



Advertising effectiveness

Budget Battles – Proving our Worth



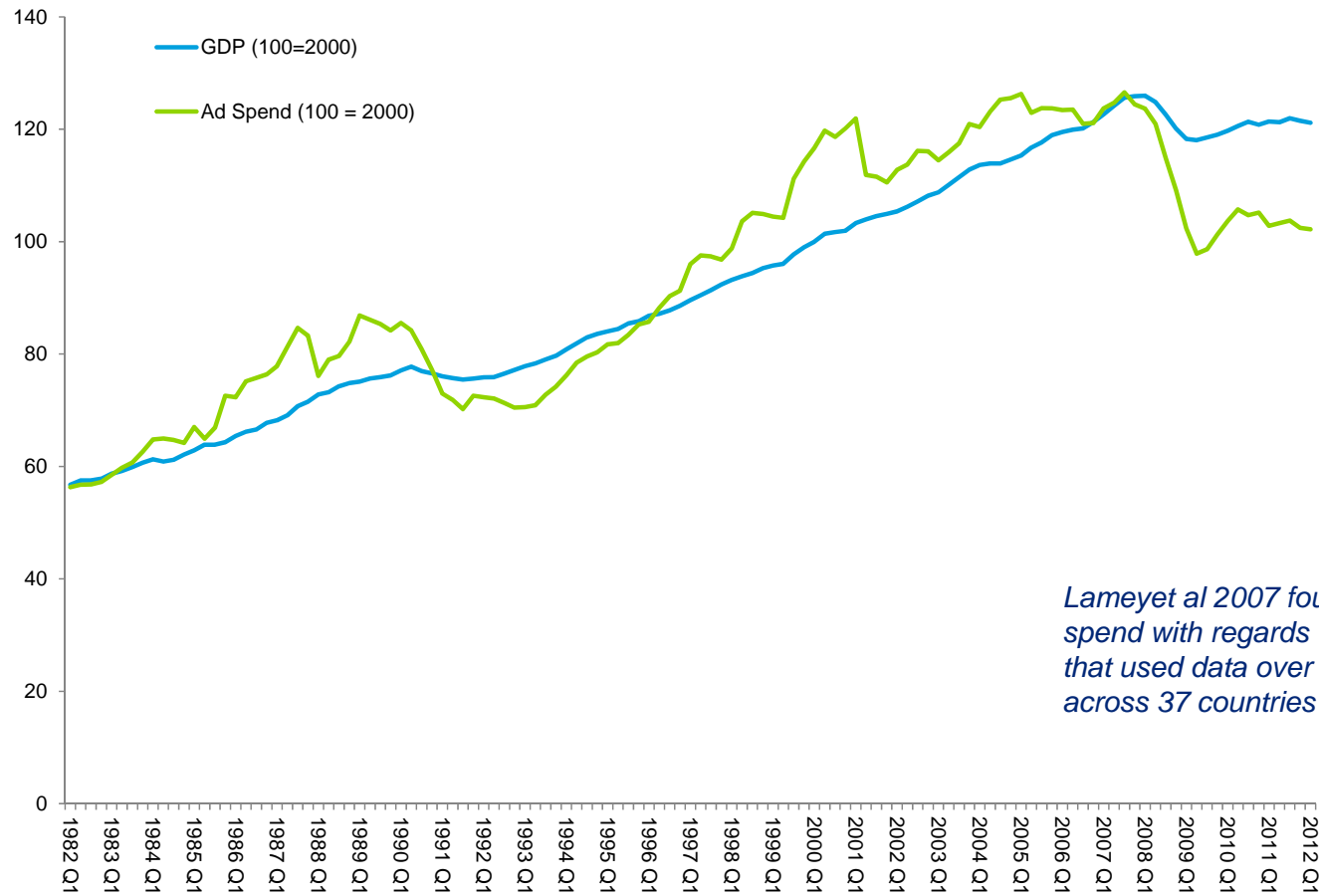
Thursday, 25 June 2015

Agenda

- Advertising effectiveness over the business cycle
- Measuring digital and traditional media effectiveness

