

# If Brands Are Built Over Years Why Are They Managed Over Quarters?

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July 25, 2007



Thought Leadership Webinar

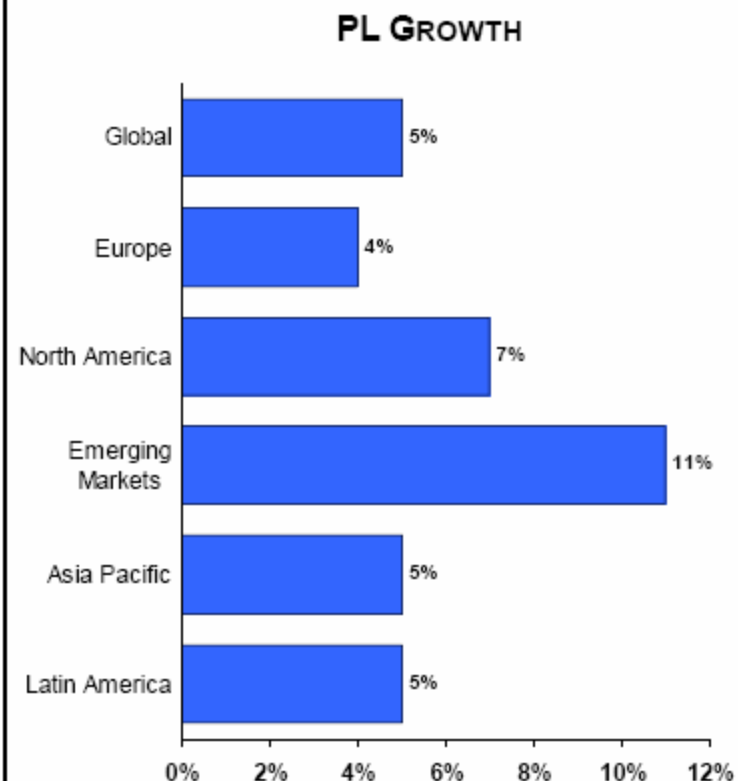
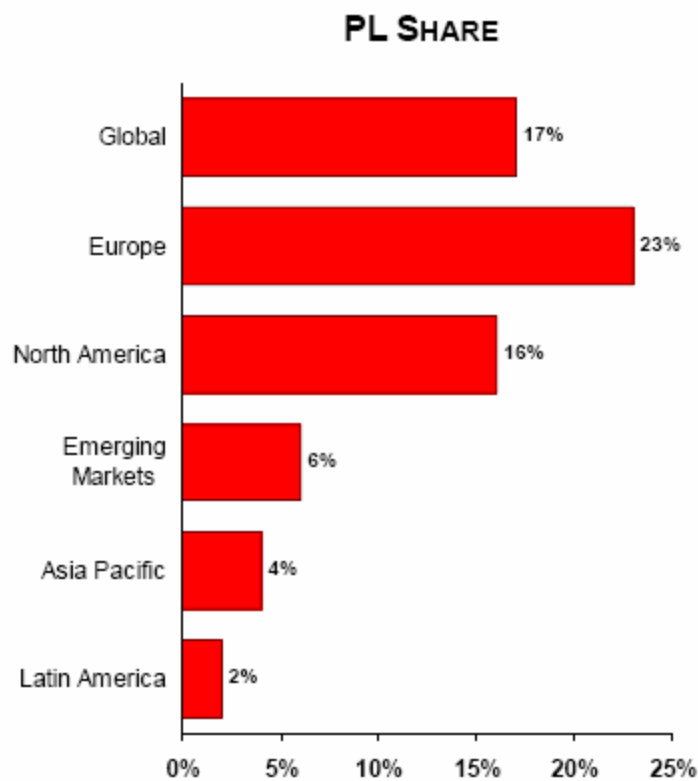
# What's Happening With Brands?

