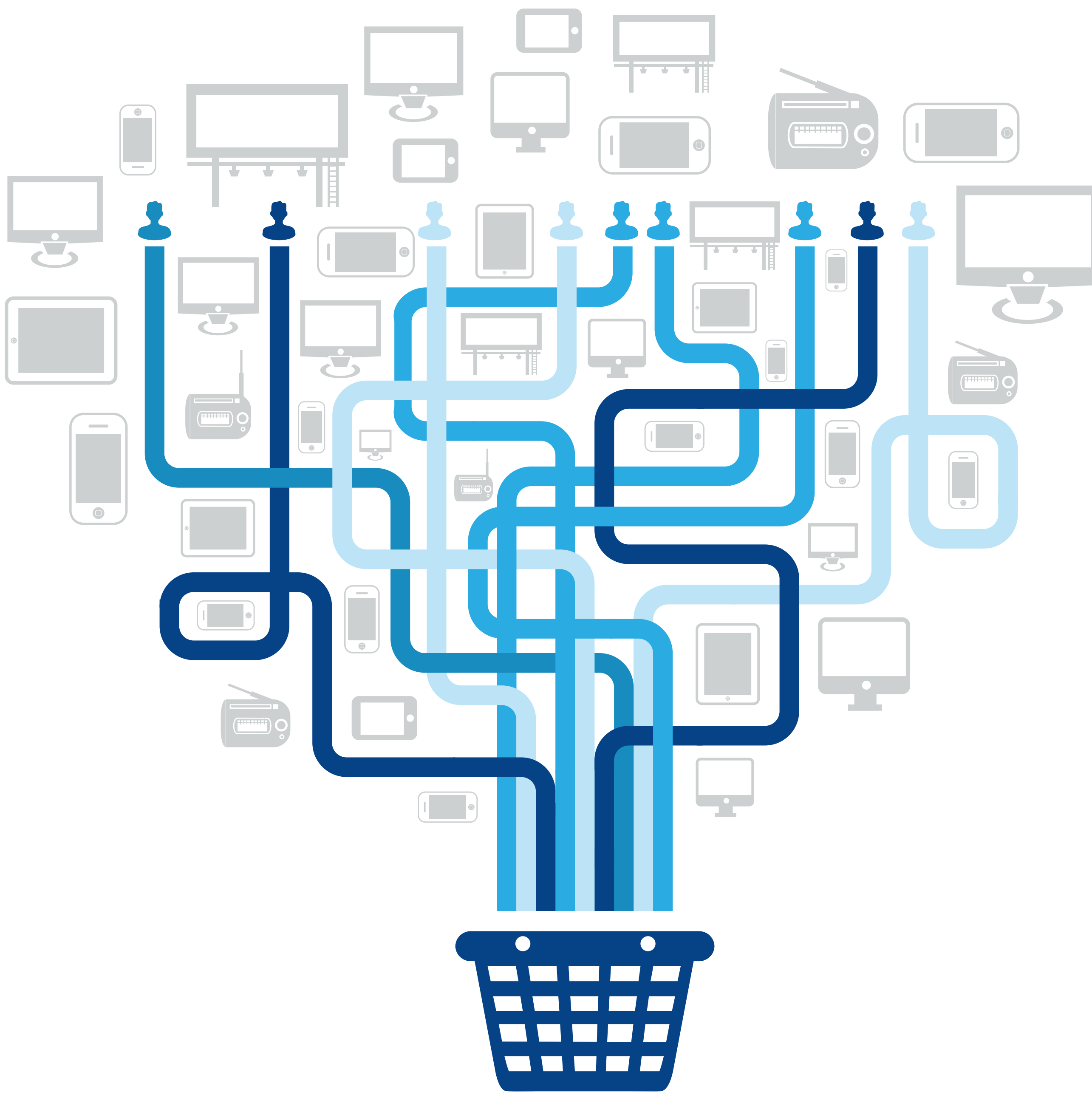

TECHNICAL PAPER

Drive Growth with Media Parity: Shifting 10 Percent of Promotion Spending to Media Advertising Will Increase Marketing ROI by 10 to 25 Percent

NOVEMBER 2016

Turner

IRi
Growth delivered.

ABOUT THE AUTHOR

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ABOUT IRI

IRI is a leading provider of big data, predictive analytics and forward-looking insights that help CPG, OTC health care organizations, retailers and media companies to grow their businesses. With the largest repository of purchase, media, social, causal and loyalty data, all integrated on an on-demand cloud-based technology platform, IRI helps to guide its more than 5,000 clients around the world in their quests to remain relentlessly relevant, capture market share, connect with consumers and deliver market-leading growth. A confluence of major external events—a revolution in consumer buying, big data coming into its own, advanced analytics and automated consumer activation—is leading to a seismic shift in drivers of success in all industries. Ensure your business can leverage data at www.iriworldwide.com.

