Are you wasting half of your ad spend?

The explosion of new media channels is creating a more fickle, fragmented and restless audience, but a new customer analytics and media planning tool based on actuarial science is helping marketers justify their budgets as the pressure to account for every advertising dollar becomes more pronounced. **Maria Nguyen** reports.

AUSTRALIAN marketers spend almost $12bn on advertising each year but if they factored in the age-old adage that half their advertising is wasted, although they don't know which half, then a tidy $6bn is effectively going down the drain.

For marketers, the necessity to justify their budgets has never been more pressing given the explosion of new advertising channels that have fragmented fickle audiences and made measuring multimedia campaigns more difficult.

So in today's dynamic media environment, just how do marketers know which cocktail of media channels to combine in order to generate optimum sales results? How do the channels work together and to what extent does each medium contribute to sales? And ultimately, what is the return on investment?

With board members breathing down their necks to justify every single dollar spent on advertising, these are questions all marketers need to answer.

In other words, they will risk their seat at the table if they're not able to determine which $6bn has been wasted and how to stem that loss to make each dollar invested accountable.

Econometrics

In trying to answer these questions, marketers have traditionally turned to econometric planning models.

In essence, these models look at variables and external market factors such as advertising, competitor activity, interest rates, and even hours of daylight and rainfall statistics for some categories, in order to understand how all these factors combined can influence sales.

As a media planning tool, econometrics is usually offered by media and advertising agencies wanting to help clients develop a more scientific and accountable approach to their marketing.

It is used mainly by mature advertisers and gives some understanding of the extent to which their advertising has worked in the past, usually as a snapshot report at a moment in a brand's life.

However, there are limitations to what econometrics can do. For example, its focus is on above-the line channels rather than the entire media mix. It also collates historical consumer and spend data at a national level—it can't deliver analysis for regional or smaller geographic areas.

Another flaw of basic econometrics is the model's assumption that additional ad spend on media channels automatically delivers additional incremental response without decay, beyond a certain point of exposure.

It is these flaws that an Australian consulting group called Quantium is trying to overcome.

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>
> —Tony Davis

The next generation of modelling

In May last year, the Sydney-based group launched a new product called MediaQube—a media planning and management tool based on actuarial science that enables marketers to determine how each advertising medium contributes to sales and how to tweak the media mix so that all channels work together to optimise results.

According to Tony Davis, Quantium Group director, MediaQube, unlike traditional econometrics tools, allows marketers to understand the effects of all media channels—both above and below the line and including new digital channels.

MediaQube, says Davis, allows marketers to understand the effects of each channel in isolation and also how they work together.

"Econometrics only focuses on above-the-line channels, so it's still a little bit myopic—it doesn't look at the entire media mix, which is vital given the enormous proliferation of media channels today," Davis explains.

"Econometrics is king in the land of the blind, one-eyed man in that it gives a reasonable understanding, to an extent, of how the advertising is working or not working, but it doesn't isolate each channel you are using.

"For example, when you're advertising on TV, to what extent do you get an uplift in your direct marketing response? And when you're not on TV to what extent is the direct marketing response suppressed? And is TV contributing a lot or a little to overall sales or is online and DM contributing more? What MediaQube does is

Tony Davis (centre with L-R Quantium partners Adam Driussi and Greg Schneider) says econometric modelling is "myopic".

quantify these synergistic affects of the media mix."

A tool for true media integration

According to Davis, most econometrics tools agencies offer their clients look at the most efficient spend within each channel, for example the number of eyeballs you can attract online.

MediaQube, however, looks at optimising the entire media mix and the effect the interplay of various media schedules has on sales.

"The much bigger issue is one of 'are you spending the right amount of money across all the mix and what is the right proportion of spend and exposure across the mix?'. These are far more important questions than the efficient deployment of each individual channel and asking which TV networks or which newspapers or which online portals should I be spending money on," he says.

Davis also believes agencies are making big promises about understanding integration, yet they're unable to quantify how integration works.

He says MediaQube's ability to quantify how channels work together enables agencies to develop proper integrated strategies for clients.

