

Advertising payback

Part 2



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November 2008

Introduction

This study confirms the positive payback from TV advertising, adding more evidence to support our previous study and provides useful pointers for managing brands in a downturn.

The purpose of this latest research conducted by PricewaterhouseCoopers LLP, commissioned by Thinkbox, is to update and enhance the first study on advertising payback conducted in June 2007.

We have extended the analysis into several new brand categories and re-confirmed our previous findings. Importantly, we have now:

- Tracked changes in consumer preferences over time;
- Assessed changes in brand values over time as well as across sectors; and
- Related changes in brand values to brand investments.

Owing to the timing of our work, which has taken place during the economic downturn, we have also gained some valuable insights for brand investment and brand values during periods of falling consumer confidence and spending.

Brand value is consumer willingness to pay (WTP)



Measuring marketing communications investment payback (return on marketing investment) is challenging. While impact on sales is a useful measure, it is imperfect owing to the possible effects of other factors such as quality, and the difficulties in disentangling these factors and others (so-called 'noise') from the impact of brand investment.

Sales are also typically only a short-term measure – establishing long-term sales effects of brand investment provides additional challenges (although in our first study we overcame some of these difficulties). Consumer brand attitudes and awareness metrics are clearly important but these may not always translate into value.

Consumer willingness to pay for a brand (relative to a non-brand or commodity brand) is a solid measure of brand value – it crystallises how much a consumer values a specific brand.

In order to estimate WTP, a special technique is required largely because the direct question, “how much are you willing to pay for the brand name alone?” is unlikely to generate reliable responses. We use a technique called conjoint or ‘trade-off’ analysis. This technique has a long and successful track record, grounded in transport (and green) economics and is regularly employed for product development and pricing research. It involves an in-depth examination of consumer behaviour based on various product characteristics and options.

In our research we include a weak or non-brand name to which consumers are able to express their relative preference for the brand name. The outputs are preference shares and WTP measures for specific brands – the relative brand value. And WTP, an expression of consumer preference, is a trusted economic measure.

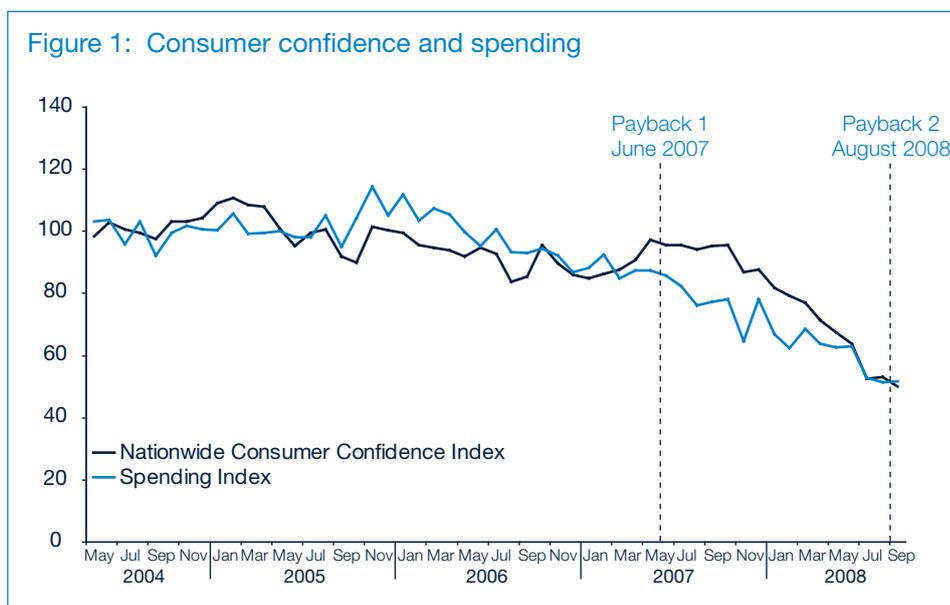
A period of falling consumer confidence and spending impacts brand values

This report presents a summary of the findings of our second study on advertising payback, building on the results of our first study, which examined more than 700 brands across seven categories.

The findings of the first study were striking: that TV advertising pays back 4.5 times its advertising investment – more than any other medium – and for a longer period of time, and that TV advertising is the main driver of ‘brand value’ - the willingness of consumers to pay a relative premium for a specific brand (see ‘Brand value is consumer willingness to pay’ above).

We conducted our first payback study in June 2007, just prior to a fall in consumer confidence and spending.

