WINE & SPIRITS CONSORTIUM

WHITE PAPER – 4 PREDICTION AND EVALUATION

GBI

“I KNOW THAT HALF OF MY MARKETING DOLLARS ARE WASTED, BUT WHICH HALF?”

Lord Leverhulme

In order to appropriately define and measure the success of any particular marketing activity you must first understand what it is you are trying to achieve. This is the most important facet of the evaluation process and in many cases the most dangerous. The problem is that there are (in some cases) millions of marketing dollars at risk and when that much money is at stake, careers are in jeopardy if the marketing activity does not deliver to expectations.

The objective of the marketing activity may range from increasing consumers' "Top of Mind" to generating trial and conversion at retail or increase switchers in. Regardless of the objective the marketing activity must be measurable. This allows the marketing group to better understand what they did right and what they did wrong and will ultimately influence future activities and decisions. Once you have agreed on the objective of the marketing activity the next step is to forecast the expected results. It is important to set realistic, measurable and achievable goals in line with the pre-determined ROI. This 'expectation result' will determine the success or failure of the marketing effort.

Forecasting is a tricky exercise and like all attempts to predict the future is subject to political pressure. Years ago, I remember talking to the manager responsible for forecasting and I asked him humorously, "How does it feel to have a job where 100% of the time you are wrong?" This is not a very nice thing to ask someone who is hounded every day from people in finance, operations and senior management about the sales forecast. My purpose was simply to lessen the stress of an already stressful job.

When attempting any sales forecasting exercise it is important to remember that you *will* be wrong and your objective is simply to get as close as possible to what you think the answer is. Ideally, you start with the market as a whole and break down the historic sales trend for the market; this is your base line sales. Next, you look at the historic sales trends by brands within the market. Finally you layer on your marketing programs for each brand with realistic expectations as to their expected results.

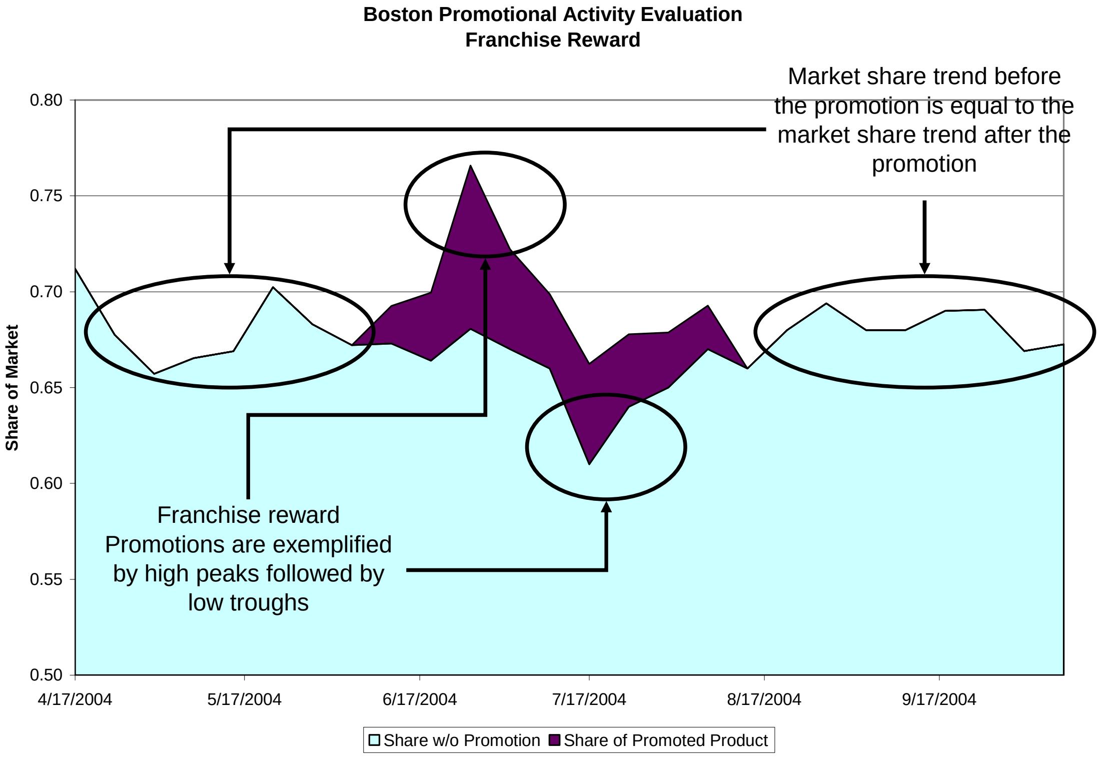
If your objective for a particular brand is to garner switchers in then the incremental increase in sales is added on to that brand to raise its expected sales for the year.

