Brands as Engines for Profit

Universal Guidelines on How to Drive Growth

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To

my children, Henrietta and her husband Paolo and their family; and Philip and his wife Mary and their family

Endorsements

Although this book was written for the Indian business community, I profoundly hope that it's widely read (and followed) in the so-called developed world as well. Too many marketing people have forgotten – if they ever knew – some of the rock solid, evidence-based, fundamental truths about the nature and value of brands. With a rare clarity of both thought and expression, John Philip Jones not only reminds us of them but also gives them new force.

Jeremy Bullmore
Former Chairman
J. Walter Thompson, London

To paraphrase Francis Bacon, age appears to be best in four things: old wood to burn, old wine to drink, old friends to trust, and JPJ to read. On one hand, this book is vintage Jones: expertly written, reader-friendly, simultaneously relevant and rigorous. On the other hand, it is supremely contemporary and marketing *du jour*, for it tackles arguably the most important topic of this decade – branding, using India as an illustrative context to draw widely generalizable conclusions. Practitioners and scholars alike will revel in its lucidity and sagacity. I know I did!

Professor Mike Ewing
Head, Department of Marketing
Monash University, Melbourne, Australia

Again, Professor John Philip Jones provides a most scholarly yet practical approach to the development, advancement and management of brands. Of great use to the student and working professional alike, Jones's most recent work confirms his position as the leading English language author on the *science* of advertising.

Brenda C Garrand
CEO, Garrand, Portland, Maine

As the Asian economies lead the world out of the recent macro-economic woes, John Philip Jones lays out a model for building brands to drive profits. John shows how this brand building approach, which has proven to build business in western economies, can be successfully adapted for emerging economies like India. We live in a turbulent world with an uncertain marketplace. While this dictates that some things will need to change, John's book serves as a good reminder that not everything needs to be reinvented. There are many advertising fundamentals that hold true across geographies and over time.

Deborah A. Henretta

Group President – Asia and Global Specialty Channel
Procter & Gamble
Listed by "Fortune" *as one of the* "World's 50 Most Powerful Women"

The last two decades of India have seen the growth of branded products and services. This has happened because of two factors. An aware and discerning consumer, even in remotest hinterlands, has acknowledged that a brand stands for identity, and wants to address every need of his or her life with a branded offering. The liberalized economy has made it relatively easy to set up an operation to conceive, create and convey a brand to the market. In Brands as Engines for Profit, John Philip Jones demonstrates how latent potential can be converted into high performing brands. Like his other popular books, this too is a practical guide, rich with empirical evidence from brands that have stood the test of time and those that have captured consumer mind space in the recent past. Jones literally handholds you from the very first step of how to find a market, to creating a brand, launching it and sustaining it. If you are involved in the custody of a brand or training to manage brands, *Brands as Engines for Profit* is a must read.

Ravi Kant

Vice-Chairman
Tata Motors Ltd.

In *Brands as Engines for Profit*, Professor John Philip Jones has distilled a career's worth of knowledge, added a spritzer of Q&A, and garnished with articles relating to the Indian market. This adds up to an excellent text book for the fast-growing sub-continent, combining local insights, valuable lessons from mature Western markets, and practical work-plans.

Hamish Pringle

Ex-Director General
Institute of Practitioners in Advertising, London
and
co-author of Spending Advertising Money in the Digital Age

John Philip Jones has long been the authority on the relationship between brands and advertising. His prolific writings are unparalleled in helping us understand how advertising influences brand growth and profit. In this book, he broadens our understanding of how advertising and brands will expand in the growth market of the Tiger economies. As is typical of Jones's work, this book is incredibly detailed, supported by excellent examples, and practical with a theoretical underpinning. This is requisite reading for anyone who is a student, teacher, or practitioner of advertising. Once again, John Philip Jones has proven he is the consummate expert on advertising and brands – domestically as well as internationally.

Jan Slater, PhD.

Interim Dean
College of Media
Professor of Advertising
University of Illinois

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Acknowledgements

Three people deserve my most heartfelt thanks.

First – as always – my wife Wendy, who is my collaborator in all my writing. She takes responsibility for preparing all my manuscripts: a job that she carries out flawlessly and without complaint (or without too much complaint anyway!)

Second, I am most grateful to Amit Agnihotri, Editor and Director of the very superior advertising trade journal *Pitch*, published in New Delhi. This magazine has carried many of my articles, and Amit Agnihotri has been kind enough to allow me to re-publish a number of these here. They form the substance of Chapters 8 and 9. Chapter 8 is composed of my answers to questions from the Indian marketing and advertising communities, and the questions not only direct attention to subjects of topical interest, but also reveal something of the sophistication with which the business is conducted in India.

The third person I must thank is my friend and colleague Prakash Idnani, with whom I have worked for more than 15 years, and who cooperates with me in all my work in India. He has arranged all my visits to the sub-continent in connection with consulting assignments for major clients. He is also my continuous discussion partner and the source of intelligence from the Indian market, which he sends to me within hours of any request. He and I have a similar background in advertising and we invariably see eye-to-eye.

JOHN PHILIP JONES

Preface

The liberalization of the Indian economy in the early 1990s has powered two decades of unparalleled growth. India and China are now universally regarded as the countries with the greatest potential: once-dormant but now rapidly on its way to realization. Even the growing Indian population can be seen as an asset, as a source of energy and enterprise, although there is a downside because the Gross Domestic Product is obviously growing more slowly *per capita* than when measured in terms of the economy as a whole.

In its issue of March 5, 2011, the leading British and American business journal *The Economist* published a succinct but comprehensive and well-informed article about the Tata Group. This company is the industrial powerhouse that is leading the way in India's economic surge. The revenues from its business have grown six times since 2002, and it has leading positions in seven separate classes of business. The most important features of the Tata Organization are diversification, innovation, and global reach (60% of the Group's revenue comes from outside India). Diversification provides stability, because a downturn in one business group is probably going to be balanced by successes in others. And innovation – sometimes exploiting ideas of striking originality – and global reach, are both guiding the firm in promising future directions.

It is not at all surprising that the name Tata (reckoned on its own to be worth over $11 billion) is the most valuable brand in India. It is now recognized in the world ranking, having climbed the list of thousands to reach number 65 of the world's strongest brands: a group naturally dominated by world-renowned names in many fields, e.g. Coca-Cola, Gillette and Microsoft from America; Cadbury, Chanel, Fiat, Heineken, Henkel and Nestlé from the various countries of Western Europe; and Nikon, Sony and Toyota from Japan. For India to have given birth to a business property as demonstrably valuable as Tata would have been inconceivable at the time when the Raj came to an end in 1947, and also for decades afterwards.

This book had been substantially written by the time *The Economist* article was published, and when I read it I was immediately struck by the way in which the Tata Group underscores why this book is devoted to brands. Tata's prudent, yet steady and very considerable annual profit of $2 billion earned from its total revenue of $70 billion, reinforces the main theme of this book. Strong brands generate profit, and profit nourishes growth.

This book looks at brands in the round, with an emphasis on advertising's role in building them. As with the Tata Organization, the focus is global, because the lessons of branding travel well. The book is intended to provide practical lessons to business executives, and also for future executives who are learning their profession in management schools at universities. The best management education in all parts of the world is based on the study of specific cases, rather than unsubstantiated theories, no matter how sound they might appear. This book is constructed almost entirely on the foundation of facts.

The book also includes, in **Appendix A**, a substantive empirical evaluation of advertising's role in the economy as a whole. The most successful business leaders, not least Mr. Ratan Tata, are concerned that their activities have social implications, and are anxious that their companies should operate like good citizens. Advertising is an aspect of business that calls for an evaluation of its broader effects, and as I hope I have demonstrated in **Appendix A**, advertising emerges with a clean bill of health. And of course strong brands cannot be built without it.

JOHN PHILIP JONES

Chapter 1

First Thoughts on How Advertising Drives Brands

The title of this book claims – I believe justifiably – that brands are the dynamic force that generates growth and profit. The link between growth and profit is economies of scale. Other things being equal, as a brand's sales volume grows, the cost of production per unit grows slightly more slowly as a result of efficiencies in all parts of the production and marketing operation. There is therefore a good chance that profit per unit will increase. This does not happen always, but it happens more often than not, and it is the fundamental reason why firms that market the strongest brands are financially so powerful, e.g. Nestlé, Procter & Gamble, Unilever, Coca-Cola, Pepsico, Microsoft, Apple etc. The obvious reliance of such organizations on advertising demonstrates that advertising has a powerful influence on their brands, which in turn drive their growth and profit.

The marketing of brands is a dynamic process, and new brands are constantly being introduced. New brand activity that has taken place in any country during the past decade, would divide the newcomers into five groups:

- Brands that failed: something that happened in most cases within two or three years of their launch.
- Brands that have remained small, but are established although barely profitable.
- Small, premium-priced brands that have maintained a position in the market, but despite their profitability they have little growth potential.
- Aggressive brands that show some prospects of success although their long-term future is uncertain.
- The stars.

It is impossible to generalize the numbers of brands in each group, because the numbers differ country to country. However, the first group is unquestionably the largest, and the fifth group is the smallest. This last group contains the exemplary brands, and they will be discussed during the course of the book.

What qualities do they possess? There are five qualities and these qualities are real.

First, the link between the brand and its buyers becomes stronger as a result of the growth in added values: a process to which advertising makes an important contribution.

Second (as I have explained), the increase in the volume of sales – a process nurtured by the growth in added values – generates scale economies that lead directly to increased profitability.

Third, the advertising itself grows more effective, *so long as the campaign retains its cutting edge.* This increased effectiveness is the result of the advertising's ability to attract attention: as the number of buyers increases, more attention is paid to the brand's advertising because of selective perception.

Fourth, the manufacturer develops stronger leverage with the retail trade, as there is slightly less pressure to bribe the trade with expensive trade promotions. The success of Brand A also makes it easier to launch Brands B and C, because the trade will support them. The success of new brands is naturally in the interest of the retail trade as well as the manufacturer.

The fifth reason is that a pioneer brand will usually keep its number one position in a market, despite the launch of "me-too" followers. This means that the manufacturer of Brand A will retain its pre-emptive position.

These are impressive points. The question this book will address is: do successful brands offer advantages in underdeveloped countries as they do in economically powerful ones?

The Tiger Economies

This book is focused on the countries that, despite their low-level of economic development, show a stronger rate of growth than the economic powerhouses. In fact the Tigers' low level of development offers almost unlimited room for further growth. In contrast, despite their impressive levels of *per capita* income, the powerful economies of the United States and Canada, Western

Europe, Japan and Australasia, have little possibility of much additional macro-economic development. In consumer goods fields, all marketing activities are confined to competition within flat product categories. The situation is different in the Tiger Economies, because marketing there is driven by strong organic growth. In India, this was triggered by the economic liberalization during the early 1990s, so now it has had almost two decades to gather impetus.

The stagnation in the economic powerhouses is a relatively recent phenomenon. For the best part of a hundred years ending towards the end of the 20th Century, the economically-developed countries were growing initially as strongly as India and China are growing today, and it is relatively easy to infer the reasons for their growth. Strong lessons were provided by the vast amount of research into consumer goods markets carried out over the years by A.C. Nielsen and other first-class organizations in the market research field. This book uses this research as its basic foundation, although it is important to avoid applying the lessons blindly. India and China still differ in important cultural respects from Western markets.

Chapter 2 in this book revisits some of the material I used in a book published in India in 1998,[1] and Appendix A uses some of the data in a book published in 2000.[2] I believe that the conclusions in these earlier works are still valid, but I have brought them up-to-date in three ways: I am introducing the latest available empirical data; I have truncated some of the less important arguments; and I have amplified some of the most important ones. My objective with this book is to devote my best efforts to make it directly relevant to 21st Century marketing and advertising practice.

I have never doubted that the marketing lessons from economically developed countries can apply in many circumstances to India and China. My years in the advertising business included long periods working on a range of Unilever brands, and many brands in Unilever's international portfolio have long been powerful in India, and are developing a strong position in China. My professional experience also included an exploration of the general relationships between sales volumes and advertising volumes that was based on data from many countries, including India. (See **Figure A-5: The Advertising-Intensiveness Curve** in **Appendix A**.)

India's population of 1.2 billion is now only slightly behind China, with 1.3 billion. Indian population growth, 1.55% per annum, is ahead of China, which means that India will soon become the most populous country in the world. But this vigorous growth is in one respect a disadvantage. In terms of Gross Domestic Product (GDP) *per capita*, increases will continue to be below the *overall* growth in GDP (with the obvious influence of this on the increase in consumer purchasing power). Aggregate GDP growth is currently running higher than 8% per annum: three times the rate of growth in economically-developed markets. However, it is misleading to project the present Indian development into the future in a straight line. As a country grows in absolute terms, further growth at the same percentage rate becomes increasingly – and eventually impossibly – difficult to sustain. If the current absolute annual increase – which is most impressive – is maintained, this will mean in effect a reduction in the annual percentage rate.

It is nevertheless an odds-on bet that Indian growth will remain strong for at least the next decade. There is no shortage of evidence – from Indian manufacturing production (e.g. automobiles) and sophisticated services (e.g. computer call centers and supermarket retailing) – to underpin the likelihood of strong continued increase. And it will be many years before Indian consumption levels are anywhere near the saturation that has been reached in today's economically-developed countries.

Growth in India is led – both in business management and in patterns of consumption – by the higher-income segment of the population. These groups usually have discretionary income, they are "economically active," or the middle class. But it is surprisingly difficult to quantify the size of this group, because of the confusing classification of Indian incomes. *Prima facie*, individual Indian incomes are too low to compare with those in economically-developed countries. But one way to compensate for this is to apply a calculation called Purchasing Power Parity (PPP) – a multiplier that compensates for the lower cost of living in India than in the Western countries. The annual GDP *per capita* in the United States is $48,000; but in India, even at PPP, it is only $3,750. How many Indian incomes are significantly higher than this? These people must be identified because they are the ones who will be the main drivers of economic development.

An annual Indian salary of 300,000 Rupees ($6,700) attracts a marginal income tax rate of 20%, which implies that it is a comfortable income. Yet $6,700 represents poverty in economically-advanced countries. But in terms of PPP, this income goes up to about $33,000, which makes it comparable with the *average* income in richer countries. People with such earnings in India certainly have discretionary income, and this is something that brings them directly into the market for a wide range of brands, even some luxury ones.

An indicator that a household is economically-active is the ownership of a car. The number of cars on Indian roads is now approaching 20 millions.

With the normal Indian ownership of one car per household, it accounts for almost 100 million people in families who own a car. (The average Indian family has five members.) Another indicator of economic activity is Internet usage. The approximate number of Internet users in India is more than 90 million: a figure in the same “ballpark” as car owners.

These two estimates, for cars and the Internet, suggest that the real size of the population with discretionary income is more than 100 million. I believe that this can be comfortably stretched to 150 million, although this figure is a good deal less optimistic than the 300 million middle class Indians I have heard suggested by American diplomatic spokesmen. The annual growth in Indian car ownership is about 10% per annum, and in Internet usage, about 12% per annum. These growth figures are highly promising for the future.

To summarize, my best estimate of the size of the Indian consumer group with discretionary income is that it represents a larger population than Germany or Japan. And although average *per capita* income in real terms is below the average in these two countries, growth is much stronger, so that India is catching up fast. The economically-active group in India is not only increasing in size, but average income is also expanding.

Architecture of the Book

Following this introductory chapter, eight further chapters are focused specifically on brands and the role of advertising in developing them. **Chapter 2** describes new brands. **Chapter 3** discusses a brand as a totality, since it can be influenced by a multitude of stimuli. **Chapter 4** is devoted to brands and advertising, especially advertising’s long-term effects. As will be explained, these are manifested through a strengthening of the brand itself, and this strengthening can be evaluated with six behavioral measures. **Chapter 5** describes the process of developing advertising ideas, which is a matter of refreshing interest. **Chapter 6** covers brand management. **Chapter 7** looks at a few aspects of market research, as they impinge specifically on brands. **Chapter 8** is a variegated collection of thirty-six short pieces I published during 2005-2006 in the pages of the well-known trade journal *Pitch*. These took the form of answers to questions from members of the Indian marketing and advertising communities: questions that reveal the high degree of sophistication of professional practice, despite the relatively low volume of Indian advertising. **Chapter 9** is devoted to six free-standing articles I also wrote for *Pitch* dealing with important aspects of marketing and advertising:

aspects which are if anything even more relevant today than when they were first published.

The book contains two appendices. In **Appendix A**, I have made a great effort to analyze definitively the complex matter of advertising's contribution to a competitive economy. **Appendix B** is a glossary defining precisely some of the terms I use in this book. It goes beyond dictionary definitions, and is made up of eleven mini-essays on important aspects of branding and advertising:

(1) Advertising,
(2) Brands,
(3) Consumers,
(4) Life Cycle Theory,
(5) Market Research,
(6) Product Groups,
(7) Psychological Processes,
(8) Purchasing Involvement,
(9) Retail Distribution,
(10) Sales Calculations,
(11) The Share Concept.

I have written this glossary for a good reason. Some advertising terms are used in a different way by different people, and I am anxious to make clear to readers the way I use them in this book. One especially important definition is Penetration.

As mentioned in **Appendix B**, penetration is the proportion (normally of households) buying at least one pack of a brand during a defined period. (This is the classic definition.) But although this definition is unambiguous, penetration is used in three other different ways by marketing and advertising practitioners:

- To users of the Unique Selling Proposition (USP) theory of writing advertisements, penetration describes the number of people who can recall a descriptive slogan for an advertised brand.
- In the automobile business, penetration is quite simply the share of market of an individual brand of car.
- In describing prices, penetration means pricing low to make a deep inroad into a market. This definition bears some resemblance to the classic definition of the word, because a brand is likely to make

such an inroad through boosting its penetration, i.e. bringing in new buyers.

The best way of demonstrating the particular value of the classic definition is through a practical example. Advertising – the endeavor to which this book is mostly devoted – never governs sales in any direct sense. It does the job indirectly, by influencing consumers whose behavior in turn influences sales. The relationship between consumers and sales (more precisely, consumer purchases), can be explained with a five-part formula:

Consumer purchases = (a) population
x (b) penetration
x (c) purchase frequency
x (d) number of packs purchased per occasion
x (e) average size of pack (measured in volume or money).

When one brand is compared with another, three parts of the formula are uniform (or virtually uniform) for every brand. These are (a) population, (d) number of packs purchased per occasion, and (e) average size of pack (measured in volume or money). These three variables do not therefore discriminate between brands. The difference between one brand and another is driven by the two other factors (b) penetration, and (c) purchase frequency. In other words, buying is controlled by the number of buyers and by how often they purchase. This analysis goes to the heart of advertising strategy. A brand's strategy – which is something that should be agreed before any advertising is written – can go in one or two directions, or occasionally in both. If it is directed at boosting penetration, this should be done by demonstrating to non-users of a brand the especially attractive features of that brand. But if the objective is to increase purchase frequency, the advertising should address existing users, with the aim of getting them to use more of it (e.g. by featuring recipes in the advertising for food products).

This book is devoted to ways of looking at marketing concepts in a way that I hope will be directly helpful to practical people in the field. It is intended for use in seminars run by business firms to sharpen the skills of their younger executives. It should also be useful for university teaching, especially in institutions which have a proper respect for the value of empiricism. I spent half of my long career working in the advertising business, and the other half teaching its principles to graduate and undergraduate students (including large numbers from India and China) in a large independent American university. This two-part experience has supported my belief that my approach to marketing and advertising will be of some value to people in the field and also to university professors.

To increase the book's practical usefulness, I have written short concluding sections to **Chapters 2 through 7:** the parts of the book that are devoted to specific operational lessons. These sections, which are little more than thought-starters, contain ideas (derived from my own teaching experience) on how to involve the students in the process of action learning. Group work is the most productive teaching method, particularly when alternative solutions to problems produced by different groups of students are presented, and their pros and cons weighed in open discussion. This is a process that sharpens the students' thinking ability, and also leads to a rapid absorption of underlying principles.

Endnotes

1. John Philip Jones, *What's in a Brand? Building Brand Equity Through Advertising* (New Delhi: Tata McGraw-Hill, 1998).
2. John Philip Jones, *Behind Powerful Brands: From Strategy to Campaign* (New Delhi: Tata McGraw-Hill, 2000).

Chapter 2

New Brands: How to Launch them and Establish them in the Market

First, a definition: *A brand is an amalgam of something that performs a function and also occupies a place in the mind of the consumer.* Described more fully, a brand is a product or service that does a functional job, but in addition has developed a psychological affinity with its users – something usually called a brand's added values – and this combination of functionality and psychological affinity is valued enough by some consumers for them to buy the brand regularly (although it is rarely the only brand they buy in any category).

New brand activity is the lifeblood of consumer marketing: an activity that invariably operates in competitive market places. It is important to distinguish between the launch and establishment phases, because brands that are going to fail are often launched successfully but collapse within six months. What really matters is staying power, and it normally takes at least two years before a new brand really establishes itself and its added values have been developed.

Despite the difficulties, manufacturers and service providers feel compelled to persist in launching new brands. The reason is that once a new brand is established successfully, it will continue to maintain its lead in the face of competition. On average, a follower – sometimes known as a "me-too" brand – will only achieve half the sales of a pioneer; and a third brand will only gain a quarter of its sales. What drives marketers forward is ambition for a vast pre-emptive success, combined with the fear that a competitor might get there first. Two factors enable a pioneer brand to keep its lead: first, its functional innovation and second, its acquisition of added values, which advertising helps to create. The public is normally exposed to the pioneer's initial advertising well before any "me-too" brands make their appearance, so that it will have built some added values while the "me-too" brands have not started to build theirs.

However, the process of launching new brands can be disheartening. In developed markets like the United States and Canada, Japan, Australasia and Western Europe, less than 10% of new brands succeed.[1] The reason is that in such countries there is no longer any category growth, established brands have a firm position in the market and satisfy their users, and existing purchasing habits are therefore very difficult to shift. But in the major emerging markets of India and China, the launch of new brands is not so forbidding. Continuous category growth means that room can often be found for a newcomer, which means that a much higher percentage of new brands succeed, probably 50% or more. However, marketing companies need to do their homework conscientiously and take every step to improve their chances of success. This means that they need to apply talent, resources and energy to new brands.

It cannot be emphasized too strongly that launching new brands is more than a carefully planned and monitored managerial function. The small number of really exciting new brands are illuminated by the spark of the human imagination, something well described in the words of the late Steve Jobs:

> "The trick was to give customers products they didn't realize they wanted, packaged in a way that went way beyond functionality. So the iPhone is 'revolutionary and magical' and Apple computers 'make the world a better place.'"[2]

There are three main types of new brands introduced in a country like India: (i) Existing brands from other countries that are introduced without any major changes, e.g. Unilever's Lux Toilet soap; (ii) Variations of brands from other countries, e.g. the special versions of Nestlé's Maggi lines that have been specially adapted for the Indian cuisine; and (iii) Totally innovative brands developed initially for the Indian market alone. There has been a rash of recent innovations in the Chinese market, including a soft drink that combines lemon-lime and green tea flavors; a new General Motors car directed at rural buyers; and a uniquely Chinese Smartphone from Motorola.[3] The best-known recent example of the launch of a product designed in India is Tata's Nano car, an automobile that has enormous potential both within India and in export markets. But its path has not been smooth. The worst of Nano's initial difficulties, although not the only one, was that Tata was unable to produce enough of the cars.[4] While such a problem is more likely to occur with capital-intensive products than with consumer packaged goods and services, such glitches have to be sorted out quickly to stave off disaster.

Nano cars are now flowing smoothly out of the factories, although there was a considerable loss of potential business at the beginning.

"Organized" Retailing

The growth of consumer goods market in India is being accompanied by a rapid growth in "organized" retailing. This offers a positive benefit to new brands because it makes it easy for fast-moving consumer goods (FMCG), in particular, to build distribution quickly. But there is a downside. The store chains, which are becoming substantial businesses, are demanding financial incentives. These take two forms.

The first is trade promotions, which are essentially discounts that vary according to the volume of a manufacturer's goods carried by the chains; plus additional allowances for in-store display. If we imagine a pipeline connecting the manufacturer with the consumer – such a pipeline representing the multiple links in the wholesale/retail system – goods are loaded into the pipeline by the manufacturer's reputation and the sales force, and given additional impetus by trade advertising and especially trade promotions.

The second incentive demanded by retail chains is that manufacturers must devote resources to activities directed at consumers, to persuade them to pull the goods out of the pipeline. These activities are consumer promotions, i.e. specific financial incentives to the consumer, especially temporary price reductions (TPRs); plus the promise of strong consumer advertising. Consumer advertising therefore has two target audiences: the more important audience of consumers, to persuade them to buy the brand; but in addition, there are the retailers who need persuading to stock the brand in anticipation of consumers buying it.

Serious financial incentives to the retail trade are necessary because of the crucial importance of building retail distribution before any consumer advertising is exposed. Advertising without distribution means that demand is created that cannot be satisfied. There are particular problems with distribution in India. Although "organized" retailing is expanding fast, there is still an enormous "tail" of *Kirana* stores, which are supplied through a complex chain of wholesalers and traders: a process that demands much attention from manufacturers. It is something that slows the movement of goods through the pipeline, with the inevitable problem of maintaining them in pristine condition. This chapter will describe various trade and consumer promotions commonly used in the United States. It is likely that Indian marketing companies will become familiar with them all within a few years.

Comparing the Performance of Brands

The comparative performance of brands is not determined by the statements of inexperienced commentators, after they have looked at competing brands and concluded that they are all more-or-less alike: that they exemplify "product parity." (This strange misconception is quite common.) Users of brands are more sensitive to the differences between them, and the way to measure these is by scientifically conducted product tests. In a product test, a sample – normally composed of 200 consumers in the market, properly balanced demographically – are asked to evaluate one brand against one or more others. After enough time to evaluate them, often a week or more, the respondents are asked to give their frank impressions according to a number of specific criteria; and the last question is always "which one do you like best?" Product testing is normally carried out "blind," with the products in identified but anonymous containers, e.g. labeled A, B, and C. From the experience of A.C. Nielsen, it is unwise to launch a new brand without a 60:40 preference against the main competition in blind test; and 65:35 is safer.

"Named" product testing is rare but can sometimes be enlightening. Before Coca-Cola launched New Coke in 1985, the company tested New Coke against Pepsi-Cola in blind tests. New Coke was aimed at drinkers of Pepsi-Cola, and had a sweeter flavor than traditional Coke. It therefore did well against Pepsi in blind test. New Coke was launched in the market place and was a disaster. The mistake that the company made was by not also product testing New Coke against Pepsi in identified containers. In these circumstances, Pepsi would have been accepted as sweeter, but would not for that reason have been generally preferred to New Coke. Coca-Cola is a totality, like most strong brands, and this totality includes the traditional Coca-Cola taste. New Coke was seen as something incompatible with the brand's heritage. The fiasco led to Coca-Cola reintroducing their traditional drink, which soon regained its strong position in the market.

A very useful technique is to carry out matched product testing of competitive brands: with one panel testing them blind and the other panel testing them named. When a single brand's preference is higher in the named test than in the blind test, this provides a remarkable insight into the strength of the brand's added values. The blind test measures preference for the functionality of the brand and nothing else. Any additional preference that comes from the brand's name and packaging must therefore be due to the extra effect of the added values. Tests of this type have been carried out hundreds of times, and can be used to estimate the relative importance of functionality and added values in consumers' purchasing decisions.

Eight Things to Get Right

It is rare for a new brand to make money during its first three years. One of the major challenges for a new brand is to build volume and reduce investments according to a well-calculated payout plan, so that losses are gradually diminished and the brand moves into profit. The strategy for launching a new brand includes eight elements. Four of these describe characteristics of the brand itself: (1) Functional performance; (2) Segmentation/positioning; (3) Name; (4) Price. Two factors are concerned with the retail trade: (5) Distribution; (6) Trade promotions. And two parts are rooted in the relationship between the brand and its eventual consumers: (7) Consumer promotions; (8) Consumer advertising. These factors are interrelated: in particular, price, trade promotions and consumer promotions are essentially different ways of looking at the same thing. For a new brand to succeed, all eight elements have to be right, but even when this happens success is not absolutely guaranteed. The basic brand concept may not after all be appealing enough to consumers.

(1) Functional Performance

A brand comes naked into the world. Without functionality that is superior to the competition in at least some respect, it will not persuade the person who buys it on a trial basis or who receives a free sample, to buy it again. One of the roles of the package design, introductory promotions, and initial advertising is to communicate this functional performance clearly. It is also important at this stage to start building added values, because these will consolidate the brand's lead once "me-too" brands arrive. The method of comparing the functional performance of competing brands was described in the last section. There is no shortage of evidence of the importance of functionality once a brand has been launched. Here are four pieces of solid aggregated data.

- ⇨ A.C. Nielsen has generalized from the experience of many hundreds of American examples that functional superiority is the most important factor in the success of new brands, and functional weakness is the most important cause of failure.[5] British Nielsen data demonstrate that functional weakness as a cause of failure is becoming even more important with the passage of time.[6]

- An analysis of 100 new grocery brands in the United Kingdom closely confirms and supplements the Nielsen findings.[7] Of these brands, 50 succeeded and 50 failed, a rate of success better than the general average. Of the successes, 37 offered better performance than the competition, and 22 of these offered significantly better performance. Of the failures, the functional performance of 40 of them was no better than, and more often worse than, the competition.
- Competitive functional performance is not something that is important to new brands and unimportant to mature brands. The added values that the latter have acquired over the years cannot provide a permanent bulwark against functionally superior newcomers. The large British food manufacturer Brooke Bond Oxo (part of Unilever) has published evidence that the repeat buying of its brands correlates closely with product performance as evaluated by continuous blind product testing. The company concludes that repeat purchase is essentially determined by the functional performance of the brand.[8]
- Aggregated Nielsen data support these Brooke Bond conclusions. During a fifteen-year period, a third of 34 different product categories in the United States changed their brand leadership. In two-thirds of these cases, the cause of the loss was competitive technological advances. In another period, well over half the brands losing market leadership in the United Kingdom lost it for the same reason. "It is a cardinal fact that a consumer franchise will not protect a brand against a well-advertised technical breakthrough by competition."[9]

A brand's specific functional superiority over the competition should become a tool to specify the target group for its advertising. These should be the users of the directly competitive brands. The first question the manufacturer of a new brand should ask is "From which brands do I want to take business?" The answer to this question will direct research and development efforts to the specific functional characteristics on which the new brand will be based, and will afterwards help to target the advertising.

(2) Segmentation/Positioning

The best policy for a manufacturer introducing a new brand alongside others in its portfolio, is to introduce it into a different sub-division of the market, on the assumption that the market is already segmented – or can easily be segmented – into recognizably different although not necessarily self-contained parts.

Segmentation was discovered and first exploited by Procter & Gamble (P&G) during the 1920s. It was used as a device that greatly expanded the company's market share in the bar soap category. P&G did this by introducing a second brand, Camay, which was different from the market leader, P&G's Ivory. Camay was functionally different from Ivory, otherwise there would have been cannibalization, i.e. Camay's growth would have been at Ivory's expense. The principal differentiation was functional, but the two brands developed different target groups, since buyers of Camay – beauty-conscious young women – tended to be different from those who bought Ivory – busy housewives with children, who wanted a pure "no fuss" product. Note the phrase "tended to." Target groups of different brands in a category are never totally isolated and self-contained, because 80% of buyers in any category buy more than one brand, although they buy them at different rates. The differences between the target groups of different brands are usually more than a matter of simple demographics; psychographics are often a more enlightening indicator. The small but expanding segment of micro-brews in the American beer market – minor local brands that are brewed differently from how mass-market brands are produced – are bought by younger, more affluent, better educated drinkers, but these people also have discriminating and sophisticated taste, and they lead active lifestyles.

Segmentation remains the best device for boosting a manufacturer's total sales in a category by its ability to add on one additional brand or more without cannibalizing. In other words, the brands must be complementary to one another. Segmentation is virtually universal in economically developed countries. In the United States, the beer market has five different segments; soft drinks also have five; credit/charge cards have three; and the vast majority of other categories show a similar pattern. The existence in India of two strong bar soap brands, Lux and Lifebuoy, both from Unilever, has demonstrated that segmentation has long existed in the Indian market.

Manufacturers have most to gain if they create a total new segment, because if a new brand succeeds in doing this, it will keep its leadership. But there have been occasional examples of manufacturers introducing the first fully successful brand into a segment by following competitors who saw the opportunity but were unable to produce a brand that appealed well enough to the consumer. International marketing companies are usually the ones who are best able to exploit segmentation by transferring international experience, although it has been known (e.g. in the American bar soap category), for an

American manufacturer to pirate a brand idea from another manufacturer in Europe.

As if to underscore the difficulty of launching new brands, the Nano, the highly innovative car from Tata Motors, hit an initial problem. The launch stimulated great interest. However, some media commentators misinterpreted the positioning. But positioning was not the problem. It was something simpler: an interruption in the production flow from the factory. What some journalists interpreted as a marketing effort directed at the upper reaches of the car market was actually caused by an inability to produce enough vehicles for a broad market, which was the brand's real objective. As the company stated, "there was a mismatch between the awareness that had been generated and our ability to actually deliver".

(3) Name

Many people believe that the added values of a brand are in some way embodied in its name, and that these values can be transferred to another product through the use of the brand name as a common property. This is the rationale for the strategy of line extension: spinning off new products from an original brand name.

An obvious point is the danger of cannibalization, which will be greater when the products under an umbrella name are in the same field (e.g. the powder and liquid versions of a laundry detergent, like P&G's Tide), rather than in a different field (e.g. a bar soap for washing the skin and a shampoo for washing the hair, like P&G's Ivory). A.C. Nielsen described the case of a manufacturer who introduced a new brand on top of an existing successful one. In the fifth year, the new brand was a third the size of the first, which by then had been cannibalized, so that the combined share of the two brands was not greatly larger than the original share of the first brand alone. Not a very successful strategy. The basic reason was that the existing brand was not improved, and the new brand had a slightly disappointing functional performance. In addition, support for the old brand was reduced, or "milked" to provide resources for the new brand.

A second case described by Nielsen demonstrated a much better performance. In this, by the fifth year, a new brand launched on top of an existing one had doubled the combined shares of the two; in other words, the old brand maintained its sales level and the new brand added the same volume of sales again. In this case, the existing brand was improved, and the new brand was also well accepted. And, importantly, the manufacturer maintained support for the old brand.[10]

In the unsuccessful case, the manufacturer followed the policy of umbrella naming. In the successful case, a new name was introduced for the new brand. Nielsen has produced important aggregated information to confirm this general lesson, from a database of 167 British and American brands in a variety of packaged goods categories. Nielsen recorded the market share levels at the end of two years of the brands with umbrella names, and the brands with the new names. The (unweighted) average market share of the new brands with umbrella names was 4.7%; that for the new brands with the new names it was 7.7%. These figures might appear rather low, but in large markets like the United States and Britain, such shares indicate success. (As a general rule, a successful brand in a large market will have a smaller market share than a successful brand in a small market.)

But the important point is that the average share of the new brands with the new names was 63% higher than for the new brands with the umbrella names. A good case can therefore be made for using new brand names rather than existing ones. However, this is not the end of the story. There is strong evidence that manufacturers follow an umbrella-naming policy largely because they think – erroneously – that they can save promotional money by doing so. They believe that they can under-support the new brand without damaging its chances of success.

When the Nielsen figures just mentioned are weighted to take into account the different levels of advertising investment behind each brand, the performance of the new brands with umbrella names is brought almost exactly into line with that of new brands with new names. *The generally lower level of performance of new brands with umbrella names was the result of the generally lower level of advertising investment behind them*:

> "Many marketing executives who have seen these results seem to feel that it is largely a matter of marketing psychology: realizing that marketing a new brand under a new name is tough, manufacturers gear up their marketing efforts proportionately. On the other hand, because it is commonly (and erroneously) believed that an established brand name is already presold, less money and effort is directed at the brand and a smaller market share results."[11]

Umbrella names are in general no worse and no better than completely new names. The level of success of a new brand depends much more on support levels than on the name *per se*. However, umbrella names may provide greater staying power, by enabling a greater addition to added values, which is a very long-term process. Palmolive, Cadbury, Kellogg's and Kraft follow this policy. The use of the uniform name generally helps the introduction of new brands under this name into the retail trade. Umbrella naming is really a part of a manufacturer's corporate policy, and wise marketers do not use umbrella names merely to save money in brand launches. Interestingly, companies as important as Unilever and Anheuser-Busch (which dominates the American beer market) do not follow this policy.

(4) Price

In about two-thirds of all cases, a new brand enters an existing market at a premium price. The manufacturer justifies this on the basis of the innovation and functional superiority of the new brand over the competition. The premium price is needed to fund the high cost of production, and also launch expenditure on advertising and sales promotions. Amounts spent on initial advertising and sales promotions must be high, to compensate for the strength of existing brands with their stock of added values. Whereas a new brand only rarely makes a profit during its first three years, deficit budgeting inevitably pushes the initial price up, although the negative effect of the high initial price is often concealed by temporary price reductions (TPRs).

Evidence exists that, although a new brand will normally command a price premium, this tends to go down during the first year of a brand's life. William T. Moran, a former senior Unilever executive, has published analyses illustrating this trend in the prices of new American brands of deodorants, mouthwashes, cough syrups, and sandwich bags.[12]

There is also evidence that premium prices are fairly well accepted as a justification for functional superiority, although consumers are understandably skeptical about manufacturers' attempts to charge a high price for no obvious functional advantage at all. In the sub-section **Functional performance**, there is an analysis of 50 successful and 50 unsuccessful brand launches in Britain. Of the 50 successes, more than half were sold at a premium price, and in virtually every case the higher price was accompanied by functional superiority over the competition. But the 50 failures included 35 sold at a premium price, and 25 of these were accompanied by a similar or worse performance than that of competitive brands.[13]

Stephen King, whose treatment was based partly on academic studies and partly on practical experience in the United Kingdom, recommended that manufacturers should be totally pragmatic in setting the initial price for their new brands. King recommended using judgment supported by research into consumer attitudes, based on direct and indirect questions about the level of price that consumers will accept. The manufacturer would therefore be able to choose a policy of "skimming" (skimming the cream from the market by pricing high), or "penetration" (opening up the market by pricing rather lower).[14]

Econometric techniques are helpful in pricing, although they demand a large volume of data, so that they are more often used as a fine-tuning device for the period after the brand is launched. The best calculation is of a brand's price elasticity: the percentage increase in sales that will follow a 1% reduction in price (with the effect of other sales stimuli excluded). This computation must be made from historical data, although it is useful to estimate the price elasticity of competitive brands in the market, to give general guidance about the degree of responsiveness of sales to low prices in the category. Once a brand is launched, it is often convenient to estimate price elasticity from data that quickly become available, e.g. sales data from different regions, related to existing effective prices in those regions (prices often influenced by sales promotions).

The average price elasticity is high, –1.8, which means that a 10% price reduction will boost sales by 18%. Although this is a strictly temporary response, it provides a strong incentive to brand managers to increase their expenditure on TPRs. These produce big volumes, although, it is not widely known that a manufacturer usually makes less profit from the larger volume of sales on promotion than on the smaller volume without it.[15]

It is a profound mistake to launch a new brand with a permanently low list price, although the market into which the brand is launched may be extremely price-sensitive. There are three important reasons for this. First, consumers (as explained) will pay a higher price for superior functionality; second, low price often connotes low quality in buyers' minds; third, one manufacturer's strategy of selling its brand on rock bottom price will lead to widespread retaliation from competitors. Cases exist of total markets being destroyed by constant price-cutting, with profit being eliminated for everybody.

Tata resisted the temptation to talk about nothing but low price during the launch of the Nano. The company concentrated on the excitement and the product quality of the new vehicle. Everybody learned about the low price as a result of massive planned and unplanned publicity. The greater impediments to early success were the shortage of supplies, and distributional difficulties (discussed below).

(5) Distribution

A key factor influencing the immediate success or failure of a new brand is the ability of the manufacturer's sales force to get it into distribution. It is a disastrous mistake to embark on a launch advertising campaign before the brand is in a substantial number of retail stores. People with a theoretical rather than a practical knowledge of marketing brands sometimes suggest that advertising can be used to force distribution, i.e. buyers who want the brand and cannot buy it will put pressure on retailers to stock it. A moment's reflection will show how wasteful this proposal is. Advertising budgets are always limited, and the only way to use them fully effectively is when the advertised brand is in satisfactory distribution. Instead of wasting money on attempting to boost inadequate distribution, it is obviously better to bring in actual buyers who, it might be hoped, will become repeat purchasers.

One of the problems with the initial launch of the Nano car in India was distribution. Tata concentrated on selling the car in large showrooms in urban areas. However, in order to reach the market of new car buyers – most of whom owned two-wheelers – Tata needed to move to some extent down-market, and reach out to the bazaars, including those in rural areas. Tata has subsequently begun to solve this problem by hiring 1,200 special salesmen who operate out of small dealerships, known as "Nano Access Points." The cars are also being sold experimentally in the Big Bazaar supermarket chain.

Nielsen data from economically developed markets show that major manufacturers manage to achieve good distribution fairly quickly. One reason is the efficiency and concentration of the American and European retail trade, with its relatively small number of buying points nationally and regionally. The situation in India is much more complicated. The reason is the astonishing complexity of the retail trade in the sub-continent. A manufacturer's sales force can efficiently service the range of "organized" retailers, although they vary greatly in size. But it is a different matter altogether to handle the multitude of links in the chain from manufacturer to the *Kirana* stores: a logistical difficulty which Indian manufacturing companies have always had to face. However, in this sub-section, I shall describe American and British experience, since I believe that "organized" retailing will eventually become the norm in India, so that the relationship between large manufacturers and large retailers will become a matter of overwhelming importance in the marketing process.

American data from A.C. Nielsen on 64 new brands demonstrated that they achieved a satisfactory level of weighted distribution, 57-72% depending on the type of store, within eight months of the launch.[16] (See the definition of weighted distribution in **Appendix B**.) But, according to British Nielsen data, there is a different pattern in the United Kingdom, with distribution in that country rising to well under 60% by the end of the first eight months. This is presumably a reflection of the higher degree of new brand activity in the United States.

In Britain, the new brands that were going to be successful began to show stronger distribution even within the first four months. After this period, while the distribution of the successful brands continued to climb, that of the unsuccessful ones stabilized and then began to go down.

> "Distribution is a result of success. If the brand goes well in the early stages, the public demands it, retail branches hear from head office, the word gets around and more retailers want to stock it."[17]

Functional performance is not important to the consumer alone. Retailers themselves and, even more important, the manufacturers' salesmen are conscious of functional superiority and its contribution to a brand's success. Excellent functionality will provide conviction to a sales force and draw a commitment from the retailer. When Nielsen executives actually sat in as observers on new brand presentations to chain and independent supermarket buyers, they found that a very important – perhaps the most important – reason for acceptance of a new brand was evidence of salability, which is of course a direct reflection of functional excellence.[18]

Distribution factors should also influence the initial decision about the case size for a new brand, because too small a size might cause shops to run out of stock before the end of the manufacturer's sales cycle. Changing the case size is more difficult and troublesome once a brand is underway than at the beginning. The homework that manufacturers should carry out is to estimate the rate of sale of a new brand, on the basis of its often extensive experience of new brand launches, and determine the case size for the new brand accordingly.[19]

(6) Trade Promotions

As explained earlier, the two sub-sections devoted to sales promotions – this one and the next – are based on the experience of economically-developed countries. They are nevertheless relevant to India. The specifics contained here will before too long become highly relevant to the Indian market, as a result of the inevitable growth in the size and bargaining power of retailers.

Trade promotions, consumer promotions, and advertising are funded out of a marketer's advertising and promotional (A&P) budget. Large manufacturers distribute this budget on average in the ratios of 50:25:25, for trade promotions, consumer promotions and advertising respectively.[20] Taking a brand's A&P budget and calculating this as a percentage of the aggregate A&P budgets of all brands in the category, it is possible to estimate the brand's A&P share of voice. A.C. Nielsen recommends that this share for a new brand should be a good deal higher than the new brand's anticipated market share: often as much as 2.5 times as large, depending on the specific brand and its category.[21] A rule of thumb is an A&P share of voice twice the anticipated market share.

Although it is much more difficult to estimate competitive brands' expenditures on trade and consumer promotions than their expenditure on advertising, because both types of promotions are income reductions and not expenditures out of pocket, it is nevertheless possible for a manufacturer to calculate in approximate terms the huge sums of money required. It is most important to control and if possible minimize these. As explained, trade promotions can be expected to account for half the new brand's A&P budget, a budget that can in turn be expected to be proportionately much above the category average.

A manufacturer's trade promotion budget represents negotiated additions to the normal discounts on the price list, and is made up of large numbers of specific promotions tailored to individual retail groups. However, all trade promotions are variations on the theme of price cutting: rebates on the price charged by the manufacturer to the retailer. Beyond discounts per brand and overriding rebates on all the manufacturer's brands carried by the retailer, individual types of discount include the following:

- Slotting allowances (i.e. special allowances for carrying new brands; these discounts grew rapidly during the 1980s as a result of the increase in brand fragmentation – the introduction of myriad brand varieties that took place during that decade).
- Display allowances.
- Cooperative advertising allowances (i.e. contributions to the cost of the retailer's own advertising featuring the manufacturer's brands).
- In-store product demonstrations.
- Consumer coupons available on the retailer's shelves.

Retail groups are extremely tough about the size of the trade promotions they will demand to handle a new brand, and negotiations with individual stores will specify the amount of promotional money the retailers will demand. However, as I have argued, these promotions should be employed as sparingly as the retailers will accept. A 10% saving below planned cost will yield a very large dollar sum in most circumstances, as well as imposing a valuable discipline for future negotiations with the retail trade.

Besides being a basic operating cost, do trade promotions offer specific benefits to new brands? To a very limited degree they do. Nielsen's experience suggests that the different individual benefits can be graded as follows: [22]

- ***Excellent effect:*** Stimulating interest of the sales force,
- ***Good effect:*** Increasing inventories at retail level; working synergistically with advertising,
- ***Very limited or very temporary effect:*** Increasing purchases by present users; attracting new users; obtaining broader distribution; cushioning introduction of consumer price increases,
- ***Virtually no effect:*** Countering competitive inroads; ensuring adequate shelf space; obtaining more in-store displays.

The above is not an impressive list. We are, however, left with the key argument that the retail trade demands rebates and the manufacturer must pay this price as a cost of doing business.

Using the analogy of the pipeline, trade promotions drive the goods into and down the pipeline toward the consumer. They operate in an essentially different way from consumer promotions and advertising, which pull the goods through, with the consumer doing the pulling. To a limited degree, some of the financial benefits of trade promotions are passed on to the public in the form of retail rebates (e.g. double-value coupons, the extra value provided by the retail stores). When this happens, trade promotions can be seen to have some pulling effect on consumer demand, but this is not a factor of enormous importance.

(7) Consumer Promotions

As mentioned above, the average large manufacturer in the United States spends 25% of its total A&P budget on consumer promotions. Like trade promotions, consumer promotions are expensive compared with their benefits to the brand, because of the large amount of lost revenue. However, manufacturers of new brands are compelled to spend considerable resources on consumer promotions, not only because of the importance of product sampling to demonstrate the functional excellence of the new brand – an expensive activity – but because the retail trade requires consumer promotions as a means of injecting adrenaline into sales. The enthusiasm of retailers is such that consumer promotions actually work to some extent to push the merchandise through the distributional pipeline as well as carrying out their main pulling function.

The nine main types of consumer promotion are as follows:

- Samples delivered to the home (the best but most expensive way of demonstrating the functional excellence of the new brand).
- Premium redemption plans using tokens in the package.
- Self-liquidating offers, i.e. offers that pay for themselves. This is done by the manufacturer offering a novelty item (like the British Kellogg's offer of individual pieces of silver-plated cutlery), at a low price to buyers of a manufacturer's brand. The low price of the item actually covers its cost because the manufacturer buys it in such large quantities.
- Premiums and sweepstakes, e.g. Unilever's offer in Denmark of a sports car, the key to which was embedded in a random bar of Lux Toilet soap.
- Premiums in the package.
- Refund offers.
- Coupons – with or without sampling, and freestanding or in the package.
- Banded packs (two or more packs strapped together and rebated), and extra goods.
- Cents-off-label packs.

