LIPPINCOTT MERCER
Design & Brand Strategy Consulting

A Lippincott Mercer Commentary

Maximizing returns from brand spending

Faced with ever-greater financial scrutiny of large budgets such as brand spending, the first reaction of many companies was to shift spend from “soft” areas such as brand advertising and human capital development, to “harder” areas where robust returns on investment (ROIs) are more easily measured, such as direct marketing. But these companies are now discovering that in their flight to “quality” ROIs they are missing out: the ROIs they measured in their direct marketing campaigns depend on the reservoir of brand equity, which needs to be replenished. And diagnoses of which brand factors and customer touch-points drive customer choice across many industries consistently point to the importance of soft issues such as the training and development of both customer-facing and other staff.

The answer is not to return blindly to the black box, but to raise the standards of ROI rigor in these “soft” areas to the same standards as have long been established in other areas of capital allocation.

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Helping the pendulum to swing back

There has long been a disconnect in the financial precision with which companies manage capital allocation in different areas of their businesses. Core spend on manufacturing or service delivery has been justified with hard business cases and quantitative Return-On-Investment evaluations. Softer areas that are acknowledged as vital but are harder to measure, such as human capital development and brand advertising, have had their spend justified using softer, experience-based rules and judgment.

In recent years this disconnect has combined with ever tighter financial optimization to drive a shift of spend from the second category to the first—towards only what can be measured in ROI terms. Thus brand advertising spend is often sacrificed in favor of more measurable direct marketing campaigns. We may be missing something, the logic goes, but this way we at least know and like the returns from what we are doing.

Increasingly, companies are realizing that this pendulum has swung too far. The measures being used can be misleading and short-termist. In one example, a bank that had shifted substantial spend from brand advertising to direct marketing in search of attractive and measurable ROIs started to see a growing number of customers and prospects actively excluding themselves from its mailing lists, exercising their privacy protection options. The bank began to realize that its brand perceptions were now being created not in the branch or on television, but on the doormat—and they were often detrimental. The ROI models assumed that a non-response to a customer mailing had zero value—but if these mailings were damaging the bank's brand equity, and the customer's propensity to respond to future offers, then maybe this value should be negative. And the initial ROIs were measured with the benefit of brand equity accumulated from years of brand advertising; what would happen to them as that brand equity, no longer being regularly replenished, gradually erodes?

Our analysis of customer perceptions and behavior suggest that this shift in spend is indeed dangerous: activities that are being neglected, such as customer-facing staff training and brand advertising, turn out to be some of the biggest drivers of brand equity and future sales. The pendulum needs to swing back.

So long as the alternative is judgment and guesswork, however, the pendulum is stuck. Today's level of financial optimization in how companies are run will not (with a dwindling number of exceptions) tolerate yesterday's intuitive way of spending advertising money.

Fortunately, advances in customer science—the quantitative application of psychology, economics and statistics to understand customer behavior in ROI terms—now allow companies to evaluate the "hard" and "soft" issues on equal terms, bringing the soft issues up to the standard of ROI rigor that they must have if they are to attract spend in today's climate. These techniques allow the pendulum to return. They facilitate cost-cutting

in the marketing budget without damage to the business, by answering the legendary question of "which half of my advertising budget is wasted"—but in practice they can also lead to the protection or increase of spend, once the true ROI is established.

To do this in practice requires bringing together a range of different disciplines to attack different aspects of the problem, drawing on expertise in supply chain, media, customer science, retail value engineering and brand strategy. With this multi-disciplinary approach, we have helped clients draw on complementary sources of value to maximize the returns from their brand spending (see figure). The top two boxes address how cost-effectively a given message is communicated to the target audience; the bottom two boxes address how well the message, even if perfectly communicated, will translate into customer value.

