The dangers of common sense

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Recently, a planner I know asked me a question: How does advertising actually work? That's a very good question, and it's not one you hear people asking much these days. Some 20 years ago, there was a lot more debate about how advertising works. These days, there seems to be much more of a consensus about the basic principles of communication, and the focus has shifted to understanding the role of the various new channels that have emerged.

But do we really understand the basic principles of how advertising works? Evidence from the IPA dataBANK (Binet and Field, 2007) suggests that there are some fundamental flaws in the assumptions that most marketing people work by.

Two years ago, Peter Field and I began a major research project to try to find out how advertising really works. We analysed the raw data from nearly 1,000 IPA cases, to find out what actually drives business success. Not what wins awards, but what drives sales and profit.

We started off by looking at how people usually plan and evaluate advertising. Which strategies and metrics are most commonly used? From this, we can get an idea of how people think advertising works – what I'll call the 'common sense' model (Figure 1).

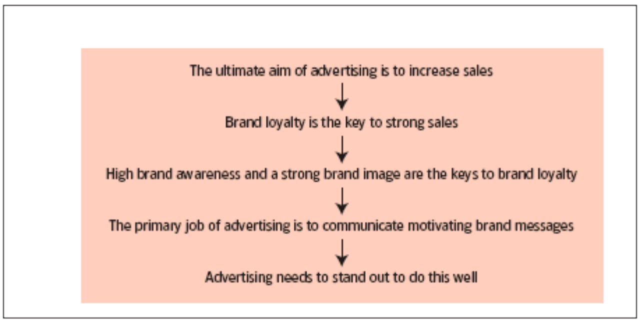

Figure 1: The common sense model of advertising

Then we looked at what actually works – the strategies and metrics that correlate with real business success. We were shocked to discover that what most marketing people do and what actually works are really quite different. The most common strategies actually turn out to be the least effective. It seems that every one of the assumptions in the common sense model is flawed in some way. Let's look at them one by one.

ASSUMPTION 1: ADVERTISING WORKS BY INCREASING SALES

Most marketing people assume that the ultimate aim of advertising is to increase sales, at least for commercial firms. But the IPA dataBANK suggests that advertising is best used in quite a different way.

Figure 2 shows the relative profitability of focusing on different business objectives. As you can see, campaigns that focus on sales don't do particularly well – only 20% of them yield a decent payback.

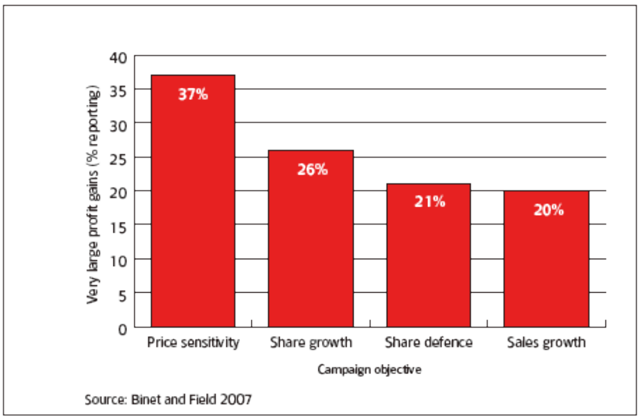

Figure 2: Price is the key, not volume

Campaigns that focus on market share do a bit better, but the really effective campaigns focus on something completely different: price. The really big payback comes from reducing price sensitivity, not from increasing volume.

In fact, using ads to firm up prices is almost twice as profitable as trying to increase sales. Yet hardly anyone seems to understand this: only 4% of the campaigns we looked at focused on price.

ASSUMPTION 2: ADVERTISING WORKS BY INCREASING BRAND LOYALTY

There are two ways to grow a brand: either you increase penetration, or you increase loyalty. Back in the 1980s, management consultants argued, on simple accounting grounds, that increasing brand loyalty must be more profitable than increasing penetration, and this theory seems to have been very influential. According to our data, loyalty strategies now outnumber penetration strategies by about two to one.