ABOUT TURNER

Turner, a Time Warner company, creates and programs branded news, entertainment, sports, animation and young adult multi-platform content for consumers around the world. Turner brands and businesses include CNN/U.S., HLN, CNN International and CNN.com, TBS, TNT, TCM, truTV, Cartoon Network, Boomerang, Adult Swim, Turner Sports, Bleacher Report, iStreamPlanet and ELEAGUE.

Executive Summary: Mixing Up Growth

Before the Great Recession, marketers worked on a handful of core principles: differentiation builds brands; advertising enhances differentiation to build long-term, sustainable growth; discounts provide an immediate incentive to consumers by signaling an opportunity to purchase below "market price." During the Great Recession, consumers learnt to shop smarter and, out of necessity, started leveraging all available sources of information to best align their needs with benefits offered by product choices with the best available price. In response, large-brand marketers relied more on promotions and discounting to sustain consumer engagement.

Today, many of these smart shopping behaviors persist, and marketers' heavy reliance on promotion and discounting is still very much in play. Excessive (and growing) promotional spending has brands locked in a cycle of commoditization, and margins are being squeezed to near extinction. At the same time, media fragmentation continuously presents marketers with tough investment decisions that make it necessary for them to better understand the efficiencies and value propositions of their decisions.

IRI and Turner partnered in mining marketing-mix studies across 62 brands representing $20 billion in sales and $3 billion in marketing spend across food, beverages, health care, beauty and home care aisles. The objective was to help marketers determine the most efficient marketing allocations and guide organizations to make marketing investments that provide short- and long-term growth. This comprehensive research has generated **three key takeaways.**

1 **Short-term ROI of media investments is comparable to that of standalone promotional efforts; however, when considering long-term ROI, the ROI of media investments is two to three times higher than promotion.** Additionally, smart media executions further improve overall marketing ROI and enhance breakthrough, resonance and recall. This, in turn, strengthens brand equity, resuscitating margin and setting the stage for a consistent healthy brand future.

2 **The benefits of media are not limited to large brands.** The benefits for large brands are well known, but smaller brands benefit too. Media provides opportunity to emphasize product benefits and other points of differentiation for smaller brands and, over time, smaller brands that invest right in media generate higher growth.

3 Our simulation analysis shows **that even a 10 percent shift in share of spending from promotions to media will substantially improve marketing ROI and support long-term growth.** Marketers making this shift will reinforce brand equity, support shopper loyalty and drive consistent brand growth.

The results of this study expand on learnings from recent studies conducted by Turner and research leaders in the advanced marketing analytics space. Turner's work with a marketing analytics provider indicates that TV provides a direct and meaningful sales lift, not only by increasing awareness and consideration but also by increasing the effectiveness of other marketing vehicles further down the purchase funnel. A study conducted with a global leader in data science and media technology shows how television advertising is a key driver of social media engagement for brands. Finally, research in partnership with Turner, another television network and a leading cross-media research company emphasizes the importance of getting the right balance between TV and digital spend. Brand sales decline when marketers significantly shift spend away from TV to digital.

