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Standards Project

Brand Investment & Valuation (BIV)
Project Review & Status

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Islamorada, FL

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Marketing Accountability Standards Board
of the Marketing Accountability Foundation

BIV: Game Changer (Phase I)

Project	Brand Investment & Valuation (BIV) (Stewart & K Richardson)
Issue Addressed	Brand represents great Value (but how much)
Project Objective	Establish "generally accepted brand investment & valuation standards"
Expected Outcome	Empirically proven model for valuing brands & guiding investment decisions
When	2013 - 2015

Strategy
Build bridges from customer metrics to market metrics to financial metrics… empirically.

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Expected Benefits

Building these bridges (or links) and highlighting the measures will be phenomenally powerful for the marketers' decision making process:

- Making more informed "investment" decisions (relative to both existing brands and to inform "pipeline" activity)
- Meeting organic growth targets more often
- Learning how to improve performance as measured by customer, market and financial outcomes
- Building strong brands more profitably and consistently

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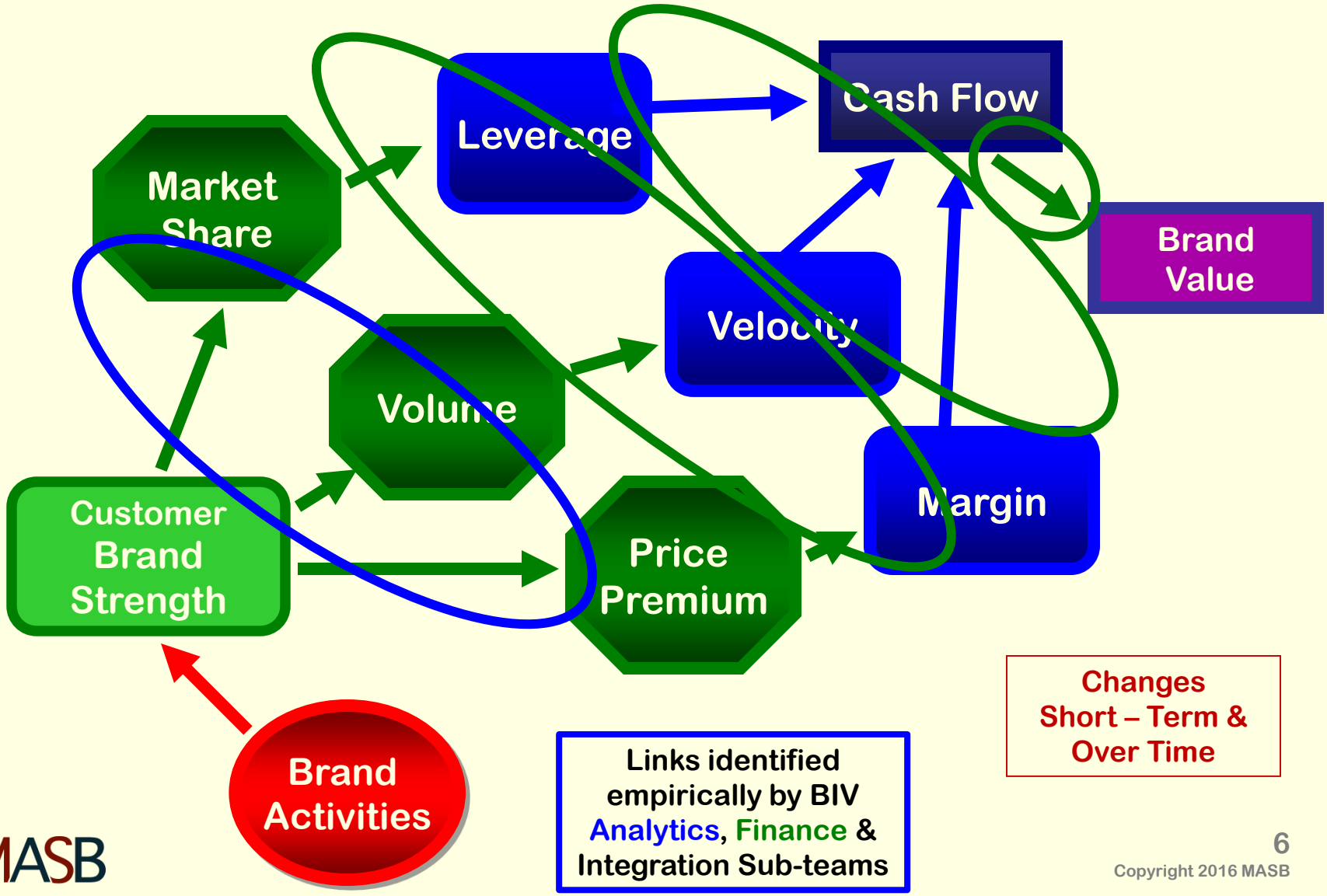
Who needs it?

- All performance oriented managers including
  - CMOs, because their job is to create, build & protect the brand (asset) which represents both short and long term growth potential (revenues at a premium price/margin)…and they need to demonstrate this on an on-going basis.
  - CFOs, because their job is to forecast return from various "investments"… and they currently view marketing as discretionary expense because they have not seen proof otherwise.
  - CEOs, because their job is to determine where to invest for both short and long term corporate performance.
  - Investors, because their job is to understand what the firm's future growth potential looks like.

MMAP: Brand Investment/Valuation Model (Conceptual Links)



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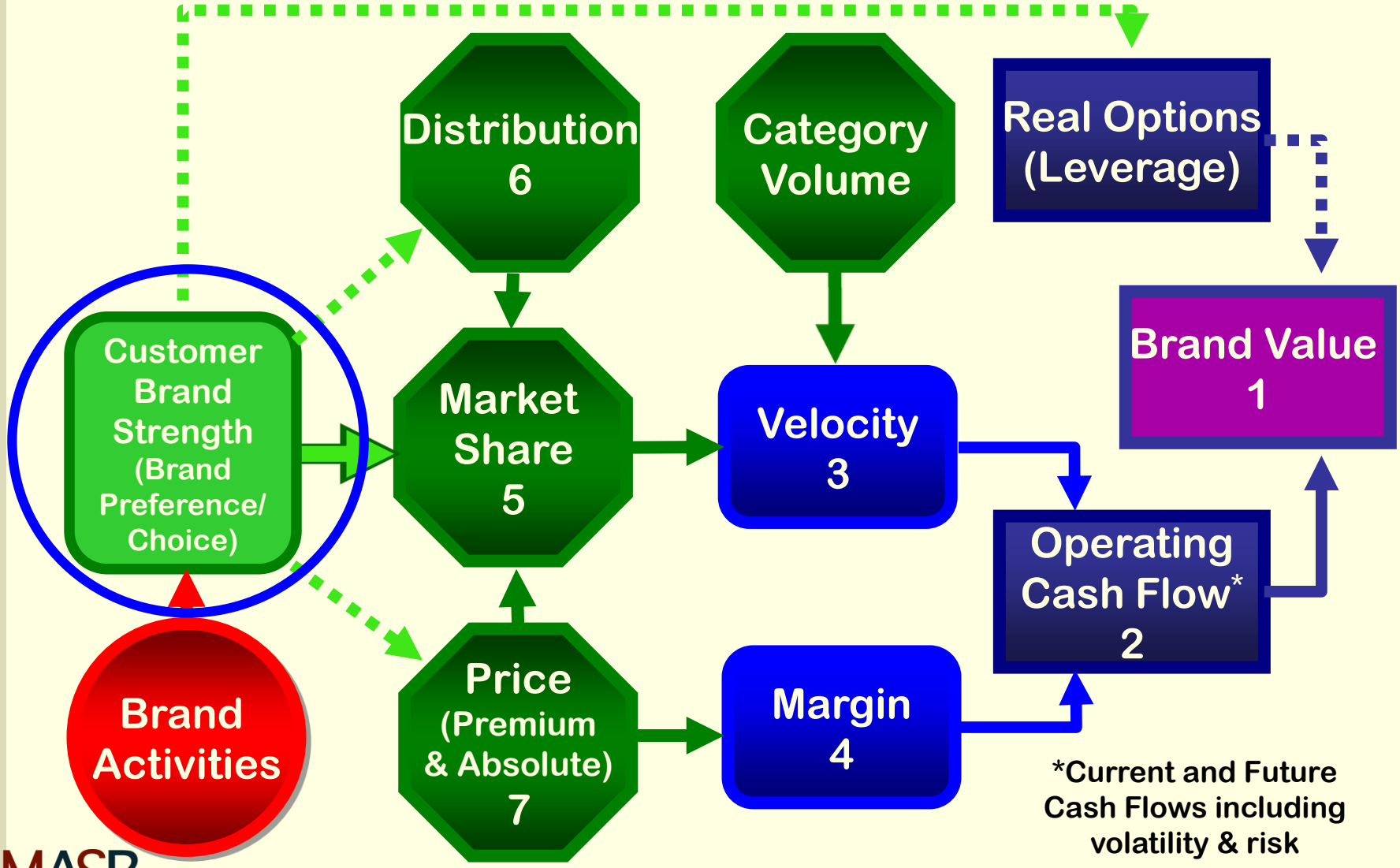
Brand Investment/Valuation Model (8/15)



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Brand Preference/Choice is Behavioral

The MSW•ARS methodology isolates brand strength by holding everything else in the actual buying experience – price, promotion, shelf position, etc. – constant.