In terms of their ability to build a consumer franchise, the various types of promotions are listed here in their approximate order of effectiveness. However, the ability to build a franchise is not at all the same as having an immediate effect on sales. Direct financial incentives – the last four items on the list above – are the most effective in terms of raw sales, but their cost is high in terms of profit forgone. Consumer promotions stimulate sales on a once-and-for-all basis, with no repeat business. Indeed, they even discourage repeat purchasing by "mortgaging" future sales – i.e. they stimulate consumers to stock up at the promotional price, and thus avoid subsequent purchases at the full price.

A.C. Nielsen's research into the effectiveness of different types of consumer promotion has revealed the circumstances under which consumer promotions are most effective for building a franchise, which should be the prime objective for a manufacturer launching a new brand.[23] Consumer promotions are *most* effective in the following circumstances:

1. where there is a major functional improvement,
2. where the brand is on the rise in terms of competitive share,
3. when used in conjunction with a sales drive to increase retail distribution,
4. when used only occasionally,
5. when they are run alongside and not as a replacement for brand advertising.

Nielsen also lists the least effective ways of using promotions for franchise building. Such promotions are *not very* effective:

1. when used on established brands with no product change,
2. when used on established brands with a declining market share,
3. when used as replacements for intelligent media support,
4. when used in categories where consumer promotions are already a way of life,
5. awhen used in categories where intense marketplace activity constantly stimulates response from competitive brands.

This list applies as much to existing brands as to new ones.

(8) Consumer Advertising

Most of the chapters in this book have things to say about the role of consumer advertising in building and defending brands. To avoid too much duplication, **Appendix A** goes into detail about the points raised below.

Advertising arguments: A new brand must announce its functional innovations in the launch advertising; the word new is overused, but it still carries great weight. However, a brand's launch campaign should also say something about the psychological added values the manufacturer is trying to build. There is an urgent reason the campaign should do this.

The new brand's *sine qua non* – a demonstrable functional superiority in at least some respects compared with the competition – gives it a good chance of establishing an initial consumer franchise. But what happens when competitive brands improve their performance to match the newcomer – a process that normally takes place within months? These older brands already have batteries of added values that have been built over the years, but a similar battery is not available to the newcomer.

During the period from the initial introduction to the time when competitive response makes itself felt, the new brand must build its own added values in order to keep up with the competition. This means that the advertising must quickly and progressively focus on these values and give less prominence to the straightforward announcement of the product news. In other words, the advertising must embark on a creative direction that it could very well continue to follow for years rather than months in the future. At this early stage, the media strategy also needs special treatment (as discussed below).

Initial advertising budget: The manufacturer of a new brand in India, as in other countries, must devote uneconomically large resources to trade and consumer promotions and consumer advertising. Determining promotional budgets is an *ad hoc* procedure, largely governed by the detailed negotiations the manufacturer carries out with its retail customers. With consumer advertising, on the other hand, the decisions are less pragmatic. There are objective principles to follow.

The advertising budgets for new (and also for established) brands should be determined by the advertising noise level – the level of media advertising activity – in the market, adjusted for the advertiser's experience of the productivity of previous investment levels for similar brands.

The best way to factor into the calculation the competitive noise in the market place is to compute the advertising budget in terms of share of voice (SOV), measured in percentage points. This is simply the brand's anticipated share of total advertising expenditure in the product category; this category must be carefully defined. There is general experience to help establish the appropriate SOV level.[24] (This is described diagrammatically in **Figure A-5: The Advertising-Intensiveness Curve** in **Appendix A.**)

Small brands overspend as a general rule, and large brands under-spend. For a new brand, the anticipated share of market will certainly be small, and the necessary investment in share of voice must always be high. A targeted SOM below 4% calls for an SOV of about 8% (4 percentage points above 4% SOM). This two-to-one relationship jibes with the rule of thumb for A&P expenditure described in the sub-section **Trade Promotions**.

New brand launches also call for a special media strategy. For ongoing brands, media planning begins with determining the minimum amount of weekly exposure that will produce sales immediately. With television, this means that the majority of the target group should receive the advertisement on average once in any week. This is something that calls for a number of television spots to build up the required level of television rating points, although the number should be carefully restricted to reduce duplication. Once the weekly level of exposure is planned and agreed as future policy, the advertising budget should be used to run the advertising for as many weeks as possible. Weeks uncovered by advertising should be during the low season.

But with the launch of new brands, this policy should be modified. Because it is vital to build awareness for the new brand, the media expenditure should be front-loaded. For a finite period – generally three months – the exposure level should be doubled at least. The growth in brand awareness should then be monitored, and when the level seems high enough, the advertising pattern should be brought down to the normal ongoing level.

This chapter will conclude with an anecdote. In 2009, I had discussions with a major Indian service provider, whose objective was to re-brand its operation in order to demonstrate an ability to add values to what is often seen as a commoditized service: a change that would enable the company to boost its prices. Although I thought that the objective was excellent, I disagreed with the organization because of its unwillingness to spend advertising money on this task. I could not see how any details of the re-branding, or even the news about it, could be propagated without an advertising campaign. There was therefore nothing that I could do to help. As far as I know, no re-branding has taken place, or at least nothing that has had any impact.

Action Learning

Principles are more than lists to be memorized. They must be absorbed by the student's psyche and begin to influence his or her thinking processes. Principles are a way of looking at problems and opportunities. They cannot simply be learned by rote, but must be practiced immediately after students have been introduced to them. The best method of doing this is by action learning, by which students work closely together in groups (in military exercises known as syndicates). Group working means disagreement as much as agreement, and this is a sure signal of intellectual engagement.

After each group has worked its way through a project – one that is carefully chosen to exemplify one or more specific principles – the different groups meet and participate in a guided discussion and evaluation of the solutions developed by each group. There are no right or wrong answers, although the instructor, as a result of his or her personal experience, should propose a directing staff (DS) solution.

The ideal size of a syndicate is six participants, balanced as far as possible by age, sex, education and professional specialty. It can be an enriching experience for people from totally different disciplines to work together. Marketing projects can offer excellent opportunities for limited numbers of production, sales, accounting, legal, human resources (HR) and other specialists to mix with marketing people, who should however remain in the majority. The members of each group must obviously get on with each other, and personal problems should be handled without delay by re-mixing the syndicates.

The action learning suggestions in Chapters 2 through 7 are based on groups, as outlined here. I am also assuming that the students' curriculum is broken up into 3-hour class periods, and I shall suggest the number of periods to be allocated to each exercise. These can be arranged in a single block, or alternatively spread out, interleaved with other group or seminar work.

The group project for new brands should be conducted over a minimum of six 3-hour periods:

In periods 1, 2 and 3, the group members should agree a specific new brand project, with no restriction about the product fields they explore. The proposed new brand should come from the students' own experience and ideas; combing through sources of information in the public domain; perceptual mapping (**Chapter** 7); store checking (**Chapter** 7); but most of all intensive face-to-face discussions and brainstorming (**Chapter** 5: **Action Learning**). The participants should concentrate on the strength of the idea, and should not be limited by practical considerations, such as how easily the brand can be manufactured, and eventually carried by a firm's existing sales force.

In periods 4 and 5, the group should work out a launch plan, following the principles described in **Chapter 2**. The end-product of this should be a 6-page written document, accompanied by a 15-minute presentation, with visual aids.

Period 6 should be devoted to the plenary meeting at which the different groups' proposals are debated. The instructor should offer guidance and suggest a DS solution, bearing in mind that this is essentially an expression of opinion, albeit one based on experience. The ultimate objective will be that the group members will begin to *think* like marketing people.

Endnotes

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Chapter 3

A Brand as a Totality

Every time an individual opens a box or can in the kitchen, or uses a shampoo, or visits a bank, or switches on a computer, or starts a car, that person is opening (or more often re-opening) a contact with a brand. People have a much deeper and more continuous relationship with the brand by using it, than by viewing or reading advertising about it. The marketing companies that pay for advertising obviously believe that it provides a return. Objective evidence, however, shows that this is often very modest, and advertising rarely pays for itself in the short term from the extra profit yielded by the increased sales. But the advertisements that receive the greatest attention from consumers are from their direct contacts with the brand in use.

The fact that people use brands all the time is the basic reason why a brand's functionality is considered to be the most important asset; it is re-evaluated on each usage occasion. In addition, assuming that the brand continues to deliver its promise, it creates a bond between the brand and its users. This bond is a basic way of describing what added values are all about.

Two Centuries of Development

The word brand, supposedly derived from the marks burnt onto whiskey casks early in the 19th Century, began to take a more modern meaning later in that century. Some brands, with their distinctive names, symbols and designs, are still on the market almost 150 years after their launch: Ivory, Quaker and a number of others. The first purpose of this later phase of branding was to confirm the legal protection afforded by the inventor's patent. The second was to guarantee quality and homogeneity after sellers and buyers had lost face-to-face contact. This was the result of the growth of industrialization, with manufacturers in large factories where they benefited from scale economies, and which were situated in places distant from where most consumers lived.

The majority of consumer goods markets today are oligopolies, dominated by a small number of manufacturers whose brands are in close competition with one another. A third purpose of branding, which became evident before the beginning of the 20th Century, stemmed from oligopolists' need to differentiate their products. Branding was used to make a brand unique in the minds of its buyers, in order to discourage the substitution of competitive brands. In the language used by economists, branding was used as a device to reduce the elasticity of demand: the responsiveness of sales to a change in price. Without branding, if a manufacturer increased the price of a brand, it would lose business to competitors. With branding, this loss of business would be less because some consumers would not consider moving to a competitor. (This process is explained in more detail in **Appendix A**, in the sub-section **Oligopolistic differentiation**.)

There is yet a fourth advantage in branding. As retailers grow increasingly strong (as is happening in India), they develop powerful bargaining power against their suppliers, the marketers of brands. There is therefore an unrelenting pressure on margins, normally engineered by trade promotions. Strong branding is a device to strengthen the manufacturer's own bargaining position, and since a strong brand links manufacturer and consumer directly, retailers are happy with strong brands from manufacturers because they generate large sales for the retailers themselves. An indirect benefit of consumer advertising is therefore that the manufacturer manages to maintain its profitability, and there is less pressure for some of the profit to be siphoned off to retailers.

For these four reasons, the key distinction is between a product and a brand. A product is something with merely a functional purpose. A brand offers something in addition to its functional purpose. All brands are products, (including brands, like MasterCard and American Airlines, that are services) which serve a functional purpose. But not all products are brands, because brands have acquired added values, or a psychological affinity with their users.

The vast majority of individual brands do not appeal to the entire demographic group who buy any brand in a product category. Powerful brands do however make a strong appeal to a limited body of users: those whose functional requirements are delivered by the brand and as a result it builds a bond with those users. The end result is continuous and profitable repeat business.

Added values are *over and beyond* the functional benefits for which any brand is bought, and not a substitute for functional excellence. It should be emphasized that such values are in the minds of the buyers. The idea is not a new one, and was described succinctly by James Webb Young, the early creative guru of J. Walter Thompson, in a book entitled *How to Become an Advertising Man*. This was based on his teaching at the University of Chicago in the 1930s, although the book was only published in 1963. His definition of added values is simple: "the use of advertising to add a subjective value to the tangible values of the product, for subjective values are no less real than the tangible ones."[1]

Young describes a five-part model of how advertising works and I have given this the name *The Young Continuum*:

- By familiarizing,
- By reminding,
- By spreading news,
- By overcoming inertia,
- By adding a value not in the product.

The first four steps in the continuum are more concerned with new brands than with established ones. The advertising for these new brands concentrates on their functional properties and why they offer unique functional benefits. These functional arguments must to some extent be motivating (i.e. relevant to the product field as a whole) as well as discriminating (i.e. unique to the new brand). The purpose of the motivating arguments is to say what the new brand is all about, but as it becomes more familiar, the arguments move in a discriminating direction. As an example (based on an actual case), the initial advertising for a fruit-flavored soft drink talked about the sparkle and deliciousness of the drink, but soon began to emphasize the discriminating benefit that it contained a high percentage of real fruit juice.

The last stage in Young's continuum, the psychological added values, become increasingly more important as a brand grows. The concept itself can be expanded in two ways: first, to explore the wide range of stimuli that influence added values; and second, to estimate the relative importance of added values to an individual brand, in comparison with its functionality. There are two sources of added values: those from inside the brand itself (which might be called its endogenous qualities), and those from outside the brand (its exogenous qualities).

Endogenous and Exogenous Qualities

The four most important sources of endogenous qualities are the following:

(1) Values that come from *experience of the brand*. These include familiarity, the conviction that the brand is reliable, and there is no risk of disappointment in buying it. The brand becomes an old friend. This introduces the important notion of brand personality, which can on occasion be interpreted as the voice of the manufacturer (e.g. Betty Crocker, associated with the cake mixes; and Ronald McDonald, associated with the restaurants). But more often it is interpreted as the personality of the brand itself: its functional and non-functional features as they might be described, if the brand came to life. This sounds fanciful, but there is a well-known research technique that asks members of the public to describe brands as if they were people. Extraordinary insights sometimes emerge from this.

(2) Values that come from *a firm belief that the brand is effective*. This is related, surprisingly, to how some proprietary medicines operate on people's beliefs. There is persuasive evidence that the advertising for certain identified drugs can affect the mind's influence over bodily processes: "Double-blind trials demonstrated that branding accounts for a quarter to a third of the pain relief. That is to say, branding works like an ingredient of its own interacting with the pharmacological active ingredients to produce something more powerful than an unbranded tablet."[2] Belief in effectiveness also plays an important role in cosmetics, in their ability to make their users feel more beautiful, and this sometimes happens. Charles Revson, the founder of the large Revlon brand, supposedly said: "I am not selling lipstick; I am selling hope."

(3) Values that come from *design elements*: color, surface design, shape and packaging. These have no meaning for the first brand in a manufacturer's range, but with advertising investment and the addition of new brands in the range, the design elements will become impregnated with meaning. Some miscellaneous examples of design elements are the yellow of Nestlé's Maggi packaging; the three version of the American Express card – Green, Gold and Platinum, signaling the relative opulence of its users; the trefoil emblem on the hood of a Mercedes car; the Nike "Swoosh;" the Apple symbol on its personal computer; and the luxury packaging of various brands of scent and face cream.

The principle of using design elements to reinforce added values is not just used to impress youthful or uneducated buyers. Design elements are ubiquitously important, a point made in a well-known article by Theodore Levitt that appeared in the *Harvard Business Review*: “A few years ago, an electronics laboratory offered a $700 testing device for sale. The company ordered two different front panels to be designed, one by the engineers who developed the equipment and one by professional industrial designers. When the two models were shown to a sample of laboratory directors with Ph.Ds, the professional design attracted twice the purchase intentions that the engineers’ design did.”[3]

These endogenous sources of added values are obviously important in planning brands. However, it is the exogenous sources that are particularly valuable for developing the advertising.

(4) The most obvious exogenous quality, and certainly the one that is most relevant for a brand’s advertising, is the type of people who use the brand. This property has demonstrable importance for products where consumers’ association with the brands they use is obvious for other people to see. Examples are: cars; special brands of clothing (e.g. those carrying the Izod lizard and the athletic shoes featuring the Nike and Reebok symbols); beer; soft drinks. The use of these brands forms a link between many people, and is sometimes known as a brand’s “club quality” or its “necktie” (since masculine members of some organizations sometimes wear the same tie). These qualities are sometimes known as user-associations. The New York advertising agency Batten, Barton, Durstine and Osborn (BBDO) has developed a technique based on the use of picture-cards showing different types of people. The cards are sorted into groups by the research respondents, and this method can enable the users of Brand A to be identified so accurately that it is possible to predict the brands they buy in completely different product categories.

But the exogenous sources of added values are even wider in scope. The consumer’s response is affected by a “gestalt,” the sum of the many communications about the brand, including the advertising company it keeps. The brand is influenced indirectly by the other advertisements and the editorial in the media vehicles that carry its own advertising. To a large extent, the medium is indeed the message. The media carry a wide range of communications about important brands, some favorable, others not so favorable.. In one piece of research, when consumers were asked to describe the personalities of well-known banks and gasoline companies as if they were people, the impressions turned out to be uniformly negative. The implicit – but of course unintended – communications about these organizations clearly influenced consumers more than the favorable things that were said in the advertising. A recent example of unintended but extremely negative communication about a firm stems from the notorious oil spill in the Gulf of Mexico, for which BP carried most of the blame. Repairing the damage to the brand is a formidable task, but the firm must obviously address and do everything possible to correct the damage to its image before starting to rebuild it.

During the 1970s, a parable was circulated within the J. Walter Thompson advertising agency. It was written by Jeremy Bullmore, at the time the head of the agency's London office, and was used to illustrate the concept of the communications gestalt.

It is a story of two farm houses, with a field in front of each. In the field belonging to the first farm there was a rough black wooden sign, and on it the words "Fresh Eggs" were painted by a farmhand who obviously daubed it in a few minutes, with crooked letters and uneven spacing. In the field in front of the second farm was a sign also reading "Fresh Eggs." In this case the sign was a professional piece of work by a skilled and highly-paid industrial designer. By comparing these two signs, it was likely that visitors would be inclined to believe that the first farm sold the fresher eggs, while the farm that used the industrial design would probably be seen as a factory rather than a place where the hens roamed free.

It is equally instructive to repeat the exercise, but with a message reading "Flying Lessons." In a literal sense, the actual flying lessons are no more connected with the "Flying Lessons" sign than the eggs are with the "Fresh Eggs" sign. Yet it is not so obvious to consumers, to whom any brand projects a total impression in which all communications about the brand make their contributions. The public would not be too enthusiastic about taking flying lessons from a flying school that displayed the words "Flying Lessons" in as careless a way as the first farm that was selling the fresh eggs.

The general principle of communications gestalt is important to everyone who develops and manages brands. It is particularly valuable to market researchers, who should evaluate brands on the basis of consumers' responses to the brands as a whole. Researchers should therefore avoid focusing on individual bits of the communication e.g. "Is red a good color for the packaging?" or "Do you like a lemon scent or a lavender scent?" or "What parts of the advertising can you remember?" or "Do you like the models in the commercials?" In research as in all matters of branding, the totality is more than a collection of individual bits.

The advertising that works to greatest effect reflects the functionality and especially the added values built into the brand. An advertisement is not an end in itself. It is a means of communicating the explicit and implicit promise of what is advertised in it, and it must do this in such a way that a number of viewers, readers or listeners will screen it into their conscious attention without the advertising itself getting in the way of the brand itself. This is a tall order, which means that the number of highly effective advertisements is not large. The point I am trying to make here was expressed in an original and elegant form by the veteran researcher Alfred Politz; I am paraphrasing his words:

> "There were once three rooms, all opening onto the same beautiful view. However, when a person entered any of the rooms, the view could not be seen directly, but only in a mirror on one of the walls. In the first room, the mirror was cracked; in the second, the mirror was a beautiful rococo artifact; in the third, the whole wall was a plate glass mirror. A person entering the first room saw a beautiful view reflected in a cracked mirror. A person entering the second room saw a beautiful view reflected in an antique mirror; a person entering the third room saw only a beautiful view. For *view*, read *brand*. For *mirror*, read *advertising*."[4]

An advertisement which is constructed with enough skills is most likely to catch the eye, but it does not guarantee that viewers or readers buy the brand, although they have made the important first step. An advertisement needs more than attention value. To be effective, it needs to get to the heart of the brand and yet remain intrinsically self-effacing. One of the problems with the research technique of measuring the recall of an advertisement is that people are asked to recall the wrong thing. It is not important, and perhaps misleading that they should recall the advertising. What should be recalled is the brand.

The Young & Rubicam Brand Asset Valuator (BAV)

The Brand Asset Valuator is an analytical device developed during the early 1990s by the international advertising agency Young & Rubicam, on the basis of interviews with 30,000 people in 19 countries, and used to classify brands according to two major sets of criteria. The first is *brand vitality*, based on a brand's relevance and differentiation. The second is *brand stature*, based on a brand's esteem and familiarity. There is a reasonable similarity between brand vitality and functional excellence; and between brand stature and added values. The two criteria are set out in a diagram (**Figure 3-1**), in which brand vitality is set out vertically, and brand stature is set out horizontally.

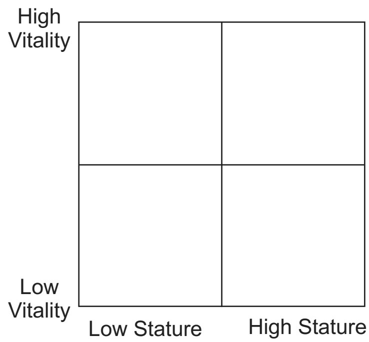

Figure 3-1 *The Brand Asset Valuator*

Large numbers of named brands were fitted into the four boxes in **Figure 3**-1. The brands in each box can be described in general terms as follows:

North-east box: This is the only place where a really successful brand can be; it represents a strong combination of functional excellence and added values.

North-west box: This is where a new brand might be during its early stages; if added values are built fairly quickly, the brand will manage to move into the north-east box.

South-east box: This is where a brand will be found that has established successful added values, but has fallen behind in functional terms; the brand needs an urgent re-stage to boost its functionality to some type of superiority over the direct competition; then it too might move to the north-east box.

South-west box: There is not much hope for the brands that are here; they are probably newly launched, but the manufacturer has made the cardinal mistake of not making them functionally superior to the competition; what is needed is a return to the drawing board.

As can be seen, the BAV is a helpful diagnostic tool. It can also be used to quantify the numbers of brands in the four boxes, thus estimating the relative importance of the four groups. The number of brands in the north-east box is the smallest in most countries, but the numbers in the other boxes vary country-by-country. Places where many new brands are launched, which tend to be the most economically advanced, have substantial numbers in the north-west and south-west boxes.

The Balance of Functionality and Added Values

In **Chapter 2**, the section **Comparing the Performance of Brands** describes the research technique of matched product tests, in which the brands are compared blind, i.e. in unidentified containers and then, separately, named i.e. in their usual packaging. The preference for a successful brand is likely to be greater in the named test than in the blind one, because the blind test measures functionality alone while the named test also measures the contribution of added values. The normally higher preference in the named test quantifies the marginal contribution made by the added values alone.

The results of an actual matched test for a leading brand of packaged food were a 48% preference blind, and 60% named. (The numbers have been rounded to make the calculations easier.) The marginal contribution of added values therefore represented 12 percentage points, so that the 48:60 ratio shows that the preference on the basis of functionality was four times as great as the preference from added values. Another way of expressing the same point is that, out of the total preference (expressed as 100%), 80% came from functionality and 20% from added values.

The 80:20 ratio for a leading brand in an important category of FMCG cannot be replicated over all categories. But it provides a helpful guidepost to hypothesize what the ratios are likely to be in a number of disparate categories. This is done in **Table 3-1.**

These ratios are no more than orders of magnitude, based on judgment. They are however realistic enough to justify four generalizations:

- The consumer preferences for named brands in all product categories are driven by two stimuli, functionality and added values. (It is only with unbranded commodities that functionality is the sole stimulus.)
- The ratios vary widely between categories, and they are extreme in some of the most important ones.

Table 3-1 *Consumer Preference for Leading Named Brands: Hypothesized Ratios of Functionality and Added Values as Drivers (READ ACROSS)*

Product Category	Functionality	Added Values	Total
Technological products	90	10	100
Most FMCG	80	20	100
Airlines	70	30	100
Fashion, clothing and athletic shoes	50	50	100
Proprietary drugs	30	70	100
Cosmetics	20	80	100
Perfume	10	90	100

- The categories in which added values make the greatest contribution are particularly advertising-intensive. This is measured by the percentage of operating costs accounted for by advertising. Note the high figures for cosmetics and perfumes. In these cases advertising and packaging are exceptionally important parts of the marketing mix. The importance of added values and the high expenditures on advertising and packaging are reflections of one another.
- The categories in which added values contribute a relatively small proportion of the total are technological goods, which normally carry a high price. The technical efficiency of these goods is extremely important, but added values are invariably also present.

The Paradox of Parity

Earlier in this chapter, I referred to the large New York advertising agency BBDO. This is an organization with many foreign branches. During the early 1990s, the agency carried out a substantial piece of research into how consumers perceive brands, and in particular the extent to which brands are seen as similar to one another. It was based on a standardized quantitative investigation carried out by twenty-eight agencies in the BBDO network. A total of 4,200 consumers were interviewed: in the United States and Canada, seven countries in Latin America, nine in Europe, two in Africa, one in the Middle East, and seven in the Pacific Rim. The investigation covered 13 different product categories: nine FMCG, two durables, and two services.[5]

Overall, the respondents felt brands to be very much alike. Two-thirds of the worldwide sample of people considered the brands and the categories covered to have "no relevant or discernible differences." This contradicts the large amount of evidence that demonstrates, from product tests, that differences between brands are universally recognized. However, the BBDO research asked about the similarity/dissimilarity between brands *as an abstract proposition*. The results were inevitably misleading (as I shall discuss later).

The average perceptions of parity in all categories are listed below, with the countries shown in rank order, Japan being the highest and Colombia the lowest:

- *80%-99%*: Japan, Korea.
- *60%-79%*: Malaysia, France, Australia, Mexico, Italy, Canada, Germany, United States, Nigeria, Kuwait, Argentina, Austria, Hong Kong, Singapore, Great Britain, Spain.
- *40%-59%*: Belgium, El Salvador, South Africa, Denmark, Chile, Costa Rica, Netherlands, Philippines, Puerto Rico.
- *Below 40%*: Colombia.

There were also wide variations in parity perceptions by product category, as shown in the following list. Categories are shown in rank order, with credit cards highest and cigarettes lowest:

- *70% or more*: credit cards, paper towels, dry soups, snack chips.
- *60%-69%*: bar soap, cola, personal computers.
- *50%-59%*: airlines, television sets, beer, ground coffee, shampoo, cigarettes.

BBDO clusters countries and categories according to degrees of parity perceptions. Strong clustering is an important factor when the agency comes to develop global advertising strategies. However, BBDO's clusters are not cut-and-dried, and there are exceptions within them. And perceptions of parity in different product categories differ widely between apparently similar countries.

These remarkable and rather unexpected findings raise five possibilities:

1. In a world in which competitive response to product innovation has become very rapid, categories (or at least subcategories) tend toward actual brand parity in functional terms.
2. The proliferation of brands and varieties (a response in many countries to a flattening of category growth) has led to consumer disillusionment, a feeling that "all of the available brands cannot possibly possess unique and relevant features."

3. There has been much "parity advertising" (i.e. similarity in product claims and advertising styles between competing brands), which has led to an erosion of added values, so that brands increasingly lack nonfunctional distinctiveness, in line with their perceived lack of functional distinctiveness.
4. There is a low perception of parity (i.e. belief in differences) for categories as rich in added values as beer, ground coffee, shampoo, and cigarettes.
5. Japan and Korea are special. Of all the campaigns in countries where advertising is important, those run in Japan and Korea are driven almost exclusively by emotion. Rational product differences are never featured, for deep-seated cultural reasons: reasons reinforced by the attitude of the retail trade. The trade discourages robust rationally-based competition between brands. Procter & Gamble has had a difficult ride in these two countries, and the reason is because the type of hard-hitting claims that characterize that company's advertising are not welcome there. Functional superiority has always been an article of faith for P&G.

But over and beyond the issues discussed here, there is an over-arching problem with the BBDO research. Quantitative investigations are reliable when the questions asked are relatively simple and are related to the respondent's direct experience, e.g. "When did you buy your car/two wheeler?" "What magazines did you read during the last week?" "What brand of toothpaste did you use this morning?" The further the research departs from this type of questioning, the more inaccuracies creep into it. For a start, there are biases. If, for example, people are asked whether their buying is influenced by advertising, the answer is almost invariably "no." Yet it is known for certain that a significant proportion (although not a majority) of advertisements trigger sales. But people are defensive and will shy away from the possibility that they could be manipulated by advertisers. In addition, people do not really know whether they are being influenced by advertising or not. Advertising may be unable to make them change the brands they buy, but it works very well to *reinforce* people's preferences for the brands they purchase already, thus defending those brands against competitors. Generally, people pay attention to the advertising for their own brands.

These influences are at work when members of the public are asked about brand parity. Respondents do not like to admit that advertisers may be influencing them with arguments about brand differences. And in any event, people have little understanding of what parity, as an abstract concept, actually means. As mentioned, there is no shortage of evidence, from product tests both blind and named, that there are differences between brands that are fully perceived by consumers.

In Chapter 7, I shall discuss these and other problems with the use of market research. However, the last words in this chapter should be contributed by three advertising pioneers, whose long and successful careers were the result of their ability to build their clients' brands.

David Ogilvy was struck by an important statement by the head of Procter & Gamble that P&G puts its major emphasis on product performance, and made his own comment on it:

> "The key to successful marketing is superior product performance . . . If the consumer does not perceive any real benefits in the brand, then no amount of ingenious advertising and selling can save it."
>
> Ogilvy replied: "The best of all ways to beat P&G is, of course, to market a better product. Bell Brand potato chips defeated P&G's Pringles because they tasted better. And Rave overtook Lilt in less than a year because, not containing ammonia, it is a better product."[6]

Bill Bernbach echoed the same theme:

> "I think the most important element in success in ad writing is the product itself. I can't say that often enough. Or emphasize it enough. Because I think a great ad campaign will make a bad product fail faster. It will get more people to know it's bad. And it's the product itself that's all important and that's why we, as an agency, work so closely with the client on his product – looking for improvements, looking for ways to make people want it, looking for additions to the product, looking for changes in the product. Because when you have that, you are giving the people something that they can't get elsewhere. And that is fundamentally what sells."[7]

And so did Rosser Reeves:

> "The agency can induce the client to change his product, improve his product. We have done this on numerous occasions . . . A great advertising man of three decades ago once said: 'A gifted product is mightier than a gifted pen.' How right he was! This is not a secondary road. It is often the first, and the best road, to travel."[8]

Action Learning

A brand has two properties: functionality and added values. The added values are more difficult to describe, and the following exercise is focused on them. It embraces a group project occupying four 3-hour study periods.

First Period: Each syndicate should discuss a range of brands and decide to concentrate on two of them in different categories (titled P and Q). Each should have strong competition but has built a reasonably high share of market. The first thing to do is to examine them and describe their functional properties, in a written statement. The group should then discuss ways of contacting a number of users in each product category. They can be friends, colleagues, members of social organizations to which the group participants belong etc.

Second Period: Each group member separately should locate and interview six people: three users of each of the product categories being investigated. After making a note of the basic demographics of the respondent – sex and marital status, occupation of the head of the household, and the size of the family – the interview should get straight into the main question. (The respondent will need a little time to think about the answer.) "Imagine that Brand P comes to life as a human being, how would you describe the sort of person Brand P is? What sex? What age? How large a family? Where does he/she live? What job does he/she do? What are his/her personal interests? Is he/she a conservative or unorthodox person?" Some of these questions are likely to provide interesting leads that should be followed up with further questions.

It would be helpful (although not absolutely necessary) to record the interview with a hand-held recorder. A surprising amount of information is likely to be revealed in a relatively short period of time: no more than ten to fifteen minutes.

Third Period: Despite the small number of respondents, the group will now have collected a rich amount of information about each of the two brands. A likely outcome is that what one respondent says about a brand's personality will resemble what others say. As a result, impressions of the personality of the brand can be synthesized and written down fairly succinctly. Each group should aim for a relatively brief – one/two page – description of each of the two brands. This should give due attention to the functional rewards offered by the brand, and a good idea of the psychological reinforcement that it provides to its users.

Fourth Period: Plenary meeting, at which each group will present its two brand descriptions. The meeting will yield a collection of insights into a number of different brands, and these can be discussed in full detail. In particular, the participants should be able to develop ideas on the *source* of the added values, and how to exploit them in advertising. The Action Learning project in **Chapter** 4 follows directly from this.

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5. BBDO Worldwide, *Focus: A World of Brand Parity* (New York: BBDO Worldwide Inc., n.d.) The work was supervised by Karen Olshan, the agency's director of research services.
6. David Ogilvy, *Ogilvy on Advertising* (New York: Crown, 1983), p.p. 156-157.
7. *The Art of Writing Advertising* (Denis Higgins, ed.), (Chicago: Advertising Publications, 1965), p.23.
8. Rosser Reeves, *Reality in Advertising* (New York: Alfred A. Knopf, 1961), p. 55.

Chapter 4

The Growth and Enrichment of Brands

Advertising generates sales in only a minority, although a substantial minority, of cases. But when it does work, it has a surprising range of effects, although these can cause confusion to some analysts: especially to those in Britain, who believe that advertising operates exclusively in the long term, by gradually adding brand values. Although advertising can indeed do this, the belief that advertising only works in this way is dangerously misleading. There is persuasive evidence that a long-term effect is only possible if there is a medium-term effect first, which in turn is only possible if this has been preceded by a short-term effect.

The *full* effects of advertising can therefore only be seen by isolating and analyzing all the periods during which a campaign might be working. The first thing to do is to define these periods in as finite a way as possible, and within each to examine the data as if by taking a snapshot. This means measuring advertising effects by freezing them. The three most important periods – the three metaphorical snapshots – are as follows:

- *Short term*: generally a week, but sometimes more, depending on how often specific products and brands are bought.
- *Medium term*: one year.
- *Long term*: beyond one year and into the indefinite future.

As mentioned, effective advertising must start by producing a positive short-term effect on sales. Not all campaigns do this, but the immediate effect acts as a gatekeeper. The short-term effect is temporary and dips during periods when the brand is not advertised. The medium-term effect is a summary of the repeated short-term effects during the course of a year: the sales increases minus the dips. In **Appendix A**, the section **A Summary of How Much Advertising Works** reviews the methods of measuring the short-term and medium-term effects of advertising, all based on solid research. But the long-term effects are a different matter altogether, and are manifested through a strengthening of the brand itself, reflecting the growth of scale economies.[1] The most important result of this is that the long-term effects of advertising are demonstrated by an increase in the brand's profitability. This is why strong brands are so valuable to marketing companies, although they do not represent more than 10% of the total of all brands.

These long-term effects – the ways in which the advertising strengthens the brand – can be measured with the use of six metrics. These are shown in **Figure 4-1.** These measures are grouped in a special way. The four at the outside of the diagram are exclusively concerned with consumer behavior. Only the two measures at the center are specifically calibrated in terms of the advertising, although all six measures are in fact driven by it.

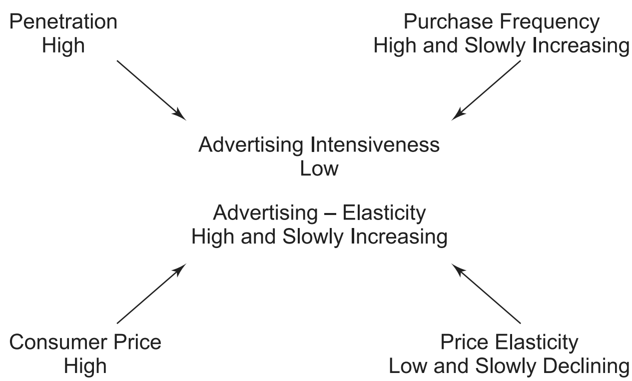

Figure 4-1 *Long-Term Effects of Advertising*

This chapter will describe the effects of advertising on these measures, which I shall group as follows, because of the natural connections between them:

- Penetration; and Purchase Frequency.
- Price Elasticity; and Consumer Price.
- Advertising Intensiveness; and Advertising Elasticity.

Penetration and Purchase Frequency

Penetration measures the proportion of households buying a brand at least once during a defined period. *Purchase Frequency* defines how often they buy it during that period.

Penetration: An important long-term effect of advertising is that it increases penetration: i.e. it brings more users to the brand. This applies to all brands short of the largest 20% (described as the top quintile). The reason that penetration stops growing is that it eventually reaches a top limit, because the brand has become widely known and has many buyers, and the non-buyers simply do not like it. Growth in penetration drives sales and share of market (SOM), and the relationship between the two is illustrated in **Table 4-1:** a typical pattern that has been repeated in countless other product categories. The data in **Table 4-1** are set out diagrammatically in **Figure 4-2**, where the flattening of the curve in the top quintile can be easily seen.

Table 4-1 *Average Share of Market and Penetration: Brands in Twelve Categories, 1991*

	Number of brands	Average SOM (%)	SOM index	Av. 6-month penetration (%)	Penetration index
All brands	78	6.8	100	11.9	100
Top quintile	16	18.7	275	26.9	226
4th quintile	15	6.8	100	18.6	156
3rd quintile	16	3.9	57	11.0	92
2nd quintile	15	2.8	41	7.7	65
Bottom quintile	16	1.8	26	6.3	53

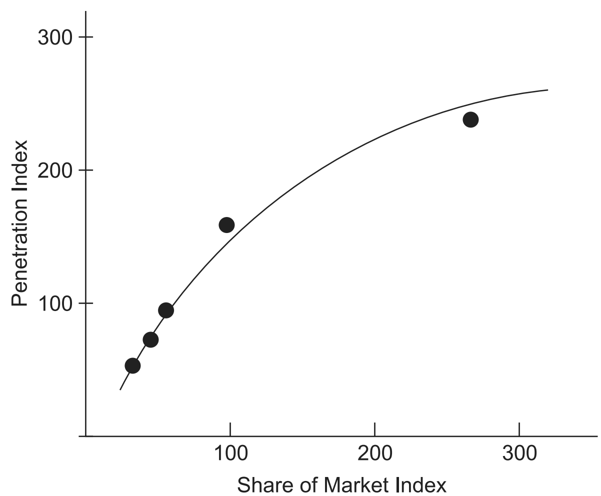

Figure 4-2 *Growth in Penetration and Market Share*

The pattern for purchase frequency is different. Purchase frequency is uniform for all brands, short of the top quintile. In other words, for the 80% of brands below the top group, the factor that determines their share of market is their penetration alone; their users buy them at a relatively uniform rate. It is only when a brand reaches the top quintile that purchase frequency increases markedly. The phrase used to describe this phenomenon is the Penetration Supercharge, which means that large brands not only have a bigger number of users but also acquire a greater-than-average loyalty. This means that buyers have a stronger inclination to purchase the brand repeatedly and is the reason why large brands, having benefitted from advertising's long-term effects, are more profitable than smaller brands.

Purchase Frequency: The pattern of purchase frequency (for the same brands in **Table 4-1** and **Figure 4-2**) is shown in **Table 4-2**. It is illustrated in **Figure 4-3**, which shows clearly how the line spurts upward in the top quintile.

Table 4-2 *Average Share of Market, Penetration, and Purchase Frequency: Brands in Twelve Categories, 1991*

	Number of brands	Average SOM (%)	SOM index	Av. 6-month penetration (%)	Purchase frequency index
All brands	78	6.8	100	11.9	100
Top quintile	16	18.7	275	26.9	125
4th quintile	15	6.8	100	18.6	97
3rd quintile	16	3.9	57	11.0	92
2nd quintile	15	2.8	41	7.7	94
Bottom quintile	16	1.8	26	6.3	84

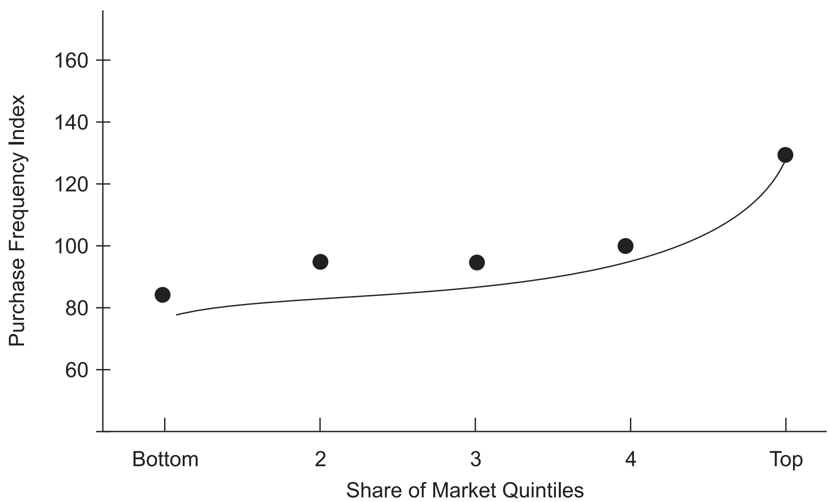

Figure 4-3 *Growth in Purchase Frequency and Market Share*

In summary, the growth of a brand is driven by penetration until it reaches the top fifth by market share. When this happens, growth will often continue but it is now driven by increased purchase frequency, something that marks a highly profitable transformation.

Price Elasticity and Consumer Price

Price Elasticity measures the response of a brand's sales to a change in its price: e.g. how much will sales drop if the price goes up? **Consumer Price** is an index, calculated from a brand's actual retail price including temporary price reductions (TPRs), and compared with the average of all brands in its category.

Price elasticity is normally pronounced, with an average elasticity described technically as –1.8. (The minus symbol demonstrates that if price goes up, sales go down.) This elasticity means that a 10% price increase will lead to an average 18% loss of sales: something that happens because if the price of Brand A goes up, consumers will buy more of Brands B and C. Price elasticity is therefore a measure of the substitution between competitive brands. The manufacturer of Brand A will only be able to lift its price and minimize the loss of business if this substitution can be impeded. Advertising has an obvious role in discouraging substitution by emphasizing the brand's unique added values, and good evidence exists that advertising can do this. See **Appendix A**, in the sub-section **Oligopolistic differentiation**. (The effect of price increases will be discussed more fully below, under **Consumer Price**.)

Price elasticity also works in the opposite direction: how much will sales go up if the price is brought down? This is an enormously important consideration because of the secular tendency for manufacturers to spend increasing sums of money "below the line," on sales promotions, particularly TPRs.[2] Promotional actions have a dramatic although temporary effect in swinging the sales needle, but they imperil a brand's profitability. To illustrate this point, four hypothetical but typical brands are compared in **Tables 4-3**, 4-4 and 4-5.

Table 4-3 demonstrates the effect of a 10% price reduction on sales volume. Various levels of advertising elasticity are covered, on either side of the average of -1.8. The sales increases (fourth line of figures) are a direct reflection of the price elasticity. But the reduction in net sales value (NSV) from the 10% price cut is deducted from the increased value of the sales. The result is the bottom line of figures, which in all four cases show considerable increases over the initial \$100m.

Table 4-3 *Effect of 10% Price Reduction on Sales*

	Brand FAA	Brand FAV	Brand FAC	Bran FAD
Price elasticity*	−1.6	−1.8	−2.0	−2.2
Initial volume (m.units)	100	100	100	100
Initial net sales value (NSV)	\$100m	\$100m	\$100m	\$100m
Volume from price reduction (m.units)	116	118	120	122
NSV from price reduction**	\$104m	\$106m	\$108m	\$110m

*10% price reduction multiplied by price elasticity.
**Notionally larger NSV minus 10%

There is however a significant additional cost. Since at all levels of price elasticity, a much larger volume is sold, the production cost of this extra must be paid for. As explained in **Appendix B**, in the section **(10) Sales Calculations,** a manufacturer's NSV covers direct costs (raw materials etc.); indirect costs (general overheads); plus its margin, which pays for advertising, sales promotions and profit. **Table 4-4** examines three levels of direct cost, 40%, 50%, and 60% of NSV. These are typical figures. Out-turn of the calculation is set out in **Table 4-4**. In ten of the twelve alternatives, the extra cost is *greater than the extra revenue*. The full analysis is seen in **Table 4-5**.

Table 4-4 *Profit and Loss from 10% Price Reduction*

	Brand FAA	Brand FAV	Brand FAC	Brand FAD
Price elasticity	−1.6	−1.8	−2.0	−2.2
Extra NSV from price reduction*	+\$4m	+\$6m	+\$8m	+\$10m
Extra costs at different ratios of direct				
40%**	+\$6m	+\$7m	+\$8m	+\$9m
50%***	+\$8m	+\$9m	+\$10m	+\$11m
60%****	+\$10m	+\$11m	+\$12m	+\$13m

*NSV after price reduction, minus \$100m.
**40% of value of incremental volume (16/18/20/22 m.units).
***50% of value of incremental volume (16/18/20/22 m.units).
****60% of value of incremental volume (16/18/20/22 m.units).

Table 4-5 presents the same data as **Table 4-4**, but it concentrates on the crucial matter of profit consequences. **Table 4-5** shows that TPRs only yield the occasional profit in extremely limited circumstances: if a brand is weak, i.e. has a high price elasticity, and also has a low ratio of direct cost.

Table 4-5 *Pattern of Profit and Loss from 10% Price Reduction: Different Price Elasticities*

Brand	Price Elasticity	Direct Cost Percentage	Profit/Loss (Percentage Points)
FAA	−1.6	60%	−6%
FAV	−1.8	60%	−5%
FAA	−1.6	50%	−4%
FAC	−2.0	60%	−4%
FAV	−1.8	50%	−3%
FAD	−2.2	60%	−3%
FAA	−1.6	40%	−3%
FAC	−2.0	50%	−2%
FAV	−1.8	40%	−1%
FAD	−2.2	50%	−1%
FAC	−2.0	40%	no difference
FAD	−2.2	40%	+1%

There is a legend that "the way to get a stubborn mule to move is by hitting his posterior with a stick and at the same time tempting him forward with a carrot in front of his nose." Sticks and carrots have much to do with the American practice of allocating three-quarters of advertising-plus-promotional (A&P) budgets to sales promotions, mainly TPRs, leaving only one-quarter for media advertising. This is despite the fact that a lack of advertising starves brands.

The stick is wielded by retailers, whose size and bargaining power are a good deal greater than those of their suppliers, e.g. the sales volume of Walmart's business is four times as large as Procter & Gamble. Retailers are able to exact large and increasing discounts, which mean extra profit for them at the expense of the companies that market the brands. India has not reached this stage, and it may take some years before Indian retail groups become as strong as they are in the United States and other economically advanced countries. But the writing is on the wall, and Indian marketing companies should begin to prepare themselves. Their most effective defense against the power of retailers is strong brands, which are important to both suppliers and retailers, and it is in the interest of both that brands should continue to receive advertising support to sustain their appeal to customers.

But marketing companies also have a carrot in front of their noses: the unquestioned ability of TPRs to cause sales to spike upward. The way to hit the sales target at the end of the year is invariably to employ a strong promotion. However, the data in **Table 4-5** ought to persuade marketing companies to re-evaluate their enthusiasm for promotions, which do little to nourish their brands. Even worse, in the majority of cases, the profit from the higher sales from promotions is generally less than that from the lower level of sales without them.

Consumer Price is concerned more commonly with a long-term strategy of price *increases* rather than short-term tactical reductions. But some questions can be raised about a policy of moving price gradually upwards. If TPRs have serious side-effects, can price increases do any better? To what extent will they boost total NSV, considering that any increase in price per unit will to some extent reduce aggregate volume? Whether or not this will happen depends on the price elasticity of the brand which (as discussed), measures the extent to which consumers will buy Brands B and C if Brand A's price goes up. These questions can be answered.

Price increases are mostly permanent and relatively modest, and are intended to increase a brand's profitability gradually. This is how they can do it:

1. A price rise will obviously increase the NSV per unit.
2. There will be some reduction in aggregate sales volume which may or may not counteract the benefit of the greater NSV per unit. This depends on the brand's elasticity of demand. But there is strong evidence that large brands have a low elasticity, and powerful advertising is able to reduce price elasticity significantly.[3] This means that there is a good chance that price increases will raise profitability.
3. One of the problems with price reductions is that the boost in demand that they create immediately increases direct costs, and this increase squeezes profit. This does not happen with price rises because of the absence of increased volume in the short term (i.e. until volume starts increasing again).
4. There are reliable facts that companies marketing strong brands nudge their prices upward over time: a reflection of the growth in added

values that ultimately justify the higher prices. In an important study of 142 brands, the ten largest had a price 14% above the category average, and the next largest ten had a price 10% above the average.[4] It is also interesting that Procter & Gamble, the company with the largest portfolio of strong brands in the United States, prices the majority of its brands somewhat above the category average. This is the result of the company's ability to restrict its use of sales promotions. P&G can do this because its brands are considered by the retail trade to be an important source of repeat business which therefore restrains its demands for ever-increasing margins.

