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THE ECONOMIC APPROACH OF ADVERTISING AND THE PROBLEM OF ALLOCATING ADVERTISING BUDGETS DURING A RECESSION

Keywords: ***recession, advertising, advertising spending***

Abstract: The importance of advertising has changed in many aspects in the last decade, and mainly during the last years of the economic crisis. Economics traditionally did not find advertising a valuable factor until empirical studies demonstrated that advertisement affects consumer perception by means of indicating the quality of the underlying product. Consequently, products that are advertised more frequently, are more likely to be associated with a higher quality. Nevertheless, advertising is a strong tool in competition, which statement is confirmed by the recognition that increasing consumer knowledge contributes to the diffusion of innovation and to the reduction of research and development (R&D) costs. This contribution can be achieved nowadays by consumer interactivity, where companies deliberately rely on the involvement of their consumers. Recently, when companies were confronted to the global economic crisis, brand managers realized that allocating advertising budgets in a recession (considering the actual state of the economic conditions) is a highly important decision factor beside competition, consumer behaviour, trends or industrial conditions. Companies have to realize that their communication budgets are planned substantially in a different way in times of crisis than during an upsurge. Moreover, should a company make the best of maintaining their advertising budgets in recession times, it will indicate more trust towards their consumers and show a more favorable image towards their investors. This study assembles different approaches from the economics of advertising to draw conclusions for the subsequent analyses of advertising in times of a crisis. The main objective with the literature review is to show, that pro-cyclical actions (reducing advertising budgets in times of crisis and overspending during upsurge) of companies can lead to problems of profitability, consumer trust and competitiveness in the long run.

INTRODUCTION

The main motivation of the literature review is to show the importance of advertising in an economist perspective. We first examine the relevance of advertising spending decision process and its relationship with quality. Allocating optimal advertising budgets into a succesful marketing strategy has to be an important factor altogether with taking into account consumer interactivity, especially when general economic conditions (e.g. in a recession) force companies to reconsider their allocation strategy. In a crisis, there exists the assumption that companies economise first on their advertising spending (Origo 2008). Through the sharing of information about advertising and its importance in economics, a main objective with this literature review is to show the long-term risks of reducing advertising budgets in a recession.

ADVERTISING IN ECONOMICS INITIALLY: RELUCTANCE AND AVERSION

„Advertising is designed to promote the sale of a product or service” (Evans 2008, p. 4)

Mainstream economics did not accept advertising for a long time, scientists considered the notion with a kind of reluctance in the beginning. It was a process explicable with additional conditions and with its own tools, which was a delicate field. Several famous economists were concerned with the problem (see Pigou 1920; Galbraith 1958, pp. 155-156), and their attitude can be described by aversion. By the theory of Pigou and Kaldor (1950), companies do not need advertising based on the basic principles of microeconomics on the perfectly informed market, because it is visible how many products they want to sell for how much price without it. Galbraith (1958) explains that advertising creates such needs towards products (services), which people do not need. He rejects the notion of informative advertising, since it is not relevant in economics.

Advertising in microeconomics

It was an interesting turn when Gary Becker and Kevin Murphy in their article published in 1993 tried to set advertising into the frame of mainstream economics through a microeconomic model. In their work, **advertising** was manifested **as a product**, which is **a complement of the advertised product**. Therefore the notion of advertising is interpreted within the concept of traditional microeconomics, assisted by mathematical models and called a *good*, or a *„bad”*. Becker and Murphy considers something a good if consumers would like to pay for it. Conversely, a bad is something consumers are willing to pay for avoiding it, or accepting it only for some kind of compensation (e.g. watching TV spots in exchange for one's favourite programme). Instead of treating advertisement as a means of manipulating and modifying tastes, as did economists in previous studies (e.g. Dixit and Norman 1978), Becker and Murphy (1993) consider it a **good that enters the fixed preferences of consumers**. If given goods modify favourably the demand for other goods, then these are complements, and not elements of changing tastes. Futhermore, based on the empirical study of Enrich et al. (1957), people who have bought a new vehicle were rather looking for advertisements related to their recently bought car. In microeconomic terms, an increased consumption of the advertised product raises the marginal utility and the demand for the advertisement as well. In a utility theory perspective, **if an advertisement is complement of the advertised product, then the converse is true** as well.

