand recognition even during the worst of times.

Potential Practical Application

Obviously times have changed. Today's brands compete in a surplus economy with new media channels evolving every day and with unprecedented levels of consumer power. The question is: can the past be prologue? Here are a set of lessons that remain plausible and we believe still apply:

- Marketers who maintain media pressure have a chance of increasing market share over their less committed competitors;
- Consumer loyalty can be increased during difficult times by offering new values, emphasizing existing value and by striking an empathetic tone;
- New media or uses of media can be created to maintain presence at perhaps more efficient spending levels;
- Economic duress often creates opportunities to consolidate or focus expenditures into the most efficient media channels and to perhaps dominate a channel in the face of lower spending from competitors;
- Economic downturn can create structural changes in the marketplace which can lead to opportunity not present in a "business as usual" cycle.

Sources and Additional Reading

"America's Great Depression - Causes and Cures" - http://www.amatecon.com/gd/gdcandc.html

"H102 Lecture 19: The Great Depression and the New Deal"http://us.history.wisc.edu/hist102/lectures/lecture19.html - University of Wisconsin, Stanley K. Schultz, Professor of History

"Sliding into the Great Depression" - http://econ161.berkeley.edu/TCEH/Slouch_Crash14.html - University of California at Berkeley

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"Creating Mass Culture" - http://xroads.virginia.edu/~CLASS/am485_98/graham/mass.html - University of Virginia

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