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Taking the Long View

 MillwardBrown



The Importance of Long-Term Sales Effects

There has been a lot of attention given recently to the long-term effects of advertising, with an emerging consensus that long-term effects are important and are fundamentally different from short-term effects. This paper summarises some of the key thinking and learning over the years, and provides Millward Brown's latest evidence in this area.

Binet and Field summarized their analysis of IPA Effectiveness winners: "The way in which long-term effects are generated is fundamentally different from how most short-term effects are produced. Although long-term effects always produce some short-term effects, the reverse is not true and long-term effects are not simply an accumulation of short-term effects." (The Long and the Short of It: 2013)

These findings are very useful, since, as Clary and Dyson expressed it, "Many econometrics studies have shown that the short-term return on advertising is often less than the investment itself...there is decent evidence from published econometrics studies for long-term advertising effects in the range two to five times the short-term." (The Case for Long-Term Advertising: Admap February 2014)

These papers serve as a reminder of something we've argued for years. Almost 25 years ago, back in 1990, Gordon Brown at the 7th Annual ARF Copy Research Workshop said, "What worries me is that most modern developments in assessing the sales effects of advertising are heavily biased towards short-term effects... Surely advertising mainly pays for itself by altering the long-term trend of a brand?" (Copy Testing Ads for Brand Building)

This is a topic that we have returned to many times in the intervening years. As Millward Brown's Andy Farr expressed it in 1996, "With sophisticated scanner data, we should expect to be able to identify an immediate short-term sales response to most FMCG advertising. The problem is that this is likely to show that much advertising is not justifiable on the basis of its short-term payback. However our own experience... indicates that advertising does have a role in long-term brand building... What Marketeer's need is proof that today's advertising investment is going to be worthwhile in the longer term." (Advertising and Brand Equity: Admap April 1996)

We reported at the Admap Conference on Advertising Effectiveness in January 1998, "The majority of ads modeled over the last 15 years did not generate enough profit to pay for themselves in the short-term." (Justifying the Advertising Budget)

And like Binet and Field we recognized that short-term and long-term effects were different. In 1997, Millward Brown's Nigel Hollis reported to the Canadian Advertising Research Foundation, "Some advertising will be strongly persuasive creating a significant short-term effect on sales and some will be nudging, helping the brand to capitalize on the natural switching that occurs over time in any category. Some particularly effective ads will do both." (Looking to the Future: the Search for Long-Term Advertising)

Over the years we have been identifying some of the metrics that relate to short-term and long-term sales effects. Twose and Smith reported in Admap in 2007 in relation to short-term sales, "There is a high correlation between an ad's performance on the research metrics of advertising awareness and persuasion, and the ad's ability to generate sales... It is important to note that the AI [Awareness Index] Prediction and Persuasion metrics are assessing different things — there is no relationship between the two measures." The paper also demonstrated a relationship between long-term sales effects and the Awareness Index. (How effectively can ad research predict sales?)

However, while the long-term effects of advertising are important, predicting them with accuracy is difficult; the scale of the long-term effects are going to be dependent on many things. Clary and Dyson report, "The LT/ST [Long-Term/Short-Term] ratio depends on a number of factors – brand size, category, competitiveness of the market, purchase cycle, media channel, creative messaging, and seasonality of the product. In particular, products with a longer purchase cycle tend to have higher long-term ratios, while seasonal products will exhibit lower long-term ratios, as there is less scope to generate a habit of use before it becomes 'out of season'... Brands with bigger market shares will also tend to have higher LT/ST ratios."

Meaningful, Different, Salient

We have found the best route through these complexities is to consider brand equity. Millward Brown launched BrandDynamics™ in 1996 and it soon became the industry leading measure of brand equity. From its vast database of well over 100,000 brand reports, we developed the Meaningfully Different Framework, a framework that can quantify brand equity far more accurately and holistically than ever before. It stems from analysis of the Millward Brown BrandDynamics database which reveals that the most successful brands tend to share the following qualities:

1. **Meaningful:** the extent to which brands build an emotional connection and are seen to deliver against functional needs.
2. **Different:** the extent to which brands set themselves apart from the category, by offering something others don't – intangible or tangible – and by leading the way.
3. **Salient:** how quickly and easily the brands come to mind.