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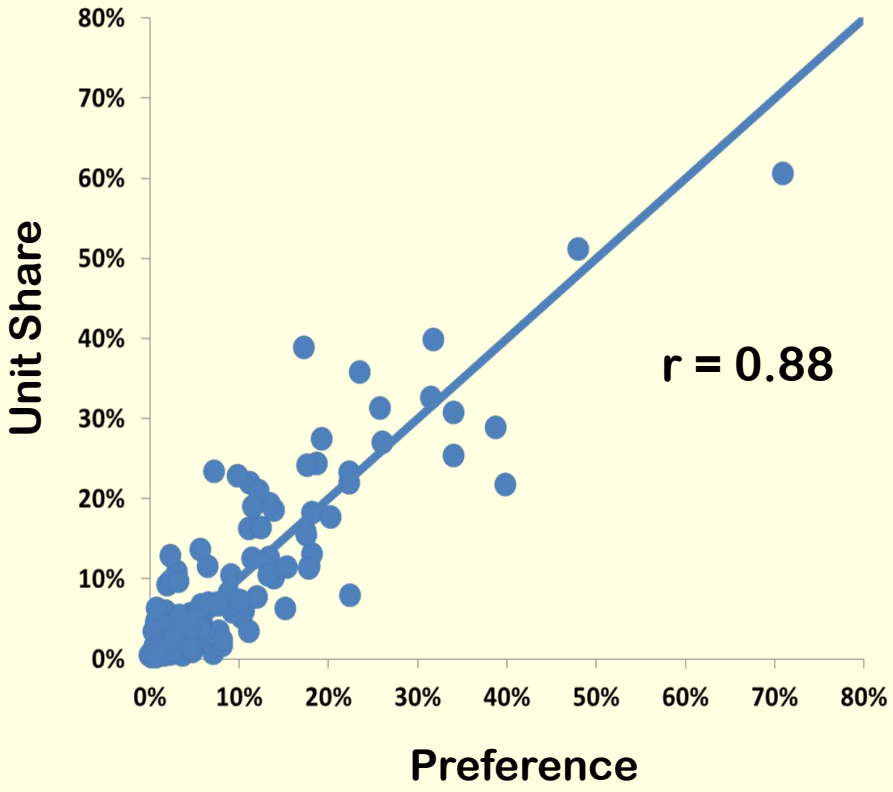
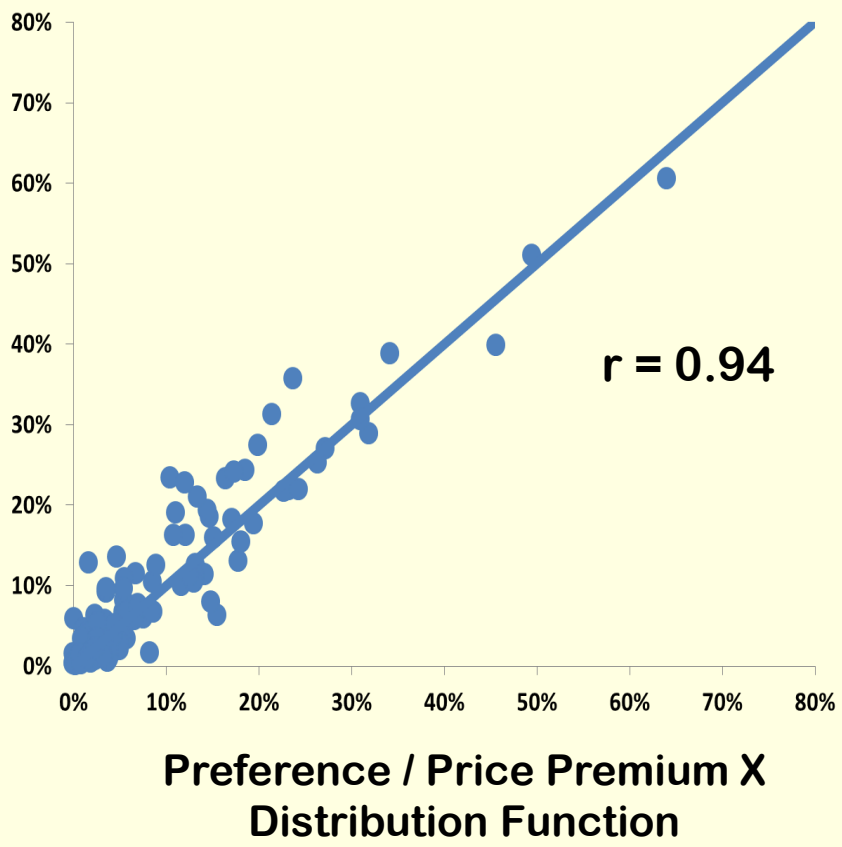
Link Between Market Share & Preference, P.P., Distr. Point-In-Time: 12 Categories, 18 Month Averages





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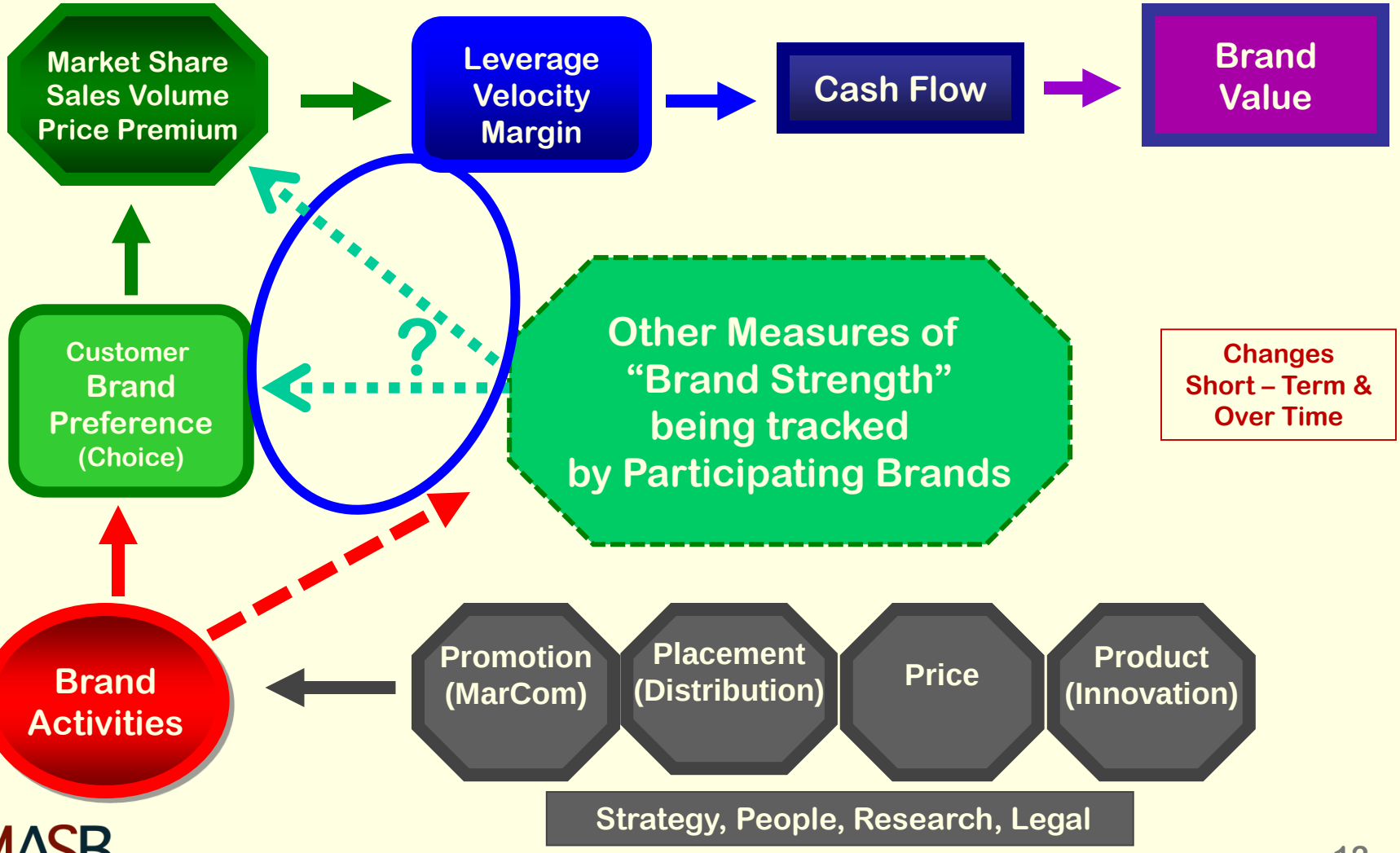
Uncover Links between BP/C and Other Measures



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Results Summary (8/15)

- How strong is link between preference/share and other "Brand Strength" metrics?
  - Several common "Brand Strength" metrics show a positive relationship to share
  - Strength varies by category suggesting none alone is suitable as a standard for brand strength across industries
  - These relationships are weaker than that between preference and share
  - The metrics show similar correlations (usually somewhat stronger) to preference as to share
  - Suggests that these other "Brand Strength" metrics don't substantially add to the preference-to-share relationship
  - Can be used diagnostically to understand brand preference and uncover brand opportunities

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MMAP: 10 Characteristics of an "Ideal Metric"

The MSW•ARS Brand Preference Metric has met the MASB Marketing Metric Audit Protocol (MMAP)…10 Characteristics of an "ideal Metric"

1. Relevant
2. Predictive
3. Objective
4. Calibrated
5. Reliable
6. Sensitive
7. Simple
8. Causal
9. Transparent
10. Quality Assured

What we have seen/learned during the BIV Project Phase I

Not so much for other measures collected in tracking "surveys"

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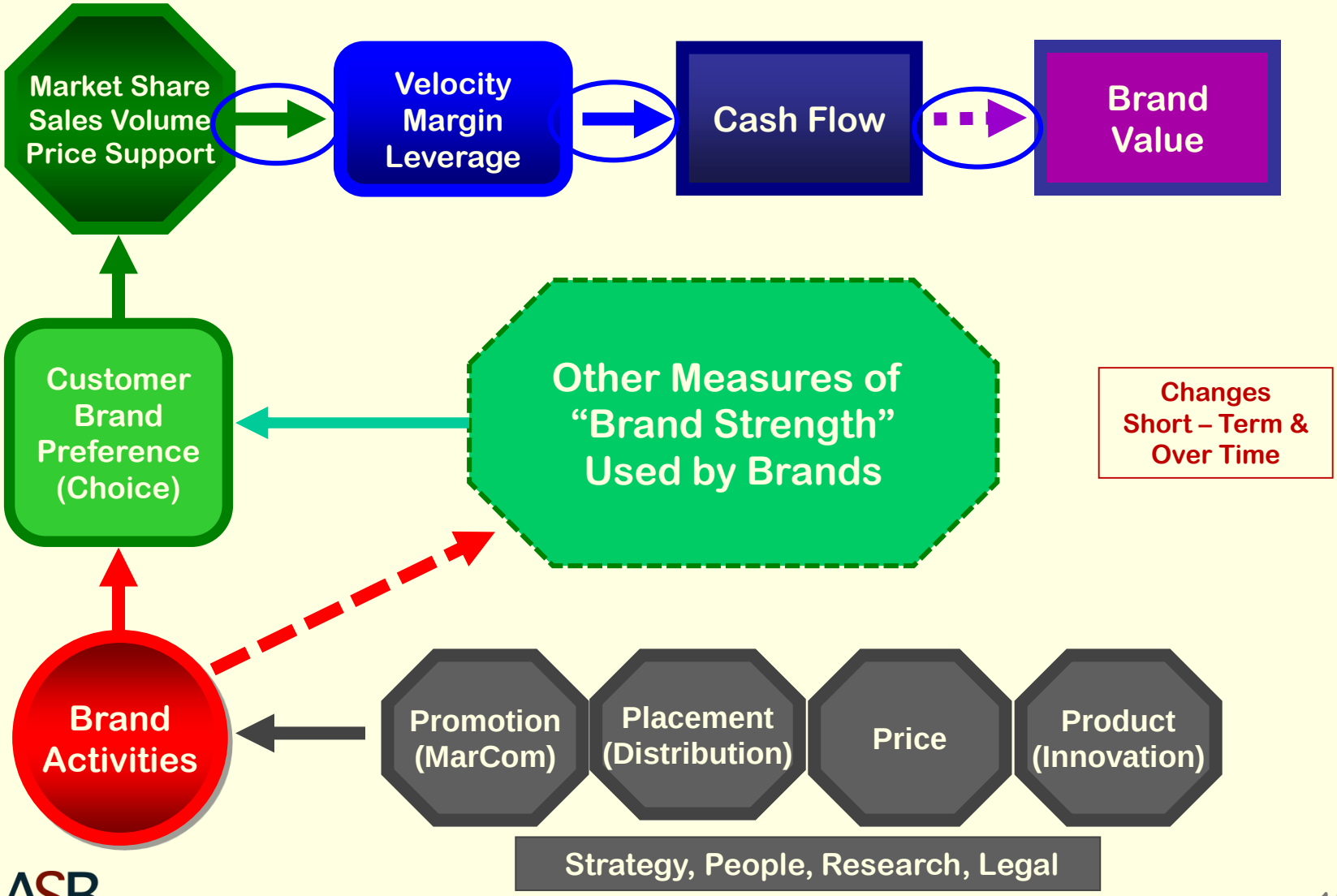
Extension of BIV Model to Financial Metrics