Advertising Intensiveness; and Advertising Elasticity

Advertising Intensiveness is described in **Appendix A**, in the sub-section **(4) Scale economies**, and illustrated in **Figure A-5**, **The Advertising-Intensiveness Curve**.[5] The discussion that follows is confined to the largest and strongest brands, which are those that have benefited from advertising's long-term effects.

Advertising intensiveness is a measure of the advertising investment behind a brand, relative to its size. (Big brands will almost always have larger advertising budgets than small ones, but if a large brand's share of market is three times that of a small brand, its share of advertising will not show such a large difference.) Relative advertising expenditure can be calculated a number of ways, and **Appendix A** uses a convenient device for this. A brand's share of market (SOM), i.e. its share of category sales, is compared with its share of voice (SOV), i.e. a share of category advertising expenditure. If SOV is larger than SOM, then the brand is a net advertising investor; if the two ratios are equal, the brand is on average; if SOV is lower than SOM, the brand is an advertising profit-taker.

Small brands are investors, and the size of the investment declines as the brand grows bigger. Large brands are profit-takers, and yield advertising-related scale economies that go directly into profit. Making the assumption that the campaigns are equally effective, a dollar spent behind a large brand will provide higher sales than a dollar spent behind a small brand. There are six reasons for this:

1. A large brand has more users than a small brand. Since people pay at least some attention to the advertising for the brands they use

themselves, this means that the attentive (or semi-attentive) audience provided by a given amount of advertising for a big brand is larger than that for the same amount of advertising for a small brand.

2. The average user of a large brand will purchase it slightly more often in a defined period than the average user of a small brand. This is because of the Penetration Supercharge.
3. Since a large brand will have more users, it will occupy a higher aggregate "share of mind" than is the case with a small brand.
4. The ubiquity of a large brand can be a valuable asset. If any particular brand is out of stock at the store where the consumer is shopping, there is almost a 60% chance that she will buy another brand in the product field. Large brands are less likely to be out of stock than small ones.
5. A large brand is valued more than a small brand by the consumer, because of its richer added values. As already explained, this higher valuation is reflected in the higher prices of the stronger brands.
6. Most advertising act as a reminder of previous brand experience. But some advertising goes beyond this. High-profile advertising is likely to have a greater impact on consumers' memories than is the case with small brands, because large brands have the bigger budgets in absolute terms.

These six factors add up to the *marketing impetus* that drives large brands. Previous advertising, by its ability to encourage repeat purchase and build psychological added values, contributes substantially to this. The marketing impetus is therefore substantially a description of the contribution made by previous advertising. This all means that a big brand can afford a relatively smaller advertising expenditure than a small brand. These six factors also explain gradual increases in a strong brand's advertising elasticity.

Advertising Elasticity is defined in **Appendix B**. To summarize this briefly, it is a calculation of the percentage rise in sales that results from a 1% increase in advertising expenditure, after excluding the influence of other sales stimuli. (The elasticity is preceded by a plus sign, because an increase in one leads to an increase in the other.)[6] The effects of an increase in advertising expenditure are illustrated in **Table 4-6**, which examines the sales outcomes of a 20% boost in advertising weight. Four hypothetical but typical brands are examined, each with a different advertising elasticity. In **Appendix B**, the average elasticity is given as +0.2, although it is possible that this figure is high in today's conditions. The levels of elasticity covered in **Table 4-6** vary, up to the top limit of +0.2.

Table 4-6 *Effect of Extra Advertising on Sales of Four Brands with NSV of $100m During the Advertised Period*

	Brand EAA	Brand EAB	Brand EAC	Brand EAD
Advertising elasticity	+0.05	+0.1	+0.15	+0.2
Additional advertising	+20%	+20%	+20%	+20%
Additional sales	$1m	$2m	$3m	$4m

There are two important points about using elasticity as an operational tool: (a) *At what elasticity can an increase in advertising weight generate extra profit?* (The additional advertising must be paid for from the profit on the extra sales, but profit beyond this is rare, although possible.) (b) *As a brand grows, can its advertising elasticity change?*

(a) *At what elasticity can an increase in advertising weight generate extra profit?* This calculation calls for three pieces of information: the dollar cost of the extra advertising, which depends on the brand's advertising to sales (A:S) ratio; the increase in direct costs, which depends on the proportion of total costs accounted for by directs; and the increase – if any – in indirect costs. A typical calculation is illustrated in **Figure 4-4**. For this brand, the range of advertising elasticity is set out on the horizontal axis; the A:S ratio is 6%; the direct cost proportion is 50%; and there is no increase in indirects.

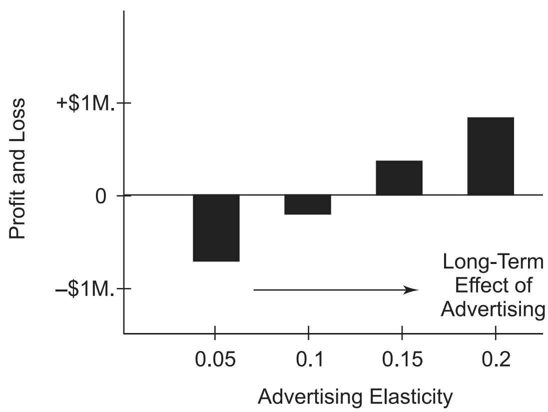

Figure 4-4 *Profit/Loss from Increased Advertising at Different Levels of Advertising Elasticity*

Figure 4-4 demonstrates the profit/loss resulting from any additional advertising investment. At an elasticity of +0.15 or higher, the extra advertising becomes profitable although, as explained, the additional advertising must be paid for before the extra profit becomes a net sum. As the elasticity steps up, there is an increasing chance of operating in the black. An A:S ratio of 6% is typical, but if it is any higher the cost of advertising goes up, which means that the break-even elasticity is pushed further to the right. A 50% level of direct cost is also typical, but there is the same drag on profit if this ratio is any higher.

(b) *As a brand grows, can an advertising elasticity change?* Elasticity is calculated from a short span of data, so that annual figures are normally possible. The elasticity is driven by the creative quality of the advertising campaign, so that the calculation can be used to monitor the progress of the campaign itself. There are no authoritative collections of tracking data on advertising elasticity that are in the public domain, although this information is collected and used by at least one major international marketing company. The most valuable contribution made by this type of analysis is to find out whether the elasticity is gradually rising over time, i.e. the campaign is increasing in effectiveness. But if this does not happen, this is probably because the campaign, is running out of steam.

A real case which I encountered during my period in the advertising business was Andrex bathroom tissue, a large British FMCG brand. Its advertising elasticity when originally estimated was +0.06. But this grew to +0.15, mainly as a result of increasing purchase frequency. At this higher level, the increased profitability of extra advertising covered the cost, at least for a time.

In the description of advertising intensiveness, six reasons were given for the lower intensiveness for large brands, which indicates the greater efficiency of their advertising. The same six reasons explain why the advertising elasticity of a large brand is likely to be greater than that of a small one.

Final Thoughts and a Transition

A brand always combines tangible and intangible features, and in parallel, advertisements are also based on the brand's functionality and added values. It still surprises some people that the influence of these intangibles can be measured. There are even doubts about the measurability of a brand's functional properties and the selling ability of advertisements that feature them, although the evidence is strong and accepted fairly widely. However, as this chapter has emphasized, the effect of intangibles can also be evaluated with “hard” statistics. The key to doing this is by translating intangibles, which are in the minds of consumers, into consumer behavior, which is an activity as totally visible and down-to-earth as buying a brand.

Brands to which the intangibles have made their greatest contribution are large, and often market leaders. When a brand has built a large share in a stationary market – Budweiser, Campbell’s, Coca-Cola, Frito-Lay, Home Box Office (HBO), McDonald’s, Tide – nothing much can be done to increase its sales in its home market. But advertising, through its long-term ability to reinforce added values, can protect a strong brand’s position, and *most importantly* improve its profitability. Four of the identified and measurable long-term effects of advertising are manifested in terms of profitability: increased purchase frequency; increased consumer price (facilitated by advertising’s ability to reduce the elasticity of demand); advertising intensiveness; and advertising elasticity.

This chapter has been exclusively concerned with statistical analyses. Important as these are to establish the commercial viability of advertising and justify it as a cost of doing business, they give no hint that the creation of added values is essentially an artistic process. For this reason, the next chapter of this book will be devoted to a very exciting topic, the creation of advertising ideas.

Action Learning

An exercise based on two 3-hour study periods can be planned to follow-on from the Action Learning in **Chapter 3**. The end result of the **Chapter 3** exercise was an analysis/description of all the brands reviewed by the group members. This analysis/description was based on the *status quo*. The exercise in **Chapter** 4 will now treat the brands in a dynamic context and plan how to develop and strengthen them.

***First Period*:** Each syndicate should concentrate on the long-term strategy for its own two brands. This should be guided by the following considerations:

1. What are the possibilities for functional and/or packaging restaging? What would be the reasons for this? What actual changes are visualized?

2. What are the brand's future sources of business:

    New entrants into the category (i.e. penetration growth)?

    New users of the brand, coming from other brands (i.e. penetration growth)?

    More purchases from existing users (i.e. increased purchase frequency)?

3. What basic rational and emotional messages should be used in the advertising to exploit these sources of business?
4. Is there any role for database marketing?
5. What is the long-term distributional policy? Will there be any innovations (e.g. selling the Nano in the Big Bazaar supermarkets)?
6. What is the long-term pricing policy? Gradual trading-up?
7. What is the long-term promotional policy? How much reliance on temporary price reductions? How much reliance on "value-added" promotions (e.g. collecting schemes to provide gifts to regular buyers)? What opportunities for cross-selling between different brands? Are joint promotions possible (with the manufacturer's own and also with other brands)?
8. Are there any plans for line extensions? Will these be for different varieties of the basic brand? Or for different products under the same brand name?

***Second Period*:** Each syndicate should present the strategy for its own two brands. The end result should be a well-thought-out and realistic action plan for moving the collection of brands forward. Even more importantly, the group members will become programmed to think along professional lines, broadening their marketing approach beyond the straightforward process of selling.

Endnotes

1. John Philip Jones and Jan S. Slater, *What's In a Name? Advertising and the Concept of Brands* (2nd Edition) (Armonk, NY: M.E. Sharpe, 2003).
2. John Philip Jones, "Trends in Promotions," *The Advertising Business* (John Philip Jones, ed.) (Thousand Oaks, CA: Sage Publications, 1999) p.p. 321-324; also John Philip Jones, "The Double Jeopardy of Sales Promotions," *Harvard Business Review*, September/October 1990, p.p. 145-152.

3. Jones and Slater, *What's In a Name?* p. 202.
4. Ibid., p.200.
5. This was first published in John Philip Jones, "Ad Spending: Maintaining Market Share," *Harvard Business Review*, January/February 1990, p.p. 38-42.
6. Jones and Slater, *What's In a Name?* p.p. 202-207.

Chapter 5

Where do Advertising Ideas Come From?

Advertising ideas come, of course, from the imagination and intuition of the creative people who produce them. They work in advertising agencies: increasingly, in some countries, in creative boutiques, rather than traditional full-service organizations. The greatest problem that these people face is that no one wants to read or listen to what they have written. Members of the public, who are at the receiving end, are screened by their barrier of selective perception, and the creator of an advertisement needs a good deal of ingenuity to get through this. Besides this there is another problem. Advertising is a totally commercial activity, and imagination cannot therefore be allowed a totally free rein. Some guidelines must be set up to channel imagination in a direction that benefits the advertiser's business. Advertising strategy must therefore direct the efforts of creative people without constricting them.

Strategy: Objectives and Not Rules

Strategies are written in text books and practiced by advertising agencies in a variety of ways, and the fact that so many methods are used, shows that no one has discovered a definitive way of describing it.

A surprising number of strategic methods lay down not only what an advertisement should say, i.e. the important properties of a brand, but also how the advertisement should say it. In doing this, such strategies cross the line between strategy and tactics. Strategy and tactics are separate and not part of a single seamless and continuous process. Drawing up a strategy is a management function, and when it has been agreed as objectives by the people who are going to write the advertising, there is a pause in the proceedings. Writing a strategy and writing an advertisement require two different skill sets, and therefore they are carried out by different people. The pause after the strategy has been agreed enables the creative people to search for ways of generating ideas in accordance with the guidance provided.

There are however many ways of defining strategy that go too far in the tactical direction by being heavy-handed and over-explicit. Here are four, not a complete list.

A once-popular strategic device, and one that is still occasionally used, is the Unique Selling Proposition (USP).[1] This dictates that the advertising should concentrate on a single functional feature, which is embodied in a brief slogan and hammered out repeatedly in the advertising. This technique ignores a brand's personality, its non-rational features that are the most important factor that differentiates it. This was widely noticed and the USP soon lost favor, despite efforts to adapt the USP to include non-rational discriminators, when it was renamed the Unique Selling Personality.

American television advertising was once dominated by the "slice of life," a type of compressed miniature "sitcom" in which a consumer is shown to have a problem until a friend suggests how it can be solved by the advertised brand. The brand is bought and the problem is solved. This agonizingly repetitive technique quickly lost favor when it was discovered that the research method of recall testing that had supposedly proved its effectiveness, was shown to be a fallacy.[2]

A different type of formula was developed in Britain and is still popular there. This requires the advertising to communicate little more than warm feelings about the brand, in the belief that there is a "gradual build-up of effects perhaps over the whole duration of the campaign (or even spanning a series of campaigns with similar themes)."[3] For this strategy to be effective there must be evidence that the campaign is able to sell the brand.. There was never any attempt to provide this. Because of the importance of the initial advertising as a gatekeeper, there is therefore the danger that the whole campaign might be wasted. Most advertisements of this type are exclusively about brand personality and are little concerned with anything as simple as selling.

Other types of formula, followed in many countries, lay down how to construct television commercials (e.g. by dictating the number of times the brand is mentioned); and still others provide detailed rules about the best types of copy and layout to use in press advertisements.

These systems go too far in dictating tactics, which is the reason why they have left such a faint legacy. The purpose of strategy is to lay down what should be communicated. How it is communicated is up to the creative people. The objectives of an advertisement should lay down what consumers *actually take out of it*, and not its explicit message, which could be ignored or misunderstood. Remember that people do not purposely wish to read or look at an advertisement, and they select (semi-consciously) what they choose to look at: none of it, or bits, or (more rarely) the whole.

Rather than continuing to make this point in abstract terms, I shall hypothesize two strategies which are intended to point creative people in the right direction without constricting their area of maneuver.

Brand E is a household cleaner, which is sold in India. It is not the market leader, but it has built a substantial body of users, many of them infrequent buyers. The manufacturer believes that purchase frequency can be boosted, and some increase in penetration is also possible. A four-point strategy outlines the objectives of the campaign, without trying to tell the creative people what to say. And it also emphasizes the importance of other, complementary, sales stimuli.

- The advertising should address existing light users, and also homemakers who might be prompted to try the brand. These groups are very large, and comprise all households except those with very low incomes. Families with children are particularly important.
- The advertising should find a way of reminding existing buyers about what the brand means to them so that they will continue to be loyal and if possible increase their buying. Potential new buyers should be nudged to stimulate their curiosity and to make them want to give the brand a try. Sales promotions aimed at sampling should be run alongside the advertising.
- The advertising should say something about and/or demonstrate the brand's functional features and its added values of cleanliness, sparkle, hygiene, family care etc. The added values should receive the greater emphasis, and this should increase in importance as the campaign develops.
- The advertising should be friendly and engaging and not hard-selling or manufacturer-oriented. It should speak the language of the consumer, and use visual demonstrations rather than verbal arguments.

The Nano is a relatively new introduction into the Indian car market, and is still seen as a dramatic innovation.

- The advertising should address owners of two-wheelers to persuade them to trade up. These people will have discretionary income and will be creditworthy.
- The Nano has many important functional features. Visual demonstration is more important than lengthy description. The advertising should communicate excitement without shouting at the potential buyer. It should emphasize value for money rather than low price.
- The Nano is characterized by exemplary modern design and various aspects of economy: overall size of the car, the neatly-designed controls, the low gasoline consumption etc. The craftsmanship of the advertising – the ways in which the commercials and print advertisements are constructed – should also echo modernity and economy. This is a subtle and implicit type of communication.
- The main role of the advertising should be to get potential buyers into a showroom. The design of the showrooms and the showroom staff should reflect the advertising: enthusiastic, confident, friendly. A sale will be made only after the buyer has inspected the car and probably driven it, and has thought a good deal about the purchase. The advertising alone is not enough, but it plays an important part in triggering initial action.
- A secondary role of the advertising is to address people who have already bought the car. This is done to reassure them: a psychological process called the reduction of cognitive dissonance.[4]

What We Know about the Types of Advertising that Work

For many years, theorists believed that advertising communication followed a logical pattern (known as the hierarchy of effects), which takes the consumer from awareness of a brand to preference for it and finally to purchase. This theory was exploded many years ago, as a result of two rather obvious objections to it. First, the buying of brands (especially low-priced ones) is governed more by habit than a conscious weighing of the pros and cons. Second, the effects can work in reverse, since buying can influence awareness (through selective perception) and also attitudes (by the way in which buyers justify their purchases to themselves through the reduction in cognitive dissonance).[5] The use of the brand itself has a strong influence on buyers' feelings toward it.

We can draw conclusions on different types of advertising for eg. those which work and those which don't. In most large categories of consumer goods, advertising usually cannot be effective by being strident. It cannot work by relying exclusively on logical arguments, no matter how persuasive they appear to be. Nor can it produce results by concentrating exclusively on intensive emotional imagery. And it is rarely a matter of "big ideas," although "big ideas" are the verbal currency of advertising agencies, especially when they are pursuing new business.

The acknowledged masters of the advertising business – Bernbach, Burnett, Ogilvy – have produced much more successful than unsuccessful advertising. These men were first and foremost writers of advertisements, and their advertisements are well worth studying. The main feature of all their work is its simplicity. This does not mean that the advertisements are commonplace or impressionistic or one-dimensional; nor do they talk down to the audience. The headlines in their press advertisements are always intriguing without suffering the besetting sin of most contemporary advertising: obscurity. The simplicity of the advertising is the end result of superb focus.

I have already suggested that advertising can communicate in a subtle way, and Bill Bernbach in particular shared this view. The element in an advertisement that causes a spark cannot be forecast and it is sometimes serendipitous. A single word can make a difference between success or failure. However, it is difficult to predict the effect of one word as compared to another.

The people who have the greatest sensitivity to audience reactions are comedians. One of the most famous, Groucho Marx, tested his wisecracks on audiences. When he was making the film *A Day at the Races*, he experimented with slightly different versions of a joke in front of different live audiences. He tested alternatives for one important word. He tried *obnoxious*, *revolting*, *disgusting*, *offensive*, *repulsive*, *disagreeable*, and *distasteful.* All the words raised a titter, but the last two words got a more positive reaction. Finally, a new alternative, the word *nauseating*, drew roars of laughter. The resulting line became a comic legend: "That's the most nauseating proposition I ever had."[6]

Small differences are, if anything, more important in the visual of a commercial – a point made succinctly by Bill Bernbach: "How do you storyboard a smile? Yet the quality of that smile may make the difference between a commercial that works and one that doesn't work."[7]

All advertising, if it is to be effective, offers some reward for watching it: a joke, a friendly feeling, a degree of emotional warmth. Leo Burnett made this point succinctly:

> "If advertising did not contain an element of reward, either in the form of information, entertainment, or some aesthetic compensation, we would be a mass of raving maniacs."[8]

Effective advertising is generally more visual than verbal. The number of words in a 30-second commercial should be restricted to thirty or less. The picture should tell the story. David Ogilvy once said semi-seriously that a commercial only needs two words: "Watch this."[9]

"Bisociation"

The most *important* thing about advertising is its role in the economy: how it contributes to the prosperity of many individual companies. But its most interesting feature to practitioners is that it depends totally on original thinking. It is the only major business activity that is art, if we define this word broadly. It is not invariably good art (although it sometimes is), but, when it works, it always does so by applying the human imagination to commercial opportunities or problems.

I now come to the forbidding job of describing what an advertising idea actually is. This is so difficult to do because good creative people work instinctively, and are usually more interested in the future than in the past. With very few exceptions, they cannot be persuaded to make the attempt to analyze how they do what they do, especially how they decided to write specific campaigns, even the well-known ones.

One of the rare exceptions was James Webb Young, who had five decades experience of writing successful advertising and became an avuncular figure. He once made the remarkable statement that "an original idea is *nothing more than a rearrangement of existing ideas*." As I hope to show, this is a seminal concept.[10]

All successful advertisements contain certain ingredients; in most cases, they contain three. I shall try to describe these, but the purpose of what I am doing is analysis, which is strictly defined. I have no ambition to produce a formula for how to write effective advertising, because any such formula would suffer from the handicap that the advertising would be predictable and therefore not noticed.

The first and most obvious element of a successful advertisement is that it must mention the properties of the brand. By this I mean all the most relevant signals – both the functional and the nonfunctional ones. These are identified in the strategy, which also proposes what is most important and what is less so. For unfamiliar brands, the advertising spells out the brand-related properties, although this is normally done very economically. For familiar brands, only the smallest mention is necessary. A very good illustration is provided by the long-lasting advertising campaign for diamonds run by De Beers.[11]

Although diamonds are an unbranded commodity, the De Beers campaign has been highly effective in the market place and has succeeded in clothing diamonds with all the qualities needed to make them one of the most select brands in the world. The brand-related properties of diamonds are that they are beautiful and durable and valuable and say something very special about the person who wears them. In the advertising campaign, these properties are brought to mind by the simplest visual means. The stones are shown dramatically, and nothing else needs to be said about them.

We now come to an ingredient in successful advertising that is much less obvious. A new idea also has to be introduced, but this time it is one that must come from "left field." It is something totally unrelated to the brand itself. With the De Beers campaign, the "left-field" idea is the love of a man for a woman. This is a very powerful thought, and it is totally unrelated to diamonds. The De Beers campaign works because it brings the brand-related and the "left-field" ideas together and causes them to fuse. The new idea that is created – the rearrangement of existing ideas – is that the durability of the diamond expresses the durability of the love; and that the beauty and value of the stones echo the way in which, the person giving regards the recipient.

Such fusion is at the heart of all successful advertising. The most perceptive student of the genesis of creative ideas, Arthur Koestler, coined the word "Bisociation". Biscociation means the process of thinking up and selecting the two separate and initially unconnected ideas. When they are brought together, he called the process "Biosociative Fusion": an awkward phrase but one whose meaning is totally clear.[12]

It is an interesting exercise to look at advertising campaigns with the idea of Bisociative Fusion in mind. I can think of many examples from my own professional experience, and I can see them on the contemporary advertising scene. A classic example is the Marlboro cowboy; another is the long-established and successful campaign for Lux toilet soap featuring film stars.[13]The high-profile magazine campaign for Absolut vodka provides myriad examples of "left-field" thinking around the shape of the bottle.

Other colorful examples are: the bird trying to fly through the plate glass window that has been cleaned with Windex Wipes; the swimming elephant in the Coca-Cola commercial; and the green gecko in the advertising for Geico Insurance. The most delightful example I can think of appeared during a Super Bowl break that was watched by the majority of the American population: an advertisement for a specialist technical organization based in Dallas, Texas – Electronic Data Systems (EDS). The commercial, a *tour de force*, demonstrates the complex and constantly changing process of handling large volumes of statistical data by featuring a crew of ranch hands herding a vast swarm of cats.

The brand-related and "left-field" ideas are the first two ingredients of a successful advertisement, and its degree of success depends largely on how powerful a fusion can actually be made to take place.

But a third ingredient is also needed. This is something much simpler to describe: in advertising business it is known as the *production values*. These embrace every part of a television commercial – the camera work, the lighting, the voice-over, the sound effects, the music – and every element of a print advertisement – the writing of the body copy, typography, the quality of the illustrations, the placing of the elements, the use of white space. With much advertising, these things are the product of polished craftsmanship. Although the content of advertisements is almost always ephemeral, the creative people in agencies, and the filmmakers and other talented people who take advertising ideas and express them in their finished form, work with painstaking care and often possess the highest degree of sensibility. They frequently manage to transform an advertisement – which is, after all, a piece of communication with a simple commercial purpose – into something that can be compared, in form if not in substance, with many exhibits in respectable art museums.

Production values provide another benefit. In the vast majority of cases, they provide depth and enrichment to a creative idea. However, in a small minority of cases – when the creative idea is actually weaker than was originally thought – the expensively acquired production values will expose the idea's inadequacy absolutely relentlessly. The advertising will communicate production values and little else. The client and the agency will therefore have to make a tough choice about whether or not to abandon the campaign, despite the money that has been spent on film production. (They will, however, be protecting the much larger expenditure on screen time, which might have been wasted.) I have come across this situation four times in my professional career, and in all cases the decision to abandon the creative idea was painful. It is important to remember that production values can never serve as a substitute for a creative idea.

Two Grab Bags

Bisociative Fusion is a subtle and important concept. The problem is how to put it into practice. What makes a bisociative relationship so difficult to find is that logic will not help us find "left-field" ideas. We use logic to isolate our brand-related signals, but if we continue to follow a logical path in the hope of also finding an appropriate "left-field" idea, we very soon come to a full stop.

Interestingly enough, there is a well-known technique to solve the problem. This was most clearly set out by James Webb Young, whose concept of the fusion of ideas predated Koestler's, and is described by Young rather differently. He recommends working through a five-step process. The first step calls for a study of all aspects of the strategy, and this must be carried out thoughtfully and in great detail. After a break, the process is then repeated; the second digestion of the data must be as thorough and conscientious as the first. The third step is to lie fallow – to do nothing, while the unconscious mind churns over everything that has been fed into it. The fourth stage is the magical one – the arrival of the idea itself, sometimes suddenly, but sometimes quietly. The fifth stage is devoted to working out the idea into detailed advertisements.[14]

I personally find this system effective and have used it for many years. However, it is important to follow Young's five steps meticulously, with no shortcuts. Young's system relies on the way the subconscious mind will roam around the problem and make connections. It is not, however, the only way that people write advertisements – or solve other types of intellectual problems for that matter – and a number of other systems have been published, all of which have been found useful by some people. What all the systems have in common is that the creative step is quite separate from the strategic step, a point discussed earlier. There is a distinctly different mental process, in which the logic of the strategy gives way to the imagination and intuition of the creative leap.

Young talks a good deal about the personality and qualifications of the best creative people. He constantly reiterates the importance of a cultivated and wide-ranging mind. This is a point that can be illustrated with a metaphor of two grab bags (i.e., sacks filled with gifts into which children put their hands to select an unidentified parcel).

Consider the creative process as using two grab bags: one small and one very large. The small bag represents the accumulated information we have learned about the brand we are advertising, including everything we know about the strategy and why it was formulated in the way it was. The first two steps in Young's method describe the filling of this small bag. The brand-related idea is going to come out of it.

The large grab bag contains everything in the mind, memory and experience of the person who is writing the advertisement. Obviously a person with a broad general education, wide experience, and a thoughtful mindset that stores things away will have much more material in his or her grab bag than a person with a thinner background and a less contemplative mind. This is where the "left-field" idea is going to come from.

Young's process of generating ideas – rearrangements of existing ideas – is like picking something out of the small bag and something out of the large one, and with luck finding a startling connection between the two things we take out. The fuller the two bags, the better the chance of finding something rather special to say about the brand.

The Locked Strongbox

One important final point about the creative process must still be made. For an advertisement to work, the first requirement is originality: an arrestingly unusual idea. This is the outcome of the processes discussed in this chapter. But although originality on its own is necessary, it is an insufficient criterion for deciding whether or not to spend money in exposing an advertising campaign. What matters even more is whether it will produce a behavioral effect; although originality is often associated with effectiveness, this is not always the case. Forecasting results is a much more problematic endeavor than judging originality. We have good evidence that advertising professionals generally have the skill to evaluate originality, but they are much less good at forecasting whether an advertisement will actually produce the right sort of effect in the market place.[15]

Many students of advertising would agree that we have a fair knowledge of one part of the creative process – idea generation. But some original ideas have to be thrown away, not because they are not original enough but because of uncertainty about their likely effectiveness. We need to know what ideas to keep and which to reject. Assuming that we judge correctly that our advertisement has originality, it is much more difficult to define whether our advertising idea will actually sell soap (or whatever).

Because effectiveness cannot be ignored, subjective judgment alone is simply not good enough. The experts need some help. Market research can provide useful guidance, as explained in **Appendix B**, in the sub-section **Advertising pre-testing**. However, research has a long way to go, and improving the techniques should be the first priority of the advertising business because of the urgent need to reduce waste.

What makes judgment and research so difficult is the elusiveness of the secret of advertising effectiveness. Successful advertising can be, and often is, substantially emotional; but a rational message can be contained (to use a metaphor) within an emotional envelope. (If there is an emotional envelope with nothing in it, however, the advertising will not work.) This elusive connection between emotion and rationality brings to mind a widespread myth, one widely believed by the more vocal consumerists who believe in advertising's supposedly hidden power and perhaps by many member of the general public as well. Here is an academic view:

> "The success of advertising depends not on its logical proposition but on the kinds of fantasies it offers. The world of ads is a dream world where people and objects are taken out of their material context and given new, symbolic meanings, placed on hoardings or on the screen where they become signs."[16]

Advertising works in some unexpected ways, but it does not rely on a sociologist's vision of a magical wonderland. Nor is there any truth in the weird notion of "subliminal" effects.[17]

At the heart of the advertising enterprise – a $450 billion business throughout the world – there is a locked strongbox that contains the most important secrets but that no one has been able to open. Perhaps we have not tried hard enough. Researchers tend to shy away from the toughest problems because they think instinctively that the most important question are those that are easiest to answer, and that if we have a lot of information this must *ipso facto* be valuable. We can make a good start by removing our prejudices against potentially useful research methods, prejudices that are still not uncommon in the advertising business.

Action Learning

Idea generation offers an exciting possibility for action learning through group work. Two specific techniques should be practiced:

James Webb Young's technique for producing ideas (as mentioned above). This 5-step procedure is carried out by individuals:

1. Absorb and chew over as many facts as possible about the brand and the advertising strategy
2. Repeat the process
3. *Forget all about the brand.* Relax: a night's sleep generally provides the necessary fallow period, during which the subconscious works on idea relationships, through the process of bisociation
4. An idea arrives
5. Work out the idea into an advertisement.

Brainstorming, a group activity. The members should sit in a quiet, undisturbed environment. They should then force themselves to spark ideas from person to person. There are two procedural rules: (i) generate ideas only, without any comments or evaluation; (ii) obey a strict cut-off time of thirty minutes.

The exercise itself involves three 3-hour study periods:

First Period: During this, the group must decide on a suitable brand. Get as much information as possible about the brand, from information in the public domain, store checking (**Chapter** 7), and the personal experience of group members. A document is written, and this represents the basic strategy and foundation for creative exploration.

Following this meeting, individual members of the syndicate work on their own and carry out the first two stages of the James Webb Young technique; they should work intensively on this double absorption process. Each individual should then stop any further thinking about the brand, probably overnight (stage 3), and an idea is likely to arrive the next morning (stage 4). (I personally find it useful to have a pencil and some paper at my bedside, in anticipation.) The individual member can now work out a tentative advertisement based on the idea that arrived.

Second Period: The advertisements produced by the syndicate members should now be discussed in detail, and these will probably lead to a brainstorming session. As many ideas as possible should be finalized, at least tentatively.

Third Period: Plenary meeting at which the various concepts are presented and debated. There should also be a general discussion about the value of the methods of idea generation: the ones discussed here and also others that the group members may find productive.

Endnotes

1. This is fully described in Rosser Reeves, *Reality in Advertising* (New York: Alfred A. Knopf, 1960).
2. John Philip Jones and Jan S. Slater, *What's in a Name? Advertising and the Concept of Brands* (2nd Edition) (Armonk, NY: M.E. Sharpe, 2003), p.p. 143-145.
3. This is the subject of Alan Hedges, *Testing to Destruction: A Critical Look at the Uses of Research in Advertising* (London: Institute of Practitioners in Advertising, 1997).
4. Carri Brown, Betzi-Lynn Hanc, and Nujchayada Pangsapa, "Cognitive Dissonance and Selective Perception: Their Relevance to Advertising," *The Advertising Business* (John Philip Jones, ed.) (Thousand Oaks, CA: Sage Publications, 1999), p.p. 225-233.
5. Ibid.
6. Geoffrey O'Brien, "The Triumph of Marxism," *New York Review of Books*, July 30, 2000, p. 10.
7. William Bernbach, *Beware of Arithmatic* (New York: Association of National Advertisers, 1973), p.p. 5-6.
8. Leo Burnett, *Communications of an Advertising Man* (Chicago: Privately published, 1961), p. 47.
9. David Ogilvy, *The Art of Writing Advertising* (Dennis Higgins, ed.) (Chicago: Advertising Publications, 1965), p. 90.
10. James Webb Young, *A Technique for Producing Ideas* (Chicago: Crain Communications, 1972. Originally published in 1940), p. 25.
11. John Philip Jones, *Does It Pay to Advertise? Cases Illustrating Successful Brand Advertising* (Lexington, MA: Lexington Books, 1989), Ch.13.
12. Arthur Koestler, *The Act of Creation* (New York: Macmillan, 1964).
13. Jones, *Does It Pay to Advertise?* Ch.6.
14. Young, *A Technique for Producing Ideas*.
15. Leo Bogart, Stuart Tolley, and Frank Ornstein, "What One Little Ad Can Do," *Journal of Advertising Research*, August 1970, p.p. 3-13.
16. Gillian Dyer, *Advertising as Communication* (London: Routledge, 1989).
17. John Philip Jones, "'Subliminal' Advertising," *Advertising Organizations and Publications: A Resource Guide* (John Philip Jones, ed.) (Thousand Oaks, CA: Sage Publications, 2000), p.p. xiii-xiv.

Chapter 6

Brand Management

For more than eighty years, brands marketed by consumer goods companies have been managed in a special way. But the system of brand management is currently in a state of flux, because of developments in markets: gradual but incremental evolutions that have become increasingly important during the last twenty years. There have been movements on three fronts:

- A number of changes in brands, sales stimuli, advertising agencies and media have made the brand manager's job more complicated, and this has resulted in *a move toward a broader system of category management.*
- The increasing size and organizational rigidity of marketing companies have increased the *distance between the brand manager and the senior managers* at the upper levels of the hierarchy, who make the decisions, particularly about marketing and advertising plans.
- *The globalization of business* has brought many challenges and opportunities, particularly over the desirability – or otherwise – of running advertising campaigns on an international basis.

These points will be discussed after a brief review of the history of brand management and its special characteristics. These features remained intact between the 1930s and the 1990s, although (as mentioned above) difficulties are arising and changes are taking place.

The Organizational Concept

Brand management is a system by which most manufacturers of packaged goods, as well as many advertisers in other fields, control their advertising on a day-to-day basis and co-ordinate it with other marketing activities, so they all march to the same drum beat.

The brand management system has two important features. First, a brand manager is a general manager rather than a specialist. His or her functions embrace all aspects of a brand, but with specific emphasis on advertising and sales promotions. The second feature of the system is that the job is "staff" and not "line." It means that the brand manager must generate ideas and shepherd these through the often plentiful management layers of the advertiser's organization. Most importantly, the brand manager co-ordinates all activity in marketing the brand: production, packaging, and sales, as well as advertising and promotions. Because the function is a "staff" one, and brand managers are not empowered to make major policy or financial decisions about brands, brand managers are mostly young executives carefully selected for their energy and promise. Brand management is considered excellent training for general "line" management.

Entrepreneurship – the ability to control brands and operate them aggressively – is central to the system. Brand managers are expected to be opportunistic, which is the opposite of the bureaucratic style of management that might be expected in large manufacturing organizations. If, in the normal way, a company markets a portfolio of brands in any category, these brands have to be clearly separated from one another in strategic terms to prevent cannibalization. The brand managers in charge of individual brands are allowed to compete with one another, and the company relies on the strategic division between its brands to prevent loss of business through the internal competition becoming too destructive. However, controlled competition is an important aspect of the brand management system – a point underscored by the fact that competing brand managers normally use different advertising agencies.

Brand managers were first introduced by Procter & Gamble (P&G) in 1931:

> "The brand manager leads the brand group (in) developing the annual marketing plan; developing and executing the advertising copy strategy; planning and selecting media; planning sales promotions; coordinating package design; and analyzing and forecasting business results."[1]

In this system, each brand is expected to stand on its own feet. P&G in fact first appointed brand managers for the sole purpose of enabling its leading bar soaps, Ivory and Camay, to be independent from and only indirectly competitive with one another. Both brands prospered, and brand management was extended within P&G and soon widely copied elsewhere. There is little doubt that brand management was one of the engines – perhaps the most important one – driving the growth of brands during the half century between 1930 and 1980. During this period, the system was adopted by the majority of packaged goods advertisers worldwide.

The brand manager is the common link between the client and the agency account executive, and he or she therefore plays a key role in all client-agency cooperation. Agencies reinforce this relationship through a system of "covering" the brand manager's superiors via links with people higher than the account executive in the agency hierarchy. This involves some duplication of work, but agencies consider that this procedure helps detect any problems that develop between brand manager and agency.

A Move Towards a Broader System of Category Management

Four important general changes in the marketing process have influenced the future of brand management:

- Sales promotions have greatly increased in importance. Of manufacturers' advertising and promotional (A&P) budgets, 50% now goes on trade promotions; 25% on consumer promotions; and only 25% on media advertising. This has re-balanced the work of brand managers, and has given them an increasingly tactical (rather than strategic) focus.
- There has been a large increase in the number of brands and particularly sub-varieties. What is a brand manager actually managing today: a single brand, or a proliferation of sub-brands? Is he/she marketing to a single target group, or a collection of partly unrelated target groups?
- The advertising agency business has changed significantly, in the direction of fragmentation. Traditional full service agencies now only offer limited service. Media planning and buying are controlled by independent media organizations; and creative work is increasingly carried out by creative boutiques. The relationship between clients and media agencies remains stable. The media themselves have also changed, with an important growth in "social" media, to which individual brands can be tailored to fit a narrow social environment.
- There have been setbacks in individual businesses, notably the American automobile industry. This industry, in both the United

States and Europe, moved to brand management for the first time during the mid-1990s.[2] However, today little is heard about brand management in Detroit and other automobile centers.

These changes have led to a feeling that the brand management circuits have become overloaded, and that this has generated much wasteful and mutually-cancelling activity within individual marketing companies. There has been a feeling that a shake-up is needed, with P&G again taking the lead. The main move has been toward category management, a system that attempts to control a company's complete brand portfolio in a category.

This in some ways represents a return to the system that predated brand management. By aiming to avoid the potentially wasteful competition between brand managers, category management imposes a judgmental (and bureaucratic) system for establishing priorities between brands: brands that had formerly fought it out independent of one another (often with great success). It is therefore by no means certain that the new system will act as powerfully as brand management to nurture and develop individual brands. It will encourage arbitrary decisions to be made in favor of some brands and not others. Some analysts believe that the strength of a manufacturer's position in a category depends essentially on the self-reliant independence of each separate brand in its portfolio, with the forces of the market boosting some brands and trimming others. This is precisely what the brand management system was set up to achieve.

However my general skepticism about any further move to category management is driven by another complication, a fundamental flaw in brand management that has grown in importance over the years. This is discussed in the next section.

The Distance between the Brand Manager and the Senior Managers

GlaxoSmithKline, a firm at the leading edge of the drug industry and the third-ranking public company in Britain, is the product of a number of mergers between separate and strong American and British businesses. One of its component parts was the Beecham organization, which had originated as an old-fashioned British manufacturer of patent medicines, but had eventually became a prominent player in toiletries, health drinks, and pharmaceuticals of all types. Its most rapid growth took place during the 1950s and 1960s, when the head of the company was Henry Lazell, a CEO of legendary resource and drive.

One of Lazell's most famous statements was: "Advertising is not one of our most important activities. It is our single most important one." Because the thought behind it was disseminated throughout his organization, it is clear that Lazell himself believed it. Yet in the supposedly more complex and sophisticated world of the twenty-first century, the aphorism appears a naïve myth. It represents a belief that died out with Lazell's generation of business leaders. Lazell was larger than life, and even if he was not totally typical he had a number of contemporaries who thought about advertising in a similar way. In 1958, Lord Heyworth, chairman of Unilever, devoted his annual statement to stockholders to describing Unilever's use of advertising. Heyworth, like Lazell, had no professional background in advertising. Yet his brief essay remains even today one of the most strongly argued defenses of advertising's contribution not only to a large business but, more importantly, to competitive capitalism in general: in particular to reducing consumer prices in the long term. (See **Appendix A**, in the sub-section **Scale economies**.)

American business leaders were, if anything, even more enthusiastic about advertising. During the hundred years from 1860 to 1960, many were closely involved in their companies' advertising activities and supported their use of advertising with great vigor. The names Harley Procter, John Wanamaker, Gerard Lambert, George Washington Hill and Charles Revson come to mind, and there were many more. Even Franklin D. Roosevelt claimed that he would have relished an advertising career, and there is a letter in the J. Walter Thompson (JWT) archives from Roosevelt to Stanley Resor, the then head of JWT.

The situation is different today. The only people who now demonstrate and publicize the value of advertising – and they often do the job thoughtfully and well – are agencies and agency trade associations. But because they are directly interested parties, their endorsement carries much less weight than endorsement by client organizations whose brands have been built and sustained by advertising. During the last thirty years or so, however, it has been difficult to identify CEOs of manufacturing and service companies who have been willing to nail their colors to the advertising mast. This is bad enough in itself, but it is also a symptom of something more serious: that advertising has a very low priority on their working agenda.

Top business executives give the nod to the recommendations of their subordinates. And they approve the advertising budgets, although in doing this they are not much concerned with the explicit purpose of consumer advertising, i.e., to influence consumers. CEOs are more interested in two quite different objectives: attacking their competitors by matching and exceeding their competitors' advertising expenditures, and leveraging their own advertising investments to influence the retail trade. Top business executives supervise advertising in a remote fashion, but they do not participate in the untidy and often exciting process of advertising development.

The unfortunate side effect of this separation of functions is that most CEOs of large companies are not actively conscious of advertising's enormous potential: the role it can play in maintaining the sales of large brands, boosting the sales of small ones, and strengthening consumer franchises and thereby increasing manufacturers' long-term profitability. These contributions were totally familiar to Lazell, and they were the reasons why he was so emphatic about the importance of advertising to his business. And since his day, they have been amply confirmed by objective research that has also shown that effectiveness depends on the advertisements used. Some work, and others do not (and both types can be identified).

Recently, I examined nine leading periodicals and newspapers directed at senior decision makers in the business world (including those people who have ambitions to be decision makers). The publications I looked at were *Barron's*, *BusinessWeek*, the *Economist*, *Forbes*, *Fortune,* the *Harvard Business Review*, *Money*, *Strategy and Business*, and the *Wall Street Journal*. I concentrated on those directed at general managers because these executives allow advertising to be handled by people lower in the hierarchy. I did not therefore include the two leading American advertising trade publications, which are read by people in advertising agencies, by brand managers, and by media sellers, planners, and buyers.

The issues of my nine publications contained a total of 796 editorial pages (excluding paid-for advertisements). The features and articles covered well over 100 different topics: many general ones (e.g., the state of the economy, international trends, entrepreneurship, management of human resources) and also a number of subjects of specific interest (e.g., high-tech business, airlines, prescription drugs, energy). Any discussion of advertising – either as an industry in its own right or as a contributor to other businesses – was almost totally absent. Advertising-related topics covered *two pages* of editorial, which represented less than one-third of one percent of the editorial matter in the nine journals. This is not complete proof that high-level decision makers separate themselves from the hurly-burly of advertising, but it is clear confirmation of my own observations that this is so.

Slowly and almost imperceptibly over a period of more than three decades, advertising has become the Cinderella of business. The interesting question is *why*? There are a number of identifiable causes, but the most important one stems from the different cultures of manufacturing companies and their advertising agencies.

> "The advertising agency thrives on a very different culture. The product company, whether in goods or services, is always more structured and hierarchical than the advertising agency should be. The producer will also be steeped in its product, whereas the agency is more sensitive to wider trends in the market."[3]

These words were written in the late 1980s by Sir David Orr, also a chairman of Unilever and one of Lord Heyworth's successors. Orr's view is extremely well informed, but in my opinion he does not go far enough. The most telling difference between advertisers and their agencies is that they think differently. Manufacturers and service companies invariably think along rational lines, and their most effective tool for making decisions is quantification. On the other hand, advertising agencies do their best work by using intuition and imagination, which are non-rational faculties.

Advertising agencies have a patchy record of success in producing effective campaigns, but good agencies get it right more often than not. Their successes are due to their culture, and I am totally convinced that if agencies were staffed with people who think in the same way as their clients do, they would never produce work that made any impression in the market place. The reason why in-house agencies faded away was because their thinking was too close to that of their clients, who were also their owners.

Agencies' ability to mobilize – and to focus – their non-rational mental apparatus is their most important stock-in-trade. Yet when client CEOs make decisions, they are accustomed to dealing with quantitative projections beforehand, and quantitative results after the decision have been made and the policies put into effect. Precise numbers are simply not available for advertising, at least at the present state of the art. The greatest single problem with client-agency relationships is how to squeeze the agency's ideas into the straitjacket of the client's evaluative procedures. And agencies' instinctive antagonism to quantification makes it even more difficult for them to accept the constraints of this straitjacket.

The dialogue between client CEOs and their advertising agencies was once much stronger than it is today. The situation changed after the 1960s, for two simple and related reasons. The first is that before the 1970s or thereabouts, CEOs were impressed by the talents and personalities of the most senior people in agencies and they often accepted and trusted their advice. In the years following the Second World War, Marion Harper, Rosser Reeves, Leo Burnett, David Ogilvy, William Bernbach, Jack Tinker, Mary Wells, and a few others with the same magic touch (or perhaps the same show business flair) were firmly established in the advertising pantheon. And although their approach to advertising was classically intuitive and imaginative, they were listened to. This was for the very reason that they *were* temperamentally so different from the client CEOs. The two parties had complementary qualities, but at the same time they both had personalities of a similar weight and stature. The concept of "partners in business" had a real meaning for both clients and agencies.

One of the most striking changes that has taken place in the advertising business during the past two decades is the business's loss of *cachet*. The giants of the past have all disappeared. The financiers who now manage agency groups are more similar to than different from the CEOs of the client organizations. They think along the same lines, but they are seen as running smaller, less capital-intensive operations than those of their clients. And their businesses are not always considered particularly solid. The second reason for agencies' loss of *cachet* is that, at the time when the stars in the advertising firmament were fading from the scene, the clients themselves were developing their marketing skills. They were also receiving much basic, timely, and easily implemented counsel from management consultants. The strategic advice they were receiving from their agencies was therefore becoming almost superfluous.

The great merit of the brand management system is that, by focusing on the brand, advertising plans can be co-ordinated (with varying degrees of intimacy) with all aspects of the process by which brands are brought to market: product features, packaging, production, selling, shipping, pricing, promotion. The strings controlling all these activities are in the hands of the brand manager.

But although all the strings are in the brand manager's hands and he or she must work out in the greatest detail how to pull them, it is actually somebody else who does the pulling. Specific actions are recommended by the brand manager, but it is the more senior people in the company who actually authorize every detail of how the brand manager will carry them out.

Brand managers are invariably young, and because their experience is limited they are not very knowledgeable. They learned to be aggressive and competitive at the business schools from which they graduated. But they did not learn much about advertising there: MBA programs in most American universities devote only about 5% of the course work to advertising, usually under the guise of "marketing communications." Brand managers are nevertheless the main point of contact between the client and the advertising agency, and there is invariably a close day-to-day working relationship between the two.

