THE QUEST FOR MARKETING EFFECTIVENESS – SOME DOS AND DON'TS

Neil Scaife analyses the findings from 10 years of the IPA's Effectiveness Awards ... and comes up with some surprising conclusions.

In a recent examination of the annual reports of FTSE-100 companies, the Institute of Practitioners in Advertising (IPA) established that just four firms – British American Tobacco, National Grid, Reckitt Benckiser and HSBC – used brand or marketing measures as key performance indicators (KPIs).

The same research revealed no such reticence, however, when it came to non-brand related KPIs – whilst 24 companies reported no KPIs whatsoever (fairly astonishing in itself), the 76 that did focused on profit, return on investment, environmental and social responsibility, human capital and, naturally, sales. Of the 388 various KPIs used, only one concerned marketing spend. [The top 10 most popular KPIs are listed in Figure 1.]

This imbalance would seem to stem from: i) a lack of understanding at board level about the link between brand performance and the value of the business; ii) the inability of the marketing industry to make that link empirically; and iii) most worrying of all, given that brands now account for, on average, 12% of a company's market value, a lack of shareholder demand for such metrics.

Whilst one supposes we should welcome the fact that a financial services organisation made it into the aforementioned 'exemplary four', anecdotal evidence from the city analyst community suggests that this issue is particularly acute in the financial services sector … which is cause for more than a little concern for us here at The Forum, given our commitment to enhancing the levels of marketing effectiveness within our member organisations. (It will surprise few readers, I suspect, to learn that a recent McKinsey study[1] of CEOs reported a view of the marketing function as 'undisciplined', 'uncommercial' and 'not accountable'.)

Figure 1: Top 10 most popular KPIs in recent FTSE-100 annual reports

Earnings per share
Profit
Free cash flow
CO_2 emissions
Employee retention
Operating profit
Operating margin
Revenue
Total shareholder return
Return on average capital employed

Source: Institute of Practitioners in Advertising, 2007

So what's to be done? I'd suggest two things, and we'll cover both in the course of this piece: i) the adoption of some marketing approaches that are more likely to secure you commercial success; and ii) the rejection of a great deal of received wisdom and a number of urban myths. Some dos and some don'ts, therefore, designed ultimately to distinguish common practice from best practice.

But before we start, why should you heed my advice? The chief reason is that most of the data supporting it comes from a recent analysis[2] of all the winning papers from the last 10 years of the IPA's Effectiveness Awards, widely acknowledged as the international gold standard of marketing case material. The generation of rigorous case studies to prove the effectiveness of communications has been the role of the awards since 1980, and the body of data now residing within these 880 cases (which collectively form the IPA dataBANK) is recognised as the most comprehensive, objective and robust in existence.

Moreover, the analysis doesn't draw on the case studies in an anecdotal, qualitative sense (as is so often the case), referencing cases selectively in order to support a particular line of argument, but quantitatively, drawing robust conclusions based on empirical evidence. So what does the analysis tell us?

Let's start with the dos …

1. Do set quantified measures

Your marketing is unlikely to be effective, and your success will certainly be difficult to measure, if your objectives are not clearly spelled out – largely as a consequence of the very definition of 'effectiveness', best laid down by Tim Ambler (Senior Fellow, Marketing at London Business School) as 'reaching desired goals'.

Agreeing clear objectives obviously makes marketing more accountable because it provides definite criteria for evaluating success or failure. Less obviously, agreeing clear objectives also makes marketing more effective by focusing minds on the tasks that matter! Evidence from the IPA dataBANK confirms that **campaigns that set clear objectives prove to be more effective than those that don't**.

Ideally, objectives should be precisely quantified, and allied to timescales. Brands rarely set precise business targets for their communications (although intermediate measures, such as awareness, are more commonly set as KPIs). Even when business objectives are identified, they are rarely quantified.

2. Do distinguish the different types of measure

As discussed, there are both hard and soft (or intermediate) objectives. Hard metrics measure factors that directly affect business performance, and can be further sub-divided into those that reflect behavioural changes by consumers (penetration or loyalty, for example) or the net business effect of those behavioural changes (such as market share or pricing).