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Brand A

(Units & Dollars in '000s, Except per Unit)

3yr NPV $43,250 **10yr NPV $95,341**

5yr NPV $63,898 **10yr & TV NPV $149,030**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Constant Growth ?	Rate
Sales Volume	800	720	662	623	585	550	517	486	457	430	No	
YOY Growth Rate		-10.00%	-8.00%	-6.00%	-6.00%	-6.00%	-6.00%	-6.00%	-6.00%	-6.00%		
Net Brand Revenue	$ 120,000	$ 110,700	$ 104,390	$ 100,089	$ 95,966	$ 92,012	$ 88,221	$ 84,586	$ 81,101	$ 77,760	No	
NPR per Unit	$ 150.00	$ 153.75	$ 157.59	$ 160.75	$ 163.96	$ 167.24	$ 170.58	$ 174.00	$ 177.48	$ 181.03		
YOY Growth Rate		2.50%	2.50%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%		
Total Cost of Sales	$ (60,000)	$ (55,080)	$ (52,194)	$ (50,534)	$ (48,927)	$ (47,371)	$ (45,865)	$ (44,406)	$ (42,994)	$ (41,627)	No	
COS per Unit	$ (75.00)	$ (76.50)	$ (78.80)	$ (81.16)	$ (83.59)	$ (86.10)	$ (88.68)	$ (91.35)	$ (94.09)	$ (96.91)		
YOY Growth Rate		2.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%		
Gross Margin	$ 60,000	$ 55,620	$ 52,196	$ 49,555	$ 47,038	$ 44,641	$ 42,356	$ 40,180	$ 38,107	$ 36,133		
GM per Unit	$ 75.00	$ 77.25	$ 78.80	$ 79.59	$ 80.37	$ 81.14	$ 81.90	$ 82.65	$ 83.39	$ 84.12		
Brand Marketing Spend	$ (8,000)	$ (9,000)	$ (5,000)	$ (5,000)	$ (5,000)	$ (4,000)	$ (4,000)	$ (4,000)	$ (3,000)	$ (3,000)		
Unbranded Marketing Allocation	$ (3,200)	$ (2,938)	$ (2,784)	$ (2,695)	$ (2,609)	$ (2,526)	$ (2,446)	$ (2,368)	$ (2,293)	$ (2,220)	No	
Unbranded MKTG per Unit	$ (4.00)	$ (4.08)	$ (4.20)	$ (4.33)	$ (4.46)	$ (4.59)	$ (4.73)	$ (4.87)	$ (5.02)	$ (5.17)		
YOY Growth Rate		2.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%		
Net Contribution	$ 48,800	$ 43,682	$ 44,413	$ 41,860	$ 39,429	$ 38,114	$ 35,910	$ 33,812	$ 32,814	$ 30,913		
Fixed Manufactuting Allocation	$ (9,600)	$ (8,813)	$ (8,351)	$ (8,085)	$ (7,828)	$ (7,579)	$ (7,338)	$ (7,105)	$ (6,879)	$ (6,660)	No	
FME per Unit	$ (12.00)	$ (12.24)	$ (12.61)	$ (12.99)	$ (13.37)	$ (13.78)	$ (14.19)	$ (14.62)	$ (15.05)	$ (15.51)		
YOY Growth Rate		2.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%		
SG&A Allocation	$ (10,211)	$ (9,373)	$ (8,882)	$ (8,600)	$ (8,326)	$ (8,061)	$ (7,805)	$ (7,557)	$ (7,317)	$ (7,084)	No	
SG&A per BBL	$ (12.76)	$ (13.02)	$ (13.41)	$ (13.81)	$ (14.23)	$ (14.65)	$ (15.09)	$ (15.54)	$ (16.01)	$ (16.49)		
YOY Growth Rate		2.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%		
Brand Earnings Before Taxes	$ 28,989	$ 25,496	$ 27,179	$ 25,175	$ 23,275	$ 22,473	$ 20,767	$ 19,150	$ 18,618	$ 17,169		
Income Tax Expense	$ (11,596)	$ (10,199)	$ (10,872)	$ (10,070)	$ (9,310)	$ (8,989)	$ (8,307)	$ (7,660)	$ (7,447)	$ (6,867)		
Net Brand Earnings	$ 17,394	$ 15,298	$ 16,308	$ 15,105	$ 13,965	$ 13,484	$ 12,460	$ 11,490	$ 11,171	$ 10,301		
									Terminal Value (10 Year Exit Multiple Without Growth)	$ 103,012		
Discounted Cash Flow	$ 16,660	$ 13,443	$ 13,147	$ 11,172	$ 9,476	$ 8,394	$ 7,116	$ 6,020	$ 5,370	$ 4,543		

Standard Model Inputs

Constant Growth Year		*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*		
Constant Growth Switch											*Yes*	*No*
Discount Year for Present Value	*0.5*	*1.5*	*2.5*	*3.5*	*4.5*	*5.5*	*6.5*	*7.5*	*8.5*	*9.5*		
Corporate Tax Rate	*-40.00%*											
WACC	*9.00%*											

BIV: Game Changer (Phase II)

Project	Brand Investment & Valuation Drivers (Stewart, K Richardson, Findley)
Issue Addressed	Brand Preference/ Choice ➡ Brand Value (but how to increase it)
Project Objective	Establish drivers of "generally accepted" BP/C standard metric
Expected Outcome	Empirically proven drivers for increasing BP/C & Brand Value
When	2018

Strategy
Find drivers to continuously improve the consumer brand value metric to improve market impact & financial performance

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BIV Milestones: Phase II

Phase II Team 9/15

What is Known 2/16

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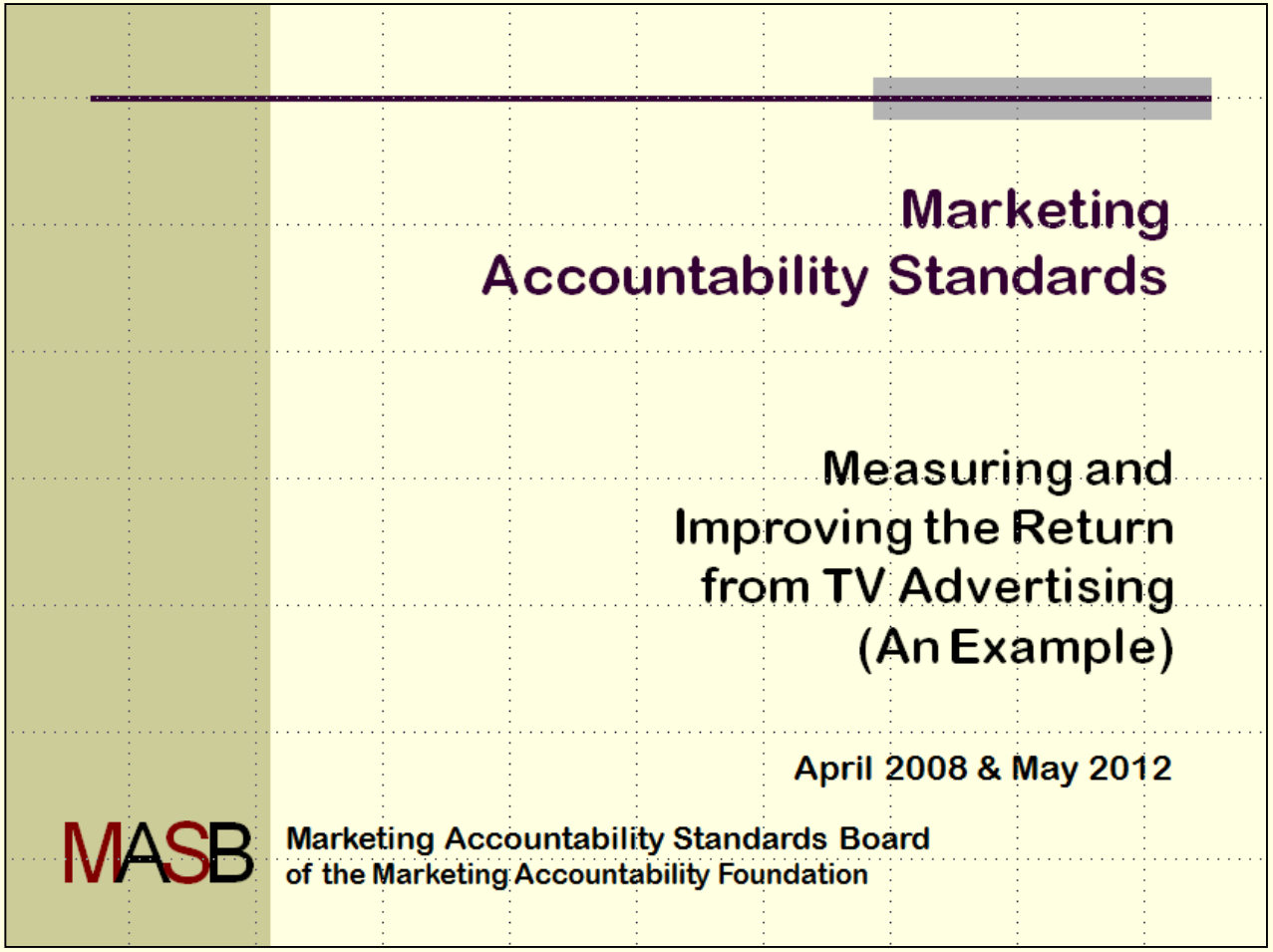
* Paper, Deck or Publication outputs

What is Known



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The Metrics

- "While marketing does not lack measures, it lacks standard metrics explicitly linked to financial performance in predictable ways."
- Literature review of commonly used pre-market metrics[1]
  - Recall: % recalling key message elements
  - Likeability: % judging product/service "likeable"
  - Different: % judging product/service positively "different"
  - New Information: % judging ad provides "news" or "new information"
  - Persuasion: % judged to be positively persuaded
- Recall and likability: weak relationship on their own to financial impact
- Different and New Information: lack of studies / conceptual foundation
- Persuasion: strong relationship <u>when measured as behavioral shift in brand preference</u>

[1]Listed as commonly used in ANA *Marketing Accountability Task Force Report*

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The Metrics

Body of Knowledge - Persuasion

"The selling power of adverting can be measured (pre-market)"
(Blair 1988)

"Ads which are *not* persuasive do not increase sales and do not improve over time-related-to-spending. Ads which *are* persuasive *do* increase sales…and they wear *out* in the process "
(ibid)

"The implications from this (forward validation) story speak to the request for advertising accountability"
(Adams et al 1992)

"The (persuasion) measure has successfully indicated the split-cable… results **91 percent** of the time"
(Blair et al, 1994)

"It *is* possible to identify sales-effective advertising *before airing* if the proper (persuasion) measurement tools are used"
(Jones et al, 1996; citing 15 papers)

"This evidence supports the use of this measurement as the primary source of feedback during the advertising development and management process"
(Wells, 1997)

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MASB TV Project
The Metrics

The body of knowledge regarding "persuasion" is based on a specific behavioral measure of consumer brand preference where:

persuasion			
ARS Persuasion = APM Facts*	Change In Consumer Brand Preference/Choice	→	Market Results

The behavioral nature of the measure relieves it of the effects from cognitive bias (Vakratsas & Ambler, 1999)

* APM Facts = ARS Persuasion Metric for ads that actually air versus the same methodology used at other stages of the advertising development process.