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- Customers are more price sensitive
  - 75% of CPG retailers and manufacturers rank pressure to reduce price as single largest threat in the next 3 years (IRI/EIU Survey)
  - Sales elasticities have increased 1 point in past 25 years (Bijmolt et al. 2005)
- More products are failing
  - Consumers select 20-50 skus among 1,000,000+ available (IRI/EIU Survey)

# What's Happening With Brands?

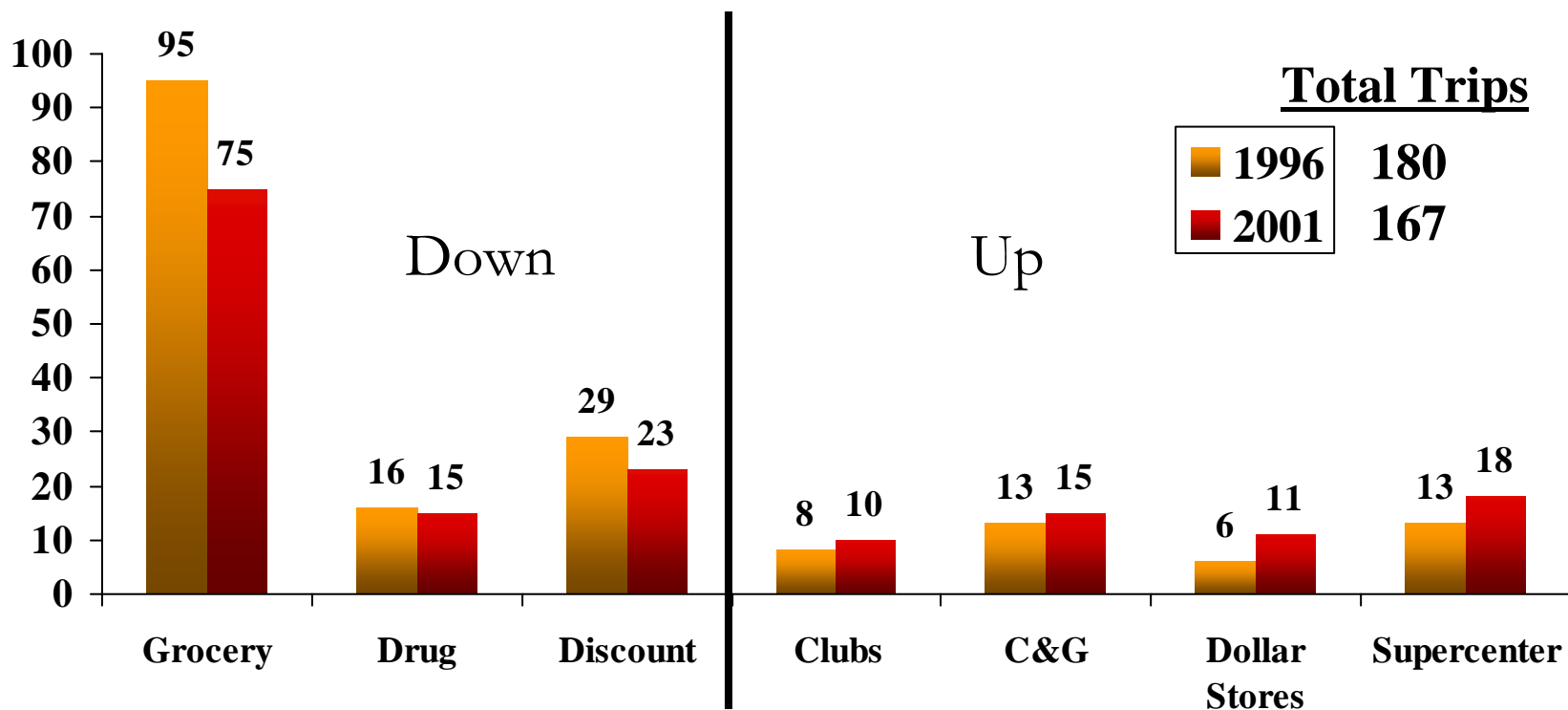