The second study was conducted in August 2008, when, as shown in Figure 1, confidence and spending had continued to fall. What impact is this fall likely to have for consumer brand values and WTP more generally?

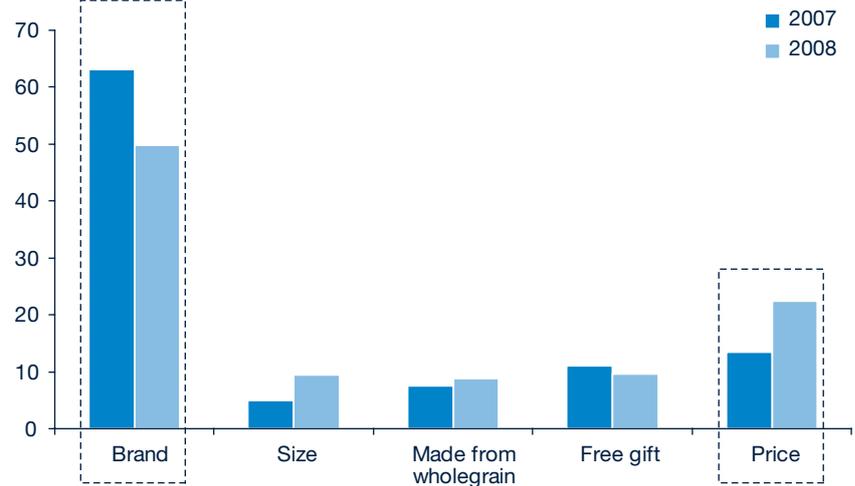


We revisited our 2007 payback work and re-estimated consumer brand values for the original seven categories, together with data on brand investment. This research demonstrates that downturn effects are apparent in all seven markets researched, from grocery products to cars to insurance, and the least affected appear to be brand leaders and clear ‘value’ brands.

A period of falling consumer confidence and spending impacts brand values

An increase in price sensitivity was particularly notable in the cereal category, as was the decrease in the relative importance of brands (see Figure 2).

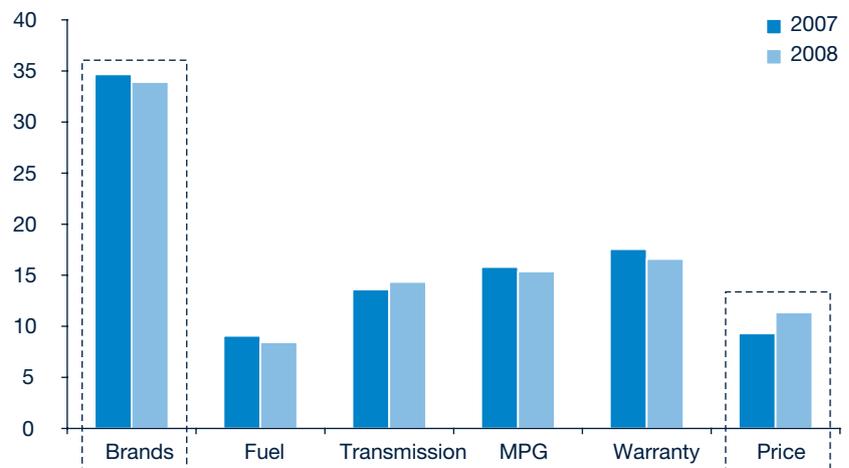
Figure 2: Change in relative importance of drivers of consumer choice – Cereal brands



The downturn has impacted consumer brand values, with a clear preference trend towards increased value for money.