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Brand Preference/Choice is Behavioral

The MSW•ARS methodology isolates brand strength by holding everything else in the actual buying experience – price, promotion, shelf position, etc. – constant.

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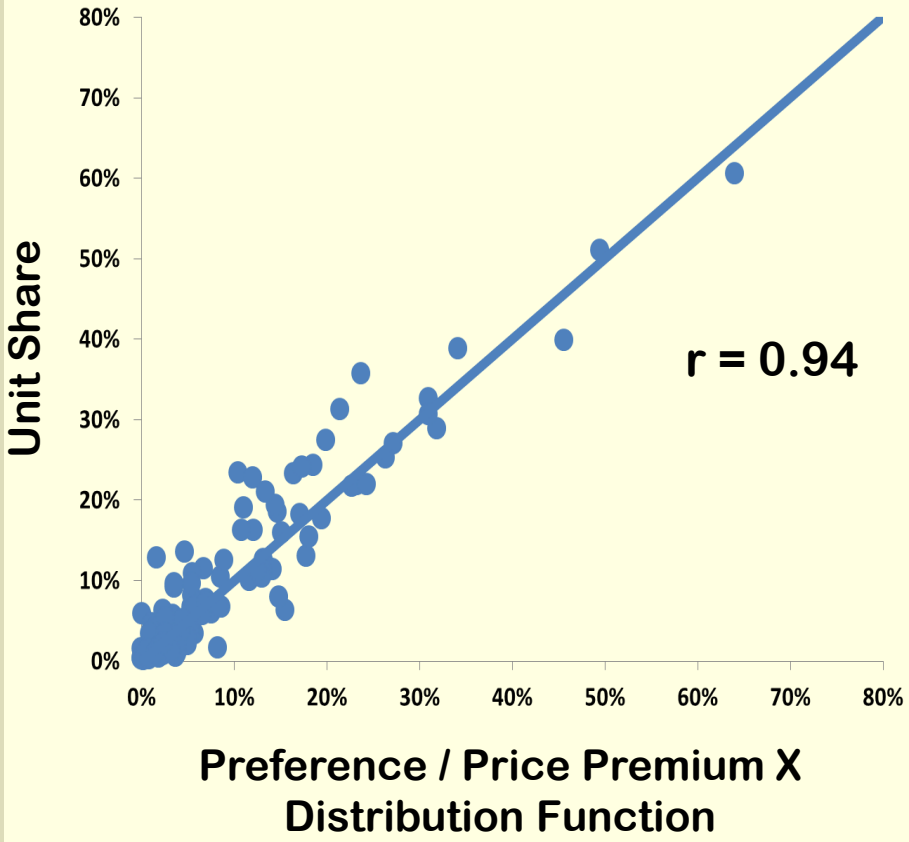
This converges with BIV trials learning*



	Median Unit Share Variance Explained
Preference	**80%**
Awareness – Unaided	44%
Brand Loyalty	43%
Value	44%
Purchase Intent	26%
Brand Relevance	18%
Awareness – Aided	26%
Advocacy	13%

*Applying the same Brand Preference/Choice measure to tracking

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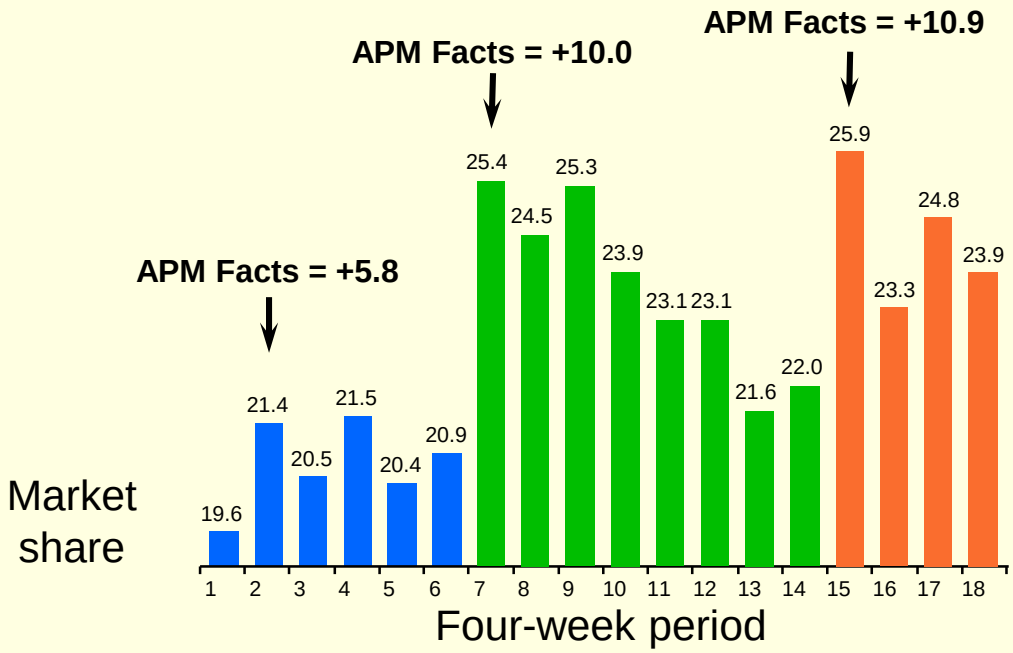
Size and duration of impact

- Television advertising has an immediate impact
- This impact can build over the long-term by maintaining media spend behind refreshed, preference lifting advertising



Source: Adams, A. J., and M. H. Blair. "Persuasive Advertising and Sales Accountability: Past Experience and Forward Validation." *Journal of Advertising Research* 32, 2 (1992): 20-25.

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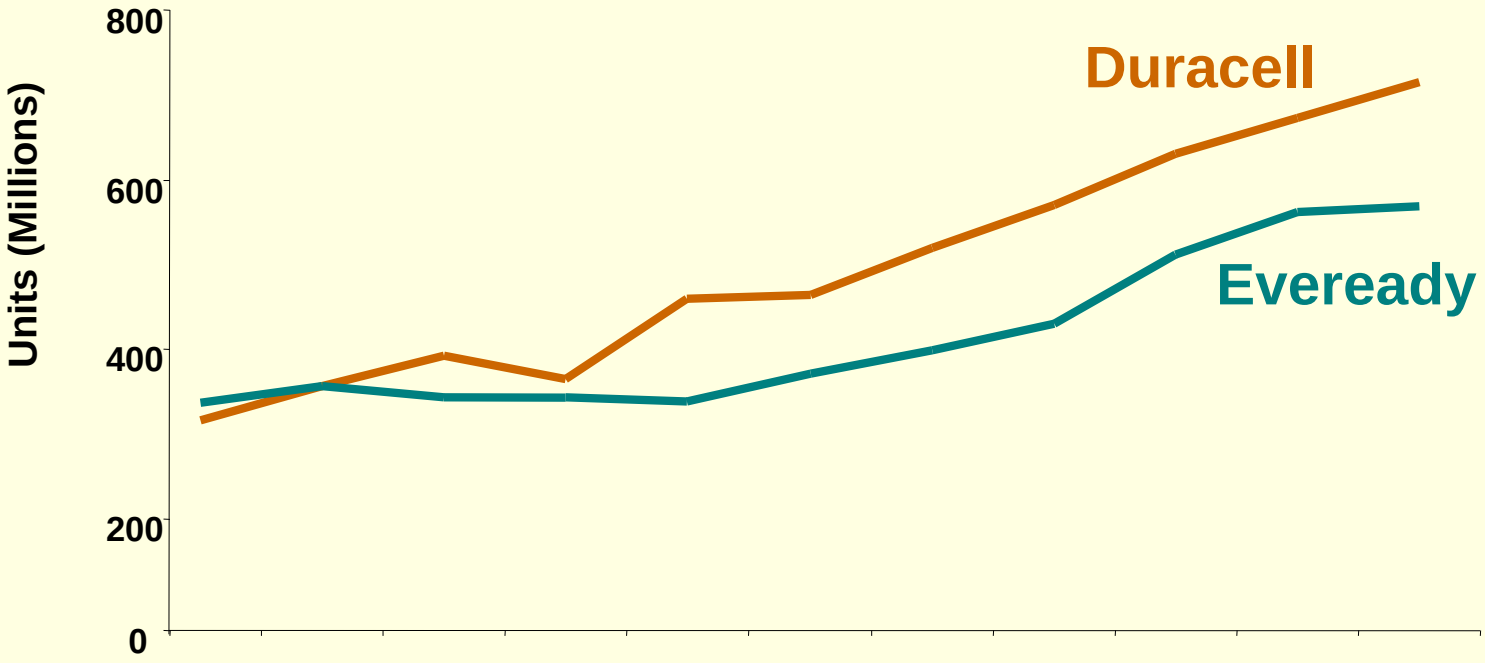
Example – 10 year case study



Alkaline Battery sales began to take off in the late 1980s, with Duracell and Eveready starting the race at about the same place. They each sold millions of units more each year to meet the electronics demand . . . but why did Duracell sell more in the end?
How did they each manage the brand? What was it worth?

Source: Blair et al, 2004

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Example – 10 year TV case study

	Duracell		Eveready
Average *APM* Facts	5.1	→	3.9
Study End (10th year):			
Brand Preference	57%	→	37%
Market Share (units)	44%	→	35%
Sales (units)	715M	→	568M
Price per unit	$1.02	→	$.86
Profit	$609M	→	$275M
Market Value*	**$8 B**	→	**$3 B**

Duracell managed the Brand by continually building brand preference high enough to charge a 19% premium price and still gain more than Eveready in both unit sales and market share; and the prize at the end of the 10 years was nearly a 3 to 1 market value of the Duracell Company over Eveready.

* The Companies were sold for these prices within a year or so of the study end.

