
PROFIT ABILITY THE BUSINESS CASE FOR ADVERTISING

SPECIAL REPORT 2018



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FOREWORD

MAXIMISING THE NET PRESENT VALUE OF ADVERTISING



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Today's CEOs and CFOs know that brands are important, supporting short- and long-term sales and margins. They're even willing to be paid less to work for a company with strong brands, because of the resulting reputational benefits.¹ They understand that brands are built on customers' end-to-end experience of, and word-of-mouth recommendations about, buying and consuming the company's products, reinforced by advertising.

But they are also under constant pressure to deliver short-term results, making it harder to sustain investment in long-term brand-building. This important, evidence-based study will help them work with their CMOs to address this dilemma, maximising the net present value (NPV) of the advertising budget.

Short-termism is on the rise. Binet and Field, using the IPA's extensive database of effectiveness cases, have found that the optimum for most companies is to invest 60%–65% of the budget in brand advertising – building 'fame' (awareness), 'feeling' (emotional engagement) and 'fluency' (ease of purchase) across the whole market – and the other 35%–40% in more targeted, persuasive advertising to activate short-term sales – building on (and, ideally, reinforcing) the brand. However, the average investment split between long-term brand advertising and short-term sales activation is now about 50–50: many companies are destroying shareholder value by underinvesting in brand advertising.²

Structural factors driving short-termism include the pressure for immediate, demonstrable results (and, therefore, direct response advertising); over-emphasising marketing ROI rather than NPV; shorter CMO and agency tenures; and the growing role of procurement.³

1. Nader T. Tavassoli, Alina Sorescu and Rajesh Chandy, 'Employee-Based Brand Equity: Why Firms with Strong Brands Pay Their Executives Less', *Journal of Marketing Research* 51, 6 (December 2014), pp 676-690. See also Patrick Barwise, *Brands & CEOs*, The Brands Lecture 2015, British Brands Group, November 2015

2. Les Binet and Peter Field, *Media in Focus: Marketing Effectiveness in the Digital Era*, IPA, June 2016. For the '3Fs', see John Kearon, Tom Ewing and Orlando Wood, *System 1: Unlocking Profitable Growth*, System 1 Group, 2017

3. Matti Littunen, Joseph Evans, Douglas McCabe and George Worsley, *Mounting Risks to Marketing Effectiveness*, Enders Analysis, 18 May 2017

“Many companies are destroying shareholder value by underinvesting in brand advertising.”

This report uses existing, client-funded econometric analyses of the short-term and total (short- and long-term) profitability of campaigns by mid-sized and large B2C advertisers. Unlike the IPA database, it includes both above- and below-average campaigns, rather than being limited to those with above-average results. The results are bang up to date (2014–2017), highlighting the roles of different old and new media, especially television, but also reinforcing some timeless lessons for marketers:

- Advertising should start with a clear *business* objective: the key issue is effectiveness (how well did the campaign meet its objectives?) not efficiency (could it have done so more cheaply?)
- Even in today’s digital environment, use a classic *account planning* process (‘disciplined creativity’), as exemplified by the best IPA cases
- Embed the right *metrics* into the campaign plan and rigorously track them over time
- Above all, share your thinking, insights and metrics openly with your *finance colleagues* and work with them, both before and after the campaign. They know that some things are easier to measure than others and that it’s better to be ‘roughly right’ than ‘precisely wrong’.

Sharing this report, and the previous work by Binet and Field and Enders Analysis, with your finance colleagues will be a great first step towards maximising the NPV of your advertising investment. And as a second step? Show them some IPA cases relevant to your brand, market and strategy. Every business and brand is unique, but your collaboration with Finance will be helped by a shared language and understanding of the generic issues and evidence, and some specific examples close to home.

THE AUTHORS

ABOUT EBIQUITY

Ebiquity is an independent, global leader in marketing and media analytics. Working with 80 of the top 100 global advertisers, Ebiquity employs over 900 people including data scientists, developers, modellers, analysts, and digital and media experts. Ebiquity’s Marketing Performance Optimisation division has conducted hundreds of marketing effectiveness projects, in the process building a database of literally thousands of econometric models which measure the ROI of media and marketing investments.

ebiquity.com

ABOUT GAIN THEORY

Gain Theory is a global unbiased marketing foresight consultancy that brings together data, advanced analytics, and technology solutions to help marketing professionals make smarter, faster, predictive business decisions. Gain Theory is passionate about making a meaningful difference to business performance – to improve marketing efficiency, to grow market share and to see baseline profits and share price growth. Gain Theory’s consultants, data scientists, modellers, analysts and martech specialists operate from three core hubs – New York, London, Singapore – serving 113 markets worldwide.

gaintheory.com



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EXECUTIVE SUMMARY

‘Profit Ability’ has, for the first time, quantified the total profit generated by different forms of advertising in the UK, to show what they deliver to the bottom line. It set out to examine and benchmark all media’s profit-generating performance, with a particular emphasis on uncovering TV advertising’s effects.

The study was commissioned by Thinkbox from Ebiquity and Gain Theory, who independently evaluate advertising performance and effectiveness for hundreds of brands. Using their databanks of existing, client-funded data, it analysed over 2,000 advertising campaigns across 11 categories to uncover the impact that different forms of advertising have on short-term profit (throughout the campaign and within 3–6 months of the campaign finishing), and then combined these learnings with results for profit generated over the longer term (up to 3 years on) to determine total profit return. Clearly, advertising also has an even longer-term impact beyond 3 years, but that is beyond the scope of this study. The key findings are:

58% OF ADVERTISING’S PROFIT RETURN IS OVERLOOKED WHEN IGNORING THE LONG TERM

Less than half of advertising’s profit impact happens in the short term. Businesses optimising their advertising investment based solely on these more easily visible short-term returns are hugely undervaluing the total profitability driven by advertising. They are not maximising the growth and value of the company

ADVERTISING IS A POWERFUL BUSINESS INVESTMENT

Looking at total profit return on investment (ROI) over 3 years, the average campaign delivers a profit ROI of £3.24 per pound spent. This varies by channel, but all forms of advertising, except Online Display, deliver profitable returns when you look at their long-term impact.

FOCUS ON VOLUME AND SCALABILITY

This study is unique because it moves on from only looking at ROI to position it within the context of the volume of investment and scalability of different media. It found that, in the short term, TV is responsible for 62% of all advertising-generated profit at an ROI of £1.73 for every pound spent, the highest of any media.

In the longer term, TV advertising creates 71% of total advertising-generated profit at an ROI over 3 years of £4.20 for every pound spent, also the highest of any media.

TV DELIVERS SCALE OF RETURN

TV drives the most profit because its scale and popularity enable it to deliver efficient profit return at high volumes of spend. Businesses can increase investment in TV to a higher level than other media and it will continue to generate a profitable return before diminishing returns kick in.

ADVERTISING-GENERATED PROFIT VARIES BY CATEGORY

As well as looking at overall advertising performance, the study also shows how different forms of advertising perform for different categories – Retail, FMCG, Financial Services and Travel – and how factoring in the long-term is crucial to understanding the impact advertising has on different categories.

ADVERTISING CAN BE RISK ASSESSED

In the long term, 72% of advertising campaigns create profit. Advertising is a safe business investment. TV is the ‘safest’ medium as it is most likely to create advertising-generated profit, both in the short and long term. In the short term, 70% of TV advertising campaigns deliver a profitable return. During the 3 years after ad campaigns finish, this increases to 86% of TV advertising campaigns delivering a profitable return.

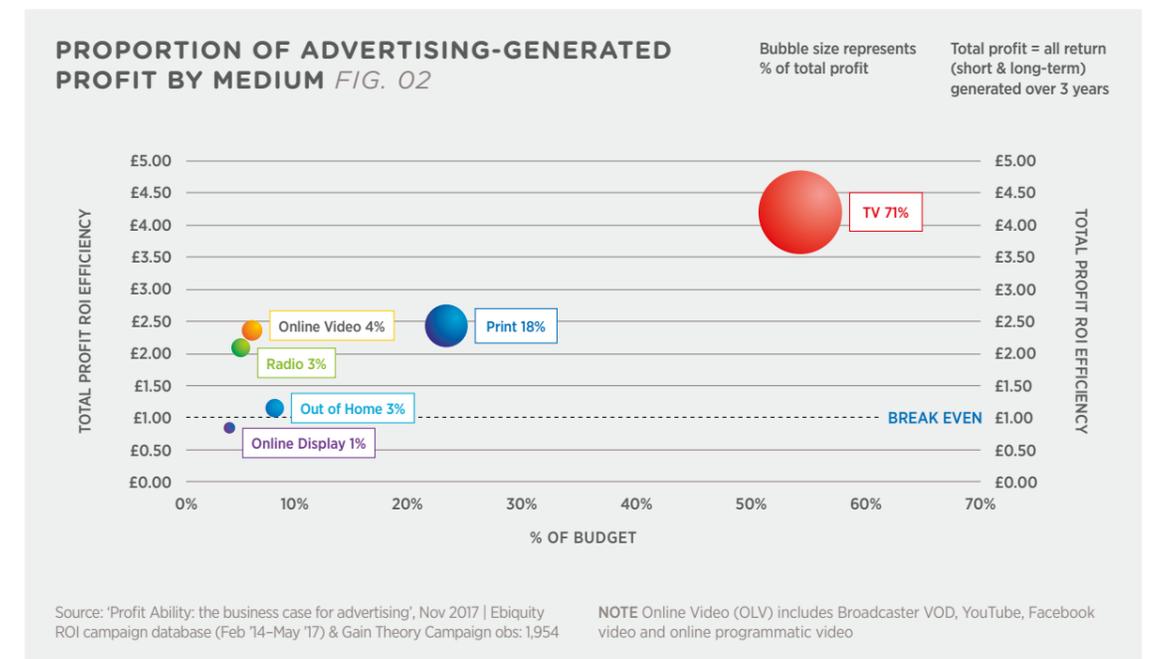
IT’S TIME TO REASSESS THE RETURN THAT ADVERTISING CAN GENERATE

Businesses can now reassess the potential return that can be generated by different forms of advertising. For example, the study concludes that advertisers may be missing out on maximising advertising-generated profit by under-investing in TV. Currently, TV accounts for 54% of advertising spend among Ebiquity’s database, yet it is responsible for 71% of total advertising-generated profit.

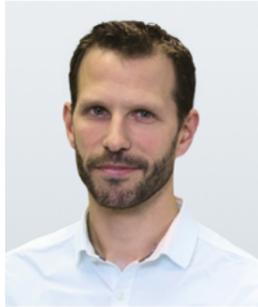
“TV delivers 71% of total profit generated by advertising, at the greatest efficiency (a profit ROI of £4.20), and for the least risk.”

KEY FINDINGS FIG. 01

	% OF BUDGET	TOTAL AD-GENERATED PROFIT (WITHIN 3 YEARS)			SHORT-TERM AD-GENERATED PROFIT (WITHIN 3-6 MONTHS)			NUMBER OF CAMPAIGNS
		% OF PROFIT	AVERAGE PROFIT ROI	PROFIT LIKELIHOOD	% OF PROFIT	AVERAGE PROFIT ROI	PROFIT LIKELIHOOD	
TV	54%	71%	£4.20	86%	62%	£1.73	70%	1,280
PRINT	23%	18%	£2.43	78%	22%	£1.44	61%	980
OUT OF HOME	8%	3%	£1.15	48%	3%	£0.57	19%	580
ONLINE VIDEO	6%	4%	£2.35	67%	5%	£1.21	52%	158
RADIO	5%	3%	£2.09	75%	5%	£1.61	62%	540
ONLINE DISPLAY	4%	1%	£0.84	40%	2%	£0.82	37%	330
ALL MEDIA	100%	100%	£3.24	72%	100%	£1.51	58%	1,954



INTRODUCTION



Matt Hill
Research and
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Thinkbox

Something worrying is happening in the world of advertising. Advertisers are better equipped than ever before to create, plan, execute and measure the effectiveness of their advertising, yet overall effectiveness is declining.

Advertising works, but not as well as it used to. This was a shocking finding from a recent study of advertising effectiveness for the Institute of Practitioners in Advertising (IPA) by Les Binet and Peter Field, 'Media in Focus'⁴. Examining the IPA's vast databank of effectiveness studies stretching back over 30 years, they found that, although TV advertising has increased in effectiveness, this isn't enough to counterbalance a worrying overall decline.

Advertising itself is not to blame. The fault lies with how advertising is increasingly deployed. This is a self-inflicted decline and one of the main causes is a creeping trend towards short-termism.

All businesses must balance the demand for short-term sales and meeting targets with the goal of building long-term profitable, sustainable brands. But there is currently an imbalance. Binet and Field found that the proportion of advertising campaigns that last for fewer than six months has grown from under 10% a decade ago to almost 25% today. Businesses have been focusing more on the short term and, as a result, their approach to advertising has drifted away from the optimal balance of long-term brand building and short-term activation, proven by Binet and Field to be 60/40. The split is now 50/50 and this is a direct result of the trend towards short-termism.

4. Les Binet and Peter Field, Media in Focus: Marketing Effectiveness in the Digital Era, IPA, June 2016

“ All businesses must balance the demand for short-term sales and meeting targets with the goal of building long-term profitable, sustainable brands. But there is currently an imbalance. ”

The underlying drivers for the shift towards short-termism have been laid bare by Enders Analysis in 'Mounting risks to marketing effectiveness'⁵, a study commissioned by the trade body for magazine advertising Magnetic. Enders identified the increasingly short tenures of Marketing Directors (now averaging four years in post); short-term performance-based bonus schemes; an obsession with the countability of short-term advertising impact through online attribution models; as well as procurement techniques that focus on cost rather than profit or business growth and are squeezing planning and creative investment.

We are also seeing a blinkered misuse of return on investment figures, or ROI. Short-term campaigns that are focussed on speaking to people who are currently in market for a product can see really high levels of short-term ROI. These are seductive. But their impact on long-term business growth and profitability is a lot smaller. Relentlessly chasing jam today comes at the expense of much more jam in years to come. A focus on the short-term is not quite running to stand still, but it is running to walk.

Finally, the use of 'extra' share of voice in advertising is in freefall. 'Extra' share of voice is investment in share of voice above a business's market share and has been proven by Binet and Field as one of the most powerful ways to drive growth. But over the last 10 years businesses have retreated from this kind of confident investment. Put simply, businesses are not putting the necessary money behind their advertising and thereby sacrificing potential growth.

5. Matti Littunen, Joseph Evans, Douglas McCabe and George Worsley, Mounting Risks to Marketing Effectiveness, Enders Analysis, 18 May 2017

“ Advertising must be seen as a capital investment in growth, not as a cost. It should be an investment option that is weighed up and risk assessed alongside and against other routes to business growth as part of a long-term plan. ”

SO WHAT IS THE ANSWER?

- 01.** The first step towards recovery has to be a change in mindset. We need to rethink how we use ROI figures for evaluation and business planning, as Binet and Field argue. We must recognise that ROI is only a measure of efficiency, not a business goal.
- 02.** The second step is to build the case for investment in advertising around total profit return. So, not just looking at what is visible through attribution or short-term econometrics, but building in the impact advertising has on the base level of sales over the longer term.

Advertising must be seen as a capital investment in growth, not as a cost. It should be an investment option that is weighed up and risk assessed alongside and against other routes to business growth as part of a long-term plan. It should no longer be seen by any business as a tactical cost that can be turned on and off like a tap to stimulate short-term sales.

This brings us to ‘Profit Ability: the business case for advertising’. This new study is by Ebiquity and Gain Theory, two of the largest and most respected businesses in the field of marketing science. They were perfect for this study because of their innate media neutrality and their rich databases of econometric studies. Crucially for impartiality, they were not asked to build anything from scratch – this is not new research in the traditional sense. The findings are based on pre-existing analyses of how a huge variety of advertising has worked for their clients across many different categories. Also, their data provides a view of the average case. They have not cherry-picked the best examples of successful advertising; this study looks at the average performance.

‘Profit Ability’ builds on the groundbreaking studies by Binet and Field and Enders Analysis to provide industry benchmarks, based on empirical evidence across a substantial range of advertisers, for what businesses can expect advertising to deliver. Crucially it does this for both the short term and the longer term and it examines the degree to which this can vary and the relative effectiveness of different media channels across a range of sectors. What emerges is a compelling case for re-thinking how we approach advertising investment and hard evidence of what businesses can trust to deliver growth.

PART ONE

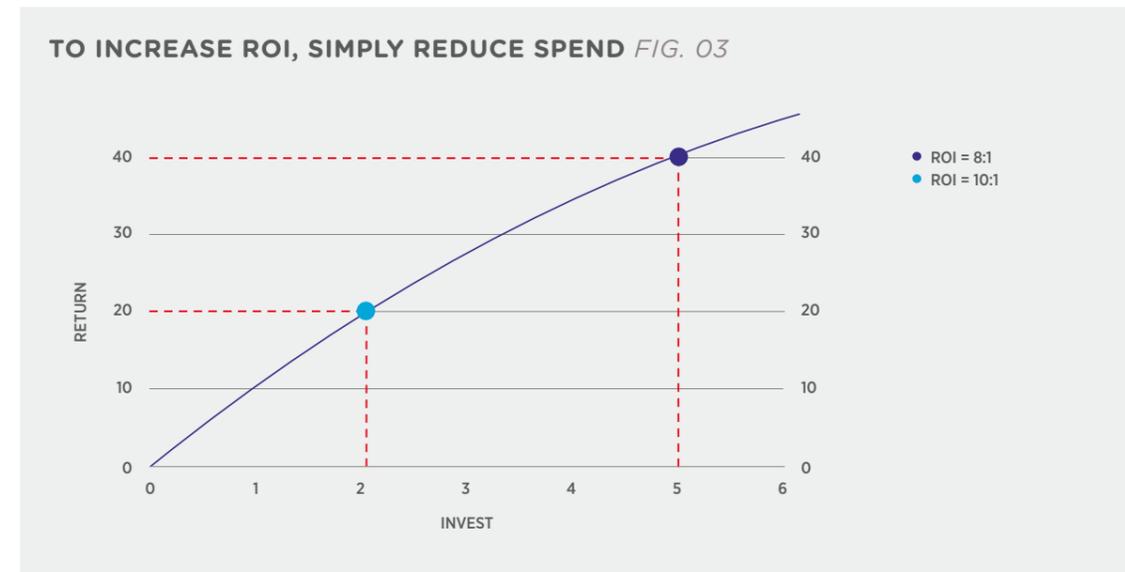
THE SHORT-TERM IMPACT OF ADVERTISING

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EBIQUITY

01

BACKGROUND THE DANGER OF 'IRRESPONSIBLE ROI'

Return on Investment (ROI) is an important measure in marketing. However, too many decisions are driven by its selective or simplistic use and application. As an industry, marketing has misused ROI, mistaking it as a goal instead of a measure of efficiency. The easiest way to improve an ROI figure is to reduce investment; ROI is simply a point on a curve.



But reducing investment is not a route towards increasing profit. Would you rather have a profit ROI of 2:1 on a spend of £3m (so £3m in profit) or a profit ROI of 3:1 on a spend of £500,000 (a profit of £1.5m)?

So, having an ROI number alone is not enough. Good business planning requires rigour. It of course requires numbers, but it requires numbers which are treated responsibly and not in a vacuum. It requires sound modelling, and a model which helps businesses to predict the brand and business outcomes from media investment is a good starting point. So, to make ROI meaningful, businesses need a scalable ROI; an ROI which delivers significant returns in volume.

In addition to rigour and the responsible use of data we need to think about timescale. When planning media, are we targeting our most economically important audience? Or are we focussed on an audience which has the prospect of being economically important in the future? These are two short and long-term objectives; businesses need to find a way of accommodating – and evaluating – both.

It is undoubtedly important to understand the short-term impact of advertising; it is a major part of what drives/sets annual budgets. But short-term impact – incremental sales – is only the visible tip of an iceberg of effects. It is equally important to understand what is happening below the surface, what impact advertising is having on the level of 'base' sales. Advertisers should obsess about base sales as well as incremental.