ADVERTISING AND QUALITY

„Advertising is a costly activity undertaken by the seller of a product and has an effect on the demand for that product." (Dukes 2008, p. 517)

Researchers have examined in several perspectives the effect of raising advertising budgets in companies. They have **studied the kind of connections between advertisements and quality**, or rather, **the effects of advertising spending on the quality perceptions of consumers.**

In order to assess these questions, it is advisable to review the different roles of advertising (Dukes 2008):

a) *informative*: To communicate information on the product to consumers. That information is then evaluated by the potential target market to make a decision of the possible future purchase.
b) *persuasive*: Advertisers want to reach the receivers of a communication flow (i.e. consumers of mass media) with messages that would make them buy their product. Contrarily to informative advertising, consumers have access to an extended body of information, persuasive advertising targets an active change in consumer preferences.
c) *complementary*: Advertisement in itself provides an added value to the advertised product and therefore it becomes complement of the original product. This view on the role of advertising relates to the microeconomic statement of Becker and Murphy (1993), who have put advertising into the focus of economic research. An example for this complementary role is when someone buys a pair of trainers advertised with a famous sportsperson. In this case the buyer purchases the additional promise along with the product itself.
d) *signaling*: According to Nelson (1974), first developing the signaling approach of advertising, a**dvertisements affect consumer perception indirectly by signaling the quality of the underlying product**. In other words, **the amount of advertising spending can be an indicator of product quality** (Moorthy and Zhao 2000). This statement (i.e. a positive correlation between advertising spending and quality) has been studied in several works since (e.g. Zhao 2000, Horstman and Moorthy 2003, Nguyen and Shi 2006).

On the grounds of these statements, if an ad is considered solely as an element which raises demand and signals product quality, then **a company providing better quality ought to use it in order for higher profits**, while for its competitors producing lower quality, advertising would be unnecessary. It is important to notice that the the indicator of quality in this case is the money spent on advertising and not the communicated message (Dukes 2008). At this point we can put the persuasive and signaling roles of advertising together. The question is for what reason persuasive TV commercials, broadcast in large quantities and barely containing informative elements are succesful? The answer for that question is the **signaling approach**, which in our case means that **more ads signal higher quality.** If we add the limited information access of the market into the model, we can observe that the company which provides better quality can not take advantage of it, and accordingly, the extra cost sacrificed on advertisement is *„burning money"* (Zhao 2000, p. 390), therefore the positive correlation between the two elements is far from certain. In the case of tested, well-known products, with well-known quality, where most customers are familiar with the main attributes of the product, ubiquitous advertising does not function as perfectly as stated in the theoretical assumptions of the signaling approach. Therefore the signaling approach is more widely applicable in the case of new product or service launches (Dukes 2008). It is advisable to note, that the

mechanism of action in advertising spending affects quality, sales, profit, but also market and book value (Cheng and Chen 1997). Notwithstanding that, Cheng and Chen (1997) indicated positive association of stock market investors between advertising spending and the future growth of the company (this correlation was more positive and significant in case of bigger companies).
To sum up the main statements of the relating studies, advertising can signal quality and firm value positively (usually along with R&D and innovation, see Joshi and Hanssens 2010), and take a negative effect on competitors at the same time.

THE ELABORATION OF AN EFFECTIVE MARKETING STRATEGY

„Half the money I spend on advertising is wasted, and the trouble is I don't know which half."
– a 19th-century department store owner, John Wanamaker's saying (Iyer et al. 2005, p. 461)

Built on the assumption that **advertisement raises market share of the company** (through the sharing of information about a company's products) **and acquires more potential consumers, then these consequences possibly eventuate in larger sales** presently and in the future as well (Vakratsas and Ambler 1999). Accordingly we can assume that an **increasing level of advertisement improves company performance, but only if the company follows a conscious and effective marketing strategy**. Hereafter we study the conditions of optimal advertising spending, for realising a well-targeted marketing strategy.

