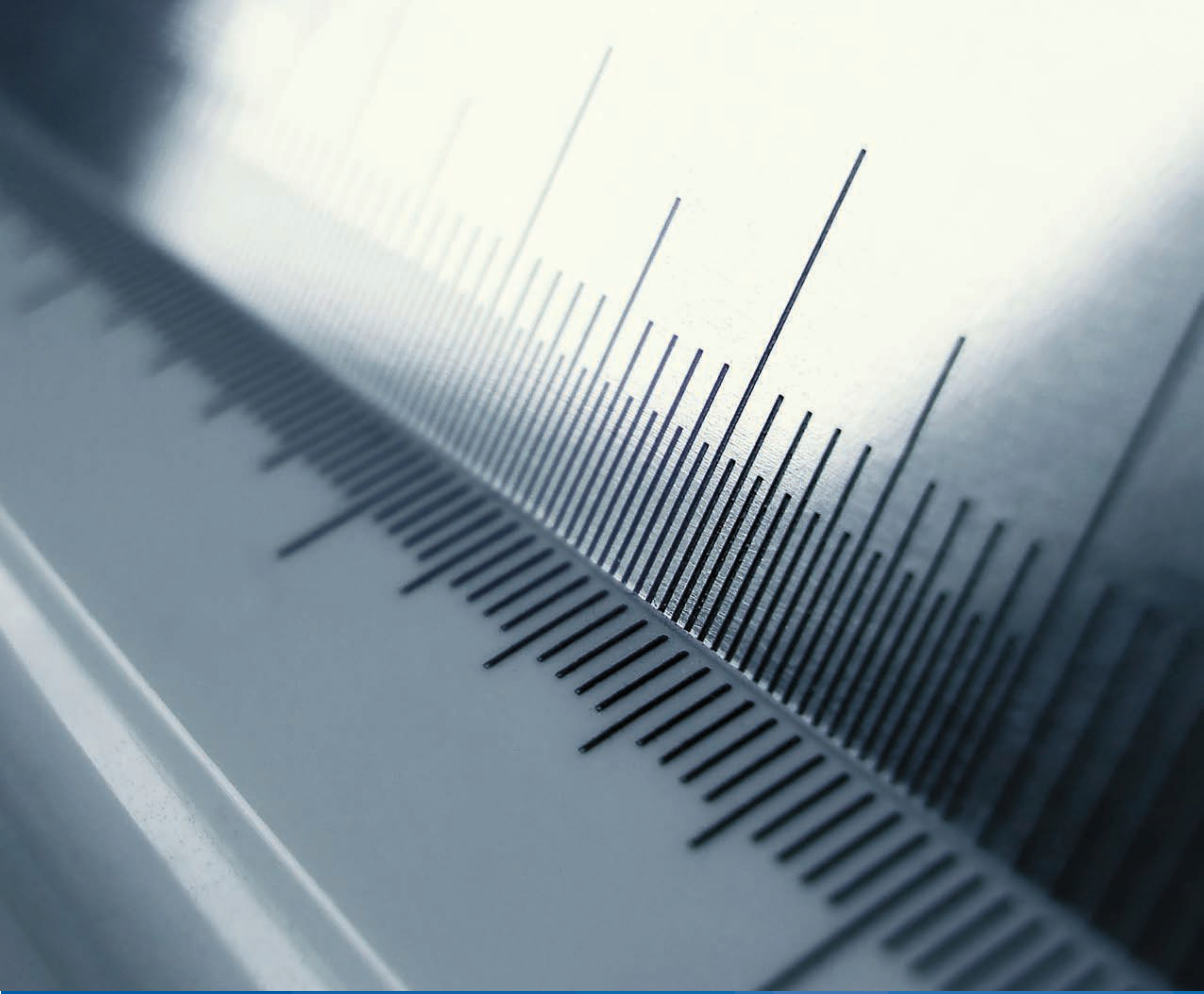

The 7 Steps of Advertising Measurement

A Mediassociates Whitepaper

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BETTER THINKING

Dear Executive,
The Clock is Ticking on Your Career.

Executive search firm Spencer Stuart reports that the average tenure of a CMO is only 45 months (and that's good news, up from just 23 months in 2006!).

Fast Company recently called the Chief Marketing Officer "the most dangerous job in business" and noted the marketing heads of Coca-Cola, Walmart, Verizon and the Gap had been kicked out on short notice.

