

Solutions

Optimizing Advertising Budgets

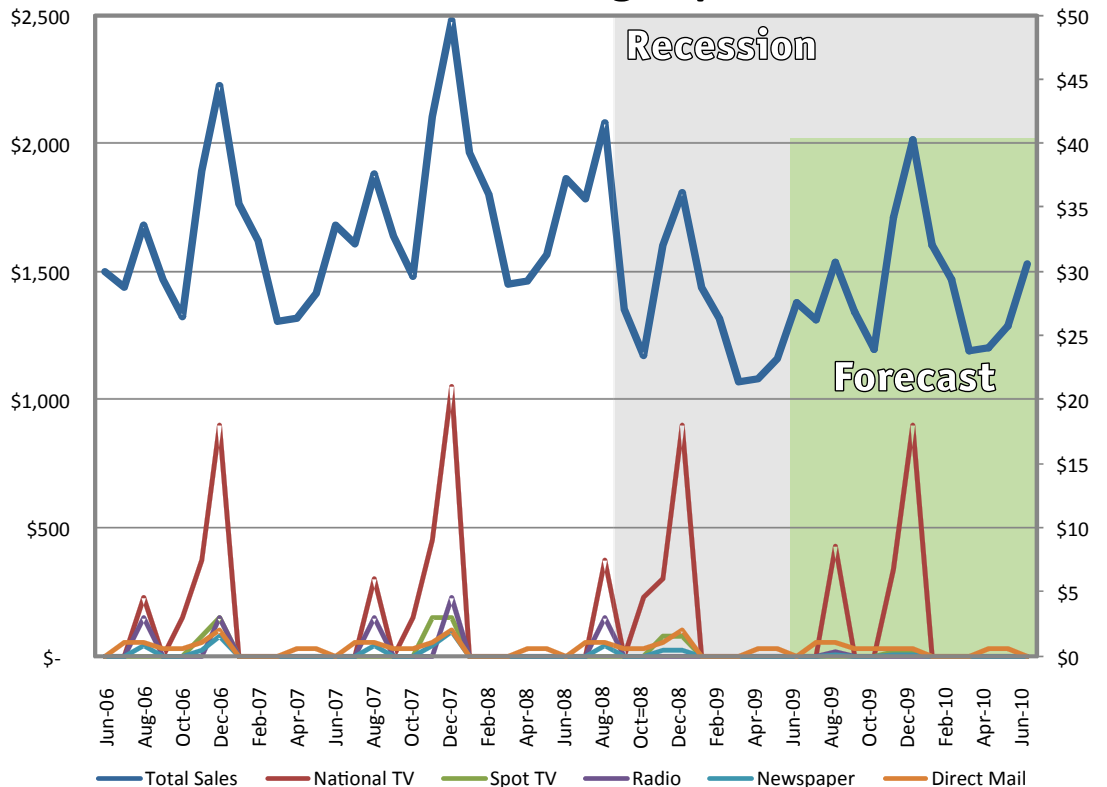
Jeffrey Savitz and Ron Shipp

John Wannamaker
said, "Half the money I spend on advertising is wasted." Savitz can tell you which half!

In today's challenging recessionary economy, many companies are forced to reduce their advertising expenditures to meet the new realities of the marketplace. Given the critical relationship of advertising to sales this is a difficult problem to tackle. Complicating the problem is the fact that most companies don't understand the effectiveness of their advertising in the first place. The old maxim credited to John Wanamaker, the founder of the department store concept, is still frequently true today, "Half the money I spend on advertising is wasted; the trouble is, I don't know which half."

Fortunately, Savitz Research Solutions has the expertise and analytical tools to unweave this age-old enigma! Using state-of-the-art statistical analysis combined with creative problem solving we can identify the short-term effectiveness of television, radio, newspaper, magazine, direct mail and Internet advertising to help you optimize the impact of your advertising budgets.

Sales and Advertising Expenditures



To be able to do this it is critical, particularly in today's environment, to capture competitive and economic factors and incorporate them into the analysis. Once this is understood a company can reduce its marketing expenditures during the recession without adversely affecting short-term sales! Concurrently, we can rationalize long-term brand advertising expenditures. Optimally a company can reduce its ineffective advertising, shift budget dollars to higher ROI channels and simultaneously increase sales while reducing advertising expenditures!

Customized Analysis:

Savitz Research Solutions will customize the analysis to work with the data available from an individual company all the while working with your marketing teams and advertising agencies. The engine that drives our recommendations is the sophistication of our modeling techniques, including multivariate, non-linear and lagged econometric regression models combined with our dedication to understanding your business.

Here are some of the types of data we would collect from your databases and key external sources.

Sales: National, regional, market and store level

Advertising: National TV, spot TV, radio, newspaper, magazine, direct mail and Internet advertising

Other: Discount offers, brand tracking studies, specialized industry information, existing analysis

Economic: GPD, unemployment, jobless claims, housing starts and other factors relevant to a particular company

Industry and competitive: Industry sales, competitor sales & advertising

Starting with a comprehensive analysis of a company's sales history over at least three years and deseasonalizing the sales provides a solid starting point for the analysis. Layering in external economic factors, competitive actions and ultimately analyzing a company's discount offers and advertising expenditures by channel will allow an understanding of a company's short-term ROI on all of its advertising expenditures, even given the dramatic changes in the economy!

Once this is understood our industry experts will partner with your marketing teams to adjust our recommendations to capture non-quantitative factors, long-term branding issues, and emerging strategies. Our final recommendations will help reduce ineffective advertising and reallocate dollars to higher ROI channels. This allows for reduction of marketing budgets, while actually improving sales!