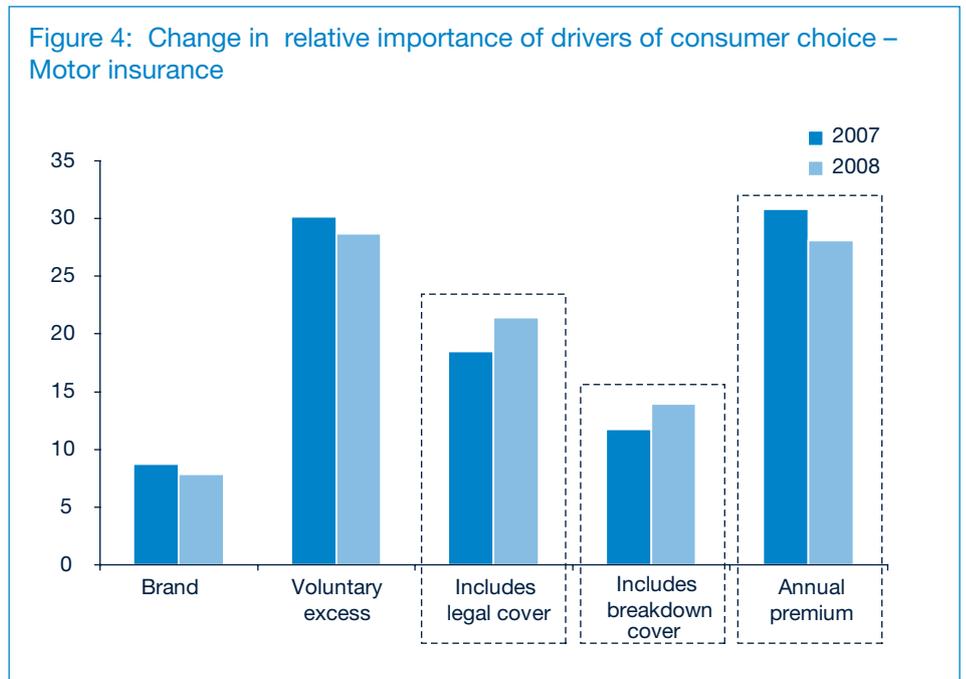
Interestingly, in one of the car categories (lower medium car brands), while price sensitivity had increased, the reduction in the importance of brands was less marked (see Figure 3).

Figure 3: Change in relative importance of drivers of consumer choice – Lower medium category cars



A period of falling consumer confidence and spending impacts brand values

In insurance, consumers appear now to place a relatively higher value on added extras (such as legal and breakdown cover) than they did before the downturn (see Figure 4), whereas price considerations have become less important.



Overall the results indicate that consumer price sensitivity has tended to increase – something to be expected during a downturn period.



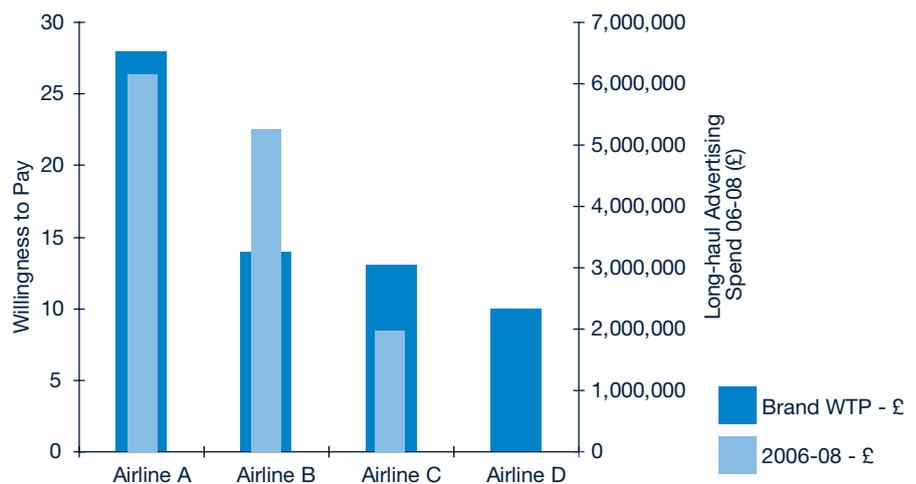
New brand surveys add further weight to our previous findings

In our first study we demonstrated that brand investment – essentially advertising expenditure – drives consumer brand values.

This was demonstrated for seven categories – haircare, fruit juice, cereals, motor insurance and three separate car markets. To complement these, we added three further categories in this study – flatscreen TVs, flights to New York (see Figure 5) and pre-pay mobile phones.

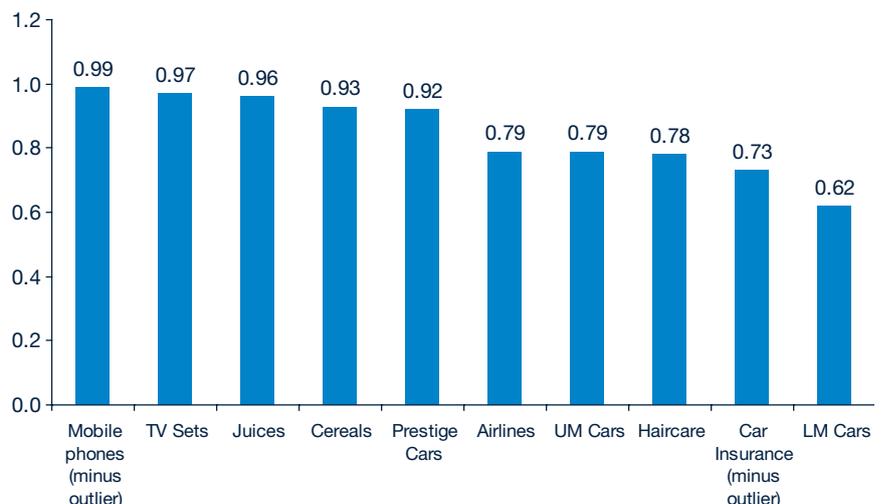
This latest survey, containing an analysis of a further 3 categories (in addition to our previous 7) confirms the findings of last year's survey that the highest brand values are positively correlated with above average use of TV in the communications mix.

