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MARKETING SCIENCE

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Marketing Budgets

Advertising

In recent years, there has been a great deal of pressure to find ways of measuring the effectiveness of advertising. Advertising departments, ad agencies, and researchers have responded with a variety of approaches to the problem. The trade press has reported attempts by DuPont, General Motors, Ford, Scott Paper and a number of research firms. The methods used have ranged across experimental design, the Markov chain, multiple regression, time series analysis, and combinations of these. Detailed explanations of technique, however, are extremely rare in the professional literature. One is led to suspect that none of the techniques have been very successful as management pressure continues and explanations of how are unpublished. My own experience tends largely to verify this assessment.

The work of my own group has had both rewarding success and embarrassing failure. We've tried all the techniques. We've done studies where we built a model that explained over 95% of the variance in sales and others which produced clearly absurd results. (We are getting better at it.) That our experience is commonplace is clear from conversations with others in the field who report, as one extreme example, experiments where the market with twice the advertising had half the sales.

Management has two reasons for seeking measures of advertising effectiveness. First, they would like to find ways to improve the accounting of advertising expense to make it easy to tell whether the expenditures were a good investment. Second, they would like to be able to plan better for the next year's budget. To some extent, marketing research has found ways to get at the first question, but all seem to be unreliable, slow, and inordinately expensive. The second question is usually treated (if attended to at all) on the assumption that last year's efficiency will carry forward to next year. This is a shaky assumption, since we have found cases of new advertising copy raising total sales by as much as 12% (which was approximately doubling its contribution to the brand's fortunes). And from this, we could calculate that assuming last year's efficiency applied would have resulted in very significant underspending. Fortunately, this brand's budget was set by maintaining a constant ratio of advertising expenditure to sales revenue, so the budget rose sharply in response to the new sales and wound up not far off from what it should have been.

Because optimal advertising budgets are strongly affected by the content of the advertising as well as many other factors about the market place, it seems appropriate to look for decision models working from judgments about how these factors might change from one year to the next. If those expensive effectiveness studies have been done, they might make nice benchmarks for judgment, but it is likely to be folly to accept the measures as applicable to next year's budget.

Sales Promotion

It has been a matter of some amusement to me that sales promotion expenditures have been relatively unchallenged as to their effectiveness. This is remarkable when many brands of consumer goods spend more on sales promotion than on advertising. Management seems to be satisfied with such strange measures of effectiveness as the per cent redemption for coupons sent out in the mail. I do not intend to suggest that there is a complete lack of pressure from management nor that the subject has not been investigated by marketing science. I merely suggest the pressure is building and more accountability will be expected than is now available.

There are several reasons for delayed pressure in the sales promotion area. For instance:

1. Sales promotion is frequently handled opportunistically rather than on yearly plan. That is, it is used to respond to competitive situations, or to correct distribution problems in local areas.
2. For established brands, the effects of sales promotion are usually of short duration. The pattern is well known of increased sales during a promotion, slightly decreased sales immediately afterwards, and then a return to the trend line.
3. Many forms of sales promotion have simple (and probably deceptive) standardized measures of effectiveness. The previously mentioned redemption rate for coupons is an example as is the count of orders for a premium offer or the number of units dispensed of a giveaway.
4. Accounting conventions for sales promotion are deceptive. For price promotions, the accounting deducts the customer's saving from the full price which was not changed. Premiums are usually self-liquidating and appear, therefore, to be free. These practices make it very difficult for the marketing scientists to determine the actual cost of the promotion.

Management will soon want to use comparable measures of return or investment in both advertising and sales promotion in order to make wise decisions about the allocation of the marketing budget to the two activities. Before that can be done, marketing scientists will need to attend to these four observations just made. For advertising is not used opportunistically to anywhere near the extent characteristic of sales promotion. Nor are the effects of advertising likely to be of such short duration as those of promotion. The standardized measures used in advertising to measure effectiveness (e.g. noting, ad recall, brand awareness, and favorable attitude) are not comparable to those for promotion. And finally, advertising expenses are treated differently in accounting.

I hope that readers of this column will share their thoughts and experiences in the area of sales promotion effectiveness. The four observations will cause us all trouble in the future (particularly the accounting problems). Perhaps there are already some successful attempts to cope with these problems. If not, there may be some good untried ideas to share. Either way, letters will be gladly received by

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