

## **Beyond Media Neutrality And Accountability to R<sup>3</sup>OI And Capital Choice**

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**Presented by  
Michele Levine, Chief Executive, Roy Morgan Research  
Gary Morgan, Executive Chairman, Roy Morgan Research  
Melbourne, Australia**

Despite spending the last 20 years (or 60 years between us) in the business of market research, advertising, brand health, etc, we admit to having had extreme difficulty seeing the big picture – having a fundamental framework to organise all the elements, experts, metrics and “magic”, let alone being able to weigh, sort and prioritise them. We admit to having fallen foul of each of the interesting and unique ways of viewing the world of brands, and advertising, etc.

If we recognise the R in ROI is actually three Rs, then the Triple ROI (or R<sup>3</sup>OI) provides the fundamental framework. But rather than just add yet another metric to an already crowded field we'd like to provide some context to set the scene and demonstrate why Triple ROI can indeed provide the fundamental unifying framework.

The first known advertising we can find reference to was some 3,000 years ago.

An ancient written advertisement, perhaps 3,000 years old, was discovered by an archeologist delving in the ruins of Thebes. It offered a “whole gold coin” as reward for the return of a runaway man-slave named Shem.

Either the man got his slave back and paid the gold coin (presumably he was happy with the value equation) or he didn't. Either way it was pretty simple.

The point is not the medium, the message, the slave or the gold coin. The point is that the person putting up the money – the owner – was directly involved. Every ounce of intellect, experience, and judgement he had was brought to bear on the decision.

Owners made their own decisions – they dealt with the media.

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<sup>3</sup> Triple ROI or R to the power of 3 OI

The first advertising is generally thought of as public criers in ancient times circulating through the streets calling attention to the sale of such items as slaves, cattle and imports. Posters were also an early advertising medium

The invention of movable type (c. 1450) by Johann Gutenberg made it possible to produce many copies of books and periodicals cheaply and quickly and ushered in the modern era of advertising. By the 18<sup>th</sup> Century, advertising, essentially newspaper advertising, was so prolific that in 1758 Samuel Johnson wrote in *the Idler*:

*“Advertisements are now so numerous that they are very negligently perused, and it is therefore become necessary to gain attention by magnificence of promise and by eloquence sometimes sublime and sometimes pathetick.”*

But post World War I was the era of salesmanship. Advertising was accepted as an essential tool in selling the booming output of the nation’s factories. “*It pays to advertise*” became a standard slogan.

A major new advertising medium, radio, was added during the 1920s.

The depression of the 1930s brought on a searching re-examination of the entire economic system, including advertising. Total expenditures for advertising dropped to \$1,300,000,000 in 1933, less than half the 1929 total. The sales resistance of consumers forced businessmen to turn to advertising research. Researchers like Art (AC) Nielsen, George Gallup and Daniel Starch were among the pioneers in trying to determine what kind of advertising was most effective.

So until relatively recently – it was the owners and businessmen who were driving the decisions about advertising and marketing, and making their own evaluations – some kind of ‘gestalt’, as to the value of such advertising and marketing.

Immediately after the war, came TV. With the advent of radio, television and the increasing complexity, advertising agencies took on a larger and larger part.

There are records of advertising agencies as early as 1812 in London. In the later 1800s in the US, more agencies, essentially agents for the publishers emerged. However, it was really the 20<sup>th</sup> Century that saw the evolution of the advertising industry, as we know it today. And with that a middleman industry was born, creating of a chasm between the owner/businessman and the stuff of advertising and marketing.

There are parallels in the research industry – Roy Morgan (the man not the company he founded) worked closely with Sir Keith Murdoch (father of Rupert Murdoch) in the 1940s developing an understanding of what readers wanted, how they read newspapers, what interested them, etc. Sir Keith changed his newspapers to make use of the information.

There was no middleman – no research manager, no procurement manager, no competitive quotes – just business people working together to understand their market and build a business.

Those days are not likely to return (except for small businesses). But we have come almost full circle – the new Board is the 21<sup>st</sup> Century embodiment of the owner or businessman.

Corporate collapses have raised questions in every Boardroom around the world – I hope –  
“*Could that be our Company?*” “*How would I know?*”, “*What would I do if I suspected?*”

The new Corporate Governance Guidelines which have emerged around the world are a further response to the changing demands of society – a better educated, more critically involved, more uneasy, disillusioned, and critical society than ever before.