EXPLAINER WHAT ARE BASE SALES?

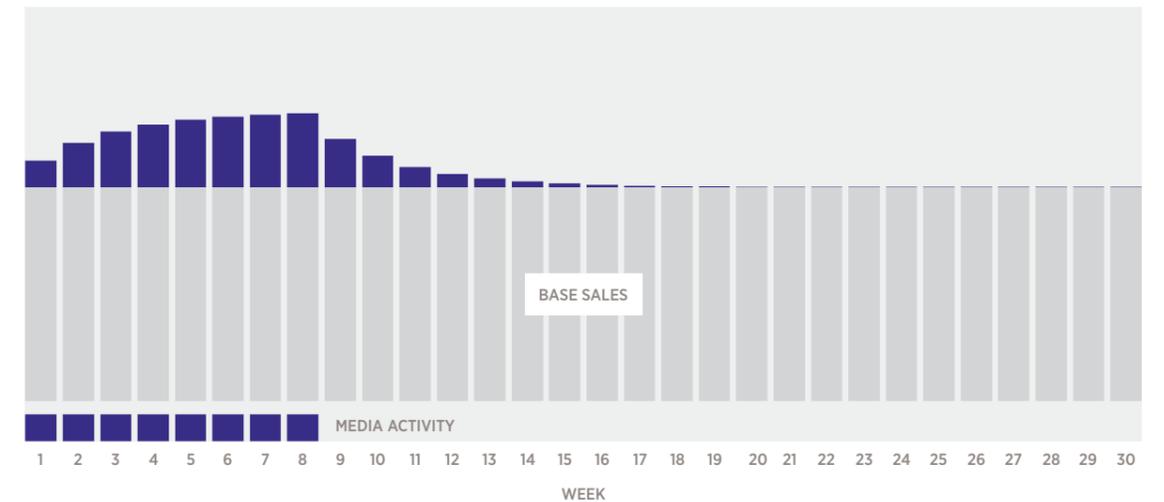
'Base sales' are the sales that a business achieves independent of recent marketing or promotional activity and are created through a variety or combination of factors i.e. product/packaging/distribution/ brand preference (which in part is the result of past marketing activity).

Base sales differ between categories. FMCG brands have very high levels, because they are bought habitually, whereas others, such as cars, achieve this through strong brand loyalty that is built over time.

Financial services tend to be heavily shopped around, making them more sensitive to price promotions. As such base level sales account for a smaller portion of total sales relative to other categories. The base level sales for any one brand will change over time. When base sales are on the increase the brand is in good shape and vice versa.

HOW SHORT-TERM MARKETING ACTIVITIES BUILD ON BASE SALES FIG. 04

Short-term impact as measured by econometrics



OPTIMISATION AND 'RESPONSIBLE ROI'

Only once we know both the short and long-term effects of advertising can we work out the associated ROI and the point of diminishing returns for different media. Then we can move onto optimisation.

Optimisation is a commonly used word, but the principles of optimisation are sometimes forgotten or ignored. Put simply, optimisation is the process of identifying the most efficient way of reaching a given objective, whether it is a journey or a business goal; and the way we measure that efficiency can be in terms of time, effort or money.

For any media channel, there is a point where building reach becomes more and more difficult; a point at which the profit returns we generate from achieving that reach are outweighed by the time taken, the effort involved or the cost (usually the latter).

This is the point of diminishing returns. Optimisation across media channels determines the hierarchy of media channels, so that we invest in the most efficient until we reach the point of diminishing returns, before moving on to the next most efficient channel – and so on.

A business needs to do this optimisation in both the short term and the long term. So, 'Responsible ROI' is about three things:

01. ROI which focuses on scalable profit
02. Short and long-term measurement
03. Optimisation for brand and business growth

EBIQUITY DATA SET & SHORT-TERM METHODOLOGY

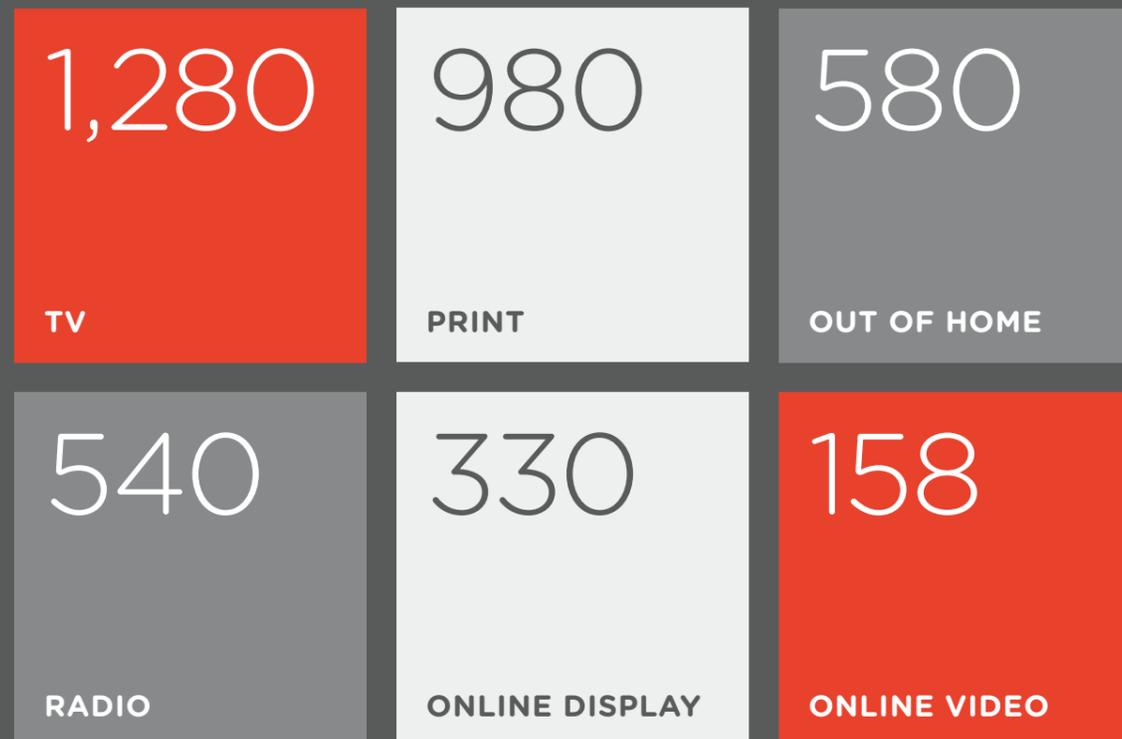
Ebiquity is an independent analytics specialist that helps brands optimise their marketing strategies through econometric modelling, a process where all factors contributing to sales are isolated and quantified. This enables businesses to understand the relative values of marketing activity such as price promotions, product launches, PR and advertising in isolation of external factors such as seasonality, weather, the economy, competition and so on.

For this study, we analysed our existing database of over 150 clients to understand the impact of media investment in the short term (up to c. 3 months after a campaign's end). This included econometric analyses covering 11 sectors and

1,954 campaigns that ran between 2014 and 2017. No original analysis was conducted, all results are based on the findings from our existing database of client-commissioned studies.

THE DIMENSIONS OF THE DATABASE (NUMBER OF CAMPAIGNS EXAMINED BY MEDIA CHANNEL) FIG. 05

NOTE Social media not listed separately due to sample size



It required the compilation of a campaign database to record the media activities of our clients covering campaign characteristics (e.g. spends, ratings, channels, timings, audience) and key performance metrics (uplifts, profit return on investment [ROI], halo rate, advertising memorability, sales response curves).

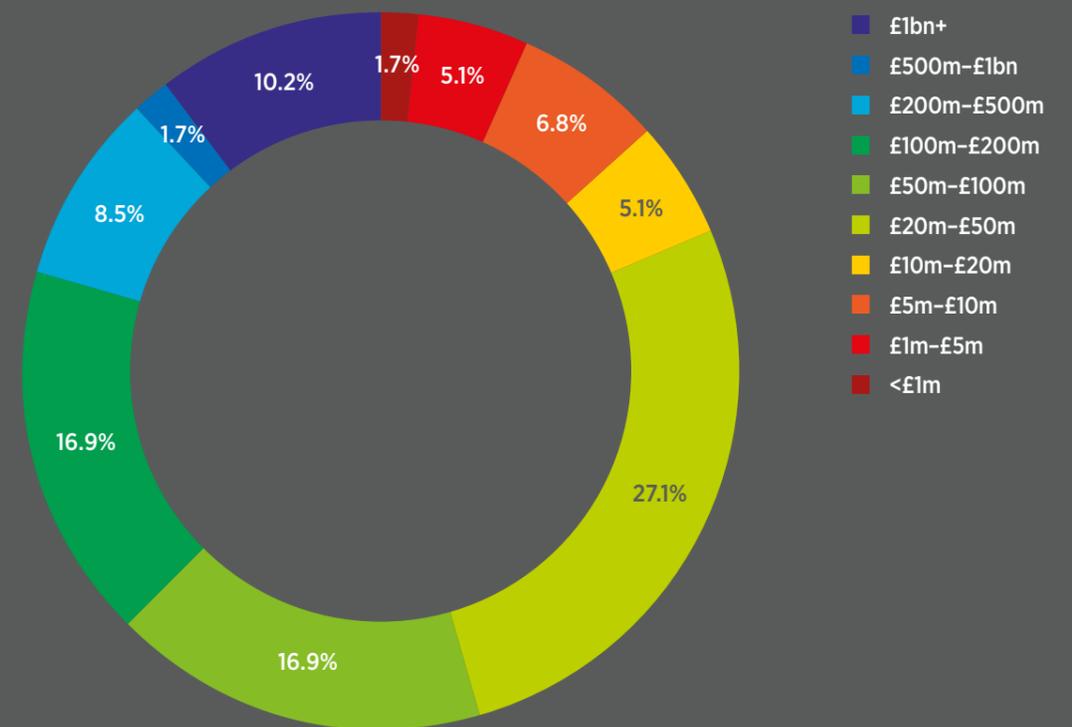
The database was 'cleansed' with outliers and inconsistencies removed to enable robust comparison. It was then 'sliced and diced' to deliver the outputs for this study.

When reporting ROIs where sample sizes are deemed insufficient or provide an insufficiently robust

representation in isolation, results are grouped. So, there are results against five sectors, while Broadcaster VOD (BVOD) and other forms of Online Video (YouTube, Facebook and the 'long tail' of online pre-roll and autoplay video ads) are grouped as one, and 'Social' is allocated either to Online Video or Online Display.

The findings are representative of the average performance of larger, better-known advertiser brands whose media is bought by the major media agencies and is professionally audited by Ebiquity and/or Gain Theory. The annual revenue distribution of Ebiquity's client base is as follows:

DISTRIBUTION OF EBIQUITY CLIENT BASE (ANNUAL TURNOVER) FIG. 06



Source: 'Profit Ability: the business case for advertising', November 2017. Ebiquity ROI campaign database

The study does not include online search as this is a demand-harvesting rather than demand-generating investment. For the same reason, the value of high-street location or prime shelf space in supermarkets

is not included in this study. This report is interested in how different media channels perform in terms of generating profit. It has a particular focus on explaining TV advertising's role.

SHORT-TERM FINDINGS

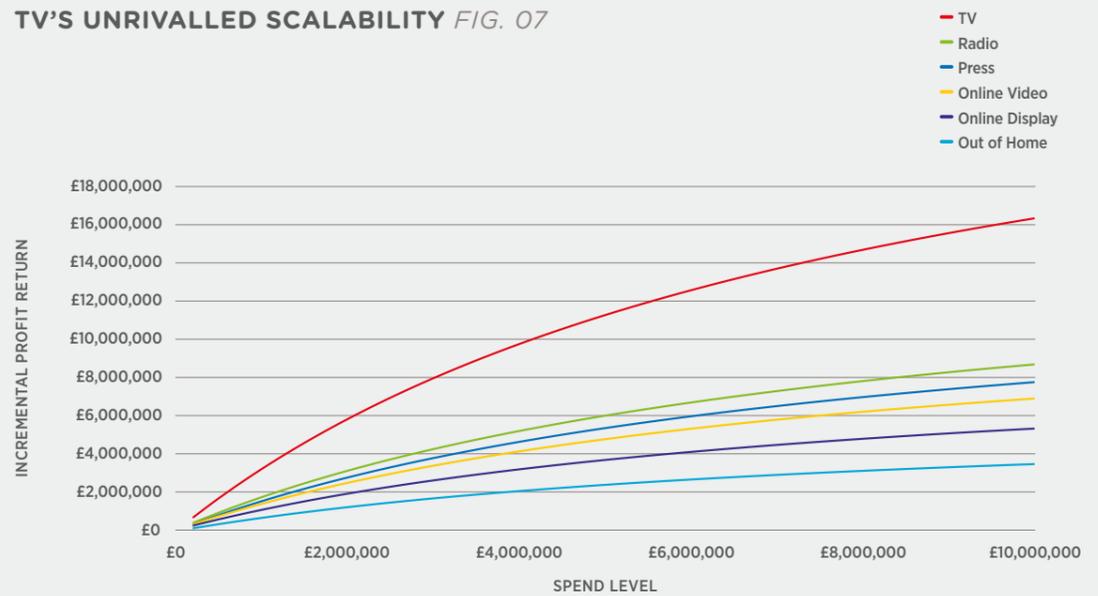
'RESPONSIBLE ROI' CONSIDERING THE VOLUME OF PROFIT

The scalability of a given channel (i.e. its ability to drive exposure of an advert across a target market), is a crucial element that determines its ability to drive profitability. When this is factored in, each media channel's contribution to the bottom line in the short term is much clearer.

To bring this important point to life, here is an example from the Financial Services sector which plots spend levels against return for each of the different media channels.

TV continues to deliver profit at higher levels of spend; it has the highest headroom for spend. It shows how TV's scale and popularity enable it to continue being effective at high volumes of investment. Advertisers can increase TV investment to a higher level than other media and it will continue to generate a profitable return.

TV'S UNRIVALLED SCALABILITY FIG. 07

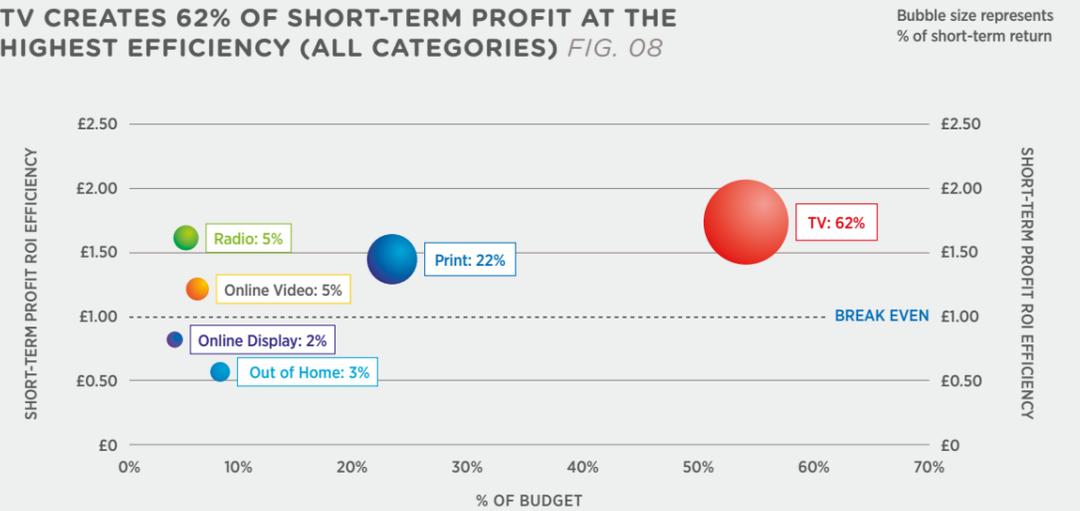


Source: 'Profit Ability: the business case for advertising', November 2017. Ebiquity ROI campaign database. Financial Services example

NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

When different media's short-term ROI figures are plotted against the proportion of spend they account for in our database, a clear picture emerges of which media are driving profit.

TV CREATES 62% OF SHORT-TERM PROFIT AT THE HIGHEST EFFICIENCY (ALL CATEGORIES) FIG. 08



Source: 'Profit Ability: the business case for advertising', November 2017. Ebiquity ROI campaign database (Feb '14-May '17). Campaign obs: 1954

NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

In the above chart, each bubble represents a media channel. The position of the bubble along the Y-axis displays the average pound-for-pound short-term profit efficiency for that channel. The X-axis displays the average % of budget spent with each channel and the bubble size represents the volume of short-term return generated.

TV was found to have the highest short-term ROI generating £1.73 for every pound spent. This is remarkably consistent with findings for the last 10 years, where the ROI figure for TV has been between £1.70 and £1.80, depending on cost inflation/deflation.

When taking into account the volume of return we can see that TV accounts for 62% of advertising-generated profit in the short term. This is followed by Print (22%), Radio (5%), Online Video (5%), Out of Home (3%) and Online Display (2%). So, TV not only delivers a strong ROI, it does so at scale, and the story was similar when we looked at short-term volumes of profit in different sectors (see p.18 and Appendix 1).

EXPLAINER WHAT ABOUT SOCIAL MEDIA?

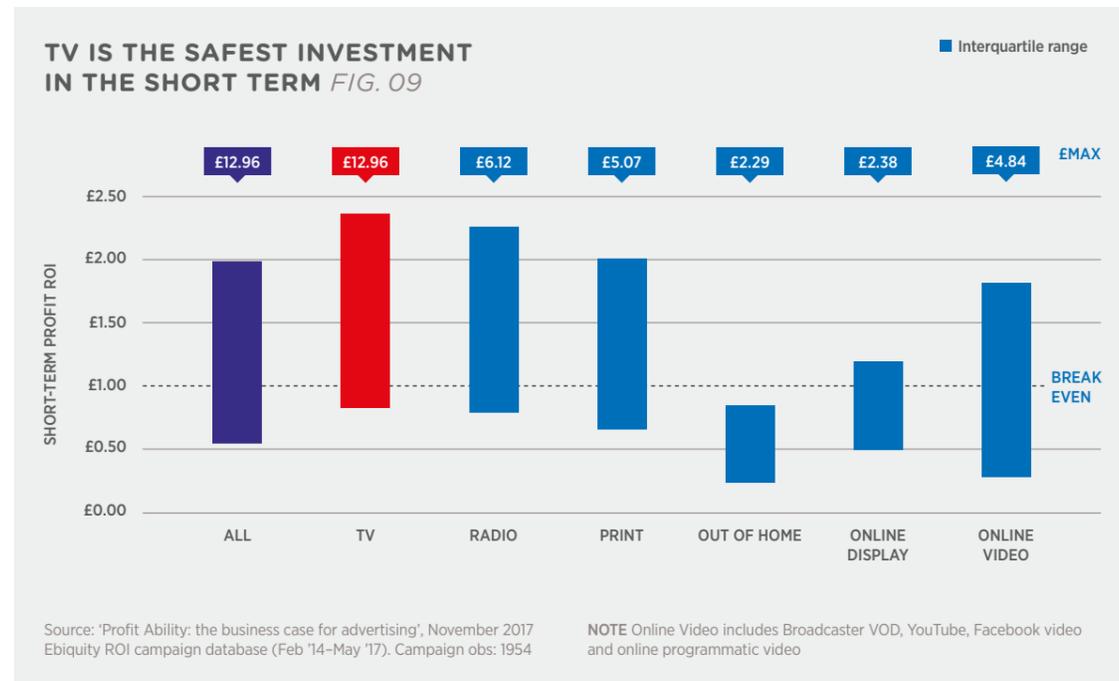
The average short-term profit ROI for social media was £1.14, based on the available data, which puts it in-between Online Display and Online Video. This makes sense as there is social media advertising in both the Online Display and Online Video datasets. However, as this calculation is based on a lower than ideal number of data points, this figure for social media ROI should be treated directionally rather than conclusively.

