Marketing Spending Effectiveness

How to Win in a Complex Environment

McKinsey
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Practice

Overview

Our research shows that it is more important than ever for companies to understand all facets of the marketing environment, take into account its rapid change and implement steps to improve their spending effectiveness.

A Time of Tremendous Change

- Explosion in touchpoints means a broad array of options, but increased clutter and cost
- Technology has increased the power of word of mouth
- Companies are forming partnerships to multiply marketing opportunities
- Consumer experience is a primary driver of brand equity

Four Steps to Effectiveness

- Focus on bottlenecks to brand growth
- Use a more relevant and diverse set of presence-building vehicles
- Use an understanding of brand dynamics to drive decisions
- Invest in the effective "zone" to accelerate the pace of brand building

Putting It All Together

- Rolling Rock kick-starts a dynamic new cycle of growth

Profitable growth has become the key objective for most marketing executives. That has made it more important than ever for marketers to understand the changing marketing environment and take concrete steps to dramatically improve their marketing spending effectiveness.

The mixed results of marketers to date underscore the magnitude of the challenge. Some brands like Starbucks, Discovery, and Home Depot have grown from obscurity to ubiquity very quickly and efficiently, while others struggle to grow their brands despite multimillion-dollar marketing campaigns.

A Time of Tremendous Change

An increasingly complex environment has put an end to business as usual in managing marketing spending. Four fundamental changes are driving the need for dynamic new approaches:

1. There has been an explosion in consumer touchpoints fueled by the Internet and other technology-driven channels like call centers, ATMs, WebTV, and kiosks. This has created an array of options for building brand presence. At the same time, though, marketing space everywhere has experienced increased clutter, narrowed audiences, and escalating costs.

2. Technology has also dramatically increased the power of word of mouth in shaping brand presence. In 1999, for example, approximately 40 percent of car buyers used the Internet in their shopping process. And, after comparing prices and benefits across brands, consumers can spread the word to their friends through chat rooms, e-mail, etc.

3. Increasingly, marketers are forming partnerships to multiply their consumer touchpoints – while bootstrapping acceptance among consumers through association with partner brands. Starbucks, for example, has famously extended its brand presence into more drinking occasions through alliances with companies like Barnes & Noble, United Airlines, and Ben & Jerry's. And on the Internet, alliances abound as companies like Amazon.com and Charles Schwab form agreements to hot-link their sites.

4. Consumer experience is more important than ever in driving brand equity. Yankelovich research shows that over 93 percent of consumers do not have confidence in the advertising messages of major corporations. In that environment, customer experience becomes an increasingly strong driver of brand perception. For example, retailers like Wal*Mart, Home Depot, and Starbucks have developed powerful brands by quickly building out their store networks to give more and more consumers a superior experience.

Four Steps to Marketing Spending Effectiveness

In this new environment, we believe there are four steps to building an effective marketing spending program. These steps enable a marketer to take advantage of the broadening set of marketing options while focusing the right amount of spending in the right places to quickly and effectively build brand presence.

1. Focus on the bottlenecks to the growth of your brand. Marketing effectiveness begins by diagnosing specific bottlenecks that stand in the way of greater usage of and loyalty to the brand. These bottlenecks can develop at any of the major points along the consumer decision chain – awareness, consideration, experience, and loyalty (see Table 1).

At the awareness stage, media clutter is often a major bottleneck for brands, particularly new entries. Insufficient intensity or creative appeal from marketing communications can limit growth in awareness. Bottlenecks to consideration (i.e., inclusion in the two or three brands consumers will consider when they are ready to purchase) include a lack of distinctiveness or relevance to the target audience, driven by gaps in real or perceived brand positioning.

Table 1 **Typical Bottlenecks to Moving Consumers Through the Decision Process Vary by Category**

All potential customers	Awareness	Consideration	Experience	Loyalty
Direct insurance	Brand is not top-of-mind when consumers are seeking quotes	Consumers believe they can get a better price elsewhere	Consumers don't believe savings justify the "hassle" of switching providers	The nature of the brand's proposition (e.g., low price) may attract "rate shoppers" with low loyalty
Retail apparel	Consumers are not familiar with the store's assortment	Consumers do not like what wearing the brand's label "says" about them	Stores are not in the right locations; lease line display not compelling	Service experience is poor
Packaged goods	New brand and/or low media levels do not register with enough consumers given fragmented marketplace	Consumers perceive another brand to be more effective or a better value	The brand is not available in the critical mass of stores needed for it to be a "routine" purchase	Promotional activity used to induce trial and usage may train consumers not to be brand loyal

A lack of a clear "call to action" will often block movement from the consideration to the experience stage. Intermediaries such as retail distributors or brokers can also accelerate or slow the movement. Finally, the flow from brand experience to brand loyalty first requires a powerful consumer experience, reinforcement of the "reason why," and a consumer-friendly repurchase cycle.