Advertising trends

UK GDP and advertising spend

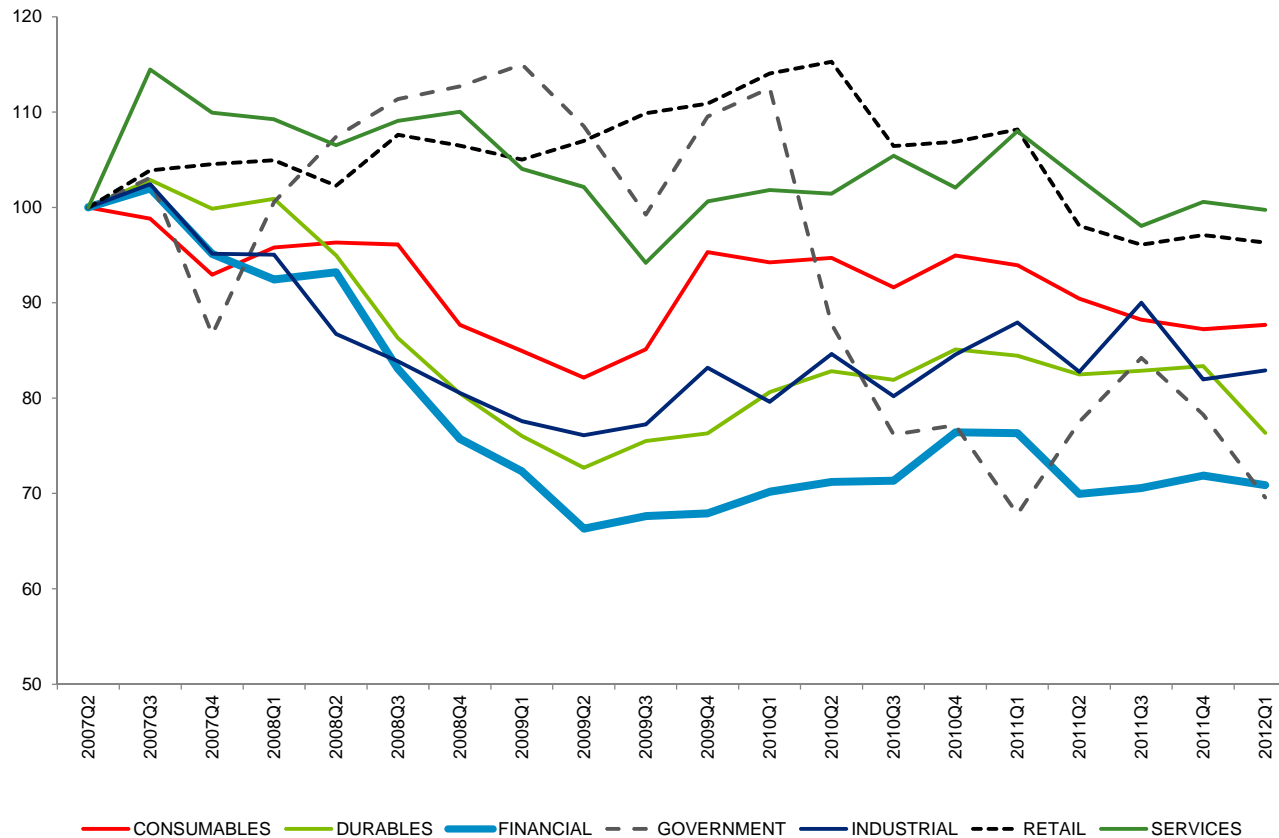


Lameyet al 2007 found that the elasticity of ad spend with regards to GDP is 1.4% in a study that used data over 25 years (1980-2005) across 37 countries

Source: Nielsen, ONS

Advertising trends

UK Advertising spend over the recent recession across sectors



- Ad spend in the financial sector experienced the biggest decline in the recent economic recession
- Durables, Industrial and Consumables sector also decreased their ad spend
- Retail and service expenditure remained relatively stable

Source: Nielsen

Advertising during economic downturn

Pros & Cons

Cons

- Effectiveness decreases when the market shrinks
- Uncertainty over expected ROI and future cash flows
- Resources could be better allocated especially if business is going through financial difficulties

Pros

- ROI can still be positive especially if competitors decrease spend
- Increase market share
- Exit recession stronger
- Cost of advertising is lower

Advertising effectiveness over the business cycle

Does the effectiveness of advertising vary across the business cycle?

Study	Published	Sample	Approach	Results
Kamber (2002)	<i>Journal of Brand Management</i>	822 US; 1990-1995	- Split-sample - Regression analysis	<ul style="list-style-type: none"> - The group of companies that maintained or increased their adspend during the recession had 7% annual growth in sales in 1991 compared to no growth for those that cut back advertising. The gap in sales growth between the two groups widened to 25% by 1995. - Sales uplift during the recession was as strong as during the years following the recession
Frankenberger & Graham (2003)	<i>Marketing Science Institute</i>	2662 US firms; 1971-2000	Regression analysis	Advertising ROI is greater during downturns for consumer products and B2B but not for services
Malik PIMS (2008)	<i>IPA conference (2008)</i>	1000 business units from developed countries	Split sample approach	<ul style="list-style-type: none"> - Businesses that increased spend during the recession experienced a mild decline in profitability - Cutting marketing expenditure is associated with lower profitability and market share post-downturn
Gijzenberg et al. (2013)	<i>Journal of Marketing Research</i>	163 UK CPG brands categories; 1993-2007	Regression analysis/Bayesian techniques	<ul style="list-style-type: none"> - Short-run advertising effectiveness reduces in downturns - Long-run impact of marketing remains constant over the business cycle - Price sensitivity increases during contractions

