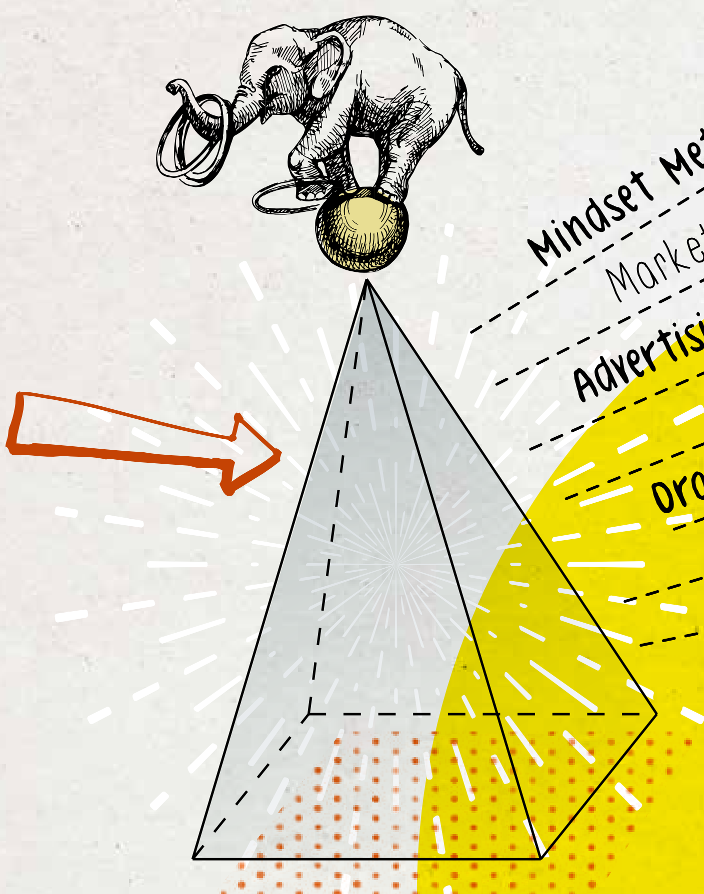
GfK Marketing Intelligence Review

FROM ACADEMIC RESEARCH TO PRACTICAL USE

Truly accountable Marketing



Mindset Metrics
Marketing and Finance

Advertising ROI
From Metrics to Action

Organic Growth
Synergies
Long-term Effects

Vol. 7 / No. 1 / 2015

Editorial

Each new year gives us new ways to understand and reach customers: website optimization, paid search, mobile and location-based applications, targeted product placement, affiliate website marketing, re-targeting and native advertising. It is vital for managers to make sense of these choices, reach accurate insights on their effectiveness and improve marketing decisions to achieve better results. In this environment, the benefits of applying marketing analytics are enormous and companies that handle feedback data skillfully are more successful than those that do not.

In this special issue we have collected evidence of this as well as guidelines for choosing the right metrics and implementing results successfully. Join us on this journey through a landscape formed by data, measurements, metrics, models and analytics to experience what truly accountable marketing looks like. You will learn how it does not extinguish innovation and creativity but instead helps managers take smarter risks for better results.

Yours,
Koen Pauwels
Editor

Istanbul, December 2014

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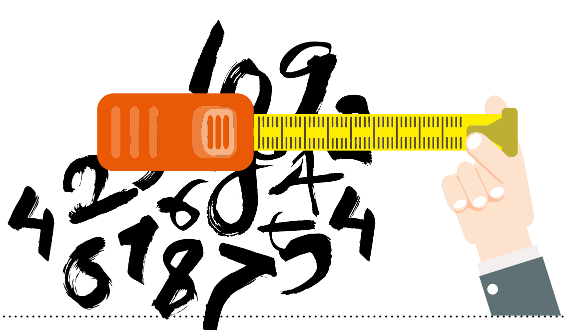

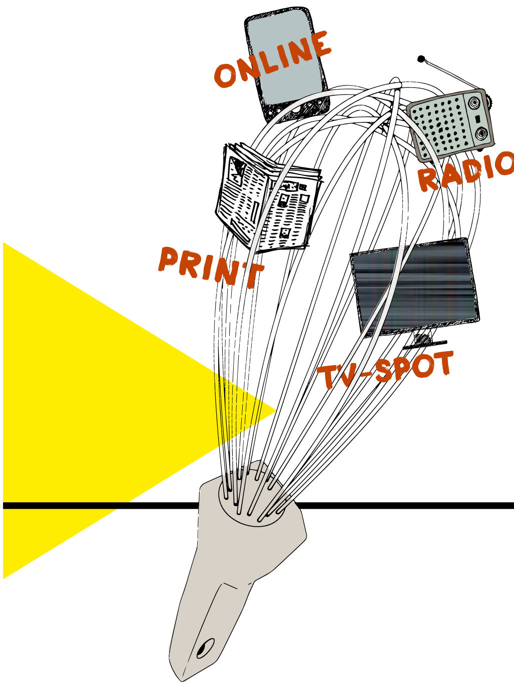
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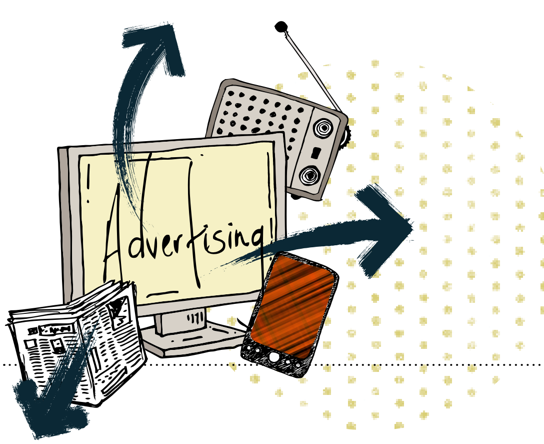
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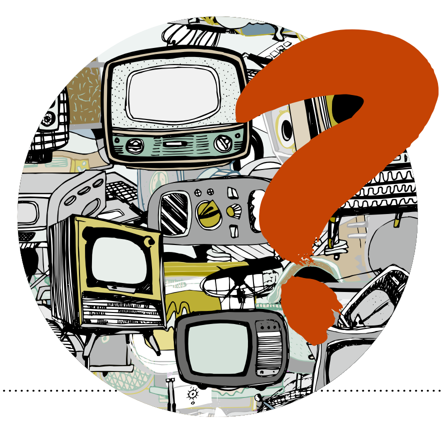


Editors

EDITOR IN CHIEF

Koen Pauwels,

Professor of Marketing at Ozyegin University, Istanbul, Turkey

koen.pauwels@ozyegin.edu.tr

MANAGING EDITOR

Dr. Christine Kittinger-Rosanelli,

GfK Marketing Intelligence Review

christine.kittinger@gfk-verein.org

ABOUT KOEN PAUWELS

Koen Pauwels is Professor of Marketing at Ozyegin University, Istanbul, and Honorary Professor at the University of Groningen. He received his Ph.D. from the University of California, Los Angeles, where he was chosen as one of the "Top 100 Inspirational Alumni" out of 37,000 UCLA graduates. Koen Pauwels is the Associate Editor of the International Journal of Research in Marketing and has received highly prestigious marketing awards for more than 30 publications in top-tier journals. Based on his work with companies across three continents, Koen has just published his first book:

It's not the Size of the Data, It's How You Use it: Smarter Marketing with Analytics and Dashboards.

Advisory Board

Truly Accountable Marketing: The Right Metrics for the Right Results

Koen Pauwels

KEYWORDS

Marketing Accountability, Marketing Metrics, KPI, Marketing Measurement

THE AUTHOR

Koen Pauwels,
Professor of Marketing at Ozyegin University, Istanbul, Turkey
koen.pauwels@ozyegin.edu.tr

A recent study by researchers Germann, Lilien and Rangaswamy showed that companies who deploy marketing analytics obtain 21 % more Return on Assets (ROA) in competitive industries. Unfortunately, few companies appear able to deliver on this promise. In the absence of smarter organic growth, they tend to focus on mergers and acquisitions, which yield high risk and questionable returns (as detailed in Donald Lehmann's article, p. 16). Marketing accountability is essential for sustained organic growth, but the challenges to it loom large. In my experience across categories and continents, the major steps in truly accountable marketing include defining the right results, using the right metrics and finally acting on the collected insights. As Peter Drucker put it back in 1967, "The question we must ask is not, 'How many figures can I get?' but 'What figures do I need? In what form? When and how?' We must refuse to look at anything else."

The right results: tailoring dashboards and using financial terms correctly /// The right metrics start with defining the right results: Which informed decision needs to be made? Managers are frustrated by the gap between the promise and the practice of effect measurement, between big data and online/off-line integration. In their March 2013 article, McKinsey experts share that many companies skip the step of generating a "plan for how data, analytics, frontline tools, and people come together to create business value. The power of a plan is that it provides a common language allowing senior executives, technology professionals, data scientists, and managers to discuss where the greatest returns will come from and, more [importantly], to select the two or three places to get started."

Different companies have different plans depending on which decisions need to be informed by data and at which level. Figures 1 and 2 illustrate the analytic dashboard structures used for a major car manufacturer in the U.S. and a midsized business-to-business reseller in Europe, respectively.

For the U.S. car manufacturer, the marketing decision involved trade-offs among profit objectives, product development, price, distribution and marketing communication in the annual budgeting cycle. For that decision-making process, the simple scroll bar in Figure 1 provided an overview of these trade-offs and thus allowed more fruitful negotiation and decision. Slide bars allow for displaying many decision variables at the same time and allow the user to investigate the projected profit impact of small and large changes. In this particular case, managers successfully argued that next year's profit targets were highly unlikely given the older product age and negotiated a higher marketing communication budget to compensate for this gap.

In contrast, the midsized business-to-business reseller was more interested in allocating euros to off-line and online marketing actions with the aim of accelerating short-term profits. As a result, its dashboard focuses on marketing communication channels. The decision-maker can change any of the marketing actions and observe the projected profit impact over time. This is important when marketing actions have vastly different wear-in times. For example, faxes worked immediately, but flyers (direct mail) took many periods before resulting in a sale. Moreover, the decision-maker cared about obtaining results at specific times, such as reaching quotas by quarter's end. The analytic dashboard tool in Figure 2 helped the decision-maker reach a decision that actually yielded ***14 times*** higher profits, as detailed in the Practice Prize Video of the Marketing Science Journal.

» Different companies have different plans depending on which decisions need to be informed by data and at which level. «

The right results are also a key to ***online effectiveness***. A European online retailer did not trust the results of last-click attribution, because managers felt that content-integrated actions like banner ads on an affiliate website brought in better customers than content-separated actions like re-targeting. Our analysis indeed found that both types of ads were equally effective in getting web surfers to the online retailer, but those who came in with content-integrated ads were much more likely to ultimately make a purchase. While management intuition was thus correct in ***how*** their budget allocation should change, they still needed the analytics to show them ***how much*** the optimal allocation differed from the current allocation.

Importantly, the right results are measures that work for both marketing and finance. Marketing jargon alone does not suffice; it is crucial to ultimately link budget and budget allocation decisions to company profits as seen in Figures 1 and 2. In his article here, David Reibstein details how to link marketing with the bottom line (p. 22).

The right metrics: slow-moving attitudes and fast online action /// Beyond one's own and one's competitor's marketing and "hard" performance metrics, such as sales and profits, the right metrics often include customer "attitudes": their thoughts and feelings about brands. Our interview with Nicholas Chesterton from Unilever demonstrates how important these metrics are and how Unilever discovered their value in econometric models (p. 48). As detailed in my book (see Further Reading), we can test which of these attitude metrics are leading key performance indicators and which drive hard performance over time. Shuba Srinivasan eloquently explains in her article on mind-set metrics (p. 28) how we can quantify the relation between marketing, customer attitude metrics and the bottom line. As shown in her Figure 1 (p. 31), marketing can both leverage brand attitudes into profits (the "transactions" route) or invest in building stronger brands (the "mind-set route"). A similar line is taken in our GfK research article (p. 54), in which Raimund Wildner and Guido Modenbach also present a solution for integrating slow-moving factors like loyalty into a model to determine the long-term ROI of advertising. In their analysis, two-thirds of brands obtained a sales revenue lift greater than the cost of advertising.

FIGURE 1:

Slide bar dashboard structure for large car manufacturer

By changing the levels of the marketing variables, see how profits change:

Profits 5.00

MARKET VARIABLES

Product age (months)	24
Price	30
TV ads	1,381
Online ads	198
Distribution share	20

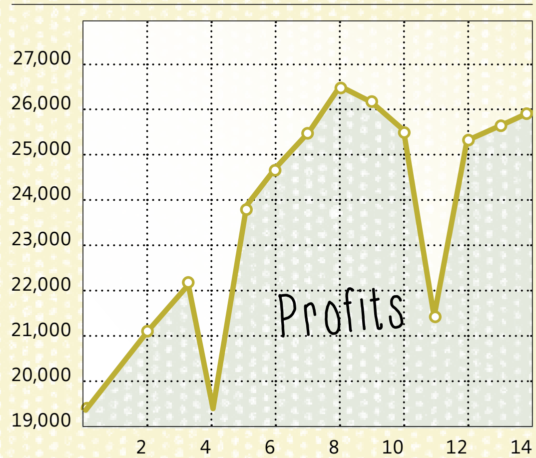
FIGURE 2:

Marketing dashboard prototype for midsized furniture reseller

Period	Flyers	Faxes	Adwords
1	0	400	100
2	0	0	50
3	0	0	50
4	4,000	0	100
5	0	0	100
6	0	0	100
7	0	400	100
8	0	0	100
9	0	0	50
10	0	0	50
11	4,000	0	100
12	0	0	100
13	0	0	100
14	0	0	100

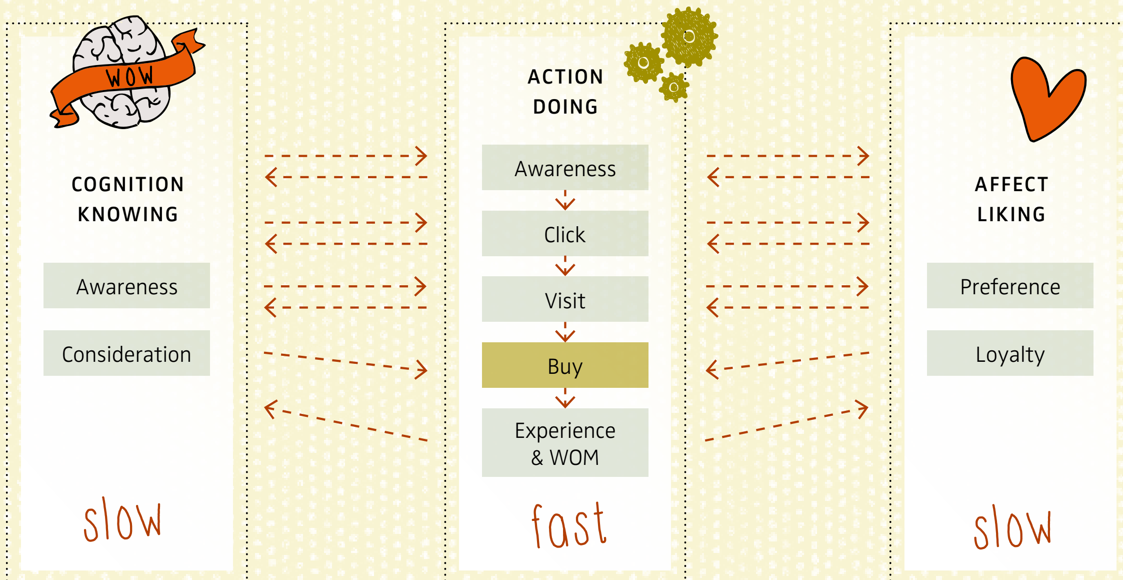
PROFITS GRAPH (INOFEC MODEL)

Done Save Show saved



Total Profits: $ 333,068,88

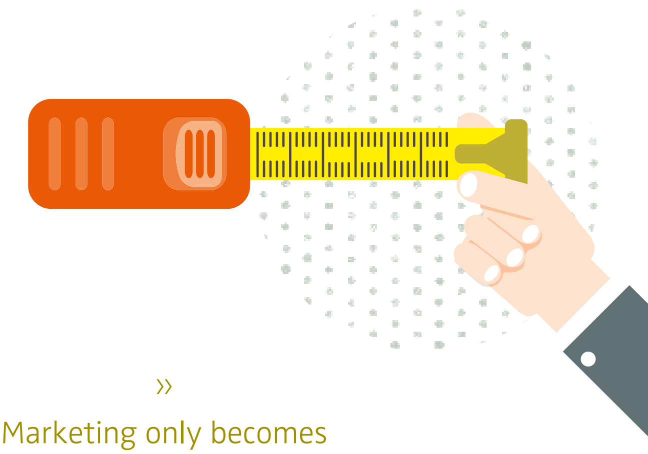
FIGURE 3:
Integration of slow moving attitudes with fast online action on the road to purchase



While attitude metrics provide useful information, they might be too costly to collect at the point when a decision needs to be made. Fortunately, you can quickly and cheaply get metrics on ***online customer actions***, such as click-through rates for banner ads and paid searches, website visits and browsing behavior and social media activity. The benefit of online metrics is that they do not require customers to actively answer questions as attitude surveys do. However, they also do not represent your entire customer population: How many consumers of products like toilet paper would engage with the brand online? So the big question is if these online metrics help explain and predict brand sales.

