The Maxus Guide to Effectiveness

The joy of effectiveness (yes, really)

This is a short book about effective advertising and brand-building. Almost every book on this subject begins with a statement about how the world is changing – how consumers have more choice than ever, how marketing budgets are under pressure, how brands need to be accountable to shareholders, and how data is transforming everything.

All of which may be true, but it's a bit overwhelming.

So let's think of it another way.

We will spend about a third of our lives at work – about as much as we spend sleeping. We've all chosen to do something difficult but interesting with our careers – to grow the value of businesses by changing people's perceptions of them. The work that you do – associating things with ideas – is responsible for a significant proportion of the value of your business.

Whether in advertising or in anything else, the work we do is only fulfilling if we know it's making a difference. This relies partly on evidence from direct measurement, and partly from knowledge and judgement. Because we can't measure everything ourselves, and because we have to make decisions about the future today, we need good, evidence-based knowledge about what makes brands profitable and advertising effective.

In short, advertising is done by people, not robots, and as people we want to be happy and fulfilled in the work we do. Knowing that we're doing something that works shouldn't be an afterthought – it's why we're here, for one-third of the time at least.

Alex Steer
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There are no rules (but…)

The purpose of advertising and media investment is to make brands more profitable.

It does this by driving attention and sales in the short-term; and by reducing price sensitivity, and increasing consumer demand in the long-term. It does it in ways that are emotional as well as rational.

Advertising is not a science and it does not have rules – but neither is it a matter of luck.

There is a lot of evidence about how advertising works and what makes it effective – based on the performance of thousands of campaigns for hundreds of brands from across the world.

These are evidence-based guidelines for planning more effective advertising and media investments.

Marketing and data have always gone together.

Some of the most important methods in modern statistics were invented at the Guinness brewery in Dublin at the start of the 20th century.

Many of the methods now used by social researchers to understand human behaviour were pioneered in advertising agencies, not universities.

While we talk a lot about analytics, econometrics, big data, KPIs, measurement frameworks, etc., these are just the latest developments in a long history.

Advertising should be an investment, not a gamble. Data helps us understand the choices we're making when we plan channels and campaigns.

A very short history of brands

We often talk about brands as an investment. This is true – but they're also used to justify investment.

Go back to the late nineteenth century, and there weren't that many consumer brands in the way we understand them today. Most products were sold as commodities, and they competed on price in order to get distribution via retailers and wholesalers.

Manufacturers who wanted to increase their profits needed to find ways of commanding a higher price for what they made. They began to develop recognisable brands as a way of standing out from their competitors, and they used advertising to draw people's attention to their benefits. The early brands – just like brands today – had two obvious jobs: to create *identity*, and to create *reputation*, for manufacturers' products. Their third job was less obvious: to enable *investment* in making better products. By commanding a higher price and increasing sales, brands made it possible for manufacturers to innovate in ways that aren't worthwhile in a commoditised market.

It's become fashionable again in recent years to say that businesses don't need strong brands, only strong products. The reality is that the two go hand-in-hand. A great product experience is one of the foundations of a strong brand; and a strong brand delivers the profit needed to make great products.

New rules

In recent decades, and particularly in the last few years, the supply side of most consumer industries has boomed while the demand side has faltered. There is now, for most consumers in developed markets, no shortage of decent-quality goods and services on which to spend one's disposable income. Whereas for a long time quality goods were in short supply and disposable income was plentiful, now the opposite is true.

People have more choice, and less anxiety in choosing. In a world like this, consumer choice extends all the way up the buying chain. If a shopper has thirty good-enough brands of beans to choose from, a retailer feels confident taking that choice down to ten, and squeezing the manufacturers' margins, who in turn squeeze the suppliers'. At its worst the supply chain becomes, to paraphrase the astronaut John Glenn's comment about rockets, a series of parts all provided by the lowest bidder. Not surprisingly, the most successful modern businesses are those who are finding ways to control more of the links in their distribution chain. New technologies make it vastly easier to do this: you no longer need a shop in order to sell, or a cash register in order to process payments. This also creates opportunities for small upstarts, challenges for big incumbents.