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Source: Blair et al, 2004

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Drivers of Brand Preference/Choice

- Several proven drivers of preference for ads were identified
  - Compelling value (selling) proposition
  - Strategic brand content
  - Executional content
  - Clarity of communication of brand name and key messages

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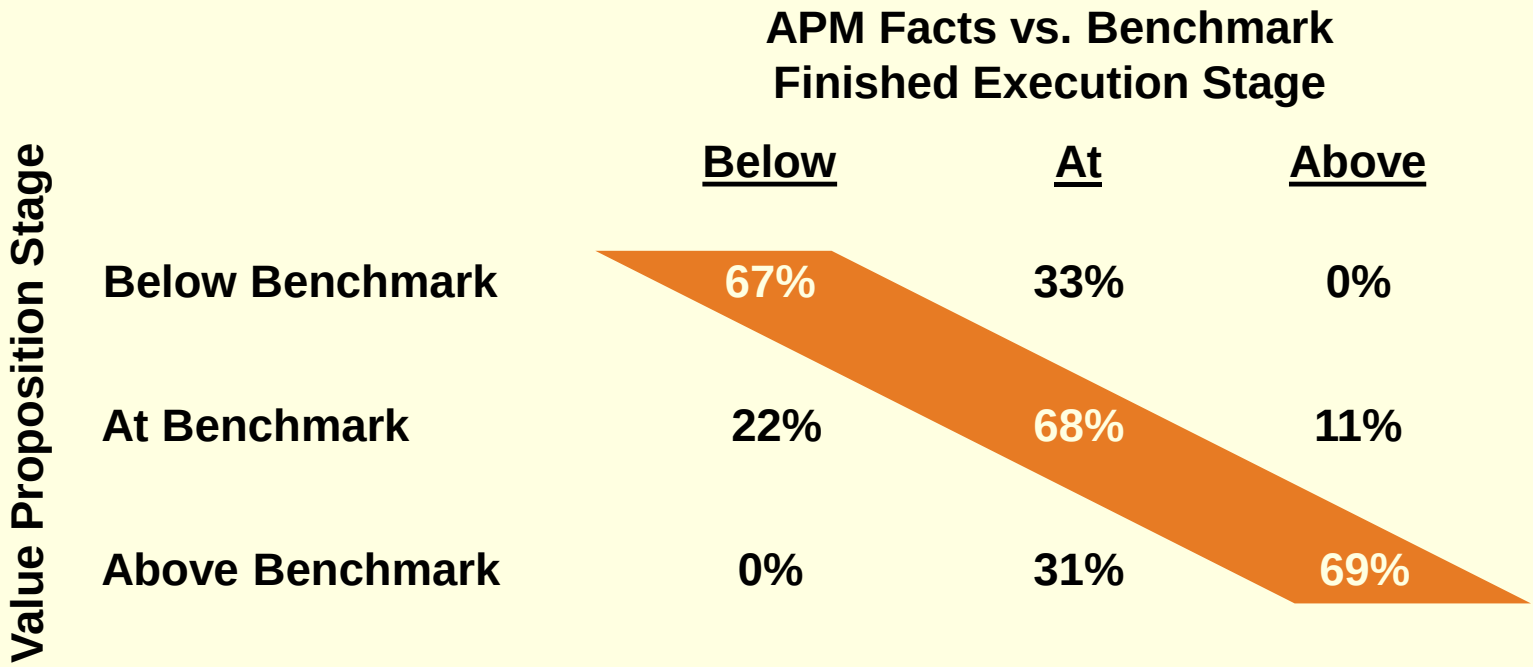
MASB TV Project Summary
Drivers of preference: value proposition



- 67% of ads based on a weak proposition perform weakly (0% being above)
- 69% of ads based on a strong proposition perform strongly (0% being below)

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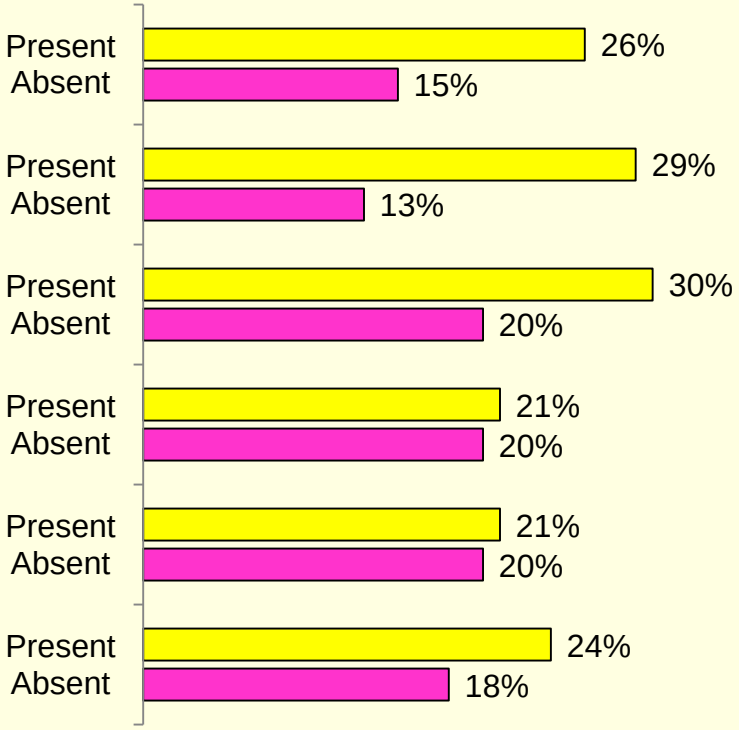
Drivers of preference: strategic content

	Percent of Ads with Element	Percent of Ads w/Statistically Superior APM Facts Results vs. Benchmark
Brand-Differentiating Key Message	46%	Present 26%, Absent 15%
New Product/New Feature	47%	Present 29%, Absent 13%
Product Convenience	7%	Present 30%, Absent 20%
Competitive Comparison	35%	Present 21%, Absent 20%
Superiority Claim	29%	Present 21%, Absent 20%
Brand Name Reinforces Benefit	42%	Present 24%, Absent 18%



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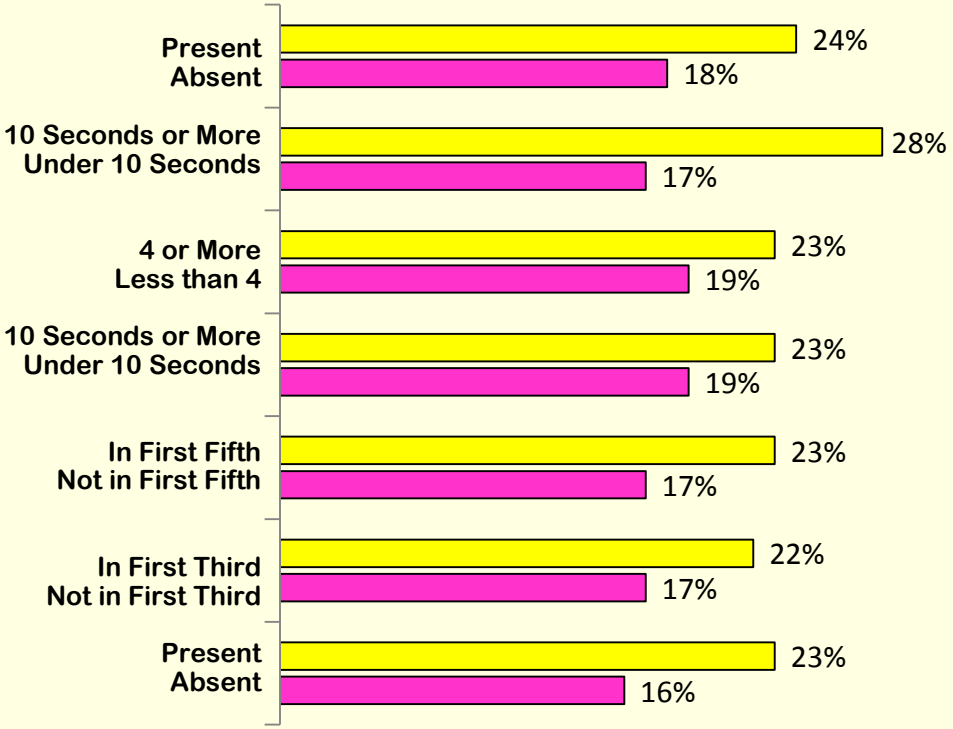
Drivers of preference: executional content

	Percent of Ads with Element
Setting Directly Related to Use	40%
Time Actual Product on Screen	34%
Number of Brand Name Mentions	36%
Time Brand Name/Logo on Screen	41%
Time Until Category Identified	60%
Time Until Product/Package Shown	69%
Demonstration of Product in Use	68%

Percent of Ads w/Statistically Superior APM Facts Results vs. Benchmark



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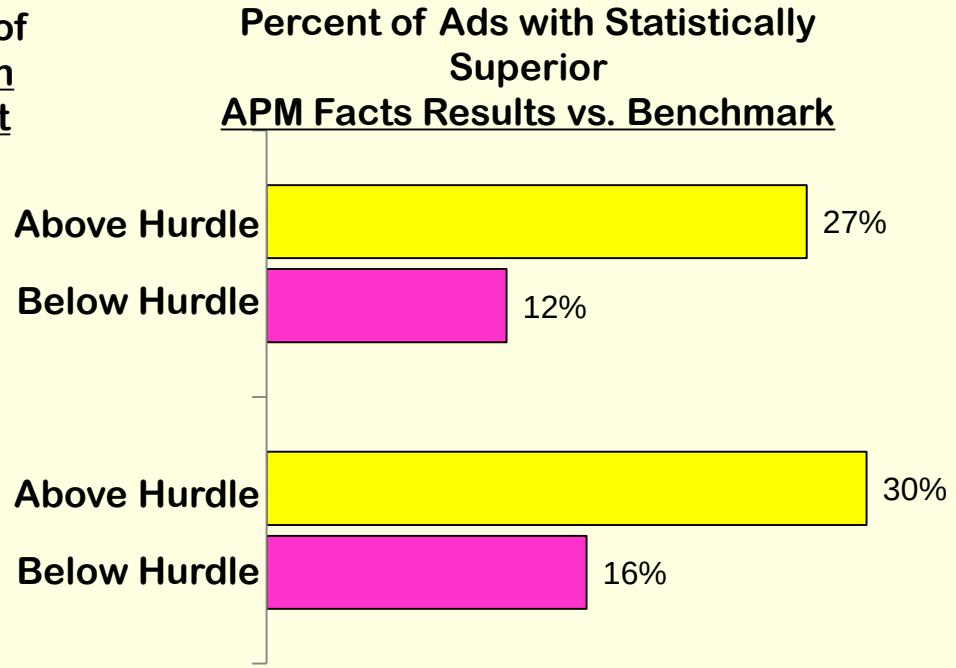
Drivers of preference: communication

	Percent of Ads with Element
Brand Name Recall	58%
Key Message Communication	38%



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Drivers of preference: communication

"Further analysis…showed a complex, non-linear relationship (between) brand differentiation (and communication)…"

"Ads that meet communication hurdles are more likely to achieve higher…results.

Presence of a brand-differentiating key message, alone or in combination with strong communication achieves the highest levels…"

Source: Stewart et al 1989; ARS 2005 & 2007

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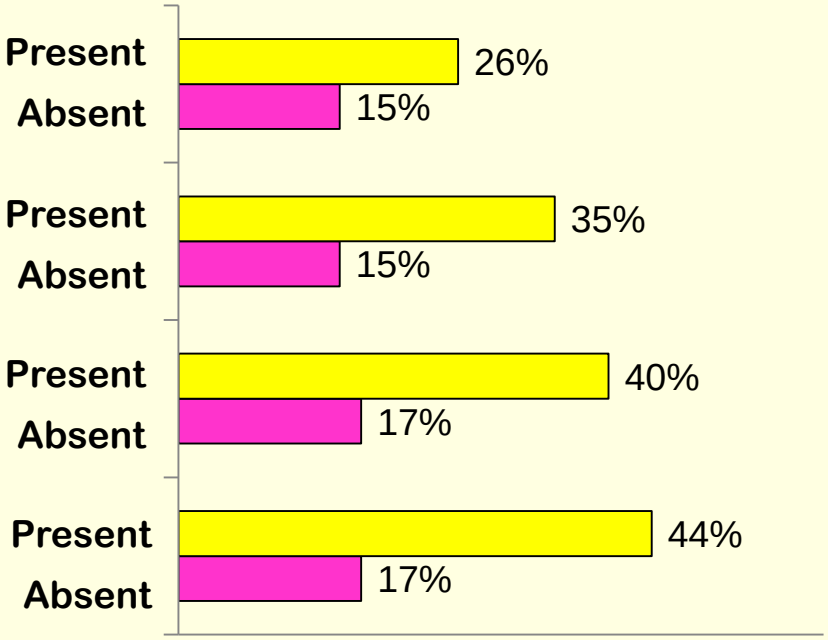
Drivers of preference: communication

Percent of Ads with Statistically Superior
APM Facts Results vs. Benchmark



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MASB TV Project : Summary of What is Known and What's It Worth in a Business Quarter?