It is an important question for companies how to reach more and more precisely their potential consumers, who eventually will buy their product. An effective marketing strategy is needed for this objective. In a competitive environment, where advertising is targeted to different consumer segments, **STP-strategy (segmentation, targeting, positioning**, see Kotler 1997) is an advisable solution. Nowadays, when companies have differing sources of information about consumer preferences, purchasing and media habits, it is possible to only target involved segments (and exclude non-involved groups) with more effective campaigns (Iyer et al. 2005).

Companies which are not able to or do not want to target to a specific segment can diffuse their message to the whole market (undifferentiated advertising strategy). In this case, non-involved consumers can not differentiate among diverse, undifferentiated products. This can lead to price competition instead of allowing companies to successfully (and cost-effectively) target their own audience. Iyer et al. (2005) observed in the case of price-sensitive consumers that if consumer interest increases towards all firms' products, then the target audience will be unable to decide, leading to price competition and at the end, to decreasing profit levels. The authors therefore suggest that targeted advertisements ought to be elaborated for each segment of consumers. Empirical evidence shows that the investments of retailers (Cora, Casino, Carrefour) into targeted advertising actions. The target market was divided into high and low-involvement segments and the intensity of promotion was raised when the potential consumer proved to be more interested in the given product (Iyer et al. 2005). Differentiation is important as it contributes to allocate media budgets between a high-involved and a low-involved, price sensitive audience.

The company profits from the reduction of advertising to its price-sensitive consumers, by raising the differentiation of the market, which in turn moderates the intensity of competition. In other words, targeted advertising is a great opportunity for economising on and reducing the quantity of *„lost advertising"* (sent to the competitor's loyal consumers). As a consequence, **targeted advertising** can **raise profits** and at the same time, results in reducing the price and increasing the value of advertising in the long run (Bergemann and Bonatti 2010).

Thus, **targeted advertising allows more differentiated markets, more efficient advertising, and can improve firms' profitability**. A significant implication for brand managers is that **profits of targeted advertising do not vanish when the competitor reacts to the ad**, contrarily to most marketing actions, which give advantages only in the short run. And for realising that **it is indispensable to be aware of consumer preferences and to get to know their media habits** in detail. Conversely, *when advertising is both expensive and uniform, its effectiveness as a marketing instrument is limited"* (Esteban et al. 2001 In: Iyer et al. 2005).

THE PHENOMENON AND THEORETICAL FOUNDATIONS OF ADVERTISING BUDGET ALLOCATION FROM TRADITIONAL MEDIA

„Advertising as a practice has been greatly affected by recent trends in technology and media"
(Muňiz and Schau 2007, p. 35)

After having analysed the main implications of a succesful marketing strategy and having drawn attention to the cost-cutting function of a well-targeted advertising, we can elaborate on **the shift from offline to online media,** in line with digital technological innovations, changing consumer behavior and **web 2.0.**[1]. Presently, on a global scale, **14% of money spent on advertising is used for online advertising spending** (Evans 2008).

Behind the spread of online media, there exist different kinds of internet-based technological achievements, data collecting mechanisms, which enable well-targeted messages in the market. Online advertising emanates from the mid-1990's, followed by a first crisis in 2000-2001. Recovery from touch bottom was generated mainly by web 2.0 platforms, when companies (e.g. Google, Yahoo, Microsoft, etc.) entered the market and simplified the selling of advertising space on the web. According to Evans (2008), several elemental innovations differentiate online and offline advertising. The most important of these is that **the internet uses more and more efficient mechanisms for the purpose of reaching individual users and to gather information for better targeting,** overtaking offline methods. Display advertisements (e.g. banners) can follow consumer preferences (mostly by placing banners related to the content of websites). Sponsored search advertisements can in turn target users directly by their online activities.

