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Surely there are lasting effects of advertising?

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OHAL, examines the economic evidence for advertising payback over time

THE CONCEPT of long-term advertising effects means that some of the sales of a product during the current week are a result of some advertising that consumers saw five years ago. More importantly, it means that as a result of advertising carried out now, there will be some sales taking place in five years' time.

The first of these positions represents a bonus for the product because it does not have to be paid for now; but the second is an investment decision and consequently much more important. But, and this is a big 'but', it is the evidence from the past that is the most useful element for justifying the investment (or not).

The regular arguments between Andrew Ehrenberg and John Philip Jones, which put forward the 'weak' and 'strong' models of advertising, seem to be incomplete when describing the long-term effect (if either is correct). Summarising their hypotheses:

- **Weak:** 'That advertising for established brands is a defensive mechanism and has little or no short-term effect.' This implies a long-term effect exists,

but fails to describe how short-term sales are generated so that the long-term ones can be a natural consequence.

- **Strong:** 'That advertising only works when it is very close to the purchasing decision and that as a generalisation this becomes one exposure in the week preceding the decision.' This observation implies that there is a little or no long-term effect.

Thus there are long-term but no short-term effects or short-term but no long-term effects: a conundrum.

Can the effects be identified?

In order to identify the long-term effects, there have to be hypotheses about how or why they should exist. OHAL has carried out a large number of evaluations of the short-term effects and Exhibit 1. shows how these are generated.

This model works and is based upon the empirical results for up to 500 brands. The exposures received over the earlier periods (up to six months) play a part in the effect. They combine with recent exposures (1-28 days) to achieve a total level of effective frequency. It is then essential that the creative is good enough to generate sales and I call this 'new advertising sales'. It is here that an important extra factor comes in, which arises from the nature of repeat purchase. If a brand or product is bought in one purchase cycle then it is more likely that it will be bought in the next or subsequent cycles. It is here that we have the mechanism for a long-term effect.

Exhibit 2 shows how the short-term effects due to recent ad exposure are then followed by the habit sales generated because consumers become used to buying the product. If a consumer's habits are changed in the short run, then it is

reasonable that some of these changes will continue to run for a significantly longer period.

An example of this effect is Bisto gravy. The gravy makers market is currently divided into powders, granules and freeze-dried granules. In the mid-1980s it was almost entirely powder, with granules just beginning to appear. Although it dominated the powder segment with Bisto, RHM Foods realised that it had to embrace the new technology of granules to pre-empt any potential competitor.

Because heavy promotions were hardly used at this time, advertising was the key mechanism available to successfully establish the variant. The main sales season being winter, RHM used one or two bursts each winter to advertise the granules. Exhibit 3 shows what happened.

There was a natural 'social trend' towards granules as a more convenient product but every time they were advertised this trend was accelerated. From a marketing point of view, the strategy was invaluable because Bisto became the only significant brand (50%+) in the segment, despite having the normal problems with ownlabel. When the technology of freeze-dried granules arrived, RHM was slower in responding and it allowed Van den Bergh (Oxo) to launch into the segment.

Econometrics was the tool that OHAL used to measure not only the short-term effect but also the longer-term one. Then, by identifying the levels of effective frequency and decay rate, and combining them with seasonality of product and media costs, it was possible to maximise the short-term, and thus to maximise conversion effects. The powerful tool we used was tvpac, which was, and is, a uk version of a full European model - 'HALCIA'. (1)

Some observations rather than measures

Correlating the long-term success of a brand with the sales is often a very easy thing to do. Establishing that the relationship is causal is much more difficult. Consider Exhibit 4.

That advertising and sales are related may be beyond doubt. Whether the advertising or the sales came first is uncertain. In the May issue of Admap Chris Forrest (2) refers to a Nielsen study that shows that one of the major correlations with success of a brand is sustained advertising. This is a classic example thrown up by real data.

However, some observations can be made which, while not guaranteeing a long-term effect of advertising, certainly indicate that one exists.

The 'weak' theory of advertising says that, for large established brands, advertising is largely defensive and that these brands do not change shares significantly over time. The evidence does support this.

All the brands in Exhibit 5 are large and very well-established. Only Persil had an 'event' (Persil Power) that could be described as an outside influence, and yet there are very large disparities in the performances of the brands. Marketing has to be a major contributory factor (with advertising a high percentage of the input values). The creative element of advertising provides one of the key areas of product differentiation. For these performance differences to occur, there must be both a short-term and a long-term effect of the advertising and marketing. From an empirical point of view, OHAL has worked on six of the above brands and it is evident that the advertising does work.