Why are CMOs under such pressure? Because marketing executives must get results, and results are harder than ever to control. When the numbers go south, the CMO is more likely to take the fall than the head of IT or operations. And a key requirement for getting results is making advertising work.

The challenge of advertising

Advertising is only one area of marketing, of course: product development, pricing, distribution, and field sales management often fall under the Chief Marketing Officer's domain. But as media channels fragment, the ability to control the output of a marketing message to influence business or consumer customers to buy products is waning fast. A 2011 study of 1,700 CMOs by IBM found that only 48% felt prepared to face the complexity of marketing communications and data. CMOs face four major challenges in advertising, none of which are easily solved by a creative agency's "big idea": *There are too many ads.* Alas, the proliferation of advertising and social media has left most CMOs confused about how to make messaging work. Let's review a few quick stats: More than 5.3 trillion digital display ads were served to U.S. consumers in 2012. This sounds like a lot, until you consider 23.5 trillion TV commercials were also "served" (if TV were measured by the same yardstick as banner ads). The 314 million American adults and children in the United States watch 1,560 hours each, on average, of TV annually, making television viewing nearly the equivalent of a full-time job. Even if your ad message was judged to be in the top 1% of all creative concepts, you'd still be competing with hundreds of millions of other advertisements.

Advertising response rates are falling. Drowning in this tsunami of advertising content, consumers are responding less frequently to any given ad. Advertising response rates in the U.S. hover consistently between 0.03% and 0.13% across most forms of media. Banner ads, which are often evaluated on a "click-through rate," have a notoriously low 0.07% average response. But consider that TV fares worse; if the average U.S. consumer is exposed to 6,600 television spots per CONTINUED ☛

month, someone who responds to only three ads each month would generate a 0.05% response rate. Radio averages about 0.13% response; out of home 0.03%. All advertising, mostly unwanted and intrusive, regresses to a mean response about in the range of the lowly online banner ad.

Campaigns throw off too much data. The global study of CMOs by IBM also found their most pressing worry was about data measurement: 71% of CMOs in 64 countries felt unprepared for understanding shifting consumer demographics. Marketers must now parse old-school media metrics such as TCPM, GRPs, reach and frequency with CTRs, costs per action, time on site, engagement rates, Facebook Likes, Twitter retweets, sentiment analysis and customer valuation scores. The data-wash is compounded by media industry groups that promote the metrics that make their own particular form of advertising look best, regardless of whether those metrics have real value. Newspaper and magazine publishers, for instance, recently began downplaying "circulation" to promote hypothetical larger "readership" numbers, assuming every article in every publication is read by more than one person. The radio measuring service Arbitron, faced with declining ratings in many markets, recently launched a PR campaign touting that "70 GRPs is the new 100 GRPs." Hmm. What is a marketer to believe?

And the media that carries the message is radically changing. Mobile Internet-connected devices, which did not exist five years ago, now account for 10% of all consumer screen time. Half of U.S. adults now own a tablet. Apple has patented holographic displays that would project floating images without you wearing glasses. Google Glass pushes a floating screen into your field of vision as you walk around. Consultancy ABI Research has predicted that, in fact, seven forms of wearable technology — from watches to glasses to health-related devices to sports apparel — are coming soon. This radical proliferation of media channels makes message control extraordinarily difficult, a bit like planning a kayak adventure when the river course keeps changing.

