

# Recession Resistant Marketing

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Congress and the Obama administration will push hundreds of billions of dollars in stimulus through government, education, and health institutions. Are you in a position to get the maximum benefit from institutional markets in 2009?

Over the past several months, we've all spent time discussing the election, the economy, and the general business climate. This document provides B2B marketers with an overview of the major effects of the economic crisis; the areas of the business market that are most likely to hold their own, or even thrive during the coming year; changes on the horizon; and actionable steps that can be taken to adapt in this fluid environment.

## Executive Summary

Personally and professionally we are living in unprecedented times. Most of us spent the 4<sup>th</sup> quarter of 2008 in a state of shock. We were stunned by the speed of the economic collapse as we were barraged with bad news about layoffs, bankruptcies, and foreclosures. We listened as Washington and Wall Street bandied bailout numbers in the hundreds of billions of dollars.

The 'R' word became official when the National Bureau of Economic Research announced that the recession began in December of 2007. Not far on the heels of the recession word, came the 'depression' word. President-elect Obama announced that our country is now faced with its biggest economic challenge since the Great Depression.

With all of the gloom and doom, consumers, businesses, and institutions are reacting in the same way—hoarding money and adopting a 'wait and see' attitude toward spending.

There is a bright spot for B2B marketers—a safe haven called institutions. While no industry is recession proof, institutions are highly recession resistant. Institutions like hospitals, schools, government offices, and churches are more stable than businesses, are creditworthy, and they are going to continue providing services to their 'customers.'

## Top-Level Overview

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Institutions are not immune to economic stress but they are far less susceptible than many businesses. The decline in state and local revenues has accelerated and is putting institutions under more pressure. There are 44 states facing budget shortfalls and the only way to achieve a balanced budget will be for the states to use reserve funds to cover the gap or reduce spending. State governors are asking the federal government for \$200 billion in assistance. To put it in perspective, that \$200 billion seems like 'small change' when you compare it to the \$700 billion allocated for TARP, trillions of dollars in federal guarantees, and the proposed \$500 billion to \$1 trillion economic stimulus package.

Based on initial reports, the incoming administration intends to use institutions to lead the country out of recession. President-elect Obama's plan includes hundreds of billions of dollars that will be used for infrastructure and capital improvement projects. The state governors and leaders in Washington have outlined the list of possible projects:

- Repairs and improvements to the country's roads, bridges, airports, rail systems.
- Building projects that will include a reduction in energy use and emissions.
- Technology growth for schools, hospitals, and government offices.

The key takeaway is that as Congress and the Obama administration will push hundreds of billions of dollars in stimulus through government, education, and health institutions. Are you in a position to get the maximum benefit from institutional markets in 2009?

## The Situation Today

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As stated earlier, we are in the worst economic crisis in 70 years. We're facing an economic tsunami caused by the following major issues:

- Housing crisis
- Credit crunch
- Major financial bailouts
- GM, Ford and Chrysler skirting bankruptcy
- Declining economic activity
- Risk of deflation
- Economists' forecasts range from gloomy to catastrophic
- Millions of jobs lost in the 4<sup>th</sup> quarter of 2008

From a B2B marketer's perspective, it's sometimes difficult to see that institutions make up one-third of the economy with 2.2 million locations and 28% of all employees. Institutions are purpose-oriented organizations, typically non-profit, and are the cornerstones of our communities: hospitals, schools, churches, police and fire departments, and public health offices. These institutions spend more than \$4 trillion annually.

## Business and Institution Contrasts

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The key to understanding why and how institutions will lead us out of recession is to understand the critical differences between businesses and institutions.

The top contrasts between business and institution behaviors are:

- Businesses are profit-driven and their success is measured in terms of profit and loss. Business managers are rewarded when they come in under budget and drive increased profits to the bottom line. Institutions have 'use it or lose it' funding. Institution managers spend every cent of their budgets for the specific purposes designated. If they don't spend all of the funds, they risk having their budgets cut in future years.
- Institutions exist to fulfill a purpose. A great example is that the success of a fire department's operation is determined by fighting fires and saving lives—not by focusing on the year-end profit figure.
- Institutions simply do not spend money they don't have. They are governed by conservative financing and accounting principles, making them extremely creditworthy.

