

Mounting risks to marketing effectiveness

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A partial — if seductively persuasive and impressive — data framework for online advertising combined with short-term incentives have encouraged a dramatic shift in the ratio of brand to activation advertising from 60:40 to 50:50, depressing the pricing of display media

Mounting evidence suggests a focus on quick returns and cheap media at all costs is hurting marketing effectiveness, measured in long-term Return-on-Investment, brand equity and consumer satisfaction

Guarding against this risk requires brand-focused advertisers to create more space for long-term judgement for CMOs, and to refocus agency remuneration towards planning and creative work

The advertising industry is undergoing profound change: after years of staggering growth, digital advertising now generates more revenue in the UK than all other media, including TV, print and Out of Home (OOH). Overall advertising spend continues to grow, at a rate faster than consumer spending. But apart from growing spend, the vital signs in the market are alarming. Advertising effectiveness is in long-term decline¹, and consumer trust in brands is falling.²

In addition, the last year has generated no shortage of challenging headlines for the reputation of digital content distribution and digital marketing. Fake news, Facebook video measurement failings³, YouTube context errors⁴ and last summer's report by the Association of National Advertisers (ANA) on agency practices⁵ lead a very long list of industry issues. Related to these is an embrace of direct response advertising and ostensibly cheap online ad audiences.

So, have advertisers and their agencies applied "crazy logic" to justify these changes, as advertising traditionalists have it? ⁶ We argue instead that structural issues in corporate governance and industry incentives explain what is in essence collective advertiser overreaction in the face of genuine (if over-generalised) changes in consumer behaviour. To rebalance marketing and help solve its growing list of ailments, a return to long-term planning is called for, with each advertiser category finding specific responses to the challenges and opportunities of the digital transition as they apply to their unique marketing needs.

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¹ Hall & Partners's tracking data shows effectiveness erosion over the past six years.

² Edelman Trust Barometer www.edelman.com/trust2017

³ www.campaignlive.co.uk/article/facebook-admits-fourth-measurement-error/1419156

⁴ www.ft.com/content/019e1608-0d88-11e7-a88c-50ba212dce4d

⁵ www.ana.net/content/show/id/pr-media-transparency

⁶ adcontrarian.blogspot.co.uk/2017/01/the-crazy-logic-of-media-strategy.html

Executive summary and key findings

This extensive study of the advertising marketplace utilises principally UK data and industry interviews but describes trends and issues of relevance to all mature marketing economies, drawing on relevant data from the US and elsewhere. It centres on consequences that result from the conflation of three macro trends: (1) developments in non-marketing business practices; (2) consumer adoption of mobile media and ecommerce, creating complexity in the traditional shopping funnel; and (3) advertiser and agency adoption of digital marketing options.

1. The marketing industry has a structural bias towards short-termism — with uncertain consequences for brands, agencies and content media
2. The short-termism bias has been triggered both from outside and within the industry:
 - I. Growing corporate and investor short-termism; rise of procurement and zero-based budgeting
 - II. Under-influence of senior marketers, a result of relatively short tenures, corporate reporting structures and the rise of procurement functions
3. The most underrated manifestation of this bias is the rise in direct response advertising, from roughly 40% of advertising budgets to roughly 50%
4. Strong reliance on econometric modeling to gauge marketing effectiveness persists, even as the operational separation of direct response and brand advertising increasingly reduces the accuracy of the models
5. The growth of direct response marketing combined with a still-limited understanding of how it is interrelated with brand communications leads us to believe the industry is making a very brave call without necessarily realising that is what it is doing
6. Online, the evidence of consumer behaviour is immediate and compelling, more so than in the case of offline media. But this online evidence does not assess the impact of long-term brand building, or the value and risks associated with the environment of marketing, principally the precise media a brand's presence is positioned alongside. An industry-wide "vicious circle" has been created
7. Due to digital disruption the advertising industry shifted its currency from media to audience purchasing, but in effect we believe a nuanced, analogue tool has been replaced with a too-simplistic digital tool, with unverified (but unlikely positive) consequences for many brands, and potentially devastating effects on established media (again, unlikely a positive outcome for brands)
8. The shopping funnel has become more complex, with the rise of social, mobile media and ecommerce but there is less evidence that the fundamentals of marketing have changed
9. Brand-building is essential to maintain price positions in the market; direct response marketing alone will erode price advantage over time and suffer from progressive brand decay
10. Related to this is a failure to measure a range of marketing risks, such as the negative reputational effects of poorly executed retargeting. Digital marketing is increasingly performance-based or considered neutral; it is as if no marketing should ever be measured as a risk, which is evidently wrong
11. Procurement techniques in some cases are squeezing planning and creative investment at a time when marketing effectiveness is retreating. We believe the growing heterogeneity of marketing options means that planning and creative are now more important than they were in the past, while many advertisers are treating them as less

valuable. At a time of increasing media heterogeneity and less comprehensive evidence, brands are flocking to more homogenous solutions, with a greater reliance on short-term received wisdom

12. We have roughly segmented the entire advertiser marketplace into three categories of industry digital disruption, from severe (e.g. travel) to limited (e.g. some FMCG). Our sense is some of the companies in the most disrupted industries, often lower-frequency purchases, remain relatively focused on brand-building, while some of the companies in the least disrupted industries, often medium and high frequency purchases, have transitioned their spend most radically
13. The industry belittles the value of experienced judgement and over-relies on data. This would be a problem even if the marketing data provided a complete view of attribution integrated with long-term awareness and reputation—because experienced judgement is always required to differentiate and sustain value. However, as the data is partial, a reliance on experienced judgement should be considered business-critical
14. Media needs to improve its evidence and therefore the value of its differentiation in the market. For example, the curated content-advertiser alchemy of Elle, Radio Times and Wallpaper are destined to look expensive if publishers don't invest in cementing and quantifying that alchemy, an optimal mixture of consumer trust, relevance and focused immersion
15. Business-as-usual would be a very poor response to these issues: advertising effectiveness will decline, with consumer responsiveness certain to deteriorate over time
16. The industry recognizes and acknowledges many—perhaps all—of these issues. However, all parties — advertisers, media agencies, creative agencies, adtech, digital platforms, established media — are complicit in current trading practices, and have a vested interest in any change. Therefore, the industry has a “collective action” problem
17. The industry needs to agree a collective set of goals and terms of reference, and our sense is that advertisers, the industry demand-side, are best-placed to trigger change. However, marketers may need support to articulate the industry challenges to non-marketers
18. Further recommendations included in the full report

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