The Value of Increasing Investment in Employee Benefits during an Economic Downturn

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Whether the U.S. economy is in the middle of a recession, not in a recession, or on the verge of a recession is a subject of much debate. One thing is certain, however. Businesses are cutting back and are reluctant to spend. And so are their employees. From sky-high fuel prices to the mortgage crisis to continually increasing health care insurance premiums, employers and employees alike are in a spend-less mode. For most businesses, that translates into pulling back on discretionary spending. Typically, one of the first line items to go is advertising. According to a recent study by MarketingSherpa, 60% of large companies are cutting marketing budgets in 2008 (Figure 1).[1]

Seasoned professionals in advertising agencies who have weathered more than one economic downturn recognize the pattern. Americans have weathered nine recessions since World War II. Advertisers who increased marketing spending during these periods of economic uncertainty ultimately came out ahead of the competition—in most cases, way ahead.

A McGraw-Hill study conducted following the 1981-1982 recession showed that industrial companies that increased investment in marketing and advertising posted average revenue gains 40% greater than noninvestors during the period from 1980 to 1985. More impressive yet, investor companies saw 275% growth while firms that cut ad spending grew sales only 19% during the same period.[2]

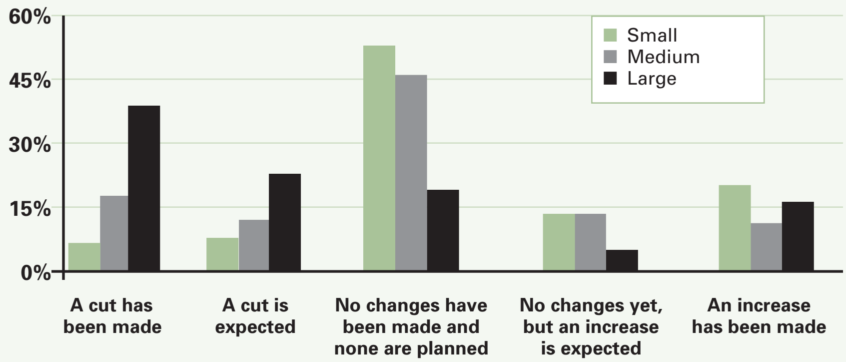
Why does this counterintuitive strategy (times are tough/spend more) consistently work so well? Three reasons in particular account for the advantage:

1. *Competitors cut spending too, giving advertisers more "share of mind" opportunity.* With less clutter in the advertising marketplace, each message stands out more and can communicate more clearly. Maintaining top-of-mind awareness even when consumers aren't spending positions a company to reap the benefits of pent-up demand once finances improve. Businesses that drop out of the market must spend more to get back to their previous level of awareness. All of which takes time—and considerable money. Sales will lag behind companies that continued to invest in their marketing programs.
2. *Every downturn creates new opportunities.* Along the lines of "every cloud has a silver lining," there are advantages to a bad economy. The business landscape changes, companies leave the market, consumers have new concerns, and businesses are motivated to come up with innovative new products to stimulate sales. The iPod, Crest Whitestrips, Axe body spray, and fast-food value menus are all winning products that were introduced and marketed during down cycles, according to *AdAge*.[3] Market research helps innovative companies keep a finger on the pulse of consumer desires and focus on efforts to fulfill them.
3. *There is always a place for excellence.* During the worst financial times, people continue to eat, build homes, plan for their futures, clothe themselves, buy cars, and educate their children. Companies that survive and even thrive in recessions do so by focusing on areas that consumers continue to spend on, making offerings more enticing. The economy is a good barometer for gauging the quality of product

FIGURE 1

Downturn-Related Changes to Marketing Budget by Company Size

"Has your organization made specific changes to the marketing budget in response to the economy?"



Source: MarketingSherpa, Economic Downturn and Marketing Survey, March 2008.
Methodology: Fielded Feb. 24-March 3, N=407.

offerings. Advertising that continues through bad times helps remind consumers about the best resources for their now more-limited funds.

Study after study proves advertising during a recession will reward companies that are savvy enough to do so. What does this all mean to employee benefit advisors and consultants?

Recession Means Less Spending on Health Care Benefits

Just as companies cut advertising budgets during a recession, they also tend to reduce employee benefits, or at least not add new ones. A moratorium on raises, few or no bonuses, and more required employee contributions to health care premiums are ways corporate America is tightening its economic belt. But short-term savings may spell long-term losses. Companies that continue to invest in better benefits during a downtime, like companies that continue to invest in their advertising programs, will be in a better competitive position when the economy inevitably rebounds.

Investing in "human capital" is what keeps a business healthy. Competition for top executives and experienced people is at a premium. Though U.S. employers cut 63,000 jobs in February of 2008 (the most in five years), at the same time close to half of American companies are instituting programs to develop and retain talented employees.[4] According to an article in *Talent Management,* more than 40% of organizations say they are considering or already implementing initiatives such as new employee sourcing programs, building pipelines of high-value candidates, and maintaining high levels of employee engagement.[5] None of that can happen unless a company invests time and effort in creating employee-desired benefits.