With GfK and Google, we set to address this question for 15 product and service categories. Even in low-involvement categories such as toilet paper, online customer activity proved helpful because it ***moved with sales*** and helped diagnose success and failure. The impact of online activity on sales was more pronounced for high-involvement products and services, which can often be bought online (e.g. lodging, insurance). However, online activity metrics did a much poorer job than customer attitude metrics to ***predict*** brand sales a few months out. Fast online action can create a lot of noise that may distract marketers from managing long-term brand health. Sometimes, however, a cool online activity does translate into a broader improvement in brand health, which is then later picked up by representative attitude metrics such as awareness, consideration and brand love. Therefore, we recommend integrating fast online action and slow-moving customer attitudes as intersecting lanes in the road to purchase, as shown in Figure 3.

The interactions among and between attitude metrics and fast online action call for a careful analysis of synergies in customer touchpoints. As Prasad Naik and Kay Peters show in their article (p. 34), synergy is most important in building awareness and affect. If you want to move the needle on either of these crucial brand building blocks, it is best to think about a combination of off-line and online marketing and measurements. An excellent example is Old Spice's 2010 "The man your man could smell like" campaign. This commercial was first aired during the Super Bowl, allowing high reach and awareness. As a next step, the actor in the commercial made response videos to fans' social media requests, in one case encouraging a girl to accept a marriage proposal by a guy who had tweeted the request. Affect for the brand grew substantially and was easily shared online. Within a year, Old Spice doubled its sales.



» Marketing only becomes more accountable once you take the leap of faith from interpreting metrics to taking action based on concrete insight. «

What does it take to identify the right metrics and link them to the right results? In a survey of over 200 senior executives, Germann and his colleagues uncovered five key success factors: top management support, a supportive analytics culture, information technology support, the appropriate data and analytic skills. All factors are covered in detail in my book.

Truly accountable marketing /// As Albert Einstein remarked, "Information is not knowledge; the only knowledge comes from experience." In other words, you only arrive at the right (or better) results if you change what you do. Dominique Hanssens has an insightful article (p. 42) outlining the steps to achieving and sustaining long-term benefits from advertising. Marketing only becomes more accountable once you take the leap of faith from interpreting metrics to taking action based on concrete insight. In the words of a manager I worked with: "Lots of data and lots of action, but no link between the two." Leading companies have made millions by ***acting*** on their interpretation of analytics results. A key example in durables is Samsung, who in 2000 reallocated its marketing budget from North America and Russia to Europe and China and from air conditioning units and vacuum cleaners to LCD monitors and televisions. Within just two years, Samsung's brand value increased 30 %, revenues increased from $ 27.7 to $ 34.7 billion, net income grew from $ 5.1 to $ 6 billion and market share in LCD monitors and TVs went from eighth to second.

Instead, many managers and organizations are reluctant to change despite enthusiasm about investment in data, analytics and dashboards. Risk aversion is part of this reluctance, but so is uncertainty about how company gains will benefit the individual decision maker — and who will be blamed if things go wrong. As one manager told us, "Look, I believe your metrics and your model. The company will most likely save $ 80 million by cutting advertising spending. However, I will not see one cent of these savings. Moreover, if anything happens to go south and we lose 1 % market share, I will be fired for cutting advertising." How much money is wasted and how many promising opportunities are not pursued in companies because of similar reasoning? Of course, consensus on metrics and compensation schemes can alleviate part of this issue. But senior leadership must also "walk the walk" by insisting on sound data and analysis to justify changing or maintaining the status quo and by demonstrating how to act based on the insights. As Harrah's – Caesars Entertainment CEO Gary Loveman put it, "There are two ways to get fired from Harrah's: stealing from the company, or failing to include a proper control group in your business experiment."

Proven ways to overcome resistance to "optimal" recommendations include moving to the proposed optimal allocation gradually and demonstrating real-word gains through a field experiment. The midsized company Inofec did both, as detailed in the Practice Prize paper by Thorsten Wiesel, Joep Arts and me. Based on econometric models relating marketing to sales, we showed that some marketing actions such as flyers gave back less than €1 for each euro spent, while others such as AdWords gained much more. Management agreed to cut spending on mail flyers in half and to double paid search spending. However, we convinced them to first design a field experiment, in which we split the country into four regions, similar in their customer potential and past sales. The results of this field study are presented in Figure 4.

FIGURE 4:
Profit impact of spending levels for different marketing actions

		AdWords	
	Budget	**Constant**	**Higher**
Flyers	**Constant**	No change € 10.84	Increase AdWords € 81.39
	Lower	Decrease flyers € 135.45	Do both € 153.71

The first region received the previous marketing budgets with no changes, while the second region had both lower spending on flyers and higher spending on AdWords. The other regions applied either lower spending on flyers ***or*** higher spending on AdWords, keeping the other marketing actions at the previous level. We agreed to run the field experiment for three months and track net profit. The resulting numbers in Figure 4 demonstrate that the region without changed spending levels showed on average a daily net profit of € 11 higher in the three months of the experiment in comparison to the three months before it. The highest net profit was obtained in the region that did both, which recorded a net profit of € 153 higher during the experiment versus before it. However, the company could also achieve substantially better results when acting on either recommendation. In times of organic growth demands, it may be better to forego some efficiency to obtain higher sales and, in this case, doubling AdWords without reducing flyers. In times of budget trouble, it may be key to maintain sales while spending substantially less, for example, by decreasing flyers.

In sum, it all comes down to connecting the right metrics of leading performance indicators with, on the one hand, marketing control variables of the decision-maker and with financial performance, on the other hand. What is needed is a concise set of interconnected metrics that relate both to actions you can take – such as changing the marketing budget or allocation – and to the company's goals, which can include profits, cost savings, organic growth etc. Such accountable marketing is necessary for improving data use for recurring and quantifiable decisions, and it frees up time for scanning the environment for opportunities. Peter Drucker stated, "The manager should use the computer to control the routines of business, so that he himself can spend ten minutes a day controlling instead of five hours. Then he can use the rest of his time to think about the important things he cannot really know – people and environment. These are things he cannot define; he has to take the time to go and look. The failure to go out and look is what accounts for most of our managerial mistakes today."

OVERVIEW: HOW TO IMPROVE MARKETING RESULTS

- Connect the right metrics on leading indicators with marketing control variables and financial results
- Take action based on metrics and insights
- Overcome organizational resistance to change
- Take smarter risks

Thus, far from extinguishing innovation and creativity, truly accountable marketing helps managers take smarter risks by assessing experimental projects and forecasting the profit potential of bigger, bolder initiatives. In the words of CMOs at Target, Fidelity, MasterCard and H&R Block, "Science enriches the art in marketing, and art accelerates the science." If the art is "asking the right questions to create winning strategies," science is "using data and analytics to answer questions, inform decisions and optimize marketing efforts." Only when art and science come together can marketing be truly accountable.
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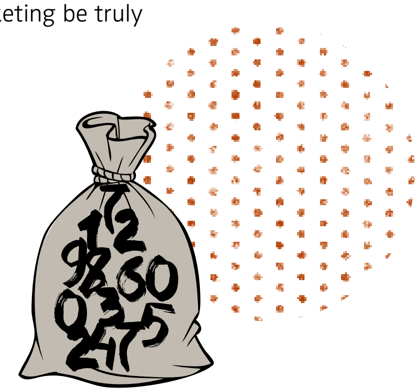
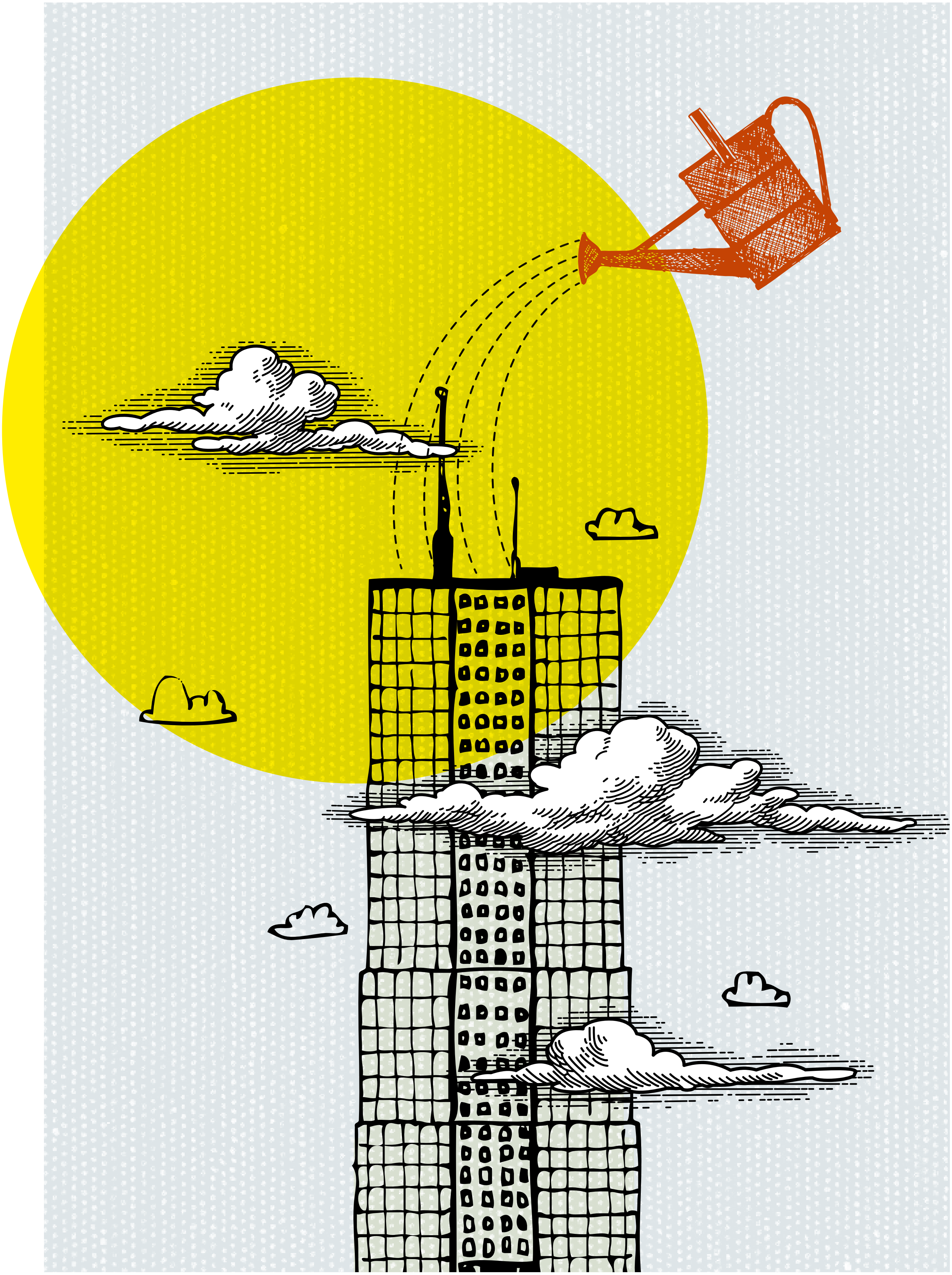




Marketing and Organic Revenue Growth

Donald R. Lehmann

KEYWORDS

Organic Growth, Internal Growth, Innovation, Revenue Generation

THE AUTHOR

Donald R. Lehmann,
George E. Warren Professor of Business,
Chair of the Marketing Division,
Columbia Business School, Columbia University,
USA
drl2@columbia.edu

Required to grow /// If your company is not growing, it's dying. Most companies seek revenue growth to insure survival, to satisfy stakeholders and/or simply because that's what our economic system and the stock market expects. Companies can either strive for organic growth or growth through acquisitions. For marketing the first option is more attractive because it relates directly to one of its core responsibilities: customers. Excluding financial transactions like currency and commodity market positions, revenue comes from customers. Therefore revenue growth must come from either customer acquisition, improved customer retention, or increased revenue per customer. Among marketing's two essential tasks of efficiently using resources to market existing products and services and generating organic revenue growth, this second activity becomes even more crucial as the pace of change continues to accelerate.

Why grow? /// From a shareholder's point of view, stock price is the key metric and the price-to-earnings (P/E) ratio is an importance component of it. For a non-growing company, future earnings or cash flow will be constant. The value of the firm then will be a perpetuity worth annual earnings divided by the cost of capital. For cost of capital of 10 %, this makes a firm worth E/10 % or about ten times current earnings. By comparison, a firm that grows consistently at a modest 5 % per year is worth double that, all else equal. Doubling shareholder value is obviously a desirable result.

FIGURE 1:

Sources of organic growth

Growth also has a desirable effect on employees. It is easier to attract and keep talent to a "winning team" like a growing company. People tend to be more motivated when growth is likely, which in turn leads to greater effort and improved performance, as well as more positive press coverage.

Why not buy growth through acquisitions? /// The other widely practiced approach for growing a company is through acquisitions. Unfortunately, numerous studies have found that noticeably fewer than half are successful; while they increase total revenues, they do little for stock price. Reasons why acquisitions fail to live up to their hope or hype include failure to realize the assumed cost savings, loss of key employees and inability to generate synergy. This latter issue is often predictable. The current owners of a firm typically know more about its value than the acquirer, which leads the acquiring firm to overpay. The only way to compensate for the overpayment is for the acquirer either to have genuine synergy or to be able to implement a different strategy or business model than the previous owners followed, for example, through utilizing their greater resources. Therefore, acquiring small, newer firms whose valuations are not efficiently priced by the financial market seems to work better than acquiring larger ones with a commensurate larger impact on top-line revenue.

Sources for organic revenue growth /// The paths toward organic revenue goals are multiple but can largely be classified into four categories (Figure 1).

New products can open up new markets and help acquire new customers. They also improve retention, for example, by increasing the number of relations with existing customers. Innovations can also increase the margin per customer with cross- or up-selling products. Apple demonstrates impressively that organic growth can be accomplished with constant innovation of its core products like the iPhone and iPod plus the development of new offerings like the smart Apple Watch or Apple Pay.

»
Excluding financial transactions like currency and commodity market positions, revenue comes from customers.
«

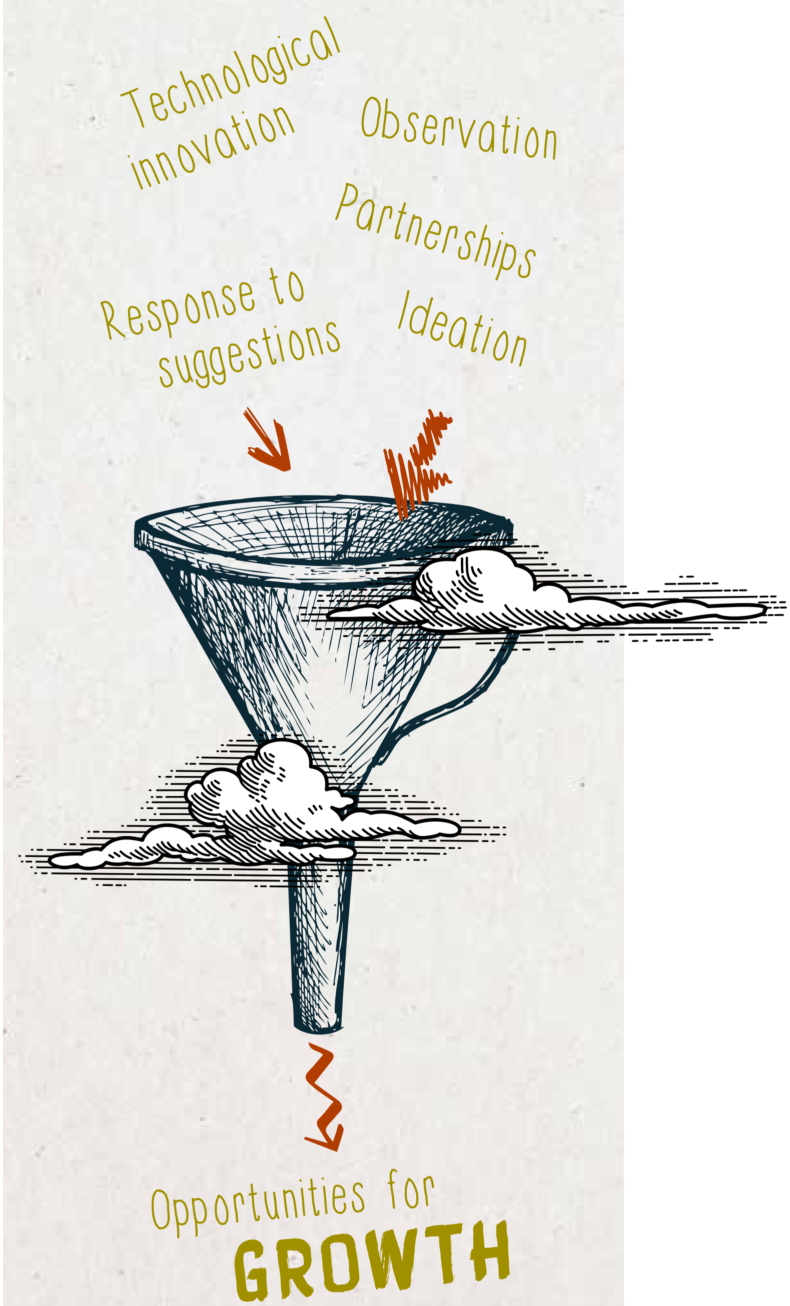
Brand building improves willingness to pay and hence price, and a positive image facilitates brand extensions to categories where the "fit" is good. Kellogg's, for instance, leveraged its brand equity to move from simple corn flakes to all sorts of cereals and then to snacks and other food.

Customer management tools, such as loyalty programs or CRM systems, can increase retention. While some retailers successfully offer incentives to keep shoppers in their outlets, too much care or lock-in is not always appreciated.

Finally ***channel innovation***, like going from brick and mortar to online or vice versa or multi-channel marketing, opens new opportunities for growth. Sometimes simply adding more outlets can increase revenue, as Starbucks has demonstrated impressively over the past decades.