Summary

- Existing literature challenges conventional wisdom – marketing investment can pay off in both good and bad economic times
- A common theme that emerges from previous studies is that businesses that maintain or increase marketing spend during downturns experience significant growth post-downturn
- Results can be driven by three factors:
 - Most efficient use of resources during downturns
 - Increased share-of-voice
 - ROI might be compensation for greater risk
- However, the results should be interpreted with caution given the limited number of studies

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Multi-channel attribution

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Standard attribution methods

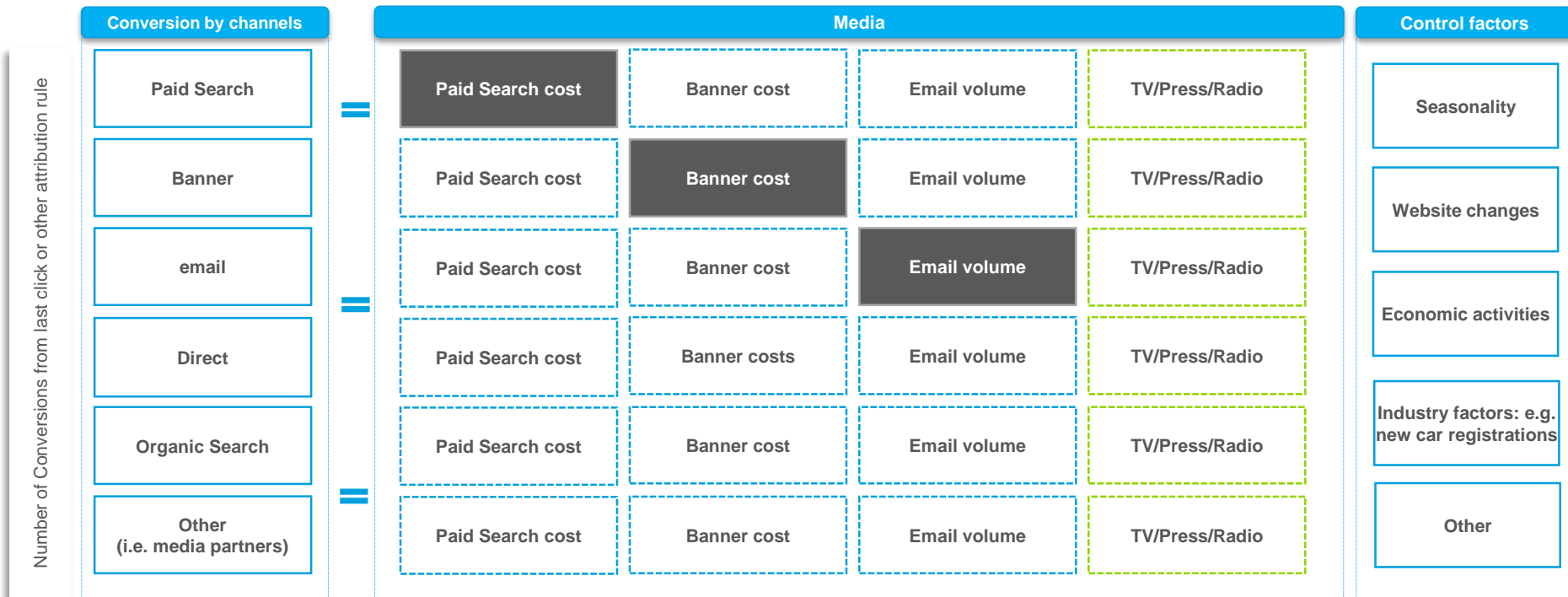
1. Digital attribution methods such as Google Analytics and Adometry
2. Traditional Marketing Mix Modelling (MMM) techniques where aggregate enquiries or conversions are modelled as a function of media variables and other control factors

	Traditional MMM	Digital attribution
Pros	<ul style="list-style-type: none"> • Provides a holistic view on both online and offline media • Powerful when there is data variability • Accounts for lag effects • Measures the attribution on both online and offline KPIs (i.e. call enquiries) 	<ul style="list-style-type: none"> • Easy to implement • Automated • Based on simple rules (i.e. last click, first click) - easy to understand • Based on observed customer behaviour
Cons	<ul style="list-style-type: none"> ★ Difficult to capture complex, multi-channel interactions • Data intensive • Requires data variability to isolate the impacts of all factors included in the model 	<ul style="list-style-type: none"> ★ Difficult to fully capture the interactions between marketing channels – multi-channel attribution is based on simple or arbitrary rules • Lack of visibility of all touch points if multiple devices are used • Measures only online channels