RISK ASSESSING ADVERTISING

To assess the degrees of risk associated with different forms of advertising in the short term, we looked at the range of returns different channels generated. We did this by looking at the interquartile range to remove the outliers and get a clearer picture of the norms (see interquartile explainer on p.17).

By examining the proportion of campaigns by different forms of advertising that made a profit for the advertiser, we identified the relative safety of different advertising investments.

In addition to the interquartile ranges we also calculated the percentage of all campaigns by medium that delivered a profitable return, to provide an indication of the likelihood of a given channel to return profit. We found TV to be the medium most likely to create advertising-generated profit in the short term, with 70% of TV advertising campaigns in this period delivering a profitable return. This is followed by **Radio** (62%), **Print** (61%), **Online Video** (52%), **Online Display** (37%) and **Out of Home** (19%).



TV not only provides the safest place to invest but is also responsible for the maximum observed ROI across all advertising at £12.96. Radio and Print also perform well across the interquartile range. Out of Home advertising performs less well in the short term, as a medium it's much more powerful in the longer term as we'll see in the next section. Online Display, however, is a medium which in the main is used as an activation channel intended to pay back in the short term, but rarely does so. Issues widely reported in the news, such as viewability, fraud and arbitrage, are the core reasons why Online Display, in general, fails to pay back in the short term.

There are a number of reasons behind why there is a broad variation of profit returns across the interquartile range. Advertising category is a key determinant, as we will examine later in this report. Different advertiser categories generate very different levels of profit return. Product availability, quality and appeal are other factors that play a significant role in the effectiveness of advertising. However, it is also reasonable to suggest that the advertising campaigns that perform best in any medium are likely to be those that have the best media planning and the highest-quality creative.

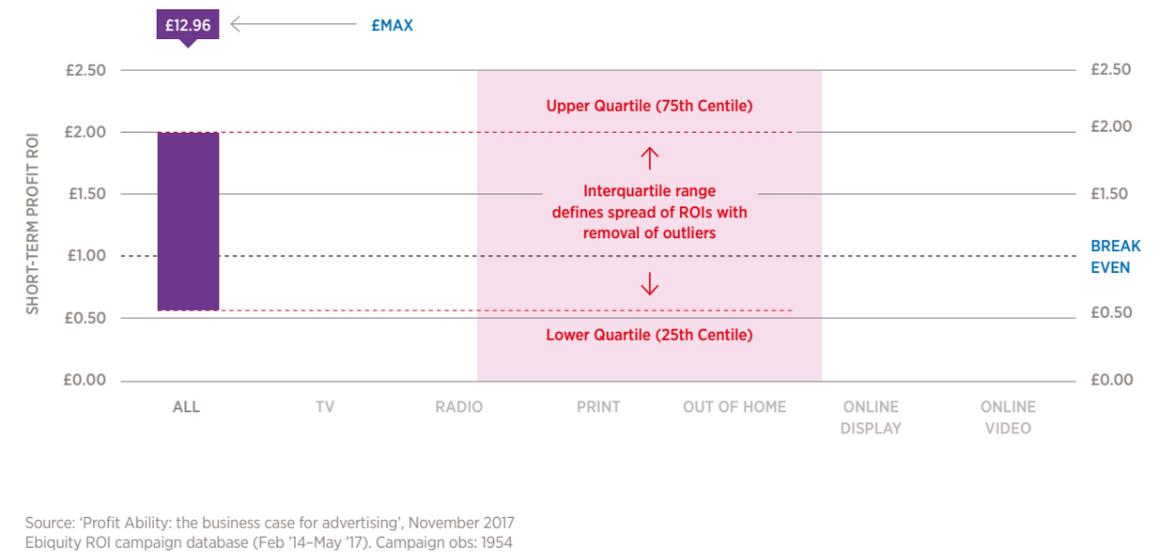
EXPLAINER WHAT ARE INTERQUARTILE RANGES?

Interquartile ranges have been used to understand the range of profit returns across the campaign data-set.

Rather than analyse the range of return across the entire data-set (i.e. from the worst to the best campaign performance), the interquartile range excludes the top performing 25%, and bottom performing 25% of campaigns in the data-set

and only assesses the range of profit return for the middle 50% - i.e. it excludes the outliers and gives a fairer comparison of the general range of profit returns delivered by each media channel. The chart below looks at advertising as a whole.

UNDERSTANDING THE LEVEL OF SHORT-TERM RISK: ALL CHANNELS FIG. 10



Here we can see that the interquartile range lies between just over 50p in the pound at the lower quartile position and then close to £2 return at the upper quartile position.

When comparing the interquartile ranges of the short-term profit ROIs of different media, as we do opposite (Fig. 09) there are a couple of things to look out for as a guide:

- The shorter the bar, the higher the certainty of your investment returns.
- The higher the bar sits, the greater the payback.

Above each column, Fig. 09 also sets out the maximum profit ROI numbers by channel. For advertising, taken as a whole, it comes in at £12.96 (in the short to medium term).

The break-even line shows how much of the data within the interquartile range sits in profit for each channel.

So, a key observation from Fig. 09 would be that TV, the red bar, sits higher than the others. This shows that TV provides the safest place to invest. We can also see that Radio and Print are performing well in the short term.

SECTOR ANALYSIS SHORT TERM

We examined how short-term ROI can differ for different sectors (Financial Services, FMCG, Retail and Travel). We found that TV advertising delivers a strong ROI for all the sectors analysed, with one exception, FMCG, which returns a negative ROI. However, TV still far outperforms all other forms of advertising for driving short-term ROI in FMCG.

The low ROI for FMCG in the short term is a good example of why it is important not to judge advertising solely on its short-term performance. The same is true of the relatively poor short-term performance of Online Display and Out of Home. Later in this report we will examine all media's profitability in the long term and the effects this has on the long-term ROI for different sectors.

SHORT-TERM PROFIT RETURN DELIVERED BY CHANNEL AND CATEGORY FIG. 11

	FINANCIAL SERVICES	FMCG	RETAIL	TRAVEL
TV	£2.35	£0.60	£2.71	£5.16
RADIO	£1.76	£0.36	£3.01	£2.84
PRINT	£1.55	£0.25	£2.51	£3.75
ONLINE VIDEO	£1.46	£0.38	£1.90	£4.13
OUT OF HOME	£0.67	£0.30	£1.78	£2.50
ONLINE DISPLAY	£1.18	£0.10	£1.37	£2.05
ALL MEDIA	£1.92	£0.53	£2.53	£3.91

ROI tends to reward business scale, as the strong ROIs for Retail and Financial Services show (sectors within which there are some very large businesses). The bigger you are as a business, often the bigger return on investment.

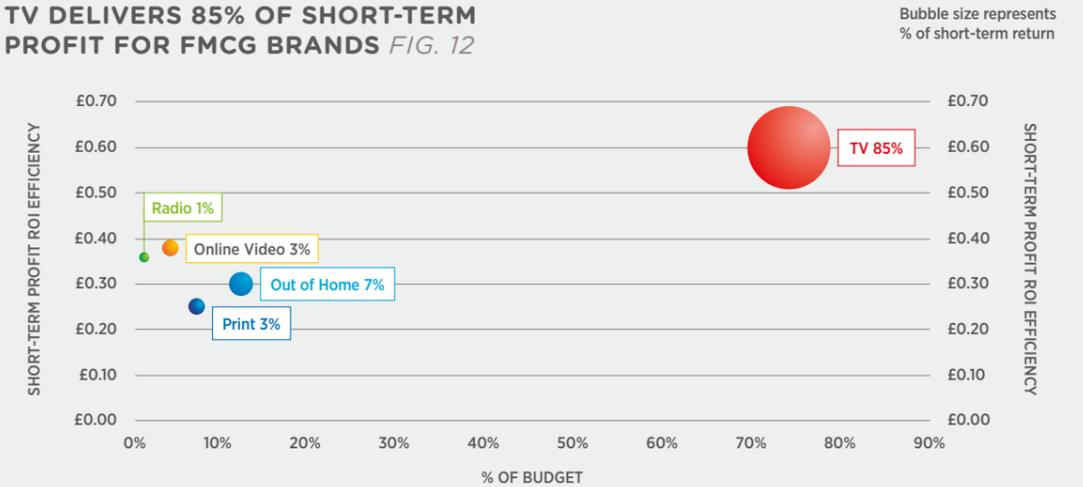
Travel is also a sector with big businesses and its TV ROI of £5.16 is phenomenal, especially given this is only the average short-term return. As well as the scale of the businesses, another reason for this high performance is that customers in the Travel sector are very sensitive to advertising stimuli, which boosts return. As a high-interest category, Travel advertising captures a greater share of attention relative to other categories.

SECTOR FMCG

In FMCG, TV dominates against all criteria, delivering 85% of the short-term profit based on 74% of the spend. Its share of spend is high and its share of profit return even higher. As noted above, ROI in the short term is a challenge, but this will change in the longer term.

That TV performs much better than other media is no surprise. The success of an FMCG campaign relies heavily on reach and the recruitment of lighter consumers to boost the return on investment, both areas in which TV excels.

TV DELIVERS 85% OF SHORT-TERM PROFIT FOR FMCG BRANDS FIG. 12



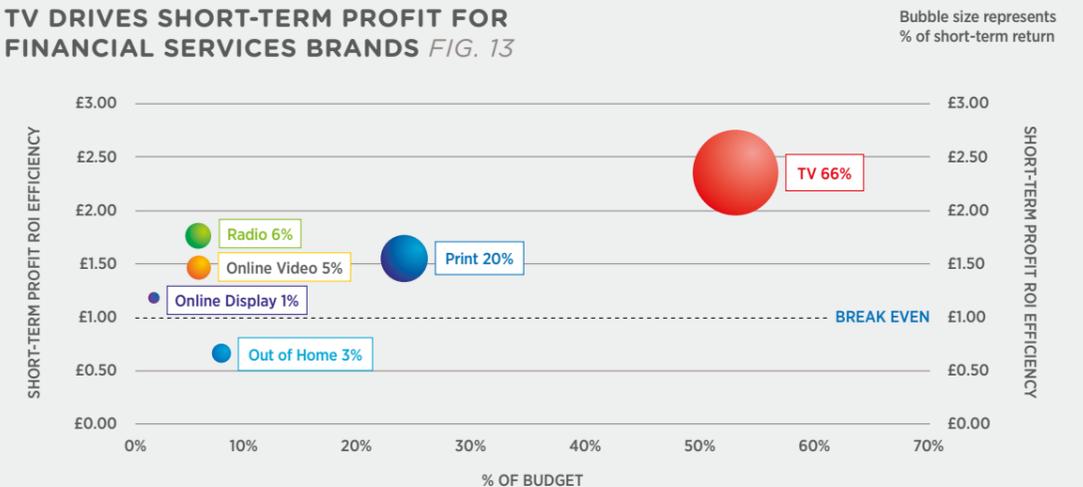
Source: 'Profit Ability: the business case for advertising', November 2017. Ebiquty ROI campaign database (Feb '14-May '17). FMCG. Campaign obs: 606
 NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

SECTOR FINANCIAL SERVICES

For Financial Services brands, TV represents 53% of budget and delivers 66% of the advertising-generated profit.

Although TV again outperforms other media, advertising in general does well, with Print and Radio standing out as other good performers.

TV DRIVES SHORT-TERM PROFIT FOR FINANCIAL SERVICES BRANDS FIG. 13

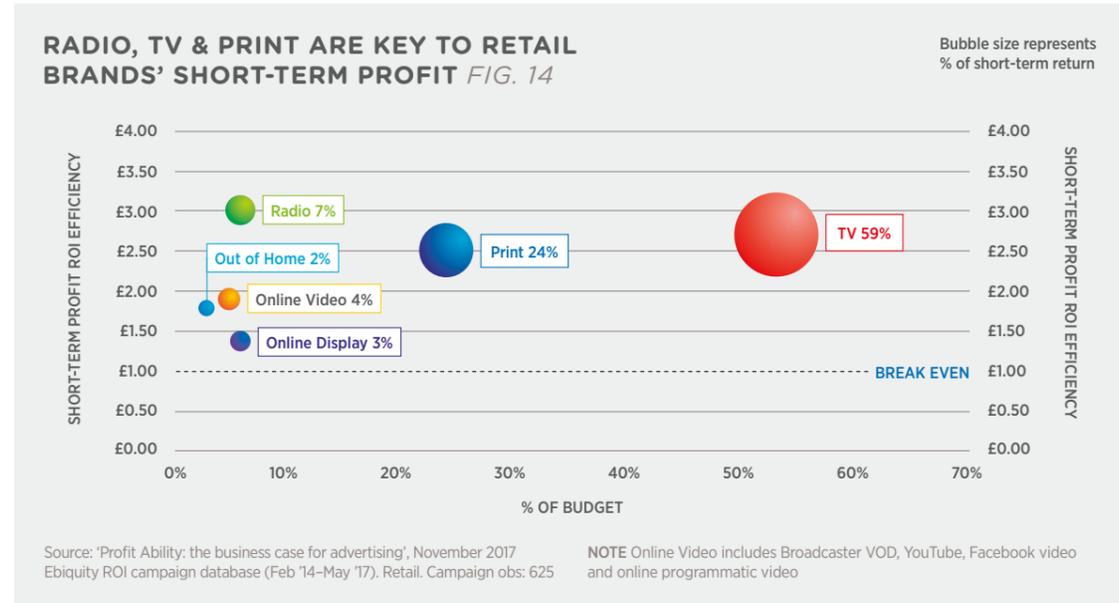


Source: 'Profit Ability: the business case for advertising', November 2017. Ebiquty ROI campaign database (Feb '14-May '17). Financial Services. Campaign obs: 371
 NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

SECTOR RETAIL

In the Retail sector, TV is the key lever for driving return. However, Radio's ROI is very strong at just over £3 per pound invested. This reflects a trend in recent years in which radio advertising has built on audio cues present in TV campaigns. This integration has had a definite amplification

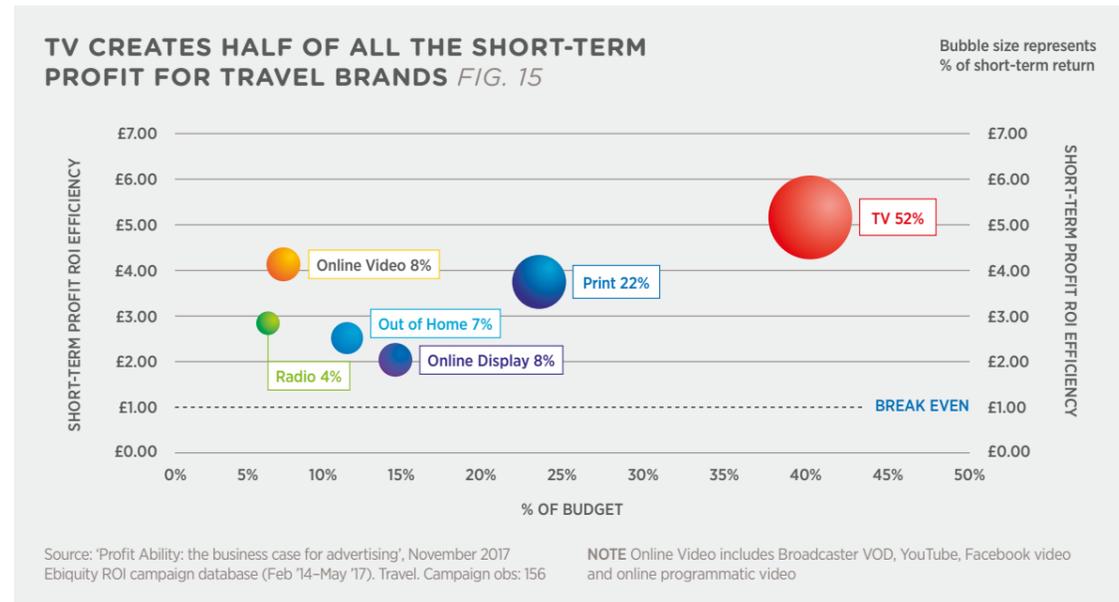
effect; our analysis of Radio campaigns that are integrated with the TV campaigns reveals a five-fold multiplier effect in the short-term profit generated by Radio advertising vs Radio campaigns where the creative execution is unrelated to the TV creative.



SECTOR TRAVEL

As mentioned earlier, TV's ROI in the Travel sector is very strong indeed. All the different forms of advertising we examined paid back in the short term

for travel brands with some very notable ROIs. This again relates to the fact that travel consumers are very responsive to advertising.



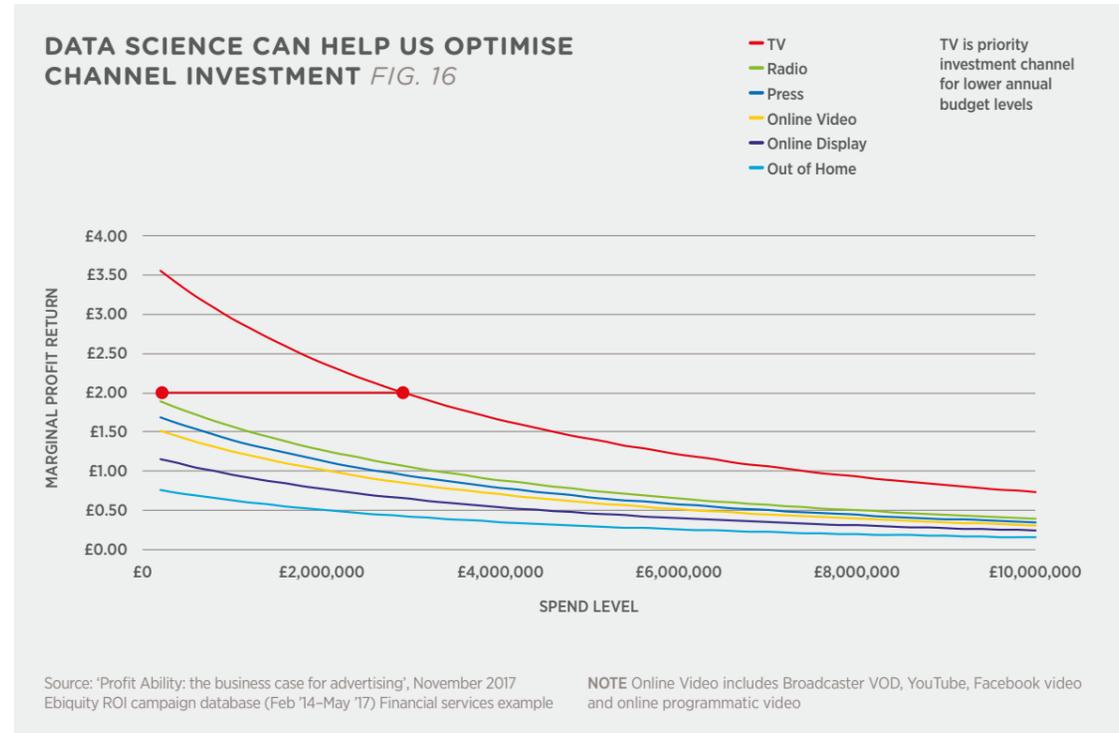
“ Advertisers can increase TV investment to a higher level than other media and it will continue to generate a profitable return. ”

'RIGHT-SIZING' INVESTMENT TO MAXIMISE PROFIT

The next logical step was to examine how to maximise profit generation and whether there is any 'right-sizing' to be done to TV investment. The analysis so far has shown what return advertisers are, on average, getting from advertising in the short term at current levels of spend. That does not necessarily mean that those current spend levels are correct.

Are businesses optimising TV advertising to make the most of its profit-generating ability?

In optimisation terms, this is an examination of the 'trade-off' between different media channels. This is where the quantification and minimisation of risk is determined, illustrated in the following chart using data from the Financial Services sector:



We found that TV is the priority investment channel for lower annual budget levels. For budgets in Financial Services up to approximately £3.6m it is most favourable to invest in TV. At this point of diminishing returns, advertisers should consider beginning to invest in the next best-performing medium as well, in this case radio.

