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Maximizing Returns from Brand Spending

Hard numbers for soft marketing issues

By Simon Glynn, Andrew Pierce, and Stephen Brien

Many firms have shifted their brand-related spending to more easily measured areas such as direct marketing. As a result, the reservoir of brand equity gets low and important customer touchpoints are neglected. Here's how rigorous customer science techniques can maximize returns in those soft areas.

There has long been a disconnect in the financial precision with which companies manage capital allocation in different areas. Spending on manufacturing or service delivery has been justified with hard business cases and quantitative ROI evaluations. Areas acknowledged as vital but harder to measure, such as human capital development and brand advertising, have had their spending justified using softer, experience-based rules and judgment.

In recent years, this disconnect has combined with tighter financial constraints to drive a shift of spending from the second category to the first—toward what can be measured in ROI terms. Thus, brand advertising spend has been sacrificed in favor of more measurable direct marketing campaigns, particularly in industries such as financial services. We may be missing something, the logic goes, but at least we know the returns from what we are doing.

Increasingly, managers realize that this pendulum has swung too far. The measures being used can be misleading and short-term in their perspective.

One U.K. bank we've worked with, for example, had shifted substantial spending from brand advertising to direct marketing in search of attractive and measurable ROI. It started to see more customers and prospects actively excluding themselves from its mailing lists, exercising their privacy protection options. Bank managers began to realize that the perceptions of the brand were now being created not in the branch or on television, but in the mailbox—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 was negative. And the initial returns 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 experience analyzing customer perceptions and behavior suggests that this shift in spending is indeed dangerous: Activities that are being neglected, such as brand advertising and training for customer-facing staff, often turn out to be some of the biggest drivers of brand equity and future sales. The pendulum needs to swing back.

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As 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 rarely 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 merit a larger budget in today's climate. These techniques facilitate cost-cutting in the marketing budget without damage to the business by answering the legendary question, "Which half of my advertising budget is wasted?" They can also lead to level or higher spending once the true ROI is established.

To do this in practice requires bringing together a range of different disciplines that attack different aspects of the problem, drawing on expertise in supply chain, media, customer science, retail pricing and promotion engineering, and brand strategy. With this multi-disciplinary approach, companies can draw on complementary sources of value to maximize the returns from their brand spending (Exhibit 1).

Exhibit 1 **Multi-disciplinary brand spending approach**

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 can yield quick wins, 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. Media inventory behaves like airline seats—a steady supply of capacity serving a variable and only partially predictable demand—and it 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 deadline for using each piece of inventory approaches. As with airline seats, full flexibility commands a high premium, while both early guarantees and last-minute purchases can merit lower prices.

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 spending to types of exposure that have the highest elasticity of customer response.

The opportunity here is to use statistical techniques to understand in detail the incremental return from incremental spending by different levers that can be controlled—target customers, media, messages, geographic areas, product areas, and combinations of these. Depending on the circumstances, this may be done through either structured in-market experimentation or historical analysis, or a mix of the two. Gains in this area can be dramatic: One wireless communications company measured a 50% improvement in advertising return in the first six months.

The challenge is isolating the influence of brand spending from the clutter of the many factors affecting customer behavior—pricing, product innovation, distribution, competitor activity—and, having done so, identifying 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 spending 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 (correlation without causation). Yet this challenge is also an opportunity to tap hidden, unexploited value.

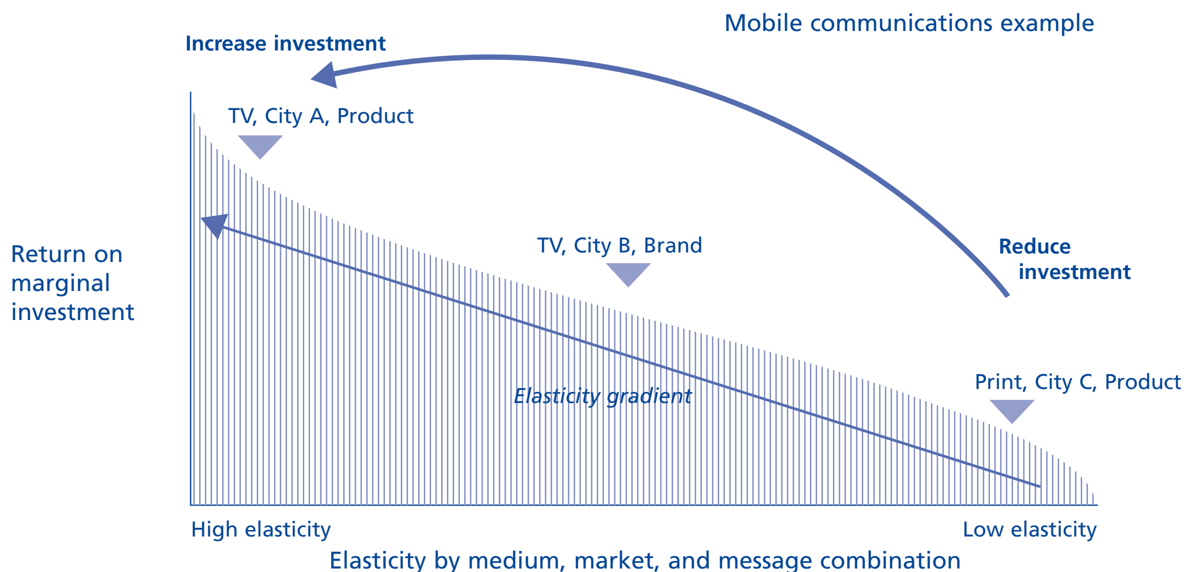
Historical analysis based on multiple regressions, or media experiments based on simple control regions, don't do the trick because you can't hear the signal through the noise. What does work is a careful, iterative, and hypothesis-based deconstruction of the various different factors that influence customer behavior, designed to control for (not explain) all the important factors that work alongside brand marketing, from competitors' product launches to the weather. Companies often possess good historical data, with sufficient variance in brand spending vs. other factors, to support such a model of the overall market. Modeling all factors for the market (including major competitors) may seem somewhat wasteful and unfocused, and can be frustrating. But without controlling for non-brand-communications factors, there is too much noise to discern the brand communications effects; those effects themselves are most accurately modeled by whole-market measures, not company-specific measures. Modeling customer response as a function of total advertising spend and Company X's share of voice, rather than directly as a function of Company X's spend, leads to a more predictive model.