Combining digital attribution models with MMM

The approach is based on a combination of digital attribution models and econometrics:

- Total conversions are split across digital channels as measured by an attribution rule (i.e. last click)
- For each digital channel, an econometrics model is estimated accounting for both direct and multi-channel effects

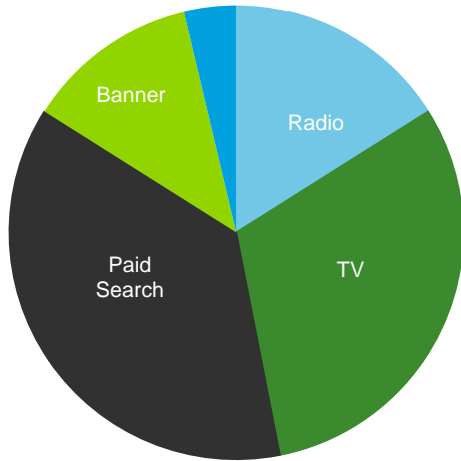


- Direct effects
- ▭ Digital multichannel interaction effects
- ▭ Offline multichannel interaction effects

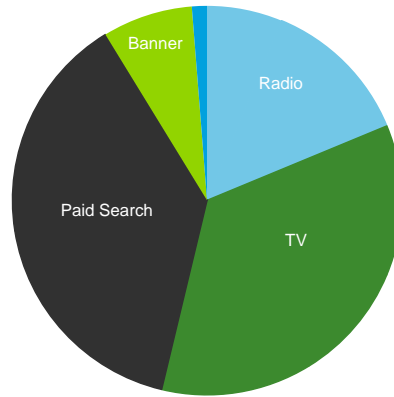
Decomposition

1 Decompose each channel's conversions

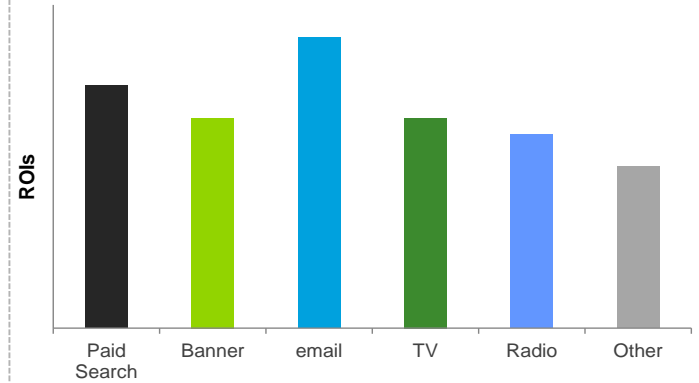
Organic search conversions



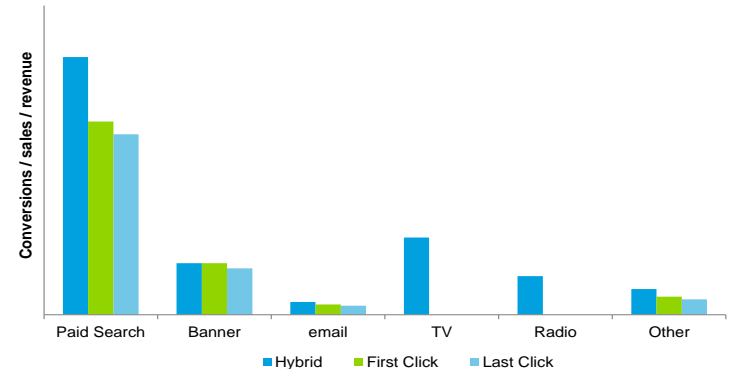
Paid Search conversions



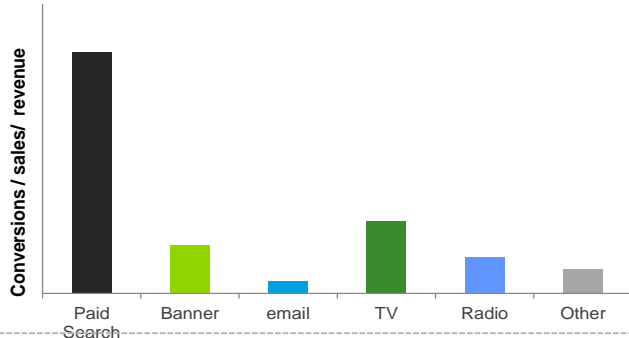
3 Estimate ROIs



4 Compare model attribution with digital attribution



2 Calculate total attribution by channel





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