Soft metrics measure factors that will, hopefully, influence subsequent business performance, but don't directly affect the commercial position of the brand (such as awareness, brand image, consumer attitudes). These measures are sometimes collectively referred to as that vague, and therefore rather unhelpful, term 'brand equity'.

The marketing community finds intermediate metrics highly seductive – and therefore uses them widely – since they tend to move more quickly and more dramatically, and are easier to link to marketing activity. They should, however, be used only as leading indicators. A clear finding from the IPA dataBANK is that **campaigns that set hard business objectives are more successful than those working only to intermediate consumer metrics**.

It seems eminently sensible that marketing metrics should aim to measure changes in the real commercial world of the brand, not just changes in the mindsets of consumers. This leads one to the conclusion that the overall hierarchy of objectives should be:

a) business objectives;
b) behavioural objectives;
c) intermediate objectives.

For example: profit growth from increased consumer penetration from enhanced brand consideration.

3. Do measure the right things

Pursuing the measurement topic still further, it seems that even when marketers *do* focus on hard business metrics, they focus on the wrong ones: sales rather than market share, or volume rather than value for example.

First, interestingly, there is a wide mismatch between the incidence of objectives and their likelihood to deliver effectiveness **– the least successful are the most widely used … and vice versa.** Second, it's clear that **campaigns which aim to increase profitability outperform all others, and campaigns that make profit the *primary* objective perform better still**, with 92% reporting very large business effects, compared with 84% of those that make profit just one of a number of objectives.

Indeed, profit-focused campaigns outperform others on every single business metric. Yet, worryingly, profit is rarely used as an objective – by only 7% of cases in the dataBANK, and therefore almost certainly a lower percentage in the world at large.

If profit should always be the primary objective, what should be the subsidiary ones? Sales gain is the most common objective (82% of all case studies), and is nearly always a primary aim, **yet campaigns that focus on sales have the lowest overall success rate in terms of effectiveness! Contrastingly, campaigns that target market share significantly outperform sales-focused campaigns on every business metric**. (This finding is corroborated by the highly authoritative PIMS[3] database.)

Share growth is a more reliable KPI for the simple reason that it is not influenced by the general state of the market, and is therefore much easier to correlate with marketing activity.

[NB: share growth will be less meaningful as a measure, of course, for brands with very high market shares or those that don't have well-defined competitor sets.]

If market share should usually be the key subsidiary objective to profit, it begs the question whether one should target volume or value?

Again, the dataBANK provides an unequivocal answer: value share should be favoured over volume because of the importance of relative pricing to profitability. **Campaigns that aim to reduce price sensitivity are much more likely to produce very large business effects than those focusing on volume measures. In**

Figure 2: Effect of 1% volume increase v. 1% price increase

	Base case	1% volume increase	1% price increase
Sales units	1,000,000	1,010,000	1,000,000
Price per unit	£1.00	£1.00	£1.01
Sales revenue	£1,000,000	£1,010,000	£1,010.000
Variable cost per unit	£0.80	£0.80	£0.80
Variable costs	£800,000	£808,000	£800,000
Marginal contribution	£200,000	£202,000	£210,000
Profit increase	**-**	**£2,000**	**£10,000**

particular, reducing price sensitivity is, by a large margin, the most successful route to increasing profitability – almost twice as effective as volume gain, for example. This should be food for thought for all those general insurers obsessively – and unremittingly – spending vast sums trying to convince the consumer they're all the cheapest!

It's not difficult to see why reducing price sensitivity is so important. Assume your profit margin is 20% and that you're contemplating whether to grow volume by 1% whilst maintaining your price, or increasing your price by 1%. As Figure 2 illustrates, increasing the price generates *five times* as much additional profit.

All this should come as no surprise to those who subscribe to the (largely unarguable) view that the key purpose of a brand is to justify a price premium. However, the dataBANK shows that reducing price sensitivity is rarely an objective – only 4% of cases. Sales gain, misguidedly, emerges as the most common objective (62% of all cases) and, equally misguidedly, volume share is quoted as a measure more frequently than value. **Thus, the general pattern is largely the reverse of what is optimal for effectiveness** - even within the dataBANK of awards submissions!