One caveat when you convert this number to share, unless the industry as a whole grows your share number will increase which implies that some other brand's share will decrease. We will talk about this more in a moment but for now you must understand that forecasting for a brand can not exist in a vacuum. If you expect your brand to grow it most likely will be at the expense of another brand in the market and you must come to terms with how realistic this possibility is based on your programs you plan to execute.

Program Evaluation

Ideally, the marketer will vary only one element of the marketing mix in any one market to determine the effectiveness of the marketing activity. For example, in Boston the plan is to price promote with above-the-line support to attract “switchers-in” while in San Francisco the plan will test the effectiveness of a different above-the-line executions with the same price support at retail with the same switching objective.

To properly measure the effectiveness of these two distinctly different plans the marketer will need a “Pre”, “During” and “Post” read of the market. There are several techniques the marketer could use, but for the sake of simplicity I’ll use a graphic format, in this case giving the brand’s share over time.



In the graph above there are four points of interest for the marketer. The first is the “equilibrium” of the brand’s share before the stimuli. This is called the “Pre-Equilibrium” share or pre-read. Its purpose is to give the marketer an idea of where the brand’s share is relative to its competitors before the marketing stimulus is applied. The fundamental axiom in marketing as it relates to brands is, oddly enough, described by Sir Isaac Newton’s first law of motion.

> **“Every object in a state of uniform motion tends to remain in that state of motion unless an external force is applied to it.”**

I’m not sure if Sir Isaac had brand marketing in mind when he stated his fist law of motion but it perfectly states the dynamics in the market when it comes to brand performance as does his third law which we will get to in a moment. In this case we can restate Sir Isaac’s motion law and call it fist law of brand dynamics, which states:

> **“Every brand in a state of uniform sales tends to remain in that state of uniform sales unless some external force is applied to it.”**

And what are the only ways the brand can gain or lose share?

- Increase Switchers in
- Reduce Switchers out
- Increase frequency of use
- Reduce decrease in frequency

- Increase Starters
- Decrease quitters

Therefore, you, your competitors, or something outside the industry (e.g. government regulations/restrictions, etc.) must do something to influence one of the dynamics above to affect the "sales constant". In this case the stimulus is a price promotion exemplified by the sharp increase in sales of the promoted product (part two of the graph). Notice that the un-promoted product's sales take a drastic downturn at the same time. This is called consumer loading, which is where the consumer sees a promoted product at a deal and will buy the product in bulk and hoard it (also known as "pantry loading"). This activity by the consumer leads us to the third point in the graph the "payback".

The "payback" is where the consumer (fat dumb and happy from pantry loading) has no incentive to purchase the brand until they have exhausted their hoarded stash. This is exemplified in the graph where the sales have dropped to its ebb from the apex of the load point.

