Y&R

A DEEP RECESSION CHANGES EVERYTHING

AAAGH!

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AAAGH!

Recessions are sweeping the world.

They may be deep and long.

The global financial system is on the edge of the abyss.

In the US and much of Europe, house prices are in freefall.

Millions of people across the world have already lost their jobs.

Many millions more may follow.

Everyone is afraid.

But

But that's not the main point of this document.

Recessions happen.

Then they end.

And nothing is quite the same afterwards.

No young woman put on a flapper dress when the Great Depression turned into the New Deal in 1933.

Flared jeans went out of fashion for a generation with the recessions of the mid 1970s.

Hello I'm your bank manager.

I haven't seen you since the nineties when I shut the branch and told you to talk to the ATM instead.

Let me tell you what I've been doing since then.

I've taken your money and invested it in some house scheme in America I didn't really understand.

The result is that my bank has lost most of its capital.

So now I need more of your money.

I promise you it'll be really safe.

And I guarantee I'll invest it really smartly.

Banks have a credibility problem and it isn't going away any time soon.

After this one, the world's savers may never trust a bank again.

Recessions act as a broom, brushing out the old and making space for new ideas in the world.

Nothing returns to normal afterwards.

And the biggest mistake most companies make is not in failing to cut costs fast enough.

It is to assume that after the recession, it's going to be business as usual.

This booklet

This booklet analyzes the likely consumer impact of the recession, (Page 5) and how it will affect different consumer mentalities. (Page 15)

At the beginning, the focus is on finance and banks. But as finance and banks are dictating the fortunes of all marketers, all marketers should read it.

It then looks at how digital technology will continue to develop relentlessly during this recession, (Page 22) and the opportunities it creates.

It then looks at how money and the mobile phone may merge by its end. (Page 28).

The recession will also change the zeitgeist, (Page 31) and will particularly impact people aged between 25 and 35. (Page 40).

It will mean great changes to brand marketing (Page 43), to retail banking (Page 59), and to retail investor mentality. (Page 65)

Nothing will be quite the same again.

Why no numbers?

Random events are dictating this recession's course.

No one danced the Charleston when the Great Depression became the New Deal in 1933.

The first people queuing outside Britain's Northern Rock bank in autumn 2007 were not doing so to get their money out of the bank.

They just wanted to be first in line to talk to customer service advisors about completely unrelated issues.

But other people saw them.

And inferred the worst.

Economists and business leaders quietly admit that no one knows quite what is going to happen in this recession.

This document is therefore about the fundamentals.

A dime isn't much use when you have a $250,000 mortgage on a $150,000 house.

1. WHEN PEOPLE LOSE ALL THEIR MONEY

People talk about their sex lives in focus groups.

And their personal problems.

No matter how embarrassing.

But they won't talk about the huge amounts of money they have lost on houses and stockmarket investments in the past two years.

They are silent on that. It is just too big for them to think about.

To the consumer, the credit crunch is not a tale of declining stock indexes and collapsing financial institutions.

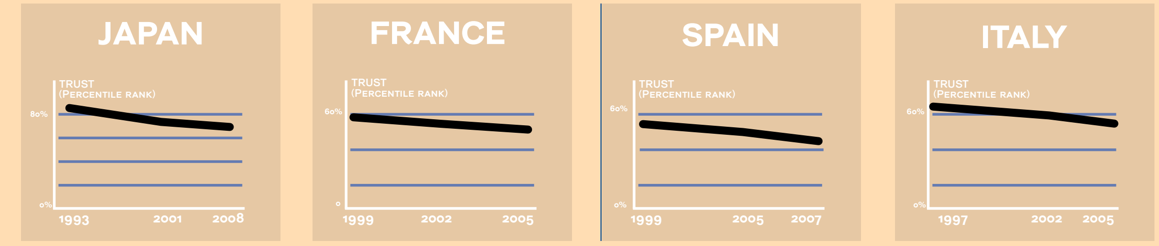
It is already a tale of personal financial tragedy on a mass scale:

- A generation of fifty-something Americans are looking at their 401(k) retirement plan and realizing that they

Do not underestimate the impact of headlines like this on consumer psychology.

Conventional wisdom says that the most important day of the 21st century geopolitics was September 11th 2001. But in the long term, August 8th 2007, the day the world's financial system seized up may prove more important.

TRUST IN BANKS WAS FALLING EVEN BEFORE THE CREDIT CRUNCH



BASE: CATEGORY AVERAGES IN EACH COUNTRY.
SOURCE: BRANDASSET VALUATOR

The consumer's trust in financial services was declining even before the credit crunch hit.

can no longer afford to retire. Many are coming to the realization that they may well *die at their desks.*

- Other baby boomers are being forced into postponing elective surgery and other important medical procedures.
- There were enough construction workers in Spain to build 800,000 houses in 2007. A year later, no one was building anything in Spain. Hundreds of thousands of workers and their families have been *thrown into poverty.*
- Couples are deciding not to have children because they can't justify doing so when their home is in negative equity and their jobs are under threat. The credit crunch means that an entire generation will *never taste life.*
- Pensioners in Taiwan, Hong Kong and Singapore are discovering that their pensions were based on Wall Street credit, and now *no longer exist.*

- Many people in Ireland have lost so much money on housing, or in the stockmarket that they will struggle to repay it in their lifetime. *They will die in debt.*
- Young women whose financial lifestyle depends on their ability to pay off a credit card by opening up a new credit card every six months can't get the acceptance on another card to tide them over for the next six months. For a group that has never known financial problems, it is a *brutal new reality.*
- Subprime mortgages were sold predominantly to ethnic minorities in the US. The subprime debacle *has set income equality back a decade.*

How investors grieve

Our past research has shown that when people lose a large amount of money, and their dreams and hopes along with it, they go through a process similar to grieving for a lost relative.

Financial institutions need to understand this process if they are to rebuild trust with their consumers:

1. Denial

The first stage is denial. And most of the affected are in that stage at the moment. They are aware that houses are selling for much lower prices in their area. They are aware that their monthly income does not go as far as it used to. They know they are living through a decisive moment.

They talk about a sense of unreality in their dealings with the world. It is as if they are living through a bad dream and soon hope to wake up.

It's the stage characterized by people repeating to themselves that they haven't lost the money on their house until they sell it.

'In the Hague, we envied well-to-do Amsterdamers with their pricey houses. Today we laugh at them and their negative equity.'
Man, 45, Netherlands

'My wife started an affair with our builder when I lost my investment banking job. I guess I hadn't spent enough time with her, but I thought I meant more to her than just a platinum credit card.'
Man 38, London

Consumers everywhere are realizing that their financial lives are full of hidden dangers.

Or that their loss on stocks is just a paper loss until they liquidate them.

2. Anger

Next comes anger. We saw this in the dotcom bust. For six months in 2000, the investors who had lost money on dotcoms and telecoms turned their fury on the Wall Street analysts who had advised them, and many hired lawyers.

The anger of the dispossessed can last a long time and be brutal.

The Germans lost a war in 1918, lost land in 1919, and lost their savings in hyperinflation in 1923.

But it wasn't for another seven years that they started to vote in large numbers for the politician who best articulated their frustration, the man they called the 'loudspeaker of the German soul', Adolf Hitler.

Deep, widespread anger was a feature of the Great Depression in America too. As John Steinbeck wrote at the time, 'In the souls of the people the grapes of wrath are filling and growing heavy, growing heavy for the vintage.'

Congress, spurred on by furious voters, continued to harass banks until 1940.

This time around, more people have lost much more money than in any other crash in history.

The anger will be greater, and directed against anyone who can be punished - governments, advisors and institutions.

3. Bargaining

In this phase, investors attempt to salvage what they can from their portfolio. On the surface, this can be a

'We had a fender bender and my husband snapped. I've never seen him so angry. But it wasn't really about the accident. It was about the house we can't sell for half what we paid for it.'