Identifying growth opportunities /// There are many sources of growth ideas. The key is to generate a large number and then select the most promising among them. There are many sources of growth ideas. The key is to generate a large number and then select the most promising among them.

FIGURE 2:
Opportunities for organic growth



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For a growth initiative to succeed, all stakeholders need to be considered.
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- Perhaps the most obvious one is ***technology development***, but there are other useful approaches as well.

- Simply ***observing how customers behave*** can lead to ideas for improving existing products or solving their problems. A particularly useful version of this is "solution spotting." For almost any problem, somewhere in the world there is someone with a crude or "duct-tape" solution. Simply modifying it and bringing the solution to scale can generate significant revenue.

- Employees, suppliers, channel partners and customers often make ***suggestions***. Having a way to collect, screen and try some of these is strongly advisable. Listening to consumers' comments in social media can produce a plethora of information. And talking to non- or lapsed customers is more likely to reveal a major innovation option than talking to satisfied users who by definition like things as they are.

- ***Partnering with customers*** is another option. Techniques like using lead-users and beta-sites to jointly develop products are well established, as is the use of focus groups. Recently, collaborative design enabled through electronic communicators has begun to proliferate, and crowdsourcing is a tempting concept. While there are success examples, scientific research on its effectiveness is still limited, although currently expanding. Of course the ultimate partnering involves customization by individual customers. Configurators of all kinds are used frequently. Although limited to currently available features, they provide more individualization and help satisfy both performance and psychological needs.

- To actively search for ideas in a structured way, numerous ***ideation methods*** exist. Internal methods include brainstorming and individual creativity, and the evidence is strong that structured creativity produces both more and better ideas. Of course the ideation process can also be outsourced to specialized consulting firms.

- Thinking about innovation benefits from exploring ***non-traditional business sources*** as good ideas in *Fortune, Forbes* etc. are quickly observed by others as well. Sources related to design, sociology, technology, science fiction and even academic journals may provide a relatively unique idea.

Stumbling blocks to innovation /// Even good ideas that have initial support from all relevant parties can fail. A number of factors determine whether an innovation will actually be adopted and ultimately launched. These include both ***individual and firm characteristics***. Limited ability and poor execution in terms of designing, manufacturing, financing, marketing and managing the new idea might cause failure. Management also needs enough autonomy and support from top management to be successful.

Three crucial factors related to the ***interaction of the innovation with the potential adopters*** are relative advantage, compatibility and risk. Relative advantage is the extent to which an innovation is an improvement over the current alternative: Is it a better mousetrap or does it provide better performance or some real economic, psychological or social value? The other factors refer to the innovation's compatibility with existing behavioral patterns and the risks associated with its use. Importantly, unless someone is desperate, incompatibility is usually the biggest obstacle to adoption.

Other risks relate to the ***economic environment***. There might be unforeseen regulatory hurdles that hinder or technological breakthroughs that obsolete the innovation. Competitors might undertake harmful action, in particular if their business is at risk. Or customer taste may simply be changing too quickly. For a growth initiative to succeed, all ***stakeholders*** need to be considered. The outcomes need to be "net positive" to all relevant parties both inside and outside the firm. Many innovations fail because of inadequate consideration of key constituencies like finance, the sales force, suppliers or channel partners.

Estimating success and sales potential /// It is impossible to exactly predict what will work, although data-analytic methods have shown promise in areas like music and movies. One interesting new approach is prediction markets. These pseudo-stock markets rely on the "wisdom of crowds" to predict the results of elections as well as product success. They seem to do quite well, although at the cost of making an idea public before one launches it.

Forecasting the sales of an innovation becomes more difficult the more innovative the new offer is. For minor or continuous (lemon-scented) product innovations, standard market research methods like surveys, conjoint analysis and simulated test markets work well. For major and "real" (discontinuous) innovations, it is often hard to imagine the product or its use. In these cases, "information acceleration," typically computer enabled, allows for a more realistic view.

Asking for purchase intent generally leads to an overstatement of the demand for innovations, as individuals tend to factor in the benefits but not the costs of purchasing. For really new products, demand typically follows an S-shape, sometimes with a long left-tail reflecting the time period before sales take off. Growth models that capture the eventual slowing of adoptions are predictively superior, especially at the key turning point when sales slow and linear extrapolations continue upward. It is also possible to use past results reported in meta-analyses as estimates of model parameters even before sales have begun.

Considerable work has shown that innovations that follow specific patterns or templates throughout an ideation process have an increased likelihood of success. Similarly and not surprisingly, products that solve a specific problem or employ a "spotted" existing solution do well. In contrast, products that are invented without the customer in mind or trend-following products tend to fare badly.

The marketing mandate /// Organic growth is the key to shareholder value, and marketing is the key driver of organic growth. Various methods provide assistance in uncovering, refining and launching growth initiatives. The key assets, however, are a "prepared mind" that recognizes opportunity when presented with it and a state of perpetual dissatisfaction with the current status.

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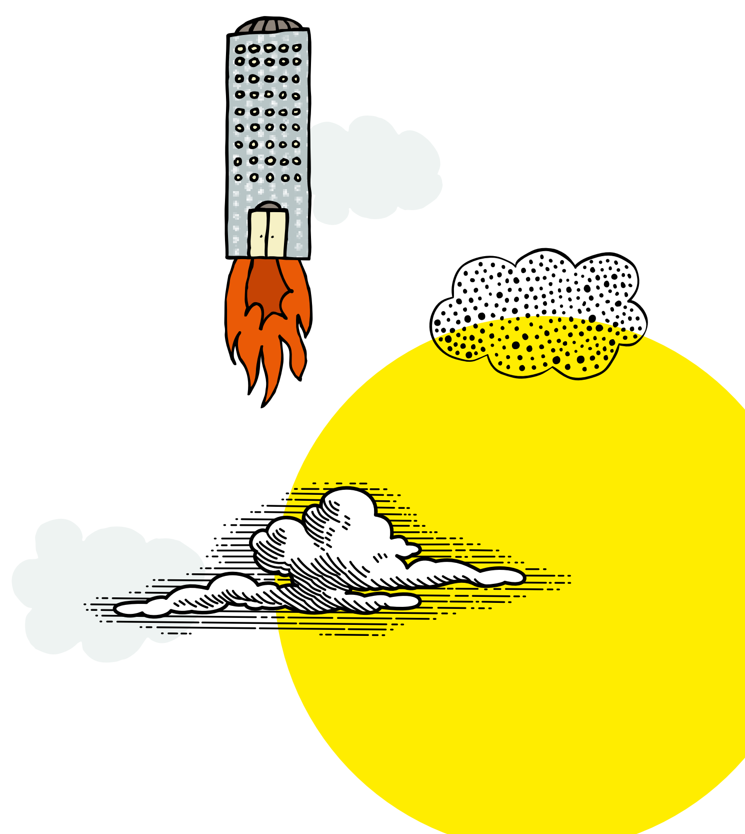
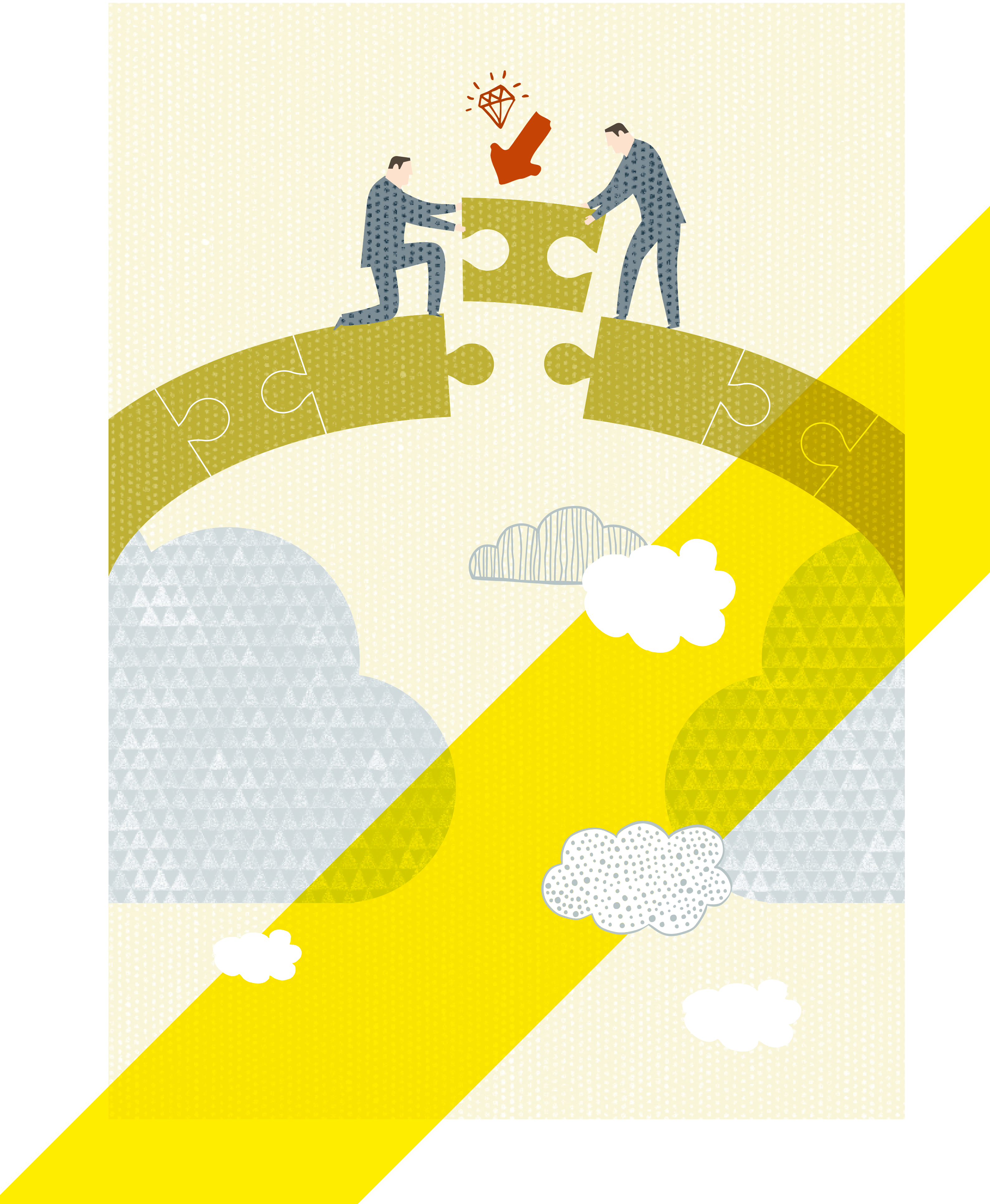




Closing the Gap between Marketing and Finance: The Link to Driving Wise Marketing Investment

David Reibstein

KEYWORDS

Marketing Measurement, Marketing Returns, Intangible Assets, Brand Value, Customer Value, Marketing-Finance Interface

THE AUTHOR

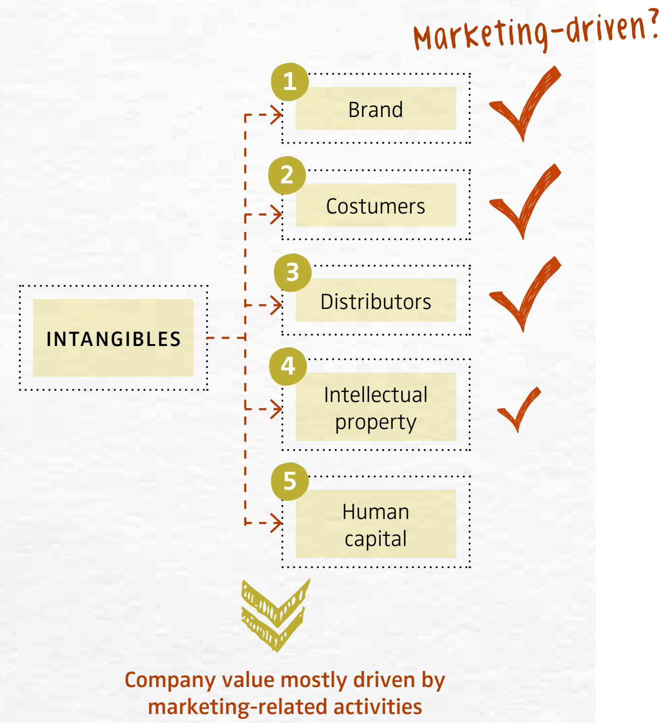
David J. Reibstein,
William S. Woodside Professor and Professor of Marketing,
Wharton School,
University of Pennsylvania, U.S.A.
reibstein@wharton.upenn.edu

The true value of marketing investments /// What do companies with products as diverse as Apple, Red Bull, McDonald's or Ikea have in common? They have good products, right. But another even more important characteristic is their excellent marketing. For most companies, it is not the tangibles that make up their overall market value but the intangible assets, such as the brand, loyal customers or a strong network of distributors. If the market value of a company exceeds its book value, the difference arises from the value of the intangible assets. Global top-performing companies have significantly higher market-to-book ratios than less successful companies, and their value stems from a strong brand, better customer management, and/or superior distribution.

Linking marketing to market capitalization /// While the bottom-line results and rankings presented by consultants like McKinsey or Interbrand impressively demonstrate the value of brands or other marketing assets, marketing managers are still struggling to prove the value and payoff of their marketing expenditures. Marketers regularly collect a bevy of measures – from customer satisfaction, awareness, preference, purchase intent etc. The relation between financial metrics and the marketing activities that drive these measures, however, is unclear. Because finance does not see the link between marketing spending and the financial metrics of the firm, it is often difficult to get enough resources to increase short-term sales and even harder to justify

FIGURE 1:
From marketing to market capital

FIGURE 2:
Marketing's role with the intangibles



spending for long-term effects. Return of investment (ROI) is often assessed, but the intangible value of firms tends not to be well measured, well documented or carefully tracked over time. Without an understanding of the connection between marketing spending and the intangible assets, it is often treated as a discretionary expenditure and handled as a potential candidate for savings that will go unnoticed on the bottom line. Despite the pressure to prove the effects of marketing spending, marketers in many companies are still just learning to speak "finance" in order to insure their budgets and to ultimately demonstrate how marketing increases share prices or at least offers an attractive ROI.

As shown in Figure 1, it is my belief that marketing spending leads directly to quantifiable marketing outputs captured by metrics such as clicks, conversion, awareness, loyalty etc. I also contend that as these metrics rise, there is a direct impact on some market results, such as sales, market share, profits, cash flow, EBITDA and even return on investment. In turn, there is an ultimate impact on the firm's stock price/market capitalization. That is not to say that these are all positive. I am quite confident that, at least at some point, as spending goes up, share price will decline as the spending becomes less efficient. Yet, finding these links from one level to the next can be quite difficult.

Marketing's contribution to the firm's intangible assets

/// Above I suggest that the majority of firm value comes from ***intangibles***, that is, market-to-book value is greater than 2, on average. What are the key intangible assets of the firm? I would argue they are brands, customers, distribution relations, intellectual property and human capital.

» Marketers in many companies are still just learning to speak "finance" in order to insure their budgets and to ultimately demonstrate how marketing increases share prices. «

FIGURE 3:

Best global brands 2014

01		+21 %	118,863 $m
02	Google	+15 %	107,439 $m
03	Coca-Cola	+3 %	81,563 $m
04	IBM	-8 %	72,244 $m
05	Microsoft	+3 %	61,154 $m
06	GE	-3 %	45,480 $m
07	SAMSUNG	+15 %	45,462 $m
08	TOYOTA	+20 %	42,392 $m
09		+1 %	42,254 $m
10	Mercedes-Benz	+8 %	34,338 $m
11	BMW	+7 %	34,214 $m
12	intel	-8 %	34,153 $m
13	Disney	+14 %	32,223 $m
14	CISCO	+6 %	30,936 $m
15	amazon	+25 %	29,478 $m
16	ORACLE	+8 %	25,980 $m
17	hp	-8 %	23,758 $m
18	Gillette	-9 %	22,845 $m
19	LOUIS VUITTON	-9 %	22,552 $m
20	HONDA	+17 %	21,673 $m
21	H&M	+16 %	21,083 $m
22	NIKE	+16 %	19,875 $m
23	AMERICAN EXPRESS	+11 %	19,510 $m
24	PEPSI	+7 %	19,119 $m
25	SAP	+4 %	17,340 $m
26	IKEA	+15 %	15,885 $m
27	ups	+5 %	14,470 $m
28	ebay	+9 %	14,358 $m
30	Pampers	+8 %	14,078 $m

www.bestglobalbrands.com/2014/ranking/

For most firms these are the major intangible assets and represent the majority of firm value. As shown in Figure 2, three of the top five are the responsibility of marketing, whereas the fourth, intellectual property, needs direction from marketing. The smaller red checkmark denotes this, as marketing helps intellectual property decide what to develop and assists in bringing it to the marketplace once a new product has been developed. One could even argue that some of the human capital is marketing knowledge, but I would not be so zealous as to claim marketing's responsibility for all a firm's intangibles.

How important each of these intangibles is differs dramatically by industry and even within an industry by firm. Below, I will take two of the largest intangibles and try to quantify them.

Quantifying brand value: There are numerous companies that provide measures of a brand's value. Perhaps the best known is Interbrand. As shown in Figure 3, based on Interbrand's 2014 ratings for the top 30 global brands, brand value can be substantial.

Apple, the world's most valuable brand, is worth more than $ 118 billion. That is just for the brand itself, while Google's brand value is over $ 107 billion. Both of these are small numbers compared to the overall market cap of these two firms, whereas the Coca-Cola brand, the world's number three brand, represents close to 50 % of the total firm value. Jim Stengel, P&G's former Global Marketing Officer claims that brands overall represent about 30 % of all firm value. Figure 3

Quantifying customer value: The second major intangible, and for many firms it is the single most valuable asset, is the customer base. For a company in the cellular service, customers and their recurring revenue can almost be viewed as an annuity. If we truly understand the value of our customer base, we could discover a completely new view of the firm.

