Media Weight

Ad Quality

ROI

Sales Behavior

A Proposal For Predictive Ad Quality Measurement

AMERITEST AD RESEARCH METRICS

For the time period <u>January 2007 – January 2012</u>:

- 338 McDonald's ads* tested

- 954 competitive QSR ads* tested

- Based on 129,000 consumer interviews

*Only adult-targeted ads included in this analysis

AD QUALITY MEASUREMENT

- Three goals:

    1. Predictability

    2. Reasons why

    3. Generalized learning

BARRIERS TO PREDICTIVE VALIDATION

- Matching data
    - Defining "sales"
    - Determining time periods associated with advertising effects
        - Short-term vs. long-term, wear out, etc.
    - Matching media spend with advertising executions
- Incomplete data – not all ads in a campaign are tested
    - Competitive ad quality information is usually missing
    - Information on other marketing variables, such as price, distribution, macroeconomics and other variables limit the predictive power of modeling
- Standardizing data
    - Consistent set of pre-testing metrics over time
    - Multiple messages across campaigns
- Interpreting data
    - Confusing research constructs or labels – Attention is not the same as recall, but both are called "breakthrough"
    - Distinguishing report card metrics from diagnostics – separating strategy from execution
- One size does **not** fit all models
    - Differences across categories
    - Differences across brands (e.g. leaders vs. followers)

1) Predictability

CASE HISTORY

Can we build a model linking ad quality metrics to the actual sales McDonald's reports to Wall Street?

McDONALD'S VALIDATION

- QSR is an advertising-driven category

  - Predominately TV

  - Roughly 400 TV ads a year nationally from top 18 brands

- Category Leader

  - The strategy is to defend against all competitors trying to carve out a niche from McDonald's business

  - Fast-tempo advertising: McDonald's changes out ads monthly (on average 4-5 times per month), so the time frame from the airing of an ad to sales effect is a narrow window

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PUBLICLY AVAILABLE INFORMATION

During the time period January 2007 – January 2012, McDonald's reported <u>61 months'</u> <u>worth</u> of U.S. sales data to Wall Street[*].

Monthly sales = change in same-store sales versus one year ago, for U.S. operations
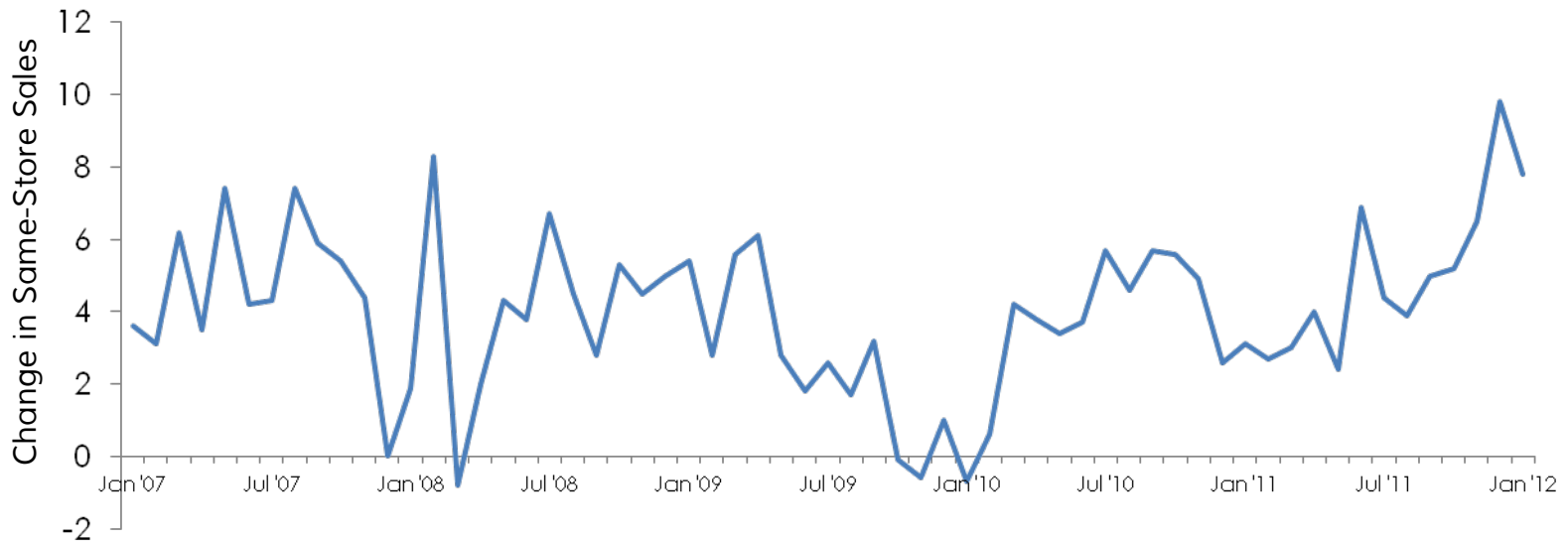
*Obtained from Morgan Stanley Smith Barney

FACTORS IMPACTING McDONALD'S SALES

- Macroeconomic variables – e.g. recession

- Food trends and changing dietary habits (e.g. drive to "healthy")

- Store remodels

- Expanded menu offerings – e.g. McCafe

- Competitive attacks

- ….and ADVERTISING!