Creating Sustainable Growth through Effective Advertising

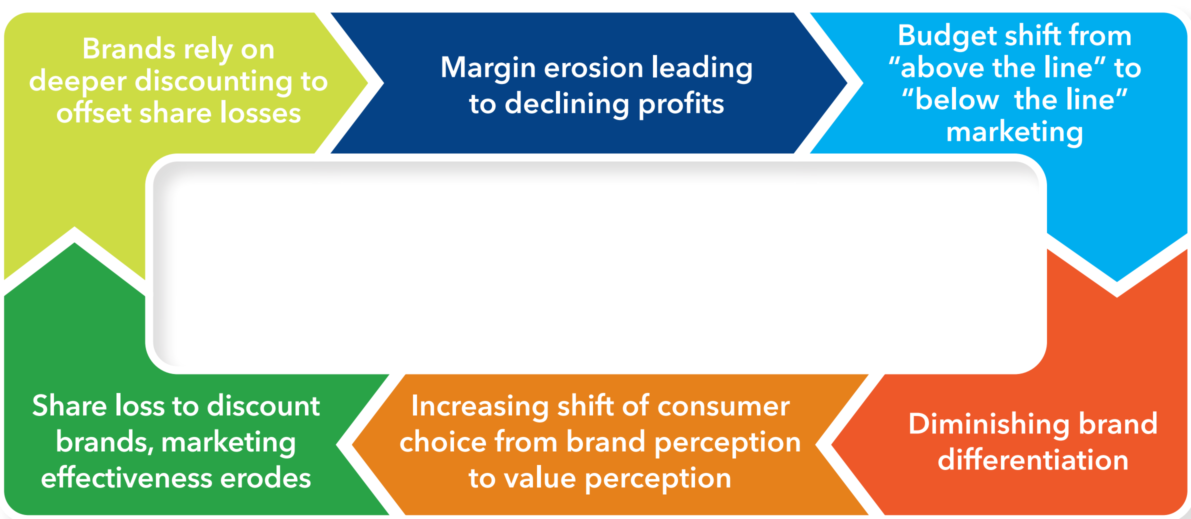
During the past several years, the consumer packaged goods industry has struggled to maintain sustainable growth. Following the turmoil that came with the Great Recession, brands have relied heavily on promotion as a means of driving sales. Although this may have initially encouraged shoppers to open their wallets, IRI's recent Times & Trends report, "**Merchandising for Growth: Connecting the Dots for Maximum Activation**," clearly illustrates that sales lift from merchandising programs has been—and is still—on a steady decline. The study notes that merchandising activity was up across 40 percent of CPG categories in 2015, while merchandising lift fell across 58 percent of CPG categories, including 72 of the 100 largest categories during the same time period. Despite this negative trend, more and more money is being spent on promotional programs. It's time to make a change.

A 2010 academic research study IRI collaborated on indicates that promotions can drive a negative long-term effect as large as one-third the short-term lift.[1] In fact, overpromoting has proven detrimental to brands in the long run. It "trains" shoppers to buy only on deal, increases everyday price sensitivity and limits the ability to drive price increases, thereby greatly contributing to a loss of brand equity. Excessive promotional spending is creating brand erosion. This is neither sustainable nor profitable for brands that seek to maintain long-term, steady growth.

Despite declining promotional return on investment (ROI), companies continue to allocate the majority of their spending here, getting stuck in a vicious cycle of brand erosion through brand commoditization (see exhibit 1). This cycle can largely be attributed to

EXHIBIT 1

Overspending on promotions is causing a cycle of brand erosion through commoditization.



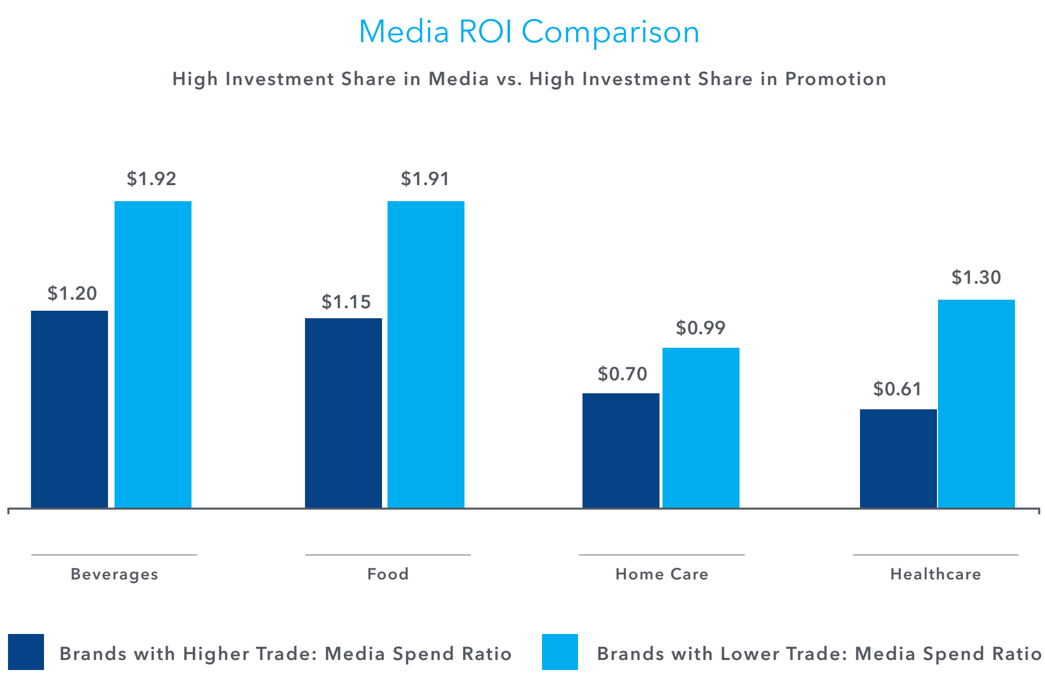
[1] Ataman, Heerde & Mela, "**The Long-Term Effect of Marketing Strategy on Sales**," Journal of Marketing Research Vol. XLVII (October 2010), 866–882

