"Many marketers have lost sight of the connection between advertising spending and market share."

It Works!

"Advertising builds value. You need perceived brand value to be a profitable market dominator."

How Investment Spending in Advertising Pays Off

AAAA

AMERICAN ASSOCIATION *of* ADVERTISING AGENCIES

About the Author

Bernard Ryan, Jr., is a longtime advertising and public relations professional, having retired in 1990 after seven years with the American Association of Advertising Agencies, most recently as senior vice president, Public Affairs Division.

Mr. Ryan's background includes positions as creative supervisor at BBDO; vice president, creative director of S. R. Leon Company, Inc.; and director of public information of the New York City Partnership. He was also founder and creative director of Connecticut-based advertising agency Wilson, Ryan & Leigh, Inc.

Mr. Ryan's past freelance projects include direct mail and promotional pieces for a myriad of clients, five published books, four ghost-written books, more than two dozen book condensations, and several articles published in such magazines as *Parents*, *Saturday Review*, and *Look* magazines.

Currently back in the freelance world, Mr. Ryan is writing and editing and is a consultant in advertising agency and association public relations and corporate public relations.

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FOREWORD

by John O'Toole, President, Chief Executive Officer
American Association of Advertising Agencies

A rather meaningless debate has gone on for some time as to who said (or first said), "I know half of my advertising is wasted; the problem is that I don't know which half."

Was it John Wanamaker or Lord Leverhulme?

More to the point, would either admit to authorship today?

For to announce, in the 1990's, that one is wasting half of one's advertising budget would be grounds for dismissal. To imply that one didn't know what part of the investment wasn't producing would be evidence of incompetence.

We know that advertising works. We know that the brand that advertises more than its competitors increases its share of market and, as a result, its return on investment. This is not self-serving speculation; it is documented fact. And means are available to any advertiser, particularly in this era of sophisticated media research, Nielsen and SAMI data and single source research, to ascertain where, when and how much advertising works.

But doubts persist and marketers contemplating a major advertising investment seek reassurance. They look for evidence that is as conclusive, as scientific as possible.

Here is that evidence, gathered under the auspices of the AAAA Value of Advertising Committee. Some is scientific (i.e., based on careful and systematic study, observations, and tests of conclusions). Some is empirical (i.e., based on experience rather than theory). Some is fresh. Some may have crossed your desk before now. But we felt it important in today's advertising environment to pull together as much certainty and reassurance as we can assemble in one modest booklet and present it to you.

Our conclusion? Advertising works. It works to a greater extent than any form of selling ever conceived. And it will continue to work, its effect multiplied by involving and persuasive creative ideas, long after those of us who engage in such discussions have gone. ❑

I. The Fresh Evidence and the Established Evidence

Begin with brands. Around the world, brands are what people know. Brands are what people, as consumers, buy. Brands are what people, as executives expanding their corporations, buy. To their corporate owners, in fact, brands are more valuable than such tangible assets as factories.

How do they get that way? How does Brand A in a product category get to be wanted by more consumers than Brand B? How does A get to be worth more than B to a company that's out to make acquisitions?

Such questions seem to be always under study. Some studies have been "out there" for a while but are not as well-known as they should be. Others have come along recently to provide fresh evidence of the role that advertising plays as a key factor in building brands. Let's look at some of the fresh evidence and some of the established evidence.

The Landor Study

A San Francisco firm that specializes in the management of brand and corporate identity, Landor Associates, has set out to find out not only whether consumers recognize leading brand names but how they feel about them, both in the United States and in many parts of the world. It interviews nearly 10,000 people in the U.S., Japan, and Western Europe. [1]

Showing some 800 different trademarks to these consumers, Landor uses two measurements. It asks them how familiar they are with the trademarks, and how highly they regard the brands. It then combines the "share of mind" score with the "esteem" score to produce an "ImagePower" rating. [2]

In its 1990 study in Japan, Landor found that the "esteem" scores put Rolls Royce, Mercedes-Benz, Porshe, Sony, Rolex, and BMW at the top. In Europe, it was Sony, Mercedes-Benz, Porsche, and Rolls Royce. But in the U.S., Campbell's Soup was the most admired brand. [3]

When scores were combined to determine the "power" rating, Coca-Cola came out on top both worldwide and in the U.S. And Campbell's Soup was second in the U.S. (see Figure 1 on next page).

How does this relate to advertising spending? In 1990, Campbell's spent at a level that produced a 70 percent share of voice in its category. Coca-Cola and Kodak were both at a 40 percent share of voice, while Kellogg's was 41 percent, Levi's 26 percent, Hallmark's 79 percent, and Johnson & Johnson's 32 percent. Each of these brands was, and is, the leader in sales in its category. And each is the leading advertiser in its category. In other words, those that are the most esteemed and that sell the most are those that advertise the most. [4]

Figure 1

The Most Powerful Brands in the World

1990	1989
1. Coca-Cola	1. Coca-Cola
2. Sony	2. IBM
3. Mercedes-Benz	3. Sony
4. Kodak	4. Porsche
5. Disney	5. McDonald's
6. Nestle	6. Disney
7. Toyota	7. Honda
8. McDonald's	8. Toyota
9. IBM	9. Seiko
10. Pepsi-Cola	10. BMW
11. Rolls-Royce	11. Volkswagen
12. Honda	12. Mercedes-Benz
13. Panasonic	13. Pepsi-Cola
14. Levi Strauss	14. Kleenex
15. Kleenex	15. Nestle

The Most Powerful Brands in the U.S.

1990	1989
1. Coca-Cola	1. Coca-Cola
2. Campbell's	2. Campbell's
3. Disney	3. Pepsi-Cola
4. Pepsi-Cola	4. AT&T
5. Kodak	5. McDonald's
6. NBC	6. American Express
7. Black & Decker	7. Kellogg's
8. Kellogg's	8. IBM
9. McDonald's	9. Levi Strauss
10. Hershey's	10. Sears Roebuck
11. Levi Strauss	11. Disney
12. General Electric	12. Hershey's
13. Sears Roebuck	13. NBC
14. Hallmark	14. MasterCard
15 Johnson & Johnson	15. Tylenol

Source: Landor Associates' ImagePower Survey.

Landor's executive director, Robert Kahn, put it this way: "One quality that most powerful brands share is a relentless commitment to supporting the core message in all media." [5]

Commenting on an earlier Landor study of 300 leading product and service brands in the U.S., Stewart Owen, director of LandorResearch, noted five important factors that make brand images strong: 1) high involvement (e.g., automobiles and credit cards), 2) product quality (where products "usually do what they do very well," he said—e.g., Windex), 3) brand longevity, since it takes time to establish a brand ("the first strong brand in an area often builds a lasting lead," commented Owen), 4) advertising and marketing communications (proving that "strong brands tell their story both constantly and well"), and 5) brand personality (where the brand "has a distinctive, well-perceived identity in the consumer's mind"—e.g., Disney, Marlboro, or Budweiser).

"Corporate and brand images today are a matter of economics," said Landor CEO John Diefenbach. "Consumers are drowning in product alternatives and media messages. Powerful images are essential to success in the American culture. These images have clear meanings. They reflect positive values. It's a matter of common sense. Consumers turn to familiar and comprehensible images. They reject images that are unrecognizable or incomprehensible." [6]

The final comment came from Landor president Don Casey, who said the 1990 results proved the importance of establishing an identity and sticking with it over the years. "The guys who have paid their dues and have a consistent image have done quite well," he noted. [7]

It Works - AAAA

The Schroer Study

Another study that surfaced in recent months was done by James C. Schroer, a vice president of Booz, Allen & Hamilton who specializes in marketing strategy for the consulting firm's consumer goods clients. Harking back to when successful brands were built by heavy advertising and marketing investments, he reminds advertisers that "many marketers have lost sight of the connection between advertising spending and market share," and that "brand value and consumer preference for brands drive market share."

Asking what Procter & Gamble, Kellogg, General Mills, Coca-Cola, and Pepsi-Cola have in common, he comments: "Among other things, awareness of a key factor in advertising: consistent investment spending. They do not raid their budgets to ratchet earnings up for a few quarters. They know that advertising should not be managed as a discretionary variable cost."