Figure 5: Economy flights to New York



For each category we estimated consumer brand values and related these to advertising expenditure on TV (over two years). Adding further weight to the findings of our previous study, we find that there is a strong positive correlation £ for £ between consumer brand value (i.e. willingness to pay, WTP) and expenditure on TV advertising (see Figure 6).

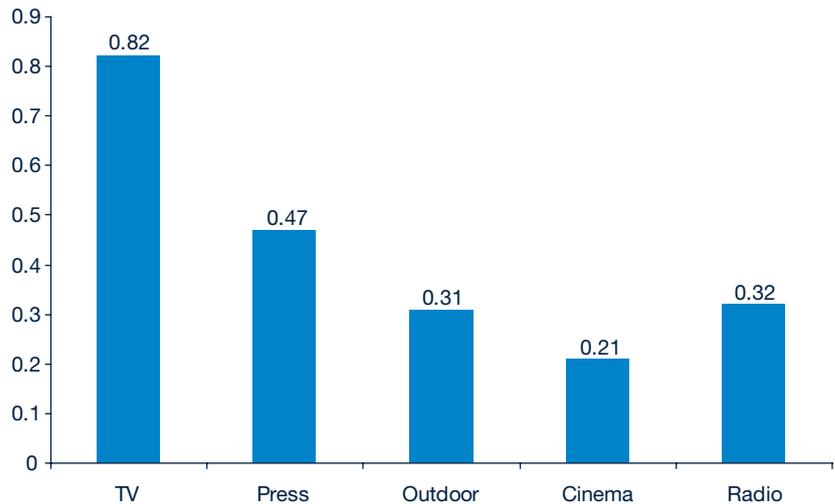
Figure 6: Correlation between TV spend and Willingness To Pay (WTP) (2007-08)



New brand surveys add further weight to our previous findings

Indeed we find that investment in TV advertising has a far stronger correlation with brand value than advertising investment in general, including during the current period of economic downturn (see Figure 7).

Figure 7: Media mix of brand value leaders and average correlations with WTP (7 brand categories) (2007-08)



Brand values are related to brand investments - and TV spend appears to have a stronger impact on brand value compared to advertising more generally.

We thus have further supporting evidence on advertising payback – the results from the three new categories confirm last year’s findings – that the highest brand values are strongly correlated with above average use of TV in the communications mix.

Comparable data on internet advertising were not made available to us for the following categories: haircare, juices, cereals, airlines, flatscreen TVs and motor insurance. For three of the categories, while we had data available, these were available only at manufacturer level.

Changes in brand investment

Repeating the surveys has shown that changes in brand investment – especially TV investment – quickly affect brand value.

One key feature of this second study is that the results generate a dynamic picture – we now have two years of data for 34 brands with which we are able to track changes in brand preferences and also relate these to changes in advertising spend. Moreover, the results provide useful insights for strategy development in a downturn, given the timing of our work (as discussed below).

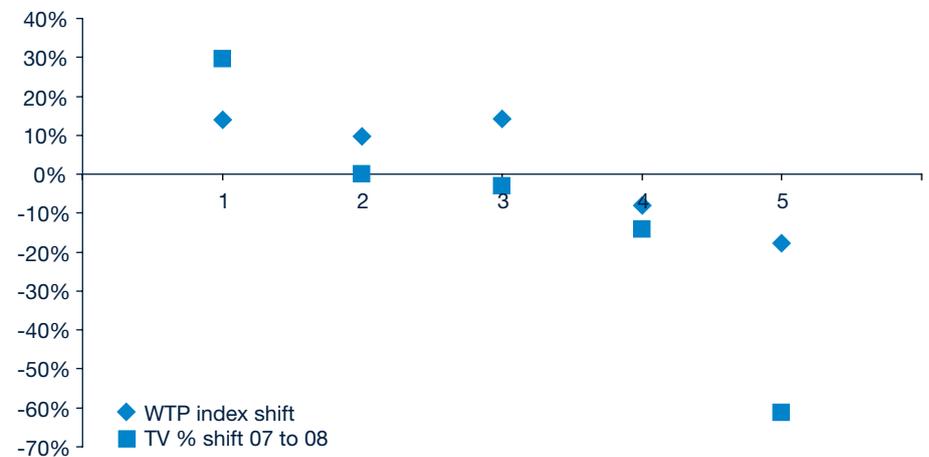
We employed econometric techniques to test statistically the drivers of change in WTP across a 14 month period in the key categories. For five categories we were able to identify statistically significant impacts on brand values of changes in advertising spend.

