

OPTIMIZING BRAND INVESTMENTS

“ As media fragmentation grows, marketers who combine econometric analysis with scientific experimentation will connect better with customers and significantly improve the effectiveness of their brand spending.”

STATUS REPORT ON OPTIMIZING BRAND INVESTMENTS

KEY QUESTIONS ABOUT BRAND INVESTMENTS

How much do I actually spend on marketing by different objectives, geographies, product lines, and brands?

How effective is my marketing spend?

Where could I trim spend without negative revenue impact or damage to brand equity?

How can I reallocate marketing investments to generate higher returns?

Where should I invest more to generate optimal returns?

WHAT IS NEEDED FOR OPTIMAL DEPLOYMENT

An objective, customer-centric framework to rigorously evaluate the impact of marketing and brand investments

Sophisticated modeling and tools that combine econometric analysis with predictive scientific experimentation to help craft the most effective future campaigns

An interactive, decision support system to enable highly effective brand investments

Proven process to institutionalize the overall effort to improve marketing productivity

HOW TO ENCOMPASS THE ENTIRE MARKETING MIX

Branding and media campaigns through TV, online, print, radio, and outdoor advertising

Promotions, overall and by channel

Telesales campaigns

Direct mail campaigns, print and electronic

Sponsorship and public relations

Emerging marketing levers such as word-of-mouth and viral marketing

Optimizing Brand Investments

BY RICK WISE AND SIMON GLYNN

Every day, consumers and business customers are bombarded by hundreds of branding and marketing messages coming through all manner of media. The proliferation of marketing vehicles, from satellite radio to niche Web sites to hundreds of TV channels to digital video recorders to iPods, has further complicated things. Most of those messages fail to hit their targets.

When it comes to marketing investments, senior management doesn't always have a clear picture, especially compared to their views of other functions; as a result, they often suspect missed opportunities and less-than-optimal spending. There are few metrics, processes, or standards of accountability to determine what's worthwhile and what's wasted. The budget-setting process often doesn't account for the effectiveness of marketing and branding programs.

MARKETERS ARE IN NO POSITION TO ARGUE

They don't deny that competitive pressures are more intense and profit margins remain vulnerable. Yet they are compelled to support faster and more frequent new product introductions—another outcome of fierce global competition. They have to do so with hands tied behind their backs because they lack the data to make a compelling case for suitable budgets. And today, the corporate marketing department no longer has the influence it once enjoyed.

In many companies, the root of this problem is the lack of precise measurements. Marketing goals and strategies tend to be set at the corporate level, while resources are allocated and data is analyzed at the market or regional level by functional managers who have limited information about what others are attempting to do. In addition, each group has its own budgets and targets to meet, and each finds it complicated to coordinate with other internal groups. As a result, companies experience dysfunction on several fronts:

- Senior management lacks good information about the underlying marketing drivers of financial and operational performance. That makes it tough to justify additional funding or identify redundant investments
- Individual managers find it cumbersome to address differences in market opportunities and risks, so everyone winds up with a middle-of-the-road approach based on hunches
- Managers rarely can directly tie observed metrics to specific marketing spend and therefore cannot justify their brand and marketing investments