YOUR AD HERE

"BATCH PROCESS" AD QUALITY RESEARCH

AdStandings™ Email

CompetiView Portal

Meta-Analysis Reports

A CONSISTENT METHODOLOGY

Ads were tested online automatically using a standard pre-testing method

Sample: 100 consumers per ad
• Eaten at a quick service restaurant in last 30 days
• 60% younger than 35 years, 40% 35 years or older
• 50% male, 50% female
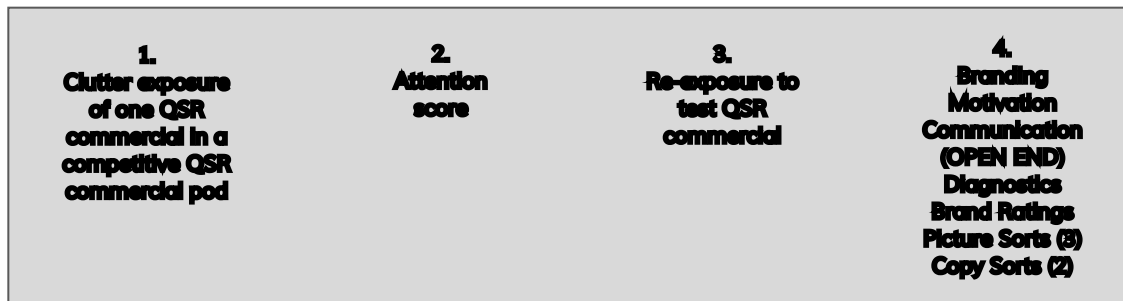• Restaurant is convenient to their home or office

Timing:
• Tested within first week of airing
• 5 day turnaround time

Exposure:
• Monadic exposure of test ad

The interview procedure is shown below:

1. Clutter exposure of one QSR commercial in a competitive QSR commercial pod	2. Attention score	3. Re-exposure to test QSR commercial	4. Branding Motivation Communication (OPEN END) Diagnostics Brand Ratings Picture Sorts (5) Copy Sorts (2)

AMERITEST QUALITY METRICS

- Ameritest has been collecting ad quality metrics for over <u>five years</u> in the QSR category for all major advertisers with our CompetiView™ syndicated service

- All new television commercials are tested online during the first week of airing using a standardized online methodology among the QSR target audience
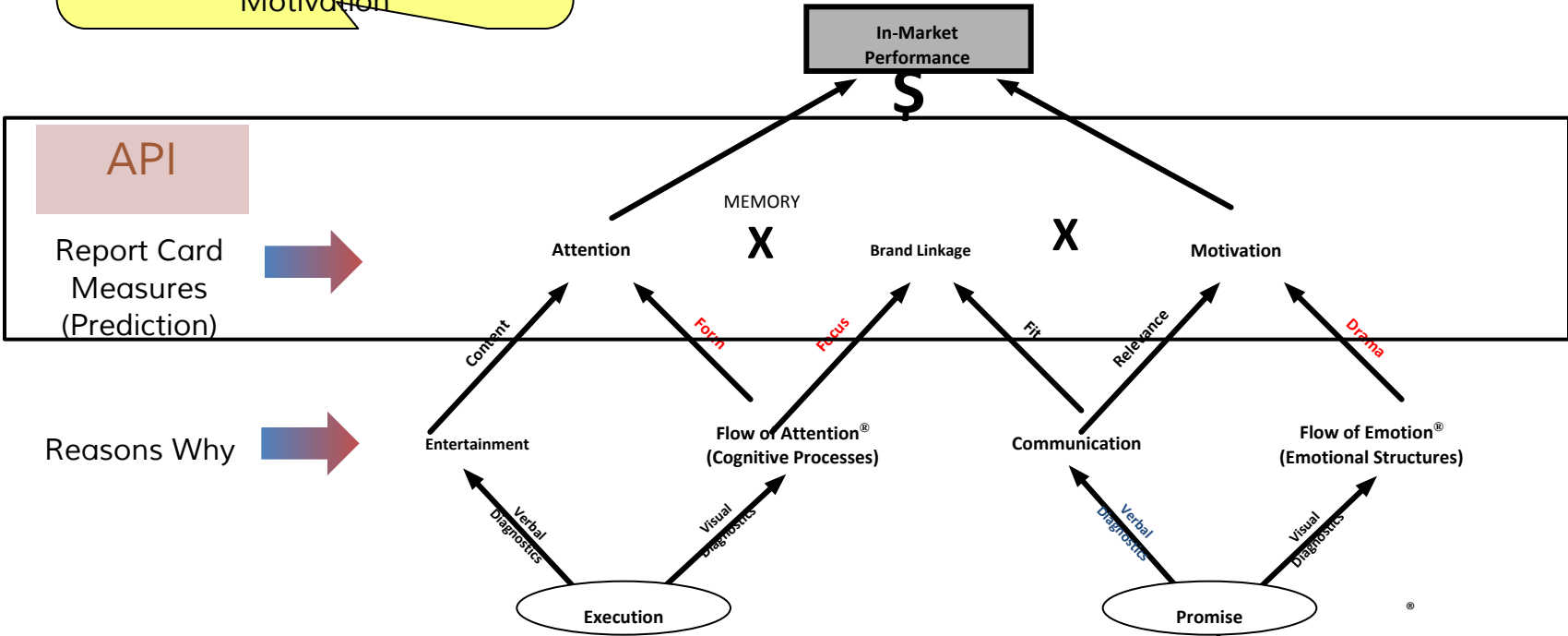
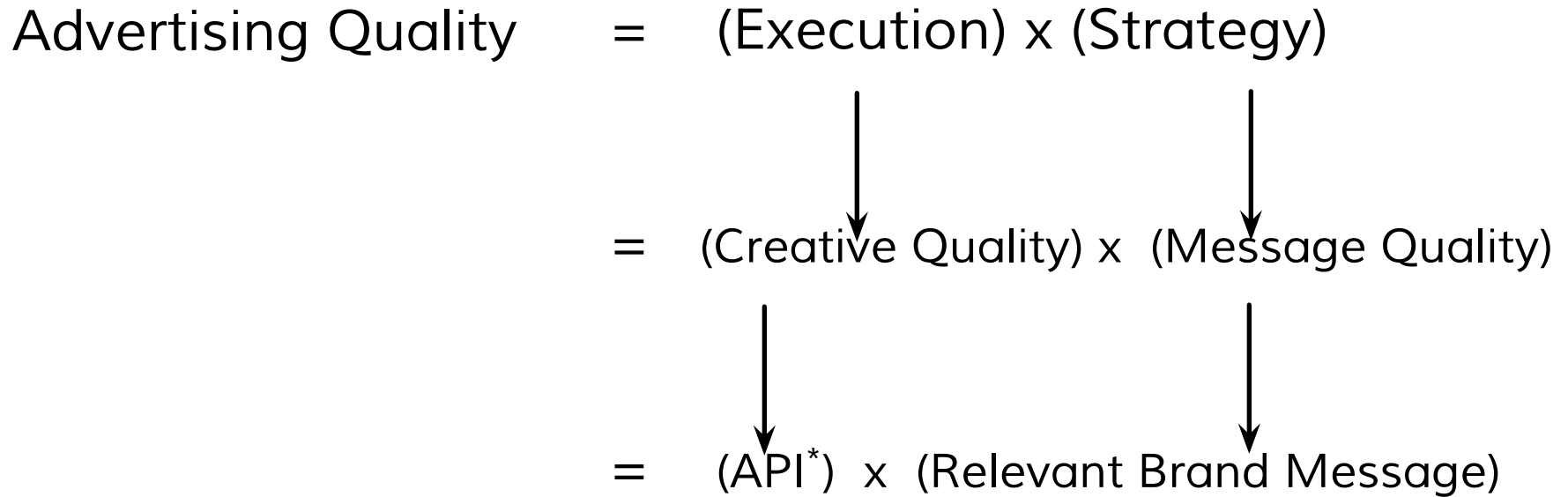For the time period <u>January 2007 – January 2012</u>:

