

ROI MODELING SHOULD CONSIDER THE DIMINISHING RETURN EFFECT

Although most of the published multimedia return-on-investment (ROI) modeling studies now in circulation appear to show television advertising in a bad light, the findings, even if valid, need careful interpretation. As we have pointed out on a number of occasions, these modeling exercises are often questionable due to the lack of suitable data and the core assumptions that drive their calculations. But this aside, it is important to view these projects with a more strategic eye and avoid overly simplistic conclusions.

To begin with, most of the studies we have heard about involve advertisers who spend the bulk of their media dollars on TV. A typical allocation is 65-75% on TV, with the rest divided among magazines or newspapers or radio and/or the Internet.

According to their data correlations, the modelers usually find that while TV advertising tends to provide positive sales results, it is outperformed in this respect by the other media components. Thus the conclusion: TV ads are relatively less effective in generating profitable results or ROI. But is this assumption correct?

Consider a hypothetical packaged goods marketer who relies excessively on a single medium, spending 65% of his media budget on TV. Odds are that his TV ROI diminishes progressively as more TV ad dollars are piled on. The first 20% of his budget spent on TV may create a sales lift of 5%, while the second 20% produces only 2% more sales, the third 20% generates a 1% gain and the final 5% of ad dollars has no impact at all.

This is the classic diminishing return effect, caused by the inherent redundancy of too many exposures of the same TV advertising campaign against already motivated or sales-resistant consumers. So, taking the entire TV budget, (65% of total ad spending), the modelers may conclude that its average effect on sales was +2%, while magazines, which got only 20% of the ad spending, produced a 4% sales gain, ergo, magazine advertising is more effective than TV.

Or is it?

Suppose we compare the first 20% of the marketer's ad dollars that were spent on TV with the entire magazine budget (also 20% of the ad spending). In this hypothetical example, TV wins with an 5% sales lift versus 4% for magazines. What pulls TV down in the modelers' comparisons is the afore-mentioned diminishing return effect caused by overspending on TV.

What would happen in this hypothetical modeling study if magazines got 65% of the ad budget and TV only 20%? Is it reasonable to expect that the sales lifts provided by the vastly expanded print schedule—now 3+ times its original size—would remain unaffected by the

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ROI Modeling Should Consider The Diminishing Return Effect Continued

redundancy or “ad wearout” factor? Or would the vastly expanded investment in magazine ads, which the modelers found so effective in generating ROI, function less effectively than the much smaller one now used by the marketer?

As difficult to believe as it may seem, most advertisers create media plans the same way today as they did 30-40 years ago. Take television, where the thinking usually goes like this, “First we create a reach base using on-air network primetime. Then we add other dayparts or network types (syndication and/or cable) to build up our frequency.”

The problem with this is its inherent inefficiency. You can build up a solid reach base at a far lower cost via non-primetime buys that include heavy doses of syndication and cable. However, this point is often overlooked or discounted due to the merchandising superiority of primetime and the prestige of the big networks (“we need primetime to show our sales force and the stores that we are really supporting our brand”). As a result, the TV dollars in most media plans are *not spent* in a cost efficient manner, although the same high CPM penalties are not imposed on other media used by the advertisers. Which raises a question: what would the modelers come up with if advertisers strove to get the most audience value out of their TV ad dollars and forgot about the merchandising aspects? Say their TV buys were configured to yield 30-50% more targeted ad impressions per dollar. Would the conclusion that other media generate better ROI still apply?

Unfortunately, there are no easy answers to such questions, and there is little hard data to guide us. However, these and other strategic issues need to be addressed and the implications pondered before we jump to hasty media mix conclusions.