To make his point, his study looks at the impact of advertising spending where competing products are more or less the same (e.g., paper towels or deodorants). Under such conditions, he finds that:

- Advertising spending can determine advances and retreats in market share only when a big spending difference among competitors is maintained for a long time. How long? About 18 months. How big a difference? At least twice what the biggest rival is spending.
- Usually, competitors are in a state of equilibrium in

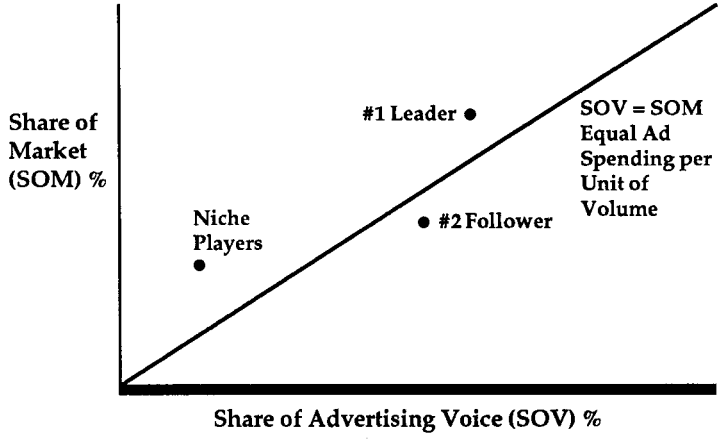
which leaders' market shares remain stable despite marginal changes in their ad expenditures. Competitors who understand will establish this equilibrium at a level so high that no upstart can afford the extra investment needed to increase its share.

- A competitor with an aggressive ad spending strategy will keep up the attack only so long as it is adding to market share. Combatants can force a return to equilibrium by pouring in enough dollars to convince the aggressor that the market has returned to stalemate.
- Therefore, insupportable, unprofitable levels of ad spending will not continue indefinitely.
- Requirements for ad spending contribute powerfully to industry consolidation because only two or three players can generate the volume needed to maintain the necessary ad expenditure.
- These relationships exist on an individual market basis, not on a national level. Share upheavals occur where the loser focuses on the national level and is blind to, or does not react to, a rival's large spending differentials in particular markets.

The Schroer Study's charts help explain these points. Figure 2, on the next page, shows competitive equilibrium, in which the largest and the smallest players all enjoy slightly more share of market than share of advertising voice. But the midsize competitor ("#2 Follower"), Schroer notes, is spending more on share of advertising than its share of market, and the leader can afford to spend less on advertising than its share of market.

Figure 2

In Most Situations, Market Share and Ad Spending Are Stable . . .

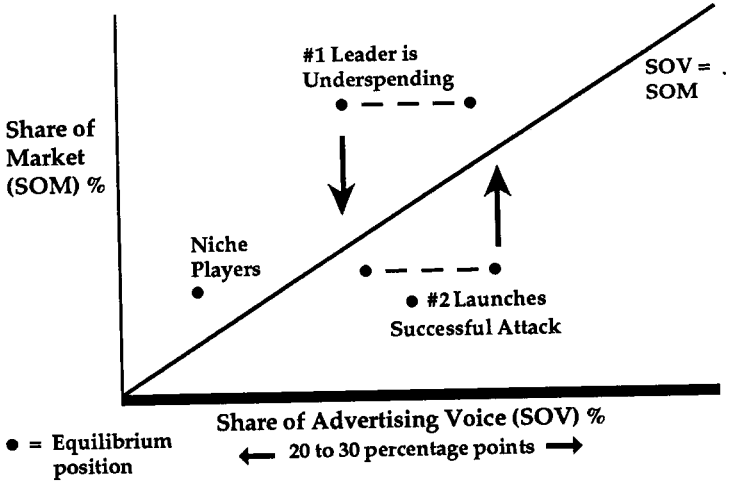


Source: Harvard Business Review, January-February 1990

This equilibrium pattern, Schroer finds, helps explain why so many categories are dominated by just two or three brands: Coke and Pepsi, Folger's and Maxwell House, Seagram's and Bartles & Jaymes. Such market leaders create or exploit disequilibrium and outspend their competitors by wide margins to win the war for market share. Figure 3, on the next page, shows what happens if they go beyond equilibrium (i.e., beyond shares of voice that are within about 10 percentage points of each other). If one's share of voice rises 20 to 30 percent above the other's, changes in share of market may indeed occur.

Figure 3

. . . to Gain Market Share, a Competitor Resorts to a Huge Ad Spending Push



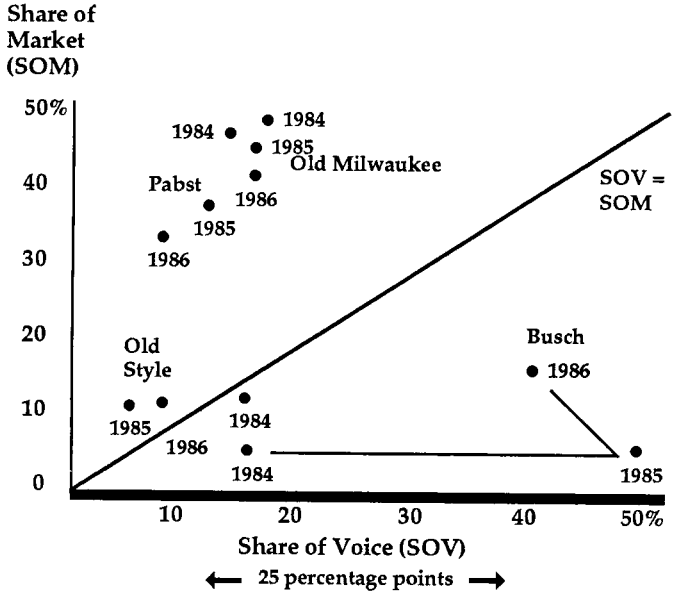
Source: Harvard Business Review, January-February 1990

But what company would let a competitor so outspend it? Many do, Schroer finds—particularly on a market-by-market basis—because few set their advertising budgets on share of voice market-by-market. Most simply use a national base. An exception that goes market-by-market? Schroer cites Anheuser-Busch:

Relative share of voice effects largely explain Anheuser-Busch's remarkable share gains. In Iowa in the early 1980's, the popularly priced and often price-promoted brands Pabst and Old Milwaukee held leading positions. But they invited attack by spending less than equilibrium levels. A-B entered this segment with its Busch brand, but the leaders chose not to defend their positions with extra advertising [see Figure 4], A-B outspent them by a wide margin, though not by much in absolute terms, attaining a relative share of voice exceeding 2 (twice as much as the target competitor). In the 1984 to 1986 period, Busch grew at rates exceeding 30 percent; today the brand is challenged for popular segment leadership in Iowa. For Pabst and Old Milwaukee to counterattack now would be prohibitively expensive.

Figure 4

Pabst and Old Milwaukee Failed to Respond to Busch's Spending Surge in Iowa



Source: Harvard Business Review, January-February 1990

"Rational competitors halt their ad offensives when they cease to produce share gains and equilibrium reigns once again," concludes Schroer. "The implication for defense is clear: spend to deter attack. Assailants must recognize the signs and be prepared to back off."

Schroer points out that Anheuser-Busch keeps its ad spending close to equilibrium levels when rivals seem likely to defend themselves aggressively. Unlike its behavior in promoting Bud Light elsewhere, in Los Angeles it has not launched a heavy attack on Miller Lite, the leader. If it did, Miller would probably retaliate dollar for dollar. "Neither brand would prosper," says Schroer. "Anheuser is wiser to sally forth where an effective defense is less likely and the cost of success lower, as in Iowa . . . The shrewd marketer picks its attacks carefully, targeting markets wisely, aiming at markets for share gain where the competitor is vulnerable, markets where that competitor is underspending, markets where a voice can be raised without breaking the budget."

Example of a niche player? RC Cola. It avoids the $200 million Coke-and-Pepsi battle for the young market, targets instead the smaller adult segment. Historically, its relatively meager budget ($10 million) has held RC's niche. "RC cannot delude itself into entering a war with the leaders," says Schroer. "It should not think share of voice. Rather, it should spend the minimum necessary to have adequate reach and frequency and not much more."

Finally, Schroer urges marketers to rethink their spending policies and geographic priorities along four lines:

- A national approach to marketing may get you in trouble.
- A marketing manager must understand competitors' relative cost positions.
- A marketer must resist the lure of short-term profits.
- Before deciding to aim for leadership in a particular market, a marketer should consider whether he or she is ready for a long war and indeed wants one. To start one calls for a high ad budget backed by large volume and a low cost structure. [8]

Center for Research & Development/ SPI Study

What happens to market share and profitability when advertising budgets are cut?