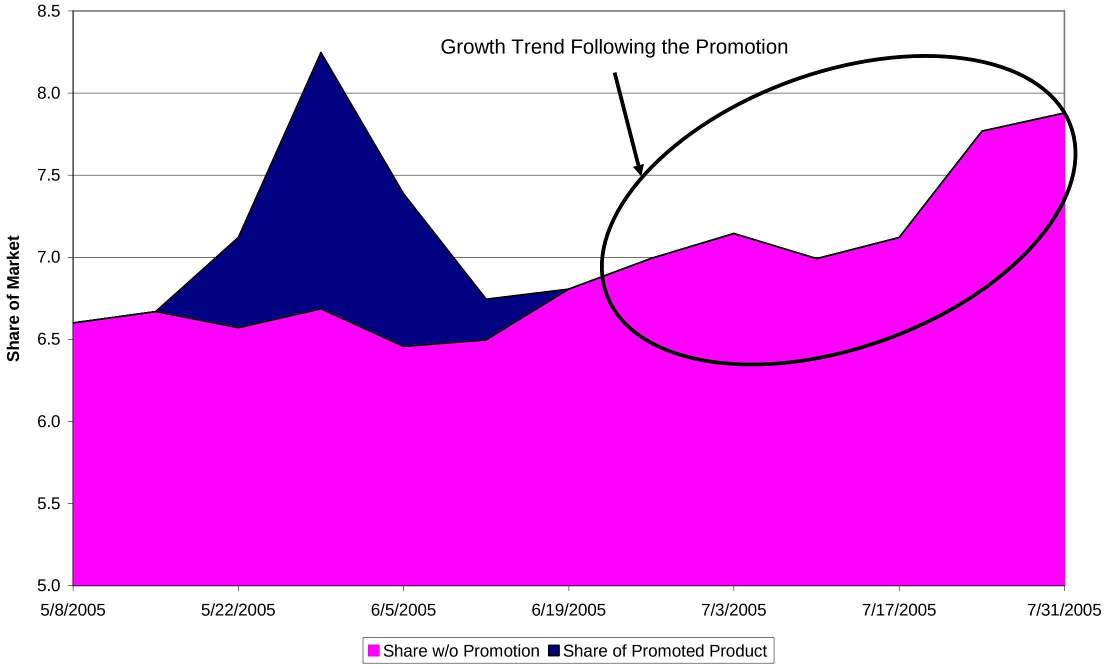
All of these points are important but are used mostly in the post mortem diagnosis of the activity rather than an effectiveness measure.

In order to determine the results of your marketing effort it is the last point on the graph, the "Post-Equilibrium" share (or post-read) measure that is most important.

The “Post Equilibrium” share, which indicates the after affects of the stimulus on the market, shows no perceptible change from the “Pre-equilibrium” measure. In other words the stimuli applied to the brand’s “Sales Constant” were not enough to move it to a higher equilibrium level. This lack of lift in the “Post-Equilibrium” level indicates a failure of the activity in Boston since the objective was to increase share by attracting new customers (switchers-in) through price promotion which leads inherently to a higher post-equilibrium level. The net result in Boston, however, accomplishes little more than franchise reward for those consumers who would have bought the product anyway.

The graph below gives an example of a promotion that did move the “Post Equilibrium” from the “Pre-Equilibrium” share level.

San Francisco
Promotion Activity Evaluation



Just as in the Boston example we see the promotional product “lift” but notice that the “payback” is much shallower indicating less consumer loading.

Subsequently, the “Post-Equilibrium” lift is maintained as more of the recipients of the promotion have moved from a “Trial” user to either an MOB or ORB user (see white paper number 3 “Share Value”).

Why does this method work? The real reason this is so effective brings us to the second law of brand dynamics, which states.

“For every action there is an opposite and equal reaction.”

Ok, so it is actually Sir Isaac’s third law of motion, but it is just as applicable here. In the example above we used share as our measuring tool. This is important because it gives you a finite way to describe the universe your brand inhabits. Specifically, there is only 100 share points in any given market or segment. This means that when you look at the share of your brand as it relates to your program, the impact not only gives you your share “lift”, but also your competitors’ “fall”. Put another way, your stimulus (marketing activity) resulted in an action (share lift for your brand) and an opposite reaction (share fall for other brands) in the market. This is a mathematical imperative. By definition If you brand increases in share some other brand or brands must decrease in share. This technique is used in a variety of circumstances to evaluate marketing activity. In fact anything that you can measure through the various forms of research discussed in this book can be evaluated using the pre-during-post evaluation method.

Summary

Program effectiveness is a fundamental part of the marketing process. Using the pre-during-post evaluation method allows the marketer to diagnose marketing activities to determine how effective the program is vs. its competitors. This exercise helps the marketer make better informed decisions when choosing among various marketing activities.