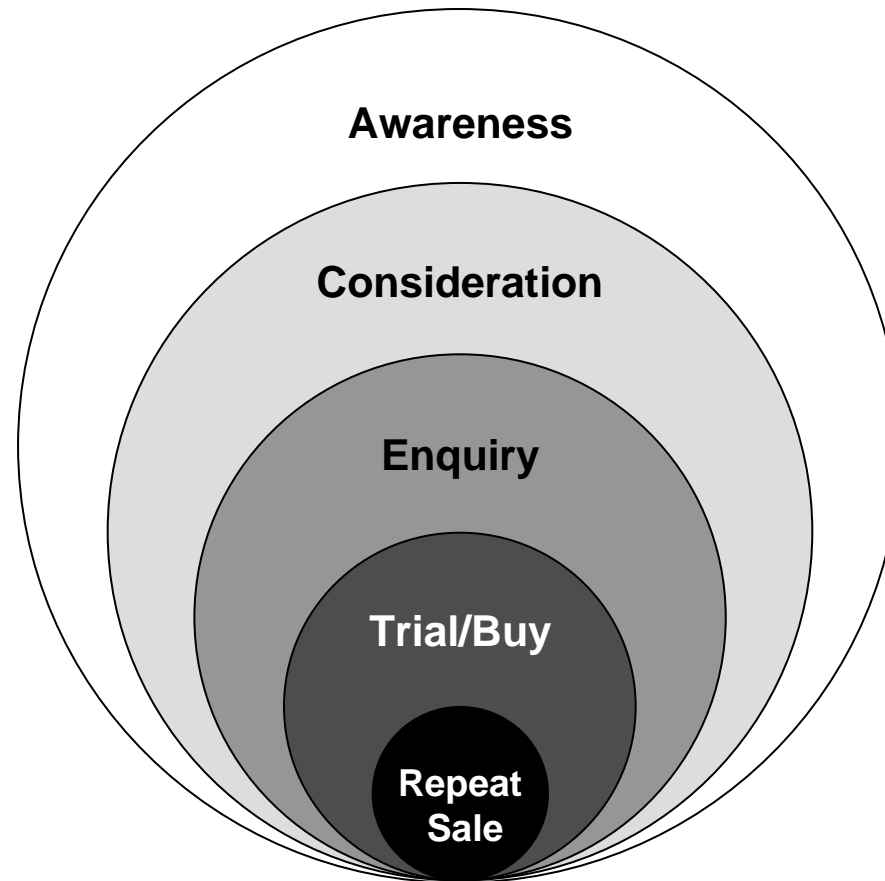


Measuring the ROI of Brand Advertising

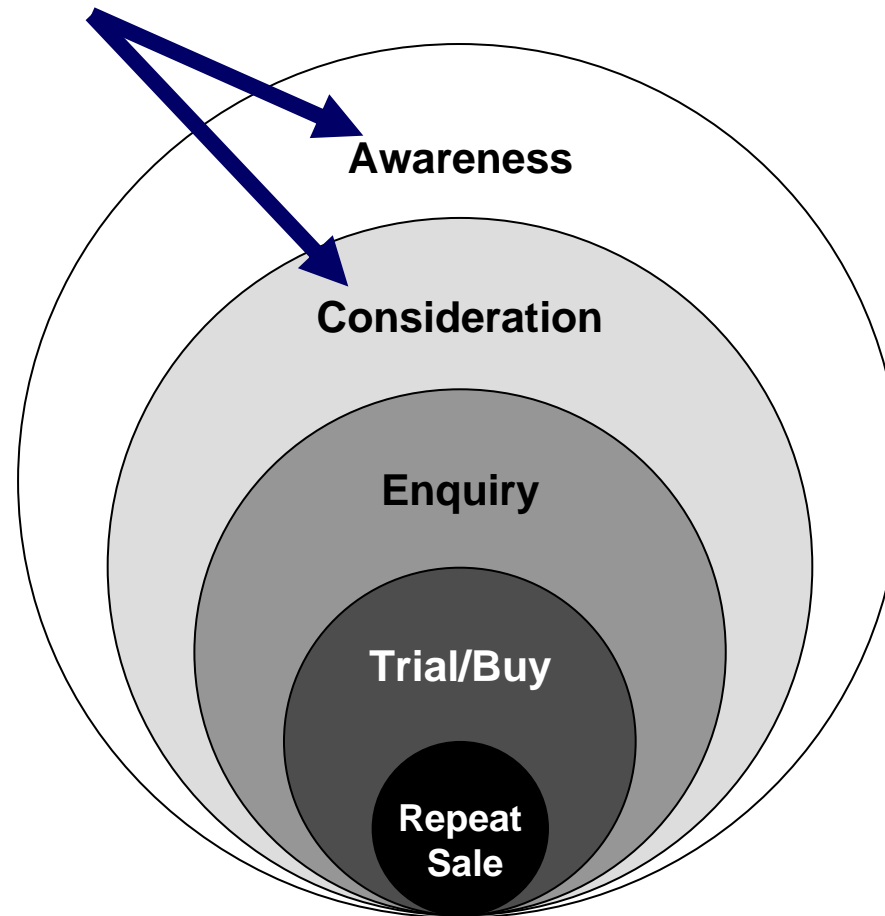


