White Paper

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The

Long Term Value of B2B Advertising

WHITEPAPER

There have recently been quite a few blogs and other comments talking about why more 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. This spurred the question, 'what is the long term value of advertising', (whether it's during a recession or not). More specifically, 'what is the incremental difference in long term value 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 long term incremental effect of advertising.

The Long Term Value of B2B Advertising

The definition of the long term value of business-to-business (B2B) advertising is a hotly debated topic. The definition is very different for business-to-business (B2B) marketers as opposed to consumer marketers. It's different for one-to-one marketers, big-ticket consumer marketers and consumer packaged goods marketers. This article will focus on B2B marketers, defined here as those selling large ticket items with a separate direct sales force.

Advertising has both a short term and long term impact. For the purposes of this document, let's 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, the competition, experts & endorsers, other consumers or any other brand information sources. It is the promotion 'P' in Kotler's 4Ps2. Let's also make certain we understand the short and long term value of messages provided by the sales team, also known as personal selling. In addition to other value provided to the consumer the sales force also delivers messages. These messages typically have a high persuasion value and is higher than messages received from most other sources.

The *Long Term Value of B2B Advertising*

A short word on B2B marketing and customer decision-making: *The purchase committee*

Large ticket B2B purchases are no longer made by one decision-maker. The roles in the decision process include influencers, information gatherers and champions. Decisions are made by a team, taking into account the budget, many emotional factors, a brand's reputation, the total cost of ownership, the switching costs and many other factors. The decision is often more of a consensus determined through a formal or informal committee taking into account internal politics and priorities that may have nothing to do with value propositions of the competing brands or otherwise. Let's call this the purchase committee. The committee can include any number of participants from the nominal department head/manager with final say-so on the budget and direct reports to a formal team of participants including the line manager, a purchasing function, a financial function and other stakeholders in the proposed solution.

In the informal case, the manager with the true sign-off authority may want to make certain that his/her direct reports are full and equal participants in the decision-making process because they will also be responsible for the implementation and execution of the purchased solution. If the project fails, the manager will end up with a 'ding' on his/her credibility and it may have far-reaching career implications. The manager must do what's necessary to make the project a success and therefore will provide a lot of leeway to direct reports to gain strong commitment leading to a higher probability of project success once the decision is made and the project implementation begins.

In general though the decision is made based on some combination of the organizational preferences for the functional components of the solution and the perceived brand attributes of the providers.

It's important to define this process because the components of the short and long term value of advertising play a role in how the recipient of advertising messages processes received messages as their recommendation to the purchase committee forms.

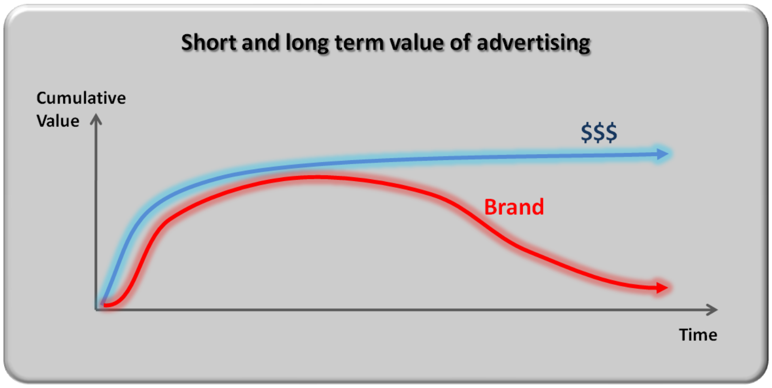

Figure 1. Relative value of advertising, short & long term

Short term advertising effectiveness can probably best be thought of in terms of last touch attribution (for more information on this topic, please see: http://MarketingTactegy.typepad.com/blog/2008/08/last-touch-attr.html). 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. They are generally defined

[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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as direct marketing where the advertising message is directed to a specific person, usually with some type of offer and time limit. Short term effects of direct marketing are often measured through promotion codes, response rates, marketing source codes and experimental design. In B2B marketing, the goal of these marketing activities is to generate leads that can be handed off to the sales team for conversion to revenue.

In contrast, sales team effectiveness, which has a short term influence on revenue, can be measured through win-loss ratios. In B2B marketing it is often these two measurement methods that lead to the friction between sales and marketing. By its nature and because of the commission structure the sales team claims all sales as their own. Based on these claims the sales team earns their commissions and bonuses and makes their quota. They bring home the bacon. Yet, there is clearly a marketing contribution to sales. If you were to mention to sales that the marketing budget would be cut by half, the smart salespersons would immediately recognize that their commissions would go down, their job would be more difficult and that it would probably be better to start looking for a new job. And, of course it is the best salespersons that end up leaving first. (See further discussion below under 'Sales team retention'.)

Medium term advertising effectiveness

As mentioned above the short term effects of advertising doesn't include past, concurrent or residual effects. These fall elsewhere in the equation and are unlinked to success by most B2B marketers.