The implications for brands' marketing efforts are profound. Despite the obvious challenges, we think there are grounds for optimism. As brands reach up and down their own distribution chains, and as the choice of products, media channels and distribution channels grows in excess of demand, the commercial task of marketing gets bigger, not smaller. From providing the *right product* (functionally or emotionally) at the *right price*, marketing must increasingly also deliver it in the *right way* (from boutique branded outlets, through to one-click ordering), and must even convince people that they are buying from the *right company*, as the boom in corporate branding and social responsibility communications shows.

Brands matter more, not less

There are more and more moments at which marketing communications prove decisive for a brand – from choosing what to buy to choosing how to have it supplied. From pre-ordering coffee on your phone (Starbucks) to razors as a service (Dollar Shave Club) or whole TV series on demand (Netflix), the collision of technology innovation and proliferating supply creates strange new worlds and business models. The brand is increasingly not just the label on the product, but on the shop, the package or the delivery vehicle as well.

Brands exist to shift the odds of being chosen in a business's favour, at any moment where someone decides what, why or how to buy.

You can call it brand experience, user experience or just plain 'advertising', but in a demand-driven economy there's more of it, and it is more commercially decisive.

What brands do

Brands create long-term value for businesses by maintaining and increasing base demand for their products and services.

Brands are valuable to businesses because they are valuable to consumers. They provide emotional cues that act as shortcuts to rational purchase decisions.

Brand strength is one of the best predictors of long-term revenue and share price growth. Businesses who invest in their brands have higher value and a lower long-term cost of sales.

Brands do four things in particular that help businesses grow:

- **Grow category size.** Advertising can increase consumer demand for a product or service. This is particularly useful if you're already the biggest brand in your category and want more people to buy.
- **Grow market share.** Advertising can make your brand a more appealing choice to consumers in your category, so they choose you over your competitors.
- **Defend pricing.** Strong brands can charge more for their products (even if they're value brands), and are less vulnerable to price-cutting by competitors. Advertising reduces price sensitivity by giving consumers rational and emotional reasons to pay extra.
- **Empower change.** Strong brands can enable businesses to move credibly into adjacent categories and new product/service lines. Advertising creates brand associations that are not bound to a single product or service.

The role of advertising

Advertising works as a stimulus – it creates, reinforces, or changes mental associations with brands in ways that influence decision-making later. It is, of course, only one of the things that does this: the packaging, the context in which you see a brand, the ease of use, the quality of the product, the helpfulness of staff, etc., all contribute towards people's total impressions of a brand.

To keep it simple, we can say that there are generally three types of effect that advertising generates:

1. **Direct response effects**, in which people take immediate action through a specific response mechanism (e.g. a website, phone line or coupon) within a period of a few minutes to a few days of seeing advertising. We can measure this through linear response rate – the number of calls, online applications, coupon returns, etc., coming *directly* from that piece of advertising.
2. **Short-term effects**, in which a particular piece of advertising drives a substantial uplift in sales in the days and weeks after it is seen. We can use marketing mix modelling and other kinds of attribution measurement to measure the size of this effect and its duration.[1] For FMCG brands, this short-term period typically lasts c.5-8 weeks; for service brands it can be longer, up to around 12 weeks; but it varies based on the impact of the media and creative impact of the advertising.[2]
3. **Long-term effects,** in which the aggregate effect of advertising over a longer period (months to years) drives up base demand for the brand, meaning that it is more likely to be chosen even when it has not advertised recently. This effect is harder to attribute back to specific pieces of advertising – it is the overall impact of sustained, positive exposure to memorable and interesting brand advertising over time.

