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EFFECTIVENESS IN/CONTEXT

A MANUAL FOR **BRAND BUILDING**

LES BINET ADAM&EVE DDB
PETER FIELD PETER FIELD CONSULTING

PART 2 OF THE **MARKETING EFFECTIVENESS IN THE DIGITAL ERA** SERIES

In association with

CONTENTS

FOREWORD / JANET HULL

As the number of cases providing quantitative evidence for the IPA Databank grows with each successive IPA Effectiveness Awards season, so the learning from the IPA Databank becomes richer and more nuanced.

This new publication from Les Binet and Peter Field is the second in a series about Marketing Effectiveness in the Digital Era, made possible through the generous support of Google and Thinkbox.

It provides a veritable manual for brand building, relating theory to practice, and setting the context for how people choose and buy brands. It takes the general rules of thumb established in *Media in Focus* and demonstrates how to apply them according to market category, business model, brand life stage and size. It also identifies some surprising modifications to established best practice.

In an increasingly competitive and complex ecosystem, understanding context gives competitive advantage to investment strategies, media and creative briefs, and implementation.

Putting theory into practice lies at the heart of the IPA's wider effectiveness initiative and annual Effectiveness Week (EffWeek), which is unique in bringing together CMOs, insight and analytics directors and agency management to deliver thought leadership and R&D programmes to help the industry navigate complexity and manage integration and change.

Our aim is to improve the quality of interactions between clients and agencies through promoting a can-do attitude, and a shared ambition to develop evidence-based decision-making and a marketing effectiveness culture in day-to-day business operations.

JANET HULL OBE / DIRECTOR OF MARKETING STRATEGY / IPA

MATT HILL

Binet & Field never disappoint. There is an enormous amount here for marketers to get their teeth into.

Unlike their previous analyses, which have established general principles for best marketing practice, this new analysis has findings that can be tailored to individual marketers and their businesses.

It breaks down how Binet & Field's rules for marketing-driven business growth differ according to a variety of contextual factors, from the emotional involvement of the purchase decision to whether a product is bought online and how pricing strategy plays out alongside marketing activity.

For anyone after expertise on effective marketing strategies it should be read cover to cover. But it will work just as well for those looking for a reference guide on how Binet & Field's rules differ for specific brands in a specific life stage.

Some findings are reassuringly as expected (advocates of pure loyalty strategies shouldn't get their hopes up; the rules on penetration appear well-nigh universal) but many findings will surprise.

This is an excellent addition to the canon of marketing-effectiveness learning.

MATT HILL / RESEARCH AND PLANNING DIRECTOR / THINKBOX

JONNY PROTHEROE

When presented with new research on effectiveness, marketers can be left wondering "How does this apply to me? What are the implications for my brand and category?" After all, such learning must be applied with context in mind.

This latest report by Les & Peter helps to answer those questions. *Effectiveness in Context* adds new depth to their previous work, mining the IPA Databank for variation across six aspects of context, and exploring how these play out across sectors.

The findings illustrate that effectiveness is nuanced, and gives direction to marketers as they seek to evaluate their own activity. This is important, because even though advertising budgets continue to grow, businesses are requiring more accountability from their marketing teams, and measuring effectiveness is increasingly challenging. One way they can tackle this challenge is by introducing carefully designed experiments, and we have seen a rapid increase in the number of advertisers working with us to conduct experiments alongside other methods.

Another key challenge we discuss with our customers is how best to employ all digital channels to achieve objectives of both long-term brand building and short-term sales activation. The category nuances explored within this report will help in that regard.

Finally the report will help us tackle the diverse marketing challenges that we face ourselves, such as retail marketing for Pixel smartphones, subscription marketing for YouTube, and developing a new category with the Google Assistant.

We are proud to continue to support the IPA's Effectiveness agenda as a means of highlighting best practice to the industry, and we will regularly delve into this report for expert guidance for our customers, our partners and ourselves.

JONNY PROTHEROE / HEAD OF UK MARKET INSIGHTS / GOOGLE

ABOUT THE AUTHORS

LES BINET / HEAD OF EFFECTIVENESS / ADAM&EVE DDB

Having studied physics and artificial intelligence at university, Les joined the agency in 1987, and has devoted his career to measuring and improving the effectiveness of the agency's advertising.

Les is recognised as an expert in econometrics (aka market mix modelling), and has written extensively on how advertising works, how to make it work better, and how to evaluate it.

Les has long been closely involved with the IPA Effectiveness Awards, having won more prizes than any other author, including two Grand Prix.

In 2014, the IPA (the body that represents the UK advertising industry) awarded him its President's Medal, the highest honour it can bestow, in recognition of his achievements.

PETER FIELD / PETER FIELD CONSULTING

Peter spent 15 years as a strategic planner in advertising and has been a marketing consultant for the last 20 years.

Effectiveness case-study analysis underpins much of his work, which includes a number of important marketing and advertising texts and his pioneering work on the link between creativity and effectiveness.

He has a global reputation as an effectiveness expert and communicator and speaks and consults regularly around the world about effectiveness issues.

He is a contributor to the Wharton Future of Advertising Project.

IN A NUTSHELL

This is a self-help manual for brands, to guide strategy depending on the contexts that the brand operates in. It reveals that although there are many facets of effectiveness that vary only slightly from context to context, there are others that vary more radically.

So it is not safe to assume that general learning can be automatically applied in all situations – we need to flex the rules.

The report also observes that whilst marketing has been improving its effectiveness in some contexts, it has been destroying it in others – so the opportunities for brands to steal a march on their competitors are highly context specific.

The report is intended to be cherry-picked for relevant guidance to your brand and to identify latent opportunities for its organic growth.

Amongst many important conclusions it will show that:

01 The gradual shift to online distribution for brands means that the importance of strong brands is growing. The crowded and competitive world of e-commerce is no place for the weak.

02 The more online research that consumers conduct, the more important it is to invest in strong brands to prime choice in advance of purchasing – last minute purchase activation is no substitute for brand building.

03 There is no context in which short-term sales activation is the primary driver of growth – short-termism in marketing is unwise. Always.

04 Only major product or service innovation actually increases marketing effectiveness – in practice most reported innovation is minor and so undermines long-term growth.

05 It is time to lay to rest the ‘new news’ model of rational, innovation-focused advertising – it has resulted in an underclass of underperforming innovation junkies.

06 The Financial Services sector has embraced value destruction to a degree that no others have.

07 The subscription model brings many unrecognised advantages to brand marketing – businesses are slow to take advantage.

08 There is no evidence that major brands are losing their appeal and their market strength in the digital era – they continue to enjoy enormous scale advantages that have growing value in all contexts. So long as they continue to invest in brand marketing.

09 The “60:40” rule for balancing brand and activation expenditure is evolving. Overall, brand spends need to increase, but there are significant variations by sector. Optimum brand investment peaks in Financial Services and is lowest in Perishable Services such as Travel.

10 Although marketers have largely understood the limitations of loyalty marketing, some pockets of resistance remain – there is no empirical justification for this in any context.

INTRODUCTION: WHY CONTEXT MATTERS

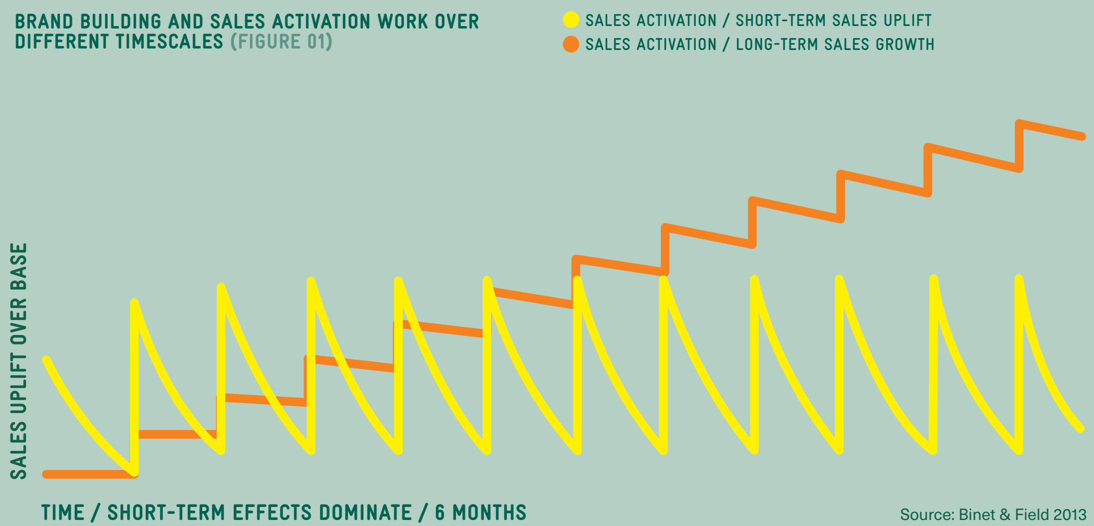
As with our previous reports,[01] this report is based on analysis of the confidential data submitted alongside entries to the UK IPA's biennial Advertising Effectiveness Awards competition. The data is increasingly global, because the case studies increasingly come from around the world. We do not only examine award winners – we look at all entries, including the many cases of relatively modest effectiveness that did not win prizes.[02] So our analysis shows how campaign inputs, such as strategic or media choices, influence outcomes such as hard business effects and it shows how this may alter from one context to another. We also use the data to examine what marketers are currently doing in these contexts and to explore, therefore, whether they could be doing it better. Our observations – and our conclusions – are entirely evidence based.

In our earlier work, we have sometimes observed that whilst the essential rules of effectiveness hold across various contexts, they are slightly modified. But until this report, we haven't examined the issue of context in great detail to explore just how much the rules are modified. The contexts we will examine relate to both the brand and its category. We use these observations to explain the modifications to the rules of effectiveness across sectors and time.

In this report, we observe that in some contexts there are quite significant shifts in best practice from the norm across all situations, and we go back to basics to attempt to explain why these shifts occur. In many instances, the modifications to best practice are the very opposite of what is commonly taking place in marketing, so there are some surprises in the pages that follow.

As in previous reports, our model is that there are two ways that advertising can drive sales growth: brand building and sales activation. These work over different time scales as shown in Figure 01 below.

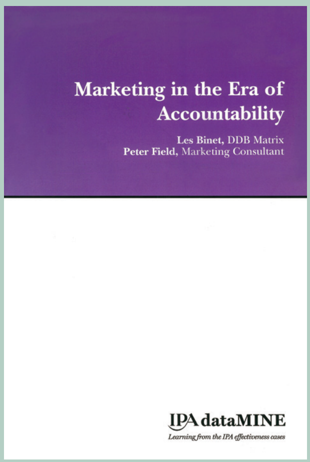
BRAND BUILDING AND SALES ACTIVATION WORK OVER DIFFERENT TIMESCALES (FIGURE 01)

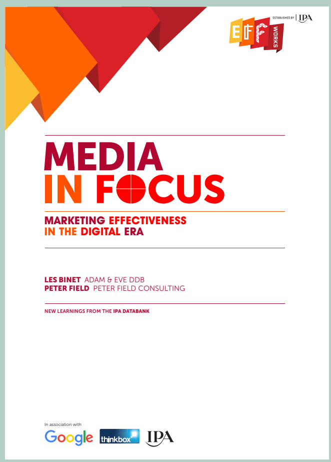


Source: Binet & Field 2013

01 Marketing in the Era of Accountability (2007), The Long and The Short of It (2013), Media in Focus (2017).

02 Although this still means that we have a biased sample of campaigns that tend to be successful, there is a wealth of variation in the effectiveness data, including some very mediocre performances. We know from comparisons of efficiency metrics with non-biased samples from other studies that our results are not greatly different, which leads us to believe that our sample is more average than many think.





Brand building dominates long-term growth and involves the creation of memory structures that prime consumers to want to choose the brand. This priming effect also improves pricing power and so, over time, has a strong impact on profitability.

Sales activation dominates short-term sales uplifts and involves behavioural prompts that nudge consumers to want to buy now: promotional messages, seasonal or other occasion-related prompts and minor new product news are the main messages used. They are focused on a particular behavioural response that may involve an intermediate response action, such as clicking a web link. They have little effect on long-term growth and pricing power, so their impact on profitability is modest at best, but they can produce powerful short-term sales spikes.

The two modes require radically different communications strategies and media, but work together to boost growth over all timescales. The introduction of *Media in Focus* includes a more detailed summary of the two approaches.

But balance is key, and balance varies by context. In this latest analysis we observe that the all-context "60:40" rule sweet-spot is in fact 62:38 brand:activation,[03] but that where brand building is more difficult or activation is easier, the brand building proportion needs to be increased. Conversely, where brand building is easier or activation more difficult, the activation proportion needs to be increased. This seems logical, explained in this way, but we observe that often in situations where brand building is difficult, marketers turn away from it and reach for sales activation instead. Later in this report, we will show that this is a mistake and has resulted in the widespread destruction of value in certain sectors.

There are few surprises in the six main factors that appear to account for the variations. The most important of these is how people choose brands in particular contexts, because it influences other context-related factors. Sometimes their choices are more considered; sometimes they are more heavily influenced by feelings; sometimes they are researched;

03 Unlikely to be statistically significant from 60:40.

and sometimes they simply repeat choices, guided by habit. We argue that the nature of choice influences the ease with which marketing can either build brands or activate short-term sales, and therefore influences the optimum balance of expenditure between these two competing tasks, as well as the overall budget needed to meet growth objectives.

Another factor is how people buy brands. Here we examine the impact of online distribution on effectiveness and also the growing area of subscription sales. Again, both affect the brand:activation balance, but not necessarily as one might expect.

Brand pricing, whether premium or value, also has a major impact on effectiveness, because it affects how choices are made. This too plays out in terms of the brand: activation balance.

Innovation, in product or service, radically changes the potential for growth and has major implications for budget and deployment. We explore the way in which innovation of varying degrees of scale impacts the drivers of profitability, and how to get the most out of it.

The state of category development is a major factor too: whether new, declining or somewhere in-between. This is because it brings together many of the other context factors that influence effectiveness, so the rules of effectiveness are strongly modified as we navigate category life stage.

The final factor we examine is how the life stage of the brand (rather than the category) impacts on strategy and effectiveness. We zero in on the often vital first few years of a brand launch to see what the data teaches us about improving the chances of success. Again the findings appear to challenge common practice.

In recent years we have often been asked how our effectiveness observations play out across different categories, so in section 2 of this report we examine this in as much depth as possible. We can only really look at the sector and subsector level, but some of the differences are greater than we expected, because the factors outlined above operate in different directions across sectors. Certainly the "60:40" rule varies by category and also not always as some people might expect.

In the final section of this report we look at how market trends are influencing the rules of effectiveness. We establish a direction and pace of travel so that, hopefully, our findings can be projected forward. And there are surprises even here.

The report ends with a 'ready reckoner' summary of our main findings. We hope this will enable any readers whose precise situation we have not been able to explore to develop their own modifications to the effectiveness rules.

SECTION 01

SIX ASPECTS OF CONTEXT THAT INFLUENCE EFFECTIVENESS

CHAPTER 1.0
HOW PEOPLE CHOOSE BRANDS

In this chapter we are going to examine the most fundamental aspect of context that, more widely than any other, influences effectiveness and results in modifications to best practice. We will establish that the level and nature of consideration (whether emotional or rational) is central to our understanding of best practice and sets the scene for many other context effects.

So we will be returning to this consideration framework throughout the report, and in many ways this is the most important chapter.

1.1 HIGH VERSUS LOW CONSIDERATION PURCHASES

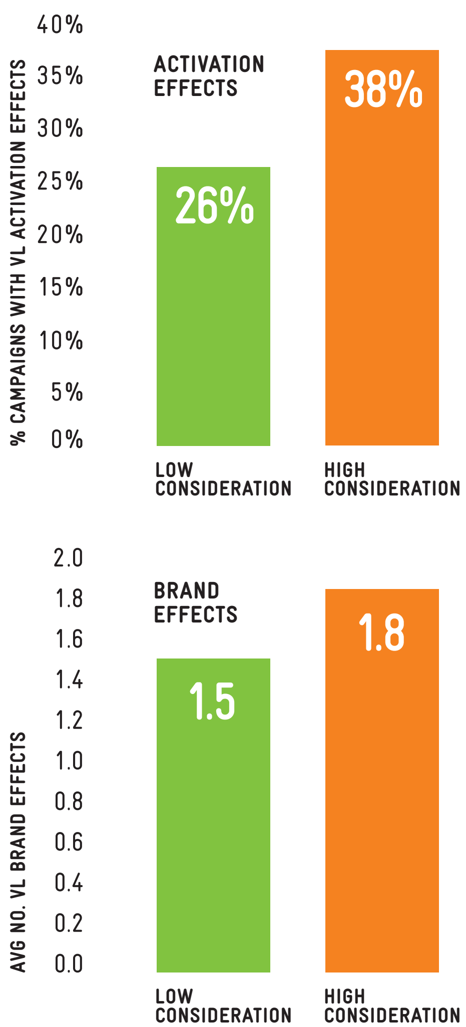
Throughout this report we will be using the IPA data to reveal the importance of taking account of how people choose between brands in your category, because this determines how you can influence them. Some purchases are carefully considered, while others are done on autopilot. Some purchases are strongly driven by feelings and emotion, while information plays a stronger role in others. The nature of the purchase decision has a strong influence on how marketing works, how strong its effects are, how we balance those effects, and which strategies work best.

Generally speaking, **the more interested and involved people are, the more effective marketing communications tend to be.** The IPA Databank includes an assessment of the extent to which the purchase is considered (both on a rational and an emotional level), and analysis of this data shows that **high levels of consideration boost effectiveness and efficiency on every single metric.**

As we have already seen, marketing works in two broad ways. The first, which we call activation, produces an immediate behavioural response. The second, which we call brand building, creates memories that influence future behaviour. The more considered the purchase, the bigger both these effects tend to be.

Activation effects tend to be particularly big for more considered purchases. (Fig 02) The more mental energy people put into the buying decision, the easier it is to elicit an immediate response from them. Expect high response rates to DM, promotions and other forms of performance marketing when consumers are actively involved in the purchase decision. **Brand effects are also bigger for highly considered purchases, but the difference is less marked.** This means that as consideration increases the mix of brand and activation effects changes. **For low-consideration purchases, brand effects dominate. But as consideration increases, activation effects become more important.**

CONSIDERATION BOOSTS BOTH BRAND & ACTIVATION EFFECTS (FIGURE 02)



Source: IPA Databank, 1998-2016 for-profit cases

> the more interested people are, the more effective marketing communications tend to be.

HIGH CONSIDERATION BOOSTS ALL BUSINESS EFFECTS (FIGURE 03)

Source: IPA Databank, 1998-2016 for-profit cases

Because both brand and activation effects tend to be bigger when consumers are highly engaged, **marketing produces much stronger business results in high-consideration categories.** As Figure 03 above shows, high-consideration improves marketing performance on every single business metric.

Sales effects tend to be particularly large in high-consideration categories, and these are strongly driven by customer acquisition. Loyalty and price effects are also slightly bigger, but the effect is less pronounced.

This means that **the mix of business effects also varies with consideration** (Fig 03). In high-consideration categories (where activation effects dominate), marketing has big effects, and works mainly by increasing sales volume (rather than price) and by recruiting new customers (rather than increasing loyalty). In low-consideration categories (where brand effects are more important), marketing has less dramatic effects, and the skew towards volume and penetration is less marked. Loyalty and price effects play a bigger (although still secondary) role for these low-involvement purchases.

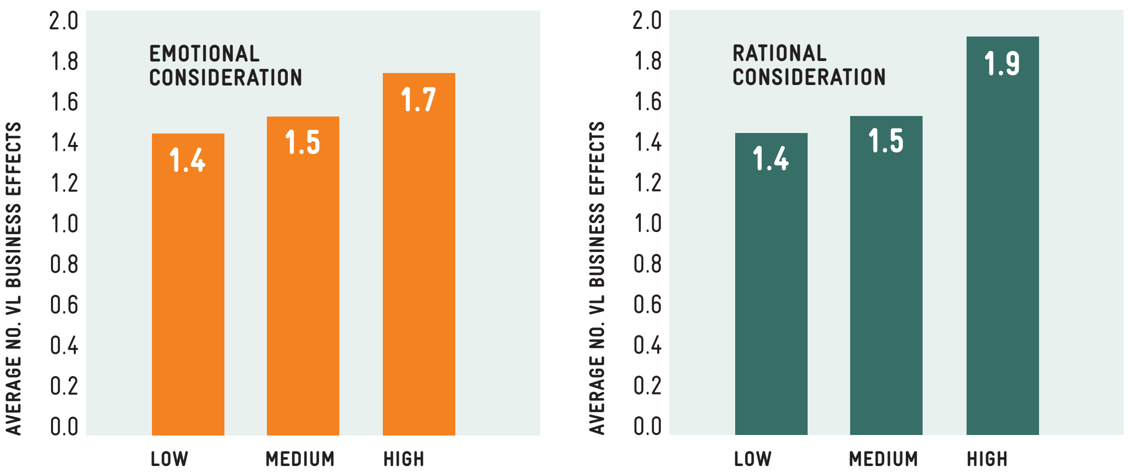
Consideration increases efficiency as well as effectiveness (Fig 04). Extra share of voice (ESOV) Efficiency (see page 132) is higher for more considered purchases, meaning that advertising produces bigger shifts in market share for a given share of voice. Return on marketing investment (ROMI) is slightly higher too, so paybacks tend to be higher in these categories.

HIGH CONSIDERATION INCREASES EFFICIENCY (FIGURE 04)

	ESOV EFFICIENCY	ROMI
LOW CONSIDERATION	0.60	418%
HIGH CONSIDERATION	0.73	430%

Source: IPA Databank, 1998-2016 for-profit cases

BOTH KINDS OF CONSIDERATION INCREASE EFFECTIVENESS (FIGURE 05)



Source: IPA Databank, 1998-2016 for-profit cases

1.2 EMOTIONAL VERSUS RATIONAL PURCHASES

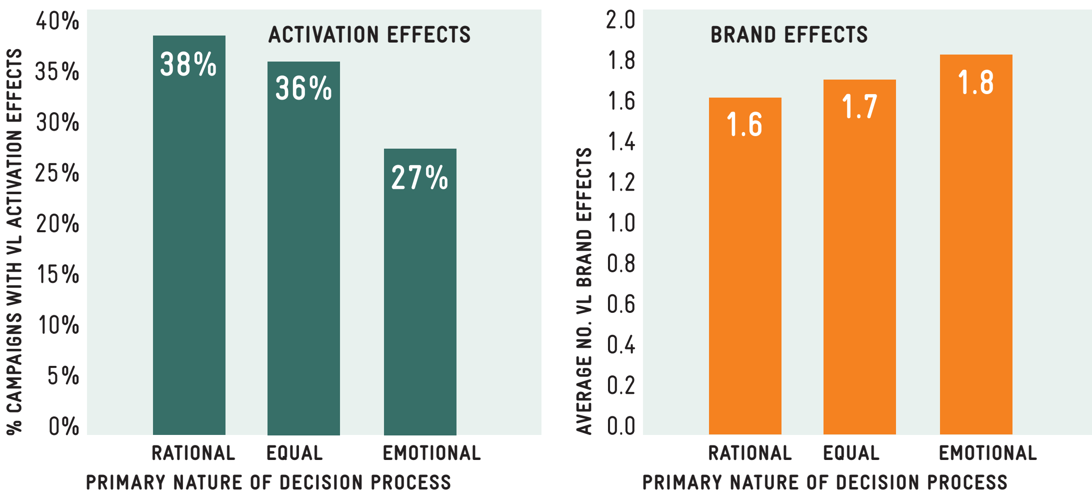
We've seen that consideration increases both effectiveness and efficiency, but 'consideration' can take different forms. Some decisions involve conscious, rational thought. Some are made in an intuitive, emotional way. Most involve a bit of both.

The data suggests that both kinds of mental processing help to increase overall effectiveness (as measured by the number of very large business effects). **Marketing tends to be most effective when people are highly engaged, at either a rational or an emotional level** (Fig 05).

But while any kind of interest increases effectiveness, the *nature* of that interest produces very different effects (Fig 06). And that means that marketers must adopt different strategies for rational and emotional categories.

Marketers must adopt different strategies for rational and emotional categories.

DIFFERENT DECISION PROCESS, DIFFERENT MARKETING EFFECTS (FIGURE 06)



Source: IPA Databank, 1998-2016 for-profit cases

Activation works particularly well when the buying decision involves a lot of conscious, rational thought. People respond immediately to direct activity and promotions, perhaps because these require more conscious attention and tend to work on a more rational level. **But in very rational categories it is slightly harder (although still important) to build strong brands.** It seems that when consumers *think* hard about the purchase, they become slightly more resistant to brand activity. As we will see shortly, this means advertisers should spend *more* on brand advertising in rational categories, not less.

For emotional purchases, the reverse is true. It is much easier to shift brand perceptions when consumers allow themselves to be guided by their feelings. But it is harder to get an immediate response.

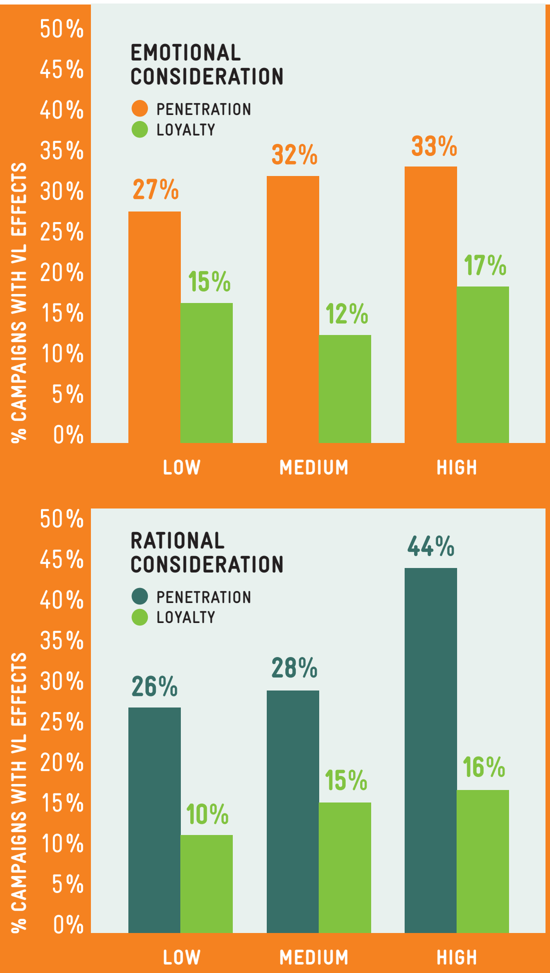
This fits with our previous findings. In *The Long and the Short of It* and *Media in Focus*, we showed that activation works best when it focuses on rational messages. These produce immediate but short-term effects. For brand building, emotions are more important. These produce more slow-burn, longer-lasting effects.

1.3 PENETRATION VERSUS LOYALTY

In all of our reports we have examined the thorny issue of loyalty and argued that a great deal of money is wasted on its pursuit. Many marketers are intuitively attracted to trying to sell more to their existing customers and it is usually cheaper than acquiring new ones, and seems more efficient. Often it is argued that the decades of research by Andrew Ehrenberg, Byron Sharp and others at the Ehrenberg-Bass Institute, do not apply in all contexts; that "my brand is different". And much of the historic research on buying behaviour was done in low-interest, FMCG categories, so maybe loyalty plays a bigger role when consumers are more interested and engaged?

So throughout this report we will be revisiting the penetration versus loyalty debate *in context* to see whether there are any exceptions to the Ehrenberg-Bass rules. Their work shows that penetration and loyalty tend to move together, with penetration being the main driver of growth, and loyalty playing a much smaller role. They argue that pure loyalty strategies are a dead end; that brands never grow

PENETRATION IS ALWAYS THE MAIN DRIVER (FIGURE 07)



Source: IPA Databank, 1998-2016 for-profit cases

through loyalty alone – in fact, loyalty rates don't differ that much between competitors. Our own research has always reached very similar conclusions in the past.

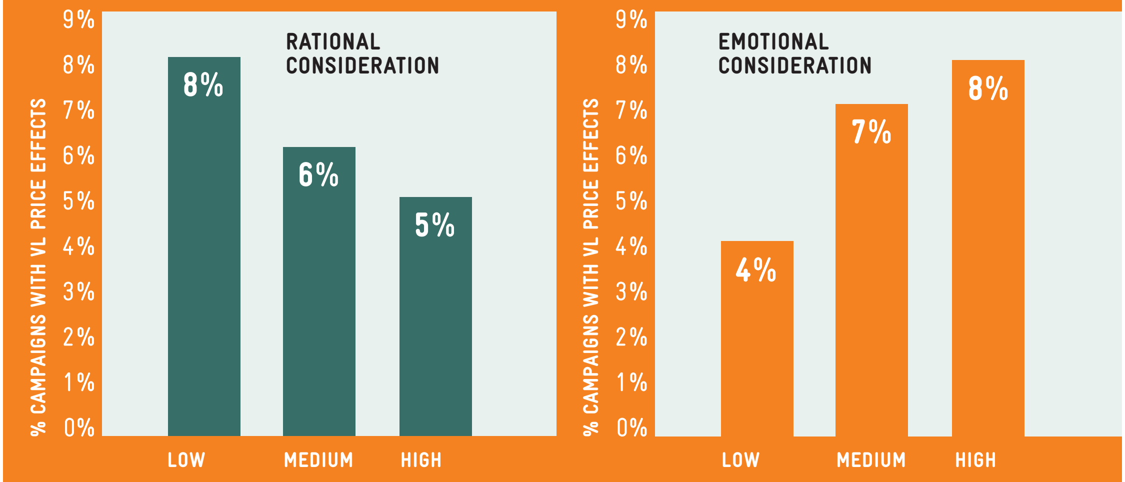
Sadly for fans of loyalty marketing, our new analysis shows that, **regardless of the nature of the purchase decision, penetration is always the main driver of growth** (Fig 07). It doesn't matter whether the category is high or low interest, rational or emotional; penetration effects are always much bigger than loyalty effects.

This does not mean that brand loyalty is irrelevant, or that brands should ignore their existing customers. As we have said before, brands need to talk to both potential and existing customers, either together or separately. However, it does suggest that **loyalty-first approaches are doomed to fail.**

Note that while penetration always dominates, the balance between penetration and loyalty effects does vary. **Loyalty effects become marginally more significant when overall consideration is low, and when decisions are more emotional.** When consumers are more actively engaged, loyalty becomes slightly less important, especially when the decision is very rational. This may mean that the balance of acquisition and loyalty marketing needs to be adjusted accordingly.

Sadly for fans of loyalty marketing, our new analysis shows that penetration effects are always much bigger than loyalty effects.

EFFECT ON PRICE SENSITIVITY (FIGURE 08)



Source: IPA Databank, 1998-2016 for-profit cases

1.4 VOLUME VERSUS PRICE

Another choice that all marketers face is between driving volume and strengthening pricing: both increase revenue and profit, but which is better?

Most marketing works by increasing volume. Getting people to pay higher prices is a far harder task, but it can be very profitable. And increasing volume and price at the same time is even more profitable, if fiendishly difficult.

Supporting higher prices means reducing price sensitivity, especially if you want to maintain or increase volume. To do that, you either need to convince people that it's worth paying more for your product, or you need them to pay less attention to price altogether.

In *The Long and the Short of It*, we showed that the key to reducing price sensitivity is brand building. The stronger the brand, the more power you have to increase price. This cannot be achieved through short-term activation. In fact, price-based activation often increases price sensitivity. And in *Marketing in the Era of Accountability*, we showed that it is very hard to reduce price sensitivity by rational persuasion. In fact, there are still almost no successful examples of this in the IPA Databank. If you want to make people less price sensitive, you need to engage them emotionally; people are willing to pay more for the brands they love.

Our new research is entirely consistent with these previous findings. **In rational categories, where brand building is harder, it is more difficult to justify higher prices. In emotional categories, it is easier to build strong brands that can command a price premium** (Fig 04, page 11).

1.5 ADVERTISING EFFICIENCY

We have seen that the balance of head and heart affects how consumers respond to marketing. In rational categories they respond well to sales activation. In emotional categories they respond well to brand activity. What does this mean for advertising efficiency?

As in all our previous publications, the main metric here is 'ESOV Efficiency' (see appendix). ESOV Efficiency measures how fast the brand grows per unit of investment behind the campaign above equilibrium share of voice (SOV).

As the figures show, advertising efficiency depends on the nature of the purchase decision. **When consumers are very emotionally involved, advertising works harder, increasing ESOV Efficiency. But rational consideration actually *inhibits* the effects of advertising.**[04] The more people think about the purchase, the less influence advertising has over them. Advertisers should bear this in mind. Getting people to feel excited about the brand is usually a good idea. Forcing people to think may be counterproductive.

Figure 09 below suggests that advertising works best when the purchase is emotional. Advertisers in such categories can expect relatively fast growth for a given share of voice. **Growth is harder to achieve in more rational categories**, so advertisers may need to set less ambitious targets there, or spend more to achieve them.

04 Note that this does not mean that all advertising is ineffective in rational categories. Advertising may be less efficient, but it does still work and as we have already seen, sales activation is easier for rational purchases.

DECISION PROCESS AFFECTS ESOV EFFICIENCY (FIGURE 09)

Source: IPA Databank, 1998-2016 for-profit cases

Forcing people to think may be counterproductive.

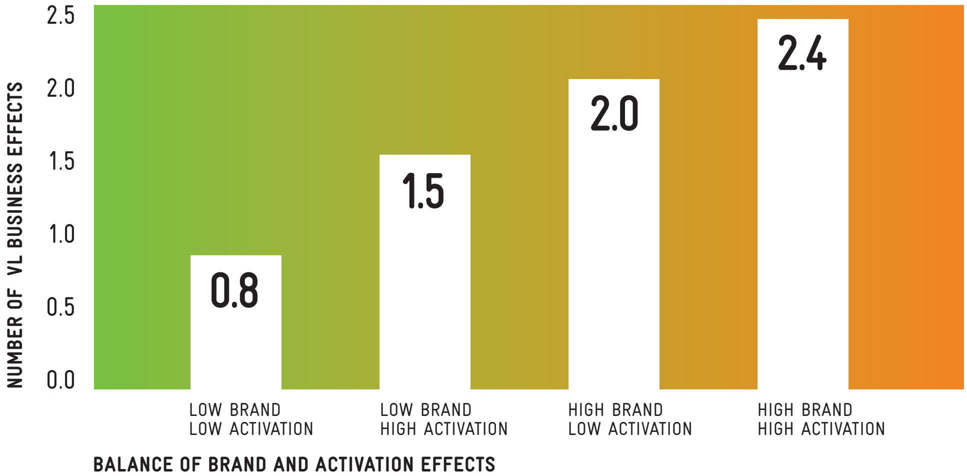
1.6 OPTIMISING THE BUDGET

Our ability to both strengthen brands *and* drive activation is vital, but these tasks pull us in opposite directions. Brand building argues for emotional advertising; activation argues for rational behavioural prompts. And our ability to achieve each varies quite widely by context. But achieve both, we must.

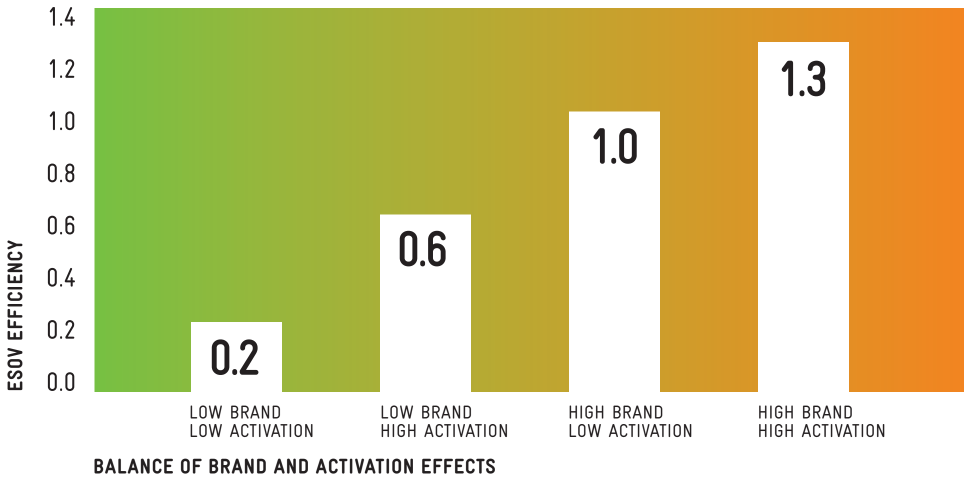
Brand and activation work in synergy, each enhancing the other. Brand communications create enduring memory structures that increase the base level of demand and reduce price sensitivity. Sales activation triggers these memories and converts them efficiently into immediate sales. The net result is a sustainable revenue stream with high margins and high ROMI.

The IPA data shows the importance of achieving both strong brand and activation effects (Fig 10). **Brand building is essential for effectiveness, but strong activation effects are also needed for maximum effectiveness. Similarly, whilst brand building is essential for ESOV Efficiency, strong activation effects are also needed for maximum efficiency.**

POWERFUL BRAND AND ACTIVATION EFFECTS FOR MAXIMUM EFFECTIVENESS (FIGURE 10)

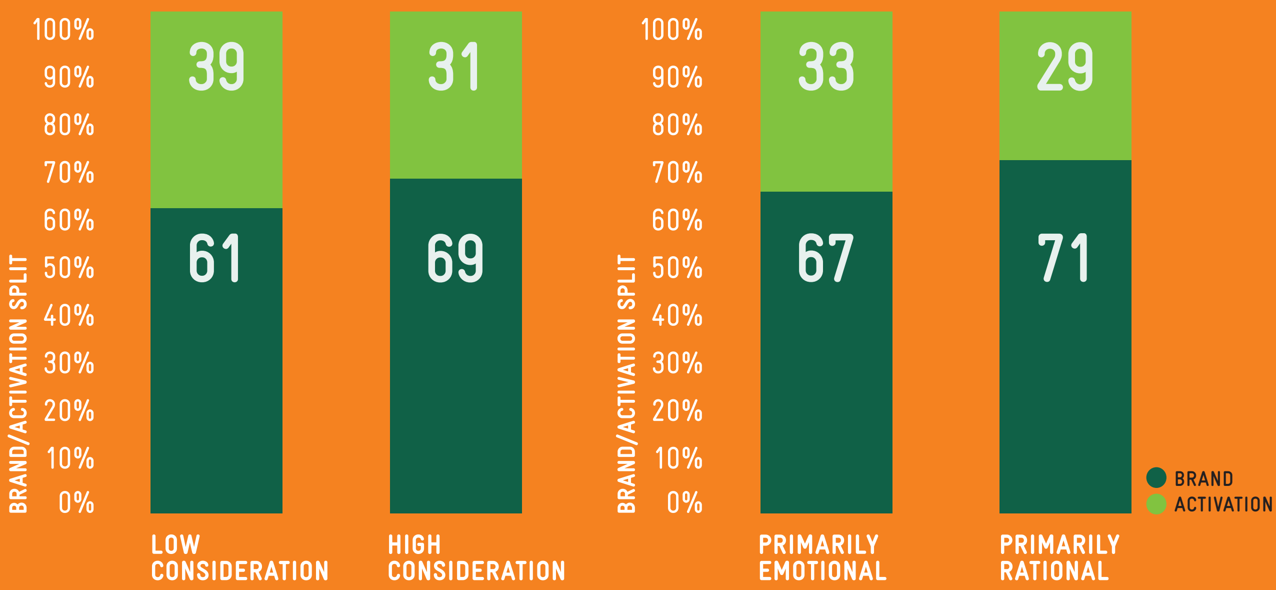


POWERFUL BRAND AND ACTIVATION EFFECTS FOR MAXIMUM ESOV EFFICIENCY (FIGURE 11)



Sources: IPA Databank, 1998-2016 for-profit cases, based on scale of activation effects and number of brand effects

OPTIMUM BRAND:ACTIVATION SPLIT (FIGURE 12)



Source: IPA Databank, 1998-2016 for-profit cases

The efficiency picture is in fact more nuanced than the chart suggests. The most reliable way to boost efficiency is, in fact, to increase activation. But in order to boost activation, brand building is also needed, as we show in the next section of this chapter.

So brands always need both kinds of marketing if they are to thrive in both the short and the long term, and they need to strike the right balance between them. But the balance varies by context, because the relative challenge of building brand and activation effects varies by context. And the level and nature of consideration in any context strongly influence this relative challenge.

We have seen that activation works harder in rational categories, while brand advertising works harder in emotional ones. Intuitively, one might therefore expect that the balance of spend should tilt towards activation as things get more rational. And that is quite a common approach.

But in fact that is not the best strategy. **Regardless of your category, you need both a strong brand and efficient activation.** So when brand building is hard, you need to spend more of your budget on brand. And when activation is less responsive, you need to spend more of your budget on activation.

The IPA data shows that **marketers can dial down their activation spend when consideration is high and/or the purchase decision is primarily rational** (Fig 12), because response rates will be high. Brand building is the hard job here, so it requires a bigger share of the budget. But **marketers can dial down the brand spend in low-consideration and/or emotional categories**. Brand building is relatively easy here, so the hard job is to convert brand equity into sales. This means more spend on activation.

1.7 ONLINE RESEARCH
THE NEW DEVELOPMENT IN CHOOSING BRANDS

The observations we have made so far are time-honoured, but one area that really has changed is the ability of consumers to access information to guide their purchasing.
So in this section we're going to focus on this relatively new development, one whose importance is only going to grow in the future.

Online research is an important and growing factor in decision-making. In some categories where consumers have a strong interest in making the right choice (e.g. insurance) and/or are very emotionally engaged by the product they are choosing (e.g. holidays), we see a great deal of online research prior to purchase. This is especially the case where the purchase is high risk (e.g. expensive or involves a contractual commitment), important, very infrequent or complex.

So sectors such as Financial Services, Durables (especially cars) and subscription services (e.g. mobile network operators) tend to be high online research categories, whereas packaged goods and some retail sectors tend to be low research categories.

These high research categories would doubtless always have generated research through third parties – 'agents' – and reviewers such as *Which?*, but the easy availability of information online has encouraged consumers to take a more active role in researching, especially where there are aggregator websites to make the job easier.

We can explore the impact of online research thanks to research conducted for the Google/TNS Consumer Barometer, which examines how much online research consumers conduct, by product category. Overlaying this on the IPA database (405 cases), we find not surprisingly, that high research categories are much more likely to be higher interest ones than low research categories (70% vs 49%) and that the importance of rational decision-making is also higher in high research categories compared to low research ones
(80% considerable/very considerable vs 52%).

In fact, these high research categories are the exceptions to the general rule: mostly consumers make their choices with little or no thought, guided by System 1 heuristics – the mode of thinking that guides choice through feelings. This is reflected by the IPA cases, with almost twice as many cases in low research categories as high research ones.

And of course System 1 also steers consumer behaviour even when extensive online research is undertaken: Daniel Kahneman[05] refers to this phenomenon as the "affect heuristic".

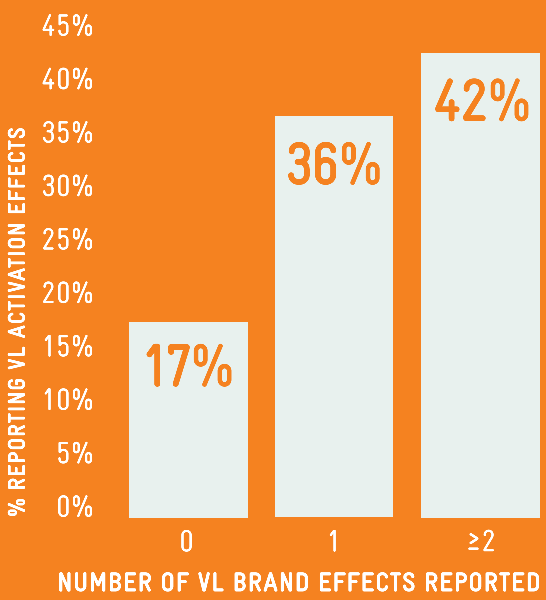
In other words, **if we *like* a brand we tend to believe the positive information we come across** when researching it, and unless we are given overwhelming reasons to choose another brand we will tend to go with our feelings. This has long been evident in the IPA data: **activation effects are boosted when brands are also strengthened** (Fig 13, page 20). This is why brand building is such a dominant force in effectiveness: it is not only essential for long-term effects, but also boosts short-term effects.

Those who believe brand building is no longer important would do well to observe this.

05 See Thinking Fast and Slow, Kahneman D, Allen Lane 2011

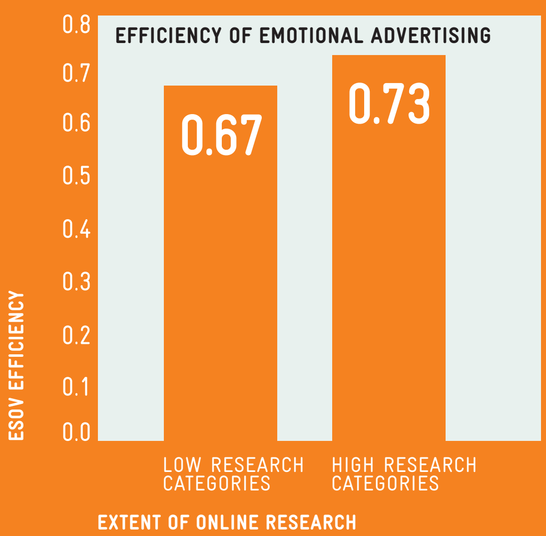
One area that has changed is the ability of consumers to access information to guide their purchasing.

BRAND BUILDING BOOSTS SHORT-TERM EFFECTS (FIGURE 13)



Source: IPA Databank, 1998-2016 for-profit cases

EMOTIONAL ADVERTISING WORKS EVEN HARDER IN HIGH RESEARCH CATEGORIES (FIGURE 14)



Source: IPA Databank, 1998-2016 for-profit cases

The IPA data confirms the power of this affect heuristic even in high research categories: **emotional advertising that influences our feelings towards brands is slightly *more* efficient in high research categories than it is in low research ones** (Fig 13). There is certainly no evidence to suggest that online research makes emotional brand building redundant: quite the reverse.

But this is not widely understood in marketing and we find that emotional campaigns are less prevalent in high research categories than in low research ones.

Clearly there is a widespread misconception that because consumers are researching their purchase online, the best way to influence them is to serve information to them. This flies in the face of neuroscience as well as common sense: these high research categories are often highly competitive ones with little to differentiate one brand from another, so how can serving the same information to consumers as all our competitors bring any kind of sustainable advantage? And, as we saw in the last section, the more we stimulate rational consideration, the less efficient advertising becomes.

So rational campaigns do not become any more efficient in high research categories. If anything they become less efficient, which is exactly what an understanding of the power of brands would lead us to expect. **Only emotional campaigns can create competitive advantage in this environment.**

There is no evidence to suggest that online research makes emotional brand building redundant: quite the reverse.

Another area where high online research influences marketing behaviour is loyalty marketing. Pure loyalty campaigns are increasingly rare amongst IPA cases in general (with good reason),[06] but they are rarer still amongst high research categories: just 3% of these cases.

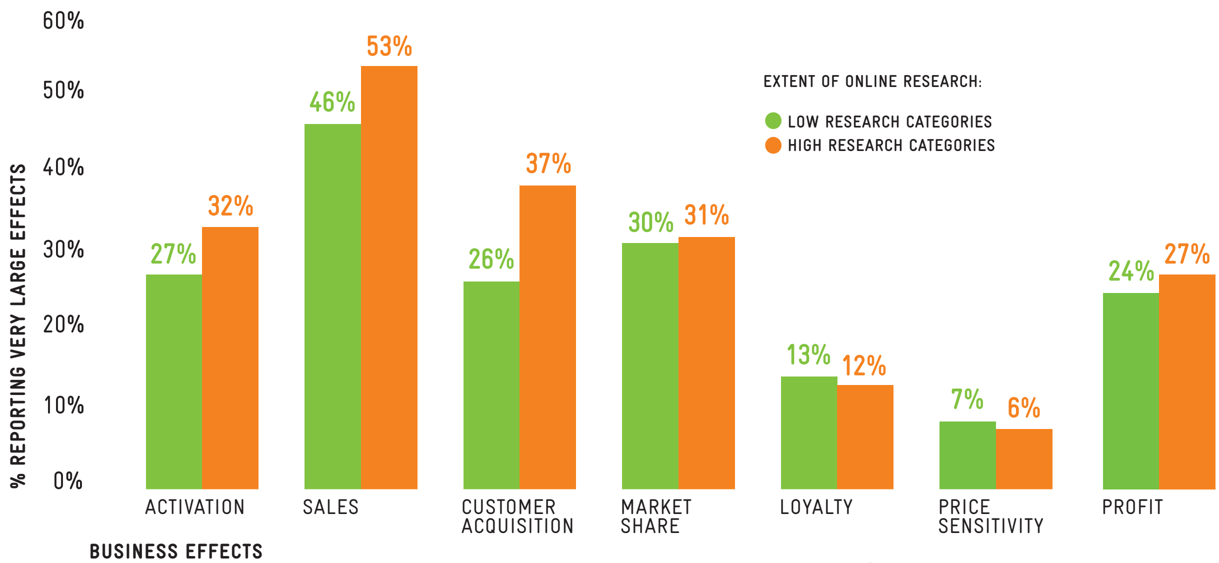
06 They tend to be spectacularly ineffective.

This suggests that in high research categories, marketers feel there is less point talking to existing customers. In fact, the limited sample of cases suggests that, just as we see in general in the Databank, the most effective campaigns talk to all consumers in high research categories: non-customers as well as existing ones.

Amongst low research categories it is pure acquisition campaigns that come to the fore. Either way, it is a mistake not to include non-customers in your target audience. The good news is that if we communicate appropriately with consumers, high research categories offer rich pickings. Many business effects, especially shorter-term effects (the first three pairs of bars on the left of Figure 15) are greater **in high research categories, because we can activate responses more easily and with less money; consumers themselves are creating activation opportunities for brands.** Possibly for this reason, we have seen the occurrence of high research categories amongst IPA effectiveness case studies grow in recent years from 29% to 37% of cases. This may be due to the fact that it is getting easier to achieve a highly effective outcome in these categories, so they are more frequently entered into the IPA Awards. And that is also why the IPA Databank may over represent high research categories compared to the universe of all advertised brands.