a focus on near-term results, habit and (unfounded) security concerns. CPG marketers allocate close to 66 percent of their marketing dollars to promotional spending. As a result, a high share of product volume is moved with promotional support. Marketers fear that if they move away from promotion, they will lose volume momentum. While this may be true in the short term, the longer-term impact of an effective promotion/media balance is quite favorable, and short-term risk can be mitigated with appropriate and relevant advertising.

In addition to undermining equity, brands that overspend on promotions weaken media ROI since they fail to capitalize on equity build up and, as a result, media has to work harder over time (see exhibit 2).

EXHIBIT 2

Media ROI underperforms when brands focus a higher share of their budget on promotion.



Note: 60/40 trade: media cut off for beverages, food, home care; 40/60 cut off for healthcare.
Source: IRI Analysis

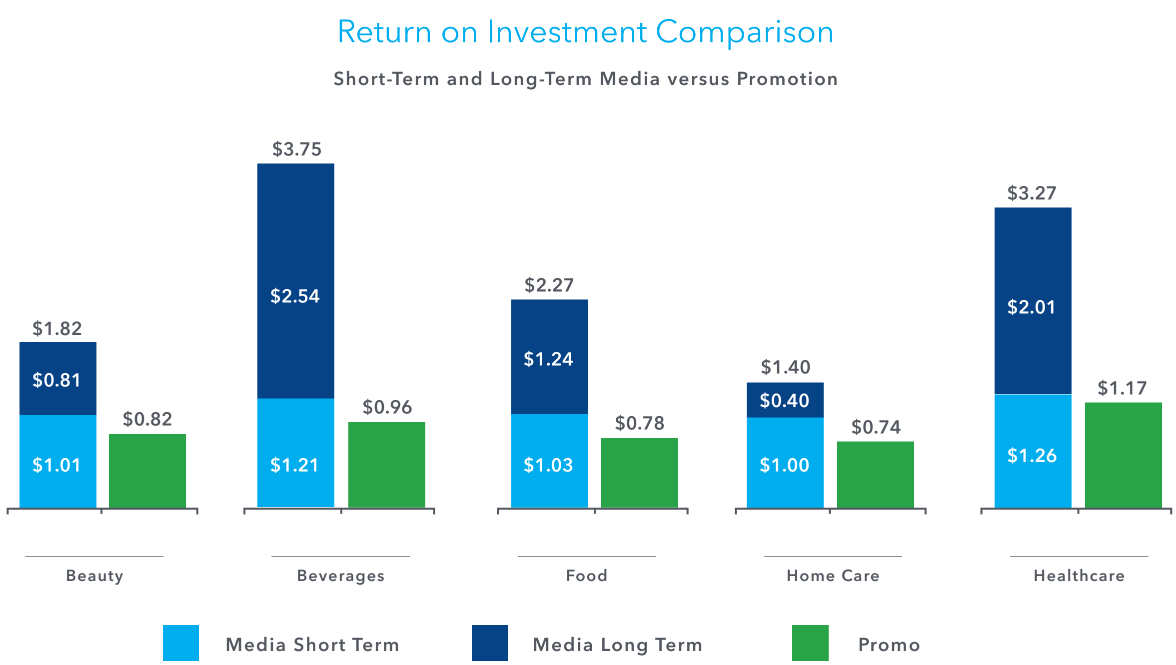
Promotional Spending and Media Advertising

By redirecting efforts away from an overemphasis on promotional spend and focusing against a more balanced and resilient approach, marketers will support a cycle of breakthrough, resonance and recall. This in turn will bring stronger brand equity, more consistent growth and higher profit margin (see exhibit 3).

The differences in ROI between promotional spending and media advertising are representative of the current overinvestment in promotion, which drives promotional ROI down as it subsidizes existing buyers more than it brings in new buyers. In the short term, media ROI outperforms promotional ROI consistently across key sectors including beauty, beverages, food, home care

EXHIBIT 3

Return on media spending outperforms promo spending ROI consistently across categories; long-term results are particularly compelling.