- 338 McDonald's ads* tested

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The Ameritest® Advertising Model

Ameritest Performance Index = API = Combined measure of Attention, Branding and Motivation

In-Market Performance

$

API

Report Card Measures (Prediction)

Reasons Why

MEMORY

Attention   X   Brand Linkage   X   Motivation

Content   Form   Focus   Fit   Relevance   Drama

Entertainment   Flow of Attention® (Cognitive Processes)   Communication   Flow of Emotion® (Emotional Structures)

Verbal Diagnostics   Visual Diagnostics   Verbal Diagnostics   Visual Diagnostics

Execution   Promise

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Advertising Quality   =   (Execution) x (Strategy)

=   (Creative Quality) x (Message Quality)

=   (API*) x (Relevant Brand Message)

*Ameritest Performance Index

Ameri**test**

BUILDING THE MODEL

Adding in the third variable...

McDonald's Sales Growth = Momentum + Recession
+ Advertising Quality

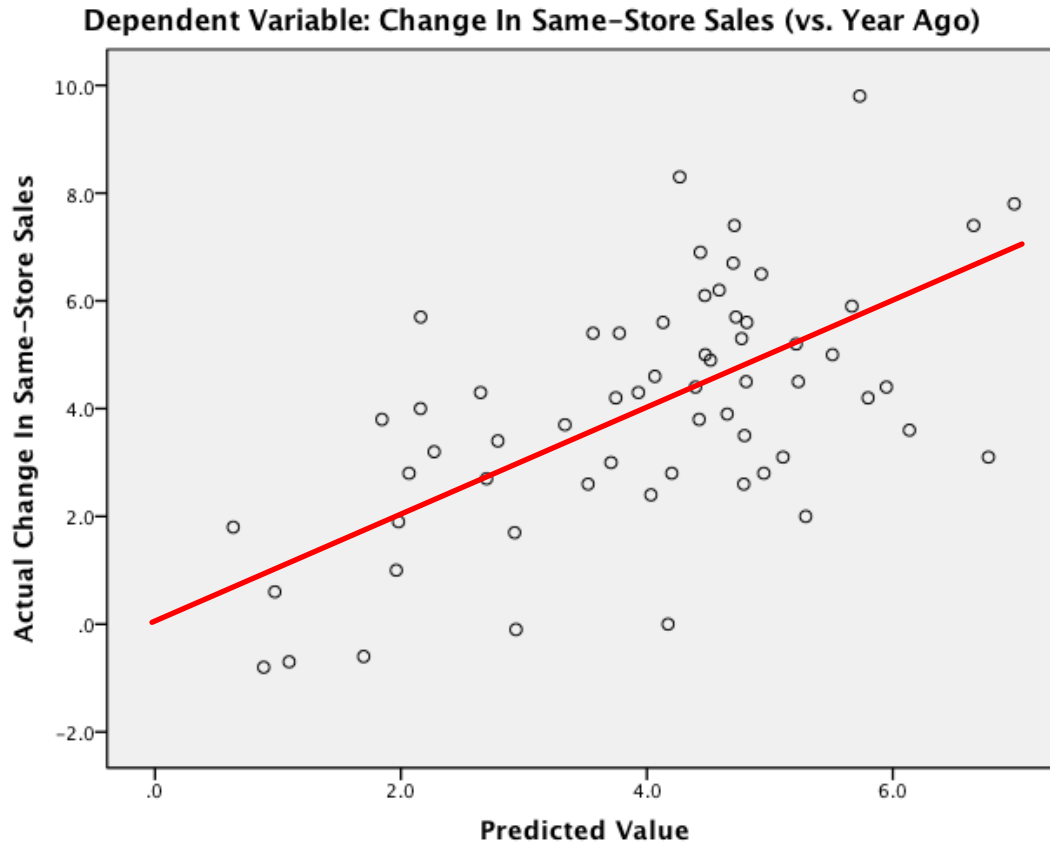Explaining power of multiple regression model:

$$\text{Correlation} = .676$$

$$R^2 = 46\%$$

Adding in the third (Ad Quality) variable <u>doubles</u> the power of the model and explain nearly $1/2$ of McDonald's sales growth performance!