The Marketing Process



Brand Advertising

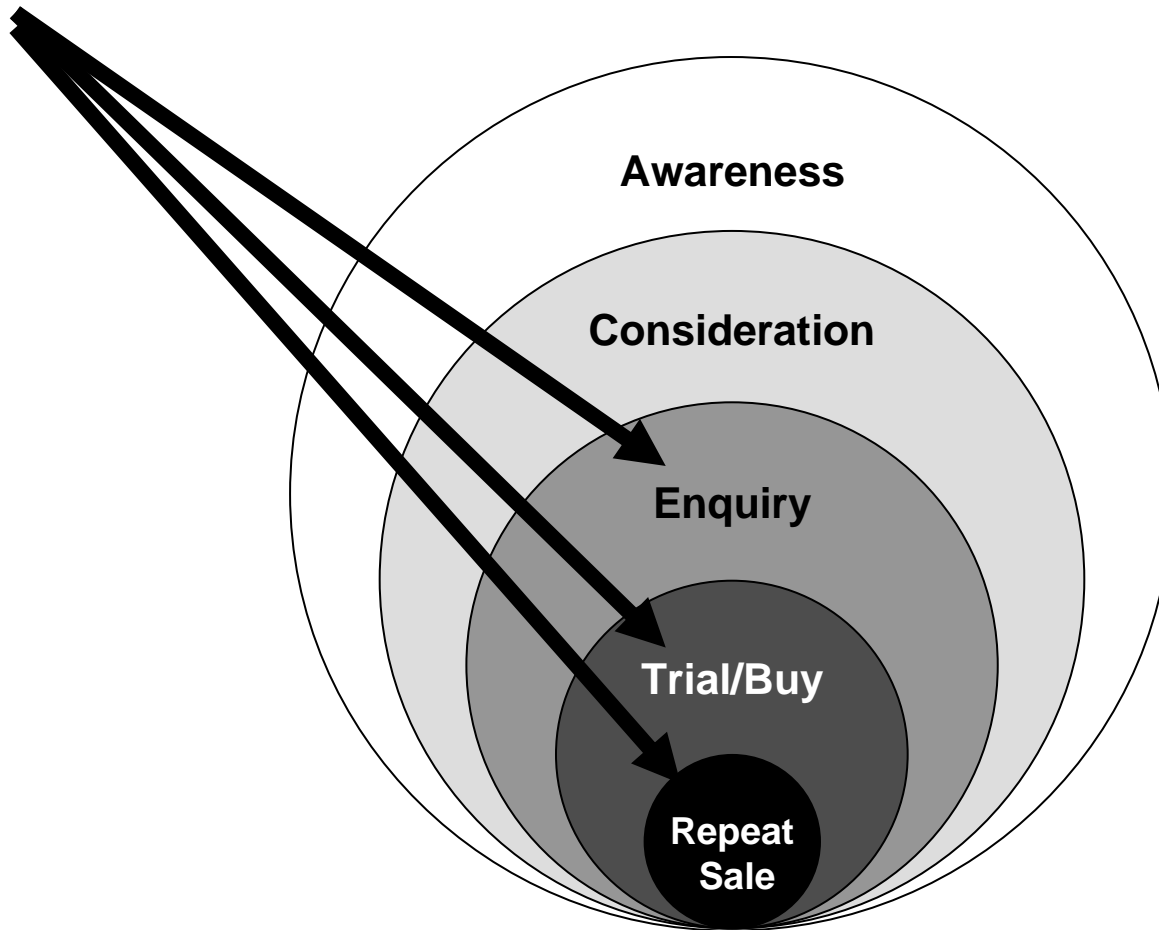
or “Strategic Positioning”