The Center for Research & Development and The Strategic Planning Institute have collaborated on a series of studies, with the latest addressing the recession question. All have used the unique PIMS ("profit impact of market strategy") data base, which includes both marketing and financial information on the same businesses. Nearly 750 consumer businesses participate, each providing a minimum of four years of data. For the recession study, PIMS added 339 observations of businesses coping with recession. The data cover durables, non-durables including packaged goods, and services.

Basically, the PIMS data show that when a market contracts, the average consumer business loses just under two percentage points of profit. When the market

expands, the average business enjoys an increase in ROI of two percentage points. What, then, wondered the Center, is the relationship of changes in advertising spending to changes in return on invested capital?

It looked at the 339 businesses that experienced recession. One-third cut their advertising spending by an average of 11 percent. Two-thirds spent at a higher rate than before. Of the latter, the majority increased advertising by no more than 20 percent (their average increase was 10 percent). But a minority of those that increased went up anywhere from 20 to 100 percent, for an average of 49 percent.

Results?

The budget cutters lost an average of 1.6 percentage points in ROI. Those who increased spending by an average of 10 percent also lost ROI—by 1.7 points, an insignificant difference. But those who made substantial increases in spending saw their return on invested capital go down by 2.7 percentage points. From an ROI standpoint, the advertising increase was costly. That is not, however, the end of the story.

Those advertisers who increased spending, whether modestly or aggressively, gained greater increases in market share than those who cut budgets:

- Those who cut were able to gain only two-tenths of a share point.
- Those who increased modestly (average 10 percent) earned five-tenths of a share increase.
- Those who averaged a 50 percent increase in ad spending gained almost a full share point from competition.

By contrast, the Center points out, those who decrease spending when the market is expanding stand to lose share slightly, dropping an average tenth of a share point. And those who increase spending by more than 20 percent gain only a half point of share. "In other words," concludes the Center's Alexander M. Biel, "the possibility of gaining share through increasing advertising pressure would appear to be greater when the total market is soft. By more aggressively increasing advertising, and absorbing a short-term reduction in ROI, companies can take the opportunity afforded by a recession to importantly increase market share and better position themselves to reap the longer-term benefit of enhanced profit." [9]

The Consumer Franchise Building Approach

"The consumer's perception of brand value comes from many sources," says management consultant Robert M. Prentice, "but essentially it is based on ideas—rational or emotional—that set the brand apart from competitive brands. What kinds of marketing activities implant these ideas about a brand's uniqueness in the mind? I call them 'Consumer Franchise Building' or 'CFB' activities. Advertising is the most common CFB activity."

Prentice, whose CFB approach is based on more than 40 years of marketing-management experience at Lever Brothers, General Foods, and Compton Advertising (on the Procter & Gamble account), goes on to explain that certain promotions that work like advertising, if properly executed, can also implant ideas about a brand's

unique attributes. And other CFB activities may include demonstrations and any service material that enhance perceptions of the unique value of a brand.

All other consumer promotions and trade deals are classified by Prentice as "Non-Consumer Franchise Building" or "Non-CFB" activities because they do not effectively register, by themselves, the brand's unique advantages in the mind. Examples are, he says, "most of the manufacturer couponing being done today" as well as coupons in retailers' ads; price promotions and bonus packs; most premiums, sweepstakes, contests, and refund offers; and all trade deals, allowances, and advertising to the trade. Their functions, he notes, are to accelerate the buying decision by temporarily reducing the price, by offering an extraneous incentive (such as a premium or a sweepstakes prize), or by getting retail distribution and trade featuring. While these Non-CFB activities are essential, they do not—by themselves—register the brand's unique attributes in the consumer's mind. "A cut price," says Prentice, "is seldom unique."

Using analyses that cover from four to 15 years (with an average of eight years) and focusing primarily on long-term profit trends, Prentice reveals the ultimate consequences of the way a brand splits its funds between CFB and Non-CFB activities. He finds that advertising and CFB promotions have a cumulative impact on sales for about four years, whereas Non-CFB promotions affect sales for only a year or less. In addition, he notes, "continued over-emphasis on Non-CFB promotions is actually counter-productive, because it practically eliminates the four-year carry-over effect of whatever advertising the brand has done."

This four-year impact, says Prentice, suggests that advertising is an investment rather than an expense. "When you cut a brand's share of advertising," he comments, "it will adversely affect market share not just for one year but for four years."

What about profits? Prentice's extensive case histories show that the higher the percentage of total funds that are spent on CFB activities (and the lower the percentage on Non-CFB activities), the higher the brand's profits will be. In fact, he points out, when a brand's CFB spending falls below a certain danger point, "profits in almost every case will decline within two years."

That danger point varies by category and often by brand. For categories with a high degree of brand differentiation, he puts the danger point at 50 to 55 percent (i.e., of total funds, not less than 50 percent should be spent on consumer-franchise-building activities). For price-sensitive, commodity-type categories with little brand differentiation, he says, the danger point may be around 30 to 35 percent.

Another Prentice finding: To generate a point of long-term market share, Non-CFB promotions cost from four to seven times as much as advertising and CFB promotions. "It's evident that advertising and CFB promotions are low in ultimate cost," he says, "while Non-CFB promotions are high in cost. When the mix of low-cost, long-term CFB activities and high-cost, short-term Non-CFB activities gets out of balance, profits drop within two years, and marketing productivity suffers because promotion productivity—not advertising productivity—is low." [10]

Information Resources Institute

For well over 10 years, the Information Resources Institute (IRI) has studied the productivity of sales and marketing programs, developing research and information tools to measure the basic return-on-investment of such programs. IRI uses a unique testing service called BehaviorScan. Established in 10 markets, it tracks household shopping via I.D. cards that panel members present to check-out cashiers in scanner-equipped supermarkets. At home, the panelist's household TV set is equipped with a device that permits IRI to send it alternative commercials to test advertising variables. The effects of advertising copy and weight are evaluated by comparing the purchase behavior recorded by the scanners with the alternative messages aired in the home.

Recently, IRI has reviewed the data from tests conducted in their BehaviorScan test markets between 1982 and 1988. To try to answer questions on the effectiveness of advertising, it has re-analyzed some 389 weight and copy tests. While not yet released publicly, the results are believed to confirm findings published in earlier IRI reports. Some of the current findings that have been discussed in the industry include these on increased advertising weight:

- When TV advertising is heavied-up, 61 percent of new-product advertising and 50 percent of established-brand advertising show a measurable effect on sales.
- If a brand's share of TV advertising is already high, it is much more difficult to increase sales by using additional weight.

- New products and line extensions are more responsive to increased weight than are established "big brands."
- It takes high levels of concentrated weight to produce a subsequent sales effect.
- Prime time is more effective than daytime.
- Use of heavy introductory periods with strong front-load is more likely to be successful.
- Brands that are more responsive to increased weight are those that are not well entrenched and that are low in share, loyalty, awareness, image, share of TV advertising, and trade displays.

How about findings on the role played by copy? Some results not yet published but rumored in the industry include:

- New brands tend to be more sensitive to differences in copy than established brands.
- When a brand is well established, it is harder for copy to make a difference in sales, but increased weight has an impact when copy is designed to change attitudes rather than reinforce them, when copy strategy is changed, or when copy is introductory (for new flavor, reformulation, packaging).

Overall conclusions? The IRI review is reported to have found that brands responsive to increases in advertising weight are:

- New products or line extensions
- Impulse purchases

- In categories that are growing
- Seeking increased penetration.

Finally, the IRI review is believed to fortify its earlier findings, reported in 1989, that:

- When advertising increases sales, the impact lasts beyond the peak spending period—as long as two years afterward. On average, one year after the advertising increase has been rolled back, 76 percent of the increase seen in the test year can still be found. And over a three-year period, the cumulative sales increase is at least double that of the test year.
- In the short term, about 20 percent of advertising plans pay out, while only 16 percent of all trade promotions are generating profitable sales increases. And, while promotions usually have a measurable impact on sales, it is almost always entirely short-term, except for new products.

Commenting on IRI's findings on the long-term effect of advertising, the research firm's CEO, Gian Fulgoni, said, "What we hope these results are able to do is focus the industry back again on the long-term benefits of advertising in terms of building brand equity." [11] ❐

II. The Toughest Sell: Saving Lives and Changing Attitudes toward Drugs

One way to find out whether advertising works is to give it an all-but-impossible task. This has been done recently in two dramatic campaigns: The American Cancer Society's drive to get men to ask their doctors about tests for colon cancer, and the Partnership for a Drug-Free America's push to change attitudes toward the use of drugs. Both have met stiff challenges and proved that advertising—even on such unpleasant subjects as highly personal medical examinations or drug addiction—does indeed work.