Where historical data does not exist or does not show sufficient variance among 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, such as modifying media spend and mix by television region, have the dual advantage of increasing the variance in the factors one is trying to understand, while also controlling for other factors that otherwise contribute to the noise (e.g., product strength and pricing relative to the competition, which will typically vary over time, but at any one time may be similar across television regions).

The challenge is that quantitative insights into media mix involve many different theoretical spending options. For example, simply choosing among high, medium, and low levels of television, radio, and outdoor spending, weighted before, at, or after a product launch, involves 27 (3x3x3) possible patterns of media spending. One needs a statistical approach to simulate these 27 possible patterns from a smaller number of actual test cells.

These comprehensive analytical approaches allow managers to identify dramatic differences in elasticity among different combinations of media, audience, and message (Exhibit 2). They provide an objective, practical prescription for reallocating spending 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.

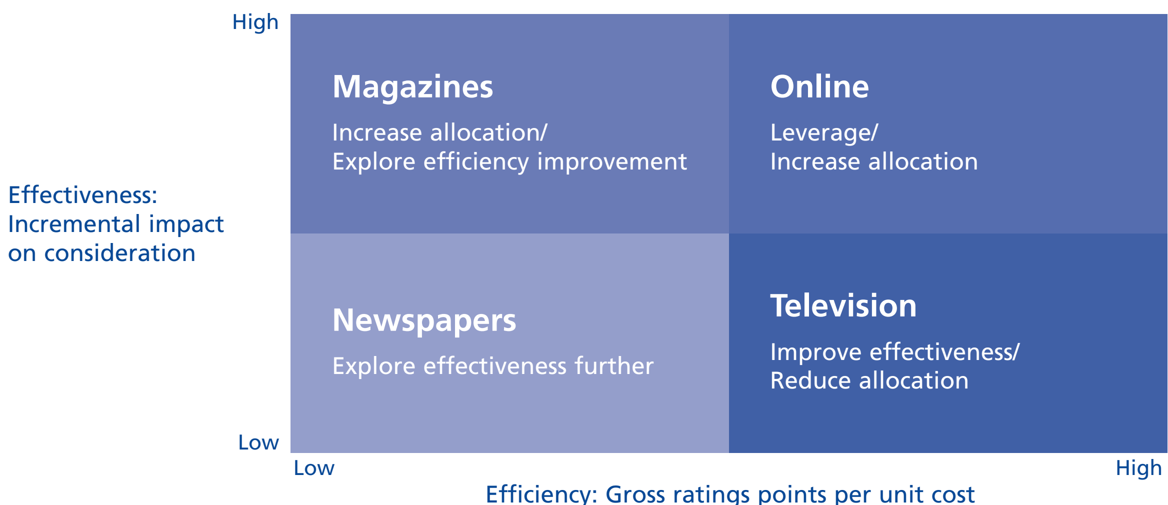
Exhibit 2 **Understanding elasticities: Shifting the mix for higher marginal ROI**



A key insight to emerge from these analyses 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 spending. Because the first is often large compared with the second, optimizing for short-term demand creation will tend to encourage a company to live off this legacy without renewing it by focusing on product advertising or direct marketing. To optimize returns from brand spend in a more sustainable way, companies should take into account how the spending helps to replenish and develop the accumulated brand equity, rather than simply taking this equity for granted and focusing exclusively on sales metrics.

This consideration can affect not just the optimal level of spending, but also the optimal mix. Different media have varying levels of effectiveness in driving sales and building brand equity, and not always in an intuitive way. What matters most is the incremental impact of incremental spending. If one lever (medium, audience, message) is already saturated, there may be a much greater impact from shifting marginal spending to an alternative, cheaper lever. In Exhibit 3, the relative effectiveness of the four media channels reflects the company's current spending mix, and therefore degree of saturation, as much as it does the inherent characteristics of each medium.