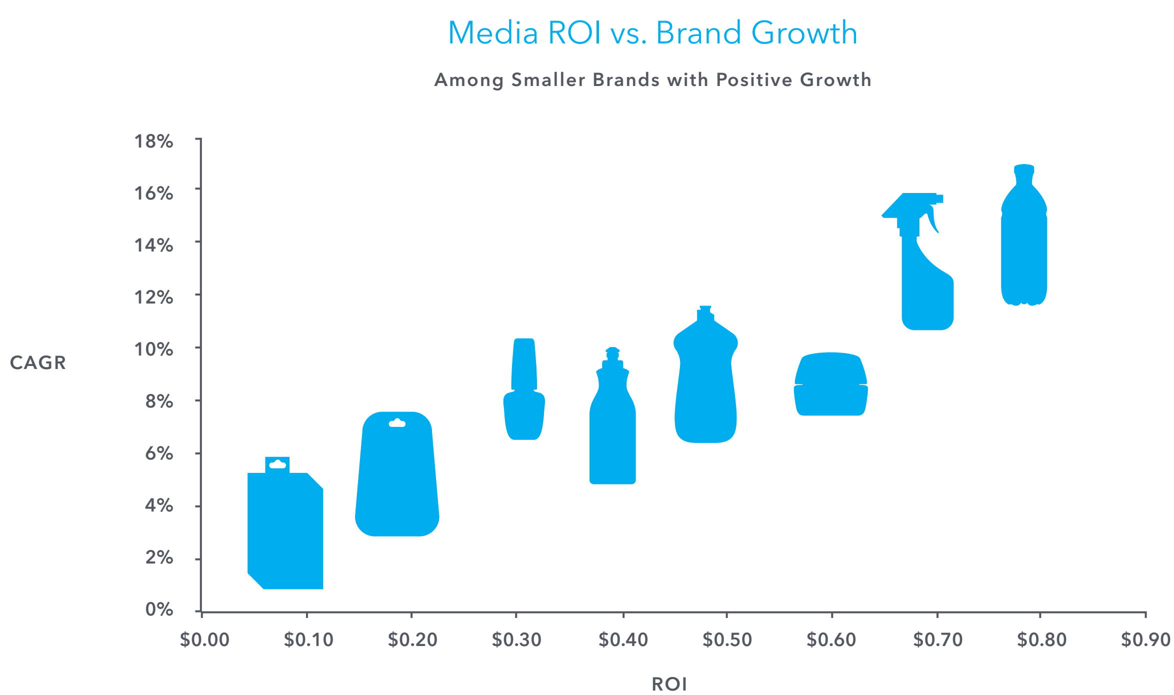
Note: Long-term impact of media based on prior IRI studies.
Source: IRI Analysis

and over-the-counter healthcare. Accounting for the longer-term impact, media spending is even more beneficial than promotional spending. In fact, a recent analysis shows up to 2X to 3X differences in some sectors, including beverage and over-the-counter.

Furthermore, while it is well established that larger and more penetrated brands are able to generate higher media returns given their size, smaller brands also have much to gain. Over time, smaller brands that invest right in media generate higher growth (see exhibit 4).

EXHIBIT 4

Small brands that effectively balance media and promotion spending benefit from outsized growth.



Smaller brands grow faster as their media ROI improves.

Invest in efficiency best practices, including purchase-based targeting and programmatic buying.

Leverage cross-media integration to enhance engagement.

Source: IRI Analysis

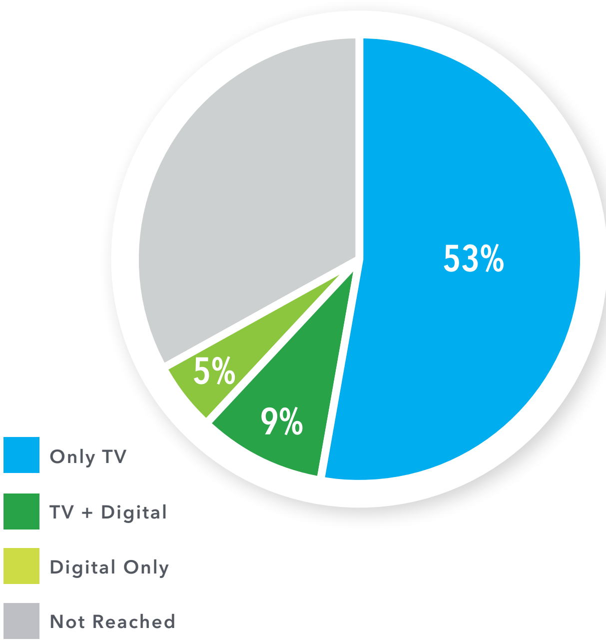
The reasons for this are simple. Television advertising currently offers the greatest reach and captures a significant share of consumers' time (see exhibit 5). And despite heightened attention fragmentation and increased traction across digital video and other digital channels, daily time spent in front of a television screen has slipped only slightly during the past several years.