Sources of value

1. Procurement efficiency: Buying more exposure for the same money

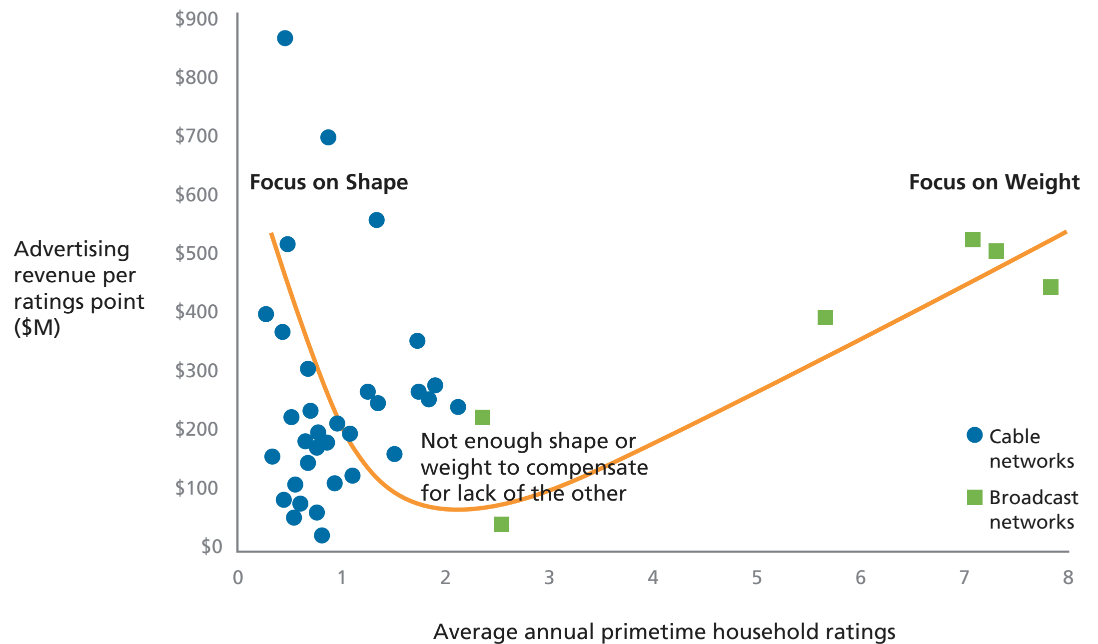
Helping to increase procurement efficiency is business as usual for media-buying consultants. As a result, companies may feel that this area is already well covered. However, there are many levers to pull here, and the media-buying organizations may not be using all of them. Approaching this topic from a broader business perspective we have seen significant quick wins in this area, ranging from 5% to 20% improvements in cost efficiency depending chiefly on the starting point.

A first level of improvement may come from maximizing the company's negotiating leverage over the media seller—by aggregating procurement across divisions of a company, and by working on the negotiating skills and supporting fact-base of the buyers.

A second level of improvement comes from working more in harmony with the media seller, matching buying practices to the media owners' underlying economics, thereby creating a more efficient economic system. Media inventory behaves like airline seats—a steady supply of capacity serving a variable and only partially predictable demand—and is subject to the same principles of yield management: pricing marginal capacity high or low according to whether predicted sales are likely to run over or under capacity, and refining this model as the "use or lose" moment for each piece of inventory approaches. As with airline seats, full flexibility has a high premium, while both early guarantees and last-minute purchases can find good prices.

Companies can therefore gain efficiencies by adapting the choice of media purchase to the economics of the supplier. As an example, media buyers choosing television channels are usually looking either for weight (mass market reach) or shape (access to a specific, hard-to-reach demographic). The first need is served by the big broadcast networks; the second by the thematic cable and satellite channels such as MTV. Both achieve a high premium, measured as advertising sales revenue per audience ratings point. Other channels fall somewhere in between (see figure): they are not realizing the same premiums, and may offer a more economic solution at the cost of some more complexity in media-buying.

Media pricing: Ratings value vs. volume for US TV channels



2. Mix effectiveness: Spending on exposure with the highest elasticity

The levers described above focus on getting the most out of the relationship between the media buyer and media seller. What they don't do is get the most out of the relationship between the media buyer and customer. That is the focus of the second source of value: shifting spend to types of exposure that have the highest elasticity of customer response. The opportunity here is to use statistical techniques to understand at a detailed level what the incremental return from incremental spend is by different "levers" that can be controlled—target customers, media, messages, geographic areas, product areas, and combinations of all these. Depending on the circumstances this may be done through either structured in-market experimentation or historical analysis—or a mix of the two.

The gains to be had in this area can be dramatic. One company measured "a 50% improvement in advertising return in the first six months."

The challenge is how to isolate the influence of brand spending from the clutter of the many factors affecting customer behavior—pricing, product innovation, distribution, competitor activity, the weather—and, having done so, to identify the specific influences of different brand spending levers. To compound the problem, there are a number of false trails. Looking for causal relationships between brand spend and sales, for example, becomes harder when a company increases its advertising spend in response to poor sales (reverse causation), or when bigger, more established companies tend to have both greater brand equity and bigger advertising budgets (maybe correlation without causation). The difficulty of this challenge is also the opportunity: it is why so much value in his area remains hidden and unexploited.

