White Paper

The *Long Term Value of Advertising*

WHITEPAPER

There have recently been quite a few blogs and other comments lamenting that smart marketers aren't trying to make the case that investing in a recession can help a company be stronger than competitors that don't invest once the recession is over. With this whitepaper we will attempt to put some parameters around defining the long term value of advertising, (whether it's during a recession or not). Or, more concisely, what is the incremental difference in the long term value of advertising if advertising were cut by half or doubled?' It's not a question about the long term brand position or value proposition or uniqueness of the brand. It is about the incremental long term effect of advertising.

The Long Term Value of Advertising

The definition of the long term value of advertising is a hotly debated topic. It differs by industry and there hasn't yet been a common language developed to describe the key components of the long term value of advertising. The definition varies between business-to-business markets and consumer marketeters. It's different for one-to-one markets, big-ticket consumer markets and consumer packaged goods (CPG) markets. This article will answer this question to develop a language of the key elements of long term value focusing on consumer markets although many of the concepts will apply to business-to-business markets as well. It will focus more on CPG, but will also be mostly applicable to big ticket and one-to-one markets.

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Overview

Advertising[1] has both a short and a long term impact. In the short term marketers are typically thinking of revenue or leads or new accounts. In the long term the elements tend to be more brand related and more recently, include the long term 'memory' found on in the Internet.

Short term advertising effectiveness

Short term advertising effectiveness can probably best be thought of in terms of last touch attribution (LTA).[2] This method attributes all revenue to the last touch, regardless of prior or concurrent touches. It generally ignores any past, concurrent or residual effects that accrue to advertising. And these past, concurrent or residual effects are generally not included in most analyses of advertising effects (e.g., Marketing Mix Modeling). They are included in brand imagery studies, but not evaluated for their direct impact on increased or decreased long term revenue.

Medium term advertising effectiveness

Long term advertising effectiveness can be defined as anything that is not short term advertising effectiveness. Combined with the product concept, product quality and distribution quality they are often described as base sales, what's left after short term advertising effects have been subtracted.

Certain non-short term effects have a medium term impact while others have a longer term effect and others a very long term effect. To differentiate medium term advertising effects from short and long term advertising effects, I am defining these as those effects that take place within a few months, but last less than a year after a marketing activity, (and are not included in short term, LTA based advertising effects above). There are two dimensions:

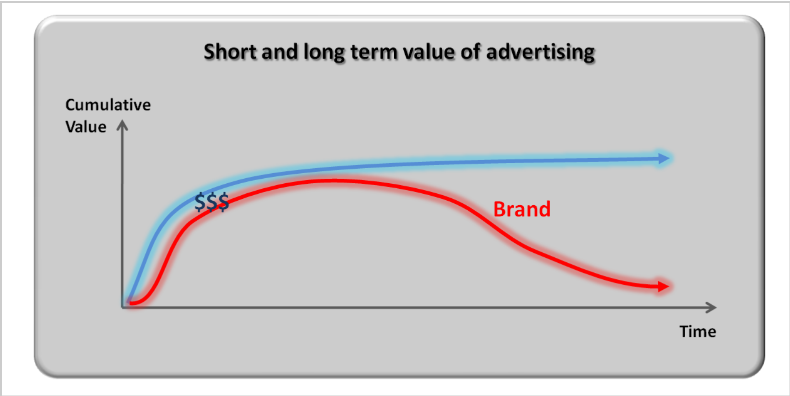

Figure 1. Relative value of advertising, short & long term

[1] For the purposes of this document, we'll define advertising as any message received about a brand or category, regardless of whether it was received directly from the manufacturer through mass media or direct response, or indirectly through the distribution channel, experts & endorsers, other consumers or any other brand information sources. It is the promotion 'P' in Kotler's 4Ps.
[2] For more information on this topic, see, for example, *Marketing Calculator: Measuring and managing your return on marketing investment* and other resources, John Wiley & Sons, 2009.

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Purchase funnel and emotional effects

You may define the purchase funnel differently, but if we simplify it down to four primary levels, then these are the following medium to long term effects of advertising:

- **Awareness** – Awareness (either aided or unaided) for a brand typically has a medium to long term effect. Awareness decays over time, where a particular consumer is either aware of the brand or unaware of the brand. A consumer can't have partial awareness. The sum of all aware consumers is typically what gets reported in a brand imagery tracking study.

