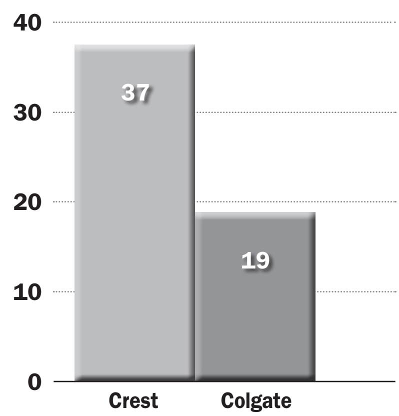
1

Evidence-based Marketing

Byron Sharp

Imagine you are the Insights Director of Colgate Palmolive. Margaret, the Senior Category Manager for toothpaste, is standing at your office door and she is obviously distressed. She is waving a recently received report from your global market research supplier, and this is what it shows:[1]

Figure 1.1: Toothpaste brands: US market shares



Source: Spaeth & Hess, 1989.

1 This is real data from a Chicago single-source panel reported in Spaeth & Hess (1989).

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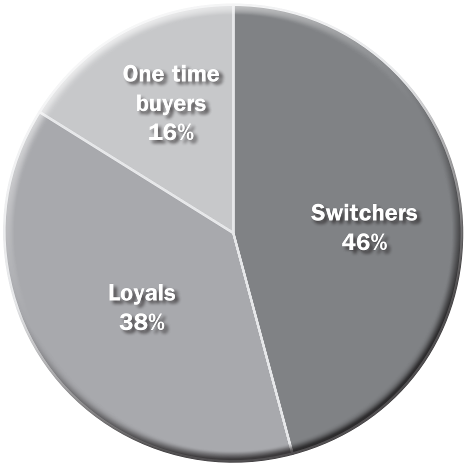
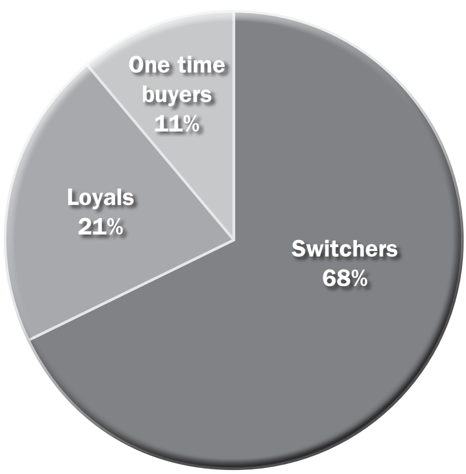
The market research shows that Procter & Gamble's Crest toothpaste has double the market share of Colgate in the US. However, this has long been known and is not the reason why Margaret is upset. It's the next couple of graphs that have her worried (see Figures 1.2 and 1.3).

Figure 1.2: Crest consumer base



Source: Spaeth & Hess, 1989.

Figure 1.3: Colgate consumer base



Source: Spaeth & Hess, 1989.

They decompose the sales volume of each rival brand according to the recent repeat-buying behaviour of their consumers.

The percentage of Colgate's sales that came from loyal customers is almost half that of Crest's 'loyals' sales, 'loyals' being people who bought the brand for the majority of their toothpaste purchasing during the analysis period. Colgate's sales come much more from 'switchers'—people who bought Colgate at least once in the analysis period, although most of their buying was of other brands.

Margaret is demanding an explanation. What does this mean? Why is Colgate's sales base so unhealthy? Is the brand doomed? What does this mean for her ambitious growth targets?

How would you answer?

Of course, you would call for more research. It's an Insight Director's prerogative.

The additional research breaks down the market share of each company further by analysing the switchers within both the Crest and Colgate customer bases.