Historical analysis based on multiple regressions, or media experiments based on simple control regions, don't do the trick. The signal is inaudible through the noise. What often does do the trick is a careful, iterative and hypothesis-based deconstruction of the various different factors that influence customer behavior, designed to control for all the important factors that work alongside brand marketing.

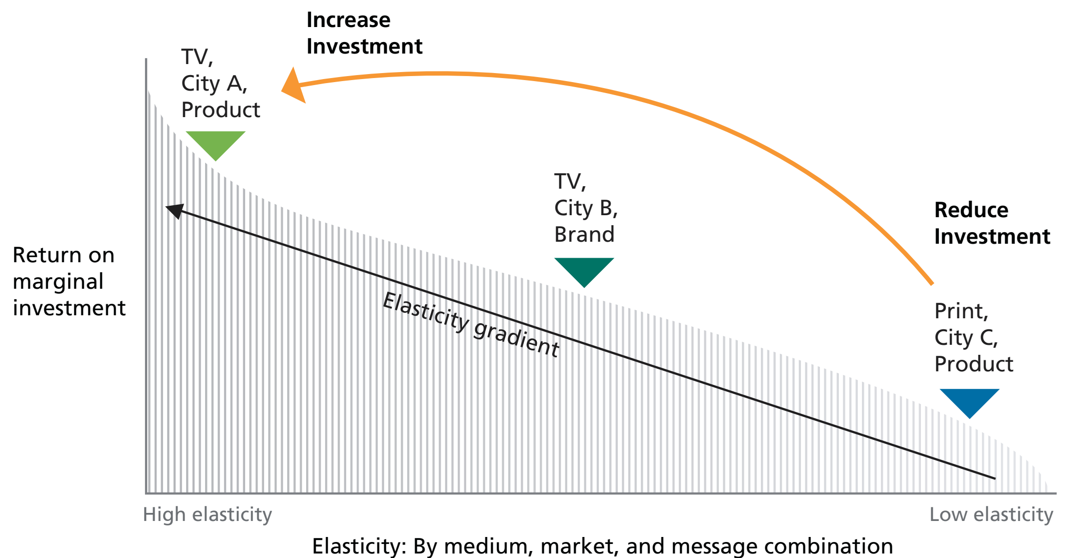
Where historic data does not exist, or does not show sufficient variance between different times and places to support this sort of model, in-market experimentation can quickly create the data, and the insights, required. In-market experiments—e.g. modifying media spend and mix by television region—have the dual advantage of increasing the variance in the factors you are trying to understand, while controlling for other factors that otherwise contribute to the noise. The challenge is that quantitative insights into media mix involve many different theoretical spend options. For example, simply choosing between high, medium and low levels of television, radio and outdoor spend, weighted before, at or after a product launch, involves 27 (3x3x3) possible patterns of media spend.

This is not simply a case of testing the normal spend profile against a control region in some secondary market.

These comprehensive, analytical approaches have their rewards, identifying dramatic differences in elasticity between different combinations of medium, audience and message (see figure). They provide a practical prescription for reallocating spend from low-elasticity combinations (where incremental spend yields relatively little change in customer behavior) to high-elasticity alternatives, thus improving the returns from the overall mix.