The long-term effect of advertising is the most powerful. One of the best measures for it is Effective Share of Voice: the extent to which people believe they have recently heard about a brand or seen its advertising. This is a powerful predictor of sales and brand profitability.[3]

[1] For an introduction, see Holmes & Cook (2004)
[2] Maxus Effectiveness Databank
[3] Millward Brown (2009)

Eight principles of effectiveness

If this is what advertising does for brands, how do we make sure *our* advertising does it for *our* brands?

The answer is a combination of *measurement* and *knowledge*.

It's important to be able to measure our performance. The ability to measure lets us understand whether our advertising has worked to drive sales, and whether it is building brand perceptions that will pay off in the longer term. New channels and new ways of measuring make it possible to understand these things more quickly and in more detail.

However, we also need knowledge about the kinds of activity that *will* work to make our brands profitable in the longer term. These effects usually take time – months or even years – to be realised. We need knowledge, based in evidence, to give us confidence to proceed, and avoid the risk that we become hooked on short-term metrics.

We think there are eight things that successful brands do. They are:

1. Set hard business objectives
2. Aim for scale and clarity
3. Aim for volume in the marketplace
4. Integrate all their advertising visually and verbally
5. Balance long- and short-term activity
6. Use multiple layers and channels
7. Invest in creativity that makes them famous
8. Test, learn and adapt based on the evidence

We explain these principles in more detail below. None of them is new, but each of them comes from a large body of research into what makes brands and advertising successful.

1. Set hard business objectives

The point of advertising isn't to generate short-term buzz for your brand.

It's not to get fans or likes or comments or shares. It's not even to win creative awards (though highly creative work does perform better – see 'Fame' section).

It's to make your brand more profitable by changing consumer disposition and behaviour.

Campaigns that set 'hard' business objectives – rooted in sales or market share – perform better than those that have 'soft' objectives based on brand image or engagement metrics.[4]

Soft objective: Grow our engagement rate on Facebook by 10%
Hard objective: Grow weekly unit sales from 5,000 to 6,500

'Soft' metrics can be good indicators of progress – but you should always have a hard business goal that you're aiming towards.

[4] Binet & Field (2011)

2. Aim for scale and clarity

One of the most pervasive myths in marketing is the ‘niche’ brand – the brand with a small but incredibly loyal base of users.

Loyalty is the extent to which people buy your brand, vs how often they buy your competitors’. The biggest predictor of a brand’s loyalty is its size. In most categories, people are ‘loyal’ to a few brands – they will almost always buy one of three types of bread, two types of car, five types of beer. It is very rare to be loyal to just one – people with such loyalty represent a tiny proportion of your buyers.

The most profitable brands focus on getting as many people as possible in their market to buy their product. This is true even of brands that operate in tiny markets, like high-end fashion.

This has implications for brand planning and for portfolio management. Brands should worry less about being distinctively positioned, and more about being clear, simple and visible to people in the marketplace. It is important for a brand to be seen as different from its competitors – but not *at the expense of* clarity of expression. Differentiation does matter, just not at the cost of being interesting. It is better to stand strongly for the things people look for in your category than to be differentiated but remote from people’s interests.

Because most people buy more than one brand in the course of a year, it is more important to create a strong impression and get lots of people to think of you often, and buy you sometimes, than to create a completely unique impression and get a few people to buy you all the time.