This single point of contact should in theory make life easy for the agency, but there are frustrating difficulties. The fullest involvement with the agency's recommendations takes place at the level of the brand manager, who is at the bottom of the client's management hierarchy. The brand manager is allowed to reject the agency's plans, and he or she can steer the agency in a particular direction, e.g., based on guesses about what superiors' responses to advertising ideas are likely to be. But the brand manager is never empowered to say "yes" without reference to the superior ranks. All the brand manager can do is to move the agency's recommendations through the various layers of the client's chain of command (there are sometimes as many as six of these), until they are approved or amended or rejected by the CEO, who is in ultimate control of all major expenditures.

The brand manager must develop considerable skill to be successful in moving agency recommendations upward through the client organization. Most importantly, the different cultures of client and agency have to be melded. The brand manager does this by fitting ideas that started as intuitive and imaginative into a format that is rational and often quantitative: the format with which CEOs are accustomed to working. In other words, it is the brand manager's job to put the agency's ideas into the client's straitjacket. The brand manager's working tool is the written recommendation. This is succinct – often only one page in length – but supplemented by references to supporting research, and such a recommendation has to be persuasive if it is to be approved. When there is no research that bears directly on any aspect of a recommendation, the phrase "judgment suggests" implies that non-rational ideas have been subjected to rational evaluation (whether they have or not).

One of the most important jobs of a brand manager is to make sales projections, because these determine all the budgetary plans for a brand for the years ahead. In making such projections, brand managers must hazard guesses about the sales effect of their advertising. Agencies are not involved in this, mainly because they would be horrified at the dangers of such prognoses, and they probably do not even know that such sales estimates are being made.

Many client organizations have clearly defined and sometimes quite rigid policies about the form and content of their advertising. Some also have their own favored research techniques for pre-testing, which exclude the possibility of using alternative methods. It is the brand manager's task to make sure that the advertising proposals and the way they are researched conform to the requirements laid down by the company. This is not popular with the agency, and the acronyms by which the systems are identified often have a rather depressing effect on the people in the creative departments.

As far as most CEOs are concerned, the system appears to work smoothly. They are persuaded that it makes logical sense of an untidy process characterized by flair, inspiration, and emotion, and they are content to leave alone. They pay attention to the logic of the recommendations they are given; they glance at the summarized research; they weigh the judgment of the managers in the layers between brand manager and CEO: the people who will already have given their general endorsement.

In this process, however, CEOs do not necessarily bring their critical faculties to bear directly and in full detail on the actual content of the advertising. As I have suggested earlier in this chapter, CEOs spend very little time on advertising, and one suspects that this time is devoted to routine evaluation of other people's recommendations rather than studying the advertisement themselves, coolly, contemplatively, and at leisure. CEOs may not be particularly interested in advertising, but they usually have much more experience of it than their subordinates do. It is therefore wasteful to discard this experience.

The system is like a lightly oiled piece of machinery. But paradoxically, the smoothness of its working is considered more important than what comes out the other end. The system permits huge sums of money to be wasted on ineffective advertising. Almost 50% of advertisements do not sell the brand. This is the best possible reason why CEOs should start thinking about advertising far more seriously than most of them do at present. But what may hold them back is an unstated belief that advertising does not, after all, matter very much in the larger scheme of things. If they believe this they are wrong.

The Globalization of Business

In any country, large or small, the brands sold can be classified into four groups:

1. Brands from local companies that are sold only locally.
2. Brands from multi-national companies that are sold only locally.
3. Multi-national brands from multi-national companies that are sold in many countries, and are supported by locally generated advertising.
4. Multi-national brands from multi-national companies that are sold in many countries, and are supported by multi-national advertising campaigns.

In total advertising expenditure, the fourth group is usually the smallest, accounting for a "guesstimated" 10%-20% of all advertising, depending on the country. Multi-national advertising was used most widely in the 1960s, after which it retreated to some extent because many advertisers had burned their fingers. But this reduction in importance does not mean that multi-national advertising is insignificant. On the contrary, it includes some of the most striking individual advertising successes. This is because at the present time it is planned strategically, with much greater care than it used to be. It is not a field for the inexperienced.

Note the use of the word *multi-national* which is preferable to the alternatives. *Global* implies that the campaign is reaching out geographically further than any such campaigns ever go; they never cover more than a quarter of all countries in the world. The word *international* implies that the campaign was developed for international use, for some undefined international consumer. This is very rarely the way such campaigns are planned: a typical multi-national campaign started in one country and was targeted at a national consumer, then was subsequently rolled out into other markets. The place of origination is almost invariably a large market, e.g. the United States or the United Kingdom, but there are exceptions. The roll-out policy is prudent, but can involve a serious loss of time. It took six years for Timotei, an important Unilever shampoo, to reach out beyond four small markets (three successes and one failure). During such an extended period, competitors are normally able to pre-empt the idea in countries the brand has not reached.

Multi-national campaigns can be found, although not usually in more than a minority of campaigns, in advertising for financial services, technical/electrical/electronic products, many (but not all) FMCG, fast food, gasoline, travel, expensive personal possessions, and up-market clothing. They are rarely used for cars, or for direct-response campaigns. They are so uncommon as to be almost unknown in beer, most packaged foods, retail advertising, over-the-counter (OTC) medications, direct-to-consumer (DTC) medical prescriptions (permitted in only two countries), commodity advertising, and "good cause" campaigns. They are also more widely used by some companies (e.g. Unilever and Colgate-Palmolive) than others (e.g. Procter & Gamble and Nestlé). Multi-national campaigns are also used occasionally for the same brand sold in different countries, but employing a different name (e.g. Burger King in the United States and Hungry Jack in Australia).

Two demographic groups are important to multi-national advertisers. Both command substantial purchasing power, although the actual numbers of people are not large. The first is the young (the athletic shoes/baseball cap generation), the ubiquity of whose lifestyles can easily be observed. The second group is the affluent, especially senior business people (the laptops-in-the-business-class-cabin community).

In evaluating whether or not a multi-national campaign is appropriate, the first thing to do is to determine the objective of the advertising. With the mechanics of marketing the brand in place, it is important to spell out why a multi-national advertising campaign should be part of the marketing mix, and why this will be better than locally produced advertising.

Every country in the world is different from every other. Advertisers should judge, as far as their own products are concerned, the extent to which individual countries might be coalescing, in the way Marshall McLuhan rather fancifully visualized when he talked in the 1960s about the Global Village. I am skeptical about whether the biggest national differences will ever disappear, or even get much less important than they are today, with the possible exception of the influence of media overlap between countries with similar languages: overlap that will increase because of the proliferation of audio-visual media. But this does not invalidate the potential for multi-national campaigns. There are individual points of similarity between consumers in different countries that can indeed by exploited.

At least six reasons are put forward for using multi-national campaigns. I shall list them below (as a client would describe them), with my comments.

1. *"I want a uniform multi-national presentation of my brand."* This is the least relevant argument, because it is important only in cases where individual consumers buy or use the brand in different countries. Such buying is usually trivial (e.g. small purchases during foreign vacations), but there are exceptions (e.g., American Express, used by frequent business travelers).
2. *"As management policy I like to centralize decision-making."* There are better ways than using advertising to exercise control over satellite operations. For some companies, advertising centralization strangles initiative. Pan America (Pan Am) used to scrutinize and approve in

New York every translation of the company's advertisements, which were all centrally produced in the English language. There were many reasons for the eventual demise of Pan Am, but the rigidity of its operations was one. P&G, a highly centralized organization and for many years a very successful one, hardly ever uses multi-national campaigns.

3. *"There can be an explosion of publicity if a major product innovation is launched simultaneously and in a similar way in a number of important countries."* This policy, which has been followed occasionally by Kodak and Gillette, makes some sense. But a word of caution is needed. Most product innovations are failures, so that if the worst comes to the worst, a multi-national launch could become a multi-national disaster.
4. *"I am looking for quality control; it is better to have a single campaign that is reasonably suitable for a number of countries than a patchwork of campaigns, some of which are awful."* This argument makes some sense, and is related to the last of my six points.
5. *"I want to save money on production costs."* This argument is substantially valid, but be careful how you interpret it. When a television or cinema commercial is used in a number of countries, the production cost is normally divided *pro rata* (e.g. on the basis of a brand's sales in each country). In addition to the basic production cost, there are usually substantial add-ons for voiceovers, screen titles, etc. In many countries, the total cost of using a multi-national film is sometimes higher than what would be paid for a local production. The important point, therefore, is that a multi-national film offers far higher quality for the same (or a slightly higher) cost than a locally produced film. This is an important consideration in how the Lux campaign is used. Incidentally, there is often a legal impediment to using television commercials shot in other markets. These are sometimes embargoed because of bans imposed by local trade unions. In India, the multi-national Lux campaign is used, but with local Indian film stars.
6. *"Demonstrably good advertising ideas are rare; if we find one let us use if everywhere we can."* I believe that this is the most persuasive reason for the use of multi-national campaigns. It is certainly why the campaigns for Dove and Lux have been totally successful, and why the Timotei campaign was a substantial success for a number of years, although the brand eventually lacked staying power. And we

should always remember Marlboro, the most ubiquitous example of a multi-national campaign.

In a country like India, where many new brands are based on successes in other countries, the use of multi-national advertising is something that must be decided at the time of the launch. This decision will be taken well above the level of the brand manager, although a clever and energetic brand manager will become *au fait* with the reasons for and against, and it will be his/her job to implement any multi-national campaign, including the complex task of adapting it to local conditions, as well as the usual co-ordination with other marketing activities.

How to Reinvigorate the Brand Management Process

As argued in this chapter, brand management remains the key to building brands because of the ingenious way in which it liberates entrepreneurship within large organizations. But in view of the growing bureaucracy within such organizations, brand management needs a powerful stimulant to renew its effectiveness. This will not come from a re-shaping on the lines of category management, which will have the wrong effect and replace entrepreneurship with arbitrary decisions about priorities between brands.

The most important proposal I make in this chapter is that a firm's CEO should find a way of making a committed contribution to advertising deliberations. There is an unusual reason why CEOs should be interested in doing this: a reason related to the size of the average firm's advertising budget. Advertising is considered to be an operating expense that when measured as a proportion of a firm's total expenses is a relatively small sum, normally about 5%.

But what makes advertising very different from other expenses is advertising's powerful and direct influence on *profit*, through its ability to boost sales. This is a factor important enough to lift advertising some notches on a CEO's list of priorities. The average amount that most companies spend on advertising is a sum not vastly different from the firm's net profit. In the case of P&G in the United States, the figures virtually coincide.[4] An obvious conclusion for a firm like P&G is that a 10% increase in advertising brings about a 10% reduction in profit, so long as sales are unaffected. The interconnectedness between advertising and profit is therefore a very good reason why advertising should be a serious concern to CEOs. It is a matter of first importance that all advertising – and especially increases in advertising expenditure – should be seen to generate sales.

As I have already argued, CEOs are the most experienced people in the majority of firms, and are the people whose judgment will benefit all decision-making, including all aspects of advertising: not least the decision whether or not to run multi-national campaigns. But the difficult problem is how the CEO can actually play a role without emasculating the brand manager. This will not be done by strengthening the reporting line: adding more people to the already large group who must approve the brand manager's recommendations.

A solution can be found, but every firm must find its own way forward. There is no question that "one size fits all." Unilever is a company with a rich history of successful advertising, and it succeeded in developing over time a system in which the top management could be involved in advertising decision-making. (I speak about the time when I worked for a number of years at J. Walter Thompson on Unilever brands, and I do not know whether the same system operates today.) Unilever controlled its advertising, very successfully, through a small group of senior advertising specialists who had talent, great experience, and possessed the ear of top management, so that they were able to echo top management's views and consult them as often as needed. The advertising specialists operated in a "staff" role and gave advice to the brand manager and the people to whom the brand manager reported, and they were respected enough to be listened to. The system also worked on an international basis. Each specialist was given the title of Advertising Member, and attached to a central management group in London or Rotterdam that ran Unilever on the basis of product categories. (These were called "Co-ordinations.") There was a separate system by which the operating companies in different countries reported back to London and Rotterdam in financial matters. The two reporting lines operated together remarkably well because there was mutual respect between the people involved. An additional aspect of the position of the Advertising Members in the "Co-ordinations" was that Unilever's advertising agencies worked internally in a similar way, and the efficiency of these systems was certainly apparent from my own personal experience.

Action Learning

A useful exercise based on the management problems discussed in this chapter can be carried out through a group project, based on two 3-hour study periods. It is particularly helpful if one or two non-marketing people can be included in each syndicate.

First Period: Each group should discuss the introduction of six new or restaged brands into the Indian market. The following are suggested:

1. A new brand of canned soup, to be sold in food stores of all sizes
2. A new credit card sponsored by a major Indian bank
3. A new chain of ten luxury hotels in important Indian tourist destinations
4. A new brand of beer, manufactured with a unique German brewing process
5. An up-market range of toiletries directed at women: soap/bath gel/ shampoo/conditioner/anti-ageing face cream/body lotion (with the possibility of adding further products to the range)
6. A restaging of the Cottage Industries chain of handicraft shops.

Each syndicate should develop a plan for the management of these brands. They should bear in mind the need to define the target group, and then consider the relative importance of pricing, pack design and logotype, distribution, sales promotions, advertising, database marketing, publicity, and additional activities to get the brand off the ground. The brand manager should also work with defined outside organizations. Which ones?

Second Period: Plenary meeting at which the proposals of the groups are presented and debated.

Endnotes

1. Oscar Shisgall, *Eyes on Tomorrow: The Evolution of Procter & Gamble* (Chicago: J.G. Ferguson, 1981), p. 163; also the Editors of Advertising Age, *Procter & Gamble. The House That Ivory Built* (Lincolnwood, IL: NTC Business Books, 1989); and Alecia Swasy, *Soap Opera: The Inside Story of Procter & Gamble* (New York: Random House/Times, 1993).
2. Suzanne Bidlake, "Ford Shuffle in Europe," *Advertising Age*, July 20 1998, p. 31.
3. Sir David Orr, Foreword to John Philip Jones, *Does It Pay to Advertise? Cases Illustrating Successful Brand Advertising* (Lexington, MA: Lexington Books, 1989), p. xxi.
4. John Philip Jones, "Advertising: The Cinderella of Business," *Market Leader. The Journal of the Marketing Society*, Summer 2000, p.p. 20-25.

Chapter 7

Measurement Tools to Plan and Monitor Brands

Brands are often described in rather fanciful terms. A phrase like "core brand values" is not totally untrue; but it would usually strike people as a grandiose way of describing a bar of soap. I have tried in this book to provide some scientific precision, hence my reliance on empiricism. I have employed very few "soft" measures derived from the social sciences, and have concentrated to a greater degree on "hard" data produced by well-conducted quantitative research.

Some brands become a source of massive and continuous sales and profit, but such brands are rare. In order to understand how they became so strong calls for objective facts. The same rule applies to the process of creating and nurturing the next generation of successes, although it is a known fact that most new brands fail. But the success record of new brand launches would have been even worse without the guidance of objective data during the planning process, covering variables that can be measured. But research is not very competent in measuring the spark of inspiration, which is the factor that contributes most to success. Because of the emphasis of this book on empiricism, it relies on many types of market research. There are however a few gaps and this chapter aims to plug three of them. It is devoted to three types of research that are not part of the main fabric of the book. These are highly practical instruments to be put into the toolbox of practicing marketers: *perceptual mapping*; *store checking*; and *measuring the effect of magazine advertising*. (Most of the measurements of advertising effects discussed in this book are derived from television advertising.) The chapter concludes with some *words of caution* about the uses and misuses of market research. Marketing a brand becomes impossible without the help of proper research. But incomplete or small research often misleads. It can even be dangerous. After I had spent two years in my first job, which was in market research, my boss said that he thought I had learned the difference between good and bad research. I hope he was right.

Perceptual Mapping

Perceptual mapping is a useful device for presenting brands in juxtaposition to their competitors, according to defined criteria. The measures and the relative positions of the brands on the map are mostly derived from research, and the map is a way of setting them out that can lead to direct action. This is done by revealing gaps. The criteria mostly relate to how consumers perceive the brands. This perception helps the advertiser to find the uncommon and salient qualities of a brand that should be embodied in its advertising proposition: the basic message communicated by its advertising campaign.

There is no end to the perceived functional and nonfunctional characteristics that the maps can cover. Each characteristic is set out on a continuum, with the ends representing opposite extremes (e.g., harshest-mildest, strongest-weakest, youngest-oldest). Because maps are two-dimensional, perceptual maps measure two specific attributes, or rather two ranges describing each of these attributes.

Figures 7-1 and **7-2** cover various nonfunctional characteristics of the twelve leading brands of toilet soap in the United States. **Figure 7-1** describes two aspects of brand imagery: the perceived ages and sexes of users of the brands. This map was drawn up based on judgment, but was rooted in good demographic data produced by Mediamark Research Inc. (MRI).[1] The extent to which user demographics predict user imagery is not always totally clear, and it is sometimes necessary to conduct qualitative research to confirm the hypotheses embodied in the map before we act on them.

The **Figure 7-2** describes two purely psychographic aspects of brand imagery, based on judgment and derived from MRI demographics. In 1983, an analyst called Arnold Mitchell divided the whole American population into nine separate groups according to their attitudes and life styles, in the study called Values and Life Styles (VALS).[2] Much the largest group, the Outer-Directed (actually a combination of three sub-groups) accounts for 66% of the population. This is the broad band in the middle of the population: the families who have no high/low extremes of income, occupation or education. These are the people who like the world more-or-less as it is. In contrast, the Inner-Directed group (again a combination of three sub-groups) accounts for 20%. These are highly educated people whose ambitions transcend the economic and social *status quo*. The continuum of Outer- and Inner-Directedness is plotted in **Figure 7-2.**

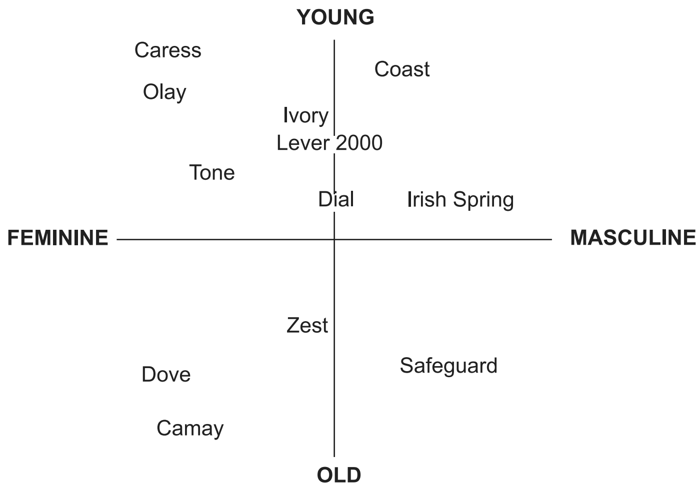

Figure 7-1 *Perceptual Map of Toilet Soaps: Perceptions of Selected User Demographics*

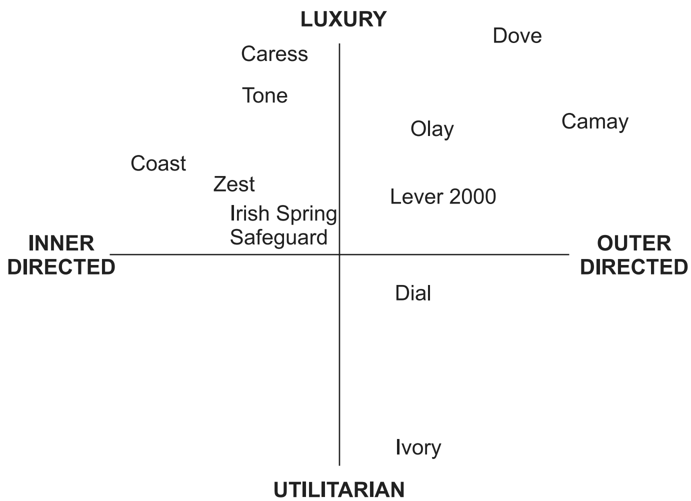

Figure 7-2 *Perceptual Map of Toilet Soaps: Perceptions of Selected User Psychographics*

The main brands of soap on the American market are divided into two main functional classes. Six brands have a "protection" orientation because they contain a deodorant: Coast, Dial, Irish Spring, Lever 2000, Safeguard and Zest. The other six are directed at "skin care" and offer purity and nourishment to the skin: Camay, Caress, Dove, Ivory, Olay and Tone.

The relative positions of the different brands from each of the main manufacturers deserve comment. Procter & Gamble has a comprehensive spread of brands: Camay, Coast, Ivory, Olay, Safeguard and Zest. Unilever markets Caress, Dove and Lever 2000. The Dial Corporation has Dial and Tone. And Colgate-Palmolive markets Irish Spring.

Procter & Gamble, with the most complex of the brand portfolios, is efficient in keeping its individual brands separate from one another, and this prevents cannibalization. Olay has moved in as a replacement for Camay and has a luxury connotation, directed at a relatively young target group. The positions of Unilever's Caress and Dove are interesting. They are both luxury products; both are oriented to skin care, with a strong feminine emphasis. Unusually, both are non-soap detergent (NSD), and the only other brands in the category with this formulation are Lever 2000 and Zest. *Prima face* Caress and Dove are uncomfortably close to one another. Yet, as is seen in **Figure 7-1**, they have been neatly separated according to the perceived age of the users. MRI data confirm that Caress is strongly directed to younger women, and Dove to older women. The two brands are therefore complementary.

Another thing worth noting is that the brands in the market all have a somewhat more feminine than masculine orientation (**Figure 7-1**). This is based on common sense. Most packaged goods, including toilet soaps, are bought by female homemakers, who follow their own brand preferences to a large degree. The brands they buy are used by the men in the house simply because the bars happen to be in the bathrooms. Lever 2000 was launched to take business from both Dial and Ivory, and like these it has a reasonable balance between the sexes. In addition, Lever 2000 is positioned between Ivory and Dial on the age continuum, reflecting Ivory's heavy usage by young families, and Dial's somewhat older age profile.

Store Checking

Before describing the simple and inexpensive technique of store checking, it is important to describe briefly the two scientific but expensive methods of measuring sales. These are based on the *retail audit* and *consumer panel* methods.

The *retail audit* method was invented by the American businessman Bev Murphy, and first implemented by the A.C. Nielsen Company during the early 1930s. This is a description of the original Nielsen auditing mechanism, although since 1990 the data have been collected with the use of scanners.

Today both Nielsen and Information Resources Inc. carry out retail research with scanners. (This is true of Nielsen in India.)

The most important data provided by retail research are estimates of consumer sales, based on a panel of shops. When the original auditing system was used, a simple arithmetical calculation was made in each store: measurement of deliveries of goods over the checking period (in the United States, 2 months), plus inventories at the beginning of the period, minus inventories at the end. Sales out of the store during the period could be measured accurately using this calculation. The traditional retail audit system tabulated the data bimonthly, with six reports per annum. Scanner systems now capture the same information with greater ease and speed.

Information is provided for all brands and pack sizes in a category. By adding the findings from all the shops in the panel, analysts can assemble a large accumulation that is grossed up to estimate total sales in the country, the share of each brand and pack size, and how these change over time. Short-term and long-term trends are detailed, as are the specific strengths and weaknesses of brands, varieties, and sizes.

As well as consumer sales, the research provides data on distribution and display, and on retail deliveries and inventories. One attractive feature of retail data is that they are an observed measure of sales, based on aggregated consumer behavior, and are not a monitor of people's memories or opinions, with the notorious problems such research entails.

However, some important limitations to retail research should be borne in mind. First, the classes of stores covered may account for only a limited proportion of the sales of the brands in a particular product field. The retail trade is a dynamic business, and the changes are sometimes greater and subtler than one might imagine. The situation in India is particularly complex, in view of the enormous numbers of *Kirana* stores. The problem of coverage emphasizes the wisdom of collecting consumer panel data to supplement those from retail research.

A *consumer panel*, which monitors what homemakers actually buy on a day-to-day basis, does not count as large a volume of sales as retail research. But the data collection covers purchases from all types of stores and not just the store types monitored by retail research. A consumer panel therefore has a wider but weaker database than retail research. The two types of investigation complement one another.

But there is another reason why consumer panels are important. Measurements of shop sales are the result of an aggregation of a large number of individual consumer purchases. Internal movements inside the aggregates are concealed. The actual people buying in one period could be totally different or partially different from, or the same as the people buying in a second period. Retail research cannot provide the means of tracking down these differences because it cannot analyze whether individual consumers continue to buy the same, or less, or more than before. When we study the inner workings of marketing, we need to find out how advertising influences consumers, the people to whom it is primarily addressed. For this, we need data from a consumer panel. Such a panel enables us to examine both consumers' buying patterns and their demographics.

Consumer panels record the detailed purchases of brands and varieties in individual homes, and the information is aggregated to represent the total market. The basic data were originally collected from questionnaires completed by hand (the "paper-and-pencil" method). As in retail research, scanners are now used. These can be either those at the store checkout or handheld scanner supplied to individual homes. Data are normally tabulated weekly.

Store checking is a much more "rough-and-ready" system than retail audit or consumer panel. It can nevertheless provide serviceable approximations.

In store checking, the researcher visits at least one store (preferably a number of stores) and counts (in the case of more than one store, averages) the number of facings of the various brands on the shelves. A facing is the front pack on the shelf, excluding the packs ranked behind it. These counts/averages allow the researcher to make a "guesstimate" of the various brands' market shares, because shelves are filled in such a way that better-selling brands receive more space than do poorer-selling ones. This type of store checking tends to under-represent large brands slightly and to over-represent small ones, because the latter are normally given a little more shelf space than their sales justify. The researcher should take this factor into account in making final estimates.

Here is a description of a typical store check carried out in a single store in Syracuse, New York. The market examined is cat food, a reasonably large product category in the United States. This category is of very little importance in India, and the reason I am using it as the basis of my store check is that I was later able to obtain figures based on reliable research, which could be used as comparisons with my store check estimates. My store check analysis is below, and this is followed by data, **in bold type**, that provide the reliable research figures. As can be seen, the store check provides serviceable estimates of reality.

1. Brands of cat food occupy about 150 feet of shelf space. This suggests a relatively large category, although much smaller for instance than breakfast cereals, because of the relatively smaller size of the user base (who are cat owners). The relative shelf allocations suggest that the breakfast cereal category is more than twice the size of cat food.
2. The cat food market is segmented into three parts (canned, dry and moist cat food) that differ from one another in functional characteristics. Canned is the largest segment; the number of packs on the shelves suggests that it represents a little under half the total value of sales. The display of the dry product indicates that it represents rather more than a third of the total sales value. Moist cat food accounts for the remainder – slightly less than 20%.
3. The largest brand in the canned sector is 9 Lives (with more than 20% of the market), followed by Buffet, Kal Kan, and Purina. The combined shares of the four are estimated to be about 60%. The largest brands in the dry sector are Cat Chow, Meow Mix, Friskies, Special Dinner, and 9 Lives, which are not dissimilar from one another in market share, and among them account for about 60%. The moist sector is dominated by Tender Vittles, which alone probably accounts for 60% of sales value.
4. There is a great deal of commonality in pack sizes. It is estimated that at least 70% of sales of canned cat food are in the 6-ounce size. The dry market is dominated by 18-ounce boxes and 56-ounce bags. The moist market is more fragmented by pack size, but a third of sales appear to be accounted for by the 12-ounce size and another third by the 18-ounce size. As in the breakfast cereals market, commonality of pack size is not accompanied by uniformity of price.

Data from full-scale research that I managed to obtain shortly after this store check took place give a broad confirmation of my findings. The reliable estimate of the **total value of the cat food market was $1.6 billion**. The market share estimates that follow are value-based.

Market shares of the different segments of the cat food market were as follows: canned, 51%; dry, 36%; and moist, 13%. Moist was, however, the fastest-growing sector, which means that the store check estimate of 20% may not be unreasonable.

9 Lives, Buffet, Kal Kan, and Purina together accounted for 61% of sales value in the canned sector. Cat Chow, Meow Mix, Friskies, Special

Dinner, and 9 Lives accounted for 67% of the dry market value. Tender Vittles alone accounted for 67% of sales value in the moist sector.

Government estimates of the value of sales are always some years in arrears. That for breakfast cereals was made at an earlier period, with a figure of $2.5 billion. The "guesstimate" of the relative sizes of the cat food and breakfast cereal categories was a reasonable approximation.

Measuring the Effect of Magazine Advertising

Few analysts today dispute the fact that advertising can trigger immediate sales. The research that removed all ambiguity about this effect is described in the section **A Summary of How Much Advertising Works** in **Appendix A.** It is known as the STAS method (which means Short-Term Advertising Strength). It relies on complex research not available in India or China. But an adapted method using simpler research is applicable to magazines, and could be used in these countries.

During the mid-1990s, I learned of some Pure Single-Source research carried out by the Norwegian Gallup Institute and the Norwegian School of Management, which showed clearly that print advertising was capable of a strong and immediate effect on sales. And at the same time, I received quite unexpectedly a battery of unpublished historical data from the Starch Organization in New York. This information was assembled over a 17-year period (1944 through 1960), and was a primitive type of Pure Single-Source research that had never been analyzed before.

My own STAS effect is measured by the difference in buying occasions between purchases of a brand in the households that had received advertising for it during the previous seven days, and purchases in the households that had not. The Starch research did a similar thing. The basis of Single-Source research is the method familiar from controlled experiments in the "hard" sciences. It uses matched samples that are identical in all respects except one: the presence or absence of advertising for the identified brand during the period immediately before purchase. This is how Starch described this methodology:

- There must be at least two groups of subjects which are either identical or closely comparable in all important aspects.
- One of these groups is subjected to a specific amount of the condition or factor concerned. This constitutes the exposed or test group.

- The second group, comparable in all important characteristics, is not subjected to the condition or factor to be investigated. This constitutes the base or control group.

The Starch work was based on studies of 45,000 advertisements in two major American magazines, and it measured the number of readers of each magazine during the previous week. Starch compared consumer purchasing by readers of the issues containing advertisements for the brand, with purchases by readers of the issues not containing such advertisements. There is no reason to expect any difference in demographics or psychographics between buyers and non- buyers and both groups of consumers could be expected to have received the same non-advertising stimuli to purchase: seasonal ups and downs in the brand's sales, promotional activities etc.

This is a close parallel with the design of my own STAS research, in which the test and control groups are called the *Ad* and *Adless* households. These are not fixed groups. They rotate across the research sample, driven by a single stimulus: whether or not the advertising for the brand that was bought had come into the home in the seven days before purchase. After each purchase is recorded, the *Ad* and *Adless* groups are reconfigured.

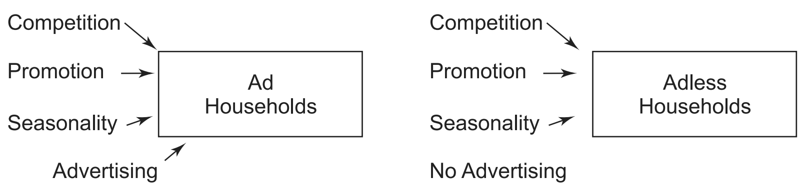

Figure 7-3 *Ad versus Adless Households*

During the seven days before buying a brand, the purchasing households that have received advertising for it are called the Stimulated group or the *Ad* households, because they have received advertising plus all the other marketing stimuli. The buyers who have received no advertising for the brand – the Baseline group or the *Adless* households – have received all the other stimuli, but not the advertising. There is nothing special about the demographics or the psychographics of the Stimulated or the Baseline groups. Large numbers of households cycle into these groups. But as explained, the sole discriminator between the Stimulated and Baseline groups is reception of the brand's advertising. This is an independent input that produces a measurable effect. Starch's equivalent (but differently named) households behave the same way.

Starch measures advertising's short-term effect by isolating two groups of people: (a) buyers of a brand who have read an issue of a magazine containing an advertisement for it (Stimulated or *Ad* households), and (b) buyers of a brand who have read an issue of the same periodical not containing an advertisement for it (Baseline or *Adless* households). The percentage of buyers in the second group is deducted from the percentage in the first group to calculate the advertising effect. Purchase data are collected from consumer responses to closed-ended questions.

This method has two features of note beyond its remarkable simplicity. First, it makes no attempt to assess recall of specific advertisements. The independent variable – the presence of advertising in the publication – provides an opportunity to see and no more. This parallels my STAS method. The advertising is independently observed, and the purchasing data are reported by the respondents. Second, the research measures *users*, not purchases. It measures penetration, or purchaser level; it does not take account of purchase volume, or even the buying occasions I use for my own STAS research. In the calculations, a Starch purchaser receives a statistical weight of 1. In my research, a STAS purchaser who makes one purchase also receives a weight of 1. However, a STAS purchaser who makes two purchases receives a weight of 2; three purchases receive a weight of 3, and so on. In practice, however, most of the STAS purchases are in the one-purchase group, so that Starch and STAS measure approximately the same thing.

Because Starch collects data from single advertisements and single-occasion buyers, and not incremental purchases from increased advertising pressure, it is not possible to construct an advertising response function. However, because Starch shows a clear single-exposure effect, judgment suggests that what we are seeing is probably the first observation on a diminishing returns curve.

Starch employed the method described here to measure the effect of advertising on 73 brands over the period 1959 through 1964. The research covered 707 advertisements for food products, household supplies, drug products, candy, soft drinks, toothpaste, toilet soap, beer, cigarettes, and gasoline. The aggregate sample consisted of 110,000 men and women. Using the arithmetical method that I use to calculate STAS, with the Baseline indexed at 100, Starch's Stimulated "purchase" level across all 73 brands and 707 advertisements was 119 (a finding significant at the 99% probability level). For comparison, the average STAS calculated from a single advertisement exposure for my 78 brands advertised on television is an indexed level of 118. The reader will be as surprised as I was, at this similarity.

Starch also made a longitudinal study of 42 brands, averaging purchaser rates in the week before an advertisement for the brand, during the advertising week, and the week after. Using the same STAS system of calculation, the index numbers for all the brands together were 100 before, 115 during, and 100 after. The temporary short-term effect is clear: another parallel with STAS.

Data were tracked over a year (fall 1964 through fall 1965) for Campbell's soup, Dial soap, and the soft drink Tab. In all cases there was a consistent relationship between the buying rates of the Stimulated group and the Baseline group. With the large brands Campbell's and Dial, the ratios between the two groups remained constant. With the smaller brand Tab, the gap tended to open out over time. This is an interesting point, demonstrating advertising's growing long-term effect which operates through a process of mutual reinforcement between consumers' satisfaction with the functional properties of the brand and the added values built by the advertising. It produces a number of measurable brand-related effects, one of the most important of which is the building of purchase frequency among the brand's consumers.

A.C. Nielsen in Germany now covers magazine advertising in its Pure Single-Source research, and this confirms fully the selling power of magazine advertising, depending as usual on the creative content of the campaign.

Words of Caution

Market research was originally made possible by the discovery of techniques of sample selection, and it is virtually the only scientific tool available to marketing and advertising practitioners. Over the years there have been continuous improvements in the way market research is carried out, particularly in the recent past in methods of analyzing data. But while we cannot deny the increasingly important contribution of research to marketing and advertising, we must also be aware of four endemic concerns with all research. In ascending order of importance, these are the sample; the sample frame; causality; and the questions that are asked that provide the data.

Users of research should always remember that research should be employed as an aid to judgment, not as a substitute for it. Researchers, like most people, find it easier to apply a formula than to puzzle over difficult uncertainties. One of the troubles with market research is that it provides an alluring range of seemingly magical techniques – attitude scales, continuous tracking indexes, simple and multivariate regressions – whose very elegance seems to provide scientific respectability. Such techniques are invariably useful, but useful solely to the thinking researcher who is continuously and energetically aware of their limitations.

The Sample

The reliability of research results depends on the size and representative nature of the sample. (See also **Appendix B**, section (5) **Market Research**.). A great deal is known about both sample selection and margins of error. It is nevertheless common practice to use small samples of about 100 for quantitative surveys and even smaller ones of about 20 for qualitative investigations. Although such samples can be employed to produce meaningful or at least directional results, researchers do not always make explicitly clear in reporting their findings that the range of possible error is extremely wide: sometimes, in quantitative studies, as high as 10 percentage points on either side of a figure estimated by the research. In the case of qualitative investigations, the data from samples with as few as 20 subjects are not valid for any type of quantitative extrapolation at all.

The Sample Frame

Another issue of concern for researchers is whether they are questioning the right type of people: Are they selecting the sample from the correct population group (also known as the *universe*)? This decision is often heavily judgmental. For instance, in researching advertising, should we talk to users or nonusers of a brand? This is, in turn, most often decided by the target group described in the brand's advertising strategy. But users of the research should review whether that is, in fact, the specific group whose behavior or views it is most appropriate to examine in order to answer the problems specifically addressed by the research.

There is also the obvious problem of finding a reliable list of names describing the universe. Up to 10% of the population of the United States move home and change their addresses in any one year. The list of names in a telephone directory reflects this deficiency, besides of course excluding the households that do not have telephone lines, those who choose not to have their numbers listed, and those who use only cell phones. These problems are even worse in India, where quota sampling is a far more practicable method than random sampling.

The Causality

It is not always safe to assume a causal relationship between two variables that are moving in the same direction. There is a fundamental question, particularly important for continuous tracking studies, of which of two variables is the cause and which the effect. Does A cause B, or does B cause A? Or are they both perhaps caused by C? This difficulty normally calls for both quantitative and qualitative research, to provide complementary information. For example, an examination of the sales and advertising of breakfast cereals in the United States shows that there is generally a correlation between the amount of household viewing of television and the amount of breakfast cereal purchases. It cannot, however, be inferred that the heavy viewing causes the heavy buying. In fact, they are both a result of a common cause: the presence of children in the household. More children mean more television viewing and also more cereal consumption.

The Questions

This is the worst problem of all, because people are only rarely capable of responding to possibilities outside their range of direct experience. (It is sometimes said that if the development of household lighting systems had depended on market research, houses would be lit today with highly sophisticated kerosene lamps.) The problem is exacerbated by researchers' almost universal habit of framing questions in ways that may be easy to ask and tabulate, but often block the flow of information when it comes to providing insights into consumers' beliefs and attitudes. All too often, instead of asking people a range of direct and oblique questions for them to answer in their own way, researchers make startlingly bald statements, many concerned with matters of trivial importance and questionable relevance, and expect people to respond, according to varying degrees of agreement or disagreement, on rigid 5-point or 7-point scales. The users of such research should beware.

In addition to the central problems discussed above, there are common solecisms in the description of research findings; the mathematically skilled user of research will immediately notice these. One of the most common and most irritating mistakes is the habit of presenting data in percentages on the basis of totals much smaller than 100. A person who uses percentages in this way needs to be reminded that this procedure involves making projections. Before we can accept such projections, we need evidence that when the smaller total is projected upward, the internal composition of the figures is not going to be changed in important ways.

David Ogilvy often remarked on the opaque and inelegant language in which most research reports are written. The eminent physicist and Nobel Laureate Lord Rutherford once remarked that if a theory in physics cannot be explained to a barmaid, it is not very good physics. In their ability to communicate research findings, universities are generally no better than commercial research organizations. Many observers believe that universities are in fact far worse: mainly because university faculty members nurture their academic language as an almost religious rite. (I spent many years teaching in a university.)

Action Learning

A good way of reinforcing the lessons in this chapter is through a group exercise based on three 3-hour class periods:

First period: Groups should conduct three store checks, covering separate product categories.

Second period*:* A number of questions will arise from these store checks, e.g. what accounts for the strong position of the big brands? What accounts for the weak position of the small ones? Why are certain brands able to command a premium price? Is there any advantage in a common brand name covering different types of product? Are international brands doing well or badly? Which brands? Why?

A practical researcher will not approach market research by asking the question, *what research should I carry out?* The question should always be, *what do I need to know?* And of the things I need to know, *which questions can be answered from sources in the public domain, or from informed judgment?* But gaps will remain, and to measure each of these unknowns: *Do I need quantitative research? What sample frame? Do I need qualitative research? What sample frame?*

From their store checking, groups should now assemble a list of (say) twenty questions, and subject them to the questioning procedure described in the last paragraph. The proposed program for research should be summarized in a document, plus a presentation with visual aids.

Third period: Plenary meeting to compare and discuss the work of the different syndicates.

An important general talent needed by successful business people is the ability to write clearly and engagingly. This means lucid and unambiguous writing, without over-simplifying complex concepts; these need extra-special effort to make them comprehensible. By "engagingly," I mean that the writing should encourage readers to want to read the next sentence. The best books are read in one single session.

The best way to absorb the lessons of good writing is by reading it. Here is a short list of works by four authors who exemplify what I am saying here. Their work is compulsively engaging. They are two economists, an advertising man, and a journalist:

John Kenneth Galbraith (once the American ambassador to India), *Ambassador's Journal* (Boston: Houghton Mifflin, 1969).

David Ogilvy, *Confessions of an Advertising Man* (New York: Atheneum, 1984).

George Orwell (a former – and disillusioned – official in the Burmese police during the days of the Raj), "Politics and the English Language," an essay reprinted in various collections of Orwell's work, e.g. *All Art is Propaganda* (London: Harcourt, Inc., 2008), pp 270-286.

Amartya Sen (Indian-born Nobel Laureate in Economics), *Development as Freedom* (Oxford: Oxford University Press, 1999).

In addition, I recommend students to read regularly the British/American business journal *The Economist*. This includes many articles about India, e.g. the one referred to in the Preface to this book. The writing in the journal is unfailingly clear, interesting and well-informed.

Endnotes

1. John Philip Jones, *How Much is Enough? Getting the Most from Your Advertising Dollar* (New York: Simon & Schuster-Lexington Books, 1992), Ch. 8.
2. Arnold Mitchell, *The Nine American Life Styles: Who We Are and Where We Are Going* (New York: Macmillan, 1983), Chapters 1 & 4.

Chapter 8

A Dialogue with Indian Marketing and Advertising Practitioners

Advertising trade journals are published in all countries where advertising is a reasonably important business activity. In most such countries there is at least one journal devoted to news about the industry: advertising account gains and losses, takeovers and developments in the media (television and radio audience trends, emerging and disappearing publications, Internet innovations etc.), and moves of prominent people between agencies and other organizations. The best publications also run articles on topics of significant professional interest, like reports on new findings from market research, detailed studies of companies and brands, international news, and commentaries on the size and finances of the advertising business, with realistic forecasts of the future.

All advertising trade publications are read by people directly involved in advertising: in advertiser companies, advertising agencies, the media, and research organizations. The best journals reach out further into the upper levels of management than the more run-of-the-mill titles.

The most prominent advertising journals in the world are the American *Advertising Age* and *Adweek*, and the British *Campaign* and *Admap*. From my own experience of working on the Indian scene, the Indian trade paper *Pitch* has a weight and status comparable with the American and British leaders. This is a reflection of the fact that advertising in India, which has been long practiced by well-established clients and advertising agencies, has reached a sophistication beyond what could be expected in a country where advertising expenditures are so small.

Pitch has carried many of my articles. Some of these have addressed important general aspects of the business, and in 2005 and 2006 a number of pieces were run in which I responded to specific points and questions raised by members of the Indian marketing and advertising communities. Much of this material is being republished here, since it has the merit of revealing something about topics of concern to many active practitioners in the field. My answers generally reinforce the points I have argued in this book, but by responding to Indian questions, this gives my answers a direct focus on the Indian market.

This chapter is divided into four main topics grouping the 36 questions to which I responded:

Branding; Marketing (8 questions)

Advertising Agency Operations (6 questions)

Advertising Effects; Research (9 questions)

Aspects of Media (13 questions)

Branding and Marketing

1. ***"Please clarify the difference between marketing and selling, and how does advertising fit in?"***

Marketing is making what you can sell. (On the other hand, selling is putting on the market what you are able to make.)

Advertising is a paid-for activity directed at consumers to influence their behavior, e.g. to buy more of a brand; or to buy the same quantity of a brand when its price goes up; or to maintain their regular purchasing when the brand is under competitive pressure. To do its job in influencing consumer behavior, advertising may have some effect on knowledge and attitudes. However, it does not generally work in a one-way direction from knowledge to attitudes to behavior.

Marketing is broader than advertising, since it embraces basic market research, product design, packaging, pricing and retail distribution. Marketing includes advertising-plus-promotions (A&P), and advertising is a very important part of this. The factor that makes advertising particularly important is that some of its qualities and values impinge on all parts of the marketing mix. In particular, the added values (i.e. the psychological qualities associated with the brand which are substantially built by advertising) are also embodied in its packaging and instore display. The advertising leads and other things follow.

2. ***"In the current over-communicated society, are we increasingly looking at myopic gains and ignoring long-term brand consciousness?***

The consistent brand building process seems to be taking a back seat. Is there a need to bring a discipline and how do we achieve it?"

Many people worry about this. However, I am rather less troubled than other people,because the fact that we are subjected to large quantities of communications does not mean that these have much effect on us.

As we all know, various pieces of research have supposedly demonstrated that each individual in the United States receives at least 1,500 advertising messages per day: mostly fleeting. We are talking about television, radio, newspapers, magazines, billboards, window displays, packs in stores, packs at home, passing tradesmen's vans etc., plus of course the Internet.

Twice a year, I question students and business people about how many brands they can remember having seen or heard advertised the day before. I have done this for ten years, and I have talked to thousands of people. The average figure is **four** and this does not change year by year.

This is may not be especially good research, but let us just assume that people could really remember ten times as many advertisements if they really tried very hard. There is still however a big difference between 1,500 exposures, and 40 advertisements that stay with us. Where have the missing 1,460 advertisements gone to? One can only conclude from this that it is very difficult indeed for advertising to penetrate this massive barrier of indifference. I believe that the way to carry out this difficult task depends more on art than on science. It really is a matter of the creative quality of the campaign.

There is one additional thing that we know for sure. Users of a brand are more conscious of the advertising than are non-users. Since a large brand has more users than a small brand, this means that there is a larger body of people who will look at the advertising for it. This is a genuine scale economy for a large brand. Its advertising works harder than the advertising for a small brand.

We can now see how brands are built. We start with a product which has functional superiority over the competition in at least some respect. We then work hard to find an advertising idea that can penetrate the wall of indifference. We use this advertising on a continuous basis to build the brand. The advertising thereby produces an increasing degree of effectiveness.

This describes the history of the vast majority of successful brands. Most of them do not become successful until five years have passed. But some are successful over a period of half a century. Think of Lux in India.

3. *"Today the dynamics of marketing are changing. Traditional marketing tools like advertising, sales people, etc. are being replaced*

with new tools of technology. In such a rapidly evolving marketing dynamics, how can we strike a judicious balance between en masse advertising and niche audience-related promotions?"

I think the dynamics of marketing are changing a bit less than many people think. It is true that minor advertising and promotional vehicles have increased in number, and this has happened because some advertisers are anxious to penetrate market niches.

However, for mass-market brands there is no real alternative to mass advertising. The reason is cost-efficiency. For instance, television follows the old model of broadcasting, with an exceptionally low cost per contact. In contrast, the Internet represents narrowcasting, but this means that if we wish to get the advantage of interactivity, the cost per contact becomes enormously higher than television. This is why the Internet remains an unimportant advertising medium.

The most likely possibility for the future will be a continuation (and perhaps strengthening) of main media advertising, although this will accommodate more fragmented media in order to stretch the reach of any brand's advertising schedule. This means more varied television dayparts, and a wider range of consumer magazines.

With the vast majority of brands, the target consumers tend to be spread over the population as a whole. (Naturally, in India this means the economically-active population, which numbers between 100 and 150 million people.) The fallacy of most marketing is that it assumes that target groups are clearly defined demographically. However, although it is true that the average target group represents an above-average rate of purchase of a brand by those people within it, a huge number of people are excluded. In the United States, the raw number of users of a brand outside the target group, almost always exceed the number within it.