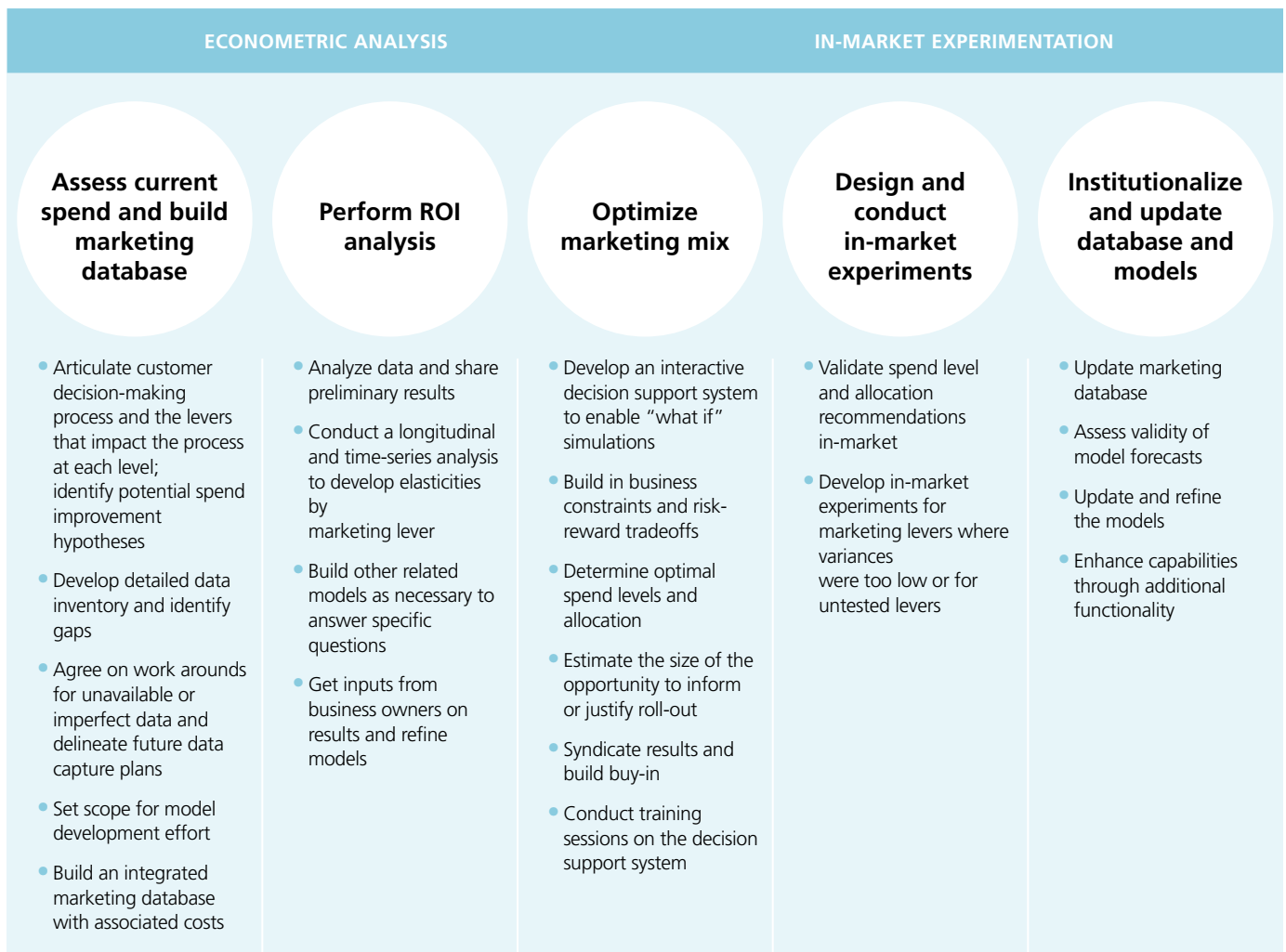
It would be invaluable for executives to be able to anticipate which marketing spend would prompt what responses from customers

DELIVERING REAL BOTTOM-LINE IMPACT

Lippincott's Brand Investment Optimization platform helps clients increase their gross profits by driving revenue increases or reducing marketing spend. Our clients have realized sales increases of up to 5 percent at the same levels of spend, or have achieved reductions of as much as 15 percent in marketing spend with little or no adverse impact on revenues. Overall, gross profit improvements of 5 percent are typical.

Our proven approach allows executives to develop a deep understanding of all customer touchpoints and a keen sense of the impact of spending by brand, marketing lever, customer segment, geography, and channel on outcomes such as sales, penetration, customer acquisition, churn, market share, and brand strength.

