

# OPTIMISING THE MARKETING BUDGET IN RECESSION

OGILVY & MATHER - WE SELL - OR ELSE

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## INTRODUCTION

“It is not the strong, nor the intelligent who survive,  
but those who are quickest to adapt.”

Charles Darwin

### How to increase your profit when times are tough

We face one of the most challenging business environments for years. Recessions caused by liquidity problems are particularly severe. In recent months we have seen major financial institutions and the world's stock markets collapse. Your company needs to take urgent action to win through.

Some companies *do* succeed in recession. They see it as an opportunity for growth. While competitors panic, they stick to a plan.

This book is based on Ogilvy's experience of winners in recession together with research into best practice.

### Who this booklet is for

CEOs, CFOs and CMOs. Your marketing department must estimate the profitability of marketing spend. This booklet shows how to do it.

### How to use this booklet

Your company needs to estimate, even roughly, the consequences of cutting or maintaining or increasing marketing spend. Averages based on what other companies have done in recession are useful guides, but you do not manage an average business or an average brand. You need to know about your specific case.

## SUMMARY: 10 ACTION POINTS

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1. Companies that do well in recession see it as an opportunity.
2. Investment in marketing grows share more than in 'normal' times.
3. You may be able to deliver a knockout blow to weaker competitors through higher marketing spend and investment in products.
4. You need your marketing department to estimate, even roughly, its contribution to profit. How will cutting, maintaining or increasing the marketing budget impact the bottom line?
5. Include shareholder value in estimates of marketing payback. Shareholders use short-term performance as an indication of future earnings.
6. Research can help you predict the impact of recession on your customer base and hence on your cash flow. While competitors panic, winning companies stick to a plan.
7. Creativity will give you more of an edge than in 'normal' times. Many successful brands and companies have been launched in recessions.
8. Spend 360°. Explore new channel and media opportunities, particularly in digital.
9. Get the right balance between tactical activities that may grow volume at the expense of margins, and strategic activities that stimulate primary demand.
10. If cutting the marketing budget is necessary for the company's survival, cut support for small or stagnant brands and at off-peak sales periods.

## BACKGROUND

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### Recessions are fairly frequent and consumers keep spending

The usual definition of recession is six consecutive months of downturn in GDP. By that definition, there have been recessions every four or five years in the US since 1854, and 112 recessions in the 21 OECD countries since 1960.

Over the past 50 years, US recessions typically involved a GDP drop from peak to trough of a little less than 2% and lasted less than a year. Consumer spending has always gone up (see Figure 1):

Figure 1: US recessions since WW2

Recession	Duration (months)	Unemployment (% change)	Consumer Spending (% change)
1948 – 49	11	-2.0	+1.1
1953 – 54	13	-2.4	+2.0
1957 – 58	9	-2.1	+1.5
1960 – 61	9	-0.6	+0.8
1969 – 70	12	-0.3	+6.3
1974 – 75	17	-1.6	+12.3
1980	7	-0.9	+4.0
1981 – 82	16	0.0	+9.1
1990 – 91	8	-0.9	+11.0
2001	8	-0.1	+6.0
Averages	9.5	-1.1	+5.4

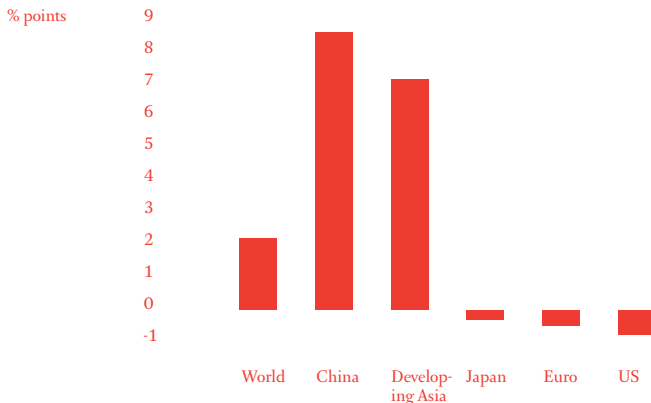
It is worth remembering that even in 'normal' times some industries are declining, some parts of the country do less well, and some consumers spend less. The marketing challenges of recession are not unique.

## When will this recession end?

The IMF currently predicts the world's real GDP growth will decline from 3.8% in 2008 to 2.2% in 2009, and increase to 4.2% during 2010. If your company has a two-year profit horizon, you need plans for both the recession and the post-recession situations.

