MEDIA SCIENCE NEWSLETTER

324 East 35th Street New York, New York 10016 212 - 725 - 5546

Media/Advertising News Interpretation for the Decisionmaker.

Volume III. Issue 4.
June 1-15, 1981

Dear Colleague:

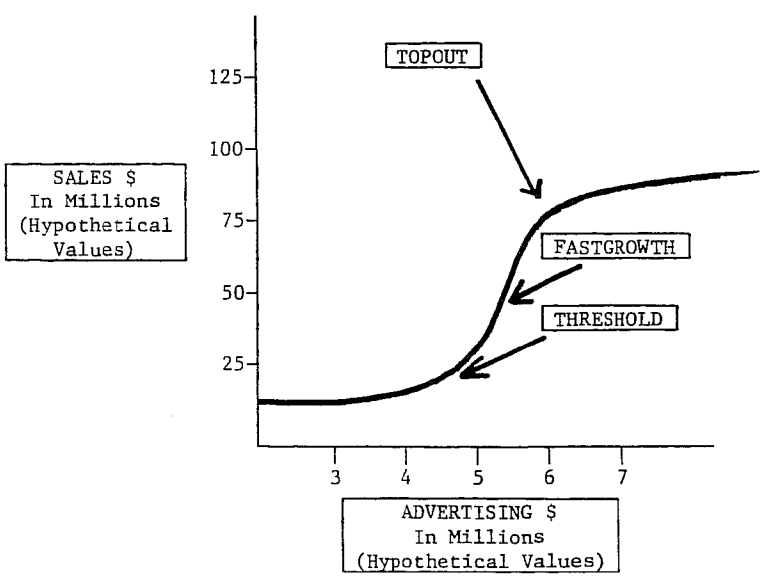
NEWLY-REDISCOVERED "S-CURVE" MARKETING PRINCIPLE APPEARS TO BE ONE IMPORTANT KEY TO GIVING U.S. PRODUCTIVITY THE NEEDED BOOST.

Many U.S. companies are apparently overspending in "topped-out" markets, according to separate studies by Dr. William Weilbacher's Bismark Corporation and our own Media Science Measurements Company, as reported in last issue.

This pattern represents a real watershed for increased profits. As Bill Weilbacher pointed out in his speech to the Association of National Advertisers (May 5), "Most of the advertisers in this room come from companies whose advertising expenditures exceed their net profits." Thus, any substantial increase in the productivity of those advertising expenditures is sure to have a substantial impact on the bottom line.

Potential positive bottomline impact is even greater since exploitation of the S-Curve Principle can increase the productivity of promotion investments as well as of advertising investments.

For example, in one case reported by Weilbacher, Budweiser share of market was increased from 8.14% to 12.94%, while total advertising was reduced from $1.89 to $0.80 per barrel, as a result of cutting back ad dollars in topped-out markets while actually increasing ad dollars in fastgrowth markets.



Most studies which compare advertising to sales find an S-Curve relationship between these two factors: up to a certain "threshold", advertising tends to be largely ineffective in increasing sales; once that level is reached, a "fastgrowth" phase begins, during which advertising is highly sales effective; then as advertising increase is continued this phase eventually "tops out", at which point further increases in advertising no longer produce significant increases in sales.

For example, using our hypothetical values above, our brand increases spending from three to four million dollars, and sales hardly increases at all. But when we increase from four million to five million dollars in advertising, sales virtually double. They continue

strong growth as we continue advertising increase from five to six million dollars. Then from six to seven million in advertising, sales response is virtually nil. This is the kind of pattern which emerges in study after study comparing sales to advertising. It has been known for a long time.

What is new is the realization that each local market will probably be at a different stage of the S-Curve.

The markets that have gotten the most advertising support for the longest time will tend to be in the topout phase. The other markets that have never or infrequently "earned" local advertising support before, will tend to be in the fastgrowth or pre-threshold phase. Each dollar in advertising shifted out of the topped-out into the fastgrowth markets will tend to return more on investment.

In many cases a brand still has some fastgrowth markets among the larger markets, but is not pouring advertising dollars into these potential productivity plums as it should be.