Since the idea of niche marketing is based on targeting by demographic and user groups, the concept suffers from the same fallacy of inadequate coverage. My general advice is to throw the advertising net as widely as possible. It should include the main media, supplemented by niche media, but the main media should continue to predominate.

One final, and rather important, point is that it is a bad idea to concentrate exclusively on a brand's existing users. (This is the thinking behind the doctrine of Integrated Marketing Communications.) The problem is that this excludes the possibility of boosting a brand's penetration. All living brands occasionally attract new users. It is therefore important to spread the media net widely in order to get at them.

4. *"What will be the major changes that global advertising and marketing face in the next five years? How do you define concepts of advertising and marketing?"*

Generally speaking, I do not think that the changes will be radical. In most cases, they will be a continuation of existing trends. My best guesses of the future are on the following lines (I shall be as specific as possible).

- Aggregate advertising expenditures will increase fairly rapidly in the developing markets; specifically of India and China. The total volume of advertising in these countries is still very small by international standards, and there is considerable room for growth. In India, I would not be surprised if the next five years were to see a compound annual growth of 10% per annum. But of course this depends on the continued expansion of the Indian economy.
- Television in India, which is already important, will become even more so. However, I suspect that the number of channels will increase, and this may make it possible for advertisers to speak more economically to defined market segments. Cinema and radio will continue to be important, but I do not think that they will grow as fast as television. Newspapers and magazines will more-or-less keep their existing circulations, but their share of total advertising expenditure will probably go down to some extent.
- New media such as the Internet will grow, but advertising on them is at such a low level at the moment that I do not expect that the Internet (in particular) will become a major advertising medium for a long time. It is a useful medium for getting to young people, and these are of course important future customers for most product categories.
- The most important single change that will take place in Indian marketing will be an increasingly rapid concentration of retailing in the food trade broadly defined (i.e. including cleaning and other products sold to households). The Big Bazaar is only the beginning of a trend that will develop quite rapidly. This will obviously start in the cities, and it will be many years before retail concentration affects the rural areas. If China is any guide, Indian retailing will be transformed within ten years. Indian retailing is discussed in Chapter 19 of my book *How to Turn Advertising Expenditures Into Investments* (published by Pearson in India in 2005).
- The rapid development of retailing in large modern stores, in which the merchandise will be displayed in attractive, air-conditioned

surroundings, will have a very positive effect on the whole process of marketing. Spoilage will be reduced, retail margins will come down as a direct result, and the outcome will be increasingly beneficial to Indian households. With such improvements in the retail chain, the sales-generating value of advertising will be inevitably enhanced.

- The brands on sale in India are unlikely to change radically. As I see them, these can be classified at the moment into three groups:
  - (a) International brands marketed by international companies
  - (b) Local Indian brands marketed by international companies
  - (c) Local Indian brands marketed by Indian companies

  Of these three groups, I would expect (b) and (c) to increase slightly in share. As a result (a) will suffer some erosion.
- I do not anticipate much growth in the use of international advertising campaigns, i.e. those produced in other countries and syndicated widely. However, I do think that there will be a continual process of Indian campaigns being influenced by international prototypes. This is standard practice for international marketing companies who sell in India. They have learned that international advertising needs to be adapted radically to Indian conditions, and advertising agencies in India have become highly skilled in making such adaptations.
- When large retail chains have become firmly established in Indian cities, these chains will begin to exert pressure on manufacturers to increase margins and discounts. This is a result of their buying power and it is something that has happened universally in the most developed countries. As and when this change takes place, growth in Advertising-and-Promotional (A&P) expenditures will be manifested in sales promotions more than in advertising. This means that advertising's share of the total will tend to go down. (It is now only 25% in the United States.)
- As the audio-visual media in India grow, the most up-to-date research techniques to measure the size of the audience (techniques that had been pioneered in other countries) will gradually come into use. This will make it possible for Indian advertisers to plan their media with greater scientific precision.

5. ***"What is the biggest significance of using the country-of-origin aspect in branding? When do you advise companies to use this?"***

It depends on the country. Certain countries have favorable quality associations with certain types of product. Examples are French fashion and perfumery, Swiss watches, Scotch whisky, Italian men's clothes, German engineering, Scandinavian design. These associations are of obvious value to advertisers of such products.

Manufacturers in countries with a less widely-known personality should be careful about using these countries as endorsements for their products. What about China? What about various countries in Latin America? Africa? But the situation can change – up or down. At one time, Japan was associated with cheap goods. However, they now have an enviable reputation for cars and electronics. At one time, the United States had a glamorous reputation for goods and services of all types, but this has faded fast during the last five years (and has become a major problem for international marketing companies operating out of the United States).

What about India? Surprisingly, the Indian export business is relatively undeveloped. The main reason is that the home market is expanding fast, and this is the main priority for Indian manufacturers. However, I am optimistic that certain Indian brands could become important niche competitors in markets outside India. I think that the brand with the greatest potential is Kingfisher, which should be marketed clearly as an Indian brand, in the same way that Foster's, an Australian brand of beer, has established a clear identity in many countries outside Australia. I also think that Indian silk and Indian rugs have considerable potential, because of their high quality and low price. I wonder whether a first-class organization like Cottage Industries could begin to market Indian goods internationally. And the Nano could very well become important overseas once it is well established in India.

6. ***"What is the role of advertising in the time of a crisis for the brand (ref. Pepsi and Coke in India)? Is it limited since it is paid-for advertising?"***

This is a particularly tricky question. What you are really saying is "can you defuse the problems of these brands by telling consumers that everything is alright after all?" I am very sorry to say that this strategy is unlikely to work.

The doubts that have been cast about the formulation of these brands have very little merit in objective, scientific terms. However, they have great merit in the eyes of consumers. People always tend to think that there is no smoke without fire. Moreover, the problem is made worse by the fact that the brands are strongly associated with the United States, and the image of the United States is frankly unfavorable at the moment in many countries, including India.

I believe therefore that these companies must bow to the inevitable and do something about their formulation, by imposing extremely strict quality control standards in their manufacturing. This may seem to them to be expensive and unnecessary, but if they do not do it I believe that their credibility will eventually be destroyed and the brands will be forced off the market. Once the manufacturers have eliminated all conceivable problems, they should then use a great weight of advertising to communicate to the public that the brands are now better than ever.

7. ***"Is product advertising different from service brands advertising?"***

The main principles are the same for both, but there are important variations in detail. The similarities are that both types of brand offer consumers a double benefit: from the brand's functional performance, and from the added values and preferences in the minds of consumers. A major brand like Kingfisher Beer has these two properties. The same is true of a major brand of service, such as MasterCard.

Now for the differences. First, there is normally a difference in distribution. Brands of product are bought in stores and not directly from the manufacturers. Brands of service goods often come directly from the service providers, and the buyer gets access to the brand in a number of ways, e.g., credit cards are used to pay bills everywhere; airline tickets are ordered direct, and the Internet has become a very important way of doing this; consumers go to restaurants where they buy from the service provider. This difference in distributional patterns means that the advertising for services talk to the consumer exclusively and is not much concerned with the distributional network. For new brands of goods, consumer advertising is often used to "force" distribution, by acting on consumers so that they will ask for the goods instore.

A second difference between brands of goods and brands of services relates to the price levels. With all high-priced goods and services the consumer choice is "high involvement," rather than "low involvement," as is the case with FCMG, which are mostly bought from habit. High involvement means that people make rational and careful decisions and are prepared to read rational advertising, which often carries a lot of copy. In contrast, low involvement communication depends more on visual imagery, music and the creation of a favorable mood. Many services, such as banks, credit cards, restaurants, hotels, and travel, generate sales of considerable value over the course of the year. Because of this, there is a strong element of high involvement with services, but this is much less the case with goods, with the exception of very infrequently bought products such as cars and computers.

For the most expensive types of goods and services, consumers are often anxious to "shop around" and will use advertising as a means to help them make a rational choice. We can say that people are looking for the advertising. In contrast, for the vast majority of FCMG, the advertisements are looking for the audience.

8. ***"How is the process of creation and management of a B2B brand different from a consumer brand? Are the same principles of brand building applicable? What are the differences?"***

The difference between business-to-business and FMCG is a matter of degree not of principle. B2Bproducts are higher-priced than FMCG; they are normally sold on a more rational platform; and the advertising works more directly: indeed it is often used to generate leads for salesmen.

Bearing these points in mind, a B2Bbrand, like any other brand, is an amalgam of two things: (i) a product with a good functional performance; and (ii) a product which has a psychological connection with its users. The functional properties of the brand are the result of the work of the designers and engineers who constructed the device in the first place. The added values are to a large degree the result of its presentation to customers, particularly in the advertising.

The external design of a piece of B2B equipment is generally very important: perhaps as important as the efficiency of the machinery itself. As mentioned in **Chapter 3,** Theodore Levitt, of the Harvard Business School, described a case study in which two high-priced pieces of industrial testing equipment were researched with two different designs on their metal casing. One was a plain metal box, and the other had an elegant design from an accomplished industrial designer. The equipment inside each container was identical to the other. Yet, the design that came from the industrial designer achieved a far higher degree of purchase-interest.

Functionality obviously matters. But the psychological values also matter.

Much B2Bmerchandise, e.g. office equipment, is replaced reasonably often. It is therefore important that good after-sales service should be provided for the original equipment. And the first sales calls for replacement equipment should be made when the manufacturer considers it the right time for the original equipment to be replaced. By keeping constant contact with his customers, the B2B manufacturer can introduce product modifications when necessary and therefore ensure that the customers will reorder when the time comes.

Advertising Agency Operations

9. ***"Why is the agency business the only one I can think of where good work and bad work are remunerated equally and where the buyers expect that all suppliers should charge the same rate, regardless of their quality? And how might we fix this?"***

You have touched on the most important and difficult question regarding agency operations. For historical reasons, agencies got remunerated on the basis of the media space and time that is occupied by their advertisements: irrespective of the effectiveness of these advertisements. The same principle holds today, when agencies are often paid on the basis of the time they spend on accounts; and again this does not discriminate between time that produces effective advertising and time that does not.

The obvious answer is to pay agencies according to how well their advertising generates sales, and for ten years clients have been experimenting with methods of doing this. The problem is how to isolate the specific contribution of advertising to the sales of any brand. Most clients have given up on this, and some try and reward agencies for "superior performance", although it is extremely difficult to define this. I suspect that there is a great deal of subjectivity in this evaluation. However, the principle of rewarding good work is the best way of approaching the problem, but it needs a good deal of complex mathematical analysis.

I believe that the only reliable method of paying by results is by analyzing the sales of a brand at the end of the year with the use of econometric techniques. It is possible to estimate the incremental sales attributable to advertising – and advertising alone – and then to deduct the direct and indirect costs of manufacturing this extra merchandise. This provides a figure of payback, or the net sales return measured in cents per dollar invested in advertising. If the payback is 50 cents (a typical figure), then this can be used as a baseline for agency remuneration. If, during the next year, the figure becomes 60 cents, the agency deserves a substantial bonus. Alternatively if the figure is 40 cents, then the agency's remuneration should be reduced.

This method is described in detail in a book I wrote and published in the United States entitled *Fables, Fashions and Facts About Advertising*. (Thousand Oaks, CA: Sage Publications, 2004). See also **Question 19**.

As a footnote, there is one category of advertising for which it is extremely practicable to pay agencies by results. This is direct response, and agencies can perfectly satisfactorily be paid according to the cost of each enquiry or sale generated by the campaign. This is the type of activity that used to be called "scientific advertising."

10. ***"Do you think that the segregation of media buying and creative agencies is a good idea, either for agencies or clients?"***

I believe it is a bad idea, but it is now so well established that we shall have to live with it. The original intention was to maximize bargaining power with the media. There are unquestionable scale economies, but there is an unfortunate downside.

The new system means that, to all intents and purposes, the media agencies have become the major discussion partners with the clients on matters of brand strategy. As far as this strategy is concerned, creative agencies have been sidelined. I have actually seen cases, in major American and British agencies, where the creative agency has been instructed to produce an advertisement for a particular series of media exposures. From my own experience of the business, this appears to be a strikingly inefficient way of using the talents of creative agencies.

If the creative agencies are cut off in any meaningful way from a brand's strategy, I believe that the work that comes out will be superficial. There is also the danger that clients will stop having permanent relationships with creative agencies and will "shop around" for creative ideas from other agencies. Coca-Cola has been doing this for a number of years.

There is no way of solving this problem, but creative agencies should be at least conscious of it, and take active steps to be involved with their clients in discussions about their brands "in the round": debates concerning all aspects of the brands and their markets, and not discussions concentrated specifically on immediate creative topics.

11. ***"As companies that start small and creative become bigger, their advertising becomes boring, predictable and committee driven. As clients grow from start-ups to corporate entities, they become bureaucratic. As agencies get fatter, their output becomes thinner. Are these only local Indian phenomena or worldwide ones?"***

The questioner should go to the top of the class. He is totally right.

The most difficult thing for an agency is to know how to grow without losing its quality. Bill Bernbach made the point very powerfully: "How big can we get before we get bad?"

The fundamental point is that the original proprietors of any successful new agency – people who invariably have fire and enthusiasm for the advertising enterprise – find themselves doing less and less creative work as their agencies grow. They spend the time talking to clients, and some of them even have to conduct routine management work. David Ogilvy avoided this problem by remaining creative director of Ogilvy & Mather, and handed over management to other people. He saw what was happening to other agencies, and it was he who coined the phrase "extinct volcanoes" to describe them.

But there is yet another problem. Creative people are ill-advised to isolate themselves in their ivory tower labeled "creativity". If they are ever going to build a business, their creativity has to have an applied focus. Remember that David Ogilvy was a researcher before he was a creative man.

The whole process is so difficult that I am skeptical whether any large creative agency will remain creative for long. Clients are only too conscious of this problem, and this is why the advertising business is now carried out by two separate parties, media agencies and creative agencies. The clients have a continuous, rationally-based, strategic relationship with their media agencies. But they are increasingly learning to buy creative ideas *ad hoc* from different creative organizations, some very small. This type of *à la carte* purchasing of creative work is now being carried out by large and sophisticated advertisers, including Coca-Cola.

12. ***"What's your view on ad awards like the Cannes that seem to recognize 'creativity' in advertising? Cannes especially is looking at advertising as an art, where primary objective is to entertain. Do such awards keep the industry on the right track?"***

Many people, including David Ogilvy, were not only skeptical about creative awards, but they thought such awards were counterproductive because the judging focuses on the wrong criteria. Advertising is after all a relentlessly commercial enterprise, and to judge it by the standards of pure entertainment, or even by the standards of "expert" subjective judgment, will lead the business down the wrong path.

There are however two points that can be made in defense of award-winning campaigns. First, one of the ways in which advertising works is by getting people's attention, and it often does this by including an element of entertainment. We cannot take this argument to extremes, because advertising that entertains but does not sell is inevitably a drag on the business. However, emotional communication often opens the door to some unobtrusive rational arguments.

The second point is that a lot of research on this subject has been carried out by a creative man from Leo Burnett, Chicago, called Donald Gunn. He has studied award-winning campaigns for many years and has examined their marketplace performance, with the overall conclusion that most of them have done rather well in selling the brands advertised.

The research is quite serious, but I do not think that the findings are definitive. I think Gunn has convinced me that award-winning campaigns are not automatically ineffective, but I certainly do not accept the possibility of a close correlation between the winning of prizes and the ability to sell goods. I am therefore fairly neutral on the issue. I am much more impressed by studies of the sales performance of campaigns, such as the magnificent series of cases published by the *Institute of Practitioners in Advertising (IPA),* the British advertising agencies' trade association. This organization has more than a thousand cases online, and they are all evaluated by the highest standards of marketplace measurement.

Note: It has recently been announced that the IPA has endorsed the Gunn study, which it has re-published.

13. ***"What is the relation between the size of an agency and the quality of its advertising product? How does this relationship work for creative and media products? It's said that creativity thrives in smaller places, while media wants scale."***

I believe that the best creative work at the moment is coming from the small agencies. The reason is that they are lighter on their feet and can therefore move quickly in response to the client's needs, and they are less distracted by the financial aspects of running their own operations. The proprietors of the small agencies are enthusiasts and want to remain totally concerned with advertising and nothing else.

In the past, every big agency was the lengthened shadow of one man (e.g., Stanley Resor of J. Walter Thompson; Albert Lasker of Lord & Thomas; David Ogilvy of Ogilvy & Mather; Leo Burnett of the agency named after him; Bill Bernbach of DDB). But over time, as these agencies grew bigger, the original proprietors were not able to devote the same amount of attention to each of their clients. This particularly worried David Ogilvy, who called many such agencies "extinct volcanoes." His own solution to the problem was to find someone else to manage his agency, while he himself remained the creative director. This really worked.

As far as media are concerned, small agencies are sometimes more creative than big ones; they often produce innovative ideas. However, there is no doubt that large agencies buy so much media space and time that they can wield a great deal of clout and buy more efficiently on behalf of their clients than small agencies can. This is a very efficient arrangement for media planning and buying, although there are still a few problems.

I believe that the best solution for an advertiser is to employ a small creative agency and a large media agency. However, it is a matter of the greatest importance that these two parties should work in cooperation, and it is especially important that they should follow precisely the same basic strategy for any brand.

14. ***"What is your view on advertising education? Given that there are so many 'theories' floating around, and so many different explanations given by advertising practitioners, how should management institutes (where the orientation is more managerial) approach the subject of advertising? Would you recommend a few texts that can train the manager on the subject of advertising, and other related communication tools like PR?"***

The most difficult – but also the most interesting – aspect of advertising education is that the students must become intellectually engaged. They must begin to think like advertising people.

I do not believe that this can be done by teaching the students theories about advertising. Most theories are actually wrong. See my book *Fables, Fashions and Facts About Advertising* (Thousand Oaks, CA: Sage Publications, 2004). Students should study *advertising* – the campaigns themselves and facts about their effectiveness – but this should be done inductively rather than deductively. They should immerse themselves in specific case studies and draw inferences. If they study a sufficient number of cases, they will be able to develop general lessons. (A wise researcher called McDonald once said that the study of advertising resembled the study of entomology; in both cases we classify exhibits and look for patterns.)

The three basic attributes of successful advertising students are:

(a) Literacy: They must be able to write (and speak) clearly and persuasively. The best way to learn to do this is to read widely. I do not mean text books. I mean literature and the humanities.

(b) Numeracy: What I mean is a basic comprehension of arithmetic, including the ability to do mental calculations. Relative orders of magnitude – expressed through simple percentaging – should be second nature.

(c) Motivation: They must have a real interest in this subject. This means that they have taken the trouble to read something about it.

It does not just mean that they like television advertisements and want to make films.

I would recommend against the use of text books. These are invariably out-of-date and ill-informed. Let me give you the names of three books which should stimulate your students to think. (Forgive my immodesty by suggesting one book of my own.):

- James Webb Young, *How To Become an Advertising Man* (Chicago: Crain Books, 1979. Originally published in 1963).
- David Ogilvy, *Confessions of an Advertising Man* (New York: Atheneum, 1984. Originally published in 1963).
- John Philip Jones, *What's in a Brand? Building Brand Equity Through Advertising* (New Delhi: Tata McGraw-Hill, 2003).

If your students wish to read something far more advanced, they might look at my book *The Ultimate Secrets of Advertising* (Thousand Oaks, CA: Sage Publications, 2002). This is not easy going, but it is full of hard data on advertising effectiveness.

One final point, which I must make, concerns the large numbers of Indian graduate students I have taught in my classes at Syracuse University over a period of well over 20 years. I have found them to be more literate and more numerate than the majority of American students. As a consequence, about three-quarters of my graduate teaching assistants have been Indian. I am British by birth although now American, and I hope you will not be offended by my saying that Indian students are so good because they were brought up with English educational standards!

Advertising Effects and Research

15. ***"Marketing is a discipline that deals with consumer response, which in itself is based on imprecise science. In the current media buying and planning, which are currently based on absolute logical science of numbers represented by sampling, for a diverse country like India where intangibles of branding are marginalized, is the marriage based on solid grounds? Are we not compounding the problems that we already face in understanding consumer responses? It is like applying science to art!"***

This question raises some important issues. The questioner is correct in saying that media planning and buying are activities that are susceptible to rational management. They do indeed follow reasonably scientific principles, although these principles are not as scientific as some people believe, e.g. what does it really mean when we say that an advertisement has been exposed to a television or a magazine audience? Does exposure mean attention? What is the degree of attention?

As far as the creative side of the business is concerned, this is indeed an artistic enterprise, and totally depends on the quality of the imagination of the creative person. However, having said that, I must state that advertising is not an artistic business. It is a 100% commercial enterprise, and must be evaluated strictly by commercial criteria, e.g. what quantified contribution does it make to a client's sales and ultimately profit?

This all comes down to our ability, or inability, to measure the effects of advertising. An extraordinary amount of work has been done on this subject (and I have published a number of books on it). In a nutshell, with the use of the most rigorous research tools, we now know that rather more than one-third of advertising generates a strong immediate effect (plus a lagged longer-term effect in a number of cases). And almost a quarter of advertising is actually associated with declining sales. Most importantly, we can perfectly identify the campaigns that work and those that do not.

This is ground that is covered in a book that I published in India, with the title *How to Turn Advertising Expenditures in Investments* (Delhi: Pearson Education, 2005).

16. ***"Have you separately analyzed how to measure positive impacts of advertising from creative quality quotient and media weight quotient? Is it possible to differentiate these two scores and see which is having more impact, and which needs improvement?"***

There is a good way of looking at this question. We must evaluate campaigns according to three orders of effect: short-term, medium-term and long-term. We do not get a long-term effect without a medium-term one, and we do not get a medium-term effect without a short-term one.

The short-term effect, which means a sales effect felt within a week of an advertisement's exposure, is driven virtually entirely by the creative idea. We know this because extra media weight within the week has very little further effect than what is provided by a single exposure.

The medium-term effect is the sales increase (if any) we see at the end of a year. It is the accumulation of separate short-term effects. But it is a net effect, and to achieve this we have to deduct the short-term effects of competitive brands, which may be advertised at times when our brand is unadvertised. The medium-term effect of a brand's advertising represents a repetition of the weekly exposures (for as many weeks as the campaign runs), and in this respect it is determined by the brand's budget and its media strategy. By comparing the short-term and medium-term effects, we can get a good idea of the relative importance of the creative and the budget/media components.

Finally, there is a long-term effect, which is felt over periods beyond a year, and which represents essentially a strengthening of the brand. The effect is cumulative, and six robust measures are available to evaluate this.

17. ***"Does over exposure to communication 'turn off' the consumer? Do the irritation levels vary based on the quality of the creative? How does one decide what level of frequency is adequate and what is excessive?"***

There is no evidence at all that excessive advertising frequency turns consumers away. The fact is that few members of the public pay much attention to advertising, which means that advertising is not a strong enough stimulus to cause irritation. A famous case was published a number of years ago describing the experience of Budweiser beer in the United States. This purported to show that the brand was over-advertising, because when the advertising was cut back, the sales of the brand increased. I have published my views on this case. I believe that the increase in sales was caused by the elimination of ineffective media, not because of excessive exposure.

The problem with excessive frequency is that it is wasteful. We have ironclad evidence that if a campaign is intrinsically effective, consumers will respond to a single exposure. Extra exposures over a short period of time produce diminishing returns, i.e. equally expensive doses of advertising produce reducing increments of sales. It is far better therefore to use as wide a spread of media as possible, and employ fairly low frequency in each. I have published widely on this subject, and I have strong marketplace evidence to support my arguments.

18. ***"In the Vietnamese paints market, I find little correlation between sales and ad spends. Sometimes, price increases accelerate sales and promotions have a more direct correlation than TV advertising. In such a scenario, how does one build a bottom-up model for advertising effectiveness?"***

All available evidence demonstrates that price reduction exercises a far greater immediate influence on sales than advertising does. An average figure (based on samples of cases) is that a given percentage reduction in price will produce nine times the sales increase that a similar percentage increase in advertising expenditure is able to achieve. This simple and universally-accepted fact causes many manufacturers to rely to a substantial and increasing degree on promotions for driving their businesses forward.

There is however a terrible downside. Promotions produce three serious and separate ill-effects, which together are quite capable of destroying brands.

(a) Promotions are contagious, and because of competitive retaliation within the product category they are soon adopted by everybody and very quickly get out of hand. It is very difficult to slow them down.

(b) A given percentage reduction in price in fact costs far more money than the same percentage increase in advertising expenditure. The result of this is that promotions are desperately expensive: about three-quarters of them actually lose money. The manufacturer makes less profit on the larger volume of promoted merchandise, than he would have made on the smaller volume that would have been sold without promotion.

(c) Promotions have a strictly short-term effect. Sales go down again as soon as the promotion is finished; and they sometimes go down to a lower level than before. This is because consumers may have bought extra quantities on promotion, thus reducing their subsequent purchases. On the other hand, advertising is quite capable of a medium-term and also a long-term effect, which helps to build a brand franchise. This is because advertising builds brand values. In most cases promotions destroy brand values.

A dramatic case of over-promotion was found in the car business in the United States during the early years of the 21st Century. General Motors (the leading brand), was promoted to such an extent that on average the list price of its vehicles was rebated by 23%. In contrast, Toyota's rebate was rarely more than 10%. The result of all this was that General Motors' profit plunged. The brand's sales fell by 3% per annum over a three-year period. The value of the stock of General Motors fell by almost a quarter.

Note: General Motors was highly vulnerable when recession hit the American economy in 2008. This led to rapidly growing problems, which ended with the insolvency of General Motors, and it only survived because it was rescued by the American government. During the last three years, the brands have been rationalized and the quality of the cars has been improved, with the result that the company is returning to profitability.

19. ***"Assuming agency compensation is going down, is there a way to link it to quantifiable advertising effectiveness parameters like awareness, attitude or brand share?"***

Most major advertisers in the United States are searching for ways of paying agencies by results. No reliable method has been discovered. However, I have great faith in a computation which employs high-level mathematics. The specific technique used is a multivariate regression and the measure is known as advertising payback. I shall try and describe it simply.

Multivariate regression, which requires a large volume of data for each brand, makes it possible to estimate the sales value generated each year by the advertising alone. (A similar calculation can also be made for each of the other sales stimuli, particularly trade promotions and consumer promotions.) From the estimate of incremental sales produced by the advertising alone, it is then possible to deduct the direct and indirect costs of producing this incremental volume. The difference is known as the advertising payback, and is measured in terms of cents payback per dollar invested in advertising. A typical figure from various fields of repeat-purchase package goods is 50 cents payback on the dollar. If for any brand the normal payback is at this level, and a new campaign generates a higher payback still, then I believe that the agency producing the new campaign deserves a substantial bonus.

The method sounds theoretical, but it is in fact practicable. It was, incidentally, developed by a first-class econometrician who was born in India and now works in the United States.

I also have a strong opinion about the reductions in agency income that seem to be endemic in the business. It is in the interests of an agency to demonstrate that its work is effective. This is by far the best way by which an agency can become properly compensated. If an agency receives too little money, this can have a dangerous effect on the work that it produces for its clients. The agency will be tempted to propose "safe" advertising solutions to its client's problems, because it does not have the resources to experiment with new ideas. Safe advertising very rarely does much for a brand. In a competitive world, the only effective creative ideas are daring and unorthodox ones.

20. ***"Generally speaking, top-of-mind awareness is seen as a good index of market share. This is perhaps true for FMCG categories, where consumers make the final decision on brands without much of a role for influencers. But in a slow-moving, infrequently purchased***

category like paints, where the role of the endorser/specifier is significant, what metrics of awareness are relevant and should one measure?"

You are correct that there is a correlation between top-of-mind awareness and market share. However, this is not a useful piece of knowledge because top-of-mind awareness does not drive market share. It works the other way around. People are more aware of big brands because they are big brands.

I do not think it is helpful to search for metrics concerning awareness which are likely to predict market share, because it will focus attention on the wrong things, e.g. high-profile advertising rather than advertising that has the depth to nurture sales by reinforcing brand values. Top-of-mind awareness does, however, have some diagnostic value. If a brand is weakening, this may be perceived through an erosion of top-of-mind awareness that may occur before a fall in market share. When sales start slipping, this is something that is very difficult to correct. It is of great advantage to catch the problem early. A weakening of top-of-mind awareness may alert the client to a problem and call for a sharpening of the advertising campaign (and also possibly an increase in the budget) to scotch the problem before it works its way through to consumer sales, which if they fall too far could produce something irreversible.

As far as I am aware, what I have said applies in more or less the same way in all product categories.

21. *"Much of your published works tell us clearly that advertising works in about 40 percent of campaigns, and in 60 percent, it fails to do any good to brand sales. Your books and articles establish this on the basis of your single-source studies using scanner data. Accepted.*

    I wish to ask your advice on a related topic: what kind of 'message strategy' and execution is needed to make advertising work? Has your research given some insights? What approach and framework can a manager and agency executive use to develop and evaluate a message strategy and execution? Please also give a bibliography on this."

I think that this is more a question of tactics than strategy, and we know a reasonable amount about the tactics that sometimes lead to effective advertising. I think it is essentially a matter of tactics, because the fundamental problem faced by advertising is that nobody wants to look at it. Our automatic instinct is to switch off our attention, and we do not need to press the remote button to do this. The process works in our own brains – psychologists call it selective perception. This automatically screens some advertisements into and some advertisements out of our attention.

To find out about what screens the message in, we should consider the tactics of the campaign and not the underlying strategy of the communication. Unless the strategy is powerful, the advertising is not going to be properly targeted, but the strategy is a matter of management and is based on judgment of objective facts. However, almost two-thirds of advertisements fail, and a brand with a powerful strategy can be presented to the public with totally ineffective advertising because the advertising idea itself is insufficiently engaging. This is a matter of tactics.

We know three things about the sort of advertising that will be noticed.

First, if we are in a high-involvement situation, i.e. if we are in the market for a high-price product or service, we will willingly look at advertising as an aid to choice and a means of spending our money wisely. The problem is that the number of high-involvement purchases is very small indeed, which means that this method of getting people to look at advertisements is not quantitatively very important.

The second way in which people are likely to look at advertising is that they will usually pay attention to advertising for the brands they use themselves. This can be very effective if the emotional content of the advertising reflects the psychographic characteristics of the brand's users.

The third point is that occasionally – very occasionally – advertising has an effect because of its own intrinsic quality. This is my answer to your question. The communication is usually subtle, but advertising that is effective in terms of sales often has three features:

(a) It offers some reward to the viewer/reader. This could be emotional warmth, or humor, or intellectual intrigue, obviously depending upon the type of brand advertised.
(b) It is usually visual rather than verbal. Even in rich societies there is a surprising amount of functional illiteracy.
(c) Although the most effective communication is usually emotional, recent research has suggested that emotional communication lowers our barriers and allows the advertiser to sneak in a modest (but often important) piece of rational argument.

It is dangerous to use these prescriptions as directives to creative people. The worst possible thing is to produce advertising to a formula, and directives usually achieve this. However, the points that I have made can be used as guidelines to judge campaign ideas before they run in the media. They are therefore a judgment tool for management.

Here are three published sources to support what I have said, and these all contain many additional sources in the endnotes:

- John Philip Jones, *When Ads Work. New Proof That Advertising Triggers Sales* (2nd Edition) (Armonk, NY: M.E. Sharpe, 2007), Chapter 6.
- John Philip Jones, "Rational Arguments and Emotional Envelopes", *Admap*, April 1998.
- Erik du Plessis, *The Advertised Mind* (London: Kogan Page, 2005).

22. ***"What do we know about the relevance to advertising of the latest developments in research into neuroscience?"***

This is rather a hot topic at the moment. This research is quite different from the psychological theories which have emerged from small-scale and methodologically dubious research carried out in psychological laboratories. The conclusions from such research were often proven to be wrong.

Neuroscience research examines the functioning of the human mind, and this can only be carried out in hospitals by neurologists who are experienced in this type of investigation. Large claims have been made for this type of research, but in my own experience it has only produced one finding of real importance to the advertising business.

It was commonly thought in the past that emotional advertising and rational advertising were separate and mutually exclusive. Research based on neuroscience now demonstrates that this conclusion is wrong. What such research shows is that the only way to induce a consumer to look at an advertisement is by using some type of emotional appeal. But an emotional appeal can very commonly lower the viewer's defenses, and open his or her consciousness to receiving a (modest) rational communication about a brand.

It is extraordinarily difficult to develop advertising that gets the correct balance between the emotional and the rational, but it can be done and it can be researched to find out whether it is doing the right job. I once wrote a paper on the subject called *Rational Arguments and Emotional Envelopes*, which was published in the British professional journal, *Admap*. A South African researcher, Erik du Plessis, who runs the Millward Brown business in Johannesburg, published a most excellent book on this subject. Its title is *The Advertised Mind*. (Publishing details are given in the answer to **Question** 21.)

23. ***"What are some of the myths regarding the use of advertising research and its benefits?"***

I must first describe some background. Research is a priceless tool for the advertising business, but it can very easily be misused. This happens when the wrong techniques are used, and the answers from the research are therefore not very valuable, and indeed sometimes misleading.

The two main techniques are *quantitative* and *qualitative* research. *Quantitative* research employs fairly large samples (e.g., 2,000 respondents) and its results can be projected to large population groups, subject to the known margins of error. The research must employ uniform questions for all respondents. However, the technique can only handle relatively simple questions, e.g., What? Who? When? How much? and How often? On the other hand, *qualitative* research can handle the much more difficult questions of Why? and How? Since the *qualitative* interviews (which can either be with individuals or groups of people) are lengthy, relatively unstructured, but always probing, research budgets are never large enough to pay for large samples. Small samples must therefore be used. This is accepted because projectability is not considered of vital importance. What can emerge is a combination of insights and reasons why things are happening.

Most advertising research should be based on *qualitative* techniques. The first myth about such research is therefore that *quantitative* research can do a satisfactory job. It is simply too superficial to get below the surface. *Qualitative* research is useful for detecting any problems with an advertisement's communication. It can also discriminate between alternative creative treatments. But since the findings are not projectable, *qualitative* research into advertisements is merely an aid to judgment. Because of this, we are able to accept the difficulties caused by "forced exposure" (discussed below).

Qualitative research has great value, but it is of more use in detecting problems than helping to find unambiguous solutions. There is no foolproof way of using research to forecast whether an advertisement will work or not. It is a myth to believe that this can be done.

A fundamental problem with any advertising research that aims to be predictive is that it is based on "forced exposure." This means that respondents in the research are asked to study an advertisement. A moment's reflection will show that this method ignores the most important thing we need to know about an advertisement, which is *whether people will look at it or not.* The attention paid to an advertisement is totally within the control of the viewer or reader. The only way of getting round this problem in research is to use a totally oblique technique, and not tell consumers that they are evaluating advertisements at all. We subject them to an advertising stimulus and measure their behavior. In practice this is exceptionally difficult to do, but there is a technique that sometimes manages to do the job. This technique has not yet been introduced to India, although it might be in the future. It is described, on pages 177-181, of my book *How to Turn Advertising Expenses Into Investments* (published in India by Pearson Education in 2005).

It is easy to find out whether people can remember existing advertising campaigns, using *quantitative* research. This was widely used at one time in the United States, but such research is hardly ever used today, because it has been shown that well-remembered advertising does not necessarily sell the brand. Certain advertising techniques can specifically boost recall, but recall on its own is never enough.

I can therefore summarize the myths concerning advertising research as follows, and such myths are of course all dangerous:

- *Quantitative* research can provide helpful answers to questions about advertisements, particularly whether or not they will work.
- Forecasting the effectiveness of an advertisement is easy, particularly if it is based on "forced exposure."
- Recall of an advertisement can predict sales.

Aspects of Media

24. ***"In a multi-media scenario, is the use of multi-media justified from the point of view of: (a) Providing a number of opportunities-to-see the communication and therefore increasing the probability that the target audience sees the communication; or (b) Is it that each medium has a role to play, therefore any brand must have a multi-media campaign to complete the cycle of communication – from awareness to action?"***

You have stated the options clearly but I have no doubt in my own mind that the advantage of multiple media is that they provide extra reach and not increased frequency. The second part of the question implies that there is a sequential or hierarchical process by which advertising is received and acted on by individuals. With low-involvement brands, I do not think that this is the case. Advertising provides little more than a reminder of previous favorable experience of the brand in use.

Now for the meat of my response.

We have known for more than ten years that advertising is capable of generating a powerful immediate effect on sales, measured within seven days of its exposure. This effect is driven by the creative idea, because extra frequency during those seven days has very little extra effect beyond what is provided by one exposure.

However, less than 40% of campaigns succeed in producing an immediate effect. Since we also know that a campaign must generate an immediate effect before any further effect is possible, it is futile to expect extra frequency to generate sales from a campaign that did not work immediately. Extra frequency just means a waste of money.

We also know that the users of a brand tend to be spread widely, like fish in a pool. There is some clustering in shoals, i.e. an extra amount per capita usage in defined demographic target groups. However, the total number of fish outside the shoals is always larger than the number within them. It is therefore most unwise to spend all your money exclusively inside your demographic target group.

What this all leads to is the necessity to spread the net widely, and this is most efficiently done by using multiple media. We pay for the extra reach by reducing our degree of frequency within individual media. This is a nice question of judgment, and we normally make the judgment by concentrating on weekly exposure. Within each week, we use our money to find as many people as possible, but we only want to hit them once. This is never precisely possible, but we can operate on the basis of selecting our television spots in order to aim for additional reach rather than additional duplication.

An additional point is that it is productive to use the special characteristics of each medium to tell the same strategic story, but in a slightly different way. This means that the advertisements in the different media do not have to be precisely alike. The one medium which we do not understand yet is the Internet. It is efficient for extending a schedule's reach, particularly of younger, upper-income people. However, I am only aware of a small handful of advertisers anywhere in the world who have been able to use the Internet properly, i.e. by exploiting its very special characteristics. Everyone else uses a rather conventional advertising paradigm for the Internet, e.g. banners, and these generally do not work.

25. ***"What is the exact role of media buying audit agencies?***

These started in Britain about ten years ago, and they are still more widely used in Britain than in the United States. I have direct personal knowledge of one of the leading companies, the Billett organization.

In the United States and Britain (in particular), the media scene is extremely complex. The number of media vehicles is very large, especially those in television and radio. These differ widely in their reach and cost-efficiency. There is therefore a huge range of alternatives to be considered by any advertiser.

In Britain and the United States, the parties involved in advertising operations are media agencies and creative agencies. These operate, to a disturbing degree, independently of one another. The only connecting link is the client. Clients increasingly treat media operations and creative operations as separate activities, oblivious of the importance of synergy, and neglecting the importance of a close strategic relationship between them.

Media organizations work with the client to define a brand's target group, defined demographically, and in some cases also psychographically. The media agencies then embark on an extensive exploration of the range of media vehicles available in order to achieve the best optimization of reach, opportunities-to-see and cost-efficiency.

The figures are based on good readership and viewership research, and the media agencies use computer programs to produce the working statistics. After examining a range of alternative media vehicles, with summarized data on their reach, opportunities-to-see and cost efficiency, the media agency selects the best combination of media vehicles (and the number of exposures in each), and it does this on judgment. This is necessary because it is impossible to maximize both reach and opportunities-to-see, because more of one means less of the other.

You will understand that this is a complex operation. The client is forced to rely on the highly-specialist knowledge of the media agency. Auditing organizations emerged, as explained, about a decade ago. They are used by clients as a means of evaluating the effectiveness of the media plans developed by the media agencies, since auditing organizations are well qualified to evaluate the media agency's specialist work. In particular, they look at the delivery of the advertising schedules after the event, and they compare this with the quantitative targets that were set beforehand.

I think that the auditing organizations are here to stay. They get paid by fees based on time-of-staff. The employees are highly qualified. When I last worked with the Billett organization, it had seventy specialists working in London alone.

26. ***"What is the potential of sponsorships? How can the returns be measured?"***

Sponsorship has some value. However, the advantage to the sponsoring brand depends totally on the relevance of the sponsored event to the intrinsic values of that brand. It is more suitable for male oriented brands than for female oriented ones.

Sponsorship is a device to maintain the prominence and familiarity of a big brand name. Since sponsored events achieve high television coverage, the sponsor's name appears constantly on the television screen. The value of this is often exaggerated, because very little can actually be said about the brand, since the message is so short. Its true value is in fact pre-emptive. For a major brand to sponsor an event, means it will block out the competition. Hence my point that sponsorship is a strategy for a big brand which wants to remain prominent in consumers' minds.

There is no way of measuring the effect of sponsorship on sales. And there is not much point in measuring the effect of sponsorship on brand awareness, because in most cases the brand awareness of the sponsoring organization is already likely to be very high. It should also be remembered that sponsorship is extremely expensive in absolute terms, which excludes its use by small players in any product category.

All in all, you can infer from my answer that I do not think that sponsorship is necessarily a good idea. However, I am sure that it will remain popular among large advertisers. Many manufacturers like to see their brand names in prominent places. However, they do not look at the opportunity-cost, i.e. whether the same enormous expenditure might have produced better results if it had been deployed in more conventional advertising media.

27. ***"What is more essential for brand success – continuous visibility at lower threshold or high media weight in bursts? Does the same hold good for FMCG and all other categories?"***

For once, this is a question to which I can give a clear and unambiguous answer. For existing brands in all product categories, relatively continuous advertising at a low rate of strike is a far more effective policy that concentration of advertising into bursts/flights. The reasoning (supported by much empirical evidence) is spelt out in a number of my books, especially in *The Ultimate Secrets of Advertising* (Thousand Oaks, CA: Sage Publications, 2002).

The chain of argument runs as follows:-

(a) There is robust evidence from many countries that consumers respond to advertising from a single exposure. (There is a rare exception, discussed in d below.) I am assuming that the campaign is basically effective. If it is not, no amount of repetition will make it work.

(b) There is also strong evidence that advertising for the vast majority of brands shows a pattern of short-term diminishing returns. This means that, although each additional advertisement within a purchasing period costs an equal amount of money, progressive advertisements produce a diminishing yield in sales. It is therefore extravagant and wasteful to concentrate advertising into bursts to provide three or more exposures, in the mistaken belief that consumers need to see three advertisements before they act. This was the doctrine of Effective Frequency, which was discredited more than ten years ago.

(c) In mass-market consumer goods fields, some purchasing takes place all the time. If for any reason a brand is unadvertised during any week, it will lose sales to competitive brands which may be advertised then. This means that it is important to advertise as continuously as the budget will allow. The technique that should be followed is to determine the minimal weekly weight that is likely to have an effect, and go no heavier than that. Spend the money that you will save on buying more weeks of advertising. This policy has been followed by a multitude of American and international advertisers, with great success. There are some advertisers in India that follow this strategy.

(d) In the relatively rare cases in which a new brand or a significantly changed campaign is being introduced, it is necessary to run the campaign at a heavier weight than I have suggested, for purely cognitive reasons, i.e. so that consumers can understand and get used to the message. This policy should only be followed for about three months. Thereafter the advertising should return to the normal pattern of continuity at a relatively low rate of strike.

28. ***"How effective is cinema (theatre) advertising in India? What is the scenario in developed countries if Indian status is not detailed much?"***

Cinema has been a very important advertising medium in India. For instance, it has been widely used for the Lux toilet soap campaign. This campaign features movie stars, which makes it particularly suitable for cinemas. The Lux films featuring Indian movie stars have propelled the brand and made India one of the key Lux markets in the world.

As a general tendency in all countries, the importance of cinema as an advertising medium declines as television becomes more important. I think that this will happen in India. However, this is a rather unfortunate situation because cinema offers three substantial advertising advantages. First, it holds a more captive audience than television does, since the cinema audience cannot leave the room as easily as the television audience can. Second, because of the large screen, the production values of the advertising films are particularly high. And third, cinema becomes an increasingly useful medium to get to a teenage audience, as the general audience moves to television. Teenagers are difficult to reach with most advertising media. (In most countries, the Internet is regarded now as the best way of getting to teenagers, and this is happening in India, among the classes with discretionary income.)

Despite these unquestionable advantages, cinema is barely holding its own in most countries, and the medium represents only a small proportion (usually under 3%) of all advertising volume.

The situation in the United States is rather special. To all intents and purposes, cinema advertising disappeared for a time. There has been some revival since then. However, this has been stopped in its tracks by a concerted movement by cinema audiences to show their disapproval. The reason is that cinemas have been showing substantial blocks of advertising, e.g. 15 minutes. The audiences have resisted being subjected to this, when they have been waiting for the program to begin. Much unfavorable publicity has been generated.

All in all, I do not believe that cinema advertising has very much future. And the situation in India will probably resemble other countries to an increasing degree.

29. ***"Internet advertising is being abused more than it's being used. Agencies who log on to the Net to merely check their mails are venturing into this domain now. Clients who think www is a way of improving their address profile are jumping onto the bandwagon. What's been the maturity cycle of offline advertisers graduating to online initiatives? Is there hope that online advertising will one day become as potent as its potential?"***

Despite its obviously exciting potential, very few people have managed to work out how to use the Internet properly for advertising. One thing we know for sure is that the model is different from the broadcast model, which is based on the idea of "one to many". The latter is cost-efficient because the cost per contact is so small. The model for the Internet is "one to one", which means that the cost per contact is rather high.

It follows that the most productive use of the Internet is going to be direct selling of fairly high-priced merchandise, or alternatively communicating a long and complex story, using the Internet's interactive capacity. What successes there have been have followed this strategy. An interesting example was the BMW campaign that was produced by Fallon Worldwide in Minneapolis. The way in which this campaign worked, was by screening six-minute feature films, with no explicit selling of BMW, but an enormously engaging demonstration of the car's performance features. The films were produced at enormous expense, but the campaign was a striking success in generating hits, although much less good at providing sales.

The regrettable thing is that there have been few such successes. This brings me to the possible value of the Internet for low-involvement purchases, like most fast-moving consumer goods. The Internet is being increasingly used for the simple purpose of extending the reach of media schedules. It is effective for getting to teenagers and upper-income consumers who are otherwise not particularly easy to reach with mass media advertising. With this in mind, some American advertisers are using the Internet as a fourth medium, after they have made plans for television, magazine and radio. But it is important to remember that the success of such advertising depends on the ability of the creative agency to generate an interesting creative message on the Internet. These are indeed rare. Most Internet banners are very bare pieces of communication.

The general thrust of your question is that Internet advertising has not fulfilled its promise. I agree. But I do not think that we can ever make anything of the medium unless we apply to it far greater intellectual and creative resources than we do at present. We should be talking to creative people about it more continuously than we do to anyone else in the business. See also **Questions 33 and 35.**

30. ***"How do you see the future of the media industry in India and elsewhere in Asia, and what's the scope of media management in the industry? Is it advisable for a journalist to go into the management side of the industry after working for nine/ten years in the newsroom?"***

One thing we can say for sure. This is that all media will grow in importance because they will be driven by increasing populations, increasing incomes and increasing advertising revenues. They will therefore provide many interesting jobs for talented people. I would not be happy to give you direct advice about the part of the business in which you should make your career. This depends totally on your own talents and interests. I always advise my own graduate and undergraduate students to look for a job which he or she is actually going to enjoy. If they do indeed enjoy the position, they will be enthusiastic and they will work hard. They are therefore likely to make progress and their income will go up. Note the order of events. You get hired for a job because of the satisfaction it gives you; and the pay is the reward you get for doing the job well.

It follows from what I have said that, if you get pleasure from being a journalist, you should be a journalist. And if you enjoy managing a magazine or television station, you should do the latter. Indian men and women are normally very entrepreneurial, and are therefore good at exploiting opportunities. The media represent a dynamic field and there is plenty of scope for new ideas. But, as I have said already, it is totally up to you.

31. ***"How do you look at the issue of media concentration versus dispersion?"***

The evidence is overwhelming that a reasonable degree of dispersion and continuity is more efficient than media concentration. This does not mean that concentration is totally bad; merely that it is not very cost-efficient. Advertisers who spend money at an extremely intense rate are not using their funds as wisely as they might.