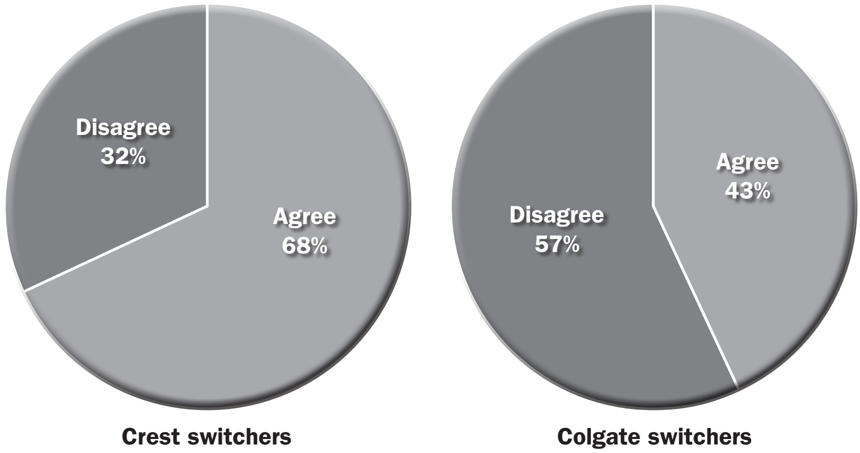
The additional research consists of a survey; the first question of which asks customers about their attitudinal loyalty. Figure 1.4 reports the percentage of switchers who agree with the statement, 'This is my preferred brand.' (The switcher group is the interesting one, as we can safely assume that both Crest's and Colgate's loyals will report that their brand is their preferred one.)

As you can see, Figure 1.4 shows that Crest switchers are substantially more likely to say that Crest is their preferred brand.

The survey's second question asks customers about their perceptions of quality. Figure 1.5 reports the quality perceptions of the switchers in each customer base.

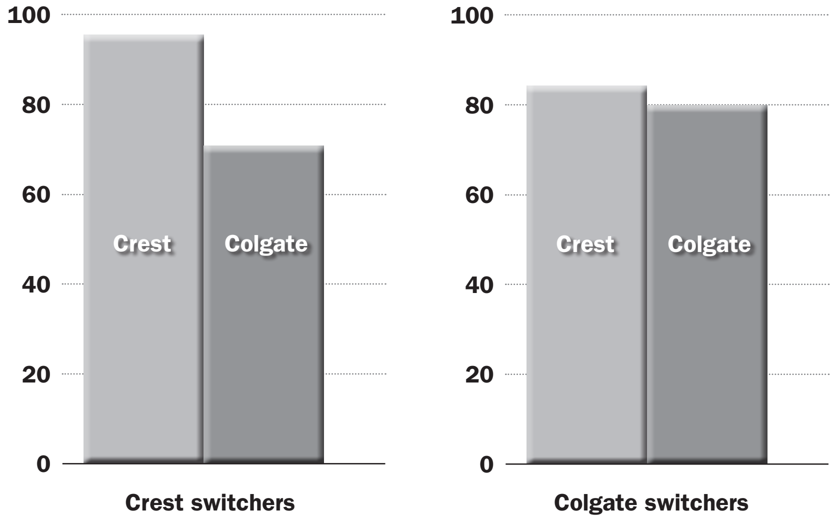
Both Crest and Colgate buyers perceive both brands to be quality products—as they should, because these are both well researched and well-made products. People who buy Colgate (who also often buy other brands) are slightly more likely to state that Colgate is a quality brand than Crest.

Figure 1.4: Percentage of brand buyers who say, 'This is my preferred brand'



Source: Spaeth & Hess, 1989.

Figure 1.5: Percentage of brand buyers who say, 'This is a quality product'



Source: Spaeth & Hess, 1989.

Here are the 'brand insights' the market research agency reports:

- Colgate's sales volume comes mostly from non-loyal buyers
- Colgate is 50% more dependent on switchers than Crest
- Colgate buyers are less loyal, both behaviourally and attitudinally
- Even Colgate buyers think Crest is a quality product
- Colgate is a quality product but it has perception problems and lacks loyalty
- Colgate is attracting the wrong sort of buyer.

These insights are translated into the following **action recommendations**. Colgate needs:

- more persuasive advertising that stresses Colgate's quality
- comparative advertisements against Crest
- media schedules that emphasise frequency of exposure (to shift attitudes)
- research to profile Colgate 'loyals' with the aim of attracting more people like this.

All this sounds perfectly normal. It happens in marketing departments around the world every day. You personally may have come up with a somewhat different marketing strategy, depending on your own experience, preferences, or creativity, but the insights and the strategy appear reasonable, and not unusual. *Except that they are wrong.*

The 'insights' suggested here reflect ignorance of relevant scientific laws about buyer behaviour and marketing metrics, laws that we'll cover in this book.