Figure 15 shows that whilst long-term outcomes are similar, shorter-term effects are boosted in high research categories.

SHORTER-TERM EFFECTS ARE STRONGER IN HIGH RESEARCH CATEGORIES (FIGURE 15)



Source: IPA Databank, 1998-2016 for-profit cases

Generally, this tends to lead to greater ESOV Efficiency, which is exactly what we see here. **The efficiency of all campaigns in high research categories is typically just over twice the level in low research ones.** But to be clear, this does depend on getting the balance right between brand building (emotional priming) and sales activation, and **the optimum balance in high research categories is a much greater allocation to brand building compared to low research categories** (Fig 16).

This is entirely consistent with the highly competitive nature of many high research categories: having a strong brand is especially important in this environment and if consumers are obligingly making sales activation easier, then **smart brands will take advantage by pulling some money out of activation and into brand building.**

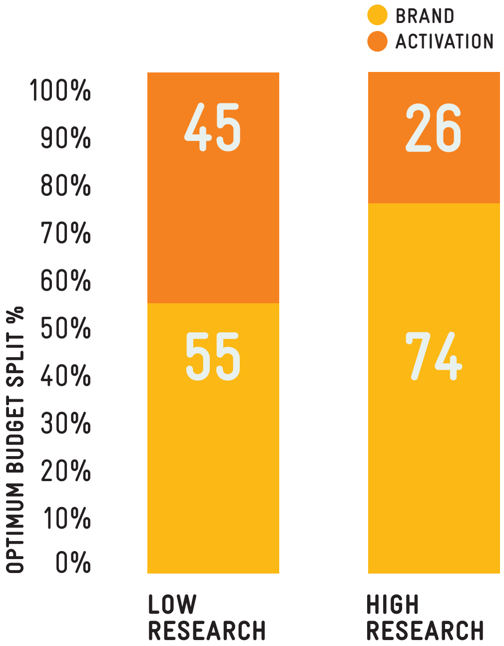
In fact, the actual budget allocation in recent years has been virtually the mirror opposite of this: in low research categories brand allocation is around 69% whilst in high research categories it is around 55%.

The latter is a result of the growing online fallacy: the belief that because consumers are choosing and buying brands online then advertising messages are best served to them online, usually as activation messages. This simply doesn't follow, as we will see.

But the benefits of brand building in high research categories are more widespread than this. In part, we can reduce activation spend because **brand building in these high research categories works to encourage consumers to search for a brand, rather than a generic term.** This is likely to reduce search costs whilst improving conversion rates and importantly, in some categories, also helps to shut out aggregators.

The commercial benefits to brands of pushing back against the margin-eroding presence of aggregators is documented in a number of case studies. Several observe that not only is it more profitable to sell direct to consumers than via an aggregator, but also that trying to compete with aggregators' paid search budgets is a fool's game: investing in brand is your best (and perhaps only) strategy for success.

OPTIMUM BRAND ALLOCATION IS HIGHER IN HIGH ONLINE RESEARCH CATEGORIES (FIGURE 16)



Source: IPA Databank, 1998-2016 for-profit cases

CASE STUDY EASYJET

In a high research category, switching budget from sales activation to brand building is exactly what Easyjet wisely chose to do over the 2011-2013 period. In 2010, faced with stagnating load factors despite aggressive pricing, and profits at a near ten-year low, the company realised that its early growth model of price-driven sales activation did not pass muster in the increasingly competitive European low-cost air travel market. In 2010 paid search *alone* accounted for more than a third of the communications budget, with other forms of activation (e.g. email and print) no doubt taking the brand:activation split way below 60:40. Bravely the company went right through the business to find the savings necessary to fund an aggressive brand-building push in 2011. Brand metrics responded strongly as did load factors, yields and profits (which more than doubled by 2013 on a per seat basis). The shift to a more appropriate and sustainable level of sales activation was evidenced by paid search share of budget, which was reduced to 9% by 2013. Revealingly, the new profitability of the brand was ultimately sustained on a reduced budget from 2010 levels, but allocated more wisely across brand and activation.

A HIRE CAR FROM WHEN YOURS IS OUT OF ACTION. AS STANDARD.

Plenty of insurance providers offer comprehensive insurance. But what happens when your car is stolen or is in an accident and you need a set of wheels, fast, fast, fast?

Direct Line Guaranteed Hire Car cover now comes as standard with our comprehensive car insurance. Have a look at the chart below and see what "as standard" means when Direct Line says it.

WHAT YOU GET	direct line	AXA	Hastings Direct	Admiral	Aviva	LV=
Courtesy car provided as standard	✓	✓	✓	✓	✗	✗
Provided in advance of repair assessment when using **our** approved repairers	✓ Until yours is fixed	✗ During repair	✗ During repair	✗ During repair	✗	✗
Provided in advance of repair assessment while using your own repairers	✓ For up to 21 consecutive days	✗	✗	✗	✗	✗
Provided if your car is written off, stolen and not recovered	✓ For up to 21 consecutive days	✓ Up to 14 days	✗	✗	✗	✗
Provided by hire car company (not the repairer)	✓	✗	✗	✗	✗	✗

This information is based on a non-driveable scenario. Data sourced from insurers' policy booklets and websites. Data correct as of 7th September 2015.

CAN YOUR CAR INSURANCE DO THAT?

direct line

Underwritten by U K Insurance Limited

Search direct line car

CASE STUDY DIRECT LINE

Faced with declining quotation volumes and a weakening brand presence in the home and car insurance sectors as consumers were lured to price comparison sites, direct sell pioneer Direct Line fought back with renewed investment behind a powerful brand campaign. With the help of Winston Wolfe of Pulp Fiction fame, the brand dramatically reversed falling quotation volumes, posting over 50% volume gains in the motor sector. The brand metrics also showed a marked turnaround within the first year of the new campaign. All this was achieved with a falling overall marketing budget and level pricing: further proof of the power of brand building in a high research category.

CHAPTER 1.0 SUMMARY THOUGHTS

01 The nature of the purchase decision has a big influence on how marketing works, and which strategies work best.

02 Marketing is most effective when people are interested and involved. High levels of consideration boost effectiveness and efficiency on every dimension. But...

03 The mix of marketing effects varies, depending on how considered the purchase is, and whether the decision is primarily rational or emotional:

- When consideration is low, or when the decision is primarily emotional, brand building is easier than activation.
- When consideration is high, or when the decision is primarily rational, activation is easier than brand building.

04 This changing mix of brand and activation effects leads to different business outcomes.

05 Volume effects are always more common than price effects. Reducing price sensitivity is a tough job, requiring long-term brand building. But it's slightly easier in low interest and emotional categories, where brand effects are more powerful.

06 Penetration effects are always bigger than loyalty effects. The main way brands grow is always by expanding the customer base; improvements in brand loyalty always play a secondary role. But loyalty effects rise slightly in importance in low interest and emotional categories.

07 For maximum effectiveness, brand and activation effects need to be balanced. So when brand building is hard, you need to spend more on it. And when activation is less responsive, you need to do more of it.

08 When consideration is high and/or rational, activation is easy, so focus more on the harder job of brand building.

09 Conversely, brand spend can be dialled down in low interest and emotional categories. Activation is the tougher challenge here.

10 Advertising works most efficiently when consumers are very emotionally involved. But the more people think about the purchase, the less influence advertising has over them.

11 Therefore, getting people to feel excited about the brand is usually a good idea. Encouraging people to think may be counterproductive.

12 The growth of online research has encouraged people to think more in some categories, but doesn't reduce the importance of brand building. In fact it increases it, because activation is easier and brand choice is expanded.

SECTION 01

CHAPTER 2.0 HOW PEOPLE BUY BRANDS

In Chapter 1 we observed that the nature of the decision-making process does not fundamentally alter the rules of effectiveness, but what about the purchase process itself? The IPA data allows us to examine two important changing dynamics in purchasing: online vs. offline purchasing and whether the purchase decision is the start of an on-going multiple-transaction relationship ('subscription' purchases) or a one-off transaction ('series' purchases).

Although online still accounts for the minority of retail sales, especially in foods, the trend is clear and the assumption of many marketers is that online purchasing will become the norm. This has led to heightened interest in driving online sales and raised questions over whether well-established offline best practice applies in the online retail environment. So in this chapter we will examine the evidence for whether brands sold directly online behave differently from those sold offline.

This is an increasingly difficult distinction to make, because most products and services can be bought online through some intermediary these days. And most brands with direct online distribution also sell via the world of bricks and mortar. Our distinction therefore will be whether the brand has significant online distribution directly from its own web presence, even if it may also sell offline. We will compare these brands with those whose only online sales may come from intermediaries such as Amazon, but who are primarily reliant on offline sales channels.

The issue of subscription sales models has become a hot topic in recent years, as brands have sought to develop new business models that disrupt markets or can defend their sales from the predatory attentions of the disruptors. Uber and Netflix are often regarded as the epitome of this trend, but we should not forget how, at a less conspicuous level, the Dollar Shave Club and its imitators have muscled in on a male-grooming category that has been dominated by Gillette for many years. Clearly, many entrepreneurs are looking for subscription ideas to give them an entry route to established categories where it can be difficult to persuade conventional distribution channels to take them seriously. In addition to these new business models, there are the time-honoured subscription brands that involve contracts: mobile phone companies, some financial services. We will compare brands where the purchase decision is a one-off decision to these subscription brands and explore how the rules of effectiveness are modified.

2.1 ONLINE VERSUS OFFLINE SALES

According to the Office of National Statistics, UK online sales accounted for 16.6% of all non-petrol retail sales in the year to March 2018, up from 15.2% the year before. International comparisons suggest that the UK leads developed economies in this respect, so globally online sales are still a small minority: the US equivalent is around 13%. Although this represents a moderation of growth in UK online sales over the previous year, there is no consistent suggestion in the data that the shift to online sales will slow anytime soon. But it is worth remembering that it has taken around 20 years for online sales to grow to this level. The online percentage is much lower for foods at around 5% and growing much more slowly, despite the efforts of many grocery retailers, but the entry of Amazon into this area may well stimulate some growth. But for the time being, most sizeable brands wisely opt for a 'clicks and mortar' distribution strategy.

In many ways, the behaviours and pattern of effects observed for online brands are different from offline ones in very predictable ways. But overall the data suggests that the limited number of differences that are observed between the pattern of effects are largely the result of different behaviours by online and offline brands, or of the constituent sectors represented, rather than any fundamental differences in the rules of effectiveness for online and offline categories.

Short versus long-term effectiveness

As we will see later in this chapter, **online brands tend to pursue short-term effects** more concertedly than offline brands, so it is not surprising that to some extent the pattern of effects observed reflects this. But in truth the differences are modest and overall **online brands achieve similar numbers of business effects as offline (1.5 vs 1.6).** Online brands are more likely to achieve short-term sales activation effects partly because they

SHORT-TERM EFFECTS ARE STRONGER FOR ONLINE BRANDS (FIGURE 17)

Source: IPA Databank, 1998-2016 for-profit cases

allocate a greater proportion of their budget to doing so and partly because it will be easier for them to do so. If the transaction is just a click away, activation messages have an immediate behavioural outlet and are less likely to be forgotten or overwritten by competitors' activity. But most other effects, with the exception of market-share growth, are broadly comparable (Fig 17). **Market-share effects are long-term in nature, only weakly influenced by activation messages and primarily driven by brand-building activity, so it is not surprising that online brands underperform at this,** given that they tend to underinvest in brand-building advertising. But another factor is also likely at play here: online categories tend to be very competitive and crowded with brands. It is simply more difficult to drive share growth in a crowded category.

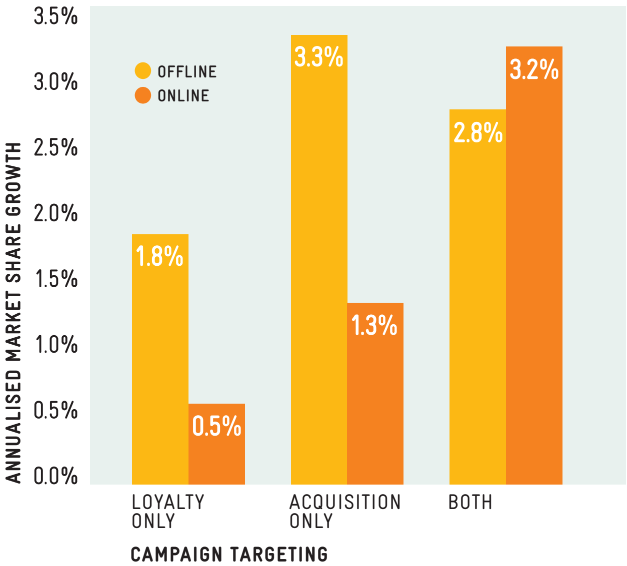
Nevertheless, online brands, especially those that invest adequately in brand, do enjoy the efficiency benefits of easier activation. ESOV Efficiency for offline brands is 0.5 pts. of market-share growth per 10 pts. of ESOV, compared to 1.3 for online brands. This is in large part due to the more responsive nature of services and retail brands to advertising, but a part of this advantage is likely to be easier online activation. So growth targets for online brands can generally be met with smaller levels of ESOV than offline brands – typically around 60% less.

Online brands are also more likely to be in high-consideration categories: 64% vs 56% for offline brands. This will help effectiveness, as we showed in Chapter 1. But **the nature of consideration in online categories is more likely to be rational than emotional, whereas the reverse is true in offline categories,** so brand building and long-term effectiveness are likely to be more difficult to achieve. As we will see, this has implications for balancing budget between brand and activation for online brands that are likely to grow over time as more and more sales migrate online.

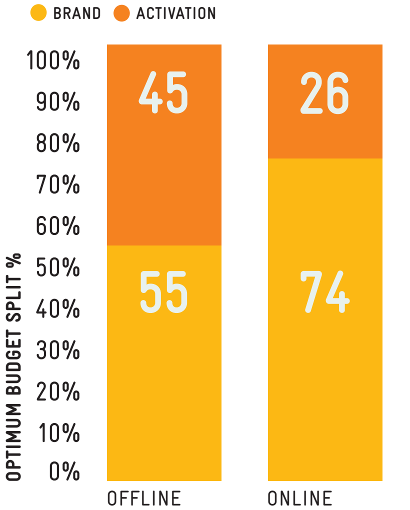
Penetration versus loyalty

Much has been written about building loyalty for online brands, so we will return to this familiar topic once more to see if it is any more worthwhile than it is for offline brands. One of the potential advantages of online brands is their closer knowledge of their customers and contact with them. This is likely to make loyalty marketing

GROWTH FOR ONLINE BRANDS IS MORE DEPENDENT ON BROAD TARGETING (FIGURE 18)



ONLINE BRANDS' OPTIMUM BRAND:ACTIVATION BALANCE IS HIGHER (FIGURE 19)



Sources: IPA Databank, 1998-2016 for-profit cases

easier and cheaper to undertake, but the data suggests that it doesn't make it any more worthwhile.

In fact, compared to offline brands, **growth for online brands is even more dependent on broad targeting beyond existing customers** (Fig 18). But perhaps an important implication of this chart is the heightened influence in the online-brand world of existing customers' attitudes and feelings towards brands on the ease of acquisition of new customers. When brands are bought online it is quicker and simpler to check customer reviews, so it is important that communications play a role in helping to keep existing customers content. But, whilst this is desirable, it is not sufficient for growth – **in the crowded online world, reaching out to new customers is vital.**

Emotional versus rational advertising

As we observed with high online research categories, just because online brands are associated more strongly with rational consideration than emotional consideration, this does not mean that the most effective advertising is rational. Emotional advertising may well be less efficient for online brands than offline ones (about 40% less so) but **it is still considerably more efficient than *rational* advertising for online brands.** In fact rational advertising in online categories appears to be so inefficient that we cannot reliably measure its efficiency. Again, a pattern is emerging that **the more crowded the category is with choice, the more vital it is that we harness the priming effects of emotional advertising.**

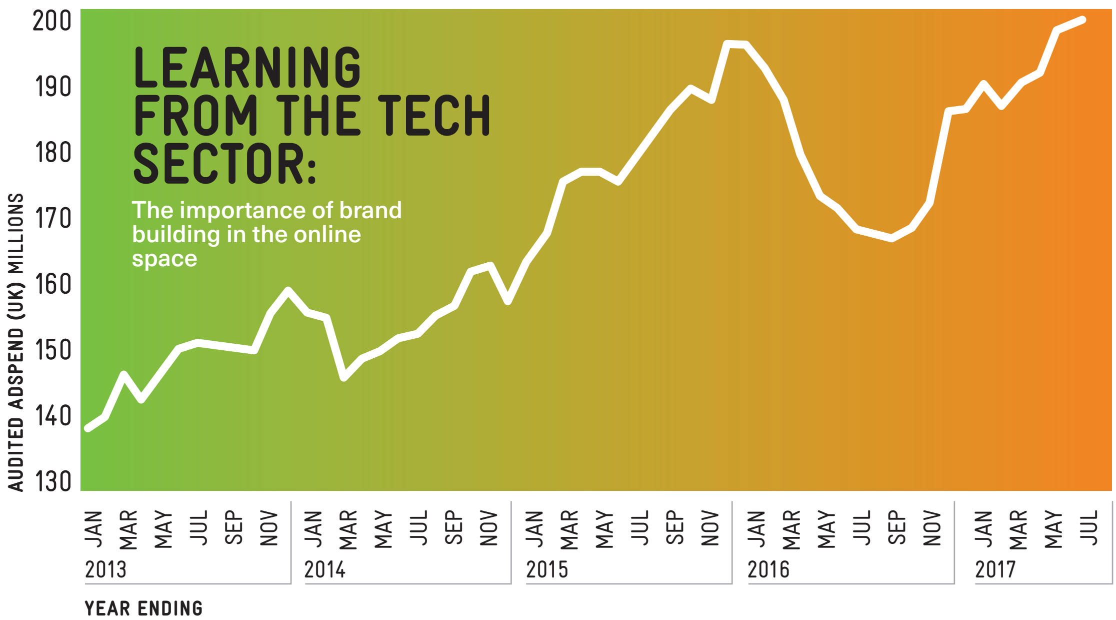
The good news for effectiveness is that many online brands have clearly already discovered this for themselves: primarily emotional campaigns are more prevalent for online brands than offline ones (52% vs 46%).

Brand building versus activation balance

The importance of brand building for online brands has already been argued earlier in this chapter. It should come as no surprise therefore that **the optimum balance of brand building to sales activation for online brands is rather higher than for offline brands** (Fig 18). This is one of the factors responsible for the trend over time to a higher optimum balance amongst all IPA case studies.[07]

07 See Section 3 of this report.

MAJOR TECH FIRMS SPEND ON ESTABLISHED BRAND-BUILDING MEDIA (FIGURE 20)



Many people mistakenly believe that the technology sector teaches us that brand building is unimportant in the digital era. In fact the tech sector teaches us completely the reverse. The eight major tech brands in the UK evidence a considerable and growing level of investment in established, 'traditional', brand-building media by the sector. Do they know something that many online businesses don't?

Brands	**Media**	**Source**
Amazon	TV	Nielsen
Google	Outdoor	
Apple	Press	
Facebook	Radio	
Twitter	Cinema	
Airbnb		
Uber		
Spotify		

INSIGHT

DIRECTLINE

BUDGET OPTIMISATION *PAR EXCELLENCE*

Directline's turnaround story involved more than just investing behind a powerful brand idea. Rebalancing the budget from activation heavy to around 70:30 was a key part of taking the fight to the aggregators: no amount of activation spend could have turned the tide successfully. This meant reallocating budget from direct mail, email, DRTV and banner advertising to brand TV and online video. The result was a much more efficient budget allocation that was able to drive growth despite the overall budget falling from £71m to £38m between 2011 and 2015.

Common practice, however, is not following this best practice: the average actual balance of campaigns for online brands in recent years is around 56% brand building – well short of the optimum balance. This is likely to be because campaigns for online brands are almost twice as likely to be short term (less than six months in duration) and therefore they are inevitably more strongly focused on short-term results. At around 64% brand building, offline brands are closer to optimum, but overshoot. As we will see later in this report, this overshoot is largely caused by certain offline sectors.[08]

08 See Section 2 of this report.

2.2 SUBSCRIPTION VERSUS SERIES SALES

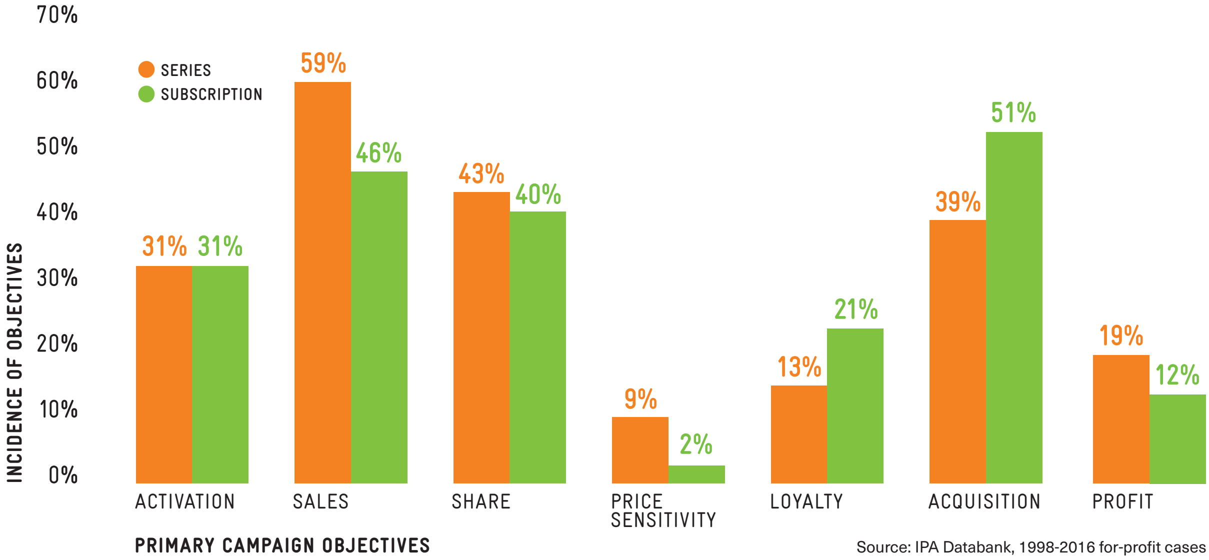
Within the IPA Databank over the last 20 years the considerable majority of cases (82%) have been from series-purchase categories, though this proportion has been very slowly declining over that period (by around 4 percentage points). Financial services represent the biggest sector amongst subscription categories (53% of subscription cases), which is five times the incidence amongst all cases, so this will inevitably colour the patterns of effectiveness observed.

Short versus long-term effectiveness

As we will see, there are some considerable differences between the patterns of business effects observed in subscription categories vs. series categories. Although some of this can be put down to greater short-termism amongst the former, it is unlikely to explain the whole. Short-term activation effects are equally an objective for series brands, so in practice their objectives do not appear to reflect the pressures of short-term campaigns.

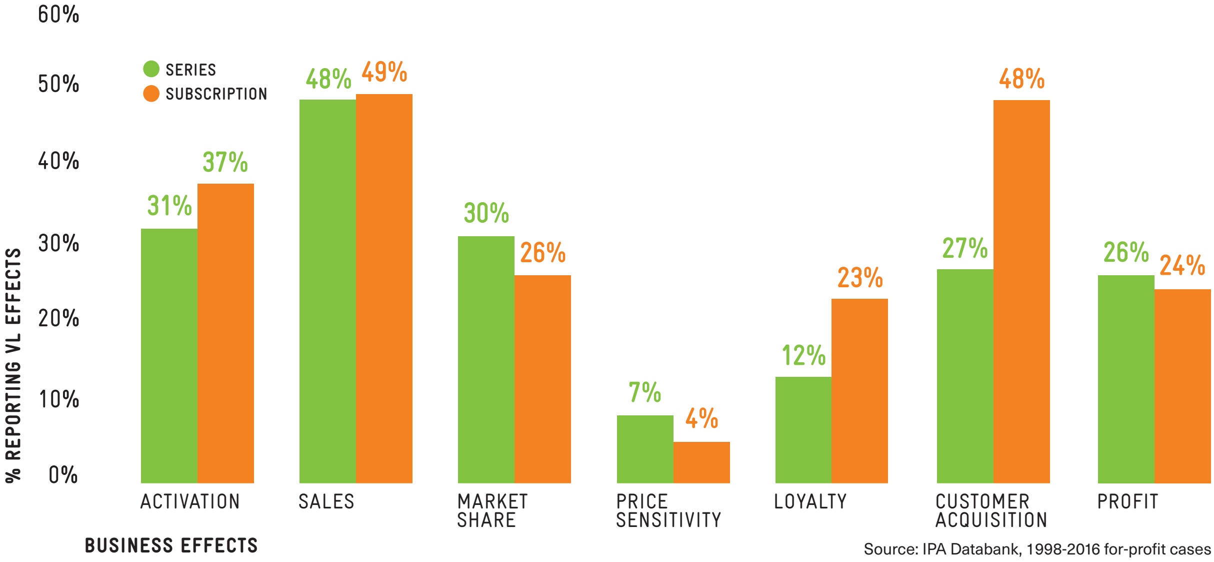
If we look at the primary business objectives we can see that subscription brands are, not surprisingly, much more focused on acquiring and retaining customers: i.e. increasing their customer count. They are less likely to pursue the other objectives of advertising relating to sales, share or pricing. This makes sense to a degree: these subscription customers will be committing to the brand for a period of time, so there will be direct opportunities later to drive other business objectives, but only if they become customers in the first place.

SUBSCRIPTION CATEGORIES ARE FOCUSED ON ACQUIRING AND RETAINING CUSTOMERS (FIGURE 21)



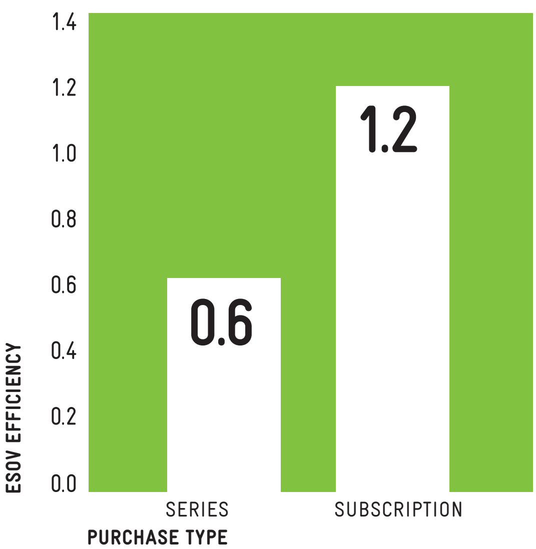
Source: IPA Databank, 1998-2016 for-profit cases

SUBSCRIPTION BRANDS' BUSINESS EFFECTS REFLECT THEIR FOCUS ON CUSTOMER COUNT (FIGURE 22)



Source: IPA Databank, 1998-2016 for-profit cases

EFFICIENCY IS HIGHER IN SUBSCRIPTION CATEGORIES (FIGURE 23)



Source: IPA Databank, 1998-2016 for-profit cases

These priorities are strongly reflected in business outcomes (Fig 22). **Subscription brands achieve a slightly higher average number of business effects (1.7 vs 1.5), but this is almost entirely down to overachieving in customer acquisition and retention vs series brands.**

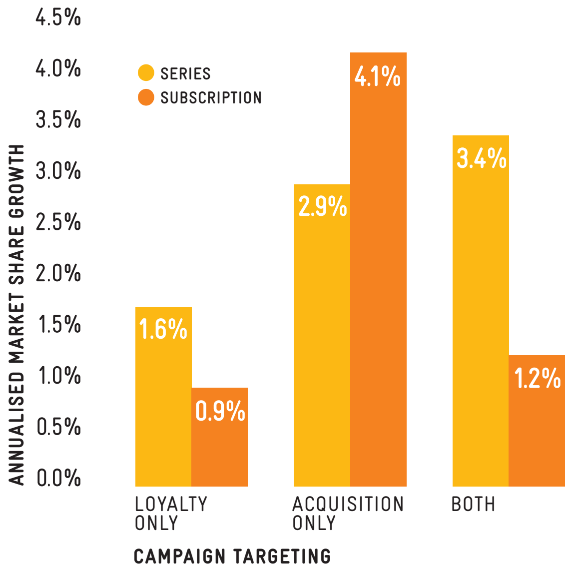
As we will see, customer acquisition is always a key driver of long-term growth and, when allied with more powerful activation effects, results in much stronger ESOV Efficiency for subscription brands.
So, **for the same level of market-share growth p.a. subscription brands need only invest in half as much ESOV as series brands** (Fig 23). No wonder businesses are seeking to establish subscription models in hithertoseries-purchasing categories.

Penetration versus loyalty

It is time again to return to the familiar topic of loyalty. We just observed that customer acquisition is the dominant business objective in subscription categories and that retention, whilst a relatively minor objective, is also considerably more widely adopted than amongst series categories.

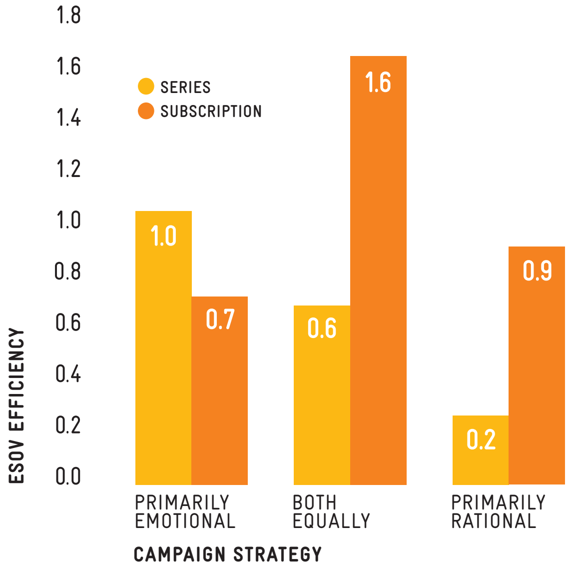
A commonly held view is that loyalty is a more sensible objective for subscription brands than series brands. It sounds

GROWTH FOR SUBSCRIPTION BRANDS IS HEAVILY DEPENDENT ON ACQUISITION (FIGURE 24)



Source: IPA Databank, 1998-2016 for-profit cases

ADVERTISING THAT SETS INFORMATION IN AN EMOTIONAL CONTEXT WORKS HARDEST FOR SUBSCRIPTION BRANDS (FIGURE 25)



Source: IPA Databank, 1998-2016 for-profit cases

reasonable: after all, if we lose the loyalty of a subscription customer we may lose all their business rather than just a proportion of it, as might be the case with a series-purchase customer. In fact, and probably for the same reason as in series categories, customer retention is not a good growth strategy in subscription categories. Communications cannot significantly alter loyalty levels (except indirectly as a consequence of building penetration). The data actually suggests that **loyalty is an even weaker growth strategy in subscription categories than series ones, and that the smart money chases customer acquisition alone** (Fig 24). This makes sense, as the lifetime value of a new customer is likely to be higher for subscription brands and loyalty is much more directly influenced by day-to-day service.

So subscription categories depart from the normal targeting best practice illustrated by series categories. The general finding is that the most broadly targeted campaigns are the most effective: those aimed at new and existing customers. But in series categories it pays to focus much more on new customers.

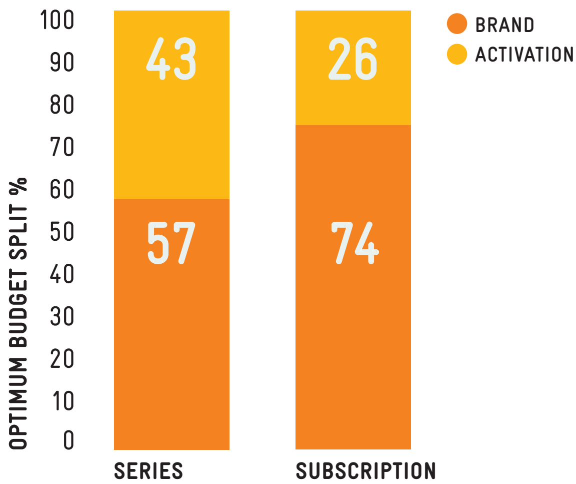
Emotional versus rational advertising

Subscription brands are more likely to be high-consideration ones than series-purchased brands (67% vs 56%), although this is mostly the result of rational consideration rather than emotional consideration. The reverse is true for series brands. This has implications for the effectiveness of rational and emotional advertising, but not what you might expect.

Primarily emotional and primarily rational advertising both work fairly efficiently for subscription brands, but both are eclipsed by the efficiency of brand-building subscription campaigns which set information in an emotional context (Fig 25). For series brands, such mixed-strategy campaigns simply fall in the middle between relatively inefficient rational campaigns and more efficient emotional ones, as we've observed as a general rule in earlier research.

Reaching out to new customers successfully over the long term depends on brand building.

SUBSCRIPTION BRANDS' OPTIMUM BRAND:ACTIVATION BALANCE IS HIGHER (FIGURE 26)



Source: IPA Databank, 1998-2016 for-profit cases

So it would appear that **the greater importance of rational consideration argues for strong rational support in advertising for subscription brands, but the familiar long-term benefits of emotional advertising still necessitate an emotional appeal.**

Brand building versus activation balance

The greater importance of rational consideration in subscription categories has clearly influenced marketers to divert expenditure away from brand-building communications: typically around 53% of budget vs 63% for series brands.

But this is a mistake, as you might predict given the higher importance of new customer acquisition to growth. Reaching out to new customers successfully over the long term depends on brand building to prime them to want to consider the brand and to be interested in its messages.

So, in fact, the optimum balance for subscription brands is rather higher than for series brands (Fig 26). The growth of subscription brands over time in our IPA data is another reason why we will see that the optimum brand:activation balance is trending upwards.[09]

09 See Section 3 of this report.

CASE STUDY THE AA

The 2018 AA case study is a must-read for anyone who thinks that a large subscription brand can survive on activation only. The progressive abandonment of brand advertising over a six-year period may have made the corporate earnings figures look good for a while but was slowly killing the brand. Ever greater acquisition incentives had started to erode loyalty and consumers increasingly saw little reason to renew without a deal: the seeds of a perfect storm were being sewn. Wisely the company saw the approaching crisis in time and recommitted to brand building in 2016. Brand share of budget jumped from 0% to around 70%, partly funded by a considerable reduction in targeted and retargeted digital display as well as increased overall spend. Customer acquisition took off as the brand effect built, despite reduced activation; confirming the now familiar finding that activation needs brand building to drive penetration growth – especially for a subscription brand.

CHAPTER 2.0 SUMMARY THOUGHTS

01 Online sales in most categories are growing, but are still a relatively small proportion of total sales.

02 The essential rules of effectiveness are not greatly different for online brands, but many marketers assume they are. This leads to a mistaken focus on short-term sales and online activation messages.

03 In fact, online brands trade in a highly crowded and competitive environment in which brand building is *more* important. This is reflected in the heightened importance of broad reach for campaigns for online brands and the considerably greater effectiveness of emotional campaigns for them.

04 This also increases the optimum proportion of budget allocated to brand building.

05 The greater ease of serving activation messages for online brands makes activation easier and therefore reduces the optimum proportion of budget allocated to activation.

06 Therefore online brands succeed best with a considerably greater proportion of budget allocated to brand building – almost 75%.

07 Subscription-purchased brands exhibit modified effectiveness rules. Customer count is even more important to success, so customer acquisition is a key campaign objective. Other business objectives become less important because they can be achieved later and by more direct channels.

08 Loyalty levels for subscription brands are even less influenced by advertising than for series-purchased brands; growth strongly depends on new-customer targeting.

09 Because subscription categories are relatively high consideration ones, advertising is more effective and efficient than for series-purchasing categories.

10 But because consideration tends to be more rational in subscription categories, brand building is more difficult than in series-purchasing categories, so the optimum balance is heavily weighted to brand building (74%).

SECTION 01

CHAPTER 3.0
BRAND PRICING

Not surprisingly, brand pricing has a strong impact on effectiveness and communications strategy, so it is important to take pricing into account. Here we look at that impact and explore how the essential rules of effectiveness are modified at different ends of the pricing spectrum.

Price influences a marketing plan in three important ways:

01 ABSOLUTE PRICE

The more expensive a product is in absolute terms, the more carefully considered the purchase will be. Big-ticket items feel more risky. Not only is there more money at stake, but these are often complex and infrequent purchases. People feel less confident about them, so they think carefully, and do more research.

That makes the activation part of the marketer's job easier. If you're selling cars or holidays, people will actively seek information about your products. They will visit your website, request your brochures, scrutinise your features and prices.

But it also makes brand building more important. If people don't put your brand on their consideration list, you won't get a chance to wow them with your products and prices. Generally speaking, **expensive purchases need to be supported with higher levels of brand activity.** See Chapter 1 for more details.

02 RELATIVE PRICE POSITION

Current price position *within* the category is the next factor. As we will see in the next section, marketing works slightly differently at different price points. **The lower your relative price, the less you need to spend on advertising.** And advertising pays back in different ways at different prices. **For value brands, advertising is primarily a way to increase volume; for premium brands it's more about margins.**

03 LONG-TERM PRICING STRATEGY

Your strategy should reflect your long-term price ambitions. Do you want to shift to a higher or lower price position? The last section of this chapter outlines how this can be built into a marketing plan.

3.1 ABSOLUTE PRICE

The IPA data does not allow us to examine absolute price, so our pricing analysis is focused on relative price position within the category.

3.2 RELATIVE PRICE POSITION

Relative price has a big influence on effectiveness (Fig 27). The IPA Databank shows that, overall, **marketing communications are most effective when the brand's price is either very low or very high.** Mid-market brands have to work a lot harder.

The success of value brands is easy to understand – their low price gives them an obvious advantage. The advantage that premium brands have over their mid-market rivals is more complex. Partly this is a matter of higher margins, as we will see shortly. **Product quality** undoubtedly plays a role too. And conspicuous consumption may play a part – expensive brands convey **social status.**[10]

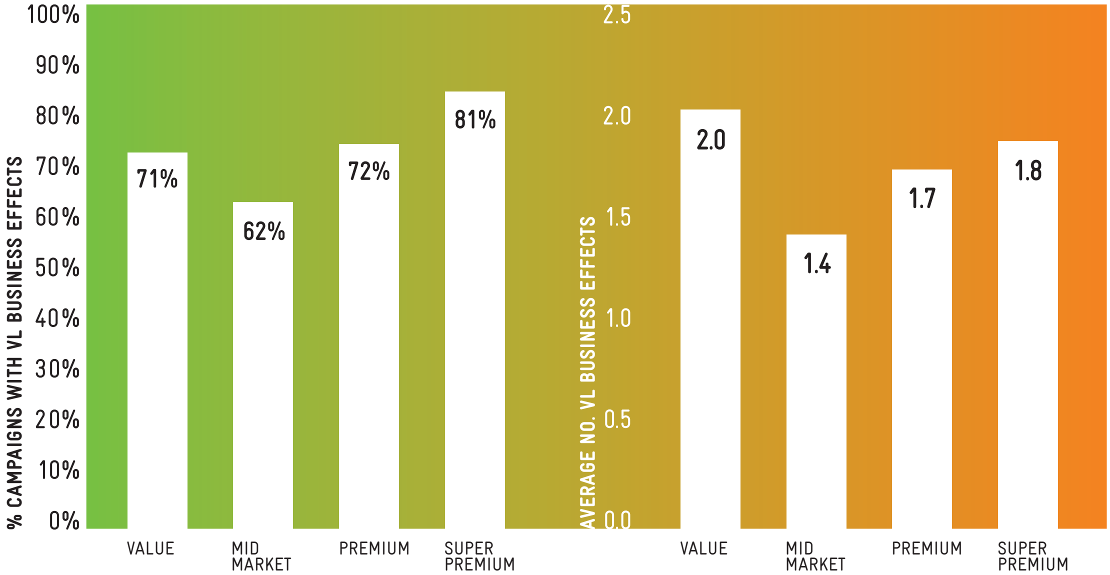
Generally speaking, differentiation is an overused marketing strategy. The researchers at Ehrenberg-Bass have repeatedly shown that, contrary to popular belief, successful brands tend to appeal to *all* category buyers, rather than 'owning' a distinct market segment. Indeed, the data shows that markets are remarkably unsegmented, with most brands having very similar user profiles. Byron Sharp et al have argued that this makes most differentiation strategies ineffective, a finding that the IPA Databank corroborates.[11]

The few real examples of segmentation that Ehrenberg-Bass do find are often related to price. Premium ice-cream brands appeal to slightly more upmarket shoppers than cheap brands. Luxury sports cars do not compete strongly with small hatchbacks. Price segmentation does exist, but it is less marked than most people probably think – a lot of shoppers at upmarket retailers also like to go to value retailers, as Aldi and Lidl have been able to exploit. Such segmentation may be

10 For an interesting exposition of these display effects, see *Spent: Sex, Evolution and the Secrets of Consumerism* (2009) by Geoffrey Miller.

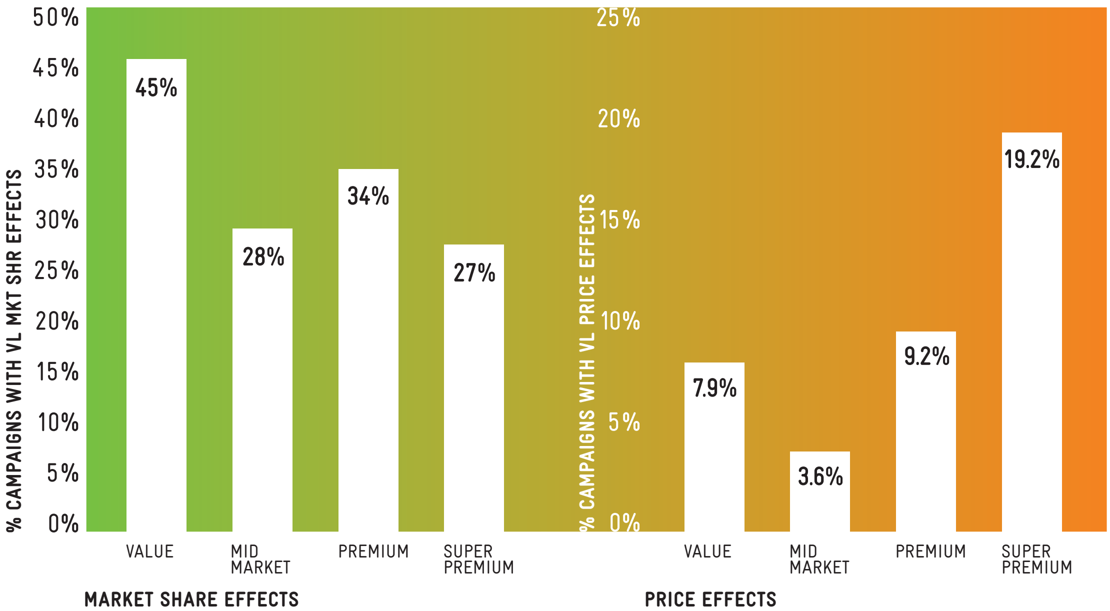
11 Byron Sharp makes the important point that while brands don't need to be functionally differentiated to succeed, they do need to be distinctive. Again, our own research supports this. See *Marketing in the Era of Accountability*.

EFFECTIVENESS IS HIGHEST WHEN PRICE IS VERY HIGH OR VERY LOW (FIGURE 27)



Source: IPA Databank, 1998-2016 for-profit cases

VOLUME EFFECTS AT THE BOTTOM OF THE MARKET, PRICE EFFECTS AT THE TOP (FIGURE 28)



Source: IPA Databank, 1998-2016 for-profit cases

> Whether you're EasyJet or Emirates, the way to sell more flights is by recruiting more customers, rather than by getting your existing customers to fly more often.

more to do with different need states rather than different consumers.

Our new findings confirm that **price is one area where differentiation can be an effective strategy.** Having a genuinely cheaper, better,[12] or more prestigious product really does help.

Although value and premium-pricing strategies can both be highly effective, they deliver profit in different ways (Fig 28, page 39). **For value brands, marketing communications mainly work to deliver high volume. At the top end, they reduce price sensitivity, and so support higher prices and margins.**

These results tentatively suggest that **marketing communications may serve to increase price segmentation within a category.** Premium brands find it easier to reduce price sensitivity and so push their prices even higher. Brands at the lower end of the market are forced to compete more on price, and tend to race each other to the bottom.

Once again we find that **regardless of price position, growth is primarily driven by penetration** (Fig 29). So whether you're EasyJet or Emirates, the main way you will sell more flights is by recruiting more customers at your chosen price point, rather than by getting your existing customers to fly more often. Nevertheless, the mix of penetration and loyalty effects does vary by price. **Loyalty effects are always secondary, but slightly more important at the top end of the market.**

Looking at the mix of brand and activation effects, we once again find that the biggest effects tend to occur at the extreme ends of the market (Fig 30). **Differentiating your brand on the price/quality dimension makes both brand and activation more effective.**

The biggest variation is in activation effects, which are particularly large at either very low or very high price points. Note that the nature of these activation effects might be quite different at opposite ends of the market. At the bottom end, promotions and offers probably dominate. At the top end, where loyalty effects are biggest, activation may take the form of genuine loyalty marketing and CRM[13] – cross-selling, upselling, improving retention, and so on. **In the middle of the market, where there is less to say about pricing or product quality, activation effects are smaller, and brand effects dominate.**

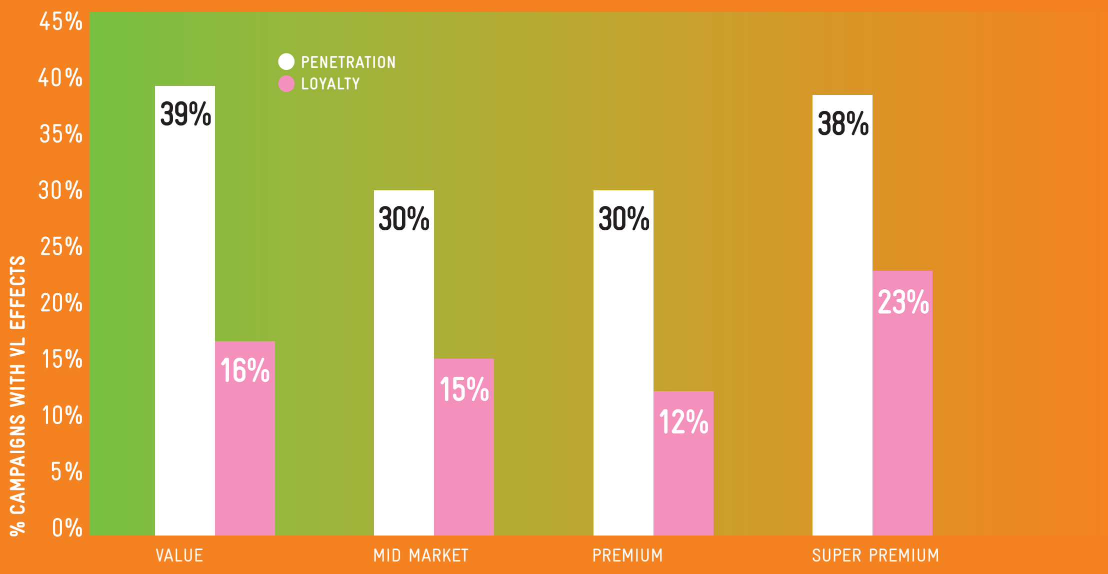
As we have already seen, value brands find it easier to increase volume and gain market share, so they don't need to spend so much on advertising. Conversely, premium brands find it hard to gain and maintain market share, and so need a high share of voice relative to their size. **Brands should dial their share of voice up or down in line with their price** (Fig 31, page 42), and that is what IPA cases do.

What about the mix of brand and activation spend? Unfortunately, sample sizes are not big enough to allow us to measure the optimum

13 The IPA data does not allow us to distinguish between these different kinds of activation.

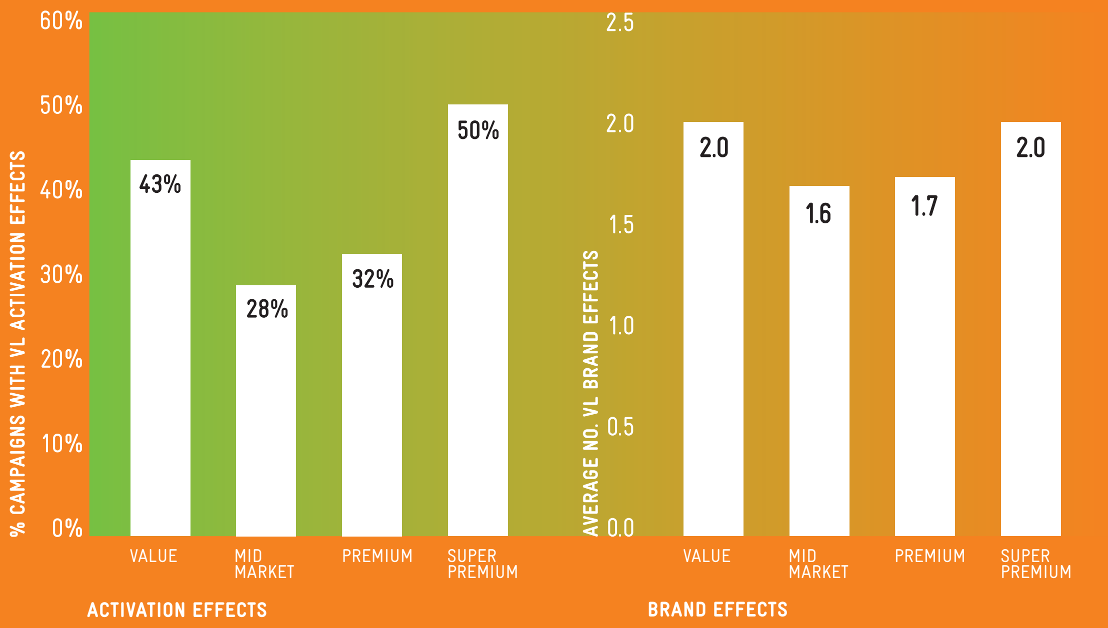
12 In their book *Simply Better*, Barwise and Mehan argue that being better is far more important than being different. We will return to this theme when we look at innovation in Chapter 4.