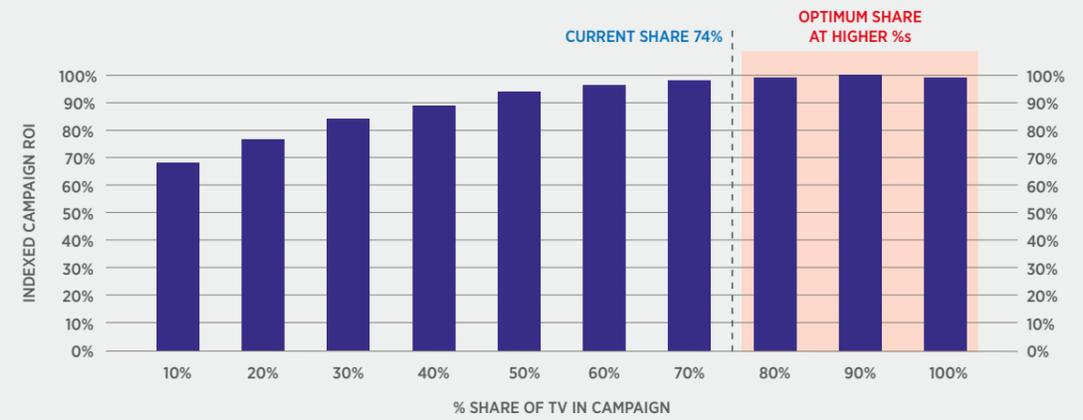
It should be noted that this is an empirically/math-led approach and provides a guide. It is a starting point to understand what the general shape of the plan should look like rather than the definitive answer. The next step is to work with the client and agency to overlay further pragmatism as there is obviously more to a successful ad campaign than picking the best media channel - though that is a good place to start from. There are other priorities and other planning and creative aspects that need to be considered.

However, looking at advertising from a mathematical starting point, we can identify the marginal benefit of altering spend levels in TV by modelling the short-term profit ROI that would be delivered based on different percentage of budget spend on TV, i.e. 10% TV, 20% TV and so on.

To understand what the appropriate level of investment in TV is within a typical campaign in the short term, we examined how campaign ROIs change in different sectors as the budget behind TV changes.

RIGHT-SIZING INVESTMENT BY SECTOR

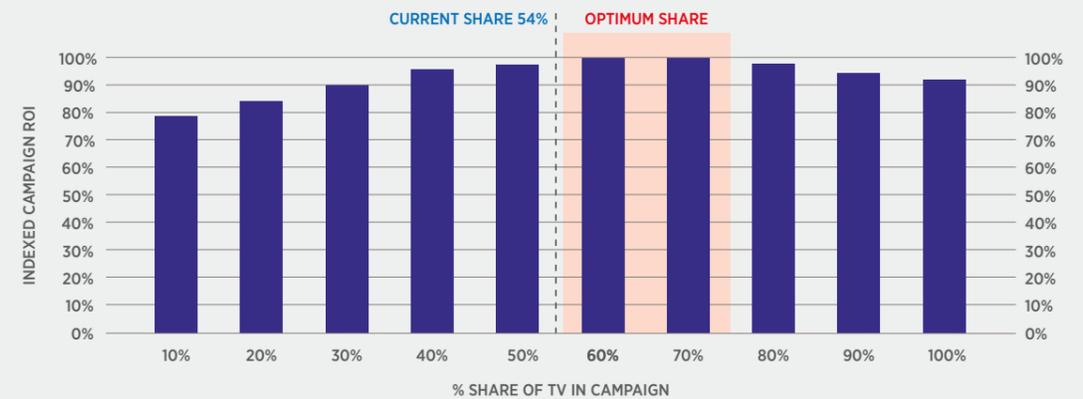
FMCG: EVIDENCE TO SHIFT % SPEND LEVELS SIGNIFICANTLY HIGHER FIG. 17



In FMCG, TV currently receives a 74% share of total advertising investment. When TV's short-term performance is optimised, the recommendation

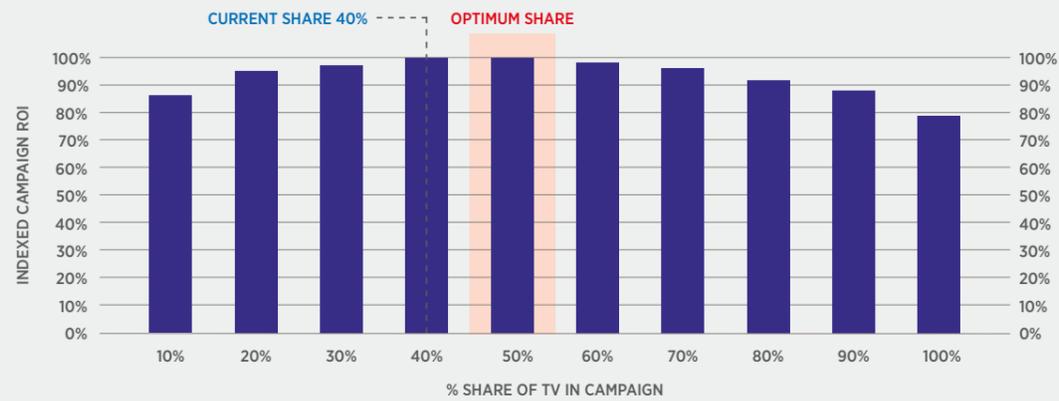
is that TV spend should increase. This was also the case in Financial Services. Travel was pretty much optimised.

FINANCIAL SERVICES: EVIDENCE TO SHIFT % SPEND LEVELS SIGNIFICANTLY HIGHER FIG. 18



Source: 'Profit Ability: the business case for advertising', November 2017, Ebiquity

TRAVEL: SPEND LEVELS ARE OPTIMISED FOR SHORT TERM RETURNS FIG. 19

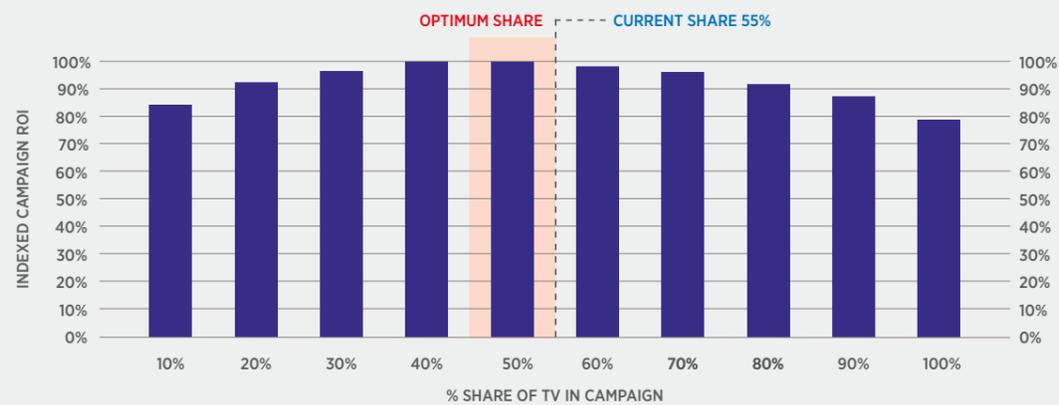


Source: 'Profit Ability: the business case for advertising', November 2017, Ebiquity

For Retail, we found that, based solely on short-term performance, TV's current 55% share of investment is at the right level. However – and you'll notice

a pattern emerging in this report – it is worth holding that thought until the impact of TV in the long term is built in in the second part of the analysis.

RETAIL: SPEND LEVELS ARE APPROXIMATELY CORRECT FIG. 20



Source: 'Profit Ability: the business case for advertising', November 2017, Ebiquity

PART TWO

THE LONG-TERM IMPACT OF ADVERTISING

MATT CHAPPELL
GAIN THEORY

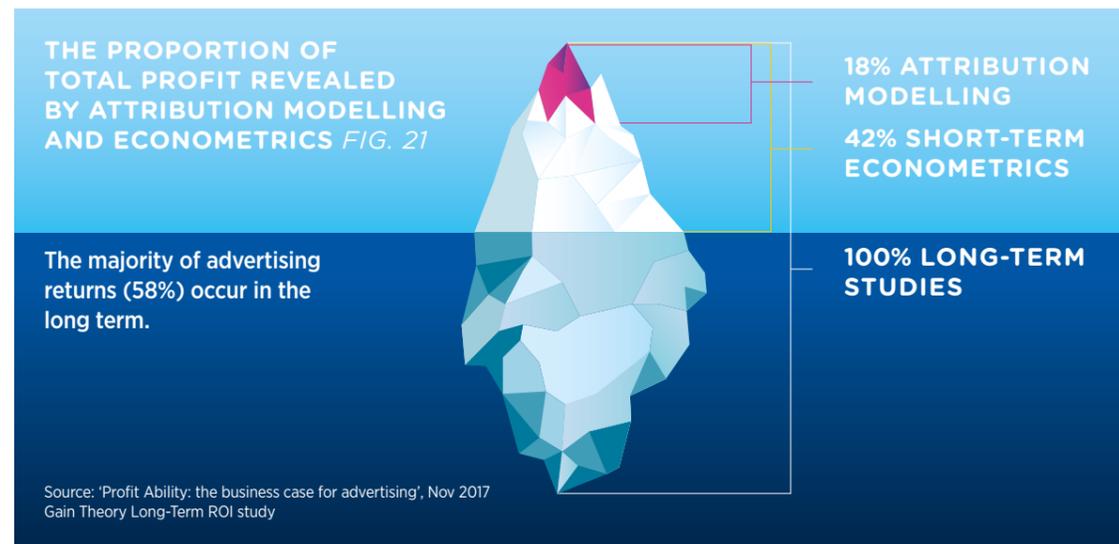
02

LONG-TERM FINDINGS

Whilst the standard econometric modelling used in Part 1 of this report has its place – to give a holistic view of short to medium-term marketing performance across channels – it also has its inherent limitations if marketers want to understand the overall contribution marketing has on business growth. With the much debated and reported over focus on short to medium-term metrics, marketers need to also understand what is building long-term success in order to evaluate the levers that drive long-term business value.

The long-term effects of advertising are not ordinarily shown in econometric modelling. A helpful way of understanding why is to think of an iceberg as an analogy.

A typical econometric model is like an iceberg, with shorter-term incremental sales visible above the water's surface, and longer-term brand and sales 'momentum' buried from view beneath the surface.



Across the brands analysed in this study, online attribution only measured 18% of the total impact of marketing on sales. If business were to optimise their advertising investment based on this then the result would be cutting budgets and hugely undervaluing the total profitability driven by advertising. Econometrics take things further, taking visibility of total returns to 42%. But only by looking at advertising through a long-term lens can we truly understand its full impact.

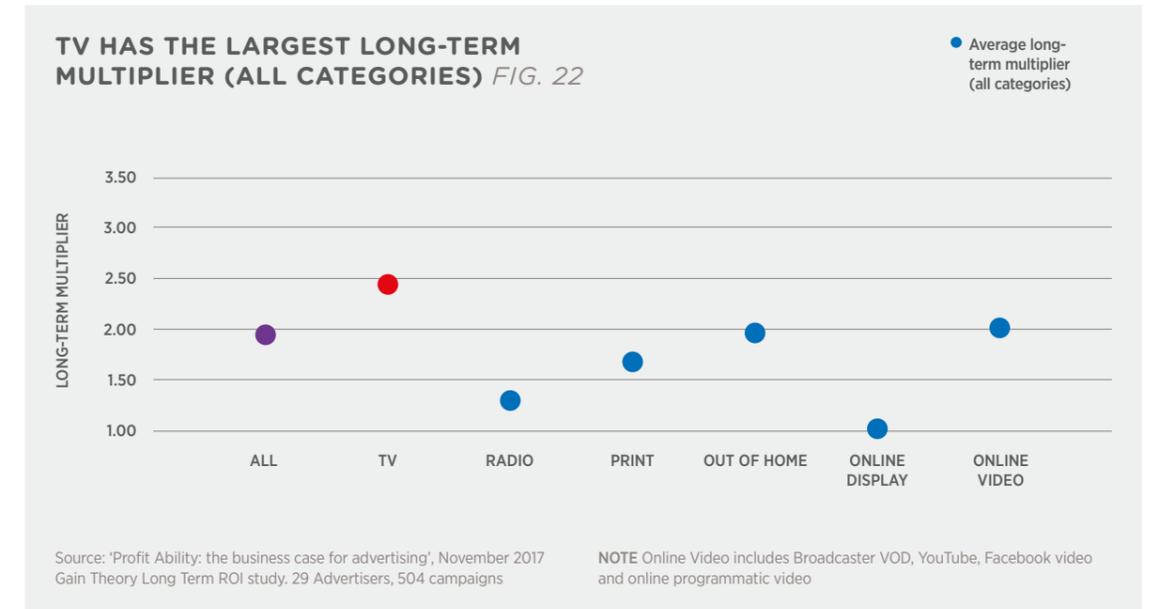
So, to go beneath the surface and examine the long-term impact of advertising on the bottom line, our analysis focussed on the 'long-term multiplier' to advertising impact across media channels. The long-term multiplier is a definition of how much additional impact a business can expect to see in the long term versus the short term (See p.28 for methodology).

LONG-TERM EFFECTS CHANGE THE STORY

Across all categories, we found that advertising delivers an average long-term multiplier of 1.9 times the short-term effect, i.e. if the short-term profit ROI is £1.50 then the average total profit ROI is £2.85.

TV had the greatest long-term multiplier with 2.4, well above the average. Online Video – which includes advertising around Broadcaster VOD as well as services such as YouTube and video advertising

on Facebook – has the second highest long-term multiplier with 2.0. That the two highest long-term multipliers go to TV then Online Video supports the importance of audio-visual when it comes to brand building and telling a brand's story. This is key to changing tastes, preferences and loyalty over time.



Out of Home also has a strong long-term multiplier of 1.94, justifying its place on the media plan given its relatively poor performance in the short-term (see p.15). Radio, which in the main is used as an activation medium, does not perform as well in the long term. Online Display fails to deliver any visible multiplier effect, raising questions over investment levels in this form of advertising.

Also, related to Online Display, it is worth noting that there were no examples in the data of pay-per-click (PPC) search advertising driving any long-term response. PPC is where advertisers pay a fee each time one of their online ads is clicked – essentially buying traffic to their site rather than earning it.

TV HAS THE GREATEST LONG-TERM MULTIPLIER WITH

2.4

(WELL ABOVE THE AVERAGE)

ONLINE ATTRIBUTION ONLY MEASURES

18%

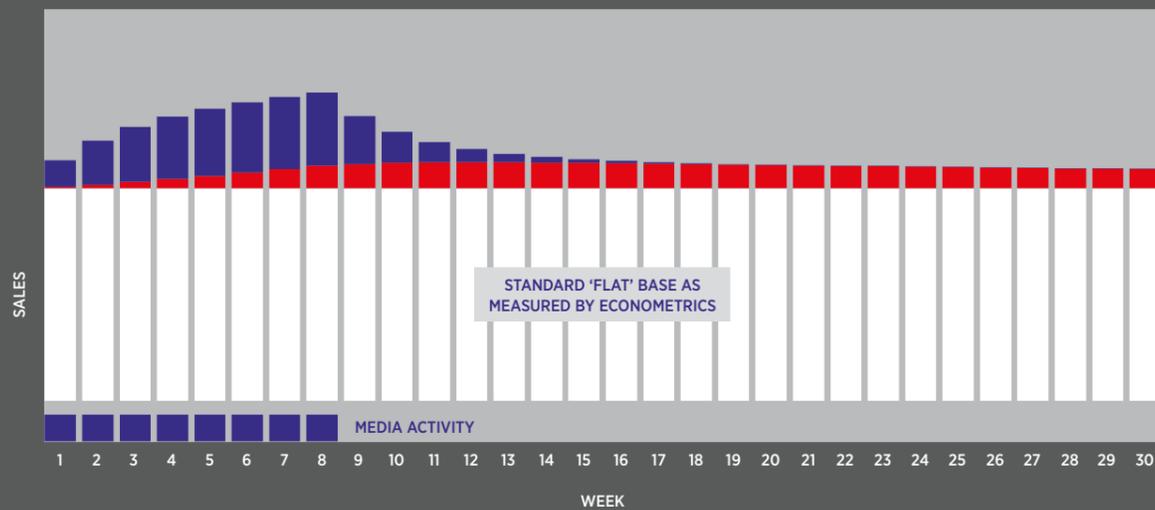
OF THE TOTAL IMPACT OF MARKETING ON SALES

GAIN THEORY LONG-TERM METHODOLOGY

Gain Theory is a global unbiased marketing foresight consultancy that brings together data, advanced analytics and technology solutions to help marketing professionals make smarter, faster, predictive business decisions that lead to growth. Gain Theory conducted an analysis of our pool of advertiser data (2014–2017, 504 campaigns across 29 advertisers). We measured the longer-term impact of the effects of advertising on the future base of sales. Using a technique called ‘Unobserved Component Modelling’, we modelled the impact of a moving base of sales, which differs from econometrics where the base is assumed to be flat. This analysis allows advertisers to understand the impact their advertising has in the longer term.

HOW LONG-TERM STUDIES MEASURE THE IMPACT OF MEDIA ON BASE SALES FIG. 23

- Short-term impact as measured by econometrics
- Long-term impact as measured by long-term analysis – note this will stretch into months and years ahead



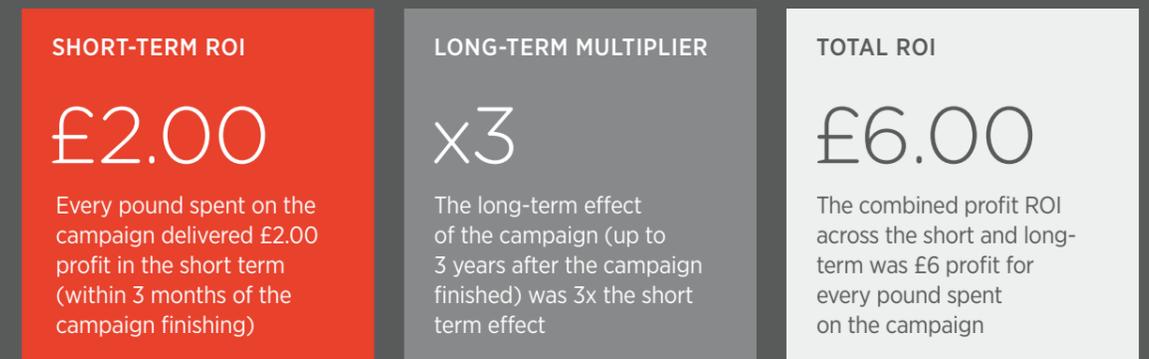
To get to the long-term effects of advertising, you start with a standard econometric model. This standard model looks at the causal relationship between sales and various input factors (e.g. weather, seasonality, price and promotions, media investment and so on), to enable the modeller to get to an answer like: £1m of media investment drives (or causes) £xm of sales. Within the standard model there is ordinarily a flat base, which says: this is the level of sales we will get if all of the modelled factors were turned off. So if we ran no TV or promotions, we would get £ym of base sales. The unobserved component model turns this on its head and says: what if we allow the base to move over time? Because base is a combination of mental and physical availability, which both differ in time, we should allow the base to move. Indeed, one of marketing’s functions is to change tastes and preferences in the long term, and if the base is allowed to change in the long term, long-term movements in tastes and preferences can be reflected. Once you have a moving base, you can model how much of the movement in the long term is driven by media by looking at how media now impacts future changes in the base – over 3 months to 3 years.

With isolated data points, there is a high chance that the relationship may only be correlation. However, as the number of data points increases, so does the confidence that the relationship is causal.

If we can understand how marketing impacts the base then we can show how many long-term sales were driven by marketing, giving us a long-term multiplier.

To understand how long-term multipliers work, an example: say a brand ran a £5m TV campaign. Econometric analysis could measure its short-term impact at (for example) £10m profit, thus giving a short-term profit ROI of £2 (£10m value sales profit divided by £5m spend). A long-term multiplier explains how much this impact grows in the long term. If a long-term multiplier of 3 was measured, then this would be because the total impact of the campaign was £30m. Please note, this is total so the £30m includes the initial £10m short-term impact. The overall long-term profit ROI would therefore be £6 (short-term ROI of £2 multiplied by 3).