The growth of Bud Light in the 1990s illustrates how a marketer made a breakthrough at the consideration stage in the light beer category. Another brewer, Miller, had created the light beer category on a platform of rational benefits – "tastes great, less filling." Yet many beer drinkers did not view it in their consideration set because it wasn't meeting their socialization needs. Anheuser-Busch saw an opportunity to reposition Bud Light around fun and humorous male bonding so that a much wider audience would consider it. The company invested in an aggressive advertising program to give the brand a distinct personality of its own, and not just as a "substitute" for Budweiser. Behind this strategy, Bud Light became the #2 beer brand in the U.S., behind Budweiser, and commands the lion's share (i.e., 43.6 percent) of the light beer segment.

In contrast, in the hotel industry, Hyatt and Hilton have focused their efforts on programs to move customers from the experience to the loyalty stage. These programs offer a range of perks for the frequent traveler and attractive incentives for repeat business.

2. Use a more relevant and diverse set of presence-building vehicles. Given the explosion in touchpoints, the importance of consumer experience, and the power of word of mouth and other brand dynamics, marketers now have an unprecedented range of options for addressing brand bottlenecks.

State Farm, for one, deftly leveraged free PR to spark positive word of mouth through its "Dangerous Intersections" program. The company reached into its proprietary database to supply the media with a list of the most dangerous intersections in a range of U.S. cities. The media, hungry for content, turned the information into a major news story, crediting State Farm. As a result, State Farm strengthened its image as a concerned, caring institution with millions of consumers (one survey showed that 50 percent of adults were aware of the campaign) and delivered real benefits in the form of information at a fraction of the cost of a major media campaign.

Recognizing the importance of delivering a consistent customer experience across all touchpoints, some marketers have focused spending on building their telesales representatives into powerful marketing vehicles. Victoria's Secret, for example, trains its call center staff to perpetuate the romance of the brand in the way they discuss the product, to cross-sell product and suggest alternatives when desired items are out of stock, and to help callers with sizing and other questions. This is in sharp contrast to many other companies that focus their telesales staffs primarily on efficiency objectives like number of calls, time per call, and dollars per hour.

For retailers, the in-store experience can be the most powerful marketing tool in the arsenal. Our work has shown that fine-tuning store operations – including sales staff behavior, back-room practices, and visual merchandising – to better reflect brand objectives can result in sustained 10 to 20 percent comparable store increases. For example, Aveda stores, specializing in high-end personal care products, does not extensively advertise, but has managed to build and sustain its brand through a unique, multisensory store experience that includes a distinctive, pungent aroma, soothing new age music, trendily coiffed and made-up store personnel, and spartan yet clean décor.

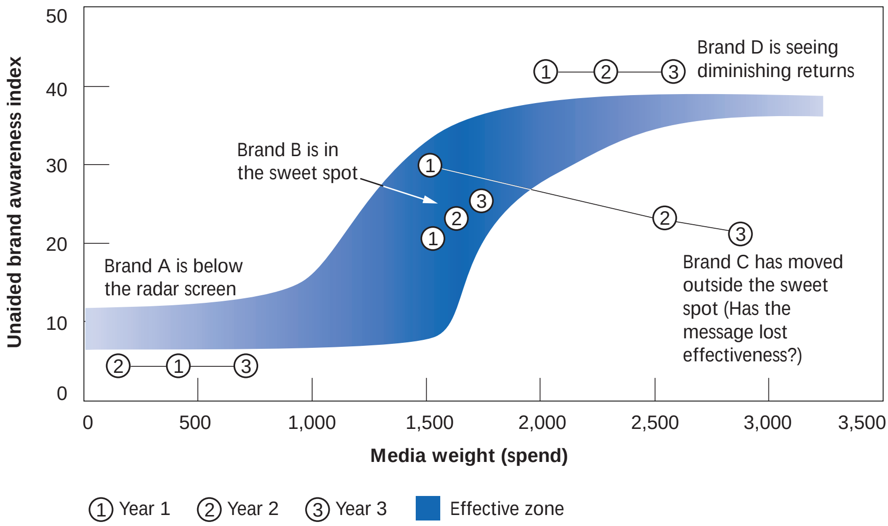
3. Use an understanding of brand dynamics to drive marketing spending decisions. Once marketers have identified bottlenecks by consumer segment and potential marketing vehicles, they need to decide which vehicles to use, in what sequence to use them, and how much to spend on each. Marketers, of course, have known this for years, but the growth of alliances and word of mouth have underscored the importance of understanding the dynamics of fast brand development.