PENETRATION, LOYALTY AND PRICE (FIGURE 29)



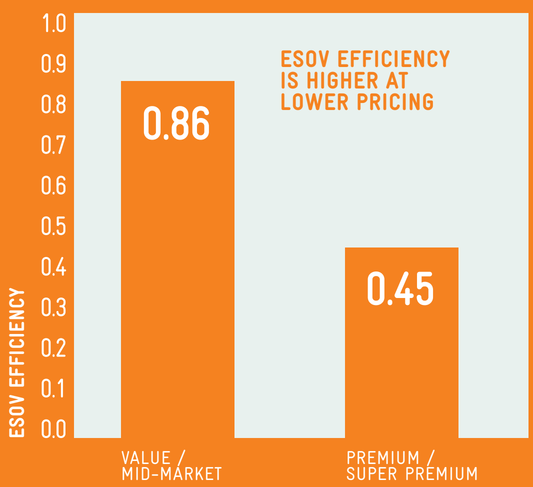
Sources: IPA Databank, 1998-2016 for-profit cases

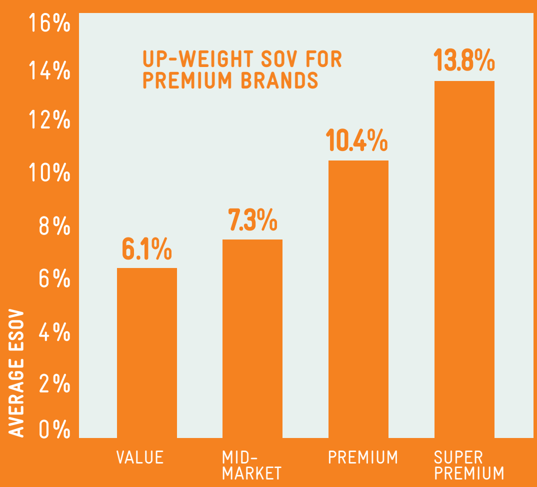
BRAND AND ACTIVATION EFFECTS ARE HIGHEST AT EXTREME PRICING (FIGURE 30)



Sources: IPA Databank, 1998-2016 for-profit cases

ADJUST ESOV TO REFLECT PRICE (FIGURE 31)



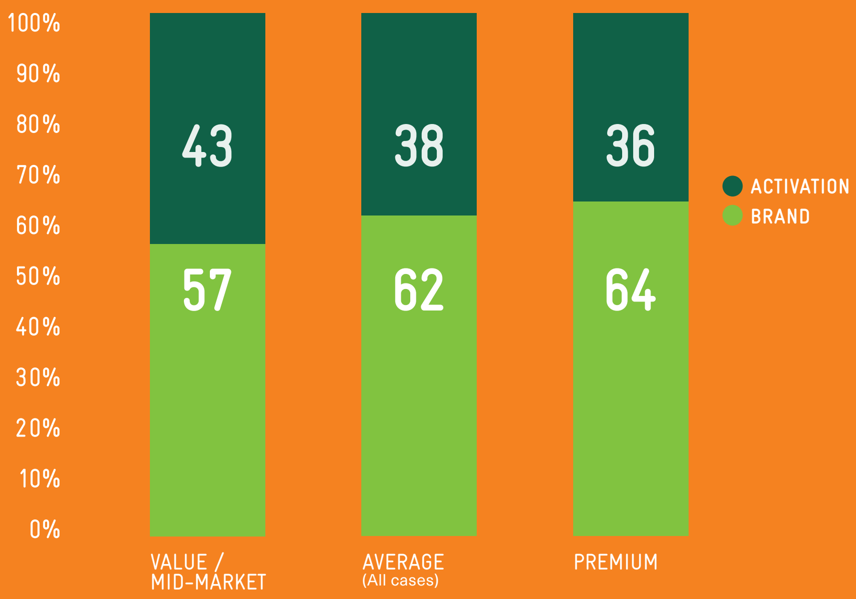


Source: IPA Databank, 1998-2016 for-profit cases

mix at all price points. But what data we have suggests that **premium brands need to be supported with higher levels of brand spend** (Fig 32).

However, we earlier saw evidence that the mix of brand and activation effects is different when prices are extremely high or extremely low. So it may be that value and super-premium brands require a different budget split. More data is needed here to be sure. One should also bear in mind that while the budget splits may be similar at different price points, the nature of the activities involved may be quite different. **For low-cost products, low prices may be a big part of the brand positioning, and activation may take the form of price promotions.** For more premium products, brand activity is likely to focus on other things, and activation is more likely to be aimed at deepening the relationship with the customer.

OPTIMUM BRAND: ACTIVATION SPLIT (FIGURE 32)



Source: IPA Databank, 1998-2016 for-profit cases

3.3 LONG-TERM PRICING STRATEGY

What about *changing* price position? Here the evidence is unequivocal. **Only emotional brand building has the power to reduce price sensitivity and support premium prices.** So firms that want to move their products upmarket need to spend more on brand building.[14]

For most brands, a degree of premiumisation is likely to be a smart move, but there are situations in which a brand might want to go the other way. If a brand had a significant and sustainable price advantage over its competitors (for example, a radically different business model with inherently lower costs), then it might be profitable to actually *increase* price sensitivity. That would be relatively easy – just cut brand spend and focus on price promotions.[15]

But for most brands that would be a dangerous game, as low-cost business models can be copied, and price advantages are hard to sustain over the long term. Once you have committed to a low-price strategy, it can be very hard to shift back to firmer pricing, as we saw in the second chart in this chapter.

The effectiveness of low and high-price strategies varies by marketing context, (Fig 33) as we will see elsewhere in this report. Generally speaking, **it seems to be harder to support premium pricing when the product, brand or category is new.** It's usually more effective to go for volume in this early phase.

There are probably several reasons for this. When categories are new and growing fast, prices tend to fall steadily in absolute terms, and that favours price competition. In categories where there are network effects, price competition may be particularly intense as firms rush to become the dominant player.

But, over time, premium pricing becomes a more viable option.[16] As categories mature, prices become more stable. At the same time, the nature of the purchase decision tends to change, with consumers becoming happier to trust their intuitions and feelings as they become more experienced. With less routine price-cutting, and consumers less focused on rational factors like price, premium pricing-strategies become more viable.

Brands that want to move upmarket have at least two options. The first is to **reposition the brand** as a whole. This is a slow and expensive business, as brand perceptions take time to change.

ESOV Efficiency is slightly lower than average when brands change their positioning, so brand owners need to commit substantial budgets over long periods of time.

OPTIMUM PRICING STRATEGY VARIES BY CONTEXT (FIGURE 33)

EASIER TO GAIN VOLUME HARDER TO INCREASE PRICE	HARDER TO GAIN VOLUME EASIER TO INCREASE PRICE
RATIONAL PURCHASE DECISION	EMOTIONAL PURCHASE DECISION
NEWER CATEGORY	MORE MATURE CATEGORY
NEWER BRAND	MORE MATURE BRAND
INNOVATIVE PRODUCT	ESTABLISHED PRODUCT
SMALLER BRAND	BIGGER BRAND
VALUE BRAND	PREMIUM BRAND

14 See *The Long and the Short of It*, Chapter 3, section 1.

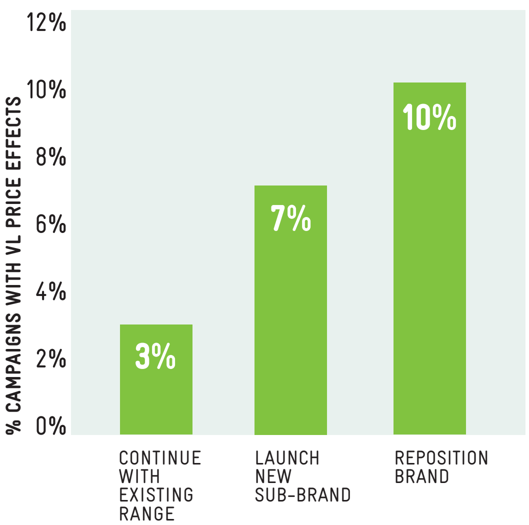
16 Our results suggest that price segmentation probably increases as categories mature. We would be interested to hear of any evidence for or against this hypothesis.

15 There is evidence that promoting heavily increases price sensitivity. See, for example, *The Long and the Short of It*, Chapter 1, section 1. Academic researchers have found similar results.

The second option is to **launch a premium sub-brand.** This gets results faster. ESOV Efficiency is high for launches (see Chapter 6), so launching a premium version tends to be a quicker and less advertising-intensive way to recruit upmarket buyers. However, there are additional NPD costs involved, and there is always the risk of cannibalisation.

Figure 34 below shows, **repositioning the whole brand tends to have a bigger effect** on price sensitivity. Financial paybacks tend to be higher too, despite the additional advertising costs involved.

STRATEGIES FOR REDUCING PRICE SENSITIVITY (FIGURE 34)



Source: IPA Databank, 1998-2016 for-profit cases

For most brands, a degree of premiumisation is likely to be a smart move.

The more premium your product is in absolute terms, the more considered the purchase will be.

CHAPTER 3.0 SUMMARY THOUGHTS

Absolute price
The more premium your product is in absolute terms, the more considered the purchase will be.

That makes activation easier. But it also makes brand building more important. So big-ticket purchases need to be supported with higher levels of brand activity.

Relative price
For value brands, marketing communications mainly work to increase volume. For premium brands, they reduce price sensitivity, and so support price and margins.

Regardless of price position, growth is primarily driven by penetration. Loyalty effects are always secondary, but become slightly more important at the top end of the market.

The lower your relative price, the less you need to spend on advertising. Brands should dial their share of voice up or down in line with their price.

Brands should also adjust their brand:activatIon mix. Premium brands needs to be supported with higher levels of brand spend.

Extreme pricing
Marcoms are unusually effective for both low-cost and super-premium brands, suggesting they work particularly well when there is something interesting to say about price and/or quality.

Activation effects are pronounced when price is very high or very low. That suggests marketers may need to reduce their activation spend at extreme prices, and spend more on brand building.

This would imply low cost brands require high levels of brand activity, and less activation. But note that for value brands low prices may be a big part of the brand positioning, and activation may take the form of price promotions, not comms.

Changing price position
Only emotional brand building has the power to reduce price sensitivity and support higher prices.

It is harder to support premium pricing when the product, brand or category is new. But over time, premium pricing becomes a more viable option.

Reducing price sensitivity is easier if you already have a premium product. Value brands tend to remain locked into a low price position.

Launching a premium sub-brand is a good way to move to a higher price position. But repositioning the whole brand has a bigger effect on price sensitivity, and tends to be more profitable.

SECTION 01

CHAPTER 4.0 INNOVATION

As we will see in Part 3, innovation has been a developing area of strategy in recent years. In times of low growth, many brands have turned to innovation to boost growth. In the previous chapter we saw that marketing communications work better when there is something interesting to say about price or quality. So this chapter continues the theme by examining: whether marcomms work better when there is product innovation to talk about; how levels of innovation influence effectiveness; and how to get the most benefit from innovation.

4.1 LEVELS OF INNOVATION

It is widely believed that all innovation boosts long-term effectiveness, but Figure 35 below suggests that this is not true: it depends on the *scale* of innovation. **Most product innovation does increase effectiveness, but minor innovation does not.**

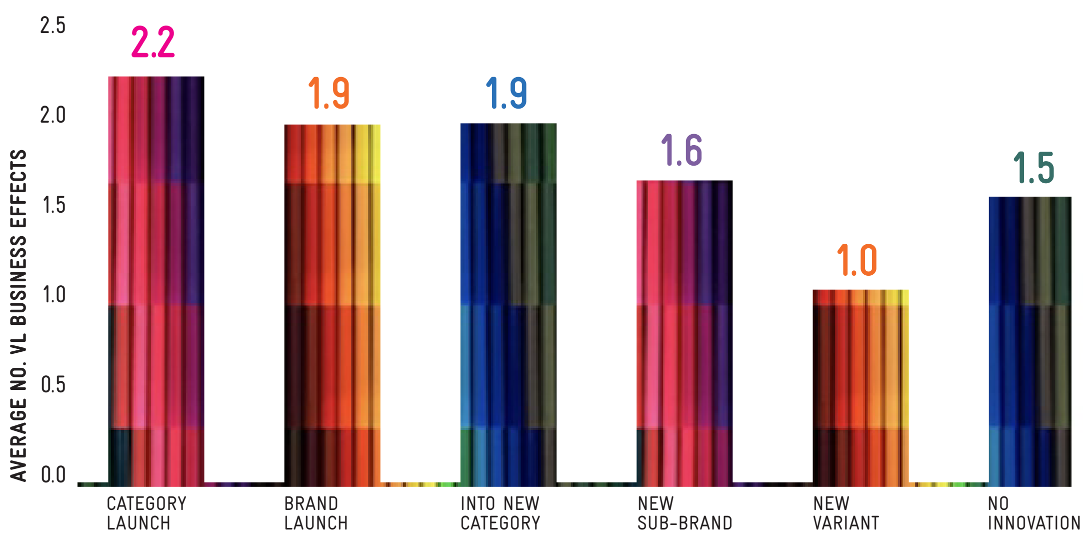
Generally speaking, **the more radical the innovation, the bigger the boost to effectiveness.** The most radical innovations create completely new product categories, and advertising them can produce very big effects indeed. Launching a new brand, or taking an existing brand into a completely new category, are also effective strategies.

But when the innovation is smaller, overall effectiveness tends to be lower. In particular, campaigns for new variants within an existing brand portfolio are less effective than campaigns with no NPD at all. **Minor innovation is worse than no innovation at all.** And even launching new sub-brands usually does little to justify the effort.

This is a trap that many firms fall into. Convinced that brands need a constant stream of 'new news' to keep people interested, they end up on a constant treadmill of minor product launches. New flavours, new sizes, new ingredients, new packaging, new features – anything to give the marketing team (and the sales force) something to say. Minor variant launches of this kind are often worse than no innovation at all. Retailers will give the new products shelf space, but often at the expense of existing SKUs. Shoppers will try them, but the purchases often cannibalise other variants of the same brand. New variants often have quite brief lives and, even if they cling on, they can cause problems. Brands that are addicted to minor NPD can end up hopelessly fragmented, leaving potential customers baffled and confused. Try buying shampoo or mouthwash and you'll see what we mean.

Worse still, NPD often distracts brand owners from the important job of supporting their core products. The best-selling products in the portfolio still need marketing support to *maintain* their sales, even if they are very well established. Indeed, **the highest ROIs come from advertising core products, not new variants.** Core products usually have a bigger sales base and higher margins, both of which boost the ROI from advertising. And core products are more likely to have a halo effect on minor variants rather than vice versa.

MAJOR INNOVATIONS INCREASE EFFECTIVENESS (FIGURE 35)



Source: IPA Databank, 1998-2016 for-profit cases

It is easy to see why so many marketers feel they need constant NPD to generate growth. If you believe that the purpose of advertising and other marketing communications is to tell people interesting things about the product, then surely you need new things to say every year? And the easiest way to create news is to launch new products. But our research suggests that, in all contexts, advertising does not need to contain explicit product messages in order to be effective; emotional brand building succeeds well without them, in which case there is much less need for 'new news'.

4.2 INNOVATION AND SHORT-TERM VERSUS LONG-TERM EFFECTIVENESS

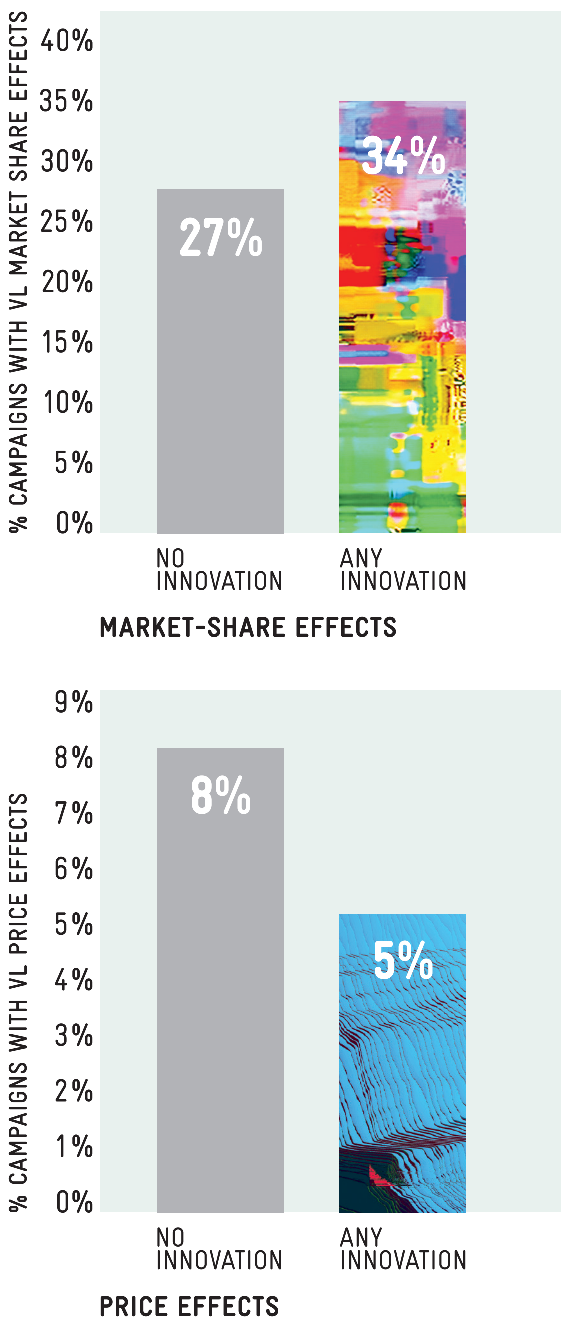
The patterns of short and long-term effects reveal more about what innovation can and cannot achieve. In general, innovation is much more focused on generating volume than supporting prices and margins.

Innovation-led campaigns tend to produce bigger market-share gains than average (Fig 36), and those gains are made faster (Fig 37). This is particularly true in the early phases of category and brand development, and when innovation is major.

But **reduction in price elasticity tends to be *less* likely when there is innovation** (Fig 36). It is much harder to charge high prices for new products. This is consistent with our observations in the previous chapter on pricing. Price differentiation is associated with long-term brand building, and tends to become more important as categories, brands and products mature. **The only form of innovation that tends to reduce price sensitivity is launching a premium sub-brand.**

Innovation tends to produce fast growth, but it is often short-term (Fig 37), **and focused on volume rather than price and profit** (Fig 36).

INNOVATION BOOSTS VOLUME, NOT PRICE (FIGURE 36)



Source: IPA Databank, 1998-2016 for-profit cases

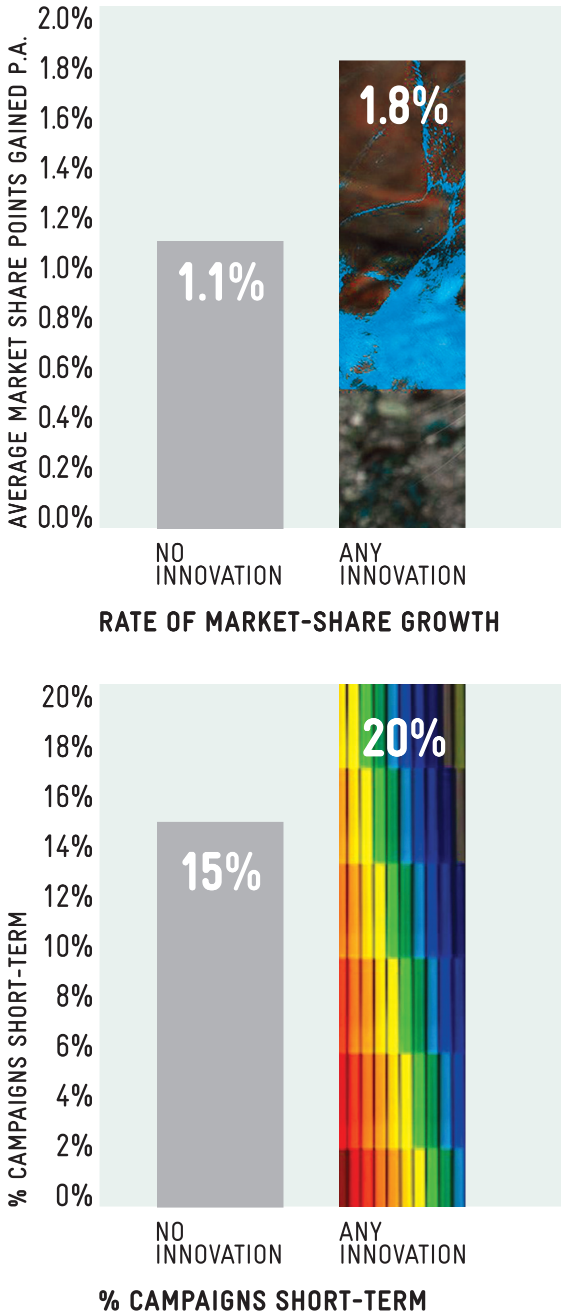
But because most innovation by existing brands is minor, when we look at innovation in general, the impact on long-term growth and profitability appears bleak; **innovation tends to produce lower advertising paybacks** (Fig 38, page 50). Profit gains and ROMI both tend to be smaller – probably *much* smaller once the cost of product development is included. There are many possible reasons for this: base sales are lower during the launch phase of a new product; margins tend to be smaller; and price sensitivity tends to be higher.

There are exceptions – brand launches and major innovation can be quite profitable, as we will see later on in this report. But in general, NPD tends to lead to low marketing paybacks. And the less radical the innovation, the less profitable it tends to be. **Minor variant launches produce particularly low rates of return.**

So, **innovation is more about gaining customers, increasing volume and gaining market share. Increasing prices and margins tends to come later,** once the brand is more established, and the product is more familiar.

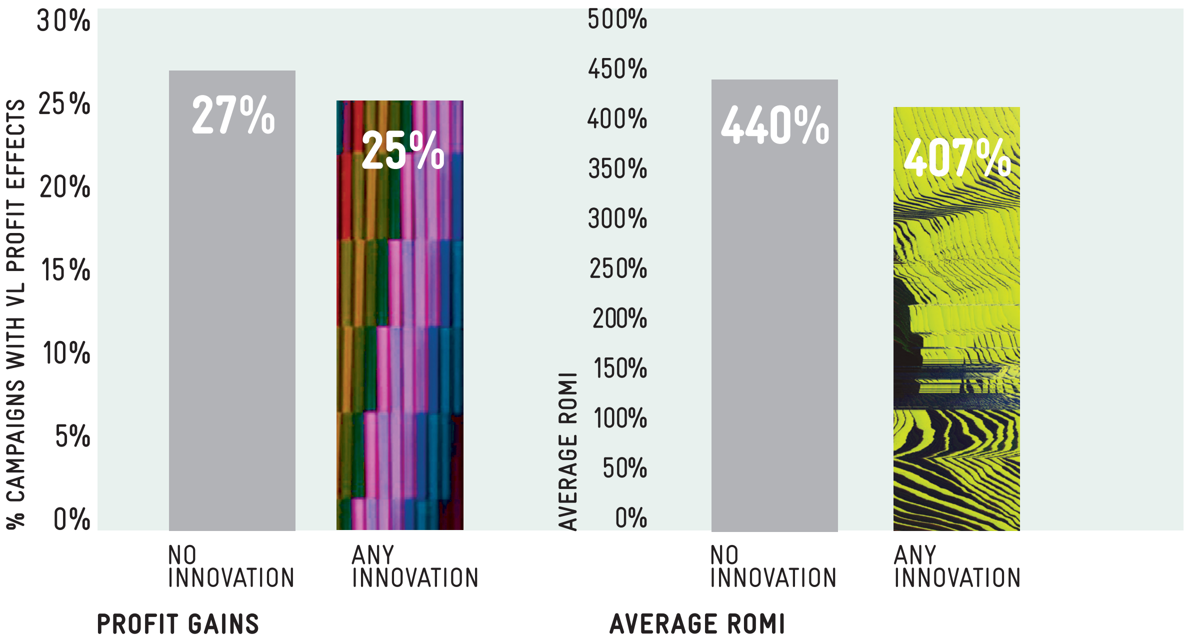
NPD tends to lead to low marketing paybacks. The less radical the innovation, the less profitable it tends to be.

INNOVATION YIELDS RAPID, SHORT-TERM GROWTH (FIGURE 37)



Source: IPA Databank, 1998-2016 for-profit cases

INNOVATION REDUCES MARKETING PAYBACK (FIGURE 38)

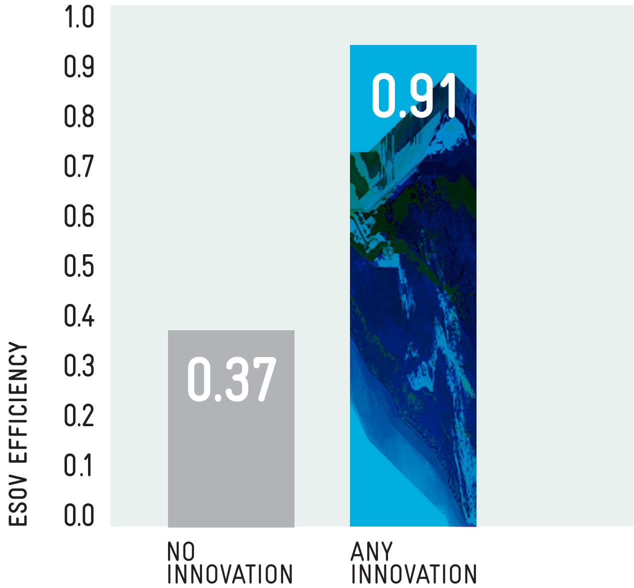


Source: IPA Databank, 1998-2016 for-profit cases

Drilling deeper, we see that new products have a double advantage when it comes to gaining market share. The first advantage is the base rate of growth tends to be higher. **Even without advertising, good new products tend to gain market share quickly.** (see INSIGHT page 51).

The second advantage new products have is that **they are more responsive to advertising** (Fig 39). ESOV Efficiency is much higher when there is product innovation, which means that new products get much faster growth for a given advertising budget. Or, alternatively, innovative brands are less reliant on advertising, and can get away with lower budgets if they wish.

INNOVATION MAKES ADS WORK HARDER (FIGURE 39)



Source: IPA Databank, 1998-2016 for-profit cases

HOW INNOVATION SPREADS:
THE BASS DIFFUSION MODEL (FIGURE 40)

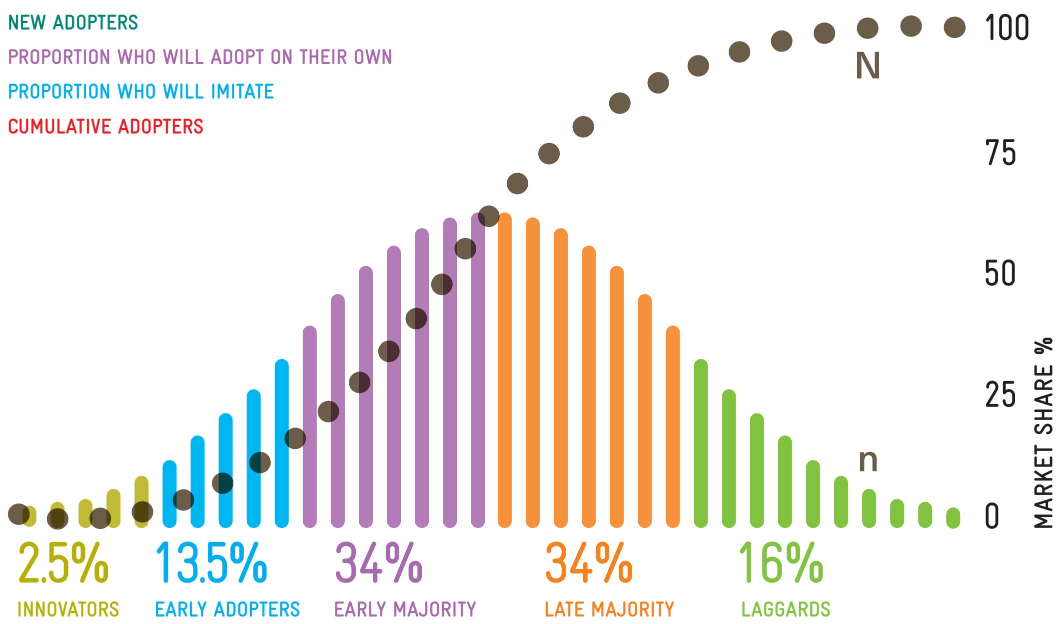
New product development is fraught with uncertainty. But it's not all chance. The way innovation spreads is well understood, and can actually be described by a simple equation. The Bass Diffusion Model, first outlined by Frank Bass[17] in 1969, is one of the most cited empirical generalisations in marketing. The model assumes that:

01 For any innovation, there is a pool, (M) of potential adopters, (n).
02 In any given period, some of them will adopt it on their own with probability (p).
03 Others are imitators. The probability that they adopt it depends on the imitation rate (q) and how many people have adopted it already. From these assumptions, one can deduce the number of adopters at any given time, t:

17 The other half of the Ehrenberg-Bass collaboration.

$$n_t = (p + qN_t)(M - N_t)$$

NEW ADOPTERS
PROPORTION WHO WILL ADOPT ON THEIR OWN
PROPORTION WHO WILL IMITATE
CUMULATIVE ADOPTERS



This produces an S-shaped growth curve. In the early phase, growth looks exponential. Early adopters pick up on the product, they tell their friends, and they in turn tell theirs. But eventually the pool of potential recruits becomes exhausted, and growth starts to slow. This simple model accurately describes the growth patterns observed for a huge range of products and services, from FMCG to durables to social-media platforms.

In the early phase, advertising may seem unnecessary. Growth appears to be exponential, and forecasts often assume that it is. But sooner or later, reality kicks in. Innovators discover that growth doesn't last forever. And that's when advertising becomes more essential.

According to Bass, advertising increases the value of **p**, leading to faster growth in the early years and a higher level of sales when things do eventually stabilise.

INSIGHT

4.3 INNOVATION AND COMMUNICATIONS STRATEGY

In general, innovation increases the effectiveness of all advertising, but it has a particularly powerful impact on the effectiveness of rational advertising. Indeed, **message-led campaigns are rarely effective *without* innovation.**. But even so, *rational* advertising with innovation remains less efficient than *emotional* advertising with innovation.

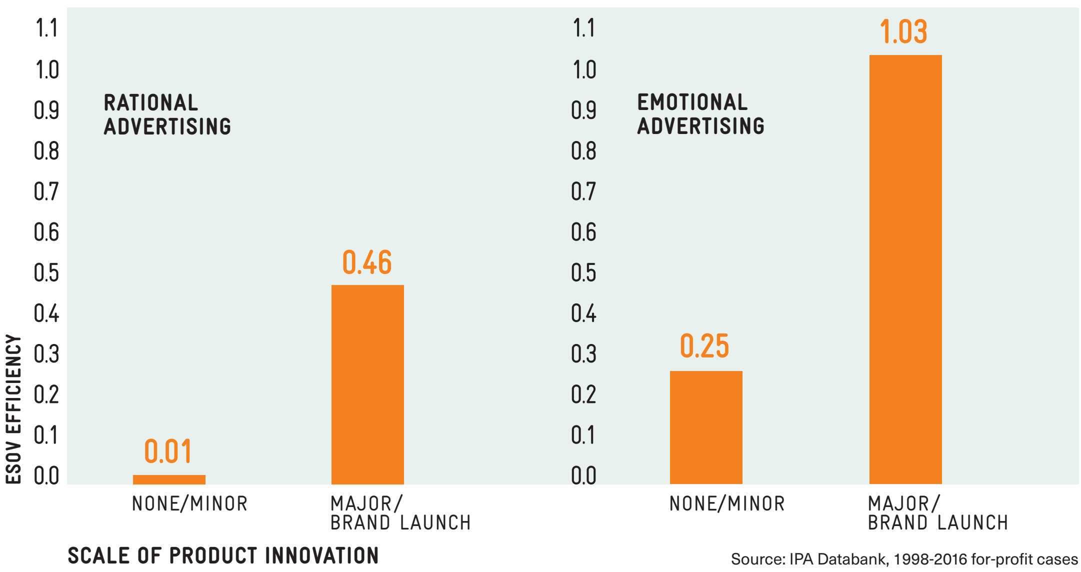
Figure 41 below makes it clear that **advertising doesn't need 'new news' to be effective.** In fact, advertising doesn't need to contain rational messages at all. In general, **the most effective ads work at the emotional level,** and the less focused it is on rational messages the more effective and long lasting it tends to be.[18] Emotional campaigns are much less dependent on innovation for success.

Message-led ads have shorter-term effects, wear out faster,[19] and are less effective overall. Emotional brand advertising can continue to be effective year after year, without the need for any real news. Indeed, used in a consistent way, this kind of brand advertising often becomes *more* effective over time (see INSIGHT page 53).

Brands that take an emotional approach don't need 'new news' to drive sales. They don't need a constant stream of minor product launches to keep people interested. Prudent brand owners focus their NPD efforts on more significant, useful innovation.[20]

So, some useful guidelines emerge from these findings. Brand owners should resist the temptation to launch yet another new variant, just for something to say. They should **use emotional brand building to support their core. Then focus NPD efforts on fewer but more radical forms of innovation.** They should look for ways to dramatically improve the customer experience, or to cut costs significantly, or both. Ways of reaching new groups of shoppers, or serving different need states should be identified. And they should always try to minimise cannibalisation on existing sales. Launches need to be carefully evaluated to find out how much incremental business they really bring in, and how much is cannibalised.

PRODUCT INNOVATION IS VITAL TO THE SUCCESS OF RATIONAL BUT NOT EMOTIONAL ADVERTISING (FIGURE 41)



Source: IPA Databank, 1998-2016 for-profit cases

20 There may be some exceptions to this rule. Categories where shoppers crave novelty (e.g. fashion) are clearly different. And in categories that are more about selling hope than delivering a rational product benefit (e.g. anti-ageing creams or lottery scratchcards), new products may be disproportionately successful.

18 See *Marketing in the Era of Accountability* and *The Long and the Short of It*.

19 Millward Brown observes that campaigns based on 'new news' are the only kind of ads that show significant wearout. Other ads continue to work for much longer. See www.warc.com/content/article/mbknowledge/do_tv_ads_wear_out/89729

GROWTH WITHOUT 'NEW NEWS': FELIX CAT FOOD

Back in the 1980s, Felix was a small, struggling cat food brand. Low in price, and number 6 in terms of market share, it was threatened with de-listing by retailers, who were keen to promote own label. In 1989, Felix's owners relaunched the brand in new packaging featuring a black and white cat, but this only produced a modest increase in sales, and within three months growth had stalled again.

The big breakthrough came with their first ever advertising campaign, featuring the black and white cat from the new pack. Sales increased immediately, so investment was increased. Sales continued to increase every year, and Felix soon became the second fastest growing grocery brand in Britain. Price elasticity fell too, allowing Felix to reposition itself as a premium brand.

As shown in a series of IPA papers, Felix's advertising was the main driver of this success. Yet for over a decade, the ads were devoid of any news about the product. There were no major launches to talk about, so the ads took a purely emotional approach. And the results were outstanding.

Consistency was an important ingredient of Felix's success. The brand's owners found a winning formula, and stuck to it. In fact, some of the early TV ads ran unchanged for many years. Yet the ads become steadily more effective, and market share kept rising. Proof that innovation and 'disruption' are not the only routes to stellar growth and high profits.

GROWTH WITHOUT 'NEW NEWS': SNICKERS

Two IPA case studies, in 2012 and 2016, have shown how the *'You're not you when you're hungry'* campaign for Snickers transformed the growth trajectory of the brand from decline to growth since 2010. The campaign deliberately sought to court fame for the brand, reaching a global high with the 'Bean Kung Fu' execution in 2015. The new learning showed that the bigger the talent investment to create the fame effect, the bigger the sales impact. There was no product news during this time and the campaign did not in any way change the functional proposition of the brand; what drove the growth was famous, entertaining advertising. Innovation junkies take note.

INSIGHT

4.4 INNOVATION AND PENETRATION VERSUS LOYALTY

Once again the penetration versus loyalty issue rears its head: and it raises serious considerations in the area of innovation.

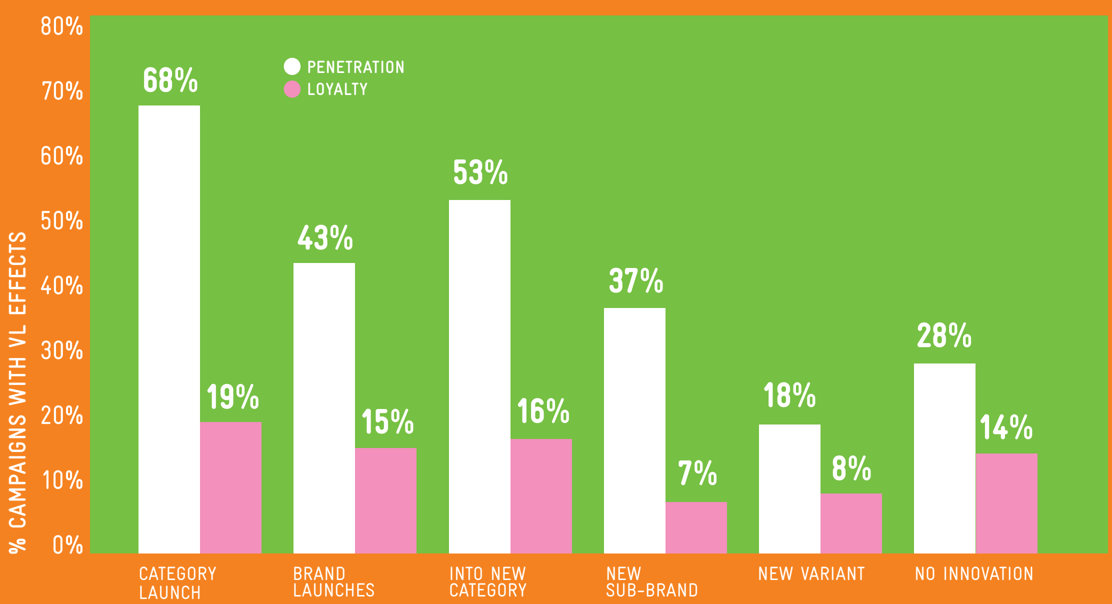
A good way to minimise cannibalisation is to make sure that your new products reach new people. As with all successful marketing techniques, **innovation works primarily by bringing in new customers,** and the more radical and effective the innovation, the bigger these penetration effects tend to be. **Loyalty effects tend to be small, and secondary.**

Figure 42 below gives an important clue as to why new-variant launches perform so poorly. Of all the different kinds of product innovation, these do the least to recruit new customers, and are much more heavily dependent on selling to existing buyers. That suggests **cannibalisation is probably high for most variant launches.** More major innovations, such as **launching the brand into a new category or launching a separate sub-brand are more effective strategies for recruiting new buyers.** In particular, this allows you to offer a different trade-off between quality and price. Fashion brands are particularly adept at this technique, offering couture, high fashion and diffusion sub-brands at very different price points, all under the same umbrella brand. This allows them to appeal to a wide range of shoppers on different budgets.

4.5 INNOVATION AND BRAND:ACTIVATION BALANCE

Innovation does boost long-term brand effects (Fig 43), if it is major. But **innovation has particularly strong activation effects.** So it is not surprising that **innovation-led campaigns tend to be more short term.** This is especially true when the innovation is minor – e.g. new variants. This again suggests that **minor launches are short-term tactics that trade on existing brand equity.**

PENETRATION IS ALWAYS THE MAIN DRIVER (FIGURE 42)



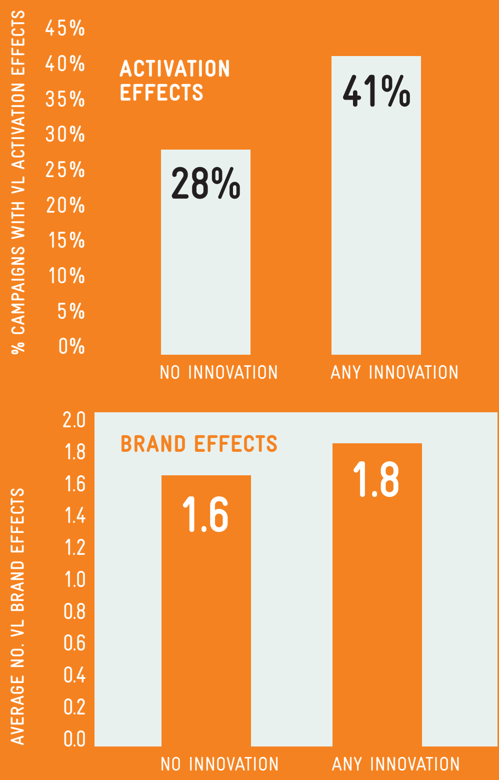
Source: IPA Databank, 1998-2016 for-profit cases

Perhaps because innovation favours short-term activation effects, advertisers need to dial up their spend on brand communications to get the optimum balance (Fig 44). **Innovation-led campaigns need more spend on brand activity** than most, and **the more radical the innovation is, the more the budget needs to be skewed towards brand,** not activation.

Marketers in some sectors often get this wrong. They tend to assume innovation just needs to be supported with rational activation. Tell people about your new product or service, and maybe give them a special offer, and the job is done. In fact, **the more radical your innovation is, the more important it is to support it with emotional brand building.**[21]

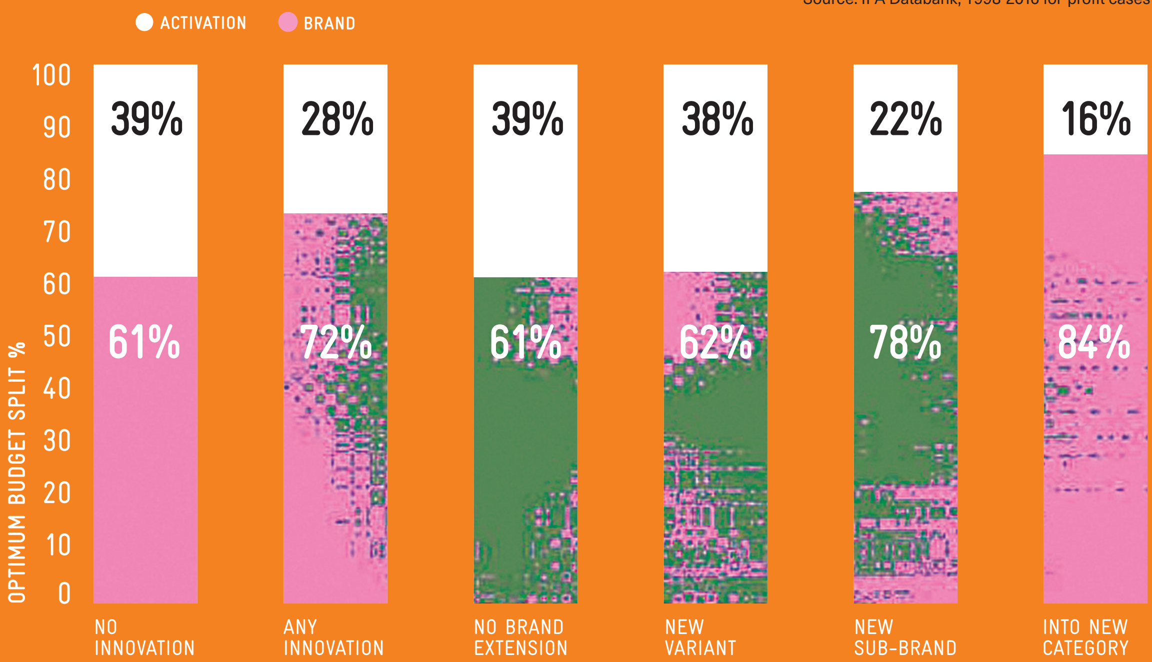
21 Psychologists tell us that while people are more *interested* in new products than old ones, they *trust* them less. This may explain why new products are so responsive to marketing, and why emotional brand activity is such an important part of the mix.

INNOVATION INCREASES BOTH BRAND & ACTIVATION EFFECTS (FIGURE 43)



Source: IPA Databank, 1998-2016 for-profit cases

OPTIMUM BRAND:ACTIVATION SPLIT (FIGURE 44)



Source: IPA Databank, 1998-2016 for-profit cases

CHAPTER 4.0 SUMMARY THOUGHTS

01 Product innovation can increase effectiveness, but the innovation needs to be substantial. The more radical the innovation, the more likely it is to increase effectiveness. Minor innovation *reduces* effectiveness.

02 Good innovation boosts growth in two ways. It increases the base rate at which sales grow, even without advertising, and it increases advertising efficiency.

03 New products are particularly responsive to advertising, so firms that choose to support product launches with ads get even faster growth.

04 Innovation is crucial for rational campaigns. They need 'new news' to work properly. But...

05 Ads don't need rational messages to be effective. The most effective campaigns work at the emotional level. Brands that take an emotional approach are less reliant on 'new news'.

06 The highest ROIs come from advertising core products, not new variants. So it is best to use emotional brand building to support the core brand. Then focus NPD efforts on fewer, but more radical, levels of innovation.

07 When innovation works in the long term, it does so primarily by bringing in new customers, thereby increasing volume and market share.

08 Loyalty effects tend to be small, and secondary.

09 Minor variant innovation is a poor way to bring in new customers: growth tends to be short-term and cannibalistic. Better to launch new sub-brands that broaden the brand's appeal or extend the brand into a completely new category.

10 Innovation tends to produce fast growth, but it is mostly short-term, and focused on volume rather than price, especially when the innovation is minor.

11 Reduction in price elasticity tends to be less likely when there is innovation. Launching a premium sub-brand is the only form of innovation that reliably reduces price sensitivity.

12 Most innovation-led campaigns yield lower paybacks because they focus on volume rather than price and are based on minor innovation.

13 There are exceptions – brand launches and major innovation can be quite profitable. But minor variant launches produce particularly low rates of return.

14 Innovation boosts the effectiveness of short-term activation more than it helps long-term brand building.

15 So innovators need to dial up brand-building spend within their budgets to get the optimum balance. The more radical the innovation, the more the budget needs to be skewed towards brand, not activation.

SECTION 01

CHAPTER 5.0
CATEGORY DEVELOPMENT

In Chapter 4, we showed that product innovation has a big impact on the effectiveness of marketing communications. We also showed that innovative products require a slightly different approach. This suggests that marketing strategy probably also needs to evolve as categories do, from the excitement of the new to the familiarity of mature and declining categories. In practice, this brings many of the aspects of context that we have already examined into play, and therefore has the greatest impact on effectiveness. So this chapter focuses on category development and growth and how it influences best practice.

5.1 THE EVOLUTION OF CATEGORIES

The IPA data records category development and growth in two ways. Firstly, it contains data on category life-stage: 'new', 'growth', 'mature' or 'declining'. Secondly, the Databank describes the underlying rate at which the category is growing: 'high', 'medium', 'low', 'stagnant' or 'declining'.

These two datasets are not identical. A mature category might find itself growing rapidly (think of nappies during a baby boom). And some new categories grow quite slowly at first. But there is clearly a correlation between maturity and growth, so we will discuss the two together.

The Bass model described in Chapter 4 shows how categories typically evolve. Growth is usually slow at first, but eventually starts to accelerate before eventually reaching a plateau. For products like food and drink, sales can then remain stable for very long periods of time. In categories where technological change is faster, sales may eventually decline as new categories arise to fulfil consumer needs in a different way.

As categories grow and mature, the effects of marketing change. Generally, **marcoms are most effective in new, fast-growing categories.** As time goes on, and growth slows down, the effects of marketing get smaller (Fig 45).

There are several reasons why marketing communications produce more dramatic effects in the early growth phase. For a start, consumer metrics like **awareness and penetration start from a low base.** And innovation is more common and more radical. Both these things make marcoms more effective. Advertising and other marketing communications can easily make a big difference by making people aware of the new products, educating people about their uses and benefits, and telling them how and where to buy them.

Distribution is another factor. When new product categories first appear, **distribution is often limited.** Marketing campaigns can help, either by selling these new products direct to the public, or by encouraging more retailers to stock them. This interaction between advertising and distribution is often underestimated. The promise of an impending ad campaign gives the sales force a good story to tell the trade, and helps to build distribution as the ads go live. And the high rate of sale that effective advertising can generate can help convince retailers to continue stocking the product for some time afterwards.

It is much easier to expand the market in the early years, when category penetration is still low. And the quasi-exponential growth patterns predicted by the Bass model means that sales increases are often large.

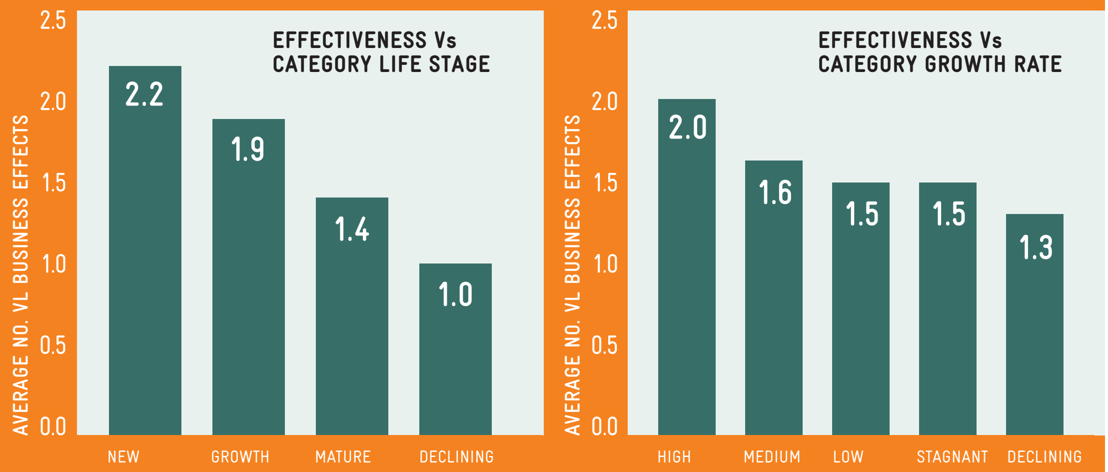
But **it is also easier to increase market *share* when the category is new** (Fig 46). Brand shares fluctuate more in the early phases of category development, becoming more stable as the category matures.

Again, there are probably several reasons for this. **Functional differences between products are often wider in the early years**, and change more rapidly with successive innovations. **Brand perceptions and buying habits are less entrenched**, and more easily changed through advertising. Brands' fortunes can change dramatically as new distribution channels open up. Brands are often willing to sacrifice profit for market share as they attempt to dominate the category. All these things mean **new markets are more fluid, and market share is less stable.**

But **as categories mature, marketing communications tend to produce smaller effects**, at least in volume terms. Innovation tends to slow down, penetration tends to stabilise, and it becomes harder to expand the market. Categories tend to concentrate too, with smaller players falling by the wayside. Average market share rises, making it harder for brands to make further gains.