It is important to follow these four principles:

- Estimate the brand's maximum penetration (i.e. the proportion of households that ever buy it). Define this target group demographically. In some cases, penetration can be as high as 50%, although the majority of these households will be occasional and not regular buyers. Plan your advertising so that you hit a reasonably high proportion of the target group *once* in any week, without too much duplication. "A reasonable proportion" is a matter of judgment, and it all depends on the size of the target group. United States experience suggests that about 60 television gross rating points in any week will cover the target group for a big brand very well. In India, you must of course concentrate on the better-off urban population. These are the people who are in any event likely to own television sets. Let us say that you are going for 50% of the more affluent urban homes.
- Having established this weekly threshold level, run the advertising for as many weeks as your budget will allow: Continuity Planning.
- Virtually no advertisers have enough money to advertise for 52 weeks in the year. You should therefore remove advertising during the period of low seasonal sales.

➪ This advice is mainly concerned with ongoing brands. For new brands, it will make sense to advertise at a concentrated rate for a maximum of three months, so that the public will become familiar with the campaign. Subsequent exposures (at a lower rate), will therefore act as reminders.

This policy is followed by probably 60% of advertisers in the United States, and also in many other countries. They have adopted it because they find it generates more sales for the same money that they had earlier spent on concentrated advertising. This matter is described in some detail in my book, *The Ultimate Secrets of Advertising* (Thousand Oaks, CA: Sage Publications, 2002). This book describes advertising response functions: the mathematical device that underscores the wisdom of continuity planning.

32. ***"Given that different media forms have different relationships with viewers (television is passive, print is active), how should we use media consumption numbers, while doing an inter-media comparison? Should we discount some percentages for some mediums? Is there a benchmark in place for something like this?"***

You are totally correct in saying that the different media are used in different ways by consumers. I believe that the most important criterion is whether the medium works by low or high involvement. At the extreme of low involvement, there is radio, followed by television; then general newspapers begin to work by high involvement, and at the extreme of high involvement there are specialist magazines and the Internet. (Perhaps I should qualify my classification of television slightly, because television cable stations appealing to special interest groups work through a higher degree of involvement than most television.)

Low involvement communication is not necessarily less efficient than high involvement communication. It merely has to be exploited in a different way from a creative standpoint, e.g., there should be greater emphasis on visual symbolism, imagery and music. It is also true that large numbers of products that are themselves bought as part of a low involvement process are totally suitable to television advertising. Most fast-moving consumer goods fall into this category.

I do not think it is a very good idea to make inter-media comparisons and substitute one medium for another at the margin. The reason is that the advertising delivery of one medium is quite different from that of another. Comparisons are therefore dangerous.

However, I believe it can be useful to examine the demographic composition of all the media an advertiser is using, and use second and third media to compensate for any weakness in the demographic coverage of the main medium. This procedure is very common in the United States, where 40% of households watch very little television. These people tend to be more affluent and better-educated than the average household. With such households, it makes a good deal of sense to reach them by magazines – which they read a great deal, in addition to television – which they watch, but not extensively enough for the advertiser to use television alone to reach them.

33. ***"With the advent of new campaign targeting tools and technology (like Internet and perhaps Mobile), have brands and marketers over the last decade improved their usage of advertising? Are they drawing lessons from Internet etc., and using it to their advantage for mass media campaigns? Can they?"***

We should be reminded of a number of facts.

- The Internet, although it is now used by vast numbers of people worldwide, has made very little progress as an advertising medium. The main reason is that no advertisers anywhere have found ways of exploiting it. This goes for mobile phones as well.
- The Internet and mobile telephones offer a great creative advantage for advertising campaigns. Banners do not seem to work, but these media offer interactivity. However, interactivity is associated with a very high price tag. Google, which is carrying a relatively large amount of advertising, talks of a price of US 70 cents per contact. In comparison with this, network television advertising offers a price of US 0.1 cent per contact. This difference is so enormous that only high-priced merchandise is suitable for Internet/mobile advertising, because only expensive goods can support such an advertising margin.
- In the American market, and also in many other countries, the Internet has only become important for a limited range of goods and services. The most important of these are travel agency services, financial services, hotels, and high-priced electronic equipment. Cars are never sold on the Internet, although people are happy to get information about different brands of car, which people then visit a showroom to inspect. The use of mobile telephones for advertising is generally much behind the Internet, although mobiles now have a 70% penetration in the United States.

➩ In its first ten years as an advertising medium in the United States, the Internet's share of all advertising crept up to 4%, and has advanced slowly since then. In other words, it has grown at a snail's pace. If it continues the present rate of progress, it may become an important medium ten years from now. But it all depends on whether advertisers learn how to use it properly. There is no shortage of experimentation, but very little demonstrable success. Procter & Gamble, the largest consumer goods company in the United States, is interested in the Internet and talks a lot about it. But the latest figures show that the Internet's share of total Procter & Gamble advertising expenditure has just risen to 1.4%. This is not too encouraging to people who are optimistic about the medium. From the beginning, the attitude of the marketing community toward the Internet has shown much more optimism than realism.

34. "*What is the future of Integrated Marketing Communications?*"

Integrated Marketing Communications (IMC) represents a simple and very sensible idea. IMC has been propagated in the United States since the early 1980s, but surprisingly, it has made slow progress since it was first developed. The basic idea is that all marketing activities should follow a common strategy. This is not just a matter of using a single brand logotype. It is a matter of considering the marketing objectives for a brand as a totality, and focusing each individual marketing effort on this totality. By marketing efforts, I mean media advertising, trade promotions, consumer promotions, direct marketing, public relations, pack design, instore display, word-of-mouth, and other activities.

As the IMC doctrine has developed, it has become increasingly directed toward database marketing. This attempts to eliminate wasted audience coverage, and is directed at maximizing the lifetime value of each customer. But adoption has been slow, for four reasons:

(a) Many manufacturers believe that the most important marketing stimulus is consumer advertising. They believe that this should take the lead, and everything else should follow. Many manufacturers consider that the other things do not matter a great deal, insofar as long-term brand building is concerned.

(b) It is generally considered that IMC is far more suitable for high-price purchases (e.g., airlines, hotels, banking services) than for low-price consumer goods. Sales of most grocery and drugstore items are driven essentially by television advertising, because this has in most cases been shown to work.

(c) Database marketing is irrelevant to low-price consumer goods, although it is certainly important to many high-price items. In expanding categories (as is general in India) brands grow by boosting penetration, i.e. the number of users. Database marketing is obviously in no way concerned with increasing the number of users; it is directed at increasing the sales per user.

(d) With the vast majority of brands, IMC does not fit into the management control system. Brand managers are often happy to deal with different suppliers for different services. And advertising agencies are much less interested in (what they see as) peripheral activities than they are in main line advertising; this provides them with their main income.

In view of these impediments, it is not surprising that IMC has not got very far. There are however exceptions. Two extremely interesting ones have been researched by John Deighton, of the Harvard Business School. These appear as Chapter 33 in *The Advertising Business: Operations, Creativity, Media Planning, Integrated Communications* (John Philip Jones, editor) (Thousand Oaks, CA: Sage Publications, 1999). One of these cases is concerned with Tylenol, a brand whose manufacturer extricated itself from a situation of great difficulty, and he did this by using IMC.

There is one particular piece of advice I can give, based on my experience. Brand managers often run media advertising and promotions at different times, in order to fill up the year by having some type of continuous activity. This is a great mistake. I have good evidence to show that when media advertising and promotions are run at the same time, these cases two activities reinforce one another. The result is synergy, and the sales trend of the brand is likely to move up.

35. ***"Is Internet advertising making great strides?"***

A fairly recent estimate of media advertising in the United States shows that advertising spent on the Internet totals about \$10 billion. This seems a lot of money, but it must be compared with about \$150 billion in other media. Relatively speaking, expenditure on the Internet is therefore fairly small. The Internet has been running advertising for more than ten years, but no one can describe its growth as dynamic (advertising expenditure on it totaled \$8 billion in 2000!) Remember that Internet penetration in the United States is about 70%. A few other countries – Japan, Australia and some parts of Western Europe – have a high Internet penetration, and the growth of the Internet as an advertising medium in these countries has been similar to the

United States. (The penetration of the medium is of course much lower in India.)

The future of the Internet has been constantly overblown, and for years there have been absurdly optimistic projections of its future growth as an advertising medium. For comparison, when television was first introduced, the growth of advertising on it was so rapid that within ten years television had become the most influential medium for most important advertisers in the United States.

What are the reasons for the relatively slow progress of advertising on the Internet? We all know how attractive the medium is as a vehicle for message delivery. Let me suggest two basic reasons for the sluggishness of the growth of advertising.

(a) The classic model of advertising is a single sender and a mass audience, which means that the cost per contact is exceedingly small: a fraction of one American cent. The way in which the Internet communicates is quite different. The communication is one-on-one and although this is powerful communication, the cost per contact is exceedingly high: in many cases more than one U.S. dollar. For the vast majority of major brands of consumer goods – brands with a low consumer price – such a high cost per contact makes no economic sense at all. It should also be remembered that most low-price consumer goods are "low involvement" purchases, and consumers have no interest at all in learning about them by engaging in an Internet dialogue.

(b) Advertising agencies have not geared themselves to exploring the possibilities of the Internet. I have fairly long experience of advertising, and I am aware of only two cases in which the Internet has been used successfully for mass market goods. One was for a brand sold to teenagers. (The Internet has a very young user profile, and young people love to go on-line.) Most major manufacturers and advertising agencies have experimented with the Internet, but the majority have been disappointed with the results.

Despite everything I have said, the Internet remains a very exciting advertising opportunity. I give my American students a permanent challenge: *If any of them can find a way of using the Internet economically for a large advertising audience,* a fortune will be made. I have offered my students this challenge for more than five years, but none of them has succeeded in making this stubbornly attractive medium an economically effective one.

36. *"Word of mouth has always been important in building brands. In view of the proliferation of new media, is word of mouth as important as ever?"*

Most people would agree that word-of-mouth is the most effective advertising medium of all, but there is no realistic way of managing it on any sort of controlled basis. Various manufacturers, especially those selling to young people, have had some success in spreading good news in a loosely-planned fashion, but the fact that there are a few widely-known individual success stories illustrates their rarity. As an example, I have just come back from South Africa, where I learned that a leading brand of cigarettes has been successful in arranging parties of teenagers at which free cigarettes are given. But the numbers of people are in absolute terms very small. (And this is something that would not be allowed in the United States.)

One thing I have found about word-of mouth is that – for reasons that I do not understand – it is a stronger force in a negative direction than in a positive one. If there is something wrong with a brand, large numbers of people will hear about it with startling rapidity. I can think of examples from at least four countries around the world. As a generalization, we find in most places that public attitudes to both banks and gasoline companies are negative. This is because people are more conscious of the negative actions and the greed of these organizations than they are of the complimentary things that are trumpeted in the advertising.

A year ago, I heard a presentation from a major American university which described a model for the use of word-of-mouth communication. I was very interested in this, and I asked the professor involved to let me know the empirical basis for the data presented. She said there was none, because she had made the whole thing up on the basis of common sense! I am afraid that this is rather typical of all discussions of word-of-mouth.

Chapter 9

Six Articles on Topical Aspects of Marketing in India

"Bottom of Pyramid" Consumers

The "Bottom of Pyramid" (B of P) concept has two separate meanings in marketing discussions. It can express the proportion of consumers with the lowest incomes; or the number of brands with the smallest market shares. There is an indirect relationship between these two measures, but this article concentrates on the consumers.

In India, B of P consumers bring to mind extremely large figures. The raw number of people is approximately 1 billion – more than 85% of the Indian population – clustered into 200 million families (which represent purchasing units), and with an aggregate annual income for the whole group of $1,000 billion. This enormous total must however be scaled down to $5,000 per family per annum, or about $15 per day to provide for its five family members, or $3 per person. India is therefore a very poor country, despite the low cost of living there, which means that a dollar buys more than it does in the United States.

When major manufacturing companies, like Unilever, Nestlé, Procter & Gamble and a few others, consider making the enormous marketing investments necessary to develop the Indian B of P market, they will inevitably be conscious of the opportunity-cost: the price they must pay for one action by the value of the many foregone alternatives. They will therefore make comparisons. Among large expanding Third-World markets, the obvious comparisons are with China and Brazil. In both of these countries the B of P population is smaller than in India: in China because of the larger and more affluent urban population and in Brazil because of the smaller size of the population as a whole.

There will also be comparisons with the larger developed markets: the United States, Japan, and the most important countries in Western Europe.

The pyramid in these countries is very narrow, with relatively few people in the B of P group. But these countries are enormously affluent despite a relatively low annual growth rate, and the major consumer goods companies are well established there and have important market positions to defend: something that calls for investment.

In comparing all the markets to which they will dedicate their development resources, such companies will obviously be impressed by the sheer size of the Indian B of P market. Will this market be their top priority? However, the gross size of this market does not mean that the question becomes what Americans call an "obvious no-brainer". Three major qualitative factors must be weighed in the balance: (1) A realistic projection of the growth of total B of P income; (2) The limitations imposed by the low level of income per family; and (3) The handicaps imposed by the inefficiency of the Indian retail trade.

Growth of Total B of P Income

The Indian economy is growing faster than any other large country with the exception of China (the latest figure showing an annual advance of 8%). However, India is unlike China in that the population continues to grow fast, which means that the increase in the income per family will inevitably be less than 8%. An additional complication is that the strong overall growth in India is driven by the urban population of industrial workers, and especially by the educated workforce in the highly developed computer industry, with its ubiquitous call centers.

The Indian B of P population is very largely (although not exclusively) composed of subsistence farmers. Their productivity is limited by the small sizes of the farms, their primitive farming methods, and not least by the endemic volatility of the prices of primary products, which cause farm incomes to move up and down erratically.

Limitations Imposed by the Low Level of Income Per Family

Poor Indian families are compelled to devote most of their income to food and other subsistence goods. Their regular purchases are devoted to everyday commodities bought loose and unbranded: rice, flour, meat, spices, oil, tea, sugar, fruit, kitchen soap, etc. There is very little income available for discretionary items like packaged brands.

But opportunities do exist for limited branding, although such brands must be narrowly focused. One example is for lines that in Britain are called "good value" or "square deal" brands: those that offer a functional performance ahead of unbranded commodities, but with nothing extravagant about them. A second opportunity is to introduce the consumer to brands in small size "sample" packs, costing only a few rupees. "Good value" brands will reduce the manufacturers' cost of goods below its normal levels, and thus afford some reduction in consumer prices. However, "sample" packs will boost manufacturing costs because they reduce the opportunities for scale economies in production. This situation will gradually improve as consumers will trade up to larger packs. However, manufacturers' investment plans will have to have patience built into them.

Inefficiency of the Indian Retail Trade

In comparison with other large countries including China, the Indian distributive trade is strikingly backward. In cities and towns, modern supermarkets are growing fast, thus marking the decisive final link in the marketing process. But this movement has not yet reached the villages, which are serviced by perhaps 500,000 *Kirana* stores, which occupy small premises without air-conditioning, and selling household commodities in small quantities. The system suffers from the high margins associated with a multi-link distributive chain, and therefore unnecessarily high prices to the consumer. Supermarkets can charge less because of the large volume of their purchases from manufacturers, and also by the small amount of spoilage in their air-conditioned stores.

How should major consumer goods companies respond to these distributional difficulties? For a start, they will be compelled to confine their business in the *Kirana* stores to non-perishable brands, like personal and household cleaning products, and pre-packaged rice, spices, oil etc. Taking a longer view, it is obviously in the interest of such companies to encourage actively the growth of the supermarket movement. This means propagating good ideas about efficient shopkeeping, and facilitating – perhaps through some capital infusion – the development of small supermarkets in the villages.

The Broader Picture

The overall shape of the Indian economy cannot be transformed by manufacturers of consumer goods, no matter how large and advanced they may be. It can be influenced seriously only by government policies. These should include practical aid, in capital and ideas, to the whole farming community. There should also be a further relaxation of the regulations governing foreign direct investment (FDI), which could provide capital to fund larger and better equipped farms. I have also not considered matters of the broadest social policy, like the need to improve India's low literacy rate, not to speak of the difficulties caused by the growth in population, although with a major overall improvement in standards of living, there is very likely to be a lowering of the rate of population increase.

The challenges for any government will be to maintain or increase total food production while reducing the total number of people working on the land. Those who leave the villages will, it is hoped, be absorbed by industries that pay decent wages. These matters are all outside the scope of this article. But when I think of India – with its rich and timeless history, the country's highly talented entrepreneurs, and its firm position as the largest democracy in the world – I always think in optimistic terms.

"Bottom of Pyramid" Brands

In the vast spectrum of consumer and industrial product categories, some markets are excitingly dynamic while others are depressingly static. A dynamic market can be expanding at an annual rate of 10 percent or even be exploding at a higher rate. On the other hand, a static market may be barely keeping up with population growth or perhaps be in slow decline: a situation described in the jargon of marketing as stationary conditions.

In India, many if not most markets are dynamic as a result of the economic awakening of the sub-continent. This is why it is such an exciting place in which to do business. But in contrast, most markets in the United States and other economically advanced countries are static, as a result of saturation caused by high consumption levels. Three examples: there is almost one car for every American household; the average American drinks 400 cans of soft drinks every year; there are 250 different brands of breakfast cereals in American supermarkets. It will be some time before such levels are achieved in India, although the possibility is there.

The distinction between dynamic and static markets is of key importance for brands at the bottom of the pyramid. By definition, most brands in any market are at the bottom. Each has relatively small sales volume and in most cases yields low profit. It might even be unprofitable if the brand is being launched with the serious ambition of growing market share quickly, something that calls for substantial marketing investment.

This article therefore addresses the question – *what is the future of a brand at the bottom of the pyramid?* – bearing in mind the difference between such a brand in a dynamic and one in a static market.

In dynamic categories, like many in India, new brands can be launched with a greater degree of optimism than in the United States. American marketers are only too conscious that the vast majority of new brands fail, and the same is the case in India, although not to the same degree. In a dynamic market, there is a chance that the overall growth will provide room for the newcomer. But to have any success, a brand aiming for a substantial market share – to climb up to a higher position in the pyramid – must be *superior* in at least some respect to the important brands with which it is competing: and such superiority must be perceptible to consumers. In addition, it must be adequately distributed in the retail trade, and – most importantly – it needs to be supported by advertising strong enough to create, and then build, psychological preferences in the minds of its growing numbers of buyers. This is all very difficult and expensive, but some new brands do succeed and this is how they do it.

However, with brands at the bottom of the pyramid in static markets, the story is very different. This story – perhaps surprisingly – is relevant to India. As the Indian economy continues to grow, static markets will eventually – and probably in the measurable future – become the norm, as they have been for a long time in the United States.

The problem faced by a brand at the bottom of the pyramid in a static market is how to create a viable business when not much growth is possible, since such markets are saturated. How can a brand that will never be a major player, build a valuable niche position that generates strong volume and profit? Hundreds of American brands succeed in doing this. I recently carried out a consulting assignment for an American beer brand that is enormously successful despite a market share below one percent. I can think of substantial numbers of brands of different types that are in a similar position.

Two things are necessary for a successful small brand in a static market. Both things are surprisingly difficult to accomplish. First, a promising marketing opportunity must be identified: a more complex job than locating an obvious market gap. It is a creative endeavor to sense an opportunity when there are no obvious signs already, and it is essentially a matter of developing a feel for psychographics: an understanding of consumers' lifestyles and aspirations.

The American coffee market has been in decline for almost half a century. Yet Starbucks, by offering the consumer something more than coffee alone but rather a social experience in coffee drinking, managed to build a substantial business with great rapidity. The brand, which is high in price, and offers "image in the coffee cup", has managed to fight against the established market trend. Starbucks is now an international brand, although it is to some extent flagging in its home market because it has attracted competitors.

If the first requirement is the subtle process of detecting a market opportunity, the second is something more susceptible to normal management disciplines. A small brand at the bottom of the pyramid, and one that is likely to remain there, does not have the sales volume to yield substantial scale economies in raw material purchasing, manufacturing and marketing. To compensate for this deficiency, the brand must be marketed at a premium price, a price that buyers are prepared to pay because of the brand's perceived superior product quality and its rich brand values. How else does one explain brands like Mercedes cars, Rolex watches, Mont Blanc pens, Godiva chocolates, Hero Swiss jam, Absolut vodka, Armani clothing and many other well-known names, which are all small but highly profitable?

These brands are all at the bottom of the pyramid in terms of market share. However, their position calls into question the pyramid metaphor. Many members of the public would certainly consider such prestigious names at the top not at the bottom of the pyramid, despite their small size. Perhaps we need another metaphor to describe them.

Advertising in the New Age

The title of this article is derived from the widely-held assumption that the advertising business has indeed entered a New Age, and that there is a two-way relationship, with advertising giving birth to the New Age and the New Age in turn profoundly influencing advertising. This topic is much talked about in a large range of popular books sold at airports, and also in the advertising trade press in every country. My purpose in this article is not to add to the newsworthy stories, of which there is no shortage already, but rather to observe the current scene on the basis of facts: facts that actually reveal something less startling about the changes that many people think are taking place.

Advertising has always had a reputation for dynamism. This is because it is essentially a creative activity, and the best advertising is the product of the human imagination. This describes reality, but it is dangerous to infer from it that the human imagination employed in the advertising field actually brings about sudden changes in the business as a whole. The reality is that advertising has always been relentlessly commercial. For this reason, the clients – those parties that provide the advertising budgets to fund the imaginative (and also regrettably the less imaginative) campaigns – are slow to change their operating procedures, at least if they believe that their advertising is working. This does more than anything else to account for the innate conservatism of the business. In public forums I often describe advertising as a more conservative enterprise than the Roman Catholic Church.

Let me start with some of the more popular notions about how advertising is entering a New Age. Here are four widely-held beliefs:

- Brands – to a large degree the creation of advertising – are supposedly being eroded and are losing their inbuilt strength.
- Television advertising is supposedly losing its selling power and its dominance as the prime mover of brand-building advertising.
- The media are being fragmented, so that there is an irreversible move toward small, tightly-targeted media appealing to the users of specific brands.
- Markets are being fragmented into niches, hence the vast and easily-observed proliferation of sub-varieties of individual brands.

Of these four widely-held beliefs, the only one that is demonstrably valid is the last one, especially in large, developed markets like the United States and Western Europe, where primary growth has flattened and aggregate consumption in most product categories has become saturated. Manufacturers have therefore become desperate in their search for small segments and sub-segments that might still be showing growth because of changing demographics and psychographics; and the growth in these segments is balanced by declines in others. This important change has caused multiple problems in maintaining distribution in the retail trade. However, it has not influenced manufacturers' advertising policies to a substantial degree. Manufacturers still concentrate their money on their main brand varieties. The sub-varieties – which are sold to substantially the same people as the most important lines – are trailed along, with minimal support: a strategy that seems to work. Readers may find it difficult to believe my description of American conditions, but there is plenty of evidence to demonstrate their truth.

Let me now return to the other three common beliefs about change, as described above. These are fallacies.

Regarding the erosion of brands, there is massive evidence that in the large majority of cases this is not a description of reality. Hindustan Lever and J. Walter Thompson do not need to re-examine the current sales volume of Lux Toilet Soap, which remains phenomenal by world-wide standards. And Lux was launched during the 1930s!

To turn to supposed changes in the media, if we examine the distribution of American advertising money over a short period of time, virtually no change is observable. But if we look at this distribution of funds over a long period, say 15 years, the one thing that we see is a very gradual move of advertising expenditure from advertising in verbal media (newspapers, magazines and outdoor), in favor *of* audio-visual media (television and radio). The reason is more sociological than economic, reflecting as it does the shocking decline in verbal literacy in the United States, the richest country in the world. The proportion of advertising money going into television in the United States is currently more than 44%, and the absolute expenditure on the medium is at a record level. So much for the myth that television is losing its importance. The direct opposite is the truth.

The myths regarding the newly-emerging media are equally egregious. In 2004 the American Advertising Federation released a statement that "The Internet ad segment will expand by 21% a year to hit $62 billion in 2011, when it will surpass print, which is projected to reach $60 billion in the same time period, according to a report from Veronis Suhler Stevenson." Any professional statistician would be astonished by such a projection. The reality is that, in 2005, United States advertising on the Internet totaled $7.8 billion, an increase (including inflation) of 14% above the $6.8 billion spent in 2004. And the actual expenditure on Internet advertising in 2011 is likely to be just over one-third of the estimate quoted above. While I, in common with most analysts, remain optimistic about the creative possibilities of the Internet, I cannot see how its creative advantages can be matched by its cost-efficiency for the advertising of low-cost brands. The reason of course is the high expense of interactivity, which is the Internet's most important advantage.

As far as the other widely-discussed media innovations are concerned – "Viral Marketing," "Product Placement," "Word-of-Mouth" etc. – the actual amounts of money spent on them are too small to be measured. We sometimes hear dramatic success stories, but these are normally for unimportant brands; the normal practice is that the smaller the story, the larger the noise it generates in the trade press.

Do I approve of the shocking conservatism and inertia that characterizes all advertising? I must answer emphatically in the negative. My long years in the business have not dimmed my enthusiasm for it. But the fact that commentators of all types talk about the supposed importance of the new developments in an essentially inconsequential and unsupported fashion, simply gives the business an even greater reputation for frivolity than it has at present. Advertising as a sales-producing tool is deadly serious and is extremely important to the economic life of any country. Major brands could not survive without it, and the vast majority of leading business concerns (and many small ones too) have relied and will continue to rely on advertising to generate immediate sales and also long-term sales and profit. But to give advertising the weight that it deserves, what is needed is much better and more consistent evaluation of its actual effects in the market place, in particular its financial return to specific brands. We know quite a lot about this, but to discuss this topic seriously would lead me into vast and inhospitable territory. (Perhaps I should be telling your readers to buy my books!)

Do Private Consumers and Industrial Customers Always Buy Cheapest?

The answer to this question is no – of course they don't. In virtually every product category and every country, a substantial share of sales is accounted for by higher-priced brands: brands that may be viewed by buyers as only a bit better, in strictly functional terms, than their cheaper competitors.

In American supermarkets branded products are often seen on the shelf alongside unbranded "store" brands, which sell for a price as much as 25% less. Yet the branded products outsell the unbranded by a ratio of three to one. In the industrial field, research from Harvard University reports that with industrial testing equipment, selection between brands that do a virtually identical job in technical terms, is made on the basis of a brand's external appearance: the design of its box. In the words of the report, "the laboratory director who has been baptized into science at the Massachusetts Institute of

Technology is quite as responsive to the blandishments of packaging as the Boston matron".

The interesting question is *why*. The phenomenon can only be explained by a fact that may surprise some people but is undeniable: that people are motivated to buy brands by something in addition to the functional job that these brands perform. This does not mean that this additional ingredient is the most important element. An individual after all buys a brand to do a functional job. A shampoo is expected to wash and beautify the hair; a car is expected to transport us reliably, safely and (relatively) economically; an industrial computer or copier is bought to compute or to copy efficiently. But there is something else as well.

To use a metaphor that applies literally to packaged goods and figuratively to other fields, a brand's functionality describes the job performed by the contents of the box. The additional property, which is commonly described as added values, refers to something in the mind of the consumer. A brand, whether a product or service, of minority or majority appeal, for consumer or industrial use, is a synthesis of something physical and something psychological. And although the physical property is the more important, the strongest brands manage to fuse the physical and the psychological and thereby achieve synergy between the two. Consider Kingfisher Beer, Nestlé's Maggi food products (especially those designed for the Indian market), Air India, and the Taj and Oberoi Hotel Groups. These examples illustrate the point I am trying to make. And none of these brands is sold on the basis of low price.

There are basically two types of goods and services, and brands are important for both. The first is *high involvement*: mainly high-price "considered purchases." With these, the decision to buy is made mainly – although not exclusively – on rational grounds. High involvement describes industrial products and expensive consumer products, particularly durables like cars and household equipment. The second is *low involvement*: items sold regularly to consumers, mostly fast-moving consumer goods (FMCG). With these, the decision to purchase is mostly a matter of habit, although rationality always plays some role, particularly in judging the brand after purchase: a process that determines repeat buying.

Brands were first introduced, during the mid-19th Century, for two reasons. First, they were used to protect a brand-owner's exclusive and legally-protected right to the name and product. But a second use soon became even more important. This was to identify the brand alongside its competitors: something that provided a hook onto which to hang all promotional efforts: sales force activity, sales literature and – above all – the advertising. Advertising came into use because it was soon discovered to be the most economic method of boosting sales. But a greatly important side-benefit was that advertising, being a psychological process, was found to be an excellent means of reinforcing a brand's added values. A brand can therefore be seen as the joint product of the technical inventor and the creator of the advertising idea.

Where do added values come from? They are partly produced by the imagination of the person who writes the brand's advertising. But there is often an unplanned element: something that stems from consumers' perceptions of the brand itself.

With high-involvement goods and services, the main source of added values is the buyer's previous experience of the brand. But a number of other elements also play a role:

- The brand's name and its reputation for innovation and reliability
- Knowledgeable salesmen
- After-sales service
- The appearance of the brand.

With low-involvement goods and services, previous experience of the brand is also of prime importance. But there are additional sources of added values, all to a large extent nurtured by the advertising:

- The sorts of people who use the brand (particularly for brands like beer and soft drinks that are consumed publicly)
- The belief that the brand is effective in doing its job
- The appearance of the brand.

It should not surprise us that the synergy between functionality and added values is likely to reinforce a brand as a result of how it strengthens the relationship between the brand and the consumer. This is because the added values tap into the psyche of the brand's buyers and encourage loyalty. Large scale research demonstrates that such reinforcement produces a financial payout.

The first piece of evidence describes the relationship between a brand's penetration (i.e. number of buyers) and its purchase frequency (i.e. how often they buy on average). For infrequently bought products like cars, purchase frequency, while still important, must be looked at over years rather than weeks. There is a direct correlation between penetration and market share: if penetration doubles, so will market share. But the relationship between penetration and purchase frequency (a precise measure of consumer loyalty) is rather more complex. For small and average size brands, purchase frequency is relatively constant despite any differences in penetration. However, once a brand becomes large and strong, the purchase frequency tends to increase with the size of the brand. I have given a name to this phenomenon: Penetration Supercharge. What this shows is that large strong brands generate greater consumer loyalty than smaller weaker brands, and this obviously gives an enormous impetus to the sales and profits generated by strong brands. Large and increasing demand also makes it possible to generate scale economies in manufacture, raw material buying, and marketing: leading to greater profit.

The next piece of evidence relates directly to the price and profitability of large strong brands. In economic analysis, the responsiveness of a brand's sales to a change in its price is called its price elasticity. If this elasticity is high, a price increase will cause a large drop in sales; if it is low, a price increase will produce only a small sales reduction: something that manufacturers greatly favor. The drop in sales caused by a price increase for a brand with high elasticity is caused by buyers moving to other brands, so that elasticity is actually a measure of substitution.

It is an obvious characteristic of branding that it aims to make a brand unique, and this means blocking the act of substitution and causing the consumer to think: "there is no substitute for my own brand of toothpaste (or whatever), so I will not switch if the price goes up". There is good evidence that heavily advertised brands – usually large strong ones – have a lower price elasticity than brands advertised less. It is therefore not surprising that large strong brands have higher than average prices. Again there is no shortage of hard evidence beyond what we can observe when we visit any supermarket.

We therefore see two effects that stem from the strength of a brand: greater consumer loyalty and consumers' willingness to pay higher prices. This brings us straight back to the beginning of this article. Well-established brands are favorably regarded – as if they own a substantial share of consumers' minds – and this is the fundamental reason why private consumers and industrial customers are perfectly happy to pay more for the brands they consider to be better. These brands are seen as old and trusted friends.

There is yet another benefit from strong brands, in particular those that are managed sensitively, conscientiously and skillfully. This benefit is longevity: a point made authoritatively by Sir David Orr, a former Chairman of Unilever, one of the most prominent consumer goods enterprises in the world: "Provided that a brand is kept up-to-date as a product, by technical innovation and updating, and that its communication is kept relevant, it can be sustained for decades or more". Proponents of the fallacious theory that brands must inevitably decline as a natural phase of life and death, should take note; and they should consider such ancient and still successful brands as Heineken, Guinness, Coca-Cola, Kellogg's Corn Flakes, Lux Toilet Soap, Mercedes and American Express. None of these has ever been sold on the basis of low price.

Improved Efficiency in Indian Retailing and How to Achieve it

Manufacturers of consumer goods should be setting the pace in improving retail efficiency, but their normal planning procedures set different priorities.

The marketing departments of manufacturing companies devote their attention to the impact that their brands will make on their end-consumers. This means that most time and effort are spent on such activities as product planning, advertising and sales promotion budgets, target groups and strategic planning to achieve brand growth, and the qualitative and quantitative evaluation of advertising effects. These activities are important, but on their own they are incomplete. They divert attention and resources from at least one matter of pressing urgency.

It is an obvious but easily forgotten truth that manufacturers do not sell to end-consumers. They sell to retailers. The direct interface – the most important personal relationship in the whole business of consumer goods marketing – is not between manufacturers and consumers, but between manufacturers and retailers. The manufacturer and his end-consumers are connected by a retail link that is best described with a metaphor: a pipeline conveying a sometimes lengthy and often impeded flow of goods that will eventually reach the consumer.

While manufacturers generally spend advertising money on consumers to induce them to pull the goods through the pipeline, manufacturers should never forget the importance of pushing the goods into the pipeline in the first place. In India, increasing emphasis will be placed on retail operations as distribution becomes increasingly organized, so that pushing in becomes at least as important as pulling out. It is wasteful to spend substantial sums on the pulling out if there are blockages and/or gaps in the flow of a manufacturer's brand through the pipeline because it is being impeded by competitive brands. Loading the pipeline and smoothing the flow through it is the first priority, because it makes no sense to advertise goods that consumers cannot obtain.

There are four links in the loop connecting goods from the factory to the market where they are sold:

1. From consumers to the manufacturer, as the manufacturer's knowledge of and feedback from consumers influence directly the goods and services it will be providing. Hence the classic definition of marketing "making what you can sell".
2. From manufacturer to retailers.
3. From retailers to end-consumers.
4. From end-consumers to the manufacturer, as consumers express their satisfaction (or not) with the goods they have bought, through the process of repeat purchase (or not). This returns us back to point no. 1.

The loop is even more complex than this because in many countries, including India, distribution is broken down into a number of subsidiary links, representing wholesalers and various middlemen through whose hands the goods flow before they eventually reach the *Kirana* stores where most consumers do their shopping. There are special problems with this multi-linking, notably loss of time – which means spoilage of perishable goods – and also high prices to consumers as each link in the distributive chain skims off its small percentage to cover its expenses.

In May 2009 I was in Shanghai, and one morning I left my hotel to shop for some toothpaste. I had no difficulty in finding a small supermarket, not far from the Bund, in the center of the city. This shop is less than 1,000 square feet: very small by American standards. Yet despite its modest size, the shop is a model operation, with a good selection of merchandise, all well displayed and in excellent condition because of the air conditioning. There is a small frozen food cabinet, a larger chilled food cabinet, and a bar that sells simple hot food prepared on the spot by cheerful uniformed staff.

Such stores and many much larger ones are common in North America, Western Europe, Japan and Australia. Following the lead of these countries, retailing in China is developing fast, fostered by Foreign Direct Investment (FDI). The French chain Carrefour and the American Walmart (the largest retail operation in the world) are both making rapid progress in China, mainly by opening large outlets.

Yet in India, despite significant advances in organized retailing during the last ten years, large retail establishments are still relatively rare. I have been totally convinced for many years that *organized retailing provides the largest single business opportunity in the whole Indian economy.* In view of the vigor of

Indian entrepreneurship, it is surprising that organized retailing has not taken off faster than it actually has.

Concentration into large retail stores can only be made possible by capital infusions for constructing and outfitting customer-friendly locations, and for working capital to buy supplies of goods for sale. In turn, concentration yields important scale economies: in purchasing goods in bulk from manufacturers, in centralized management to exploit successful methods, and in building a loyal customer-base. Such customers develop psychological preferences so that, over time, retailers can become brands in their own right.

There are in addition a number of strong pluses to large-scale, efficient retailing.

First, organized retailing is a vitally important adjunct to the operational aspects of a manufacturer's business, because it makes its goods available widely and speedily, and in good physical condition. Air-conditioning is a prime necessity, and the increasing number of Indian supermarkets provide it as a matter of course.

Second, since the goods are delivered frequently and not battered in transit, the consumer receives good value for money. There is reliable evidence from the United States that prepared foods from large manufacturers are preferred in blind product tests to similar foods from small manufacturers. This is because the large manufacturers deliver more frequently and therefore provide fresher stock for purchase.

Third, the consumer benefits from lower prices, for two reasons: there are fewer links in the retail chain and therefore fewer percentages to pay to middlemen; and the buying power of large retail chains can deliver cheaper terms from manufacturers, which are often passed on to the consumer. It has been estimated that Indian supermarkets already offer prices 10% below those in *Kirana* stores. One reason is that there is 35-45% spoilage of fruit and vegetables in the small stores, which are not air-conditioned.

Manufacturers have most to gain from organized retailing. There are benefits that come directly from the efficient and timely delivery of the manufacturer's goods; the ubiquitous presence and display of these are at the end of the chain that delivers brands from the factory to the home. In addition – and most importantly – contented customers mean repeat business and probably increased purchase frequency. It follows that it is in the direct interest of manufacturers to stimulate concentration and higher efficiency in the retail sector.

In view of the many advantages of organized retailing, how far has it actually developed in India, and what does the future look like? After a relatively slow start ten years ago, organized retailing was pioneered by Big Bazaar. Momentum is now increasing fairly rapidly, although it is still to some extent impeded by the restrictions on FDI.

Organized retailing now represents about 5% (by sales) of the total retail sector, and it is naturally enough concentrated in the larger cities and towns, particularly in the suburbs. The value of organized retailing is going up annually by at least one percentage point, which means that every year it is growing by a fifth. Major Indian operations, notably Reliance and Spencer's (RPG) are expanding rapidly. Around 450 shopping malls are under development, and there are hypermarkets in some cities.

Walmart and Carrefour both operate in India. Walmart is notably imaginative and attuned to the Indian market. In cooperation with Bharti Enterprises, it is opening up to 15 large wholesale operations, on a "cash-and-carry" basis, to service *Kirana* stores. This plan is therefore geared to improving the efficiency of such stores by providing them with high-quality goods at economical prices. Walmart also offers contracts to medium-size Indian manufacturers: contracts that are likely to improve their stability and profitability.

Despite the well-publicized progress of organized retailing, *Kirana* stores are still likely to account for 75% of the value of Indian retailing in 2020. The reason for their continued existence is not difficult to see. They represent a way of life for at least 10 million Indian families, and Indian governments are naturally concerned to give them some protection.

Nevertheless, more efficient retailing is in the interest of the country's population as a whole, not to speak of the manufacturers who will be responsible for so much of India's economic growth. What is called for is an Indian solution to an Indian problem. As a general rule of marketing, locally-generated ideas are more effective than imported ones. There is no way in which organized retailing can be imposed autocratically. But it can grow organically, driven and nourished by Indian entrepreneurs working in cooperation with long-sighted international partners. Ideas can be imported and integrated into an Indian environment. *Kirana* stores need not be driven out of business, but they can be helped to amalgamate and improve their operational efficiency.

But Indian entrepreneurs with their foreign partners should not be the sole source of innovation. Manufacturers – who will benefit so much from improvements in retailing – should take an aggressive role in providing initiatives in the retail sector. It is not unknown for major international marketing companies to participate directly in retailing. A name that comes to mind is Unilever's MacFisheries in Britain, a chain of shops selling fresh fish that flourished for almost a century before fish retailing became the province of supermarkets. Is it too much to expect major manufacturers to act in a similarly proactive way in India? A number of major international marketing companies, some established decades ago, have played a major role in the Indian market place, and are viewed as model enterprises. There is nobody who is in a stronger position to add momentum to the drive to improve Indian retailing.

Advertising and the Global Financial Meltdown

The world business community, and indeed the majority of the public, has for many weeks been dominated by the troubles in the financial system. These will have an obviously negative effect on advertising, yet the fundamental difficulties facing the industry have really pre-dated the financial problems.

In most economically developed countries, advertising has been stagnant for a number of years. In the United States for instance, when the published data are inflation-proofed – adjusted for increasing costs – estimates of total advertising expenditure have not changed over the course of the last five years, and the level is still below that of the dotcom boom of 2000. Employment in virtually all sectors of the advertising business has declined since then. The current financial difficulties will affect specifically the banking and automotive categories, and since these are important, this will all make a bad situation worse. However, in this article I shall be most concerned with the original bad situation.

There are a number of reasons for the long-term stagnation of advertising: deep-seated problems that are difficult to resolve. The greatest of these is the lack of growth in the sales of fast-moving consumer goods (FMCG), which traditionally rely on consumer advertising. But in view of the large and growing strength of the retail trade in the United States and most other developed countries, increasing amounts of money – money that might have gone into advertising – are being devoted to retail discounts demanded by retailers. These demands are difficult to resist because of the sheer purchasing power of these large retailers.

In all circumstances, demonstrating the contribution of advertising to sales and profit is notoriously difficult. Advertising agencies do not therefore have the ammunition to fight back: to withstand the pressure from retailers and maintain the size of advertising budgets. This situation has not at the moment arisen in India, but with the rapid growth of organized retailing, this is a specter on the horizon that advertisers and advertising agencies will eventually have to confront.

Developing advertising plans has traditionally relied on logic and analysis as much as on creativity. Logic leads to an appropriate strategy for a brand, and in the best advertising agencies creative people are encouraged to use their imagination and intuition to express this strategy in terms that engage consumers. The main objective of such advertising is steady brand building. There is an important role for research in planning advertising and tracking its results. And there are often long-term relationships between clients and agencies, since advertising is regarded as a long-term enterprise.

In North America and Europe in particular, there have been moves away from this traditional strategy. Although traditional practice is followed with renewed dedication by the leader in the FMCG field, Procter & Gamble, it is being abandoned to a substantial degree by many other advertisers, some of them very large ones.

One of the characteristics of the new method of operation is a readjustment of the traditional client-agency relationship. Until about twenty years ago, there was a very simple link: from client to full-service agency and then to media. Then, with the emergence of specialist media agencies, the link became a double one: from client to media agency and then to media, and in parallel a link from client to creative agency and to media. There was also of course an internal link between the media and the creative agency.

What has happened in the United States and some European countries (Britain in particular) during the last few years has been the emergence of yet another link in the chain. Organizations best described as strategic partners (although sometimes known as "Tiger" agencies) have been set up and have become widely employed by advertisers. This has meant that there are now three links: from client to strategic partner and then to media; from client to media agency and then to media; and from client to creative agency and then to media. The situation has become very complex, and the relationships between the three types of agency are in many ways confusing.

The outcome of all this is that there are no holds barred in the types of sales promotion and advertising ideas that are thrown into the ring. From some points of view this is refreshing, but there has been a dangerous departure from some of the established principles, notably that strategy should precede creativity. It is not difficult to find examples of the new types of operation, and many have generated much publicity. Here are three recent ones:

> "Work for Sprite invited consumers to participate in the marketing process through a national contest to create a theme song for TV spots."

> "Design, guerilla promotion, interactive and traditional creative for clients ranging from 100-year-old sneaker brand to a fledgling airline to a children's charity."

> "Push into mobile marketing with its work for Nike Zoom, a cross-sport line of footwear . . . first mobile site that streamed videos to users' handsets."

What is happening in effect is that logical strategy and creative execution are giving way to creative strategy and creative execution. The move in this direction is too widespread to ignore. However, advertisers who as a consequence are giving less importance to their conventional strategies should consider three points.

The first is that these ideas all tend to be "one-offs." They may be exciting, but the activities obviously lack continuity. Can any brand afford to be supported by a constant stream of separate individual ideas? The second point is the fact that clients are now working with three separate organizations that provide advertising and promotional counsel. This is bound to lead to confusion and overlap. There is the ever-present danger that the efforts of the strategic partners and the creative agencies will compete and even pull in opposite directions. Synergy will be lost.

But the third point is the most important one. Advertising is in all events difficult to evaluate. However, with the econometric tools available something can be done, the techniques are improving, and a limited amount of totally reliable information is coming through. With a reliance on *ad hoc* promotional ideas generated by strategic partners, these tools simply cannot be applied. Publicity and excitement are generated, but there is a lack of hard evaluative facts. In other words, the business is moving in a retrograde direction, and some analysts would consider this to be disastrous. I am one of them.

Appendix A

The Economic Effects of Advertising

The subject of Appendix A is controversial, and much of the debate that it generates, falls into one of two types of error (and sometimes even into both!). It either oversimplifies, or it overcomplicates. In an attempt to steer a course between these alternatives, I shall cover the extensive ground by guiding readers gradually through the issues, basing my arguments exclusively on objective evidence.

I start with a simple point: Advertising costs a great deal of money. Media advertising throughout the world was estimated to cost $450 billion in 2010.[1] In the United States alone, it swallowed $152 billion, which amounts to $500 for every man, woman and child. India's case is different as advertising accounts for only a fraction of the American expenditure, yet the per capita amount – approximately $5 and growing – is still perceptible to the large number of Indian families who live on very low incomes.

In per capita terms advertising expenditure, as a percentage of Indian income, is less than 1% as compared to America's 8%. The low Indian figure indicates the growth potential for advertising in that country, as standards of living continue to improve. All these advertising expenditure figures represent real resources: expenditures that in a totalitarian regime could be spent on hospitals or schools. However, in a capitalist country, the decision to spend the money is made by advertisers and is strictly their affair. But it is important for people who live in a democratic society to determine whether advertising has a beneficial or malevolent influence overall. This means specifically what effect it has on the prices of the goods and services on which advertising money is spent. This is a matter that affects all members of society.

I begin with the claim that the greatest effect of advertising on society is in the realm of economics. Most advertising practitioners agree with this. But certain sections of society, notably left-wing social scientists and politicians, believe that advertising has a negative social and cultural influence. I do not share this opinion, since advertising has made many very positive contributions to wealth creation, and these have obviously benefited society. Advertising is anyway a relentlessly commercial activity in which advertisers constantly attempt to balance its cost against its measurable returns. The major concentration of this chapter will be on advertising's micro-economic effects — how advertising influences the individual brand, the firm that manufactures it, and the customers who buy it — rather than how it affects the economy as a whole. The latter will be discussed in the section **Macro-Economic Effects of Advertising**.

Although advertisers invariably attempt to balance advertising's cost against its returns, they have very few reliable tools to do this. However, robust albeit expensive techniques exist, and the section, **A Summary of How Much Advertising Works,** reviews research from a number of different countries that reveals a fairly consistent pattern of polarized effect. Depending on the country, 50% or even fewer campaigns boost sales in the short term (i.e., within seven days of their exposure); 30% have little effect; and 20% are associated with sales declines. Over the medium term (i.e., over the course of a year), all the sales effects are weaker, indicating an erosion of the immediate boost, but the two orders of effectiveness follow a sequence because it is virtually unknown for a campaign to have a medium-term effect without a short-term effect first. The implication of these findings is that ineffective advertising is a drag on the economy, except for its ability to reduce the cost of the media, something that benefits all readers, viewers and listeners.

Basic Concepts

Economics is built on the foundation of a number of technical assumptions whose meaning and limits are precisely understood. Their operation is always indicated by the qualification "other things being equal". Here is a quick review of four of these assumptions, which are all relevant to advertising's specific role in the market place:

1. Equilibrium
2. Consumer prices
3. Profit maximization
4. Competition.

Equilibrium

Micro-economics is concerned essentially with markets in a state of equilibrium. But this never occurs in the real world, which is a place of flux although not random instability. This generalization holds true for economically liberal countries like the United States, although in countries subject to greater economic management there tends to be less movement. Markets always tend to progress toward equilibrium, although equilibrium is never actually reached because additional changes always get in the way first. By studying equilibrium, we can isolate more easily those forces that lead toward it.

In some circumstances, advertising is a force for stability and continuity, and in others a force for change. In any market, the advertising for some brands (mainly the larger ones) will aim for the maintenance of the same buying patterns; but the advertising for other brands (mainly the smaller ones) will aim for the introduction to new patterns.