Preference Driver	APM Facts Difference	Market Share Impact[1]
(Calibration of APM Facts)	(2.0 points)	(0.4 points)
New Product/Feature (R&D)	3.3 points[2]	0.7 points
Brand-Differentiating Product Message (R&D)	2.0 points[2]	0.4 points
Strong Value Proposition (Brand)	2.4 points[2]	0.5 points
B-D Message Communicated (Agency)	4.0 points[2]	0.9 points

Source: Blair 2005

This learning has major implications for Better Practices on the Advertising Development side of the ROI equation… (for R&D, Brand, and Ad Agency).

[1] Times Quarterly Category Volume Times Incremental Margin = Return
[2] On Average Across All Observations

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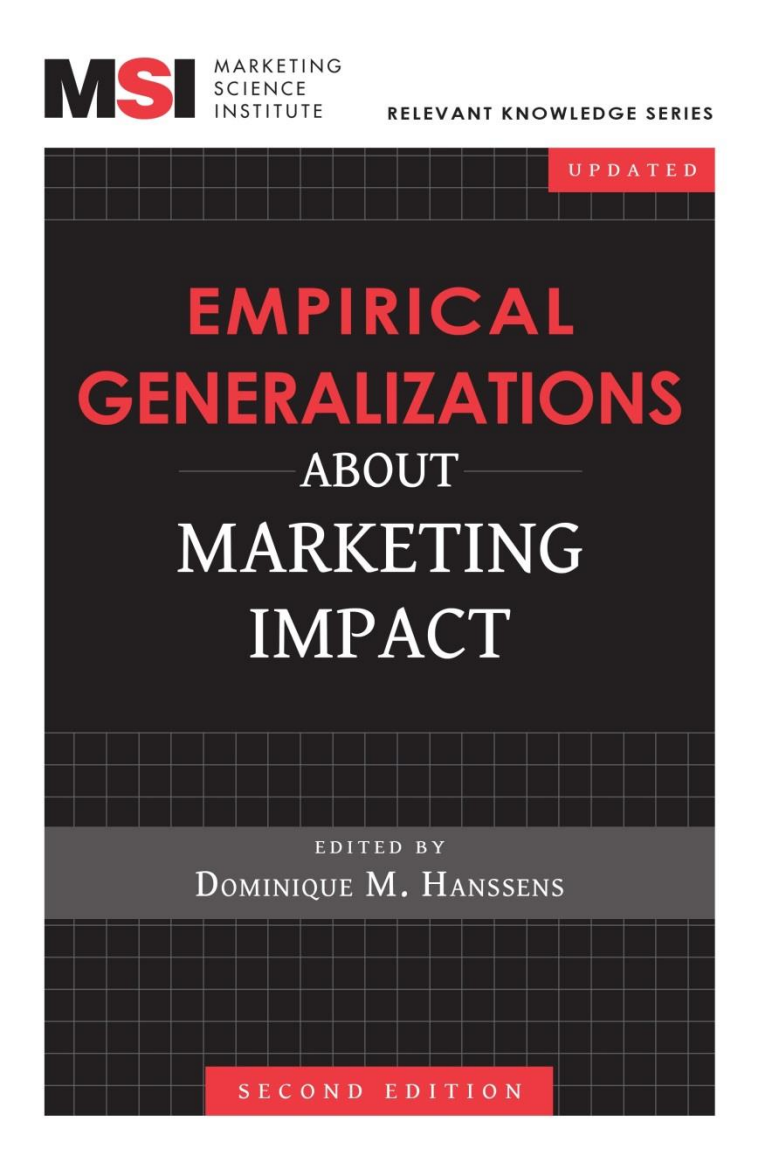
What is Known:
Empirical Generalizations



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What is Known: Source

Empirical Generalizations about Marketing Impact

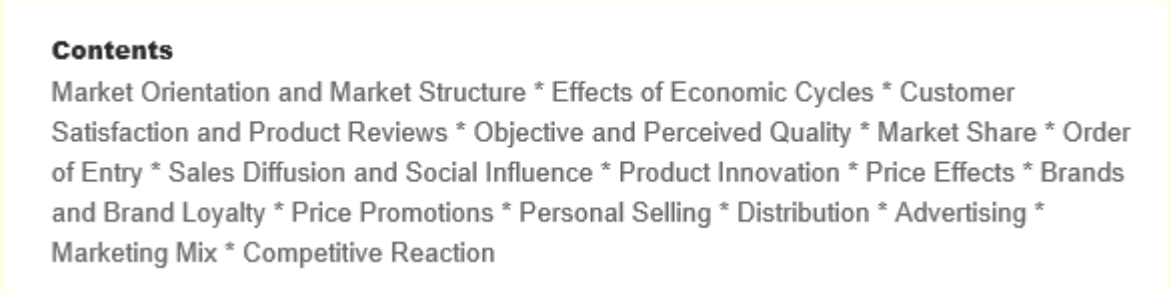
New edition of handbook published originally in 2009

- Part of MSI Relevant Knowledge Series
- Professor Dominique Hanssens UCLA, Developer and Editor

New edition has 123 individual empirical generalizations – more than 40 new generalizations added vs. original edition

- Typically 1-2 pages for each one
- Topline description of the learning or generalization
- Description of evidence base
- Topline managerial implications
- Contributor(s) and references (journal where research originally published)

16 subject headings spanning all 4 Ps as well as other topics



Contents

Market Orientation and Market Structure * Effects of Economic Cycles * Customer Satisfaction and Product Reviews * Objective and Perceived Quality * Market Share * Order of Entry * Sales Diffusion and Social Influence * Product Innovation * Price Effects * Brands and Brand Loyalty * Price Promotions * Personal Selling * Distribution * Advertising * Marketing Mix * Competitive Reaction

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What is Known: Approach to Using Source

- Reviewed entire range of generalizations in new edition
- Classified into one of 5 categories and summarized by category
  - High-level/strategic
  - 4 Ps
    - Product
    - Price
    - Placement
    - Promotion (Marcom)
- Concentrated on generalizations bearing directly on relationship between 4 Ps and outcomes
  - Almost all generalizations have sales as outcome
  - Assume most learnings about relationships with 4Ps apply equally to brand preference

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What is Known: High-Level/Strategic

Marketing, particularly Product (innovation) and Promotion(Marcom), plays key role in overall firm performance

High-Level/Strategic		
What is Known	Evidence Base	Managerial Implications
Relationship between marketing capability and firm performance is positive and stronger than those for R&D or Operations.	Krasnikov and Jayachandran (2008) "The Relative Impact of Marketing, Research and Development, and Operations Capabilities on Firm Performance"	Investment in marketing capability leads to greater improvement in firm performance than increases in Operations or R&D capabilities.
High-level drivers of organic sales growth for firms in descending order of elasticity are: entrepreneurial orientation, management capacity, innovation, advertising, inter-organizational networks, and firm size. By contrast, firm age has a negative relationship.	Cem, Bharadwaj, and Parzen (2009) "A Meta-Analysis of the Determinants of Organic Sales Growth".	In relation to spending, innovation has the greatest single positive impact on firm organic sales growth, but advertising also plays an important role. In fact, managers should pursue value creation by innovating and value communication by advertising in tandem with one another.
Responsiveness to marketing is primarily a consumer trait, not a product category attribute. • Higher income HHs are less price-sensitive while larger families are more price-sensitive • Households that make more trips to the store are more price sensitive while those with larger average basket sizes per trip are less price sensitive • Heavy user HHs are less promotion sensitive	Ainslie Bayesian multi-category model on panel data on five categories and 300 households	Many manufacturers compete across a range of categories. Given consumer types that purchase in all categories in which the firm operates and therefore respond similarly to specific marketing levers across categories, it is possible to coordinate marketing efforts across the portfolio.

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Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 7, 14, 179

What is Known: High-Level/Strategic

Growth in Private Label share a strategic challenge to brand preference and firm value, and it is important to understand to key determinants

High-Level/Strategic

What is Known	Evidence Base	Managerial Implications
Store-brand shares are higher among HHs with the following attributes: • Lower income • Larger size • Higher education Consumers will purchase a larger relative quantity of store brand products if they: • Are more price sensitive • Are less quality sensitive • Perceive store brand quality to be higher • Their shopping frequency is higher • Their store loyalty is higher Store brand share is further above average when: • National brand vs. store brand price gap greater • Retail promotion activity of store brands is greater Store brand share tends to be lower when: • There are more national brands present • National brand price competition is more intense • National brand share concentration is less • Market concentration among retailers is greater • National brand retail promotion activity is greater • National brand advertising levels are greater	Gielens and Sethuraman Meta-analysis of 54 studies	Somewhat paradoxically, lower-income consumers less likely to purchase store-brands than expected based on affluence alone due to lack of education – hypothesize may limit store brand familiarity and formation of positive store brand image. Future of store and national brand competition will depend on several factors: • How retailers and national brand marketers manage consumer perceptions, which could foreshadow an increased role for store brand advertising. • Ability of store brands to maintain close to parity or parity in terms of quality since this has a stronger impact on share than price gap vs. national brand, i.e., consumers seek value without giving up too much on quality • Ability of retailers to shift a bigger share of their marketing budget to non-price promotion levers to drive future store brand growth

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 120-121

What is Known: Product

Quality affects price and share; investments take time to be fully realized

Product

What is Known	Evidence Base	Managerial Implications
Product quality links to Price and Market Share: • Correlation between quality and price varies widely across categories and increases with available information – higher for durables, high ticket items, and products that can be inspected outside their package. • Market shares adjust to changes in quality that become known to consumers. Share leadership follows quality leadership, not order of entry alone. • Consumers will pay a price premium for grocery products even if national and store brands are at parity on quality ("image premium")	Tellis, Sethuraman Price: meta-analysis of none studies covering 1,365 products over a 41-year period 1939-1980 Quality: meta-analysis of 19 categories in personal computer and services markets over a 17-year period 1982-1999 Analysis of 98 grocery and 132 consumer products, aggregate consumer reports data	Where barriers to search once kept prices/shares from correlating closely with quality, we hypothesize that removal of barriers provided by Internet have greatly strengthened linkage across quality, price, and share. Managers need know where their brands stand in terms of quality at all times as changes in quality position lead to changes in share. Managers can maintain and grow the image premium by investing in advertising and other tactics that build equity perceptions
A change in objective quality takes time to be fully reflected in consumer perceptions and, by extension, in preference and purchase. The range across categories can be anywhere from 3 to 9 years with just 20% of the full benefit in Year 1. Effects are larger and occur more quickly for decreases in quality • Brands starting with a high reputation are rewarded 3 years sooner for improvements and punished one year later for diminished quality than lower reputation brands	Mitra and Golder Study of 241 products in 46 categories over 12 years	Investments in product quality will pay back on a long-term basis. High reputation brands are advantaged competing on quality because consumers give them credit more quickly Firms should track objective and perceived quality along with associated lags to identify the best quality strategy[1] [1] Average correlation between what consumers know (objective knowledge) and what they think they know (subjective/perceived knowledge) about products and services is just 0.37. Meta-analysis of 51 previous studies – Bearden, Carlson, Hardesty, and Vincent. Hanssens, *Empirical Generalizations*, p. 41

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 43.45, 117

What is Known: Product

Innovation contributes positively to firm value, but it is important to avoid the middle with respect to degree of newness in order to succeed

Product		
What is Known	Evidence Base	Managerial Implications
The long-term effect of product or service innovation on firm stock market value is highly positive and reaches greater levels in response to radical innovations than incremental innovations	Sorescu 399 innovations introduced by 6 automobile firms; 22,352 innovations introduced by 153 consumer packaged good firms	All else equal, investment in innovation has a long-term positive effect on a firm's market capitalization, especially if the innovation is radical in nature
There is a U-shaped curve relating degree of newness of new CPG product and its in-market success. An intermediate level of newness typically achieves a lower purchase rate in the first year after introduction compared to either incremental or true/radical innovations.	Steenkamp Meta-analysis of more than 500 food, beverage, personal care, and household care new product introductions in Western Europe and the UK	Managers should avoid steering a course in the product development process that leads to new items that are "stuck in the middle." Moderately novel new offerings generally do not offer much greater consumer advantage than purely incremental ones yet at the same time are not much lower in cost or complexity than true innovations.