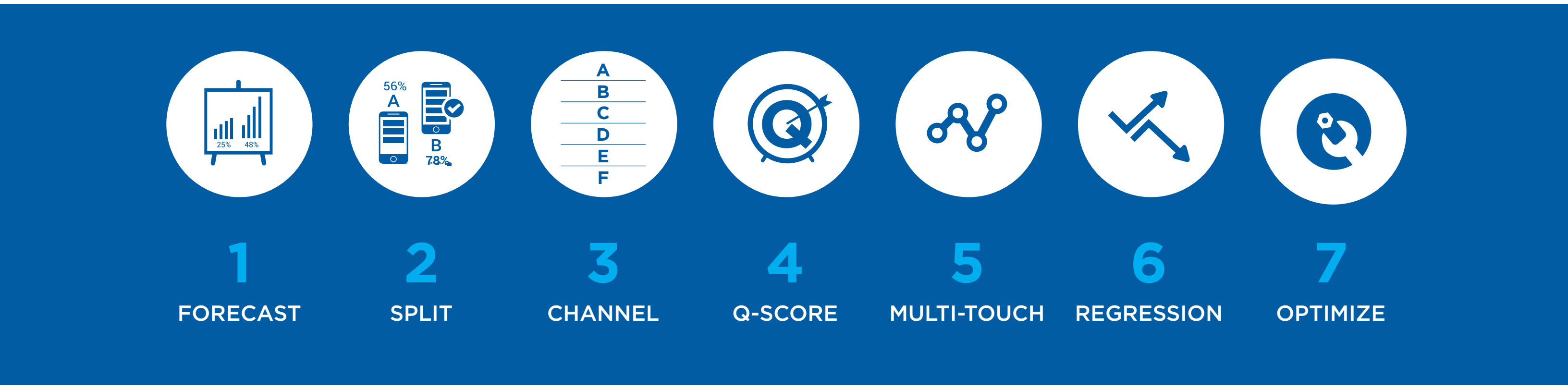
First, understand the ad 'value skew'

OK, marketers, this all sounds complex. Any complex system can be overwhelming if you consider all possible outcomes. But as with your morning commute, you don't take every possible turn in the road — you pick a logical path. If we assume your commute to work is 25 minutes long and that you encounter an intersection on average every 90 seconds (more when you start, less on the highway), on your way to the office you cross 17 intersections, each with a right, left, or straight-ahead option. Your total number of potential destination outcomes is 129,140,163. But you make it to work each day, because you choose the right path. CONTINUED ☛

Our agency experience, from running advertising and communications campaigns for more than 200 clients in the past 19 years, has found that marketing measurement can be collapsed to seven simple steps, focused on the one principle that there is always unequal distribution of value in any group. This power-law concept was first noticed by economist Vilfredo Pareto in the late 1800s — when he wrote that 20% of land in Italy was owned by 80% of the people — and in advertising, the same is true. A fraction of advertising creative works better than others. A handful of media channels will provide the best results. A small portion of your respondents will drive the greatest sales volume. Marketers can break down these value skews in their response funnels to test and learn which components work best in driving sales and ROI, and then optimize the campaign by adjusting activity toward those top media channels.

So, measure advertising in seven simple steps

Here are the key steps for advertising campaign measurement.