The Andrex case

Andrex is one of the UK Superbrands. In the ipa 1992 Advertising Effectiveness Awards the brand won the Gold Award for the 'Longer and Broader' category (3). OHAL provided a large amount of econometric evidence to support the paper, but this was mainly limited to the short and medium-term effects (which were very large). Exhibit 6 is taken from the paper and shows the age profile of Andrex users over a period of 20 years.

A marketing person taking a snapshot view of 1971 or 1981 would be alarmed because it appears that the brand is dying off with its consumers, but when the full picture is viewed, it is obvious that the age profile has hardly changed.

The interpretation in the paper is that loyalty increases as housewives get older, but this is only partly correct. During this period, Andrex was perceived as the best brand, despite having little or no product superiority. 60% of housewives would buy the brand if they could afford it (against a 25% brand share). It can thus be described as an 'aspirational' brand. Consistent advertising over many years feeds this desire until affordability kicks in. It is here that the short-term effect realises its potential in switching housewives at the correct economic time. This would then lead to the consistency in the age profile that is observed.

Since 1991 solus loyalty to the brand has decreased and this is often attributed to the high level of promotional activity that erodes the long-term brand values and reduces the effectiveness of the advertising. I would argue strongly that this is wrong. Loyalty is a commodity just like anything else. Consider the following statements:

- 'Given similar prices I am loyal to Andrex.'

- 'Kleenex has 25% off so I will buy Kleenex.'
- 'Prices have returned to normal so I will buy Andrex.'

Loyalty is unaltered but purchasing patterns have changed. Top-line analysis of brand switching in consumer data does not show this. Indeed, Nielsen reports a variation on this theme in its research: 'Over one in two households say they will stock up on their favourite brand when it goes on promotion.'

Other long-term effects

PRICE

It is often argued that there are many other long-term effects of advertising. These would include ability to achieve a price premium; gaining or retaining distribution; ability to successfully launch variants or brand extensions. It is very difficult to convince a cynical finance director that these exist - and equally difficult to prove it.

However, one measure of brand health is price elasticity (the percentage change in sales (share) caused by a 1% change in price (relative price) in the opposite direction). The lower the level of price elasticity, the stronger the brand, because it enables the brand to increase price and maintain sales, or increase sales at the same price.

A clear case of this is in the sanitary protection market. OHAL carried out a project to measure the effects of advertising and the levels of price elasticity. Prior to 1990, TV advertising was not allowed in this market and thus branding was difficult. The measurements that were made showed that within 12 months of TV advertising starting, price elasticities had changed from 2.5 pre-1990 to 2.0 post-1990. The market was still very competitive, but the brands were stronger.

SHAREHOLDER VALUE

Tim Ambler of the London Business School puts forward the view that the ultimate measure of the effect of advertising is the return to shareholders. This seems to be very reasonable but extremely difficult to measure. Any study of company values will show that the balance sheet is a poor representation - it is the 'brands' that provide the extra value. I think there are (at least) two ways of looking at the value of a brand:

- The return over a number of years, given that the brand receives normal levels of support.
- The return that could be obtained if the brand were to be 'milked' and given no support.

Consider the second of these in the light of a current decision of whether to spend this year, given the following scenario:

- Sales of brand = 100
- Cost of production = 40

- Media spend of 20 will increase sales by 10% (from OHAL's numerous measures this is reasonable)
- Without support the brand will decline at 10% per annum to a level of 50 - which will not be sufficient to maintain distribution - and then decline rapidly.

Exhibit 7 shows a comparison of the long-term effects of support this year as opposed to not supporting the brand.

Obviously the assumptions would need to be examined, and Discounted Cash Flow (DCF) calculations made, but it can be seen that over a reasonable period of time the returns should exceed the cost. Thus, taking the wider shareholder view, even the short-term effects could be profitable.

Conclusion

Longer-term effects of advertising are very difficult to identify (not least because manufacturers often only keep two years data) and one should be wary of simple exercises that merely identify that a correlation exists.

The examples I have given, however, are based upon empirical analysis and show beyond all reasonable doubt that they exist in some cases. If some, then it is reasonable to extrapolate that it could be 'many'. To conclude that it is 'all' may be taking it too far.