Let me illustrate this from a simple example shown in Tables 1 and 2, taken from Farris, Bendle, Pfeiffer, and Reibstein, 2012. In Table 1 there are two firms: Firm A and Firm B. Both firms have delivered the same level of profit, $ 25, for each of the last two years. Both firms have the same contribution margins of 15 %, that is, cost of goods sold (COGS) is 85 % of sales.

That is where the similarity ends. Firm A has been growing at a fast clip, increasing by more than 450 % over the five-year span. Firm B has been growing slowly, more in the vicinity of 35 % during the same period. What can be seen is that Firm A has been growing its sales by increasing its marketing expenditures, even at a faster rate than its sales have grown. On the

TABLE 1:

Comparing two firms: Which is performing better?

Firm A

YEAR	1	2	3	4	5
Revenue	$ 833	$ 1,167	$ 1,700	$ 2,553	$ 3,919
COGS	$ 708	$ 992	$ 1,445	$ 2,170	$ 3,331
Marketing	$ 100	$ 150	$ 230	$ 358	$ 563
Profit	$ 25	$ 25	$ 25	$ 25	$ 25
Cogs/rev	85.0 %	85.0 %	85.0 %	85.0 %	85.0 %
Mkt/sales	12.0 %	12.9 %	13.5 %	14.0 %	14.4 %
ROS	3.0 %	2.1 %	1.5 %	1.0 %	0.6 %

Firm B

YEAR	1	2	3	4	5
Revenue	$ 1,320	$ 1,385	$ 1,463	$ 1,557	$ 1,670
COGS	$ 1,122	$ 1,177	$ 1,244	$ 1,324	$ 1,420
Marketing	$ 173	$ 183	$ 194	$ 209	$ 226
Profit	$ 25	$ 25	$ 25	$ 25	$ 25
Cogs/rev	85.0 %	85.0 %	85.0 %	85.0 %	85.0 %
Mkt/sales	13.1 %	13.2 %	13.3 %	13.4 %	13.5 %
ROS	1.9 %	1.8 %	1.7 %	1.6 %	1.5 %

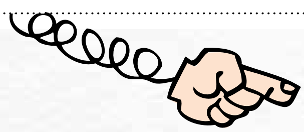


TABLE 2:

Comparing two firms: Digging deeper on customer metrics

Firm A

YEAR	1	2	3	4	5
New customers	1.33	2.00	3.07	4.77	7.50
Total customers	3.33	4.67	6.80	10.21	15.67
Sales per customer	$ 250	$ 250	$ 250	$ 250	$ 250
Mkt/new customer	$ 75	$ 75	$ 75	$ 75	$ 75
Churn rate		20 %	20 %	20 %	20 %

Firm B

YEAR	1	2	3	4	5
New customers	1.86	1.97	2.09	2.24	2.43
Total customers	3.86	4.05	4.28	4.55	4.88
Sales per customer	$ 342	$ 342	$ 342	$ 342	$ 342
Mkt/new customer	$ 93	$ 93	$ 93	$ 93	$ 93
Churn rate		46 %	46 %	46 %	46 %

other hand, firm B has been modestly increasing its marketing spending. During this period, return on sales (ROS) for Firm A has fallen by 80 % and fallen by less than 25 % for Firm B. By the time we reach the fifth year, the ROS is 2.5 times greater for Firm B than Firm A. Which firm is doing better?

I have asked many audiences this question. The overwhelming majority of respondents pick firm B. The argument is simple: Firm B can produce the same level of profit and can do so by using significantly less money on marketing: $ 226 versus $ 563. The firm can take the difference and reinvest it in an alternative investment.

In contrast, if one would drill down just a bit deeper and look at customer data as shown in Table 2, a different story is told. Firm A has been growing its customer base much faster than Firm B has. However, they have been doing so with smaller customers, who spend on average $ 250 per year. Firm B's customers are larger, spending $ 342 per year. Firm A's customers cost less to acquire, $ 75 versus $ 93 per customer. The big kicker is that Firm A's churn rate, the percent of customers lost each year or 1 minus the retention rate, was only 20 % while Firm B's was 46 %. This means that the average customer for Firm A has been buying for five years, whereas for Firm B it was just over two years. Of course, one would want to look at retention by segment and cohort rather than just at the aggregate level. None of the data shown in Table 2 changes the numbers shown in Table 1. Firm B remains more efficient in terms of profit (returns) per dollar spent.

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To be successful it is necessary to explicitly measure and manage marketing value instead of lumping it into the term "goodwill".
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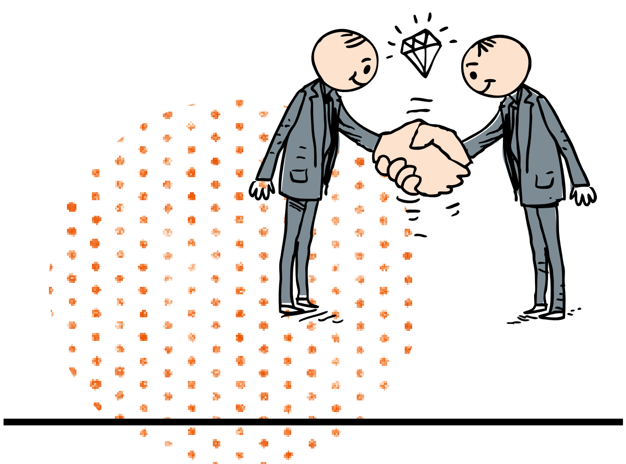

If one calculates the customer lifetime value (CLV), the sum of the margins over their life, discounted to current USD, one finds that the average CLV per customer is $ 123 for Firm A and $ 97 for Firm B. When that is multiplied by the number of customers, the customer equity for Firm A is $ 193 thousand and $ 47 thousand for Firm B; that is, Firm A has created an intangible asset called "customers." This represents the present value of an "annuity" of future income that each of the firms has created. I would argue that Firm A had been making much more money than Firm B all along. Rather than retaining it in profits, they have chosen to reinvest it to build the asset called customers.

How marketing and finance can pull together ///
Because in today's world a firm's value lies more in intangible assets, it must be in the interest of both marketing and finance to grow these assets. Marketing is, to a large extent, responsible for most intangibles, and to be successful it is necessary to explicitly measure and manage this value instead of lumping it into the term "goodwill." Doing so is not easy, considering the long-term nature of brand building or customer relations and the numerous intervening factors along the way. The following recommendations will help marketing departments do a better job in proving their contribution to financial firm performance.

> ***Select measures that work for marketing and finance*** /// Too often marketers rely on the most immediate measures, those labeled marketing metrics, whereas finance is less concerned with these intermediate measures and more concerned about the market results, in particular, profit, cash flow and EBITDA. Rather than letting marketing budgets be cut during economic downturns because managers cannot show the value marketing brings to the firm, it is essential to capture where marketing provides value. The key is for marketers to learn to speak the firm's financial language and to help train the rest of the organization to understand the longer-term financial assets resulting from marketing.

> ***Establish a common understanding of how value is created*** /// For tracking results and planning optimal budgets, the selected metrics need to be meaningful for marketing and finance alike. As demonstrated in the example of firms A and B, it is necessary for both to understand the nature of the business. This way firms can select the right metrics and pick the correct level of measurement to really see the actual value of an asset. Return-of-marketing-investment calculations only make sense if you know how value is created and link respective activities with short- and long-term objectives.
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Brand

Mind-Set Metrics: Consumer Attitudes and the Bottom Line

Shuba Srinivasan

KEYWORDS

Consumer Attitude Metrics, Sales Conversion, Hierarchical Linear Model, Cross-effects Model, Dynamic Programming Model

THE AUTHOR

Shuba Srinivasan,
Professor of Marketing and Dean's Research Fellow,
School of Management,
Boston University, USA.
ssrini@bu.edu

Mind share, heart share and sales /// Consumers' perceptions, attitudes and intentions are often used by advertising and branding experts and by consumer behavior researchers to evaluate their marketing campaigns. Typically they do not examine the ultimate effect on sales or the impact of competitive actions. Quantitative modelers, alternately, tend to bypass the "black box" of a customer's mind or heart and concentrate on effects of marketing mix decisions on sales or profits. New evidence shows that it is actually very helpful to integrate both types of information. Including mind-set metrics like cognitions, affects and intentions helps to explain the effect of marketing. And including them in marketing response models can guide and improve marketing decisions.

In a large dataset including 62 brands across four consumer goods product categories and an observation period of seven years, we tested the value of including customer mind-set metrics in sales response using Vector Autoregressive Modeling. We found that along the path to purchase, the customer attitudinal metrics of ***advertising awareness, inclusion in the consideration set and brand liking*** translate into sales performance through the "indirect" or "mindset" route to purchase. Whereas some marketing effects occur without changes in mind-set (e.g. when a customer reacts to a message without changing his attitude because it was already very favorable before), others follow a change in liking or awareness (see Figure 1). In this case the effect is indirect, and observing these changes generates valuable insights.

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Mind-set metrics have longer wear-in times than most of the marketing mix activities and can therefore serve as leading indicators.
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Changes in mind-set affect sales /// In our VARX model that accounted for long-term effects of own and competitive marketing mix actions, the mind-set metrics had a strong effect. Liking had the highest impact on sales, indicated by a cumulative sales elasticity of 0.590, followed by consideration (0.374), and awareness (0.289). The influence of mind-set metrics was substantial as one-third of the total explained sales variance could be attributed to them. Moreover, competitive and own mind-set variables made a similar contribution to sales performance: awareness, consideration and liking of the own brand together accounted for 8.4 % of the variation while mind-set metrics of competitive brands accounted for an additional 7.9 % of the variation in past sales.

Mind-set metrics are leading indicators /// Knowing that mind-set explains sales is fine, but can it help to plan marketing action more precisely? As managers need time to implement changes, the respective lag before different measures reach their peak impact on sales is relevant. The analysis of these lags reveals that mind-set metrics have longer wear-in times than most of the marketing mix activities and can therefore serve as leading indicators. They allow time for managerial action before market performance itself is affected. If the customer mind-set metrics reveal a negative trend in consumer reactions, marketing can fine-tune their messaging or pull the plug on an advertising campaign before a significant decline in sales occurs. For example, if there is a drop in consideration (with a 2.2-month wear-in time), managers can take remedial action with a change to price or promotions that have a shorter wear-in time (of 1.6 months or less) to prevent any adverse brand performance impact. Such empirical knowledge may be critical to the development of effective marketing control systems that are capable of improving long-term brand performance.

The varying impact of mind-set metrics /// The described effects are not identical for all types of products or in all marketing settings. An improved econometric response model enables managers to quantify the conditions under which the influence of specific mind-set metrics is strong or weak and the extent of marketing's role in it. We used the following four criteria to help determine and understand the connection between marketing actions, attitudinal metrics and sales outcomes, using the same set of data.

First, we investigated ***potential*** as a recognized driver of marketing success. It is based on the principle of diminishing returns: The longer the remaining distance to the maximum, the higher the impact of an action will be. For instance, if awareness affects new product trial, then, all else equal, marketing spending aimed at awareness building will have more impact potential if the initial awareness level is 20 % as opposed to 70 %.

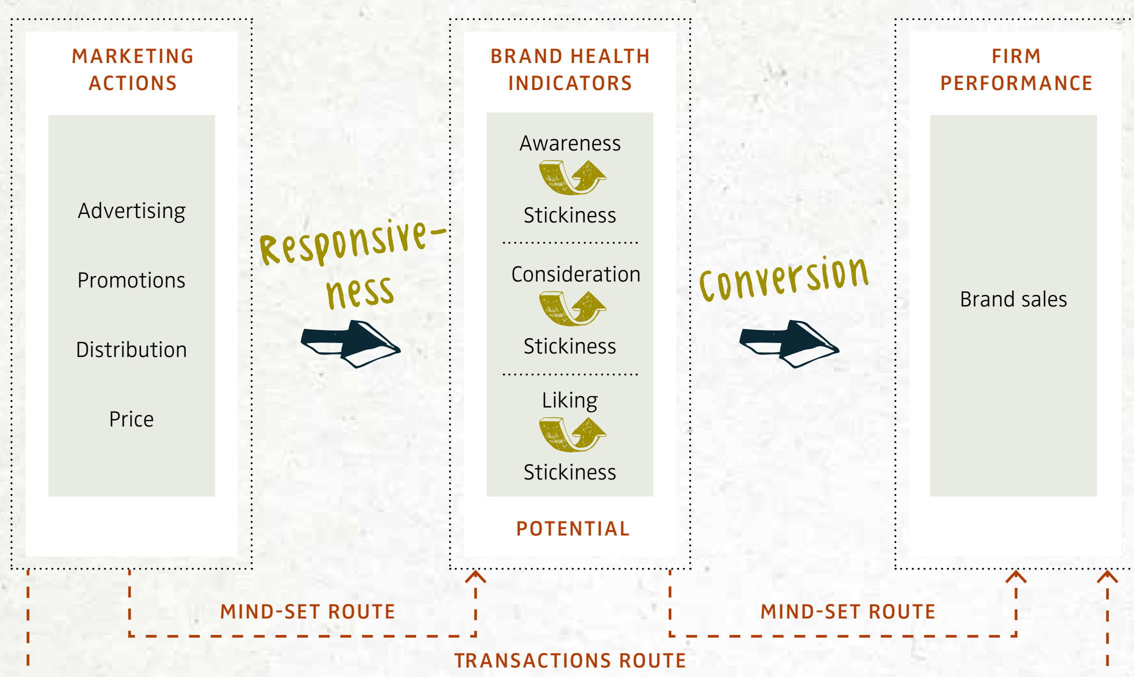
Second, we used ***stickiness*** as another relevant characteristic of attitudinal measures. It refers to the longer-term stability of the metrics. For example, if consumer memory for the brands in a category is long lasting, it will take little or no reminder advertising for a brand to sustain a recently gained increase in brand awareness. Similarly, if consumers in a category exhibit strong habits and routinely choose among the same subset of four brands, then the consideration metric for any of these four brands may be sticky. Overall, if a marketing effort increases a brand's score on a sticky attitudinal metric, then all else equal, that effort is more likely to have higher returns.

Responsiveness is the third relevant characteristic we used and it refers to the short-term response of a marketing stimulus. For example, advertising is known to be better at inducing trial purchases than repeat purchases, so an awareness metric may be more responsive to it than a preference metric.

Our last criterion is sales ***conversion***. It indicates to what extent changes in an attitudinal metric actually convert into sales performance. For example, a 10 % increase in advertising awareness may increase sales by only 3 %, whereas a 10 % increase in brand liking may increase sales by 6 %. Including sales is important to prove the ultimate performance of marketing initiatives to financial executives and to have evidence of marketing's impact on cash flows.

Figure 1 shows how these four criteria work within the framework of the mind-set route in a consumer's path to purchase, and these are the results:

FIGURE 1:
Consumer's path to purchase



General insights on attitudes and their sales conversion

> The cross-effects model showed that sales conversion is rather stable across time. In all categories, variation in brands had a much stronger impact than time. This result highlights the benefit of strong consumer attitudes favoring a brand and resulting in sales conversion.

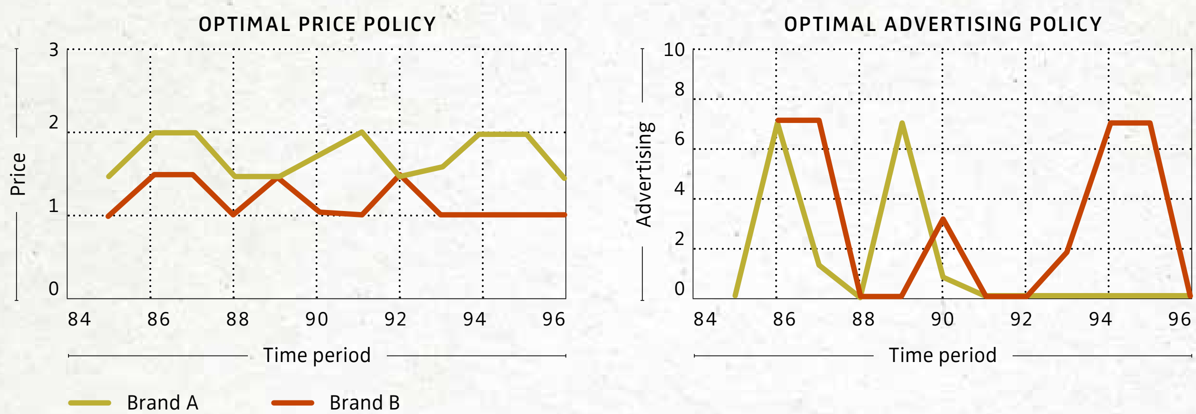
> Brand-specific attitude responsiveness to marketing action was also found to be much more dependent on brand than time. It was rather stable over time but varied substantially for different brands within the same category.

> Affect had a sales conversion rate more than three times higher than cognition. However, liking was less sticky than the cognitive attitude metric of awareness. Further, different marketing actions like advertising, promotion or pricing initiatives had a different impact on the individual metrics depending on product category. Different effects were particularly noteworthy between high- and low-involvement categories. In high-involvement categories, such as shampoo, attitudinal changes in consideration made the consumer's brand experience diagnostic and accessible, resulting in higher sales conversion. Purchases of low-involvement products, however, were not preceded by significant attitude change, particularly as it pertained to the cognitive attitudinal metrics of awareness and consideration.