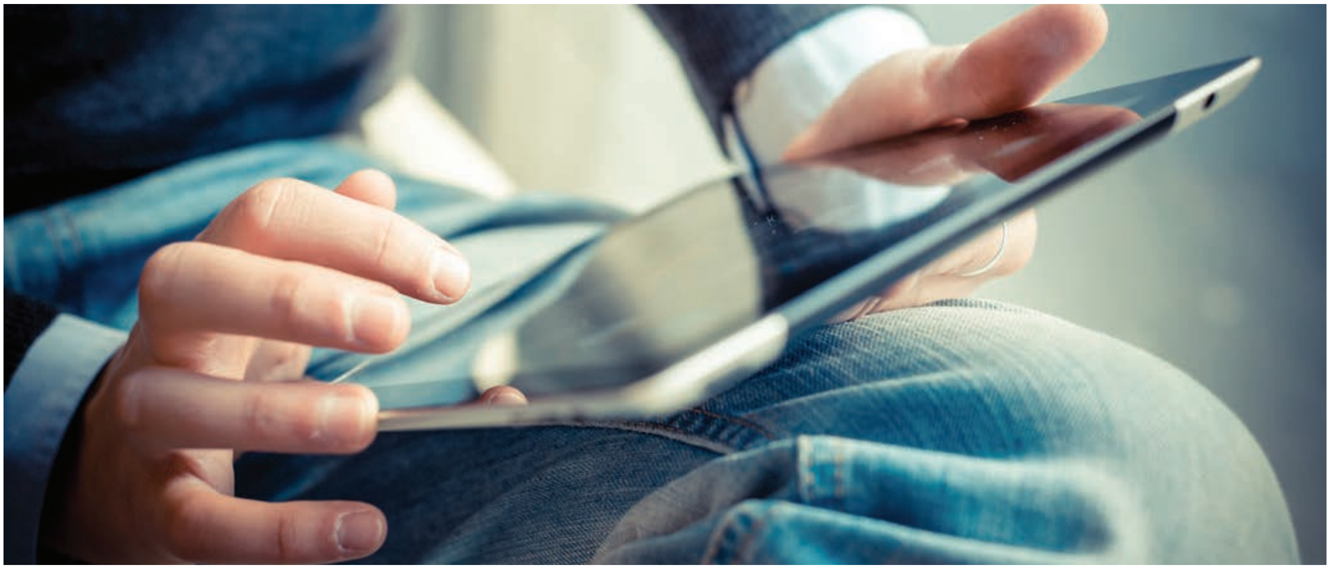


1. Forecast: The old 1950s' concept of building 100-page three-year marketing plans filled with forecasts is kaput, given the rapid pace of change in today's markets. You could launch a new product Tuesday and have it be copied by a 3-D printer by Thursday. But forecasting is still a powerful tool, especially in media planning, provided you build in rapid prototyping of test variables. Forecasts in media planning include structuring campaigns as a financial investment; listing costs and savings; predicting response rates by each component from call or click down through lead form collection and conversion to sale; and then aligning the media budgets in several scenarios to try to tease out the greatest initial response. If the objective is branding or shifting public sentiment, forecasts can also address brand lift and consumer intent. Your marketing media plan should be able to predict your $1 million investment in communications will drive 200,000 respondents and 20,000 sales at a $50 average cost per initial sale, or an X result with similar detail.

2. Split: By split, we mean split tests of messages, images and offers on the top end of the marketing funnel and split tests of landing pages or conversion pathways in the mid-funnel. Split testing is also called A-B testing or multivariate testing. Despite the logic of testing different creative or web landing pages, we are constantly surprised by the number of marketers who prefer to build a "big idea" over months and launch it, likely with a hotshot creative agency, without any real-market testing or plan B in action. The best ideas from the brightest committees often fail. For example, the Honda Element compact SUV was unveiled in 2003 with a wink-wink ad campaign targeting young men in their 20s showcasing fully reclining seats... as if it were the perfect makeout vehicle for a trip with a date to the beach. Honda was surprised to find the actual buyers were older men in their late 30s, who wanted a tough-looking van to haul their kids around in. Real-market data told Honda something that plans never guessed. Using rapid prototypes of creative, messages, or even product concepts and price framing can guide you to 5x returns in response from your marketing message. Running a campaign with only one concept, absent split testing, is like marrying the first person you dated in high school — perhaps nice, but more likely leading you to miss something better. CONTINUED ☛

3. Channel: Media channels are the pipelines through which the messages reach your prospective consumers, and testing them is core to any advertising campaign. You can negotiate television media placements down 30%, but you might be surprised to find that viewers of HGTV have 200% the response of TLC. You can buy digital banner ads on WebMD or through a demand side platform to reach exactly the same audience; WebMD might have stronger context, and the DSP placements may have 90% lower cost. Does one work better than the other? Channel testing will tell.

4. Q-Score: Just as not all ad creative or media channels have the same value, not all prospect respondents do, either. Imagine you are selling castle towers (a lovely addition to any home) and run ads in home magazines and on Facebook. Facebook respondents may cost $25 per response, and Dwell magazine respondents might cost $75, three times as much. But if the print magazine respondents have 4x the quality of the social media respondents, you'd be best advised to spend more in print. The "Q-Score," or quality score, of respondents can be a guide as to which media, messaging, or response paths should receive more allocation.



5. Multi-touch: Great, now you've measured creative and media channels against your forecasts, and also judged the quality of the respondents who flow through each series of touchpoints. But… how do your marketing touchpoints influence each other? If you run a heavy radio campaign, you will likely see Google paid search respondents increase. If you run banner ads and most people don't click on them, some will come in later via Google search or straight to your website. Where pathways can be tracked with coding, multi-touch analysis using services such as C3 Metrics can map how different pathways influence each other. This allows smarter decisions on marketing budget reallocations, such as funding a key touchpoint in your marketing funnel that provides an enormous lift to another, separate channel.

6. Regression: Regression analysis is a bit of statistics used to determine how variables influence each other, even if direct tracking is impossible. You may be able to put code into a digital campaign to see what happens when a display is chased by a retargeted ad, but what happens when a snowstorm blows through town the night of your grand opening? At heart, regression analysis looks for correlations between variables and — while not 100% accurate — can tell you if bad weather depresses response, or if certain TV schedules give you a boost in search leads. Think of regression as the math tool you need to see what works when direct coding of a marketing system is impossible.