Analysing sales at local levels

Another advantage of MediaQube—a product developed by actuaries—is its ability to analyse how advertising affects sales at a local level.

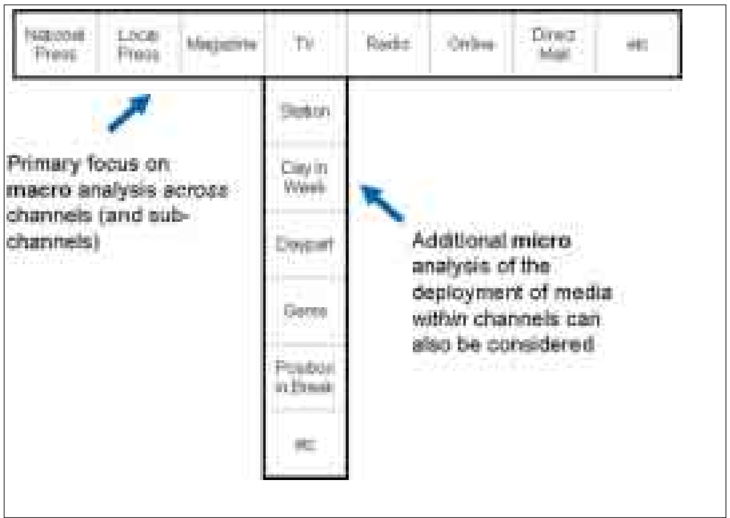
Traditional econometrics uses data at a national level and takes a wider snapshot look at the ad's exposure.

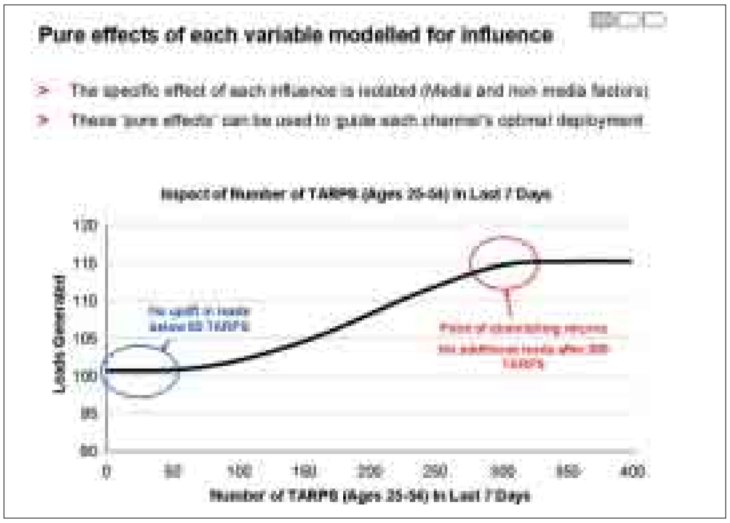
MediaQube, on the other hand, looks at exposure on a weekly and daily basis and also looks within small geographic areas, down to postcode levels.

For Jane Calder, MBF Australia's general manager of customer and brand strategy, it was this level of micro analysis that made MediaQube attractive and different to other econometric tools.

Calder began implementing MediaQube for the company's MBF and Clearview brands in late November, and although it's still in its early stages of deployment, Calder believes the tool is already providing valuable insights—including which types of media combinations will yield the greatest result—to help MBF maximise the return on its marketing spend.

"We decided to use this product because of the 'micro ability' of it, given the postcode analysis and level of precision





and detail it offered," Calder says.

"Sometimes the benefits of marketing are not immediately tangible. We chose to use MediaQube to give some rigour to the process of marketing evaluation and to maximise marketing returns by gaining a better understanding of the relative contribution that different elements of the marketing mix had on key response variables such as calls, appointments and sales."

The point of diminishing returns—the $6bn question

When it comes to this crucial question of ROI, Davis describes as "flawed" the assumption, operating in most econometrics tools, that exposure and response have a linear relationship.

In other words, marketers are wrong to assume that incremental spend and exposure on a media channel will deliver additional incremental response.

Says Davis: "Traditional models of econometrics basically say you can carry on spending money and carry on getting incremental returns—that there's a straight line correlation between media spend and return.