The global average for 2009 masks wide regional variations. Next year Asian GDP is predicted to grow at more than double the global rate, led by China. However, the US, European and Japanese economies are expected to contract (see Figure 2):

Figure 2: Forecast economic growth in 2009



(Source: IMF World Economic Outlook, 6 November 2008)

## How consumer buying behaviour changes in recession

Although consumers will have less access to credit, the economy will be much the same size next year as last year. Under the day-to-day randomness of consumer buying behaviour lies consistent patterns. For example, the 1970s recession was one of the most extreme since WW2, yet between 1972 and 1979 sales of consumer brands in 50 product categories in 23 countries grew by around 15% with no flight to private label. Consumers are more likely to change *non-regular* behaviours in recession, such as buying new cars, expensive holidays or large screen TVs, though even those sectors do not collapse.

You need to predict how the buying behaviour of your consumers is likely to change in recession. You can then predict the likely impact of recession on your cash flow. Do you have records of what they did last time? That will be your best guide. Or you may need new consumer research. You can commission a survey to segment your consumers into four typical recession mindsets (see Appendix 1 for more details):

- The recession-proof
- The solution-seeker
- The security-seeker
- The vulnerable

You can also use the findings to create appropriate marketing strategies that address consumer concerns, and multi-brand companies can use them to help decide which brands are best to support. For instance, in the 1990s the combination of rising home repossessions, high personal debt and unemployment led consumers to become more cautious when buying financial products. This in turn created an opportunity to develop products and brands that tapped into repayment worries. There will be similar opportunities in this recession.

### How you set the marketing budget affects the likelihood of it being cut

Most companies use one of these three methods, but only one of them reflects marketing's contribution to profit:

- The *remainder* method. Central finance takes what profit it needs (for investment in R&D, or in plant and machinery, etc.) and marketing has whatever is left.  
*In recession, a cut is probably inevitable with this method, regardless of marketing's actual contribution to profit.*
- The *ratio* method. The marketing budget is set at a ratio of another measure, such as a proportion of last year's sales. If that declines in recession, so will your marketing budget.  
*In recession, a cut is highly probable with this method, regardless of marketing's actual contribution to profit.*
- The *task-related* or *historical* method. The budget is set by defining the brand's profit objectives and costing them, and/or by evaluating how the brand's sales, margins and contribution to profit have responded to previous marketing campaigns.  
*This is the only method responsive to marketing's contribution to profit.*

An example of a misplaced cut in the marketing budget illustrates the point. A client had a terrible year in 2007 because of a shortage of new products. Profit turned to loss. Central finance cut \$25 million from the marketing budget, thinking they had made a saving that could be transferred to profit. However, they did not allow for the sales the marketing spend would have created. An econometric model, calibrated by six previous hold-out tests, showed the cut probably lost the company around four million units sold that year, worth over \$1 billion. The so-called 'saving' reduced profit.

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## Estimating competitive marketing budgets from adspend

In order to identify winning practices, we need to compare how much different companies spent on marketing with their performance. However, accounting for marketing spend is not consistent: some companies charge sales or trade support to the marketing budget while others do not. In any event, marketing budgets are seldom in the public domain. We therefore use *display advertising spends* (which are in the public domain) as a surrogate for marketing spends. This is not ideal because adspend accounts for the majority of the marketing budget in some companies but not in all. However, it is the only indication available.

In the following analyses, you have to 'read' the adspend data through the eyes of your own company's accounting and marketing practices to make the necessary allowances for your own situation.

### Cutting marketing spend makes little difference to profitability

The return on invested capital (ROI) in an average company drops by around 1.9% points in recession (from 21.9% to 20.0%). This average is based on different behaviours:

Change in adspend	Decline in company profitability (ROI)
Cut spend	-1.6%
Increase spend by up to 20%	-1.7%
Increase spend by up to 100%	-2.7%

(Source: Biel, Alex: *The Cost Of Cutbacks, 1991* Base: 749 companies in PIMS database)

There is virtually no impact on profitability from cutting spend compared to a modest increase (-0.1% point of ROI). However, companies that substantially increase spend see their ROI decline more than average. They trade this for substantial gains in market share.

You need to estimate whether that is a good trade for your business. Most companies with high market shares enjoy a better ROI long-term – is that true of your company? Then *substantially increasing* marketing spend in recession would make sense.

## Mini Case History

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In the 1974 - 5 US recession, Ford cut adspend by 14%. Chevrolet, however, dropped its traditional method of setting the budget as a percentage of last year's sales and increased its adspend, particularly for its fuel-saving economy models. Chevrolet's market share rose by 2% points, while Ford lost share and took years to regain its previous position. However, Ford had learned. In the next downturn, Ford increased adspend every year. Ford's advertising manager commented, 'There are two ways you can go. You can pull in your horns or you can keep on spending. The tendency was to pull back during hard times, but now the attitude is that market share is all important'.

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## What is the rationale for spending money on marketing anyway?