According to the June 2006 *McKinsey Quarterly,* 46% of executives believe employee benefits help attract and retain quality employees and that benefits are important to staying competitive.[6] Apparently, they are correct. Employee benefits—and specifically, health insurance benefits—are the number one factor in both attracting top employees and having them stay with the company. Princeton Survey Research Associates for the Center for State & Local Government Excellence asked workers to rank their top 10 factors that influence their selection of a new job.[7] Compensation ranked lowest (number 10) below job security, chance for advancement, and a creative and stimulating work environment. Number one on the list was health insurance. Once employed, health insurance, along with other employee benefits, becomes even more significant in helping companies retain current workers, reducing training costs and interruptions in productivity. MetLife's "6th Annual Study of Employee Benefit Trends" shows that nearly half of employees (45%) say benefits are an important reason to stay on the job versus just 33% who thought so last year.[8]

Just like advertisers who invest more heavily in marketing during recessions, businesses that invest more in employee benefits during times of economic distress will see that investment pay off in profits. The economic advantage is not only realized in saving money by paying less in training and recruiting costs; it actually makes money for the firm. Having happier employees—through better and more creative benefits—is good business. David Ulrich, professor of business at the University of Michigan, has found that companies that have seen an average 10% increase in positive employee attitudes experience an average 4% increase in sales, leading to an average 2% increase in investor returns.[9]

Three Reasons to Invest More in Employee Benefits Now

The three reasons for companies thriving when they invest more in advertising during a recession also apply to companies that invest more in employee benefits:

1. *Other companies cut back on new benefits giving benefit investors a competitive advantage in attracting a better workforce.* Even if a business is not currently hiring (or is perhaps even laying off), being known for quality of benefits positions the company in the minds of potential staff as an "employer of choice." When the economy turns, recruiting top picks will be easier. While times are still tough, competitors are not as likely to lure away top workers. Reputation as a company that cares about its employees should be maintained in both good times and bad.
2. *Economic downturns present new opportunities for creative solutions.* Creating happier employees and providing desirable employee benefits doesn't have to be an expensive proposition. Innovative approaches can yield high returns for smaller dollars. Challenger, Gray & Christmas, a Chicago outplacement firm, commissioned a national survey on what it calls "recession perks."[10] These items, services, and policies build loyalty, encourage teamwork, and generally are designed to make an employee's work/life balance more

appealing. Whether stocking the communal fridge, allowing employees to use the company mailroom, or having on-site access to exercise classes or massages, creative employee benefits help develop loyalty.

3. *Excellence is rewarded.* Companies that provide the kind of benefits employees value are companies that succeed in the long term. What those benefits are varies from company to company and region to region, of course. Taking another page from the marketing textbook, firms would be wise to do some basic market research. Simply surveying employees can help establish just what benefits are more important—perhaps finding that the cost of the benefit doesn't necessarily relate to how much it is appreciated. Many firms discover that vision plans are a "high satisfaction" benefit with a very low employer cost.[11] The McKinsey survey indicates that many companies simply don't understand what employees want in a benefit program. Yet the data suggests that when preferences are understood, the company can realize excellent returns on a minimal additional investment in benefits.

In recessionary times when employee contribution to health plans is increasing, finding out what benefits are most appreciated may result in finding high-value, low-cost benefits that go a long way in improving both employee happiness, morale, feelings of job security, and ultimately, productivity. There is always a market for talented people, even in a slow economy, and a company keeps its competitive advantage by keeping excellent employees.

In a Recession, Employees Are Worried about Keeping a Job. In Reality, Jobs Should Be Worried about Keeping Employees.

A shortage of skilled and talented workers has become the central concern among U.S. employers, surpassing even the rising cost of health care. According to the "14th Annual Top Five Total Rewards Priorities Survey" conducted by Deloitte Consulting LLP and the International Society of Certified Employee Benefit Specialists, nearly three-quarters of human resources professionals surveyed are worried about the challenge of finding, training, and keeping good employees.[12]

In this election year, companies not only have to deal with an economic downturn but also uncertainty about what the future of health care holds. Health insurance is one issue all parties agree upon. What will be done remains to be seen. Virtually everyone (nine out of ten) believes health care costs are too high. Nearly as many (66%) think it is going to be necessary for the federal government to get involved. Almost no one (17%) thinks reform is at all likely.[13] That kind of uncertainty leads at best to inaction and at worst to cutting investment in employee benefits at the exact moment that they actually may be most important. ■

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Abstract
Just like advertisers who invest more heavily in marketing during recessions, businesses that invest more in employee benefits during times of economic distress will see that investment pay off in profits. This is because competitors cut back on new benefits, giving a competitive advantage to those who stay the course or find new and better ways to attract a workforce. In addition, economic downturns present new opportunities for creative solutions.