- **Consideration set** – Just having consumer awareness of a brand doesn't mean that the brand is in the consumer's consideration set. For a purchase to take place the advertised brand must be considered as one of the choices in the category. For consumers that have never used the product advertising is the only way to keep the brand in the consideration set. If advertising is discontinued, a brand may eventually fall out of the consideration set. This is especially true for categories that are highly considered where the consumer is expecting that the value of their purchase will provide long term benefits, either through a valid warranty or through the brand impact of a purchase among friends. Consideration also decays over time. Just as in the case of awareness, the consumer either holds the brand in the consideration set or not. There is no partial consideration at the individual consumer level.

- **Purchase intent** - The incremental intent to purchase can be increased through advertising. And it decays over time as well. Purchase intent, however, can be any value and therefore can be either increased, through more advertising, or allowed to decay through the lack of advertising. It is generally higher for those consumers that have purchased a brand in the past (and had a positive experience with the brand) than it is for consumers that have not previously tried the brand.

- **Brand imagery** – Brand imagery represents the attribute association scores measured in many brand health tracking studies. The association scores can be strengthened based on the message (s) in the creative. These include attributes such as, 'this brand is good value for the money', 'this brand is eco-friendly' or 'this is a luxury brand'. They are emotional and driven by both the advertising and prior experience with the brand.

Each of these effects has some decay rate, such that, if no further messages are received about the brand the value of these effects will decrease. This means that advertising must continue in order to continue to maintain or increase the levels of each of these medium to long term effects of advertising.

The 'memory' of the web

The Internet adds some new wrinkles to the long term value of advertising, because of its persistence in storing information (articles, cross-links and other brand mentions) about a brand.

- **Search –** Search effectiveness is partially made up of the quantity and quality of inbound links to a website. These inbound links take time to build up and could remain active forever. Unless these links are purchased, and assuming the brands and their links remain relevant to the reciprocating websites they won't go away for a very long time (assuming the web will be around that long).

- **Social media –** Social media activities taking place on the web build up based on many factors. The purpose of this document is not to discuss all the factors driving social media, but as these consumers and other interested parties discuss a brand they write positive (and negative) comments that build up over time and (assuming the web will survive a long time) may also exist forever. They form a cloud of references to the brand. Advertising (both traditional and non-traditional) belongs to the set of drivers of increased social media activity. For example, Dove's Casting Call (and now many other brands) launched a very creative campaign eliciting consumers to submit their own commercials in a contest where the winning submission would be played during the Oscars. Those submissions still exist in the social media space and generate value for the Dove brand when a consumer searches for information on the Dove brand.

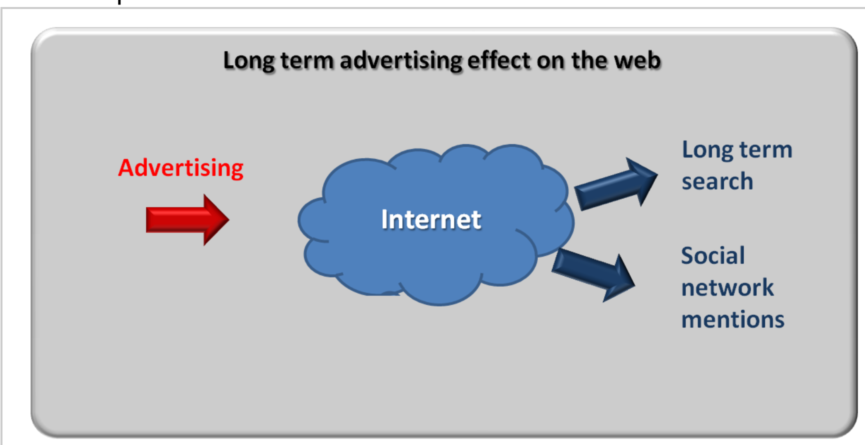

Figure 2. Community Engagement Value Creation Components

Social media and search effects also have some decay rate as other sites and search terms begin to compete with the existing brands. If no further

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advertising were undertaken the search and social media effects would also decay over time.

Long term advertising effectiveness

Long term advertising effectiveness has three components and is defined as lasting from about 6 months to up to a few years. It can be interpreted as the residual marketing impact that makes any future advertising more effective. That is, any advertising this year delivers value in the following years.

- **Brand equity** is an emotional consumer element that lasts significantly longer than the purchase intent above. It, too, has some decay rate if no further advertising is done. Its impact is also affected by external events. If the brand has high brand equity, the impact on future purchases is present. In a recession, however, the impact is reduced. In uncertain economic times the value of investing in long term brand equity is lower because of potential deleterious effects outside of the control of the brand.

  Although there may be other drivers of long term brand equity, brand equity also has to do with the intrinsic position a brand has in the marketplace. If, for example, a brand has been built up over many years as the 'all natural' brand it will be very difficult for other brands to succeed at becoming the *other* 'all natural' brand in a particular category. For example, for AT&T, even though they went through many metamorphoses since their break up, they still have some residual equity associated with AT&T prior to their break up.