The process through which consumers receive and process marketing messages is changing. Traditional, paid media advertisements (television, radio, print and outdoor ads) are still playing a dominant role, but there appeared in paralel a number of new forms, through which consumers can develop proactively their own purchasing decisions. Table 1 shows the five elemental forms of media space available for advertising (Edelman and Salsberg 2010). Traditional payed media advertising, a company pays a third actor to advertise its product is a well-known and widely used tool for marketing practitioners. The second possibility, when the company creates its own homepage through which it subsequently shares its message with the audience, is a general form of marketing communication as well (*owned media*). An additional possibility for companies is when their consumers create new ideas, provide directions for future developments, new product ideas, etc. on their own fan-sites. A typical example for this phenomenon is Starbucks (Edelman and Salsberg 2010), where fans can propose directions and ideas for innovations on a website developped especially for that purpose which is furthermore totally free for the company (*earned media).* The next category is based on the comparison of paid and owned media. In this case, one company sells its advertising space on its webpage to an other company (*sold media*). The most important for our analysis is the fifth category, where conscious and technologically enabled consumers can hijack the real marketing message, endangering the company's real communication efforts (Krishnamurthy and Kucuk 2009). The phenomenon appears mainly in social networks, and in case the hijacked message has a chance to modify public opinion, the company reaction has to be very elaborated, or else the company might face the repercussions of a destructive image created by negative news (*hijacked media*).

Table 1. The 5 elemental forms of media

Media type	Definition	Examples
Paid	The company pays for the media space to promote its product.	TV-commercials, magazine and newspaper ads, billboards, product placements, Web banners, search-engine marketing
Owned	The company uses or creates its own new media channels to advertise.	catalogs, websites, Facebook fan pages, e-mail and customer databases, company-owned retail

[1] „web 2.0": collective noun of internet services, which is mainly based on communities, that is users take part actively in the generation and share of information. In spite of recent services, where the content was covered by the service provider, in web 2.0. services, the server owner provides only the frame, content is uploaded, generated, shared or posted by the users. Appearance of web 2.0. has created great changes in human interactions as well.

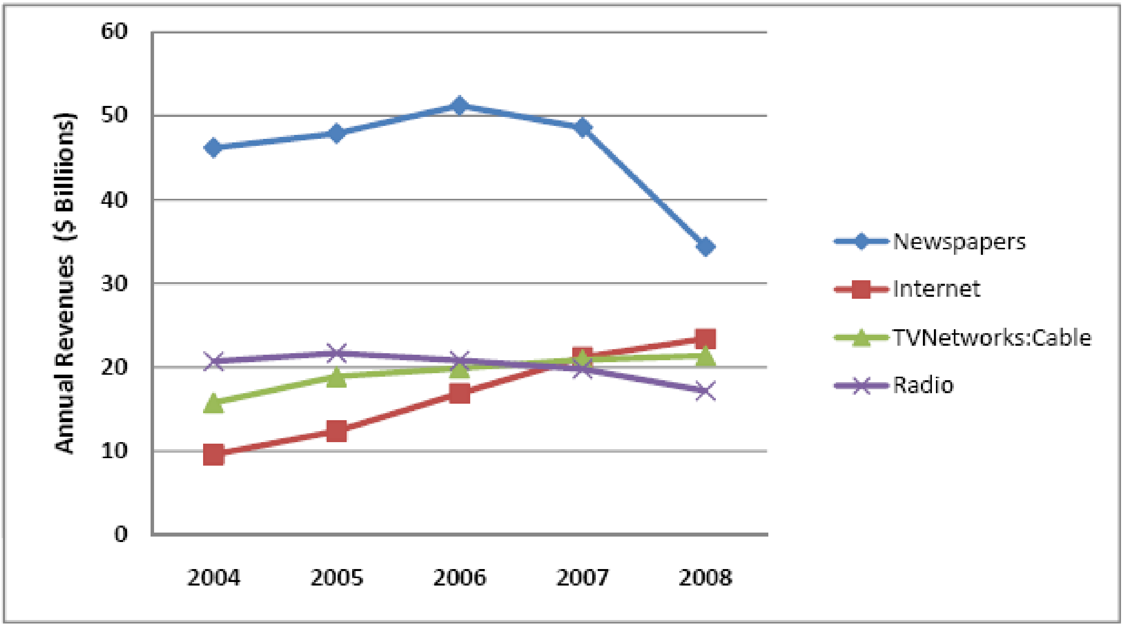
		stores
Earned	Consumers create media and/or share media the company created.	organic search placement, forwarding a popular commercial to friends, consumer ratings and reviews, rankings on community sites
Sold	The company invites other marketers to place their contents on its own media.	an e-commerce retailer selling ad space on its Web site, a consumer marketer creating an online community and selling ad space
Hijacked	The company's assets or campaign is taken hostage by those who oppose it.	consumers rallying opposition on a company on Facebook, consumers creating and distributing their own negative versions of ads