> The remaining potential was higher for cognitive than for affective metrics. Brands had a higher opportunity to make progress in consideration or awareness than in liking. When consumer satisfaction ("liking") already ran high across brands, indicating high product quality, the marketing challenges for individual brands had more to do with their progress in the cognitive metrics.

FIGURE 2:

Optimal price and advertising policies for brands A and B



Budget allocations based on mind-set metrics /// The brand specificity of results showed that individual brands face unique circumstances that should govern their marketing decisions. Using our framework, we diagnosed the brands at the beginning of a 12-month holdout period and offer recommendations for changes in the marketing mix. Our results showed that brands that followed a different course from the model-based recommendations on marketing mix decisions performed worse in terms of actual sales outcomes compared to brands that followed a course consistent with model-based recommendations. The metrics actually helped predict the impact of different marketing mix decisions on sales.

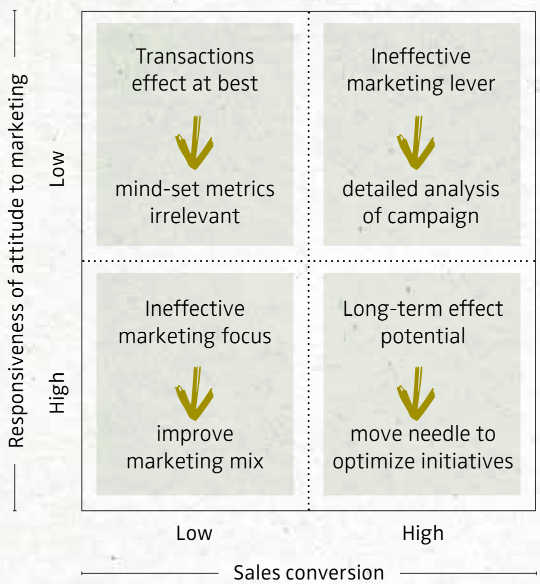
We also conducted a more formal analysis of optimal marketing mix spending using dynamic programming. To illustrate how to make marketing mix decisions by taking into account a mind-set metric, we picked two different shampoo brands A and B with similar sales levels but varying levels of awareness and assumed the same 10 % growth targets for both brands in terms of sales and awareness over the last 12 months. The outcomes describe the optimal marketing mix path over this period to achieve the targeted sales and awareness levels. The cost of increasing revenue performance is through increased advertising or lowering price and differs for each brand despite the similar sales starting position and target (see Figure 2).

We further used our model to simulate the expected impact on sales of optimal price and spending levels of the individual marketing actions over time. In the example of the two shampoo brands the expected sales rose substantially by 40 % over the same period when optimal pricing and advertising levels were implemented.

Managerial implications and conclusions /// The joint modeling of mind-set metrics, marketing mix actions and financial outcomes have proven to be relevant and helpful to CMOs and CFOs alike. Such information enables marketing managers to understand the effect of marketing actions while offering financial accountability of marketing to CFOs. Managers can develop actionable guidelines for improved marketing decision-making for different brands and their varying impact on mind-set metrics of potential, responsiveness, stickiness and conversion into actual sales. Figure 3 provides an overview of four corner cases for formulating marketing mix strategies.

First, if a brand has low sales conversion from consumer attitudinal metrics and low responsiveness to marketing, we label that scenario a ***transactions effect at best***. In our analysis, only a few brands fell into that category and followed a mere transactional path to purchase. For most brands, marketing mix strategies resulted in sales conversion through the "mind-set effect," and at least one attitudinal metric/marketing mix combination was relevant for sales.

FIGURE 3:
Strategic relevance of mind-set metrics



In our second case, a brand has low conversion to sales from consumer attitudinal metrics but high responsiveness to marketing. We label that scenario an ***ineffective marketing focus***. For example, brands that invest substantially in consideration set – enhancing advertising may fail to see a substantial sales lift. In this case, advertising represents an ineffective marketing focus that may please managers focused on awareness and consideration metrics but not managers focused on increasing the top line.

Third, if the attitudinal metric has high sales conversion but does not respond well to increased marketing spending, that would result in an ***ineffective marketing lever*** scenario. For instance, for one of our shampoos consideration and liking had high sales conversion, but the figures themselves did not respond well to advertising spending. Managers can use such insights to motivate a detailed analysis of the reasons, which may include the wrong message, the wrong execution, the wrong communication channel or the wrong timing.

Finally, if the attitude metric has high sales conversion and there is high responsiveness to marketing, we label that as a situation with ***long-term potential.*** For example, one cereal brand had high sales conversion from awareness and consideration, which both had a high responsiveness to all marketing actions. This offers an opportunity to allocate marketing resources to move the needle on the consumer attitudinal metric of awareness and consideration and eventually leads to a long-term sales lift.

Relevant attitudinal metrics can be collected from both classic attitude surveys and online proxies of consumer attitude and can be applied to assess online marketing initiatives as well. They can explain sales across brands and categories and within both B2B and B2C contexts and help bridge the gap between marketing and finance.
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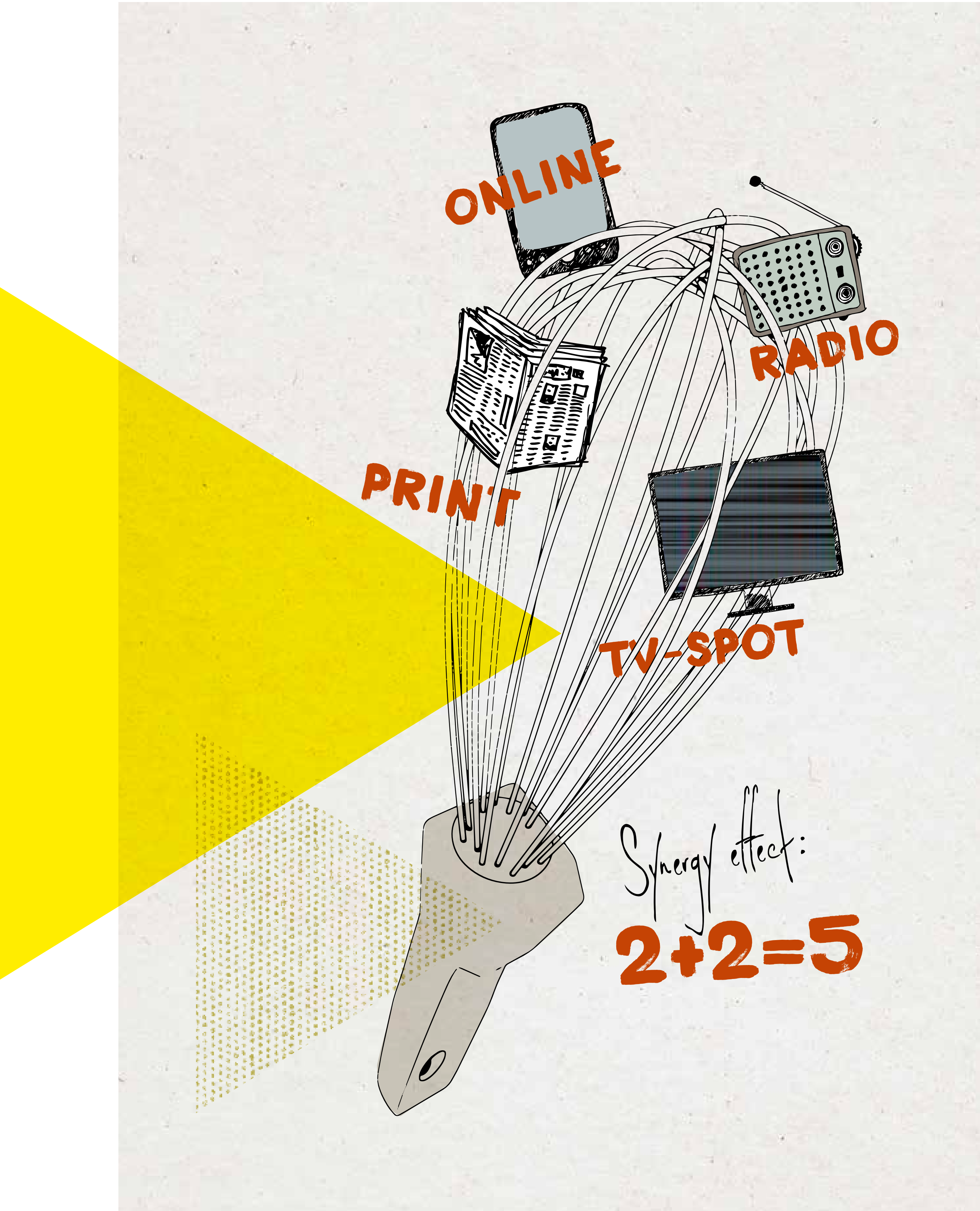

ONLINE
RADIO
PRINT
TV-SPOT
Synergy effect:
2+2=5

True Synergy for Real Effects: How to Control Integrated Marketing Successfully

Prasad A. Naik and Kay Peters

KEYWORDS

Crossmedia, Synergy, Advertising, Online and Off-line Media, Integrated Marketing, Advertising Effects, Media Planning, Budget Allocation

THE AUTHORS

Prasad A. Naik,
Professor of Marketing,
Graduate School of Management,
University of California, Davis, U.S.A.
panaik@ucdavis.edu

Kay Peters,
Professor of Marketing, Business School,
University of Hamburg, Germany,
Visiting Assistant Professor of Marketing,
GSM, University of California, Davis, U.S.A.
kay.peters@uni-hamburg.de

Ford Motor Company spent over $60 million in an integrated marketing campaign to launch F-150 trucks. Their television advertising targeted male consumers aged 25 to 49, who saw the ads 30 times during the 60-day launch period. Online advertising presented simultaneous ad display across multiple sites. Besides television and online ads, various other media such as radio, print, outdoor and direct mail were included in this campaign and generated synergies between mass media and online advertising. Using a model-based approach, Ford measured not only the effectiveness of individual media but also the complementary effects due to synergies between various pairs of media. In integrated marketing, each activity's effectiveness depends on all other brand activities when synergies are sought. Thus, integrated marketing goes well beyond the concurrent use of multiple media, as in the standard multimedia approach where the effectiveness of each activity does not depend upon any other activity. Synergy represents the joint effect of two different activities. It emerges when the combined effect of two activities exceeds the sum of their individual effects, that is, when 2 + 2 = 5. In this framework, a number of fundamental questions arise, which will be discussed in the following sections.

What are the magnitude and effects of synergy? /// A recent comprehensive survey of 130 media and advertising managers who collectively allocate about 70 % of Germany's advertising budgets across major brands provides the main insight. Figure 1 shows that 39 % of overall media effectiveness in advertising is attributed to synergies.

FIGURE 1:
Magnitude of synergies

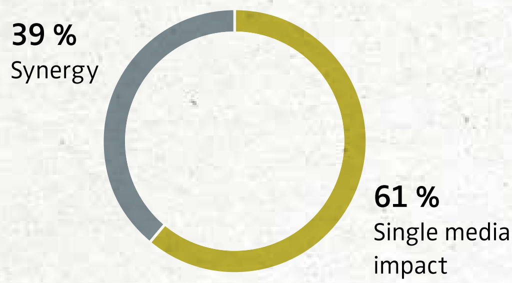


FIGURE 3:
Sources of synergies

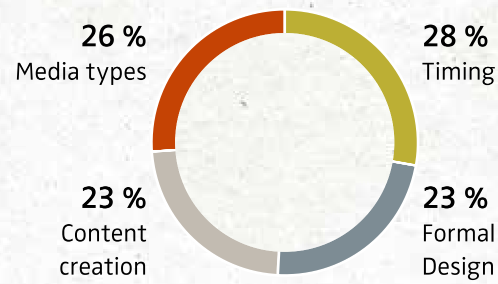
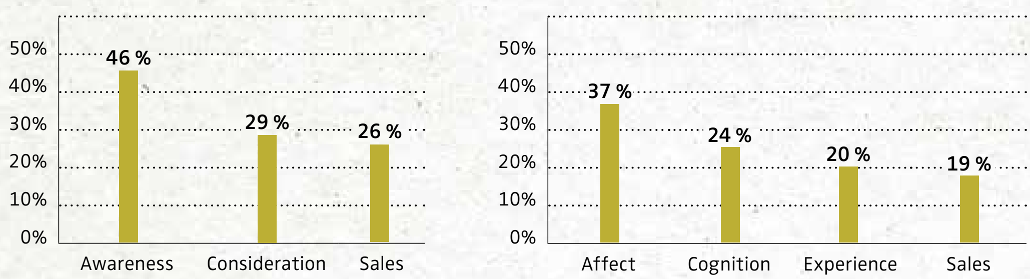


FIGURE 2:
Effects of synergies
How 100 % of media synergies spread across …



Such synergies arise at the various intermediate stages by which consumers move along the sales funnel. As Figure 2 shows, synergies manifest themselves along the sales funnel at all stages but are highest at the awareness (46 % of 100 %) stage. Looking at the same distribution of synergy across the intermediate effects of advertising, managers locate them significantly higher with affect (37 %) compared to cognition, experience, or sales stages.

What are the sources of media synergies? /// Based on the same survey, synergies arise from each of the following four areas: combining different media types, scheduling their in-phase or out-phase timing, using consistent formal designs and creating integrated content across media types (see Figure 3). Moreover, using a proper mix of multiple media (26 %) and synchronizing spending patterns over time (28 %, totaling 54 % together) are more important tasks than creating (23 %) and designing advertising content (23 %, totaling 46 % together) when generating media synergies.

To understand how synergies emerge when two media are combined, a consortium of radio network companies sampled 500 adults ages 20 – 44 across ten locations in the United Kingdom. The main findings indicated that 73 % of the participants remembered the prime visual elements of television ads upon hearing radio commercials. In addition, 57 % re-lived the TV ads while listening to the radio advertisement. Thus, radio advertising reinforced the imagery created by TV commercials, creating synergy between television and radio advertising.

Our survey sheds further light on this phenomenon of how different media combinations work. Figure 4 presents the results. Television advertising, first and foremost, offers a broad reach by informing the targeted mass segment about the brand's value proposition. When TV advertising is used in combination with online, print or direct mail advertising, the target segment gets to read, understand and elaborate on the advertised content, thereby reinforcing the brand's message. Whereas when TV is used in combination with radio advertising, as in the above UK study, the effectiveness of television advertising increases because of repetition of the brand's message in a different medium. In other words, media variation by itself reinforces the memory of the advertisement and not the elaboration of its content. The combination of print and online advertising works similarly to this TV-radio combination, where media variation helps enhance the individual effectiveness.

How does synergy affect the total budget? /// After managers have created synergies across various combinations of multiple media, how should they determine the total multimedia budget that incorporates the sales impact of synergy? The researchers Naik and Raman have developed a method to estimate effectiveness and synergy using market data on sales and advertising. The method obtains the optimal budget based on the estimation results. Furthermore, their analysis offers an interesting insight: ***As synergy increases, the optimal total media budget increases as well***.

Corroborating this result, a recent study finds that a vast majority (73 %) of advertising managers believe that the budget will increase when clients adopt the integrated marketing perspective. It is important to note that managers should not simply spend the additional budget to "do more of the same thing." Rather, the increased budget should be utilized to create synergies between activities. The resulting synergies then enhance both the short- and long-term effectiveness of marketing activities.