Over the last two years Roy Morgan Research has interviewed more than two thousand Company Directors to establish their views on the economy, government and social issues<sup>4</sup> including special in-depth interviews with high profile, successful Directors, on the collapse of former high profile companies.

While Directors say, in practice, “*most time and effort is placed on ensuring the business is sound financially, and on compliance issues*”, Directors clearly see the **role** of the Board should be directed towards growth and future strategy “*setting future strategies and ensuring future sustainability and profitability of the business*”.

Quality Directors are now engaging in the process of building the necessary infrastructure to allow them to truly fulfill the duties and responsibilities of governance, and at the same time, not lose sight of their real job – directing and protecting and increasing shareholder value.

Directors are being advised that their responsibility and accountability is all inclusive.

Today despite increased focus on Corporate Governance, Directors are aware they can't afford to lose sight of their real job – protecting and increasing shareholder value.

And sales, customers and brands relate directly to shareholder value.

The equity associated with *Brands* is valued by shareholders as being worth literally billions of dollars. It has been estimated that over 70% of the value of Fortune 500 companies in the US resides in intangible assets. So the Board of Directors is turning its mind to the stuff of advertising.

A major study by Josh McQueen (until recently, Worldwide Director of Brand Value for Roy Morgan International) based on the 10 year performance of Standard and Poor's companies (1990 to 1999) showed share price is mostly under the company's control.

Specifically 80% of the increase in shareholder value can be attributed to seven key factors. **Corporate earnings** and **Earnings forecasts** were the most important, followed closely by **Investing in the Brand**, **Leveraging innovation**, and **Diversification**. **Cost reduction**, and **Cost containment** were relatively weak contributors to share price.

So Directors are now engaging, or recognising the need to engage with the business of Brands, Customers, and Sales – that part of the company typically left to the Marketing Director or the agency.

*“It seemed like a good idea at the time.”*

The marketing guy

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<sup>4</sup> Roy Morgan Single Source – “The Director Segment” April 2002-March 2003

*“We’ve got a new Marketing Director on board now, and he seems ok”.*

The Company Director

Directors looking at the plethora of research studies, market segmentation and advertising campaigns could be forgiven for not seeing how they translated into the financials (other than the obvious, if nebulous, sense that if a brand is perceived well, then it is probably more valued).

There is an elusive ‘value equation’ we are all after. It has been sought in many ways/places from Productivity Improvements to Quality Assurance and Continuous Improvement, Gold Standards and World’s Best Practice, Media Neutrality, and ROI.

Each has something to offer, but there are winners and losers in every manifestation of this elusive ‘value equation’. Recall...

*“The client is thinking TV - the most beautiful words in advertising.”*

Peter Jordaan, Ad News 1994.

On the other hand beautiful words for the print media must be...

*“The aim is to achieve greater advertising productivity by enabling more powerful impact at a lower cost.”*

While the mantra that obviously favors Internet, direct marketing, and typically those things that perform well in sales response models would have to be...

*“Real time feedback means during the campaign, so that media and creative that under-perform can be withdrawn, and media that perform well can get an extra share.”*

Arie den Boar and Suzanne Bruin, 2004

‘Media Neutrality’ as a construct is, at its heart, designed to overcome these biases.

Since the early 1980s Roy Morgan Research has sought to provide tools to support media neutrality via Single Source which measures for the same respondent newspapers, magazines, television, radio, Internet, cinema, outdoor (albeit as yet primitive) and soon direct mail allowing multi-media and cross-media interactions to be measured by detailed segments.

*"Single Source: the only data set that can be used to analyse the impact of advertising on sales, in particular at the granular, respondent level. Fused or integrated data cannot accurately predict the exposure of each person, only the average person."*

Leslie Wood as quoted by Tony Jarvis 'The Future of Fusion'  
Admap October 2004

We still believe media neutrality (and thus Single Source) is crucial in this business, but of course the very word ‘media’ has its own in-built assumptions.

**Much has been written and tried in this search for the key to the ‘value equation’** – and critically to the kind of information and frameworks that will enable Directors to direct – to make the decisions and choices that need to be made and to set appropriate goals and strategic objectives.