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In short, 'earning your way in' to greater market share (through better products and higher quality service, for example) is almost certain to be much more effective than 'buying your way in' (ie discounting).

4. Do think hard about your messaging

It's important to get your communications objectives right, since not all objectives are equally productive in terms of effectiveness. **The two most common communications objectives are 'Awareness' and 'Image' (61% and 55% of cases respectively), but their effectiveness success rates are among the lowest**. The same is true to a slightly lesser extent of 'direct' campaigns (those directly influencing behaviour, such as trial or direct response, or overcoming barriers to purchase). These are efficient in terms of short-term profit generation **but the least likely of all communications objectives to produce very large business effects**.

In fact, awareness as an objective yields weaker results across the entire range of business effects, and anyone who has ever followed a tracking study over a period of years will know all too well that key brand image measures don't usually move very much (even when the campaign seems to be working!). Only 27% of image campaigns actually report very large shifts in brand image, **making image shift one of the hardest communications objectives to achieve**.

These should be worrying findings for almost all financial services brands, and are a classic illustration of the perils of undisciplined target setting. Organisations focus on these communications objectives not because they promote business success (if anything, they produce smaller business effects), but because it is easier to demonstrate corresponding intermediate effects. Yet, as the dataBANK demonstrates, what is easy to measure is not necessarily the best thing to do!

By contrast, **campaigns designed to build brand 'fame' lie a lowly fifth in the league table of incidence, yet they outperform all other communications objectives across all business metrics**, particularly market share growth. [NB: fame is not the same as awareness – it is a perception of authority in the category rather than simply a state of knowledge. The potency of fame lies partly in its ability to raise the relative perceived quality of the brand, not necessarily in a rational (product performance) sense but rather in an emotional (belief in the brand) sense. The recent 'Your M&S' campaign would be a good example of the genre.]

5. Do set the right budget

Your budget can't sensibly be set in isolation of your objectives (and vice versa for that matter); the more ambitious your objectives, the larger the budget required. Similarly, budgets should also reflect the competitive

context; the more your competitors are spending, the more you'll need to spend to compete with them. For these reasons, share of voice (SOV) is usually a much better KPI than absolute spend when it comes to budget setting. The dataBANK shows that **SOV is strongly correlated with brand performance, whereas absolute size of budget is not**.

It's well-established that expenditure (ie SOV) needs to reflect the desired share of market (SOM). Indeed, for any given market share, there is an equilibrium SOV at which that market share will be relatively stable – if SOV is above that equilibrium level, market share will rise (to a new higher equilibrium level), and vice versa. Various studies, including the dataBANK, have corroborated this relationship for varied brands of many categories and sizes. (It's worth noting that, encouragingly, SOV correlates more closely with market share by value than with market share by volume.)

Moreover, **there is a good correlation between market share growth and 'excess' SOV**, ie the difference between SOV and SOM – the larger the excess SOV, the faster a brand tends to grow – and vice versa, of course. A further finding is that **the best predictor of growth is the excess SOV at the *beginning* of the campaign**, not the end – thus initial excess SOV is a critical KPI when it comes to budget setting.

Taking all the cases in the IPA dataBANK reveals that, on average, every 10 points of excess SOV generates around 2.2 percentage points of extra share growth. However, it should be remembered that dataBANK campaigns are, by their very nature, more effective than average, and extrapolating across a wider population (by way of a technique called Tobit analysis) results in **an average one percentage point of extra share growth for every 10 points of excess SOV**.

(This analysis serves a further purpose in reinforcing the fact that most of the marketing budget, particularly in the case of mature brands, maintains market share, rather than creates growth. To calculate profit returns accurately, it's necessary to estimate the long-term decline in sales that would occur if marketing spend were withdrawn.)

Finally, on closer inspection, it transpires that the correlation is not quite linear: as market share increases, the required equilibrium share of voice flattens off. In other words, big brands can get away with spending a smaller proportion of their revenues on communications. Thus, small brands tend to set SOV above SOM, while bigger brands set it below. The data suggest that **brands with market share in excess of 25% can get away with a SOV circa 5% lower than market share, whereas brands with less than 10% market share typically need a share of voice circa 4% above market share to 'hold their own'**.