The Advertising Council: Effectiveness Compellingly Demonstrated

"Despite all our efforts to measure the results of our public service campaigns," says Advertising Council president Ruth A. Wooden, "we haven't been able to say definitely that it was advertising that made a major difference. In public service, the tendency is to give credit to everything and everybody else—politicians, laws, community activities, what's in the news—but not advertising. Well, *now* we can say that advertising is a major factor in creating major change on major issues."

What happened? With the Advertising Research Foundation (ARF), the Ad Council set up a unique study of a powerful commercial created by the Calet, Hirsch & Spector agency for the American Cancer Society. The commercial was chosen for the test because it dealt with an issue that had not received recent media attention, its creative execution was strong, and it called upon a specific target audience—men aged 40 to 69—to take a specific action: namely, to speak to their doctors about, and be tested for, colon cancer.

The test took place in four test markets where split cable facilities could control the level of advertising received by each household. One 30-second commercial ran for one year (July 1989 through July 1990) while three waves of research were conducted. Five progressive action steps were measured:

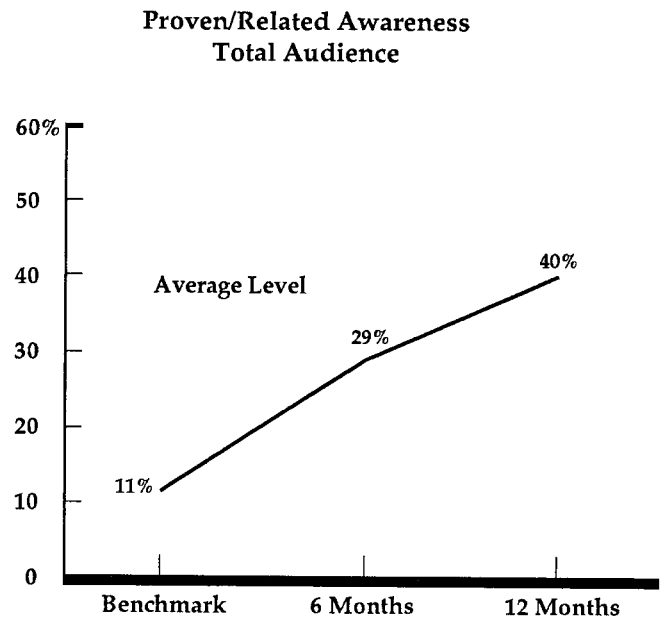
- Awareness of the advertising
- Beliefs regarding the issue
- Personal concern about the issue

- Intent to take action
- Actual reported action.

To provide consistency and better targeting, media placement was controlled. Three national advertisers—Procter & Gamble, General Motors, and Gillette—donated paid advertising time for the commercial to be cut in.

Results for the two most critical steps were outstanding. Among the total target audience of people aged 40 to 69, proven *awareness* climbed from 11 percent before the advertising to 29 percent after six months, then 40 percent at the end of 12 months (see Figure 5).

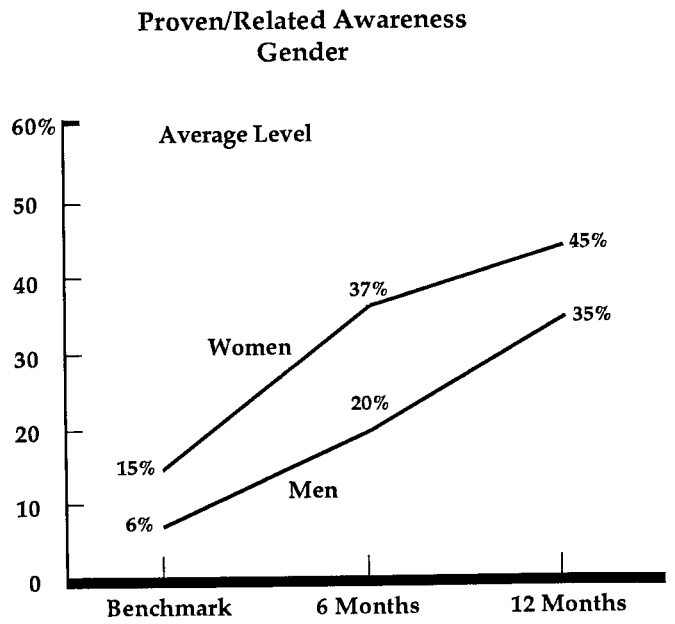
Figure 5



*Source: **Establishing Accountability**, Ad Council/ARF*

Among men, awareness moved from 6 percent before the test to 35 percent at the end of the year—double the rate of women's awareness (see Figure 6). Conclusion? Comments Ruth Wooden: "The longer a campaign runs at a sustained level, the more we can expect awareness to increase."

Figure 6

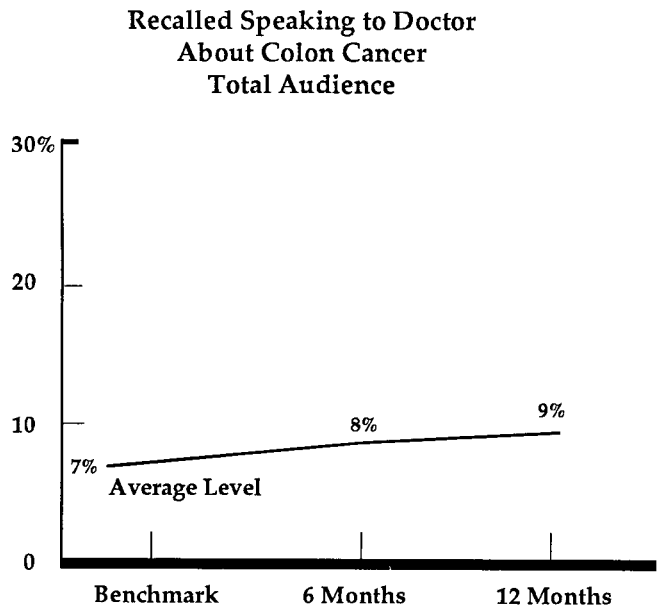


Source: ***Establishing Accountability****, Ad Council/ARF*

Actual reported action was the second critical step. In 12 months, those in the total target audience who took action increased from 7 percent to 9 percent—

a statistically significant increase of 28.6 percent (see Figure 7).

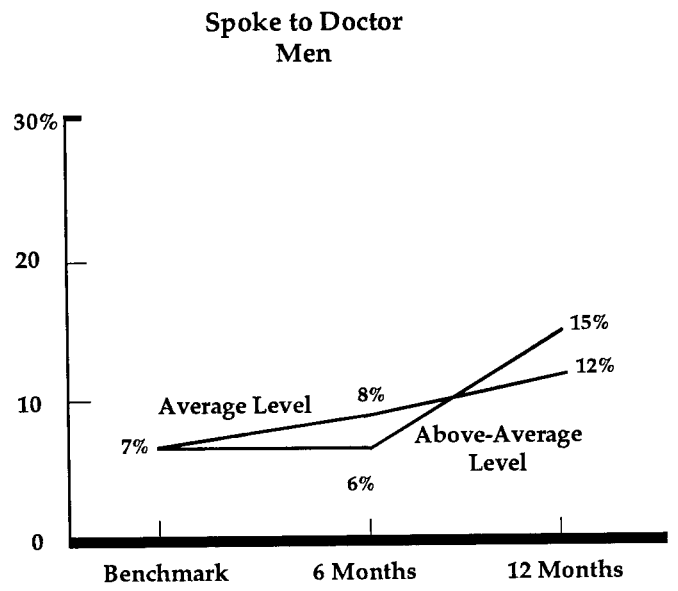
Figure 7



Source: ***Establishing Accountability****, Ad Council/ARF*

Among men, the increase was even more dramatic: 71.4 percent among men who were exposed to average levels of advertising. And, where the test was 2.6 times the average levels, the increase among men in 12 months came to more than 114 percent (see Figure 8, on the next page).

Figure 8



Source: ***Establishing Accountability****, Ad Council/ARF*

Projected to the total U.S. population of men over 40, this translates into an additional 1.7 to 2.7 million men taking an action that could potentially save their lives—an action learned about from advertising.