Your marketing team needs to go back to first principles. The questions you might ask them include:

- Is your industry recession-proof or recession-sensitive? Where does your company place on the scale?
- How can marketing help grow profit?  
Can marketing reposition products to take advantage of new buying concerns? (*'A-1 Steak Sauce isn't for sirloin any more – commercials show people pouring it on 'recession-stable' hamburgers.' 'Ziploc food bags still boast their airtight seal, but the emphasis becomes that left-overs need special treatment.'*) Can marketing give the company a stable image in a chaotic environment? What are the creative, targeting or media opportunities? Can you promote products that stress good value, such as cars with fewer options?
- Zigging while other companies zag requires the greatest fortitude but brings the greatest rewards. If you can count on the determination of the finance committee, can you exploit competitors who panic and raid their marketing and R&D budgets – perhaps to deliver a knock-out blow?

## WINNING STRATEGIES IN RECESSION

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### The best defence is a good offence

#### 1. No more Mr Nice Guy

Recession is an opportunity to put weaker competitors out of the market. If they can't match your level of marketing spend, their market share will decline and with it their capacity to compete when growth returns.

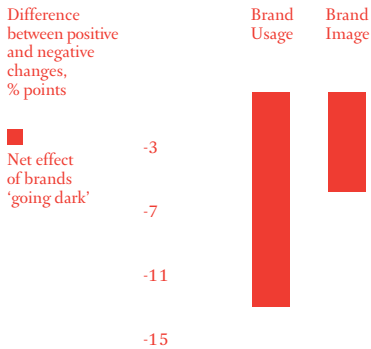
Review your competition to see which brands are vulnerable and how much share you could gain if they left the market. Is the cost of additional marketing support less than the potential gain?

#### 2. Identify the losers

Research will help you here. Advertising usually carries on selling for about three years so there may not be an immediate sales decline when competitive brands cut spend. However, a decline in the strength of consumers' relationship with the brand can be seen in research after six months.

60% of brands that drop TV advertising for six months show declines on brand usage or brand image. These metrics are early indicators: fewer users will lead to reduced volume, and weaker image to lower margins. You should set up fast track research into your competitors to monitor them (see Figure 3):

Figure 3: Weaker relationships when brands stop advertising

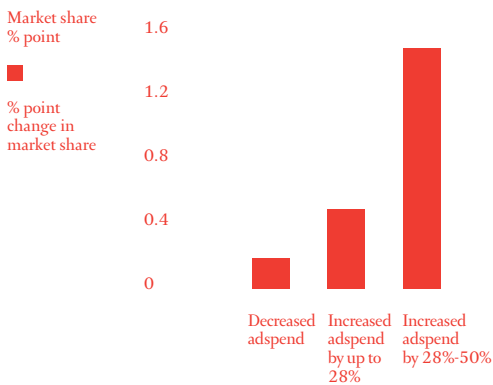


(Source: Walsh, Peter: Impacts On Brand Health, 2008 Base: 85+ brands on Millward Brown)

### 3. Grow market share faster

Companies that increase marketing spend in recession increase their market share in both consumer and B2B markets (see Figure 4). This result is also seen in analyses of all recession winners dating back to the 1920s.

Figure 4: Market share gains in recession

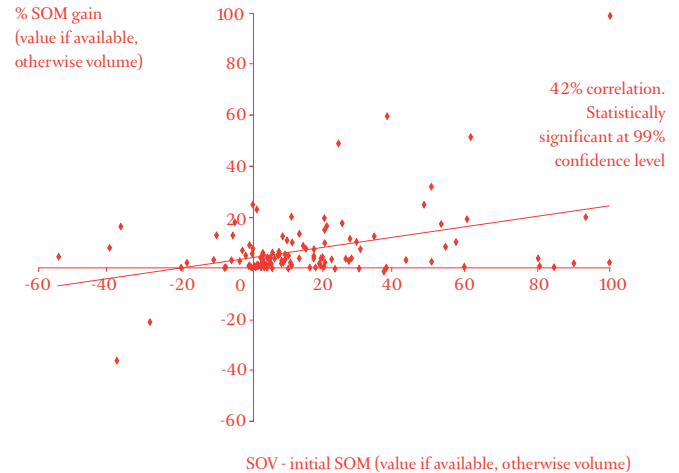


(Source: Cahners/PIMS, 1982; cited in Ryan, Bernard: Advertising In A Recession, 1999 Base: 2,000 businesses in PIMS database)

However, it is less well known that higher adspend achieves lower share gains during 'normal' times, because competitors increase their spend too. The lesson is that recession is an opportunity for companies to gain more market share than in normal times.

Higher relative share of voice also creates faster growth. On average, every 10% points of 'surplus' share of voice ('surplus' means share of voice minus share of market) generates around 2.2% points of market share (see Figure 5). The lesson is that when you have an effective campaign, you should spend every last cent you can scrape up behind it.