Ameri**test**

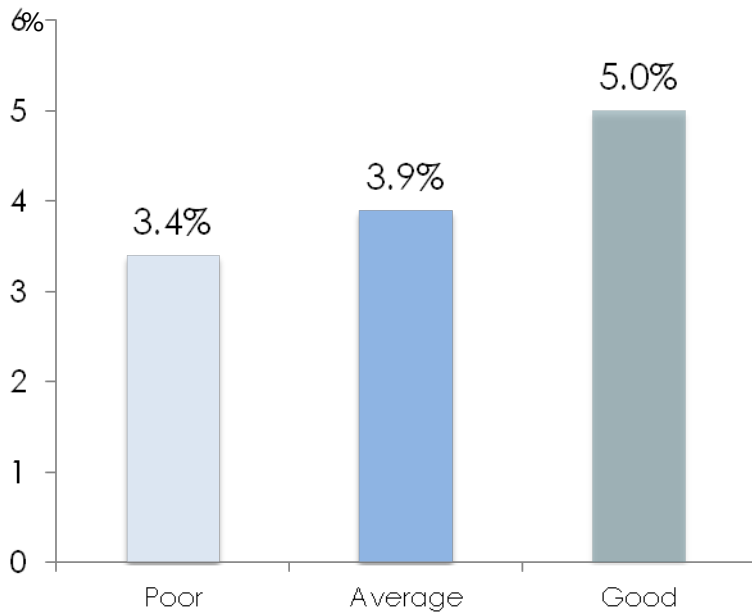Three-variable model:

McDonald's Sales Growth = Momentum + Recession + Advertising Quality

Dependent Variable: Change In Same−Store Sales (vs. Year Ago)

$R^2 =$ 46%

AMERITEST AD QUALITY METRICS PREDICT SALES

Change in Same Store Sales

Bar chart:
- Poor: 3.4%
- Average: 3.9%
- Good: 5.0%

Ad Quality Scores

Scatter plot — X-axis: Motivation (Index), Y-axis: Branded Attention (Index)

Legend:
- Good
- Average
- Poor
- No Cases
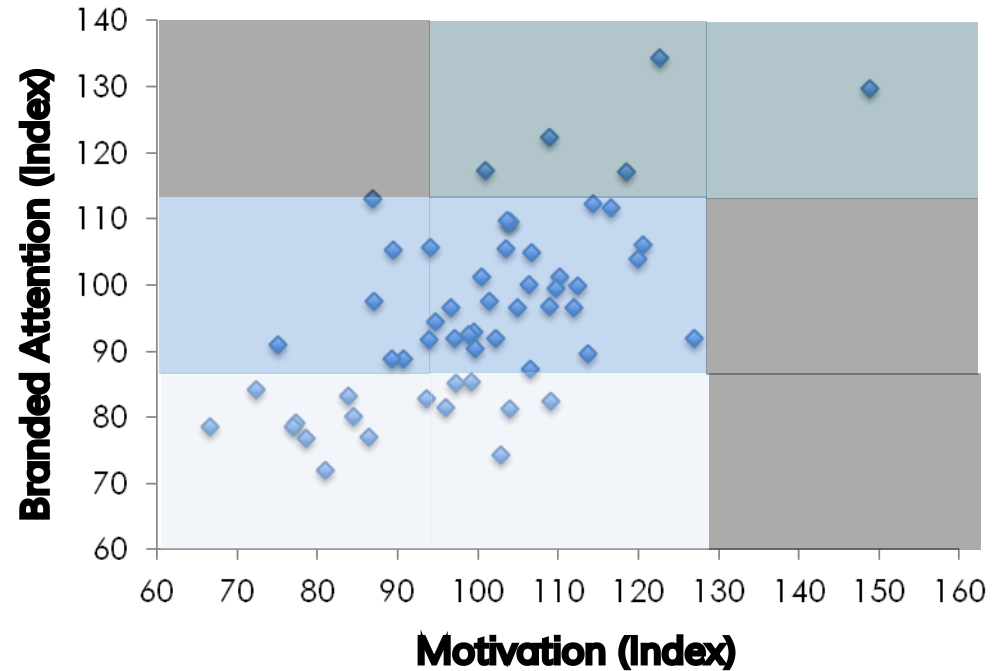
Based on 61 months' worth of McDonald's sales data reported to Wall Street and 338 McDonald's ads tested within the Ameritest system

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CONCLUSIONS

■Even without looking at media spend levels, our data validates the conclusion that the <u>quality</u> of the advertising that McDonald's puts on air is a major driver of sales growth – explaining ¼ of in-market performance by itself.