They can be measured through brand imagery tracking studies, loyalty studies but are not evaluated for their direct impact on increased or decreased long term revenue. Many marketers label these effects as 'air cover' for their direct marketing activities.

Certain non-short term effects have a medium term effect while others have a longer term effect and others a very long term effect. Although the lines are blurry in differentiating medium term advertising effects from short and long term advertising effects, let's define the medium term effects as those that take place within a few months, but last less than a year after a marketing activity is initiated and are not included in short term, LTA based advertising effects above. There are three dimensions:

Purchase funnel and emotional effects

Every company defines the levels in their purchase funnel differently, but if we simplify it down to three primary levels, then medium term effects include:

> **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. An individual can't have partial awareness. The sum of all consumers that are aware is what is represented under the percent awareness. Relating this to a purchase committee decision process measured awareness relates to individuals, but it may be that some or all members may be initially aware or unaware of a particular brand.

However, once the investigation process begins in the category and the considered brands are selected, awareness within the organization can be considered 100% or 0%, because the brand is either known by all members of the purchase committee or known by none.

Familiarity – As a brand moves from awareness into the consideration set, members of the purchase committee need to investigate whether the brand meets the minimum of technical requirements. The purchase committee needs to gather information and based on that information, will decide whether the brand should provide a bid or not.

Consideration set – Just having awareness of a brand doesn't mean that the brand is in the organization's consideration set. For a purchase to take place the advertised brand must be considered as one of the choices in the category and under consideration by the purchase committee. For organizations and purchase committee members that have never used the brand advertising (including marketing and sales activities) is the only way to move the brand into and keep the brand in the consideration set. If advertising (including sales team communications) is discontinued, a brand may eventually fall out of the consideration set.

Without advertising and sales activities consideration at the category level also decays over time. Just as in the case of awareness, the organization either holds the brand in the consideration set or not. There is no partial consideration at the consumer level. A brand is either part of the bid process or not.

During the early phases of the organization's consideration process, information is gathered from all brands in the category that are known by any individual on the purchase committee to provide products or services in this area. At that moment these brands then

Figure 2. Purchase Funnel

become known by all members of the purchase committee. As the investigation proceeds some brands will be asked for a formal bid and now be part of the consideration set, others may not 'make the cut' and may not be asked to bid. They are not part of the consideration set. So a measure of the success of advertising and sales is the number of active bid processes the company is involved in.

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 organizations that have purchased a brand in the past (and had a positive experience with the brand) than it is for organizations that have not previously experienced the brand.

Mini-example: Enterprise telecommunications.
In the global telecommunications market there are a few major, global competitors, a number of national competitors and then potentially some local players. Contracts typically have a 3-year term. In order for competing brands (that currently aren't on the contract) to be in the future consideration set at contract renewal time, a competing brand must continue to communicate with members of the purchase committee throughout the life of the contract. In this way the competing brand has a higher probability of being considered during the new bid process.

This applies to a purchase committee member's past experience with a brand as well. If members of the purchase committee have had prior experience with a brand while employed by a former employer they will have higher purchase intent than had they not had any past experience with 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) received through advertising. These include attributes such as, 'this brand is good value for the money', 'this brand is a safe choice and won't jeopardize my job' or 'this brand provides great customer service'. They are emotional and driven by both the advertising and prior experience with the brand. Table 1 illustrates these scores.

In a B2B market, each of the purchase committee members may have different association scores for these brand attributes. Advertising can influence these scores based on the message and the individual within the purchase committee the message is targeted toward.

Each of these purchase funnel 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 the purchase funnel.

Brand Imagery: Brand Association Scores			
(Scale 1 to 9, 9 = best, 1 = least)	Brand A	Brand B	Brand C
This brand is good value for the money	7	6	2
This brand is a safe choice	5	5	7
This brand provides great customer service	6	4	8

Table 1. Brand association scores

The memory of the web
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 in place 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). Search engine optimization is the cumulative effect of all these inbound links. Marketing investments made in building these links will have a long term pay-off.

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 may also exist forever. They form a cloud of references and inbound links to the brand. Advertising (both traditional and non-traditional) belongs to the set of drivers of increased social media activity.