If every U.S. advertiser now compares its advertising and sales trends on a market-by-market basis, and allocates local advertising heavy-up where the fastgrowth is, not where the volume is (national media will cover that), we would expect to see a significant spurt in U.S. real GNP growth, as well as real growth in many U.S. cities that are fortunate enough to be on the fastgrowth part of many brands' curves.

Due to the natural dread which we all feel when we think about cutting back advertising in the large markets, we propose matched-market testing of this radical new allocation paradigm, before fully executing it in all markets.

We recommend the following experience for all executives responsible for advertising investments: (1) look at a table showing you brand sales vs. advertising dollars in each market, with indices so you can see the relationships clearly. This will probably reassure you of the wisdom of your current allocation strategy. This way of looking at the information is so seductive, that it has kept us from noticing a completely different pattern, one that turns out to be far more relevant:

(2) Now ask that two more columns be added to the table, showing "percent change in advertising" and "percent change in sales" from the prior period. At this point you could find yourself in an altered state of consciousness. In some markets where the advertising investment had seemed to be pretty much in line with sales, now you'll note that advertising has been increasing rapidly while sales are increasing minimally or are declining. Now you might find yourself thinking, "Must we just go on throwing good money into that black hole?" Note that until you saw the trend data you could not know it was a black hole. This has been a dangerous media accounting process!

You may also see a number of markets which had seemed pretty uninteresting before, which all of a sudden seem like markets worth studying: in these, only slight advertising increases, perhaps resulting from accidental spill-in, have apparently triggered rocketing sales. You might find yourself wondering, "Why not just throw a few more bucks into that one, just as a test? What can we lose?" Note again that had you not looked at trend data these markets would never have seemed worth a heavy-up test.

In order to give you a foretaste of this experience before you get to try it on your own brands, here are some actual masked data for a major package goods brand:

Brand X

	Apparently Topped-Out Markets 80 vs 79 % Change Advertising	Sales
*Los Angeles	+79	-6
*Sacramento	+66	+3
*Fresno	+91	-6
*Seattle	+48	+2
*Spokane	+117	+3
*Syracuse	+15	-6
*Portland/ Poland Springs Etc.	+31	+4

*Markets receiving local advertising support.

	Apparently Fastgrowth Markets 80 vs 79 % Change Advertising	Sales
*New York	+12	+4
Chicago	+28	+13
Pittsburgh	+26	+8
Washington DC	+24	+21
Baltimore	+28	+18
Miami	+4	+15
Youngstown	+31	+35
Cincinnati	+33	+18
Minneapolis/ St. Paul	+31	+25
Harrisburg/York/ Lancaster/ Lebanon	+24	+25
San Antonio	+22	+34
Grand Rapids/ Kalamazoo	+31	+68
Orlando/Day- tona Beach	+19	+36
Tampa/St. Petersburg	-2	+16
Raleigh-Durham	+5	+45
Charlotte	+4	+24
Milwaukee	+28	+26
Etc.		

Note that most of the local advertising investment is currently going into topped-out rather than into fastgrowth markets. These results are typical of the data we have seen for dozens of brands. Recommend that you look at data for your own brands soon, and structure a test.

For example, in the case above, a test might be structured as follows:

Apparent Topped-Out Markets	
Test Market*	Control Market**
Fresno	Los Angeles
Spokane	Seattle

Apparent Fastgrowth Markets	
Test Market†	Control Market‡
Raleigh-Durham	Charlotte
Washington D.C.	Baltimore
Orlando-Daytona	Tampa/St. Petersburg

During the six-month test period:

*Cut back local media spending to zero in these markets.
**Continue normal local media spending in these markets.
†Test a high level of local media support in these markets.
‡Continue non-investment in local media in these markets.

Note that a test like this can be done for less than nothing, since money is saved in the topped-out test markets with which to pay for local media weight in the fastgrowth test markets.

NEW SYSTEM OPTI*MARK IS SPECIFICALLY DESIGNED TO PERFORM THIS KIND OF S-CURVE TESTING, POST-EVALUATION AND PLANNING, VIA NEW GENERATION OF "ULTRA EXECUTIVE-FRIENDLY" DESKTOP TERMINALS AND/OR PRINTED REPORTS.

The system has been developed by Media Science Measurements Company; Iconix, Inc., a cutting-edge computer thinktank specializing in the latest generation of "ultrafriendly" colorgraphic computers; and Broadcast Advertisers Reports, Inc., the company that monitors television commercial activity market-to-market for the industry.