The economic crisis is impacting businesses and institutions in very different ways. Businesses are facing bailouts for bad asset guarantees totaling trillions of dollars, stores and factories are closing and declaring bankruptcy, and more than a million employees have been laid off in the most recent quarter. Institutions are impacted but not as severely. For example, the states' projected budget gaps total about \$60 billion which is a relatively small figure when compared to the dollars being discussed for business bail-outs. While there are significant financial issues in states like California, Florida and Nevada, the majority of the states with budget deficits are trimming costs from the margins of their operations—not cutting essential programs and services.

In a recession, businesses will lose customers and may close their doors. Institutions still need to serve their populations: schools will be open for students; hospitals and nursing homes will care for patients and residents; and government agencies will continue to serve patrons. In many instances government agencies will be required to serve even more people as more citizens rely on safety net programs to make ends meet.

Maximizing your marketing results in 2009 depends on using a distinct strategy for institutions in both customer retention initiatives and new customer acquisition programs.

## Pressure on Institutions in General and by Vertical

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There are daily reports of the pressures placed on institutions due to reduced sales and property taxes, declining investment income, increased demand for services, and lower support from donors and foundations. As a whole, institutions are conserving cash, slowing hiring, and postponing construction projects.

When compared to the business sector institutions remain strong. For example, CDW polled 273 IT executives in November about their outlook for spending in 2009. The CDW results are a mirror of news releases discussing recession-resistant industries and jobs. The IT executives predicted stable or growing markets in healthcare, energy, government, law, education, and life sciences. Declines were projected for financial services, manufacturing, retail, and non-profits.

Healthcare appears to be the top growth industry for 2009. Challenger, Gray and Christmas cited “almost half the 30 fastest growing occupations are concentrated in health services.”

K-12 schools have put discretionary spending on hold in many areas because of uncertainty regarding funding levels. It’s true that budget holds and spending cuts run from state education departments through local districts and on to the building and classroom level. On the other hand, in many areas the level of spending cuts involve just 1% or 2% of the budget. Even in states where mid-year budget cuts have been enacted, many local schools are responding by trimming or deferring marginal items like field trips, professional travel and non-essential instructional purchases.

The financial crisis has also impacted post-secondary education institutions. Harvard recently reported a 22% decline in the value of its endowment. Since 35% of Harvard’s operating budget is covered from its endowment funds, administrators have warned the school’s deans that the decline will impact their budgets going forward.

Historically, religious institutions and other donor-dependent non-profits suffer during recessions. Chuck Warnock surveyed churches about the impact of the current economic situation. 80% responded that the crisis is having a negative impact on their ministry with fewer dollars going to local churches and denominational headquarters. In some areas, there have been staff cuts and service reductions. Yet, in regions of the country where the economy has been more stable, churches are reporting an increase in giving.

The impact on local government also varies by region. A survey of city finance officers predicted a decline of 4.3% in tax revenues. When you compare that amount to the double-digit losses of GM and other major corporations, it becomes clear that institutions are indeed more stable than businesses. In November, USA Today reported that the private sector had cut 1.38 million jobs while state and local governments added 160,000 workers in the past year. Cities that have been hit the hardest are making major reductions in services while cities with smaller budget gaps are dealing with the issue by increasing parking fees or reducing expenditures on a few services.

## BudgetAware™ —Regional Pressures

MCH began tracking state and regional funding for institutions during the 2002-2003 state budget crises and launched the *BudgetAware™ Bulletin* at that time. We issued our most recent report in November of 2008. The analysis focuses on the pressure exerted on institutional funding due to gaps in current and coming fiscal years’ state budgets, foreclosures, and declining house values. We also drilled down to the state level to determine what steps have been taken or are being proposed to close the gaps. States have been color-coded to show which states are experiencing extreme budget pressure and which states have a more positive budget outlook.

It’s important to note that the economic situation in the U.S. is very fluid and trends can change quickly. For example, since the map was released in November, the number of states facing budget shortfalls has increased. States with small gaps can balance their budgets by using contingency funds or by increasing fees. Also, energy and commodity producing states have had a more positive budget outlook but now bear watching due to fluctuations in oil and grain prices. Proactive marketers need to keep on top of emerging trends so they will be in the best position for 2009. MCH will provide updated *BudgetAware™ Bulletins* as new data becomes available.