Woman, 28, Arizona

'My husband just lost all interest in sex when he lost his high-powered job. He lost his identity, because his identity was bound up with it.'

Woman, 32, Budapest

'When we were Euro 50,000 down, I was scared. Now that we have lost Euro 200,000 and more, it just doesn't feel real.'

Man, 33, Madrid

WANT A LUXURY LIFESTYLE ON YOUR MODEST INCOME?

Here's how to live on credit:

1: Sign up for a credit card and max it out.
2: Then open a second credit card and transfer the balance, ensuring that your new card gives you a six to twelve month interest free repayment holiday.
3: Max this card out.
4: Open a third credit card and transfer the balance again.
5: Max this card out and repeat.

This procedure has doubled the spending power of many people on average incomes for most of the past decade. But not any more.

very constructive period for financial services companies, as the investor will be open to all sorts of alternatives other than just liquidating cash.

Investors have accepted their loss, and can now think again. Or they would, if it were not for the next stage of the process:

4. Depression
Y&R researchers saw this in the recession of the early nineties.

London, hard hit by house price declines and middle class unemployment was not in play mood. The yellow lights of taxis stayed yellow. Even people who still had money stayed home.

In this stage, investor animal instincts are low, and they may become extremely self critical, questioning their investment skills, and developing severe cynicism towards the promises of companies offering investment opportunities.

If bubbles are caused by irrational exuberance, this is the opposite: an irrational gloom.

This is also an important stage for the wider economy: it's when a depressed mood spreads through a society, and consumers, even those with money, lose the will to spend.

5. Acceptance
With terminal illnesses, the acceptance phase is when the patient accepts that they are going to die, and looks to make their exit in as composed and in as dignified way as possible.

With investors, this is the first time when you can talk to them in an open way, and discuss their financial position without reference to their past losses.

When will this period come after the credit crunch? It depends on how deep it gets.

After the 1929 meltdown, the acceptance phase *didn't happen until the 1940s.*

WHY POLITICIANS ARE TERRIFIED

The financial panic cycle:

1. An important bank fails.
2. Depositors pull out huge amounts of funds.
3. Falling stock markets demoralize banks and ordinary savers.
4. Everyone hoards money, banks and individuals alike.
5. Things get better.
6. *Small business contracts acutely, mass unemployment results.*

Source: Marlon Herrick, U.S. economist, studying the financial panic of 1907

What it means for financial services companies
Understanding these five stages will be fundamental to re-connecting with investors and savers in coming years.

Many will never recover their losses.

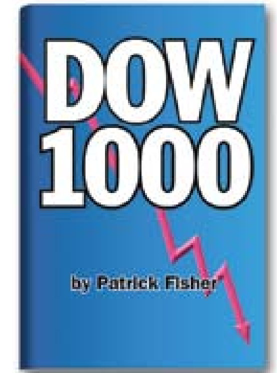
Many will never trust a bank again.

Financial services companies now need to rebuild trust with their customers.

From a base of zero.

So

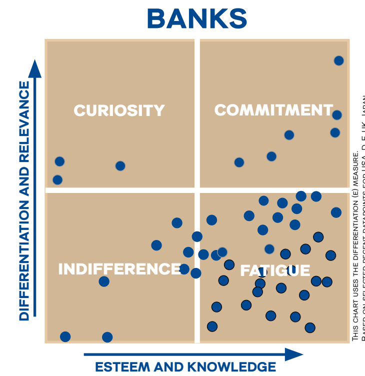
- Bankers should not take comfort in the argument presented by global business media that the credit crunch was the result of a 'perfect storm', an irresistible combination of global forces. Retail investors blame bankers, and will continue to blame bankers.
- Financial institutions should be careful with spokespeople. The consumer is very angry, and is looking for someone to blame. Accepting that they were in any way at fault for taking out 120% mortgages on overpriced real estate is not part of their agenda. Anyone who fails to show deep concern for the plight of the consumer loses.
- Banks should talk plain, clear language. In the past, people were willing to listen to finance-speak in



The book no one dares write.

marketing, and assume that they were ignorant and that financial institutions knew better. No longer.

- Consumers and financial professionals across the world are now realizing that it is a bad idea to invest in asset classes they don't really understand. Financial institutions should consider whether financial consumers might not be happier with more *transparent* products for the next few years.



Even before the credit crunch, most financial brands lay within the 'fatigue' or 'indifference' sectors of Y&R's global BrandAsset Valuator survey.*

* Y&R's Brand Asset Valuator has been watching the health of 38,000 brands in 48 countries over the past 15 years. It is the largest survey of brands in the world.

2. THE SEVEN MONEY MINDS

Do not assume that your customers are all reacting to the recession in the same way.

Consumers respond to financial problems in different ways.

Some take rapid and decisive action to resolve their problems; others react more slowly; others leave their problems to fester.

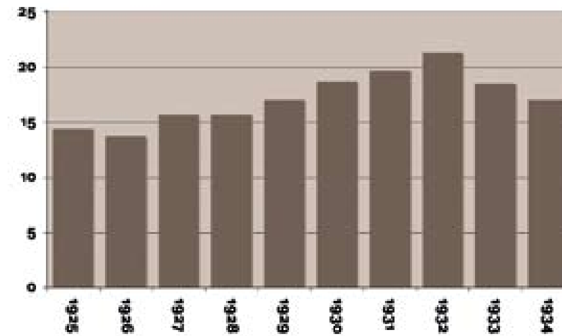
Understanding which groups you are dealing with is crucial for any business's recession strategy.

To help marketers do this, Young and Rubicam has separated financial consumers into seven groups according to their life mentality.

Because life mentality and financial mentality are correlated, these groups have proven to be accurate in separating bank customer groups. As a result, several European banks have used them to segment their customer databases over the last few years.

When it comes to financial products, the most interesting group is the *Succeeders*. Their innate managerial mentality, tendency to earn high, and their appetite for risk makes them interesting prospects. But no group is an island, and the various shades of Succeeder are all worth studying.

You can find out which group you belong to by taking our online test at **http://4cs.yr.com/diys**



Suicide rates in New York didn't rise much after the Wall Street crash. Instead, investors got mad. And then they got even.

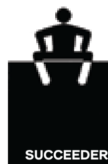
Succeeders are life's natural managers. Their core need is for control.

As a result, they tend to occupy positions of power in society and within companies.

Our work with European banks reveals that Succeeders are the main owners of equities. Their mortgages tend to be high, and they have high expectations of future earning power. In Europe, they are the one group which understands the difference between active and passive investment strategies.

They have a high appetite for risk, and therefore tend to leverage themselves more than other groups.

The credit crunch has however hit many of them hard. Their stockmarket investments and 401(k) retirement plans are no longer a source of security for them; they may well have large and unsustainable mortgages.



SUCCEEDER

They no longer have the job security they need for their gearing.

What kind of person are you? Take our short online test at http://4cs.yr.com/diys

Also, as their self image is heavily to do with success, a bout of failure can often impact their domestic and personal lives.

Brands that appeal to Succeeders need to recognize that they have had their security severely shaken over the past year.

However, Succeeders are good at taking decisive action to solve their problems.

Institutions that help them survive can prosper.

Mainstreamers are the bulk of the population. They are risk averse, and tend to save rather than invest. Their understanding of financial services is weak.

They are on everyday incomes, and notice the rising price of fuel and food. It is this group above all others that governments are trying to shield from the credit crunch.

Mainstreamers are steadily adopting a more economy/value approach towards brands; many are imposing stricter household budgets on themselves.

But when it comes to larger issues, like mortgages and credit card debt, many mainstreamers can be caught in the headlights by recessions. Their decision-making is frozen through fear, and they become unable to resolve problems facing them.