These three qualities, in varying combinations, are present in brands that sell the most, command the highest price premium and generate the most value share growth the following year.

Indices to average of volume share, price index and value share % growth by high, mid and bottom scores of Meaningful, Different and Salient factors

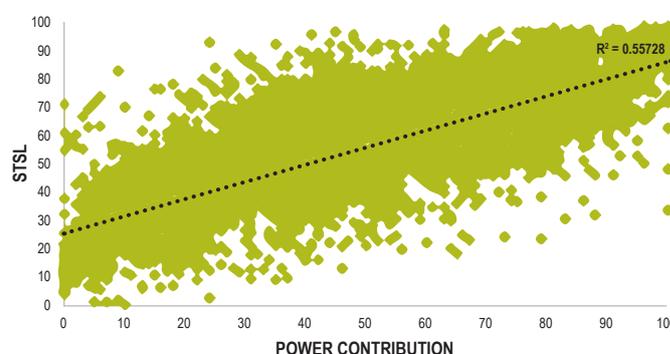
FACTOR TERILES OF MEANINGFUL, DIFFERENCE AND SALIENCE	VOLUME SHARE (index to average)	PRICE INDEX (index to average)	VALUE SHARE GROWTH (index to average)
HIGH	244	105	241
MEDIUM	100	100	100
LOW	70	93	38

Incorporating Long-Term Metrics into Link

A lot of research and development work has been put into developing questions for our copy testing tool, Link™, reflecting both functional and emotional elements, in order to better assess an ad's likely impact on long-term equity on these dimensions. Together they are factored in to the 'Power Contribution', our metric for the likely long-term effect of an ad.

After several months of collecting data on these metrics, we have begun to explore their validation. Initially, it was important to check that this Power Contribution was measuring something different to our existing Short-Term Sales Likelihood (STSL), which we know relates to short-term sales effectiveness. The scatterplot below was encouraging. There is a relationship between the two measures, which made sense; as Binet and Field had identified, with no short-term sales movement, there is unlikely to be a long-term benefit. On the other hand, the chart shows that a strong STSL is no guarantee of long-term benefit. This makes sense, because as Twose and Smith showed, a proportion of short-term sales effects will be driven by Persuasion; and the persuasive ability of an ad is strongly influenced by the news value of the message; and news wears out quickly.

Short-Term Sales Likelihood
(based on 2855 global ads $r = 0.75$)



It is also encouraging to see that the ads with top tertile STSL and bottom tertile Power have a persuasion percentile of 81, indicating that ads with a strong short-term sales likelihood but weak long-term sales likelihood are heavily driven by Persuasion; while for those ads with bottom tertile STSL and top tertile Power, the Persuasion percentile is just 46. While Persuasion is important for strong short-term sales effects, it is far less important for long-term effects.

Creativity

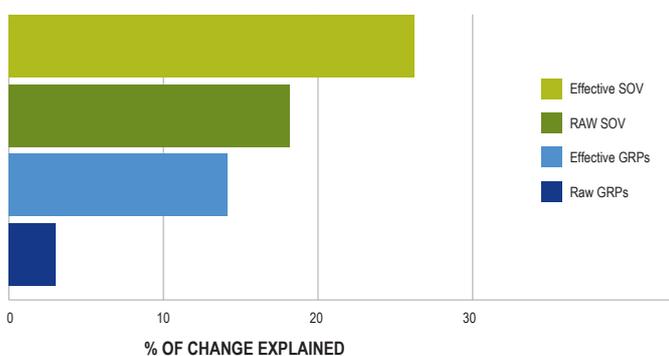
It is now widely recognized that creativity is an important component of advertising which generates long-term growth (an idea we have promoted for years). So we took one of the film Gold winners at the 2014 Cannes festival, Nike's Possibilities ad, and researched it with Link. While its Short-Term Sales Likelihood score was weak, on the 33rd percentile, its Power score was high – on the 79th percentile. It scored on the 80th percentile for Difference; a great indication that while the ad lacks the news required for Persuasion, its creativity is likely to benefit the brand over the long-term.