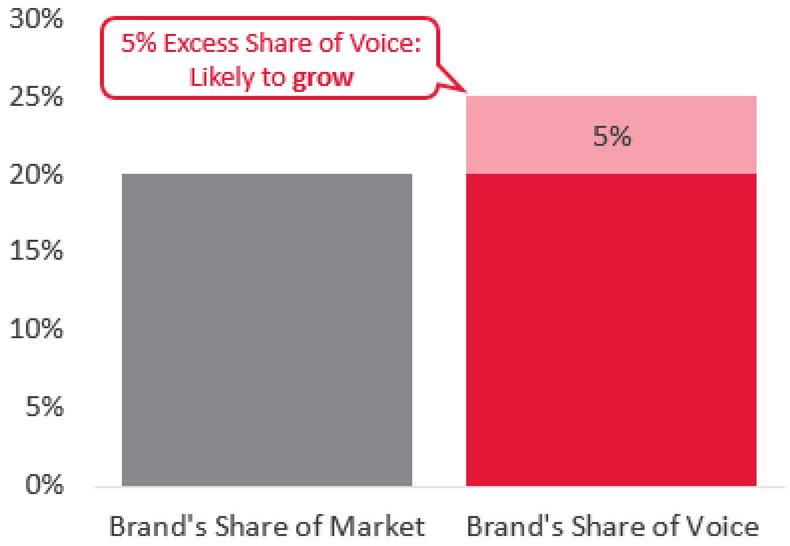
If you own multiple competing brands, the same is true. It is better to own two big brands whose customers overlap, than two small brands with no cannibalisation.

3. Aim for volume in the marketplace

Brands should aim to be bought by lots of people – but they should aim to be *heard and seen* by even more.

The biggest predictor of whether brands grow is whether their share of voice in media exceeds their current market share. In other words, brands grow when they talk bigger than they are.

We call this 'talking up' metric **excess share of voice (ESOV)**: Share of Voice minus Share of Market.



Typically, brands gain an extra 0.5% market share for every 10 percentage points of ESOV. However, creative is a huge determiner of growth. High-impact, high-awareness creative delivers share growth at a **10x** higher rate than average.[5]

Campaigns that talk to <u>both</u> new and existing customers are **10x** more effective than campaigns that target <u>only</u> prospects or existing users. This is not to devalue targeting or precision in media planning, which is a powerful way of generating short-term efficiencies and of getting the right content to the right people; but the overall number of people spoken to should be as large as possible.

[5] Binet & Field (2011)

4. Integrate visually and verbally

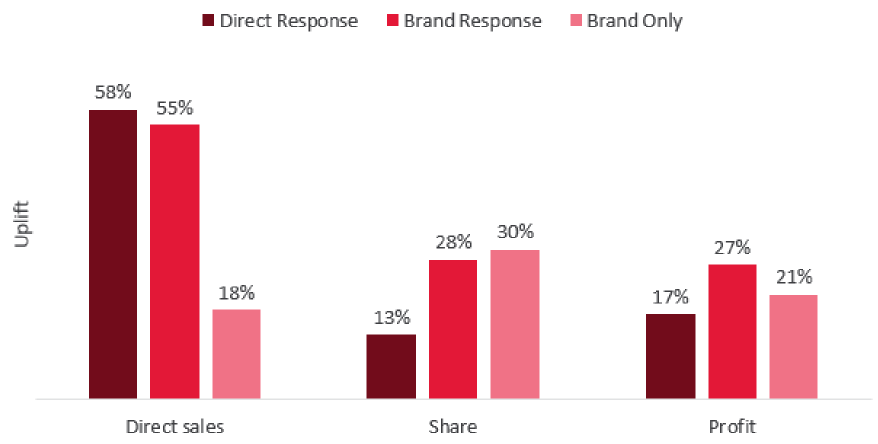
We talk a lot these days about integration in advertising. It's a large and complex concept which extends to the planning of channels in campaigns and the coherence of a brand's 'ideals' over time.

There is a simple way to begin thinking about integration, though. Brands tend to be more profitable if all of their advertising is **verbally and visually consistent**.