Generally speaking, the process of competition implies change, or attempts to change. This is because the aggressive marketing of some brands (usually the small ones) is countered by the defensive activity of others (normally the large ones), so that the two often cancel out. Offensive action in markets means product differentiation; differentiation requires the diffusion of information.[2] Advertising contributes to both these things. Offensive action is dynamic; it is not aimed toward equilibrium, so that it is not possible to understand advertising according to the "ideal" conditions of pure equilibrium. The more that markets fall short of this, the greater the role that advertising plays in their functioning. (See the sub-section **Scale economies**.)

Consumer Prices

Micro-economics is more than anything else the study of the price mechanism. This assumes that consumers will buy goods at the cheapest price possible. When they behave in this rational way, their welfare will be maximized because their income will be used with the highest degree of efficiency. There are however two problems with this appealing concept:

(i) In reality, people's knowledge of the actual prices ruling in any market is imperfect. Consumers' ability to find goods is therefore a matter of blind chance, or else the result of laborious search. In the latter case, advertising can be a helpful tool, and the role of advertising in reducing search costs is studied by some contemporary economists.[3] (See the sub-section **Advertising and the reduction of search costs**.)

(ii) An even more important point is that it is very common for consumers to buy goods and services at prices higher than those at the bottom of the market. This is even true where there may be little to chose functionally between goods at different prices. Low prices signal to some consumers a low quality (which may not really be the case), and this will depress demand. Another factor is that since branded goods provide both functional and non-functional benefits, consumers are perfectly willing to pay higher prices for greater amounts of the latter. Advertising is an important source of these intangible, psychological rewards that come from owning and using brands. It is therefore in this context a factor contributing to higher prices. (See the sub-section entitled **Oligopolistic differentiation**.)

Profit Maximization

All micro-economic descriptions of the production process assume that the sole goal of business people is profit maximization. However, there are three important qualifications and exceptions:

(i) There is often a dissonance between immediate and long-term profit, although manufacturers are obviously concerned about both. In one very important marketing activity, new product introductions (in which advertising has an important role), manufacturers generally sacrifice profit deliberately for three years or more by investing in advertising and promotions, in the hope that the brand will eventually break even, then earn enough to recoup earlier losses, and eventually begin a profitable existence. But success is never guaranteed.

(ii) It is common for large firms, especially those which hold substantial shares of their markets, to develop organizational inefficiencies, a type of bureaucratic sloth, described in the economic literature as diseconomies of scale. What such firms are unconsciously doing is exchanging the chance of earning the maximum profit with much effort, for the certainty of earning a lower profit accompanied by a quiet life. In such circumstances, competition between firms is often driven by the sheer volume of advertising and promotions rather than by innovation in product development and new marketing approaches, which calls for energy, free-ranging imagination, and good research. Advertising effort driven exclusively by volume is generally ineffective.

(iii) In the same way that consumers have a less than perfect knowledge of prices, manufacturers have a less than perfect knowledge of their costs and likely sales. They must therefore wait until the end of the year before they count their profit. Maximum production efficiency for a manufacturer is described in economic terms as when the marginal cost (i.e., the cost of the last, incremental, unit of goods produced) equals the marginal revenue (i.e., the price earned by this unit). In the real world, manufacturers have only the crudest knowledge of their marginal costs and marginal revenue. Advertising represents a significant element of cost, but accurate and detailed knowledge of its total yield, let alone its immediate marginal productivity, is faint. However, research is leading to improvements.

Competition

Microeconomic analysis describes three types of competition between manufacturers.

(i) **Pure (or atomistic) competition**: In this, there are a large number of producers in a market, none of which is individually large enough to influence price. At the existing ruling price in the market, they can sell all they want to. And an individual manufacturer will not raise price because it will then lose all its sales. Such competition also assumes that the product of all manufacturers is homogeneous, that there is free entry into the market, and that there is perfect knowledge on the part of all consumers. These are heroic assumptions.

If pure competition ever existed in any markets for consumer goods, it was when economies were primitive, incomes were low and consumers bought commodities and not brands. Advertising has no role in such circumstances. It is relevant and effective only in relatively affluent societies where there is some discretionary income. Something approaching it can be found in the markets for certain agricultural commodities, and for company stock sold on the exchanges. These are important, but specialized.

Of all competitive conditions, the one that plays the largest part in economic literature is the equilibrium of pure competition, which is regarded as ideal, because the prices are at their lowest, output is produced with the greatest theoretical efficiency, and economic welfare is maximized.

(ii) **Monopoly:** This assumes the existence of a single producer, which exercises substantial control of its market. If the goods it makes are necessities of life, it has absolute control both of its price and of its sales level. If it produces goods that some people are prepared to stop buying (or to reduce the quantity they buy), the monopolist can control either its price or the quantity it sells, but not both. Since advertising is a tool of competition, there is no role for advertising under monopoly – with the exception of political propaganda in totalitarian states.

(iii) **Oligopoly:** This assumes a relatively small number of producers whose importance is measured by the concentration ratio, i.e., the proportion of sales which is in the hands of a defined number of manufacturers (generally between three and six). Since each manufacturer is large, it influences the market by its actions. If it increases its price, the demand for its goods goes down and vice versa. And if it increases its sales, its price goes down and vice versa. The responsiveness or elasticity of demand to change in price can be measured by the price elasticity, or the percentage increase in sales which results from a 1% drop in price, or the percentage reduction in sales that results from a 1% increase in price. A manufacturer normally wishes to reduce the elasticity of demand for its goods, so that it can increase its price without much reduction in demand. (See the sub-section **Oligopolistic differentiation**.)

Competition in oligopolistic markets is intense because manufacturers worry about the effect of their actions not only on their customers but on their competitors also. The heat of the competition in such markets is generated mainly by manufacturers reacting to one another's tactics. But the paradoxical outcome is that much of this mutual reaction is self-canceling, so that the result is stability, although a stability that conceals underlying ferment.[4] Advertising has a continuous role in lubricating the competitive process, as oligopolists' brands try and take business from one another.

The present oligopoly structure operates in by far the majority of markets for consumer goods. It emerged in no general pattern; different markets evolved in different ways. In some cases (beer, hard liquor, soap, soft drinks), there was originally a fairly large number of producers, and this number became smaller by the emergence of strong market leaders and by mergers and acquisitions. In other cases (airlines, breakfast cereals, margarine, motor cars), there were originally only a few manufacturers; and the number further reduced after amalgamation. In other cases (instant coffee, frozen food, photographic equipment, razors and blades), the first manufacturer was for a while a monopolist because it held a patent. Oligopoly emerged quickly because competitive manufacturers were ingenious enough to copy the monopolist, without infringing the legal protection originally acquired.

In none of these cases, was there ever a myriad of manufacturers and a homogeneous product. Consumer goods markets have almost always been oligopolistic; they have merely changed in their degree of concentration – and this mostly during their early development. Oligopolistic competition as it exists today in advanced economics can best be described as a situation of apparent stasis, often described as maturity. This means stagnation in total market size. Although there is considerable stability over the short term, in many instances the major individual manufacturers' market shares move up and down over the long term. But even when this happens, the shares that go up are balanced by those that go down, so that the overall concentration ratio in a mature market tends to remain unchanged.

Oligopoly does not offer the same theoretical advantages as pure competition; in particular, prices are higher. Nevertheless, oligopoly is a system that provides considerable social benefits. These include economies of scale in production and marketing (with the realistic possibility of reductions in consumer prices). There is a good deal of product and brand innovation. And the markets are generally characterized by an intense degree of price and non-price competition between large manufacturers: something that almost invariably operates in the public interest.

The Influence of Advertising on Consumer Prices

Advertising influences consumer prices in seven different ways; hard data are available to illuminate them all. Three factors have a socially undesirable effect by pushing prices up:

1. The direct cost of the advertising itself
2. Advertising's ability to boost demand
3. Oligopolistic differentiation.

Four factors have a beneficial effect by reducing prices:

4. The way in which demand stimulated by advertising makes scale economies possible in production and marketing
5. Advertising's ability to shrink retail margins
6. Advertising help in reducing search costs

7. The effect of advertising on the price of the media, something that engineers a transfer payment to all members of the public.

The Direct Cost of Advertising

The most immediate and obvious effect of advertising on price is that the price the consumer pays for any advertised product or service must include the cost of its advertising. If the goods were formerly unadvertised and are now advertised for the first time, the advertising can be funded only by an increase in price or a reduction in profit, or both.

The cost of the advertising to the manufacturer is generally expressed as a percentage of its net sales value (NSV), and is described as the brand's advertising to sales (A:S) ratio. **Table A-1** presents the figures for 84 of the leading national advertisers in the United States in 2009.[5]

Table A-1 *Advertising as Percentage of Sales, 2009*

Advertising to Sales Ratio		Number of Advertisers
15.0% OR MORE		4
10.0% TO 14.9%		10
5.0% TO 9.9%		23
UP TO 4.9%		47
MEDIAN 5.0%		TOTAL 84
TOP SPENDERS (above 15.0%)		
L'Oréal	30.8%	
Estée Lauder	23.4%	
Reckitt Benckiser	17.3%	
Clorox	16.1%	

Five points should be made about **Table A-1**.

(i) The advertising is expressed as a percentage of a manufacturer's receipts, and the price paid by consumers is higher because of retail margins. Therefore advertising's share of *the consumer price* is rather lower. In the case of the median brand, it would be 4% rather than 5%, or 4 cents on the consumer's dollar.

(ii) The two highest ratios are for high-price luxury brands. The only other category in which the ratio is consistently high – often 20% or more – is mail order, but in that case the manufacturer has no wholesale or retail margins to provide.

(iii) In many product fields where A:S ratios are low, these translate into large absolute sums which are in effect paid by consumers. A striking example is the motor car industry, for which the advertising cost is commonly more than $300 per car, and even larger sums for new model introductions.

(iv) In addition to the expenditure on media advertising, a manufacturer will spend a similar, or more commonly greater, amount on sales promotions. These mostly take the form of temporary price reductions to the retail trade and the consumer. Promotional outlays therefore influence the price of a brand differently from how advertising affects it, since the promotional price cuts find their way directly back to the consumer.

(v) The general public believes that advertising's share of the prices they pay is far higher than it really is. For more than a decade I carried out, in the United States and other countries, informal (unpublished) surveys of some thousands of students and business people: those not directly concerned with determining advertising budgets. The question posed was "Out of the price of a product you buy in a food or drug store, how much do you think goes to pay for the advertising?" The vast majority of people said that it is at least 25%, and some people claimed that it is 50% or more.

Advertising's Ability to Boost Demand

An increase in demand translates into more sales at the same price, or the same sales at a higher price, or (more rarely) greater sales at a higher price. Common sense suggests that advertising is capable of boosting demand. But for the argument to be fully persuasive there must be evidence that an increase in sales is due to advertising alone and not at least partly to other sales stimuli, notably sales promotions. Here are two pieces of such evidence.

(i) Andrex: Andrex is the leading British brand of toilet tissue. Its performance in the market place has been monitored by a formidable battery of evaluative techniques, including extensive use of econometrics. The following was one of the first highly sophisticated analyses of how any brand responds to advertising.[6]

With a 30% share of consumer sales, Andrex's position in the market is high by the standards of most consumer goods in developed countries. What is even more unusual is that it is more than three times the size of any competitive brand. The market comprises Andrex followed by a long tail of inexpensive store brands and minor labels. It is the strength of Andrex as a brand that has led to a lack of competitors that are comparable with it in either functional terms or in the richness and density of their non-functional added values. It is therefore possible to freeze the effect of advertising because there is not enough competition to come into the market in response to increases in Andrex's sales or price.

The market is oriented to promotional price cutting, and all manufacturers in the category run different promotions, with varying expenditures, in different regions of Britain. This means that the various brands are differently priced (at least temporarily) in different parts of the country. This complex pattern of pricing can be monitored by retail audit research. In particular, it is possible to isolate the relative price of Andrex compared with its competitors. This made it possible to construct a demand curve for Andrex based on sales in different regions, as these were related to Andrex's price compared with the average price ruling there. This is curve D1 in **Figure A-1**. After a year of relatively heavy advertising for Andrex (but not for its competitors) the demand curve was re-drawn (D2 in **Figure A-1**). By comparing the two curves it can now been seen that a given level of sales commands a higher price. And the higher price is a direct result of the ability of the advertising campaign to communicate Andrex's functional and non-functional values.

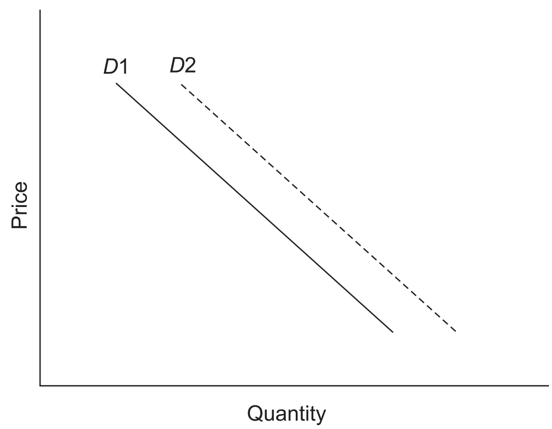

Figure A-1 *Shift in Demand Curve for Andrex*

The analysis was made by the J. Walter Thompson London office, which led to the name I have given it, *The Corlett Shift.* A similar analysis, although based on a rather more complex technique, demonstrated the effectiveness of the advertising campaign for Kellogg's Rice Krispies, and I have given it the name *The Elliott Extension*.

(ii) Advertising elasticity: This analysis is based on the aggregation of a large number of individual cases. The way in which we measure the short-term effect of increases or decreases in advertising volume is with a statistical device called an advertising elasticity. Elasticity means responsiveness of sales to a given stimulus (in this case advertising). For each likely sales stimulus, it is possible to calculate a correlation to estimate its influence on sales. From there, a model can be built that allocates the amount of sales that can be attributed to each stimulus. Then, looking at the information over time, the incremental effect of additional doses of advertising can be estimated and averaged. The end product is an estimate of the percentage rise in sales that results from a 1% increase in advertising expenditure, the extra sales having come from advertising alone. This is the advertising elasticity.[7]

Advertising elasticities have been calculated for hundreds of brands. Three American analysts, Gert Assmus, John U. Farlet, and Donald R. Lehmann, published a summary of the advertising elasticities of 128 separate advertising campaigns. The elasticity varied according to the product category, the brand, and most of all the campaign itself. The relationship is a positive one, with more advertising leading to more sales, so that each elasticity is preceded by a plus sign. The average figure was +0.22, which means that, if we round the figure to +0.2, we see an approximate 5 to 1 relationship. A 5% lift in advertising would generate 1% extra sales; 10% extra advertising, 2% more sales, and so on. This 5 to 1 relationship appears to be fairly low, but sales returns can on rare occasions be economic. From my own personal experience in the J. Walter Thompson London office, Andrex fulfilled this condition. Within limits, the profit yielded by the extra sales generated by additional advertising paid for the cost of the advertising.

Some elasticities are above +0.2; some are lower, and some are zero. But the important point is that any positive elasticity demonstrates advertising's ability to increase sales.

Oligopolistic Differentiation

The most important measure of the demand for a product or service is its elasticity. It is the responsiveness of sales as and when the price increases or decreases.[8] The device used to quantify this is called price elasticity: the measured response of sales to a 1% price reduction. Because the relationship between price and sales is reciprocal (if the first goes down, the second goes up), a price elasticity is preceded by a minus symbol. If brand A has high price elasticity, then a price reduction will greatly increase its sales. The reason is direct substitution between closely competitive brands within the category. If A's price goes down, consumers will buy more of A and less of B and C. If A's price goes up, the opposite will happen.

An American academic, Gerard J. Tellis published a summary of the price elasticities of 367 different brands. The calculation was made for each by averaging the response of sales to changes in price on a number of occasions. Tellis's average figure was –1.76. (Note the much higher figure for price elasticity than advertising elasticity.) If Tellis's average figure is rounded to -1.8, we can expect a 1% price reduction to boost sales by 1.8%. A more practical price reduction of 10% would increase sales by 18%. This high degree of sales response to price reductions encourages manufacturers to employ widespread promotional price cuts, although these are much less attractive to manufacturers when they calculate the resultant profit, which is often less than when the brand is sold at the normal price.

(i) Reducing price elasticity: This represents manufacturers' most common strategy. If they wish to boost their prices without losing too much business, they need to block the substitution of competitive brands. There is an important role for consumer advertising, because of its ability to publicize a brand's functional excellence and create and build added values in the minds of consumers. Advertising thus boosts sales and also impedes substitution, which means that it *reduces its price elasticity of demand*.

This reduction is illustrated in **Figure A-2** by the angle of the demand curve, and how the top is now tilted to the right: from D1 (which is more horizontal and elastic) to D2 (which is more vertical and inelastic). A price increase on D2 causes a smaller loss of sales than on D1. D2 is where most advertisers want to be.

Is there any good evidence that advertising can reduce the elasticity of demand in the way shown in **Figure A-2**? Here are the findings of three pieces of research.

First, there is direct evidence on how price elasticity (calculated econometrically) varies by type of brand. In a sample of 18 typical advertised brands, supported on average by an annual advertising weight of 2,300 Gross Rating Points (GRPs), the average price elasticity of –1.2 was rather low by general standards. But the important point is that half the brands, which were heavy advertisers with average annual GRPs of 3,400, had a mean price elasticity of –1.0. By comparison, the other half, the lighter advertisers with average annual GRPs of 1,200, had a mean price elasticity of -1.4, which is 40% greater.

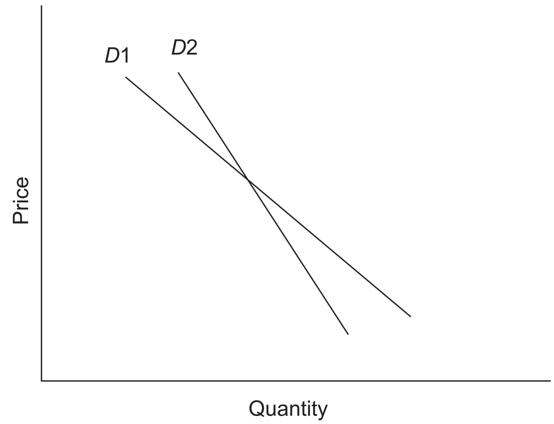

Figure A-2 *Shift in Demand Curve from Elastic to Inelastic*

Second, as might be expected, the brands with inelastic demand as a result of heavy advertising should be able to command the highest prices in the market. In a sample of 142 brands in 12 product categories, the ten largest – those with the heaviest advertising campaigns – had an average price of 14% above the category. The next ten largest brands had an average price of 10% above the category.

The third calculation represents the state of the art in advertising evaluation. Econometric analysis is used to calculate the specific contribution to sales made by a brand's advertising in each individual medium, most commonly television. This estimate is made in volume terms, and the direct and indirect costs of producing the products are then deducted from the television-generated sales. The difference between the two is translated into dollar value, which is then expressed as a percentage of the dollar advertising investment. The result, which is known as the Payback, is calculated in cents on the dollar.

An average figure for 30 typical brands showed that the television advertising Payback was 51 cents on the dollar. In other words, for every dollar of television advertising, 51 cents came back to the advertiser, and this sum was partly applied to promotional price cutting. For the 13 larger, more heavily advertised brands, the Payback was 56 cents, compared with 47 cents for the smaller, less advertised brands; 56 cents is 20% higher than 47 cents. What this difference shows is the scale economies of the larger brands compared with the smaller ones. These embrace their higher prices because of their inelastic demand. They also embrace advertising budgets that are a little lower than the size of the brand suggests that they should be. This is because the advertising has an easier task to perform as a result again of the greater inelasticity of demand. (See **Figure A-5, The Advertising-Intensiveness Curve**.)

(ii) Increasing price elasticity: A small number of advertisers follow the opposite strategy and aim for lower prices by encouraging or at least accepting a more elastic demand for their output. The lower prices are an incentive to encourage usage in untraditional market segments, in the hope that the lower prices, multiplied by the larger volume of sales, will result in a higher income for the producer. This is accomplished by advertising that encourages innovative uses of the product, which are also stimulated by the low prices. The advertisers who follow this strategy are invariably producers of agricultural products whose output is to a large degree unplanned because of the vicissitudes of sunshine and rainfall. The result is that there are frequent production gluts and collapses in prices.

These factors are dramatically illustrated by a historical case based on the California Avocado Advisory Board (now the California Avocado Commission), an organization of farmers who grow the largest quantity of avocados in the United States.[9] In 1959-1960, the season produced an enormous crop of fruit that had a disastrous effect on prices and incomes, and this led to the farmers getting together to set up in 1961 a co-operatively-funded advertising and publicity campaign to help stabilize the market. The intention was to increase primary demand, i.e. the demand for all avocados and not just the fruit from one region. And this was to be done by encouraging existing users to buy more (e.g. by featuring recipes), and by persuading new buyers to come into the market (e.g. by featuring unusual dishes including avocados, instructions for growing avocado plants, and recommending beauty treatment using avocado facials).

Since the producers wished to stabilize the price, the demand had to be made more elastic. The lower price and the advertising would then encourage extra volume to be absorbed. This situation is described in **Figure A-3**, by the top of the demand curve being tilted left, from D1 to D2, to increase its elasticity.

The strategy was successful. In 1959-1960, before the advertising began, the crop had been 30% larger than in the previous year, and this had caused the price to fall by 35%. The advertising began in 1961. By 1974-1975, the crop was 93% larger than that of the preceding season, but the elastic demand stimulated increased buying. The advertising encouraged this and also managed to maintain a balance that favored the producers, who sold a larger volume but at prices not quite low enough to imperil their incomes.

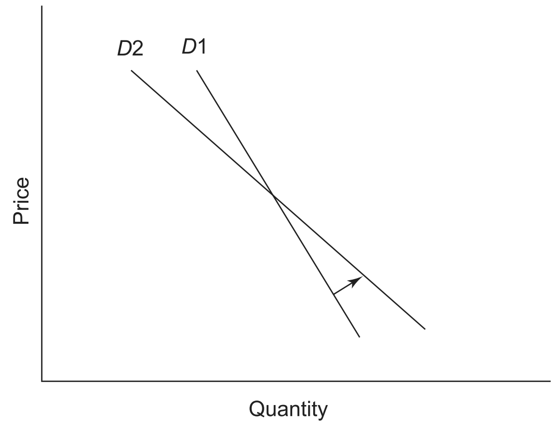

Figure A-3 *Shift in Demand Curve from Inelastic to Elastic*

The result of all this on producers' incomes became consistently positive. From the period of lowest prices, before the advertising began (indexed as 100), the average returns per acre rose to 128 during the 1960 to 1965 seasons; to 227 between 1965 and 1970; and to 425 during the period between 1970 to 1975. In cash value, farm income went up from $413 per acre in the earliest period to $1,756 in the last one. These increases are uncorrected for inflation, but are much greater than any increase that inflation would have bought about. The only change that had taken place during this period was the introduction of the advertising and publicity campaigns. The number of households purchasing avocados increased during the period, and so did the amount bought per household. Purchasing went up most in the older households, those to which the advertising was mainly directed.

A further result was that the higher income the farmers were now receiving encouraged them to bring more acres into avocado cultivation. As a result of this and improved farming methods, there was a large increase in the quantity of avocados grown (up from 140 million pounds in 1959-1960 to 207 million pounds in 1974-75). Despite this larger quantity, the rise in demand was so great that producers' incomes continued to go up.

What happened in the avocado market can be described diagrammatically in **Figure A-4**.

First, advertising boosted demand, shifting the curve from D1 to D2. Second, at the same time, the advertising changed the slope of the demand curve, making it more elastic (D2 is a more horizontal curve than D1). Third, after a long delay, extra fruit from the new acreage and improving farming methods caused the supply curve to move to the right, from S1 to S2. (Note that the supply curve is highly inelastic, since the supply of avocados is determined by natural forces, and ups and downs in price cannot affect the output in any one season, although they can over a longer period.) The fourth outcome was that the increased demand eventually boosted price (P2 compared with P1), and improved farmers' livelihoods.

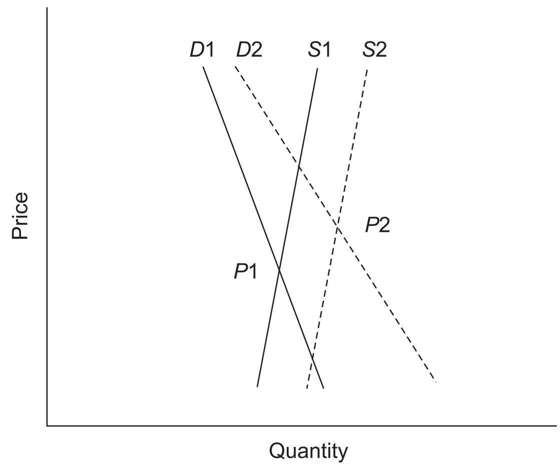

Figure A-4 *Long-Term Movements in the Avocado Market*

Scale Economies

The concept of scale economies is simple and universally accepted. It applies to both products and services. The process has three underlying causes. First, as business grows, there is a greater incentive to develop revolutionary new methods which lead to vastly greater efficiency. Second, the bigger the output, the more widely the cost of capital equipment is spread, reducing the capital cost per unit. Third, the specialization of the jobs carried out – the process originally called the division of labor – leads to constant improvement in production efficiency. This was something demonstrated dramatically by Henry Ford's introduction of the production line. The result of scale economies is lower costs and better products. And the process of competition ensures that the lower costs are passed on to the consumer as lower prices, and competitors also improve the functional performance of their brands.

The evidence of scale economies is all around us. Over a period of any decade, there are visible improvements in quality and variety, accompanied by price reductions (taking account of inflation). During the most recent period, these improvements have been most marked in the various fields of electronics: television, radio, computers, digital cameras, cell phones, CDs, DVDs etc; also in many if not most repeat-purchase packaged goods; and in landline and mobile telephone services. We have seen lower prices without improved quality in imported clothing, and airline travel. And there has been improved quality without price reductions in automobiles and in electronic banking and finance. The only fields where there have been no improvements in price or quality have been where there are restrictions of supply caused by natural scarcity, reinforced by the abuse of a cartel, e.g. gasoline.

Scale economies were one of the key discoveries of the first student of economics, Adam Smith, who was astonished at the size of the increases in production that resulted from the division of labor in an early pin factory.[10] He also immediately appreciated that the incentive to produce on a large scale only existed if there was a ready market for the output, hence one of his best-known aphorisms "*The division of labor is limited by the extent of the market*."

It has long been understood that the most efficient and inexpensive method of creating and expanding a market is by using advertising. For this reason Unilever, one of the largest advertisers in the world, published its own evidence on this subject fifty years ago. The Chairman's Annual Report for 1958 was devoted to the firm's advertising. This report described the improvements that had taken place over a twenty-year period in the formulation of Unilever's leading brands of packaged goods, improvements that had been accompanied by significant price reductions measured in real terms.[11] These are shown in **Table A-2**.

Since 1958, the prices of repeat-purchase packaged goods seem to many people not to have gone down much. Nevertheless they have. The reason is the rapid growth of sales promotions, notably temporary price reductions which for consumers usually mean coupons, the value of which is often doubled by stores, which also benefit from promotions that manufacturers aim directly at them. Currently, three-quarters of manufacturers' advertising-plus-promotional budgets are devoted to sales promotions: in other words to price cutting.[12]

Table A-2 *Prices of Leading Unilever Brands Adjusted for Inflation*

Country	Number of Brands	1957 Price Index (1938=100) Unweighted Averages
United Kingdom	7	28
Netherlands	5	86
Belgium	5	67
France	2	99
Germany	2	110
United States	3	92
Australia	3	95
India	2	92

Sales promotions have become a common if not dominant strategy of oligopolists, and two changes that have taken place in markets have boosted the importance of price cutting. The first is that recent decades have seen stagnation in the total size of most product categories, except for the small annual increases caused by the growth of population.[13]

This process was well under way in economically advanced countries before 1980, and today only about 10% of consumer buying is in categories that show significant growth. This stabilization of markets is due to the already high levels of consumption: in most cases buyers are simply unable to consume larger quantities than they do at the moment. Promotions generally have a pronounced and quick-acting effect on sales – although one that is expensive and strictly short-term – so that manufacturers turn to them in frustration at the virtual cessation of category growth. (This has not yet occurred in the cases of most of the electronic goods mentioned above. Nor has it happened in the strongly growing Third World markets, notably China and India, which are still experiencing a powerful upward drive in primary demand.)

The second trend is related to the first. There has been an astonishing increase in the number of brand variations that have been launched during recent years. In their search for pockets of growth where there is little increase overall, manufacturers have introduced minor variations aimed at small market pockets, or niches, where there might be some buoyancy to buck the overall trend. Oligopolistic competition causes one manufacturer's innovation to be copied by all the others, with the result that categories have become rapidly and excessively fragmented. This is obvious from a visit to any American food or drug store.[14]

One of the most striking examples is the 250 varieties of ready-to-eat breakfast cereals on the market. And at one time there were 50 varieties of Crest toothpaste (although its manufacturer, Procter & Gamble soon took steps to simplify and rationalize the brand). While the markets for packaged goods were fragmenting, the same trend was also taking place in the car market, where the number of models *tripled* between the early 1960s and the early 1990s.

A major problem of fragmentation has been the difficulty of maintaining the integrity of brand franchises so as to avoid the erosion of scale economies. These after all are derived mainly from long production runs of single products. Another problem that the manufacturers face is how to increase their business in the absence of much overall category growth, which is an absolute necessity if the company's stock price is to be boosted or even maintained. As a result, manufacturers try to increase the *value* of their goods, in the face of stable volume, by introducing higher-priced lines. This is the reason for the launch of expensive Crest varieties such as Whitening Strips.

Scale economies are not exclusively a matter of production processes. They apply to raw material purchasing, and also to marketing and advertising. A sales force can be more economically employed if it carries a number of different lines rather than only one or two. The scale economies directly derived from advertising are not obvious, but they are real and can be described easily. See **Figure A-5**.

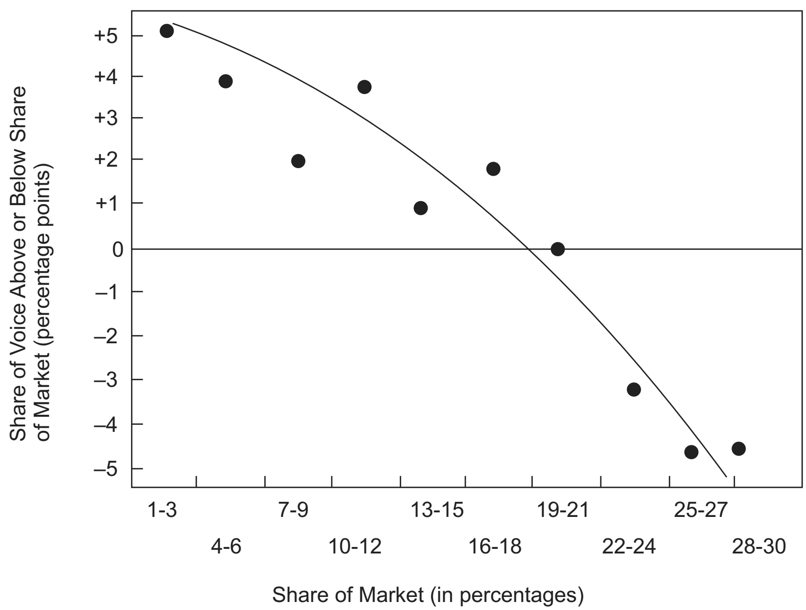

Figure A-5 *The Advertising-Intensiveness Curve*

The Advertising-Intensiveness Curve compares the relative advertising budgets of different-sized brands, and is based on each brand's contribution to the total advertising in its market, or share of voice (SOV). A brand's share of voice can then be compared with its share of the sales of all brands in a market: its share of market (SOM). When a brand's share of voice is larger than its share of market, it is investing at a higher than average rate. **Figure A-5** shows very clearly that this is normal for small brands. In fact, the smaller the brand, the more it must invest in advertising in relative terms i.e. compared with its SOM. This conclusion is based on the average figures for a substantial number of brands: a total of 666 different packaged goods. These were derived from a uniform investigation carried out in 23 countries: Argentina, Australia, Austria, Brazil, Canada, Chile, Colombia, France, Germany, Greece, Hong Kong, India, Italy, Japan, Malaysia, Mexico, the Philippines, Portugal, South Africa, Sri Lanka, Thailand, the United Kingdom, and the United States.[15]

The small brands in **Figure A-5** are normally new introductions, and the analysis suggests the high investment level that a new brand needs to make its voice heard against larger established competitors. In the United States, the sums are generally in the millions of dollars,and the expenditure has to be continued until the advertised brand becomes profitable, a period rarely less than three years.

An important operational application of the SOV/SOM relationship is to estimate the degree of underinvestment that can be accepted without imperiling a brand. In one piece of unpublished work that I carried out for a private client in the automobile business, I constructed an "Advertising-Underinvestment Barometer." This indicated the specific amount of underinvestment possible for a single large brand. It was measured by a number of percentage points of SOV below SOM. A basic level of underinvestment was the amount that brought no risk of a sales loss; a slightly wider difference would bring some risk; and finally a substantial gap would certainly cut into the muscle of the brand.

The technique can also be used in the opposite direction i.e. to determine whether an increase in SOV – especially a lift in SOV above SOM – can boost market share. Interesting empirical work on this has been carried out by the British advertising agencies' organization, the Institute of Practitioners in Advertising (IPA). The IPA has first-class information from its own database of studies of advertising effectiveness: by a large margin the best battery of such case studies available anywhere in the world. In 2009, the IPA published a study of the sales effects of boosting SOV above SOM.[16]

This investigation paralleled an independent piece of work on similar lines published by Booz, Allen and Hamilton (BAH) in 1990, although the IPA study was unconnected with it.[17]

Both the IPA and BAH studies reveal a positive effect on sales from a boost in SOV, although the general conclusion from BAH was that a very large increase is necessary to swing a large brand's sales needle significantly. The BAH study was based on American experience, and the advanced maturity of American FMCG markets probably accounted for the high degree of insensitivity of sales response to advertising pressure. Similarly, the IPA cases show that brands of FMCG, a particularly mature category in Britain, are also particularly insensitive.

Underlying the whole issue is a basic characteristic of large brands. In stationary categories, in which leading brands have already achieved the top limit of consumer penetration, it becomes increasingly – and eventually impossibly – difficult to push sales up any higher. And an additional problem is that extra sales volume should not really be the target. The real target should be the marginal extra profit generated by the additional sales, which means that the crucial comparison should be between the extra profit from the increased sales, and the additional media expenditure. However, there is no doubt at all that big brands can and do benefit from increasing profit although there may be little or no growth in volume sales. The higher profit is not the result of extra advertising but is the end-product of scale economies. In these circumstances, it is entirely sensible to maintain SOV as low as possible so as to continue to reap the benefits of the advertising-related scale economies – that go straight to the bottom line. Additional profit from extra advertising is a much more uncertain possibility.

Since the relative underinvestment behind large brands produces extra profit, this makes the marketers of these brands formidable competitors because they can use the money for research and development, new and better capital equipment, and to fund new brand ventures. These advantages effectively act as barriers to entry against potential newcomers which have to spend relatively large amounts on advertising to try and break into the category.[18]

However, these barriers are in no way the outcome of cartels or anti-competitive maneuvers by the firms in the market. They are the result of their sheer efficiency: something that benefits their final customers because of the ability of large efficient firms to deliver quality improvements and lower prices.

It is for this reason that the normally robust competition between the brands within any category takes place between existing firms rather than new ones, although there are rare exceptions. This means that the concentration ratio in each market – the total share of market occupied by the group of largest players – remains fairly constant over time.[19] But this stability does not prevent some firms from losing a point or two: reductions that are matched by a gain of a point or two by their competitors. This small degree of flux is, as earlier explained, the result of existing companies searching for niches that offer opportunities for growth: a tactic that is immediately followed by their competitors. The result has led to such typical fragmentation as the 250 different brands and sub-brands in the breakfast cereal category.

With all types of innovation, success is never possible without advertising, and the way in which it facilitates the introduction of new brands is one of its most important roles. This goes for all types of innovation: from newcomers creating a completely new product category (e.g. Kindle); from the very rare introduction of new brands from untraditional manufacturers (e.g. Volkswagen in America, whose launch was driven by a famous advertising campaign); and, most commonly, from traditional manufacturers introducing new sub-brands (e.g. Honey Nut Cheerios).

A final point is that the scale economies acquired by large successful manufacturers have a visible financial payoff. This is revealed by the positive statistical correlation between the size of firms' advertising expenditures and their profitability: "Advertising has a statistically significant and quantitatively important impact upon profit rates." [20] The biggest advertisers are normally the most powerful companies, and the relationship is a two-way one. They are profitable because they advertise, and they advertise because they are profitable.

Advertising's Influence on Retail Margins

The leading contributor to the debate on the effect of advertising on retail margins is the economist Robert L. Steiner. In a seminal paper published in 1973, Steiner examined a business in which he had extensive personal experience, children's toys.[21] During his early years in the business, toys had been mainly unadvertised. However, the period which Steiner covered in his analysis was the sixteen years 1955-1970, when television advertising expenditures in the toy market were growing strongly, leveling off at about $80 million per annum at the beginning of the 1970s.

When Steiner endeavored to evaluate the effect of this advertising, he made two discoveries. First, the cost of the advertising for the average manufacturer – between 3% and 5% of net sales value – was more than compensated for by savings in the production cost of the toys. This was an example of scale economies resulting from the growth in the size of the manufacturers. The average reduction in production costs was approximately 5%, which as shown was at the top end of the toy market A:S ratios. The second discovery was even more striking. The advertising stimulated a large reduction in the distributors' margin. Measured as a proportion of retail prices, this came down from an average of 49% in 1947-1958, to 33% in the early 1970s. Steiner also published data that showed that margins for the best-selling merchandise were even lower than the overall averages (which had of course fallen in the way described). He also demonstrated that the reduction in margins occurred in both the United States and Canada, and the same thing was also beginning to happen in 1973 in Britain and Australia.

One reason for this phenomenon is that the lowest price – which is flagged in the advertising – becomes the ruling price in the market. Even "high-end" retailers who charge the top prices would probably have to carry the low-price brands as "traffic builders" or "loss leaders", because of their sales volume. In any event, the advertising that had built the brand made the retailers' job easier, and they were therefore more comfortable with the lower margin.

In this situation, if any retailer tries to increase the price, it will lose business. This means that there has been an *increase in the elasticity of demand* at the retail level. This increased elasticity operates alongside the normal *decrease in the elasticity of demand* at the manufacturer level, which operates through the process of oligopolistic differentiation, as explained earlier. The double effect of advertising on demand elasticity – a reduction for the manufacturer but an increase for the retailer – has been called the *Steiner Effect*.[22] It mitigates advertising's upward pressure on manufacturers' prices by imposing a countervailing downward pressure on retailers' prices.

Following Steiner's work, the British economist W. Duncan Reekie undertook an investigation on behalf of the Advertising Association, the leading British professional organization in the advertising field. He published his report in 1979.[23] It contained a number of examples, all of which confirmed the Steiner Effect fully and consistently. The most striking came from 25 food categories sold in a leading British national grocery chain. There was clear evidence of lower retail margins in the largest-selling and most heavily-advertised categories: a 6% average margin, compared with 12.5% in the weakest-selling and least-advertised categories. Reekie also revealed the same shrinkage of margins for non-food grocery products; proprietary medicines; furniture; electric appliances; footwear; and paint. A final point was that the prices of food brands tended to rise at a lower than average rate, demonstrating the continuing existence of the Steiner Effect.

Advertising and the Reduction of Search Costs

For repeat-purchase packaged goods sold in food and drug stores, finding the price of brands is easy (a process described technically as low search costs), because buyers are familiar with the products they buy, and the prices of alternative brands are displayed, usually on the shelves. However, for higher-priced goods whose purchasing is a high-involvement process, finding the most economical prices is laborious, and advertising can be a considerable help. An important historical case from the United States relates to eyeglasses, and it describes a period when advertising was more restricted state-by-state than it is today. At that time certain states allowed optometrists' advertising and others did not. The contrast between the prices in the two regions was dramatic: "Prices were found to be substantially lower in states which allowed advertising." See **Table A-3**.[24] The reason was partly because advertising gave optometrists more sales and thereby reduced their cost per sale. More important, it also provided a sharp impetus to competition, particularly by increasing consumers' knowledge of where the lowest prices were to be found, and thereby reducing consumer search costs.

Table A-3 *Price of Eyeglasses with and without Advertising, 1963*

	Six States with Complete Advertising Restrictions		Twelve States with No Advertising Restrictions	
	Sample of Buyers	Average Price Paid	Sample of Buyers	Average Price Paid
Eyeglasses alone	50	$33.04	127	$26.34
Eyeglasses and eye examinations combined	121	$40.96	261	$37.10

An instructive footnote was provided by Lee Benham, who carried out the investigation. He did not disclose his information, but asked a number of professors of economics and of marketing at the University of Chicago what effect advertising would have on the price of eyeglasses. Four in ten of the economists and all the marketing professors got the answer wrong. They believed instinctively that advertising would boost the price.

Advertising and the Price of the Media

In 2010, total advertising throughout the world was estimated at $450 billion. In the United States alone it was $152 billion. Out of this large sum, media advertising totaling more than $93 billion made a substantial contribution to covering the value of the media received by the public, who themselves only paid for cable television, public broadcasting on television and radio, plus a proportion of the cost of newspapers and magazines.[25] Most broadcast television and radio was, and is, free to every household in the country. From this $93 billion, the expense of planning, writing, running, and supervising the advertising had to be deducted. Assuming that 15% of the total covered these costs (the traditional sum of advertising agency commission), this left $79 billion.

This money was given by the media to the public in the form of entertainment, information and education: a very considerable amount of money paid ultimately by the advertisers which used the media to sell their brands. Since the sum went straight to the whole population, it amounted to $250 for every man, woman and child in the United States. It was the equivalent of a transfer payment, or an additional tax-free income. This benefit is one of the most indisputable social arguments in favor of media advertising. If there is one price that advertising brings down directly, it is the price of the media. This transfer payment is spread relatively evenly throughout society. The upper-income and more highly-educated households are relatively light television viewers; however, they are the heaviest readers of newspapers and magazines. The lower-income and less-educated households read less and watch more television.

Macro-Economic Effect of Advertising

The macro-economic effect of advertising – its ability to boost the size of total markets – is not a subject that has been studied extensively. Many advertisers know (and many others have faith) that advertising protects and increases the sales of their brands, but whether the aggregate advertising of all the brands in the category increases the size of that category is a question that has not often been asked. The flattening of sales in most product fields – something that was happening in the United States before the end of the 1970s, and was taking place in other economically developed markets shortly afterwards – should have raised the possibility that advertising was having no influence at the macro level. But not many researchers examined this possibility seriously.

However, there were three well-known analysts who did some work in the field: the Americans Lester G. Telser in 1962[26] and Julian L. Simon in 1970,[27] and the Belgian Jean-Jacques Lambin in 1976.[28] Their research was small in scale and narrow in focus, but their general conclusion was that there was little detectable macro effect from advertising. An important point made by Lambin was that the only examples of such an effect occurred in developing markets, "where product-related social, economic and technological forces are favorable to the spontaneous expansion of demand."

The only way to examine rigorously the relationship between total category advertising and total category sales is by examining reliable trend data. This is surprisingly easy to do, and the veteran British researcher Harry Henry did the job in Britain in 1996.[29] He used data from ten categories of repeat-purchase packaged goods: breakfast cereals, instant coffee, tea, biscuits, cheese, cakes/buns, frozen fish products, bread, butter, and frozen vegetables. Total sales in these categories were not just stable: they actually went down despite the continuous increases in advertising. The results of Henry's analysis, in **Table A-4**, are totally clear.

Table A-4 *Ten British Product Categories: Manufacturers' Sales and Advertising (Both at 1990 Prices)*

Manufacturers' Sales			Advertising	
Year	£ (billions)	Index	£ (millions)	Index
1985	9.0	100	148	100
1986	9.1	101	168	114
1987	8.9	99	194	131
1988	8.9	99	221	149
1989	8.7	96	212	143
1990	8.4	94	180	121
1991	8.3	93	180	122
1992	8.4	94	188	127
1993	8.2	92	176	119
1994	8.1	90	173	117

In an economically-developed country like Britain, there is no evidence that advertising works at a macro level. It is exclusively a weapon of competition, and the advertising of competitive brands within a category results to some extent in a cancellation of their effects, and thus their inability to boost total sales. The situation is however different in growing markets, particularly big ones like China and India. In these, advertising still contributes to category growth, and the business still carries some of the excitement – its association with growing economic prosperity – that characterized the industry in the United States during the first seven decades of the 20th Century.

Against the evidence in **Table A-4**, how was it possible to explain the experience of the California Avocado Advisory Board, whose advertising was able to boost total sales by a large amount? The market for avocados has two unusual features. First, like most agricultural products, avocados have no direct competitors, but many indirect ones that provide opportunities for diverting purchasing from very different types of product. The advertising extended avocado buying at the expense of salad vegetables, sandwich fillings, dips (as well as potted plants and facial treatments!) Advertisers in most fields do not have such opportunities, and their attention is exclusively focused on their direct competitors.

The second, related, factor was that in the absence of directly competitive advertising, there was no countervailing force to reduce the effect of the avocado campaign. The benefit to the farmers was that they sold a large volume of avocados. The driving forces were the low price, working in combination with advertising that demonstrated attractive opportunities for using the fruit.

A Summary of How Much Advertising Works

Measuring the effect of advertising is difficult because of the lack of reliable techniques. Simple measures of the public's recall of campaigns are not statistically related to sales. And direct sales measurement does not separate the influence of advertising from other sales stimuli.

However, during the 1990s, a reliable device was introduced and the name given to it was Pure Single-Source research. It did not have a long life in the United States because of its very high cost, although it has continued in Germany. The American research is still regarded as totally reliable, so that it is fair to use it as the basis of my estimates of the proportion of advertising that is effective.[30]

"Single-Source" means that all the information is collected at the same time from the same people. It brings together a household's exposure to a brand's advertising and the purchases of that same brand within the same household. The word "pure" means that the two important elements, sales and household exposure to the stimuli, are tightly controlled. The technique can separate purchasing in two groups of households: those that have received the advertising and those that have not. Since the two groups are otherwise identical, any difference in sales is due to the advertising alone.

The effect of advertising on purchase can be isolated through a device named Short-Term Advertising Strength (STAS). STAS is based on purchase occasions as measured by the Nielsen Household Panel. Purchase occasions are recorded in the household sample from data collected by handheld scanners in the home. Television exposure is monitored by meters attached to the television sets in Nielsen households. A separate technique identifies the commercials on air when the sets in the households are switched to particular channels. These three methods of collecting data are complex but they provide all that is necessary to calculate the STAS for any brand.

- ⇨ The brand's share of all purchase occasion in the households that had received no television advertising for it during the seven days before buying is the *Baseline STAS*. This is the brand's "natural" or "brand equity" sales level.
- ⇨ The brand's share of all purchase occasions in the households that had received at least one television advertisement for it during the previous seven days is the *Stimulated STAS.*
- ⇨ The difference between the Baseline STAS and the Stimulated STAS is the *STAS Differential.*

The STAS Differential is invariably indexed, so the numbers calculated represent the percentage by which the Stimulated STAS is above or below the Baseline STAS (indexed at 100). For each brand, the STAS measure is an average of all the weekly periods across the year. This means that with virtually all brands in the original research, a number of purchasing occasions were covered; the figures were calculated from upwards of 8,000 statistical observations in each product category. This is a procedure that gives STAS a considerable statistical solidity.

The original STAS calculations in the United States were based on television alone, as were those in Britain. However in Germany press advertising was included and the sales results were very similar to television. (The Internet is also now covered.) The patterns of effectiveness in the three countries were very similar although they tended to be rather weaker in Germany.