One food and beverage manufacturer used an understanding of its brand's dynamics to drive changes in its marketing spending program. By mapping shopping and loyalty patterns, it realized that the three regional markets that it had been treating homogeneously were actually three distinct markets, each requiring very different marketing approaches. One of those markets was in a virtuous cycle of brand building where most new trial was being generated by word of mouth. Here, mass advertising was not needed and the marketer focused instead on increasing distribution to drive word-of-mouth awareness. In contrast, in the second market, word of mouth was not leading to trial, pointing up the need for a major push by the marketer to use advertising-based trial generation. In the third market, an interesting dynamic was revealed: the brand's significant investment in television advertising was actually precipitating a further decline in share. That was because the advertising linked the brand to a segment of society with which the majority of consumers did not identify – and aggressive marketing only served to reinforce that connection. For this market, the optimal decision was to intensify existing consumption and reapply scarce marketing dollars elsewhere.

4. Invest in the "zone" to accelerate the pace of brand building. Having selected the right marketing vehicles, there are significant benefits to be realized from ensuring that you are investing in the "zone" of effectiveness – that is, the optimal space above minimum critical mass and below diminishing returns. Our experience across a multitude of industries is

Table 2 **Uncovering the Investment "Sweet Spot" for Each Activity**

Advertising "S curve" for packaged goods category



that an "S curve" effect (i.e., low impact until critical mass is realized, followed by rapid growth in impact from higher spending, followed by diminishing returns) is both measurable and manageable.

One leading white goods manufacturer used an understanding of the zone to effectively manage marketing investment across its portfolio of brands. The company determined that some of its smaller brands could not support significant broadcast advertising, and what was being spent was too small to move the needle on the dial. So, the company stopped national advertising for these brands and began investing in building awareness and trial within leading restaurants. This approach also allowed the company to build powerful programs for its brands that could play effectively within the zone (see Table 2).

This zone of effectiveness is not limited to advertising. For example, a chain of donut shops found a sweet spot market penetration level by comparing the number of stores for a given population with the sales in each store. Below a critical mass of stores, consumers would not encounter the chain frequently enough for it to become part of their routine. Likewise, by examining the same data, they determined the point at which stores began to compete with one another and store sales declined. This information is now used to plan the development of new markets to achieve maximum profitability.

Putting It All Together

Rolling Rock, a leading U.S. domestic specialty beer, was experiencing market share and volume declines in the mid-1990s as the result of an explosion of new specialty brands. Management was concerned that the share loss was due to the brand losing its distinctive appeal among consumers. They initially thought that the solution was to increase advertising.

However, they examined the consumer decision chain and found that the key bottleneck to Rolling Rock's continued growth was not a weak consumer image but primarily weakening trade perceptions, which were eroding users' access and consideration of the brand. Caught up in the wave of specialty introductions, trade attention had shifted from Rolling Rock to these new niche beers. This launched a downward spiral for the brand – without trade share of mind, it lost distribution in leading bars. And, as the brand lost its connection with the cool bars and clubs, the number of consumers who put Rolling Rock in their consideration set declined. The frenzy around newer specialty beers created additional bottlenecks with the "on-premise" consumer that reinforced the downward consumption spiral: package preferences shifted from bottled brands (Rolling Rock's dominant package format) to draft, and the higher price of specialties made moderately priced Rolling Rock seem almost mainstream.

To turn these dynamics around, Rolling Rock used a non-traditional approach to drive higher consideration. First, to tackle the access bottleneck, Rolling Rock shifted much of its marketing budget into trade efforts, supported by a media plan focused on a limited number of high-profile sporting events. While Rolling Rock's marketers knew this level of advertising would not create a significant call to action among consumers, they were betting it was enough to impact trade perception. This new advertising strengthened Rolling Rock's positioning around its roots as a quirky small town brand – a move that was helpful not only for the wholesalers but also for retailers and consumers in terms of stirring attention. Second, Rolling Rock focused its consumer spending on differentiating the brand at point of purchase to reignite trial among those considering the brand. This was done by converting all packaging to Rolling Rock's historical, distinctive, painted long-neck bottle and launching a "Bucket of Rocks" promotion – Rolling Rock was served in a unique ice bucket, creating a distinctive talking point versus the draft format dominated by other specialty brands.

The program worked. It reignited wholesaler excitement for the brand, created a consumer call to action, and kick-started a dynamic new cycle of growth for Rolling Rock in which volume increased by more than 10 percent and revenue by even more than that. Most satisfying for Rolling Rock's management, the brand has outlasted the majority of new specialty brands that once threatened its survival.

Taking Charge of Your Marketing Spend

As marketers are discovering, a radically different set of dynamics is permanently changing the way they do business. More than ever, they must understand how forces like multiple touchpoints, word of mouth, consumer experience and alliances are indelibly shaping brand presence. They must also learn how they can control these factors and turn them to their advantage by building a marketing spending effectiveness program that challenges the existing environment. This will require focusing on the bottlenecks that hinder greater customer usage and loyalty, selecting wisely from an unprecedented range of market-building tools, and ensuring that spending levels are in the effective zone for each media vehicle and that opportunities exist to coordinate those vehicles.

Already, the results are clear: companies that are able to master this new marketing regimen are turning into the biggest and most profitable players in their fields.

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