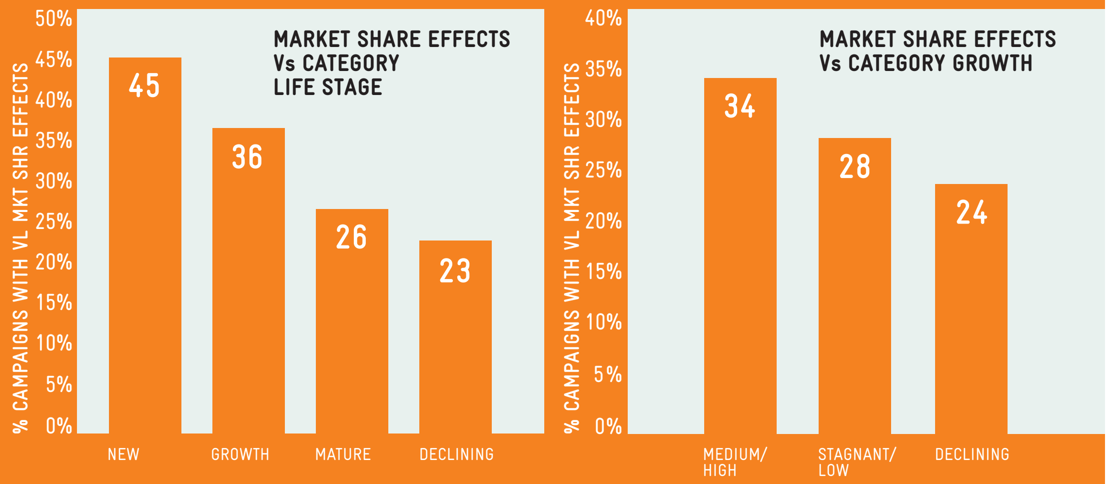
Brands' fortunes can change dramatically as new distribution channels open up.

EFFECTS GET SMALLER AS CATEGORIES MATURE (FIGURE 45)



Source: IPA Databank, 1998-2016 for-profit cases

MARKET SHARE GAINS GET SMALLER (FIGURE 46)



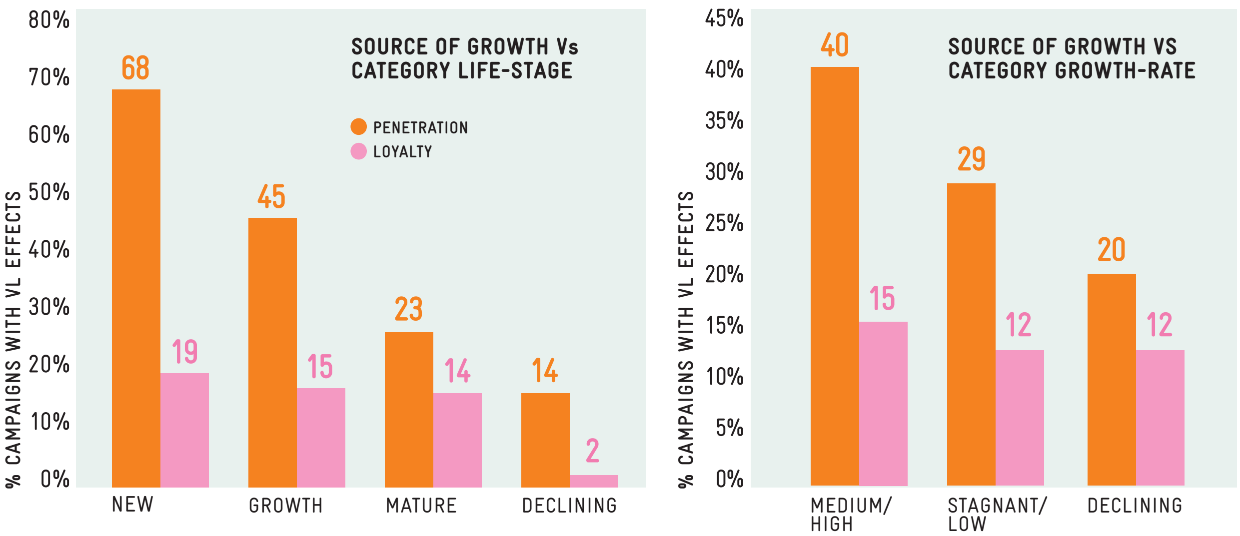
Source: IPA Databank, 1998-2016 for-profit cases

5.2 CATEGORY DEVELOPMENT AND PENETRATION VERSUS LOYALTY

We have already made the self-evident observation that penetration growth for brands is highest in newer categories and becomes more difficult to grow as categories mature. But does that mean that in mature or declining categories we should be pursuing loyalty?

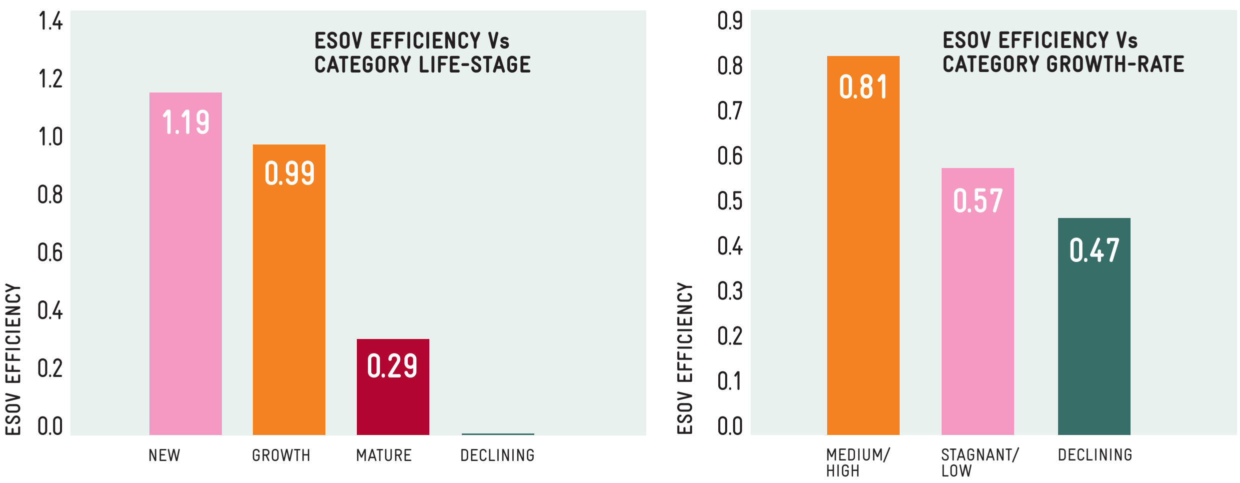
The main way brands grow is always by expanding their customer base, regardless of category.

PENETRATION IS ALWAYS THE MAIN DRIVER (FIGURE 47)



ESOV EFFICIENCY DECLINES (FIGURE 48)

Source: IPA Databank, 1998-2016 for-profit cases



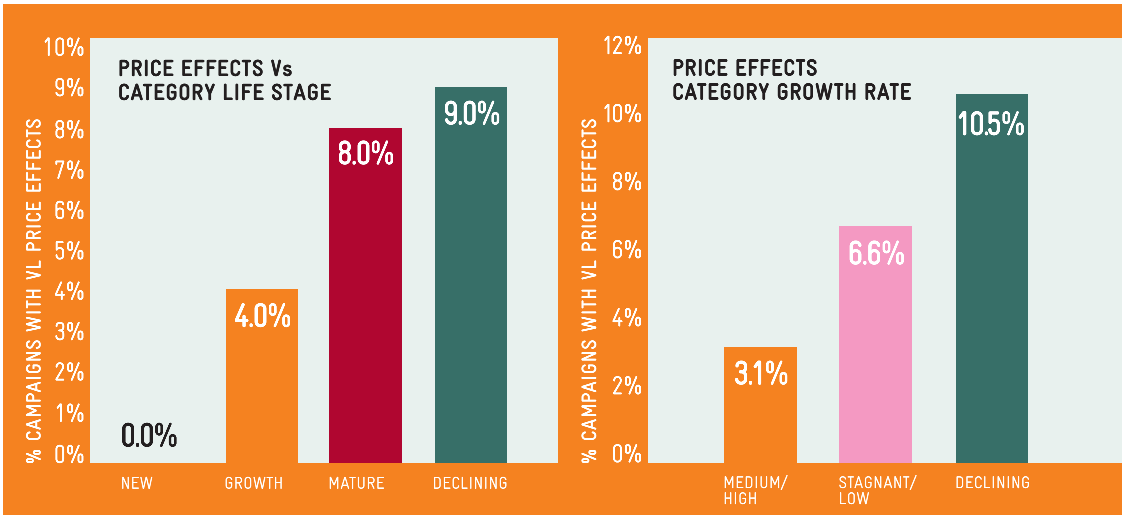
Source: IPA Databank, 1998-2016 for-profit cases

The answer, yet again, is no. Regardless of the state of the category, sales and market share are primarily driven by penetration (Fig 47). **The main way brands grow is always by expanding their customer base**, regardless of whether the category is new or old, fast or slow-growing. Indeed, the principle reason why market-share effects get smaller as categories mature is that it becomes harder to gain more customers.

Loyalty effects are always secondary. And contrary to what some marketers believe, loyalty effects become slightly *smaller* as time goes on. **There is no phase of category development when loyalty effects dominate**, and so loyalty marketing should always be a secondary priority.

However, the *mix* of effects does change over time. **Loyalty effects become somewhat less minor as categories develop**, and have their biggest impact in mature categories (even if they are still smaller than penetration effects). **However, loyalty effects more or less disappear once categories go into decline.**

PRICE EFFECTS GET BIGGER (FIGURE 49)



Source: IPA Databank, 1998-2016 for-profit cases

5.3 CATEGORY DEVELOPMENT AND CAMPAIGN EFFICIENCY

Because it becomes harder to gain market share, **advertising becomes less efficient as categories mature** (Fig 48), at least as measured in terms of market-share points gained for a given level of ESOV. This means that brands in mature categories either need to set higher targets for share of voice, or lower targets for market-share growth.

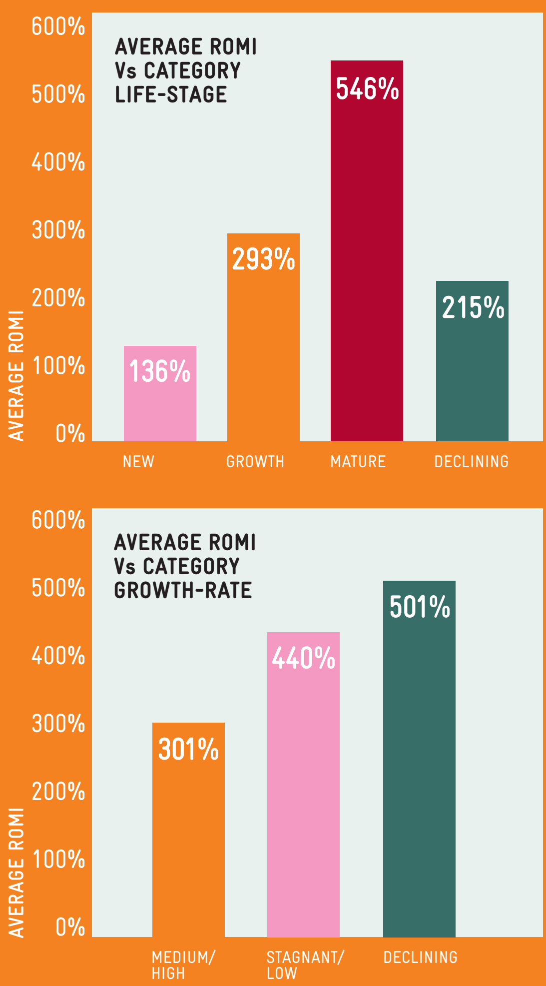
Our analysis shows that brands in mature categories actually suffer a double disadvantage: they are less responsive to advertising, and they get less growth from other factors. Conversely, **brands in young categories are highly responsive to advertising and have a higher base rate of growth.**

5.4 CATEGORY DEVELOPMENT AND PRICING

So far, all the marketing effects we've looked at diminish over time. However, there is one important exception. **As categories develop, volume effects get smaller, but price effects get bigger** (Fig 49). As categories evolve and grow, it is easier to use marketing communications to reduce price sensitivity, and so support higher prices and bigger margins.

Again, there are probably several reasons why **it becomes easier to increase relative price.** Absolute prices usually fall as categories mature, **so price differences seem smaller.** As they become more experienced at shopping within the category, **consumers pay less attention to functional attributes like price**, relying more on habit, intuition and gut feel. Brands have more power when people shop like that, and so brands that have spent years building up an emotional connection with their customers are increasingly able to justify a premium. And, as we noted in Chapter 3, there seems to be a natural tendency for prices within a category to diverge over time, with brands that charged high prices in the past finding it easier to push prices higher, while budget brands struggle to do so.

ROMI INCREASES (FIGURE 50)



Source: IPA Databank, 1998-2016 for-profit cases

These price effects are an important route to profit. Indeed, supporting firmer pricing is generally more profitable than increasing volume (if somewhat harder to pull off). When sales volume increases, costs increase as well as revenue. When prices rise, all of the extra revenue goes straight to the bottom line.

So **as markets evolve, the emphasis shifts from volume to price.** In the early years, when categories are new and growing fast, marketing mainly serves to increase sales volume, either by accelerating category growth or increasing market share, or both. But gradually, these volume effects get smaller. The category growth begins to slow, and market shares start to stabilise. In this mature phase, increasing prices and margins becomes an easier way to increase profit.

We have seen that, measured in volume terms, advertising efficiency declines as categories evolve. But that's not the whole story. **Mature categories tend to be more profitable,** and using marketing to support firmer pricing can increase margins even further. This may explain why **ROMI increases as categories mature and grow** (Fig 50). **Only when categories go into long-term decline does ROMI start to fall again.**

So, when categories are young, sales and market share are highly responsive in volume terms, even if ROMI tends to be lower. Sensibly, **brands tend to 'over-invest' in the early years,** setting share of voice above share of market in the hopes of gaining a dominant share of the market. ROMI tends to be a secondary consideration – **the focus in the early days is usually on growth rather than profit.**

Eventually, the easy volume gains will have been made, and sales begin to stabilise. **Brands switch to a maintenance strategy** now, bringing their share of voice more in line with their share of market. There is less potential for marketing to drive growth, but ROMI tends to be higher. **Brands in mature categories ideally become 'cash cows' for the business.**

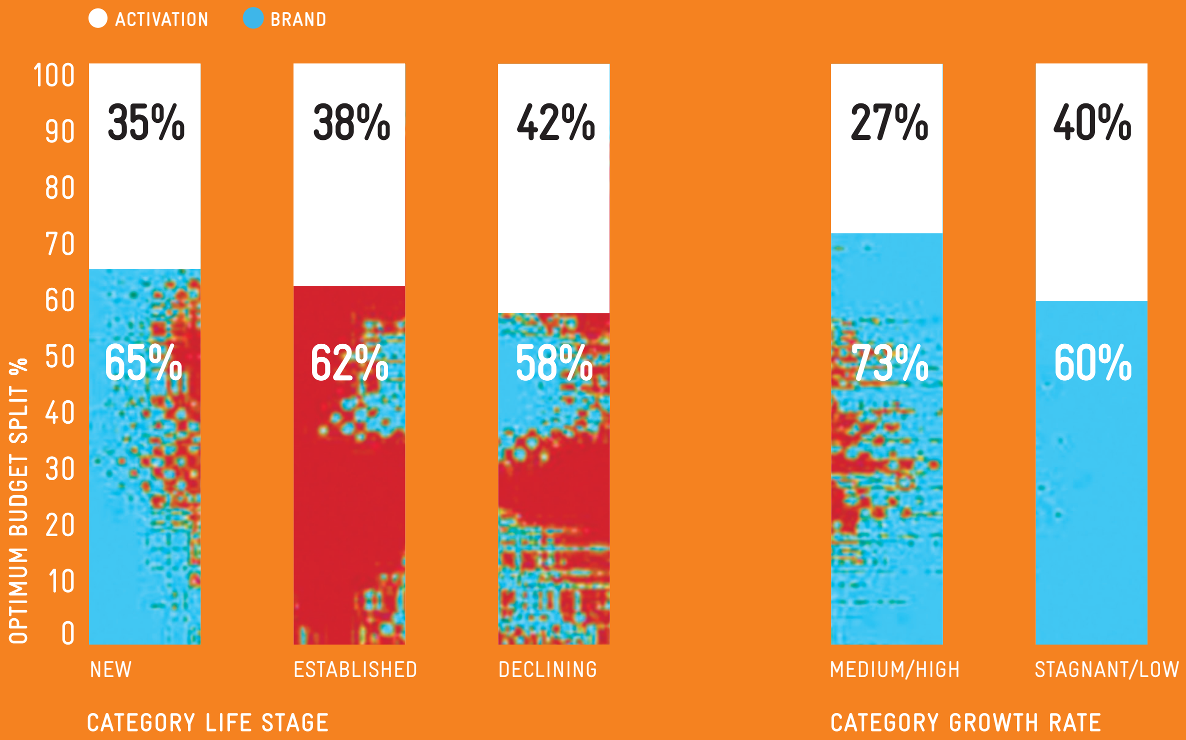
Finally, some social or technological change causes the category to go into decline. Pricing power becomes weaker, margins fall again, and ROMI falls too. Brands often cut their communications budgets now to defend profitability, which accelerates the decline, but there is little point in trying to strengthen a brand in this environment.

5.5 BALANCING BRAND AND ACTIVATION ACROSS THE CATEGORY LIFECYCLE

As categories develop, the brand:activation mix needs to change slightly (Fig 51). In Chapter 4, we saw that brand spend needs to be up-weighted when supporting innovation, so it is no surprise to find that **brand spend is more important in the early years**, when innovation is most prevalent. **As categories mature, and growth slows down, brand spend can be dialled down slightly.**

Finally, **when the category goes into decline, there should be a bigger shift towards activation** – there is less value in brand building at this stage, though it still helps boost activation and so does still play a role in getting the most out of declining budgets.

CATEGORY LIFE STAGE & GROWTH (FIGURE 51)



Source: IPA Databank, 1998-2016 for-profit cases

CHAPTER 5.0 SUMMARY THOUGHTS

01 The effects of marketing communications change as categories develop and grow. They are most obvious and dramatic in new, fast-growing categories.

02 Regardless of the state of the category, the main way brands grow is always by expanding their customer base. Penetration is always more important than loyalty.

03 It is easier to expand the market when the category is new, and it is also easier to increase market share, because all performance metrics start from a low base.

04 As categories mature, marketing communications tend to produce smaller effects, at least in volume terms.

05 Brands in mature categories have lower organic growth rates, and are less responsive to advertising.

06 However, as categories mature, price effects get bigger.

07 It is much easier to reduce price sensitivity in mature categories. As a result, advertising paybacks tend to be higher, even though the sales effects are less obvious.

08 So, in the early years brands should focus on growth rather than profit. As the category matures, they should shift the focus from volume to margins.

09 Brand spend is particularly important when the category is young. But as the category develops, and growth slows down, brand spend can be dialled down slightly.

10 If a category is in long-term decline, there should be a bigger shift towards activation.

SECTION 01

CHAPTER 6.0
BRAND DEVELOPMENT

The previous chapter looked at category development. Now we look at the closely-related topic of *brand* development. How do the effects of marketing change as brands mature and grow? Do brands of different sizes behave in different ways, and do they require different strategies?

6.1 THE EVOLUTION OF BRANDS

The IPA Databank examines brand size in two ways. Firstly, market share prior to the campaign is categorised relative to other brands in the category as 'niche', 'small', 'strong' or 'leader'. Secondly, for a more limited number of cases an actual percentage figure is given for market share prior to the campaign.

We have analysed the data using both market-share metrics, and in general the two datasets point in the same direction. However, sample sizes are generally larger for the former, making for more robust results. So most of what follows will be based on size categorisation rather than numerical market share. (The one exception is share-of-voice analysis, where numerical share provides slightly bigger samples.)

Early on, our analysis revealed that while bigger brands can be thought of as a fairly homogenous group, **small brands come in three very different flavours.**

01 New brands
These are only small because they haven't yet reached their full potential.

02 Niche brands
These are small because they cater to a limited market, although they may be very successful within that niche.

03 Other small brands
These are neither new nor niche, so presumably their market share is restricted by some other factor, such as limited distribution, low product quality, high price, or lack of marketing investment.

These three groups behave in quite different ways, and need to be analysed separately. So throughout this chapter we will look at new and niche brands separately from other small brands.

Figure 52 below shows the average market-share percentages for the various groupings.[22]

22 New brands obviously start at zero market share prior to launch.

BRAND SIZE METRICS (FIGURE 52)

MARKET SHARE POSITION PRE-CAMPAIGN	AVERAGE SHARE OF MARKET PRE-CAMPAIGN
NICHE BRANDS	10%
SMALL BRANDS	3%
STRONG CHALLENGERS	16%
BRAND LEADERS	33%

Source: IPA Databank, 1998-2016 for-profit cases / both samples exclude new brands

Penetration is always the main driver of growth, not loyalty.

In the previous chapter, we saw that the effects of marketing generally get smaller (Fig 53) and less dramatic as categories mature and grow. The same is true for individual brands. **Marketing produces the biggest and most obvious effects in the early years of a brand's life.** As we saw in Chapter 4, **launch campaigns for new brands tend to have particularly large effects.** New brands have a double advantage: **they have high rates of organic growth and they are very responsive to advertising.** This results in very large increases in sales, market share and profit.

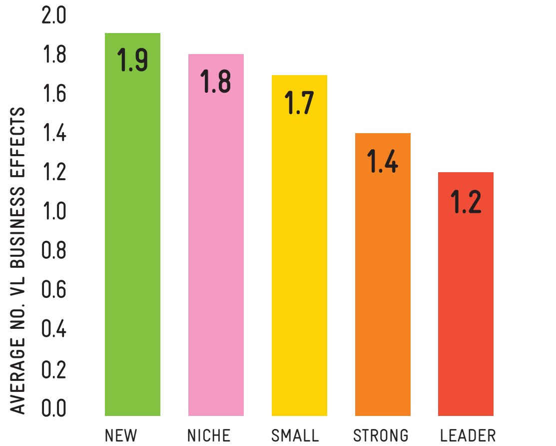
But **as brands mature and grow, the effects of marketing get progressively smaller.** This is partly just a matter of **diminishing returns.** As penetration increases, brands find it harder and harder to recruit new customers. As market share increases, there is less and less scope for further gains. So, as the Bass Diffusion Model predicts,[23] there is a natural tendency for growth to slow down and eventually plateau as brands get bigger. **Product innovation** is another factor here – brands tend to introduce their most radical and effective innovations in the early years. And as we will see shortly, **changes in investment strategy** have an influence too.

What about niche brands? 'Niche marketing' is to some extent an overused concept. As Byron Sharp has said, most so-called niche brands are really just small, underperforming brands, with correspondingly small profits. And certainly, the IPA Databank suggests that successful niche marketing campaigns are not very common. But what data there is does suggest that true niche brands may behave slightly differently. Figure 53 shows once brands are established, overall effectiveness tends to fall as market share rises. But niche brands buck this trend. The niche brands in our sample have an average market share of 10%, which puts them between 'small' and 'strong challenger' brands. Yet **niche marketing campaigns are much more effective than one would expect given brand size** – almost as effective

23 See Chapter 4.

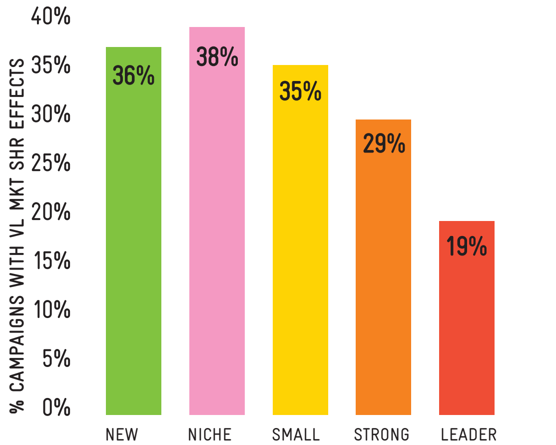
MARKETING EFFECTS GET SMALLER AS BRANDS GROW (FIGURE 53)

Source: IPA Databank, 1998-2016 for-profit cases



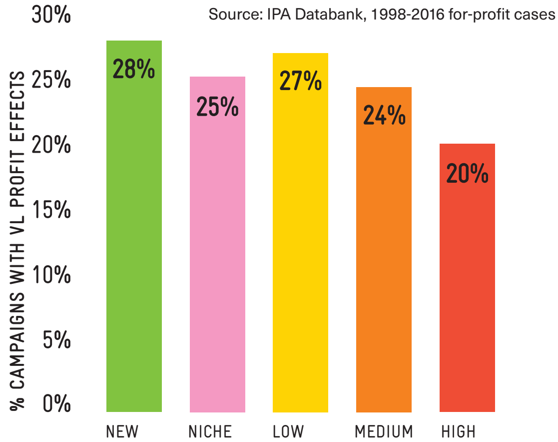
MARKET SHARE GAINS GET SMALLER AS BRANDS GROW (FIGURE 54)

Source: IPA Databank, 1998-2016 for-profit cases



PROFIT GAINS GET SMALLER AS BRANDS GROW (FIGURE 55)

Source: IPA Databank, 1998-2016 for-profit cases



as launch campaigns on most metrics. For this reason, we have treated them separately throughout our analysis, even though sample sizes are low for this group.

For mainstream brands, the **effects of marketing get progressively smaller as the brand grows** (Fig 54, page 67), and the reason is simple: it becomes progressively harder to gain market share. Small brands gain market share easily, and have long runs of sustained growth. Big brands find it much harder to make further gains, and what gains they do make are harder to sustain.

Market share is an important determinant of profit.[24] Brands with high share not only have higher revenues, they also tend to make higher margins on those revenues, thanks to economies of scale (which reduce unit costs) and the ability to charge higher prices. As market share rises, profits tend to rise accordingly. **As brands mature, market share begins to plateau, and so do profits too** (Fig 55, page 67).

6.2 BRAND DEVELOPMENT AND PENETRATION VERSUS LOYALTY

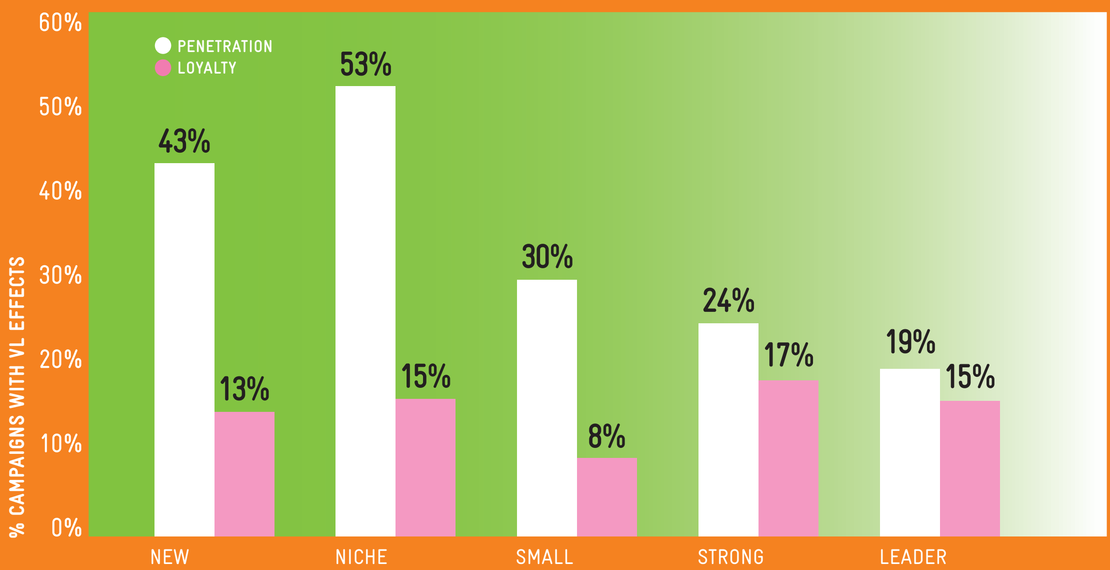
So the cumulative effects of marketing are subject to diminishing returns. **As brands grow, it becomes harder to increase sales, market share and profit.** And the main reason for that is that **it becomes progressively harder to find new customers.** Does this mean that our attention should start to focus on loyalty?

By now it should be no surprise to learn that, regardless of brand maturity or size, **penetration is always the main driver of growth, not loyalty.** This is even true for market leaders (Fig 56).

Penetration gains tend to be largest for new brands,[25] which have the most scope to gain trial and recruit new customers. This is one reason why launch campaigns have such big effects.

Established brands find it harder to grow because lots of people will have tried them already. Within that group, **small brands have the most scope for expanding their customer base**, which is the main engine of growth. This means that campaigns for small brands tend to have quite big effects on sales and

AS BRANDS GROW, LOYALTY EFFECTS START TO MATTER MORE (FIGURE 56)



Source: IPA Databank, 1998-2016 for-profit cases

24 See *Excellence in Advertising: The IPA Guide to Best Practice*, Butterfield (1999)

25 Niche brands are also surprisingly good at gaining new customers, perhaps because they appeal strongly to their target market segment.

market share. But as brands get bigger, they begin to run out of headroom. It becomes harder and harder to recruit new customers, and so growth slows down.

However, big brands do have one advantage: **loyalty effects get bigger as brands grow.** Loyalty is about extracting more value from existing customers, and this becomes an increasingly viable strategy as the customer base expands. Indeed, in the rare instances where penetration approaches 100%, the *only* way to grow further is through loyalty marketing, either by getting existing customers to buy more, or to pay more for what they buy. This is difficult, of course, and generates much less growth.

So, **while penetration is the main driver at all stages, the *balance* shifts from penetration to loyalty as brands get bigger.** For small brands, customer acquisition is of overwhelming importance, and this generates rapid growth. But for big brands, recruiting new customers is harder, and loyalty plays a bigger (but still secondary) role. But because loyalty is a much weaker driver of growth than penetration, big brands tend to grow much more slowly.

6.3 BRAND DEVELOPMENT AND CAMPAIGN EFFICIENCY

We have seen that marketing is most effective in the early years of a brand's life, when penetration and market share are low. But what about *efficiency?* Our primary measure of efficiency is based on share of voice analysis. How does the relationship between market share and share of voice change as brands mature and grow? Here the picture is more nuanced.

Here we will use the quantitative market-share data. We have compared ESOV Efficiency against brand size as measured by both sets of metrics, and the two analyses yielded similar results. But it is better to use the quantitative data on market share for this exercise as sample sizes are more robust here.

As we have done throughout this chapter, we have separated out new and niche brands, because these behave differently from established ones. We then divided up our remaining sample into three equal-sized groups (Figure 57) and looked at the relationship between the rate of market-share growth and ESOV for all the different groupings – new brands, niche brands, and established brands ranging from low to high market share.

Before proceeding to our results, it is worth delving a little deeper into the theory.

The share-of-voice model assumes that for any given level of market share there is an **equilibrium level of share of voice** (ESOV). Brands that set their ESOV above the equilibrium level will tend to grow; brands that set their ESOV below it will tend to shrink.

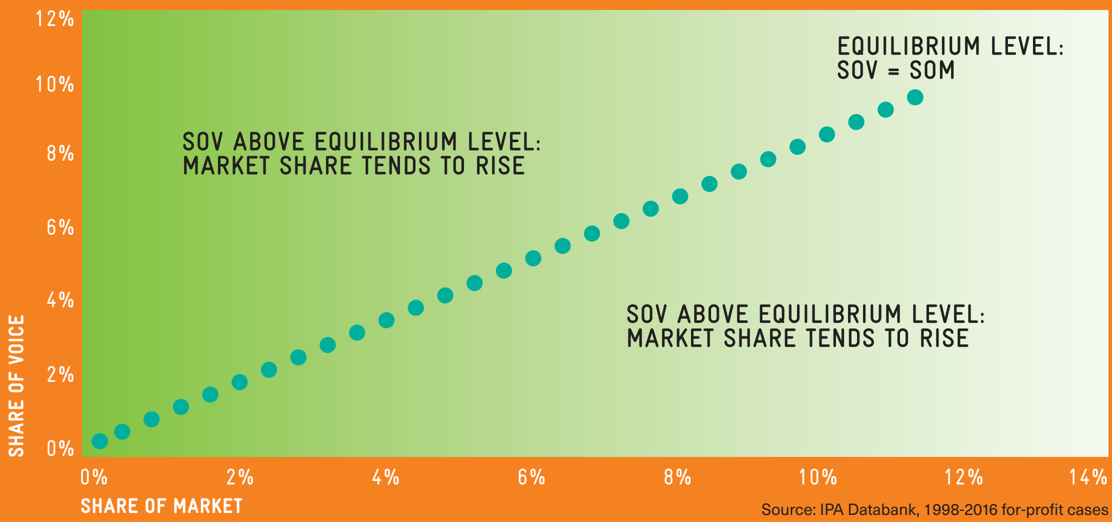
The simplest version of the model assumes that the equilibrium level of SOV is equal to share of market (SOM). In that case, growth is proportional to **'extra' share of voice (ESOV)**, defined as SOV minus SOM.

MARKET SHARE GROUPINGS (FIGURE 57)

MARKET SHARE GROUP	MARKET SHARE RANGE	AVERAGE MARKET SHARE
LOW (bottom 3rd)	<11%	3%
MEDIUM (middle 3rd)	11%-20%	16%
HIGH (top 3rd)	>20%	33%

Source: IPA Databank, all for-profit cases, 1998-2016
Based on market share % pre-campaign / excludes new and niche brands

SIMPLE SHARE-OF-VOICE MODEL (FIGURE 58)



Source: IPA Databank, 1998-2016 for-profit cases

The basic share-of-voice model (Fig 58), is a fairly good description of how the average brand behaves. On average, brands that set SOV above SOM tend to gain market share, while brands that set SOV below SOM tend to lose it.

However, more detailed analysis reveals that **the equilibrium level for SOV is not always exactly the same as SOM** (Fig 59). In particular, big brands seem to be able to get away with slightly lower SOV than one would expect for their size. Professor John Philip Jones[26] first drew attention to this phenomenon in 1990, and we reported similar findings in *Marketing in the Era of Accountability.* It seems that there are **economies of scale** at work here, allowing big brands to get away with lower advertising-to-sales ratios than their smaller competitors.

One way to quantify the extent to which a brand can 'underspend' is to look at the 'base rate' of market-share growth, assuming that SOV equals SOM. As Figure 60 opposite shows, the bigger the brand, the higher the base rate. This means that big brands can get away with setting share of voice slightly below market share, and still maintain equilibrium.

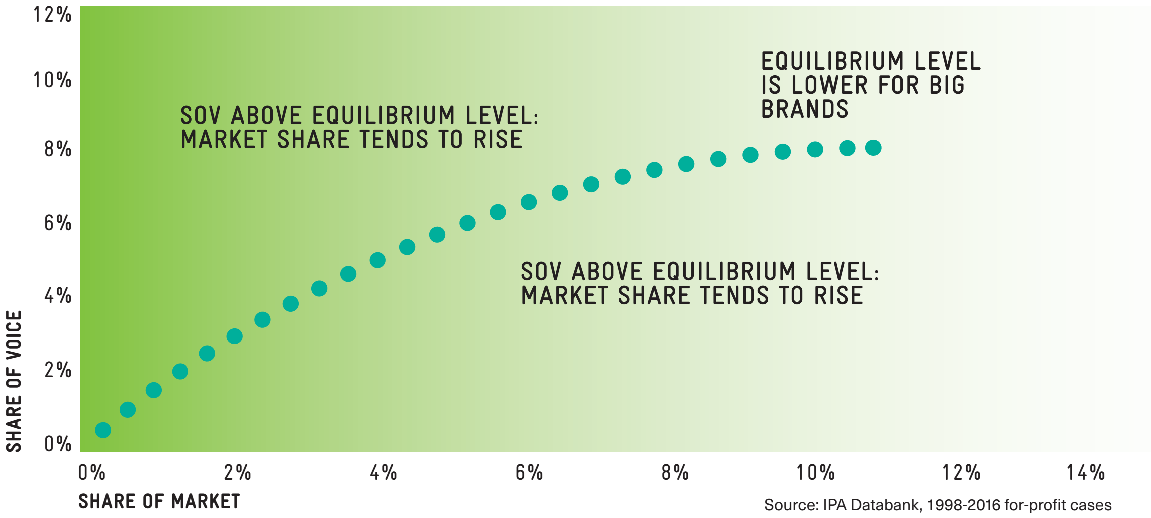
But small brands are more dependent on advertising to maintain market share. They need to keep SOV much more in line with SOM if they are to survive.[27]

Big brands use advertising to *maintain* their market share, and to boost margins. And that is highly profitable.

26 Jones, J. P. (1990) 'Ad spending: maintaining market share', *Harvard Business Review*, 68, 1, (January/February).

27 Note that the base rate of growth as measured with the IPA data is positive for all groups, even small brands. This reflects the fact that IPA brands tend to be more successful than average, on multiple dimensions. They not only have more effective advertising, but they also tend to have other non-advertising advantages. For a more detailed discussion of this see *Marketing in the Era of Accountability*.

SOV MODEL WITH ECONOMIES OF SCALE (FIGURE 59)



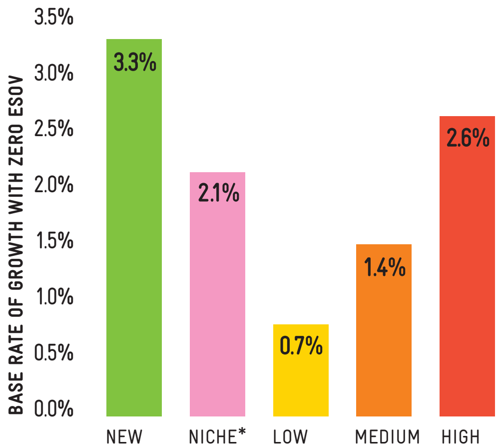
Source: IPA Databank, 1998-2016 for-profit cases

This is entirely in line with previous research.[28] Bigger brands get more help from a host of non-advertising factors, such as higher product quality, lower costs, bigger NPD budgets, a bigger, more loyal customer base, more word of mouth and PR coverage, 'network effects', and so on.

Figure 60 also shows something completely new. As far as we are aware, none of the previous studies that have been published have looked at launches and niche brands separately. Instead, these have been lumped together with other small brands. It clearly shows that **new and niche brands have much higher base rates of growth than established, mainstream brands.** This means that they can get away with low share of voice, and still grow. And it means they can give a misleading impression of how small brands behave if they are not dealt with separately.

The fact that new brands can get away with low (or even zero) share of voice makes good sense. The Bass Diffusion Model predicts that new brands can grow exponentially in their early years, even without advertising. Some people will always try the new product unprompted, and if it's good they'll recommend it to their friends.

BASE RATE OF GROWTH IS HIGH FOR NEW, NICHE AND BIG BRANDS (FIGURE 60)



Source: IPA Databank, 1998-2016 for-profit cases / Brand size based on market share pre (ex launches & niche brands)
*Niche brands include some launches

This 'viral' approach to launching a brand can be very successful, especially if the brand is highly innovative and has a genuine product advantage. It is often the preferred route for small start-ups, which often cannot afford big ad budgets and may need time to expand gradually.

The fact that **niche brands can also get away with low SOV** also makes good sense. These brands only need to talk to a subset of the market to maintain their market share.[29] However, just because new and niche brands

28 For a review of the literature, see: 'Advertising Budgeting: A Reinvestigation of the Evidence on Brand Size and Spend', Journal of Advertising, 45:1, 139-146, Nick Danenberg, Rachel Kennedy, Virginia Beal & Byron Sharp (2016).

29 Sample sizes were small for niche brands, and included some launches, so results should be treated with caution.

can get away with low share of voice doesn't mean they *should*. Better to exploit advertising to generate growth and reap economies of scale.

Figure 61 shows ESOV Efficiency, the degree to which market-share growth increases as share of voice is increased above market share. As you can see, **new and niche brands are both highly responsive to advertising** – much more so than established, mainstream brands.

Again, these results also make good sense. As we saw in Chapter 4, new products are always highly responsive to advertising – there's something new and interesting to talk about, and a big pool of people who have never tried it. And niche brands probably get their efficiency from focussing their advertising efforts on their own unique segment of the market.

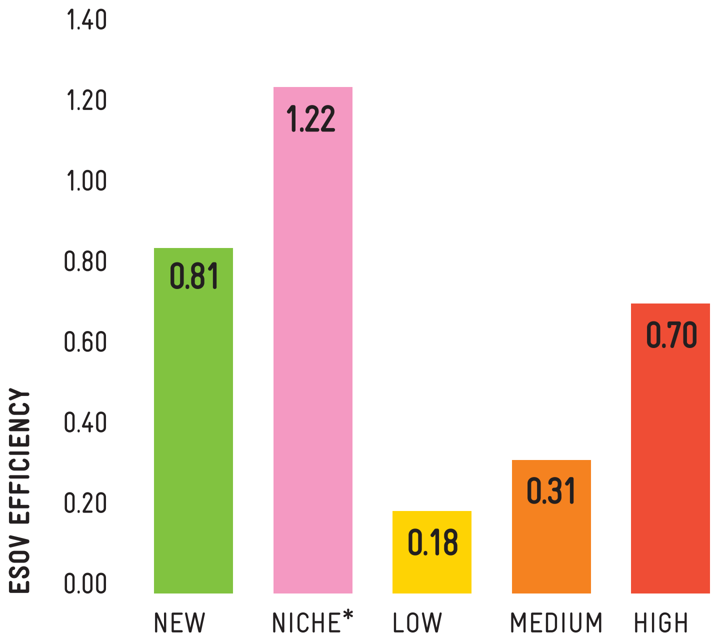
So **it is perfectly possible to launch a brand without much advertising support**, and grow organically. **But much more dramatic results can be achieved with a big launch campaign.** Brands that can afford to launch with good share of voice gain a much bigger share of the market in a much shorter timeframe. If the business is able to handle this kind of rapid growth, advertising will enable them to recoup their NPD investment more quickly. If you're a big company that has just invested in an expensive production plant, and need to ramp sales up quickly to get up to capacity, then relying on organic growth alone is probably not the best option: it's probably better to accelerate your growth with advertising.

Figure 61 shows that **established, mainstream brands are much less sensitive to advertising** than new brands or those that cater to niche markets. Small ones are particularly unresponsive. **However, as brands get bigger, ESOV Efficiency rises.** This is a new finding. It is often assumed that small brands are most responsive,[30] but our new analysis reveals that this is an artefact of including new and niche brands in the sample. Once these have been removed, it becomes apparent that it is big brands that reap the biggest benefits from advertising support.

So **small brands that are neither new nor specialised face a double disadvantage.** They get **less help from non-advertising factors**; they have fewer advocates, more limited distribution, and are probably less attractive in terms of quality and/or price. And those things mean that they are **less responsive to advertising** as well.

Conversely, big brands have a double advantage. They get more help from non-advertising factors, such as distribution, word of mouth, etc., which means they can get away with lower advertising-to-sale ratios than their competitors. And they are more responsive when they do advertise.

ESOV EFFICIENCY IS HIGH FOR NEW, NICHE AND BIG BRANDS
(FIGURE 61)

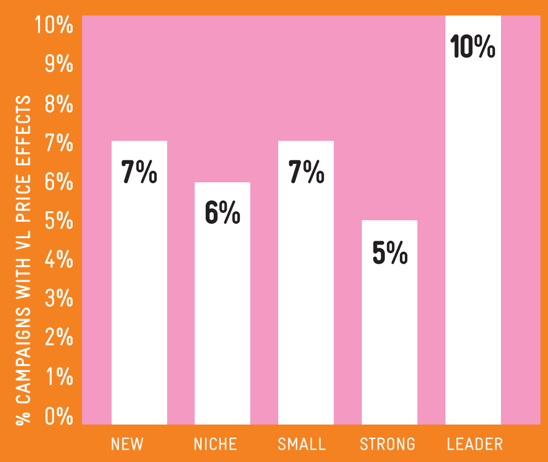


Brand size based on market share pre (ex launches & niche brands)
*Niche brands include some launches

30 This over turns the analysis in *Marketing in the Era of Accountability*, which suggested that small brands had a higher ESOV Efficiency. Removing launches from the sample revealed that established small brands are less responsive.

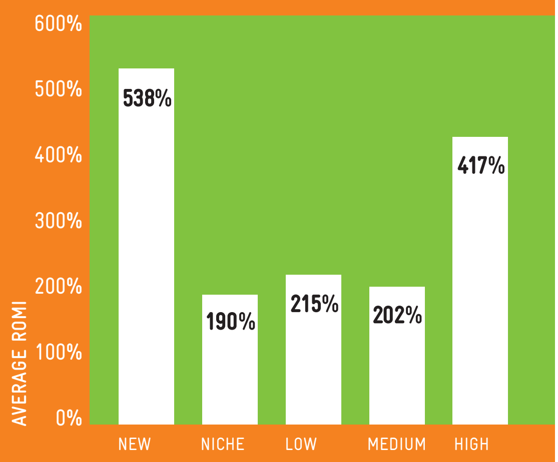
> It is perfectly possible to launch a brand without much advertising support, and grow organically.

MARKET LEADERS HAVE MORE PRICING POWER (FIGURE 62)



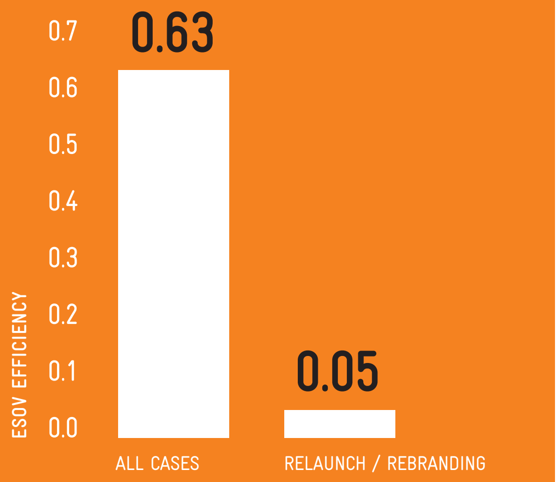
Source: IPA Databank, 1998-2016 for-profit cases

ROMI IS HIGHEST FOR NEW & BIG BRANDS (FIGURE 63)



Source: IPA Databank, 1998-2016 for-profit cases

RELAUNCHES ARE HIGHLY INEFFICIENT (FIGURE 64)



Source: IPA Databank, 1998-2016 for-profit cases

6.4 BRAND DEVELOPMENT AND PRICING

In fact, the very biggest brands have yet a further advantage. **Market leaders find it much easier to use advertising to reduce price sensitivity, and so charge higher prices** (Fig 62).

So advertising tends to favour both new brands and big, dominant brands. Advertising efficiency and ROMI is high for both groups (Fig 63). For new brands, the payback comes primarily through customer acquisition and increased volume. For big brands, there is a more balanced mix of penetration and loyalty effects, and of volume and price effects.

Niche marketing campaigns can also be quite efficient in volume terms, presumably because they can adopt a more targeted approach. **But this doesn't translate into high ROMI**, probably because niche brands don't tend to have very high profit margins (as Byron Sharp has observed before).

Life is toughest for small, established brands in the mainstream. Advertising is least efficient for these little brands stuck at the bottom of the market, and it is hard for them to use it to break out of their low-volume trap. Relaunching or rebranding are not easy ways out of the trap either. Advertising works best when it goes *with* the grain of existing memory structures, rather than against them.

Once a brand is established, **relaunching or rebranding is slow and highly inefficient**, and requires high spend levels over a long period.

As brands get bigger, they begin to run out of headroom and it becomes harder to recruit new customers.

It is now easy to see why brands care so much about growing their market share in the early years. There is a brief window then when advertising works extremely hard and ROMI is high. A big advertising budget is not always necessary in order to launch a brand – plenty of brands choose to grow organically instead. But **brands that do invest in advertising at launch are rewarded with faster growth and bigger market-share gains, and so increase their chances of gaining a dominant position.**

The lucky few that do achieve high market share can look forward to high profits and bigger margins, and advertising will work efficiently to keep those brands on top. Nobody wants to be consigned to the lower levels, where margins are low, life is precarious, and advertising is an expensive cost that is hard to justify. The stakes are particularly high in categories where there are network effects.

So advertising has both competitive and anti-competitive effects. **Advertising helps successful brands to dominate their categories**, and places additional competitive pressure on the little brands at the bottom of the market.

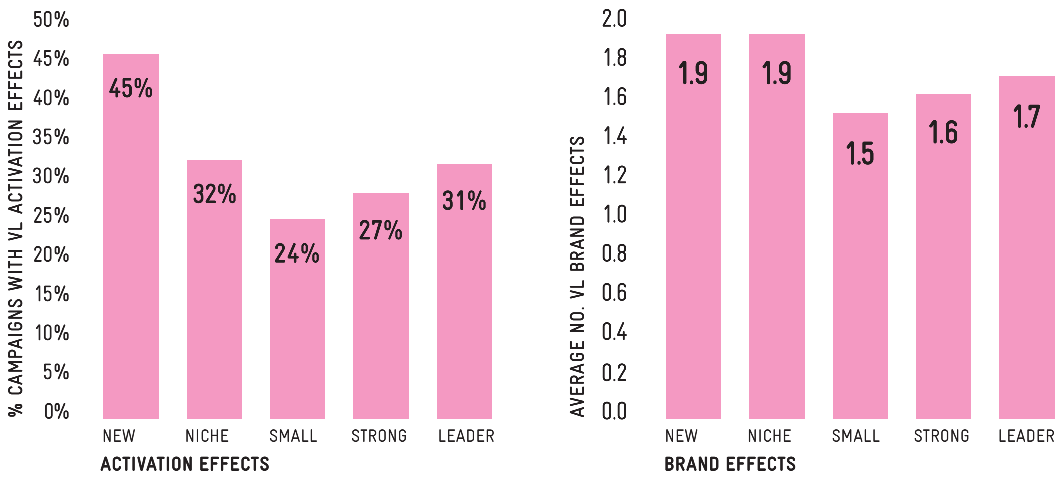
Yet advertising also helps new competitors break into the market, and gives them a better chance of becoming big and successful. In effect, advertising speeds up and magnifies the 'natural' cycle of creative destruction.