EXHIBIT 5

TV still dominates audience reach and share of time.

Cross-Platform Reach of 300+ Ad Campaigns

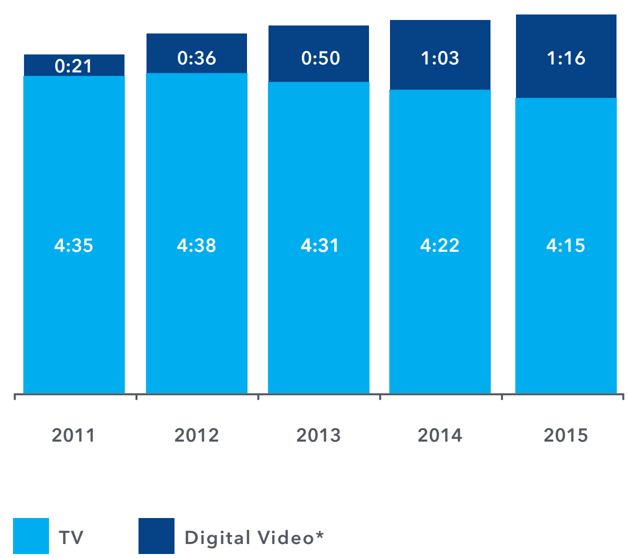
Target Reach:67%



Note: Excludes campaigns that had less than 1 million online impressions.
Source: Nielsen Total Ad Ratings; 2013–2014 only.

Time Spent per Day with Video

by U.S. Adults, by Device, 2011 – 2015, hrs:mins



Note: ages 18+, time spent with each medium includes all time spent with that medium, regardless of multitasking; for example, 1 hour of multitasking with digital video while watching TV is counted as 1 hour for TV and 1 hour for digital video; *includes time spent watching digital video via game console, connected TV or OTT device.
Source: eMarketer, April 2015

In today's fast-paced world, advertising can and should be wherever consumers are at any given time and delivered via the appropriate media tool. By pairing TV and digital, advertisers capitalize on the advantages of each—TV provides reach and brand engagement, and digital video is about precision and optimized frequency (see exhibit 6).

Used in complementary fashion, TV and digital make a powerful statement. Brands with higher TV spend are able to generate higher digital ROI. However, caution must be taken not to overinvest in digital, as some brands have realized recently.[1]