Commented Ruth Wooden: "This study goes way beyond showing the value of public service advertising. It really is a statement about advertising accountability. Advertising alone caused this behavior change. And we learned that change is indeed measurable." [12]

Partnership for a Drug-Free America: Attitudes Change

Some of the most convincing proof that advertising works has come from the experience of the Partnership for a Drug-Free America. Founded by the AAAA in 1986, this non-profit coalition of communications volunteers from the private sector set out to"denormalize" drug use by shifting attitudes to a consensus of intolerance.

The Partnership developed campaigns targeted to two broad groups: 1) occasional drug users as well as non-users, to convince them that any perceived benefits of drug use are far outweighed by negatives, and 2) "influencers"—parents, healthcare professionals, and business management—to encourage them to bring their influence to bear on the problem of illegal drugs. Messages are targeted to pre-teens, teens, college students, adults, influencers, and ethnic groups, and are both general and on the specific drugs marijuana, crack, and cocaine. Created and produced *pro bono publico* by America's leading advertising agencies, messages are beamed at four markets: general, black, Hispanic, and healthcare.

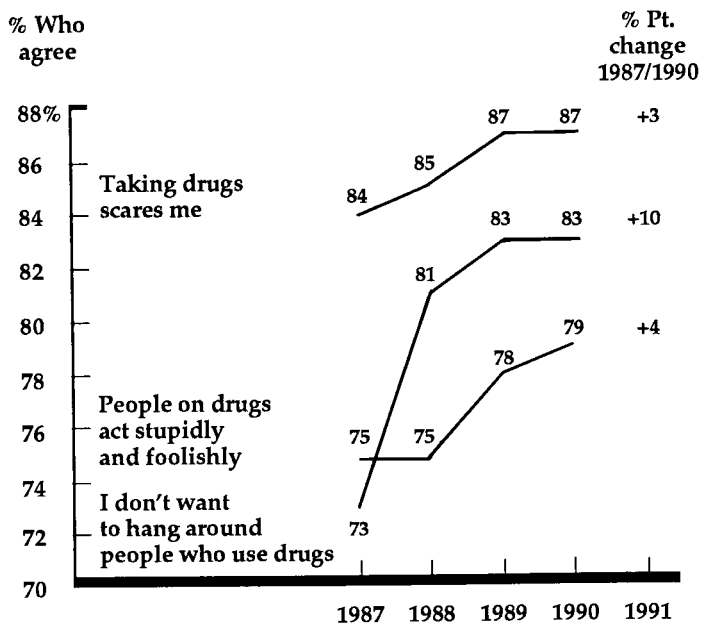
Since the inception of the program in the media in the second quarter of 1987, some 475 ads have been created for all major media. They have run on a *pro bono* basis at an estimated weight of $1 billion.

Annual studies—probably the largest ever undertaken in the United States, encompassing some 7,000 interviews across the country each year—have tracked changes in attitudes toward the use of drugs as well as in actual use of drugs. Moving from a benchmark study made before the first advertising appeared, they have

documented a substantial movement against illegal drugs across the country. They show adult attitudes changing as more see the risk in trying marijuana once or twice (up from 37 percent of adults in 1987 to 41 percent in 1990), trying cocaine once or twice (up from 73 percent to 78 percent), in trying crack once or twice (up from 89 percent to 91 percent). And note the dramatic point changes (especially in "I don't want to hang around people who use drugs") shown in Figure 9.

Figure 9

Adult attitudes are changing

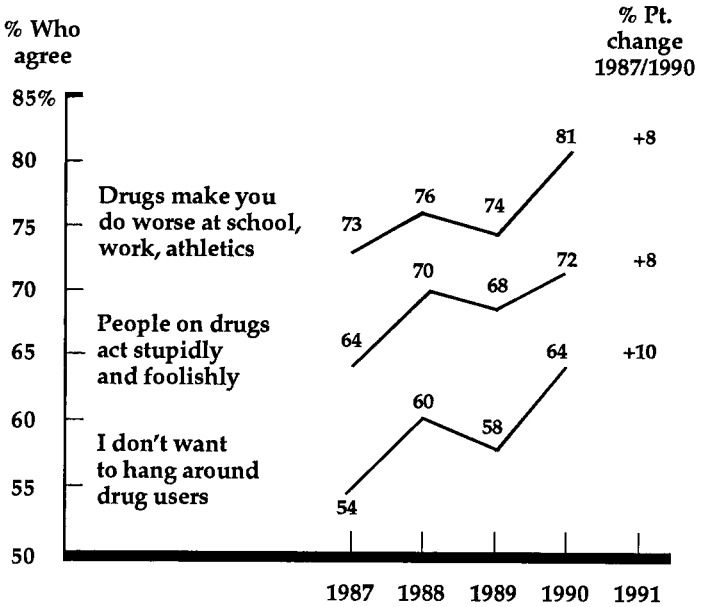


Source: Gordon S. Black Corporation 1990.

Teen attitudes are also changing. More see the risk in smoking marijuana occasionally (up from 63 percent to 72 percent since 1987), using cocaine occasionally (up from 81 percent to 88 percent), and using crack occasionally (up from 86 percent to 90 percent). And dramatic point changes occurred among teens, too, as Figure 10, shows.

Figure 10

Teen attitudes are changing



Source: Gordon S. Black Corporation 1990.

Note also how teenagers describe marijuana users (Figure 11).

Figure 11

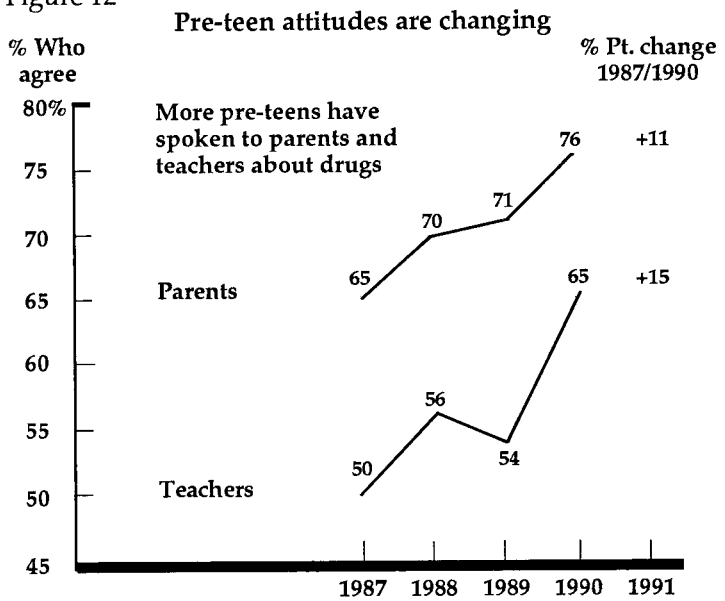
Teen attitudes are changing

Describe marijuana user as:	1987 (%)	1990 (%)	Pt. chg.
Lazy	62	69	+7
Depressed	44	56	+12
Self-centered	30	44	+14
Loner	40	54	+14
Has no future	57	67	+10

Source: Gordon S. Black Corporation 1990.

The Partnership campaign has also produced more pre-teens who have spoken to their parents and teachers about drugs—Figure 12.

Figure 12



Source: Gordon S. Black Corporation 1990.

Summarizing its 1990 findings, the Partnership reported "striking evidence for the following conclusions":

- Attitudes are becoming increasingly more antagonistic toward illegal drugs, with the greatest change in the past year occurring among teenagers.
- Friendship networks are narrowing to exclude drug users, with more Americans reporting they have no friends who use marijuana or cocaine.
- Illegal drug use is down, especially among teenagers. The overall rates of decline in use are very similar to those reported by the National Institute on Drug Abuse (NIDA) in "household" and "high school senior" studies.

The studies show that improvements in attitude are linked directly to reductions in consumption of drugs by adults and older teenagers. They also reveal a striking finding: The changes both in attitude and in consumption are greatest in those markets where the advertising has been the most frequent.

What accounts for this finding? The variance in weight that is characteristic of public service advertising, for media placement is voluntary. Some markets have seen high frequency, while in others Partnership ads have been relatively infrequent. In 11 markets, representing 19.1 percent of the total U.S. population, media weight was at least two times heavier than the average for the rest of the country. In those heavy media markets, the increases in anti-drug attitudes were two to five times greater than in the rest of the country. The Partnership compared the attitudes of people who saw at least five of its messages with the

attitudes of those who saw two or less (see Figure 13). It found significant differences, with attitudes against drugs and drug users changing anywhere from 11 to 21 percentage points.

