

Instead of a race to the bottom how about one to the top?

If one of the biggest risks in advertising is being ignored, another is being too persuasive in the wrong way.

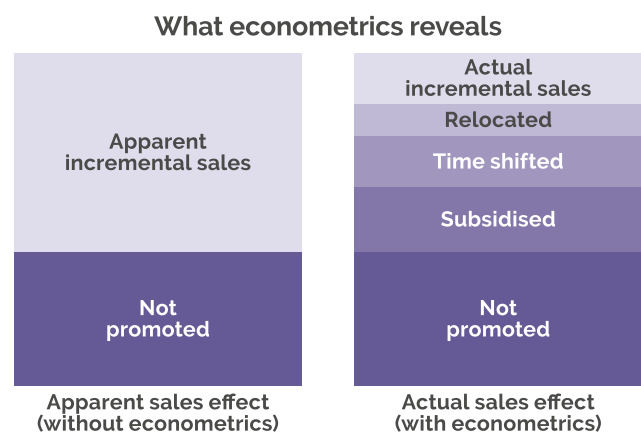
Take price promotions which, when misapplied, can be so addictive and damaging to businesses they have been called “the crack cocaine of marketing”.¹ Promotions can encourage sampling, help brands defend their share and incentivise distribution partners. But Figure 1 is taken from an IPA conference presentation which demonstrates why price promotions need to be rigorously evaluated.²

The left column appears to show a large incremental sales gain from a promotion. In the right column, the same outcome was analysed using an econometric model which attributed sales using historic patterns and other variables.

The econometric model calculated that some apparently extra sales would have happened anyway at non-promotional prices, so these sales were, in effect, subsidised by the brand. It attributed other sales to purchases relocated from stores not running promotions and to shoppers delaying or bringing forward buying.

In this analysis, the incremental sales gain was much smaller, weakening the investment case for the promotion. In fact, the presentation warned that most

Figure 1: Techniques such as econometrics can show the incremental impact of price promotions



Data source: Adapted from Nielsen Catalina study. Source: EffWorks Global 2022 conference presentation.

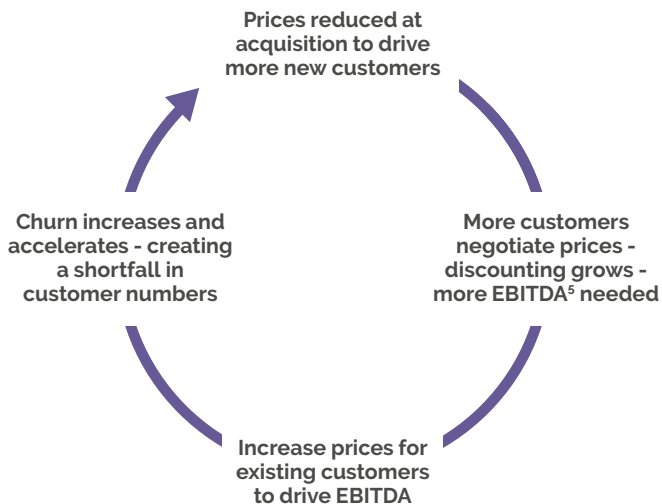
promotions were unprofitable on a discrete basis and their over-use could undermine a brand's profit margins and pricing power over time by habituating consumers to buy mainly on price.

Below, we highlight two brands that re-balanced their advertising spend away from promotions and other short-term activation marketing towards brand building, consistent with the message of IPA research about the most effective marketing mix of activities.³

How the AA recovered from a brand breakdown

In 2014, the AA motor association and insurance group saw itself at risk of entering a "death spiral". Repeating a pattern from other industries, it had discounted prices for new users but increased them for existing ones, triggering increased customer churn and more discounting to find yet more new buyers (Figure 2)⁴.

Figure 2: An AA internal document charted the Value Trap in multiple industries



UK examples

Mortgages 2000–08
SME energy 2007–12
Mobile 1999–2005

Chart Source: The AA internal document.
Source: The AA IPA Effectiveness Awards case, 2018.

Although AA profits were growing, membership and market share were in decline. For every 15 members the AA gained, it lost 20, and after a reduction in mass media advertising spend, metrics for brand awareness, reputation and value for money were all falling.

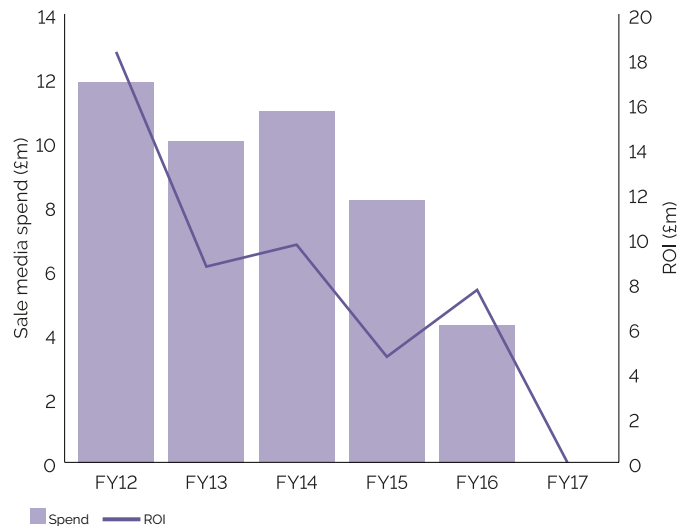
Re-investing in brand advertising was not a 'silver bullet' solution. But as the AA's IPA case lays out, new customer insight, more emotional advertising and a reach-based media strategy were parts of a plan that led to a recovery in brand and business performance. Econometrics calculated AA advertising generated 194,000-plus new customers in two years and more than £50m of total business value from new customers, better renewal rates and a boost to its B2B business. It made £2.04 of profit for each £1 invested.

IKEA's long-term focus on the everyday

When IKEA's UK revenues fell 20% in four years, the furniture retailer did not respond by emphasising its famously low prices. Instead, over time, it cut spend on promotions of sales events that were generating worse returns (Figure 3)⁶. It invested the majority of an increased budget in a brand building campaign.

Under an over-arching idea of 'The Wonderful Everyday', ads featured commonplace objects in surreal contexts or showed products addressing daily challenges for diverse audiences.

Figure 3: Advertising of sales events generated diminishing returns for IKEA



Data source: Mediacom Business Science, Source: IKEA IPA Effectiveness Awards case, 2018.

The ads were liked by consumers, and increases in consideration and purchase intent at IKEA closely correlated with its ad spend patterns. The chain reported more shoppers, more visits and more sales. An IPA case study details how and why the strategy generated an estimated £347m of extra profits between 2014 and 2017.

After their campaigns, both the AA and IKEA were reaffirmed as market leaders. The experiences of both brands are an invitation to marketers to join a race to be at the top of their categories, rather than under-cutting each other on price in a race to the bottom.

The IPA and the FT have partnered to support more effective advertising by business. For more effectiveness materials, visit ipa.co.uk/effectiveness



Please get in touch if you would like our support to help your business improve its marketing and brand effectiveness.

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