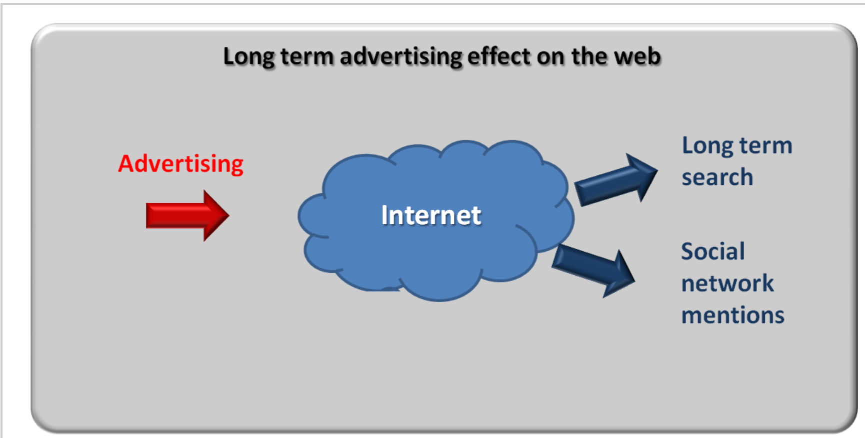

Figure 3. Community Engagement Value Creation Components

LinkedIn, Plaxo and others are growing in importance as B2B lead generation tools. Facebook, YouTube and now Twitter are key social media applications that are beginning to drive awareness and consideration in the consumer marketing space and are now starting to offer value in the B2B space.

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 marketing were undertaken the search effects would decay. As customer equity (defined below) declines through lack of sales the value of the social media cloud would also decay over time.

Sales team retention

Marketing investments indirectly drive sales team retention. Since salespersons are hired to maximize their income, they clearly understand the impact marketing investments can have on their incomes. If marketing investments are cut, the sales team will see that their future commissions may be at risk. It's also more difficult to hire better salespersons if marketing investments have been cut. With lower marketing investments salespersons are more likely to churn than when the company is investing heavily in marketing to support and drive leads for the sales team. There is a direct, medium to long term link between advertising and sales retention. Sales force turnover has a high cost in terms of lost deals during the transition, higher ongoing training costs and oth-

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ers.

Sales person retention also drives better customer relationships. With high sales turnover, account retention is negatively affected. The personal relationships built up around a long term relationship can lead to better service, the smoothing over of vendor service errors and the inside track on moves of other customer executives trying to bring their favored competing vendors into the mix.

Long term advertising effectiveness

Long term advertising effectiveness has four 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 undertaken. Although there may be other drivers of long term brand equity, brand equity 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, in the battle between IBM and Microsoft, it took many, many years for IBM to lose the 'you can't be fired by recommending IBM' halo. Now I would venture to say that other firms, such as Microsoft, Sun and Oracle have taken over this valuable position in the eyes of the organization.

Customer equity can be defined as all those customers that have tried the brand at some point in the recent past. Since an organization 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). Once the organization has begun using a brand, and has potentially even designated it as a corporate standard, it is very difficult for a competitor to unseat the brands' position. Ongoing incremental purchases by the organization are now less about choosing a brand, but instead about becoming aware of further applications of the brand, solving operational issues and justifying the budget for the additional investment.

To reach this position in the organization, the brand however made significant investment in sales resources, product demonstrations, bake-offs and pilot installations.

Customer 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 individual 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 association score as discussed above.
In B2B marketing it may now be about educating the members of the purchase committee so they can form a preference for the need for going green or energy savings as opposed to preferences for existing brand attributes.

Customer preferences have two dimensions: Preferences for functional attributes and preferences for emotional brand attributes. Functional attributes include the specific features and benefits a particular product/solution offers whereas the brand attributes are emotional and their benefits may be intangible but hard to overcome. For example, it used to be that in order to beat IBM in an enterprise account the brand had to be 20% better or faster and 20% less expensive.

Creative concept – Great creative concepts stay in the mind for a long time. How many of us can still remember 'two scoops of raisins', or 'I'd like to teach the world to sing'?[3] 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 still deliver 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, I may never. It is also difficult to write off the legacy of great brands such as AT&T and IBM. Is there any value today, based on their 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?

Kotler's other 3Ps and other indirect effects

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

Place – Advertising also drives availability and quality in the distribution channel. This is especially true for B2B brands. 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 prod-

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uct more available as demand is generated through advertising.

Product – Advertising has some effect on the product. As discussed above 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, brand perceptions would decline and the higher pricing accepted by the market would begin to decline in order to optimize the position in the marketplace without advertising.

There is also higher perceived value when a product has a higher price. It is analogous to high-priced luxury products in consumer markets. Since the purchase committee is made up of individuals, higher prices often have a positive effect on the value of the brand.

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. In the era of social media, reducing the probability of negative comments in the social community can have long term value.

For more information please visit:

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About DemandROMI

DemandROMI is a marketing consultancy providing training and strategic services to accelerate revenue growth and deliver more bang for the marketing buck. DemandROMI helps organizations pinpoint the greatest levers of revenue in their business, and then creates and executes a plan to exploit those levers. DemandROMI has successfully delivered strategic and marketing ROI consulting for a wide range of companies both in the US and abroad in many industries, including high tech, insurance, CPG and services. For more information, visit www.demandromi.com.

[3] "Two scoops of raisins in a box of Kellogg's Raisin Bran." (United States, used from the 1970s until the 1990s) 1971 "Hilltop" television commercial for Coca Cola.