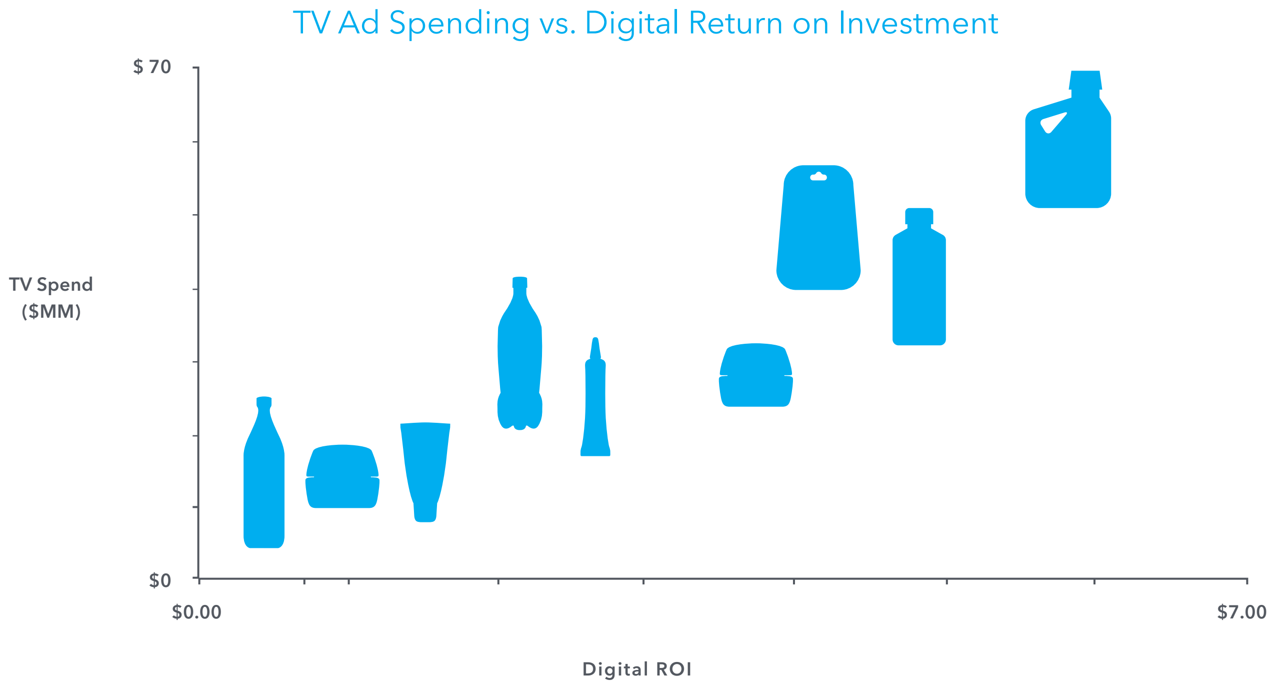
Messaging Matters

Current, relevant and customized—it's all part of the personalization journey. Detailed in IRI's recent Leading Edge paper, "**Personalization: Leveraging Big Data to Drive Big Growth**," the world is in the midst of the largest information explosion in history. Consumers are bombarded with endless messages, and only the best will break through.

Advertising messaging must be highly targeted, addressing the wants and needs of consumers. Successful brands will seek to understand exactly what their core group of consumers are looking for and deliver it.

EXHIBIT 6

TV and digital work better together.



Source: IRI Analysis

[1]Sir Martin Sorrell: '**Brands are starting to question if they have over-invested in digital**,' Marketing Weekly, August 24, 2016

The Power of Good Creative

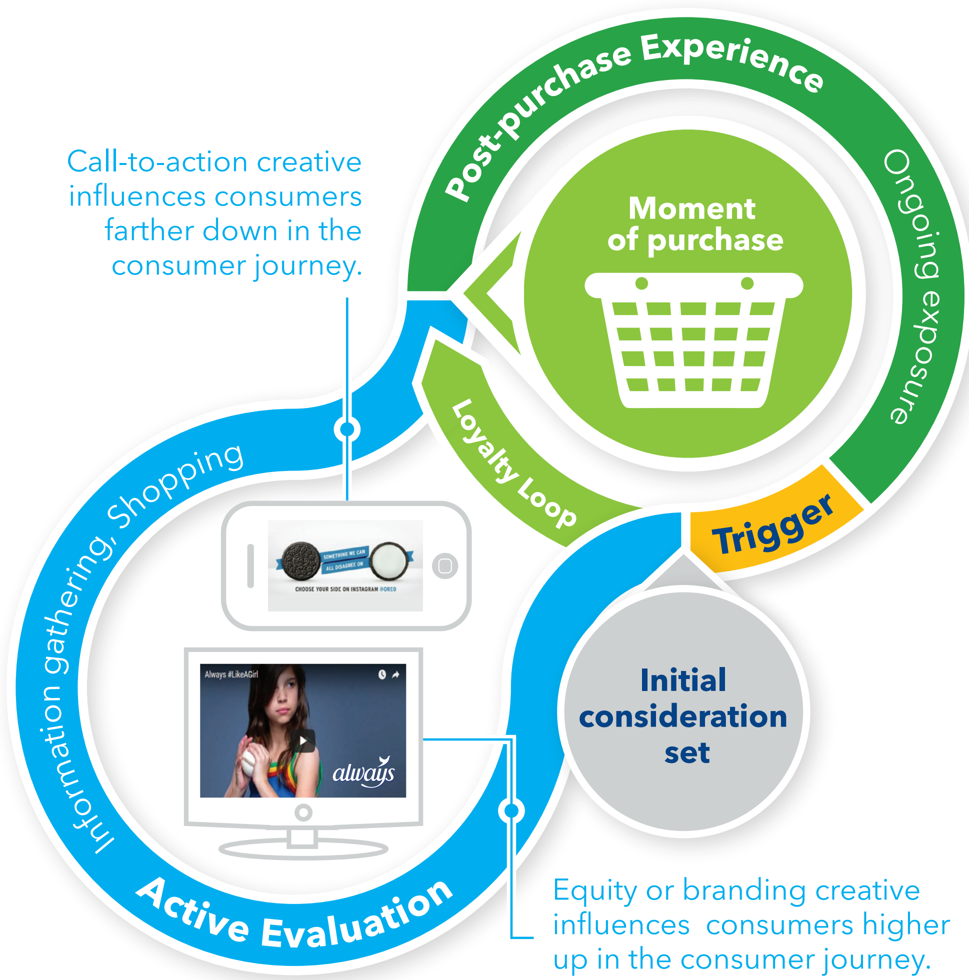
To maximize impact, that delivery must bring the right content to the right consumer on the right screen in the optimal moment. Doing so, though, is fraught with challenges. In a fragmented marketing environment where creative and media planning are often siloed and media strategies are built starting with screens rather than consumers, a truly integrated multi-screen campaign is hard to build and even harder to execute.