The initial distribution of American STAS scores is shown in **Figure A-6**. The blocks show deciles, i.e., each represents 10% of the brands in the sample. 30-40% of advertising shows a positive short-term effect although there is a steep fall-off from the first decile. More than 40% of campaigns show very little effect; and 20% of campaigns are associated with lower sales. This is because of the competition within categories. Weak campaigns produce fewer sales than stronger ones, and it is the weak campaigns that are in the bottom two deciles.

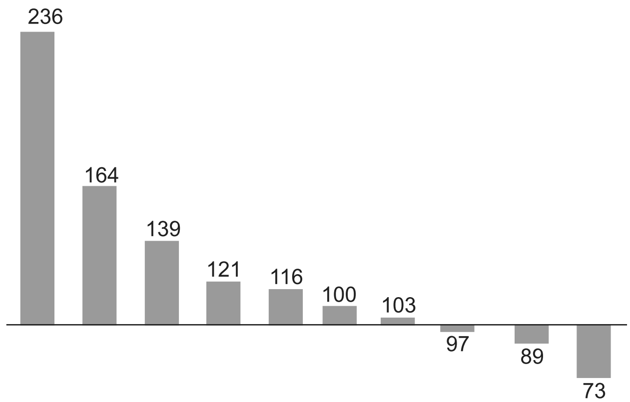

Figure A-6 *Short-Team Effects of Advertising (STAS deciles)*

The medium-term effect of advertising represents a repetition of short-term effects, and the amount of repetition depends on the advertising budget and the media. Any brand's budget is never large enough for continuous advertising, so that all medium-term effects are lower than short-term ones, as shown in **Figure A-7**. The general conclusion of 50% successes and 50% failures is harmonious with the judgment of the early practitioners William Hesketh Lever and John Wanamaker, who said that half their advertising was wasted, but they did not know which half. (We now at last know which half works!)

The research does not cover direct response advertising, which although fairly small in absolute volume is normally more effective than general advertising. This is because much direct response advertising is pilot-tested for effectiveness. If direct response were to be included in **Figure A-6**, the positive short-term effects would actually be a point or two higher. However, the medium-term effects would be unchanged because most direct response advertising does not generate repeat business.

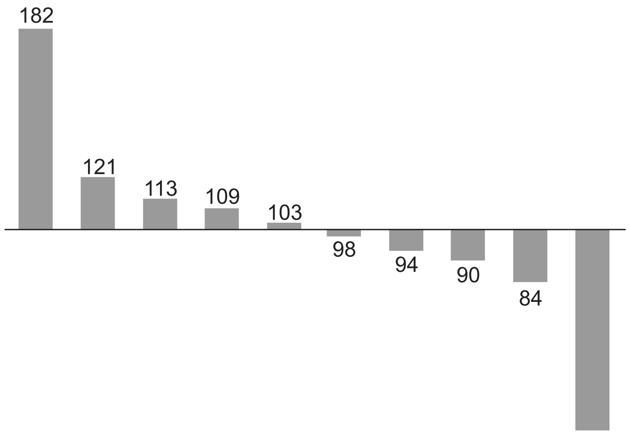

Figure A-7 *Medium-Term Effects of Advertising (Deciles)*

How to Improve the Track Record of Advertising

A natural follow-up of the STAS concept, with its evidence of a large proportion of ineffective advertising, is to search for ways of using it to improve the efficiency of advertising operations. The simplest way to do this is by basing policy on an Indian acronym, "*Good Cooks Make Biriani*." This has four capital letters that signal: G = gatekeeper; C = continuous media exposure; M = medium-term effect; B = brand building.

Gatekeeper

As explained, advertising has a measurable effect in about half of all cases, despite a sharp fall-off after the first decile. Including this decile, upwards of 30% of campaigns are likely to deliver worthwhile sales. The first objective for Brand A's advertising should therefore be to join this select group. Here are six specific proposals to achieve this objective:

1. Focus Brand A's strategy on business objectives. Ensure that the source of its business is clearly understood: how much will come from identified competitors, and how much from the brand's own users? Determine the relative importance of penetration growth, i.e. new users; versus purchase frequency, i.e. more business from existing users.

2. Allow the creative people wide freedom to develop their ideas, so long as they respond exclusively to the objectives set out in the strategy. This strategy will tell them what the advertising should achieve. But it will not tell them how to do it.
3. Search for the earliest possible evidence that the advertising campaign is swinging the sales needle. Study closely the initial consumer panel and retail audit data. Conduct *ad hoc* research with consumers and the retail trade. Run experimental advertising tests in small areas, e.g. a test of double weight, and one with no media advertising. These should be aimed at revealing incremental sales effects from the campaign.
4. While the campaign is running, work all-out on an alternative (in the hope that it will not be needed).
5. If there is no evidence within six months that the campaign is working, dump it and substitute an alternative (with any luck, the one that was already being developed).
6. Follow the fate of the new campaign as carefully as had been done with the initial one.

Continuous Advertising Exposure

The first factor that makes it possible to run a campaign relatively continuously is the size of the budget. This should be determined by marketplace factors; in other words, how much money is needed to do the job? The best general guidance on the necessary expenditure can be found in **Figure A-5**, **The Advertising-Intensiveness Curve**, although this should only be the beginning of the process and should not be used on its own. Setting a budget is a matter of experienced judgment, and a manufacturer who has been in the business for some years will have a battery of information from his own records: data that will supply valuable inputs.

After the level of the budget has been determined, the advertiser must then find a way of raising the funds. After all, a manufacturer is going to be constrained in the long term by whether the advertising campaign is an affordable item. This will only be a serious problem with new brands, because there is no way in which an advertiser can pay the necessary up-front investment without running a heavy deficit. A pay-out plan must therefore be drawn up to work out how sales can gradually be boosted, to run down the amount of deficit budgeting until the brand moves into profitability.

Given the size of the budget, continuity is now going to be determined by how the money is deployed. There is no dispute that a proportion of advertising works with immediate effect. There is also powerful evidence that within a "burst" or the "flight" of television spots, upwards of 70% of the sales come from the first exposure, and after this the returns diminish rapidly.[31] This pattern is shown in **Figure A-8**, which comes from research derived from 112,000 statistical observations.

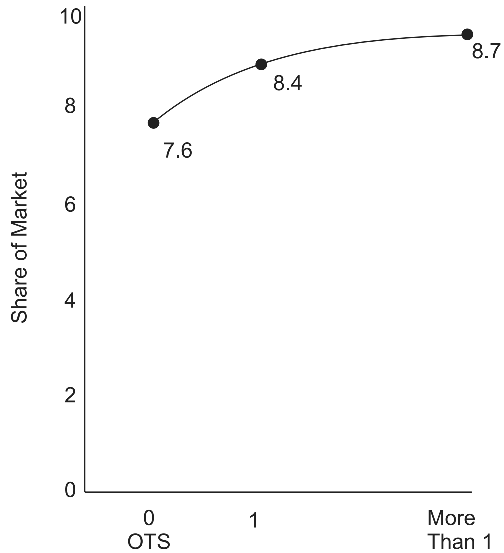

Figure A-8 *Sales Effects of Incremental Television Exposures*

Brands are bought all the time. This does not mean that one individual buys the brand every day. What it does mean is that some individual somewhere is in the process of buying the brand every day, in fact every minute of every day. This is a generalization that holds for everything from toothpaste to expensive motor cars. This is the ultimate *rationale* of continuous advertising: the market is in continuous operation. The most practical expression of continuous buying is by planning television or other advertising in short but realistic periods – most commonly a week – and then deploying the advertising in a weekly "burst" or the "flight". An additional advantage is that the advertising can be bought close to when most consumer purchasing takes place: at the end of the week. This is the important advertising advantage of being recent.

Now consider **Figure A-8**. It is obviously wasteful to over-concentrate television weight, because each extra exposure, which costs the same amount of money as the last one, produces fewer and fewer sales. The answer to the problem is to reach a substantial proportion of Brand A's target group once in the weekly "burst", but with minimal duplication. This calls for buying individual spots in such a way that coverage is extended until it gets to the specified net reach of the target group. This basic pattern of advertising should be repeated week-by-week throughout a year, or at least for as long as the budget lasts. There will almost certainly be some gaps in the schedule, but these should occur during the period of Brand A's low seasonal sales.

The value of this type of schedule has been demonstrated many times since the mid-1990s. In 1999, the celebrated *AdWorks2* study was released to subscribers, and selected extracts were published. This was a co-operative enterprise between two major research companies, Media Marketing Assessment (MMA) and Information Resources Inc. (IRI). It was an econometric study of more than 800 brands in 200 separate categories, using sales data from 4,000 grocery, drug, and mass merchandiser stores over two years 1995-1996. The research compared the effectiveness of continuous and concentrated advertising and reached the following unambiguous conclusion:

> "Continuity plans are more effective than concentrated plans. This supports findings from other studies that point to the importance of Recency. Brands that are planning to increase weight should first consider adding weeks instead of adding weight to existing 'flights.' Brands with high levels of Gross Rating Points (GRPs) delivered per week should consider shifting some weight across additional weeks."[32]

This conclusion was derived from a special calculation of the relative sales effectiveness of the different schedules, based on the average (index at 100) for all television schedules covered by the *AdWorks2* research. The relative effectiveness of three mixes of continuity and weekly weight are shown in **Table A-5**.

Table A-5 *Relative Effectiveness of TV Schedules Based on Different Combinations of Continuity and Weekly Weight*

Continuity	Weeks on Air	Maximum GRPs* per Week	Index of Sales Effectiveness
Low	9	240	61
Medium	22	163	106
High	38	193	132

*GRPs = gross rating points.

Medium-term Effect

The end of a year is the time when a manufacturer normally evaluates the situation of each of its brands, determining which marketing plans have worked and which have not. Assuming that Brand A's advertising campaign has generated immediate sales and that continuous advertising has prolonged this effect, there is a good chance that the end result will be an improvement in the brand's market share. In an economically developed and mature market like the United States, an advance of 5% in sales is highly satisfactory; in some hyper-competitive categories, a leading brand is successful if it merely maintains its volume. However, in a growing market like India, an increase of 10% or more is a realistic possibility.

Brand Building

The long-term effect of advertising is manifested through a strengthening of the brand itself. Gradual brand building is the Holy Grail of all marketing activity and is the end-product of skill, imagination and investment over the years. The benefits to the marketer are repeat business; increasingly productive advertising; steady – and even growing – profitability; and the resources to fund new brand ventures. Large successful brands, which represent fewer than 10% of the total, provide security to their manufacturers so long as continuous effort is made to keep them in good repair, or in the words of a former chairman of Unilever:

> "Provided that it is kept up-to-date as a product, by technical innovation and updating, and that its communication is kept relevant, it can be sustained for decades or more."[33]

Pointers for International Research

The research on which this Appendix was based was carried out in the large economically-advanced countries, the United States in particular. The work is all quantitative because I believe that a robust examination of the effects of advertising must be based on properly executed research of this type. There would obviously be great benefits if research with a similar degree of sophistication could be replicated in two other groups of countries, the large economically-underdeveloped ones, and the less populous of the developed (Canada, Australasia and the smaller European countries). There are however two impediments to such a plan: the scarcity of specialist skills, especially in the field of econometrics; and the problem of raising the substantial financing to fund large quantitative investigations.

The second impediment is much greater than the first. Talented, experienced, imaginative researchers are not in short supply in countries beyond the United States, Germany, Britain, France, and Japan. However, research funding is a much greater problem. It depends ultimately on the expenditures on media advertising, which determine the amount of money available for research into advertising effects. The limitation is that advertising volumes in both the larger underdeveloped and the smaller developed countries represent only a tiny fraction of those in the United States and the other large markets.

Evaluating the effectiveness of advertising calls for two expensive research measures:

- A continuous tracking of media advertising, with total expenditure per medium and by brand; ideally providing week-by-week data.
- A continuous tracking of consumer purchases, estimating total purchasing by category and by brand; ideally from both a consumer panel and a retail audit.

Such a program is obviously over-ambitious for countries outside the highly-developed group, although A.C. Nielsen in India has made strides in setting up a computer-based audit of brand sales in supermarkets. Data are collected monthly from a large sample of stores, and Nielsen follows the classic pattern of auditing sales (stocks at the beginning of the period, plus deliveries during the period, minus stocks at the end). With considerable ingenuity, the company uses hand-held terminals (HHTs) to log the information. How far can this sort of imaginative research be extended? And more specifically, what realistic possibilities are available in countries that are unable to afford the big budgets?

The first drastic simplification would be to eliminate continuous tracking, and concentrate on "dipstick" estimates carried out once a year. The best way to do this is through a single large-scale quantitative survey, but the sample must be large in order to net an adequate coverage of a large number of individual brands. A model for such research is the annual surveys carried out in the United States by Mediamark Research Inc. (MRI).[34] This research provides reliable annual estimates of each brand's penetration (i.e. the percentage of homes that buy it at least once in a defined period), and purchase frequency (how often they buy it on average during that period).

These two pieces of information make it possible to extrapolate a brand's sales and market share. The MRI research is syndicated, i.e. carried out for a number of advertisers, who share the cost; and the length of the questionnaire is governed by the number of brands that have to be covered. In the United States, the MRI questionnaire is 50 pages long, but the company has found an efficient way of handling the complex fieldwork for this.

Qualitative research is less valuable, although also less expensive than quantitative work. All direct research into advertising is based on "forced exposure," an unrealistic method of assessing impact because people are instructed to engage with an advertisement, while in the market place people make up their own mind whether or not to look at it. Qualitative research can nevertheless be useful to assess communication and likability, although the small samples mean that the findings cannot be projected.

In Denmark, ingenious research is carried out despite the small size of the media budgets, since the country contains only five million people. The Copenhagen Business School has managed to replicate STAS research by interviewing respondents face-to-face, and a new measure has been developed, called Attitudinal Short-Term Advertising Strength (ASTAS). The data from this research provide a reasonable approximation of those produced by the much more complex and expensive STAS system.[35]

Striking a Balance

The analysis in this Appendix of advertising's influence on the economic system has raised a range of arguments, for and against. At the heart of it all is the issue of how much advertising increases or decreases prices; and the seven points that bear on this contain two big ideas.

The first is the scale economies associated with large output, a process whose importance is undisputed. Businesses that manufacture products or provide services benefit from these economies, and competition between businesses, a process in which advertising plays a central role, ensures that these economies are passed on to the public in lower prices and improved product quality. Advertising also contributes in an even more fundamental way. The firms that install the systems to generate the large volumes can only do this economically because of the demand generated by the advertising for their end products. And advertising's ability to shrink retail margins and reduce search costs brings the advantages to the buyer down into the retail arena.

The second big idea is the single price that is reduced directly by advertising: the price of the media. This is made possible because of the mechanism by which advertising actually operates. This benefit comes from the entertainment, information and education – a benefit equivalent to a tax-free annual transfer payment of $250 – provided by the media to every member of the American public.

In the debate about whether advertising raises or lowers prices, I believe that although advertising pushes prices up in three real ways, at the same time it brings them down by a greater amount overall. Advertising is on the side of the angels; the pros outweigh the cons.

Advertising is also valuable in developing and expanding primary demand in economically underdeveloped countries, in particular the large and rapidly growing Chinese and Indian markets. But in developed countries like the United States, Canada, most of Western Europe, Australasia and Japan, advertising has little demonstrable effect at the macro level, although its effect can be felt in its ability to sell brand against brand within categories: its real contribution to the competitive process.

Nevertheless, advertising's general success level is not impressive. The main objective of the advertising industry should therefore be to improve its efficiency. This calls for free-ranging creative ideas developed by the human imagination. Just as important is the need for more and better research to accomplish a variety of tasks: to help improve advertising strategy, to pre-test and sharpen creative ideas, to measure the market place performance of campaigns at an early stage – before too much money is spent on those that do not work – and to evaluate the causes of both successes and failures. Not least, optimizing the size of advertising budgets and improving their deployment in the media call for the help of good research.

Researchers need not constantly attempt to reinvent the wheel. It is a fact that specific techniques developed in one country can be used effectively in others, and this should be a rallying cry for the research community worldwide. Researchers in a number of less developed countries have already been able to demonstrate their ability to replicate the "state of the art" research carried out in the United States and the other large economically-advanced countries. The data generated are simpler and produced infrequently, but they are very reliable within their limits.

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Appendix B

A Glossary of Important Advertising Terms

(1) Advertising

Advertising Audience Measurement

Print media make available their audited circulation figures. In addition, research-based readership figures are needed to describe the demographic characteristics of individual publications. In the United States and many European countries, readership data are collected on an industry-wide basis. The ratio between the (larger) figure of a journal's readership and the (smaller) figure of its circulation, gives the number of readers-per-copy.

With television media, the crude equivalent of a journal's circulation is the number of homes with television sets. But this total tells nothing about the audience for specific programs carrying advertisements. What is needed is a continuous tracking of the number of sets switched on and who is watching. This tracking comes from a representative panel of homes which have meters attached to the sets: devices that log the times when the sets are switched on and off. These are supplemented by the "people meter," another device used by a viewer in the home to indicate the number of people watching a particular program.

The audience for radio is only measured by intermittent checks to estimate the gross number of listeners to a station, e.g. the total number of people who listen to any program from that station over the course of a week.

Outdoor (poster) advertising attracts an audience that is almost impossible to measure accurately. The best available estimates are derived from the volume of traffic that passes a poster during the course of the day: both pedestrians and those transported in cars, on bicycles etc.

For cinema advertising, good audience data are available from the sales of admission tickets.

Advertising Creative Planning

This comprises three separate stages:

(i) Strategy, which is set in terms of management objectives, in answer to the question "What do I get for all the money I am spending?" A strategy establishes the target group for the advertising, and sets measurable behavioral targets in terms of new users, or increased purchase frequency. (These together determine sales.) The specific role of advertising is also set out.

(ii) The creative idea, or the creative concept developed by the agency's creative people in answer to the strategy. This involves an imaginative leap in a pre-determined direction. The fundamental problem faced by creative people is that members of the public are indifferent to advertising. Considerable ingenuity is therefore needed to lure consumers into participating in the communication, which is a two-way process.

(iii) Craftsmanship, which describes the skills of film makers, print designers and typographers, and radio producers. These skills add the quality known as production values, additions to the creative idea that greatly increase its impact. In practice, a close collaboration exists between stages (ii) and (iii).

Drivers of Effective Advertising

Advertising can only work if the client does a good job of developing a product or service that is functionally good enough to attract buyers, one that is appropriately priced, and in reasonably full distribution.

Given these requirements, effectiveness of advertising depends on three factors: the creative idea, the budget, and the media strategy, i.e. the choice of media and the way they are deployed over time.

The creative idea is the prime determinant of effectiveness, and acts as a gatekeeper to all other effects. An effective creative idea generates sales without delay, but the blip is temporary, since sales go up and down within seven days of the exposure of a single advertisement. The proportion of advertisements that work with powerful effect is not much more than one-third of the total. (See the section **A Summary of How Much Advertising Works***,* **in Appendix A**.)

The budget and the media strategy determine the extent to which the short-term effect of the creative idea is repeated. Continuous media exposure maximizes this repetition, and thus maintains the sales increases. The end result of the effectiveness of the creative idea, the budget and the media strategy is visible in an increase in the brand's sales at the end of a year: a period that defines the medium-term effect of advertising.

With high-involvement purchases where there is little repeat buying, the creative idea must still produce quickly a behavioral effect, but this is not likely to be a matter of immediate sales. Such an effect is often seen in prompting potential buyers to read a catalogue or visit a showroom, activities that may pave the way to a considered purchase. With high-involvement goods the three elements of creative idea, budget and media strategy are truncated, which means that the short-term effect merges into the medium-term effect.

Advertising can also have a long-term effect, perceptible beyond a year and often working far into the future. This process comes through the overall strengthening of the brand (as described in **Chapter** 4). Advertising has six measurable long-term effects, one of which is that a successful brand attracts new users, and users tend to pay attention to its advertising (because of selective perception). This leads to an increased advertising elasticity.

A helpful acronym summarizing the process of how advertising works is *Good Cooks Make Biriani*. The capital letters stand for G = gatekeeper; C = continuous media exposure; M = medium-term effect; B = brand building. (This is amplified in **Appendix A**, in the section **How to Improve the Track Record of Advertising**.)

Advertising Elasticity

This is an estimate, made by econometric analysis, which screens out all the influences on a brand's sales with the exception of the media advertising. Advertising elasticity measures the percentage increase in sales that results from a 1% rise in advertising expenditure.

The average advertising elasticity from a broad range of brands is +0.2, although in many cases there is no effect at all. The average elasticity demonstrates a 5:1 relationship, i.e. 1% extra advertising produces 0.2% extra sales; more typically, 10% extra advertising produces 2% more sales. In order for the extra advertising to pay for itself, the *profit* on the extra sales must cover the cost of the additional advertising expenditure. This sometimes happens, but it is very rare.

The average elasticity of +0.2 came from an aggregation of brands made in 1984. A smaller but more recent collection suggests an average figure in the

+0.06 to +0.09 range. The more reliable estimate remains +0.2, but the lower figures may indicate an erosion of elasticity as categories have become more crowded with competitive brands, as has happened in the United States.

One of the long-term effects of successful advertising – something that means essentially brand strengthening – is that it can lead to a small increase in a brand's advertising elasticity. In other words, as a brand becomes stronger, its advertising works better.

Isolation of Advertising's Effect on Sales

The only type of advertising where the effect on sales is easily calculated is direct response: mostly mail-order. Advertising is this case is the sole sales stimulus, and its effect can be measured by the number of responses generated. By dividing the cost of the advertisement by the number of responses, the cost-per-response pops out; this is the reason why mail order was once described as "scientific advertising." There is an element of direct response in certain broader types of advertising, e.g. advertising for consumer durables that includes a coupon, telephone number, or e-mail address: devices to prompt potential buyers to order a catalogue or visit a showroom. Such responses can be counted, and the cost-per-response can be easily calculated.

However, for most advertising, the process of isolating the influence of advertising is much more complicated. An efficient but expensive method is Pure Single-Source research (described in **Appendix A**, in the section **A Summary of How Much Advertising Works**). This requires the continuous monitoring of the sales of all brands in a category, and also the advertising for those brands that actually enters homes. Most importantly, the precise days when the advertising is received must also be logged. By comparing the purchasing in the homes that received the advertising with the homes that had not received it, the influence of advertising on sales can be isolated. This technique has produced some dramatic findings, notably on the relatively small amount of advertising that actually works.

Another extremely serviceable system, although an expensive one, is to use econometric analysis (also discussed in **Appendix A**, in the sub-section **Advertising's ability to boost demand**). By the use of high-order mathematics, particularly regression analysis, it is possible to calculate the degree of statistical correlation between each sales stimulus for a brand (e.g. the advertising in each medium, each type of consumer promotion etc.) and the sales of that brand. This produces a figure for the specific contribution to sales of each sales stimulus. As a result, the sales can be deconstructed into different proportions accounted for by each stimulus. A typical pattern shows that 70% of sales are accounted for by the brand equity: the base level of sales irrespective of any sales stimuli. This leaves 30% of sales to be accounted for by advertising, promotions etc. The estimates of the contribution of each provide the best possible guidance to the optimum way of deploying the advertising budget between different media, promotions, etc.

Advertising Intensiveness

This describes a brand's advertising expenditure relative to other brands in the category. The metric used to describe this is share of voice (SOV), a brand's share of all media advertising in its category. Brands of the same size spend broadly similar amounts of money on advertising, because they mostly spend what they can afford, and the cost structure of one brand is approximately in line with other brands of the same size. But with certain brands, their SOV is above – and in other cases below – the SOV of competitors. In other words, they are more – or less – advertising-intensive. This is because of deliberate policy calling for extra investment (when SOV is above average) or requiring more profit (when SOV is below average). See **Figure A-5: The Advertising-Intensiveness Curve** in **Appendix A**.

An apparently less complex system of calculating advertising intensiveness is to base it on the advertising to sales ratios of different brands. But there is a problem. This method calls for data on advertising as a share of sales which are confidential for all brands except the advertiser's own. In contrast, widely available figures can be used to calculate the SOM:SOV relationship for all brands, which is why this is the system on which the Advertising-Intensiveness Curve was based.

Advertising Media Planning

This process starts with three inputs: a definition of the target group of the advertising, described in demographic terms; a decision on the main media to be used, which is to a large degree a creative decision; and a firm figure for the budget for each medium, from which a sum must be set aside to cover production costs.

The next stage concentrates on each medium. The most important demographic target group provides the goal to be reached by the advertising schedule, and specific media vehicles (television shows, magazine titles etc.) are chosen with the aim of maximizing the coverage of this demographic group, bearing in mind the need to contain costs by selecting the vehicles that offer the most economic cost-per-thousand viewers, readers etc. (The vehicles with the largest coverage and highest cost in absolute terms often provide the most effective cost-per-thousand, because of their scale economies.)

The media expenditure in each medium (i.e. the total of the sums allocated to each vehicle) is then deployed over time, normally twelve months, to reflect the seasonality of the brand's sales. The most widely-used media policy is known as Continuity Planning. The first stage of this is to calculate the minimum weight of advertising during a single week that will have an effect on a brand's sales; this is normally agreed to be a single *Opportunity-to-See* (OTS), which can only be achieved by using a number of different spots, magazine pages etc. But these must be chosen to extend the reach rather than increase the duplication (although duplication can never be eliminated). This pattern of weekly media planning is then stretched out for as many weeks as the budget allows.

The final stage is to buy the spots, magazine pages etc. at the lowest possible price that can be negotiated in the market place.

The phrase a single *Opportunity-to-See* (OTS) means that the total audience will be exposed to an advertisement once, on average. The phrase *frequency-of-one* is often used to describe this, but frequency implies that people will actually see the advertisement. It is more accurate to say that the opportunity exists for them to see it.

Advertising Pre-testing

This is an important activity because of the large amount of ineffective advertising that ideally should be identified before media money is wasted on it. However, the problem is that pre-testing systems are unreliable, due to the insoluble problem of forced exposure. This means that people are asked to look at an advertisement and then asked questions about it. In the real world, no one is instructed to look at an advertisement. People choose to pay attention through a subconscious process that is not well understood and which is called selective perception. (See the sub-section below, **Selective perception**.) Whether an advertisement will trigger an unconscious switch in the mind of the consumer to pay some attention, is something that cannot be reliably discovered by any research that has been developed by the large and sophisticated market research industry.

Research based on forced exposure can reveal something about an advertisement's ability to communicate a message, and also about whether people might be entertained by it. This type of research, which is normally carried out by qualitative methods, is the commonest type of pre-testing research carried out.

Entertainment, or likability, has a special value. The seed of the idea was sown by a statement by Leo Burnett, one of the most important pioneers of American advertising: "We still don't have research that really tells us a very simple thing – do people like or dislike an ad?" This question can in fact be answered, and its importance is that a likable advertisement has a reasonable chance of penetrating the barrier of selective perception to nudge the consumer into paying attention. But evidence for this likelihood is only directional. Unfortunately no research based on forced exposure is able to indicate reliably *whether or not people will look at the advertisement in the first place*.

In the United States, a research technique that was once widely used was based on running an advertisement in a small area on a trial basis, and then asking people whether they could recall it, and what they remembered about its content. However, it was eventually discovered that recall figures bore no relation to an advertisement's ability to sell a brand, and the technique rapidly lost favor.

For many years, a much more effective system was used. An American research company, Advertising Research Systems (ARS), employed an ingenious technique developed by a behavioral psychologist. The company screened a commercial as part of an entertainment program in a cinema. Before the program started, the audience was enrolled in a lottery for $100, and the winner had to take the prize in packs of different products. The products included the brand that was to be advertised, and a note was made of the preference for that brand in the lottery. At the end of the program, the lottery was repeated, and the company also noted the preference for that brand in the second lottery. Any change in preference had to be due to the exposure of the single advertisement. This preference shift was the sole piece of information that the test was set up to reveal.

During the test itself, the brand was not mentioned, and the audience was not told that this was in any way a piece of research into advertising. A large volume of data on preference shifts was collected over the years, and average scores were computed for many different product categories. The company managed to establish a close correlation between the size of the preference shift and the subsequent sales of the brand (monitored with a first-class sales measurement).

Surprisingly, this research is no longer carried out because it became the victim of intense opposition from advertising agencies. They refused to accept the unfavorable scores achieved by some of their favorite campaigns. (The fact that these campaigns were ineffective seemed not to matter.)

Advertising-to-Sales (A:S) Ratios

The percentage of an advertiser's net sales value (NSV), i.e. consumer prices minus retail margins that is devoted to media advertising. (See the sub-section in **Appendix A: The Direct Cost of Advertising.**) The median figure in the United States in 2009 was 5.0%. Most members of the public think that advertisers spend much more than this.

(2) Brands

As described in **Chapter 2**, a brand is an amalgam of something that performs a function and also occupies a place in the mind of the consumer. Functionality is described in **Chapter 2** in the sub-section **Functional performance**; a brand's place in the consumer's mind, described as its added values, is discussed in **Chapter 3**.

Two other aspects of brands are important.

The brand repertoire: The majority of buyers – both households and individuals – do not confine their loyalty to a single brand. In most product categories, more than 80% of sales are made to multi-brand buyers. The collection of brands that people buy is known as their *brand repertoire*. In various fields of FMCG, households buy on average at least three brands over the course of a year. These are made up of a primary brand (which accounts for about half of total purchases); a secondary brand (which accounts for about a third of all purchases); and a tertiary brand, which is much less important: some people experiment by making single purchases of a number of alternatives. There are good reasons why people spread their patronage over different brands. They may buy a selection of brands to carry out various functional jobs (e.g. different types of detergent); or brands for different members of the household (e.g. different toothpastes for adults and children); or just for a change or to sample something new.

The important point about the repertoire is that people have constant experience of competing brands. If one of these should receive functional improvements, this brand will increase its share of market at the expense of brands that have not been improved. The repertoire of brands is, therefore, an artifact that ensures that functional improvements are rapidly copied within product categories.

The repertoire concept also holds for infrequently purchased goods and services, such as automobiles. In these cases, however, the time period over which the repertoire is revealed must be years and not months.

Ubiquity: The brand concept applies in all product fields, although it was first used for FMCG. It describes durables, including cars (whose brands are called marques); industrial goods; retailers; financial institutions; and all types of services. The concept has also been stretched out into non-commercial fields (e.g. "Re-branding Britain.") The word "brand" has come a long way since it was first used to burn a name onto wooden casks of whiskey.

(3) Consumers

Consumers are at the heart of all advertising. They form the specific target groups for individual brands, and for this reason they need to be described in operational terms. Three types of description are commonly used.

Brand usage: The brands used by members of the target group, including identified competitive brands, plus the brand itself (if it has a large user-base). A question posed in an advertising strategy: "Where is the business going to come from?" should include brand names and ensure that the advertising has a commercial focus.

Demographics: These are familiar and easily-measured characteristics of a target group: age, sex, income, education, occupation, region, household composition, ethnicity etc. These data are needed for efficient media planning, since media research data are classified in demographic terms.

Psychographics: These come from studies of lifestyles, attitudes, social habits, leisure activities, perceptions of social class etc. This information provides insights into the minds of the consumers: insights that are of obvious value in nurturing advertising ideas.

Consumers' buying habits can be analyzed in a number of ways. These reveal surprisingly regular patterns that are common to buyers of most other brands in the category and also those in many other product fields. The five most important definitions are as follows:

- ⇨ **Penetration**: percentage (normally of households) buying at least one pack of a brand during a defined period.
- ⇨ **Purchase frequency**: number of times the average buyer buys the brand during that period.

- ⇨ **Frequency distribution**: number of buyers who buy the brand at different frequencies (once, twice etc.) during the period.
- ⇨ **Repeat Buying**: percentage of buyers who continue to buy the brand during the *next* period.
- ⇨ **Multi-brand buying**: percentage of buyers who also purchase another brand or brands during the period being measured.

A formula exists to link a brand's penetration and purchase frequency with its sales (or more precisely its consumer purchasing):

Consumer purchases = (a) population
x (b) penetration
x (c) purchase frequency
x (d) number of packs purchased per occasion
x (e) average size of pack (measured in volume or money)

A brand's penetration is sometimes called its user-base or consumer franchise.

(4) Life Cycle Theory

This is a widely propagated doctrine that describes how brands, like animals and plants, supposedly go through the four stages of birth, growth, maturity, and decline. Although many brands do go through these stages, this in itself does not prove that the theory is valid. Brands are in effect a product of efficient – or inefficient – management. If they are managed well, there is nothing inevitable about their decline. The life cycle theory is a dangerous fallacy: dangerous because it is self-fulfilling. If managers believe in decline, they will lose interest in the brands that they think are in decline, thus hastening the process and causing their premature demise. Losing interest means, among other things, reducing investment in research and development, and in advertising and promotional support.

Reducing support behind a brand is a tempting strategy because the money saved goes straight to the bottom line. In other words, a brand from which support is being withdrawn will become immediately more profitable. However, this happy situation does not last long, as the brand swiftly declines to insignificance. The action of withdrawing support in this way is known as milking a brand.

(5) Market Research

This is the only scientific tool available to marketing and advertising practitioners. The three most important aspects of market research are as follows:

Sampling: The group of people whose habits, attitudes etc. are being studied is called the *universe*. Two reliable systems exist to sample this universe: *Random (or probability)* and *Quota.*

Random sampling (a technical term that does *not* mean haphazard selection) calls for selecting respondents in such a way that there is no possible relationship between any of them; in other words, any member of the universe has an equal chance of being selected. Such sampling is carried out by compiling a list of names in the universe (e.g. the households in an area), and selecting names, using a book of random numbers. Random sampling is uncontaminated, but it is the most expensive way of carrying out research because the interviewers have to go to and fro to locate the respondents. *Quota sampling* is carried out by dividing the universe into demographic groups, and drawing a sample of people who are easily available, but who fall in the correct proportions into those groups. In comparison with random sampling, quota sampling is not so pure, but is a good deal less expensive. Some research is carried out by combining these techniques, e.g. by selecting geographical areas by random sampling, then setting quotas within these areas. Finally, some investigations are carried out with *Convenience samples*, which accept any respondents who may be available, without any controls. This system is not research and can never be recommended.

The reliability of research depends on the size of the sample. The top limit is normally about 2,000 respondents, and samples larger than this do not produce better results, unless they are broken down into sub-samples to isolate specific groups, in order to make reliable estimates from these.

Quantitative research: This employs large samples that can be projected reliably to represent the universe. It uses simple questions that can be pre-coded and are therefore easy to tabulate. Interviews can be carried out face-to-face, by telephone, or on the Internet. It can answer questions like: "What?" "When?" "Where?" "Who?" "How often?" and "How much?"

It is used for a wide variety of general surveys; media research (except for television); usage-and-attitudes (U&A) surveys; political polling; and product tests. One of the most important uses of quantitative research employs panels (repeated research from the same samples), a type of research used for television audience tracking, and sales/purchasing research using retail audits and consumer panels. Finally, econometric analyses are invariably based on the findings of quantitative research.

Qualitative research: This uses small samples that cannot be projected, but they can illuminate the findings of quantitative research. The questioning is open-ended and is conducted by interviewers who have some training in psychology. They carry out the research either with focus groups (of six to ten respondents), or with individuals ("one-on-ones"). This type of research is widely used for pre-testing advertising, and for the study of psychographics. It can answer questions like: "Why?" and "How?"

Aspects of research are discussed in **Chapter** 7.

(6) Product Groups

A category is a product group broadly defined, e.g. carbonated soft drinks, beer, canned soup, automobiles, airlines, credit cards.

A segment is a product group narrowly defined, e.g. cola drinks, lemon-lime drinks, and orange drinks. An alternative segmentation is by classifying soft drinks according to whether they are standard, or diet.

A category is composed of a number of different segments. In economically developed countries, categories usually show no growth; yet within them, some segments may be increasing and some decreasing, so that they balance out.

(7) Psychological Processes

Two psychological processes have an important influence on advertising.

Cognitive dissonance: The psychologist Leon Festinger published the theory of cognitive dissonance in 1957. He said that every individual strives for inner consistency, or consonance. Psychological discomfort, or dissonance, results from inconsistency. Cognitive dissonance in consumer behavior can occur after a purchase decision has been made. As a result, the feeling of anxiety or dissonance that the individual experiences after a purchase is referred to as post-purchase dissonance, or buyer's remorse. Some advertising for high-priced products, including cars, is addressed to people who have just bought them, in order to reduce buyer's remorse by emphasizing the value of the product they have purchased.

Selective perception: This is sometimes known as perceptual screening, and describes a quirk of the human mind that screens in – or screens out – individual messages. It has a particular relevance to advertising. It is the fundamental explanation of the well-known adage that in advertising, what matters is not what you put into an advertisement, but what people take out of it. (In many cases this is nothing because people do not pay attention.)

Advertising for brands that consumers actually buy tends to be screened in more often than advertisements for brands that they do not. And advertising that is either light-hearted and humorous or warmly emotional tends to be screened in more often than alternatives. But research is still unable to help us to determine what it is likely to work on a case-by-case basis.

(8) Purchasing Involvement

Over the course of a year, the vast majority of an individual's purchases are of *low-involvement* goods and services. *Low involvement* means that the purchase does not demand much rational consideration; it is normally a repetition of previous purchases. The goods are usually low in price, and generally bought in food and drug stores (and in India in bazaars). FMCG are almost all low-involvement purchases. *High involvement* means that a purchase calls for careful consideration, and generally involves weighing the pros and cons rationally. The goods are usually high in price, and include vehicles, household durables, and other merchandise that has a long life.

The style of advertising for low-involvement brands tends to reflect their added values rather than their functionality. Advertising for high-involvement brands usually gives good reasons for buying them.

(9) Retail Distribution

Retail distribution describes a brand's coverage of the retail trade. Because high retail distribution is a requirement for a brand's advertising to be effective – as well as being an important marketing force in its own right – retail distribution must be measured, so that action can be taken to correct deficiencies. Distribution is measured in two ways:

Unweighted distribution: Count the universe of stores. Then count the number of stores in which Brand A is sold. Express the Brand A stores as a percentage of the total number of stores. If there are 100 stores in the universe and Brand A can be found in 70 of them, then Brand A's unweighted distribution is 70%.

Weighted (or dollar) distribution: This takes into account the important variable of store size. For the universe of stores, count their overall sales, described as their all-commodity volume (ACV). Then calculate the ACV of the stores where the above Brand A is available. Express the ACV of the Brand A stores as a percentage of the total ACV of the universe. If the ACV of the universe is $100 million, and that of the Brand A stores is $85 million, then the weighted distribution of Brand A is 85%. Since Brand A's distribution is much higher where weighted than unweighted, the brand is distributed in the larger stores. This is normally the objective of major manufacturers, and they direct their sales force to realize this objective.

Out-of-stock estimates the percentage of stores that had distributed Brand A during a recent period (normally two or four months, depending on the frequency of the retail audit), that are currently out of stock. This piece of information calls for urgent action on the client's part.

Stock cover is an estimate of a brand's inventory in the average store, measured in terms of the number of days at the current rate of sale. Large stores like Walmart use immensely complex and expensive computerized systems to minimize the size of their inventories (which tie up working capital). Stock cover in Walmart is calculated in each individual store as well as for every product variety. The objective of the organization is "just-in-time delivery."

The pipeline is the imaginary connection between a manufacturer and his eventual buyers. It represents stages that in India include wholesalers and agents before the pipeline reaches the retailers and eventually the consumers. Salesforce activity, trade advertising and trade promotions – extra discounts negotiated on top of the margins in a manufacturer's price list – load the goods into the pipeline. Consumer advertising and consumer promotions pull them out.

(10) Sales Calculations

Net sales value (NSV) measures a manufacturer's net receipts (i.e. minus retail margins). NSV is used to cover the manufacturer's direct costs, indirect costs, plus a margin. This margin (usually plus or minus 25% of NSV) is used to fund trade promotions, consumer promotions, consumer advertising, and profit.

A notional but realistic breakdown of the expenditures covered by a manufacturer's NSV for a brand of packaged food, is as follows:

Direct cost – raw materials*		45%	
Direct cost – packaging		5%	
Indirect costs**		25%	
Margin		25%	
	Trade promotions***		10%
	Consumer promotions***		5%
	Media advertising		5%
	Profit		5%
	Total NSV	100%	

*The raw materials for a pack of processed food are uniform in quality and made from good quality ingredients. These invariably cost a reasonable amount of money, e.g. a large pack of cornflakes is made from ten ears of corn.

**Costs of running the factory and office, and general overhead.

***These two items reduce prices; a proportion of the trade promotions, and all the consumer promotions, are passed directly to the consumer.

While I was working on this Appendix, I heard two separate and unrelated statements on large American radio stations, each claiming that the price that consumers pay for a pack of processed food in a supermarket goes mainly to pay for marketing expenses. What is remarkable about this is not just that the statements were wrong, but that the journalists had not taken the trouble to check their facts.

Net proceeds of sales (NPS) is the same as NSV except that trade promotions are deducted at source: something that is now often done because trade promotions have become such a large element of cost. NPS therefore covers a manufacturer's direct costs, indirect costs, plus the margin (which is normally well below 25% and now funds only consumer promotions, consumer advertising, and profit).

Retail price. Retail margins represent 20% or more of the price paid by the consumer. (In some product fields, particularly luxuries, retail margins are considerably higher.) After deducting this retail margin, the remaining payment goes from the distributors in the pipeline back to the manufacturer in the form of NSV.

All commodity volume (ACV) represents the total volume of sales in a store or universe of stores.

(11) The Share Concept

Share of Market (SOM) is by far the most important measure of the health of a brand. It represents a brand's share of total *consumer* purchases in the category in a defined time period. It is calculated from either volume or dollar figures. The effects of advertising and promotions are invariably measured in terms of a brand's SOM. *Share of Voice (SOV)* is a brand's share of total measured media expenditure in a category in a defined time period. It is calculated from dollar figures.

The normal approximate balance between a brand's SOM and its SOV is discussed in the sub-section above, **Advertising Intensiveness**.

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Author's Profile

John Philip Jones was born in Wales and graduated in economics from Cambridge University (B.A. with Honors; M.A.). From 1953 to 1980, he worked in the advertising agency field. This experience included 25 years with J. Walter Thompson – as a market research executive in London (1953–55); advertising account executive in London (1957–65); account supervisor and head of television in Amsterdam (1965–67); account director and head of client service in Scandinavia, based in Copenhagen (1967–72); and account director in London (1972–80).

He worked with a wide variety of advertising clients and was most concerned with major brands of packaged goods. His responsibilities included many brands marketed by Unilever, Chesebrough-Pond's (before its acquisition by Unilever), Beecham, Gillette, Nestlé, Pan American, Pepsi-Cola, Quaker Oats and Scott Paper. He was international account director on Lux Toilet Soap (the largest-selling bar soap in the world) from 1972 to 1980. As a result of his professional experience, he became a specialist in the development and monitoring of brands.

He was extensively involved with advertising education both within and outside the agency. He conducted his last agency seminar in January 1981, just before he became a full-time educator on joining the faculty of the Newhouse School of Public Communications, Syracuse University. He was a tenured Full Professor and was Chairman of the Advertising Department in the Newhouse School for seven years. He taught a wide range of advertising classes, at both the graduate and undergraduate levels. He is now an Emeritus Professor.

During his entire teaching career, John Philip Jones spent a good deal of his time supervising postgraduate education. He taught postgraduate seminars every year. He supervised more than 100 masters' theses, both at the Newhouse School of Public Communications and at Syracuse University's School of Visual and Performing Arts.) He also supervised Ph.D. theses and served as a member of many Ph.D. committees, including committees at the University of South Australia and the University of Navarre, Spain.

For three years, he edited the university's inter-disciplinary journal of ideas, *Syracuse Scholar*. He was a member of the Mellon Foundation project group which spent two years exploring the connection between liberal and professional education and which published a book, *Contesting the Boundaries* (Syracuse University Press, 1988). He was a member of the Chancellor's Panel on the Future of Syracuse University, which reported following a two-year study in 1986.

He has published widely in the professional press, with articles in *Admap, Commercial Communications,* the *Economist Media & Marketing Europe, Harvard Business Review, International Journal of Advertising, Journal of Advertising Research, Journal of Marketing Communications, Marketing & Research Today, Marketing Management, Market Leader,* and many other publications, including journals in Australia, Britain, the Czech Republic, Germany, India, the Netherlands, Scandinavia and Switzerland. He has also been responsible for a number of pieces of journalism, in the *New York Times* and other publications. He has been widely quoted in the business and general media. He has published major articles in *The Economic Times* (India's leading business journal).

His books, *What's in a Name? Advertising and the Concept of Brands* (1986); *Does It Pay to Advertise? Cases Illustrating Successful Brand Advertising* (1989); *How Much is Enough? Getting the Most from Your Advertising Dollar* (1992); and *When Ads Work. New Proof that Advertising Triggers Sales* (1995) are all published by Lexington Books. They are widely used in the advertising profession in the United States and overseas. His books have been translated into German, Spanish, Japanese, Korean, Chinese, Polish, Portuguese, Russian, Turkish and Arabic.

The Ultimate Secrets of Advertising was published by Sage Publications in 2002. This propounds a general theory of advertising, embracing long-term effects. A substantially revised second edition of *What's in a Name? Advertising and the Concept of Brands* was published in April 2003. A largely re-written second Edition of *When Ads Work. New Proof that Advertising Triggers Sales* was published in September 2006. *Fables, Fashions and Facts About Advertising – a Study of 28 Enduring Myths*, published by Sage Publications, came out in December 2003. He wrote three books for the Indian market: *What's In a Brand? Building Brand Equity Through Advertising* (Tata McGraw-Hill), 1998; *Behind Powerful Brands. From Strategy to Campaign* (Tata McGraw-Hill), 2000; and *How to Turn Advertising Expenses into Investments* (Pearson Educational Publishers), 2005.

He was the editor and part-author of five major handbooks, also published by Sage Publications. The project deals with all major aspects of advertising practice, and the volumes came out in 1998, 1999 and 2000. They cover more than 2,000 printed pages and are the largest compendium of professional and academic papers on advertising ever published. These books are entitled: *How Advertising Works - The Role of Research; The Advertising Business; How to Use Advertising to Build Strong Brands; International Advertising - Realities and Myths;* and *Advertising Organizations and Publications.*

He has developed certain measurement devices based on robust quantitative research. These include STAS (Short-Term Advertising Strength) and AIC (Advertising-Intensiveness Curve). These are used in professional practice and are described in his books. He is still employed as a consultant by many leading consumer goods companies and advertising agencies in the United States and abroad. He also regularly addresses major professional conferences.

In 1991, John Philip Jones was named by the American Advertising Federation as the Distinguished Advertising Educator of the Year. In the same year he became a member of the Council of Judges of the Advertising Hall of Fame and served a full term. In 1994, he was elected a member of the National Advertising Review Board and also served a full term.

In 1996, he received a major award from Cowles Business Media and the American Association of Advertising Agencies for leadership in the media field. He received the Telmar Award in 1998, for extending the concept of Short-Term Advertising Strength (STAS) from television to print media. In 2001, he received the Syracuse University Chancellor's Citation for Exceptional Academic Achievement. In 2003, he was named by *American Demographics* as one of the 25 leaders in the fields of demography, market research and statistics during the previous quarter-century.

He has presented his work to professional and academic audiences in many countries around the world. As an adjunct professor at the Royal Melbourne Institute of Technology, Australia, he visited that country on 12 occasions. He was also a visiting professor at the Copenhagen Business School, Denmark and visited the country annually for many years.

He has worked on evaluating advertising copy, and has acted as an expert witness, has given opinions to attorneys, given legal depositions, and has also testified in court. As a member of the National Advertising Review Board, he has judged competing copy claims.

Since his retirement, he has published books on macroeconomics and military history:

Keynes's Vision. Why the Great Depression Did Not Return (Routledge, 2008)

The Successes and Sacrifices of the British Army in 1914 (Edwin Mellen, 2009)

Johnny. The Legend and the Tragedy of General Sir Ian Hamilton (in production) (Pen & Sword Books).