Direct Marketing

Or “Sales & Promotion”

Or “Tactical”



Case Study

Pets.com

by the numbers

- <http://youtube.com/watch?v=sICSyC9u5il>
- Above the line...
- \$100,000,000 ad spend (12 mo.)
 - One of the Top 10 advertisers in the US in 2000.
- Awareness = 100%
- Consideration = 60%

Pets.com

by the numbers

- Below the line...
- Enquiry = 1%
- Sales = 0.10%
- Repeat Sales = .000000000001%
- Investors lost a total of \$250 million

Traditional “Rules of Thumb”

- Effective frequency is between 5 & 8 exposures
- Recognition is reached with the second exposure & decision with the third exposure
- Advertising is most effective on the first exposure
- In other words, the correct answer is somewhere between 1 & 8 exposures

Source Codes

- To get around the uncertainty of “rules of thumb” many marketers use source codes to differentiate where a sale came from
- Traditionally used for tracking results within a marketing channel
 - What is the response to advertising in the Australian Financial Review vs. BRW, for example
- If you combine source codes and testing with standard weighting and indexing calculations, you can measure the response between marketing channels
 - TV vs. Radio vs. both for example

Weighting

- It's common to run TV or Radio commercials in different durations
- 80% of your ads might be 30 seconds, and they cost \$350 per TARP
- 20% of your ads might be 15 seconds, and they cost \$210 per TARP
- What is your overall Cost per TARP?

Indexing

- Allows you to see which ads are more or less costly, or more or less effective
- The “base” number can be the average of all the ads you run, or it can be one of the figures chosen specifically

Indexing Cost per TARP by Market

| Market | Cost per TARP | Index Against Average | Index Against Adelaide | Index Against Sydney |
|-----------|---------------|-----------------------|------------------------|----------------------|
| Adelaide | \$280 | 109 | 100 | 74 |
| Brisbane | \$310 | 121 | 111 | 82 |
| Canberra | \$180 | 70 | 64 | 47 |
| Darwin | \$150 | 59 | 54 | 39 |
| Hobart | \$110 | 43 | 39 | 29 |
| Melbourne | \$370 | 144 | 132 | 97 |
| Perth | \$270 | 105 | 96 | 71 |
| Sydney | \$380 | 148 | 136 | 100 |
| Average | \$256 | | | |

Isolating & Measuring Results by Channel

Measure the variance in response rates by region

| | Nth select | Region |
|------------------|------------|----------------|
| Test 1 (control) | 10,000 | Brisbane |
| Test 2 | 10,000 | Gold Coast |
| Test 3 | 10,000 | Sunshine Coast |
| Test 4 | 10,000 | Byron Bay |
| Test 5 | 10,000 | Toowoomba |
| total | 50,000 | |

Hold Media Constant

| | Region | Media |
|------------------|----------------|----------------|
| Test 1 (control) | Brisbane | Letterbox Drop |
| Test 2 | Gold Coast | Letterbox Drop |
| Test 3 | Sunshine Coast | Letterbox Drop |
| Test 4 | Byron Bay | Letterbox Drop |
| Test 5 | Toowoomba | Letterbox Drop |

Hold the Offer Constant

| | Region | Media | Offer |
|------------------|----------------|----------------|--------------|
| Test 1 (control) | Brisbane | Letterbox Drop | Same for all |
| Test 2 | Gold Coast | Letterbox Drop | Same for all |
| Test 3 | Sunshine Coast | Letterbox Drop | Same for all |
| Test 4 | Byron Bay | Letterbox Drop | Same for all |
| Test 5 | Toowoomba | Letterbox Drop | Same for all |

Hold Creative Constant

| | Region | Media | Offer | Creative |
|--------|----------------|----------------|--------------|--------------|
| Test 1 | Brisbane | Letterbox Drop | Same for all | Same for all |
| Test 2 | Gold Coast | Letterbox Drop | Same for all | Same for all |
| Test 3 | Sunshine Coast | Letterbox Drop | Same for all | Same for all |
| Test 4 | Byron Bay | Letterbox Drop | Same for all | Same for all |
| Test 5 | Toowoomba | Letterbox Drop | Same for all | Same for all |