APPLYING LONG-TERM MULTIPLIERS: AN EXAMPLE FIG. 24



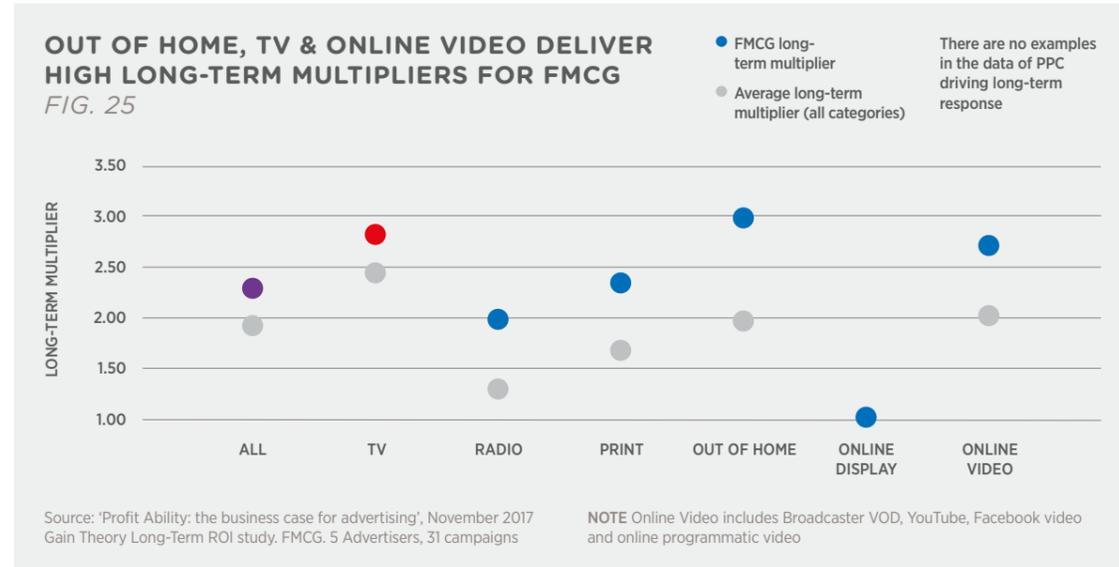
It should be noted that there is no perfect means to assess the effectiveness of advertising in the long term. However, with an aggregate view across over

500 campaigns, our analysis brings us closer than ever before to understanding how advertising drives profitability over the long term.

SECTOR FMCG

FMCG brands, which tend not to deliver short-term ROI (see p.19), generate some of the highest long-term multipliers, well above the average for all categories with an average long-term multiplier of 2.3 across all media. This is a powerful example of the dangers in only measuring short-term impact as the true value of FMCG advertising can only be seen in the longer term.

Again, TV performs strongly with a long-term multiplier of 2.8, but all media except Online Display deliver multiplier effects upwards of twice their short-term effect. Out of Home has the highest long-term multiplier in FMCG despite having a very low short-term ROI.



It is important to note that, if a medium has a low short-term ROI and a strong long-term multiplier, it does not necessarily mean it is the best channel in the long term. Multiplying very little by two or three still results in relatively little.

Although online search is not included in this study due to it being a demand-harvesting rather than a demand-generating form of media investment, it is also worth noting that we found it to have no discernable long-term multiplier effect.

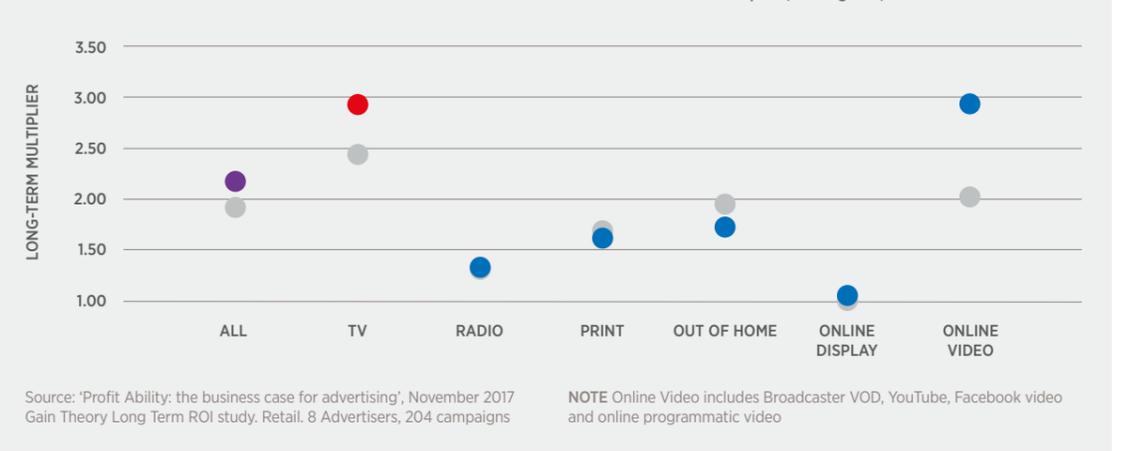
Where forms of advertising have both a low short-term ROI and very little long-term impact – such as Online Display – it is approaching impossible to justify investment.

SECTOR RETAIL

As with FMCG, Retail advertising also performs better than the average for all categories (Fig 26). TV and Online Video excel but there is a poorer performance from Radio, Print and Out of Home. Radio is worth

highlighting as, although it has a high short-term ROI for Retail, it does not drive long-term profit so well. This is partly due to its primary role as an activation channel rather than a long-term brand builder.

TV AND ONLINE VIDEO DELIVER SIGNIFICANTLY HIGHER LONG-TERM MULTIPLIERS FOR RETAIL BRANDS FIG. 26



SECTOR FINANCIAL SERVICES

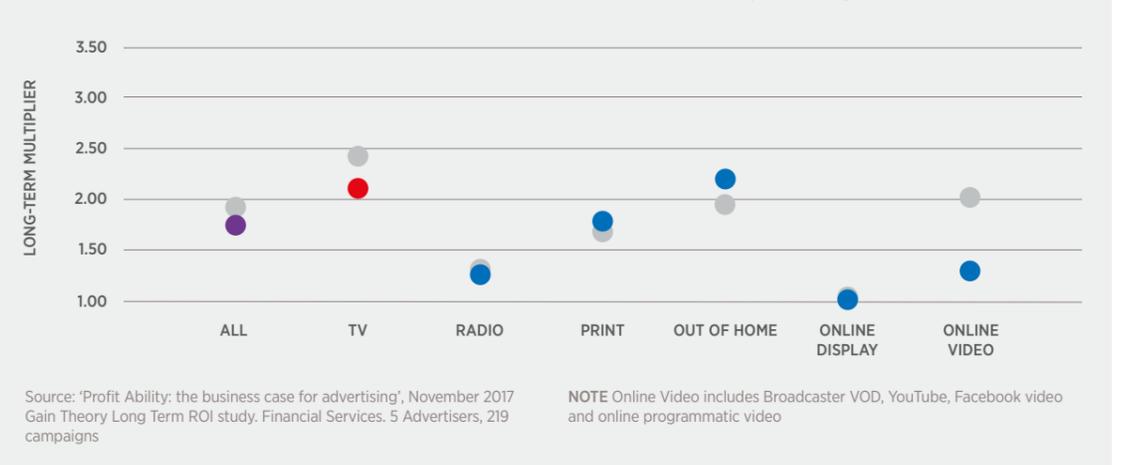
In Financial Services, advertising has a long-term multiplier of 1.73. This is lower than the average across all categories, although within this there are some stronger performers, most notably Out of Home and TV.

The lifetime value of a customer is the revenue generated by the continued purchase of a product following the initial, advertising-driven purchase. Within Financial Services, it is easier to estimate this lifetime value as most products are contract-based, so businesses have a wealth of data they can use to predict behaviour.

Financial Services' lower than average long-term multiplier is not because advertising has a smaller long-term effect in this category. It is because the methodology used to calculate short-/long-term effects is slightly different. Specifically, the calculation of the lifetime value of a customer.

As a result, the lifetime value from an advertising-driven purchase of a Financial Services product is normally built into the short-term profit return. So, some of the longer-term value is already accounted for in the short-term calculation. This inevitably reduces the average long-term multiplier in this category.

OUT OF HOME & TV HAVE THE HIGHEST LONG-TERM MULTIPLIER FOR FINANCIAL SERVICES BRANDS FIG. 27

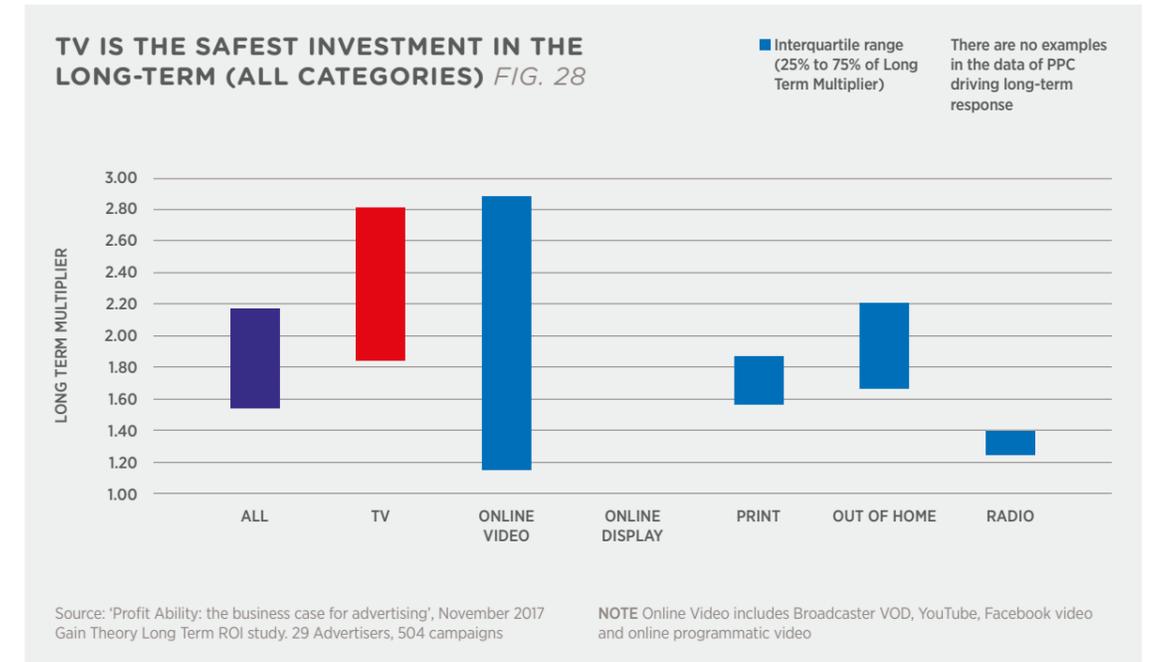


“ Online Display fails to deliver any visible multiplier effect, raising questions over investment levels in this form of advertising. ”

TV IS THE SAFEST LONG-TERM INVESTMENT

As with Ebiquity’s analysis of risk in the short-term, we also assessed the interquartile range of multiplier effects observed across its database. Whilst the ceilings are important – the highest long-term

multiplier an advertiser can expect from a given medium – what matters in terms of risk assessment is the floor of the impact.



The interquartile range for all advertising was between 1.5 to 2.2. TV’s multipliers not only had the highest low point (1.85), but also a very high high point (2.81). So, TV advertising, in terms of delivering long-term success, is the safest investment.

The vast range of long-term multipliers for Online Video that can be seen is due to the variability we see in its performance. This will in turn be down to the variety of different forms of Online Video – and their

associated quality – that are included in the definition used for this study. Until more data exists for specific types of Online Video, enabling a more specific analysis, this is the most detailed overview that can be shown. This said, it’s reasonable to suggest that a partial or incomplete view of a video ad will have less impact on long-term memory than a full view would.

WHAT ARE THE INDICATORS OF LONG-TERM BRAND SUCCESS?

We found a strong correlation between perseverance/consistency and long-term multipliers. Advertising campaigns which run for a long time and have a large amount of investment behind them tend to have higher long-term multipliers.

Although every brand is different, there are consistencies in their data and analytics that have enabled us to identify tangible properties that a business can look at today that indicate long-term future success. The best indicators are brand health and reduced-price sensitivity.

BRAND HEALTH

Brand health metrics often give a guide to long-term brand strength. While the choice of brand metrics can be overwhelming, with many advertisers running surveys with hundreds of questions, it is normally a small range of metrics which provide this guide. In 65% of cases in our database, brand consideration has the closest link to base sales, where growth in consideration causes growth in the base.

The level of impact from consideration differs from industry to industry and brand to brand, but a guide is that a 1% point increase in consideration can be expected to drive a 0.5%–1.5% increase in base sales. Likewise, a 1% point fall in consideration is equivalent to a 0.5%–1.5% fall in base sales.

For a lot of established brands, it is not necessarily about making their base sales grow; rather it is just as important to maintain customer consideration and keep the base stable and consistent.

PRICE ELASTICITY

Another way in which long-term health can be measured is by analysing price elasticity over time. The theory is that consumers will overlook price differences for a brand which they believe is higher quality, or a brand in which they have more trust. A good example is an own-brand Ibuprofen vs. Nurofen: the products are the same, the price points are vastly different. It takes a significant amount of investment to shift price sensitivity, and this level of investment will depend on the category, the brand, the competition levels, and the quality of product. As a rule of thumb, share of voice is the best metric to consider – for every 10% points increase in share of voice, we have found that brands can expect between a 5%–20% reduction in price elasticity. However, there are diminishing returns to scale. For example, if a brand's share of voice is already at 50% there is a minimal impact of increasing to 55%.

“ A 1% point increase in consideration can be expected to drive a 0.5%–1.5% increase in base sales. ”

PART THREE THE TOTAL IMPACT OF ADVERTISING

ANDREW CHALLIER
& DR. NICK PUGH
EBIQUITY

MATT CHAPPELL
GAIN THEORY

03

TOTAL PROFIT KEY FINDINGS

The final stage of this study was to bring together our findings to offer a more complete picture of the impact advertising has on the bottom line. Gain Theory's analysis of long-term multipliers coupled with Ebiquity's analysis of short-term ROI and profit volume gives us the total ROI and total profit volume generated by different forms of advertising over the longer term of 3 years.

ADVERTISING WORKS

The main finding is straightforward: advertising is a business investment that works. The average advertising campaign delivers a total profit ROI of £3.24.

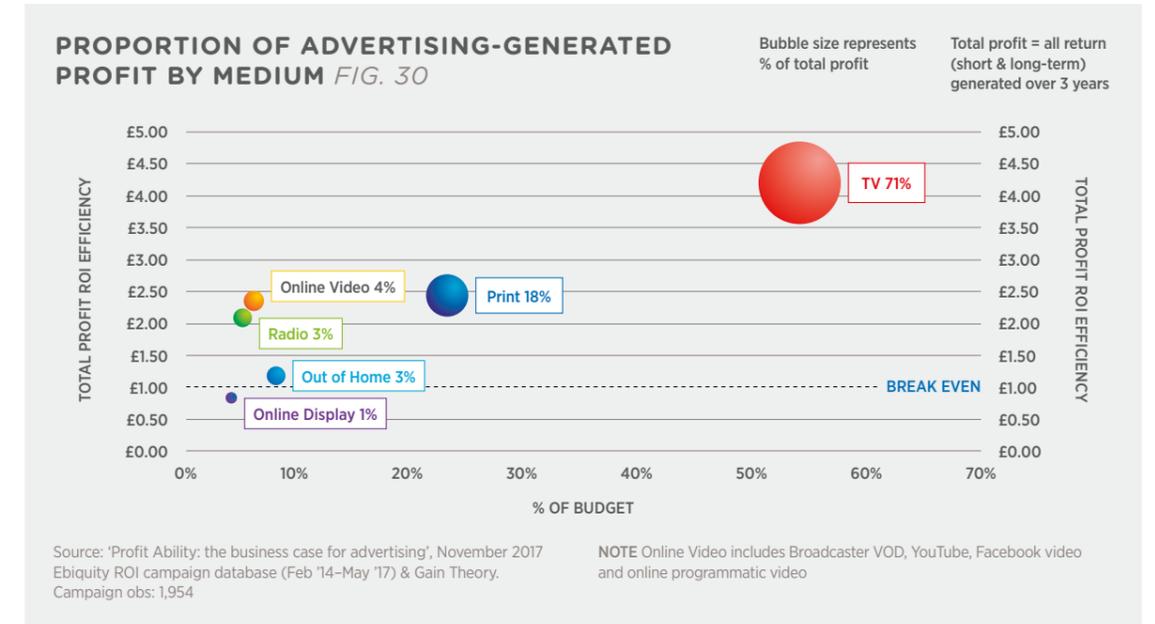
This table summarises the key findings by media channel, including total profit volumes, ROIs and profit likelihood over time.

PROFIT ABILITY: KEY FINDINGS FIG. 29

	% OF BUDGET	TOTAL AD-GENERATED PROFIT (WITHIN 3 YEARS)			SHORT-TERM AD-GENERATED PROFIT (WITHIN 3-6 MONTHS)			NUMBER OF CAMPAIGNS
		% OF PROFIT	AVERAGE PROFIT ROI	PROFIT LIKELIHOOD	% OF PROFIT	AVERAGE PROFIT ROI	PROFIT LIKELIHOOD	
TV	54%	71%	£4.20	86%	62%	£1.73	70%	1,280
PRINT	23%	18%	£2.43	78%	22%	£1.44	61%	980
OUT OF HOME	8%	3%	£1.15	48%	3%	£0.57	19%	580
ONLINE VIDEO	6%	4%	£2.35	67%	5%	£1.21	52%	158
RADIO	5%	3%	£2.09	75%	5%	£1.61	62%	540
ONLINE DISPLAY	4%	1%	£0.84	40%	2%	£0.82	37%	330
ALL MEDIA	100%	100%	£3.24	72%	100%	£1.51	58%	1,954

By factoring in the long term, we found that TV advertising is responsible for 71% of total advertising-generated profit at an average profit ROI over 3 years of £4.20 for every pound spent, the highest ROI of any media.

TV is followed by **Print** (which accounts for 18% of total advertising-generated profit), **Online Video** (4%), **Out of Home** (3%), **Radio** (3%), and **Online Display** (1%).



TV IS THE 'SAFEST' ADVERTISING INVESTMENT

We saw earlier how, in the short term, TV is the lowest-risk investment for advertisers, with 70% of campaigns delivering profitable return in the short term (see p.16). There is an even stronger case for TV – and for some other media – once the longer term is built in.

Looking at total profit success during the 3 years after ad campaigns finished, 86% of TV advertising campaigns delivered a profitable return followed by **Print** (78%), **Radio** (75%), **Online Video** (67%), **Out of Home** (48%), and **Online Display** (40%).