"But the significance of MediaQube and its actuarial-based approach is that we know at what point you are going to get an incremental response and at what point your investment reaches a level of diminishing returns, when you've saturated a channel, after which additional spend becomes wasteful."

Reducing wastage

According to Davis, some marketers use a channel well beyond the point of diminishing returns, wasting millions of dollars.

"We have found that in almost every project we have undertaken, one or more channel is being used beyond this point of saturation when measuring short-term, direct response effects. In one case we saw a client's spend on TV and press was in total $1m beyond this point in a single month."

Minimising wastage has been the key benefit for Virgin Money Australia, which began using MediaQube last November.

A spokesperson for Virgin Money says MediaQube has helped the company understand the media-multiplier effect and optimise its marketing mix.

"In addition to this we were able to identify for each marketing channel what were the optimal reach, frequency and point of diminishing returns. This assists us to ensure we have minimal spend wastage… and to adjust our marketing budgets and marketing mix accordingly," she adds.

In fact, Davis says MediaQube has helped its 20-plus major advertising clients, (including Aussie Home Loans, Jetstar, Virgin Money and MBF) realise efficiencies of between 10 and 20% through reduced spend or improved sales.

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The 30-second ad is not dead

Unlike most econometric models that focus on above-the line channels, MediaQube analyses both traditional and new media channels.

And the good news for television is that the response rates for TV exposure tell a more positive story than the one being touted by doomsayers heralding the death of television as an effective advertising medium.

The premise of MediaQube is not so much the medium, it's about when you deploy the channel, and just as importantly, when you exit, having reached that point of diminishing returns.

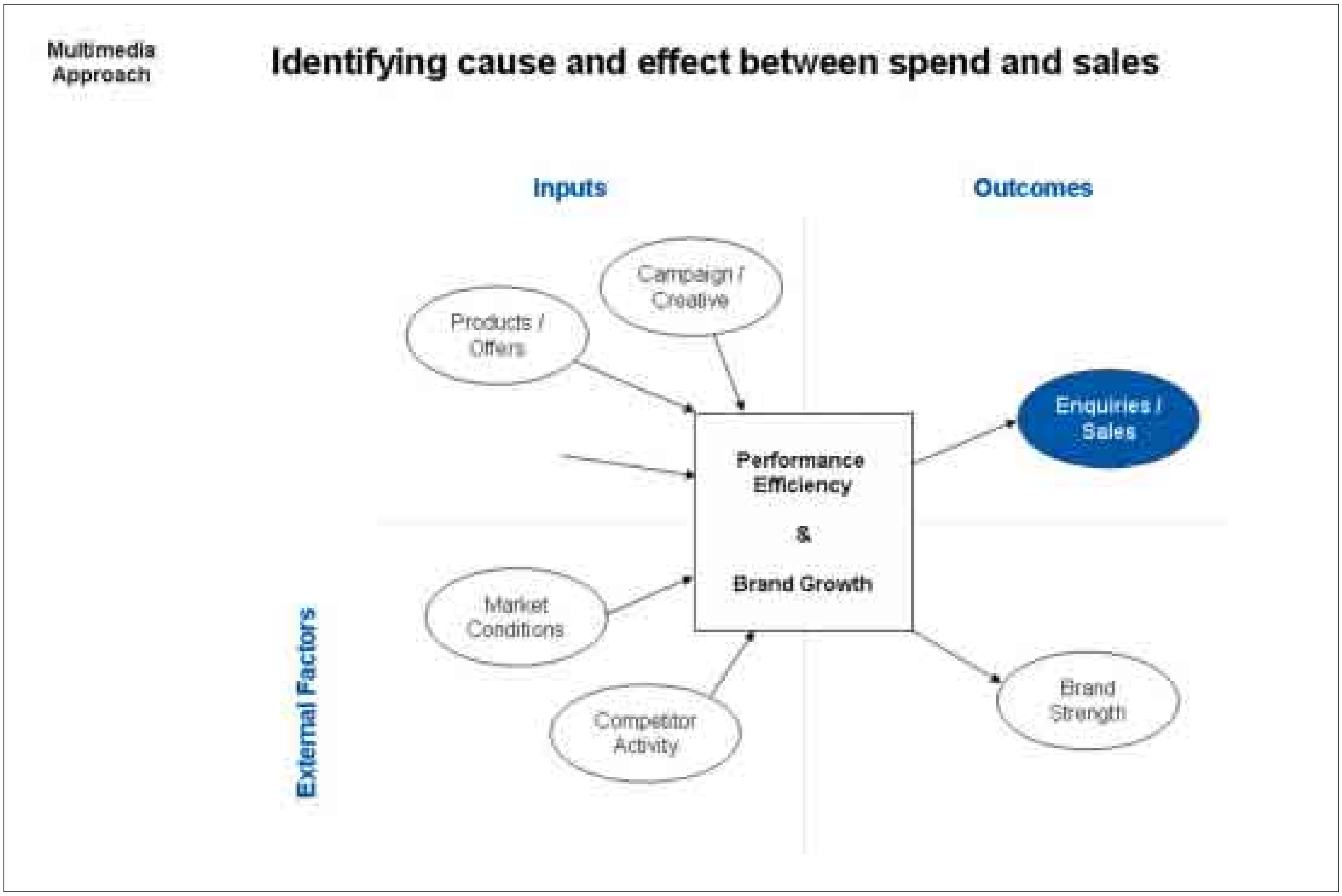
Timing and the appropriate levels of spend for each channel in an appropriate media mix become the key issues, as apposed to the simple argument of whether digital media is killing off TV.