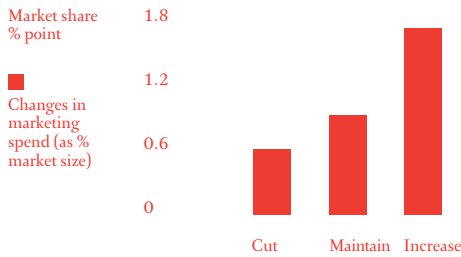
Figure 5: 'Surplus' share of voice generates faster market share growth



(Source: Binet, Les and Field, Peter: Marketing In The Era Of Accountability, 2007 Base: 880 successful marketing campaigns, 1979 - 2006)

Companies that increase marketing spend in recession recover *three times faster* in 'normal' times (see Figure 6). Similarly, B2B companies that maintain/increase spend in recession achieve higher growth both during the recession and *for three years after*.

Figure 6: Market share change in first two years of recovery from increased marketing spend in recession



(Source: Hillier, Tony: Successful Competitive Strategies For Recession And Recovery, 1999 Base: 1,000 companies in PIMS database)

Conversely, companies that cut spend take longer to return to their pre-recession market shares. The following econometric analysis models three spending scenarios: a) maintain adspend, b) cut spend by 50% for one year and then return to normal weights, and c) cut spend by 100% for one year and then return to normal weights. It can be seen that companies following option b) take two years to recover market share, and those following option c) take four years to recover (see Figure 7).

Figure 7: Recovery time in market share following adspend cuts



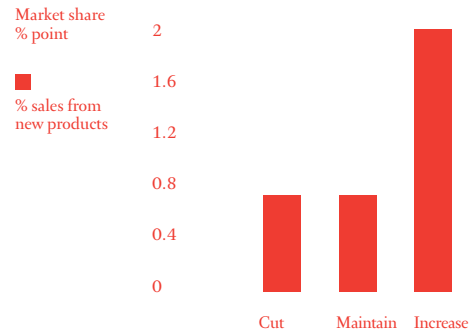
(Source: Dyson, Paul: Cutting Adspend In Recession Delays Recovery, 2008)

Companies that want to recover market share within a year after recession must spend around 60% more on marketing than the amount they saved by cutting the marketing budget in the first place.

#### 4. Invest in products to grow share

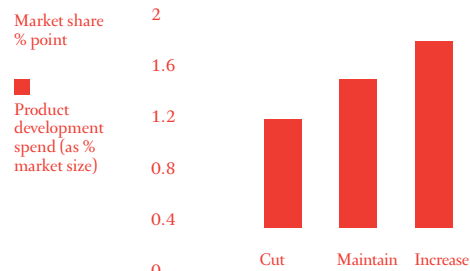
Two other investments pay off handsomely in recession: investment in product development and R&D. New and improved products have more consumer impact when competitors are weak (see Figures 8 and 9):

Figure 8: Market share change in first two years of recovery from new product



(Source: Hillier, Tony: Successful Competitive Strategies For Recession And Recovery, 1999 Base: 1,000 companies in PIMS database)

Figure 9: Market share change in first two years of recovery from increased R&D investment



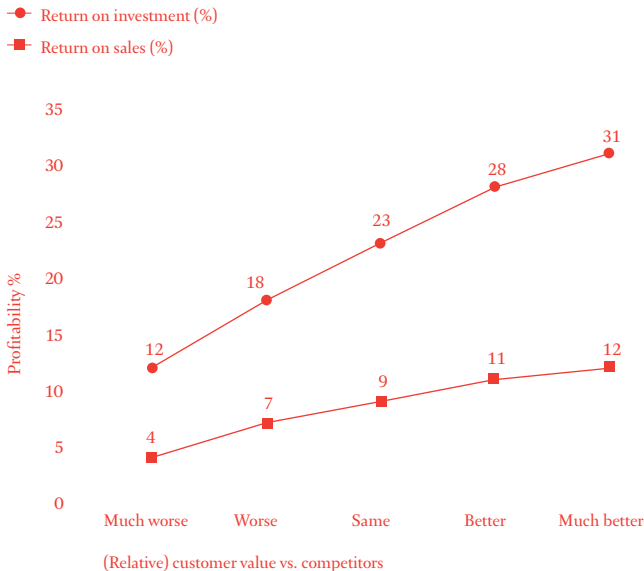
(Source: As above)

“I was asked what I thought about the recession. I thought about it and decided not to take part.”  
Sam Walton, founder of Wal-Mart

## 5. Improve value offer to grow profitability

Consumers always look for value for money, especially in recession. Relative value drives profitability. The higher customers rate the relative value of a company's product, the higher the return on investment and the return on sales. Conversely, if customers think the product offers poor value relative to the competition, its profit return is lower (see Figure 10):