THE BRAND INVESTMENT OPTIMIZATION PLATFORM BLENDS TWO COMPLEMENTARY METHODOLOGIES—ECONOMETRIC ANALYSIS AND IN-MARKET EXPERIMENTATION—TO HIGHLIGHT THE LINK BETWEEN MARKETING SPEND AND KEY OUTCOMES, AS SHOWN:

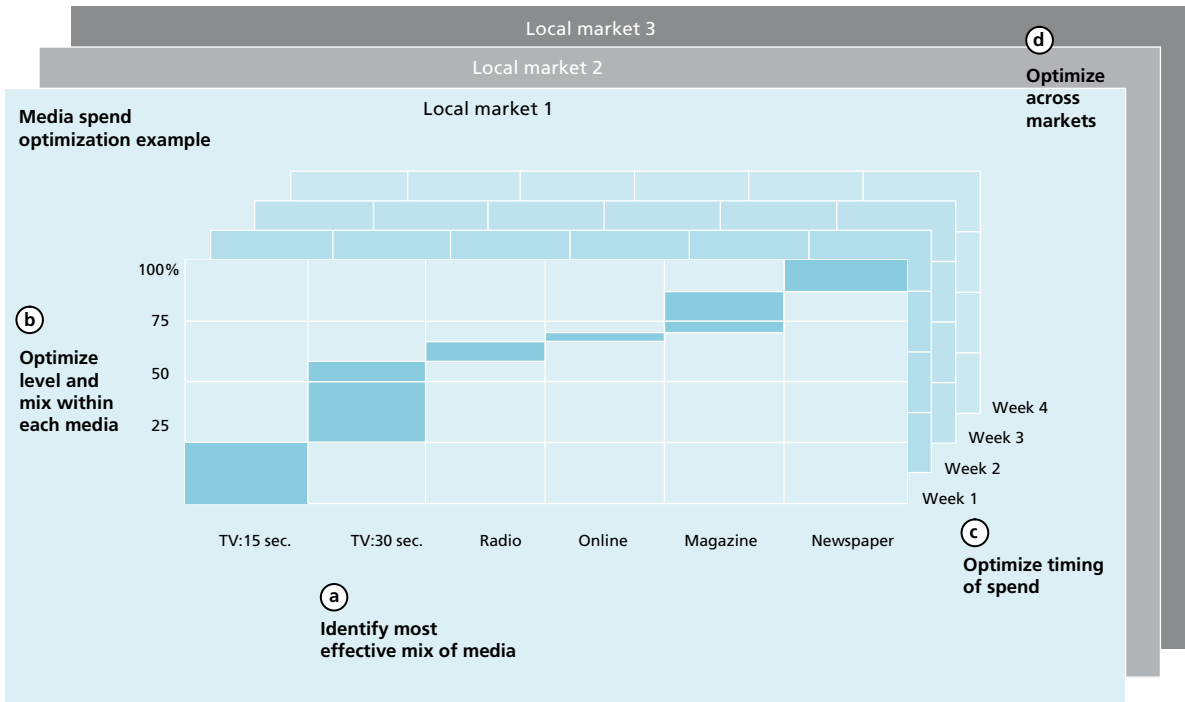


ECONOMETRIC ANALYSIS

Lippincott uses advanced econometric modeling techniques to gauge which marketing resources and activities drive key outcomes such as customer acquisition, customer churn, revenues, market share, and brand strength. We start by developing a comprehensive base of existing data on client and competitive marketing activities and spending levels broken down by markets, channels, product categories, and brands, as well as data on environmental factors such as macroeconomic variables.

The databases help quantify the relationship between different marketing levers and metrics for key outcomes. For example, laptop sales are affected by the levels and types of ads through different media including word-of-mouth, Web site visits, retailers' promotions, seasonality, and even the weather. Using sophisticated modeling, we uncover and quantify the relationships among all these variables and laptop sales. Simple regression models cannot untangle such complicated relationships.