In particular we identified high correlations of up to 88% between WTP for brands and relative TV ad spend or 'share of voice', indicating the importance of maintaining (or even increasing) communications spend relative to peers.

Findings from some of our category case studies include:

- In the juice category, WTP for brand names has reduced, although those that used relatively more TV improved their competitive position. Brand WTP is strongly correlated with media investment – primarily TV (correlation coefficient 76%). We also found that a reduction in relative media spend (or share of voice) reduces consumer brand WTP;
- In one of the car categories ('upper mid-cars'), the car brand with the relatively lowest advertising investment had the largest reduction in consumer WTP. On the other hand, the brands that spent significantly on TV over the previous 14 months suffered lesser reductions in brand value and one of the relatively high spending brands improved its competitive position in the eyes of consumers. Overall the correlation between levels of TV spend and changes in brand WTP is 65%; and
- In the haircare category, a reduction in TV spend in the overall marketing mix of one of the brandleaders led to a significant reduction in its competitive brand WTP position whereas significant increase in TV SOV lead to a significant increase in brand WTP for a major competitor. Overall the correlation between changes in TV spend and WTP in the hair care category is very high (88%) (see Figure 8).

Figure 8: Correlation between TV spend and WTP for brands in the hair care category WTP and TV Spend



Changes in investment

Moreover, we conducted an analysis of brands to assess the impact of changes in advertising expenditure and consumer preferences for the brands. Within this group 20 brands made significant shifts in their TV ad spend. We found that:

- Raising TV share of voice has a 2 to 1 chance of raising WTP versus the competitors; and
- Cutting a brand's TV share of voice has nearly a 3 to 1 chance of reducing WTP versus the competitors.

We summarise our findings in Figure 9.

Figure 9: Impact of changing TV share of voice on relative brand preferences

| | Lost relative WTP | Gained relative WTP | Total |
|----------------|-------------------|---------------------|-------|
| Raised TV SOV | 3 | 6 | 9 |
| Reduced TV SOV | 8 | 3 | 11 |
| Total Brands | 11 | 9 | 20 |

Reducing media investment share of voice is highly likely to reduce brand value.



Lessons for the downturn

When consumer confidence and spending are falling, what should brand managers do?

The key lessons of our study are twofold:

- Firstly, competition does not disappear in a downturn so reducing your TV investment relative to competitors has a clear downside.
- Secondly, TV continues to drive significant shifts in consumer preferences and willingness to pay for a brand. This also further underlines the greater consumer impact of TV advertising relative to other media.

Even over as short a period as around a year, reducing relative (to competitors) media investment is very likely to diminish a brand's competitive position in terms of consumers' relative willingness to pay for a brand. Equally, raising relative TV investment is highly likely to improve a brand's relative position.

Strategies for a downturn include:

- Pay close attention to relative spend - 'share of voice' (SOV)
- Focus on brand leaders and 'value' brands
- Take advantage of the position of the weaker competition

Concluding remarks

Willingness to pay (WTP) for a brand is a useful tool for measuring and modelling brand return on marketing investment. We have replicated the results of our first payback study, added further supporting evidence and identified specific insights for brand managers during a downturn.

Changing brand investment can shift brand preferences within 14 months, although as we demonstrated in our first advertising payback study, TV delivers its value over a much longer time frame.

The message is clear. While a few strong brand leaders may survive budget cuts, possibly over a 14 month period, relative to their peers, most cannot. The downturn should be considered as a period of opportunity to strengthen relative brand position. Reducing brand investment can have serious long-term implications for the value consumers place on a brand.

However, brand investment per se does not guarantee success – perhaps the downturn is also a time for new creative approaches to advertising strategies?

Recessions are a time of increased vulnerability for brands. The opportunity to maintain or increase relative brand position should not be missed. Reducing brand investment can quickly weaken consumer brand preferences.

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