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 87, 94

What is Known: Product

Product harm crises depress preference and sales; product placements in films raise financial return

Product		
What is Known	Evidence Base	Managerial Implications
Negative effects of product harm crises can include loss of base sales, reduced effectiveness of the brand's own marketing, and increased vulnerability to competitive brands' marketing. In the event of a product harm crisis, brand managers often either increase advertising or reduce price to regain lost customers. Others might raise prices to protect revenue. The effectiveness of any action depends heavily on the circumstances, particularly on extent of negative publicity and whether the brand had to publicly admit responsibility.	Dekimpe and van Heerde Meta-analysis of 60+ fast-moving consumer goods product harm crises.	When deciding on a product harm crisis response, managers should take into account the context (level of publicity, admission of blame), objective of the response, and likely change in relevant mix and/or price elasticities. In the case of low publicity/admission of blame, brands are advised not to increased advertising while the opposite is true in the even of high publicity/no acknowledgment of blame.

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), p. 38

What is Known: Product

Product placements in films raise financial return, but impact has declined since 1990s

Product		
What is Known	Evidence Base	Managerial Implications
Product placements in motion pictures historically have generated positive financial returns to the firm (0.75% stock price bump on average), but the impact of such placements as well as related tie-in advertising campaigns have declined since peak levels achieved in the 1990s.	Karniouchina and Uslay Event study of 928 product placements in 159 films released over 4 decades	Companies need to be more selective given decline in returns from generic placements • Results showed total number of products placed did not affect performance, so pre-existing agreements could be useful • Subtle background placements might be less costly and also more effective by virtue of being perceived as less intrusive

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), p. 173

What is Known: Price/Price Promotion

CPG products are generally quite price-elastic and have been becoming more so across time; also price sensitivity varies based on a number of factors

Price/Price Promotion		
What is Known	Evidence Base	Managerial Implications
Average CPG price-to-sales elasticity is -2.62 but varies in magnitude based on a number of factors: Brand-level (-2.50) > SKU-level (-2.97) Sales models (-2.89) > share models (-2.57) Short-term Promotional (-3.63) > Regular (-2.36) Long-term Regular (-3.78) > Promotional (-3.17) Introduction/Growth Phase > Mature Stage Grocery/High Stockpiling -2.71 > -2.60 Grocery/Low Stockpiling -4.10 > -2.62 Durables -5.38 > -3.81 Sales have become more sensitive to changes in price the past 50 years as average cross-category elasticity has increased |0.50| each decade	Van Heerde Meta-analysis of 1,851 price elasticities across 81 studies	Price has become an increasingly critical determinant of CPG sales over time. Accompanying trends have been that discounting has become a more effective way of increasing short-term sales while increasing prices has become a less effective means of driving increased revenue.

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 103-104

What is Known: Price/Price Promotion

Competitive price (cross-price) effects depend on the brands involved and often are asymmetric.

Price/Promotion		
What is Known	Evidence Base	Managerial Implications
The percent change in sales of an economy-priced store brand per percent reduction in the price of a more expensive national brand is larger than the comparable sales response of the national brand to a price cut by the store brand. However, the absolute effects expressed as points of market share are virtually identical. Known as asymmetric price effect.	Sethuraman Meta-analysis of 210 cross-price effects from 105 national brand-store brand pairs	Conventional wisdom based on the asymmetric elasticity is that national brands have more of an incentive to discount and steal share from store brands than vice versa. However, the absolute share comparison does not support this dynamic.
The absolute effect (expressed as points of market share) from a low-share player's price cut on market share of a larger brand exceeds the impact of a price cut by the high-share player on market share of the smaller brand. Known as asymmetric share effect.	Meta-analysis of 1,060 cross-price effects on 280 brands from 19 different grocery product categories	Unlike when viewed from the vantage point of the more dominant brand, manufacturers of low-share brands have a greater incentive to discount as they can gain access to a larger pool of consumers – the buyer base of the bigger brand.

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 110-112

What is Known: Price/Price Promotion

Price promotion effects generally short-term in nature

Price/Price Promotion		
What is Known	Evidence Base	Managerial Implications
Price promotions generate a strong temporary sales lift for the target brand. The average elasticity is -3.63 (10% discount from regular price leads to a 36.3% increase in sales). • Brand switching accounts for 75% of gain • Temporary category expansion drives remaining 25%	van Heerde Analysis of 173 brands across 13 CPG categories	Manufacturers can leverage price promotions to generate short- to medium-term increases in the overall size of the pie (demand), not just the relative size of their respective slices (shares). This can help manufacturers secure greater retailer support for promotions. At the same time, given limited ability of price promotions to trigger permanent sales increases, marketers should rely on other levers like innovation and advertising to drive long-term growth.
In the majority of cases available for study (58%), price promotions expanded short-term category sales. The net elasticity was 2.21 accumulated over an average horizon of 10 weeks following the start of the promotion event. However, persistent or permanent impacts (enduring step changes) on category demand proved to be rare (2% of cases)	Nijs Four years of data on 560 supermarket product categories in the Netherlands	

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 131, 134-135

What is Known: Price/Price Promotion

In few instances when price promotions do generate more lasting sales results, the impact varies based on a number of factors

Price/Price Promotion		
What is Known	Evidence Base	Managerial Implications
Average result varies as follows: +10% when supported by feature or display -6% when accounting for effects of retailer category management -10% when allowing for branded competitor reaction	Pauwels Analysis of 75 brands in 25 fast-moving consumer products categories	Securing quality merchandising support critical to long-term positive contribution of price incentives; however, competitor reaction can nullify any lasting benefit

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), p. 138

What is Known: Placement (Distribution)

In-market results respond to changes in breadth and depth of distribution

Distribution/Sales Channels		
What is Known	Evidence Base	Managerial Implications
In CPG categories, market share increases with retail distribution (ACV or PCV) at an increasing rate in 82% of categories. It increases in linear fashion in 14% of categories. At both brand and SKU levels, degree to which share maxes out relative to distribution (convexity) is greater in categories with higher revenues, greater concentration in brand market shares, and bulky items.	Farris, Reibstein, and Wilbur Brand-level analyses covering 143,536 brands in 263 product categories; SKU level analyses covering 79,000 SKUs representing $55B in annual revenue in 37 categories.	Retail promotions and slotting fees achieve increasing returns at higher levels of distribution. It is more profitable to use these funds to push a small number of SKUs to high levels of distribution than to push a large number of SKUs to more moderate levels of distribution.
Changes in amount of shelf space has measurable impact on sales with higher effect for increases than decreases. The average space-to-sales elasticity is 0.17 with variation across categories. Commodities are lowest (0.02) followed by staples (0.13) with highest response exhibited by impulse buy products. Store size mediates impact of product characteristics on space elasticity. Difference in category vs. brand-level responses is greater in large stores.	Eisend Meta-analysis of 1,268 estimates of shelf-space elasticity from 57 different store contexts.	Retailers should utilize shelf space variations mainly to drive incremental purchases in impulse buy categories, not staples or commodities. Small percentage variations are more useful than large percentage. Retailers benefit if they increase space and then cut back systematically. Larger stores should focus on adjustments at category level.
Outside CPG, demand for a motion pictures is strongly driven by distribution – reflected in number of available screens. Elasticity near 1:1 in release and subsequent weeks.	Clement and Wu Analysis of 2,098 motion pictures released in US (2000-2010); 1,360 released in Germany (2002-2010)	Aside from content-specific factors impacting the quality dimension of demand, a key goal for managers is generating distribution – number and share of screens.

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 143-144, 147

What is Known: Placement (Distribution)

Temporary loss of retail availability hurts in-market results

Distribution/Sales Channels		
What is Known	Evidence Base	Managerial Implications
A typical retailer loses approximately 4% of sales due to out of stocks (OOS). The worldwide retail OOS rate is 8.3% with the US at low end (7.9%) and Europe at the high end (8.6%) When faced with OOS, consumers exhibit a variety of responses: either shop/buy at another store, substitute another brand, substitute different SKU of same brand, delay purchase, or do not purchase. Weaknesses in retailer practices such as ordering, forecasting, or shelving are key drivers of OOS.	Gruen, Corsten, and Bharadwaj 52 studies (16 published) of 32 FMCG categories representing 71,000 consumers from 29 countries.	Sales loss from out of stock translates into an earnings per share loss of roughly $0.012 for the average firm in the grocery retailing sector

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), p. 146

What is Known: Promotion (Marcom)

Ad elasticities: lower than price promotion; trending down; highly variable

Marcom		
What is Known	Evidence Base	Managerial Implications
The average short-term advertising elasticity is 0.11-0.12 which is substantially lower than the average from a meta-analytic study in the 1980s. The average long-term ad elasticity is 0.24, which is much lower than what was implied in the earlier meta-analysis (0.41)	Lodish Sethuraman Meta-analysis of 751 short-term and 402 long-term direct-to-consumer brand advertising elasticities estimated in 56 studies published between 1960 and 2008 Separate meta-review of more than 200 individual studies on advertising sales effect	Declining trend in advertising elasticity suggests a reduction in budgets allocated to conventional advertising, assuming firms were advertising optimally in the past. Managers don't need to reduce advertising during downturns for fear that sales impact will be lower than during expansions. All else equal, advertising should be higher for durables than non-durables and higher in early stages of the product life cycle than during the mature phase Brands competing in categories with high response to advertising should aggressively invest in advertising. Brands in less responsive markets should track both ad/sales ratio and ROI and possibly shift investment to other marketing levers. Average response should not be the sole input to determining the ad budget for any particular brand. Brand-specific testing or analysis to "de-average" is recommended.
While both short- and long-term advertising elasticities appear to have declined across time, there is no conclusive evidence to support that advertising elasticity is significantly lower during economic recessions		
There is high variance around the average ad elasticity ranging from near 0.00 to as high as 0.50. It is higher for durable goods (0.35) than non-durable (0.11), higher in the early stage of the product life cycle (0.16) than in the mature phase (0.11), and higher when measured with annual data (0.26) than with quarterly data (0.04). In addition, ad elasticity is higher for experiential products than for search products.		

