The advertising

Marketing mix models treat price as a variable, independent of advertising when, in fact, high-quality advertising supports premium prices

By Charles Young, *Ameritest*

Price is at the centre of the concept of brand. "If you can't charge a premium price for your product," wrote the late management guru Peter Drucker,"then you don't have a brand!"The ability to charge premium prices is the reason why businesses that own brands are generally more profitable than businesses that do not.

In the Wild West days of capitalism, the first brands were created as markers of quality to reassure consumers buying mass-produced goods from distant, unknown manufacturers. Good value was defined as good quality at a fair price. From those earliest days a 'fair' price for a brand was understood to be more than the price you would pay for unbranded products.

And in some cases, such as high-image categories like perfume, where the definition of'quality' exists almost entirely in the mind of the consumer, a premium price became itself the proof of quality. In these cases, raising, not lowering, the price of the product was the secret of selling more product.The higher ROÍ associated with the price premium versus commodity pricing is the source of advertising funding.Advertising returns the favour by building brands in the minds of the consumer.

Marketing mix modellers are in vogue for using their econometric models to estimate the ROÍ associated with ad campaigns.Their numbers are used to justify advertising funding decisions to CFOs.After the baseline calculation, price is usually the most important variable in the models they build to explain a brand's sales. But according to Bill Harvey, a media thought-leader and vice-chairman ofTRA, a single-source sales data provider in the US,'99% of marketing mix models do not take the quality of advertising into account in explaining sales'. Almost ali these models treat price as a variable, independent of advertising.

Marketing mix models represent a behaviourist conception of the marketplace. If you lower price, sales go up as more consumers buy your product; if you raise price, sales go down as fewer consumers buy your product. Similarly, if you advertise, sales go up - as you either draw new users to the brand or sell additional products to current users; and if you stop advertising, sales go down as consumers revert to baseline behaviour. It's purely a body-count business.

The possible interaction between advertising and price, the idea that when you advertise consumers might think that the brand is worth more and be willing to pay a higher price for it is not really taken into account in most marketing mix models. Advertising's impact on the price elasticity of a brand, and not just penetration and repeat purchase frequency, may be another mechanism by which higher quality ads can lead to a higher advertising ROÍ.

As Harvey looks at his single-source data, which combines millions of households' worth of consumer buying behaviour with a complete set of second-by-secondTV viewer data from set-top boxes, he finds numerous examples of advertising quality making a big difference in the ROÍ of advertising. Our business, which is pre-testing advertising, is the opposite of behaviourism. Ameritest is in the business of getting inside the consumers' heads to generate insights into what makes for effective advertising. Understanding the relationship between price perceptions and advertising quality is one of the areas where we've been doing a lot of work lately.

In a number of important product categories, for example, businesses generally understand that they must advertise to get consumers to pay more for their brand than the cheaper store brand next to it on the shelf. Ready-to-eat cereal brands, for example, can sometimes cost several dollars more than the comparable store brand.Another category where the premium versus the generic alternative can be quite high is the over-the-counter drug category.

Ameritest recently launched a syndicated service called CompetiView® for testing ali the OTCTV advertising currently on air.The purpose of this service is to provide clients with a systematic way of learning about competitive advertising and to discover what kinds of creative approaches work best in their category. We do a meta-analysis across this database of in-depth consumer responses to the advertising to give our

FIGURE 1: Expected price point for Tylenol ads

The expected price of the brand changes with exposure to different TV commercials

premium

dients a 30,000-foot view of the category's creative landscape. Part of our current OTC meta-analysis focused on the relationship between advertising quality and consumer price expectations.