Source: Edelman and Salsberg (2010, p. 2)

The above-mentioned changes have led to an evironment where the role of advertisers is changed, with an effect on advertising budgets and distribution channels as well. Presently, the new challenge is to satisfy the growing complexity of consumer needs among the synergy of the previously discussed forms (paid, owned, earned, sold, hijacked). The **new media opportunities (just like internet) can result in better targeting**. However, it is also important to take attention on the dangers like the selection and limitaion of consumer messages on social networks.

Considering the competition between the different media types, **analyses conducted in the offline-online relation concluded, that the entry of a new media decrease more significantly the profit of an offline competitor, than it would be an other offline actor** (Bergemann and Bonatti 2010). Figure 1 reflecting to competition would like to demonstrate that comparing profits, transition can be seen towards online media.

Figure 1. U.S. advertising markets: revenue comparisons (Annual Revenues in Billion $)



Source: PriceWaterhouse Coopers annual riport for IAB, In: Bergemann and Bonatti (2010, p. 2.)

CGC and WOM

„In the context of social networks, WOM has a major impact on driving traffic to the Web site."
(Pfeiffer and Zinnbauer 2010, p. 48)

In our presentation of the transition from offline to online media, we shall put an emphasis on the increasing importance of **CGC (consumer-generated content)**[2] and **WOM (word-of-mouth)**[3], which have a growing impact on advertising decisons as well. In traditional marketing communications, companies create and consumers consume their advertisements (Berthon et al. 2008). This is the scheme of the classical *„one-to-many"* communication, which has changed with the appearance of digitalisation and web 2.0. Today it is possible for everyone to produce self-made contents or share it with others, simply by uploading it on the web. From the side of companies, the maximalisation of profits or sales is a tangible objective for explaining the reason of a campaign. According to Dahl and Moreau (2005) [in:] Berthon et al. 2008), CGC functions along seven motivations:

- feeling of competence
- autonomy
- possibility for learning
- passing time and relaxation
- self-expression
- joy felt by appreciation
- **feeling of community**

Community is the most significant factor of all. It is entitled to examine the reason for the existance of these communities. Cova (2002) describes a phenomenon: nowadays new technologies entail a kind of social isolation (where social interactions are substituted by TV, telephone, or the internet). In this separated environment, individuals are looking for new opportunities to reform some kinds of relationships. Cova (2002) calls the established forms **postmodern groups** (or consumers). The main caracteristics of these communities are that their symbiosis is temporary, they exist for an uncertain amount of time, and the most important factor of their relationship will be the nature of their attachment to each other (through a product or service, an experience, etc.). The **challenge for the advertiser in this kind of situation is to monitor permanenetly the changing consumer needs**. Consumer reactions to advertisements highly rely on the context, and in case of CGC, consumers can not be categorised into the classical attitude schemes. Postmodernism means a **high risk** for companies, who have to create **well-targeted messages constantly in an unpredictable environment**.