■Since growth in same-store sales is a major factor driving McDonald's stock prices, this data confirms that television advertising has been a good investment for McDonald's over the past five years.
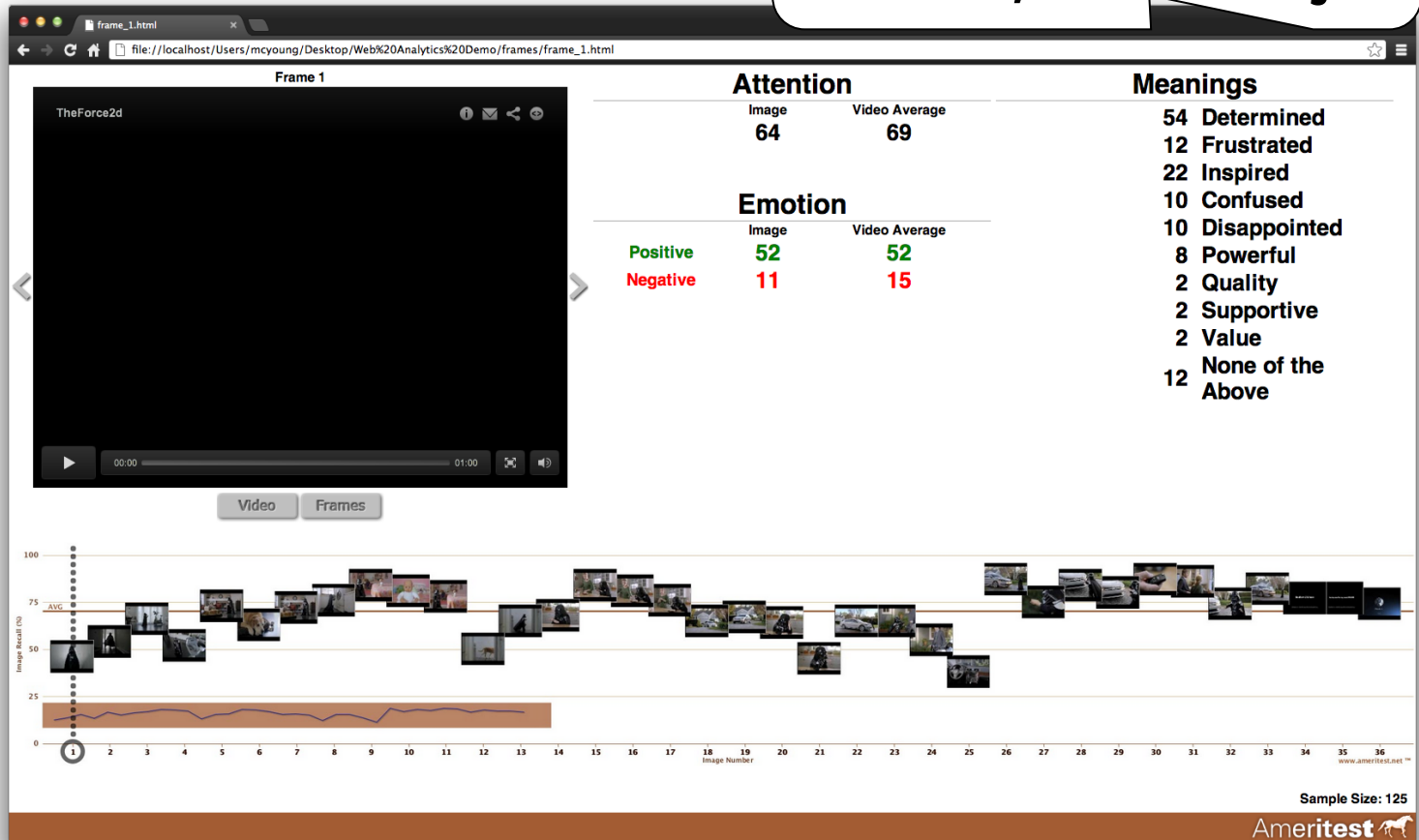
2) Reasons Why

Executional quality is a variable that hides within itself a complex set of other variables.

VISUAL DIAGNOSTICS

This illustrates how Ameritest is able to capture consumer perceptions of an ad moment-by-moment, covering the scopes of attention, emotion and meaning.

For example, the attention-getting* power of an ad is related not just to entertainment value and uniqueness, but is related to how the mind pre-consciously filters television imagery.
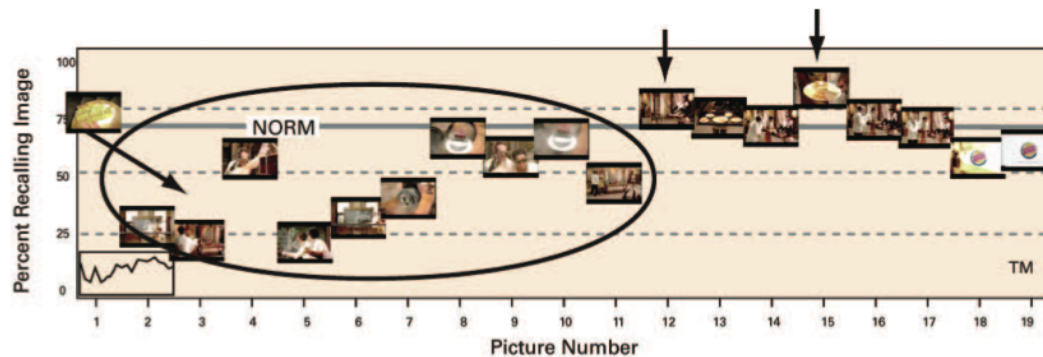

KEYS TO EXECUTION: STRONG FLOW OF ATTENTION®

McDonald's "Proud Papa": Attention 210
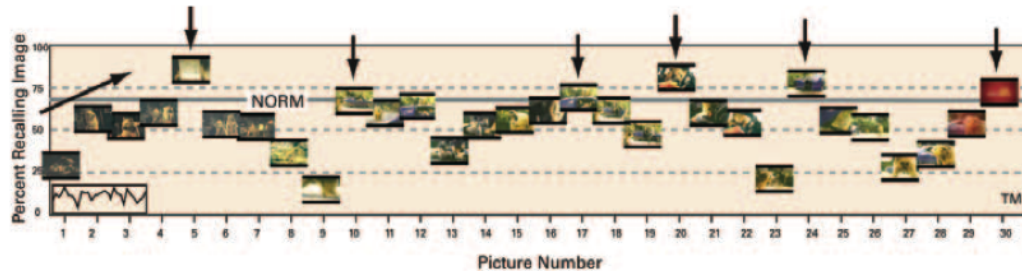
KEYS TO EXECUTION: WEAK FLOW OF ATTENTION®

Burger King "Breakfast Perfection": Attention 71

*See our website http://www.ameritest.net for validations of the models of Attention.