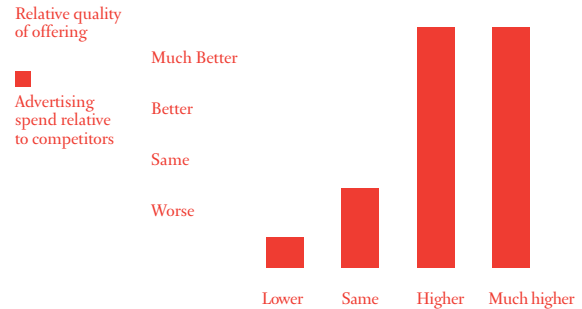
Figure 10: The better relative value you offer, the higher your profitability



(Source: Butterfield, Leslie: *How Advertising Impacts On Profitability*, 1998 Base: 200+ companies in PIMS database)

Value does not just mean cheap. Even in recession the economy will be almost the same size as last year. Value for money can be defined as (relative) price times (perceived) quality. You can improve your brand's value rating by cutting its price, which cuts your profit, or by increasing its perceived quality at the same price. Relative share of voice drives perceived quality, and hence value and profitability (see Figure 11):

Figure 11: Share of voice drives perceived quality



(Source: As above)

Competitive brands that cut marketing spend will be vulnerable because their perceived quality will fall.

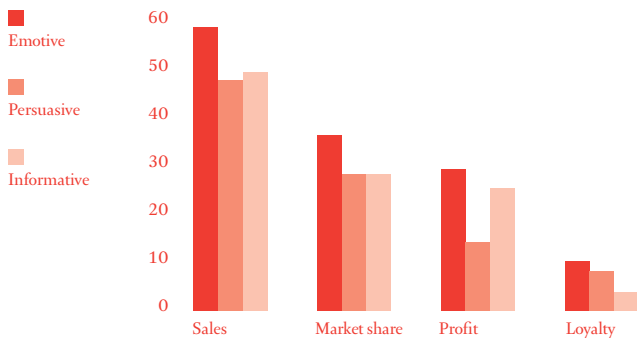
## 6. Invest in creativity

The weakness of competitors at a time when most consumers are still spending can be a great opportunity for new business, brand or campaign ideas. Some of the most successful companies and products were launched in recession, including:

- GE was founded in the panic of 1873
- Disney was founded in the recession of 1923 – 24
- HP was founded in the Great Depression of the 1930s
- Microsoft was founded in the recession of 1975
- Apple's iPod was launched in the recession of 2001

The same is true of advertising creativity. Hollywood does well in recession because people need dreams. Don't appeal just to the rational side of the brain in your communications. Your competitors will make that mistake. Appeal to their emotions. Emotive campaigns sell harder than rational or persuasive campaigns on all business metrics, because brands are built on emotions (see Figure 12):

Figure 12: Emotive campaigns outperform rational and persuasive campaigns on all business metrics



(Source: Binet, Les and Field, Peter: Marketing In The Era Of Accountability, 2007 Base: 880 successful marketing campaigns, 1979 – 2006)

Brands should not abandon their core beliefs when times are tough. On the contrary, it is in tough times that the brand's beliefs are most valuable.

“We’ve weathered several periods when times weren’t so good, and so I don’t think we’ll cancel our advertising now. In fact, we might even increase it.”  
W K Kellogg, 1929

## 7. Spend 360° for greater efficiency and effectiveness

Multi-channel campaigns have a better success rate (65%) than single-channel campaigns (58%). If your company is a traditional advertiser reliant on TV, you will get a bigger bang for your media buck by exploring 360° channel opportunities.

This is definitely not an argument against using TV. Far from being dead, TV is one of the most efficient and effective media: campaigns using TV have a higher success rate (66%) than campaigns not using TV (49%). It is more often than not an argument for using TV alongside other channels:

- Multi-channel campaigns are more *efficient*. The average market share gain for every 10% points of surplus SOV is 1.1% point with traditional advertising alone, but 2.6% points with traditional advertising plus other channels.
- Campaigns using multiple BTL channels are more *effective*. Effectiveness rises with the number of BTL channels used, from 55% for campaigns using one BTL channel, to 80% for campaigns using four or more channels.
- Think recession and many think a shift to PR. They do so because they view PR as cost effective. It is ‘earned media’ rather than ‘paid media’, which implies low cost. But media relations make up only one sliver of a broad spectrum addressed by PR. Effective internal communications become particularly important in aligning employees in a downturn and during cutbacks. Public affairs and government relations are crucial when needing to take downsizing actions. Connecting with unions and NGOs can defuse possible tensions. Investor and analyst relations can mean huge material differences when the markets are volatile.

While public relations has always meant more than just media relations or publicity, it has expanded hugely since the last recession of 2001. Now, PR includes the whole array of new digital channels and platforms including: digital social networks such as Facebook groups; bloggers; using search engine marketing tactics for corporate reputation work; tagging and even a form of digital Rorschach test called 'Brandtags' wherein the confluence of consumers' snap impressions create brand maps. Unions and NGOs make use of video channels such as YouTube and remix corporate videos as biting parodies.