Mainstreamers' fears combined with their weak understanding of finance will lead to *passive-aggressive behavior* towards financial institutions over the next few years.

Explorers are young in spirit if not in body and tend to

Financial crises are not easy to fix.

As President Franklin D. Roosevelt himself remarked, it wasn't the New Deal that ended the Great Depression.

It was war.

be very open to new experiences. They are usually the first group to adopt new trends, ideas and technology in their lives.

They may not yet have been burned by investing money and losing it.

As a result, many are insulated from the credit crunch.

To financial institutions, this group is particularly important in its overlap with Succeeders.

Succeeders with Explorer tendencies tend to have a highly creative and exploratory attitude towards investment, and may have been captivated by new investment concepts, or more sophisticated investments like derivatives or options.

Many Succeeder Explorers will be once bitten, twice shy from now on.

Innovative investments need to be sold to them carefully.

Aspirers' weakness is their reliance on the opinions of others for their self worth, and their resulting tendency is to follow herd instincts.

They have a strong affinity for luxury goods brands and other status oriented items.

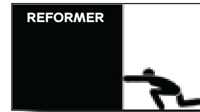
Their desire for the good life and status may drive them to live beyond their means, and to live off credit.

Succeeder/Aspirers may well make bad investment decisions, buying high and selling low. They may also be

attracted to investment opportunities that allow them to show off.

Recession chic may well be an attractive way to package investments for this group in coming years.

Reformers are articulate, educated people, who have a tendency to reject conventional materialism. Most journalists tend to have Reformer tendencies.



They tend to be cynical of financial products, and always search for the hidden catch.

An element of reformer attitude in the makeup of a Succeeder can make for a smart, ruthless investor. Their attitudes serve them well during times of financial turmoil.

Their counterculture attitude may also translate into them being countercyclical investors: they like to invest when the blood is in the streets.

Don't shield this type of investor from the truth about their fortunes. They will not respect you for handling them with kid gloves.

The **Resigned** are people who believe that the best days of their lives are behind them. They may well be retired and on fixed incomes. Others may still be working, but see themselves as being in their last job.

They may be highly financially literate, as they read newspapers extensively

These are the people who have the time to spend their day queuing around the block when a bank is rumored to be failing.

Their focus on the past and dislike of the future tend to make them believe that the world is collapsing in recessions, especially if their own finances are severely affected.

Critically, even if they are not affected, their fixed incomes make them see all change – be it inflation, deflation, rising or falling property prices, as a threat.

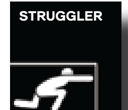
If their investments go sour, they cannot be replaced.

Handle the Resigned *conservatively.*

All groups respond better to financial communications if they sound like they come from a human being rather than from a corporation.

Strugglers live from day to day, making no long term plans. Their financial mentality is characterized by its extreme short term: the Struggler indeed struggles financially from day to day, focussing on basics like food, clothing and rent.

The global inflation in food and fuel prices in 2007/8 has hit this group hard: food is often a large part of their income, and they find it difficult to cope with the much higher prices on basics.



Strugglers do not change their mentality in recessions; they cope with adversity in the same way as they cope with times of affluence - by living day to day.

The important thing in recessions are their numbers: they are swollen by large numbers of people from other groups who have lost their money, status and self esteem.

Rely on Strugglers to boost the economy by spending any tax cuts they get as soon as the money is in their pocket. They do not think in terms of big, long-term pictures.

3. IF YOU WANT AN EDGE IN THIS RECESSION, THINK DIGITAL

Recessions don't stop technology.

Recessions, like wars, are times of rapid innovation.

In the depths of the Great Depression in 1930, scientist Paul Dirac, working alone in his college rooms, discovered *antimatter.*

In the economic turmoil of 1975, Bill Gates launched Microsoft.

In the same year, Jack Bogle pioneered the concept of index-tracking investment at Vanguard.

Three weeks after 9/11, in the middle of severe economic turmoil, Apple launched the iPod.

Recessions also shake companies and consumers out of their comfort zones, so technology is often adopted *faster and more widely* in recessions.

Over the next few years we can expect:

By the end of this recession, most people will have more computing power in their pocket than a typical company had in its entire office in the late nineties.

1. Much faster computers

Moore's Law says that the number of transistors on a silicon chip, and therefore the speed and capabilities of a computer doubles once every eighteen months.

Computing hardware has obeyed this rule for the past forty years and will continue to do so until 2030 at least.

None of the recessions of the past forty years have slowed Moore's Law down at all:

- Computers emerged from the 1973-7 oil shocks ten times faster than they were before.
- Computers emerged after the 2000-4 dotcom bust ten times faster than they were before the bubble burst.
- Computers will be ten times faster in 2011 than they were when the credit crunch started in 2007.

This is the fastest industrial change in history.

Leveraging digital technology is thus the most likely way companies may gain an edge in this recession.

Even with rugged SUVs, digital electronics are an increasingly important part of the appeal.

2. Much faster pipes

Rather than go out and spend money in recessions, consumers tend to stay home, in a process known as cocooning. They then upgrade their home systems to meet their increased need for home entertainment.

This may accelerate the take-up of fibre-optic broadband and other fast internet connections over the next few years.

Internet video will become a powerful marketing tool during this recession.

3. Internet TV at home

Internet protocol television is already starting to happen in many countries, as YouTube switches over to distributing entire TV series and TV companies realize that there are valuable extra ratings to be had by offering their TV shows on their websites.

Meanwhile, in Britain, the BBC's popular iPlayer application is the bane of internet service providers, as it allows Brits to download or stream their favorites TV shows to their computer within a month of their original airdate.

We may well exit this recession with full screen IPTV as a mainstream medium.

Expect the internet to look more and more like TV as this recession progresses.

The recession is slowing construction even in Asia, but digital technology just keeps advancing.

4. The death of analog media

We can expect to come out of this recession with no one under thirty buying newspapers in some countries, with analog TV stations weak and getting weaker, battling to reduce costs as their audiences shrink.

Employment in the US TV and newspaper industry fell to a 15 year low of 886,900 in December 2007*. It is likely to fall yet further in the recession, as digital media take over.

This recession will thus be about the death of media companies.

Plan to rethink your media planning dramatically during this recession.

5. Mobile computing goes mainstream

Mobile computing has been coming at us since 1997.

It's just that all its formats in the past have disappointed:

- WAP, the special online language that was going to revolutionize mobile phones in 2002 didn't deliver. Or as the young people who bought WAP-enabled phones put it, 'WAP is crap'.
- The 'walled gardens' of services created by mobile service providers in the early 2000s were great at only one thing: suppressing development of services by innovative third party providers.
- Japan's i-Mode worked well in Japan where NTT DoCoMo's leading position gave it critical mass. But it has been another story in Europe and other parts of the world.

Today though, people have more computing power in their pockets than they had on their desktop during the dotcom boom.

And with the arrival of Apple's iPhone, Google's Android and Nokia's OVI, the mobile interface is coming of age.

By the end of the recession, *the interfaces that matter will be mobile.*

6. Sharper targeting

At the moment, most loan communications go to people who don't need one.

Most mortgage communications go to people who are not thinking about buying a house.

Banks are still mass mailing customers with offers in the way they did before computers arrived in the 1970s.

During this recession, smarter targeting will come of age, as marketers shift over to smarter, better digital media, and it becomes the accepted face of marketing that any communication that lands on someone who is not likely to be receptive to it, is wasted.

Expect marketing communication to be much better targeted by the end of this recession.

In 1970, people thought of a computer as a machine that filled an entire room.

By the end of this recession, people will think of a computer as a small handheld device.

* Advertising Age, February 18th 2008

7. Location-based services
GPS chips now cost around a dollar, and are appearing in more and more new mobile phones.

Compasses and accelerometers are also being built in.

So soon, your phone will know where you are, and what you're looking at.

It should be a very powerful sales medium.