But our data shows that penetration campaigns are almost three times as effective as loyalty campaigns (Figure 3). And on the rare occasions when so-called 'loyalty' campaigns do work, they nearly always work by increasing penetration, not loyalty. As Ehrenberg proved many years ago, brand loyalty hardly ever changes (Ehrenberg, 2005). It's just not something that responds to advertising.

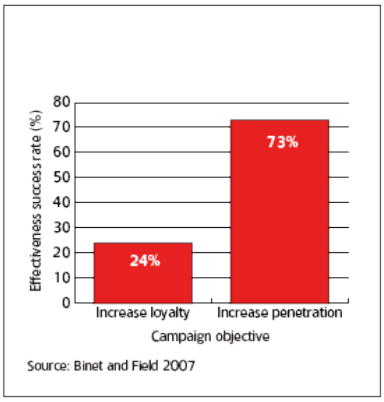

Figure 3: Loyalty campaigns under-perform

Of course, there was nothing wrong with the management consultants' financial logic. If you could increase brand loyalty, then you would indeed make a lot of money. But that's a bit like saying that you would make a lot of money if you could turn lead into gold. It's true, but it's not a very practical strategy.

ASSUMPTION 3: AWARENESS AND IMAGE ARE THE KEYS TO STRONG BRANDS

Most people seem to think that brand awareness and image are the keys to strong brands. In fact, these are the most common KPIs of all. But, once again, most people are wrong.

Awareness and image do correlate with business success to some extent, but the correlation is pretty weak. In fact, of the various brand measures available, these two turn out to be the worst predictors of effectiveness.

So, what should brands be aiming for then? The answer is fame.

But, fame means more than just awareness. It's not enough for people to just know your brand. You want people to be actively thinking about your brand, and, crucially, talking about it. Really famous brands, like Apple or Nike, become part of the cultural lexicon, the web of symbols that we use to define ourselves and our world.

Our data show that fame is the real key to business success, and in particular, word of mouth seems to be crucial. As Figure 4 shows, campaigns that get people talking outperform on every single business metric.

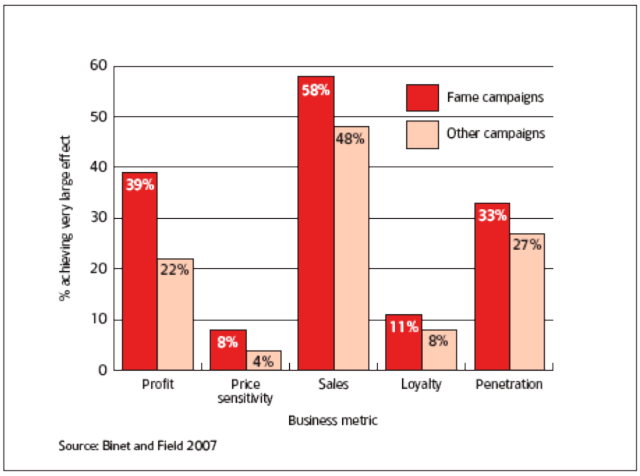

Figure 4: Fame campaigns outperform on every metric

Fame campaigns are much the most profitable – almost twice as profitable as other forms of advertising. And one reason for that is that they're particularly good at reducing price sensitivity.

It seems we're willing to pay much more for the brands that everyone's talking about.

ASSUMPTION 4: ADVERTISING WORKS BY COMMUNICATING BRAND MESSAGES

Next we come to the most important issue of all: how do you actually influence people with advertising? And I think this may be where we've been making our biggest mistake.

Advertising has the power to change how we think, and it has the power to change how we feel, and most advertising tries to do both. But most advertising folk believe that the message is the important bit. Emotions are just the means by which you get the message across.

However, the IPA data suggest that the most effective campaigns turn out to be those that don't contain much of a message at all. Ads that simply aim to generate pure emotion turn out to be twice as profitable as ads that use emotions to support a rational proposition (Figure 5). And the more emotions dominate over reason, the more effective the advertising becomes.