THE ECONOMETRIC MODEL HELPS TO DETERMINE OPTIMAL SPEND LEVELS AND ALLOCATION ACROSS DIFFERENT MARKETING LEVERS, AS SHOWN HERE:



IN-MARKET EXPERIMENTATION

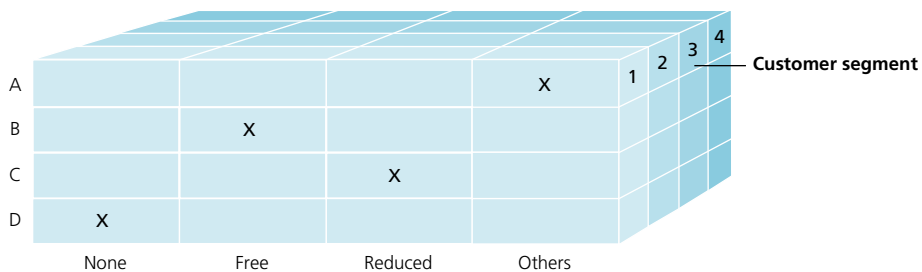
But historical data has a few limitations: It cannot quantify the effects of levers that have not varied much in the past; it cannot project the impact of substantially new and different levels of spend; and it cannot measure the impact of new marketing levers such as viral marketing that have limited, if any, historical data. That's why we often complement it with in-market experimentation.

Experimental design quantifies the effects of independent stimuli on key outcome metrics in order to determine how the various components of a marketing campaign influence consumer behavior. Our in-market experimentation approach is much more precise and cost-effective than traditional market testing such as split mailings, which cannot evaluate more than a few campaign alternatives without growing prohibitively expensive.

Lippincott's in-market experimentation lets marketers project the impact of many stimuli, even beyond those used in the past, by testing just a few of them at a time. Using mathematical formulas to select and test a subset of combinations of variables that represent the complexity of all the original variables, marketers can model hundreds or even thousands of stimuli accurately and efficiently. This ensures that our clients discover which stimuli are truly driving behavior.

Because we control the introduction of stimuli, we can establish the differences in response that can be attributed to the stimulus in question, such as the advertising message, and not to other factors such as packaging. In-market experimentation reveals whether variables caused a certain behavior or were simply correlated with the behavior. We also use this methodology to validate the results of the econometric analysis.

IN-MARKET EXPERIMENTATION SYSTEMATICALLY INTRODUCES AND ANALYZES VARIANCE IN ORDER TO UNCOVER HOW CUSTOMERS WILL BEHAVE. THIS MATRIX GIVES AN IDEA OF HOW IT WORKS:



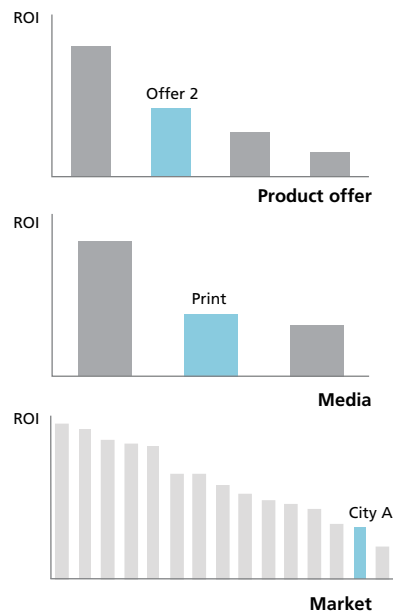
Offer and promotion matrix

CLIENT SNAPSHOTS

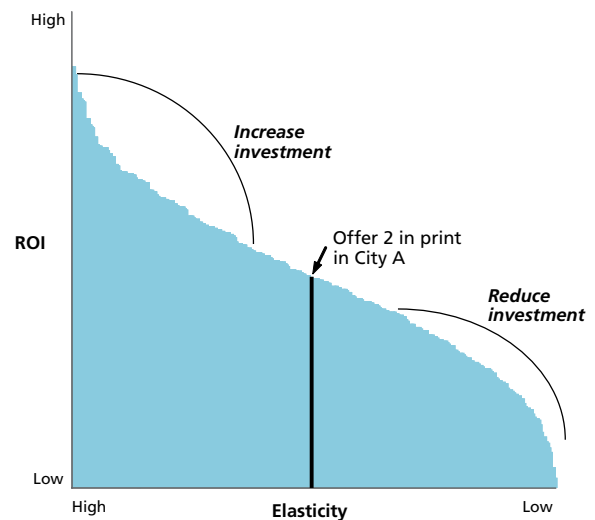
U.S. WIRELESS CARRIER

We analyzed the customer acquisition impact of different media by market and identified the optimal media mix in order to maximize new customer acquisition. This led to \$50 million in incremental EBITDA, for a 50 percent increase in marketing return. (See charts below.)