Consequently, Colgate's fictional Insights Director is jumping at shadows, and overly worrying Margaret. Colgate's loyalty metrics, both attitudinal and behavioural, are normal for a brand with half the market share of Crest. Indeed all the other research findings are essentially repeating the findings of the first graph (Figure 1.1), that is, that Colgate is half the size of Crest in this market. These metrics don't show why it is half the size; they are what they are *because* of Colgate's size. All will be explained in the forthcoming chapters (if you can't wait, turn to page vii for an explanation of the laws that relate to this Colgate case study).

Are marketers bleeding the companies that employ them?

I am in awe of the modern market economy and the diversity and quality of products it delivers. This modern economy is the product of one of the most incredible social experiments: in the twentieth century classical, planned economies were tried alongside more market economies (Hunt & Morgan, 1995). The results were startling. Market economies won by a mile, as they provide people with more choice, fewer queues, and better, cheaper products and services. For example, within a few hundred metres of where I am sitting I have a choice of multiple grocery stores, bakeries, pharmacies, cafes, wine stores, even several fine chocolate shops. Not bad!

When I was in Thailand my charming host Professor Tasman Smith asked if we had many Thai restaurants back home in Adelaide, Australia. I did a quick mental count and replied, 'Yes, there are six within a short walk from our house.' This illustrates the fact that those who live in developed market economies are spoilt for choice—we can eat pizza in Thailand, or order a curry in Paris, if we want to. This is because today's marketers do a good job of getting attractive goods to market.

But marketing is far from perfect; there is much waste. This matters because marketing activities consume a vast amount of our time—as Robert Louis Stevenson said, 'Everybody lives by selling something.' Poor marketing wastes an incalculable amount of resources, and it prevents and slows the uptake of life-enhancing products and social initiatives.

Marketing practice, for all its advances, has never been strong on evaluation; there is plenty of ineffectiveness and room for improvement. Response rates to advertising are a good example of marketing inefficiency. However you define a consumer response—from clicking on a web ad to driving to a store—response levels are extremely low and falling. It's even more scary if you look at the impact of advertising on memory. For example, one of our yet-to-be-published studies on advertising productivity examined 143 ads on Australian television that were screened on consecutive weeknight evenings. That weekend respondents were telephoned and those who watched the programs during which the ads were played were asked if they recognised the particular television commercial (i.e. each ad was verbally described to only those people who had an opportunity to see it). The average recognition score for a television ad was barely 40% (i.e. 40% of potential viewers noticed the ad when it aired). Those respondents who recognised the ad were then asked what brand it was for, and on average the correct brand was linked to only approximately 40% of the ads. Consider that for an ad to work it needs to at the very least be noticed, processed *and* be linked to the correct brand. So only around 16%[2] of these advertising exposures passed the two necessary hurdles; put another way, there was 84% wastage!

Note that the ads' effectiveness varied widely. Some were noticed by more viewers, and correctly branded too. But most were not. This suggests that there is much to gain from learning how to make better advertising.

There is much to learn about marketing. Even educated and very senior marketers believe many things that are wrong, and there are many important facts that simply aren't widely known. Many well-paid marketers are operating with wrong assumptions, so they are making mistakes, and wasting money, without even knowing it.

Marketing professionals today are better educated than in the past, and they have access to much more data on buying behaviour. But the study of marketing is so young that we would be arrogant to believe that we know it all, or even that we have got the basics right yet. We can draw an analogy with medical practice. For centuries this noble profession has attracted some of the best and brightest people in society, who were typically far better educated than other professionals. Yet for 2500 years these experts enthusiastically and universally taught and practised bloodletting

2 Near identical results are reported 15 years ago in du Plessis (1994). A figure around 16% is also not uncommon in advertising recall (i.e. where the brand name is the cue for recalling the ad).

(a generally useless and often fatal 'cure'). Only very recently, about 80 years ago, medical professionals started doing the very opposite, and today blood transfusions save numerous lives every day. Marketing managers operate a bit like Medieval doctors—working on impressions and myth-based explanations.