Figure 13

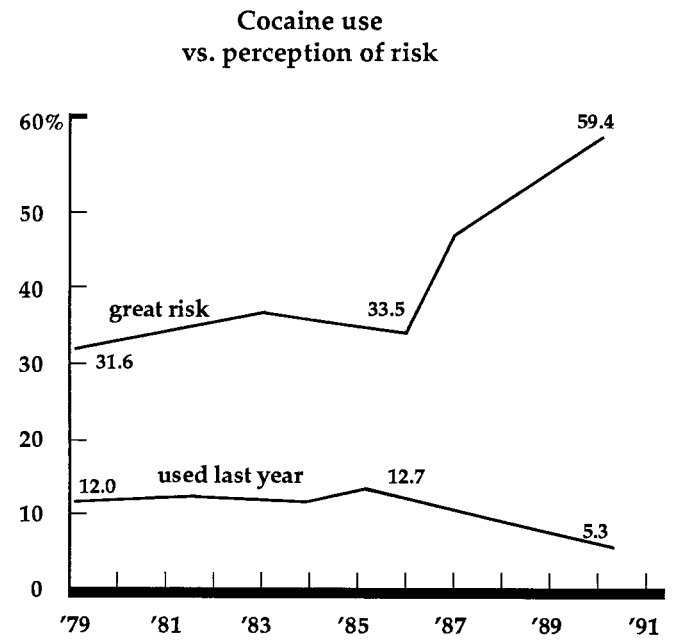
	Adults who say:		
	2 or less (%)	5 or more (%)	Pt. chg.
See great risk in trying coke once	50	64	+14
Think pot users have no future	52	63	+11
Feel drug users are stupid	56	67	+11
Disapproved of pot at a party	19	39	+20
Discouraged a friend's coke use	17	36	+19
Discussed danger of drugs with kids	35	56	+21

Source: Gordon S. Black Corporation 1990.

"Is there a link between these changing attitudes and drug use?" asks the Partnership. It gets the answer from the annual study conducted by the University of Michigan among American high-school

seniors (see Figure 14). Since 1987, the perception of risk in the use of cocaine has risen dramatically, while cocaine use itself has steadily moved downward.

Figure 14



Source: University of Michigan H. S. Senior Study.

"In the broadest possible sense," concluded the summary by the Gordon S. Black Corporation, which has conducted the tracking studies since the inception of the Partnership, "Americans are turning away from illegal drugs in very large numbers, and they are increasingly intolerant toward drugs and users." [13] ❐

III. The Role of Advertising In Building Brands

Some researchers have looked hard at how advertising helps to build brand equity and at how important it is to sustain that brand equity over time.

"Latent capacity to influence behavior"

What is a brand? Often the brand is confused with the product, says Peter Kim, J. Walter Thompson senior vice president in charge of all research and planning for Thompson's U.S. company. A product is a physical thing, he notes, while a brand has no tangible, physical, or functional properties. Yet it is just as real as the product. Disembodied, abstract, ephemeral, it exists like a myth in the imagination of its consumer.

What a brand signifies or means, says Kim, may or may not be linked to its physical or functional characteristics. "Many of the harshest critics of advertising," he

adds, "as well as some of its practitioners, fail to understand the fundamental truth that advertising is not always about what a product 'does,' but rather about what a brand 'means.' A great deal of advertising is an attempt to build and strengthen the consumer's conception of what the brand means to him or her. Indeed, much of the best and most effective advertising today focuses almost totally on this aspect of advertising."

A brand, concludes Kim, is the totality of the thoughts, feelings, sensations, and associations it evokes. "A brand's equity therefore refers to the latent capacity of a brand to influence the behavior of the beholder by evoking a specific set of thoughts, feelings, sensations, and associations." The word "latent," he adds, implies "the potential to continuously and regularly influence the behavior of those who behold the brand, routinizing their purchase behavior and thus stabilizing the demand for an existing product, or expanding their purchase behavior to create demand for new products." [14]

"Brands are Assets"

Consumers will pay more for market-leading, premium-quality, differentiated brands, says Larry Light, president of the Arcature Corporation research firm, and the financial community will pay more for companies that market those brands. "Why?" he asks. "Because brands are basic. Brands add value. Brands are assets."

Light's company studied the consumer businesses in the PIMS data base and concluded that "how much you spend on advertising does have a highly significant impact on perceived quality. As advertising weight goes up, perceived quality increases." Arcature found

no correlation between the perception of quality and increased promotional weight. It also found that "how much you spend on advertising has a highly significant impact on reputation. As advertising weight increases, perceived differentiation increases." Again, no correlation was found between the perception of brand differentiation and increased promotional weight.

But in market rank, a difference was found. "The promotional effect on market rank is more significant than the advertising effect," says Light. "Promotion builds volume. Advertising builds value. You need product volume to be a market dominator. You need perceived brand value to be a profitable dominator. The key to success is to get the balance right."

His finding? "Compared to market followers, market dominators allocate 26 percent more of their advertising and promotion budgets to advertising. Our evidence is unequivocal. In fact, while dominators spend half of their budgets on advertising, followers spend about 60 percent on promotion." [15]

"Strong Brands, Reasonably Supported, Remain Strong."

Brand equity was discovered by Wall Street in the early to mid-80's, notes Tod Johnson of The NPD Group at NPD/Nielsen, Inc. This was, he says, at a time when "there was a general feeling of malaise about the declining quality of brand loyalty." The fact that marketers continue even into 1991 to bemoan the loss of brand loyalty, he adds, "strikes me as very inconsistent with the new religion of brand equity."

Determined to prove that over the past 15 years brand loyalty among major packaged goods brands has seen only minor declines, Johnson analyzed a mix of typical packaged goods product categories. Of 50 brands at the start of the study in 1975, 40 were still among their categories' top three brands in 1989 and 46 were still considered to be major brands. "Given 15 years of aggressive and volatile marketing," he comments, "it is certainly dramatic to see that 40 or 46 out of 50 brands have stayed on the top throughout these changes. The conclusion is quite clear. Strong brands, when reasonably supported, tend to remain strong brands."

To quantify loyalty, Johnson set six months as a period long enough for most consumers to have multiple chances to make purchases. He proposed two definitions of loyalty. One looked at the total purchases in a category by the buyer of a particular brand and measured the share of all those category purchases that were satisfied by the brand—called "Share of Requirements Satisfied." The other, called "Loyal Buyers," consisted of consumers who made at least three purchases of a given brand in the six-month period and whose share of requirements for that brand was more than 50 percent.

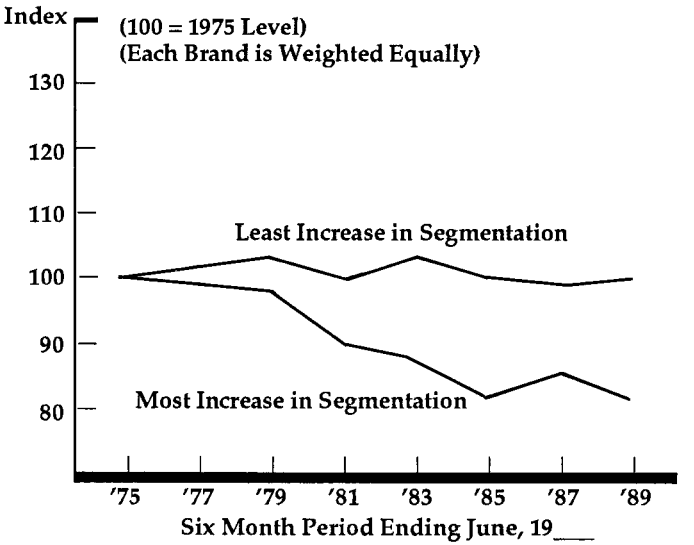
Johnson found that two-thirds of all brands had a Share of Requirements Loyalty measure in 1989 that was within 15 percent—plus or minus—of their 1975 results. "I think we would all agree," he said, "that plus or minus 15 percent over 15 years is not much change for a brand. One must conclude that among major packaged goods brands over the last 15 years, brand loyalty has not declined much. Furthermore, on average, the declines that did occur were in the early '80's."

What caused even such minor declines in brand loyalty? Johnson found two identifiable causes. "Perhaps shocking," he said, "is that these two causes of decline have been induced by marketers themselves, rather than by any underlying change in consumer behavior. Specifically, these two causes relate to category segmentation strategy and to advertising support."