There exist several opportunities for companies meeting these postmodern groups:

- significant knowledge and **base of customer information**, and **an opportunity to decrease their R&D costs**
- establishment of **interactive and informative relationship** at the same time **between the advertiser and the target market**
- the consumer base taking part in CGC can be an important, **marketable demand** in itself

Brand managers should deal with CGA (consumer-generated advertising)[4] together with WOM, rather than treating it as a traditional advertising problem (Berthon et al. 2008, Kshetri et al. 2007). The two notions are similar in the way that consumers create the content in both cases, and at the same time, the main motivation for creating them is not predominantly increasing sales. Companies can profit from this process. According

[2] „consumer-generated content": content established by consumers. Accessible, public content, which can be a text, image, or a video. E.g. blogs, forums, contents created on social networks, etc.
[3] „word of mouth" or „buzz marketing": when people talk about a topical subject with each other, then it enters into common talk, e.g. by means of forums, blogs, social networks. In addition, it represents a serious issue for companies regarding its utility for marketing communication.
[4] „consumer-generated advertising": advertisements created by users of online media, who usually establish and share their campaigns free on the web.

to researchers studying WOM (e.g. Chung and Darke 2006), it is important for companies to know the situations where communities generate positive advertising messages, to avoid the opposite. Eventually, to do it deliberately. Attitude of company managers has to be adapted to the fact that advertisement ceased to be static and constant (Berthon et al. 2008).

To sum up, companies have to be prepared for more and more active consumers (CGC, CGA, WOM) who can help new product development or creating a marketing campaign, but they equally have the opportunity to demolish company image. Studies analysing the allocation of advertising budgets between offline and online media (e.g. Pfeiffer and Zinbauer 2010) warn that **for reaching a wide range of consumers and positioning a brand, it is still worth advertising on traditional channels**. At the same time they suggest for brand managers to consider **mixed methods** while establishing their marketing-mix. A typical demonstration of that is the case of McDonald and Garga (2010). This study considers media synergy significant, that is the simultaneously applied types of media through intergrated marketing communication, where online and offline contents can work together efficiently.

ADVERTISING DECISIONS IN THE ECONOMIC CRISIS

„In a recession, the most productive route for most companies is to increase rather than decrease advertising spending." – John O'Toole, President of the American Association of Advertising Agencies (1991), [in:] Frankenberger and Graham (2004), p. 11

Questions of allocation for the brand manager

As we have observed it in the theoretical foundation of this study, the optimal advertising budget is a decision process containing many factors and its outcome depends among other things on competition, consumer behavior, actual trends or industrial conditions. The brand manager has to examine **how much to spend on advertising.** The question calls a tipical marketing meeting to mind, where the main challenge is to invest in the company's advertising budget with the highest market share or sales objectives. The expected sales indicators or the sales of the recent years are equally types of microeconomic conditions (what can we afford. In this case, the company has not considered yet different macroeconomic aspects (e.g. the general state of the economy).

The actual state of the economy is an important complement of the previously mentioned influential factors (competition, consumer behavior, actual trends and industrial conditions). In an economic prosperity, companies definitely plan their advertising budgets differently than in a recession. The crisis of trust and the pervasive uncertainty, reinforced by the extension of the subprime mortgage crisis has first affected the financial markets, which then spread to other sectors of the economy as well. For example Nokia in 2008, when it was actual to close some of its firms in Germany, the climate of opinion has decreased seriously. A crisis of communication occured, essentially because Nokia was unable to step out of its own limits (the prevailing importance of profit objectives or efficiency, even at the price of downsizing) and make the best of its available budget. In this case the company followed its short-term objectives at the expense of neglected long-term investments (Sarstedt 2009).