And Motivation[*] is not just a function of conveying a relevant brand message – but of doing so in an emotionally engaging way.
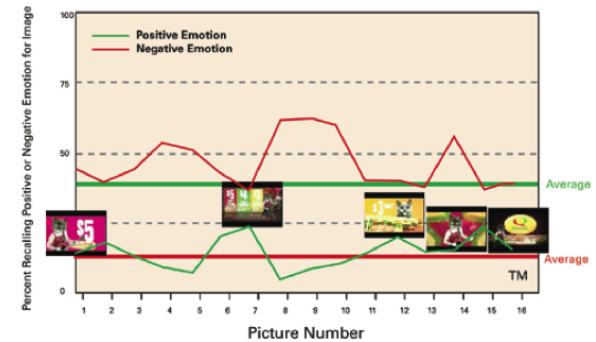
SUCCESSFUL AD THAT BUILDS EMOTIONAL ENGAGEMENT

Chick-fil-A "Sneaky Cow": Flow of Emotion®

SUCCESSFUL AD THAT USES INTENDED NEGATIVE EMOTION

Subway "Hang All Out": Flow of Emotion®
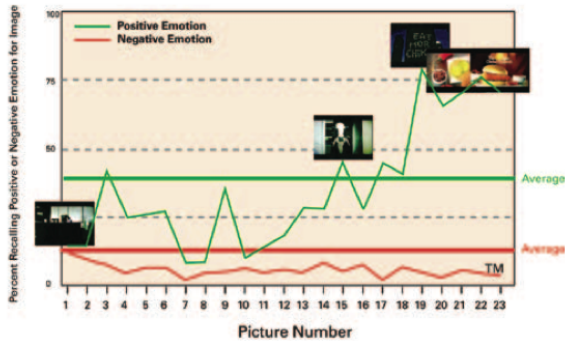
PROBLEMATIC AD WITH UNRESOLVED NEGATIVE EMOTIONS

Quiznos "Value Menu": Flow of Emotion®
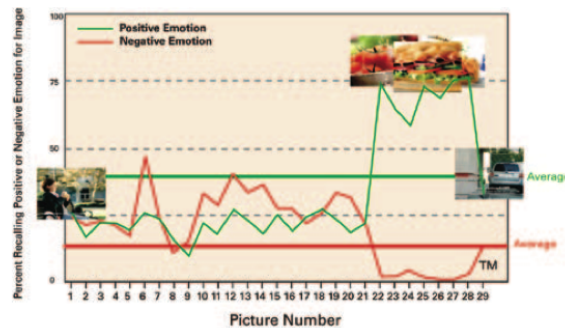
*See our website http://www.ameritest.net for validations of the models of Motivation.

VISUALS KEY TO BUILDING GLOBAL BRANDS

Short-Term Memory Maps Across Five Countries
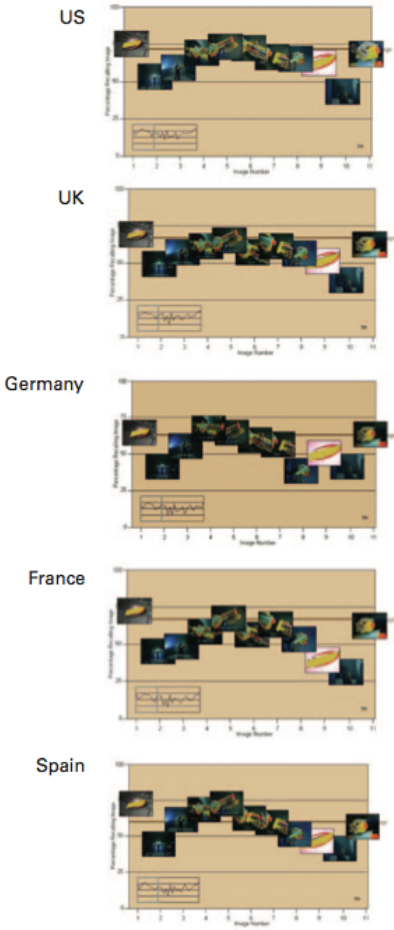
Film syntax and grammer crosses cultural boundaries.

3) Generalized Learnings

Not all messages are created equal.

Defending its category leadership, McDonald's deploys a wide range of messages in its advertising.

TOTAL AD COUNT OF TOP COMMUNICATED MESSAGES PER AD PER BRAND

Based on 2009 :30 Ad Portfolios

	Convenient	Enjoyable Place	Good Tasting	Good Value	For the Whole Family	Healthy	High Quality	Fresh Ingredients	Good Variety	Total # of :30 Ads
Arby's	0	2	0	2	0	7	3	1	0	15
Burger King	4	2	6	7	2	0	0	2	1	24
Carl's Jr.	0	0	0	0	0	0	2	0	0	2
Chick-fil-A	0	0	0	0	0	2	1	0	0	3
Dairy Queen	0	3	2	1	0	0	0	0	0	5
Domino's Pizza	0	0	2	2	2	0	1	2	2	10
Jack in the Box	2	2	0	1	0	0	0	0	4	8
KFC	0	0	3	2	3	7	1	0	0	16
McDonald's	17	12	4	8	3	1	0	3	5	51
Papa John's	0	0	0	0	0	0	1	9	0	10
Pizza Hut	0	0	1	1	3	3	2	1	0	11
Popeyes	0	0	0	2	0	0	0	4	0	6
Quiznos	0	0	0	0	0	3	0	1	0	4
Sonic	0	16	0	16	2	1	0	0	9	43
Subway	0	0	0	0	0	45	0	0	0	45
Taco Bell	1	1	1	11	0	0	0	0	1	15
Wendy's	0	3	0	8	0	4	2	8	1	26

Note: Numbers in tan are highest number of ads communicating message.

