
Advertising!

Keeps Working and Working and Working … The Long-Term Impact of Advertising

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Advertising and the short-term focus of a fast-paced age /// The majority of marketing analyses address only short-term impact, with "short term" defined as the current budget or planning period. This quarterly or at most yearly focus is also used to evaluate managers and to decide about success or failure of marketing campaigns. To perform well in this short-term game, marketers often tend to shift spending to programs closer and closer to the point of purchase, primarily at retail. Particularly in the consumer packaged goods industry, this shift in marketing strategy can be observed in the growth of trade promotion budgets at the expense of other programs.

But does such short-term thinking actually reflect the whole impact of marketing activity and encourage planning for long-term success? Certainly not for advertising! While some marketing tactics such as price promotions have mostly short-term effects, others such as advertising have both a short- and a long-term impact. Measurement, analyses and planning that consider only the short-term impact may put advertising at an unrealistic disadvantage compared to other marketing options and also fail to maximize long-run profitability. A short-term focus may bias return-on-investment calculations because it takes into account the complete expenditure for advertising but only a portion of its impact.

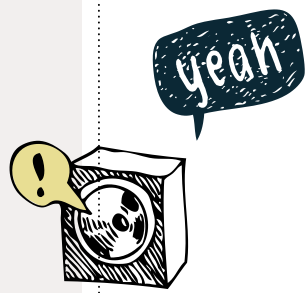
MAIN FACTORS
FOR SUSTAINED
ADVERTISING EFFECT

Consumer Response

- Immediate effects: The immediate consumer response to advertising
- Carry-over effects: Delayed buyer response
- Purchase reinforcement: Repeat buying as a result of the initial, advertising-induced purchase.

Corporate Behavior

- Feedback effect: Influence of the initial sales lift on subsequent advertising spending
- Decision rules: Effect of advertising spending on other parts of the marketing mix
- Competitive reactions: Can be share stealing or category expanding



Consumer response effects that accrue over time ///
Consumer response to advertising can be very immediate but it has longer-lasting effects as well. The short-term impact on consumer purchasing is a natural prerequisite for a long-term effect. However, some consumers do not react immediately to advertising but "let the dust settle." This delayed buyer response causes carry-over effects to later time periods. Another delayed effect results from repeat buying or word of mouth. If consumers are satisfied with the product they bought as a result of advertising, they might buy it again and/or recommend it to others. Likewise, if the consumer has a negative experience with the brand, the short-term effect of the advertising will not materialize into purchase reinforcement.

The size and duration of the impact are determined primarily by the persuasiveness of the ad and its message, effective media delivery and purchase reinforcement, if the product lives up to its promise. Advertising's short-term impact is considered double to triple over the longer term. Well-recognized studies in 1995 and 2007 demonstrated that, on average, the advertising-to-sales impact over three years is double the impact of year one, and the advertising-to-profit impact is triple the impact of year one. Given competitive markets and competitive advertising, however, advertisers cannot rely on these "residual effects" alone to sustain advertising impact. Sustained activity may be necessary to preserve market share.

Corporate behavior to leverage long-term impact ///
Besides consumer response factors, the way a company plans and monitors advertising and learns from success and failure is a key factor for building long-term impact. If a commercial is successful, it needs to be clear why and for how long this is the case. Only when the reasons are clear, is it possible to repeat successful behavior or avoid mistakes. When, for instance, spending alone is considered relevant, feedback can result in unproductive escalation of budgets if the response effect wanes. Decision rules that concern the interplay of different marketing mix alternatives are another field with a high potential to improve long-term effects. These refer to the coordinative capabilities between different marketing teams and their cooperation to create synergies. For example, successful advertising may result in higher sales-force productivity that subsequently justifies expanding the sales force. Finally, as none of a brand's actions takes place in a vacuum, competitive reaction to marketing actions are relevant as well.

CASE STUDY: OVER-THE-COUNTER (OTC) DIVISION/PHARMACEUTICAL COMPANY

In the early 1990s, the OTC division of a large pharmaceutical company formed a "Better Advertising Practice" (or BAP) Team to improve advertising effectiveness across its brands. The OTC group had experienced success with several individual brands and wanted to extend that success to the rest of its brands.

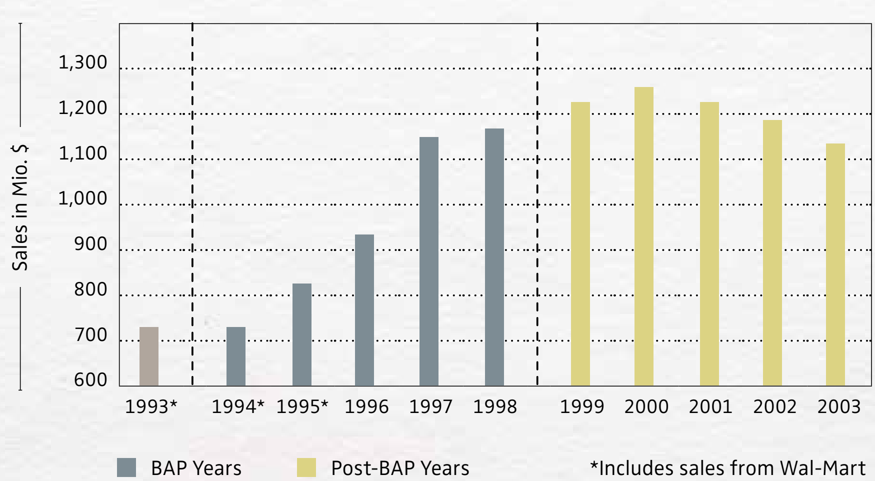
The team started by defining the process that they would use to gather and implement advertising feedback. The process started with the identification of a persuasive selling proposition (based on ARS Persuasion Measurement). Advertising wear-out projections were used to plan the number of executions that would be needed as well as refreshment schedules.