8. The growth of the Long Tail
Before the arrival of the internet, niche categories like world music didn't stand a chance because stores like Wal-Mart only stocked the top 100 CDs.

In the online era, stores like Amazon and iTunes can sell every type of niche music there is because they effectively have infinite shelf space. And indeed many online stores are now full of items that just didn't exist in the pre-online era.

It's a similar picture in services. All sorts of small businesses like media trainers and pet portrait painters are now prospering because they can find customers who need their services quickly, efficiently and very, very cheaply using pay per click ads on search engines.

We can therefore expect the *demassification* of tastes across all markets – from music and books through to financial services.

Expect to sell less of your hit products from the noughties *and more niche products in coming years.*

QR codes - which allow mobile phones to read printed materials - are everywhere in Japan.

They could unleash a new wave of marketing productivity in the West too.

8. A lack of imagination
The digital revolution is moving so fast that mankind often struggles to keep up with it:

- When computers became faster and better in the early nineties, software companies didn't know what to do with the extra speed and storage capacities available to them. So their new software releases were just last year's software with a big multicolor launch screen added.
- When computers became faster again in the mid nineties, their makers marketed them as 'multimedia' computers. They had no idea quite what they would be used for, but 'multimedia' sounded sexy.
- Today, no one is quite sure why anyone needs a $2000 computer with a 3MHz chip and 4GB of RAM to write a letter, when you can get a small laptop that will run word processing, spreadsheets and presentations for only $400. So the industry are marketing the cheap laptops as 'netbooks' – positioning them for surfing the internet and little else.

During this recession, the capabilities of technology will move ahead of the collective imagination of the world's marketers once again.

Everyone needs now to start thinking different.

In Germany, where even Amazon has been known to pack a few gummi bears in with their books, a shop that sells nothing except gummi bears can survive.

In the rest of the world, such a Long Tail business would not be viable – apart from on the internet.

4. THE PHONE AND MONEY WILL MERGE

Today, 25 year-olds look at older generations and wonder how they managed to operate their social lives without a mobile phone:

- In the past, what happened if the bar your friends planned to meet up at was full? *Did you all have to go home and ring each other?*
- And what happened if your date went to the wrong restaurant? Did you have to *cancel and reschedule?*
- How did they remember what number to call? Did they have to *dial all those digits by hand?*
- How did they know whether to go to a party or not without *FaceBook, MySpace* or *A Small World* telling them in advance *who was going to be there?*
- How could a woman know whether a man was thinking of her all the time if she *couldn't text him fifty times a day?*
- What happened if a new boyfriend called your landline? *What if your father picked up?*
- Did people *really* use phone boxes? *People use them as toilets.*

In the UK, O2 text their customers to offer them first choice on concert tickets at their giant London venue.

Similarly, in five years' time, we may well find that young people can't understand how older generations managed their money without a mobile phone.

Disused payphones at Barcelona airport.

To use a payphone, you need to remember a phone number, and who does that any more?

The phone and money are merging

PayWave technology is already revolutionizing payment for small items in cities like London.

Mobile-to-mobile money transfer is already a big hit in India.

Airline tickets are already stored within mobile phones in Japan, Spain and Canada.

Over the next few years, the mobile phone will become a smart wallet that pays for things, transfers money, keeps track of your spending, and offers you smart analysis of what you've done and how to do it better.

And people will then wonder:

- In the past, did people have to carry large quantities of coins around with them to pay for newspapers, snacks, phone calls and taxis? *Didn't this make their pockets bulge?*
- How did people know whether they were paying a good price in the shop, without *price comparison websites* on their mobile phone?
- And what if they ran out of cash unexpectedly in the middle of the night on the far side of town? *How did they get home?*
- Before mobile phones kept a tally of how much you had spent via credit card, how did you know whether you were under or over budget? Did you only find out that you were spending too much money when your card hit its limit, and *wouldn't work any more?*

- How did people check their bank statements before mobile phones? Did they have to go home and *sit in front of a computer* to do it?

The new shape of the bank

Meanwhile, banks are already cutting all links with their customers apart from the phone.

Banks are encouraging their customers to drop their paper statements arguing that doing so cuts the risk of ID theft, and will save the planet.

Banks are also cutting paper based direct marketing to their customers, and replacing it with cheaper emails – read increasingly on mobile phones.

Mobile phones will impact every business on earth in the next decade.

Banks are also discouraging their customers to come into the branch for a chat – by shutting the branches.

As the mobile phone interface will replace the credit card, the debit card, visits to the ATM, bank statements and loan applications, it will not be seen as the new face of the bank.

It will *be* the bank.

5. CHANGES TO THE ZEITGEIST

Watch out.

When an expansion turns to bust, the fashions, attitudes and styles that accompanied the good times suddenly start to feel out of date. Consciously or unconsciously, people dump them, and replace them with expressions of a new, more sombre mood:

- The crash of 1929 put an end to the flappers, the minidress and the Charleston, and replaced them with the *decadence of jazz and art deco.*
- The recessions of 1973-5 killed off the sixties ethic of free love and peace and replaced them with *punks and skinheads.*
- The recession of 1980/1 didn't just destroy the shipbuilding and steel industries. *It killed disco.*
- The recession of the early nineties killed off eighties big hair, 'greed is good', and the radical socialist *'Prada Meinhof'* look.

- The recession of the dotcom era was not deep; but it put to an end the late 90s fixation with new business models and virtual businesses, and the belief that Main Street was about to collapse.

In the zeitgeist, recessions act as the end of a chapter, a full stop on what is cool and what is not.

Here's what's likely to happen this time:

1. Black is the new black

Bright, positive colors suddenly seem inappropriate as a country's GDP goes negative.

Black became the street color in the recessions of the early 1980s, and that of the early 1990s.

Expect people to start dressing darker in 2009.

2. Angry is the new mood

The recessions of the mid 1970s replaced the hippy love ethic with punk and new wave, new youth movements that reflected the fact that mass unemployment in Western economies hit youth hardest.

In 2009, expect the youth 'emo' trend to turn into something *angrier and darker.*

3. Ageing fashions die

Expect noughties fashions to become rapidly unfashionable as noughties women continue to wear them into their thirties and forties.

Low rise jeans can't be sexy if your mom wears them too.

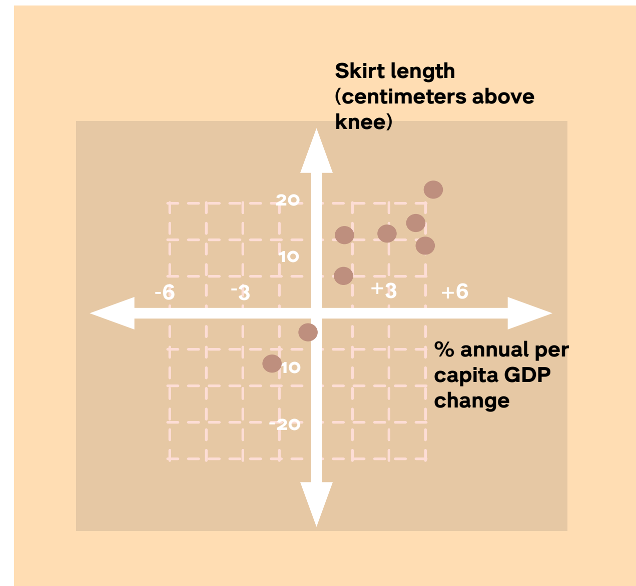
4. Unemployment becomes cool

Unemployment loses its stigma in recessions, as it becomes a mainstream lifestyle amongst young people.

Tattoos: in the 2010s, they'll be a mom thing.

Economists have always pointed out that skirt lengths fall in recessions.

In the recession of 1980, the cool bands had names like UB40 – UB40 being a UK government unemployment benefit form. In 1976, the Sex Pistols and others turned 'nihilism' and 'nowhere' into the *coolest places on Earth.*



Exploratory research demonstrates how skirt lengths increase as economies tank.