6.5 BALANCING BRAND BUILDING AND ACTIVATION AS BRANDS DEVELOP

Not only does the efficiency of marketing vary with the size and maturity of the brand. **The mix of brand and activation effects varies as brands grow.** Figure 65 below demonstrates the mix of effects at each stage of brand development.

It shows that campaigns for **new brands** tend to have big brand effects (probably because they are blank slates as far as brand perceptions go) and very big activation effects (perhaps because there is lots of 'new news' to talk about). This echoes the findings in Chapter 1, where we found that innovation tends to boost both brand and activation effects, but has its biggest effect on activation.

THE MIX OF BRAND & ACTIVATION EFFECTS CHANGES AS BRANDS GROW (FIGURE 65)



Source: IPA Databank, 1998-2016 for-profit cases

We also see that **niche brands** do disproportionately well for their size. Here the effect is more at the brand level, although activation effects are usually healthy.

The big activation effects associated with brand launches might seem to imply that smaller activation budgets are needed. This is usually the case where there is product innovation; because activation is a relatively easy job when there is something new to talk about, it is usually possible to dial down activation spend. However, the immediate launch phase of a new brand is an exception.

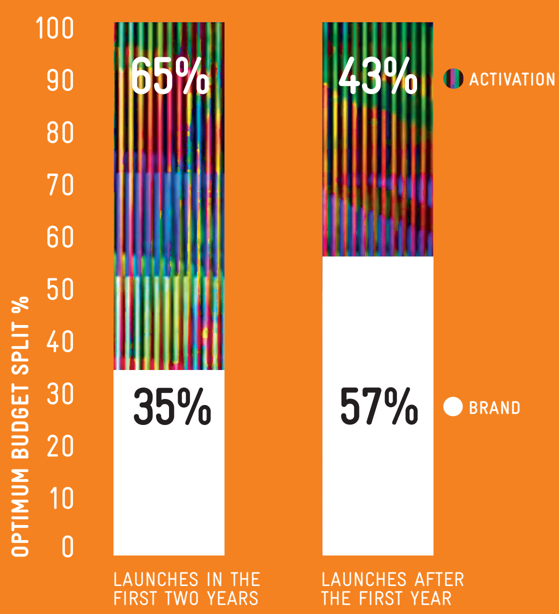
One consequence of the Bass Diffusion Model[31] in a competitive context is that for maximum long-term sales, a brand launch needs to accelerate early trial as broadly as possible. But also, as we have argued, at some point the brand will cease to be an interesting new contender for which brand building is relatively easy. It will then simply become one of the pack, and unless it has acquired a dominant position, brand building will be much harder. This argues for a shifting balance of brand and activation over time: high activation at first whilst early trial is vital and brand interest is high; higher brand building subsequently as brand interest starts to normalise and less enthusiastic 'late majority' adopters have to be won over.

This is exactly the pattern observed in the IPA data comparing launches reported during the early years with those reported later on (Fig 66).[32] **Activation spend should be relatively heavy when a completely new brand is first launched. But once the initial launch phase is over, the brand:activation split should be normalised.** We see a clear shift from an optimum activation-heavy balance of 35:65 early on, to a more normal brand-heavy balance of 57:43 later on.

31 See Chapter 4.

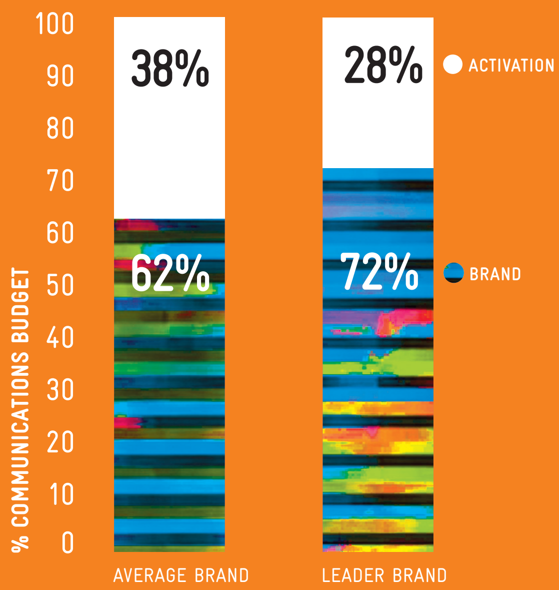
32 Sample sizes mean we have to aggregate data into overlapping time periods: the first two years and after the first year, so the shift in balance may be understated because of this, but is nevertheless clear.

THE OPTIMUM BRAND:ACTIVATION BALANCE SHIFTS DURING A LAUNCH (FIGURE 66)



Source: IPA Databank, 1998-2016 for-profit cases

OPTIMUM BRAND: ACTIVATION SPLIT (FIGURE 67)



Source: IPA Databank, 1998-2016 for-profit cases
Excludes new and niche brands

Exactly *when* the transition should start will depend on the category and speed of growth, but the guiding principle should be to start increasing the brand allocation as soon as the brand starts to lose the value of novelty and the interest this generates. This is unlikely to be much later than a year after launch.

For established, mainstream brands, both kinds of marketing effect tend to move in line with market share (echoing our findings above), and again activation effects vary most. Campaigns for small brands tend to have small effects on brand metrics and very small activation effects. Campaigns for big brands tend to have big effects on brand metrics and very big activation effects. This means that **as established brands grow, the mix of marketing effects tends to shift from brand building to activation.**

It is easy to see why this might be. Big brands are usually well known and well thought of, so improving brand metrics further is often hard. But the combination of strong brand equity, a big customer base and good distribution makes sales activation easier for big brands. Response rates to things like promotions and direct response activity will tend to be high. This has implications for how the budget should be allocated between brand building and sales activation. Because activation is relatively easy for very big brands, they don't need to devote such a high proportion of their budget to it. **As market share increases, the optimum balance shifts slightly away from activation and in favour of brand building** (Fig 67, page 75).

So as brands get bigger, every aspect of marketing works harder – not just advertising, but other channels too.[33] This means that **big brands don't need to invest as heavily relative to their size as small ones do.** At the same time, the mix of marketing effects changes. Brand effects get bigger as market share rises, but activation effects get *much* bigger. This means that **big brands don't need to devote such a high proportion of their budget to short-term activation.** They can afford to focus more on the longer term.

Actual practice seems to reflect this: **as brands get bigger, they reduce ESOV and shift focus from short-term growth to long-term maintenance** (Fig 68).

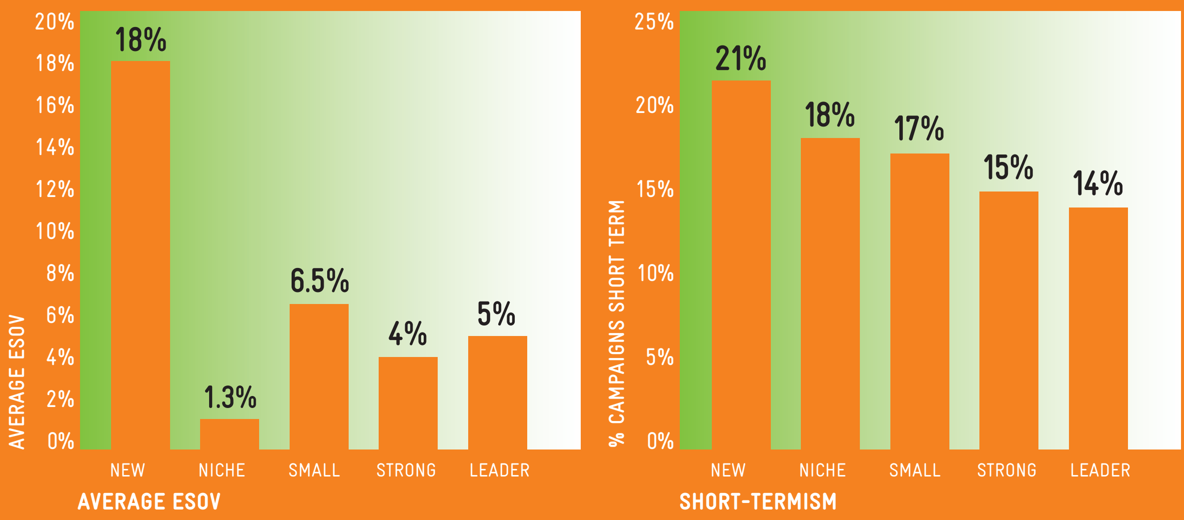
Most brands in the IPA sample choose to invest heavily in advertising at launch, in order to take advantage of the potential for rapid growth in this early phase. They tend to set share of voice way above market share, and this allows them to grow quickly.

But as market share rises, brands tend to bring their share of voice more in line with their share of market, and growth begins to slow. At the same time, they shift their focus from short-term tactical activity to long-term brand building. This allows them to extract more value from the customers they have recruited by increasing loyalty, reducing price sensitivity and increasing margins. Effectively, **brands start with a high growth strategy in order to gain market share, then switch to a low growth / high profit strategy once they have gained a dominant position.**

And it is this shift in strategy that explains why the effects of marketing tend to be smaller and harder to see for big brands. It's not that marketing communications don't work for big brands – on the contrary, they're highly efficient. But **big brands use marcoms in a different way – to *maintain* their market share and to boost margins** (Fig 69). These effects are more subtle, but ultimately very profitable indeed.

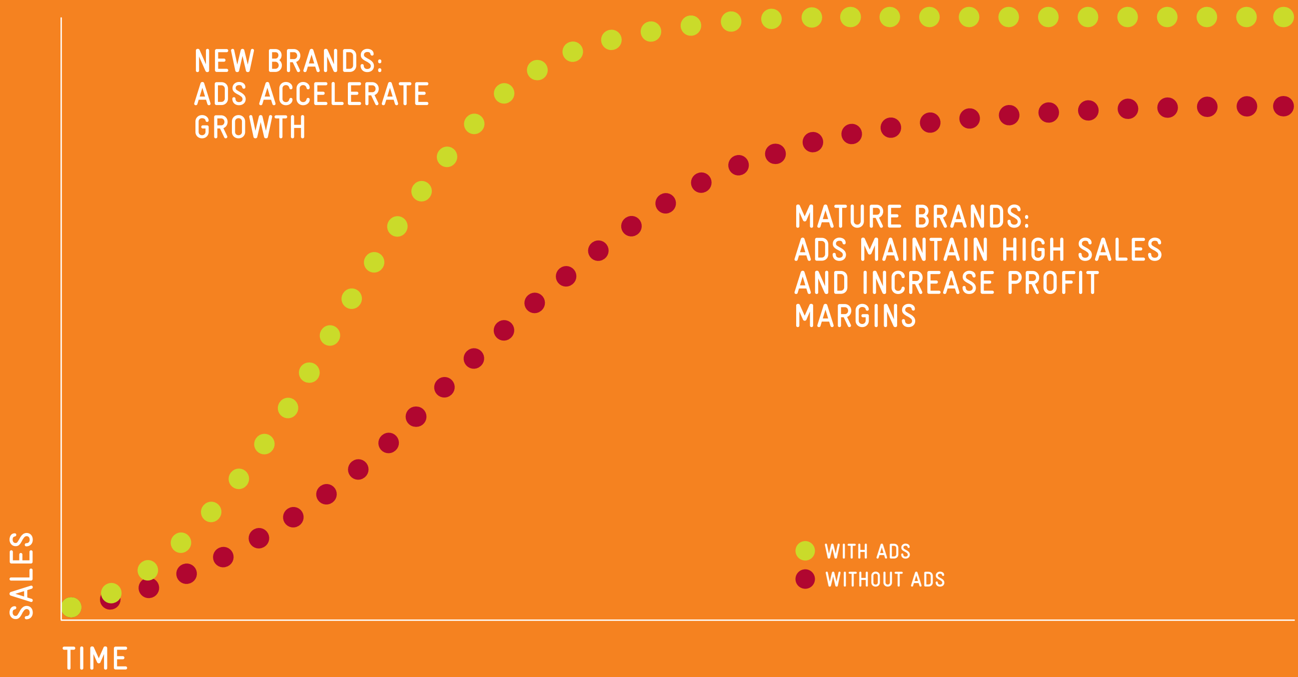
33 As shown by the rising level of the base rate of growth.

AS BRANDS GET BIGGER, STRATEGY SHIFTS FROM GROWTH TO MAINTENANCE (FIGURE 68)



Source: IPA Databank, 1998-2016 for-profit cases

AD EFFECTS CHANGE AS BRANDS GROW (FIGURE 69)



CHAPTER 6.0 SUMMARY THOUGHTS

New brands
Brands that invest in advertising at launch are rewarded with faster growth and bigger market share gains, and so increase their chances of gaining a dominant position later on.

Gaining market share as quickly as possible avoids the small brand-trap and brings economies of scale.

Activation spend should be relatively heavy for a new-brand launch. Later, the brand:activation split can be normalised.

Niche brands
Niche marketing is relatively efficient in volume terms.

But niche marketing tends to reduce ROMI.

Big brands
Big brands have economies of scale when it comes to advertising. The bigger a brand's market share, the more efficiently advertising works.

So big brands don't need to invest as heavily relative to their size as small ones.

Market leaders find it much easier to use advertising to reduce price sensitivity, and so charge higher prices.

Although big brands tend to have higher loyalty, regardless of brand maturity or size, penetration is always the main driver of growth, not loyalty. However, loyalty effects do get bigger as brands grow.

The small brand trap
Small brands tend to have low profits and low growth rates.

They get less help from non-advertising factors and are less responsive to advertising as well.

They need to spend heavily relative to their size, just to maintain market share.

Relaunching or rebranding is one way out, but this is slow and highly inefficient.

Strategic implications
New brands should aim to gain market share as quickly as possible. With a sustainable product advantage, it is possible to grow without advertising, but brands that advertise grow faster and further.

As brands grow, it becomes progressively harder to increase sales and market share.

But the payback from marketing gets bigger. Big brands use advertising to *maintain* their market share, and to boost margins. And that is highly profitable.

SECTION 02

HOW THESE CONTEXT EFFECTS PLAY OUT ACROSS SECTORS

There is a tendency in marketing to believe that all categories behave differently and that general rules may not apply to specific categories. Over the years, we have never come across any sector-based analyses that suggested this was the case in a fundamental sense, though we have often observed that optimum performance may require adjustments to the parameters and balance of campaigns: for example some sectors are more responsive to advertising than others, so the relationship between ESOV and share growth is modified. We have already observed that brand building and sales activation work with varying levels of effectiveness in different contexts, so we can expect the ideal "60:40" sweet spot to vary by sector as well.

CHAPTER 1.0

FOR-PROFIT SECTORS

Sadly, even with around 500 digital-era for-profit cases and around 120 not-for-profit cases, we cannot drill down into individual categories, but we can look at some subsectors. So in this chapter we will compare common and best practice in the following sectors and subsectors (where they differ from the parent sector):

- Durables Automotive | Non-automotive
- FMCG Food & drink | Other
- Financial services
- Other services telcos/ISPs | 'Perishable' categories: media/QSR/travel[34]
- Retail

Finally, using different metrics and a much more limited sample, we will explore effectiveness in the **not-for-profit** sector: charities vs government campaigns.

34 Why these subcategories? It became clear that other services were highly heterogeneous in terms of effectiveness patterns and that the most important 'misfits' were subscription services (hence telcos and ISPs) and 'perishable' services where demand management was of extreme importance to profitability: an unsold airline seat, newspaper or burger cannot be sold at a later date. These two groupings are well populated in the IPA Databank and so we can examine them in more depth.

1.1 PENETRATION VERSUS LOYALTY

The penetration versus loyalty debate is an important one in the context of sectors, because marketers tend to take very different positions across sectors. The issue is also largely independent of the others that we will examine here, so we will deal with it first.

So far in this report, we haven't observed any exceptions to the general rule that penetration always trumps loyalty as a strategy for growth, but have observed that in some situations the combination is more effective than penetration alone, whilst in others this is not true. We will see the same rules played out across sectors, to the extent that we can explore this with the subsample sizes for each sector.[35]

Figure 70 below suggests that all sectors appear to reflect the general rule and where there is too little data to report, the suggestion of the limited data available is that pure loyalty strategies underperform. However, reflecting the earlier findings, we find that the nature and circumstances of categories influence the best approach.

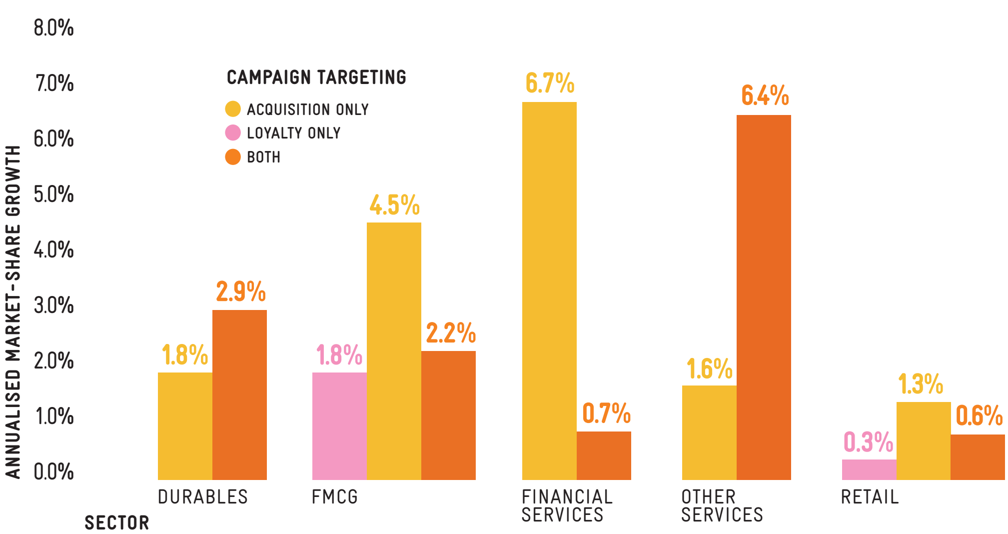
In FMCG, Financial Services and Retail, pure penetration (customer acquisition) strategies drive greatest growth; whereas **in Durables and Other Services, the combination of new-customer acquisition and loyalty drives greatest growth.** Although sample sizes are small, it is worth noting that:

- **In Durables, the importance of combined strategies is not driven by the automotive subsector – with cars, new-customer acquisition ('conquest' strategies) appear king.**
- **But in Other Services, the importance of combined strategies is very much driven by the 'perishable' services subsector – in these perishable categories, keeping customers coming back for more as well as attracting new ones drives most growth.**

It is worth examining how targeting strategies influence short-term effects, which shows how tight targeting at existing customers acquires an elevated importance for sales activation compared to its importance for long-term growth. Figure 71 shows that in most categories where we can examine this, existing customers are a better source of short-term sales than new ones (for reasons discussed earlier in this report), but it is *always* better to target both for sales activation. **This reminds us of the dangers of measuring success by short-term sales activation and makes it clear that this danger exists in all sectors.**

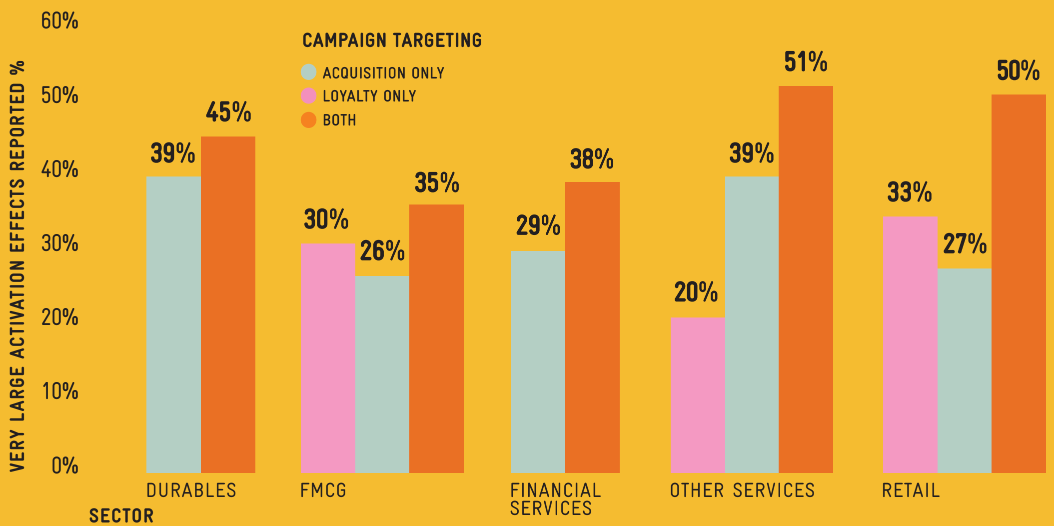
35 The problem we face is the dwindling number of campaigns that targeted loyalty alone and were effective enough to make it into the Databank – currently around 3% of case studies. So we cannot easily decouple loyalty from penetration, since almost all campaigns that have a loyalty element also have a penetration element.

GROWTH IN ALL SECTORS IS HEAVILY DEPENDENT ON CUSTOMER ACQUISITION (FIGURE 70)



Source: IPA Databank, 1998-2016 for-profit cases

TIGHT TARGETING BECOMES MORE EFFECTIVE FOR SALES ACTIVATION (FIGURE 71)



Source: IPA Databank, 1998-2016 for-profit cases

1.2 CONSIDERATION LEVELS AND EMOTIONAL VERSUS RATIONAL ADVERTISING

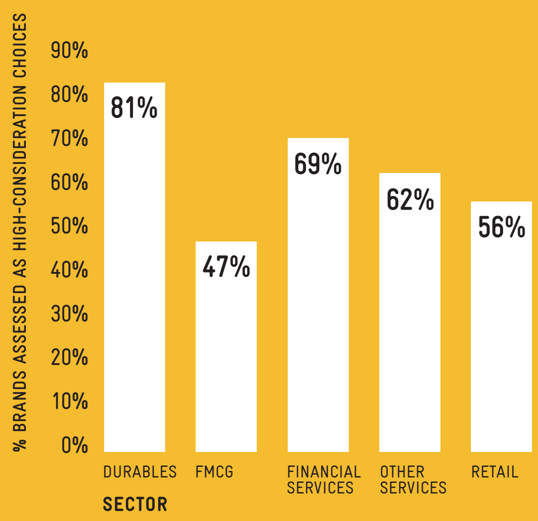
As we have observed in earlier chapters, overall consideration levels, as well as the balance of emotional vs. rational consideration in the choice of brand, have a major impact on how hard advertising works and on the relative potency of emotional and rational advertising. Consideration patterns set the stage for the optimum balance between brand-building advertising and activation activity for reasons that are nicely illustrated by comparing sectors.

Consideration levels vary widely across sectors, being highest for Durables purchases and lowest for FMCG, as you would expect (Fig 72).

As we have argued, high consideration levels make advertising work harder, whether brand building or activation, so it is not surprising that we will see shortly that efficiency levels are typically higher in Services and Durables than in Retail and FMCG categories.

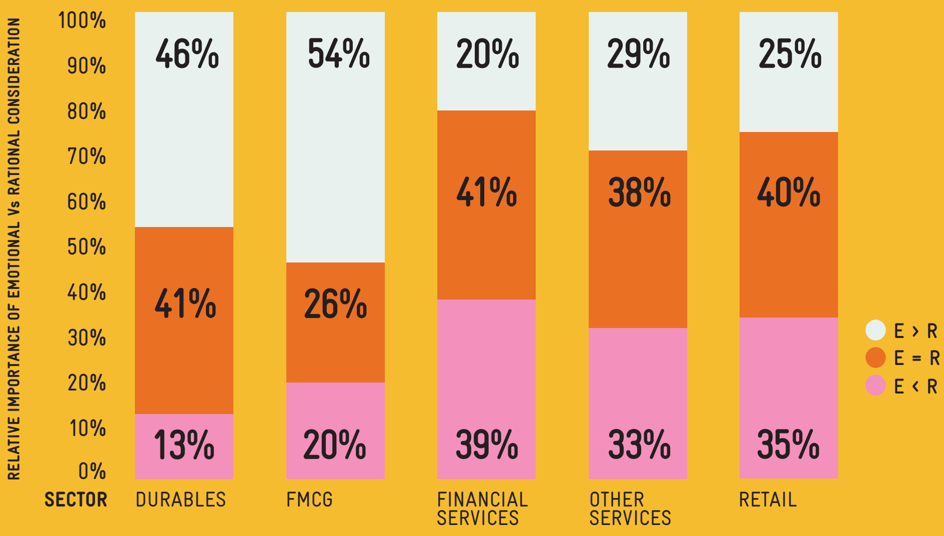
The balance of emotional vs. rational consideration also varies widely across sectors (Fig 73, page 82). Brand building is easier in more emotional-oriented sectors whilst activation is easier in more rational-oriented sectors. This goes some way to explaining the pattern of effects observed later in this section. Durables and FMCG brands tend to be higher emotional consideration ones, whilst Retail and Services are more evenly balanced.

CONSIDERATION LEVELS VARY WIDELY ACROSS SECTORS (FIGURE 72)



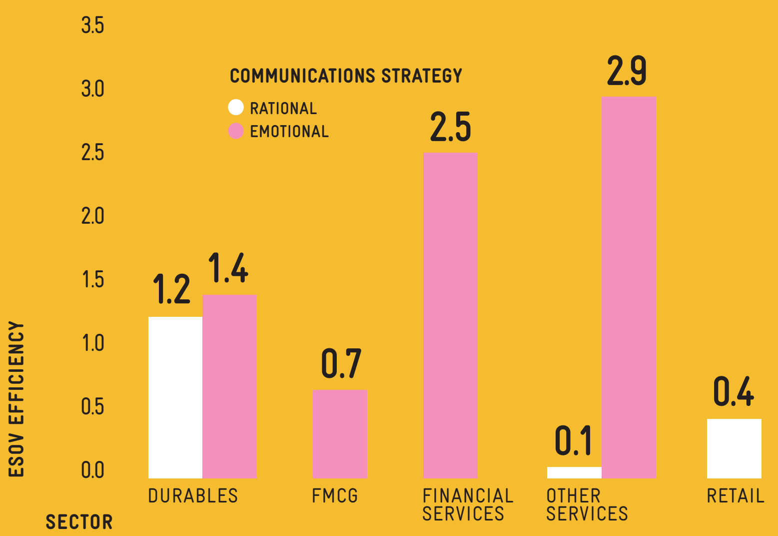
Source: IPA Databank, 1998-2016 for-profit cases

THE BALANCE OF EMOTIONAL Vs RATIONAL CONSIDERATION VARIES WIDELY ACROSS SECTORS (FIGURE 73)



Source: IPA Databank, 1998-2016 for-profit cases

EMOTIONAL ADVERTISING OUTPERFORMS RATIONAL BY DIFFERING MARGINS (FIGURE 74)



Source: IPA Databank, 1998-2016 for-profit cases

We can see these factors at work in the efficiency of emotional and rational campaigns across sectors (where it is possible to measure this)[36] (Fig 74). In Durables, which are high-consideration categories, both rational and emotional advertising perform well and similarly; whereas in Other Services, which are much lower consideration, emotional advertising dramatically outperforms rational advertising. This is likely also true, but to a lesser extent, in the other sectors, though we cannot be sure of this. It is especially likely to be true in FMCG, which although low consideration overall, tends to be highly skewed to emotional consideration.

36 Our main problem here is the declining proportion of rational campaigns in the IPA databank, which yields inadequate sample sizes in many sectors. This is evidence of the declining power of rational advertising in the modern marketing world.

1.3 SHORT VERSUS LONG-TERM EFFECTIVENESS

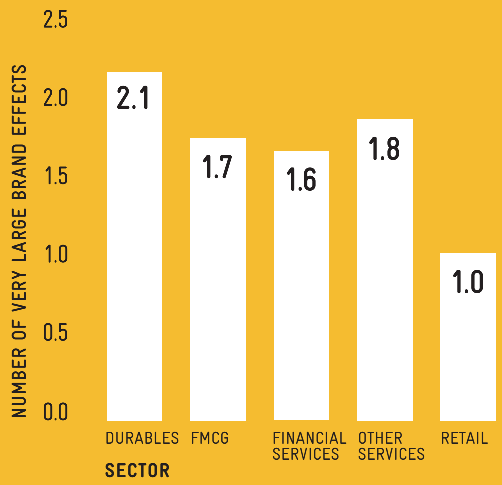
We have established that **brand building is vital to long-term effectiveness, but it is more easily achieved in some sectors than others** and this will affect not only the effectiveness and efficiency of advertising over the long term but also the ideal balance of brand and activation advertising.

In Durables, a high-consideration sector, brand effects are easy to achieve (Fig 75): that is to say, it is easier to strengthen brands. In Retail, a low-consideration sector, brand effects are difficult to achieve and brands will need to try harder at brand building in this sector to balance brand and activation effects. Other sectors are similar to one another and about average in terms of brand effects. Subsectors do not diverge widely from the parent sectors on this measure, so are not reported here.

Naturally, the brand-effects pattern across sectors mirrors, to a considerable degree, the pattern of long-term effectiveness (Fig 76). But to understand how effectiveness works across sectors, we also need to examine the pattern of short-term activation effectiveness across sectors. The charts may not look very dramatic but it illustrates how the challenges faced by marketers vary significantly from one sector to another, and shape the optimum balance between brand-building and sales-activation activity.

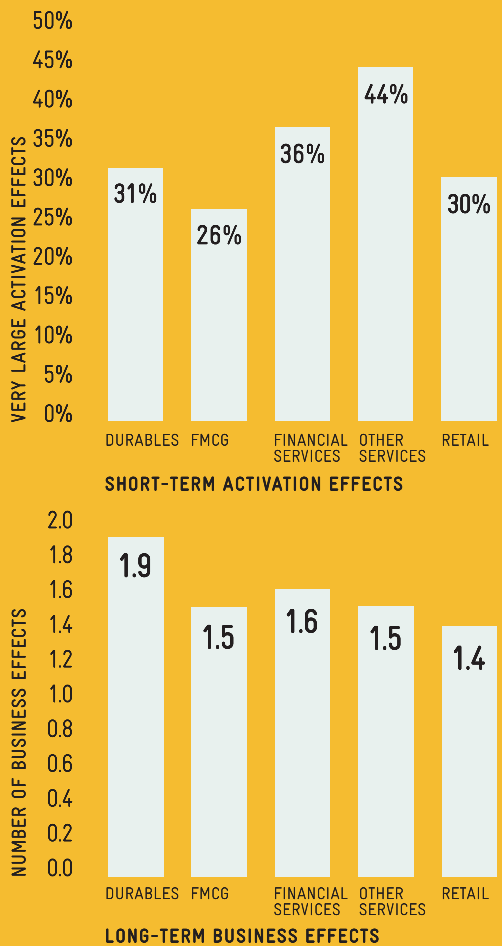
So, **in Durables, long-term effectiveness is generally very strong**, as Figure 76 shows. Durables, as we have seen, are high-consideration categories with strong emotional consideration, both of which factors boost long-term brand building and therefore effectiveness. Activation effects are pretty much average in Durables. So we can expect ESOV Efficiency, which is influenced by both long-term and activation effects, to be at least average (which it is, as we will see).

BRAND EFFECTS VARY WIDELY ACROSS SECTORS (FIGURE 75)



Source: IPA Databank, 1998-2016 for-profit cases

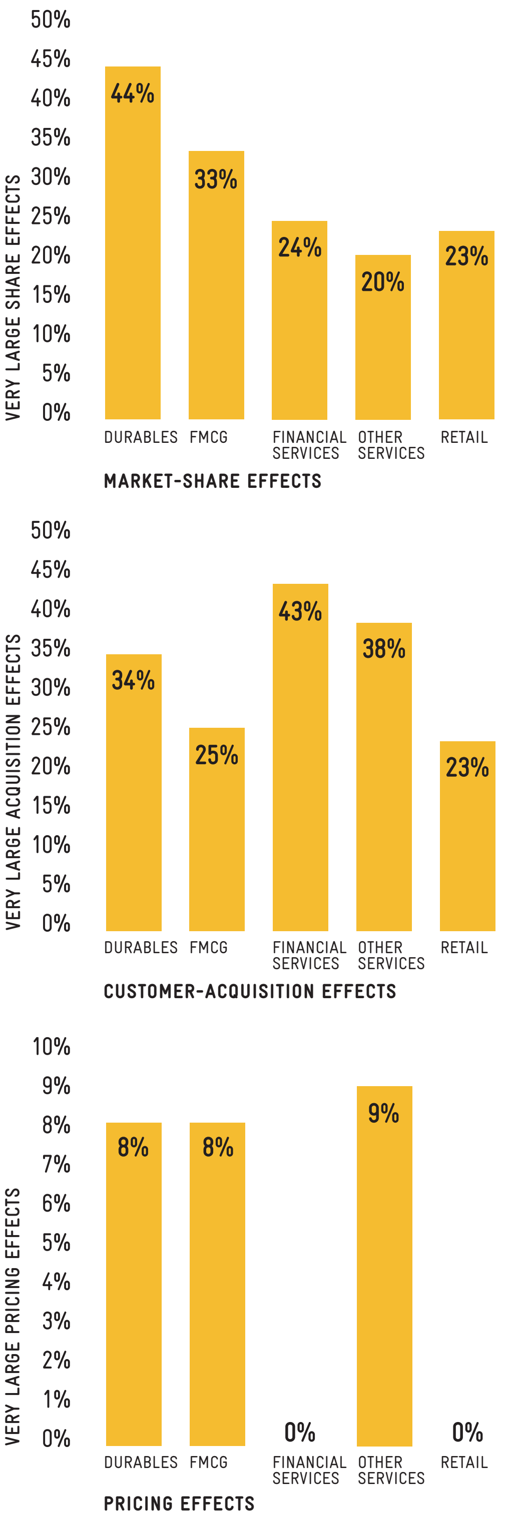
SHORT AND LONG-TERM EFFECTIVENESS VARIES ACROSS SECTORS (FIGURE 76)



Source: IPA Databank, 1998-2016 for-profit cases

New customer acquisition is a vital prerequisite for growth across all sectors.

LONG-TERM EFFECTS VARY ACROSS SECTORS (FIGURE 77)



Source: IPA Databank, 1998-2016 for-profit cases

Across other sectors, long-term effectiveness does not vary much, largely because consideration levels, and in particular emotional consideration levels, only vary modestly. But activation effects do vary quite significantly between Financial and Other Services (high) and FMCG and Retail (low), with ESOV Efficiency patterns reflecting these variations in activation ability.

We don't propose to tax the patience of the reader by reviewing variations across sectors in *all* the individual business effects that make up our basket of long-term effectiveness metrics,[37] so we examine the key effects here. They show some considerable differences across sectors with regard to where campaigns derive their major effects (Fig 77).

In Durables, and to a lesser extent FMCG, market share effects are stronger than other sectors. In Financial and Other Services, and to a lesser extent in Durables, customer-acquisition effects are stronger, though in the case of services this reflects the priorities of marketing.

Pricing effects are consistent across Durables, FMCG and Other Services, but absent in Financial Services because the metric has little meaning here[38] and, where it does apply, pricing effects are modest. Pricing effects (as measured by very large effects) are absent in Retail because of the aggressive price competition in this sector. That isn't to say that pricing effects are not present at a more modest level and that they aren't important in Retail – it's just that we have to moderate our expectations. So when we examine pricing effects in Retail we need to use 'large' effects rather than 'very large' effects.

Sample sizes do not permit us to reliably examine the impact of all individual business metrics on profit growth by sector. However, we can say that across all sectors bar one, the combination of volume growth plus pricing improvements leads to the biggest profit impacts; bigger than either effect in isolation and bigger than any other business effect.

37 These are the usual business metrics listed in the appendix: profit, sales, market share, penetration, loyalty and price sensitivity. All relate primarily to long-term success.

38 In fact 'pricing effects' in Financial Services do exist, but they equate to improved interest rates and spreads or fees. These have been reported in case studies over the years and are likely to be highly profitable. In practice they may be observed as improved customer acquisition rates despite standard rates or fees.

CASE STUDY LIDL UK

The UK growth of grocery discounter Lidl had been eclipsed by rival Aldi since the latter's 2011 conversion to brand advertising. Both brand and trading results revealed that pricing messages alone would not close the growth gap. In 2013 Lidl UK decided to up its marketing game with a TV-led campaign telling an engaging *quality* story across a wide range of showcase products. Despite an approximately 6% typical pricing premium over Aldi prices, Lidl reversed the tables on Aldi to become the UK's fastest-growing supermarket. The volume growth surge was achieved through penetration growth with pricing relative to Aldi maintained and despite fewer store openings. Econometric modelling demonstrated that advertising drove both relative penetration *and* basket size: proof that it is possible to have your cake and eat it, even in Retail.

Go for margin growth or go for volume growth in Retail, but don't attempt both.

The sole exception is in Retail where we can only examine the impact of large pricing effects, as discussed earlier. In this sector large pricing effects and very large volume effects perform similarly in profitability terms and the combination of both appears to add nothing: it looks like an either/or choice: **go for margin growth or go for volume growth in Retail, but don't attempt both at once.** This makes intuitive sense: the degree of price competition in most areas of Retail is intense and so it has become difficult for brands to drive volume without undermining pricing power, or to drive pricing power without undermining volume, but there are exceptions.

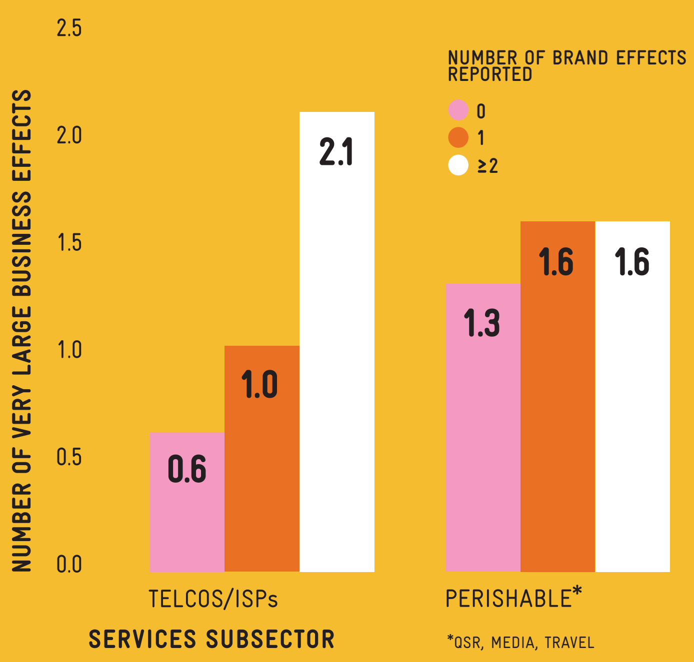
So, generally across all sectors it is best to ensure that campaigns drive volume and pricing power. **In practice this is a mandate for brand-building advertising, because the correlation between brand strengthening and pricing power improvements runs across all sectors.** It is stronger in some (Durables, FMCG and Retail) and weaker in others (Financial and Other Services), but the common conclusion is that if you want to improve margins, it is smart to invest in brand building. In fact, Brand building improves broad long-term effectiveness across all sectors, as Figure 79 shows.

Those with keen eyesight will notice that the Other Services sector departs somewhat from the general pattern of steeply rising effectiveness as brand effects increase. This is because of the only subsector that demonstrates a limit to the value of brand building: 'perishable' services, which form a major constituent of Other Services.

It is true, as Figure 78 shows, that brand-building advertising increases effectiveness in perishable services to a degree, but the chart also suggests that too much focus on brand-building (at the expense of activation) is more easily achieved and has more damaging consequences. This will be reflected in the optimum balance of brand-building and sales activation, as we will see. In contrast, the telcos & ISPs subsector displays an entirely typical relationship between brand building and long-term effectiveness.

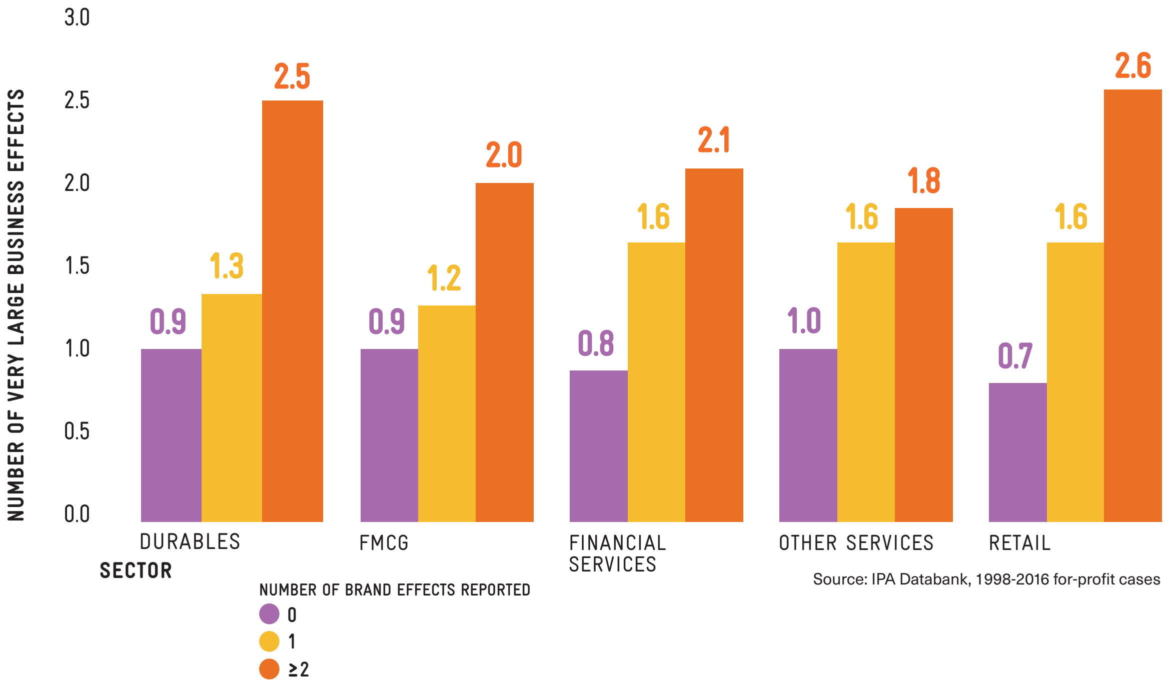
It is commonly assumed that brand-building advertising is all about the long term and that by extension, businesses with urgent short-term demand management priorities might be wise to walk away from it. In Chapter 1 we argued that this was a simplistic and misleading argument because stronger brands have a much greater ability to leverage sales activation activity. In short, they are more agile in terms of being able to turn on short-term sales and can do so with less impact on margin. So **brand building is not something marketers do for the long term alone – it also turbocharges sales activation.** The impact of brand-building activity on concurrent sales-activation effectiveness is abundantly clear across all sectors (Fig 80) even in services sectors where brands have a much more direct relationship with customers than in other sectors.

BRAND BUILDING'S IMPACT ON EFFECTIVENESS IN SERVICES SUBSECTORS (FIGURE 78)



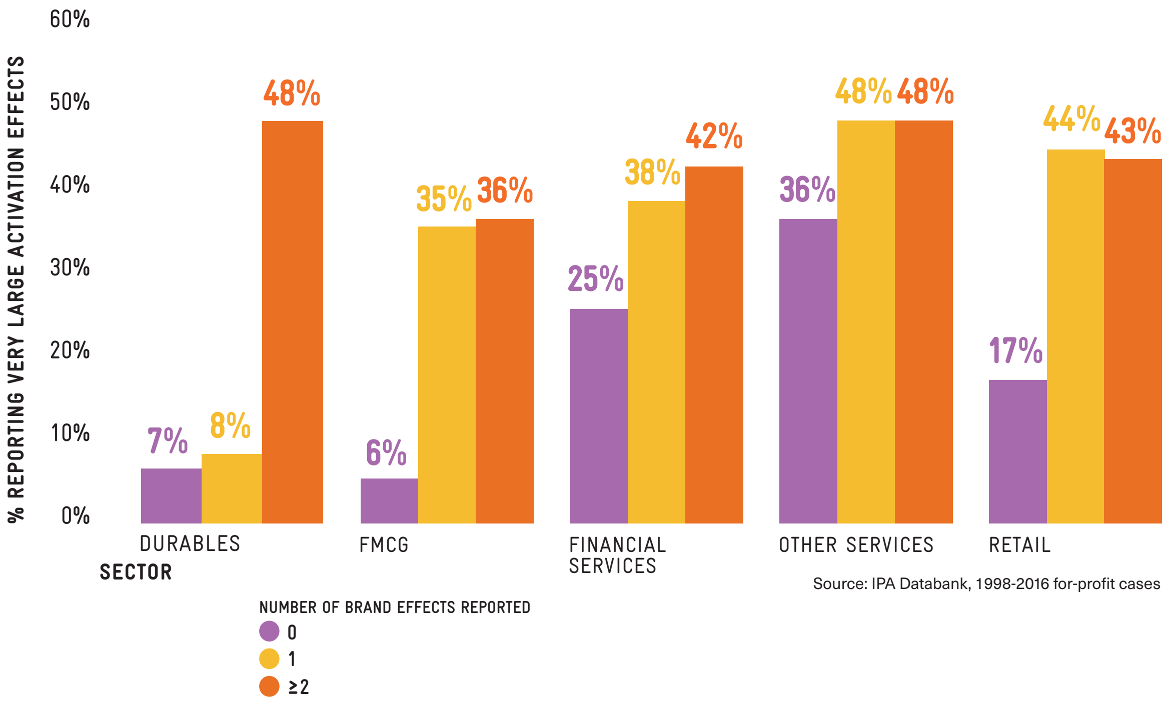
Source: IPA Databank, 1998-2016 for-profit cases

BRAND BUILDING DRIVES LONG-TERM EFFECTIVENESS ACROSS ALL SECTORS (FIGURE 79)



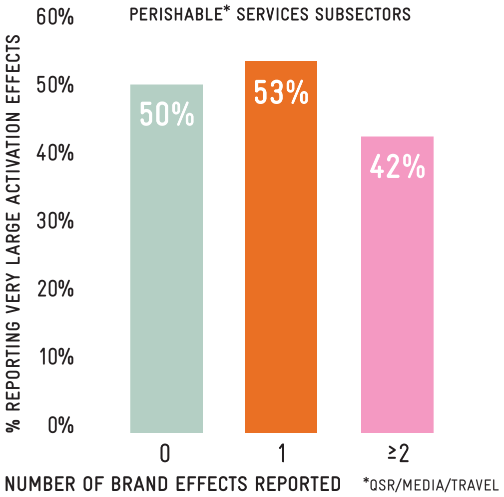
Source: IPA Databank, 1998-2016 for-profit cases

BRAND BUILDING DRIVES SHORT-TERM EFFECTIVENESS ACROSS ALL SECTORS (FIGURE 80)



Source: IPA Databank, 1998-2016 for-profit cases

BRAND BUILDING'S IMPACT ON SALES ACTIVATION IN PERISHABLE SERVICES (FIGURE 81)



Source: IPA Databank, 1998-2016 for-profit cases

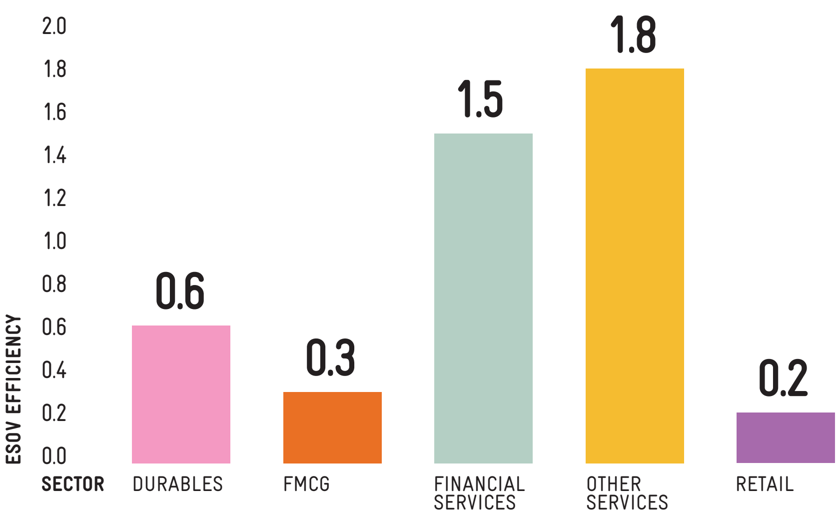
Again the perishable services subsector is the only one to break with the general pattern (Fig 81): here we find that activation effects are largely independent of brand-building effects and decline if too much focus is placed on brand building. Many of the categories that constitute perishable services are very strongly influenced by customer experience and activation is likely to be much more dependent on this and on targeting existing customers. **In such categories, the role of brand-building advertising becomes almost exclusively about new customer recruitment.**

Perishable services have been singled out in this section as the exception that proves the rule, but what about the other subsectors that are listed in the introduction? In short, there is nothing to report: they closely follow the observations made of their parent sectors. So in some sectors it is easier to strengthen brands and in some it is easier to drive short-term sales activation. Where both of these advantages coincide, we can expect to see the highest levels of campaign efficiency for reasons discussed later in this chapter. But in sectors where both tasks are challenging, we are likely to see the lowest efficiency levels. This is pretty much what we observe (Fig 82), and with two major factors at work, we observe some wide variations in ESOV Efficiency across sectors.[39]

In the two services sectors activation levels are very strong and brand effects are average, so efficiency is high. In Durables, brand effects are strong but activation effects are weak, so efficiency is around average.

In FMCG brand effects are average but activation effects are very weak and in Retail both are weak, especially brand effects, so efficiency levels are low in both these sectors. Where we can examine them, efficiency levels in subsectors don't differ much from parent sectors, so are not reported.[40]

ESOV EFFICIENCY VARIES WIDELY ACROSS SECTORS (FIGURE 82)



Source: IPA Databank, 1998-2016 for-profit cases

39 This is old news from the IPA Databank: we observed this in *Marketing in the Era of Accountability* more than ten years ago.

40 Why not report them anyway? The parent sector result is much more reliable and if there is little difference in subsectors it is likely not significant.

