Overcoming short-termism in advertising measurement

Patrick LaPointe, MarketingNPV, shows how marketing can best win the evaluation war by aligning its approach with finance

ONE OF THE most common obstacles for advertisers in the era of measurement and accountability is the pressure, most often applied via the finance department, for demonstrated payback in the short term. The question normally comes in the form of 'If we give you the money you're asking for, what return will we get?' The implication being that if you cannot demonstrate concrete evidence of payback in the same or next fiscal period (month, quarter, year) then the likelihood of funding approval declines.

The unfortunate knee-jerk reaction of the marketer is often to 'remind' the 'bean-counters' that advertising has both short- and long-term effects, and that the true benefit cannot be determined solely within the period during or immediately after the end of the campaign. This is frequently followed by an eloquent soliloquy about how awareness tends towards improvement in 'brand equity', and the importance of brand strength in motivating purchase behaviour.

Translated into 'fmancese', it sounds like this: 'If you must persist in asking such a dumb question, we'll just have to give you the same old jargon-laden answer - we don't really know how it will work, but you should trust us because this is our area of expertise.'

Is it any wonder we feel the horizon of trust shortening?

The psychological foundation

Marketers are, by nature, optimists. In order to rise in the morning and look forward to going to work, we have to believe that something we will do today will shine through the fog of competitive noise, resonate in the minds of our customers and prospects, and ring the cash register. Seeing as the vast majority of the things we experiment with fail to achieve even one of these outcomes, never mind all three, our psychological defence mechanism is to (altruistically) project the value in those 'learning experiences' in the form of a conviction that the next will pay out.

Finance, on the other hand, earns its stripes by piercing the veil of optimism and objectively pointing out risks and limitations. Thus the stage for conflict is set long before the issue reaches the arena.

It is not that marketers do not try to speak the language of finance. They come prepared with their best conceptual and strategic arguments, backed by directional research and case studies of modest relevance. The goal: to convince finance, through refined, nuanced logic, that money would be well spent on an ad programme, even if the payback horizon is long or indeterminate.

Finance, however, need not prepare anything more than the historical chart showing the level of ad spend overlaid against net sales or profit growth. In the vast majority of companies, this alone establishes a level of quantifiable common-sense gravitas that tends to quell debate.

And so the question of payback on advertising is increasingly framed in the realm of the short term, in part because finance cannot afford to 'trust' marketers more than one or two periods into the future and in part because marketers cannot 'prove' that the immediate impact understates the true value derived.

There are three possible outcomes to this:

1. funding is reluctantly approved, and intense scepticism is applied every day thereafter - which slowly undermines the reputation of marketing within the management team, or
2. funding is denied, which disenfranchises the marketing department, leading to higher staff turnover and hurting the company's growth prospects, or, even worse
3. partial funding is approved, which fails to achieve critical mass in the marketplace while simultaneously producing both the above-mentioned negative outcomes.

Experience suggests, however, that finance can be reasoned with - if marketers adopt a more financially-orientated framework for describing the expected outcomes of their proposed advertising investments. Rising above the unproductive stalemate requires new thinking in how marketers plan, execute and measure advertising programmes, not to mention how they communicate their expectations and findings to finance. Here are a few suggestions for achieving this.

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Re-establishing credibility

As marketers, we know it's difficult to measure the impact of advertising with precision, and any effort to do so will inevitably require two key ingredients:

FIGURE 1

The credibility chain

1. a willingness to make and accept a series of assumptions about how things work
2. money to construct the appropriate measurement processes.

Any effort that begins with these cornerstones immediately places the credibility of the sponsor at the centre of the debate.

So by the time the short-term constraint is felt, it is likely that credibility has already been eroded significantly. It may be that the current marketing director has once-too-often asked for the 'trust' of finance, only to under-deliver. Or it may be that the newly installed marketing director finds herself a victim of the bad practices of prior regimes and has to re-establish credibility for the entire discipline. Either way, the path to progress begins with an honest assessment of credibility levels and a realistic plan to enhance them.

One way to (re)establish credibility is to build the 'credibility chain' - a series of methodical steps to ensure that key stakeholders remain engaged in and supportive of marketing's efforts to prepare payback assessments (see Figure i).

The first element of the chain is alignment - ensuring that the goals and objectives of the marketer are always seen to be aligned to those of the rest of the company. Specifically, this means stating desired outcomes in terms of revenue, margins, or profits, instead of the traditional intermediate benchmarks of awareness, positive opinion or brand preference. Even if you feel that marketing's role is really constrained to building positive brand-purchase intentions, and that manufacturing, sales, and distribution are all responsible for securing the final transaction, you should be able to describe exactly how and where brand preference will influence sales or profits. This sends a message to finance that marketing is focused on the correct and common objectives, which greatly reduces scepticism about marketing having its own agenda.

The second step is comprehensiveness. Marketing must identify and attempt to investigate all possible avenues of learning that may provide clues to the expected value of proposed investments. If there are 50 possible rocks that could be turned over and examined in the search for insight, marketing needs to find and turn over all 50. Examining only 49 suggests bias or blindness, and will result in being smashed on the head with the 50th rock in an unsuspecting moment.