FIGURE 4:
How media types generate synergies

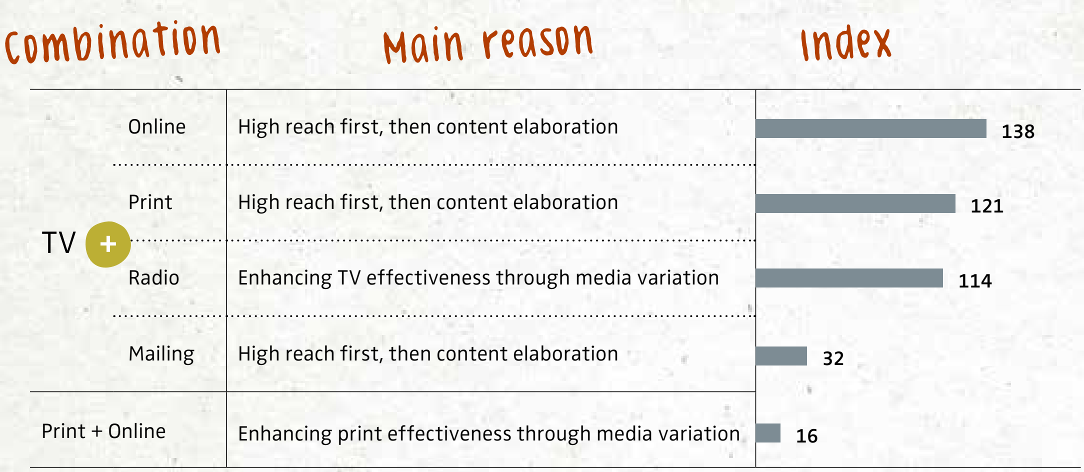
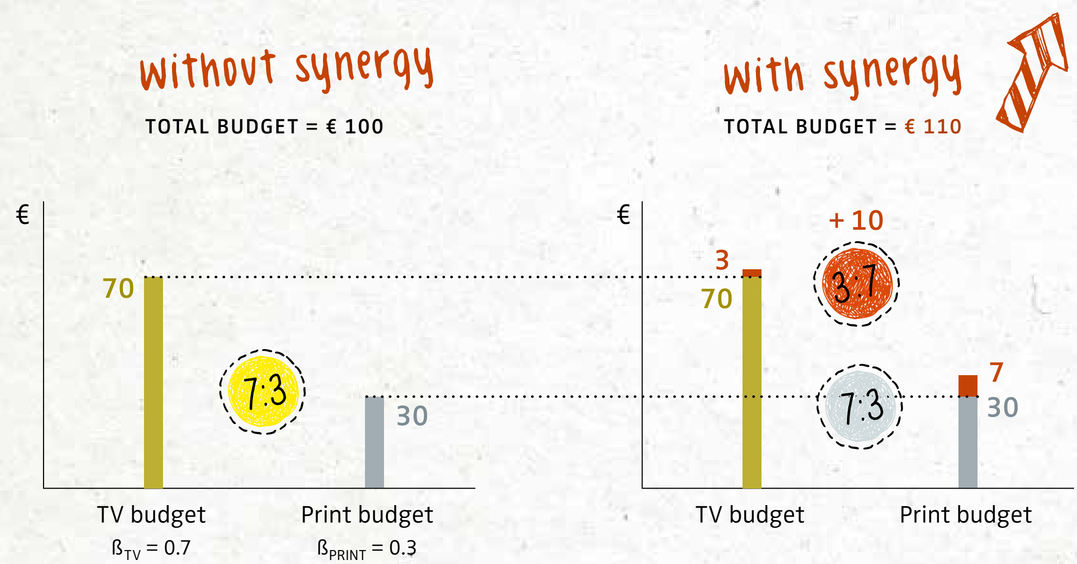


FIGURE 5:

Budgeting with and without synergies



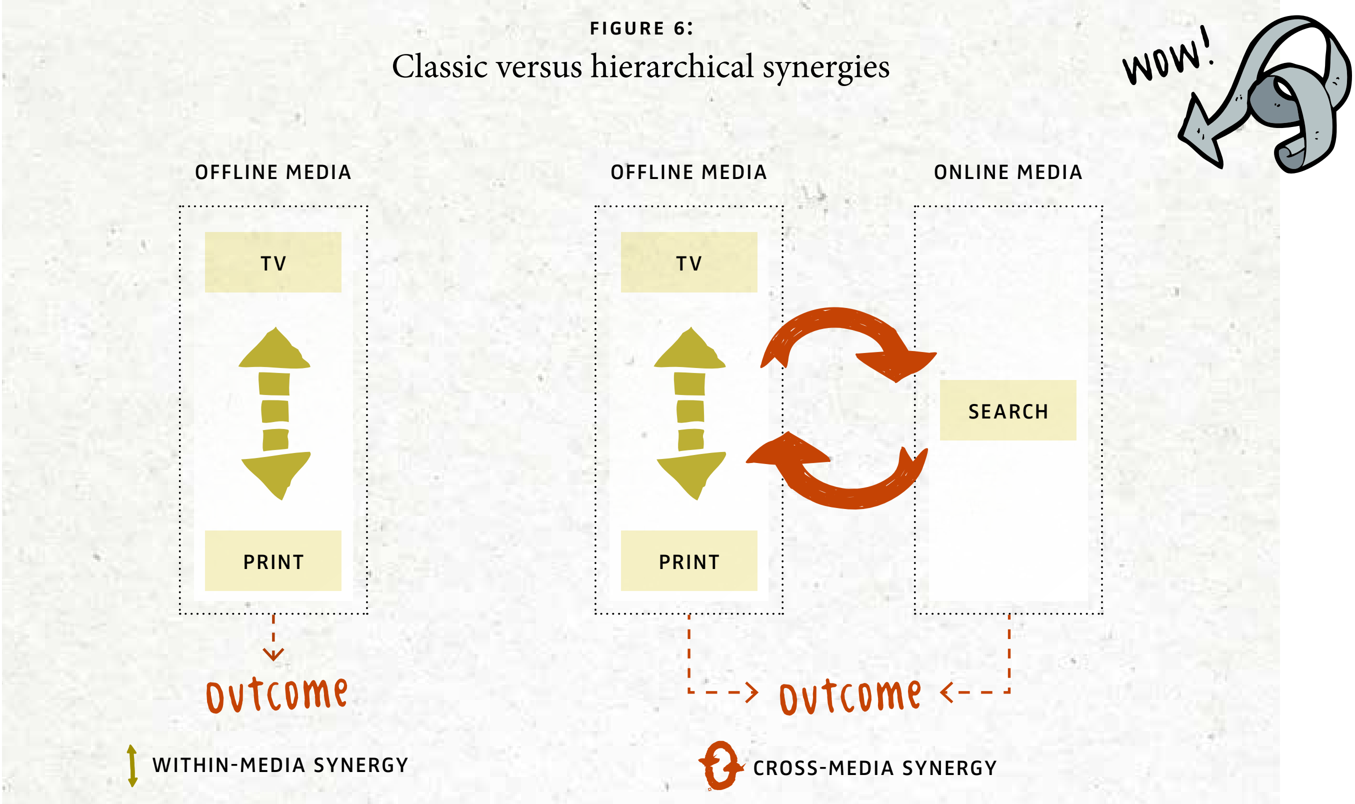
MAJOR CHANGES IN CLASSIC ALLOCATION RULES

- When effectiveness of a medium increases, increase its share and total budget.
- Budget allocation is proportional to relative effectiveness across media.
- When synergy increases, decrease (increase) share of more (less) effective medium.
- When synergy increases, increase total budget.

How does synergy affect budget allocation? /// The budget allocation to multiple media differs qualitatively in the presence of synergy, requiring managers to act differently when implementing integrated marketing. The researchers also show how synergy alters the budget allocation: ***As synergy increases, the proportion of the media budget allocated to the more effective medium decreases, while that allocated to the less effective medium increases***.

The counterintuitive nature of this result is its striking feature. To understand the gist of this result, suppose that two media have unequal effectiveness as shown in Figure 5. Then, in the absence of synergy, the optimal spending on a medium depends only on its own effectiveness; hence, a larger amount is allocated to the more effective medium. In contrast, in the presence of synergy, optimal spending depends not only on its own effectiveness, but also on the spending level for the other medium. Consequently as synergy increases, the incremental spending on a medium increases proportional

FIGURE 6:
Classic versus hierarchical synergies



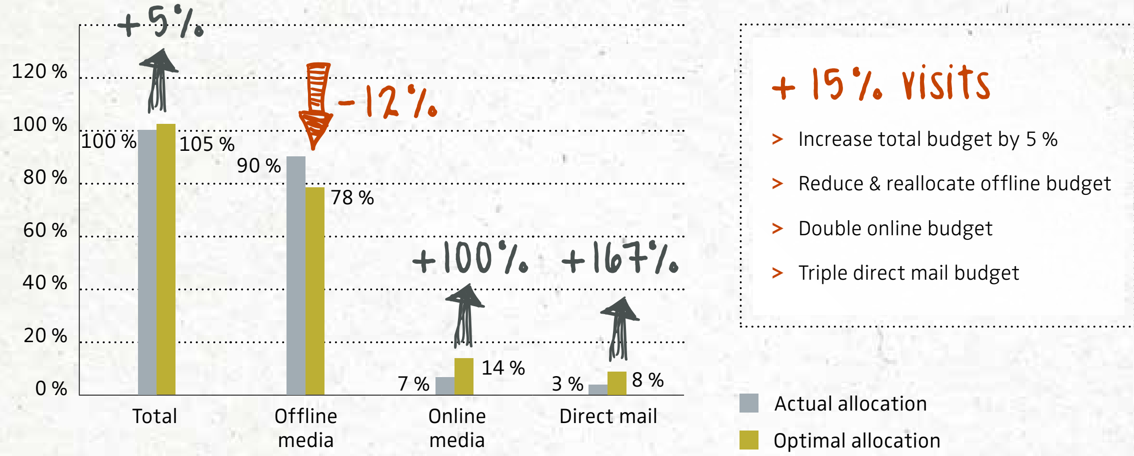
to the existing spending level on the other medium. Hence, optimal spending on the ***more effective*** medium increases ***slowly*** because it depends on the other (smaller) medium. Similarly, the optimal spending on the ***less effective*** activity increases ***rapidly*** because it depends on the other (larger) medium. Thus, the proportion of the budget allocated to the more effective medium decreases as synergy increases. Figure 5 illustrates this allocation principle and highlights the main differences in budgeting and allocation without and with synergy.

Do higher-order synergies exist between online and off-line media? /// When both within-media and cross-media synergies are observed separately, the effects of higher-order synergies of one whole media class – like online media – on the synergies within the other media class – such as off-line media – can be analyzed. Figure 6 illustrates this idea (right part) and contrasts it with the classical within-media synergy (on the left part).

We tested the framework on the right side using data from a major car company that advertises in both online and off-line media to keep its brand in consumers' consideration sets. The company evaluated the consideration outcomes by counting online visits to a car configurator on their website. The study found evidence for both types of synergies: Online advertising amplified the effectiveness and synergies of off-line media (television, print, newspapers and magazines), thereby increasing the number of online car configurator visits.

The resulting higher-order synergies led to a different optimal budget allocation, as shown in Figure 7. The main model-based recommendations are an increase of the total budget, a reduction of off-line media budgets and a budget reallocation to online and direct mail advertising. The online budget can be increased because it builds more synergies within its media class and cross-media with various off-line activities.

FIGURE 7:
Budget impact of higher-order synergies



Are there catalytic effects of synergy? /// The presence of synergy introduces fundamentally new advertising effects and explains why managers should invest in 360-degree multiple media, even if some effects seem negligible at first. Marketing activities that have negligible direct effects on sales but exhibit substantial synergies with other activities have a catalytic quality. Therefore, managers should not eliminate spending on an apparently ineffective activity when it enhances the effectiveness of other activities.

They not only benefit from direct effects, but also from indirect effects of various activities. For example, BMW used product placement in James Bond movies, which may not directly have increased BMW sales but made its TV and print advertising more effective. Similarly, Mini Cooper sponsored the movie, ***The Italian Job***, to build its brand image. Some pharmaceutical companies supply product samples or

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Managers should not eliminate spending on an apparently ineffective activity when it enhances the effectiveness of other activities.
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collateral materials that may not directly increase sales of prescription medicines but may enhance the effectiveness of salesforce communications with doctors. Indeed, marketing communications via billboards, publicity, corporate advertising, event marketing, in-transit ads, merchandising and product placement in movies may have no measurable impacts on sales. Yet millions of dollars are spent on these activities because, by their mere presence, they act as catalysts and enhance the effectiveness of other activities such as broadcast advertising or salesforce effort.

Altogether, managers are well-advised to monitor synergies of their activities and reflect them in their budgets. Sometimes the effects are surprising, and individual activities need to be seen in a completely new light when combined with others.
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Advertising!

Keeps Working and Working and Working … The Long-Term Impact of Advertising

Dominique Hanssens

KEYWORDS

Advertising Effect, Long-Term Impact, Advertising Measurement, Consumer Response

THE AUTHOR

Dominique Hanssens,
Bud Knapp Distinguished Professor of Marketing,
UCLA Anderson School of Management,
University of California, Los Angeles, USA
dominique.hanssens@anderson.ucla.edu

Advertising and the short-term focus of a fast-paced age /// The majority of marketing analyses address only short-term impact, with "short term" defined as the current budget or planning period. This quarterly or at most yearly focus is also used to evaluate managers and to decide about success or failure of marketing campaigns. To perform well in this short-term game, marketers often tend to shift spending to programs closer and closer to the point of purchase, primarily at retail. Particularly in the consumer packaged goods industry, this shift in marketing strategy can be observed in the growth of trade promotion budgets at the expense of other programs.

But does such short-term thinking actually reflect the whole impact of marketing activity and encourage planning for long-term success? Certainly not for advertising! While some marketing tactics such as price promotions have mostly short-term effects, others such as advertising have both a short- and a long-term impact. Measurement, analyses and planning that consider only the short-term impact may put advertising at an unrealistic disadvantage compared to other marketing options and also fail to maximize long-run profitability. A short-term focus may bias return-on-investment calculations because it takes into account the complete expenditure for advertising but only a portion of its impact.

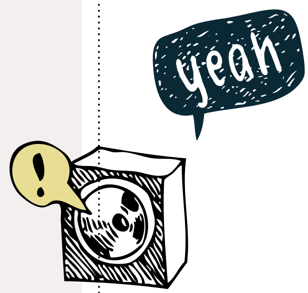
MAIN FACTORS FOR SUSTAINED ADVERTISING EFFECT

Consumer Response

- Immediate effects: The immediate consumer response to advertising
- Carry-over effects: Delayed buyer response
- Purchase reinforcement: Repeat buying as a result of the initial, advertising-induced purchase.

Corporate Behavior

- Feedback effect: Influence of the initial sales lift on subsequent advertising spending
- Decision rules: Effect of advertising spending on other parts of the marketing mix
- Competitive reactions: Can be share stealing or category expanding



Consumer response effects that accrue over time ///
Consumer response to advertising can be very immediate but it has longer-lasting effects as well. The short-term impact on consumer purchasing is a natural prerequisite for a long-term effect. However, some consumers do not react immediately to advertising but "let the dust settle." This delayed buyer response causes carry-over effects to later time periods. Another delayed effect results from repeat buying or word of mouth. If consumers are satisfied with the product they bought as a result of advertising, they might buy it again and/or recommend it to others. Likewise, if the consumer has a negative experience with the brand, the short-term effect of the advertising will not materialize into purchase reinforcement.

The size and duration of the impact are determined primarily by the persuasiveness of the ad and its message, effective media delivery and purchase reinforcement, if the product lives up to its promise. Advertising's short-term impact is considered double to triple over the longer term. Well-recognized studies in 1995 and 2007 demonstrated that, on average, the advertising-to-sales impact over three years is double the impact of year one, and the advertising-to-profit impact is triple the impact of year one. Given competitive markets and competitive advertising, however, advertisers cannot rely on these "residual effects" alone to sustain advertising impact. Sustained activity may be necessary to preserve market share.

Corporate behavior to leverage long-term impact ///
Besides consumer response factors, the way a company plans and monitors advertising and learns from success and failure is a key factor for building long-term impact. If a commercial is successful, it needs to be clear why and for how long this is the case. Only when the reasons are clear, is it possible to repeat successful behavior or avoid mistakes. When, for instance, spending alone is considered relevant, feedback can result in unproductive escalation of budgets if the response effect wanes. Decision rules that concern the interplay of different marketing mix alternatives are another field with a high potential to improve long-term effects. These refer to the coordinative capabilities between different marketing teams and their cooperation to create synergies. For example, successful advertising may result in higher sales-force productivity that subsequently justifies expanding the sales force. Finally, as none of a brand's actions takes place in a vacuum, competitive reaction to marketing actions are relevant as well.

CASE STUDY: OVER-THE-COUNTER (OTC) DIVISION/PHARMACEUTICAL COMPANY

In the early 1990s, the OTC division of a large pharmaceutical company formed a "Better Advertising Practice" (or BAP) Team to improve advertising effectiveness across its brands. The OTC group had experienced success with several individual brands and wanted to extend that success to the rest of its brands.

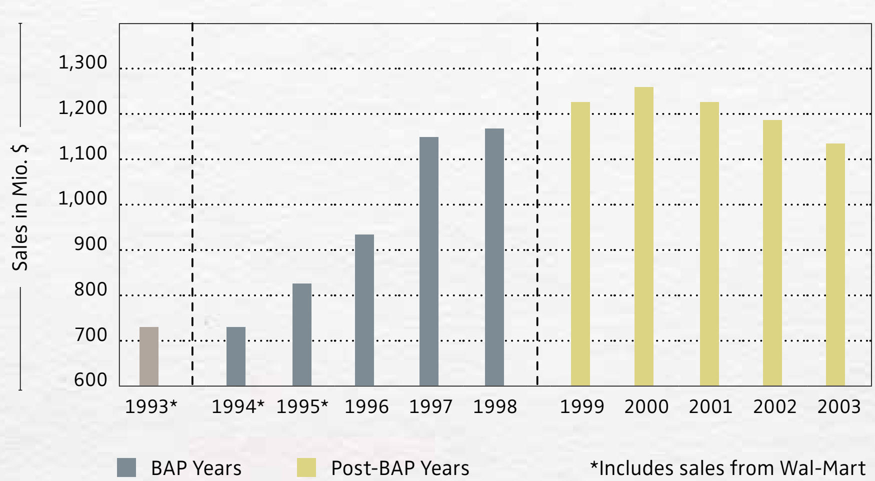
The team started by defining the process that they would use to gather and implement advertising feedback. The process started with the identification of a persuasive selling proposition (based on ARS Persuasion Measurement). Advertising wear-out projections were used to plan the number of executions that would be needed as well as refreshment schedules.

A numerical hurdle of +4.0 for the persuasion score was set, and each subsequent ad was tested for persuasiveness before going to air. To ensure the process was working, the group monitored market response as well as competitive advertising. An "advertising persuasiveness" report went directly to the CEO, showing him the proportion of +4.0 ads going to air for each brand.

Between 1994 and 1998, OTC divisional sales soared as the BAP team was formed and more and more brands began adopting this "better advertising" feedback-based process. By 1998, sales had reached over \$1.1 billion, up about \$400 million as compared to 1993 and 1994. In 1999, the company was bought by a larger one, the CEO moved up, the team and the practices were cancelled, the marketing scientists were eased out and sales began to decline (see Figure 1).

FIGURE 1:

Better advertising practice: OTC example



Source: Blair (2004)

Large pharmaceutical company: OTC division, 22 brands

STEPS TO INCREASE THE LONG-TERM IMPACT OF ADVERTISING AND OTHER MARKETING ACTIVITIES

- Select pre-market methods that are proven to be predictive of consumer behavior and of market impact tied to financial results.
- Spend on the activities that will create the desirable short-term lifts. They are a precondition necessary for the long-term build-up.
- Continually monitor consumer response and market impact.
- Learn from the feedback, document the behavior, repeat the behavior and turn it into better business practices for the brand and for the enterprise.
- Stick with the better practices, even through personnel or ownership changes.