ROI BY PRODUCT OFFER, MEDIA, AND MARKET



ROI BY COMBINATION OF PRODUCT OFFER, MEDIA AND MARKET



GLOBAL TECHNOLOGY COMPANY

We analyzed the investment returns of different advertising media and strategies (both mass market and segment-specific strategies) and identified the optimal advertising mix and strategy. The client realized \$500 million in incremental revenue at the same level of advertising spending.

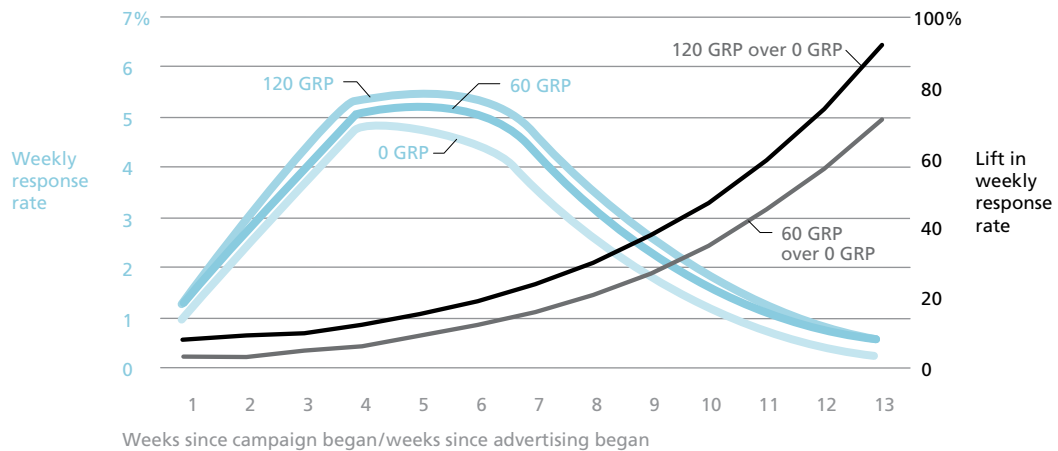
FINANCIAL SERVICES FIRM

We helped a financial services firm save nearly 30 percent of its prior-year marketing budget by optimizing the advertising portfolio in terms of media type and geography. We determined that print media was over 50 percent more effective at gaining market share, and some geographic markets were over 2.5 times as effective as others. By allocating investment toward print, and investing less in poorer-performing markets, savings of \$25 million were possible without loss of market share.

MORTGAGE FINANCE COMPANY

We helped managers understand the interplay of the discrete elements of their marketing mix in order to better allocate media spend. In particular, they needed to understand the short-term impact of advertising on current direct mail activities in order to make improvements. We employed in-market experimentation on TV, radio, and print media to test 108 combinations across 12 markets. This helped demonstrate the uplift in direct mail effectiveness due to increasing the level of media exposure, as well as the accumulation of this benefit over time. (See chart below)