In the digital social media world, PR means identifying and then mapping influencers and engaging them in transparent conversations rather than crafting messages and launching them into a target group. It also means completely bypassing the traditional media gatekeepers that determined earned media success. Now, brand fans, fed and nurtured online, can do much of the PR work out of their own enthusiasm, and can fend off brand attackers as frontline loyalists.

So whether it is publicity, marketing, corporate reputation, community outreach, government relations or financial market relations, the new PR tools of 360 Degree Digital Influence provide a wealth of choices for frugal budgets.

- Use a range of digital marketing options – many of which weren't available to marketers in previous downturns. This can include targeted email campaigns, smart search strategies to get faster/cheaper leads, and viral videos that leverage "free" media distribution on the web. Your actions should include optimising your digital media plans. There are straight-forward techniques that will allow you to do this. Plus, you can conduct simple evaluations that yield insights on how you can make quick modifications to existing digital assets (websites, mobile sites, etc.) so they are more efficient and effective.

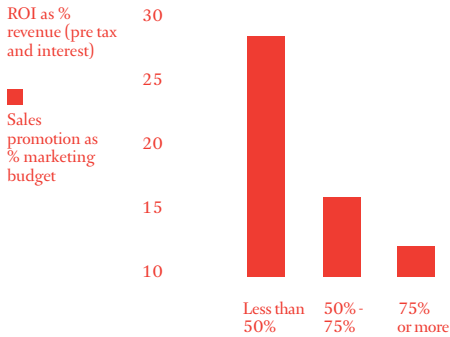
All of these are worth considering when times are good. However, particularly when times are tight, digital marketing options generally have the added benefits of being things that: can be done at relative low price points, can be put into the marketplace quickly, don't require long durations or high media thresholds to return value, and can be easily and completely measured so you know exactly what you're getting for your marketing funds.

However, don't spread your budget too thinly across too many channels. You may end up doing nothing much in any of them. The crucial metric in every channel is always share of voice relative to competitors. Depending on the size of the brand budget, you might find three or four channels optimum.

## 8. Right balance between tactical and strategic activities

It makes sense to upweight tactical activity when your company needs sales now. Price promotions (such as temporary price cuts, premiums, couponing, BOGOFs, etc.) are the easiest things to measure in marketing and therefore the easiest to justify when budgets are tight, but it can never be right to reduce profitability (see Figure 13). You need to work out the *right balance* between promotion and stimulating primary demand in your particular case.

Figure 13: ROI falls as price promotion increases share of marketing budget



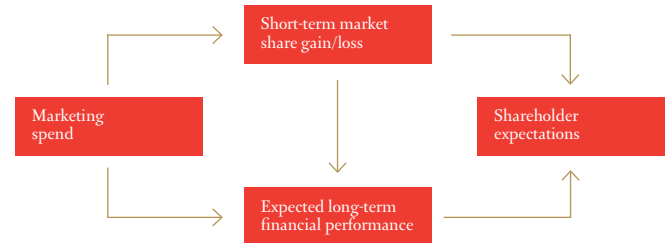
(Source: Biel, Alex: Long-Term Profitability, 1999 Base: 314 companies in PIMS database)

## MAINTAIN SHAREHOLDER VALUE

### Include marketing's contribution to shareholder value in payback

Marketing spend impacts on investors' expectations. It is not true that investors only consider short-term financial performance in recession, though it will get more attention. Shareholder expectations derive both from short-term performance and also from its likely effect on long-term performance. Gaining or losing market share in recession improves expectations of future earnings when the market recovers (see Figure 14):

Figure 14: Marketing's impact on shareholder expectations



## How to measure marketing's impact on short-term sales

The most accurate way is to create an econometric model. Models are based on two inputs: a) your brand's sales, and b) all factors that affect sales, such as your brand's marketing activity, price, distribution, new products, competitive advertising, etc. Ideally you will have data on all these for the past three years. The model will then tell you which factors affect sales, and by how much.

The results may confirm your instinct or surprise you. One of our clients believed they were in a retail-dominated market and spent 70% of the marketing budget on retail support. However, their model showed that each \$1 spent above the line created *three times more profit* than the same amount spent on retail support. One reason was that ATL had a longer sales tail. It grew sales for 12 months after a burst of activity, while BTL bursts had zero sales effect after two months. Our client got a bigger bang for its marketing buck by rebalancing the budget towards the most profitable activities.