The secret of sustained advertising effect /// The secret for leveraging optimal short- and long-term advertising effects is to monitor success and infer the right action. The following approaches and metrics are helpful to gain insights and translate them into optimal campaigns.

- **Copy testing** /// Given the importance of the short-term impact of an ad, the persuasiveness of the copy is highly relevant. Several standardized tests exist to measure persuasion (for example, the ARS persuasion score of MSW ● ARS Research). These tests can help select the best copy or fine-tune the message for better results. In our OTC case study (see Box), such a score was used as an internal hurdle. The decision rule was to only air ads that reached a minimum persuasion score. Overall, the persuasiveness of the copy has a stronger impact on its success than media weight or the competitive environment.

» Ultimately, response-based marketing will result in a conversion to better business practices and process management. «

- **Market response insights** /// Relevant performance metrics are market share, unit sales, leads and information on purchase reinforcement, such as repeat purchase rate, retention rate, referrals or customer satisfaction. Advertising decision models are able to combine these output measures with budget allocation figures as input variables. This feedback can be used to move towards ***response-based marketing decision-making***. Brand managers can recognize past allocation successes and errors and implement any resulting learning that can increase the advertising's – and hence the brand's – chance for success. Ultimately, response-based marketing will result in a conversion to better business practices and process management. In contrast, to their own disadvantage, organizations tend to fall back on "tradition-based marketing" when there is turnover in their marketing and/or brand team. This happened in the OTC case study described in Figure 1. Successful routines first led to significant growth in sales and then were stopped after the company was taken over by new owners, causing a decline over the following years.
- **Optimization of response models** /// Advertising response models can also integrate information about wear-out of individual ads. The persuasive power wears out over time in a predictable way, and the optimal timing for campaign refreshment or replacement can be determined.

Further, the models should integrate information on interaction effects. If they include data on other marketing activities as well, synergies within the marketing mix can be observed and integrated in decision rules. The metric for synergies is improvement in a reinforcement variable, for example, the correlation between sales calls and advertising support, which should be positive if the two areas are synergistic.

To take into account competitive advertising one measures cross-elasticities of one's competitor's activities. In controlled experiments or competitive market-response models, one not only observes the effectiveness of one's own marketing, but also measure the impact of one's competitor's marketing on one's brand. Assuming good measurement, an organization can develop a process and decision rules for optimal competitive behavior. It is often fairly simple: If there is no negative cross-sales effect, do not react. But if there is a cross-sales effect and it is negative, react with marketing elements that will be effective according to pre-market experiments.

Implications for Brand Managers /// The improvement in an organization's marketing processes and behaviors can result in an impact that is over five times stronger and longer lasting. To produce these results, the organization must use consumer response metrics to advertising that are predictive of transactional and financial returns. Marketing managers should spend on activities that create the short-term effects necessary for long-term build-up. And last but not least they should repeat successful behavior and turn this feedback loop into better business practices and improved process management for both the brand and for the company as a whole.
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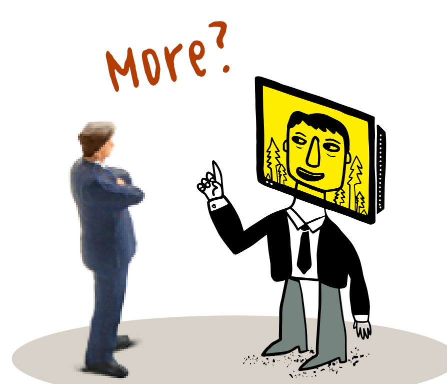

ABOUT UNILEVER

From long-established names like Lifebuoy, Sunlight and Pond's to new innovations such as the Pureit affordable water purifier, Unilevers range of brands is as diverse as its worldwide consumer base. Unilever owns and manages more than 400 brands, 15 of which generate sales in excess of € 1 billion a year.

Many of these brands have long-standing, strong social missions, including Lifebuoy's drive to promote hygiene through handwashing with soap and Dove's campaign for real beauty. For Unilever, sustainability is integral to doing business. With 7 billion people, the earth's resources can be strained. The Unilever Sustainable Living Plan sets out to decouple its growth from its environmental impact, while at the same time increasing its positive social impact.

www.unilever.com

ABOUT NICHOLAS CHESTERTON

Nicholas Chesterton is currently the Advanced Analytics Unit (AAU) Director for Unilever. The AAU is part of the CMI Global Analytics function and works closely with other CMI colleagues and business partners around the world in identifying and rolling out best practices in analytics while also researching and testing new tools and methodologies.

He joined the team 25 years ago and at that time the group specialized in running marketing mix modeling studies. His team was one of the first, if not the first, to run these kinds of studies at scale of any FMCG company.

Nowadays their role has expanded somewhat and they have become involved in a wide range of projects across CMI. A big area for the team is in measuring and understanding brand equity, applying a methodology that was developed in house.

THE INTERVIEWER

The interview was conducted by
Professor Koen Pauwels in November 2014.

From Metrics to Action

MIR Interview with Nicholas Chesterton, CMI Director of the Advanced Analytics Unit at Unilever

Even if you measure a lot, you can't measure everything. Be it for a lack of available data, for instance, in some developing countries or be it because you just have to draw a line at some point. The art of using the collected data for making marketing truly accountable lies, according to Nick Chesterton, in knowing what individual metrics really mean and using the gained insights in subsequent processes. Follow Unilever on its path from metrics to action.

MIR: The title of our issue is "Truly Accountable Marketing". Is Unilever's marketing truly accountable?

NICK CHESTERTON: The marketing team would say yes, of course, but I think the answer is a bit more qualified. We have continually improved copy testing of the creative work, as well as our survey-based methods and marketing mix models to provide 4Ps guidance. And now we are working on getting better at social media accountability.

MIR: How has marketing measurement changed during your time with Unilever?

NICK CHESTERTON: This is my 25th year at Unilever, and marketing measurement has changed markedly over that time frame. In the early 1980s, Unilever ran the first marketing mix models on detergent in Europe to come up with price elasticities. And years ago, individual countries did their own thing; they even had their own Stock Keeping Units, and as a consequence, there was a huge complexity in the system. The organizational structure was not really ideal for incorporating these models into decision-making. Now, the marketing analytics group works in a more coordinated manner and is able to achieve scale across countries. We have a more centralized approach and no more need to tailor it to specific countries. We identify best practices and share them across the world.

MIR: Was it difficult to incorporate marketing mix models into marketing decision-making?

NICK CHESTERTON: Not really. Actually, this requirement came from all stakeholders: Country managers wanted to work with us; senior managers were interested in understanding the analytics, and the brand team saw how analytics helped them to make better day-to-day decisions. We got much better information systems to process the data, and now we can set it up to optimize its impact. The whole process used to be run by a ''marketing research department,'' but now we involve our stakeholders from the start and work it out together with our market partners. We form cross-functional teams with retail and the media department to interpret and apply the data.

MIR: Do you rather measure the success of individual activities or of the whole marketing mix in combination?

NICK CHESTERTON: We try to measure at the lowest level we can, like for individual TV campaigns. But then we aggregate the data of individual executions levels to get more insights. When we integrate results, we gain insights on how well a channel works compared to other channels, or one brand compared to another. In developing markets we have to work on a more aggregate basis due to the lack of available data.

» The whole process used to be run by a ''marketing research department,'' but now we involve our stakeholders from the start and work it out together with our market partners. «

MIR: And how do you measure cross-effects with other marketing mix action?

NICK CHESTERTON: If things are happening together, we report the results as a joint effect. And we have a closer look at modeling techniques for attribution to individual activities. In addition, we use media studies outside of marketing modeling to understand the contribution of single media.

MIR: Do you measure the short- and longer-term effects of advertising campaigns?

NICK CHESTERTON: You have to be clear about what you truly measure and what you don't. We aim to capture the full effects and include memory effects and diminishing returns in our models, but we realize that traditional marketing mix models do not capture the full effect, especially long term. Vector Autoregression Models go further in this regard. However, even if you do not see a long-term effect in the data, it can still be there. For instance, if a brand has consistently been advertised, you can't see that benefit in the data. You need to stop advertising or change the creative execution to see the true benefits in the data. Or you can do the typical 2x multiplier of short-term results to get an idea of long-term effects, but the correct multiplier can change due to different circumstances.

MIR: At the beginning of our talk you mentioned that you do copy testing and that you improved in this field.

NICK CHESTERTON: Yes, Unilever does a lot of pre-testing, not only for TV commercials but also for digital media. We use benchmarks on a number of metrics that ads need to overcome before they will be aired. And we do not just predict performance but also improve our campaigns before airing.

MIR: Which outcome variables do you use to decide about success or failure of individual campaigns?

NICK CHESTERTON: Oh, there is a whole range, from showing sales impact and optimizing financial returns to showing long-term future for the brand. Often, we are operating in tough markets with heavy competition. To maintain presence and compete effectively, we may want higher spending levels than advised by short-term optimization. In other cases we invest to protect our brand for the future and build for real long-term growth.

» With mind-set metrics we can now verify that our broadcasted image and positioning statements drive consumer perception on these attributes. «

MIR: For brand building, do you use so-called mind-set metrics to better understand effects produced by marketing? One of our articles reports that it makes a lot of sense to include such information in marketing mix models.

NICK CHESTERTON: We measure mind-set around awareness, particular positioning tracking and brand health studies. It is great to bring mind-set metrics into marketing mix models to get a complete picture. We can now verify that our broadcasted image and positioning statements drive consumer perception on these attributes. This diagnostic information helps explain our models to our users and they can draw conclusions about tailored action.

MIR: How do you learn from marketing measurement? Could you maybe illustrate for one of your brands how the whole planning and feedback process works? Possibly one where measurement results substantially helped to improve marketing action and results?

NICK CHESTERTON: Oh yes, I remember a very powerful example in Asia Analytics that happened a year or so ago. We have strong brands in India, but two of them were struggling to assess the growing impact of a local competitor with offers at a much lower price level. The key question for us was if we should we cut our prices to compete. The analysis for the first brand showed very small price elasticity, so we actually recommended and succeeded in pricing even higher! Then we were able to reinvest the margins into communication and informed our consumers why they should pay a premium. These insights saved the company a huge amount of money.

MIR: And what about the second brand?

NICK CHESTERTON: The second brand had weaker brand equity, but our analysis showed that dropping prices would not help in that case, either. Its positioning was not seen as similar to that of the local competitor. So, instead, that brand offered a new fragrance to improve its positioning, again saving Unilever a lot of money because we could demonstrate that a price cut would not work.

MIR: Is it possible to generalize such marketing insights across developing countries?

NICK CHESTERTON: Oftentimes yes: each country can differ in media consumption and other factors, but you do get broad identifiable trends. We observe generic patterns and how advertising will work based on stages in market development. We actually have a branch of analytics that looks at development patterns and compares them across countries.

MIR: How relevant are results like the ones in your Indian case for budgeting future activities?

NICK CHESTERTON: The measurement results feed into future marketing strategies and tactics. From understanding historical reactions, it is rather easy to see what can happen in the future. For instance, price elasticities typically don't change over time. They only do when something really drastic happens. In media elasticities, however, you see more variability around execution. We look across categories and events and do pre-testing. It makes a difference if you are introducing a really new product or if are just enhancing your brand. Analytics are never there to make decisions for you. Their role is to inform you; most of what you are planning has been done similarly before, and so you can learn from it.

MIR: Do ROI calculations play a role in your budgeting decisions?

NICK CHESTERTON: ROI is just one consideration and not the centerpiece in budget settings. Other considerations include the job to be done, the strategy for the brand and what competitors are doing. We are careful and do not rely on ROI alone.

MIR: For some researchers, quantitative measures, especially online, are referred to as "noise" and they recommend deep listening to gain real insights into brand perceptions. Do you evaluate campaigns based on qualitative information as well, or do you rely on quantitative feedback only?

NICK CHESTERTON: For "why" questions, deep listening is important. If you want to know why your communication is (not) working the way it is, you always need qualitative data. But if you did your homework and pre-tested and you know how you want to communicate, then you should also know how and why things work. So only if results are very unexpected is more qualitative work needed.

In these cases social media are a great resource to listen to consumers in a natural way and can be used quite easily. You define your key performance indicators (KPIs), for instance, and then you listen in social media and understand whether consumers picked up your campaign points and whether they share it with others.

MIR: Do you observe any general trends in the effectiveness of individual activities, in particular for online versus offline marketing?

NICK CHESTERTON: One general trend we observe is that the developed world is moving towards digital and mobile. If such shifts are supported by our analytics, that is a good idea. But it is advisable to be very careful about generalizing this move for all countries. As always, your marketing activity has to influence the right target market at the right time. Unless your budget is very small and TV is no option, managers prefer a media mix rather than shifting everything into digital. When your budget is substantial, you want a variety of channels, as synergy is important and can be achieved with a smart mix.

MIR: The scope and skills of your analytics team are very impressive and your team, to me, sounds like the perfect place to be for every market researcher. Is there anything you ideally would want to have more of?

NICK CHESTERTON: Ideally, I would like the same quality of data as in the US all over the world. We have a great analytics team, indeed, and get the most out of limited data, but our hands are tied by what we can measure. In certain emerging markets, it is tough to assess the impact of a specific TV campaign, let alone social media impact by platform. The gold standard of marketing mix modeling is harder to achieve in such data environments.

MIR: I am sure during your next 25 years at Unilever you will see much better data in many more corners of the world. Thanks for sharing your wide-reaching experiences with accountable marketing so enthusiastically with us!

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The Long-Term ROI of TV Advertising in a Digital World

Raimund Wildner and Guido Modenbach

KEYWORDS

TV advertising, Advertising Effect, Marketing ROI, Long-Term Effects

THE AUTHORS

Raimund Wildner,
Managing Director and Vice President of GfK Verein and Professor of Business Administration and Statistics at the University of Erlangen-Nuremberg, Germany
raimund.wildner@gfk-verein.org

Guido Modenbach,
Managing Director of Seven One Media, Munich, Germany
guido.modenbach@sevenonemedia.de

TV advertising in the age of social media /// "I know at least half of my advertising budget works. I just don't know which half," Henry Ford is believed to have said. While methods of measuring market success and advertising effect may now be more sophisticated and precise than they were in Ford's day, identifying cause and effect in the world of marketing is still a challenge. There are so many influential factors, and more and more communication channels are becoming available for addressing consumers and promoting one's brand. So how does good old TV advertising stack up in this environment? Has it become obsolete in the age of social media? Does it belong to the half of the advertising that does not work? If you consider both the short- and long-term effects, the answer is an unequivocal no. That was the result of the calculations of a model developed by Seven One Media, GfK Fundamental Research of GfK Verein and GfK TV Audience Research for determining the return on investment (ROI) of TV advertising.

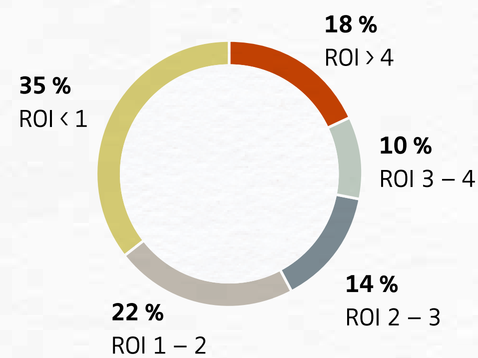
TV advertising pays off, particularly over the long term /// There are two challenges in particular that make measuring advertising success difficult. On the one hand, you have to isolate the effects of other advertising measures and promotions in the case of integrated marketing. On the other, both short- and long-term effects need to be taken into account. The ROI analyzer masters both of these challenges. It shows that TV advertising achieved a positive ROI for 65 % of all

{ *Box 1* }

ROI CALCULATION FOR THE TV ADVERTISING OF 204 BRANDS

A Seven One Media project carried out in collaboration with GfK TV Audience Research and GfK Verein calculated the ROI for 204 TV advertising campaigns. Only those cases were examined in which TV advertising accounted for more than 80 % of the total advertising budget, using a collection of data derived from the AGF/GfK TV viewer panel and the GfK consumer panel. The calculation was based on a simulation of the household purchases between 2010 and 2014. In one simulation, the advertising for 2010 was incorporated as it actually occurred (the corresponding data was sourced from Nielsen's advertising expenditure statistics). In a second simulation, the advertising for 2010 was set to zero. Calculations were based on no advertising for the years 2011 to 2014 and otherwise with the influential variables of 2010. The differences in sales between the two simulations can therefore only be explained through the existence or omission of advertising for 2010. The ROI is the ratio of the increase in sales to net advertising expenditure.

FIGURE 1:
Size of long-term ROI effect



examined brands used on a daily basis. The average long-term ROI was 2.65, while the average short-term ROI in the year of the advertising was only 1.15. Long-term effects are therefore essential for obtaining a fair evaluation of advertising effects (see Figure 1 and 2 for details).