7. Optimize: All of the above gives you a scoreboard that in turn must drive action. Optimization is the resulting process of moving your marketing CONTINUED ☛

investments to the creative, message, media channels, or conversion pathways that generate higher quality respondents, leads, and sales.

What of software? Should I buy a solution?
Not necessarily. Sorry, we're not writing all this to sell you a product. The obvious instinct is to reach for a single tool to do all campaign measurement, perhaps a variation of Salesforce.com or SAP or NetSuite, and we'd like to say, why yes. But we've found the best approaches to optimization usually require cross-platform integration... pulling datasets from media plans and phone systems and Google Adwords and CRMwhatever into an aggregate dashboard, usually using what your marketing team already has in house. If you must try a new tool, we recommend the inexpensive (and brilliantly designed) Tableau software, which is really a more elegant form of Excel.

What are the key performance indicators?
The next step in advertising measurement is to roll up measures into three main performance buckets. Volume tells you the quantity of your response that will lead to sales. Responsiveness tells you what is driving action. And efficiency puts the other two together to evaluate the cost effectiveness of each portion of your marketing response funnel.

Volume metrics: How much was achieved at each stage? Total spending, total impressions, respondents, leads, sales, order size per sale. There is value in the sheer volume of output from each stage of marketing (if your field sales team is low on leads, watching the volume of leads in different geographic regions will be important for your next meeting with the director of sales). Volume is required to hit your targets. But it is only one-third of the KPI story.

Responsiveness metrics: What portion of the variable responded or worked at each stage? Response rates, click-through rates, conversion rates, can all be indicative of the value of a touchpoint in your marketing series. You may not get your desired sales from one channel, but if the response rate flowing through that is 5x every other channel, something good is happening there worth exploring — which could be used to improve the campaign elsewhere.

Efficiency metrics: What was the cost-per-X for each variable coming down the pipe? Cost per thousand ad impressions (CPM) tells you the comparative efficiency of media options; cost per response, cost per lead and cost per sale tell you which investment was required to generate your desired customers. Efficiency metrics become the basis for cliched ROI. The lower the cost-per-action at each stage of the marketing response funnel, the higher the return you receive on marketing investments.

What systems do I build first?
Any measurement means that you have to collect data. So, we suggest prioritizing with data tracking the response to marketing offers and the resulting value of your respondents.

First, set up direct response tracking from advertising with phone intercepts, unique URLs, or web coding. This approach assigns a source to any inbound customer communication, such as the magazine publication or website click that generated the touch. CONTINUED ☛

Comparing each inbound source with the media cost of that source can provide a cost per inquiry value, and then can be compared to other inbound sources. If website A generates a cost per response of $200 and website B has a cost per response of $50, the savvy marketer would reallocate her spending to website B. For every $1,000 she spends, she would then get 20 responses instead of only 5. Action item: Ask your marketing team if every channel is being compared on similar response metrics. If not, have them build a report that does. Phone intercept numbers can usually be set up for a few hundred dollars (plus airtime).

Next, use paid search budgets for real-time market research. If you have a product, you're probably running paid search. But lifting an idea from Eric Reis's popular "Lean Startup" methodology, have you considered leveraging your current media tactics for rapid, in-market research? One of Reis's tactics is to simply ask potential customers if they would be interested in a new service (something you are considering), either with digital display ads or by pushing a fraction of your paid search campaigns to mock websites. Action item: Pull your search agency or web team into a room, and tell them you want to test a new product concept within 30 days. Say the total budget is $5,000 — half for search clicks, half for a light landing page. See if they can do it.

Third, find a way to evaluate the skew in value in your respondents and customers. CRM systems such as Salesforce.com can score prospects, respondents and customers based on their value to your organization or qualification status. The trick with such evaluation is not to become overwhelmed in data, but to find the simplest possible scoring system to evaluate the quality of advertising respondents. Action item: Build a score for your customer valuation. Then tier your customers into deciles, and examine what makes your Most Valuable Customers unique. Use that in turn to guide future acquisition programs.

The end goal should be a simple, "forward-facing" dashboard that allows you to quickly see which creative, media and response paths are working best to drive sales. Not all advertising is created equal. Not all prospects have the same value to you. Not all media channels provide the same performance. Monitoring the value-skew in each aspect of your marketing communications is the best path to results... and it's good for your career, too.

About the Authors

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