In turn, this means that advertising by existing category players can act as a significant barrier to entry for new players, and the dataBANK shows that there is a strong correlation between the effectiveness of long-running campaigns and their ability to act as a barrier to entry – a strong argument for consistent spend … and consistent creative for that matter.

6. Do put media at the heart of your strategy

This has always been a sensible approach but, in the 'modern' media environment (media fragmentation, digital becoming a real force to be reckoned with, ambient opportunities abounding etc), it's never been more so.

Even a cursory examination of the best papers within the IPA dataBANK reveals that reserving a place for media strategy at the top table of campaign planning is a

The 'Your M&S' campaign – a classic example of a campaign designed to leverage the potency of brand fame, and winner of the IPA Effectiveness Awards Grand Prix in 2006

significant contributor to success, whether that contribution can be segregated from the creative contribution or otherwise. Whether it's 'old' or 'new', media leverage can dramatically influence the effectiveness of your communications.

The proliferation of media channels over recent years – and indeed over the 26 years of the IPA Effectiveness Awards – is well known and widely reported, and effectiveness has undoubtedly been aided by the wider choice of channels available, with a number of case studies quantifying the multiplier effects of using them synergistically in integrated campaigns.

The dataBANK shows that these multiplier effects are not isolated examples – **multi-channel campaigns are in general more effective than those using a single channel**. And this is not simply the result of larger budgets, since applying a SOV overlay shows that **multi-channel campaigns actually make the same budget work twice as hard**.

However, one should beware of spreading the budget too thinly, with a significant 'tailing off' in effectiveness as the number of media increases beyond an optimum figure. The dataBANK suggests that **for budgets up to circa £5m, three media is the optimum figure; for larger budgets, the optimum is four rather than three**.

And now the don'ts …

1. Don't rely on one objective

The clear message from the IPA dataBANK is that **the benefit is greater the more hard objectives are set** (within reason). Some 76% of the case studies reporting very large business effects as a result of marketing activity had set four or more hard objectives, as against 46% which had set two or three, and only 28% which had set just one.

Furthermore, the data show that prioritisation of objectives is likely to be highly beneficial. **Campaigns are significantly more likely to be successful if they establish a hierarchy of objectives** (eg increase profit by increasing market share by increasing penetration). Only 15% of dataBANK cases did this, which means that it is considerably less likely to be undertaken in the wider world.

2. Don't be overly rational

The financial services category is a heavier user of rational content as a model of consumer influence than almost any other. However, the conclusion one inevitably reaches when examining the dataBANK is that **communications models that use emotional appeal are more likely to yield strong business results** (and more of them) than rationally based models (those relying on information and persuasion), even in categories (such as financial services) which are defined by rational brand evaluation; in particular, they are significantly more *profitable* than rational campaigns.

Emotional campaigns also produce more numerous intermediate effects, outperforming rational campaigns on almost every single attitudinal dimension. They are better at generating awareness; more importantly, they are very much better at creating fame (authority) for brands and thereby differentiating them; and thirdly, they are better at raising quality perceptions – an undoubted 'triple whammy' of profitability!

The recent success of O_2, for example, has been built on an emotional platform of being a consumer champion in a category dominated by brands whose key focus was to communicate network performance and/or tariff competitiveness. Honda's 'The Power of Dreams' campaign would be another classic example, and there are other well-documented case studies of brands which have abandoned a rational communications model in favour of an emotional one (Cravendale Milk, Tropicana), and found the latter to be significantly more effective.

As one might expect, however (given the marketing industry's unerring ability to pursue courses of action which are less rather than more likely to deliver effectiveness!), **rational persuasion is the most widely used communications model, yet one of the least effective. Fame is the most effective model overall, yet is the second least widely used**.

The findings illustrate the practical difficulties of brand-building by rational means in a world where functional brand advantages are rare and, even when they exist, are short-lived. Furthermore, it seems clear that merely stating the rational basis of your brand's differentiation is insufficient; to be remembered, a brand difference must be emotionally engaging to consumers.

As a final observation, it also seems clear that the efficiency of emotional brand messaging is particularly acute in mature and, especially, declining categories, which tend to be characterised by low functional differentiation and narrow profit margins (which reduce the scope for competing on price). Financial services advertisers take note!