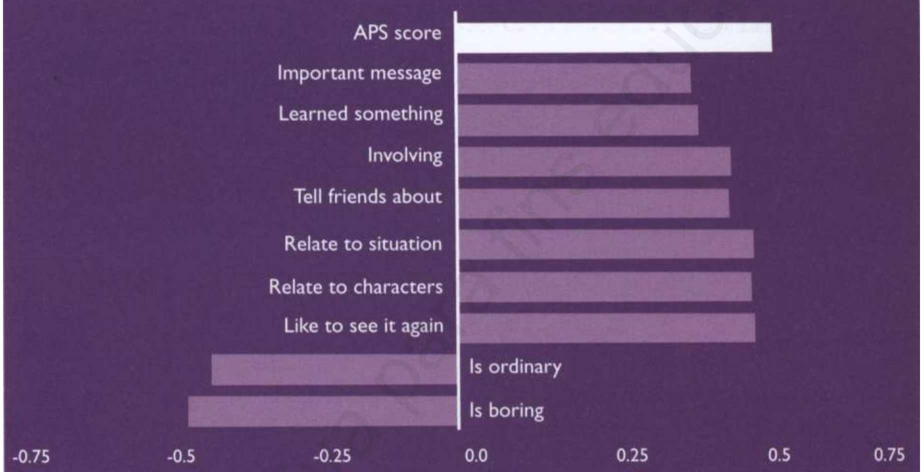
This particular analysis is based on the responses of 3,300 consumers to 33 pain relieverTV commercials that are currently on-air.To study the impact of advertising on price expectations, we added a widely used measure of price, the Van Westendorp price sensitivity measure, to the standard battery of questions that we ask about each commercial in a 20-minute online interview.

Dutch economist Peter Van Westendorp developed his price sensitivity measure in the 1970 s to examine patterns of price perceptions. His method uses four questions that can be easily administered in a survey questionnaire.The first question asks:'At what price would you consider the product to be so expensive that you would not even consider buying it?'The second asks:'At what price would the product start getting expensive, but would still be worth considering?'The third asks at what price the product would be good value.And the fourth asks at what price the product would be so cheap that you would question its quality. Together, these questions produce a threshold low-end to high-end range of prices that can be summarised with an average score for the midpoint.

One of the first things we learned from this study is that exposing consumers to different commercials changed their expectations of the price of a given brand. For example, if you look across the pool of 11 different Tylenol commercials, shown in Figure l, you can see that price expectations for the brand ranged from $4.05 to $4.81 - a variation of 18%. Importantly.the margins associated with these two different price points - and the associated advertising ROI - would be considerably different. If you could charge 18 % more for what you sell, what would be the impact on your bottom line?

The second thing that we learned is that the variability in price expectations is highly correlated with advertising quality.The Ameritest measure of ad quality, the

FIGURE 2 Expected price point correlations



Expected price perceptions are driven by both rational and emotional components of the advertising

Ameritest Performance Score (APS), is a composite of three fairly conventional measures of ad performance:Attention, Brand Linkage.and Motivation.Across the l l Tylenol ads in our study, the APS score explains 74% of the variation in expected prices.

If we look across the six brands and 33 commercials included in this Meta, the correlation drops slightly because of differences in brand equity, the product positioning ideas being communicated, and so on. But even then, if you adjust for different starting prices for different brands, ad quality explains half (r-squared = 50%)of the variation in expected price.

Our measure of advertising quality is, of course, a summary statistic that doesn't provide any insights into exactly what it is in the advertising that is affecting consumer expectations of price.To understand that, we need to look at diagnostics. Figure 2 shows the correlation between different diagnostic rating statements and price expectations generated by the 33 ads.

What is interesting is that it is not just the rational features and benefits of the product being communicated by the advertising that drives price expectations. In fact, the rational statements that the message was important or that the viewer learned something new from the ad, while significant, are less strongly correlated to price expectations than the statements that address the emotional component of the advertising.

Having an involving story with characters and situations that are relatable is among the strongest determinants of price expectations. Ads that are worth telling friends about - perhaps via social media - also boost price perceptions.And a commercial that is boring and ordinary will cost you, in terms of what price consumers would expect to pay for your product.

The lesson for economists and marketing mix modellers who use econometric models is clear; price is not simply a rational variable in the marketing mix. It has a strong emotional component that can be directly influenced by high quality ads. By overlooking advertising's role in supporting premium pricing, and the corresponding contribution it can make in support of higher profit margins, advertisers run the risk of underestimating the return they can make on their advertising investment.

Fonte: Admap, Washington, v. 47, n. 1, p. 20-21, jan. 2012.