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 153-155, 157, 165

What is Known: Promotion (Marcom)

Impact of advertising within the first year after GRPs are aired is brief in duration, but the long-term effect is more enduring and substantial

Marcom		
What is Known	Evidence Base	Managerial Implications
Average duration for the short-term impact of advertising on sales (accounting for immediate and carryover effects based on adstock) is brief – typically between 6 and 9 months. Separately, research has shown that length of the data interval used for modeling leads to longer implied duration of advertising effects.	Leone Aggregation-bias adjusted results from meta-analysis findings across 70 studies and a separate meta-analysis of 128 models from 22 studies.	Managers should not have an expectation that the tangible or immediate impact of a single advertising flight will endure throughout the year. Replenishment of adstock is necessary.
Available measures of long-term TV advertising impact of TV shows the result GRPs were delivered is approximately doubled in the following 2 years – mainly from an increase in buying rate among the exposed group. Note there can be no long-term effect in the absence of a short-term (Year 1) contribution to sales.	Lodish 55 TV advertising split cable tests each of which lasted 3 years, and the only difference between test and control was the Year 1 TV advertising exposure.	The long-term volumetric effect translates to higher cumulative ROI across the entire 3 year window. It is important to see if ad campaigns are delivering these benefits in determining how big a budget to put behind them.
It is estimated that just 20% of the net long-term sales of any marketing action, including advertising, stems exclusively from the initial campaign itself. The remainder derives from synergy with other marketing actions – both strategic (new product launches or new ad campaigns) or tactical (repeated cycles of promotion executed each year)	Pauwels Analysis of 81 brands in 26 fast-moving consumer products categories	Initial consumer reaction to a marketing action matters, but the long-term benefit depends more on what the company does to extend the impact, including support/synergies with other levers. Managers need to identify tactics best suited to generate such synergies in order to maximize long-term ROI.

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 156, 164

What is Known: Promotion (Marcom)

Media environment and copy attributes matter for effectiveness

Marcom		
What is Known	Evidence Base	Managerial Implications
Higher competitive advertising intensity (clutter) can result in lower average effectiveness. Depending on specifics of the situation, competitive advertising could reduce elasticities by as much as half.	Vakratsas Multiple studies in packaged goods (e.g., personal care, detergents, RTE Cereal) as well as	Brand should overcome noise by advertising more heavily during the early part of the life cycle, when competitive pressure is lower overall, and during periods when competitors aren't advertising
Ad elasticities are lower for flights close to major sports events. The penalty averages 75% of the short-term elasticity and 45% of the long-term. Negative impact is most pronounced just before and during the event. Strategies to counteract this include investing to achieve dominant SOV and focusing spend on single sport broadcasts.	Gijsenberg Time-series analysis of 4 years of weekly data across 64 CPG categories in the UK (2002-2005)	If a brand has sufficient budget, invest heavily in advertising to achieve dominant SOV prior to and during single sport broadcasts. If the budget won't support this, escape the clutter by reallocating spending to other tools or shifting ad spend to weeks after the sporting event.
Comparative ads enhance message and brand awareness, brand attitudes, intentions, and behaviors relative to non-comparative ads. Effect is most pronounced when the sponsored brand's market position lags the comparison brand's and the message has high credibility.	Grewal Meta-analysis of 77 studies	Depending on circumstances of use, comparative advertising, which is a commonly used marketing lever, can be highly effective for enhancing brand attitudes and purchase behavior
Emotions/feelings evoked by TV ads can have a substantial impact on consumer attitudes toward the advertised brand. Correlation 0.33 between feelings triggered by ads and brand evaluations. Association is slightly stronger for enjoyment/pleasure products than utilitarian.	Pham Analysis of 1,576 consumers' responses to 1,070 TV commercials from 150 product categories.	Advertisers should be mindful of the importance of feelings in response to a TV ad to strength of brand ratings.

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 158, 163, 167, 170

What is Known: Promotion (Marcom)

Direct selling and trade show marketing drive measurable sales results

Price/Price Promotion

What is Known	Evidence Base	Managerial Implications
On average, elasticity of personal selling efforts to sales in 0.31, i.e., an increase in the personal selling budget of 10% will increase sales 3.1%. • Products in early stages of the life cycle have higher personal selling response • Personal selling elasticity is higher in European markets than in the US • Personal selling response estimated from more recent studies are generally smaller than those from older studies – suggesting a decline in effectiveness	Albers, Mantrala, and Sridhar Meta-analysis of 75 prior studies providing a total of 506 personal selling elasticity measures	Companies should invest more in direct sales force resources supporting launch and establishment of new products. Once products mature, investment should shift to other levers. Multinational firms should allocate more to personal selling in European markets than in US markets The efficient ratio of personal selling expenditures is roughly 12.5% of revenue
Strength of a customer-seller relationship aligns with customer loyalty and business performance of the account	Palmatier Meta-analysis of 20,000 seller-customer relationships	In industries and markets where personal selling is a key lever, cultivating strong customer relationships is critical
Average response elasticities for trade show activity include: • 0.128 for percentage of relevant attendees (plans to buy firm's products being exhibited) • 0.162 for booth space • 0.884 for booth salespeople Booth in computer and telecom sectors draws on average 2X the traffic of other industries	Gopolakrishna, Sridhar, and Lilien Analyses of 18 years of trade show data covering 50 industries, 164 shows, and nearly 400 firms	Booth staffing plays a much more important role in attracting qualified traffic/leads than size of the booth, so managers should focus on selecting booth staff carefully to maximize performance.

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 139-141

What is Known: Promotion (Marcom/Social)

TV advertising triggers incremental activity in Internet marketing channels ("assists" or network effects), making them partly endogenous

Marcom/Social		
What is Known	Evidence Base	Managerial Implications
TV advertising generates a range of effects in Internet shopping behavior: • Stimulates incremental product category Search • Drives additional Search using branded keywords instead of generic • Drives (or possibly dampen) traffic to Owned and Operated (O&O) sites • Stimulates immediate shopping on O&O or affiliated sites	Wilbur Changes in Internet shopping behavior and sales in narrow time windows close of airing of 350M TV ad insertions worth $3.4B by 20 brands in 4 categories; hourly analysis of Google search data and $1.7B spent on TV advertising by 24 financial services brands over 3 months; second-by-second analysis of server logs and a large-scale TV ad experiment for an anonymous brand	Advertisers must carefully weigh how TV advertising impacts online behavior of consumers who multitask across screens. If ROI does not account for stimulus provided by TV and other traditional media to online Search and shopping behavior, firms risk underspending on TV and overspending on digital. Firms must obtain this kind of insight and work with their agencies to turn it into effective integrated marketing communication plans.

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), pp. 168-169

What is Known: Promotion (Marcom/Social)

There are social influencing effects on brand choice and marketing response

Marcom/Social		
What is Known	Evidence Base	Managerial Implications
Demand for impulse/enjoyment (hedonic) products is strongly related to other consumers' choices. In situations subject to social influence, market concentration increases as measured by the Gini coefficient, including: • Music choice • Movie interest • Fashion consideration Even small pockets of demand in the presence of social influence can lead to "cascades" of consumers	Maecker, Grabenstroer, Clement, and Heitmann Social macro-experiment with 1,143 participants comparing independent and social influence settings in 3 product categories (music, movies, scarves)	Social influence leads to "herding" effects which intensifies demand for popular products while exacerbating rejection of unpopular products. As sales rankings become widely known and almost instantaneously updated in social networks, low share position becomes less desirable and profitability (even short-lived) of share leadership is magnified.
Selection/seeding of viral marketing targets with : Hubs (high number of connections to others) and Bridges (link two otherwise unconnected parts of the network) performs anywhere between 39% and 100% better than a random seeding strategy.	Skiera Two field experiments with 120 and 1,380 participants and an empirical study of a referral program involving 208,829 customers of a telco company	Focus on well-connected people ("high-degree seeding") and people who link otherwise unconnected parts of the network ("high betweenness seeding") for viral marketing. It will lead to the best results.

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), p. 81

What is Known: Promotion (Marcom/Social)

Product reviews that consumers share with one another have an impact on sales, especially when valence is taken into account

Marcom/Social		
What is Known	Evidence Base	Managerial Implications
The elasticity of sales with respect to product review *volume* is 0.35 while the elasticity relative to *valence* is much higher at 0.69 Products with reviews on 3rd party websites exhibit higher elasticities	Floyd, Freling, and Freling Meta-analysis of 26 empirical studies, yielding 443 sales elasticities	Retailers (and manufacturers) need to deliver and product or service that meets or exceeds brand promises. Importantly, there must be processes in place to detect failures because unhappy customers will share their frustration. In a 24/7 wired world, a relatively limited core of dissatisfaction can gain broad currency quickly, and this could drive away a larger number of potential customers than the firm would otherwise expect. Since prospective customers could equate a sizable number of positive reviews with an accurate overall assessment, retailers and manufacturers should encourage consumers who had a favorable experience to post a review

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), p. 35

What is Known: Promotion (Marcom/Social)

Electronic Word of Mouth (eWOM) has a measurable impact on sales and so must be monitored and managed

Marcom/Social

What is Known	Evidence Base	Managerial Implications
Electronic word-of-mouth (eWOM) elasticity from blogs, forums, social networking sites and online reviews averages 0.236 based on volume and 0.417 based on valence. Often the elasticity from negative WOM is larger in absolute than that from positive WOM. eWOM volume and valence elasticities, respectively, are higher relative to these broad averages as follows: • Privately consumed products (1.036,1.205) • Low trialability products (0.618, 1.235) • Products in less competitive industries (0.71, 0.733) • Reviews carried on independent review sites (0.91, 0.602) • Durable goods (1.32, no valence) Volume elasticities are greater for reviews on specialized sites (2.94, no valence) while valence elasticities are greater for community-based sites (no volume, 1.4)	You, Vadakkepatt, and Joshi Meta-analysis of 51 studies involving 339 volume and 271 valence elasticities	Managers of durable, low-trialability, and privately consumed products derive greater benefit from eWOM and so should actively track social media channels/metrics Managers in intensely competitive industries should balance reliance on eWOM as a sales tool with traditional levers such as advertising and promotion The site and/or platform that carries eWOM affects the elasticities, i.e., not all social media and eWOM sources are created equal, so managers should evaluate platforms used to convey product information and support consumer conversations (eWOM). Ignoring eWOM, especially the negative variety, is a risk. Resources and team members are needed to manage this dimension of consumer-to-consumer communications about the firm.

MASB

Source: Hanssens, *Empirical Generalizations about Marketing Impact*, 2nd Edition (2015), p. 36

BIV Phase II: Next Steps

- Present what is known at February Summit (today)
- Identify drivers to continuously improve the consumer brand value metric in tracking (2016-2018)

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BIV Drivers Team – BIV Project Phase II

Team Leaders

Kevin Richardson
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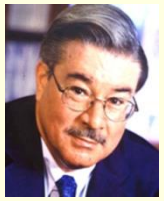

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Thank-you!

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