## Outlook for 2009

President-elect Obama and his advisors are moving quickly to create an economic stimulus package that is estimated to be in the range of \$500 billion to \$1 trillion. Institutions are central to the approach and there is broad support for government spending to ignite consumer and business activity. Although the plan and timetable are not yet finalized, our predictions are based on past trends and recent events.

Large amounts of stimulus money will be pushed through existing state programs and will be targeted to institutions. States administer safety net aid programs and can push money into the hands of people who will spend it. States can quickly generate jobs because they have building projects valued at hundreds of millions of dollars in a 'shovel-ready' position.

In November, state governors met with President-elect Obama. The governors recommended that efforts be focused on existing programs because the funds can be obligated and spent quickly. They also asked the federal government to avoid a stimulus through changes to federal taxes because that could have a negative impact on state revenue. One final request that was the federal government **fully** fund currently unfunded or partially funded mandates. The governors are seeking:

- At least \$126 billion in stimulus
- A 2-year increase in federal Medicaid matching funds
- At least \$57 billion worth of infrastructure projects are ready to start
- Full funding for IDEA Special Education
- \$3.5 billion in increase Pell Grant money for college tuition

President-elect Obama said that the stimulus package will be based on 'use it or lose it' funding to ensure that institutions disburse the money quickly instead. Pennsylvania Governor Ed Rendell, Chair of the National Governor's Association, endorsed the approach calling it "the right way to go." He said, "States and cities have billions of dollars in projects ready to go, but the best way to guarantee work starts and jobs are created right away is to hold our feet to the fire. Use it or lose it will do just that." Evidence again that institutions will lead us out of this recession. Assuming that the stimulus package will substantially fulfill the governors' requests in early 2009, much of the aforementioned pressures on institutions will be relieved. With the restoration of previously cut funds, the fiscal year-end is even more important to marketers.

## Action Items to Get Your Company Positioned for 2009

B2B marketers need to plan to market to institutions aggressively. Now is a great time to analyze your products and services to determine if they can be easily adapted to cross-markets, especially those that will benefit from stimulus funding.

Being proactive and watching the stimulus package closely will help you position your company appropriately. Remember that normal seasonal spending patterns may be disrupted since many entities are still in a 'wait and see' spending mode. Purchasing won't resume until the details of the stimulus plan are released and the funds start flowing from Washington. Take advantage of the key 'use it or lose it' budget cycles and the golden revenue opportunity they present. Remember that unlike you and I, institutions are required to spend their allotted budget prior to the end of the fiscal year or they risk not receiving the same amount of funding in the following year. The three months prior to a fiscal year end are a great time for marketers to profit from clean-up spending as institutional departments empty their coffers.

If you are a broad B2B marketer, you need to segment your current customer base to accurately identify institutions so you can track the results of institutional sales and marketing efforts. Don't reduce your marketing effort to your existing institutional customers. Keep an eye on regional funding situations and shift some of your effort in the hardest hit states to those with strong funding.

MCH foresees the following trends for the institutional vertical markets: The healthcare sector is strong and will stay strong throughout the next decade. This is a growing market segment and you should redouble your efforts.

In the education vertical, you can expect a burst of spending as soon as administrators feel more secure about their funding. They will have a lot of 'use it or lose it' money that will expire in June and August. The stimulus package could include substantial amounts of funding for special education and Title I, plus grants for technology and facility improvements.

Local governments should receive windfalls of stimulus money to spend on public works, safety, and security programs. The fiscal year-end is also an important time where clean-up spending will occur.

In the religious segment, even with donations down, large churches in wealthier areas are likely to be least affected. Target your marketing efforts based on the area wealth and the size of congregations. Marketers who specialize in religious products and services may want to take a close look to see if their offers can be adjusted for other markets, especially those likely to receive stimulus funding.

There will be many institutional winners when the economic stimulus package is announced. Here are a few of the areas that we believe will benefit from the stimulus money:

## Conclusion

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In summary, institutions will fare better than businesses throughout 2009 and they will, in fact, lead us out of the recession. The upcoming stimulus plan is designed to use institutional spending to power the economy. Your company can benefit by creating strategies specifically targeted to institutional markets.