5. Viva la revolucion

The recession of 1990 saw the collapse of communism in central and Eastern Europe, and the end of socialism as a standard youth philosophy in Western Europe.

This time round, the recession is a direct consequence of a major failure of capitalism. And even mainstream commentators are now saying that capitalism is 'broken'.

Expect *radical socialist beliefs* to make a comeback amongst young people.

6. A new generation gap

By 2010, expect youth to be in active revolt against what they see as the capitalistic greed of older generations born in the 1970s and 1980s.

If you are over 25, prepare to lose touch with the sociopolitical preoccupations of the young, just as completely as 1970s parents failed to understand the youth appeal of Baader-Meinhof or of the Symbionese Liberation Army.

And expect a new generation gap to open up between those who tasted the riches of capitalism between 1993

The gloom that accompanies recessions can usher in a mood of decadence.

and 2007, and those who had to look for their first job in 2009 or later.

Lost money on your house?

Serves you right, *you filthy fascist speculator pig.*

If you're in your thirties in 2010, this may be how young people perceive you.

7. Green issues go on hold

Green was a major issue in the late 1980s. Germany in particular was concerned about the effect of acid rain on its forests.

The recession of 1990 killed this. Green took a back seat as consumers focussed on protecting their incomes and their families.

Local environmental issues, like smog here in Gurgaon, India will remain potent during the recession.

Environmentalism will just become less of an issue when someone is buying packaged goods in a supermarket.

Similarly in the dotcom recession of 2000.

In the late 90s, eco-friendly detergents were making inroads into laundry and dishwashing markets.

That recession erased their market shares.

In this recession too, it is already clear that green is sliding down the list of the consumer's priorities.

Expect the environment to take a backseat for a year or two if things get really bad.

8. In recessions, people like glitz

In the depression years of 1930 it was the extravagant Busby Berkeley dance spectaculars that captured the public imagination.

The recession of the early 80s, the top rating TV shows in America were Dynasty and Dallas, depicting the extravagances of the American super rich.

In the depths of recessionary 1990, the hit film was of a poor girl turned into a billionaire's wife, 'Pretty Woman'.

Expect unrealistic dreams of wealth to gain social currency in 2009.

9. Cheap and cheerful becomes big

Germany and Britain are countries with similar populations, similar lifestyles and similar incomes.

But when it comes to food shopping they could not be further apart.

In the UK, Tesco are fighting discounters by saying that they are discounters themselves.

Britons shop in stores stuffed with premium foods and quality merchandising.

Many Germans dismiss premium values in food, and seek the best bargains and the lowest prices.

The reason is that the frequent recessions in Germany in the period since reunification have driven people towards discount supermarkets.

Once there, they have bought into their philosophy of cheapness, economy and price-is-all. *And then they have adopted the same attitudes in other shops.*

The philosophies of Aldi and Lidl thus now dominate German shopping mentality. And whole categories have suffered commoditization, or as it's called in Germany, 'Aldisierung'.

A deep global recession will drive many people around the world into discount mentality.

The movie that captured the world's imagination in the gloom of 1933 wasn't about the Great Depression at all. It was about a giant ape who fell for a young New Yorker.

Expect entire product categories to become commoditized as a result.

10. The spirit of the age is defined

Expect the noughties mood to crystallize as the decade disappears over the next year, and for people to become increasingly nostalgic for the time when wearing white earbud headphones was trendy, and people had money, credit and prospects.

We often only recognize a zeitgeist as it passes.

6. THE BREAKING OF GENERATION Y

They'll get it in the neck.

The credit crunch has squeezed the incomes of the retired.

It has forced people in their 50s and 60s into delaying their retirements by years.

But the biggest impact of the credit crunch is likely to be amongst people in the 25 to 35 age group.*

- This was the generation who bought housing at the top of the market in 2006-7, and who have therefore seen the biggest collapse in their home's value. Having only saved up for a small deposit on their first home, or having taken out a 100% or even 125% mortgage in the easy credit culture of 2005-7, they are now nursing negative equity in bucketloads.
- This was the generation who grew up on easy credit, who discovered that a credit card was better than money, because if you played your cards right, you would never have to pay back the balance you spent. Until now, when credit card companies have started to steadily reduce their credit limits and policies. *Now it's payback time.*
- This is the generation who never learned to save, and who therefore do not have a cushion of money to fall

'My parents told me to save. They also told me not to go to bed with a guy on a first date and not to pop E's. I ignored all of it.'

Woman, 28,
Imperial Valley, California

* The term Generation Y first appeared in an Ad Age editorial in August 1993 to describe those teens born between 1974-1980. Its definition has blurred since then.

THE REALTOR'S PROGRESS

'The housing market was good to me in 2007, but it just dried up in 2008.

I had a $180,000 home loan on a $150,000 home to service, and $9,000 of debt on my credit cards.

I was at my wits' end.

Then my friend Samantha told me about an evening job she'd been doing working as a table dancer.

It was good money, she told me, and not hard work.

So I started, dancing in my panties in front of groups of drunken businessmen.

I was paid $20 a dance, and got to keep $10 of that.

Life was good.

But then I wanted more money.

I changed jobs to a quieter club, where I poledanced naked.

And then, a few weeks later it happened. I accepted $400 from a businessman to go back to his hotel and do anything he wanted.

I had turned from a realtor into a whore.'

SOURCE: Y&R ETHNOGRAPHICS

back on. Older adults always ensure that they have an 'emergency fund' of $20,000 / Euro 20,000 to fall back on in hard times. Younger adults have never seen the point of saving. *Now it's too late.*

- Younger business leaders have never seen how banks operate, offering businesses the umbrella of a credit line when the economy is sunny, then taking it away when it starts to rain. Many are in shock over what is happening to their businesses.

We can thus expect the credit crunch to hit them especially hard.

HOW TO LOSE YOUR LIFE SAVINGS

1: Use all your savings to put down a 10% deposit on a house.

2: Watch the value of your house decline by 10%.

3: You've done it.

Recessions impact younger consumers hard because they cannot believe how easy it is to lose all their money.

Low inflation will make it even worse

In the last house price crash of the early nineties, many countries had double digit inflation, and negative equity was rapidly eroded. Not so today. The 25-35 generation may be paying off their losses *for the rest of their lives.*

Broken

Here's how to handle them:

- Wait for them to accept for themselves that life from now on is going to be difficult. You don't want the anger of the dispossessed landing on you.
- Connect with their difficulties. A problem shared is a problem halved.
- Talk 'we' not 'me'. Recessions are all about 'we'.
- Focus on the problems they *can* solve. They may be deep in negative equity, but if they separate their long-term problems from their day-to-day life, they can still live well.

7. WHAT BRANDS NEED TO DO

24 actions that matter

The principles of marketing in a recession are very different to those that work in more prosperous times.

But they are not primarily about discounting.

In recessions, consumers are above all *anxious, confused and unhappy.*

Brands that recognise this can prosper:

1. **Offer certainty**

   In uncertain times, consumers cling to certainty.

   Most companies' brands struggle to project this, as they tend to take their eye off their customer in tough times, and focus on internal procedures like cost cutting. The brands that are a bit blurred around the edges then get blanked by consumers searching for confidence as they shop.

   Review your brand proposition to ensure it promises the certainty that confused and desperate consumers crave.

Nowhere on Earth is unaffected by this recession.

2. **Offer value, not low, low prices**
   Being a cut-price merchant doesn't save anyone from recessions, simply because every second rate brand heads for the bottom at exactly the same time.

   And in food, consumers don't switch to discount food brands in a recession. They switch to supermarket private label.

   In a recession, brands need to work out how to articulate their value proposition better, not just replace it with a starburst.

   Don't discount what made your brand great.