Understanding elasticities: Shifting the mix for higher marginal ROI

Mobile communications example



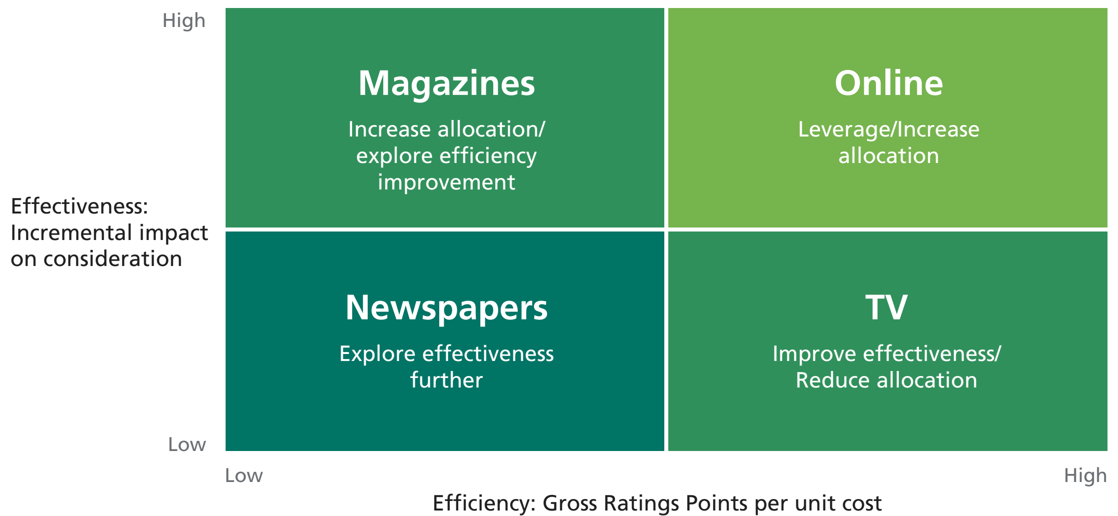
One insight to emerge from these analysis is the quantification of two different aspects of brand in driving customer choice: the brand equity accumulated from previous activities (whether from communications or from the product or service experience itself), and the particular, current brand communications spend. Sustainable performance depends on taking into account how the spend helps to replenish and develop the accumulated brand equity, not simply taking this equity for granted and focusing exclusively on sales metrics.

This consideration can affect not just the optimum level of spend, but also the optimum mix. Different media are differently effective in driving sales and building brand equity—not always in an intuitive way. And what matters most is the incremental impact of incremental spend. If

one lever (medium, audience, message or combination) is already relatively saturated, there may be much greater impact from shifting marginal spend to an alternative, cheaper lever. In the example below (see figure), the relative effectiveness of the four media reflects the company's current spend mix, and therefore degree of saturation, as much as it does the inherent characteristics of each medium.

Optimizing for brand building, not just sales

Information systems and services example



3. Message alignment: Influencing the perceptions that drive behavior

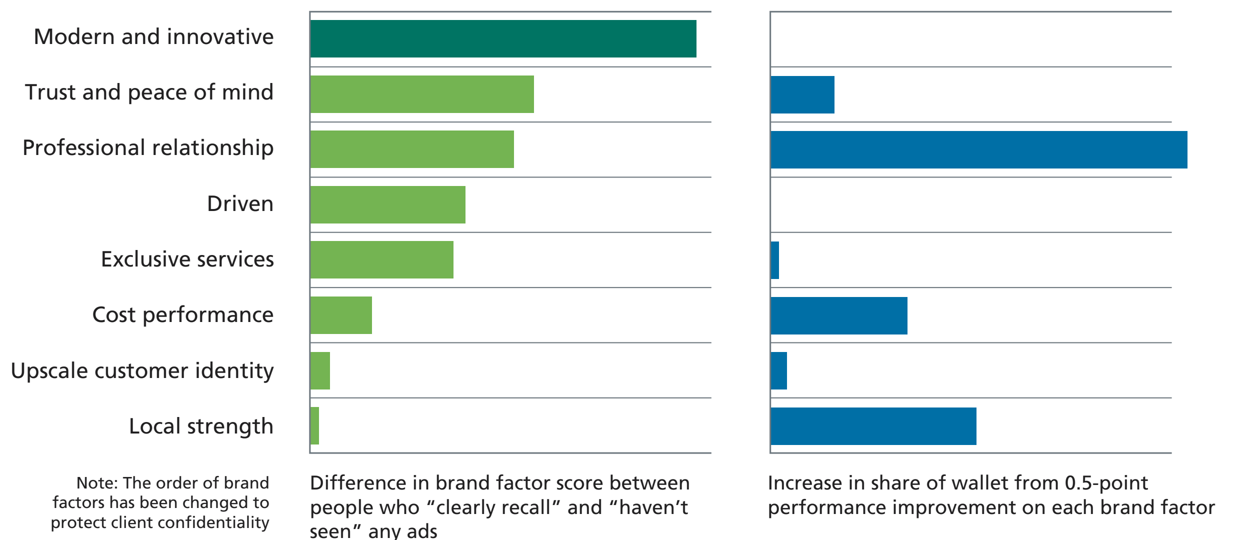
The two sources of value described so far address respectively how efficiently and effectively a given message is communicated to the target audience. Defining brand spend narrowly, one could stop there. But even following all the prescriptions above to maximize the efficiency and effectiveness of brand spending, the result will only be as good as the message being delivered. It is therefore worth also addressing two further sets of levers, concerned with how the message, even if perfectly communicated, will translate into customer value. The first of these is message alignment. We have found a surprising number of cases where companies have been working hard, often efficiently and effectively, to become better known for things that did not materially affect whether customers bought from them.