Thus, returning to my opening comments, it appears that both the 'weak' theory (Ehrenberg) and the 'strong' theory (Jones) are correct in some features but not overall.

1. M Varley: 'Scheduling media: from theory to application', Admap, April 1999.
2. C Forrest: 'How accountable can advertising get?', Admap, May 1999.
3. C Baker (ed): Advertising Works 7, NTC Publications Ltd, 1993.

A large, stylized logo consisting of the letters 'C' and 'W'. The 'C' is a light pink color, and the 'W' is a light yellow color. The letters are bold and have a slightly irregular, hand-drawn appearance.

EXHIBIT 1: SHORT / MEDIUM-TERM EFFECTS

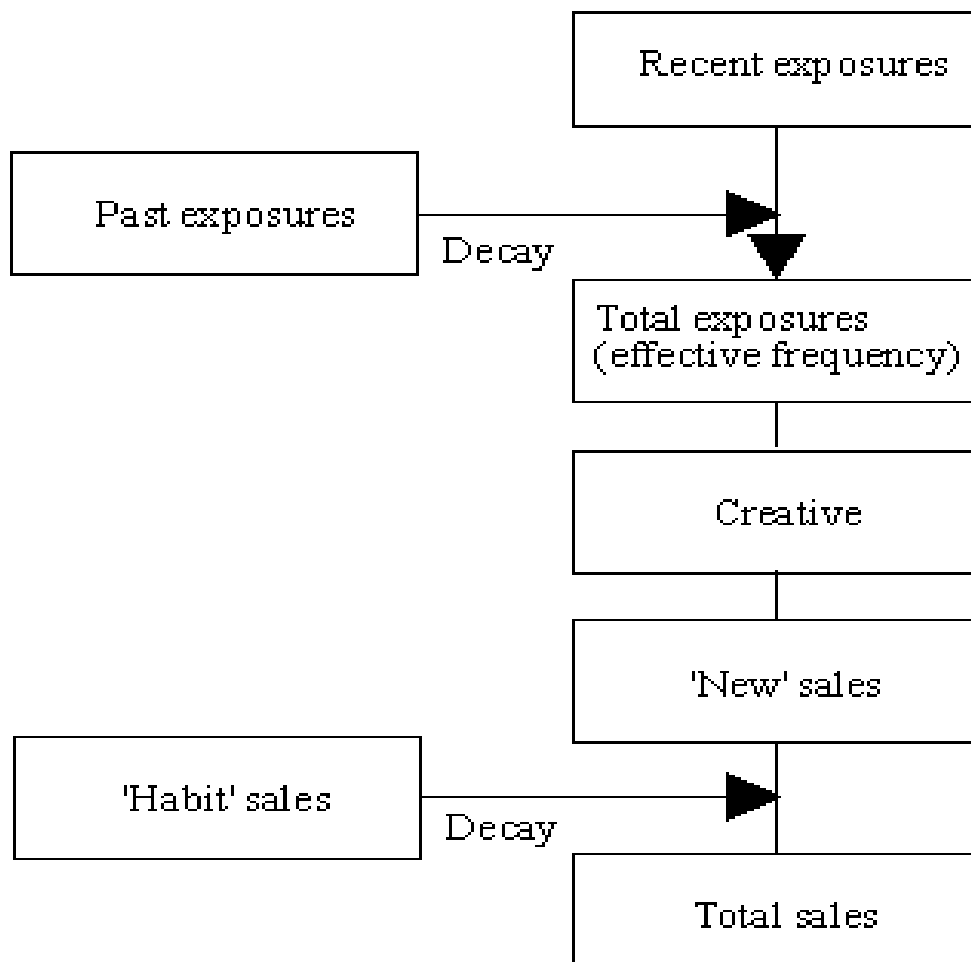


EXHIBIT 2: SALES EFFECTS FROM ADVERTISING OVER TIME

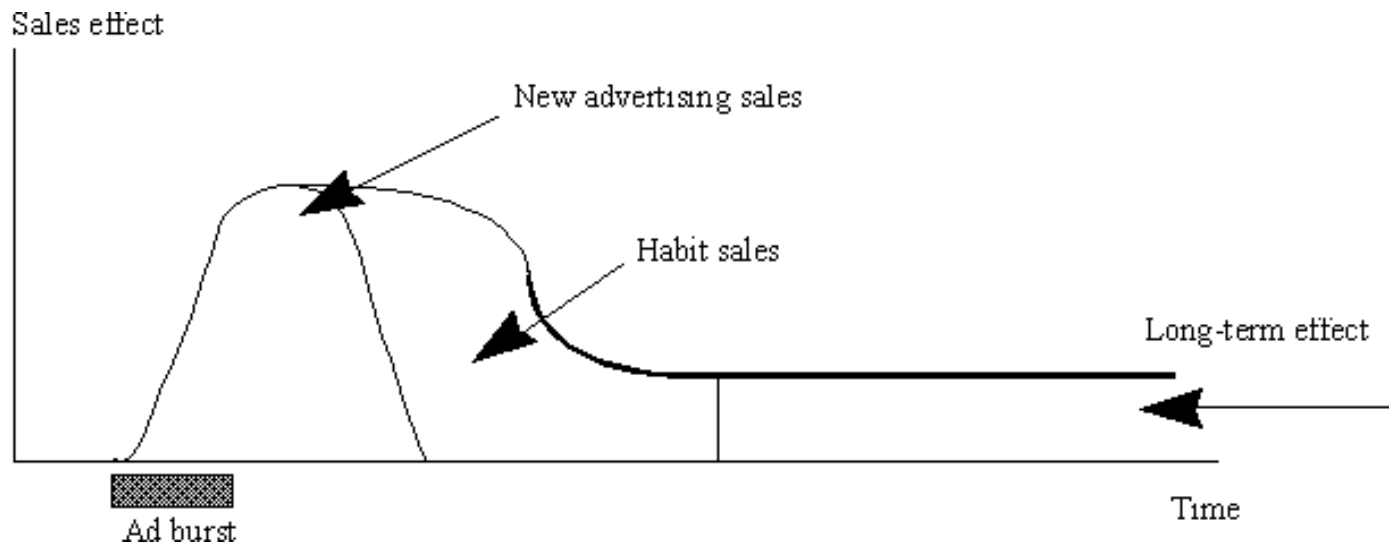


EXHIBIT 3: DEVELOPMENT OF GRAY GRANULES

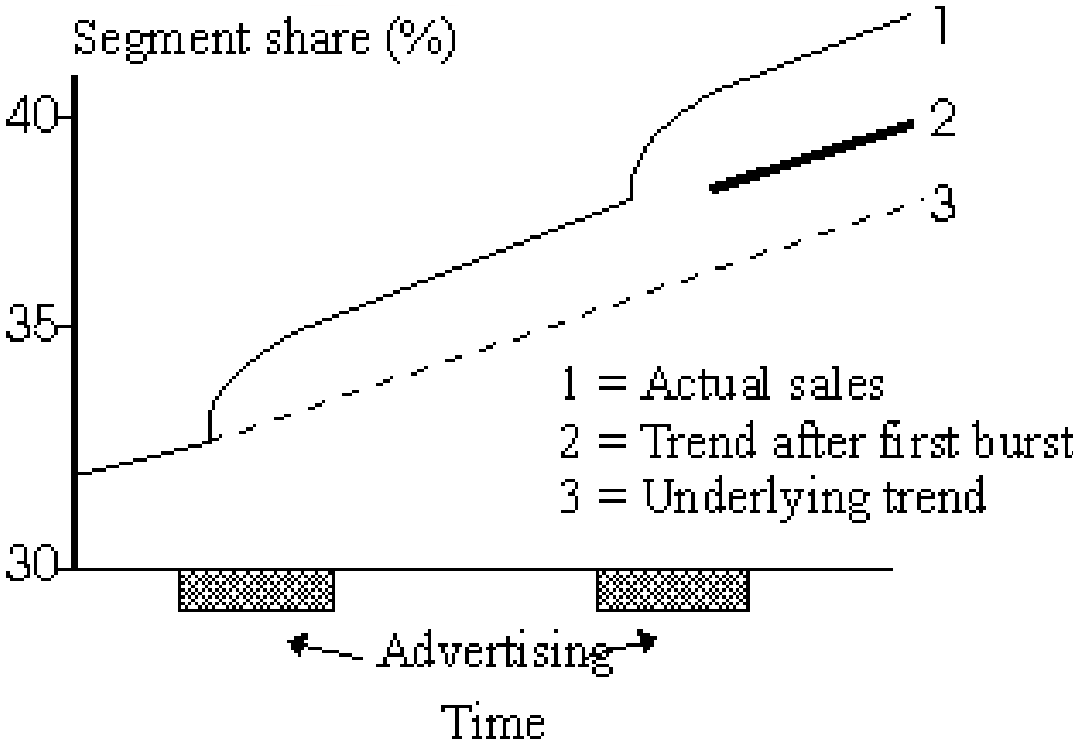


EXHIBIT 4: CAUSE? OR EFFECT?