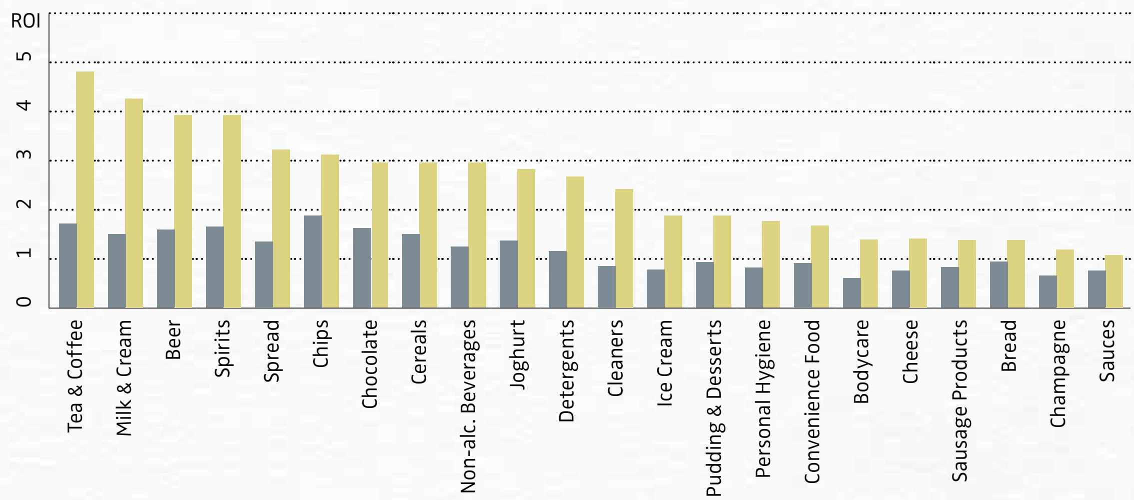
The long-term ROI was higher than 1 for 65 % of all brands and even higher than 2 for 42 %. It was only for 35 % of all brands that the increase in sales was insufficient to cover net advertising expenditure even over the long term. So the likelihood that TV advertising not only covers its costs with an increase in sales but also contributes to profit is very high.

» Long-term effects are essential for obtaining a fair evaluation of advertising effects. «

The model for calculating advertising effect and ROI ///
The ROI analyzer builds on the STAS differential, a renowned system for measuring advertising effect developed by John Philip Jones at Syracuse University in the 1990s. "STAS" stands for "short-term advertising strength." The model is based on single-source data, meaning data acquired through a combined household and TV viewer panel. Purchasing behavior as regards consumer goods used on a daily basis and TV viewing behavior in the same households were examined. The purchases made by households that had seen TV advertising for brand A in the seven days prior were added to the pot with advertising effect. Other purchases were added to the pot without advertising effect. The groups were then compared, and the difference was indicated as a

FIGURE 2:

ROI of TV advertising for the examined product groups



Ø Short-term ROI (1 year) **1.15**

Ø Long-term ROI (5 years) **2.65**

Ø ROI (net) by product group
Basis: 204 analysed brands from 22 product groups

including umbrella brand effects of 139 brands; net-investment (average estimation based on Nielsen Media Research, ZAW)
Source: GfK / SevenOne Media

STAS differential and translated into short-term advertising strength. For example, if the pot for the purchases motivated by advertising contained 12 % for brand A and the other pot just 10 %, the STAS differential was 12 % divided by 10 %, or 1.2, and the short-term advertising effect was +20 %.

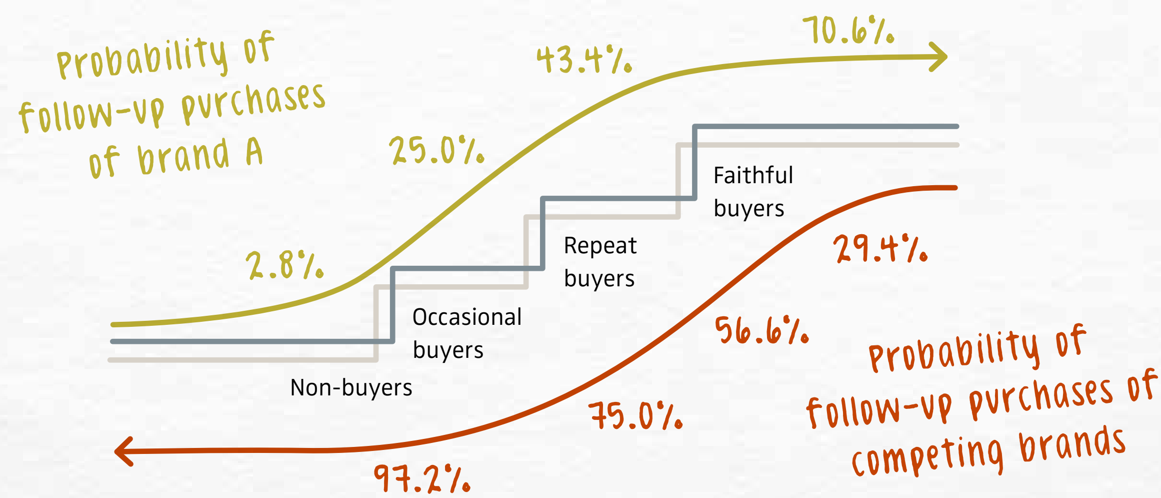
Though the concept was intuitive, it was also criticized, as many factors such as socio-demographic criteria and key behavior differences between the two groups were not taken into consideration. It was also not possible to isolate the effects of other marketing initiatives, such as promotions, occurring at the same time. What's more, the system was only capable of measuring short-term advertising effects, as the name suggests. We focused on these critical points as we began the development process.

The first two problems were solved by explicitly incorporating into the model those variables whose influence could get mixed up with the influence of advertising in the analysis. This applies to socio-demographic factors, the length of time spent viewing the advertising and other marketing mix variables such as promotions.

We solved the problem of short-term effect by incorporating into our model consumer relationships with the individual brands and thus the strength of brand loyalty. The idea behind it is that every consumer occupies one of the rungs on the brand loyalty ladder before a purchase and can either move up or down with each purchase in the product group. If consumers have never purchased a brand, they are considered a non-buyer of the brand. When they make a purchase,

FIGURE 3:

Purchasing likelihood associated with detergent brand A



they become a first-time buyer and, with each subsequent purchase, a repeat buyer and then a loyal buyer. They maintain this position as long as they do not buy a competitor's brand. If they do buy a competitor's brand, they move down one rung, turning a loyal buyer into a repeat buyer and a repeat buyer into a first-time buyer.

Purchase likelihood can be calculated for each of the individual rungs. Figure 3 demonstrates these likelihoods using detergent brand A as an example. The likelihood that a non-buyer will buy this brand the next time they need detergent is just below 3 %. For first-time buyers, it is already 25 %, for repeat buyers an impressive 43 % and for loyal buyers over 70 %. These relationships are typical. This just goes to show that goods used on a daily basis are purchased out of habit and the more anchored a habit is, the higher the likelihood of a purchase.

Advertising effects over a longer period can be taken into account here because they are not only based on purchases but also on changes in brand loyalty. A move up the brand loyalty ladder means an increase in the likelihood of future brand purchases and thus stands for the long-term effect of the advertising. A simulation can then be used to determine the sales effects of the advertising (Box 1). The calculations for detergent brand A show that just over half the advertising effect can be achieved in the first year and the rest in the following years. They also show that the additional sales resulting from the advertising amount to nearly five times the net advertising expenditure (Figure 4).

Additional findings of the ROI study on 204 TV advertising campaigns /// In addition to the fact that TV advertising was a worthwhile investment for two-thirds of the brands examined when viewed over the long term, there is a whole host of other interesting findings:

> ***Small budgets can also be effective***: Campaigns with smaller budgets were very successful. With the average budget for all 204 campaigns at € 3 million net, the ten smallest budgets were on average just € 0.6 million net. However, these were also able to achieve an average ROI of 2.5.

> ***Umbrella brand strategies increase the advertising effect***: When it comes to umbrella brands, it is necessary to not only consider the ROI for the advertised products but also the effects for the other products of the umbrella brand. At 1.8, the average ROI for the advertised product of an umbrella brand is almost as high as that of individual brands at 2.0. But umbrella brands also enjoy an effect amounting to 1.2 times the advertising expenditure for the other products of the umbrella brand, so that the overall ROI of the umbrella brand advertising is 3.0.

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Just over half the advertising effect can be achieved in the first year and the rest in the following years.
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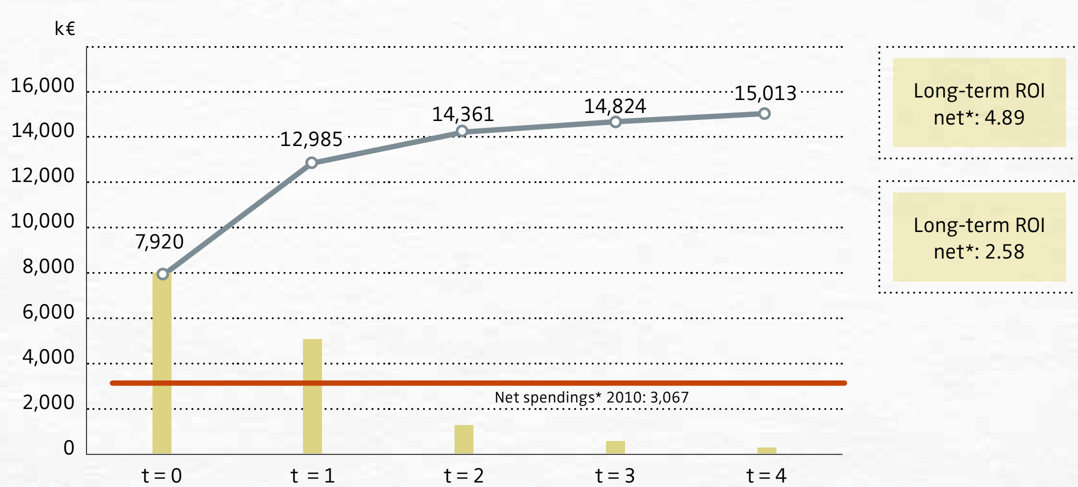
FIGURE 4:

ROI of detergent brand A

Additional sales per year resulting from advertising spendings in 2010



* Net-spending (average estimation based on Nielsen Media Research, ZAW)

> ***Consistent motifs are more effective***: We analyzed the relationships between the design of the advertising and the ROI for the laundry product campaigns. We found that, on average, consistent motifs achieve higher ROIs than changing ones. This suggests that the fear of overexposure is often unfounded. In fact, advertising has to be learned, which requires repeated viewing.

> ***Informative content extends the length of the effect***: Advertising should not only work with emotions but also provide information. Advertising campaigns that provide information have a longer effect than those that work purely with emotion. Yet complex commercial staging has little effect on the ROI.

How brand managers can profit from ROI analyzer ///
Brand managers have plenty of opportunities to invest in their brand. In addition to advertising and in particular TV advertising, promotions and product listings compete for limited budgets. Now that we are able to determine both the short and long-term effects of TV advertising, we can compare them with the effects of other measures and thus create a foundation for optimal budget allocation. The database we developed with 204 brands also makes it possible to identify success factors for TV advertising.

An expansion to include print advertising in 2015 is being tested. Online advertising can also be evaluated if the advertiser and their agency work together. Both adaptations can be applied to goods used on a daily basis. Incorporating other product groups would be much more difficult and is not planned in the near future.
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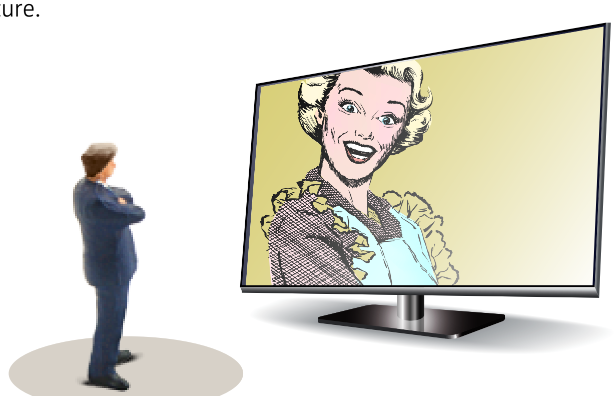

FURTHER READING

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How Advertising Works, Sage Publications 1998

Wildner, Raimund; Kindelmann, Klaus (1997):
"TV Advertising Effectiveness:
How to Measure and Judge TV Ads' Effectiveness with Single Source Data," from the seminar The Revolution in Panel Research, ESOMAR, Munich and Amsterdam 1997

Executive Summaries

Truly Accountable Marketing: The Right Metrics for the Right Results

Koen Pauwels

Marketing accountability is essential for sustained organic growth, but the challenges to it loom large. The major steps in truly accountable marketing include defining the right results, using the right metrics and finally acting upon the collected insights. To identify the right metrics one has to start with defining the right results: What is the informed decision that needs to be made?

But getting data-based answers to key questions is only half the battle. Actually acting upon it is the other half, and often companies are reluctant to change. To create momentum, marketing and finance need to pull together, and the selected metrics need to be useful to both mind-sets. Other proven ways to overcome resistance to data-based recommendations include moving to the proposed optimal allocation gradually and demonstrating the real-word gains through field experiments.

When companies succeed in establishing truly accountable marketing, they improve and simplify recurring and quantifiable decisions, which leaves them more time to scan the environment for new opportunities and allows them to take smarter risks.

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Marketing and Organic Revenue Growth

Donald R. Lehmann

Companies can either strive for organic growth or growth through acquisitions. For marketing the first option is more attractive because it relates directly to its core responsibilities. Further, organic growth increases the market value of companies, whereas acquisitions often fall back on such expectations.

The main opportunities for organic growth lie in new products, brand building, customer management and channel innovation. There are many sources of growth ideas and multiple paths toward organic revenue goals. The key is to generate a large number of ideas and then select the most promising among them. While the most obvious one is technology development, there are other useful approaches, as well, such as observing or asking consumers, co-creation projects or approaching ideation systematically.

But even good ideas with initial support from all relevant parties can fail. For a growth initiative to succeed, all stakeholders need to be considered. The outcomes need to be positive to all relevant parties both inside and outside the firm.

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Closing the Gap between Marketing and Finance: The Link to Driving Wise Marketing Investment

David Reibstein

Unlike a couple of decades ago, today the majority of a firm's value is in intangible assets. Marketing carries the primary responsibility for most of these intangible. Therefore, it is imperative to understand how marketing expenditures are linked to these intangible assets and that increasing the value of intangible assets is in the interest of both marketing and finance.

It is not always easy to demonstrate this link, and many marketing departments still struggle to prove the financial returns of their activities. Too often marketers rely on typical marketing metrics, like awareness or preferences, whereas finance is more concerned about market results like profit, cash flow or EBITDA. Rather than letting marketing budgets be cut during economic downturns, marketing managers should learn to show the value marketing brings to the firm. The key for marketers is learning to speak the financial language of the firm and helping train the rest of the organization to understand the longer-term financial assets resulting from marketing.

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Mind-Set Metrics: Consumer Attitudes and the Bottom Line

Shuba Srinivasan

Including mind-set metrics like cognitions, affects and intentions in marketing models helps explain the effect of marketing on hard facts like sales and profit and also improves marketing decisions. Mind-set metrics have longer wear-in times than most marketing mix activities and can therefore serve as leading indicators. They allow time for managerial action before market performance itself is affected.

The mind-set effects are not identical for all types of products or in all marketing settings. Four criteria – potential, responsiveness, stickiness and sales conversion – help determine and make clear the connection between marketing actions, attitudinal metrics and sales outcomes for different product types and brands. These criteria can also be used in prediction models and to determine the optimal budget for individual marketing activities.

The joint modeling of mind-set metrics, marketing mix actions and financial outcomes are relevant and helpful to CMOs and CFOs alike. Such information enables marketing managers to understand the effect of marketing actions while offering financial accountability of marketing to CFOs.

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True Synergy for Real Effects: How to Control Integrated Marketing Successfully

Prasad A. Naik and Kay Peters

In integrated marketing, the effectiveness of each activity depends upon all other branding activities when synergies are sought. Synergies arise from each of the following four areas: combining different media types, scheduling their in-phase or out-phase timing, using consistent formal designs and creating integrated content across media types. Using a proper mix of multiple media and synchronizing their spending patterns over time are more important than creating and designing advertising content when generating media synergies. In some cases, the effectiveness of one medium increases because of repetition of the brand's message in a different medium. In other cases, synergies occur because the target segment gets to read, understand and elaborate on the advertised content, thereby reinforcing the brand's message.

Synergies not only influence the effectiveness of advertising but also the budgeting. As synergy increases, the optimal total media budget increases, as well, and the proportion of the media budget allocated to the more effective medium decreases, while that allocated to the less effective medium increases. Sometimes the effects of synergies are surprising, and individual activities need to be seen in a completely different light when combined with others. Managers are well-advised to monitor synergies of their activities and reflect them in their budgets.

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Keeps Working and Working and Working … The Long-Term Impact of Advertising

Dominique Hanssens

While some marketing tactics such as price promotions have mostly short-term effects, others such as advertising have both a short- and a long-term impact. A short-term focus in advertising measurement may bias return-on-investment calculations because it takes into account the complete expenditure for advertising but only a portion of its impact. Therefore it is necessary to assess advertising's long-term impact on top of its short-term effects.

Sustained advertising effect arises from consumer response in terms of carry-over effects or purchase reinforcement like repeat buying or word of mouth. It also depends on corporate behavior like a company's ability to learn from past experiences. A precondition to leveraging optimal short- and long-term advertising effects is to monitor success and infer the right action.

The improvement in an organization's marketing processes and behaviors can result in an impact that is over five times stronger and longer lasting. To produce such results, the organization must use consumer response metrics to advertising that are predictive of transactional and financial returns, spend on activities that create the short-term effects necessary for long-term build-up, repeat successful behavior and turn this feedback loop into better business practices and improved process management for both the brand and for the company as a whole.

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Next Issue Preview

A Marketing Perspective
on Product Design and Aesthetics

Jan R. Landwehr and Andreas Herrmann

Design for Affect: A Core Competency
for the 21st Century

Ravindra Chitturi

Predicting Preferences for Innovative Design:
The Repeated Evaluation Technique

Claus-Christian Carbon

Choosing Beauty and Feeling Good:
How Attractive Product Design Increases Self-Affirmation

Claudia Townsend

Beyond Aesthetics: Seeing Form and Believing in Function

JoAndrea Hoegg

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Nordwestring 101
90419 Nuremberg
Germany
Tel +49 911 395 22 31
Fax +49 911 395 27 15
Email: hello@gfk-verein.org
www.gfk-verein.org

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