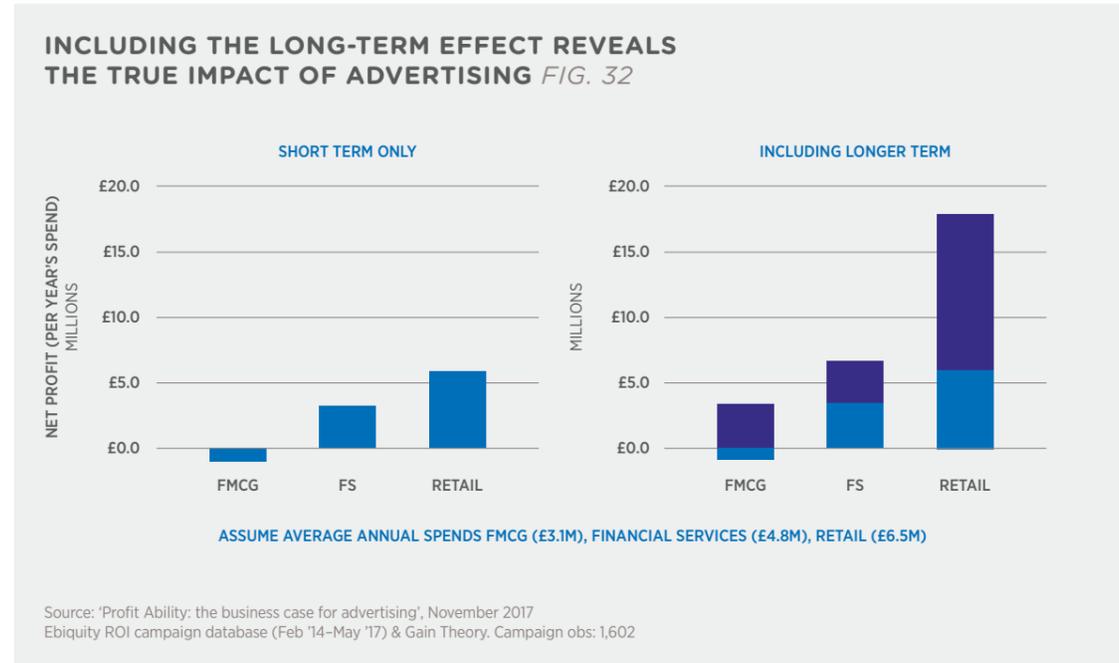
% OF CAMPAIGNS DELIVERING POSITIVE PAYBACK ACROSS THE SHORT AND LONG TERM FIG. 31

CATEGORY	ALL	TV	RADIO	PRINT	OUT OF HOME	ONLINE DISPLAY	ONLINE VIDEO	NUMBER OF CAMPAIGNS
FMCG	52%	67%	35%	16%	40%	5%	57%	606
FINANCIAL SERVICES	79%	92%	77%	78%	71%	40%	73%	371
RETAIL	82%	96%	86%	87%	76%	54%	68%	625
ALL	72%	86%	75%	78%	48%	40%	67%	1,954

THE LONG TERM REVEALS THE TRUE POWER OF ADVERTISING

By acknowledging the long-term effects of advertising, businesses can now have a clearer picture of how their advertising investment is working.

Taking into account the long-term multiplier effects transforms the performance of advertising in the FMCG, Financial Services and Retail sectors:



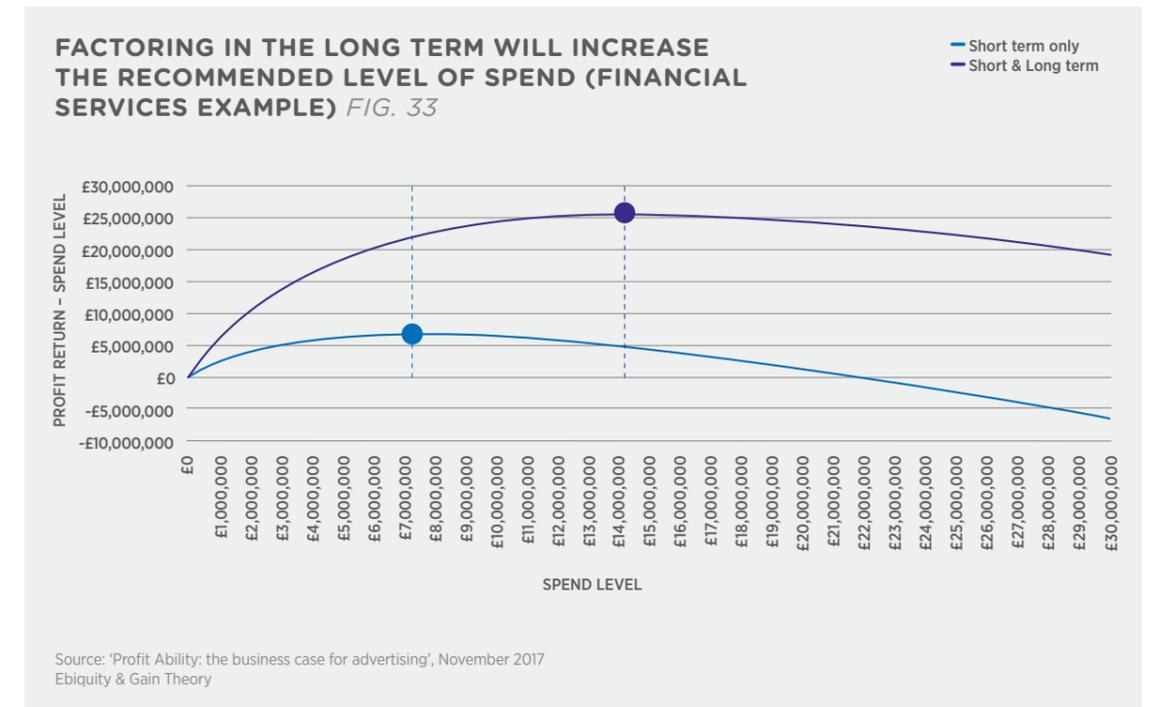
It is especially important for FMCG, which did not perform well in the short term. In the short term, FMCG advertising is more to do with building the brand for the future, suppressing price losses, nurturing price elasticity, and securing vital listings in supermarkets. Put plainly, short-term FMCG

advertising is a cost of business. But over the long term we can see that FMCG advertising is an investment in future profit return. The story changes dramatically with FMCG moving from apparent profit-eroding territory to profit-enhancing territory.

“TV advertising is responsible for 71% of total advertising-generated profit at an average profit ROI over 3 years of £4.20 for every pound spent.”

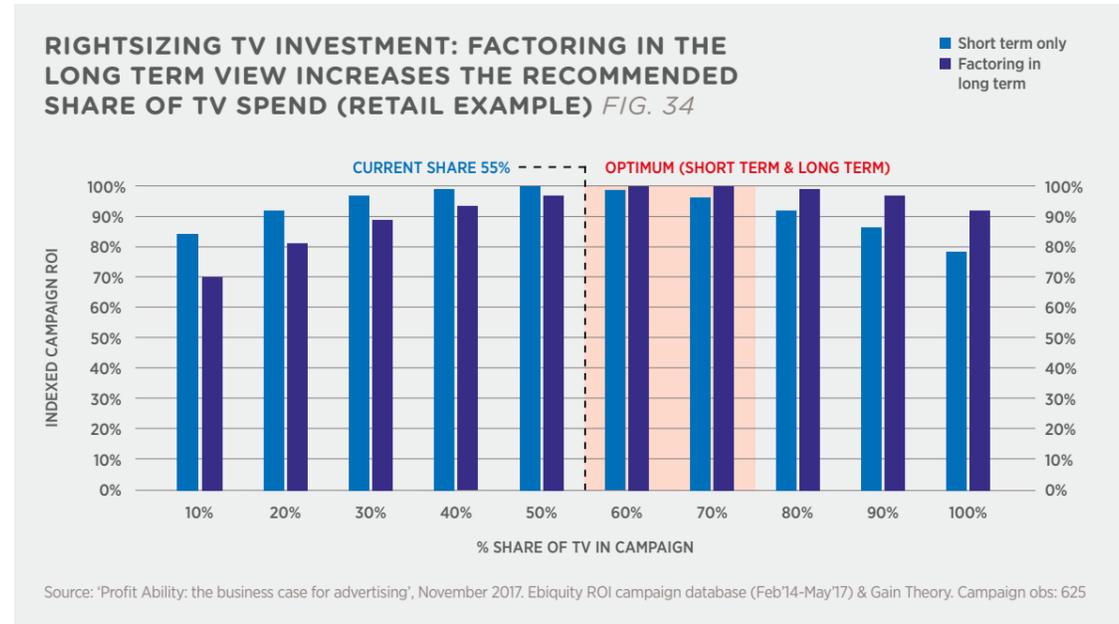
OPTIMISING FOR THE LONG TERM

Factoring in the long term has a significant effect on recommended levels of investment. Once you look through the long-term lens, it is clear that businesses could spend more and, most importantly, spend more with confidence that it will greatly increase returns.



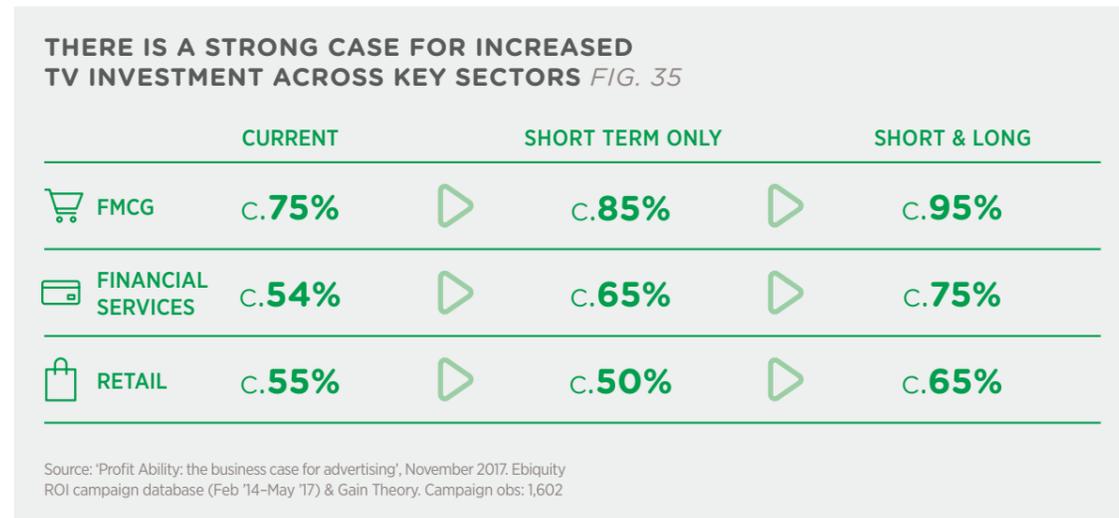
The long term also has implications for investment in TV advertising. Using Retail as an example, where TV's share of advertising spend is currently 55%, in the short term the recommendation based on Ebiquity's analysis was to maintain TV at this level,

even lower it to 50%. However, factoring in TV's long-term performance, the recommendation changes and TV's optimum share of spend moves up to between 60% and 70% to maximise return.



The same holds true in FMCG and Financial Services; factoring in TV's long-term effects on generating

profit means that its optimum share of the advertising budget increases.



Using the Ebiquity database to model out the potential benefit to businesses in these three categories based on their current spend levels, there is a strong case for growth in TV investment.

By right-sizing TV investment based on the findings in this study, there is the potential to create an additional £450m in profit. This represents around about a 12% improvement in advertising-generated profit.

“ Investment in advertising, with TV at its heart, isn't just good for brands, it's great for business. ”

CONCLUSION

'Profit Ability' has aimed to shift the emphasis away from the ROI number 'arms race' to a more responsible approach that talks about the scalability of ROI by media channel, and the impact that this has on profit generation. This is arguably more business-relevant.

In a world of big data and advanced analytics, the lure of the easily accessible stat or number can be overwhelming. Too often the easy measures are skewed towards the short term. One of the key aims of this study is to provide something of a correction: to move thinking and measurement from short to long term, to focus on what drives fundamental business success, and to give marketers the tools to do so.

Businesses are under immense economic pressure and marketers have to justify everything they spend. The study demonstrates that advertising drives significant profitable growth and provides the business case for investment. It is crucial that businesses now see advertising as an investment rather than a cost.

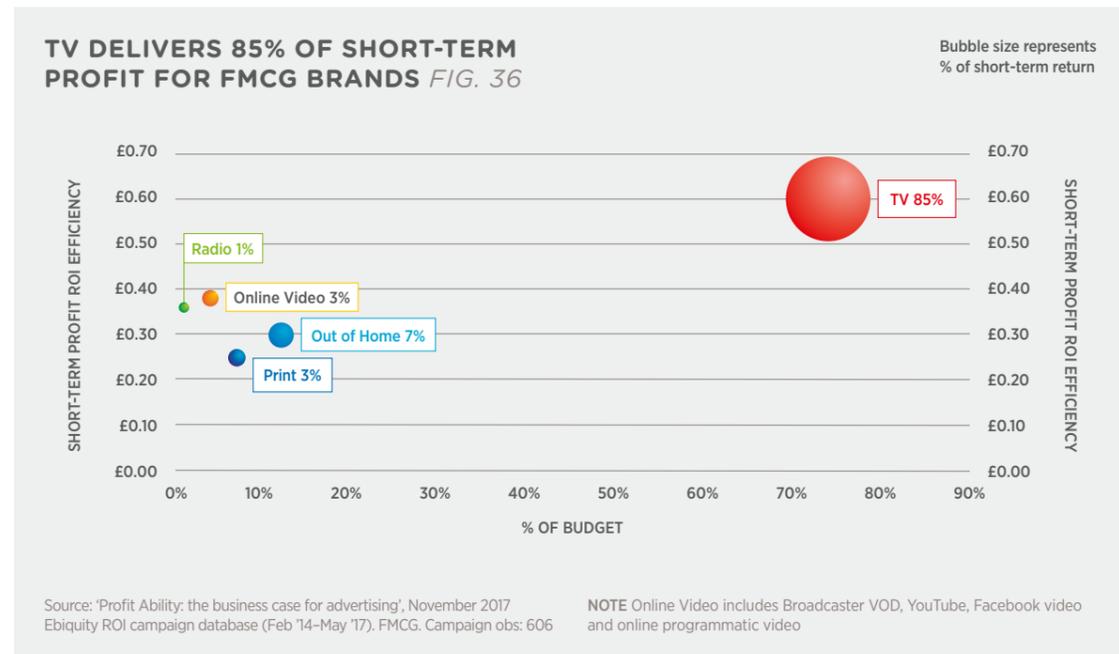
APPENDIX 01 SECTOR ANALYSIS

This section pulls together the findings from Ebiquity and Gain Theory and organises them for those interested in the three specific sectors – FMCG, Retail and Financial Services – for easy reference, and to show how different advertising channels perform for each.

SECTOR	1.0 FMCG	44
	1.1 Retail	48
	1.2 Financial Services	53

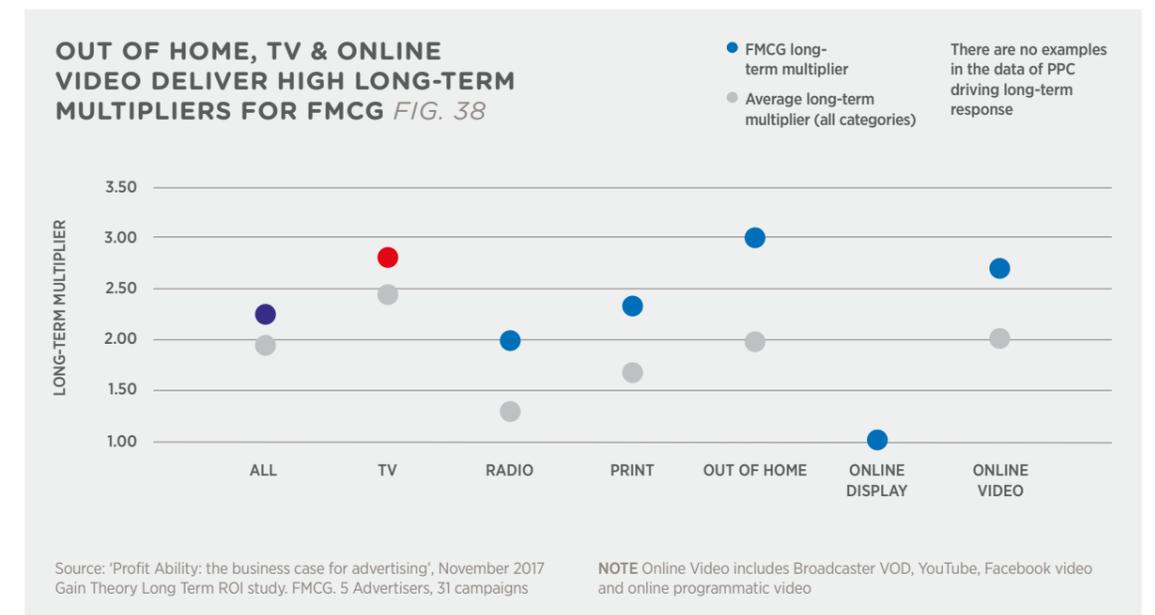
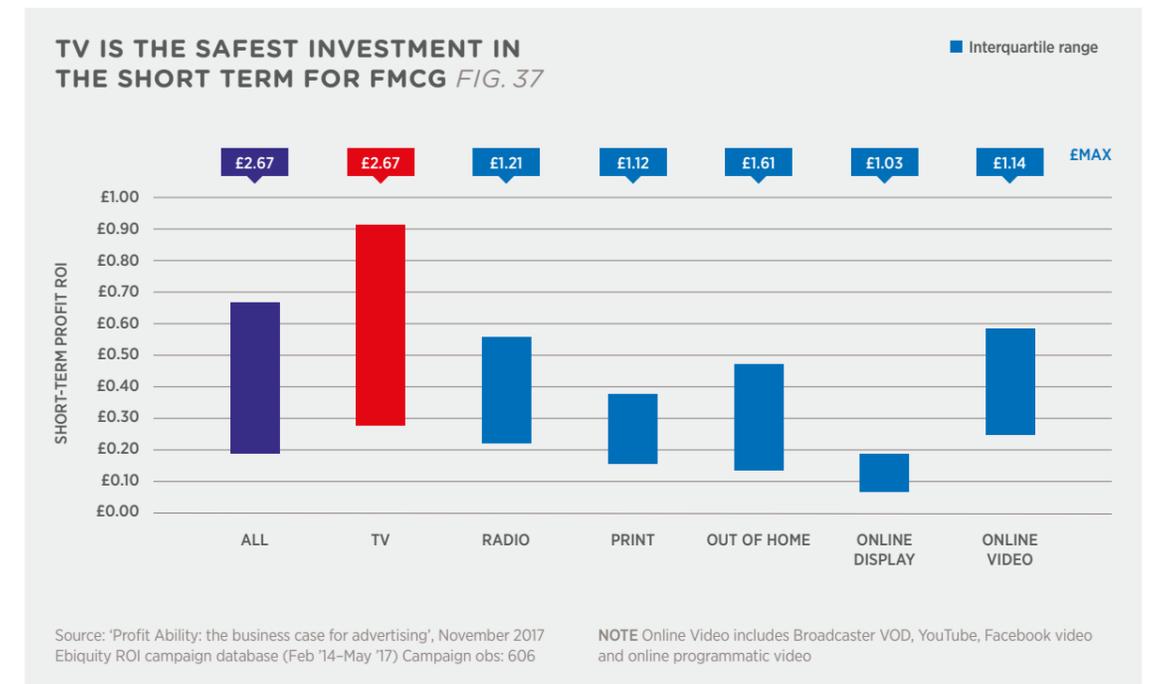
1.0 FMCG

ROI rewards scale; in other words, the bigger your brand, the easier it is to achieve payback, if only because the unit cost of media is broadly the same for a small brand or a big brand. In FMCG, brands do tend to be smaller (relative to other sectors such as Financial Services and Retail) and therefore, ROI is naturally lower.