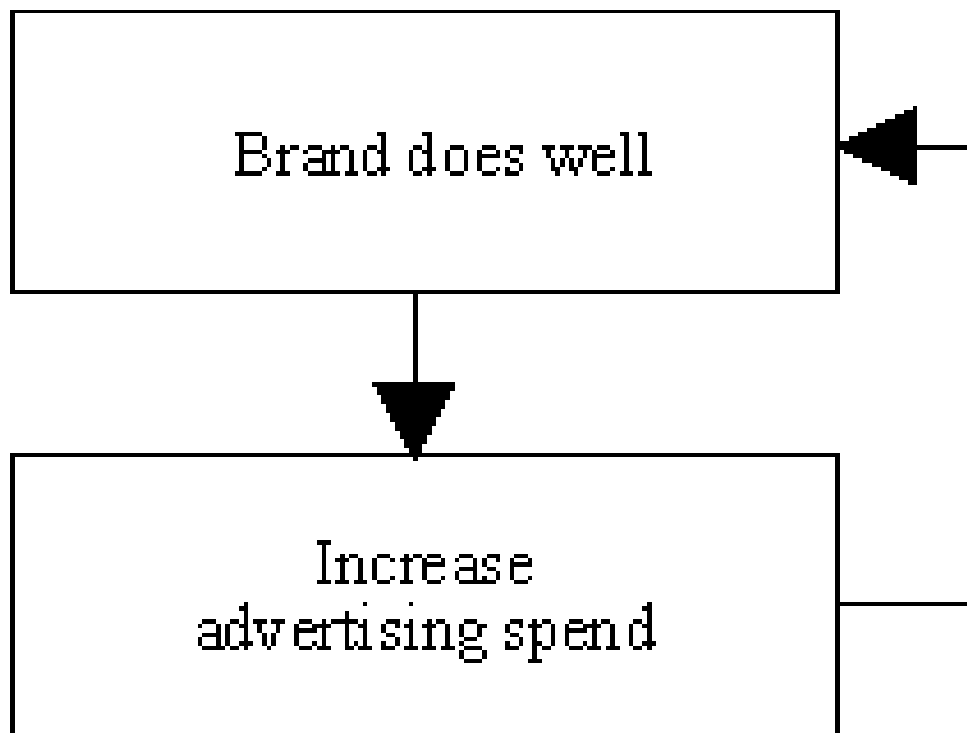


EXHIBIT 5: % CHANGE IN SALES 1997 ON 1994

	% Change		% Change
Persil	-15	Felix	+45
Ariel	-5	Clover	-10
Daz	+12	Flora	+2
Bold	+68	Ancor	+26
Pepsi	+19	Nescafe	+23
Coca-Cola	+41	Gold Blend	+51
Whiskas	-5		

Source: ACNielsen Top 100 Brands reports 1994 – 1997

EXHIBIT 6 : INDEX OF SOLUS USERS OF ANDREX

	1971	1981	1991
Age 15 - 24	77	80	95
25 - 34	70	65	66
35 - 44	75	74	81
45 - 54	94	99	100
55 - 64	120	127	117
No children	119	116	117
Children under 1 year	62	71	70
Children 1-4 years	68	63	68
5 -9 years	63	70	65
10 - 15 years	75	70	76

Source: BMRB TGI

**EXHIBIT 7 : COMPARISON OF LONG-TERM EFFECTS OF
ADVERTISING**

Year	Do not invest				Invest this year			
	Sales	Cost	Advt	Profit	Sales	Cost	Advt	Profit
1	100	40	-	60	110	44	20	46
2	90	36	-	54	99	40	-	59
3	81	32	-	49	89	36	-	53
4	73	29	-	44	80	32	-	48
5	66	26	-	40	72	29	-	43
6	59	24	-	35	65	26	-	39
7	53	21	-	32	58	23	-	35
8	26	10	-	16	53	21	-	32
9	0	0	-	-	26	10	-	16
10	0	0	-	-	0	0	-	0
Total				330				371