Johnson found that loyalty suffered its greatest declines in categories where many new brands or flankers, or both, were introduced (see Figure 15).

Figure 15

Share of Requirements Satisfied



Brands in Categories Where Segmentation Increased:

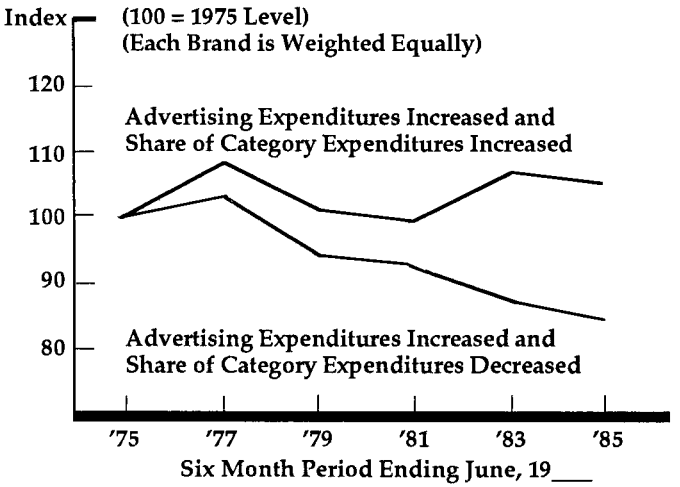
Most	100	99	96	90	86	82	84	82
Least	100	102	103	100	103	100	98	99

Source: Advertising Research Foundation.

"This clearly indicates that much of what is being measured as loyalty decline is actually the result of manufacturers' segmentation strategy," said Johnson. "It does not reflect a natural tendency of consumers to be less brand loyal."

As for advertising, Johnson broke down brands with increased advertising expenditures into those that had an increased share of expenditures in their categories versus those whose increased advertising spending actually translated into a decreased share of spending in their categories. This produced a trend that correlated with loyalty (see Figure 16).

Figure 16



Brands Whose Advertising Expenditures Increased *and* Whose Share of Category Expenditures . . .

	n =					
Inc. 17	100	108	102	99	107	106
Dec. 15	100	103	94	92	88	84

Source: Advertising Research Foundation.

"The brands that were increasing their advertising expenditures relative to competitive brands," concluded Johnson, "were also the most successful at maintaining or even increasing their brand loyalty. Advertisers' own strategies have had greater impact on brand loyalty for major packaged goods brands than have changes in consumer behavior."

Following this conclusion, Johnson observes that "there is only one way that these facts about loyalty and promotion can be reconciled." He suggests that, while switching may be caused by certain promotions, it is a behavior that "has gone on for a long time and is generally switching within a consumer's traditional mix of brands, thus leading to no sizable change in overall loyalty." The marketer, he says, should realize that promotion is basically a tactical pricing tool and not a strategic marketing tool. Promotion should not be considered a business-building expenditure but rather simply a short-term business response tool that is part of the income equation. Opposite the promotion budget, the marketer should think of a franchise-building budget, focused on advertising and a few selected, consumer-oriented promotions, for "franchise protection and development remain marketing issues, involving communication, positioning, imagery, product characteristics, and packaging. Most promotional expenditure is not a part of this side of the equation." Johnson thus takes a position alongside Robert Prentice and his insistence on the importance of consumer-franchise-building activities. [16]

Drives up intrinsic and relative brand values

"If the effect of advertising is to make more people buy the brand, or to make them buy it more often, or to make them willing to pay more for it," says Ogilvy & Mather senior vice president and head of research Max Blackston, "then the advertising has made the brand more desirable, more valuable. The advertising increases the value of a brand."

Blackston defines the value of a brand as "those qualities which maximize its subsequent sales volume and margins." He notes that high-value brands command higher prices and margins, resist competition better, and enjoy greater consumer loyalty.

In Blackston's test, consumers were faced with simulated purchase choices among various combinations of brands and prices. Each choice triggered an increase in the price of the selected brand, forcing the consumer to trade off between choosing a preferred brand and paying less. "Thus," he says, "consumers reveal how much their brand loyalty is worth and, conversely, which brands they would relinquish for a lower price." Blackston adds that the methodology "has been widely used as a means of measuring price elasticities, and as a tactical tool for optimizing pricing, and has been broadly validated against empirical measurement of price elasticity."

The research defined high-value brands in two ways:

- High-value brands command higher prices and margins, and therefore lose relatively little share or volume as the price increases. This is a measure of how the brand responds to changes in its own price—an indicator of its *intrinsic value.*
- High-value brands better resist competition, and therefore lose relatively little share or volume as a result of competitive price promotion. This is a measure of how the brand responds to changes in the prices of its competitors—an indicator of its *relative value.*

Results?

Blackston found that, "In general, those brands with a high intrinsic value also have a high relative value. This says that brands which can support higher prices react less to competitors' price changes than brands which cannot support a premium."

His chart of this observation, based on 19 brands in two beverage categories (see Figure 17, on next page), runs a "normative" line with low-value brands tending toward the lower left and high-value brands toward the upper right.

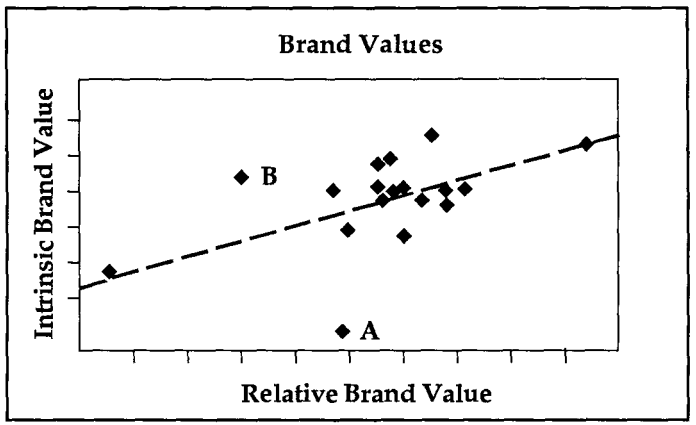
Note brand A, well below the normative line. It has a low intrinsic value. But relative to other low-value brands, it has a high relative value, not much affected by competitive price-cutting and appearing to occupy a commodity-like niche. Sales depend very much on price, with little brand-switching.

By contrast, brand B is well above the normative line, with a high intrinsic value but low relative brand value. Relative to other high-value brands, it is vulnerable to competitive price-cutting.

"What changes," asks Blackston, "in an individual brand's value can we expect to see as we track it against advertising? The most likely, and desirable, effect is that

effective advertising will drive up both intrinsic and relative brand values." Advertising that drives up intrinsic value faster than relative value, he says, will have the effect of moving the brand away from and above the normative line. With its intrinsic value increased more than its relative value, it will be better able to follow the upward price movements of other brands, but will still be vulnerable to the promotions of competitors.

Figure 17



Source: Advertising Research Foundation.

Blackston doubts that advertising, at least over the short term, could bring about the reverse: higher relative value without higher intrinsic value. Rather, he says, it seems more likely that *a long period of ineffective or no advertising would allow the brand to slip back into such a "commodity niche."*

Overall, he concludes, he is optimistic that such dynamic tracking measures "will help take the issue of advertising effectiveness off the debating floor and back where it belongs." [17]

Two final comments on brands: William Moran, whom Martin Mayer describes as "an Irish philosopher turned social researcher, who at various times headed the research function for Lever Brothers and Young & Rubicam," says that the most valuable lesson that agencies teach is "that there really is a brand franchise, created by advertising, and the stronger the franchise, the greater the benefit the advertiser can hope to gain from any marketing strategy." [18]

And British researcher Simon Broadbent, in a pamphlet titled *The Longer and Broader Effects of Advertising* published by the Institute of Practitioners of Advertising, says: "Branding is part of the reason consumers buy one product rather than another... Advertising is usually the major contributor to branding... The brand image is a mass of great momentum which is slow to alter direction, and often we are dealing with unquantified effects. This does not mean that they are unreal. True marketers have the instinctive and correct feeling that the brand is their most valuable property, that it will evaporate slowly unless supported, and that long-term effects are the main justification of the advertising investment." [19] ❐

IV. Still More Evidence

Various other studies have been conducted over recent years documenting the fact that advertising works. Some 10 landmark studies made between 1960 and 1986 to measure the perception and communication of magazine advertising have been reviewed for the Advertising Research Foundation by Wayne P. Eadie, *Newsweek's* director of research. The point of calling attention to his review in this report is that, while it is oriented to magazine advertising, its findings in every case tell us that advertising works. Eadie's review included:

1. "The Rochester Study" conducted for *The Saturday Evening Post* by Alfred Politz Media Studies in 1960. It found that all measures of ad effectiveness increased as exposure to the ad increased and that relative effectiveness was greater for less established brands.