A numerical hurdle of +4.0 for the persuasion score was set, and each subsequent ad was tested for persuasiveness before going to air. To ensure the process was working, the group monitored market response as well as competitive advertising. An "advertising persuasiveness" report went directly to the CEO, showing him the proportion of +4.0 ads going to air for each brand.

Between 1994 and 1998, OTC divisional sales soared as the BAP team was formed and more and more brands began adopting this "better advertising" feedback-based process. By 1998, sales had reached over $1.1 billion, up about $400 million as compared to 1993 and 1994. In 1999, the company was bought by a larger one, the CEO moved up, the team and the practices were cancelled, the marketing scientists were eased out and sales began to decline (see Figure 1).

FIGURE 1:

Better advertising practice: OTC example



Source: Blair (2004)

Large pharmaceutical company: OTC division, 22 brands

STEPS TO INCREASE THE LONG-TERM IMPACT OF ADVERTISING AND OTHER MARKETING ACTIVITIES

- Select pre-market methods that are proven to be predictive of consumer behavior and of market impact tied to financial results.
- Spend on the activities that will create the desirable short-term lifts. They are a precondition necessary for the long-term build-up.
- Continually monitor consumer response and market impact.
- Learn from the feedback, document the behavior, repeat the behavior and turn it into better business practices for the brand and for the enterprise.
- Stick with the better practices, even through personnel or ownership changes.

The secret of sustained advertising effect /// The secret for leveraging optimal short- and long-term advertising effects is to monitor success and infer the right action. The following approaches and metrics are helpful to gain insights and translate them into optimal campaigns.

> **Copy testing** /// Given the importance of the short-term impact of an ad, the persuasiveness of the copy is highly relevant. Several standardized tests exist to measure persuasion (for example, the ARS persuasion score of MSW ● ARS Research). These tests can help select the best copy or fine-tune the message for better results. In our OTC case study (see Box), such a score was used as an internal hurdle. The decision rule was to only air ads that reached a minimum persuasion score. Overall, the persuasiveness of the copy has a stronger impact on its success than media weight or the competitive environment.

» Ultimately, response-based marketing will result in a conversion to better business practices and process management. «

> **Market response insights** /// Relevant performance metrics are market share, unit sales, leads and information on purchase reinforcement, such as repeat purchase rate, retention rate, referrals or customer satisfaction. Advertising decision models are able to combine these output measures with budget allocation figures as input variables. This feedback can be used to move towards ***response-based marketing decision-making***. Brand managers can recognize past allocation successes and errors and implement any resulting learning that can increase the advertising's – and hence the brand's – chance for success. Ultimately, response-based marketing will result in a conversion to better business practices and process management. In contrast, to their own disadvantage, organizations tend to fall back on "tradition-based marketing" when there is turnover in their marketing and/or brand team. This happened in the OTC case study described in Figure 1. Successful routines first led to significant growth in sales and then were stopped after the company was taken over by new owners, causing a decline over the following years.

> **Optimization of response models** /// Advertising response models can also integrate information about wear-out of individual ads. The persuasive power wears out over time in a predictable way, and the optimal timing for campaign refreshment or replacement can be determined.

Further, the models should integrate information on interaction effects. If they include data on other marketing activities as well, synergies within the marketing mix can be observed and integrated in decision rules. The metric for synergies is improvement in a reinforcement variable, for example, the correlation between sales calls and advertising support, which should be positive if the two areas are synergistic.

To take into account competitive advertising one measures cross-elasticities of one's competitor's activities. In controlled experiments or competitive market-response models, one not only observes the effectiveness of one's own marketing, but also measure the impact of one's competitor's marketing on one's brand. Assuming good measurement, an organization can develop a process and decision rules for optimal competitive behavior. It is often fairly simple: If there is no negative cross-sales effect, do not react. But if there is a cross-sales effect and it is negative, react with marketing elements that will be effective according to pre-market experiments.

Implications for Brand Managers /// The improvement in an organization's marketing processes and behaviors can result in an impact that is over five times stronger and longer lasting. To produce these results, the organization must use consumer response metrics to advertising that are predictive of transactional and financial returns. Marketing managers should spend on activities that create the short-term effects necessary for long-term build-up. And last but not least they should repeat successful behavior and turn this feedback loop into better business practices and improved process management for both the brand and for the company as a whole.
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ORIGINAL ARTICLE

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FURTHER READING

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