Mail it and

Measure Variance by Region

| | Region | RR% | % var. |
|--------|----------------|-----|--------|
| Test 1 | Brisbane | 5% | 0% |
| Test 2 | Gold Coast | 4% | -20% |
| Test 3 | Sunshine Coast | 3% | -40% |
| Test 4 | Byron Bay | 6% | 20% |
| Test 5 | Toowoomba | 7% | 40% |

Now run the next test

Alter your media plan by geographical region

| | Region | Media |
|--------|----------------|--------------------------|
| Test 1 | Brisbane | Letterbox Drop |
| Test 2 | Gold Coast | Addressed Mail |
| Test 3 | Sunshine Coast | Outdoor |
| Test 4 | Byron Bay | Letterbox + Outdoor |
| Test 5 | Toowoomba | Addressed mail + Outdoor |

And measure response

| Region | Media | actual RR% |
|----------------|--------------------------|---------------|
| Brisbane | Letterbox Drop | 3% |
| Gold Coast | Addressed Mail | 5% |
| Sunshine Coast | Outdoor | 1% |
| Byron Bay | Letterbox + Outdoor | 8% |
| Toowoomba | Addressed mail + Outdoor | 11% |

Adjust response rate

for known regional variances

| | | actual | regionally adjusted | weight |
|----------------|--------------------------|--------|---------------------|--------|
| Region | Media | RR% | RR% | % var. |
| Brisbane | Letterbox Drop | 3% | 3.00% | 0% |
| Gold Coast | Addressed Mail | 5% | 6.00% | 20% |
| Sunshine Coast | Outdoor | 1% | 1.40% | 40% |
| Byron Bay | Letterbox + Outdoor | 8% | 6.40% | -20% |
| Toowoomba | Addressed mail + Outdoor | 11% | 6.60% | -40% |

Isolating Channel Effects By Sales Volume

| | Region |
|--------|-----------|
| Test 1 | Adelaide |
| Test 2 | Brisbane |
| Test 3 | Melbourne |
| Test 4 | Perth |
| Test 5 | Sydney |
| Test 6 | Canberra |
| Test 7 | Hobart |

Hold Media Constant

| | Region | Media |
|--------|-----------|-------|
| Test 1 | Adelaide | TV |
| Test 2 | Brisbane | TV |
| Test 3 | Melbourne | TV |
| Test 4 | Perth | TV |
| Test 5 | Sydney | TV |
| Test 6 | Canberra | TV |
| Test 7 | Hobart | TV |

Hold Offer Constant

| | Region | Media | Offer |
|--------|-----------|-------|--------------|
| Test 1 | Adelaide | TV | Same for all |
| Test 2 | Brisbane | TV | Same for all |
| Test 3 | Melbourne | TV | Same for all |
| Test 4 | Perth | TV | Same for all |
| Test 5 | Sydney | TV | Same for all |
| Test 6 | Canberra | TV | Same for all |
| Test 7 | Hobart | TV | Same for all |



Hold Creative Constant

| | Region | Media | Offer | Creative |
|--------|-----------|-------|--------------|--------------|
| Test 1 | Adelaide | TV | Same for all | Same for all |
| Test 2 | Brisbane | TV | Same for all | Same for all |
| Test 3 | Melbourne | TV | Same for all | Same for all |
| Test 4 | Perth | TV | Same for all | Same for all |
| Test 5 | Sydney | TV | Same for all | Same for all |
| Test 6 | Canberra | TV | Same for all | Same for all |
| Test 7 | Hobart | TV | Same for all | Same for all |

Now measure sales volumes

| | Region | Media | Sales |
|--------|-----------|-------|-------------|
| Test 1 | Adelaide | TV | \$1,000,000 |
| Test 2 | Brisbane | TV | \$2,000,000 |
| Test 3 | Melbourne | TV | \$2,500,000 |
| Test 4 | Perth | TV | \$1,500,000 |
| Test 5 | Sydney | TV | \$3,000,000 |
| Test 6 | Canberra | TV | \$500,000 |
| Test 7 | Hobart | TV | \$250,000 |