This does not mean it all has to look and sound exactly the same – repetitive ads are as boring as repetitive people. But it should all look and sound like it comes from the same place.[6]

Create a strong, recognisable visual and verbal identity, and stick with it. Create cues that are recognisably from your brand. Brands that do this generate much higher **effective share of voice**: people are far more likely to recall seeing the advertising, and the effect is the same as having much higher media investment than you actually do.[7]

Even direct-response activity should be properly visually and verbally aligned. Integrated 'brand response' campaigns – in which short-term response-driving advertising is tightly visually and verbally integrated with the brand's overall creative idea – is almost as good at driving sales as un-integrated creative, and drives higher profits. They are also **2x** as effective as stand-alone direct campaigns at driving perceptions of brand fame. Consider how you can bring a creative idea to live even in sales activation advertising. [8]



[6] For a good example, see Cox, Harris et. al. (2004)
[7] Millward Brown (2009)
[8] Binet & Field (2011)

5. Balance long- and short-term activity

The right channel mix determines the rate at which brands grow – especially the balance between brand-building and activation activity.

Across brands in all mainstream consumer categories, the optimum ratio of budget allocation is about **60% brand-building, 40% short-term sales activation**.[9]

Remember, though, that brand effects take time. Three-quarters of the sales effect of brand advertising is long-term – it pays back over several months to a few years. Focusing on short-term sales ROI ignores most of the impact of brand investment. Advanced marketing mix modelling can help to quantify these long-term effects.

In the short term, sales activation campaigns are **1.5x** as efficient as brand at driving market share growth. But in the long term, brand campaigns are **5-8x** more efficient. Each has its role, and each should be planned for and measured using the right tools.

[9] Binet & Field (2011)

6. Use multiple layers and channels

Campaigns that use multiple channels deliver **2x** as much share growth on average as those that only use a single channel.

Some channel combinations work harder than others. As a general rule, campaigns that use TV are about **25-40%** more effective than those without. Campaigns that combine TV and digital channels are **10-15%** more effective than those using TV alone.[10]

It helps to think of campaigns as having different 'layers' with different roles – for example, driving brand awareness and meaning; driving product/price awareness and reasons to believe; driving short-term direct response; etc.

Channels have distinct roles within these layers – not everything drives direct response. For example, TV drives long-term brand value, and has a 'halo effect' on other channels in the short term, which means its short-term value is often **5-10x** greater than it appears. Direct mail and online search drive a lot of short-term sales but have lower long-term impact.[11]

New channels, especially online video and social media, mean it is now more cost-effective to produce intermediate layers of content that reinforce existing brand perceptions. This 'content marketing' layer is still finding its niche, but appears to work best as a way of keeping brand perceptions 'topped up' and growing knowledge about a brand's products or services. Making this content easy to discover and consume is an important planning consideration.

Well-integrated campaigns can support a lot of channels with different roles – including long-term brand building, medium-term brand knowledge creation, and short-term sales activation. But within any one 'layer', three channels tends to be the most effective at driving profitability, striking the right balance between channel mix and cost.

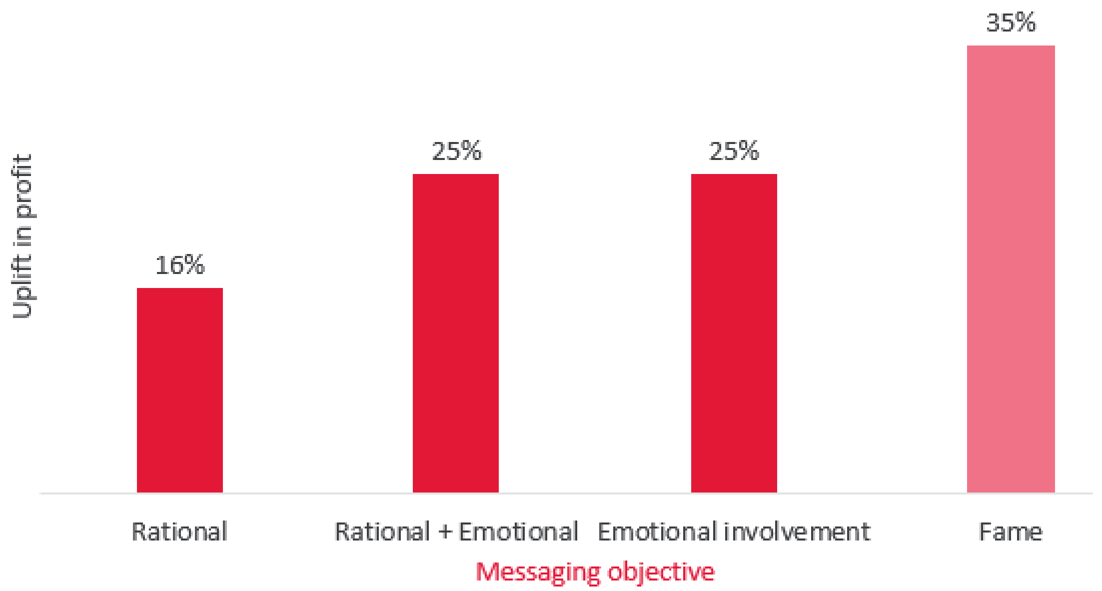
[10] Binet & Field (2008)
[11] Thinkbox/PwC (2010)