1.4 BALANCING BRAND BUILDING AND ACTIVATION ACROSS SECTORS

We have already seen that typical ESOV Efficiency levels vary widely from sector to sector. Figure 83 shows quite clearly that campaign efficiency is strongly correlated with the ability to activate sales in the sector. This is not surprising, given that almost all of these campaigns include brand-building activity: **sales activation improves the efficiency of campaigns by converting the strengthening brand equity into short-term sales.**

The correlation does not imply that sales activation alone is responsible for campaign efficiency. Why is this? We saw earlier that the ability to activate short-term sales is inextricably linked to brand-building success, so in fact **efficiency is a product of brand building and sales activation.** The correlation between brand effects and efficiency is weaker (Fig 84, page 90) because not all brand effects are linked to growth[41] and some sectors are much easier to build brands in than others, as we showed in Chapter 1.

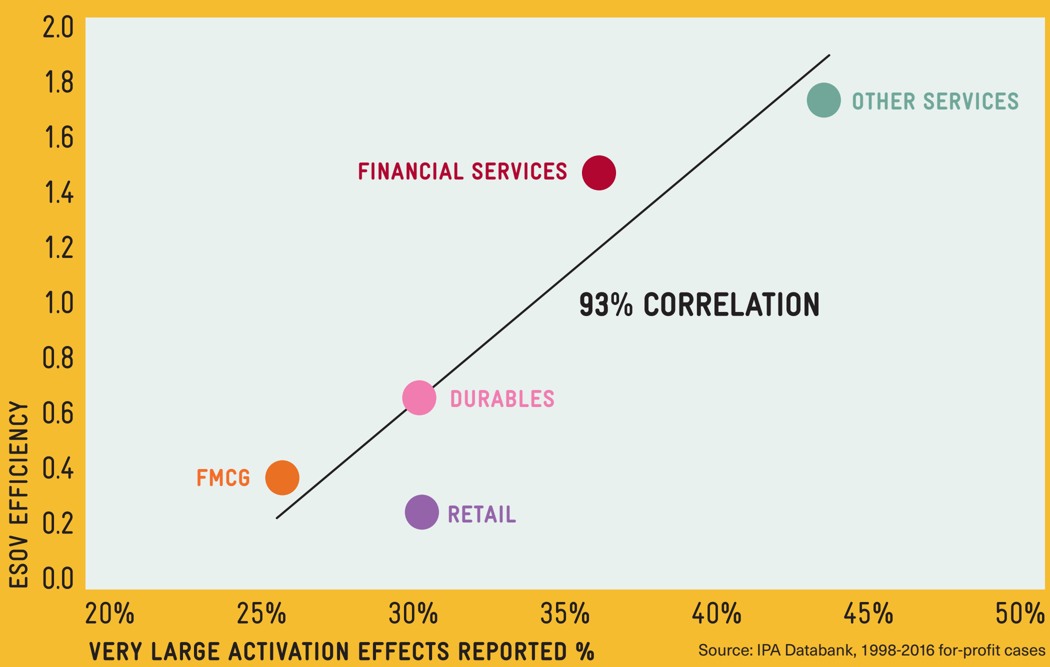
But the correlation across sectors exists because **there is a general link between the efficiency of campaigns and their ability to strengthen brands** (Fig 85, page 90) as we saw in Chapter 1.

The interdependency of activation and brand building is deep rooted (Fig 86, page 90). The data reveals that activation alone is a weak customer-acquisition tool without brand building and that to a lesser extent the same is true of brand building without activation; brands that want to grow fast need strong brand building *and* strong activation.

So the ability to activate short-term sales is inextricably linked to brand building, and together both are linked to overall campaign efficiency. And the correlation between brand building and campaign effectiveness is very strong. So **brand building and sales activation are not choices or alternatives – they are mutually interdependent and both are essential to long-term success.** That is why balancing brand and activation activity appropriately for the sector in which the brand operates remains a vital requirement. The fact that in some sectors brand building is easier than

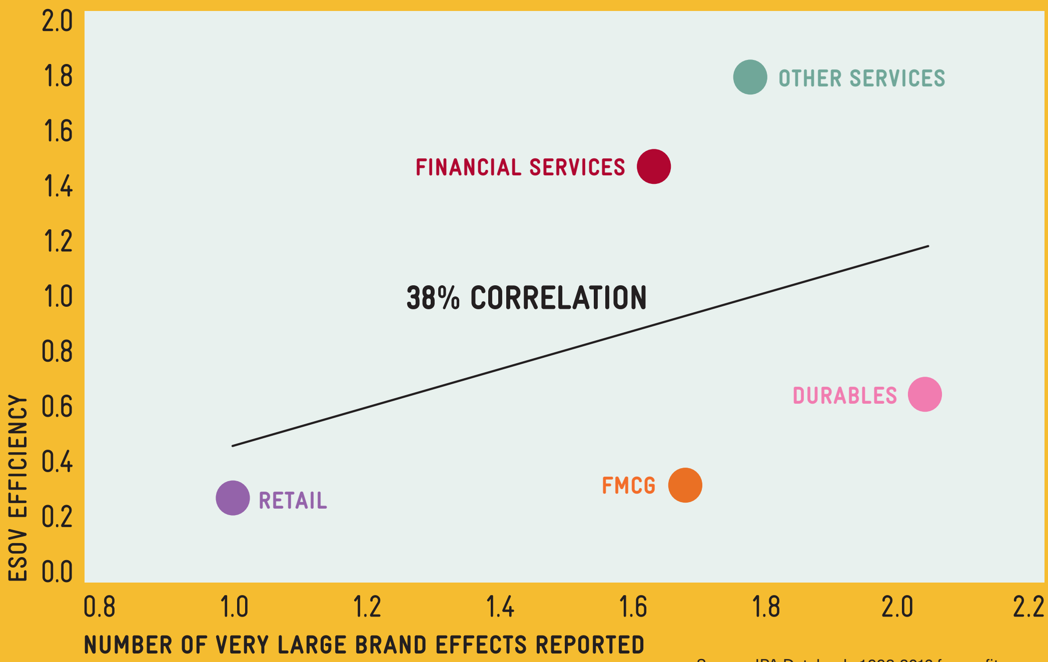
41 For example brand effects relating to distinctiveness are more strongly linked to growth than those relating to differentiation; brand effects relating to quality and emotional commitment are more strongly linked to pricing than growth.

EFFICIENCY AND ACTIVATION EFFECTS ARE CLOSELY CORRELATED (FIGURE 83)



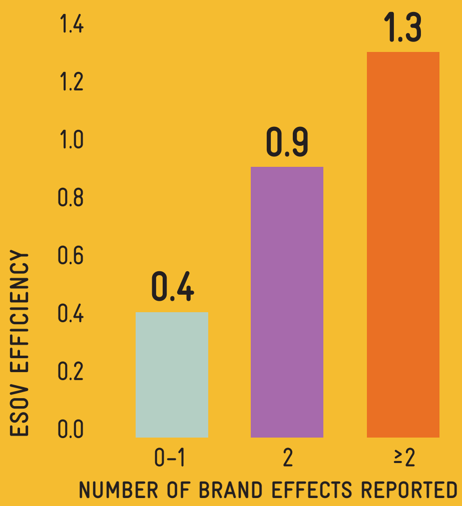
Source: IPA Databank, 1998-2016 for-profit cases

EFFICIENCY AND BRAND EFFECTS ARE LESS CORRELATED (FIGURE 84)



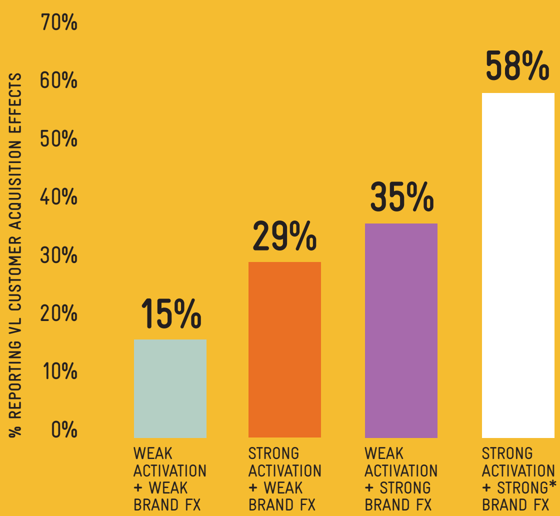
Source: IPA Databank, 1998-2016 for-profit cases

CAMPAIGN EFFICIENCY IS LINKED TO BRAND BUILDING EFFECTS (FIGURE 85)



Source: IPA Databank, 1998-2016 for-profit cases

ACTIVATION IS WEAK AT CUSTOMER ACQUISITION WITHOUT STRONG BRAND BUILDING (FIGURE 86)



*>1 VERY LARGE BRAND EFFECT

Source: IPA Databank, 1998-2016 for-profit cases

others (because of overall consideration levels) and that activation is easier in some sectors (because of greater rational consideration, research or online sales) inevitably means that the optimum balance varies by sector [42] (Fig 87).

The Financial Services sector is the most obvious departure. This is likely to be because Financial Services choices are generally more rational where activation is easier and brand building less so: therefore brands need to shift expenditure in favour of brand building to achieve a balanced set of effects.

At 64% optimum brand building, the retail sector is slightly brand-oriented compared to the all-sector optimum of 62%. This will surprise many, who believe that success in Retail depends on heavy use of sales activation. The retail sector is slightly low in terms of overall consideration levels, but is distinctly rational in consideration flavour, which makes brand building more challenging and therefore requires greater commitment.

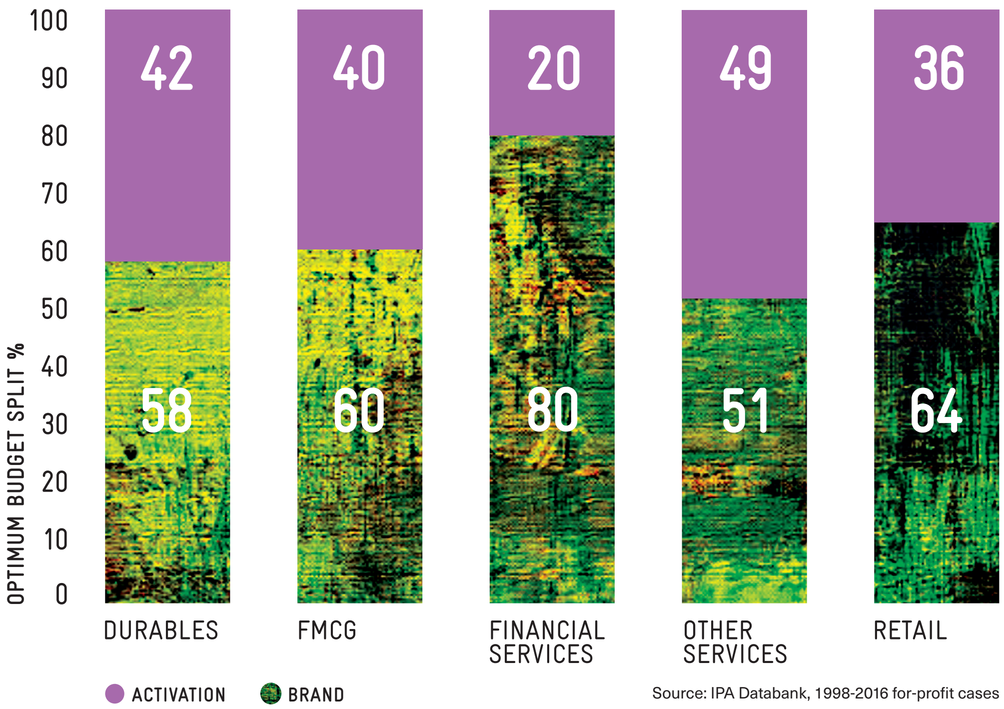
The Other Services sector departs from the norm in the other direction: the greater emphasis on activation is largely the result of the perishable services subsector.

In Durables and FMCG, the tasks of brand building and sales activation appear more evenly matched. Although Durables are a particularly emotional choice, which facilitates brand building, the sector is also high overall consideration, which facilitates activation. In FMCG, brand and activations effects are both more challenging than in other sectors.

Subsectors often reveal significant variations from the parent sector, for largely understandable reasons. The most significant of these variations occurs in perishable services (Fig 88, page 94). The importance of demand management in perishable services was noted earlier and this is the manifestation of that: the only subsector we can examine where the optimum balance is slightly in favour of sales activation.

42 We should acknowledge a measurement issue in the IPA data here. Some case studies probably under-report the level of paid search by the brand owner, because this may happen outside the control of marketing. A similar issue occurs with trade promotion expenditure in some sectors, with the same result on reported activation levels. Since this issue will work in reverse in implementation of the recommended balance, we suggest the optimum sector balances are valid. Later we compare ideal with reported balances, both of which sets of data are identically affected by this issue, so we can get a reliable idea of the state of imbalance by sector. These measurement issues are discussed in the appendix to this report.

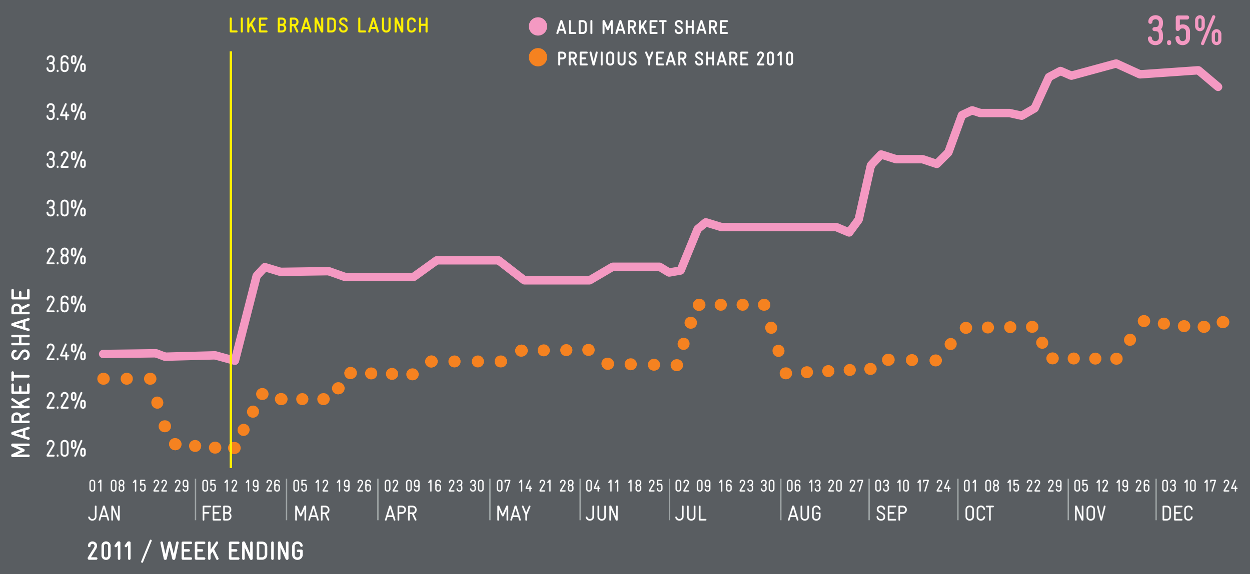
SECTOR OPTIMUM BRAND:ACTIVATION BALANCES VARY
(FIGURE 87)

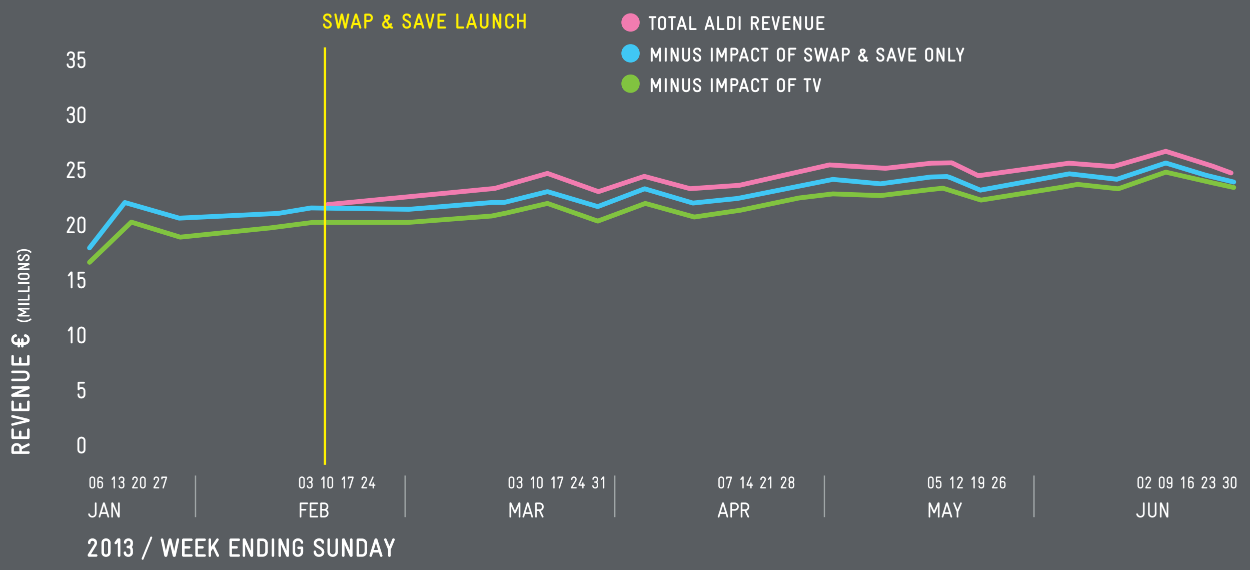


Source: IPA Databank, 1998-2016 for-profit cases

CASE STUDY ALDI

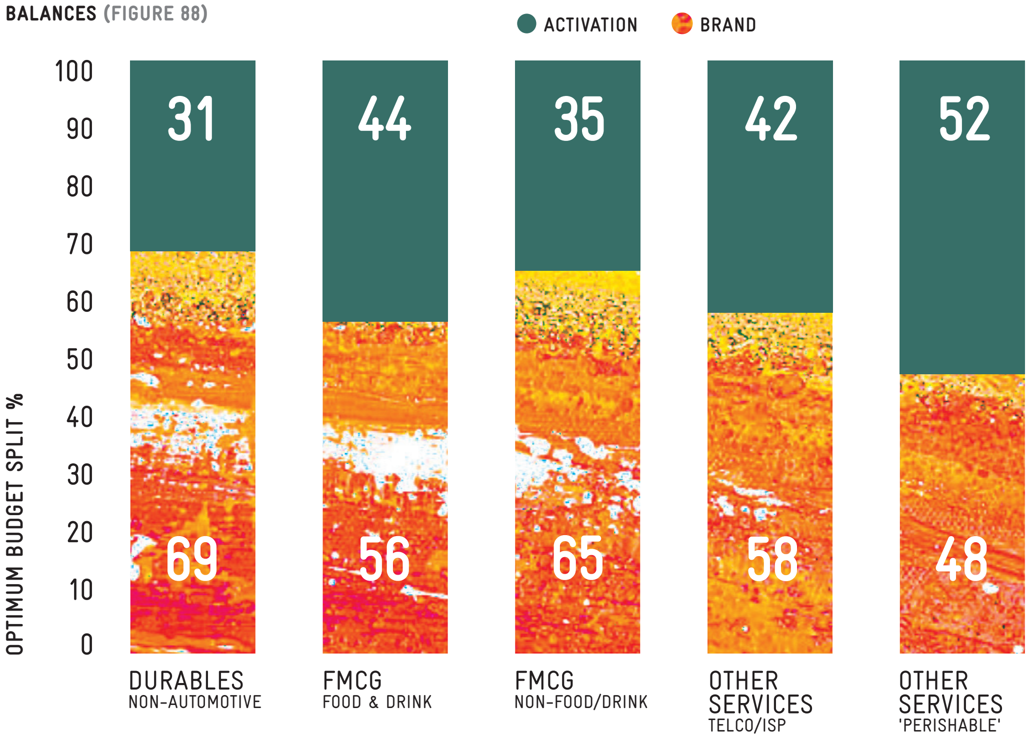
THE VALUE OF BRAND BUILDING OVER ACTIVATION





Two campaigns for the same brand, Aldi, neatly illustrate the importance of brand building in Retail and the value it brings over pure activation. The 2011 'Like Brands' campaign was a very entertaining and popular brand-building campaign with clear long-term sales effects. Not only did the econometric model show that the campaign was still driving sales uplifts four months after it had ended, but also the year-on-year sales chart clearly revealed how the sales effects accelerated as the brand effects accumulated. With very few store openings during the year, the chart is more or less like-for-like sales growth. By contrast, the 2013 'Swap & Save' campaign was activation: a challenge to consumers to see how much they could save by buying their basket of shopping at Aldi. Impressive short-term sales uplifts ensued, but four months after the start of the campaign, they had all but disappeared. Those who read our warnings in *Media in Focus* about the use of ROI as a metric for decision-making may be interested to learn that the ROMI of the transformational 'Like Brands' campaign was 224%, whereas that of the transient 'Swap & Save' campaign was fully 472%. Anyone still believe ROMI is a smart metric for choosing creative routes?

SUBSECTOR OPTIMUM BRAND:ACTIVATION BALANCES (FIGURE 88)



SOME SECTORS ARE OUT OF BALANCE (FIGURE 89)

SECTOR/ SUBSECTOR	OPTIMUM BALANCE	ACTUAL AVERAGE BALANCE*	IMBALANCE OF BRAND (PPTS)
DURABLES	58:42	56:44	-02
DURABLES AUTOMOTIVE	N/A	62:38	N/A
DURABLES NON-AUTOMOTIVE	69:31	49:51	-20
FMCG	60:40	71:29	+11
FMCG FOOD & DRINK	56:44	70:30	+14
FMCG NON-FOOD/DRINK	65:35	74:26	+09
FINANCIAL SERVICES	80:20	54:46	-26
OTHER SERVICES	51:49	57:43	+06
OTHER SERVICES TELCO/ISP	58:42	56:44	-02
OTHER SERVICES 'PERISHABLE'	48:52	61:39	+13
RETAIL	64:36	51:49	-13

Source: IPA Databank, 1998-2016 for-profit cases, except *2014-16 data

Efficiency is a product of brand building and sales activation.

The telcos/ISPs subsector is more typical of the norm, so it is the perishable categories that are responsible for the overall activation -oriented optimum balance of the sector. The optimum balance in FMCG Food & Drink is less brand-oriented than Non-food/Drink, possibly because the food & drink subsector is significantly more of an emotional choice (in fact it is the most emotional-driven sector that we can examine) and therefore brand building is easier.

Sadly there is insufficient data to examine the optimum balance in the Automotive sub-sector of Durables: it is the most high-consideration sector and strongly emotionally driven, which both argue for a higher percentage of activation advertising than the sector in general, and there is a suggestion in the data that this might be the case. At 69% brand, Non-automotive Durables are somewhat above the average optimum balance across all sectors of 62%: this is mostly because they lack the high-consideration characteristic of the automotive sector. It is useful to compare the *optimum* balance points with the current *actual* balances reported by case-study authors. Figure 89 reveals where the major imbalances are.

If the IPA data is typical of all major brands, then **the most significant brand under-allocations are in Financial Services, Non-automotive Durables and Retail.** In Financial Services and Retail short-termism is greatest and short-term pressures are perhaps more keenly felt. Perhaps it is the long purchase cycles in Non-automotive Durables that have misled marketers into assuming that it is wasteful to build brands compared to last-minute sales activation; in practice, strong brands really matter here. In these sectors a greater focus on long-term brand building would pay off.

The most significant brand over-allocations occur in FMCG and perishable services, where keener attention to activating sales off the back of brand building would pay off. Though in FMCG in particular, there will be a considerable degree of trade support that is not reported and will have little impact on effectiveness (unlike true activation expenditure), but will still exaggerate the observed proportion of brand-building expenditure. The imbalance is clearly very variable across sectors but, overall, brand expenditure is already under-allocated vs. optimum even amongst IPA case studies and, as we will see, the trend of recent years is *away* from brand-building advertising. And expenditure is likely to be even more imbalanced amongst all campaigns.

1.5 SUMMARY OF GENERAL PRINCIPLES IN FOR-PROFIT SECTORS

Many will be understandably frustrated that the IPA data cannot reliably be cut at the individual category level, so here we summarise the principles that appear to govern our findings as a self-help guide for those working in categories that they may consider outside the norms we have suggested.

We have seen over and over again that consideration, and in particular the level of emotional consideration, are vital to long-term effectiveness because it improves our ability to strengthen brands, so in categories where this doesn't come easily we have to work harder at it. If your category is one of these you should consider increasing brand allocation above the norms discussed earlier.

But we have also seen that the ability to activate short-term sales is vital to ESOV Efficiency, so in sectors where this is especially difficult we have to work harder at it. If your category is one of these you should consider increasing activation allocation above our norms.

The need to achieve balanced effects when the relative challenge of the two tasks varies is what drives the 60:40 variations – if our guidance doesn't serve you well, then you will need to form an assessment of which is the tougher challenge compared to other sectors and allocate appropriately to meet the challenge.

SECTION 02

CHAPTER 2.0
NOT-FOR-PROFIT SECTORS

Inexcusably, our reports to date have never looked at not-for-profit (NFP) campaigns and whether the same broad effectiveness rules appear to apply. This will be a limited exploration of NFP because we have only a limited sample of digital-era campaigns in total (96 government, 25 charity) and specific NFP effects metrics have only been collected since 2012, further reducing the sample for some analyses. A full review of NFP effectiveness will have to await the availability of more data in years to come.

43 The NFP metrics are listed in the appendix to this report.

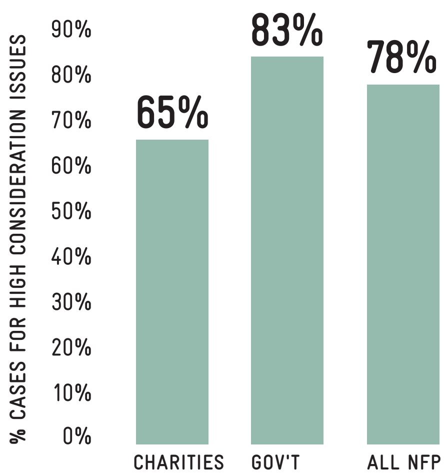
The NFP metrics reflect the different objectives of charitable and Government campaigns – there are two different baskets of metrics[43] comprising 7 in each. As with for-profit campaigns, effectiveness is measured as the number of very large shifts in the appropriate basket of metrics.

Not surprisingly, both NFP sectors are relatively high consideration by the standards of for-profit sectors (Fig 90), especially government campaigns, many of which tackle important societal issues relating to health and safety. Charities face a slightly more uphill struggle in getting consumers to engage with many of the underlying issues they deal with, but are assisted by the more emotional nature of those issues, whether health-related, about children, animals, poverty or justice, as many of them are.

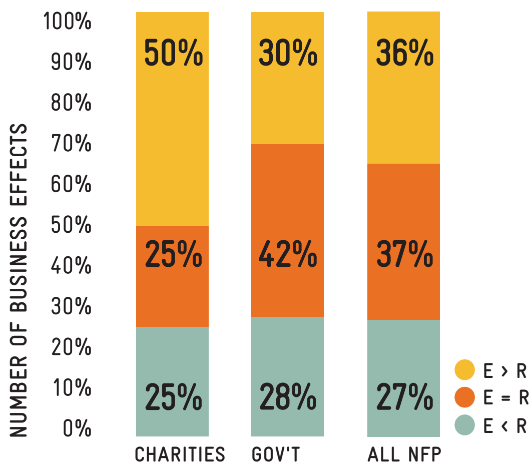
So government campaigns can more reliably take consideration for granted and hence attention to the campaign, whereas charities have to work harder for consideration, like many for-profit sectors. This manifests itself in the effectiveness levels of different creative strategies (Fig 91, page 98). For charities, as with most for-profit categories, primarily emotional campaigns work hardest over the long term. But for government campaigns, it is those that set information in an emotional context (i.e. combined campaigns) that outperform – by a considerable margin. **In both sectors rational campaigns are the least effective.**

As in the for-profit sector, **there is a danger of judging success in the short term** (Fig 92, page 98). This may be more of a problem in the charitable sector where fundraising or issue-based campaigns may take place during short windows in the calendar and therefore the temptation to take stock at the end is greater. Measuring success by short-term activation effects tends to promote rational campaigns over emotional ones and may lead to false conclusions about what will work best over the long term. It may lead to a focus on previous donors for fundraising, as they will need less convincing to donate *now*, but

CONSIDERATION AND EMOTIONAL DECISION-MAKING IN NFP (FIGURE 90)



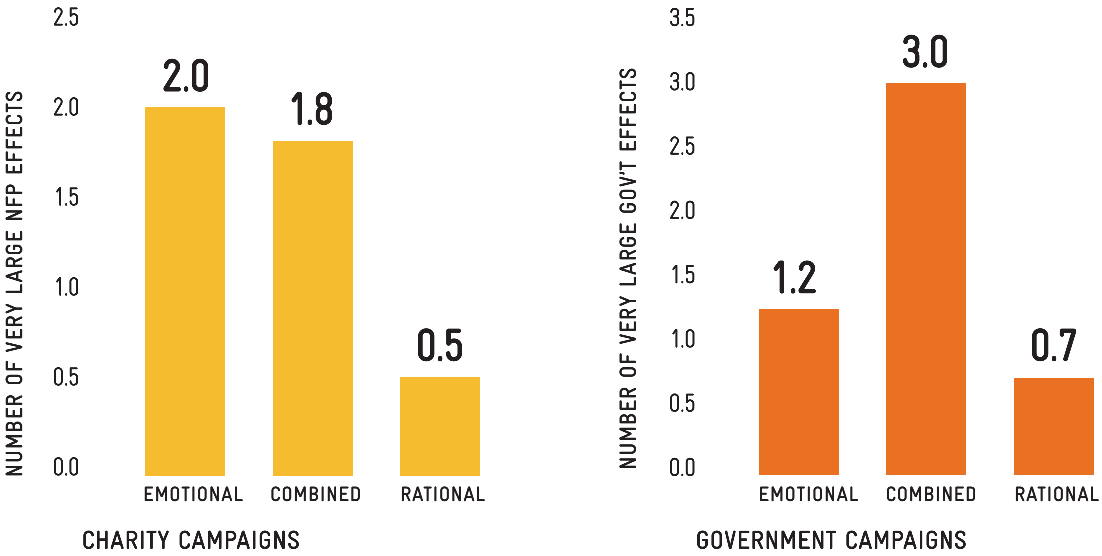
CONSIDERATION LEVELS



BALANCE OF EMOTIONAL & RATIONAL DECISION-MAKING

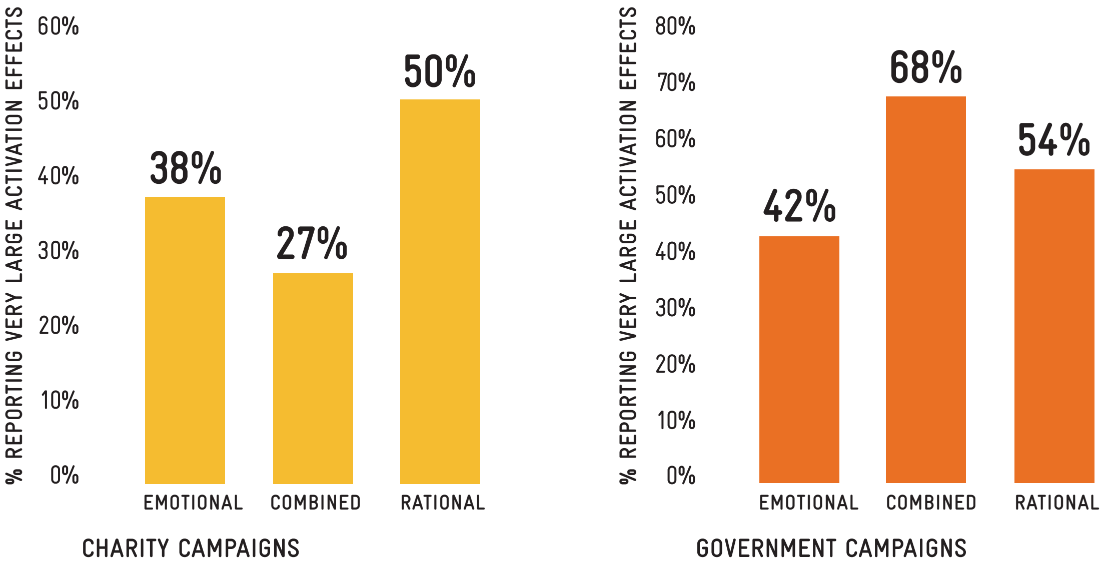
Source: IPA Databank, 2012-2016 not-for-profit cases

EFFECTIVENESS OF COMMUNICATIONS STRATEGIES (FIGURE 91)



Source: IPA Databank, 2012-2016 not-for-profit cases

SHORT-TERM ACTIVATION EFFECTIVENESS OF COMMUNICATIONS STRATEGIES (FIGURE 92)



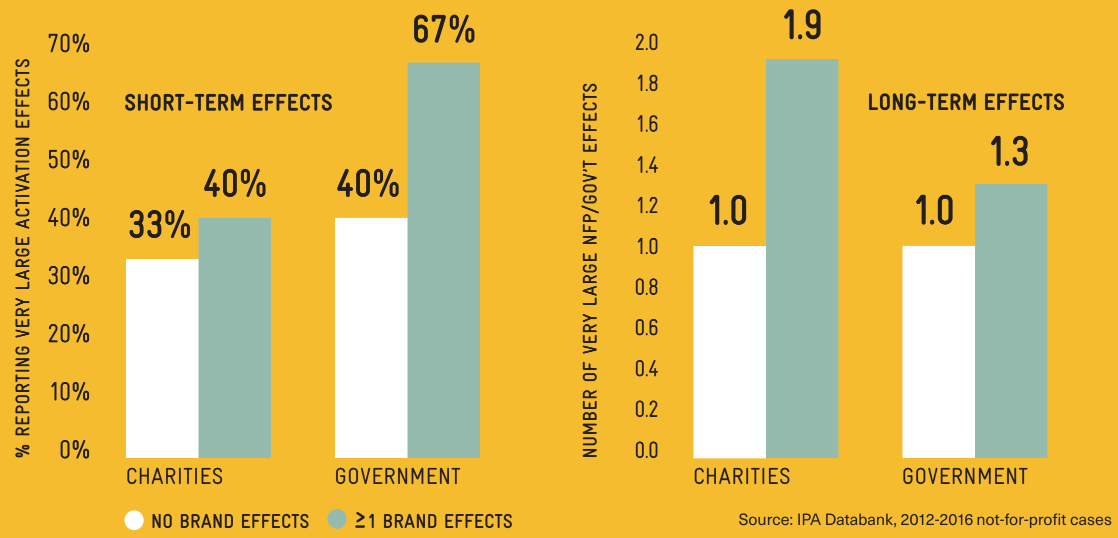
Source: IPA Databank, 2012-2016 not-for-profit cases

almost all the IPA effectiveness case studies for charities primarily reached out to new donors. Also, as in the for-profit sector, we see in Figure 93 the inextricable connections between brand and short and long-term effectiveness. **Brand and activation effects work together to boost long-term effects.**[44]

Stronger short-term activation increases long-term success, but both are dependent on brand effects. So **brand and activation effects are not alternatives** in the not-for-profit sector either – successful campaigns must drive both, just as in the for-profit sector.

44 Measured here as NFP effects for charities and government effects for government campaigns. In the context of government campaigns, 'brand effects' refer to the 'brand names' created to provide fluency across campaign elements. These include: 'Think!' (UK anti-speeding), 'The Journal' (NZ anti-depression), 'I Quit' (Singapore anti-smoking), 'Stoptober' (UK anti-smoking).

BRAND EFFECTS BOOST SHORT AND LONG-TERM NFP OR GOVERNMENT EFFECTS (FIGURE 93)



Source: IPA Databank, 2012-2016 not-for-profit cases

The final question arises of how brand and activation should be balanced in the NFP sector (Fig 94). Given the moderate differences observed between the intrinsic nature of decision-making in the charity and government sectors, you might expect there to be a noticeable difference in the optimum balances. In fact there is not: both sectors benefit from relatively high consideration levels and relatively strong emotional decision-making, albeit with different emphases, which means brand effects are relatively easy to achieve.

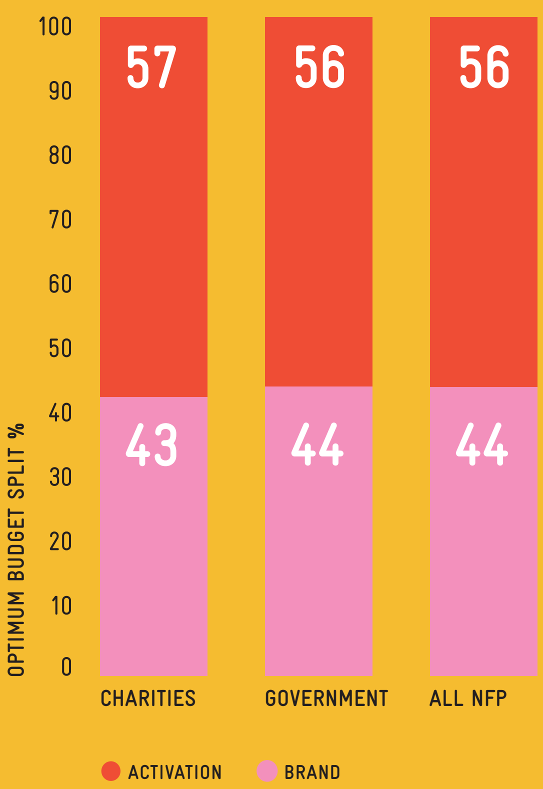
So the overall 'sweet spot' occurs at just 44% brand building.[45] There is insufficient data to model the sweet spots separately for charity and government campaigns in the same way, but if we look at how the most effective campaigns[46] balanced their budgets we get 43% brand-building expenditure for charities and 44% for government campaigns.

It appears that the same basic principles apply to campaign effectiveness in the NFP sector as the for-profit sector and that this results in a slightly activation-focused optimum campaign balance.

45 Long-term effects (NFP or government, as appropriate) peak at this balance point.

46 Those campaigns that achieved above median levels of very large NFP or government effects.

OPTIMUM BRAND:ACTIVATION BALANCES ARE CONSISTENT ACROSS THE NFP SECTOR (FIGURE 94)



Source: IPA Databank, 2012-2016 not-for-profit cases

SECTION 2.0 SUMMARY THOUGHTS

01 New customer acquisition (penetration growth) is a vital prerequisite for growth across all sectors, but in **Durables** and **Non-financial Services** it is best combined with advertising aimed at existing customers.

02 Consideration levels, and the balance of emotional and rational consideration, vary widely across sectors.

03 Therefore emotional campaigns outperform rational ones by varying amounts: slightly in **Durables,** but strongly in **Services.**

04 Brand effects are most easily achieved in **Durables** and so therefore are long-term business effects.

05 The link between brand building and long-term effectiveness runs across all sectors, but is weakest in **Non-financial Services:** this is because of the impact of **perishable services** and the demand management requirements of these categories.

06 In **Services** sectors brand building's impact on customer acquisition is especially important.

07 Brand building is associated with stronger activation effects across all sectors, but the benefit is less marked in **Services** sectors.

08 And activation effects are more easily achieved in some sectors than others: most readily in **Services,** least readily in **FMCG.**

09 Because campaign efficiency is a product of activation strength and brand-building power, it varies widely across **Services:** high in **Services,** low in **FMCG** and **Retail.**

10 Brand building drives activation, so it is strongly linked to campaign efficiency. The ease of brand building is therefore a major determinant of the optimum balance of brand and activation across sectors.

11 The optimum balance of brand:activation varies from 80:20 in **Financial Services** to 51:49 in **Non-financial Services.** Most other sectors and subsectors are relatively close to the "60:40" rule.

12 The sectors most out of line with the optimum balance are **Financial Services** and **Non-automotive Durables** (too small an allocation to brand) and **FMCG** and **perishable services** (too large an allocation to brand). The under-allocations tend to outweigh the over-allocations by a factor of two.

13 In **not-for-profit** sectors, high consideration and high emotional consideration make brand effects relatively easy to achieve. The optimum balance therefore shifts to 44:56.

Sector references are colour coded

SECTION 03

HOW MARKET-CONTEXT TRENDS ARE INFLUENCING EFFECTIVENESS

Many of the factors that influence effectiveness examined in this report are themselves the subject of trends. The trends vary by context so different brands in different contexts may not experience the same tail or headwinds. As we will see, when you start to examine how these factors have trended in different brand contexts, you can begin to explain a fair amount of the observed variation in effectiveness trends.

1 SECTORS AND GROWTH

To some extent the overall effectiveness trends that we have observed in recent years are influenced by shifts in the profile of case studies submitted, which themselves usually reflect the universe of brands. So if a sector that was less responsive to advertising was growing as a percentage of all sectors submitting case studies then we can expect overall effectiveness to fall. The most significant shifts over the digital era (Fig 95) have been **a marked reduction in the proportion of all cases from FMCG** (down to 37% from 50%) and **a marked growth in Services case studies** (to 39% from 29%). Retail and Durables have been more stable. These shifts are a reflection of trends in consumer spending patterns, though a somewhat exaggerated reflection.

You might expect these trends to have resulted in increased effectiveness, since the FMCG sector is relatively unresponsive to advertising and Services are the opposite. However, as we will see, **trends in marketing practice in the Services sector (especially in Financial Services) are undermining effectiveness in the sector**, so any potential benefit to overall effectiveness is eliminated.

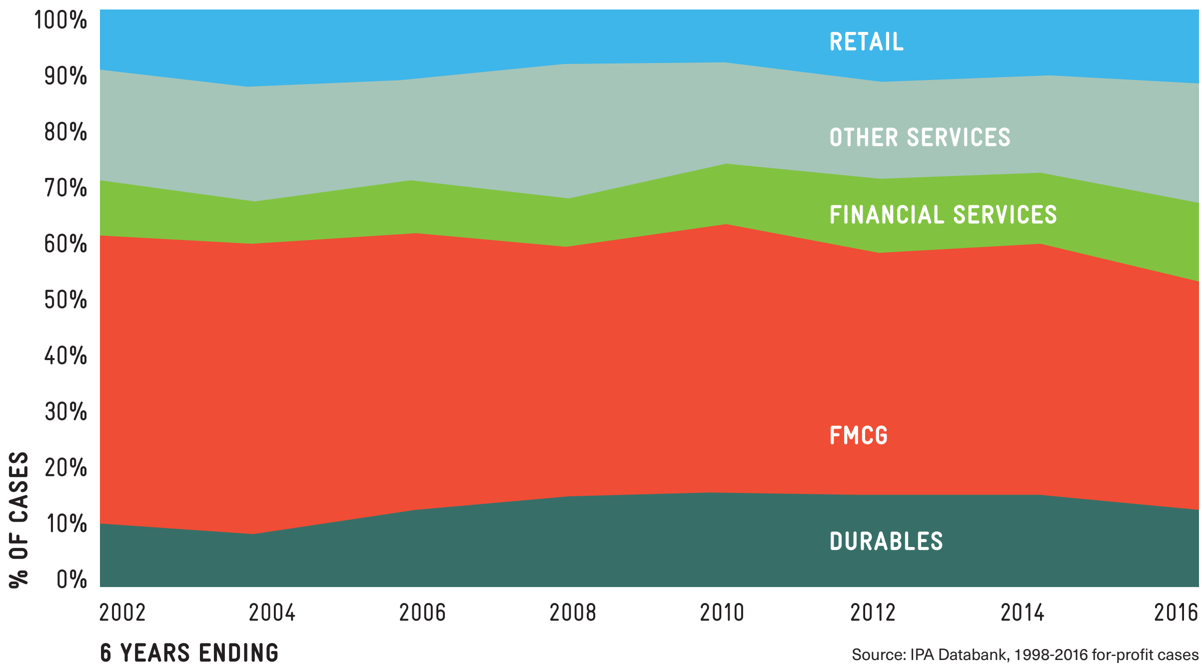
These sector trends largely account for the gradual growth of subscription-purchased brands from around 15% at the start of the period to 20% of cases. This should be a positive for overall effectiveness.

The headwinds against growth for brands have strengthened however. In particular, **growing categories have been getting harder to find** (Fig 96) for brands, so growth must increasingly come from increased market share. Brands operating in growing categories have halved from 28% to 14%, with only a modest increase in new categories to fill the growth void.

The headwinds against growth for brands have strengthened.

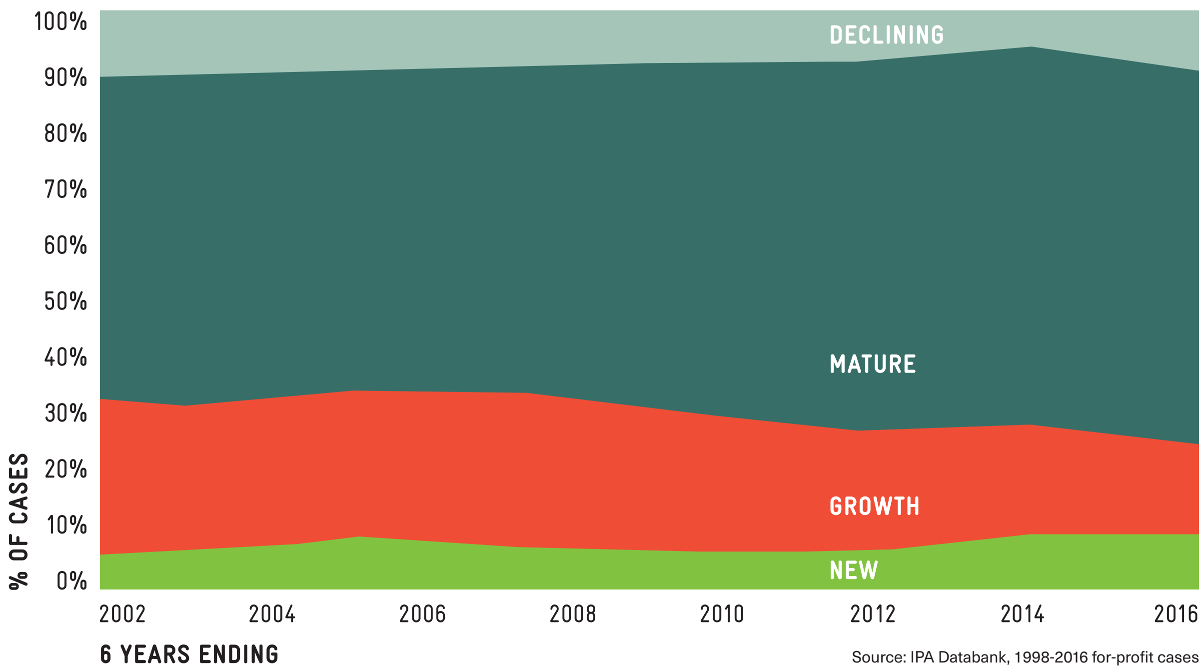
Brands operating in growing categories have halved from 28% to 14%.

SERVICES GROW, FMCG SHRINKS (FIGURE 95)



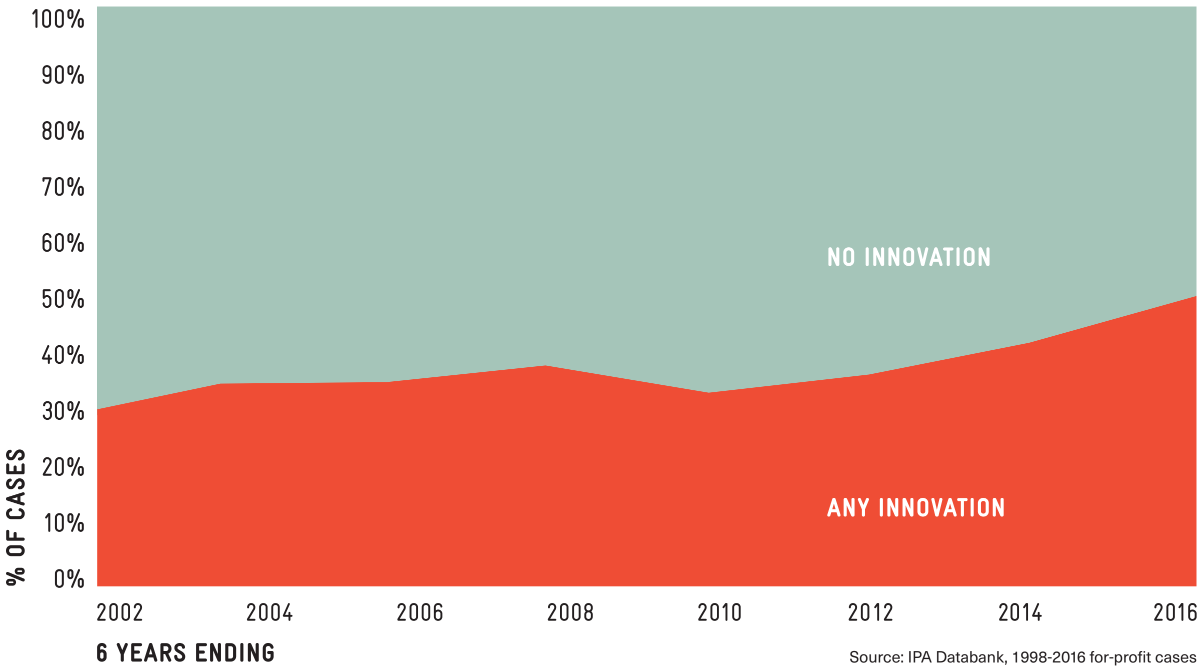
Source: IPA Databank, 1998-2016 for-profit cases

GROWTH CATEGORIES ARE GETTING SCARCER (FIGURE 96)



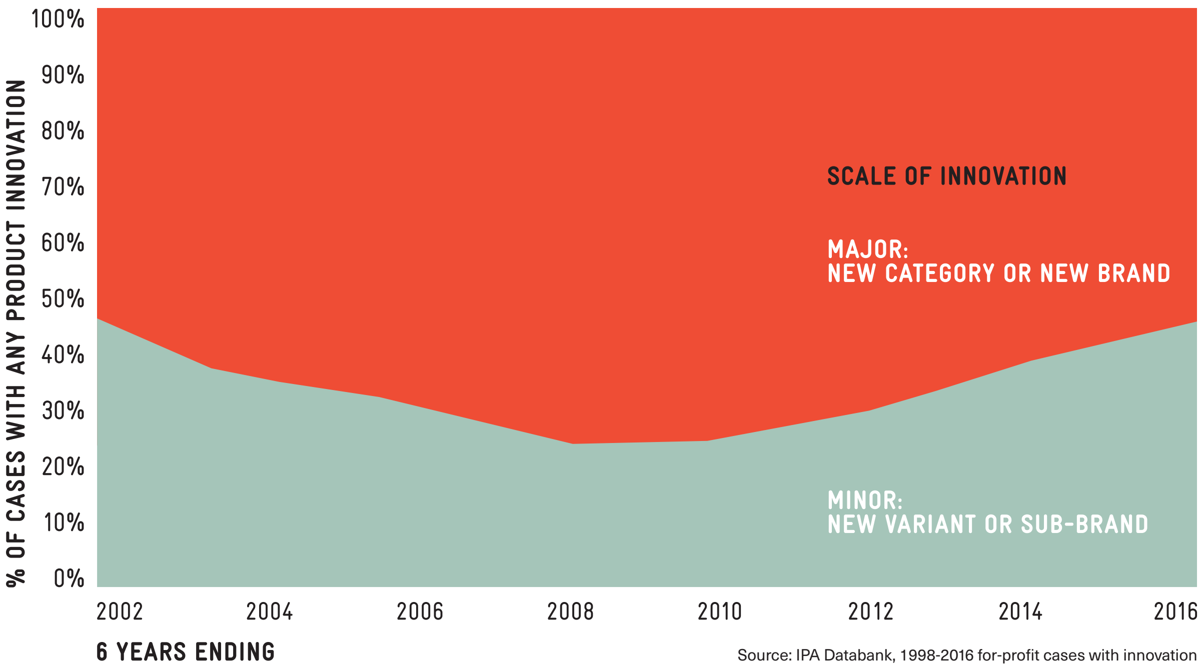
Source: IPA Databank, 1998-2016 for-profit cases

THE PACE OF INNOVATION HAS INCREASED (FIGURE 97)



Source: IPA Databank, 1998-2016 for-profit cases

BUT THE FOCUS IS GROWING ON MINOR INNOVATION (FIGURE 98)



Source: IPA Databank, 1998-2016 for-profit cases with innovation

2 INNOVATION

To counter this lack of market growth, businesses have commendably reached to innovation to stimulate growth. **The pace of innovation has risen markedly in recent years** (Fig 97), with the proportion of cases benefiting from some degree of product or service innovation rising above 50% for the first time.