Now weight the sales

in this case, weighted against Adelaide

| | Region | Media | Sales | weight |
|--------|-----------|-------|-------------|--------|
| Test 1 | Adelaide | TV | \$1,000,000 | 0% |
| Test 2 | Brisbane | TV | \$2,000,000 | 0.50 |
| Test 3 | Melbourne | TV | \$2,500,000 | 0.40 |
| Test 4 | Perth | TV | \$1,500,000 | 0.66 |
| Test 5 | Sydney | TV | \$3,000,000 | 0.33 |
| Test 6 | Canberra | TV | \$500,000 | 2.00 |
| Test 7 | Hobart | TV | \$250,000 | 4.00 |

Now alter your media plans

| | Region | Media |
|--------|-----------|------------------------|
| Test 1 | Adelaide | Radio |
| Test 2 | Brisbane | Letterbox |
| Test 3 | Melbourne | TV |
| Test 4 | Perth | Radio + TV |
| Test 5 | Sydney | Letterbox + TV |
| Test 6 | Canberra | Radio + Letterbox |
| Test 7 | Hobart | Radio + Letterbox + TV |

Measure Sales

| | Region | Media | Sales |
|--------|-----------|------------------------|-------------|
| Test 1 | Adelaide | Radio | \$500,000 |
| Test 2 | Brisbane | Letterbox | \$1,500,000 |
| Test 3 | Melbourne | TV | \$2,500,000 |
| Test 4 | Perth | Radio + TV | \$2,000,000 |
| Test 5 | Sydney | Letterbox + TV | \$7,500,000 |
| Test 6 | Canberra | Radio + Letterbox | \$750,000 |
| Test 7 | Hobart | Radio + Letterbox + TV | \$500,000 |

Apply Regional Weighting

| | Region | Media | Sales | weight | Weighted Sales |
|--------|-----------|------------------------|-------------|--------|----------------|
| Test 1 | Adelaide | Radio | \$500,000 | 0% | \$500,000 |
| Test 2 | Brisbane | Letterbox | \$1,500,000 | 0.50 | \$750,000 |
| Test 3 | Melbourne | TV | \$2,500,000 | 0.40 | \$1,000,000 |
| Test 4 | Perth | Radio + TV | \$2,000,000 | 0.66 | \$1,320,000 |
| Test 5 | Sydney | Letterbox + TV | \$7,500,000 | 0.33 | \$2,475,000 |
| Test 6 | Canberra | Radio + Letterbox | \$750,000 | 2.00 | \$1,500,000 |
| Test 7 | Hobart | Radio + Letterbox + TV | \$500,000 | 4.00 | \$2,000,000 |

Sales Volumes by Media Channel

in isolation and in combination with each other

| Media | Weighted Sales | |
|------------------------|----------------|---------------------|
| Radio | \$500,000 | |
| Letterbox | \$750,000 | |
| TV | \$1,000,000 | |
| Radio + TV | \$1,320,000 | Cannibalising Sales |
| Letterbox + TV | \$2,475,000 | Synergising Sales |
| Radio + Letterbox | \$1,500,000 | Synergising Sales |
| Radio + Letterbox + TV | \$2,000,000 | Cannibalising Sales |

Calculating Incremental Sales

Supermarket Circular Mailings

| | |
|-------------------|----------|
| Quantity Mailed | 30,000 |
| Shopped at Store | 10,500 |
| Response Rate | 35.00% |
| Cost per piece | \$ 0.60 |
| Total Cost | \$18,000 |
| Cost per response | \$ 1.71 |

Now let's say...

- The average shopper spends \$200 and is worth \$15 in profit per week
- A \$1.71 cost per response looks good
 - But it isn't
- To determine that, you first have to do something most grocers would find unthinkable...

One week, do not mail the circular to one store's catchment area

| Results | |
|-------------------|--------|
| Quantity Mailed | - |
| Shopped at Store | 9,600 |
| Response Rate | 32.00% |
| Cost per piece | \$ - |
| Total Cost | \$ - |
| Cost per response | \$ - |

The following week, mail the circular

| Results | | |
|---------------------|----------------------|--------|
| Quantity Mailed | | 30,000 |
| Shopped at Store | | 10,500 |
| | Baseline | 9,600 |
| | Incremental response | 900 |
| Response Rate | | 3.00% |
| Cost per piece | \$ | 0.60 |
| Total Cost | \$ | 18,000 |
| Cost per response | \$ | 20.00 |
| Customer Value | \$ | 15.00 |
| Net income/response | \$ | (5.00) |
| | ROI = | -25% |