Table 2. The effect of advertising in a recession

Author(s)	Published	Years Covered	Level of Analysis	Ad Impact On
Vaile	1926	1920-1924	250 firms in U.S.	**Sales**
Meldrum and Fewsmith	1979	1974-75	143 firms in U.S.	**Sales, Net Income**
Kijewski	1982	1981-82	1000+ businesses in U.S.	**Market Share, ROI**

McGraw-Hill	1985	1981-87	600 firms in U.S.	**Sales, Net Income**
Biel and King	1990	1981-82	748 businesses in U.S.	**Market Share, ROI**
Kamber	2002	1990-1996	822 firms in U.S.	**Sales**
Frankenberger and Graham	2003	1971-2000	2662 firms in U.S.	**Earnings**
Deleersnyder et al.	2007	1980-2005	37 countries	**-**
Lamey et al	2007	1975-2002	3 countries	**-**

Source: Tellis and Tellis (2009, pp. 5-6.)

Long-term approach in advertising is a possibility, and it is applied only by specific companies. Several research groups have studied the problem, trying to find connections and relationships analyzing recessions in the last 100 years (e.g. Frankenberger and Graham 2004, p. 15, see Table 2). Results from recent studies has shown that the first reaction of companies during a crisis is to decrease their advertising budgets (Wurff et al. 2008). This tendency is the confirmation of the **microeconomic generality**, which declares that the increased demand of advertisement is mostly a function of the country's gross domestic product. Kamber (2002) has performed a synthesizing **empirical analysis** on the subject. They compared several databases (the adspending reports of AdSpender and Competitive Media Reporting, sampling 60000 companies, with the Compustat database of Standard & Poor, sampling 10000 companies, including some of the Fortune 500 list actors), and based on these sources they discovered **positive correlation between increased advertising budget and the improvement of of sales performance**. Comparing with earlier, similar researches (see Table 2)[5], this methodology was new, as it took into consideration the industrial sector, company size and firm value as well. The increase of sales, net income, market share, return on investment or even market demand can indicate a globally positive correlation between advertising budgets with company performance. The finding revealing that marketing decisions can influence the company's future value and its financial performance, or that the degree of advertising spending is the indicator of the company's market value to the investors (Frankenberger and Graham 2004) led researchers to the empirical verification of the previously mentioned positive correlation.

In Kamber's (2002) study, the main objective was **to give best practices for the brand manager to understand more transparently the consequences of decreasing or increasing the advertising budgets in times of recession**. Results showed that the correlation is mostly positive between advertising spending and sales performance, though this value varies between industrial sectors (Kamber 2002, p. 116). Examining the time series data, the positive effects of maintaining/increasing advertising on sales is already noticeable early enough, in the current fiscal year.

It is interesting to observe the effect of the prolonged recession, noticeable in the former study. Namely the **companies which have begun to cut their spending on advertising during the crisis still continued it, even when their business indicators no longer justified it. Consequently, they have achieved only a moderate growth in their subsequent sales**. This phenomenon in the time series analyses has revealed the lagged appearance of the *„advertising crisis"*. It means that the positive effects of maintained/increased advertising occur immediately, while conversely, the decreasing growth or decline of sales causes problems for a company in the long run. It should be noted that **the positive and long-term effects of augmented spending on advertising** not only increase sales performance and earnings, but also **show a more favorable image** of a company **towards its investors** (Quelch and Jocz 2009). In addition, this action **indicates more trust towards their most important consumers**, which can last until the end of the recession (for a 2-3 years period [Frankenberger and Graham 2004]). The crisis of trust during the subprime crisis can be illustrated with the example of the Conference Board's Consumer Confidence Index, which has touched bottom in January 2009 (Quelch and Jocz 2009) since 1967.

[5] see Kamber (2002), p. 120

It is important to analyse the previous relationships in different advertising media. The problem was observed empirically and it was concluded that print media and outdoor advertising reacts more seriously to recession, than televison or radio commercials (Wurff et al. 2008). This context indicates, that at the establishment of marketingcommunication, the choice of advertising media depends on the macroeconomic situation, that is not only advertising affects recession, but the reaction exists in the same way.