ADVERTISING IMPACT OVER TIME ON DIRECT MAIL RESPONSES

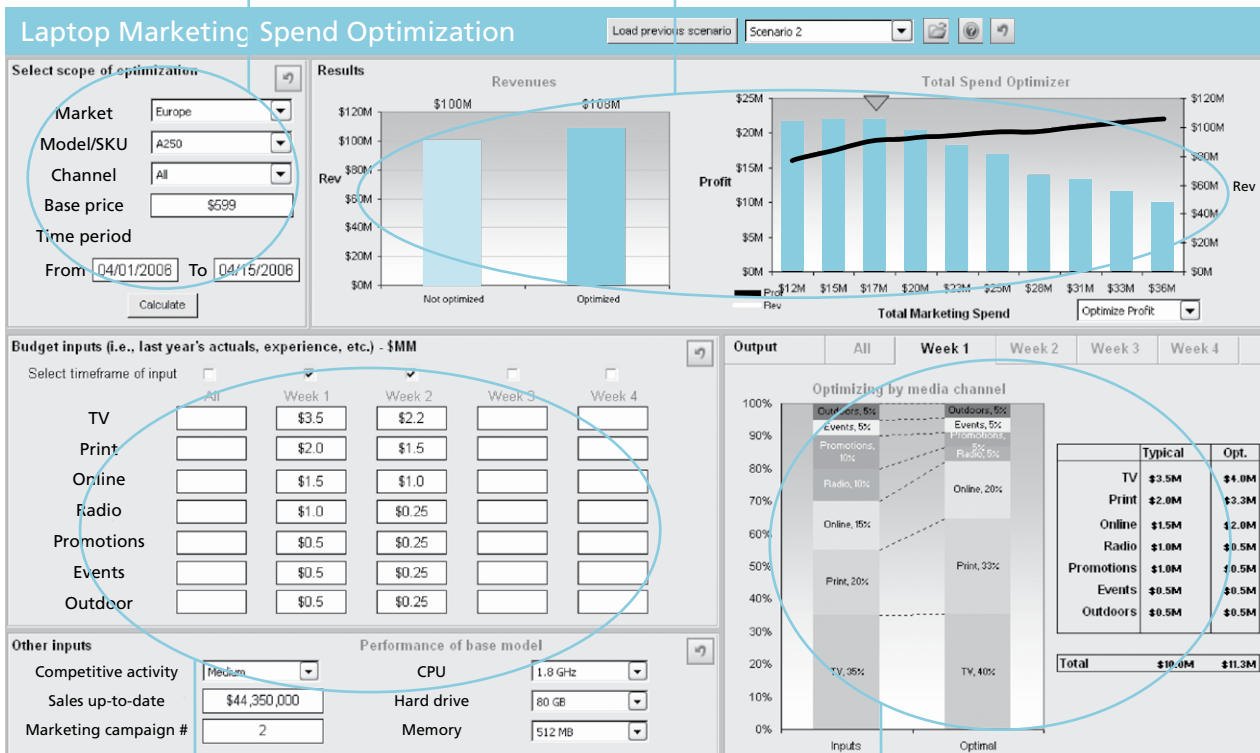


INTERACTIVE TOOL

Lippincott develops a useful custom interactive tool that allows marketing managers to develop “what if” simulations of their investment analyses and experiments. The annotated screen view shown here gives an idea of how it works.

1. User defines the scope of the optimization

3. Analytic engine computes optimal spend levels, and displays financial results in a simple, interactive graphical display



2. User keys in information for all relevant levers (current budget, competitive activity, etc.)

4. The tool provides additional granularity, e.g., allocation by media type and timing

WRAP-UP

Marketing is, and always will be, a creative endeavor. But it can also be a highly rigorous discipline. As marketing noise and media fragmentation keep increasing, marketers find that Lippincott's unique approach of econometric analysis with scientific experimentation allows them to connect better with their customers and significantly improve the effectiveness of their brand spending.

Lippincott works with executives across a range of industries to untangle their many marketing initiatives and determine the optimal deployment of limited marketing investments. The results speak for themselves: the Brand Investment Optimization platform helps clients realize gross profit improvements of at least 5 percent through revenue increases or spending reductions.

ABOUT LIPPINCOTT

Lippincott is a leading design and brand strategy consultancy. The firm was founded in 1943 as Lippincott & Margulies and pioneered the discipline of corporate identity. Lippincott operates globally from its offices in the United States, Europe, Asia and the Middle East. Recent clients include American Express, AOL, Citigroup, Delta Air Lines, ExxonMobil, Goldman Sachs, IBM, Mashreq, McDonald's, Nissan, Samsung and Sprint. For more information, visit www.lippincott.com.

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