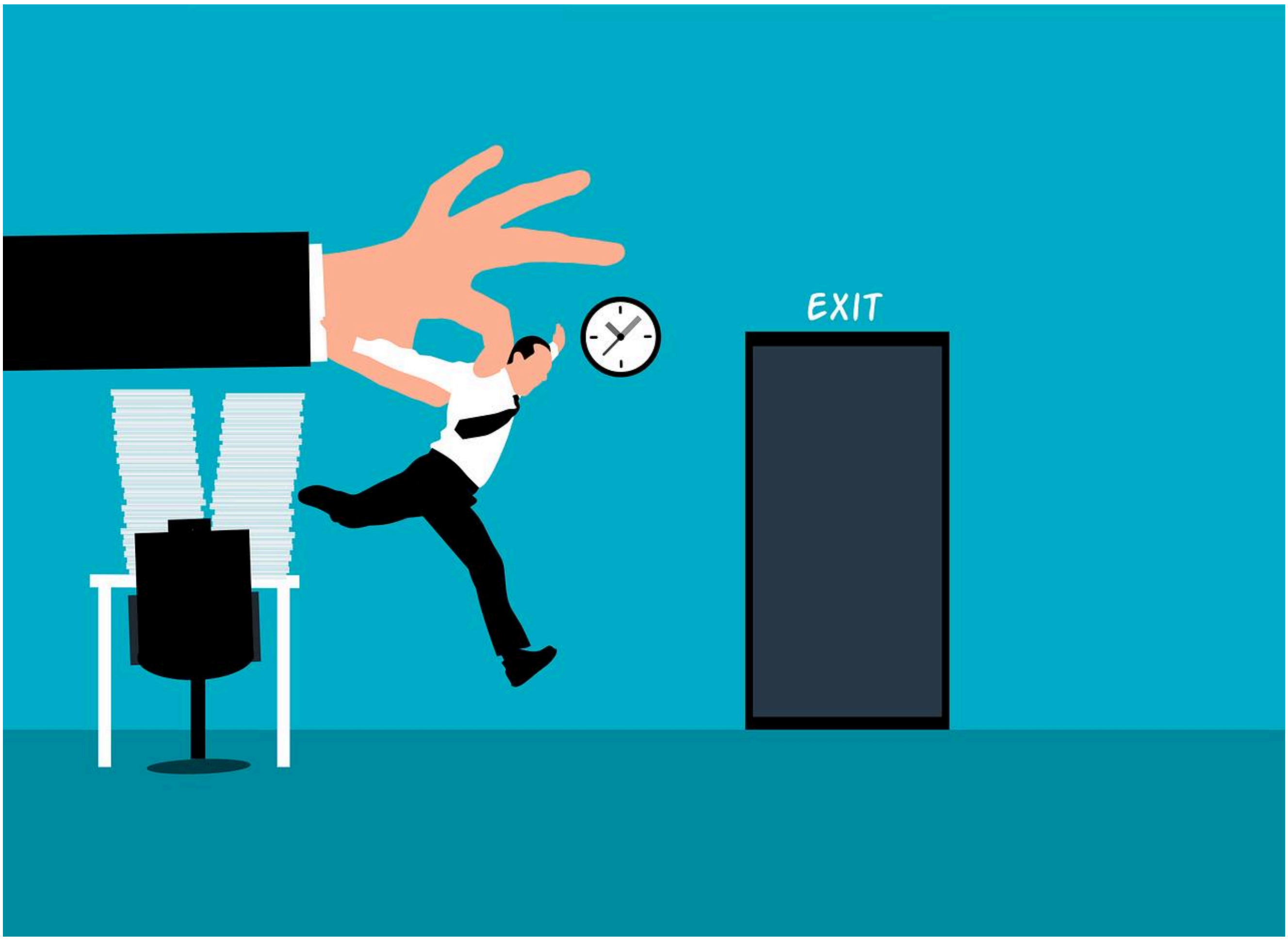
Yes, layoffs are bad for your brand

While many companies are considering or already implementing mass layoffs as a result of the current global economic crisis, research finds the negative impact on a brand can be serious. Time to check in with the marketing department.



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- **Downsizing can reduce payroll expenses, but companies pay the price elsewhere.**
- **In a study spanning nine countries over 15 years, car brands associated with layoff announcements saw sales drop an average of 8.7% below predicted levels (that is, controlling for other factors, like having fewer employees).**
- **To better anticipate the commercial consequences of workforce reductions, marketing executives could be included on restructuring task forces.**

Mass layoffs are common in Western society. Downsizing or "rightsizing" is typically seen as a way to reduce payroll costs and improve efficiency, although it obviously comes at a price -- often financial, health-based and psychological -- for employees, both those who stay and those who go.

But the costs go further than that, new research suggests. Collective layoffs aren't just bad for morale; they come with commercial consequences, too.

Vardit Landsman and Stefan Stremersch, both professors of marketing, set themselves the task of quantifying that damage. In a study of 205 collective layoff announcements in nine major markets for the automotive industry, they identified a decrease in sales of 8.7% compared to predicted levels for car brands. That is to say, Landsman and Stremersch control for various factors, such as a drop in production, to isolate the commercial consequences of the layoff announcements.

Digging into the data, the coauthors report that advertising elasticity (the responsiveness of demand to advertising campaigns) fell 9.8%, while price elasticity (the responsiveness of demand to price) rose 19.2% after the layoff announcement. So, even while consumers turn away from a brand, advertising becomes less likely to reach them and prices might need to be lowered to woo them back.

Collective layoffs: where marketers need to be, and what they need to know

Large-scale layoffs tend to be reported in the media in the countries affected, so the general public is likely to be aware of them. The news may influence public perception of a brand in two ways:

- Clients may sympathize with the affected workers, and therefore see the firm as unlikeable, or untrustworthy -- impressions marketing will have to work hard to contradict.
- Cost-cutting can undermine how customers see the longevity and quality of the firm.

Given that two out of three layoff announcements in the study were followed by a drop in sales in the country where the layoffs occurred, and given that the role of advertising in reversing such trends is complex, Landsman and Stremersch argue that marketing managers should be included in the task forces that manage layoffs, alongside their colleagues in finance and operations. Likewise, any decision to downsize needs to take marketing into account.

On the bottom line, layoffs have the potential to affect all layers of a company. Firms should think carefully about the can of worms they are potentially opening, and keep marketing executives nearby to help deal with any fallout.

Methodology, very briefly

The study combined and analyzed four unique secondary data sets, regarding unit sales and list prices for 20 major automotive brands from 2000-2015 in nine countries (Austria, Canada, France, Germany, Italy, Japan, Spain, the United Kingdom and the United States). The 205 collective layoffs studied affected more than 300,000 employees.

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