The above-mentioned correlations and empirical studies **do not state that increasing advertising spending in a recession is the only option of recovery. Instead they can be considered as one useful advice** if companies first reduce their advertising spending, they should also consider the implications (as shown by the above-mentioned studies) of their actions as well. It is possible that an advertiser has reached its point of maximal efficiency when investing more in advertising would not increase its total performance any more (Aaker and Carman 1982). Therefore, for the reason of the spreading effect of advertising, the overspending of the competitor can compensate a company's decline of performance suffered by its low advertising budget during the recession. To establish a successful marketing strategy in a recession, a company has to make the best of its resources. Considering that the majority of advertising spending is not effective (on the basis of certain empirical studies, 20% of them does not generate sales at all [Luo 2001]), an accurate targeting is indispensable for a company in order to avoid sunk costs from advertisements which are too general and expensive (Iyer et al. 2005). To be able to accurately target its consumers, the company must get acquainted with their preferences and media habits, which is an important implication for practicing managers. A reassuring example from the recent years is that of Hyundai Motors. Their sales decreased by 40% between 2008 and 2009, yet the company increased its advertising spending, taking into account the crisis and changing consumer preferences, and adjusted its campaign to the recession, understanding the strategic value of marketing (Brecht 2009).

THE RELATIONSHIP BETWEEN ADVERTISING SPENDING, RESEARCH AND DEVELOPMENT (R&D), AND INNOVATION

In the subprime crisis of 2007 and 2008, cost-cutting programs of companies mainly affected the costs of R&D, product innovations and advertising. The previously cited studies (see Table 2) all try to confirm, that in a problematic economic situation, increased or maintained level of advertising can, in many cases, improve company performance. This relation comes from the following recognition: if a company maintains its level of advertisement with well-targeted, consumer-oriented campaigns (Gulati et al. 2010), while its competitors rather reduce it, competitors' power in the market weakens. Consequently, it leads to higher sales and efficiency in the long run for the given company, even after recession times. At this point it is worth mentioning that companies at the same time ought not cross the line of excessive advertising. Aaker and Carman (1982) declare that *„overadvertising"*, i.e. too much advertising during an upsurge can equally lead to decreased performance as less spending when crisis has already evolved.

In a long-term perspective, the two most significant supporters of a normally functioning corporation are innovation and marketing (Shuba et al. 2006). When investors evaluate firm value, they appreciate innovation, but what really counts is how „new" an innovation is for the consumer. It is **a great challenge for marketing managers** that **their investments in innovations improve the main objective, namely the rise of financial and firm value as much as possible, through the establishment of consumer values (e.g. new product development) and the communication of these values (e.g. advertising spending)**. Empirical studies analysed the relationship of innovation and advertising spending, considering the dimensions of the innovation (whether it is something new for the company only, or else it is an innovation for the entire market). Shuba et al. (2006) have demonstrated that **the positive and supporting effect of advertising on innovation** exists in both cases.

In view of the former conclusions, the positive effect of advertising is probably not an irrealistic assumption, **as long as R&D expenditures and product innovations contribute to corporate objectives, then advertisement can fill this part in a recession as well**. Based on the observed cases, with the change of consumer habits and with the implementation of new technological innovations (see web 2.0.), the good advertisement can have accentuated part in the increase of sales, but it has greater significance: **it can support the diffusion of innovations** (Kamber 2002), if managers realise that it is worth relying on advertising in recession times.

CONCLUSION

This study reveals that advertising is a strong tool in competition for companies. It can contribute to the diffusion of innovation and to the reduction of R&D costs, through the increase of consumer knowledge. This contribution can be achieved nowadays by consumer interactivity, where the company relies strongly on consumer involvement. Thus, when companies were confronted to the global economic crisis, brand managers realised that allocating advertising budgets in a recession is a highly important decision factor beside competition, consumer behaviour, trends or industrial conditions. Making the best of maintaining advertising budgets for a company in recession times can indicate more trust towards its consumers and a better image towards its investors. The study examined the main risks and the long-term problems of pro-cyclical actions (reducing advertising budgets in times of crisis and overspending during upsurge). A possible direction for further research can be an empirical analysis. In such an empirical test, the main conclusions of this literature review could be tested and compared with the existing collection of studies concerning advertising spending in recession times.

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