- **Customer equity** can be defined as all those customers that have tried the brand at some point in the recent past. (It is sometimes called 'penetration'). Since a consumer has used the product/service in the past less advertising will be required to induce them to use it again (assuming there was no negative customer satisfaction event). Investing in customer acquisition has a higher long term value over just advertising to drive revenue from existing customers. This long term effect may also be slightly different for an initial trial versus continued usage. Just distributing samples to induce brand trial may not have the same customer equity value, though, as a consumer generating interest based on messages received in a new brand or product and actively seeking out the brand to purchase and consume it.

> ***"In God we trust; all others bring data!"***
> *W. Edwards Deming*

This effect however applies to categories and products where there is continual purchase, such as, is the case for consumer products goods. In the case of finan-

cial services, such as credit cards, there may not be any significant value selling a second credit card to an existing customer, but there is a high value in selling other financial services (mortgages or car loans) to that credit card customer.

- **Consumer preferences** are typically considered very stable over time. They do change however and can be induced to change based on the knowledge that may be imparted to the consumer through advertising. For example, in the car industry, the desire for safety and security may have been latent preferences and were only brought out and enhanced through Volvo's advertising (e.g., Volvo's Drive Safely commercials). In this case marketers can educate the consumer base as to the value of a particular attribute. As the preference for this important attribute grows it can drive incremental sales as consumers then choose those brands with a high safety and security attribute score.

- **Creative concept –** Great creative concepts stay in the mind for a long time. How many of us can still remember 'two scoops of raisins' ("Two scoops of raisins in a box of Kellogg's Raisin Bran." - used from the 1970s until the 1990s), or 'I'd like to teach the world to sing' (1971 "Hilltop" television commercial for Coca Cola.)? These ad campaigns ran many years ago, yet they still linger in the minds of many consumers. Although they may have been refreshed at some point, these campaigns probably still deliver some positive (or maybe negative) value for the brand. Certainly, though, unless they are refreshed with the older audiences, they probably won't deliver any real value moving forward. But if they are refreshed, they could probably provide a better return than some totally new campaign to the now older demographic.

Very Long term advertising effectiveness

Is there a very long term brand value? For example, when I was a kid, I loved the Ferrari and Porsche. I still do and yet I still haven't purchased one and unless the need arises. It may never. Is there any value today, based on the advertising and marketing from years ago? Is there any present value of advertising undertaken decades ago? Would it be easier for a marketer to market to me to purchase that first Porsche Cayenne because of the advertising and marketing done decades ago?

One-to-one marketers

One-to-one marketers have a different perspective on the long term value of advertising. In many cases the concept of a trial is very different than a trial with a consumer product good because the cost of changing from one provider to another can be quite high. If the competition can reduce the switching costs (both real and perceived), then the current provider must make certain that customer satisfaction and the product/service continues to remain high. In addition, for one-to-one marketers customer satisfaction is a key service

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attribute. If advertising can influence the perception of customer satisfaction, then there is a long term effect to advertising as increased customer satisfaction can increase retention and reduce churn.

The other 3Ps and other indirect effects

Not included in this discussion are the impacts of advertising on the other 3Ps (product, price and place).

Place – Advertising also drives availability and quality in the distribution channel. The more a brand advertises, the easier it will be to improve availability in the channel, sign up more channel partners and obtain support from the channel. The argument that the channel always uses is that 'if you aren't going to support your brand, why should I?' The converse is also true, 'if you advertise I will also be more willing to support your brand.' Availability in the channel is not necessarily a short term value. It has at least a medium term value and acts as a multiplier to advertising by making the product more available as demand is generated through advertising.

Product – Advertising has some effect on the product. It drives the perceptions about the attributes found in the product. If the advertising misrepresents the product attributes it can lead to higher customer dissatisfaction and less repeat purchase.

Price – Advertising and the resulting brand value that accrues through that advertising allows marketers to charge more for their brand. If the advertising were to stop, the higher pricing accepted by the market would have to decline in order to optimize the position in the market place without advertising.

Other effects – These effects may not be direct effects of advertising, but as advertising built the brand, it may be easier to hire better employees. It's also been shown that the stronger the brand the less likely a dissatisfied consumer will complain at all nor complain in an overly 'loud' way.

There is certainly much more to this discussion. We've found that each industry category has its own nuances as it pertains to the long term value of advertising. If you have any thoughts or comments on this, We'd love to hear from you. Please feel free to contact us on our blog at www.MarketingTactegy.com.

About DemandROMI

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