7. Invest in creativity that makes you famous

Earlier we talked about the need to have a higher Share of Voice than Share of Market in order to grow. But growth also depends on the **creative power** of your advertising.

This is measured by advertising appreciation and awareness. Brands that improve ad awareness can grow even if their share of voice shrinks. Brands whose ad awareness decreases are much less likely to grow market share.

Emotionally-driven advertising that aims to make brands **famous** (talked about, perceived as more popular) is **5x** as effective at delivering growth, and **2x** as profitable, as rationally-driven messaging.[12]



There is a strong link between creative advertising and growth. Highly creative *ideas* deliver share growth at **10x** the rate of less creative ideas, as long as they are strongly linked to the brand, and closely visually and verbally integrated.

Advertising that tells a strong, coherent **story** is typically **30-35%** more persuasive – but *only* if the brand has a clear, credible role in the narrative.[13]

[12] Binet & Field (2007)
[13] Data from Millward Brown

8. Test, learn and adapt

Brands grow when they are perceived as being different, innovative, better than they were before.

A brand is **30-35%** more likely to grow if its advertising awareness has increased year-on-year.[14]

And of course, the channels our consumers are using change every year – and so do their attitudes towards them.

All of this means that brands succeed when they keep testing, learning and adapting their media investment. They need to do this based on evidence, not guesswork – but staying still will lead to decline.

We find that a **70:20:10** ratio works well – spend 70% of your investment in well-understood channels and methods; 20% testing variations; and 10% trying new things. Learn from everything, and keep the innovations that perform better than business-as-usual.

[14] Millward Brown (2013)

The good news

Everything we've talked about here is evidence about how real people respond to real advertising – and the role that media choices can play.

We think the results are good news. Brands grow when they stand out from the crowd, are distinctively themselves, and say something worth listening to, in an interesting way, to the right people, at the right moments.

Great media planning lets brands find the best times and places to tell their stories. It is inspired by evidence, sees the big picture, and never stops learning.

Great brands use data and analysis to understand the true effectiveness of their advertising and media mix, and to discover opportunities to make it better.

Further reading

Les Binet and Peter Field (2007) *Marketing in the Era of Accountability* (IPA)

Les Binet and Peter Field (2011) *The Long and the Short of It: Balancing Short and Long-Term Marketing Strategies* (IPA)

Tim Broadbent (2012) *The Ogilvy & Mather Guide to Effectiveness*

Andrew Cox, Alex Harris et. al. (2004) *It Only Works If It All Works: How troubled BT Cellnet was transformed into thriving O2* (IPA Effectiveness Awards)

Peter Field (2011) *The Link Between Creativity and Effectiveness: New findings from the Gunn Report and the IPA Databank* (IPA, revised ed.)

Mike Holmes & Louise Cook (2004) *Econometrics Explained* (IPA)

Dmitri Maex (2012) *Sexy Little Numbers: How to grow your business using the data you already have* (Penguin)

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Byron Sharp (2010) *How Brands Grow: What Marketers Don't Know* (OUP)

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