But comprehensiveness is still not sufficient to engender credibility, which brings us to step three. Our comprehensive efforts to identify insights must be perceived to be truly objective in the hunt for knowledge. We must suppress our optimistic tendencies and force ourselves to see both the confirming and the countermining possibilities in each piece of evidence we gather.

Finally, to establish credibility we need to translate our objectivity directly into our proposals for spending the company's money, which creates the perception of accountability.

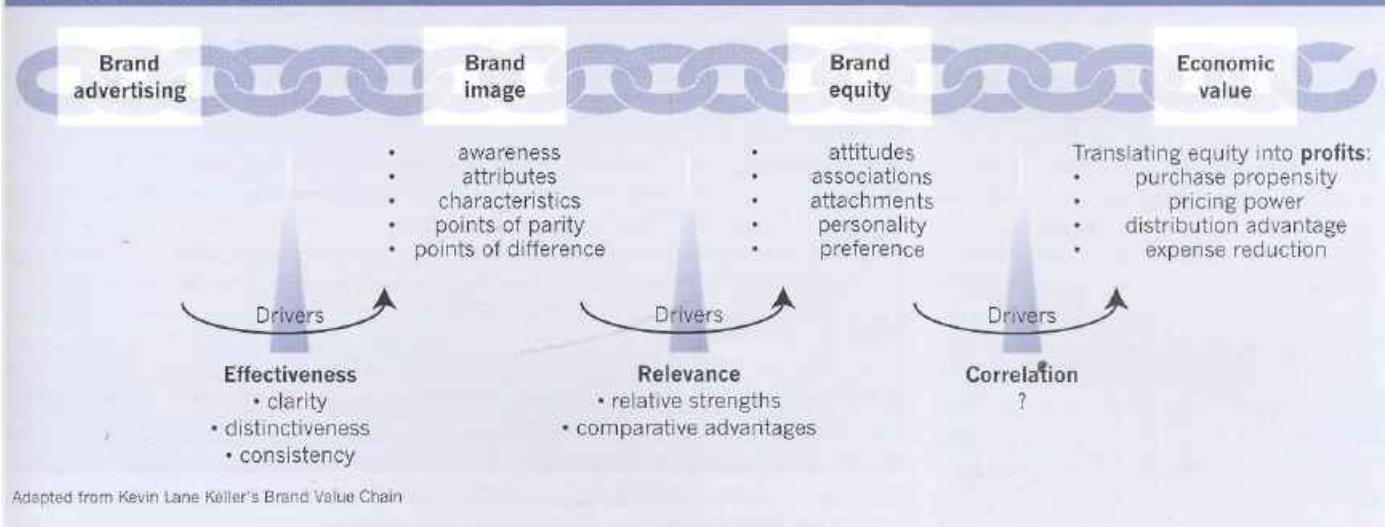
By carefully constructing and fervently preserving this credibility chain, we can be sure that marketing's recommendations, while not always accepted or funded, will be perceived by finance and others to be based upon the best available evidence and rooted in the clear pursuit of common objectives. This lays the groundwork for proposals that seek to test assumptions and investigate hypotheses about the longer-term payback of advertising.

Building the value chain

With this foundation of credibility and authority, we now need to define our hypotheses for how brand advertising (as distinct from shorter-term promotional advertising) translates into financial value creation across months, quarters ▶

FIGURE 2

The brand value chain



Adapted from Kevin Lane Keller's Brand Value Chain

or years. A valuable tool here is the 'brand value chain'.

The brand value chain (adapted from work by Kevin Keller of Dartmouth and Don Lehmann of Columbia) helps clarify and document the anticipated relationship between brand advertising and financial value creation.

In the simplest version of.the value chain, advertising leads to some evolution in brand image, which in turn leads to some change in 'equity', which translates into financial value (see Figure 2).

The best way to understand the brand value chain is to begin with the end in mind. Specifically, what sort of financial value is the advertising supposed to lead to? Is it intended to increase incidence of purchase? To decrease price sensitivity? To open new distribution channels through superior category leverage? To project more powerful negotiating positions to vendors and suppliers? Or some combination of these?

FIGURE 3

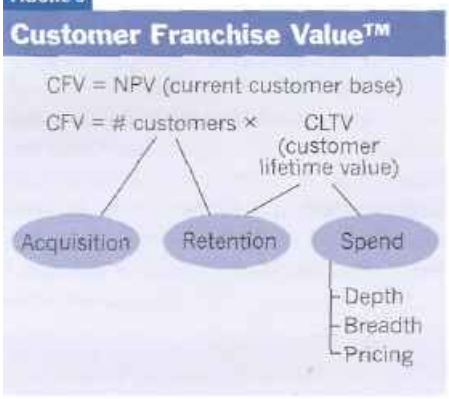


FIGURE 4

Note that the value chain is not asking you (yet) to forecast exactly how much financial value will be created; it is simply testing your ability to clarify your expectations logically. And if those expectations are rational, you should be able to determine the specific dimensions on which brand 'equity' must evolve to achieve them. How are you expecting the thoughts, beliefs, attitudes, associations, and permissions people ascribe to the brand to change or grow? What do you believe precedes seeing the desired economic behaviour?