The Balanced Scorecard of Kaplan and Norton, is widely used to translate the corporation’s mission, strategies and goals to relevant objectives and measures. These multiple measures can then reflect the mix of short, medium, and long-term goals of the corporation.

When it comes to brands, marketing, advertising and customers, the scorecard has not been so well articulated **and** marketing is seen as a cost – so we haven’t been as rigorous in our thinking or as clear and simple. Neil Shoebriidge, of the Australian Financial Review, points out that “marketing has a problem, that many CEOs regard it as a cost rather than an investment, and are not clear marketing generates a clear Return On Investment”. He claims “Few CEOs understand the clear role marketing plays in building brands and companies”.

Directors are increasingly seeking to demystify what experts do - to be able to step back and say the real question is not “How well are we doing it”, “How efficiently”, but “Do we need to be doing it at all?” “How will it translate into Brand Value, Sales, Customers and therefore share price and shareholder value?” “What is the level of risk to the NPV of the brand, and thus the earnings forecast?”

One of the difficulties a Board has is linking the experts’ goals and KPIs to the strategy and KPIs of the company.

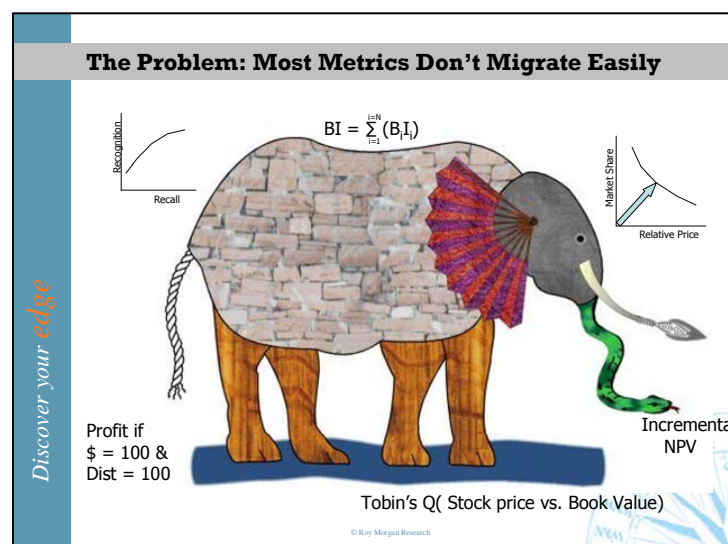
### Common language is critical

Some companies put senior marketing people on the Board. But even putting a top marketing person on the Board may not truly provide the common language, and the crucial linkages.

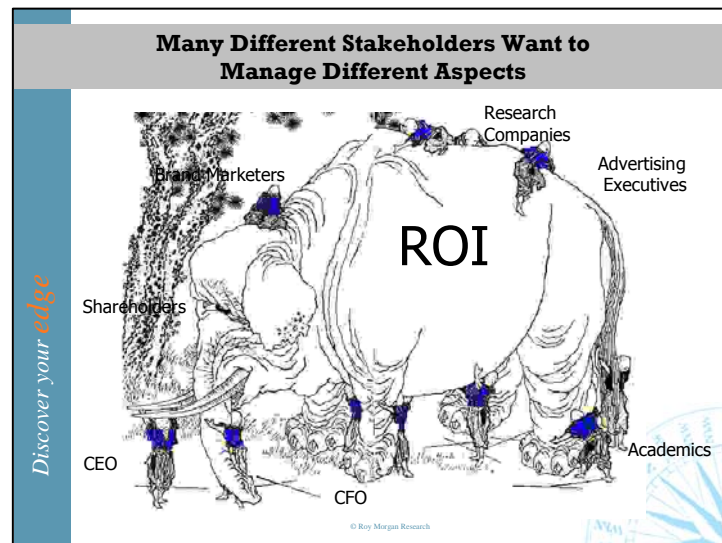
The March 2004 Admap ‘Marketing ROI: making accountability work’ began:

*‘Accountability means different things to different people.’*

Isn’t it true? Like the blind men touching different parts of the elephant and describing what they felt.



And isn't it true of so many of the constructs we create to help us negotiate our way through life and business? Whether it's 'brand equity', 'advertising effectiveness', 'customer satisfaction', 'employee equity', or even the notion of a 'brand'.