A case in point is a European retail bank, which had recently entered the high-end private banking market. Faced with specialist competitors who had done nothing but private banking for several centuries, and

who had deeply established—and highly conservative—relationships, the retail bank opted for a contrasting positioning, built around modernity and innovation. Our research showed that its advertising was indeed communicating this positioning well: people who could recall the ads rated it much higher on this factor than those who could not. On the other hand the positioning was simply not relevant to how consumers chose their private banks. Simulated choice models, comparing how people chose between different branded offers with how they viewed the individual brands, showed that—for this retail bank in particular—improving its score on the "modern and innovative" brand factor would have little impact on whether customers chose its products (see figure). The priority for this bank was improving the perceptions of its professional customer relationships, which the ads appeared to do moderately well, but which had not been their focus.

Brand factors: What the ads deliver, and what the business needs

Private banking example



Note: The order of brand factors has been changed to protect client confidentiality

4. Experience alignment: Reinforcing communications with reality

The final set of levers, and source of value, lies outside marketing communications itself. When all the marketing communications are aligned, returns may still be modest if the customer experience is not so aligned. Often neglected for organizational reasons, because it is rarely under the control of the marketing director who can affect all the issues above, the customer experience can easily become the weakest link in the brand chain.

Often the key experience is interaction with an organization's people, whether face to face or on the telephone. Although other factors may dominate both before and after the sales process, research with mortgage applicants at the critical step between receiving a quote and signing the documents shows that the interaction with the loan officer has the single biggest influence on their choosing the company's products.

The physical experience customers have in the sales process is also vital. This is particularly clear to demonstrate, because a company's diverse distribution network provides a good controlled experiment.

Nissan began its recent turnaround in the US with a new breed of cars, radically different from its previous products and designed to appeal strongly to a particular segment of the market (see figure). The company recognized that its transformation must go beyond the cars, to the overall brand identity—and that experiences in the dealerships are critical in forming a customer's brand perceptions. The dealerships, however, dated from a more humdrum past. When Nissan, with Lippincott Mercer, worked to reflect the new brand identity in new dealership designs, the results were dramatic. Not only did sales increase in the new dealerships compared with the US overall (33% up vs. 14%), but the same car sold for a higher price. Gross profit per new car grew 8%, vs. 3% nationwide.

Aligning the experience: New product brands driving new sales experience

Nissan North America example

Finding the value in practice

We have described above four quite diverse approaches to unlocking four different sources of value. All are part of maximizing the returns on your brand spending. Operationally, each is independent: one can approach any one of the four in isolation. We have found it worth, however, taking the overall view briefly first to make sure you are focusing where the big opportunity is. And there is some logical sequence to the four approaches. Fine-tuning the communications mix based on historical analysis makes little sense if the messages are not the right ones, or the media costs you are optimizing could be better negotiated.

With these approaches it becomes possible for the pendulum to swing back. The limitations of managing by hard numbers, when these address only "hard" issues such as direct marketing, are becoming clear. The softer issues of brand impact must be addressed. But asking for the pendulum to swing all the way back, to managing soft issues with only soft numbers, is no longer viable. The opportunity with the approaches described is to find that happy medium, rigorously putting hard numbers on soft issues, and thereby—as the companies mentioned in this article illustrate—beginning to manage a substantial new value lever for your business.

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About Lippincott Mercer

Lippincott Mercer is a leading design and brand strategy consultancy. The firm was founded in 1943 as Lippincott & Margulies and pioneered the discipline of corporate identity. Part of the Marsh & McLennan Companies, Inc., Lippincott Mercer operates globally from its headquarters in New York City and other offices in the United States, Canada, Europe, Asia, and Latin America. Recent clients include Citigroup, Deloitte & Touche, ExxonMobil, Goldman Sachs, IBM, McDonald’s, Nissan, RadioShack, Sprint, and Televisa. For more information, visit **www.lippincottmercer.com**

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