McDONALD'S SEMANTIC NETWORK
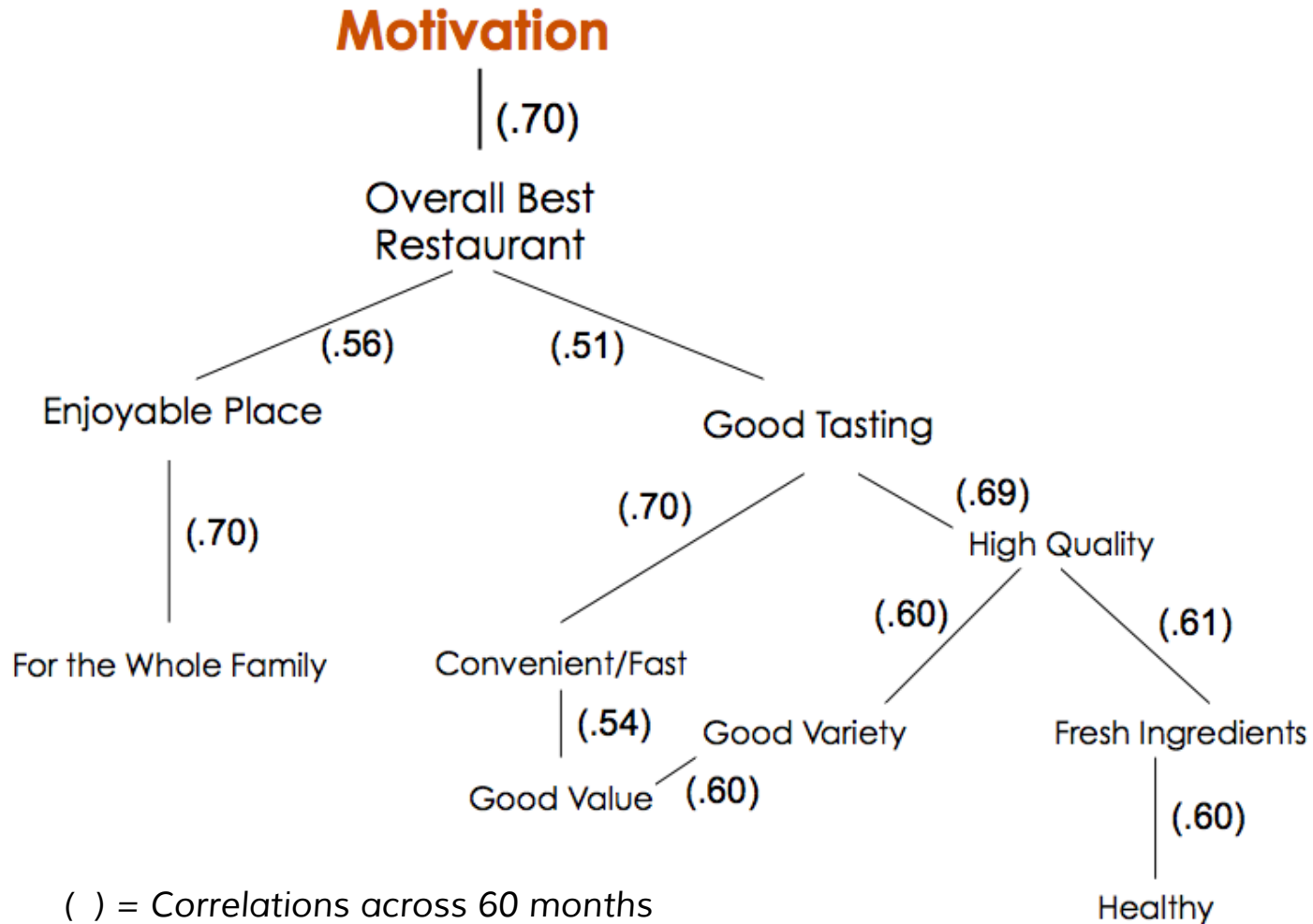
( ) = Correlations across 60 months
    of McDonald's advertising

McDONALD'S MESSAGING

| Relevant Brand Message (1 of 9 choices) | Convenience Message (Primary or only message) | No Strategic Message |

N =   227 ads   117 ads   40 ads

Avg. Ad Quality Score (API) =
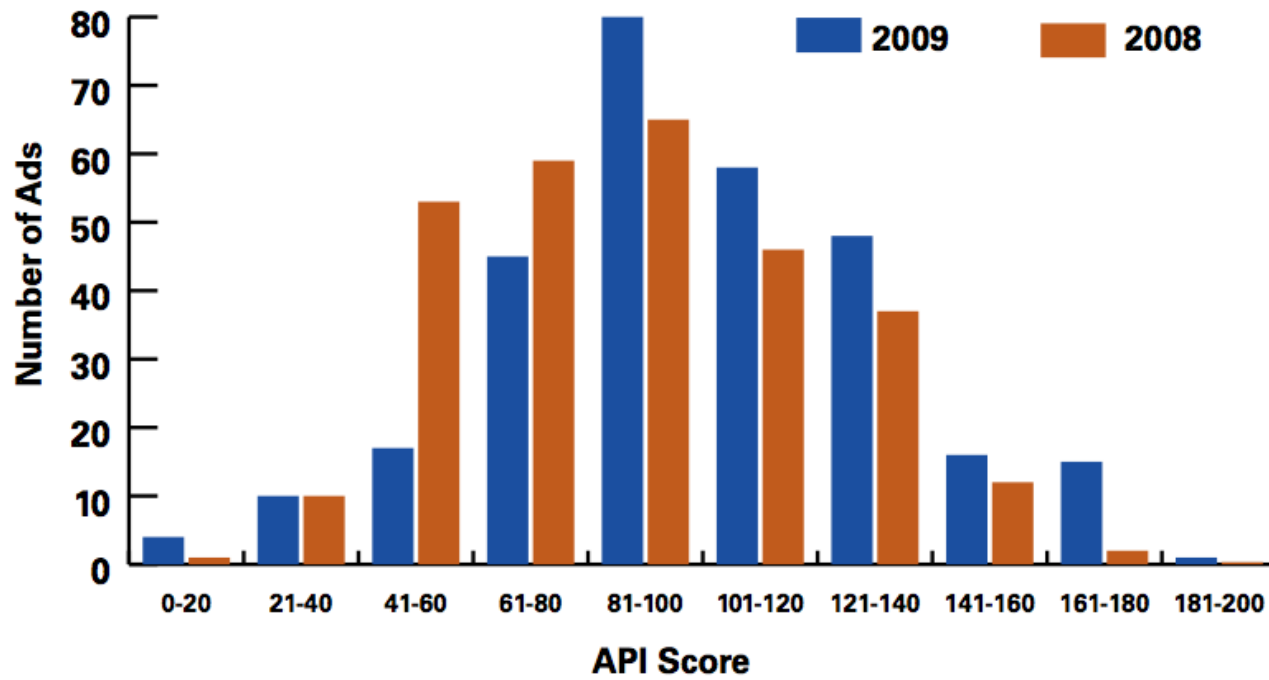
103   **84**   **67**