Sales, advertising, and promotion data are input for the brand and its competition, market by market, time period by time period, and are updated as new data come in. Client internal data and/or syndicated sources such as SAMI, Nielsen Food & Drug Index, BAR, etc. are fed in, depending upon client selection of databases believed to be the most accurate-- or on alternate databases side-by-side in order to study the differences.

OPTI*MARK cross-analyzes all data from an S-Curve perspective and reports which markets appear to be topped-out vs. fastgrowth, and the system suggests what you might do about it, including setting up possible matched test & control markets for you to consider. If you then go ahead and test a shift from topped-out to fastgrowth markets, OPTI*MARK helps you monitor results as they come in, and move quickly to exploit potentials in all markets.

The potential profit impact of the S-Curve is suggested by the return on investment (ROI) differences between fastgrowth vs. topped-out markets: as shown in the masked table abc fastgrowth markets can have more than a ten-to-one ROI advantage over topped-out markets. Skewing investment to the fastgrowth markets will necessarily tend to increase overall ROI.

Knowing that we are all drowning in information, Iconix, Inc. specializes in "icons", i.e. the visual presentation of the most-condensed, most-pivotal information. Unlike the computer terminals which have been used in the communications industry since introduction by IMS and Telmar in the late 60's, which tend to be black & white printers or black & white screens, the Iconix hardware is the latest in colorgraphic technology, able to store and manipulate three-dimensional visuals in 256 colors, print instant color hard copy, and produce slides. Thus OPTI*MARK contains its own efficient presentation-making capacity, which of course can be adapted by the client for other uses.

The potential increased profit yield is larger by two to three orders of magnitude than the cost of putting in and fully utilizing the system (in five figures per brand per year for a multibrand company).

The system can be tested for under $10,000 by ordering hardcopy reports delivered off-line instead of putting in a terminal at first. The reports contain English text as well as color graphs and standard tables.

OPTI*MARK is currently operational in the batch mode, and will be operational online in early Fall.

The system will then continue to grow, until it has put all important marketing information at the fingertips of marketers, processed through the most sophisticated decision models available such as the S-Curve, and presented in "icon" form.

Building upon the S-Curve model, more advanced OPTI*MARK systems are already in development which will permit intermedia sales productivity comparisons analogous to the current system's intermarket sales productivity comparisons. Those systems will also provide means of evaluating the sales productivity of alternate advertising frequency levels.

Still more advanced OPTI*MARK systems are already in development which will project forward in time the advertising/promotion/sales relationships found to exist in the past. Users will be able to simulate and project the sales results of alternate budget levels and strategies, including alternate mixes of advertising and promotion, alternate media mixes, etc.

An optimization system is already under development, as suggested by the name OPTI*MARK (for *optimizing marketing*).

More information on Iconix/OPTI*MARK from Media Science Measurements Company at 212-679-0669.

S-CURVE MARKETING AND PRODUCTIVITY/INFLATION.

The OPTI*MARK venturers realistically expect competition, and are preparing to stay ahead of it. It seems to us that the S-Curve approach is going to be tried and it will work. This can even increase the dollar against other currencies and thus help check U.S. inflation. Then when our trading partners follow our lead it could start the next boom cycle in the West.

Devoutly to be wished.

You can contribute to this possibility at no risk by performing the experiment involving your own data described on page 2.

SPECIAL REPORT IN NEXT ISSUE: AUDIENCE PROJECTIONS FOR NEW ELECTRONIC MEDIA IN PRIME TIME 1980-1990. Estimates of the current situation and of how fast it will change, year by year, in non-NEM, basic and pay homes. Share projections for the networks, pay channels, basic cable satellite channels, independents, STV, PBS, local origination, VCR, videodisc, home computers, etc. and comparisons to alternate projections by esteemed colleague Paul Kagan and his associates. Don't miss it.

Very Truly Yours,

MEDIA SCIENCE NEWSLETTER

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Published twice-monthly by MEDIA SCIENCE NEWSLETTER, 324 East 35th Street, New York, New York 10016.
One-year subscription: $186.00 in U.S., Canada and Mexico; $211.00 elsewhere.