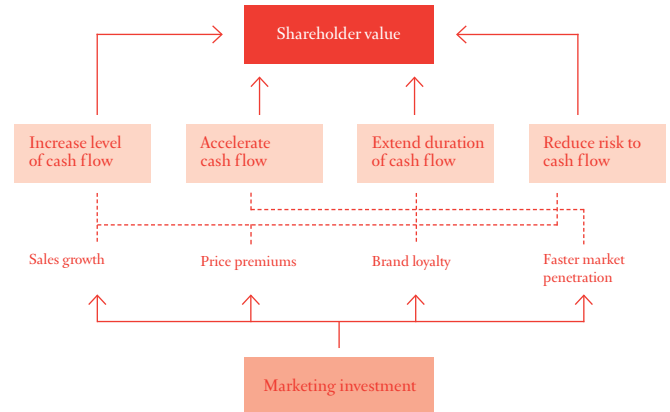
## How to measure marketing's impact on long-term value creation

The relationship between marketing spend and shareholder value lies in:

- Increasing the level of cash flow
- Accelerating cash flow
- Extending the duration of cash flow
- Reducing the risk to cash flow

Marketing contributes to cash flow via sales growth, price premiums, brand loyalty and faster market penetration (see Figure 15):

Figure 15: How marketing contributes to shareholder value



The stronger the brand, the more it contributes to shareholder value. Different ways you can test the strength of your brand are shown in Appendix 2.

## Where to cut the marketing budget?

Company survival is the priority and cuts may be unavoidable. The safest cuts for your company may be:

- Cut the budget for smaller brands rather than bigger brands. Small brands often take a disproportionate share of marketing spend because they are trying to grow, but bigger brands are likely to deliver bigger returns in the short-term (a classic short - vs. long-term dilemma).
- Exploit seasonality to make cuts in off-peak sales periods. The sales loss will be lower.
- Prune your product lines. Drop support for stagnant brands.

However, none of these approaches is even a close second to developing measures of the links between marketing investment and profitability.

A research study amongst 1,200 consumers in 2001 found four main types of mindsets in response to recession.

The key finding was that changes in consumer behaviour depend not so much on how much money people have, but on how they view that amount. It depends not so much on their current financial situation, but on their expectations.

The four types were:

### The recession-proof

They expect their income to grow. They are confident about their savings and investments. A recession does little to change their buying behaviour. Enjoying the material benefits of life is important to them, so they will keep on buying top-of-the-line products and brands.

### The vulnerable

These people have opposing life goals. They want the better things of life for the social status they bring, but at the same time they feel the need to be cautious and protect themselves. They may switch to buying products and brands that are more affordable than they might otherwise have bought, but they will not down trade beyond that.

## The security-seeker

These people are obsessed with financial security. They have cut their debt and reduced their expectations. During recession they will reduce debt further, cut back on everyday expenses and postpone purchases. They are looking for more than just 'a good buy'. Their need for security leads them to well known and trusted brands that offer reassurance and stability.

## The solution-seeker

Even in deep recession, this group is optimistic about its future. They believe they will keep their jobs. They are more willing to use credit cards than the Security-Seekers, and while their level of debt is similar to the Vulnerables they are less concerned about it. Their life goal is not so much financial gain as achieving what they see as the good life.

Other segmentations than these are of course possible, but you need some segmentation or other *to predict how recession will impact your sales*. You can then compare your customer profile against the national average or against other brands in your sector.

For instance, if you market a premium brand and find your customer base includes a higher than average proportion of Security-Seekers, your sales may fall more than the average. But if your customer base includes a higher than average proportion of the Recession-Proof, you can expect your sales to decline less than average.

Similarly, you can find out which of your competitors are more vulnerable and can be attacked.

## APPENDIX 2: TESTS OF BRAND CONTRIBUTION TO SHAREHOLDER VALUE

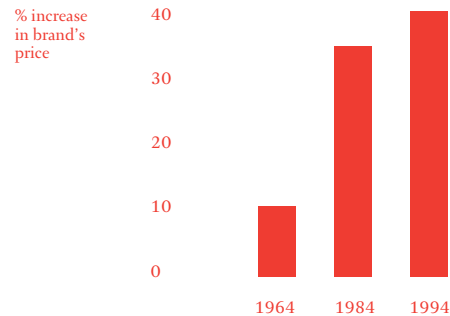
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While it is easiest to measure marketing's short-term effects, its value to the business usually lies more in long-term brand preference. Here are four tests you can do to show how marketing spend is strengthening the brand:

### 1. The price/volume equation

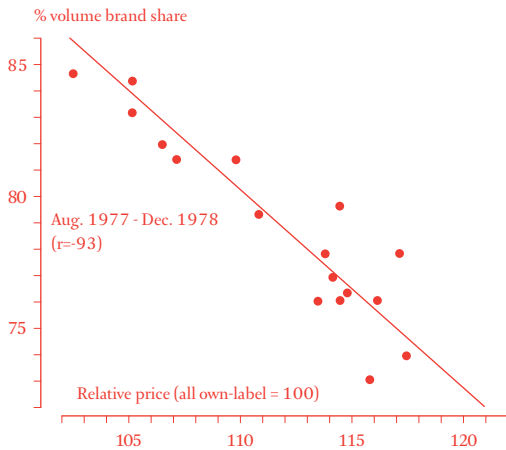
A simple test is to compare our brand's relative price over time. In this case, the brand involved was the market leader. Marketing activity had little impact on its short-term volume, but over the years investment in marketing had a major impact on relative price and hence on margins and profitability (see Figure 16):

Figure 16: Brand's price relative to private label price



Another test is to calculate your brand's demand curve (see Figure 17). This can be done easily if you have price and market share data. In this example, price is again expressed relative to private label, but you may find it more useful to express price relative to a different competitive set or to all other brands in the market. Sales are expressed as volume market share. Each dot represents one month. It shows the brand's relative volume and relative price that month. If you do this for other brands too, you will measure the relative strength of your brand.