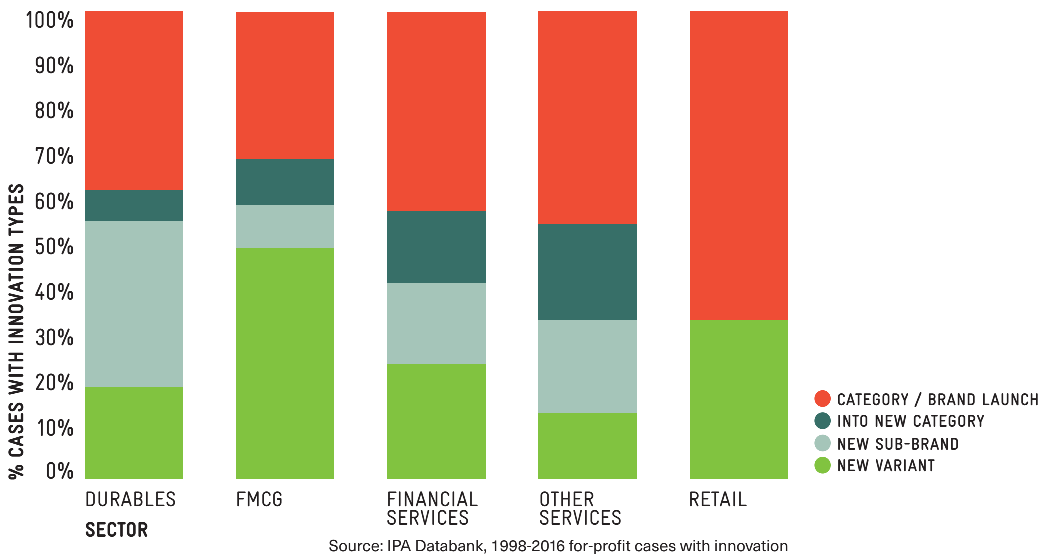
Levels of brand innovation over the 20-year period vary widely by sector with Durables greatest at 53%, Services and FMCG similar at around 36%, and Retail lowest at 12% (though retailers derive much of their innovation from the products they carry, which does not necessarily count as brand innovation). The pace of innovation has risen most amongst Financial Services brands followed by Other Services and FMCG brands. Durables and Retail have seen little or no change to the pace of innovation.

As we showed in Chapter 4, major brand innovation is very good for long-term effectiveness, though minor innovation can actually undermine it: new variants result in lower effectiveness and sub-brands do little to justify the effort. So the important development is not innovation per se but the level of major innovation. This unfortunately is where the trend data becomes less encouraging (Fig 98). **Major innovation had been growing up to the Global Financial Crisis, but has gone into fairly rapid reverse since.** So despite the recent growth in innovation overall, major innovation is now falling as a percentage of all cases, whilst minor innovation has doubled.

Although the shift to minor innovation occurs across all sectors, it starts from very different base levels (Fig 99). **Minor innovation dominates in FMCG** and to a lesser extent Durables, but is less the norm in other sectors. Unfortunately minor innovation has grown strongly as a percentage of all FMCG innovation: in the latest 6-year period it now accounts for 80% of all the reported innovation in the sector. This is true to a lesser extent in Financial Services.

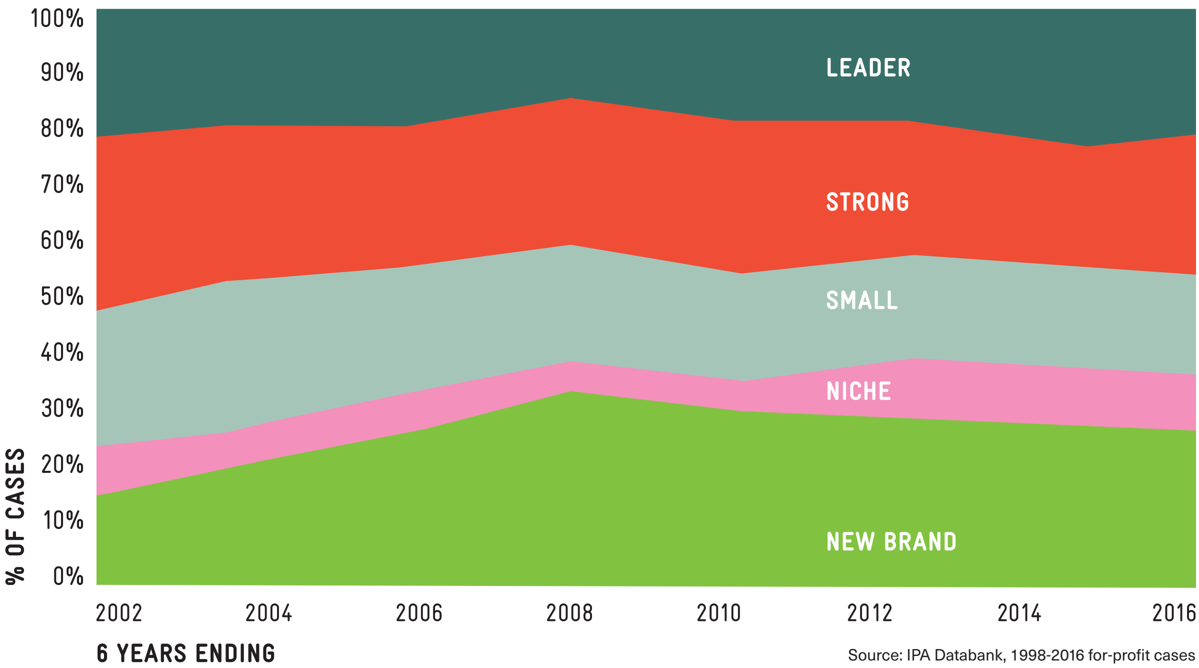
This pattern reflects a widely observed phenomenon in FMCG of regular churning of minor innovation to create product stories that will invigorate rational product-benefit advertising. The benefits are very short-lived and minor innovations are quickly copied, so the brand has to race on to the next minor innovation. **These 'innovation junkies' would be better off pursuing a more long-term growth model: i.e. using emotional brand advertising with the occasional *major* innovation.**

MINOR INNOVATION IS MORE PREVALENT IN FMCG (FIGURE 99)



Source: IPA Databank, 1998-2016 for-profit cases with innovation

NEW BRAND LAUNCHES HAVE FALTERED, WEAKER BRANDS HAVE BEEN SQUEEZED (FIGURE 100)



Source: IPA Databank, 1998-2016 for-profit cases

3 MARKET CONCENTRATION AND PRICING POWER

Part of this trend towards minor innovation is a reversal of an earlier trend towards increasing new-brand launches (Fig 100). What appears to be happening, since the Global Financial Crisis, is the consolidation of the stronger brands squeezing weaker and new brands.

And this is borne out by the growing average market share of case-study brands as markets concentrate around fewer, stronger brands[47] (Fig 101).

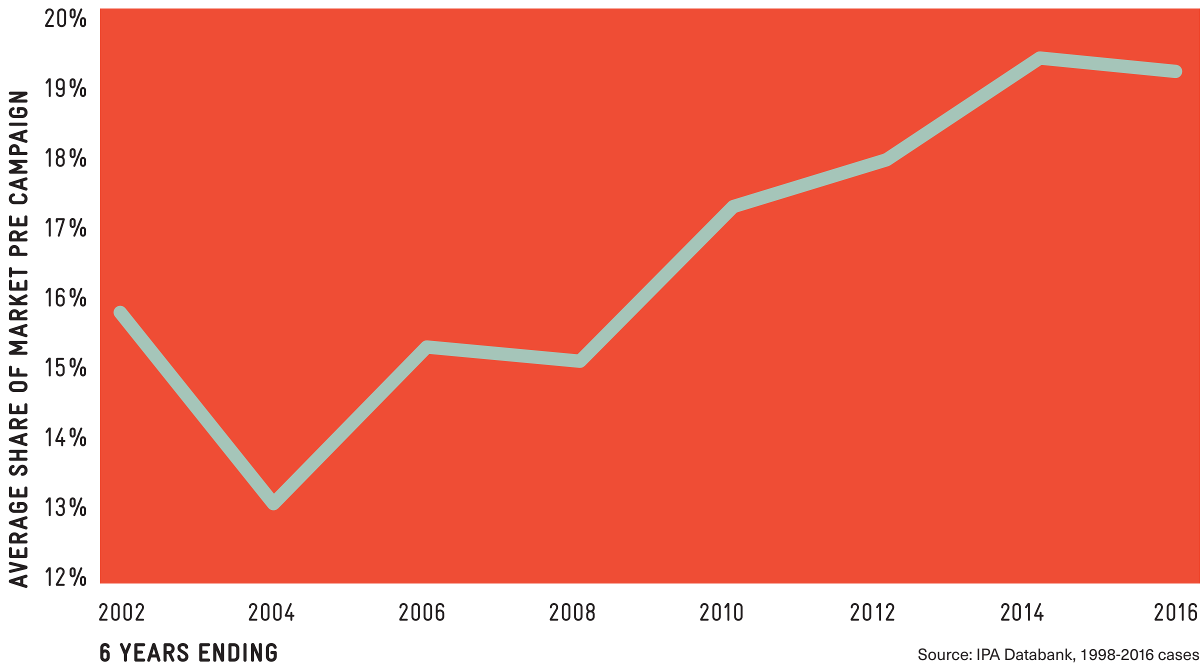
Many of the trends we observe in common practice are the result of a growing focus on sales volumes as the measure of success, and in particular short-term sales growth. As we have already observed, one of the many downsides of short-term thinking is that brands miss out on the broader benefits of long-term brand building: especially improvements to pricing power. And, sadly, we see the consequences of this reflected in trends in the pricing of brands in the IPA Databank (Fig 102). **Premium and super-premium brands have fallen from 46% of cases to 33% over the period, with the decline accounted for entirely by the growth of value brands**. This is a stark example of the 'race to the bottom' in business, where the primary objective is to 'work hard to charge you less'.[48] This is ultimately not good for brands.

Given the market concentration observed here, this is alarming: larger brands ought to be able to command stronger pricing power, but even they are being dragged down. Short-termism is exacerbating the decline by distracting brands from the vital task of pricing defence.

48 Jeff Bezos observed that there are two kinds of companies: "Companies that work hard to charge you more and companies that work hard to charge you less." In Western economies the latter type appears to have been in the ascendant in the digital era, but ultimately how sustainable is this? As automation and offshoring have driven the latest wave of price reduction, consumers have been left with reduced purchasing power. How much longer can this continue?

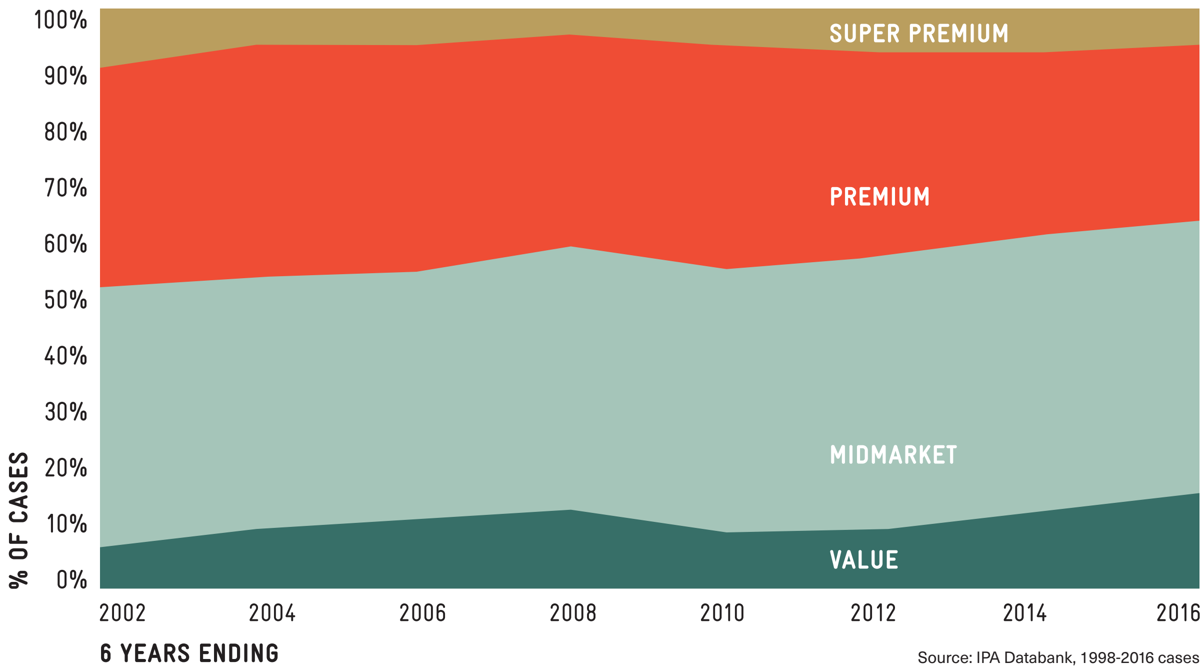
47 *The Economist* reported on this, March 24 2016, revealing that the averaage share of total category revenue of the top four US firms in each of 893 different categories had risen from 26% to 32% between 1997 and 2012.

SO MARKETS ARE CONCENTRATING (FIGURE 101)



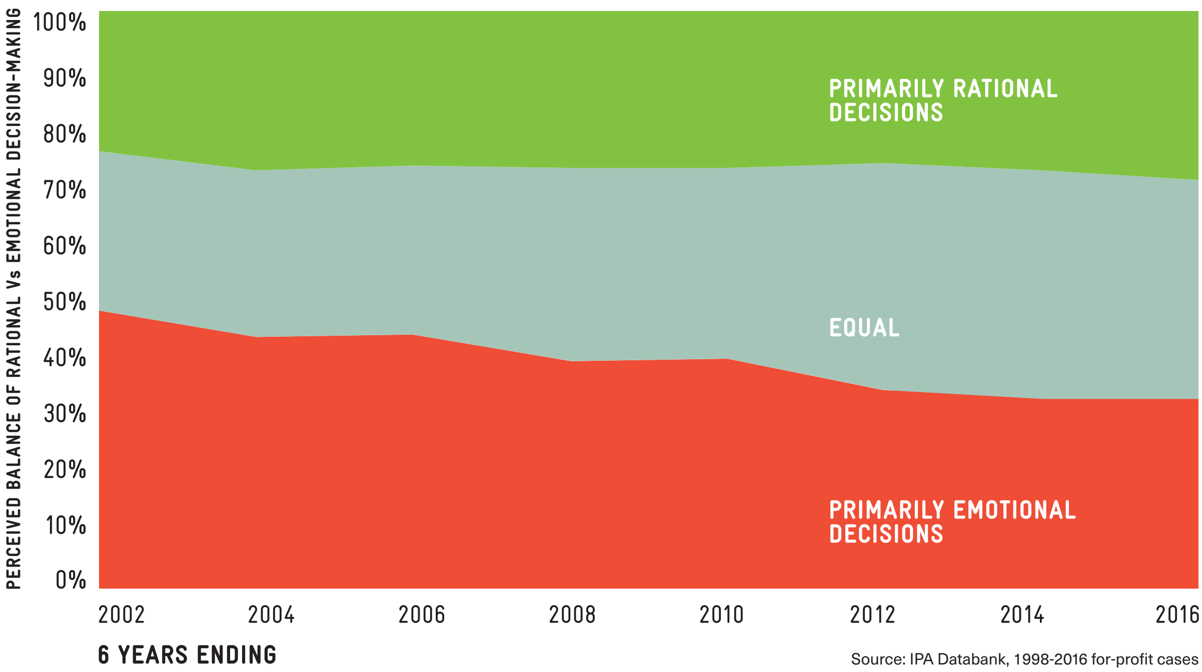
Source: IPA Databank, 1998-2016 cases

PRICE PREMIUMS ARE NOT BEING DEFENDED (FIGURE 102)



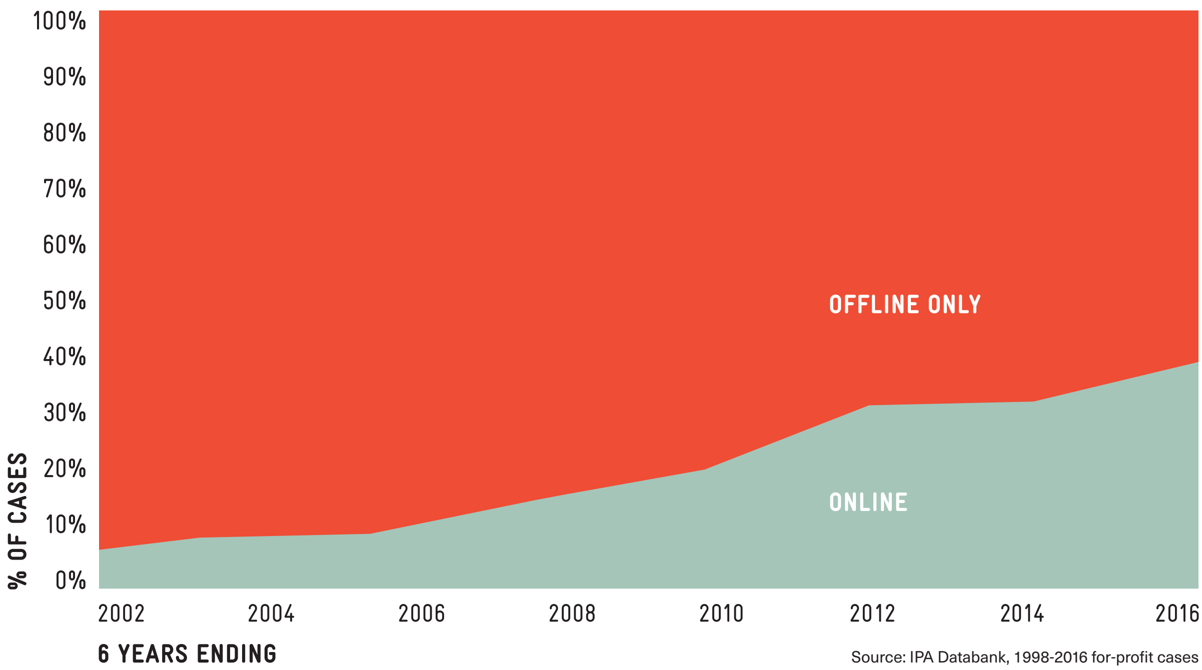
Source: IPA Databank, 1998-2016 cases

RATIONAL INFLUENCES HAVE STRENGTHENED (FIGURE 103)



Source: IPA Databank, 1998-2016 for-profit cases

OWNED ONLINE DISTRIBUTION HAS GROWN (FIGURE 104)



Source: IPA Databank, 1998-2016 for-profit cases

4 CONSIDERATION

There is a growing tension at work in markets driven by how brand consideration has been developing (Fig 103). In Chapter 1 we observed that increasing overall consideration levels was good for effectiveness, but we also observed that raising the levels of *rational* consideration reduces the efficiency of advertising because it makes brand building more difficult. So, unfortunately, although we have seen high-consideration purchases grow from 41% to 65% of brands over the digital era, this has been entirely driven by **growing levels of rational consideration in purchasing.** Primarily emotional purchases have fallen from 48% to 34% of brands.

On balance **this is likely to have made brand building more difficult and therefore brand building needs an increased optimum budget allocation.** This is in fact exactly what has happened – the number of brand effects of IPA case campaigns peaked in 2008 and have since fallen back significantly and we will see this is reflected in rising optimum brand allocation.

In part, rational consideration has been driven by the growing role of online research. The IPA data does not capture the full impact of this,[49] but nevertheless shows that brands in high online research categories have risen from 24% to 41% of cases over the period. The other factor driving research and rational consideration is the growing online availability of brands (Fig 104). Again our data doesn't capture the full extent of this, because we are recording brands with their own significant owned online distribution (e-commerce), not whether they were sold through online intermediaries. Even so, the impact of growing online presence for brands is clear from the data: 39% of case-study brands now have significant owned online distribution, up from 5% at the start of the period.

This observed distribution growth is partly a reflection of the nature of brands submitting cases to the IPA Effectiveness Awards and gives a greatly exaggerated impression of the

There is clear evidence of the migration from premium to value pricing as brands focus more on volume than pricing.

49 The Google/TNS Consumer Barometer data used to examine this simply overlays current category research behaviour on the brands reporting over the last 20 years. So it is rising because the categories where heavy online research occurs have themselves tended to be growing sectors (Services). In addition to this, we can assume that more research has been occurring over time within these sectors, but the snapshot TNS data does not capture this.

actual growth of online sales, as reported in Chapter 2. But it has nevertheless shaped the overall pattern of observed and optimum behaviour of the IPA Databank.

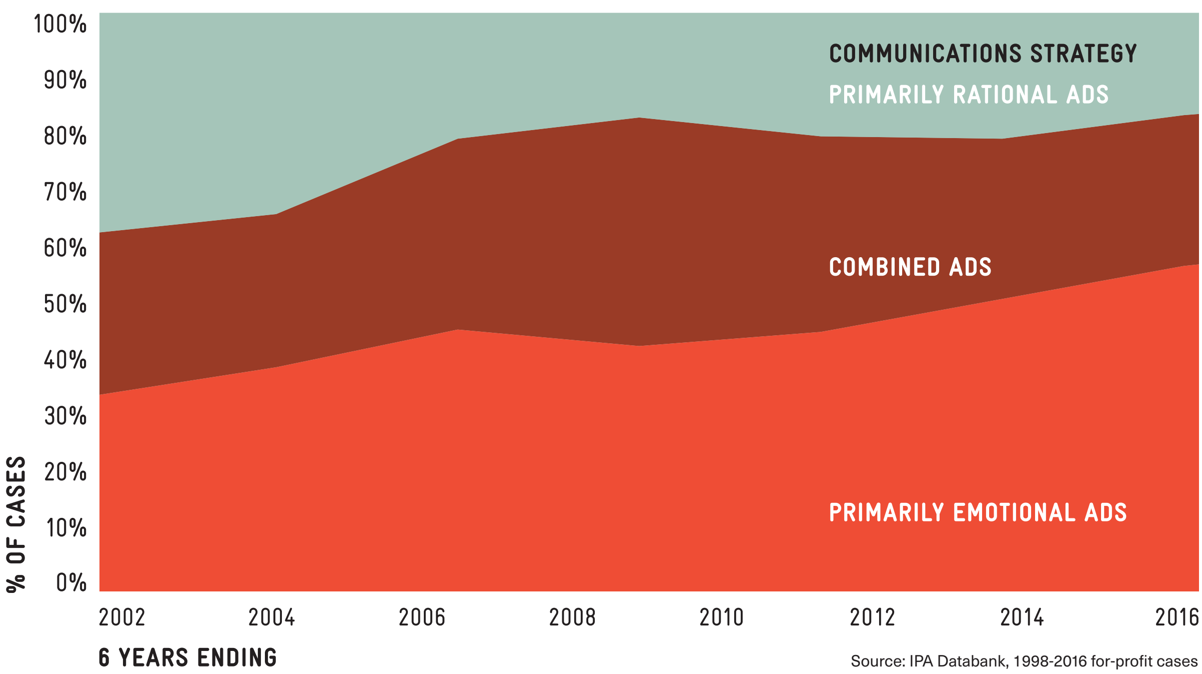
We will examine the impact of all of this on the "60:40" rule over time shortly, but **another consequence of the growing challenge of brand building is the growing importance of emotional campaigns in the Databank** (Fig 105).

The data reveals a consistent decline in the number of rational campaigns submitted for Effectiveness Awards: they accounted for 38% of cases at the start of the digital era but now account for just 14%. This is because **it has become increasingly unaffordable to use rational campaigns to drive long-term growth – they work as activation, creating only short-term sales responses and need to be 'always on' to drive growth.**

Since the start of the Global Financial Crisis the average ESOV of rational campaigns has risen by 11 percentage points, whereas that of emotional campaigns has fallen by the same amount; and still emotional campaigns work harder than rational ones. **Emotional campaigns have grown because in practice they can better deliver growth affordably.**

Growing levels of rational consideration in purchasing has resulted in emotional purchases falling from 48% to 34% of brands.

RATIONAL ADVERTISING HAS DECLINED (FIGURE 105)



Source: IPA Databank, 1998-2016 for-profit cases

5 OPTIMISING CAMPAIGNS

We have noted a number of trends with implications for the optimum balance of brand and activation expenditure. Most of these trends are associated with a growing challenge for brand building or a growing ease of sales activation, so it is not surprising to see that they imply a growing importance of brand building in the mix (Fig 106).

This is indeed what we see overall: **the optimum balance of brand building to sales activation is in fact trending upwards** (Fig 107, page 112). Whilst the optimum over the whole digital era is 62% brand building, it appears to have risen to around 76% brand building in the most recent period that we can model.[50] The trend is of course also exaggerated by the growing presence of sectors that require stronger commitment to brand building, such as Financial Services.

At a time when commitment to brand-building investment should have been growing, it has in fact been falling. Worse still, the fall is accelerating. When expressed as a divergence from the rising optimum (Fig 108, page 112), the fall is especially concerning and shows just how much common practice is diverging from best practice.

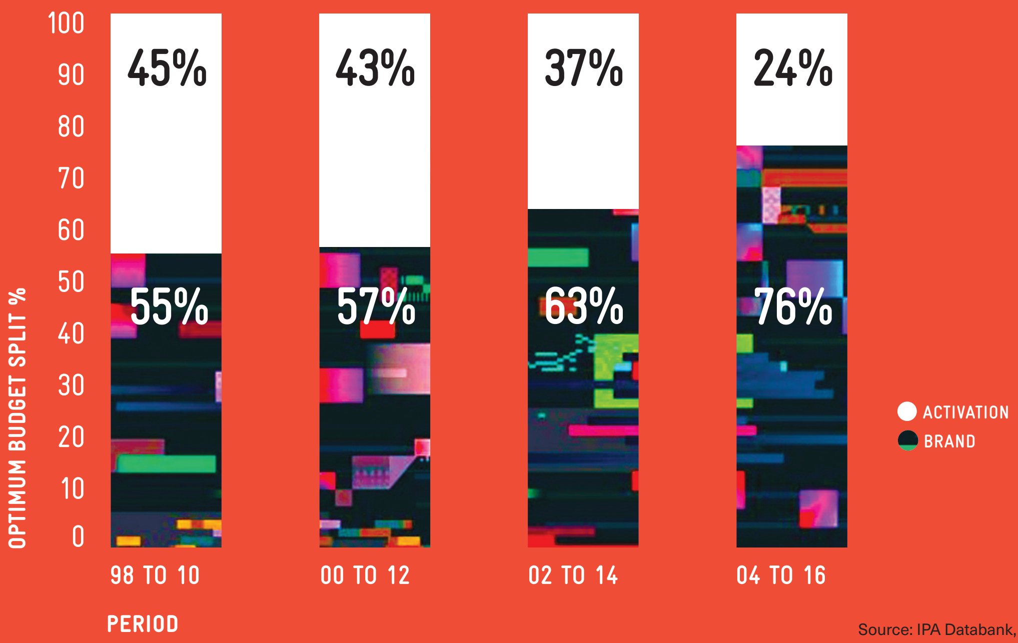
In the latest period brand allocation is around 15 percentage points below optimum, whereas for much of the early part of the digital era it was around 30 percentage points above optimum and stable; **the decline is recent and sudden.** Some may be tempted to ask what the problem is here: surely we have simply traded one imbalance for another?

50 The volume of data required to do this reliably means that we have to aggregate multiple years together. It would be unwise to assume that the optimum is still rising; certainly since 2004 most of the tools and practices that have produced this shift were in full play, so it is possibly stabilising at a new higher level.

OVERALL IMPACT OF TRENDS (FIGURE 106)

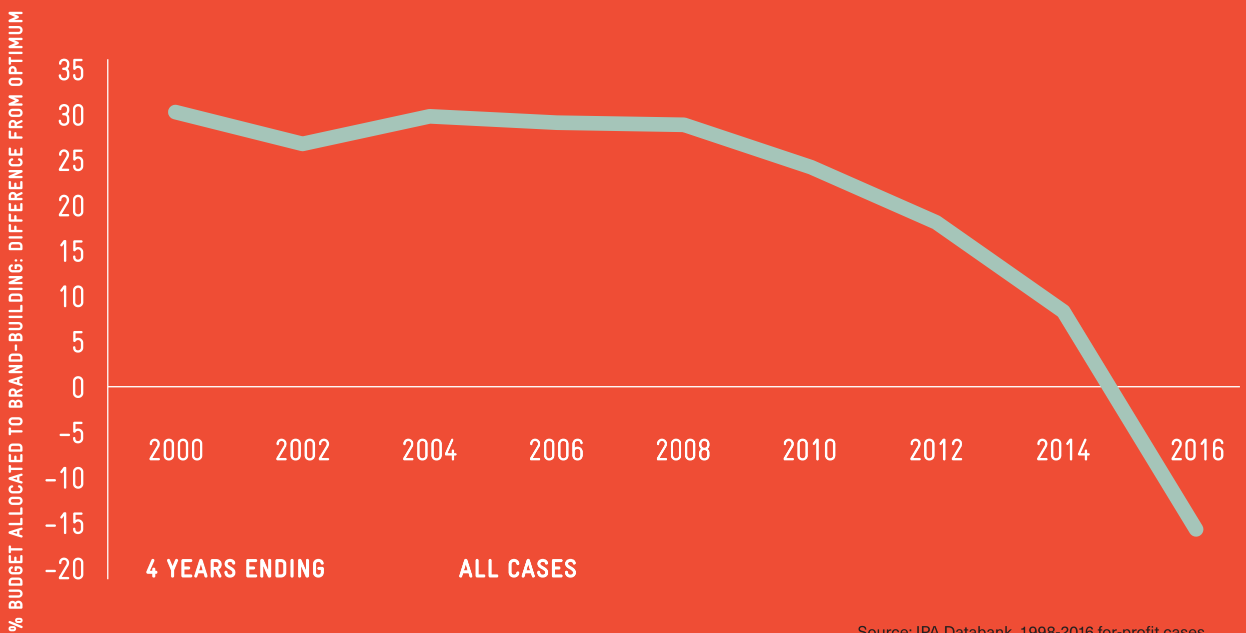
TREND	IMPLICATIONS FOR BRAND:ACTIVATION OPTIMUM
SHIFT FROM GOODS TO SERVICES	UPWEIGHT BRAND
MORE NEW CATEGORIES	UPWEIGHT BRAND
FEWER GROWTH CATEGORIES	UPWEIGHT ACTIVATION
INCREASED INNOVATION	UPWEIGHT BRAND
MARKET CONCENTRATION	UPWEIGHT BRAND
FEWER PREMIUM BRANDS	UPWEIGHT ACTIVATION
MORE CONSIDERED PURCHASES	UPWEIGHT BRAND
MORE RATIONAL CONSIDERATION	UPWEIGHT BRAND
MORE ONLINE RESEARCH	UPWEIGHT BRAND
MORE ONLINE DISTRIBUTION	UPWEIGHT BRAND
GROWTH OF SUBSCRIPTION BRANDS	UPWEIGHT BRAND
OVERALL IMPACT OF TRENDS	**UPWEIGHT BRAND**

THE OPTIMUM BRAND:ACTIVATION BALANCE IS TRENDING HIGHER (FIGURE 107)



Source: IPA Databank, 1998-2016 for-profit cases

BRAND BUILDING ALLOCATION DIVERGENCE FROM OPTIMUM (FIGURE 108)



Source: IPA Databank, 1998-2016 for-profit cases

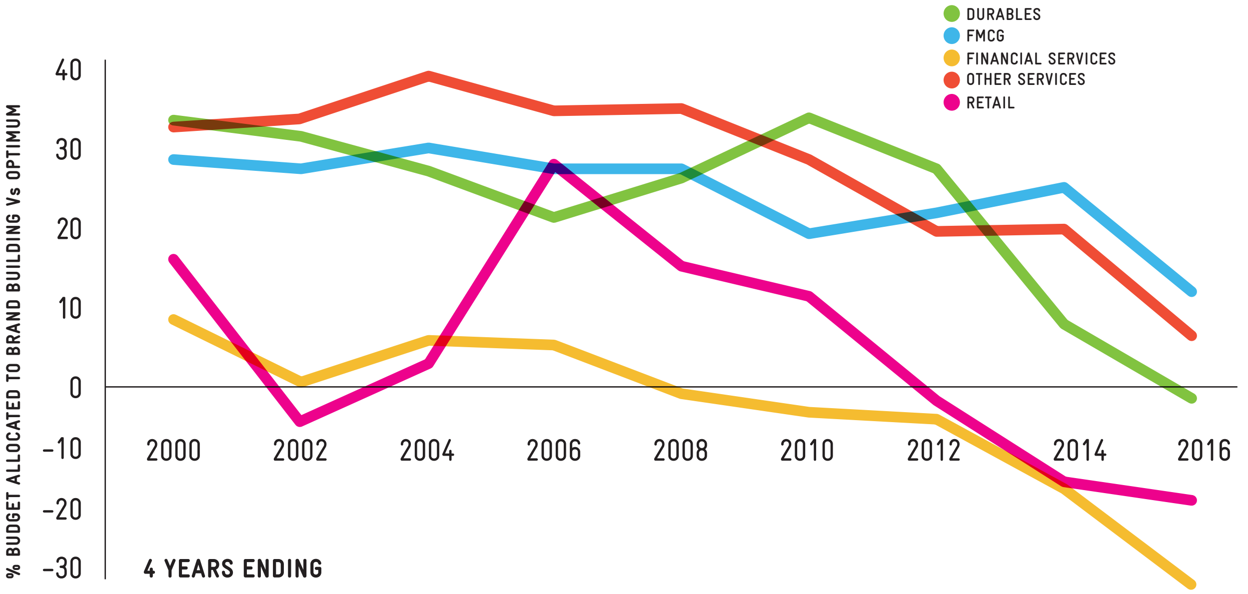
But consider the implications of a positive brand imbalance versus a negative one. A positive imbalance means the campaign will not work as efficiently as it could have, but the brand will remain strong, so long-term effectiveness is secure and the inefficiency can be rectified at any time. A negative imbalance means that the campaign will not be as effective as it could have been, and the brand will weaken over time, jeopardising both long-term effectiveness *and* efficiency, creating a problem that will take much time and money to fix. Therefore, it is not surprising that we are now seeing both effectiveness and efficiency deteriorating markedly as the imbalance has grown (see 8 Short-termism).

So, **it will always be better to err on the side of brand upweighting vs optimum rather than downweighting**; that is what many brands have done for decades without self-destruction. The current situation though is indeed dangerous for the long-term health of brands.

Of course, not all sectors have followed this lemming-like behaviour to the same extent, though all have drifted towards the precipice (Fig 109). FMCG and Non-financial Services remain slightly above optimum, whilst Durables have drifted slightly below. Meanwhile Retail and Financial Services have strayed dangerously below optimum to the tune of -14 and -27 percentage points respectively.

Not all sectors have followed this lemming-like behaviour to the same extent, though all have drifted towards the precipice.

SECTOR BRAND:ACTIVATION DIVERGENCE FROM OPTIMUM (FIGURE 109)



Source: IPA Databank, 1998-2016 for-profit cases

«

The fall in commitment to brand building investment has been accelerating.

6 CAMPAIGN INVESTMENT

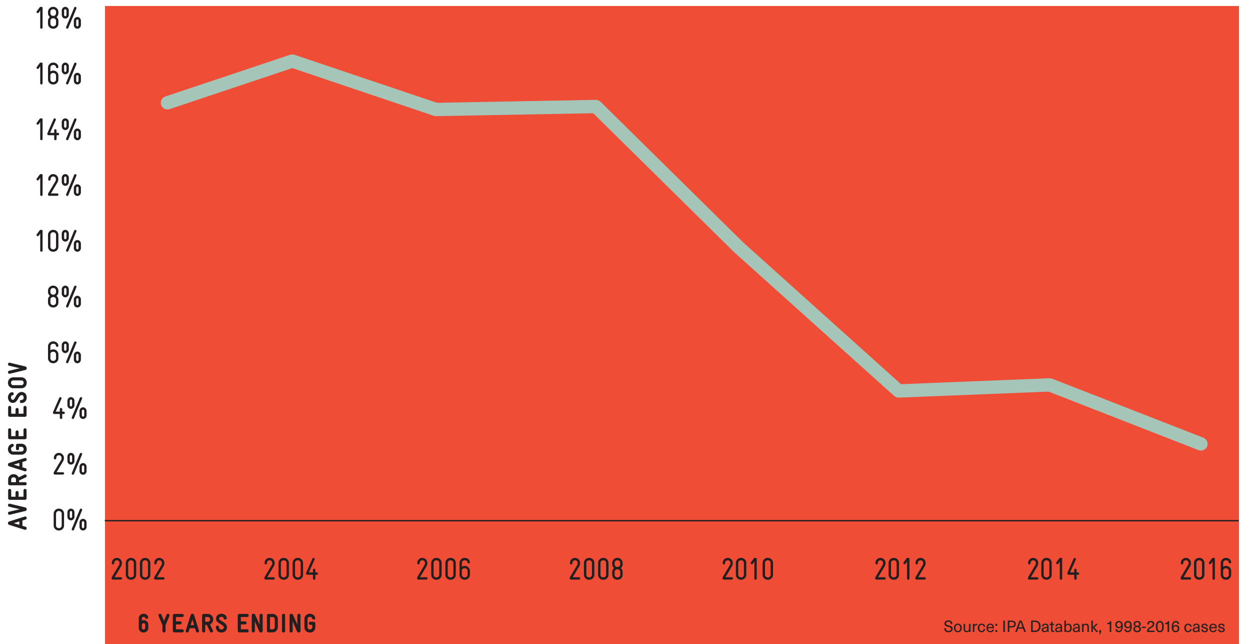
Another negative factor in current practice is a **marked reduction in the levels of investment behind growth.** In part this will be linked to the drift from brand-building expenditure (which is mostly robustly audited and known) to activation expenditure (which is not): some expenditure has simply drifted off the measurement radar. But this invisible spend will not make much difference to long-term growth if it is activation spend, so Figure 110 is a valid reflection of investment in long-term growth.

Again the picture is not consistent across sectors (Fig 111); in fact in Durables, investment in long-term growth has grown slightly and is healthy. But all other sectors have seen declines, especially in Retail, FMCG and Financial Services.

So Other Services are now in negative ESOV territory i.e. submaintenance levels of investment, whilst all other sectors with the exception of Durables are little above maintenance levels. It's worth noting here that with the exception of Retail, sector ESOV was fairly resilient up to the Global Financial Crisis. Again **the declines have been recent and sudden.**

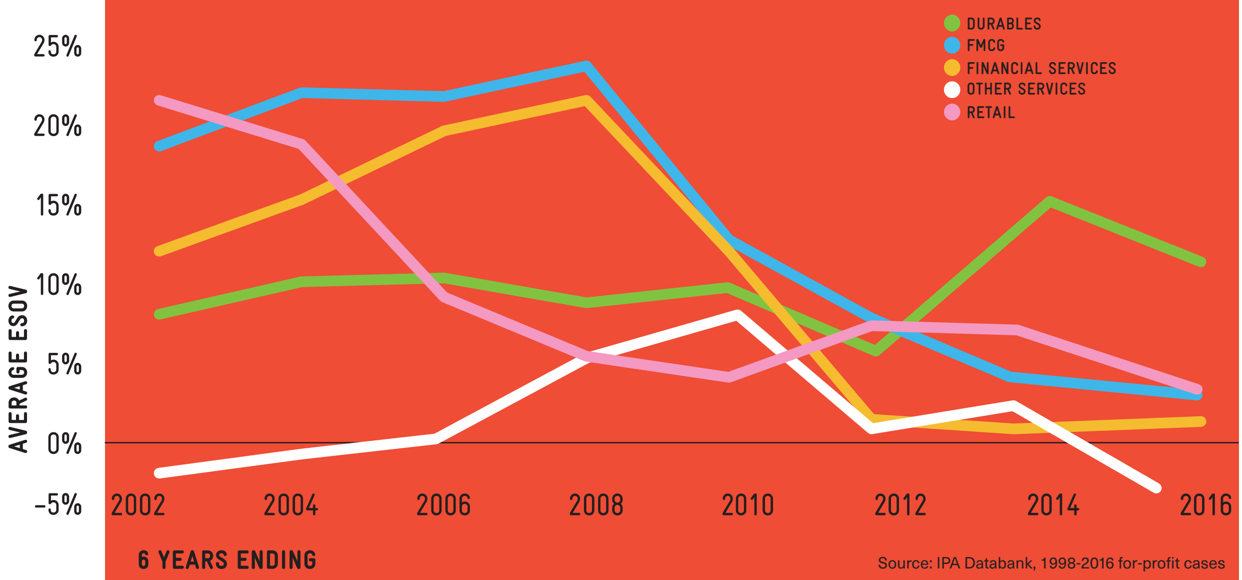
These ESOV trends, coupled with the increasingly short-term way in which the budgets are being spent, has inevitably had an impact on sector effectiveness, as we shall see.

INVESTMENT IN LONG-TERM GROWTH IS WEAKENING
(FIGURE 110)



Source: IPA Databank, 1998-2016 cases

INVESTMENT IN GROWTH VARIES WIDELY BY SECTOR
(FIGURE 111)



Source: IPA Databank, 1998-2016 for-profit cases

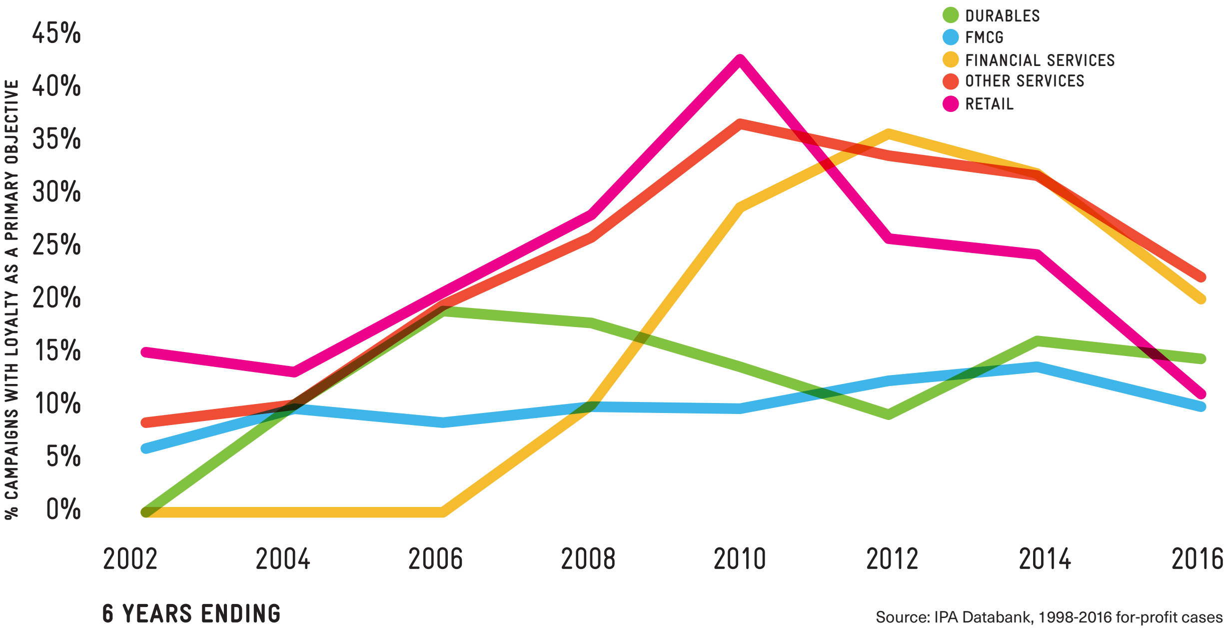
The loyalty myth has finally begun to evaporate.

7 LOYALTY MARKETING ACROSS SECTORS

Here we return to the familiar loyalty debate, because trends in loyalty marketing are another important area of concern.

But here the story is mixed (Fig 112). Only the Retail sector has not increased its focus on loyalty over the whole period, though it peaked strongly mid-term and has since fallen back. Similarly the Financial and Other Services sectors peaked midterm and have since fallen back, but to a much higher level than at the start of the digital era. FMCG has largely held steady with a light focus on loyalty, as have Durables after a rise in loyalty marketing early on. Only in Durables and Other Services could you argue that loyalty marketing has an important role to play in growth – and only then if it accompanies an equal focus on driving penetration. On a positive note, Figure 112 below does at least suggest that finally the loyalty myth has begun to evaporate.

LOYALTY MARKETING HAS GROWN ACROSS ALL SECTORS EXCEPT RETAIL (FIGURE 112)



Source: IPA Databank, 1998-2016 for-profit cases

8 SHORT-TERMISM

We have reported at length the rise of short-termism[51] amongst the campaigns submitted to the IPA Effectiveness Awards competition. It is important because in many ways it is the mother of the problems we have been identifying: many of the behaviours flow from a fixation with short-term results. So here we will simply observe that whilst it is a trend in all sectors and contexts, it is more pronounced in some (Fig 113). **Financial Services have seen an astonishingly unwise lurch to short-termism**, though there is perhaps the first sign of a countertrend as businesses begin to realise the damage being done.[52] Durables and Retail are not far behind. FMCG remains the least afflicted, but is still subject to the same pressures.

Subscription brands have always had a greater disposition to short-termism, but this has grown little so far over the digital era (around 30% of subscription brands run short-term campaigns). Given that customers attracted by subscription brands in this way are likely to remain customers longer than in series-purchasing scenarios, it is arguably a less damaging phenomenon for them. The growth of short-termism in the Databank is largely the gift of series-purchased brands, 28% of which are now short-term (up from 6% at the start of the digital era).

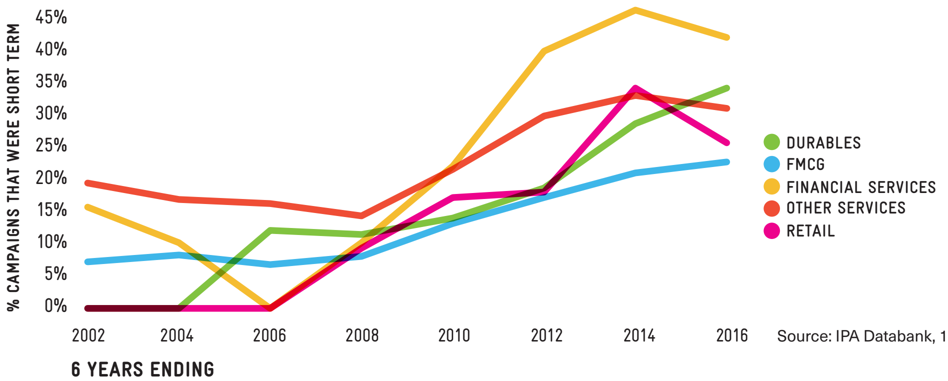
It will come as no surprise that online brands are more likely to be short-term than offline ones, but not by as much as you might expect (Fig 114). Apart from an inexplicable wobble prior to the Global Financial Crisis, online brands have more or less marched in step with offline ones towards short-termism, albeit from a higher base.

We observed in Chapter 1 that high online research made activation easier but did little to help long-term effectiveness. It turns out

51 Defined as the proportion of campaigns that ran and were evaluated over periods of less than 6 months. See *Media in Focus* for the original tirade.

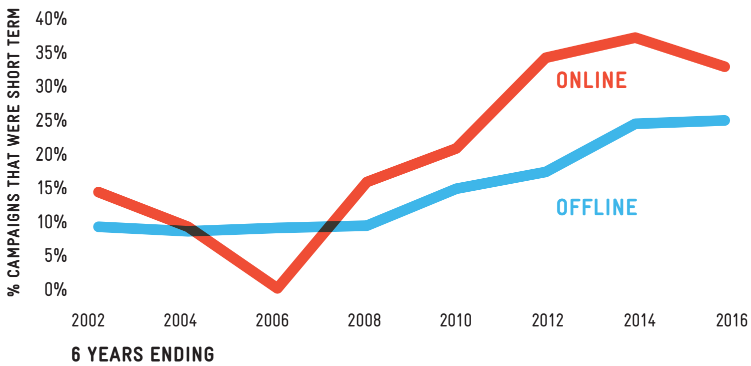
52 Some suggest that the trend in Financial Services was down to the strong tradition of direct marketing in the sector and the transfer of broad marketing authority to the direct marketers who best understood the world of data. If this is so, then hopefully lessons have been learnt by all concerned.