3. Don't be fooled into believing that TV is dead

It has become increasingly fashionable in recent years to subscribe to the view – largely propounded by the 'digerati' – that the days of the 30-second TV spot are well and truly over. Well, I've got news for them.

It is clear that TV has historically been a highly effective medium – quite simply, **campaigns that have used TV have significantly outperformed those that haven't** (66% reporting very large business effects v. 49%). And again, this is not merely a large budget effect, since TV has outperformed other channels, even for small-budget campaigns, with SOV analysis showing that **TV makes a campaign much more efficient** (over $3^1/2$ times as efficient, in fact), regardless of budget.

The fact that TV is so effective is wholly consistent with the findings set out in section 2. above (*'Don't be overly*

Communications models using emotional appeal are much more likely to yeild strong business results – as evidenced by recent O2 activity, winner of the IPA Effectiveness Awards Grand Prix in 2004.

rational'), in which it was shown that the most effective campaigns are those that rely primarily on emotional rather than rational messaging … and film is undeniably the most emotionally rich of the traditional communications media. TV is also unrivalled in its ability to create a sense of fame around brands – see section 4. earlier (*'Do think hard about your messaging'*).

However, what is genuinely surprising is not that TV is an effective medium, but that **its effectiveness actually seems to be increasing**. Indeed, the effect of TV on market share (where TV was the lead medium) has increased substantially with the launch of satellite TV in the UK, and has increased further still over the last decade.

This would appear to conflict with the accepted wisdom that TV audiences are declining and fragmenting, and costs are spiralling. However, as with so many almost universally held views, they prove to be wrong! First, allowing for recorded viewing and new digital multi-channel viewing, it's clear that **total TV viewing has not changed at all in the last 20 years** (at 3.8 hours per person per day on average). Second, as the number of commercial channels has increased, BBC's share of the total audience has fallen, and so **commercial TV viewing has actually risen** (from circa two hours per day in the mid 1990s to circa 2.5 hours in the mid 2000s). Third, **the cost of reaching a given audience has actually fallen substantially**, with the average cost per thousand having fallen in real terms by 32% since the 1980s – it is now at its lowest level for 25 years!

Since a given TV budget now goes about 32% further than it did in the 1980s, and with audience fragmentation allowing advertisers to use TV in a more targeted way, one would expect the effectiveness of TV to have increased by at least 32% – and the dataBANK reliably informs us that **TV is about 42% more effective now than it was in the 1980s**.

Whilst this may all change in the future, with new technology eventually rendering broadcast TV redundant, there is certainly no evidence of it happening yet – either here, or in the US where TV viewing is actually increasing. The ability of any new medium to replace TV in the vanguard of brand-building effectiveness will depend almost entirely on its ability to similarly engage the emotions of consumers. Whilst great strides are undoubtedly being made by new media, the 'digerati' should ask themselves whether they truly believe their medium is up to that task.

4. Don't focus on loyalty

It never ceases to amaze me that this finding is always regarded as revelatory, despite having been consistently proven to apply across all categories from soup to soap, from beans to jeans … and from currant buns to current accounts.

Two very common goals in terms of behavioural objectives are to increase penetration (the number of people buying your brand) or increase loyalty (how frequently they buy it). Of the two, the latter is the more common objective (28% v. 17%).

However, the dataBANK shows that **the quest for increased loyalty only rarely leads to successful marketing outcomes** - loyalty campaigns underperform on every business metric. When they do work, the outcome is not greatly increased loyalty either. In fact, **only 9% of loyalty campaigns actually increase loyalty significantly** – not much higher than for non-loyalty campaigns (of which 7% show very large loyalty effects).

Campaigns aiming to increase penetration, however, are almost twice as effective on average (77% v. 44%), and are more effective irrespective of category (FMCG, durables, services, not-for-profit etc).

[These findings are wholly consistent with those of Professor Andrew Ehrenberg, who has studied the

workings of numerous categories for almost 50 years and developed mathematical models (Dirichlet models) to explain consumer purchase behaviour. His conclusion is that attempts to increase loyalty without increasing penetration are largely futile. Ehrenberg is also responsible for establishing the phenomenon known as 'double jeopardy' – smaller brands suffer from the fact that they are not only bought by fewer people, but they also tend to be bought somewhat less frequently.]