Sales

But, do these new measures relate to long-term growth?

We've known for many years that the more salient the advertising is, the stronger the long-term sales growth. The chart that follows (covering 100 brands) looks at changes in market share over a three year period in relation to four different measures of communication: Raw GRPs, Effective GRPs, Raw Share of Voice (SOV) and Effective SOV. ("Effective" GRPs and SOV are weighted by the Awareness Index, a measure of the salience of advertising.) We observe that Effective GRPs explain four times as much change in market share as raw GRPs. Further, we observe that raw share of voice is more useful than raw GRPs. But effective share of voice is even more successful at explaining changes in market share.

Effective share of voice best explains changes in long-term share



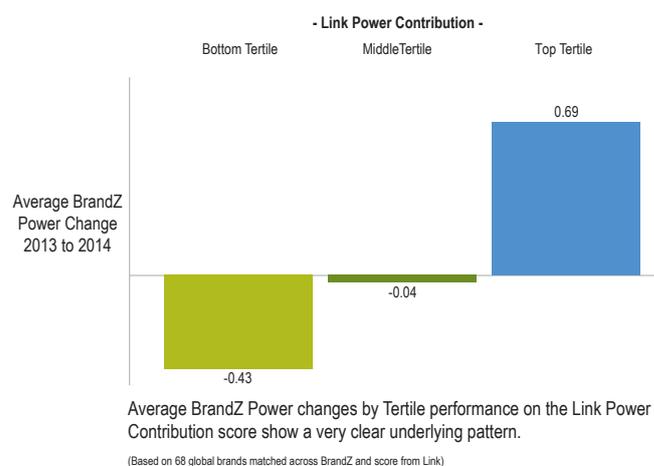
For the other measures, we worked together with one of our major clients, who identified campaigns for their brands which had a year-on-year growth of at least 1%. For these campaigns showing long-term success, our measure of Brand Difference indexed at 110; while our measure of Meaningful indexed at 107. A powerful validation of these metrics to relate to long-term brand growth.

Encouraged by these results, we've now had a chance to explore the relationship between the Power Contribution score and for individual ads, and changes in brand equity. Validating any metric concerned with long-term effects is difficult. Other marketing activity, product launches, price changes (for the brand and its competitors), will also have effects for which we cannot account here. Additionally, we have data only for the ads that we have researched with Link. However, by concentrating on broad patterns there are clear signs that the Power Contribution metric does relate to improvements in long term brand equity. Here, brand equity is measured by looking at annual changes in Power (our summary measure of brand equity), as measured in BrandZ.

The following chart shows the average (annual) change in Power scores achieved in BrandZ by groups of brands, split according to their tertile performance on the Power Contribution score.

Brands with ads with generally poor Power Contribution scores were more likely to see a drop in Power. Brands with ads with generally good Power Contribution scores were more likely to see a rise in Power (the 68 Brands come from 12 different countries. Categories include: soft drinks, beers, skin care, cars, fast foods, confectionery, casual dining, detergents, hair care, oral care, communication providers, business couriers, dairy products, insurance, mobile/cell handsets, spirits/ liquor).

Power Contribution v Power change 2013-14



Improving the accuracy with which we can predict the potential of an ad to benefit a brand over the long-term is an important long-term goal for us. We are confident that these long-term metrics are measuring something different to our short-term metrics; and that they relate to long-term success.

References

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