"With the MediaQube technique, we can see the relative increasing strength of online channels and the slowly decreasing strength of TV. [However], in just about every project we've looked at, TV is not as bad as some commentators would have you believe," says Davis.

"MediaQube is able to specifically quantify each channel's effect and while TV might be declining in relation to some new digital media, most clients are surprised and relieved to find that at certain levels it still pays its way."

To highlight this point, Davis cites a scenario MediaQube planned for a client to help them understand the contribution made by TV, both in isolation and within the entire media mix.

"The client had traditionally



been spending about 40% of its budget on TV so we ran through our system a scenario that removed the whole TV spend. We saved 40% on the total budget but found that we lost about 60% of total response.

"We then added 40% back to the budget, but leaving out TV. The result was that we still didn't reinstate the sales levels that TV had delivered when it was in the media mix, which demonstrated that TV was still a strong contributor in the mix."

Davis says he isn't championing TV as the promotional channel of the future but heeds that, based on client examples, shifting the mix needs to be done in a measured way.

The media-neutral promise

Davis also believes "neutrality" is too easily promised by agencies. He says he gets "quite uptight" about the new breed of independent channel planning agencies that advise clients to throw TV out all together.

"Of course there are the headlines that TV is in decline and digital is rapidly growing, but not to the extent that you throw out TV and put all money into digital. That's just a ridiculous conclusion and negligent at this point in time," he explains.

"To say digital is everything and TV is dead is a massive overstatement and not based on any empirical evidence or understanding of how much TV is contributing and how much digital is contributing and how those contributions are changing."

Davis adds that what sets MediaQube apart is that Quantium is an independent firm, whereas most media agencies have vested interests in spending at high levels and are more positively predisposed to above-the-line channels, having greater experience and familiarity with media such as TV, radio and press.

"So our advice can be absolutely neutral and not swayed or slanted by those historical factors. Historically media agencies were largely remunerated on how much they spent on TV and we are not encumbered by that sort of bias."

Maintaining a seat at the table

Marketers are being held to account more than they ever have been. The ROI challenge faced by marketers is more profound than ever and, according to Davis, an actuarial mindset responds to that challenge in a way marketers may find difficult to develop without specialist help.

"Actuaries have been calculating insurance risks for years, understanding the differences in risk and premium of people with different and sometimes very similar profiles," Davis says.

"If they're able to model things to that extent they're also able to develop a model about how consumers respond to different scenarios and different cocktails of advertising—you're dealing with data that is much more detailed and employing more sophisticated mathematical techniques and modelling software than has been available in most econometric, statistical and certainly agency worlds." PM