It is reassuring to observe that the findings hold true even in the most testing situation of 'subscription services', where customers effectively lock themselves into a brand for the duration of their relationship (eg fixed and mobile telephones, ISPs and, of course, financial services). The dataBANK evidence confirms that, even in these categories, where consumers don't operate a purchase repertoire, **brands are much better off focusing their communications on penetration rather than the building of loyalty or the reduction of churn**. If anything, the data suggest that penetration gains are *even more* likely to yield strong business results than for service brands in general.

It is somewhat depressing to contemplate that almost the entire CRM movement has been built to a great extent on the assumption that, because a brand's most loyal customers are its most valuable, marketing should focus on them. The work of organisations such as Bain & Co and McKinsey & Co has strongly influenced this line of thinking, and in particular the oft-quoted (but entirely theoretical) findings of the former that a 5% improvement in customer retention can deliver an increase in profitability of between 25% and 30%. This may well be true as an exercise in basic mathematics, of course. However, as the data show, those striving to achieve it in practice are likely to find it somewhat elusive.

The simple truth is that big brands are big brands because more people buy them, and not because they are bought more frequently.

[NB: there are two further reasons why the pursuit of loyalty is commercially unwise – very loyal customers tend to be pretty thin on the ground, and tend also to be very low purchasers of the category.]

5. Don't fail to invest in evaluation

It's more than a little disturbing to learn that, according to the IPA, **fewer than 20% of marketers evaluate the profit effects of their communications**. Monitoring the profit impact of marketing requires investment in the evaluation tools that isolate its contribution, and brands that don't have access to such tools are strongly recommended to invest in them.

This is especially true of econometric modelling - the dataBANK argues for much more widespread use of econometrics, as it clearly promotes effectiveness as well as facilitating a deeper understanding of the drivers of profit growth. In short, not only does the use of econometrics make the measurement of effect easier but, if used on an ongoing basis as part of the planning cycle, it makes subsequent campaigns more successful.

Within the dataBANK, a full econometric model was used in just 15% of cases, and so it is likely that the percentage of all brands that use it is lower still. **Of these 15%, 81% were highly effective, compared with only 47% of those where econometric modelling was not employed**.

6. Don't place much faith in pre-testing

Since the former is intended to be a predictor of the latter, pre-testing and campaign evaluation should be happy bedfellows. However, a degree of caution is urged: if your pre-testing methodology is intended to predict a single intermediate measure such as awareness, and that measure is an unreliable predictor of business success, the pre-testing methodology is likely to be flawed.

Even more importantly, the great uncertainty with pre-testing is that the level and nature of the consumer exposure is far removed from the realities of the in-market experience. This may seriously limit the ability of pre-testing to predict even the chosen intermediate measure, let alone the likelihood of true business success.

Most of the dataBANK case studies (73%) used some form of pre-testing data to demonstrate effectiveness, leading one to assume that they produced strong pre-test results – otherwise, why use the work? On this assumption, if pre-testing really did lead to more effective campaigns, one would expect these cases to show larger business effects than those that did not use pre-testing as part of their evidence.

In fact, the reverse is true – **cases that reported favourable pre-testing results actually did significantly worse in terms of effectiveness than those that did not!** And this was as true for qualitative pre-testing as it was for quantitative.

The data don't suggest that pre-testing is entirely worthless, merely that its ability to reliably pick winners is doubtful.

So there we have it – some key dos and don'ts that should help you at least to embark on the journey to greater marketing effectiveness. It's neither a foolproof plan, nor a guarantee of dramatically enhanced returns on your marketing investments. But it is, I think, a reasonable stab at some guiding principles that will improve your odds of commercial success. But draw your own conclusions … because the one guiding principle I'd urge you to observe above all is to be different. ☐

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[1] McKinsey & Co, *The Coming of Age of Marketing*, 2004
[2] Les Binet & Peter Field, *Marketing In The Era of Accountability*, WARC, June 2007
[3] The Profit Impact of Market Strategy study