To achieve true impact, it is critical for brands to connect with consumers at salient points in their journey to move them seamlessly from one phase to the next. Brands show up when consumers want them there—a key first step toward delivering a positive, more impactful advertising experience for not only consumers, but also for brands (see exhibit 7).

EXHIBIT 7

Different creative messages influence various points along the shopper journey.

Having both types running at any given time drives higher short- and long-term ROI.



Source: Adapted from McKinsey Quarterly

IRI's Path to Purchase research underscores the complexity of this journey, which has been impacted by the rise of digital technology and an evolving retailer landscape. From initial consideration to the moment of purchase, there are opportunities to inform and influence consumers' decisions. Earlier in the journey, equity and brand creative will have an impact; later in the process, call-to-action creative will come into play. Ultimately, marketers need to align the right content, on the right screen, in the salient moment.

Authentic brand storytelling operates at the core of developing the right brand creative throughout this journey. Turner's brand storytelling capabilities, spanning in-house studios and distinct teams who closely align with network brands, have enabled advertisers to more organically engage with Turner's fans utilizing the breadth of the company's global, multi-screen portfolio. This authentic communication reinforces that integrating a brand's business objectives in a way that's relevant and additive to a target audience is key in developing more meaningful connections to consumers throughout various touchpoints.

With the correct creative in play, delivery of the message becomes critical. Purchase-based targeting will ensure that the message hits the mark, reducing waste and elevating impact. IRI ProScores™ uses IRI's unique data assets and predictive modeling tools to create a consistent and statistically reliable estimate of spend across channels. These insights allow marketers to focus on the households that spend the most money in defined categories, subcategories and major brands.

From there, leveraging Turner's audience targeting solutions allow clients to deliver their message to more of the customers who matter most, optimizing within a client's current media schedule to deliver more in-target impressions and offering pure audience buying to deliver target audiences wherever they live across the Turner portfolio of networks. Turner's suite of solutions also measures success through the use of proprietary research that clarifies the distinct sales lift advertisers get from Turner's content partnerships, guaranteeing success at the front end of the deal. For branded content in particular, Turner Native Plus extends the power of native advertising to television, producing an environment more impactful to the viewer through the use of longer-form branded content or existing brand creative that extends the storytelling into advertising. This format has reinforced that content plus ad adjacency in the following pod is effective in increasing brand exposure and driving ROI.

As a recent example, SNICKERS® collaborated with TBS to develop a custom video that featured a comic book writer whose creativity humorously failed him when hungry, aligning with the brand's global "You're Not You When You're Hungry" campaign and sponsorship of CONAN at Comic-Con. To maximize the brand impact on television, the video took over full commercial pods via Turner Native Plus on TBS, providing a contextually relevant means to continue the storytelling experience during the advertising space.

Enacting Change

Given the healthy short- and long-term impact of media advertising, marketers should realign a share of promotional dollars to media to stop brand erosion. Our simulation analysis shows that even a 10 percent shift in share of spending from promotions to media will substantially improve marketing ROI and support long-term growth. This shift will allow brands to enhance resonance, recall and reinforce brand differentiation and long-term health while reducing promotion subsidization (see exhibit 8).

By spending more time and money on advertising that conveys a targeted and contextually appropriate brand story and leverages the synergies of TV and digital, brands will create a positive ROI growth cycle and break away from the price-focused short-term impact and brand subsidization cycles created by promotions. Moreover, media impact grows over time, bringing increasingly favorable return on advertising investment.

The shift away from excessive promotional spending cannot happen overnight, as consumers are accustomed to this approach and are avid deal seekers. However, savvy marketers must recognize that the current model—excessive reliance on price-led strategies—is not an effective strategy. The media strategy for the changing times needs to be consistent with the way consumers are shopping. It needs to cross media, targeting the right consumers and leveraging the right message for long-term growth. As marketers make these changes, they should continue to measure performance to quantify impact, learn and course correct to achieve the right recipe for success.

EXHIBIT 8

A 10 percent shift in share of spending from promotions to media can substantially improve marketing ROI.

Source: IRI Analysis

About IRI

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