Recession also means sharpening up your offer, and being brutal about what works and what doesn't:

3. **Don't rely on habit**
   Habits get shaken up by recessions. The customers who are only buying your product this week because they bought it last week wake up.

   They review many of their buying decisions, and drop those that no longer make sense.

   Ensure your brand is being bought for reasons more than just habit.

4. **Don't be pointless**
   In recessions, people don't trade down.

   They just cut the pointless stuff out of their lives.

JUST WHEN YOU THOUGHT IT WAS SAFE TO GO BACK INTO THE WATER

Just when you thought financial calm was coming back to the world, here comes another source of global economic instability.

The major consumer brands that form up to a third of the stock value of major global companies are not worth as much as they, and their investors think they are. Consumers are simply tired of many big brands, and have lost the loyalties they once had.

The Brand Bubble threatens to be another source of instability on the global stage.

And this one is huge.

'The Brand Bubble' is a hardback Y&R book available from *amazon.com*

The aviation industry will emerge from this recession in a very different shape.

Brands with a strong proposition should emerge from the recession stronger.

If you're going to do a sale, put a bit of life into it, like this Danish retailer.

In recessions, brands should admit basic truths about themselves.

They cancel the gym memberships they haven't used since January.

They cut the ludicrously expensive bottle of wine.

Or the weekend break they're too rushed to really enjoy.

Make sure your brand is not a pointless purchase.

The world today is much more interlinked because of the internet and mobile phones. Watch for this:

Brands that articulate clear, compelling propositions have the edge in a recession.

5. **The destructive power of the internet**
   As prices fall in the recession, and consumers search for bargains, watch out.

   With Google, price comparison websites and eBay, consumers have better bargain-finding technology in this recession than in any recession in history.

   Watch your back.

6. **Watch word of mouth**
   In recessions, media budgets shrink, and the chatter of a brand's users becomes a more important part of its life.

   Bad word of mouth can kill a new film, software or music release within weeks.

   Bad reviews on Amazon, Expedia and other e-tail sites take a little longer to damage other brands.

   Make sure you monitor what's going on.

In a recession, people's fortunes vary. You may need to reconsider who you're targeting:

7. **Follow the money**
   There's not much sign of the recession in the foyer of Dubai's swanky new Hotel Atlantis Palm at the moment – simply because people with money problems don't visit the Hotel Atlantis Palm (or Dubai for that matter either)

   If you want to continue to sell to people with money during a recession, *look for where the people with money congregate.*

In a recession, look for where the people who still have money congregate, like at this exclusive shopping mall outside Moscow.

8. **Forget the reckless**
   In times of plenty, recklessness can be a virtue. In a rising market, the people who bet big end up with the biggest houses and the smartest cars.

   In times of recession, the reckless are the first to seek bankruptcy protection.

   As Warren Buffett once put it, when the tide goes out, you get to see who is swimming with no shorts on.

   Watch for this switch in fortunes within the people who buy your brand.

9. **Educate the next generation**
   Those who lost their money in 1929 did not regain it.

   The retirees who put all their money into tech stocks in 1999 never recovered it.

   The high spending consumers who reappear after recessions have different mentality – simply because they are different people.

A recession means it's time to educate a *new generation* about your services.

If things get bad, you may also need to reconsider what benefit you offer:

10. It's the rich that gets the pleasure

In rich Russian cities like Moscow and St. Petersburg, the benefit of a packet sauce mix is that it enhances the flavour and texture of the meat that you serve at dinner.

In a poorer Russian city like Vladivostok, the only meat people can afford is close to being rotten, so the benefit of a packet sauce mix is that it *takes away the smell.*

Use qualitative research to check the real reasons why people are using your brand in difficult times.

11. Consider de-segmenting your market

In times of plenty, marketers segment markets, splitting detergents into hair shampoos and laundry powders, and breakfast cereals into fun ones for children, and healthy ones for people aged 40+.

When times are tough, innovative brands can go the other way.

In the Russian financial meltdown of 1998, discount laundry detergent brand Myth pointed out to its consumers that it could *also clean bathrooms and kitchens.*

12. Watch for overstretch

Companies that overstretch themselves financially disappear in recessions. The same is true of brands.

The fact that you extended your dessert into garlic

DO YOU DISAGREE WITH THIS BOOK?

Search for 'AAAGH' on Facebook and leave your comment. (or become a fan.)

In recessions, your media budget goes further if you don't follow the crowd.

and blueberry flavour may not matter in good times, but in a recession, the dead units sitting on retailers' shelves stop them ordering new stock of the regular version, and end up killing the brand.

Has your brand overextended itself? Y&R's BrandAsset Valuator measures 38000 brands across the world in exactly the same way.

It allows you to see how a brand would look projected into the same market in another country, or into a different market.

Ask to see Y&R's brandstretch tool presentation.

The shape of markets also changes in recessions. They become less about benefit segments and more about price segments:

13. Think in terms of price layers

People don't automatically buy the cheapest thing in a recession. They are just more conscious of price and value.

Alfred Sloan built General Motors during the Great Depression by segmenting the car market into six discrete price segments, one above the other, and launching brands to match.

His 'car for every pocket' strategy allowed General Motors to seize leadership of the US car market during the 1930s.

Recessions can be interesting times for service companies:

14. Get people to try your service

Services can offer better service in recessions. If you run a restaurant, service is better, because

Sales of lipstick and other small luxuries go up in recessions.

Talk only to the right people, and only at the right time.

the staff have fewer customers to serve, and therefore more time to serve them. The staff are also likely to be nicer to the customers in a recession because they don't want to lose their jobs. Recessions are therefore *the ideal time to ask people to try your service for the first time.*

15. **Promise better service**
    You also get nicer rooms in hotels in recessions. And better tables at restaurants. And more space on airlines. Services can therefore *promise customers better benefits* in recessions.

    Services can even turn adverse trading conditions into a benefit. As a struggling car rental company said in the 1960s, *'Come with us – the line at our counter is shorter.'*

16. **Do flash sales**
    If you're a retailer, flash sales – sales lasting for 24 hours or less – are much less expensive than a traditional sale, because it only lasts for 24 hours.

    It's also easy to do, using modern computerized sales and payment systems. Flash sales create a large amount of buzz for your brand, and the buzz lasts beyond the end of the sale. Apple Stores have found them very effective as a way of attracting consumer attention.

Your relationship with your competitors changes in a recession, and things become less about creating the future of the market, and more of a zero sum game:

17. **Watch out for tough new companies**
    'When the going gets tough', as Joe P. Kennedy, the

Economist Nikolai Kondratiev postulated that capitalism moves in waves sixty or seventy years long. The upswing and the downswing are so fundamental, you can't fight them.

Later economists called the downswing phase the *Kondratiev winter.*

Kondratiev's own personal winter started in 1932, when Stalin bought him a one-way ticket to Siberia.

man who liquidated all his assets in August 1929 after a shoeshine boy started to give him stock tips, once said, 'the tough get going'.

Google moved from being an unknown start up to being one of the world's largest companies during the tech bust of 2000-4.

Don't assume that just because your brand is cutting innovation in a recession that your competitors are.

Watch out for big moves by strong competitors.

18. **Wait for clearing time**

It isn't the recession that kills companies.

Bankruptcies peak in the recovery, when companies weakened by sales declines lose their compass.

Be ready to exploit the endgame.

Recessions are of course also a time for improving efficiencies:

19. **Think Spartan**

Things born in recessions are hardier and therefore survive better than things that are born in times of plenty.

If your brand was launched in a boomtime, it may make sense to re-engineer its finances in the depths of the recession, and keep the discipline afterwards.

It will emerge stronger as a result.

20. **Rethink the ways you use computers**

In the bust of the early nineties, companies cut secretaries and gave the computers to their executives instead.

Everyone else's strategy.