The problem is most metrics don't migrate easily.

In a well-conceived critical article on ROI, 'ROI is dead: now bury it', Tim Ambler reminds us that "*Colin Farrington, director general of the Institute of Public Relations, suggested that the term is a fashion statement*", and Tim himself says "*ROI is not so much understood as waved about as a totem to ward off evil spirits, namely those trying to cut advertising expenditure.*"

So what are we really on about – what is the elusive 'value equation' that's meant to:

- (a) evaluate through the rear vision mirror, and
- (b) to guide strategic decisions about the future?

Clear away the clutter, and don't be afraid to focus and segment.

It's about Recognized Response Rates.

The basic  $S \rightarrow R$  equation. (Stimulus  $\rightarrow$  Response) is still an invaluable construct.

Note the Stimulus is easily costed. It's the Response that is tricky. That's where focus and segmentation is crucial.

It's about a Triple R Response – three related but different strategic objectives corresponding to three related but different responses

1. Cash flow Response (sales)
2. People flow Response (customers or consumers)
3. Brand Response (brand value)

Most importantly these are all measurable. Our research has sought to ensure we have created the platform of both data and analytics/technology within which each of these approaches can be applied as frameworks. Roy Morgan through the continuous single source survey provides relevant metrics for them all for several industries.

**Sales Metrics** - Cross checked against actual sales data and potentially profitability

- Recent purchase
- Intention to purchase
- \$s spent by # customers
- Frequency by # customers
- Quantity by # customers

**Customer Metrics** - Cross-checked against patronage or CRM databases, and related to the same measures for competitors and the rest of the category

- # Customers and market share
- Share of customer wallet/holiday spend/shopping basket etc.
- Segmentation eg high value customers, particular target segments
- Customer acquisition/defection
- Customer satisfaction/repurchase intention/recommendation

**Brand Metrics** - Related to brand value in the balance sheet and compared with competitors and others in the set.

- Awareness
- Share of category
- Share of high value core/loyal customers
- Share of high value repertoire customers
- Share of critical segments, eg:
  - High volume core/loyal customers
  - High volume repertoire customers
  - Low value customers
- Behavioral loyalty
- Brand affinity/satisfaction

**Diagnostics include:**

Continuous advertising tracking for all in the category

Advertising spend for all in the category (or category spend).

**Strategic Segmentation is critical:**

Just as 1 million more votes in Texas could not possibly have made a difference to the US election outcome, a 2-point increase in satisfaction in an area where with no competition won't change the outcome, and a 20% increase in satisfaction among low value customers is not of great importance for the value of the brand.

**Risk analysis and growth projections can and should be applied differentially to the different Rs. (It's about choice and direction.)**

Just as there are different strategic agendas and risks in Exploration Vs Mine Operation in mining; in Overseas Expansion Vs Local Growth; in Diversification Vs Cost Cutting/Control; in Acquisition and Mergers Vs Organic Growth, there are different strategic agendas for each of the Rs, and different risks associated with each.

And as with all those examples the three Rs do not operate in isolation – nor are they independent of each other. There are complex and interesting interrelationships. So rather than thinking of mutually exclusive segments or strategies it is necessary to think of the Triple Rs as strategic focii – for instance most focus may be on sales, but it is important to consider the relevant linkages and measure the impact on customers and brand value. Similarly, if the main focus is on brand building, it is imperative to look at the impact on sales and customers and to seek an optimal overall solution.

### **Focus and Segmentation allows evaluation of proposed strategies**

Knowing the real shape of the Threat or Opportunity is crucial. As an analogy, if you have DVT (Deep Vein Thrombosis), and you go to hospital and are misdiagnosed as having had a heart attack, the best heart experts and the latest and most sophisticated equipment will probably not save you.

Similarly, if your *Brand Value* is at risk because your ‘loyal’ customer base is disenfranchised and you misdiagnose it as a competitive threat due to a price war – even a brilliantly executed mass ad campaign which gets the cash register ringing – could be the death of your brand.

Much marketing effort and media usage is directed to provide incentives for short term purchasing of repertoire customers who appear to need ongoing promotional support. Ideally the marketer would like to insulate the full-price loyal customer from this activity. Price communications in newspapers, mass distributed home deliveries, and end aisle displays would be more likely to generate sales without damaging brand value.