'Image' results are the early intermediate impacts, such as levels of salient awareness, attribute- or characteristic-specific awareness, or more accurate awareness of the brand's points-of-parity and/or points-of-difference. But these are just early indicators that the campaign may be achieving the desired results. They are a necessary but insufficient condition for a successful outcome. Unfortunately, too many marketers stop here and never attempt to build the rest of the chain.

Once you have the value chain constructed in a way that reflects your hypotheses about how things should work, you can identify which links in the chain you can test/read/validate and which you cannot. This brings focus to information gaps and raises the question of tradeoffs between the cost and value of further insight for all to assess. If finance is so keen to have precise insight into the financial outcomes of brand advertising, they should be willing to invest in the research, testing, and experiments that would have to go into properly tracking the flow of results through the value chain. Otherwise, they will have to accept informed assumptions and proxy processes that find the balance between cost and benefit

The brand value chain has one significant flaw as it appears here. It follows the now widely discredited 'hierarchy of effects' theory, which prescribed that awareness leads to consideration, which in turn precedes behaviour. This model has been found to have limited validity in the real world. However, it does provide a starting point to map out how you think your category dynamics operate and then construct a value chain of your own relevant form.

> 'Measuring the impact of advertising over the long run is quite possible with the application of the right tools and processes. Research, experimental design, factor analysis, and continuous feedback mechanisms all play a role in reducing the unknowns to comfortable risk levels'

Customer Franchise Value™

If you are still struggling to find the business case for long-term advertising effects, consider Customer Franchise Value™ (CFV) - the net present value of the customer base.

CFV looks at the number of customers today and their current buying behaviour, and compares that to how things will change during and after the advertising runs its course. The difference between the two - accounting for interaction effects between advertising and trade promotions, sales incentives or other marketplace noise - is the incremental value created by the advertising over time, expressed as an asset (see Figure 3).

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Calculating CFV need not founder in endless debates about perfect lifetime value assumptions (for example, how much might customers spend on new products yet-to-be-offered, or how many referrals may they bring), fust look at what they buy today and how long they can reasonably expect to continue that behaviour, based upon historical precedent. In fact, let finance come up with the conservative formula they are happy with. Then develop your assumptions about how much you will change the key input variables of acquisition, retention and spend with the advertising, compared to your assumptions without it. The difference, which can be separated into forecast periods to show the expected flow rate, is the incremental customer asset value being created by the advertising expenditure by month or by quarter (see Figure 4).

CFV is another way to clarify, in financial terms, the expected payback over time and the stages of evolution you envision, allowing all to see how early-warning indicators can be defined. This transparency helps align key stakeholders on the assumptions going into the programme, and the criteria for extending or terminating the programme mid-stream. It takes mystery out of the process and creates a shared sense of control that, in turn, builds credibility.

The role of the dashboard

Speaking of transparency, there are few better tools to promote credibility and transparency than a well-constructed dashboard with metrics aligned to the brand value chain, CFV growth and/or other measures linking brand equity to financial value. With or without the aid of sophisticated analytical mix models, the dashboard is an effective means of visualising correlations (or lack thereof) between the following:

spending and outcomes

contributions by elements of the overall marketing mix

time between actions and reactions

expectations and actual outcomes.

In effect, the dashboard serves as a tangible manifestation of the current business processes and knowledge base, helping all to see and understand how blind spots are inhibiting informed decision-making. And though it takes courage for a sitting marketing director to expose these blind spots, the risk is rewarded, time and again, with more resources for measurement, testing and experimentation, as executives seek to fill the vacuum of uncertainty.

What the dashboard cannot do is predict the outcome of more advertising or changes in the marketing or message mix overall. Its utility is limited to answering the questions:

^ What has happened recently?

> Why did it happen?

*• All things left untouched, what is likely to happen next?

The task of forecasting results from discontinuous changes is best performed by simulation tools driven by analytical response-functionmodels.

The art of the possible

Measuring the impact of advertising over the long run is quite possible with the application of the right tools and processes. Research, experimental design, factor analysis and continuous feedback mechanisms all play a role in reducing the unknowns to comfortable risk levels. But an organisation that is not clear and precise in its expectations for advertising payback cannot reasonably hope to be aided by any of these methods, partly due to the need to focus them for effect and partly due to the need to raise funds to apply them in pursuit of knowledge.

The tools and methods in this article are intended to help jump-start productive dialogue between marketing and finance. Unilaterally, neither department will find the answers to accomplish much beyond cyclical dominance. But working together, they can set and continuously refine and test the assumptions and hypotheses necessary to help the company realise far greater growth. And in the process, see to it that the advertising fulfils its potential, regardless of time horizon. ■

The dashboard: a tangible manifestation of the current business processes and knowledge base, helping all to see and understand how blind spots are inhibiting informed decision-making

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