SHORT-TERMISM HAS GROWN ACROSS ALL SECTORS, BUT ESPECIALLY IN FINANCIAL SERVICES (FIGURE 113)



Source: IPA Databank, 1998-2016 for-profit cases

SHORT-TERMISM REMAINS GREATER AMONGST ONLINE BRANDS (FIGURE 114)



Source: IPA Databank, 1998-2016 for-profit cases

Short-termism is never smart.

that this has an unfortunate impact on marketing: short-termism is markedly higher in high-research categories (Fig 115) and has grown more strongly in recent years. It appears that some marketers are falsely assuming that brand building cannot influence choice where online research takes place and are opting instead to go short-term, serving activation messages to consumers researching their category. In fact as we saw in Chapter 1, because activation is easier, the optimum balance is increased brand building, but short-term campaigns will undermine the efficacy of this. **Short-termism is never smart.**

It is again worth noting that short-termism was stable up to 2008, and **the subsequent rise has been recent and sudden.**

EFFECTIVENESS AND SHORT-TERMISM

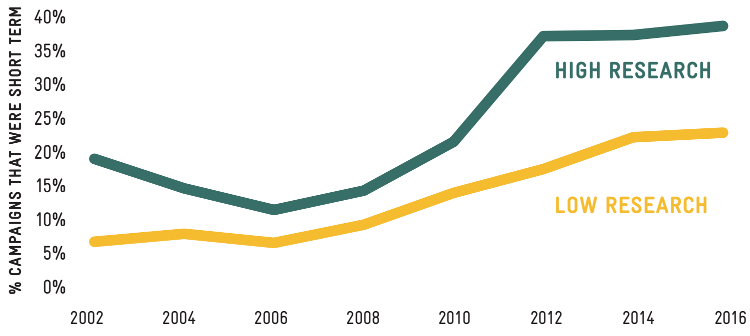
The overall impact of the various trends we have just examined on effectiveness was discussed in *Media in Focus*. Figure 116 reprises the trend in effectiveness, showing how **a rising trend – while short-termism was stable prior to 2008 – suddenly turned into a sharply falling trend, as short-termism took off.**

We should bear in mind that many of the trends we have observed in this part of the report should have resulted in growing effectiveness *and* efficiency.

The actual efficiency trend tells a very similar story of recent sharp decline (Fig 117), so it is impossible to escape the conclusion that short-termism has resulted in the widespread destruction of marketing value and that this goes beyond short-term campaigns per se. The increasing focus on short-term effects and associated reduction in advertising investment is broad based.

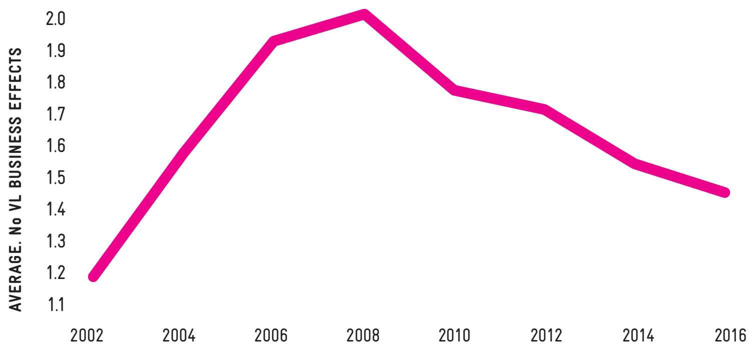
But it would be surprising if the fall in effectiveness was seen equally across all sectors: some have maintained much more healthy practice than others. All sectors except Retail (which has remained stable) have trended downwards since the peak of 2008. For some, such as Other Services, the loss has been modest.

SHORT-TERMISM HAS GROWN MOST IN HIGH ONLINE RESEARCH CATEGORIES (FIGURE 115)



Source: IPA Databank, 1998-2016 for-profit cases

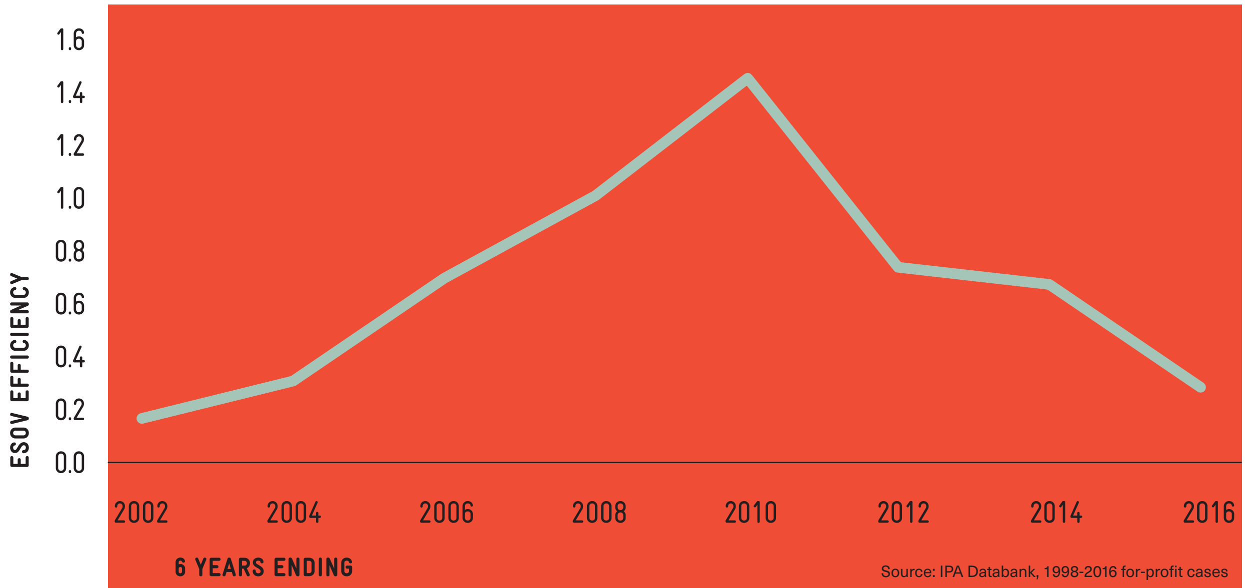
AS SHORT-TERMISM TOOK OFF, EFFECTIVENESS FELL (FIGURE 116)



Source: IPA Databank, 1998-2016 for-profit cases

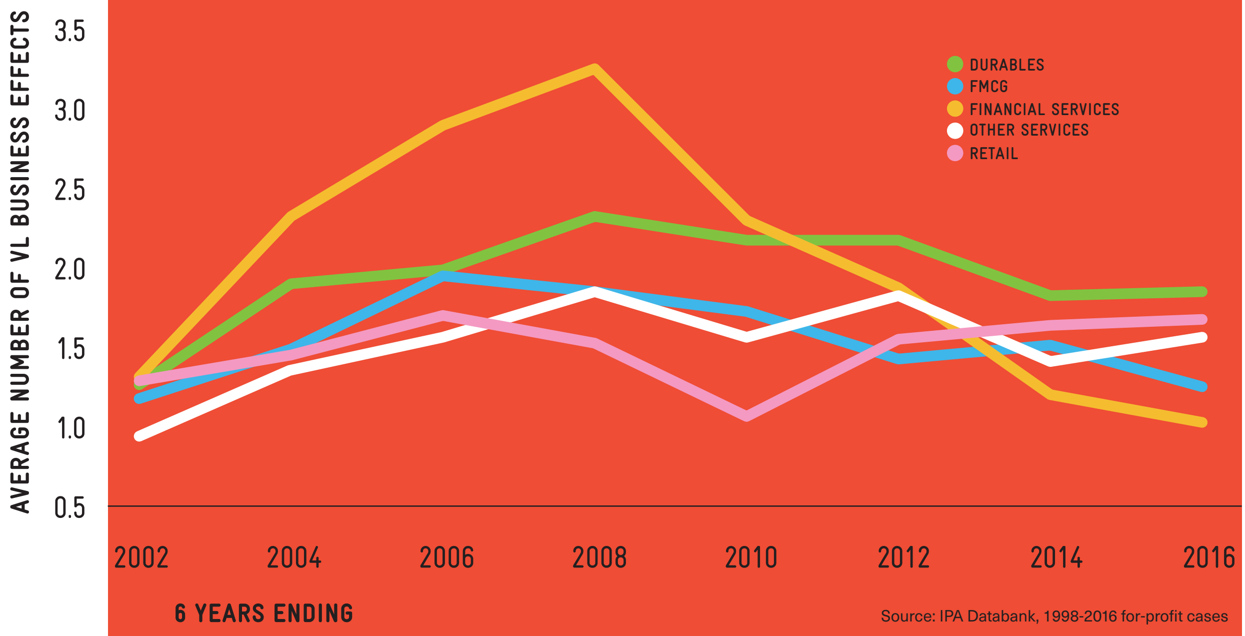
It is Financial Services that has seen the biggest reversal of fortune (Fig 118) and is a major contributor to the overall loss of effectiveness observed. This is what you would expect, given that the **Financial Services sector has embraced all of the destructive trends most enthusiastically: short-termism, overactivation, investment reduction, loyalty marketing.** It serves as a timely reminder to others how not to respond to the pressures of modern business.

AS SHORT-TERMISM TOOK OFF, EFFICIENCY FELL
(FIGURE 117)



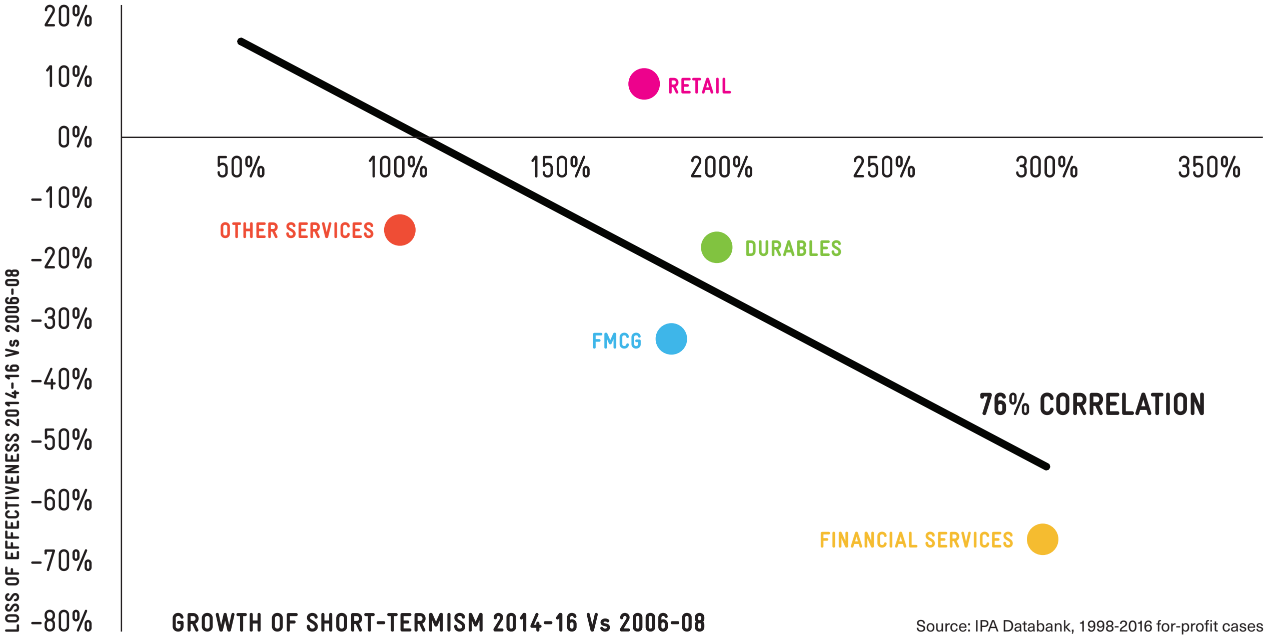
Source: IPA Databank, 1998-2016 for-profit cases

EFFECTIVENESS LOSS IS GREATEST IN FINANCIAL SERVICES
(FIGURE 118)



Source: IPA Databank, 1998-2016 for-profit cases

THE RELATIONSHIP BETWEEN SHORT-TERMISM AND EFFECTIVENESS ACROSS SECTORS (FIGURE 119)



Source: IPA Databank, 1998-2016 for-profit cases

We can see that short-termism is again, in many ways, the mother of the problem. There is a fairly strong correlation across sectors between the extent to which they embraced short-termism since 2008 and the loss of effectiveness reported (Fig 119).

So we have seen that generally speaking the worst losses of effectiveness occur in those contexts where the biggest divergences from best practice occur. The Financial Services sector is the ultimate embodiment of this, but encouragingly there are signs of improving practice across all sectors. These give some hope that marketing will reverse the damage done in recent years.

In many ways, short-termism is the mother of the problem.

SECTION 3.0 SUMMARY THOUGHTS

01 Over the last twenty years FMCG cases have fallen as a proportion of case studies to be largely replaced by Services case studies. This should have resulted in rising average effectiveness levels, but it has not.

02 In part this is due to the growing scarcity of growth categories for brands to operate in.

03 Although brands have increased the pace of innovation to counter this, most of the extra innovation is minor in nature and does not improve effectiveness. This is especially true of FMCG.

04 Recent years have seen a squeeze on minor brands in the Databank and growing average market share suggests market concentration is occurring.

05 There is clear evidence of the migration from premium to value pricing as brands focus more on volume than pricing.

06 Other factors, such as the growth of online distribution and rational consideration, fed by the availability of online information, are conspiring to make brand building more difficult.

07 This has resulted in a rising trend of optimum brand:activation allocation.

08 But measured relative to this rising optimum balance, actual budget balances have fallen sharply below optimum in recent years. This is especially true of Financial Services and Retail.

09 Visible budget levels, measured as ESOV, have also fallen sharply in recent years, driven by Financial Services, FMCG and Retail.

10 Short-termism has also risen sharply, driven most by the Financial Services, Retail and Durables sectors, and developments such as online distribution and research.

11 These counter-effectiveness trends have resulted in sharply declining average effectiveness levels in recent years, especially in Financial Services.

12 There is a clear correlation between the growth of short-termism within sectors and the loss of effectiveness reported, suggesting that this is the root cause of the effectiveness loss.

HOW TO USE THE FINDINGS:

FLEXING THE RULES TO SUIT YOUR BRAND

This report is a self-help manual, intended to help you succeed: it cannot tell you exactly what to do in every combination of contexts. What follows is a review of the key findings that you are most likely to need to decide how best to proceed with your brand, starting with general findings that apply in all contexts and then progressing to findings that vary by context.

FINDINGS THAT APPLY TO ALL BRANDS

● All brands in all contexts need brand building. The correlation between brand building and campaign effectiveness runs across all contexts (Fig 120). Without brand strengthening, growth will be weaker, activation will be weaker, pricing power will not improve and profitability growth will be severely reduced.

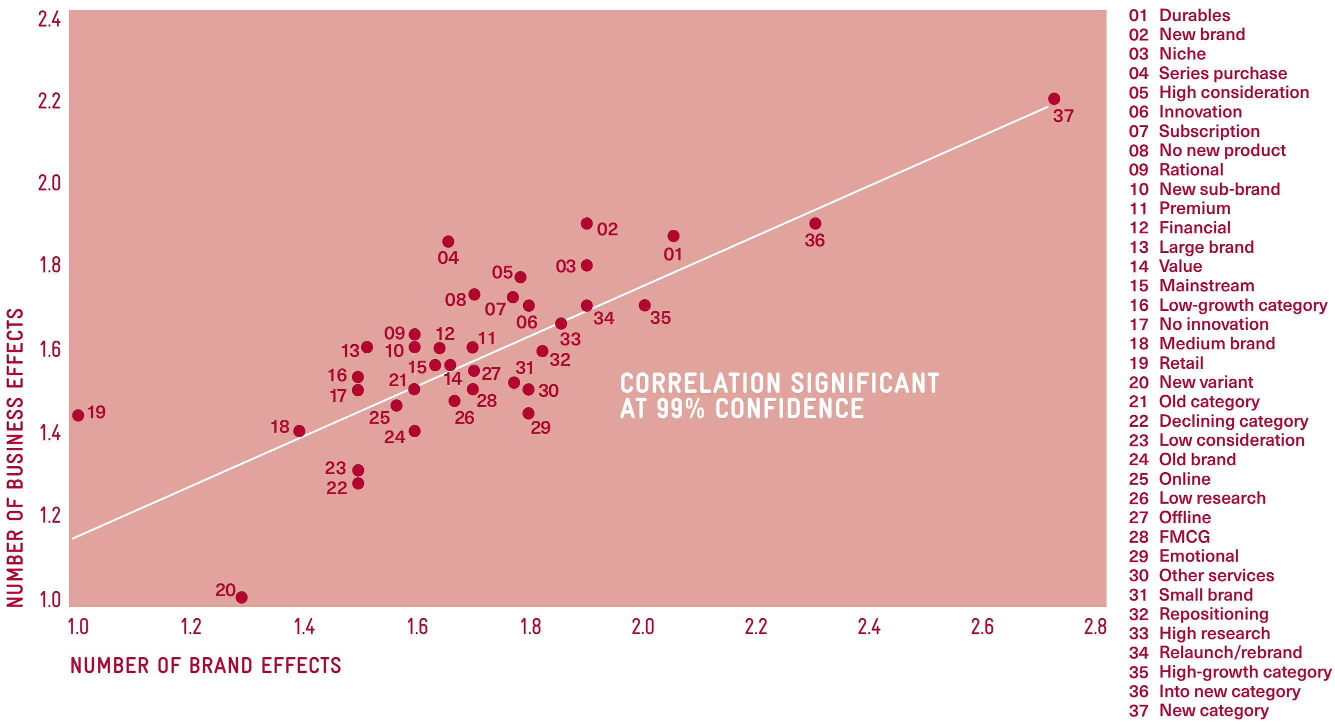
● All brands in all contexts need activation. Activation is strongly boosted by brand building and is essential for efficiency (Fig 121, page 124). So efficiency requires brand building and activation. The correlation between activation strength and campaign efficiency runs across all contexts. Without activation return on investment will be weaker and growth will suffer.

● But the optimum balance between brand building and activation expenditure varies by context depending on the relative ease/difficulty of the two tasks.

● The key factors that drive the optimum balance are the relative levels of emotional and rational consideration in consumer choice: where emotional consideration is high, brand building is easier; where rational consideration is high, activation is easier. Where both are high, advertising works more powerfully than where both are low.

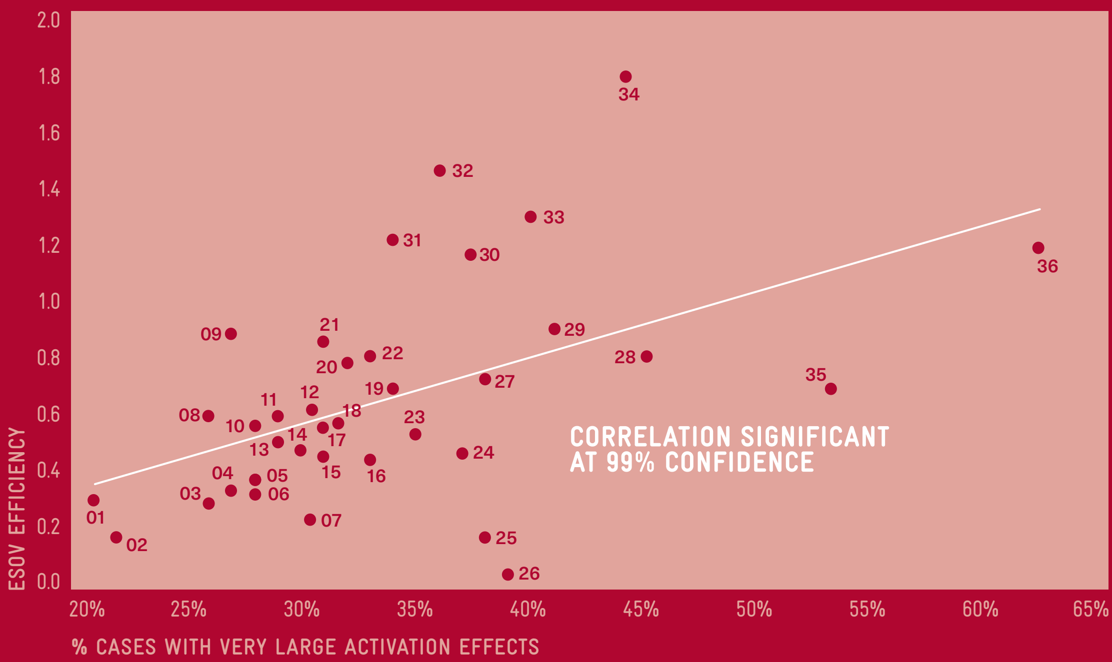
● Penetration growth is always the main driver of growth for all brands in all contexts. Penetration and loyalty go hand-in-hand – you never see loyalty increase without penetration (Fig 122, page 124). But in many contexts the addition of activity targeting existing customers can boost growth (see Context Reviews).

BRAND BUILDING: ESSENTIAL FOR EFFECTIVENESS
(FIGURE 120)



Source: IPA Databank, 1998-2016 for-profit cases

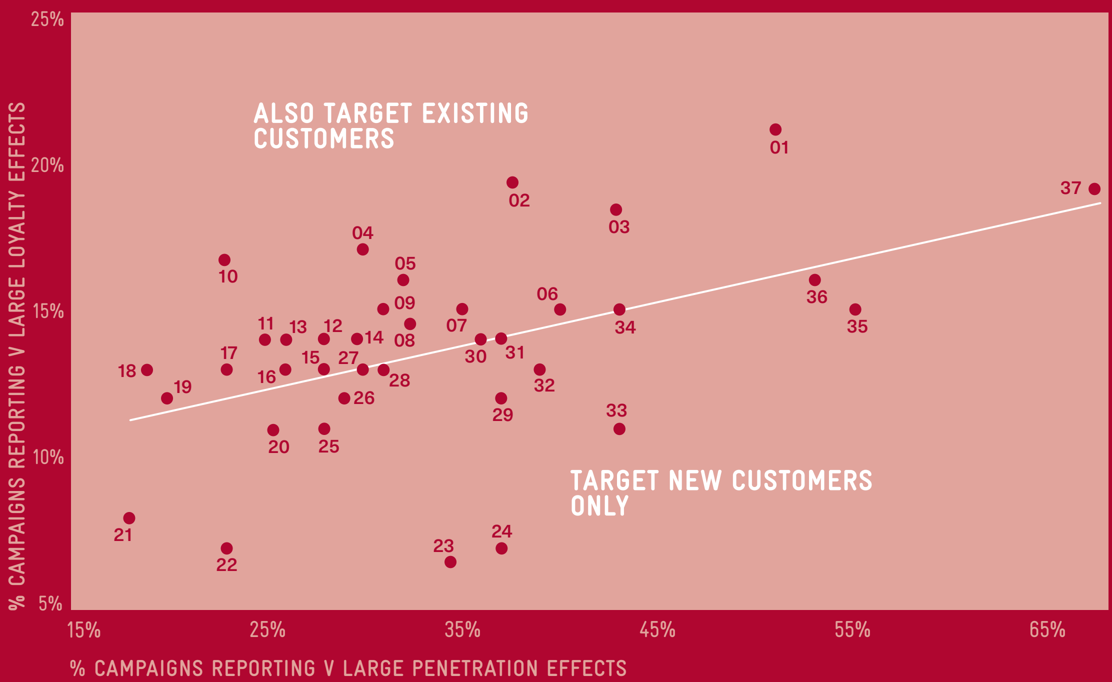
ACTIVATION: ESSENTIAL FOR EFFICIENCY (FIGURE 121)



01 Medium brand
02 Small brand
03 FMCG
04 No innovation
05 Low research
06 Old brand
07 Retail
08 Low consideration
09 Emotional
10 Low-growth category
11 Mainstream
12 Durables
13 Repositioning
14 Offline
15 Old category
16 Premium
17 No new product
18 Series purchase
19 Large brand
20 High research
21 Value
22 High-growth category
23 New variant
24 Declining category
25 Rational
26 Relaunch/rebrand
27 High consideration
28 New brand
29 Innovation
30 Subscription
31 Niche
32 Financial
33 Online
34 Other services
35 Into new category
36 New category

Source: IPA Databank, 1998-2016 for-profit cases

LOYALTY Vs PENETRATION EFFECTS (FIGURE 122)



01 Subscription
02 Other services
03 Financial
04 Rational
05 Premium
06 High-growth category
07 Online
08 Value
09 No new product
10 Retail
11 Emotional
12 Mainstream
13 Low research
14 No innovation
15 Old category
16 Old brand
17 Low consideration
18 Medium brand
19 Declining category
20 FMCG
21 New variant
22 Small brand
23 Durables
24 New sub-brand
25 Large brand
26 Low-growth category
27 Offline
28 Repositioning
29 High research
30 Innovation
31 High consideration
32 Series purchase
33 Relaunch/rebrand
34 New brand
35 Niche
36 Into new category
37 New category

Source: IPA Databank, 1998-2016 for-profit cases

FINDINGS THAT RELATE TO CONTEXT

All brands face different sets of contexts, many of which will flex the rules in different directions. The following summarises how to apply multiple criteria to the development of strategy. The best way to do this is to work through the following questions, noting which apply to your brand. The implications of each are then listed below, along with the detailed data needed to flex the rules.

FLEXING THE RULES FOR YOUR BRAND

01 WHICH SECTOR
02 HOW PURCHASED
03 HOW PRICED
04 LEVEL OF INNOVATION
05 WHICH CATEGORY LIFE STAGE
06 HOW BIG

01 WHICH SECTOR

See Section 2.0

- The benchmark relationships between budget and market-share growth vary across sectors and are listed in **Table S1** as ESOV Efficiency guidelines: points of market share growth per annum per ten points of ESOV. Use these to set budgets based on growth targets.

- Because consideration levels vary widely across sectors, so too do the optimum brand building: activation balances. These guidelines are listed in **Table S3**: start with the sector definition that most closely applies to your brand.

- The benchmark ROMI guidelines for each sector are listed in **Table S4**. Use these to evaluate achieved long-term ROMI levels.

- New customer acquisition is the primary driver of growth across all sectors, but in Retail, Financial Services and FMCG it pays to also target existing customers.

02 HOW PURCHASED

See Section 1.0 / Chapter 2.0

- If your brand is heavily purchased online compared to the sector, brand building becomes more important: you will need to dial up brand share of spend as shown.

- Similar offsets apply to ESOV and ROMI guidelines.

- If your brand is a subscription purchase in a sector where this is not generally the case, you will need to focus advertising on new customer acquisition and dial up brand building as shown.

03 HOW PRICED

See Section 1.0 / Chapter 3.0

- If your brand is premium priced, activation is easier, so you will need to dial up brand share of spend as shown.

- If your brand is premium priced, ensure marketing works as hard as possible to support pricing. Brand-building advertising can do this but not activation; repositioning and new sub-brands can help.

- Value priced brands can succeed with lower levels of ESOV: adjust budgets as shown.

- New customer acquisition is the primary driver of growth at all pricing levels, but the value of also targeting existing customers is greater at the top end of categories.

04 LEVEL OF INNOVATION

See Section 1.0 / Chapter 4.0

- Only major innovation improves effectiveness. Minor innovations to feed ‘new news’ advertising are less effective than no innovation with emotional brand-building advertising. Innovation favours increased budget allocation to brand building, because the major effect of innovation is to make activation easier. **Table S1** Figure 123.

- Innovation improves brand advertising efficiency, adjust budget as shown.

- Innovation works best when targeted at new customers – this is especially important with minor innovation – it struggles to attract new customers.

05 WHICH CATEGORY LIFE STAGE

See Section 1.0 / Chapter 5.0

- Young categories reward volume growth strategies and brand building should be dialled up slightly.

- Mature categories reward a focus on pricing power: there is no need to dial up brand spend at this stage.

- Advertising efficiency falls away as categories mature, so budgets need to be raised to drive growth.

- New customer acquisition is the primary driver of growth at all life stages, but the value of also targeting existing customers rises in mature categories.

06 HOW BIG

See Section 1.0 / Chapter 6.0

- New brands behave differently from small brands. This has important implications for brand building and activation over the first 1-2 years: dial up activation at first, but then revert swiftly to normal levels of activation as the novelty wears off.

- New brands can grow without advertising, but advertising will accelerate growth and result in greater ultimate market share: advertising works very efficiently in the first years of launch.

- As brands grow larger, activation gets easier, so brand share of budget should be dialled up.

- As brands grow larger they can grow even with zero ESOV and advertising efficiency rises: budget levels should be adjusted to reflect this. **Table S2** Figure 124.

- New customer acquisition is always the dominant driver of growth, but as brands get larger, it pays to focus more on pricing power and defending against competitor poaching, which means also targeting existing customers more determinedly.

BUDGET SETTING GUIDELINES

The efficiency data can be used to set ESOV levels in line with growth targets, measured as percentage points of SOM.

Start with the ESOV Efficiency associated with the sector definition that most closely matches your brand. Then apply any relevant offsets that apply to your brand that would not be typical of all brands in your sector: the offsets may cancel one another out.
The offsets should generally only be applied if your brand is different to the norms pertaining to the sector as a whole.

A further refinement is required to set budgets for different sized brands: not only do efficiencies vary, but also the base levels of growth differ i.e. the growth achieved at zero ESOV. **Table S2** lists the base levels of growth, **which should be subtracted from target growth when setting ESOV budgets.**

TABLE S1 – BUDGET SETTING GUIDELINES (FIGURE 123)

CONTEXT	ESOV EFFICIENCY PPTS SOM GROWTH PER 10 PPTS ESOV	OFFSET TO APPLY
SECTOR		
ALL	0.63	
DURABLES	0.62	
FMCG	0.30	
FINANCIAL SERVICES	1.46	
OTHER SERVICES	1.79	
RETAIL	0.24	
HOW PURCHASED		
OFFLINE	0.48	-0.15
ONLINE	1.30	0.67
SERIAL	0.58	-0.05
SUBSCRIPTION	1.17	0.54
HOW PRICED		
VALUE/MAINSTREAM	0.86	0.23
PREMIUM	0.45	-0.18
LEVEL OF INNOVATION		
NONE	0.37	-0.26
ANY	0.91	0.28
NEW VARIANT	0.54	-0.09
NEW SUB-BRAND	N/A	N/A
ENTRY INTO NEW CATEGORY	0.70	0.07
WHICH CATEGORY LIFE STAGE		
NEW CATEGORY	1.19	0.56
ESTABLISHED CATEGORY	0.46	-0.17
DECLINING CATEGORY	0.47	-0.16
STAGNANT OR LOW GROWTH	0.57	-0.06
MEDIUM OR HIGH GROWTH	0.81	0.18
HOW BIG		
LAUNCHES IN FIRST 1-2 YEARS	0.74	0.11
LAUNCHES AFTER FIRST YEAR	0.88	0.25
SMALL BRAND	0.18	-0.45
MEDIUM BRAND	0.31	-0.32
LARGE BRAND	0.70	0.07

Source: IPA Databank, 1998-2016 for-profit cases

TABLE S2 – BASE RATES OF SOM GROWTH AT ZERO ESOV (FIGURE 124)

CONTEXT	SOM GROWTH AT ZERO ESOV
HOW BIG	
NEW BRAND	3.3%
NICHE BRAND	2.1%
SMALL BRAND (<11% SOM)	0.7%
MEDIUM BRAND (11-20% SOM)	1.4%
LARGE BRAND (>20% SOM)	2.6%

Source: IPA Databank, 1998-2016 for-profit cases

BRAND:ACTIVATION BALANCE GUIDELINES

The key principles that guide balance are: in contexts where brand building is difficult, a greater proportion of spend should be allocated to it; where activation is difficult, a greater proportion of spend should be allocated to it. The balance offsets are summarised below.

The contexts that influence the optimum balance of brand and activation expenditure will not all apply for any given brand. Figure 125 summarises the way the principles apply across sectors.

Table S3 Figure 126 provides the data needed to adjust the balance point to your brand, with multiple criteria applied. We have summarised the optimum balances of different contexts and by how much this differs from the norm: i.e. what offset does each context imply? Start with the optimum balance associated with the sector definition that most closely matches your brand. Then apply any relevant offsets that apply to your brand that would not be typical of all brands in your sector: the offsets may cancel one another out.

The offsets should generally only be applied if your brand is different to the norms pertaining to the sector as a whole.

BRAND:ACTIVATION BALANCE GUIDELINES (FIGURE 125)

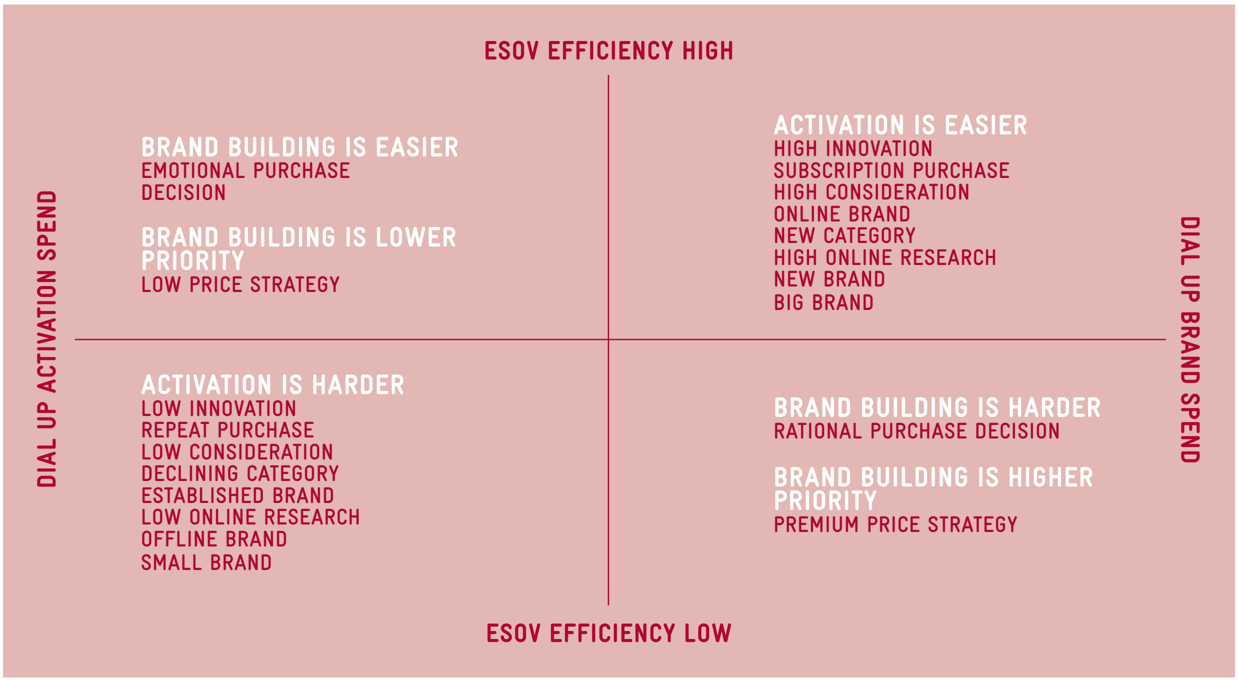


TABLE S3 – BRAND:ACTIVATION BALANCE GUIDELINES (FIGURE 126)

CONTEXT	OPTIMUM BALANCE	OFFSET TO APPLY (BRAND UP-WEIGHT)
SECTOR		
ALL	62:38	
RETAIL	64:36	
FMCG ALL	60:40	
FMCG FOOD & DRINK	56:44	
FMCG NON-FOOD & DRINK	65:35	
DURABLES ALL	58:42	
DURABLES NON-AUTOMOTIVE	69:31	
FINANCIAL SERVICES	80:20	
OTHER SERVICES ALL	51:49	
OTHER SERVICES TELCO/ISP	58:42	
OTHER SERVICES TRAVEL/QSR/ MEDIA = PERISHABLE	48:52	
HOW PURCHASED		
OFFLINE	55:45	-7
ONLINE	74:26	+12
SERIAL	57:43	-5
SUBSCRIPTION	74:26	+12
HOW PRICED		
VALUE/MAINSTREAM	57:43	-5
PREMIUM	62:38	
LEVEL OF INNOVATION		
NONE	61:39	-1
ANY	72:28	+10
NEW VARIANT	62:38	
NEW SUB-BRAND	78:22	+16
ENTRY INTO NEW CATEGORY	84:16	+22
WHICH CATEGORY LIFE STAGE		
NEW CATEGORY	65:35	+3
ESTABLISHED CATEGORY	62:38	
DECLINING CATEGORY	58:42	-4
STAGNANT OR LOW GROWTH	60:40	-2
MEDIUM OR HIGH GROWTH	73:27	+11
HOW BIG		
LAUNCHES IN FIRST 1-2 YEARS	35:65	-27
LAUNCHES AFTER FIRST YEAR	57:43	-5
SMALL BRAND	75:25	+13
MEDIUM BRAND	56:44	-6
LARGE BRAND	76:24	+14
LEADING BRAND	72:28	+10

Source: IPA Databank, 1998-2016 for-profit cases

APPLYING THE OFFSETS: A WORKED EXAMPLE (FIGURE 127)

You are launching a new non-food FMCG brand as a subscription-purchase pioneer in its category and it will be at the value end of a category that is inclined to 'full' pricing: how should brand and activation be balanced?

• Non-food & drink FMCG start point	65% brand
• Apply subscription offset of +12 ppts	65+12 = 77% brand
• Apply value-pricing offset of -5 ppts	77-5 = 72% brand
• In first year apply early-launch offset of -27 ppts	72-27 = 45% brand
• In subsequent one to two years apply late-launch offset of -5 ppts	72-5 = 67% brand
• Once established, apply no launch offsets but use offset appropriate to size of brand e.g. if medium sized (11-20% som) apply offset of -6 ppts	72-6 = 66% brand

Source: IPA Databank, 1998-2016 for-profit cases

ROMI BENCHMARKING GUIDELINES

Actual ROMI is highly influenced by the business realities of your brand, so the following benchmarks are offered tentatively as a suggestion of what you might hope to achieve. They vary widely by context, because ROMI is an efficiency measure, and efficiency varies widely by context.

As before, start with the ROMI associated with the sector definition that most closely matches your brand. Then apply any relevant offsets that apply to your brand that would not be typical of all brands in your sector: the offsets may cancel one another out. **The offsets should generally only be applied if your brand is different to the norms pertaining to the sector as a whole.**

TABLE S4 – ROMI BENCHMARKING GUIDELINES (FIGURE 128)

CONTEXT	AVERAGE ROMI REPORTED	OFFSET TO APPLY
SECTOR		
ALL	422%	
DURABLES	353%	
FMCG	273%	
FINANCIAL SERVICES	357%	
OTHER SERVICES	709%	
RETAIL	422%	
HOW PURCHASED		
OFFLINE	422%	
ONLINE	423%	
SERIAL	348%	-74%
SUBSCRIPTION	686%	264%
HOW PRICED		
VALUE/MAINSTREAM	325%	-97%
PREMIUM	531%	109%
LEVEL OF INNOVATION		
NONE	440%	18%
ANY	407%	-15%
NEW VARIANT	323%	-99%
NEW SUB-BRAND	381%	-41%
ENTRY INTO NEW CATEGORY	290%	-132%
WHICH CATEGORY LIFE STAGE		
NEW CATEGORY	136%	-286%
ESTABLISHED CATEGORY	443%	21%
DECLINING CATEGORY	501%	79%
STAGNANT OR LOW GROWTH	440%	18%
MEDIUM OR HIGH GROWTH	301%	-121%
HOW BIG		
LAUNCHES IN FIRST 1-2 YEARS	425%	3%
LAUNCHES AFTER FIRST YEAR	580%	158%
SMALL BRAND	215%	-207%
MEDIUM BRAND	202%	-220%
LARGE BRAND	417%	-5%

Source: IPA Databank, 1998-2016 for-profit cases

CONCLUSIONS FOR THE FUTURE

For brands that are prepared to buck many of the trends in the marketplace or take early advantage of new trends, there are considerable opportunities for advancement. The following is a checklist for brands looking for performance-enhancing strategies.

01 We have observed a destructive trend to excess activation and identified brands that have prospered by getting the balance right for their context. Some categories are ripe for transformation in this way and results can be spectacular.

02 Most online brands underinvest in brand building, so if your brand has significant online sales, balanced investment in brand building will bring disproportionate rewards.

03 The same is true in Financial Services: brands that are investing appropriately in powerful brand-building activity are likely to see strong growth.

04 FMCG brands appear to underinvest in activation communications, though this may be because of trade support obligations: if possible reallocate budget from trade support to more productive activation channels.

05 We have questioned the value of minor innovation but shown that major innovation on a less frequent basis is much more effective.

06 We have examined a number of benefits of developing a subscription sales model in categories where it is rare.

07 We have identified the contexts where the support of pricing power is most likely to work and shown the benefits of moving away from pure volume strategies in these situations.

08 Many new launches ultimately fail or underachieve because investment is not shifted from activating trial to brand building soon enough or strongly enough. Launches that prepare for the inflection point where an interesting new product becomes just another brand are more likely to maintain growth.

APPENDIX: METRICS AND METHODOLOGY

As with our earlier reports, the data source is the IPA Databank – the confidential data submitted alongside entries to the biennial IPA Effectiveness Awards competition. The data captured includes a comprehensive range of campaign inputs (such as strategy, media choices and brand circumstances) and campaign outcomes (such as business-effectiveness measures, efficiency, ROMI, and brand measures). Our analysis in essence examines how inputs, especially media choices, affect outcomes.

All the data used in this report is from the digital era, 1998 to 2016. Analysed in this report are 497 for profit-cases submitted since 1998 and 118 submitted in 2014 and 2016, plus 121 not-for-profit cases submitted since 1998. The authority of the data comes as much from the rigour and vetting of the evaluations they are associated with as from the number of cases.

01 Measures of effectiveness

For-profit cases

The most frequently used measures of effectiveness in this report are the various business effects: profit, sales, market share, penetration, loyalty and price sensitivity. Case-study authors assess these measures on a four-point scale of magnitude: only top-box scores (i.e. 'very large') are used to identify high performers. These metrics are mostly measured over a period of at least a year and are therefore more indicative of long-term success. In our analysis they are often coalesced into one metric – the number of business effects, which represents a broad measure of effectiveness that is relatively independent of the particular objectives of the campaign. This metric correlates closely with reported profit growth, making it a particularly useful measure of effectiveness. It also correlates with the ESOV Efficiency measure, so this metric has a very broad usefulness.

The most important measure of effectiveness in the short term is 'activation' effects: typically, in recent years, these are online direct responses (transactional or intermediate) and their telephone or coupon equivalents in earlier periods. Again, only top-box scores are used to identify high performers. This metric is contrasted in this report with measures of long-term success to reveal factors that are short-term or long-term in nature.

Not-for-profit cases

The metrics used to assess effectiveness for not-for-profit cases are divided into those relevant to charities and those relevant to government campaigns. As with business metrics, they are assessed by authors on a four-point scale, and only top-box scores are used to identify high performers.

The charity metrics measure target-audience response in the following ways:

- Stopping a behaviour
- Starting a behaviour
- Reinforcing a desired behaviour
- Informed of the issue or cause
- Recruited or donating to the cause
- Web/social media traffic
- Changed attitudes

The Government metrics measure target audience response in the following ways:

- Activity that will bring increased value to the economy
- Generating government revenue
- Saving public money directly
- Saving public money indirectly
- Spending public money well
- Enabling public money to be invested in priority areas
- Changes without financial payback

In our analysis, these two baskets of metrics are usually coalesced into single metrics: the number of NFP effects (charity campaigns) or the number of Government effects (government campaigns).

02 Measures of growth

In addition to the sales and share-growth standardised metrics discussed above, the data also records the absolute level of share growth reported for for-profit campaigns. In addition to being used to determine ESOV Efficiency (see below) this metric is sometimes used as a quantified measure of growth.

03 Measures of efficiency

When comparing subgroups of campaigns with differing relative budget levels, it is clearly important to take budget into account. Previous research has shown that share of voice (SOV) is a more relevant measure than absolute spend. An even better measure is the difference between SOV and market share, referred to in this report as 'extra share of voice' (ESOV). ESOV is an important determinant of how fast a brand can grow.

The primary efficiency metric used here is the *annualised* share growth per 10 points of ESOV: we refer to this as 'ESOV Efficiency'. This eliminates the cumulative effects of long-term campaigns, providing a level playing field on which to compare campaigns with different durations.

Also used is ROMI (return on marketing investment), which reports the incremental profit net of marketing costs expressed as a ratio of those marketing costs. The dangers of this metric as a KPI were discussed at length in *Media in Focus*, but the metric is nevertheless useful as a financial efficiency metric with for-profit cases.
These metrics are not available for not-for-profit cases.

04 Measures of campaign duration

Campaign duration is a key factor in the nature and scale of campaign outcomes. Long-term cases are those that were evaluated over periods of longer than six months. This is not an arbitrary period: analysis reported in *The Long and the Short of It* demonstrated how long-term advertising effects on sales uplifts only start to dominate short-term effects after six months. That is to say, brand building takes over as the primary driver of growth from sales activation after six months.

05 Measures of brand building

These consist of seven different metrics (image, awareness, differentiation, fame, commitment, trust and esteem) reported by campaign authors using the same scale as for business metrics. Again, in our analysis, they are often coalesced into one metric – the number of brand effects – which represents a broad measure of brand strengthening that is relatively independent of the particular objectives of the campaign. These metrics are available for not-for-profit cases as well as for-profit ones.

06 Measurement of the division of expenditure between brand building and sales activation

Prior to the 2014 competition year, this was calculated by allocating roles to specific media channels in line with how they were generally used and totalling the reported channel share of spend of brand-building vs. sales activation channels. We have refined this in some sectors to take account of different typical uses (e.g. retailers' use of press advertising has tended to be heavily activation focused, whereas many other sectors have been more inclined to use it for brand building). From 2014 onwards, case-study authors report the exact allocation balance of the budget, depending on how the campaign actually used the various channels. Reassuringly, this improved data collection methodology did not result in any sudden jumps in sector allocations, so we are reasonably confident that the earlier cruder approach was fairly reliable.

A bigger issue for the measurement of the division of expenditure is under-reporting of activation expenditure, where it is not known by case-study contributors. For example, some case studies probably under-report the level of paid search by the brand owner, because this may happen outside the control of marketing. Unwise though this situation may be, in some sectors where search is more heavily used (usually those with large online sales components) it may lead us to under-read actual activation levels and hence distort the apparent balance in favour of brand-building spend. A similar issue occurs with trade promotion expenditure in some sectors with the same result on reported activation levels.

This issue has implications for the measurement of the optimum balance of brand and activation (see 07 below).
However, as this issue will work in reverse in implementation of the recommended balance, we suggest the optimum sector balances are valid. In the report we compare ideal with reported balances, both of which sets of data are identically affected by this issue, so we can get a reliable idea of the state of imbalance by sector.

07 Optimum balance of brand building and sales activation

The need to measure optimum brand:activation balance points with greater granularity within the overall sample has forced us to refine our method and in so doing reminded us of something very important about brand building.

The essential analysis remains the same: usually the relationship between the brand:activation balance and the number of business effects (or

NFP effects) is an inverted U curve. We report the balance that corresponds to the maximum point of the curve: for the entire sample this now occurs at 62% brand. However, when we started to look at subsamples we found that in some instances this relationship broke down. Having eliminated all the other explanatory factors we could examine in the data, we observed that this breakdown occurred where rational product benefit campaigns were widely used as brand campaigns. Eliminating these campaigns from the analysis restored the relationship and made it possible to measure the optimum balances in most contexts where there was adequate data.

But the reason why this simple measure worked is highly revealing. Campaigns that use rational product messaging as a brand strategy tend to work as activation campaigns, principally driving short-term effects. So the ideal balance point for such campaigns was usually at or near 100% 'brand' – brand effects were so weak and activation effects so strong that there was no need for any more activation expenditure. This distorted the relationship, where these campaigns constituted a significant proportion of all, to the point where it had no measurable peak. Fortunately, as we have noted in this report, the proportion of all campaigns accounted for by these rational campaigns has fallen over the years and so does not generally pose an analytical problem. Eliminating them from the total sample of campaigns makes no difference to the overall 62:38 sweet spot.

The important implication of this is that when we talk about brand-building expenditure we are referring to **emotional** brand building, capable of generating long-term effects. Rational approaches will not yield the same results. For this reason and for the reasons discussed in 06 of this appendix, we recommend that our optimum balance recommendations are taken as a start point and that bespoke modelling for the brand is undertaken to identify the sweet spot more accurately.

08 Definitions of rational and emotional campaigns

As with all previous reports, the classification of campaigns is undertaken by the case-study authors (with guidance from the data questionnaire), not by the authors of this report. Authors are asked to choose the standard model that was most important in describing how the campaign worked. The guidance provided to help them choose is as follows:

- **Information** – because of the information it provided
- **Emotions** – because of the emotions or feelings it touched or how likeable it was
- **Awareness** – because it made people more aware of the brand/product or service
- **Salience/Fame** – it got the brand talked about/made it famous – (brand fame is not the same as awareness; it is about creating conversation and buzz around the brand; giving it the sense of being the brand that is making waves in the category, and the authority that comes with that)
- **Reinforced** – because it reinforced existing behaviour rather than changed behaviour
- **Persuasion** – it initially gained interest with information and then added emotional appeal
- A **more complex combination** of these or other factors (please specify).

In this report, as in all previous reports, these classifications are grouped into primarily emotional models (referred to as 'emotional'), primarily rational models (referred to as 'rational'), or models that combine both approaches with more or less equal emphasis (referred to as 'both equally'). The purpose of this is to distinguish those campaigns that worked primarily on the System 1 level (emotional priming) from those that worked primarily on the System 2 level (information processing) and those that did a bit of both. The groupings are as follows:

'Emotional':	Emotions + Salience/Fame
'Rational':	Information + Persuasion
'Both Equally':	More complex combination + Awareness + Reinforced

It should be noted that whilst most of these groupings are empirically self-evident, it could be argued that most awareness and reinforced campaigns are inclined to be rational. However, the authors feel that it would be too simplistic to group them in this way, since they are often more complex than that. Hence they are grouped alongside more complex campaigns.

Finally

There is a great deal more detail in the text of this report that cannot be summarised here – the index will help you locate relevant content.

INDEX

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