Figure 17: Demand curve showing volume vs. price per month



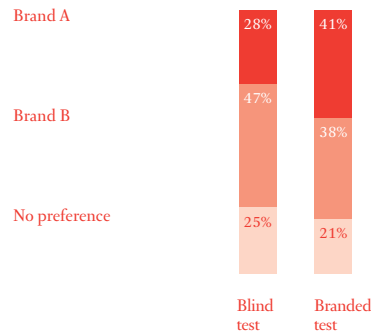
As brands grow stronger, the demand curve will shift to the right. This means it can achieve the same volume at a higher price. If the brand becomes weaker, the demand curve will shift to the left. You can do this analysis for each year for as many years as you have price and volume share data to see how brand strength is trending.

## 2. Brand/product preference

Why do consumers pay more for strong brands?

The answer is shown in this simple but powerful test (see Figure 18). The following chart shows the result of product preference tests carried out on the same two products. In the 'blind' test, consumers tested the products without knowing which brands were involved. In the 'branded' test, the products were tested in their normal marketing packaging. The tests were carried out in exactly the same way both times, with independent matched samples.

Figure 18: Blind vs. branded product tests



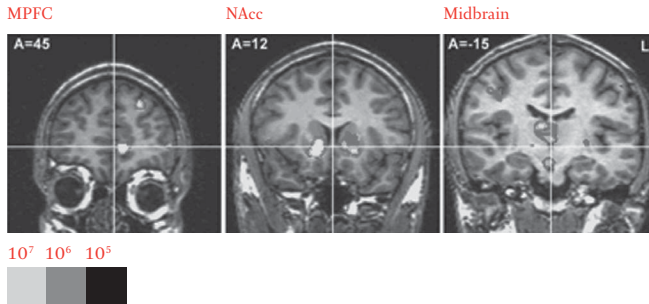
In this case, Brand A was the market leader and Brand B had just had a significant product improvement. You can see more consumers preferred the improved product (47% vs. 28%). But when the test was repeated with branded products, Brand A came out on top. Branding had created extra preference.

You can do these tests on durables like cars, TVs, laptops, etc., by using photographs with the logo blanked out.

It used to be thought consumer preference was irrational but now it appears to have a physiological basis. The following photos were taken by an fMRI scanner (see Figure 19). They show brains responding during a

blind/branded product test, in this case of Coca-Cola. The brain responds differently to the branded product: neurons that fired did not fire in response to the same product tested blind. These areas of the brain are associated with pleasure, memory and social intelligence. So when consumers report in product tests that the branded product is better, *it really is*.

Figure 19: Different neural responses to products tested blind and branded

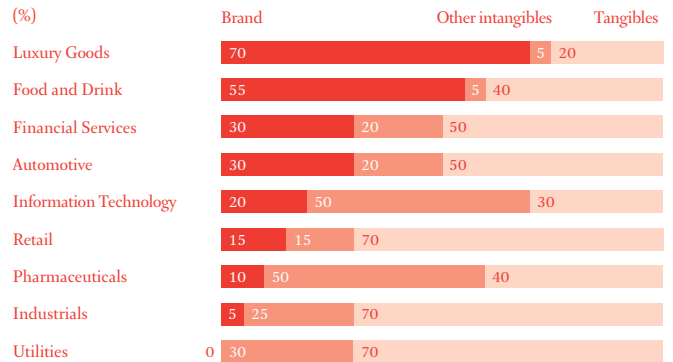


### 3. Brand valuation

Intangibles account for more than half of total corporate value in the world's stock markets. The contribution of brands vs. other intangibles (such as patents) to corporate value is shown below by sector (see Figure 20). For instance, if your company is in the food and drink sector, your brands are probably worth more than half of the value of your company.

Figure 20: Brands' contribution to corporate value

The relative importance of brand intangibles



(Source: Doyle, Peter: Value-Based Marketing, 2000)

You could commission a valuation of your own brands. Or see if brands in your sector have been valued by Millward Brown or Interbrand and guesstimate what your brand might be worth.

Investors may perceive the brand to be your company's single most valuable asset. They need to see you protecting and nurturing it during good times and bad.