YOURS FOR ONLY $50,000

Later generations always puzzle how people could pay such high prices for an essentially worthless stock or commodity during a bubble.

But it never seems like that at the time.

During the Dutch tulip bubble of 1637, investors were paying 5500 guilders for a single bulb. (around 35 years' of an average citizen's income.)

But there was method in their madness.

The most expensive bulbs were infected with a virus that produced elegant mosaic-like patterns, but only on the petals of tulips grown directly from that bulb.

The owner of the best tulip bulbs effectively had a patent on a specific, extremely sought after style of tulip.

Similarly in 1929. A great many investors held on to their plummeting stocks because they believed that the new laws prohibiting alcohol would unleash a new wave of productivity in America.

Similarly in Spain in 2007. They kept building holiday homes, confident that a new generation of rich Russians would arrive to buy them.

Everyone needs hope.

Even people who realistically have none.

Just don't base your business plans on it.

And the generation of executives who never learned to use a computer disappeared.

Computers today are almost a thousand times as fast then they were then.

Work out how to use them better now.

21. Innovate and cut costs at the same time

It can be done.

The airsick bags on Irish low cost airline Ryanair double as photo-processing envelopes.

Virgin Atlantic have used their airsick bags to promote the virginpoker.com online betting site (to non U.S. bets) with the memorable line *'We don't want you to chuck in your hands.'*

In a recession, you may need to upgrade the impact of your communications to make up for a lower budget.

Y&R is an ideas company. We can help.

22. Get more ruthless on media efficiency

Try to talk only to the right people, and only at the right time.

Digital can help here.

23. Look more critically at your research

As America sank into the Great Depression, marketers focused more and more on practical promises of value and lower prices, because that's what consumers told them they wanted to hear.

Then in 1934, Y&R's George Gallup researched which ads consumers *actually noticed and read* - and found that the ones that cut through were all about emotion, dreams and positivity.

The Ryanair sickbag doubles as a photo processing envelope.

Similarly in 2008.

In focus groups, American consumers reported that they were gloomy, pragmatic and thinking about the negative side of life.

But when it came to the presidential election, the messages they actually responded to were ones of CHANGE and HOPE.

24. Recessions can be good for you

Finally, marketers need to recognize that recessions can be an opportunity as well as a challenge.

Recessions clear the stage, and let new ideas be seen.

All you need are the ideas.

At this agency, we are mindful of this.

Young and Rubicam entered the Great Depression as a small, bright hotshop.

It ended it the second biggest advertising agency in America.

8. SHOULD YOU CUT YOUR MARKETING BUDGET IN A RECESSION?

When recessions hit, advertising agencies roll out self-serving arguments imploring their clients not to cut their budgets.

We are no exception.

Let's be clear: the reason people cut marketing budgets in recessions is a *commercial* one – they don't have the money to spend.

But this is not a marketing reason.

From a marketing perspective, recessions are *ideal times for marketing persuasion:*

- In a recession, everyone questions their buying habits. The pool of potential users of your product or service is therefore *greater in a recession* than at any other point in the business cycle.
- In recessions, the price of media drops. Television advertising in some countries today in the credit crunch costs no more than it did in 1992. *Media money goes further in a recession.*
- In recessions, people cut their expenditure in bars and restaurants, and spend more time at home. What do they do at home? *They watch TV.* In a recession, there is *more consumer attention available to marketers.*
- Given little information about a market, most people gravitate towards the brand leader. The way they work out which brand is the leader is by identifying the one that shouts the loudest. Many of your competitors will be cutting their budgets in a recession. *Now is the most affordable time to assert leadership.*
- It's extraordinarily difficult to break habits in the good times. In good times, people are comfortable doing what they're doing, and who they are. Recessions shake them up, and challenge their value systems. Recessions are therefore a good time to ask people *to try out new ideas and new behaviors.*
- For many marketers, the point of advertising is to keep reminding their brand's users of the reason why they buy it. In a recession, users start to question all of their habitual buying decisions. This is when they need the reminders most. So a recession is *exactly the wrong time* to stop reminding them of why they use the product.
- Some people lose their jobs in recessions, but 90% of consumers don't. Many cut their spending though because of 'survivor syndrome' - they feel guilty that others lost their jobs and they didn't. *Cut through the guilt and it's business as usual.*
- Econometric analysis says that marketers who slash their budget in a recession suffer the effects in terms of sales for another three to four years. A decision to slash spending

Consumers spend recessions researching the big-ticket items they will buy at their end.

- in a recession has *long term negative implications* for your business.
- In recessions, many people trade down. But if the number of people trading down to your brand is greater than the number of people leaving your brand for the one below it, your sales will go *up*.
- Most consumers aren't *canceling* their purchase of a new TV or car in a recession, they are only *postponing* that decision. And they spend the recession making a *careful, considered buying decision* based on whatever information you – or your competitors – manage to put in front of them.
- It's disorganized no-hoper companies that go down in recessions. *Now is the time to take their customers from them.*
- Selling alcohol? Sales of alcohol go *up* in recessions.

For all these reasons, we don't believe in maintaining budgets during recessions.

We believe in *increasing* them.

Twenty-first century mankind cannot live without giant flat-panel TVs.

Eventually everyone who has delayed their purchase because of the recession will buy.

9. WHAT RETAIL BANKS NEED TO DO

It's time to reconnect.

In 2008, for the first time in living memory, consumers in Western Europe and North America had to question whether their money was safe in their bank.

The credit crisis has thus shaken most bank customers' confidence to the core.

As banking is built on confidence, the credit crunch has damaged banks' credibility as secure homes for consumers' savings, as smart advisors for their investments and more generally as institutions that can be trusted.

Here's how retail banks can rebuild what they once had:

The 1930s were characterized by long-term consumer anger against banks.

1. Keep communicating
If you're a bank, you've just given your customers the biggest scare of their lives. Banks depend on the confidence of their customers for their survival. Now is not the time to go all *shy and introverted* on them.

2. Recognize fear
'The only thing we have to fear', said Franklin Delano Roosevelt in his inaugural presidential address early in 1933, 'is fear itself.' Don't underestimate the power of

HOW TO CREATE A BUBBLE

Imagine you have a great new idea, and you tell your friend Dave about it.

Dave likes the idea, so you sell Dave a share in it.

Dave then enthuses Julie about the stock, and because the idea is now more popular, Julie pays Dave more for his share than Dave paid you for it.

Julie tells her friends about the idea, and looking at the rising popularity of the stock, they are willing to pay even more for it.

They tell their friends.

And so on.

Everyone makes money.

Except for the last person to hear.

Who buys a very expensive stock they can't find anyone to sell on to.

In a company that has never made anything.

This is roughly how the dotcom bubble happened.

fear in your dealings with distressed customers over coming years.

3. Deflect anger

Don't ignore the potential for serious anger amongst your customer base. Their anger is expressed against whoever first comes in their way – governments, bank officials, brands that don't quite get them. Make sure you are not in the way when the time comes. And if you are, work out a way of *deflecting the anger.*

4. Watch the tone

For similar reasons, be *careful with attitude* during this period.

The cynicism towards 'other people's money' visible within the banking industry can be a flashpoint to people who have lost their life's savings or more.

5. Keep fighting for hearts and minds

After the bank failures of 1929-31, Congress started asking bankers to testify to its committees, subjecting them to tough cross-questioning, hoping for a slip of the tongue or other good soundbite that they could feed back to their furious constituents.

The banker baiting continued until 1940.

If you are a financial institution, *now is not the time to drop your hearts and minds campaign.*

6. Reassure customers explicitly

During the downside of the crunch, online internet bank ING Direct put a direct link from their website to their Standard and Poor's credit rating.

This reassured their tens of millions of non-Dutch customers that it was safe to keep their savings in a foreign bank.

Banking may be vital to the global economy, but no one has to bank with a bank.