Incremental Sales Example #2

Frequent Flyer Program Promotion

| Segmentation | # Targeted | Achievers | RR% | \$ Spent | Avg Spend | Incremental Sales |
|-------------------------------|---------------|-----------|-------|------------------|----------------|-------------------|
| 0-6 mo. Business Class Buyers | 20,000 | 140 | 0.70% | \$462,000 | \$3,300 | \$352,000 |
| Control Group | 5,000 | 25 | 0.50% | \$27,500 | \$1,100 | \$0 |

- To calculate the Incremental Sales:
- Take the test group's \$s Spent, and
- Subtract (the control group's RR% X control group's Average Spend X the test group's # Targeted)

Default Responses

- Sales that come in from an “unknown” source
- Big problem for companies that are not “traditional” direct marketers
- Default rates $>10\%$ dramatically skews the ROI of campaign results

Example

Direct mail results by response rate

| | | Response by type | | | | | |
|---|--|------------------|--------------|--------------|-------------------------|-----------------|--------------|
| | | Quantity Mailed | 800# | Website | Mailed back application | Total Responses | RR% |
| Campaign 1 | | 50,000 | 1,100 | 400 | 250 | 1,750 | 3.50% |
| Campaign 2 | | 100,000 | 1,050 | 700 | 750 | 2,500 | 2.50% |
| Campaign 3 | | 75,000 | 800 | 500 | 175 | 1,475 | 1.97% |
| Campaign 4 | | 25,000 | 175 | 50 | 150 | 375 | 1.50% |
| Responded at branch (campaign unknown) | | -- | -- | -- | -- | 6,125 | -- |
| Total | | 250,000 | 3,125 | 1,650 | 1,325 | 12,225 | 4.89% |

Allocation of Defaults

Direct mail results, with defaults adjusted

| | Quantity Mailed | Trackable Responses | % of total | Branch Sales allocated | Total Sales (including branch sales allocated) | RR% | RR% (without branch sales allocated) |
|--------------|-----------------|---------------------|-------------|------------------------|--|--------------|--------------------------------------|
| Campaign 1 | 50,000 | 1,750 | 29% | 1,757 | 3,507 | 7.01% | 3.50% |
| Campaign 2 | 100,000 | 2,500 | 41% | 2,510 | 5,010 | 5.01% | 2.50% |
| Campaign 3 | 75,000 | 1,475 | 24% | 1,481 | 2,956 | 3.94% | 1.97% |
| Campaign 4 | 25,000 | 375 | 6% | 377 | 752 | 3.01% | 1.50% |
| Total | 250,000 | 6,100 | 100% | 6,125 | 12,225 | 4.89% | 2.44% |

Defaults across multiple marketing channels

Results by response rate across multiple marketing channels

| Marketing Channel | Impressions | Responses | RR% | Break even |
|-------------------|----------------|--------------|--------------|------------|
| Direct Mail | 50,000 | 3,000 | 6.00% | 3.00% |
| Print | 100,000 | 650 | 0.65% | 1.00% |
| Radio | 200,000 | 300 | 0.15% | 0.50% |
| Media Unknown | | 3,000 | | |
| Total | 350,000 | 6,950 | 1.99% | |

Allocate defaults proportionally

Results by response rate across multiple marketing channels

| Marketing Channel | Impressions | Responses | % of total | Unknown media responses, allocated | Total Responses | RR% | Break even |
|-------------------|----------------|--------------|-------------|------------------------------------|-----------------|--------------|------------|
| Direct Mail | 50,000 | 3,000 | 76% | 2,278 | 5,278 | 10.56% | 3.00% |
| Print | 100,000 | 650 | 16% | 494 | 1,144 | 1.14% | 1.00% |
| Radio | 200,000 | 300 | 8% | 228 | 528 | 0.26% | 0.50% |
| Total | 350,000 | 3,950 | 100% | 3,000 | 6,950 | 1.99% | |

Does Brand Advertising Increase Sales?

- Yes
- No
- Sometimes
- But if you can't measure it, you are probably under-achieving your potential in some way or another.

I know 90% of my marketing spend is wasted, I just don't know which 90%.

Not anymore...