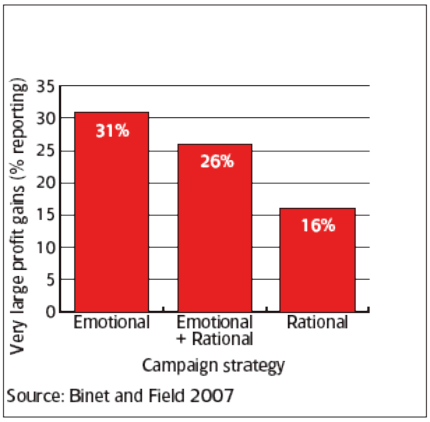

Figure 5: Pure emotion works better than communication

It's not just that emotions are better at getting messages across – it looks as if emotions themselves are the real message. As Feldwick and Heath (2007) have argued, it looks as if the whole idea that advertising is a medium for communicating ideas may be flawed.

A good example of emotional advertising is the Cadbury's 'Gorilla' ad from 2007. It's a remarkable ad, but it doesn't actually say anything. And it's no coincidence that 'Gorilla' was the most talked about ad of 2007. Our research shows that emotional advertising is particularly good at getting people talking. And, as we've already seen, that's the key to big profits.

ASSUMPTION 5: ADVERTISING NEEDS TO STAND OUT TO WORK WELL

It seems obvious that, no matter how ads work, they need to grab people's attention. For this reason, standout metrics (usually some measure of ad awareness) are the commonest measures of advertising efficiency.

Our data show that there is indeed a correlation between standout and effectiveness, but that it's fairly weak. In fact, of the various advertising measures available, standout seems to be the worst predictor of effectiveness.

According to our data, what matters most is not how well the ad stands out, or communicates, or persuades, but how much people like it. This is consistent with research conducted by the Advertising Research Foundation in the early 1990s (Eagleson and Rossiter, 1994). The ARF found that pre-testing methodologies that were based on liking were better at predicting sales results than those based on other metrics.

So it seems that creating the right feeling is far more important than getting people's conscious attention.

Everything You Believe is Wrong

So the common sense model of advertising turns out to be fundamentally flawed. And that matters, because it leads to money being wasted.

For instance, think about pre-testing. All pre-testing systems are based on some model of how advertising works, usually something similar to the common sense model. If that model is wrong, then pre-testing will give misleading results.

So does pre-testing really improve effectiveness? Perhaps not. Our data show that IPA cases that used pre-testing data reported much smaller business effects than those that didn't (Figure 6). Maybe pre-testing is actually making ads less effective, not more. We can't prove that – there are other ways of interpreting the finding – but the data do raise some big doubts.

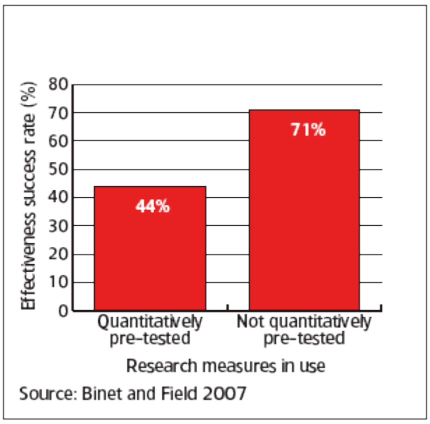

Figure 6: Does pre-testing reduce effectiveness?

So it looks like a lot of our assumptions about how ads work are flawed, and lot of money is probably being wasted as a result. How did we get it so wrong? I believe that, as an industry, we are too easily seduced by clever theories, and not interested enough in testing them. That's why the marketing community loved the management consultants' theories about brand loyalty, and that's why they largely ignored Ehrenberg's data, which disproved them.

Advertising is a creative art, and it needs big creative thinking. But that thinking needs to be balanced with the discipline of measurement and analysis. That's what Stanley Pollitt and Stephen King envisaged when they invented account planning 40 years ago, but I fear that we're losing sight of that. We need to return to that vision if advertising is to keep generating profit in these troubled times.

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