2. "A Measurement of Advertising Effectiveness" conducted for *McCall's* by Politz in 1962. Somewhat like "The Rochester Study," it found that a

single exposure by a reader to an ad improves brand rating, while two exposures by the same reader to the same ad are significantly superior to one exposure.

3. "Repeat Exposure Value," conducted for *Reader's Digest* by Politz in 1966, confirmed that two exposures were more effective than one.

4. "Study of Advertising Communication," conducted for *Look* magazine by Audits & Surveys, Inc., in 1962, measured 24-hour recall for TV commercials and four-color magazine ads. It found that the medium itself cannot guarantee a high score and that the creative presentation of the product outweighs disparities in product interest.

5. "A Study of Media Involvement" conducted by Audits & Surveys, Inc., for Magazine Publishers Association (MPA) in 1986. It showed that advertising in magazines seems to provoke more positive reader attitudes while minimizing negative reactions from both men and women, and that the magazine margin of advantage over TV was greater among better educated, more affluent, professional/managerial/white-collar adults who are prime prospects for many goods and services.

6. Other studies reached the following conclusions:

   - Considered purchase items, such as automobiles, targeted to men generally did better in print than in broadcast.

   - Recall is generally higher among target or prospect groups, and print usually does relatively better among such groups. [20]

Other evidence has come from the Strategic Planning Institute's PIMS ("profit impact of market strategy") program. The level of brand awareness that exists for a product is instrumental in determining the level of market share achieved by that product, notes the institute's Valerie Kijewski, Ph.D. Ample evidence abounds, she says, "indicating that media advertising affects the level of product awareness. It is worth repeating...that levels of brand awareness do decay unless awareness is reinforced by on-going advertising activity." A 1980 study by PIMS with the Cahners Publishing Company indicated that a) the products and services of businesses that advertise are rated as having higher perceived quality than are the products and services of businesses that do not advertise, and b) when businesses surpassed the level of advertising (as a percentage of sales) of competitors, they gained an edge in perceived product quality. They were also rewarded with higher prices.

Concludes Dr. Kijewski: "Those businesses which do more advertising (as a percent of sales) than competitors have achieved greater market share and higher profitability. It is sensible to believe that superior companies not only deliver better products to their customers but also support their marketing with superior advertising programs. Superior quality and the opportunity for premium pricing, when properly supported by advertising, can provide the critical marketing edge." [21]

Another valuable study addressed the challenge of "making advertising something that really is accountable." It was conducted by Edward C. Dittus, president of Media Marketing Assessment, Inc., and Marty Koop, marketing research manager of Kraft/General Foods.

Their objective? Using a specific Kraft/General Foods product and the modeling capabilities of the research firm, they set out "simply to explore ways to grow the brand through increased effectiveness and efficiency of our spending."

Having projected a number of considerations and analyzed them, they concluded that:

- A regular media presence was desirable.
- Hiatus durations must be relatively brief—no greater than three weeks.
- Of three major dayparts used, one was ineffective in generating sales; the best proportions for the other two were identified.
- The overall budget was too low by almost 15 percent. Regarding spending level, they found, "The primary learning confirmed that media was not a discretionary variable that could be cut to meet profit objectives. Increasing spending was somewhat profitable, to a point. However, cutting back on spending would be very unprofitable. The dollar loss due to lost volume was significantly greater than the money that would be saved by a cut in advertising." In addition, they noted, "This financial analysis was done on a 'short term' basis. If we had done it on a longer-term basis, the losses due to advertising cuts would have been more severe." [22] ❐

V. Yes, Virginia, It Does Work

It works best and longest when it is *allowed* to work . . . when consistent investment spending of both money and time permit the advertising message to get through to its audience.

Ask The Marlboro Man, perhaps American advertising's greatest marketing success. For well over 30 years, Marlboro and its agency have had the wisdom not to change packaging, not to change the cowboy image, not to change the basic product (they "keep the brand modern by line extension," says Philip Morris U.S.A. president and chief executive Frank Resnik). Result: An image estimated in 1987 by *Forbes* magazine to be worth $10 billion, based on the fact that the company's total market value was $19 billion and that Marlboro accounted for half the profits and for most of the parent's high return on equity. [23]

Ask Diet Coke, the biggest soft-drink introduction of the 1980's. Coca-Cola and its agency had the wisdom to

position their new brand on taste rather than calories, knowing they could attract far more consumers than just the dieters. They had the guts and wisdom to kick off at high spending levels, pledging $30 to $50 million in the introductory year alone, then maintaining high levels ever since. And they were wise enough to put the long-established Coke trademark to work identifying their first line extension and thus reassuring consumers that the company's generations-old reputation came in every bottle. Result: By the end of the decade, Diet Coke was the nation's third largest soft drink, behind Coca-Cola Classic and Pepsi-Cola's Pepsi. [24]

Ask Campbell's Soup and its president, Gordon McGovern. "Today, a little advertising isn't enough," he says. "With fierce competition in virtually every section of the supermarket, an ambitious goal of 15 percent growth in annual sales, and consumers who aren't just sophisticated but downright finicky about the foods they eat, it doesn't just pay to advertise—it's critical." That is why, he adds, "It's no accident of inflation that Campbell almost doubled its advertising budget—from $66 million to a whopping $126 million—in less than two years [1987-1989]." [25]

Ask Betty Crocker. This fictional character, created in 1921 by Sam Gale, director of advertising for the Washburn Crosby Company's Gold Medal Flour, was portrayed in TV commercials in the 1950's but hasn't been seen "live" since then. Advertising by General Mills, however, has constantly maintained her brand name on its line of baking mixes as well as her identity as an authority on cooking. Result? When people 50 to 64 years old were asked in 1989 to name celebrities whose endorsement would influence their purchases,

the name "Betty Crocker" led all the rest—ahead of (in this order) Walter Cronkite, Bob Hope, James Garner, Bill Cosby, Alan Alda, George Burns, Cliff Robertson, Mary Tyler Moore, and Chuck Yeager. [26] But it is not only the seniors who see power in the hands of Betty Crocker. According to the 1990 Landor ImagePower Survey discussed earlier in this report, Betty Crocker is the 16th most powerful brand name in the United States, ahead of such familiar brands as Kraft, Kleenex, Jell-O, and Tylenol. Among food brands, Landor found only Coca-Cola, Campbell's, Pepsi, Kellogg, McDonald's and Hershey more powerful than Betty Crocker. [27] Altogether, that is a truly remarkable payout for 70 years of consistent investment spending in advertising.

Two words in conclusion, then: *It works.* And you can make it work—*make it pay off*—for your brand. ❐

ENDNOTES

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Different Kinds of Promotion?", a presentation by Robert M. Prentice.

11. a) Alex Kroll, speech before Financial Conference of the Association of National Advertisers, May 6, 1991; b) Dr. Magid Abraham and Dr. Leonard Lodish, "Advertising Works: A Study of Advertising Effectiveness and the Resulting Strategic and Tactical Implications," Information Resources Inc. 1989.

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14. Peter Kim, "A Perspective on Brands," *Journal of Consumer Marketing*, Fall 1990.

15. "How Advertising and Promotion Help to Build Brand Assets," by Larry Light, speech before the Second

Annual Advertising Research Foundation Advertising and Promotion Workshop, February 22-23, 1990.

16. "The Inherent Value of Brands: Results from Over Fifteen Years of Brand Loyalty Data," speech by Tod Johnson before the Third Annual Advertising Research Foundation Advertising and Promotion Workshop, February 5-6, 1991.

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20. "Measuring the Sales Effectiveness of Advertising in Magazines: A Primer on Landmark Studies," by Wayne P. Eadie, speech before the Advertising Research Foundation Advertising's Sales Effectiveness Workshop, June 18, 1987.

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25. "When you put $126 million where your mouth is, you'd better have something to say," Campbell Soup Company advertisement, *Supermarket Business*, May 1989.

26. Source: Donnelley Marketing/Mature Market Network, reported in *Marketing Week*, November 6, 1989.

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