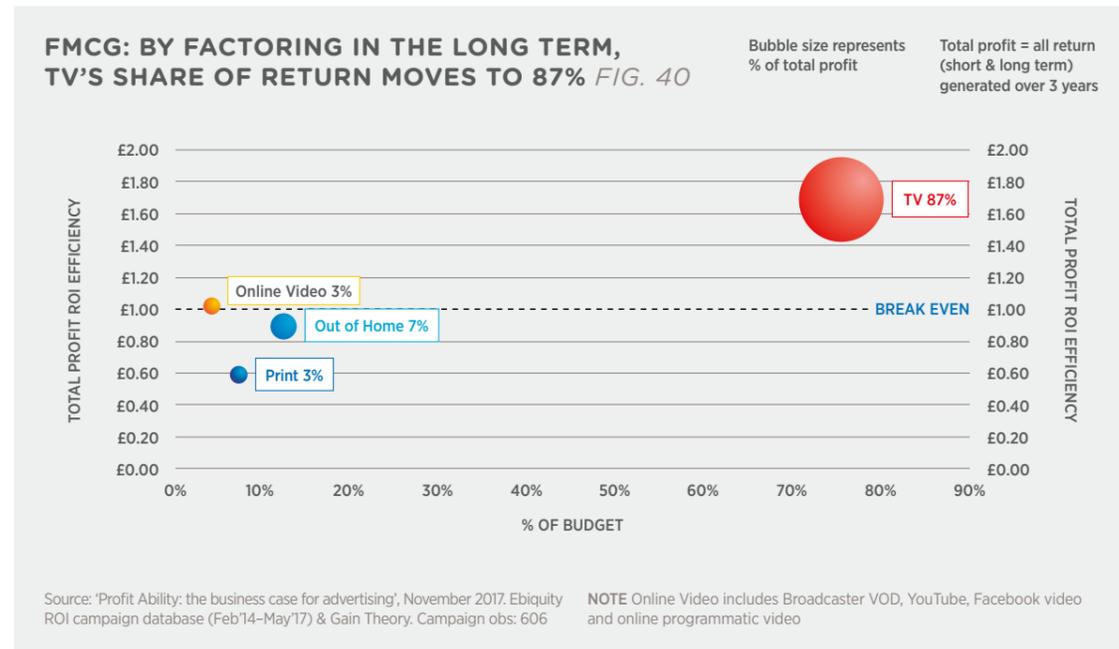
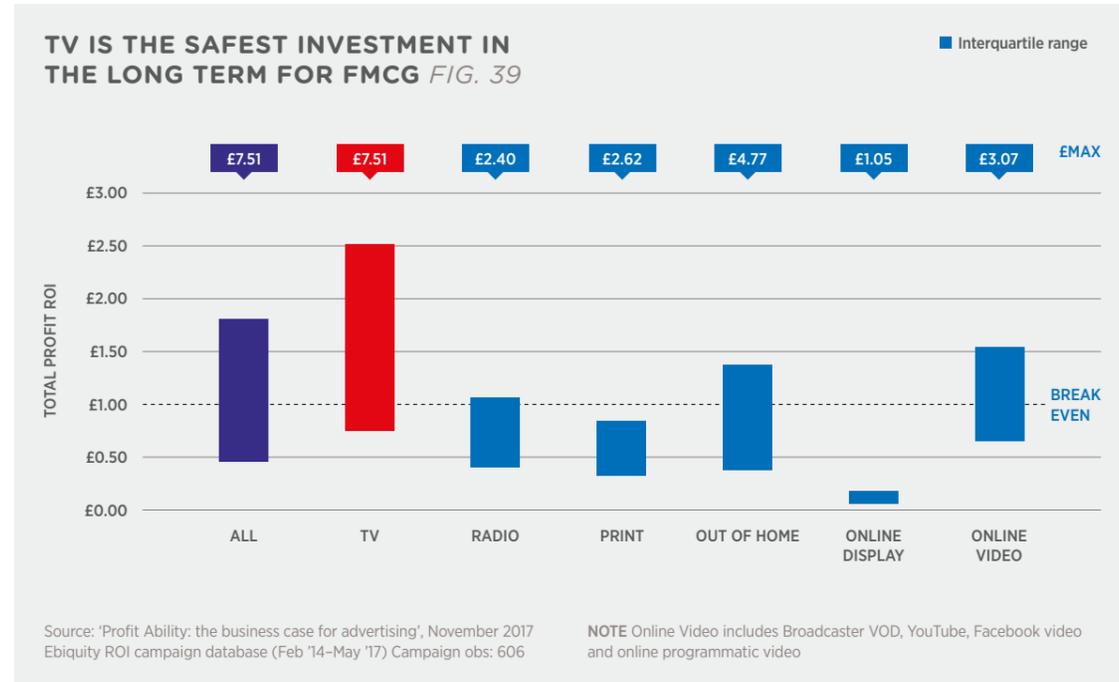
Short to medium-term ROI success in FMCG is driven by the recruitment of lighter consumers (in addition to maintenance of a loyal base) and the recruitment of shoppers that may sit outside the defined target audience. Therefore, reach matters and TV is perfectly suited to this objective, so TV dominates sales returns in FMCG.

Although achieving short-term ROI for FMCG is challenging for all media, the picture dramatically changes when long-term effects are included, as we will see later.



Two key ways advertising drives the long term are loyalty and mental shortcutting. In FMCG, loyalty is hard-earned but highly impactful – convincing someone your brand of yoghurt is best for them, and will continue to be the best for years to come, means

a high long-term multiplier effect in the months and years ahead. Aligning this to mental shortcutting gives a clear understanding of the power of FMCG advertising in the long term.



Byron Sharp, the acclaimed marketing professor and author of the influential book 'How Brands Grow', has identified the importance of 'mental availability' for brands - that is, the likelihood that a brand will come to mind in a buying situation. This is crucial to maintaining an FMCG brand's position as the brand of choice in a consumer's mind and underlines the importance of taking a long-term view of investment

in FMCG advertising to establish the brand. The FMCG total profit bubble chart (fig. 40) shows that the average TV ROI is now significantly above 'payback' and fully supports the business case for investment. By factoring in the long-term view, 67% of all TV ROIs pay back on their investment or above.

PROFIT ABILITY: SUMMARY OF FMCG FINDINGS FIG. 41

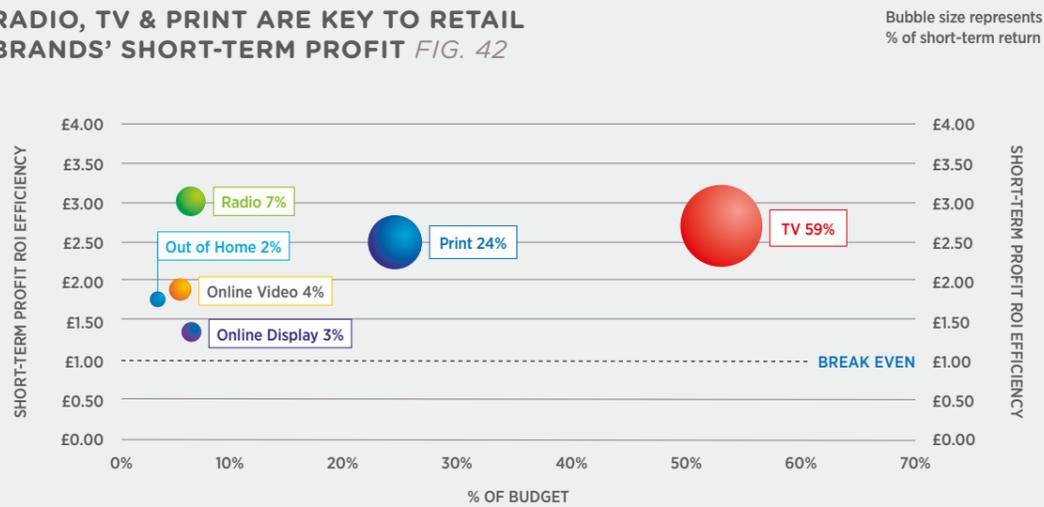
	% OF BUDGET	TOTAL AD-GENERATED PROFIT (WITHIN 3 YEARS)			SHORT-TERM AD-GENERATED PROFIT (WITHIN 3-6 MONTHS)		
		% OF PROFIT	AVERAGE PROFIT ROI	PROFIT LIKELIHOOD	% OF PROFIT	AVERAGE PROFIT ROI	PROFIT LIKELIHOOD
TV	74%	87%	£1.69	67%	85%	£0.60	18%
OUT OF HOME	12%	7%	£0.89	40%	7%	£0.30	1%
PRINT	7%	3%	£0.59	16%	3%	£0.25	4%
ONLINE VIDEO	4%	3%	£1.02	57%	3%	£0.38	7%
RADIO	1%	0%	£0.71	35%	1%	£0.36	8%
ONLINE DISPLAY	1%	0%	£0.10	5%	0%	£0.10	1%
ALL MEDIA	100%	100%	£1.49	52%	100%	£0.53	11%

“ In FMCG, reach matters and TV is perfectly suited to this objective and dominates sales returns. ”

1.1 RETAIL

Retail ROIs are relatively high when compared to many other sectors. A key driving force here is the scale of business; we tend to find the bigger the business, the bigger the ROI, and Retail businesses are often larger in scale. So scale of business, coupled with the fact that the unit cost of media (which provides the denominator in the ROI equation) is broadly the same for a small brand or a big brand, explains the high numbers for Retail. Advertising investment in Retail is therefore of limited risk. Even in the short-to-medium term, 75% of Retail advertising campaigns pay back on their investment. TV is at 94%.

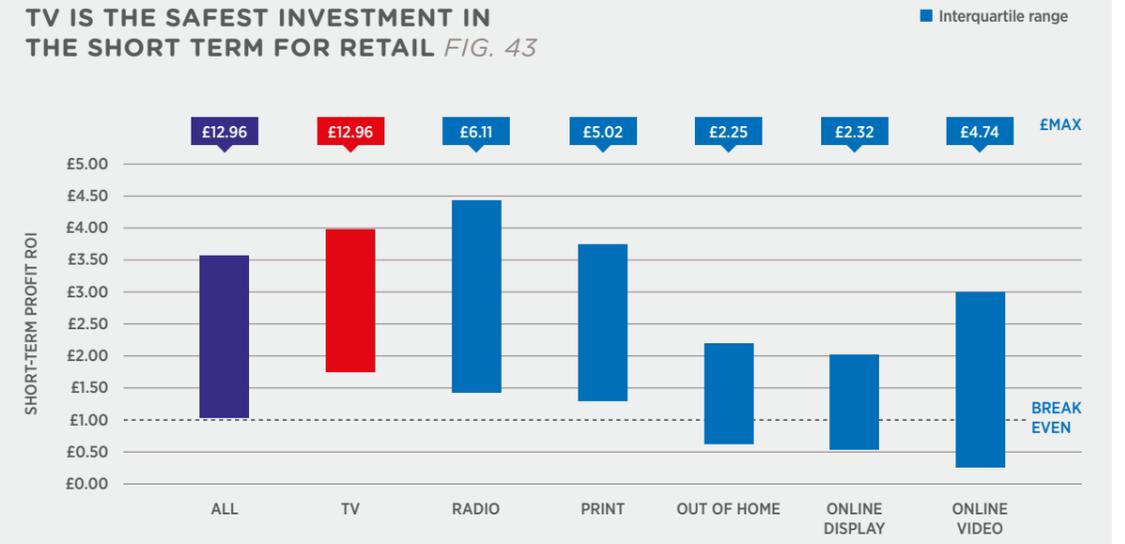
RADIO, TV & PRINT ARE KEY TO RETAIL BRANDS' SHORT-TERM PROFIT FIG. 42



Source: 'Profit Ability: the business case for advertising', November 2017 Ebiquty ROI campaign database (Feb '14-May '17). Retail. Campaign obs: 625

NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

TV IS THE SAFEST INVESTMENT IN THE SHORT TERM FOR RETAIL FIG. 43



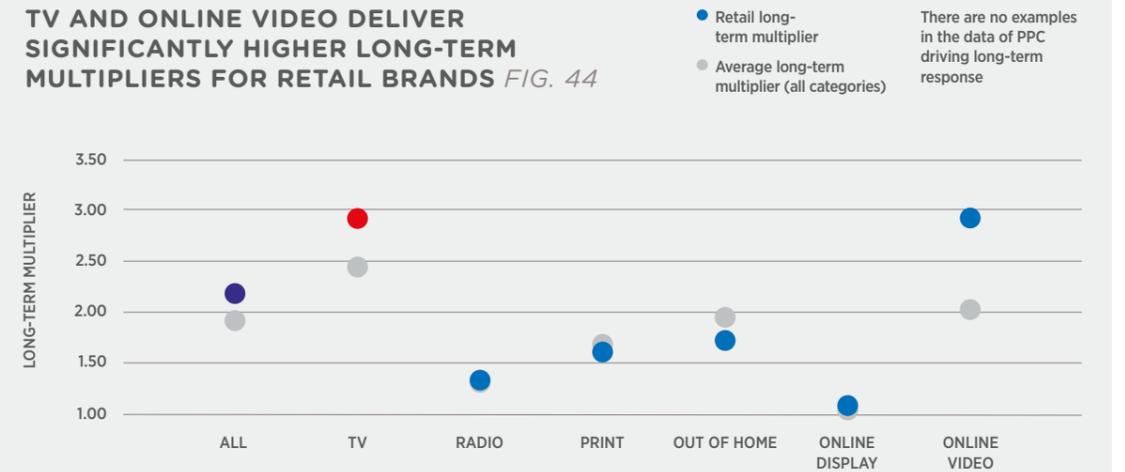
Source: 'Profit Ability: the business case for advertising', November 2017 Ebiquty ROI campaign database (Feb '14-May '17) Campaign obs: 625

NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

Radio and TV can often have a symbiotic relationship. There is possibly no better demonstration of this than in Retail. Radio delivers the highest ROI (in Retail) and much of this can be linked to creative synergies that exist across the two media.

For example, Radio ads often use TV audio assets to help shortcut brand familiarity and then the message itself is often tactical or conversion-based e.g. priced. These are the perfect ingredients for strong sales return performance.

TV AND ONLINE VIDEO DELIVER SIGNIFICANTLY HIGHER LONG-TERM MULTIPLIERS FOR RETAIL BRANDS FIG. 44

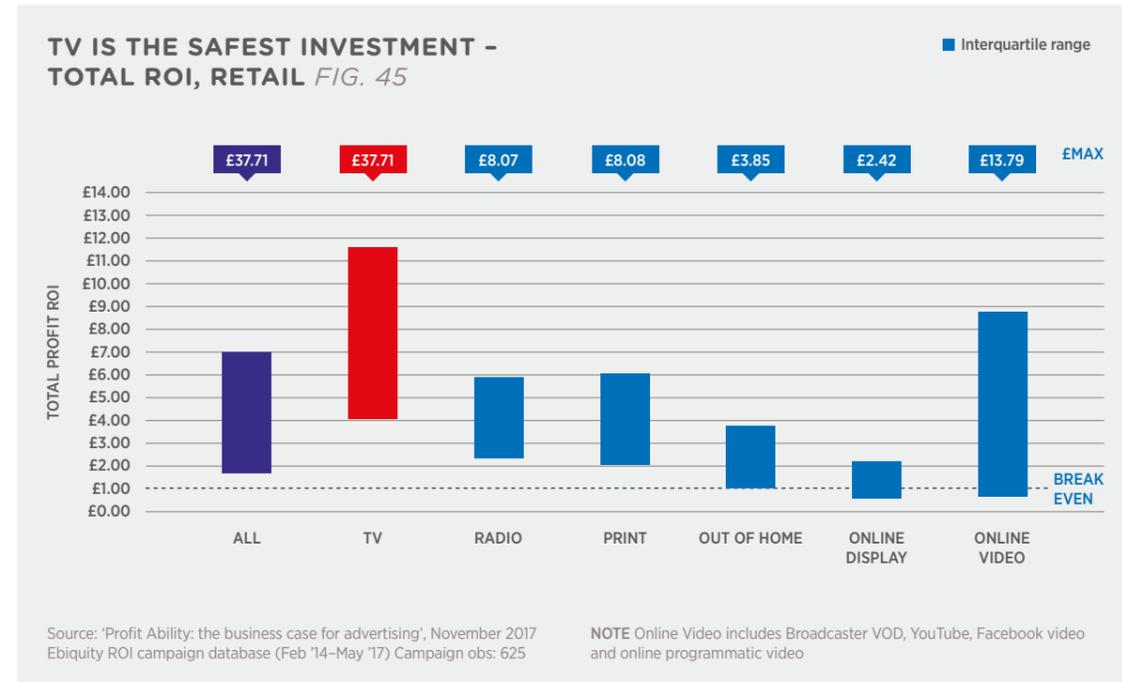


Source: 'Profit Ability: the business case for advertising', November 2017 Gain Theory Long Term ROI study. Retail. 8 Advertisers, 204 campaigns

NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

Video delivers well versus other channels due to the channel tactics used by the retailers in our sample set. Whereas video tends to be an extension of TV, with brands telling longer-form, more emotional stories,

Radio, Print, and Display tend to be used tactically to advertise near-term price promotions. What this shows is it's not just about channels, it's also about tactics, with emotion paying back in the long term.

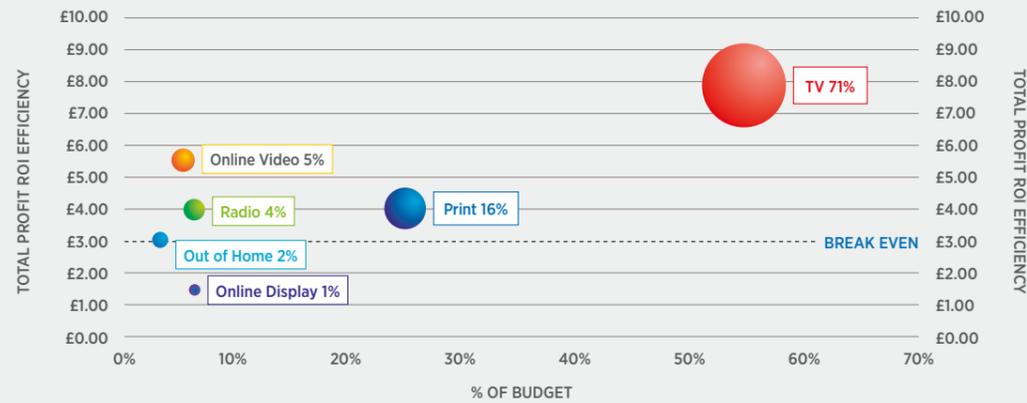


“ Across 94% of Retail campaigns, TV pays back a profit across the short-term. ”

“ Radio and TV can often have a symbiotic relationship. There is possibly no better demonstration of this than in Retail. ”

RETAIL: BY FACTORING IN THE LONG TERM, TV DELIVERS 71% OF THE RETURN FIG. 46

Bubble size represents % of total profit
Total profit = all return (short & long-term) generated over 3 years



Source: 'Profit Ability: the business case for advertising', November 2017. Ebiquty ROI campaign database (Feb '14-May '17) & Gain Theory. Campaign obs: 625
NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

The total profit picture for Retail makes compelling viewing. First of all, all channels, on average, deliver greater than payback return and 82% of all advertising ROIs are profitable investments – this emphasises the

need to see advertising as an investment rather than a cost. Removal of advertising from the plan will have a significant detrimental impact on both short-term and long-term business performance.

PROFIT ABILITY: SUMMARY OF RETAIL FINDINGS FIG. 47

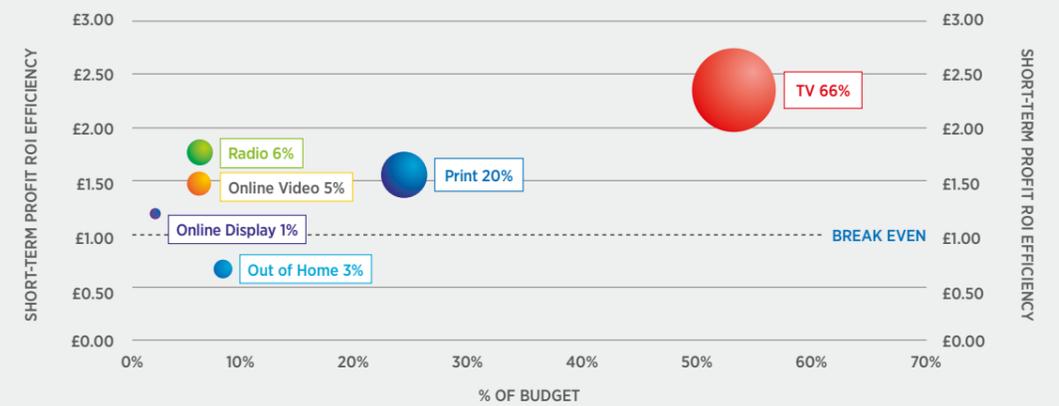
	% OF BUDGET	TOTAL AD-GENERATED PROFIT (WITHIN 3 YEARS)			SHORT-TERM AD-GENERATED PROFIT (WITHIN 3-6 MONTHS)		
		% OF PROFIT	AVERAGE PROFIT ROI	PROFIT LIKELIHOOD	% OF PROFIT	AVERAGE PROFIT ROI	PROFIT LIKELIHOOD
TV	55%	71%	£7.89	96%	59%	£2.71	94%
PRINT	25%	16%	£4.04	87%	24%	£2.51	79%
OUT OF HOME	3%	2%	£3.04	76%	2%	£1.78	52%
ONLINE VIDEO	5%	5%	£5.53	68%	4%	£1.90	66%
RADIO	6%	4%	£3.97	86%	7%	£3.01	82%
ONLINE DISPLAY	6%	1%	£1.47	54%	3%	£1.37	48%
ALL MEDIA	100%	100%	£6.02	82%	100%	£2.53	75%

1.2 FINANCIAL SERVICES

Despite the low-interest nature of the sector, short-to-medium term profit ROIs are healthy. Once again, we should remember business scale is a factor and hence, helping to boost ROI performance but also, we should note that many products are part of the 'necessity group' (e.g. insurance, current accounts) and strong creative messaging with a compelling call to action will drive good uplifts and consequently, attractive ROI payback.