- API ad quality scores follow a normal bell curve
- The average for the creative population can shift up or down from year to year
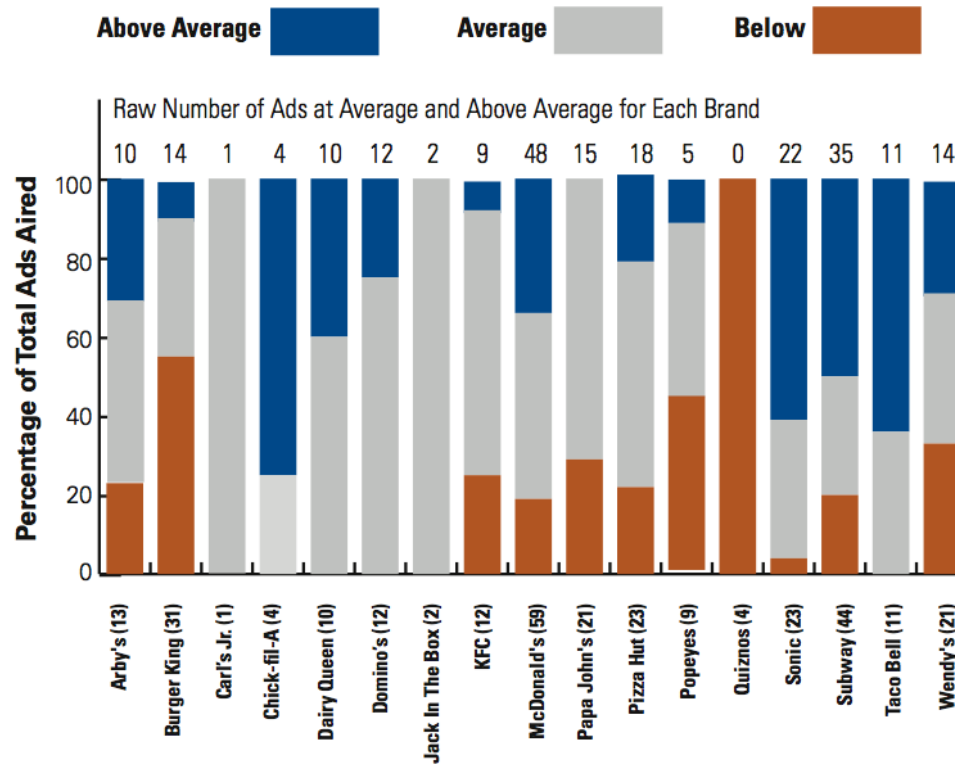
OVERALL AD BASE PERFORMANCE BY API

QSR 2009: 312 Ads Total

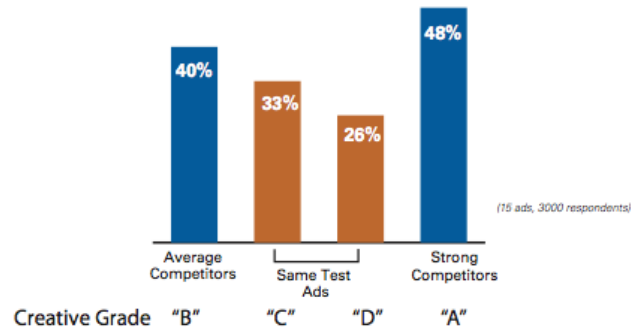Every player in this fast-moving category puts strong and weak ads on air each year.

BREAKOUTS OF API ACROSS COMPANIES

:30 Ads; Excludes Kid-Targeted Ads

Above Average ▮   Average ▮   Below ▮

Raw Number of Ads at Average and Above Average for Each Brand

10 14 1 4 10 12 2 9 48 15 18 5 0 22 35 11 14

Percentage of Total Ads Aired

Arby's (13), Burger King (31), Carl's Jr. (1), Chick-fil-A (4), Dairy Queen (10), Domino's (12), Jack In The Box (2), KFC (12), McDonald's (59), Papa John's (21), Pizza Hut (23), Popeyes (9), Quiznos (4), Sonic (23), Subway (44), Taco Bell (11), Wendy's (21)
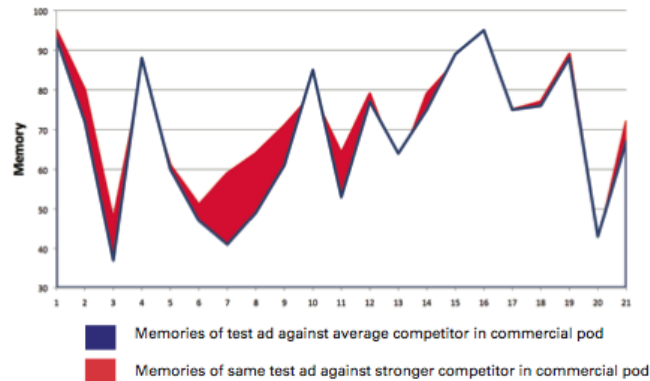
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DUELING MEMORIES

Dueling Competitive Ads

(15 ads, 3000 respondents)

When two competiting ads appear in the same commercial pod, the stronger ad erases memories of the weaker ad. An "A" ad can turn a "C" competitor into a "D" performance.

Memories of test ad against average competitor in commercial pod

Memories of same test ad against stronger competitor in commercial pod

The stronger ad erases the memories of the weaker ad.

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Ameritest® is a seven-time winner of the David Ogilvy Award for research excellence, including the Grand Ogilvy Award for our work with IBM.

We've thought a lot about how advertising works. To see some of the dozens of articles we've published, visit: www.ameritest.net/resources