Similarly in the airline industry, NetJets reassured their customers in their late 2008 advertising that they were backed by Berkshire Hathaway.

In a financial crisis, you need to be *explicit* about the roots of your financial stability.

7. Rebuild relationships
Retail banks have destroyed their customer relationships mercilessly in the name of cost efficiency, pushing people who wanted to transact face to face to the ATM outside, then pushing them online and then cutting the paper statements.

The end result is lower costs – but also a customer who isn't sure which logo on the ATM he's being loyal to.

It's time to say hello to your customers again.

'I was so scared, I moved my money into Carrefour. You can imagine a bank going bust, but not Carrefour.'
Man, 35, France

8. Teach saving
Ten years ago, Americans saved around 8% of their monthly income. Today they save virtually nothing.

Young Americans in particular are a lost generation for saving.

They have lived their lives on a basis of easy credit, and the idea that they should store money for tomorrow is alien to them.

You need to re-teach the concept of saving.

'I always saved with the caja down the street. But I worry about their stability now.'
Woman, 30, Valladolid

9. Lower your sights
Deutsche Bank is currently running campaigns explaining how their refurbished Frankfurt HQ will be an ecological marvel.

In the recession, investor concerns are at a much lower level, about stability and security.

Don't communicate thousands of metres above your target's heads.

Hospitals across the world report increasing levels of financially related stress and mental illness amongst their patients. For many people, the pressure is intense.

10. Upgrade your online presence
The recession will push more people to *online services*, in search of better products at lower costs. Banks have spent billions allowing consumers to transact online, without them having to come into a branch. But therein lies the problem. The online interfaces allow them to transact, but they are clumsy at selling them further opportunities.

Drag yourself out of the 1990s and upgrade your online interfaces now.

11. Watch out for supermarkets
Research shows that people trusted their supermarket more than they did their bank even before the credit crunch hit. Supermarkets like Carrefour and Tesco are using this trust to launch consumer-friendly financial services.

Banking may be vital to the world economy.

But no one has to bank with a bank.

12. In worst case scenarios, consider rebranding
No airline wants an ad for the safety standards of their fleet on prime time across the world.

So when a plane crashes, rule one of the airline crisis

management book is to paint the logo off the tailfin, or to cut the tailfin off the plane.

Similarly with many of the institutions that needed propping up in the credit crunch.

It may be time for a rebrand.

Especially if your brand name starts with 'ice'.

10. SELLING INVESTMENTS IN A COLD CLIMATE

It won't be easy.

Retail investors have herd instincts: they like to hear that their friends are investing in a new asset class before they do it themselves, and they need constant reassurance from a market that their investment is performing well.

Which is sad.

Because it means that retail investors tend to invest when markets are high, and to pull out when markets are low.

Companies selling investments need to recognize this behavior and counter it.

- They should recognise that at the moment it's *not business as usual.*

  It took twenty years for normal financial mentality to return to the U.S. after the Great Depression. Don't expect things to back to normal in 2010.

- It's important to recognize that customers **do not articulate their true concerns** in such difficult

'It's not a crash. It's just the free market relieving the ageing baby boomers of their massive investment stash, whilst leaving the real economy alone.'

Blogger, September 2008

HOW BAD CAN IT GET?

There's a famous Great Depression picture called 'Migrant Mother' showing a mother and her two children in a transit camp on their way from Oklahoma to California in the 1930s.

The mother in the picture is dressed in rags.

Her face is deeply lined.

She looks about fifty.

She told the photographer she was thirty-two.

She couldn't leave the camp.

Because she had just sold the tires on her car for food.

And she and her children had survived the day by eating birds they had caught in the fields.

Yes.

It can get a lot worse.

circumstances. You may believe that your customers are happy because you've sent them all a letter saying that it is a bad idea to sell mutual fund units in a collapsed market, but that's not the way they see it.

If they've lost a year's income, that hurts.

- They should also **re-explain the basics:** Investing in the stock market had been out of favor for a generation in the 1950s, after the Great Depression and World War Two. So Merrill Lynch ran small space ads in newspapers explaining how stocks and bonds worked, aimed at ordinary people who were looking for a better return on their savings.

  In 2009, square one is a good place to start again.

- You should also **reduce complexity:** Many products from financial companies are far too complex for ordinary customers. They struggle to work out whether a particular offer is good or bad.

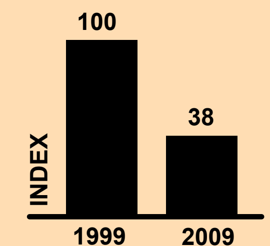
  'Don't force them to think' is a good maxim.

- It also pays to **keep innovating:** John Bogle started the Vanguard Group in the recession of 1975 and placed the concept of index-tracking passive investment in the American mind shortly afterwards. Charles Schwab started offering discount commissions on stockbroking the same year.

- Consider offering **greater education** to customers and potential customers on the products you sell. Most investors will *pretend* in focus groups that they have a clear appreciation of active versus passive investment strategies – until you ask them to explain the difference. The reality is more likely to be that they are investing in Far Eastern funds because they went on holiday to Thailand once and liked it.

A STELLAR 10 YEAR PERFORMANCE

Value of one mutual fund unit, less annual management charges, dividends reinvested



If your mutual fund looks like this, you need new thinking on how to communicate with investors.

And you need it fast.

HOW TO LOSE A FORTUNE

(This is roughly how a rogue trader bankrupted Britain's Barings Bank in 1995)

Bet someone a dollar that a coin will come up heads.

If it does, you win a dollar.

If you lose, proposing doubling the stakes and playing again.

This time, if you win, you win two dollars, more than making up for the dollar you lost last time.

And if you lose again, propose doubling the stakes again to $4.

This time, if you win, you win $4, more than compensating for the $3 you lost in the previous two rounds.

If you lose, just propose doubling the stakes again to $8.

As long as you keep playing until you at last get a head, you never lose money.

It sounds like a great game.

The only problem is that there is a small but finite chance that you will keep getting tails.

And unless you have infinite money, you can't keep doubling forever.

If you get twenty tails in a row, you will have lost *over half a million dollars.*

Recessions shouldn't stop your innovation funnel.

- Finally**, don't demand too much numeracy:** It comes as a surprise to most people that if a stock rises by one hundred percent and then falls by fifty percent, they have not made any money.

11. NIGHT, JIM BOB

Alan Greenspan, former chairman of the Federal Reserve, said he was in a state of shocked disbelief over the events of the credit crunch in 2008.

He should not have been.

Mankind has always had a huge ability to self-destruct, and this has been visible in all previous economic crises.

'Man is the only kind of varmint,' wrote John Steinbeck about the banks during the Great Depression, 'who sets his own trap, baits it and then steps in it'.

This time, the banking industry got caught out because it had created financial instruments too complicated for its own people to follow.

Thanks to the rapid progress of the computer industry, our ability to create financial instruments of mind-boggling complexity doubles every eighteen months.

It's clear that with modern financial instruments, we do not need global thermonuclear war if we wish to destroy our civilization.

And that as the world economy is now one, these instruments will leave no nation or society alone.

Think positive: labour shortages after the Black Death allowed the peasants who survived it to demand 10% higher wages.

There are 72 trillion dollars of credit default obligations out there. The GDP of the United States is only 14 trillion dollars. It's clear that this bubble came close, very close to breaking our financial system.

But what if this were to happen?

Back in 1900, there were two billion humans on the planet. Today there are seven billion.

No nation on the planet has the ability to feed its people without the constructs of 21st century commerce.

And without food, mankind is only two days away from barbarism.

The Romans built a strong, stable, values driven society, then saw it collapse.

So did the Greeks.

And the Khmers, the Moghuls and the Mayans.

Our mission is not just to stabilize house prices.

It must be to ensure that our prosperity, liberty, indeed our civilization itself does not perish from the earth.

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