It would be arrogant to think that the current marketing 'best practice' does not contain many mistakes and erroneous assumptions. I used to teach some erroneous stuff to my university students; I know how easy it is to parrot nonsense simply because that's what we were taught to think and it appears to make sense. This book challenges some of the conventional wisdom with empirical evidence. I hope you find this 'myth-busting' knowledge as liberating as it is useful.

Marketing texts

Marketing prides itself on being a practical discipline, so marketing texts (textbooks, marketing magazines, consultant reports, etc.) should be full of answers to practical questions, such as:

- What will happen to sales if I change the price of the product?
- Why can I see the effect of price promotions in the sales data, but the advertising campaigns barely show up, if at all? Is advertising not generating sales?
- What is a reasonable cross-selling target?
- Will the new brand cannibalise sales from the current brand? If so, by how much?
- Should I pay double for a full-page newspaper ad or buy the half-page ad instead?
- When should 15-second television ads be used?

Yet it is difficult to find answers to such practical questions, let alone to find explanatory and predictive theories that can be used to provide the solutions.

A good colleague of mine, Scott Armstrong, Professor at the Wharton School, once put marketing principles texts to the test (Armstrong &

Schultz, 1992, pp. 253–65). He asked four doctoral students to independently go through nine leading texts looking for managerial principles. They found many (566) normative ('you should do') statements, but the texts failed to accompany the statements with supporting empirical evidence. The students only found twenty statements that were clear and meaningful. When these twenty statements were sent to marketing professors they rated only half as true, and said they knew of supporting evidence for only two. Only one single statement was universally rated as true, supported by evidence, as well as being considered managerially useful—but this principle was also rated as 'unsurprising, even to someone who had never taken a marketing course'.[3]

We could dismiss our texts as harmless introductions to marketing practice, but marketing texts aren't harmless, because they routinely lead managers astray. Texts tell us what to worry about (customer satisfaction, image perceptions, brand equity, loyalty), what we should be doing (segmentation, targeting), what techniques to use, and what metrics to measure. Marketing texts largely reflect and reinforce current practice and existing beliefs. They contain a lot of good basic information, like telling us that if we want to advertise we should remember to book the media. But texts are also full of myths; the sort of myths that sap the effectiveness and productivity of marketing departments.

Many of the things that marketing people think are important, such as loyalty programs, aren't (see Chapter 11). Many of the 'facts' marketing people believe, particularly about brand buying, are incorrect. Furthermore, many marketers lack the deep knowledge necessary to ask the questions that will lead to new valuable insights.

Take the following test on strategic assumptions (Table 1.1). Marketing professionals agree that these assumptions really matter; they underpin strategic marketing decisions that are linked to substantial expenditure. How would you and your marketing colleagues answer these questions?

3 The statement said that in conducting advertising experiments, test cities should be isolated so that promotions in one city don't influence sales in another.

Would there be consensus? If your answers were questioned, could you point to anything more than anecdotes to support your view?

Table 1.1: Strategic assumptions test

Strategic assumptions	True, false, or don't know?
Differentiating our brand is a vital marketing task.	
Loyalty metrics reflect the strength, not size, of our brand.	
Retention is cheaper than acquisition.	
Price promotions boost penetration not loyalty.	
Who we compete with depends on the positioning of our brand image.	
Mass marketing is dead or, at the very least, no longer competitive.	
Buyers have a special reason why they buy our brand.	
Our buyers are a distinctive type of person.	
20% of our buyers deliver at least 80% of our sales.	

If you answer true to most of the questions above then you are operating under false assumptions. This book will give you the evidence. As Mark Twain wrote in his notebook in 1898, 'Education consists mainly of what we have unlearned.'

False assumptions have led us astray in the past

Science's systematic approach to discovery is a relatively recent practice that didn't really get going until around the 1700s. Prior to that, knowledge largely came from myth, folk-tale, and from experts in authority (chiefs, priests, kings and queens). How these 'experts' acquired their knowledge no-one knew or dared ask. Most of the time their understanding was wrong, and there were glaring gaps. This lack of accurate knowledge meant we didn't think to ask useful questions. So for millions of years