Example:

Here is an example taken from an actual case history of our approach in action. We start with the data taken from both internal databases and key external sources.

Advertising Costs, Industry Sales and Related Economic Factors

Month	Total \$000	National TV	Spot TV	Radio	Newspaper	Direct Mail	Industry Sales	Economic Factors
JUN-06	\$1,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$6,750	90.0
JUL-06	\$1,439	\$ -	\$ -	\$ -	\$ -	\$1.00	\$6,759	93.0
AUG-06	\$1,683	\$4.50	\$ -	\$3.00	\$0.75	\$1.00	\$8,755	102.0
AUG-08	\$2,079	\$7.50	\$ -	\$3.00	\$0.75	\$1.00	\$11,788	90.0
SEP-08	\$1,354	\$ -	\$ -	\$ -	\$ -	\$0.50	\$5,787	75.0
OCT-08	\$1,173	\$4.50	\$ -	\$ -	\$ -	\$0.50	\$4,791	74.0
NOV-08	\$1,602	\$6.00	\$1.50	\$ -	\$0.38	\$1.00	\$6,159	72.0
DEC-08	\$1,806	\$18.00	\$1.50	\$ -	\$0.38	\$2.00	\$6,523	70.0
JAN-09	\$1,436	\$ -	\$ -	\$ -	\$ -	\$ -	\$5,170	69.0
FEB-09	\$1,320	\$ -	\$ -	\$ -	\$ -	\$ -	\$4,879	70.0
MAR-09	\$1,068	\$ -	\$ -	\$ -	\$ -	\$ -	\$4,049	71.0
APR-09	\$1,080	\$ -	\$ -	\$ -	\$ -	\$0.50	\$4,199	72.0
MAY-09	\$1,160	\$ -	\$ -	\$ -	\$ -	\$0.50	\$4,498	71.0
JUN-09	\$1,380	\$ -	\$ -	\$ -	\$ -	\$ -	\$5,713	75.0

In our example above, we determined the ROI for the latest 12 months of advertising to be as follows:

	National TV	Spot TV	Radio	Newspaper	Direct Mail	Total
Annual Expenditure	\$36.00	\$3.00	\$3.00	\$1.50	\$7.00	\$50.50
ROI	85%	25%	15%	-65%	150%	82%

Specifically, it was determined that national TV was least effective in October. The company had believed it provided an early start to the holiday season but in reality it was not effective, reducing the overall ROI to 85%. However, the actual seasonal peaks of back to school and November and December were very effective. Eliminating the October National TV advertising potentially saves \$4.5 million.

In a more detailed market analysis that followed, spot TV was only effective in markets with a higher concentration of stores than the company thought. While effective in the “super store density” metro areas, the additional lift in the “moderate store density metro areas” did not result in a positive ROI. This resulted in a potential savings of \$2.0 million.

Radio was most effective in the “moderate density metro areas” where it had synergetic effects with national TV and, given the size of the markets, cost of the spots, and store density, it had its highest ROI. This allowed for a savings of \$1.5 million.

Newspaper advertising was consistently ineffective with the exception of the super seasonal sales peaks such as back to school and Thanksgiving. Thus, expenditures in this advertising format can be reduced by \$1.25 million.

Finally, the results of the direct mail analysis showed that while it has the highest overall ROI there was a substantial diversity of results by depth of campaign mailing and timing throughout the year. Reducing the depth of mailing generates a \$0.75 million savings while increasing the ROI. Additionally, concentrating the mailings on non-season at peaks when customers are not likely to buy anyway, and when the mailings have their highest ROI, generates a potential savings of \$1.25 million.

The total potential savings is \$11.25 million or 22% of the advertising budget!

	National TV	Spot TV	Radio	Newspaper	Direct Mail	Total
Original Expenditures	\$36.00	\$3.00	\$3.00	\$1.50	\$7.00	\$50.50
Savings	\$4.50	\$2.00	\$1.50	\$1.25	\$2.00	\$11.25
Adjusted Expenditures	\$31.50	\$1.00	\$1.50	\$0.25	\$5.00	\$39.25
New ROI	115%	45%	25%	50%	200%	120%

As an optional final step in the process, we can further optimize the allocation of advertising using linear programming techniques.

Through the application of sophisticated analytics, Savitz Research Solutions reduced advertising expenditures by 22% of the prior year's spend while simultaneously increasing ROI from 82% to 124%.

	National TV	Spot TV	Radio	Newspaper	Direct Mail	Total
Original Expenditures	\$36.00	\$3.00	\$3.00	\$1.50	\$7.00	\$50.50
Savings	\$4.50	\$2.00	\$1.50	\$1.25	\$2.00	\$11.25
Adjusted Expenditures	\$31.50	\$1.00	\$1.50	\$0.25	\$5.00	\$39.25
New ROI	115%	45%	25%	50%	200%	120%
Optimized Expenditures	\$33.25	\$0.50	\$0.25	\$0.25	\$5.00	\$39.25

Summary:

Savitz Research Solutions will perform a highly sophisticated, customized, quantitative analysis of your advertising expenditures. Unlike many analytics companies, we work hand-in-hand with your marketing department, advertising agencies and other key stakeholders. Our customized solutions are developed for YOUR business to help reduce costs and increase efficiencies. If we could have consulted with John Wanamaker we would have reduced his advertising budget 50% while improving sales. What can we do for you?

Call
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