The mass media of TV, national newspapers and national radio, designed to build and sustain brand awareness, should not be targeted to loyal customers. Rather it would be targeted to light buyers who would have lower levels of awareness, (but who can be profitable because they are unlikely to be “savvy” about the price and offer). In-store, on-pack, Internet sites, and personalised direct marketing efforts would be better vehicles for loyal customers.

The real danger area is obviously in a takeover. **Often the takeover is designed to provide a valuable customer base. The Board’s challenge is to ensure the value in the new company is maintained and enhanced.** An understanding of the importance of maintaining the Brand Value at such a delicate time would warn the Board that mass advertising may be the most damaging thing the company could do. On the other hand a well-conceived customer intimacy program delivered through existing relationships may be the key to maintaining and strengthening the value of the brand the relationships with customers, and thus protecting the investment.

Armed with a **common language**, and **relevant linkages**, it is possible to articulate the Business Objectives of marketing, advertising, segmentation, customer intimacy programs, loyalty programs, etc. and to rationally allocate budgets or evaluate proposed budget allocations to marketing, product development, diversification, portfolio management, merger and acquisition strategies, or divestment strategies.

This is critical – it is about decisions about the future strategy – not measurement of what has already gone.



The three kinds of strategic objectives provide a framework for the Board to direct the business of *Marketing Director* and with the Triple R Response (a segmented ROI model) to seek accountability.

For this reason, while a Board will probably have lots of people looking after sales, customers and brand(s), **finally the Board is responsible for the** Triple R strategic direction and accountability.

It is not the business of the Ad agency that has responsibility for maybe 4% of the company, or even the Marketing director with responsibility for maybe a further 9% or 10% to determine the strategic agenda - or even the relative apportionment within three strategic agendas. It is clearly the responsibility of the Board of Directors who has responsibility for the entire company.

Besides, can we really imagine the Marketing Director advising the Board to reallocate some of the Marketing Budget to a Customer intimacy program, or to front-line staff training, even though that may be what the company needs?

The 21<sup>st</sup> Century Board knows ***“The marketing guy said ‘It seemed like a good idea at the time’ ”*** will not be a good enough answer, even if it is accompanied by ***“we’ve got a new Marketing Director on board now, and he seems ok”***.

A note of caution here about the metrics. The oft-quoted principle of *"What gets measured gets done"* neglects the most important corollary *"What gets rewarded appears to get done"*. It's human nature: whenever there's a bonus tied to a number the number is likely to be "enhanced". Whenever there is no independent measure it's even more dangerous.

There are so many examples of this - whether it's the inflated magazine readership currency used in many countries, or the under-estimated unemployment statistics (politically expedient for Governments), or customer satisfaction measured only among those whose complaints have been resolved.

And if you think the share price of a company is a reasonable measure of the value of the company, think again: many CEOs' salaries are linked to the share price! Share buy-backs mean a company can keep the share price artificially high. And if you're still not convinced, ask yourself what was different at Enron or Worldcom before and after the falls.

### **Beyond R<sup>3</sup>OI or the Triple Rs is the bigger question of capital choice.**

Given the best estimates of risk and return associated with the optimum Triple R equation the Board still must consider the bigger question of whether it could be a wiser (lower risk, or higher return) option to invest in an existing business, brand, or expertise (perhaps a competitor)

The final 'value' question to all of us here must be ***“Given the choice of investing in competing, marketing, advertising and business building, or buying a business, what would we do?”***

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<sup>3</sup> Triple ROI or R to the power of 3 OI

The growth of such major agencies and research groups as WPP by strategic acquisitions rather than marketing, advertising and sales or business development – must at least raise the question. *“Are we walking the talk? Do we, would we, put our money where today our invoices are?”*

**For further details contact:**

*Michele Levine, Chief Executive, Roy Morgan Research*

*Office - +61 (0)3 9224 5215 Facsimile - +61 (0)3 9629 1250 Mobile - +61 (0)411 129 093*

E-mail: [michele.levine@roymorgan.com](mailto:michele.levine@roymorgan.com)

[www.roymorgan.com](http://www.roymorgan.com)