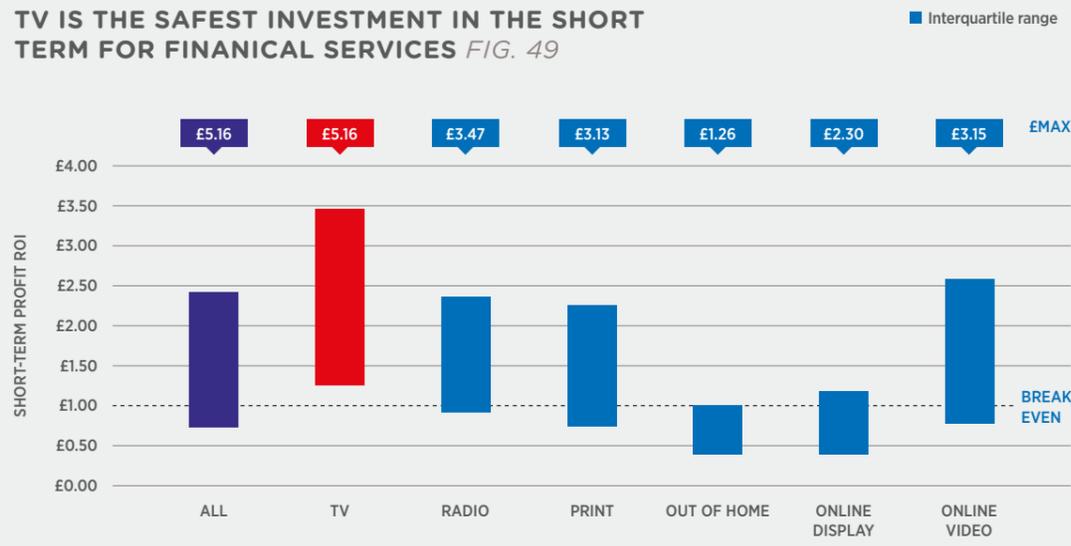
TV DRIVES SHORT-TERM PROFIT FOR FINANCIAL SERVICES BRANDS FIG. 48

Bubble size represents % of short-term return



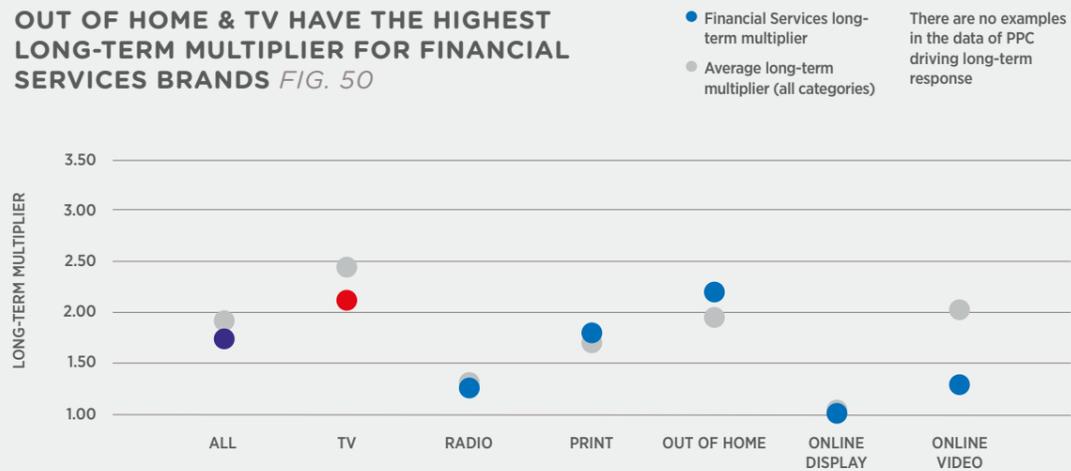
Source: 'Profit Ability: the business case for advertising', November 2017. Ebiquty ROI campaign database (Feb '14-May '17). Financial Services. Campaign obs: 371
NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

TV IS THE SAFEST INVESTMENT IN THE SHORT TERM FOR FINANCIAL SERVICES FIG. 49



Source: 'Profit Ability: the business case for advertising', November 2017 Ebiqurity ROI campaign database (Feb '14-May '17) Campaign obs: 371
 NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

OUT OF HOME & TV HAVE THE HIGHEST LONG-TERM MULTIPLIER FOR FINANCIAL SERVICES BRANDS FIG. 50



Source: 'Profit Ability: the business case for advertising', November 2017 Gain Theory Long Term ROI study. Financial Services. 5 Advertisers, 219 campaigns
 NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

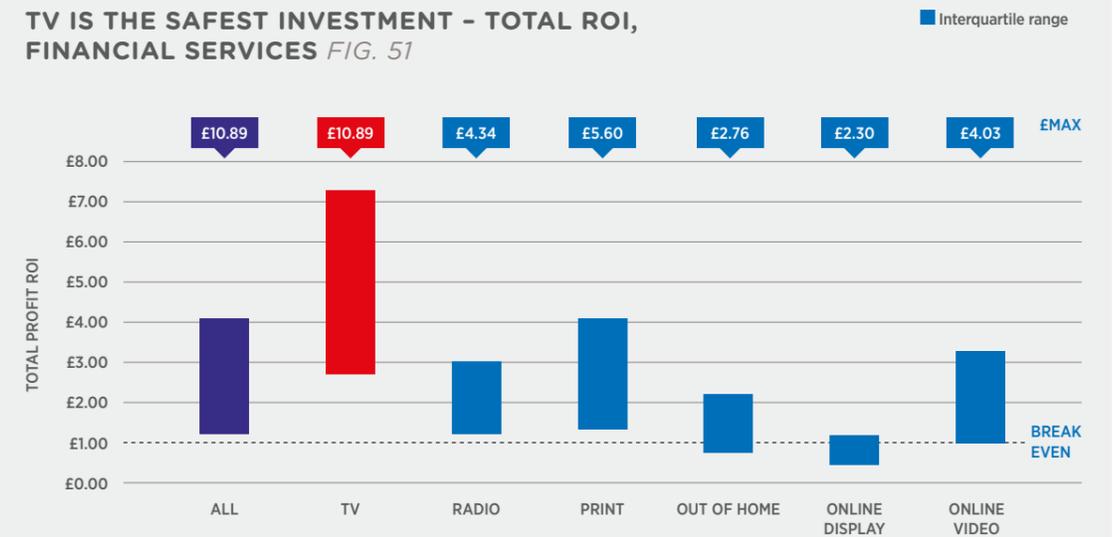
In Financial Services, advertising has a long-term multiplier of 1.73. This is lower than the average across all categories, although within this there are some stronger performers, most notably Out of Home and TV.

Financial Services' lower than average long-term multiplier is not because advertising has a smaller long-term effect in this category. It is because the methodology used to calculate short-/long-term effects is slightly different. Specifically, the calculation of the lifetime value of a customer.

The lifetime value of a customer is the revenue generated by the continued purchase of a product following the initial, advertising-driven purchase. Within Financial Services, it is easier to estimate this lifetime value as most products are contract-based, so businesses have a wealth of data they can use to predict behaviour.

As a result, the lifetime value from an advertising-driven purchase of a Financial Services product is normally built into the short-term profit return. So, some of the longer-term value is already accounted for in the short-term calculation. This inevitably reduces the average long-term multiplier in this category.

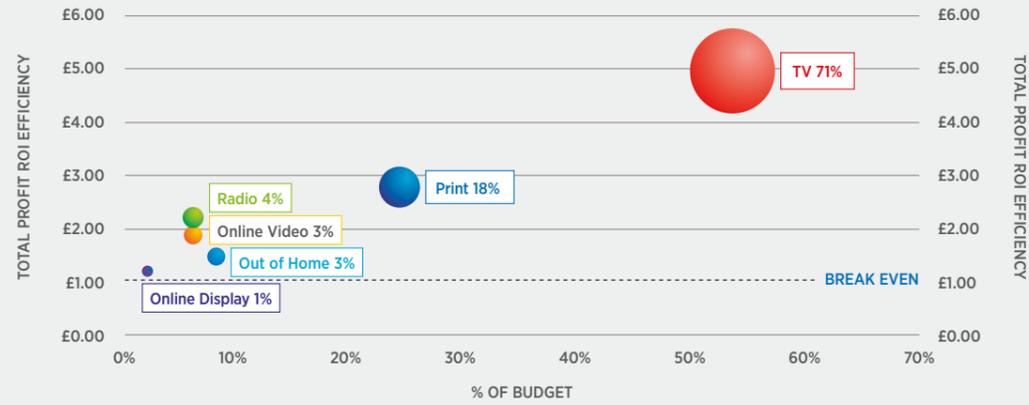
TV IS THE SAFEST INVESTMENT - TOTAL ROI, FINANCIAL SERVICES FIG. 51



Source: 'Profit Ability: the business case for advertising', November 2017 Ebiqurity ROI campaign database (Feb '14-May '17) Campaign obs: 371
 NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

FINANCIAL SERVICES: BY FACTORING IN THE LONG TERM, TV DELIVERS 71% OF THE RETURN FIG. 52

Bubble size represents % of total profit
Total profit = all return (short & long-term) generated over 3 years



Source: 'Profit Ability: the business case for advertising', November 2017 Ebiquity ROI campaign database (Feb '14-May '17) & Gain Theory. Campaign obs: 371
NOTE Online Video includes Broadcaster VOD, YouTube, Facebook video and online programmatic video

There is often an emphasis on direct response in Financial Services and consequently, much focus is placed on short to-medium term return – 65% of all advertising ROIs are above payback in the short to-medium term and 80% of all TV ROIs do likewise.

However, once we factor in the longer term the business case for investment is even more compelling – 92% of TV ROIs are above payback with an average profit ROI of £4.96.

PROFIT ABILITY: SUMMARY OF FINANCIAL SERVICES FINDINGS FIG. 53

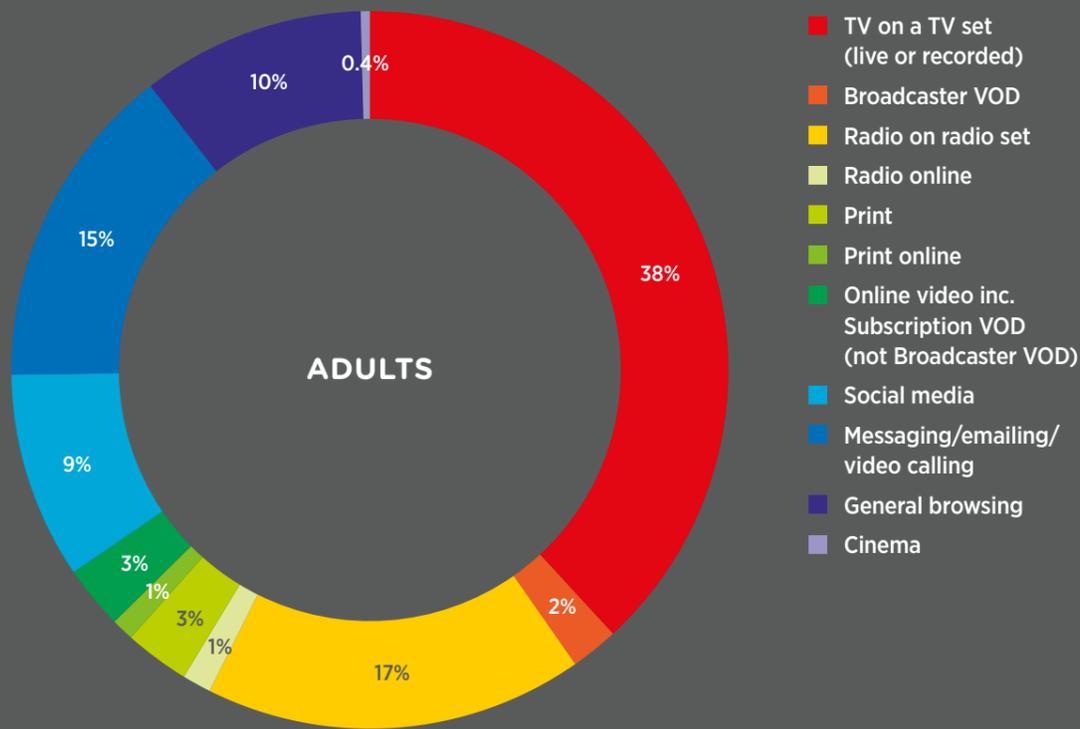
	% OF BUDGET	TOTAL AD-GENERATED PROFIT (WITHIN 3 YEARS)			SHORT-TERM AD-GENERATED PROFIT (WITHIN 3-6 MONTHS)		
		% OF PROFIT	AVERAGE PROFIT ROI	PROFIT LIKELIHOOD	% OF PROFIT	AVERAGE PROFIT ROI	PROFIT LIKELIHOOD
TV	53%	71%	£4.96	92%	66%	£2.35	80%
PRINT	24%	18%	£2.77	78%	20%	£1.55	61%
OUT OF HOME	8%	3%	£1.47	71%	3%	£0.67	26%
ONLINE VIDEO	6%	3%	£1.87	73%	5%	£1.46	57%
RADIO	6%	4%	£2.20	77%	6%	£1.76	69%
ONLINE DISPLAY	2%	1%	£1.18	40%	1%	£1.18	40%
ALL MEDIA	100%	100%	£3.71	79%	100%	£1.92	65%

APPENDIX 02 MEDIA AT A GLANCE

'Profit Ability' has shown the scale of profit delivered by different forms of advertising. This section gives a brief overview of the scale of different media in terms of their consumption. This is vitally important as media consumption – and TV in particular – is an area fraught with myth and misunderstanding. One of the reasons TV advertising is so effective is because of its continued popularity and its associated ability to deliver a high volume of advertising for a high number of advertisers (in a high quality context).

MEDIA AT A GLANCE

TV ACCOUNTS FOR 40% OF ADULTS' CHOSEN MEDIA DAY FIG. 54



Source: Touchpoints 2017, IPA. Base: All adults 15+. Includes only media which people choose to consume.

THE AVERAGE VIEWER WATCHES:

3h, 23m a day of broadcaster TV on a TV set

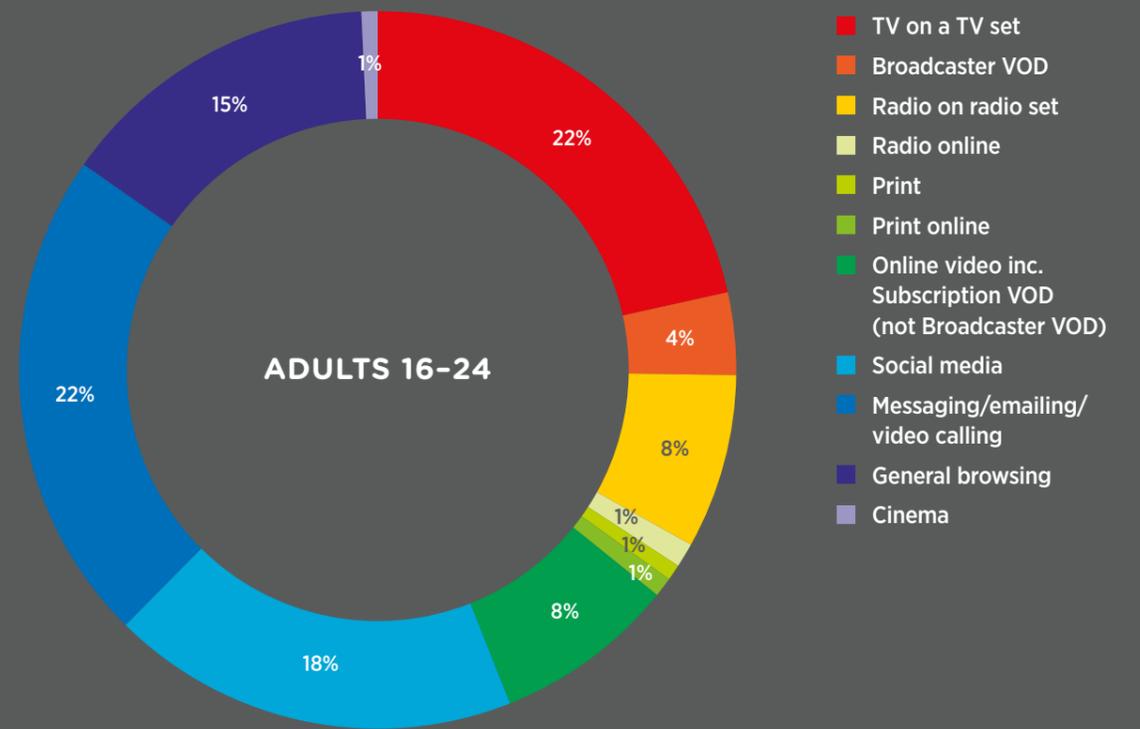
Source: BARB, 2017

COMMERCIAL TV ON A TV SET REACHES:

90% of the UK every week

Source: BARB, 2017

TV ACCOUNTS FOR A QUARTER OF 16-24S' CHOSEN MEDIA DAY FIG. 55



Source: Touchpoints 2017, IPA. Base: 16-24. Includes only media which people choose to consume.

COMMERCIAL TV ON A TV SET REACHES:

97% of the UK every month

Source: BARB, 2017

AN AVERAGE BROADCAST TV ADVERTISING CAMPAIGN IN THE UK GETS:

238 million views

Source: BARB, 2017

ABOUT THINKBOX

Its shareholders are Channel 4, ITV, Sky Media, Turner Media Innovations and UKTV, who together represent over 99% of commercial TV advertising revenue through their owned and partner TV channels. Associate Members are Discovery Networks Norway, Disney, DSTV (South Africa), TAM Ireland, Think TV (Australia), thinktv (Canada), TVN Media (Poland), TV Globo (Brazil), TV2 (Norway), TV2 (Denmark) and Virgin Media. Discovery Networks UK & Ireland, and STV also give direct financial support.

Thinkbox is dedicated to proving marketing effectiveness and since it was founded in 2006 has commissioned or sponsored numerous independent studies from world-class researchers.

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- If you would like to us come and present Profit Ability to your team

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ABOUT THIS BOOK

'Profit Ability: the business case for advertising' by Ebiquity and Gain Theory has, for the first time, quantified the impact that different forms of advertising have on the bottom line. Crucially it has done this for both the short term and the longer term, and across a range of sectors.

What emerges is a compelling case for re-thinking how advertising investment should be approached and hard evidence of what businesses can trust to deliver growth.

Following a profit-damaging drift to short-termism in marketing, 'Profit Ability' swings the spotlight back on to creating shareholder value. It provides industry benchmarks, based on empirical evidence across a substantial range of advertisers, for what businesses can expect advertising to deliver. It shows that advertising – TV in particular – should be used as a powerful investment for growth.