Exhibit 3 **Optimizing for brand building, not just for sales**



Message alignment: Influencing the perceptions that drive behavior

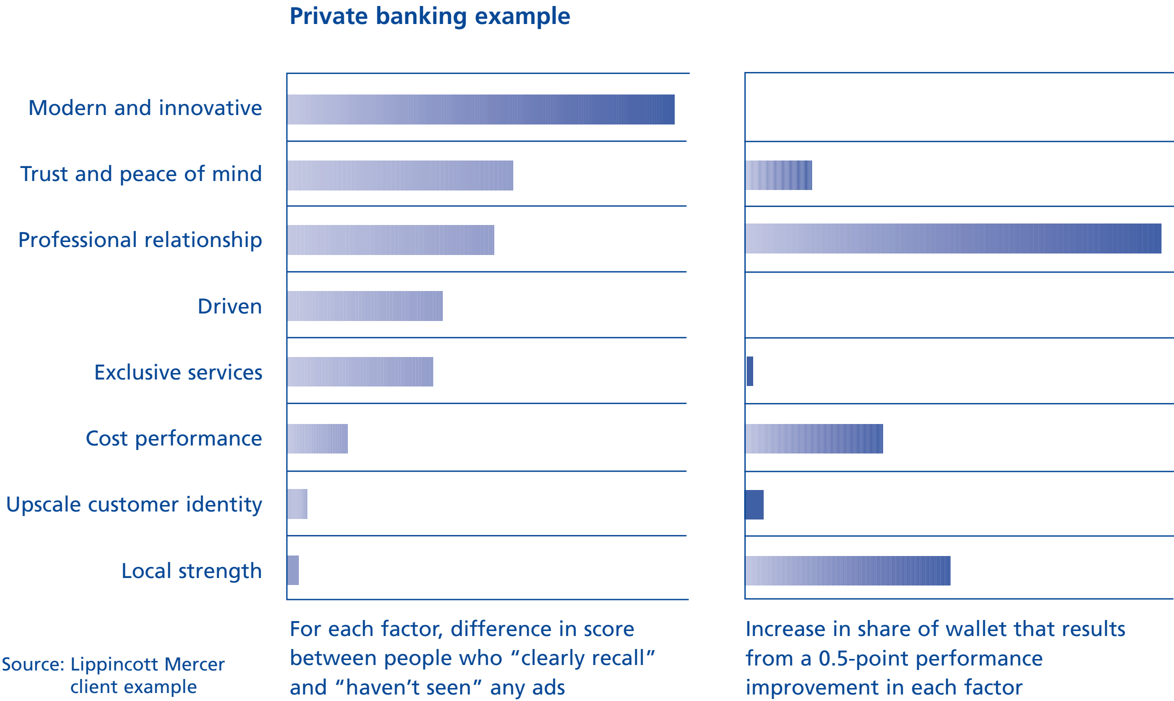
The two sources of value described so far address, respectively, how efficiently and effectively a given message is communicated to the target audience. Defining brand spending narrowly, one could stop there. But even following all the prescriptions we've discussed to maximize the efficiency and effectiveness of brand spending, the result will only be as good as the message being delivered.

Managers should therefore address two further sets of levers involving 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 that had recently entered the high-end private banking market. Faced with specialist competitors who had done private banking for several centuries and who had deeply established and highly conservative relationships, the retail bank chose 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 the bank much higher on this factor than those who could not.

On the other hand, the positioning was not relevant to how people chose their private banks. Simulated choice models comparing how people choose 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 (Exhibit 4). Instead, the priority was to improve the perceptions of the bank’s professional customer relationships, which the ads appeared to do moderately well, but which had not been their focus.

Exhibit 4 **Brand factors: What the ads deliver and what the business needs**



Source: Lippincott Mercer client example

Experience alignment: Reinforcing communications with reality

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

The key experience tends to be interaction with an organization’s people, whether face to face or on the telephone. At one U.S. mortgage lender, 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 can also be vital not just in retailing, but also in other service-focused sectors from banks and wireless telephony to cars. 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 U.S. with a new breed of cars, radically different from its previous products and designed to appeal strongly to a particular segment of the market. 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.

Exhibit 5 **Aligning the experience: New products driving new sales experience**

When Nissan, along with Lippincott Mercer, worked to reflect the new brand identity in new dealership designs (Exhibit 5), the results were dramatic. Not only did sales increase in the new dealerships compared with the U.S. overall (up 33% for the year vs. 14%), but the same car sold for a higher price. Gross profit per new car grew 8% vs. 3% nationwide.

Finding the value in practice

We have described four approaches to unlocking different sources of value. All contribute to maximizing the returns on brand spending. Operationally, one can approach any one of the four in isolation. However, it's worth taking the overall view briefly first to make sure you are focusing on the largest opportunity. 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 if the media costs you are optimizing could be better negotiated.

The limitations of managing by hard numbers, when these address only hard issues such as direct marketing, have become 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. Finding that happy medium means rigorously putting hard numbers on soft issues and thereby beginning to manage a substantial new value lever for the business.❖