**SHARE AND GROWTH RATES OF PRIVATE LABEL BY REGION  
(BASED ON VALUE SALES)**



Source: AC Nielsen

# What's Happening With Brands?

## Shopper Trips/Year By Channel



Source: AC Nielsen Homescan, Hoyt & Company 2003 CPG Drivers Study

# A Tale of Two Brands

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# Topicality of Problem

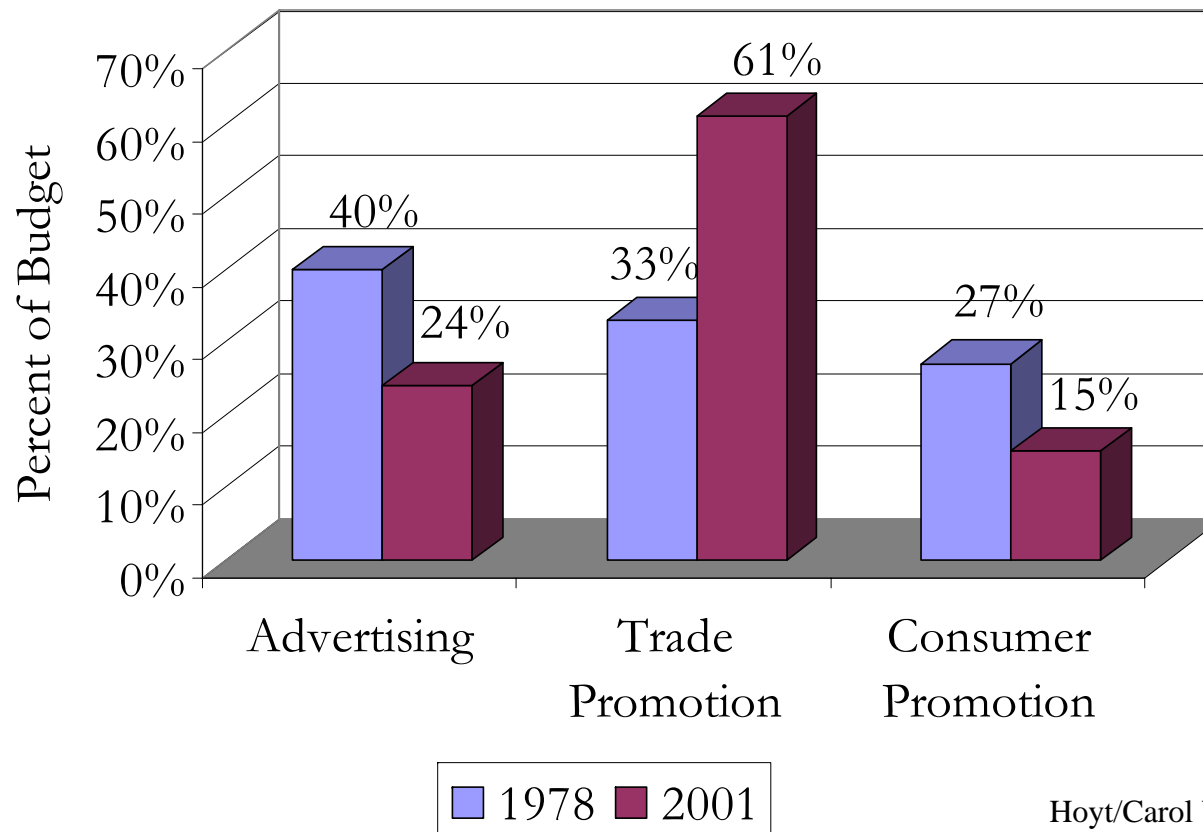
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- Yes or No?
  - Has your business been more *commoditized* over past 10-20 years?
  - Is price/margin pressure increasing?



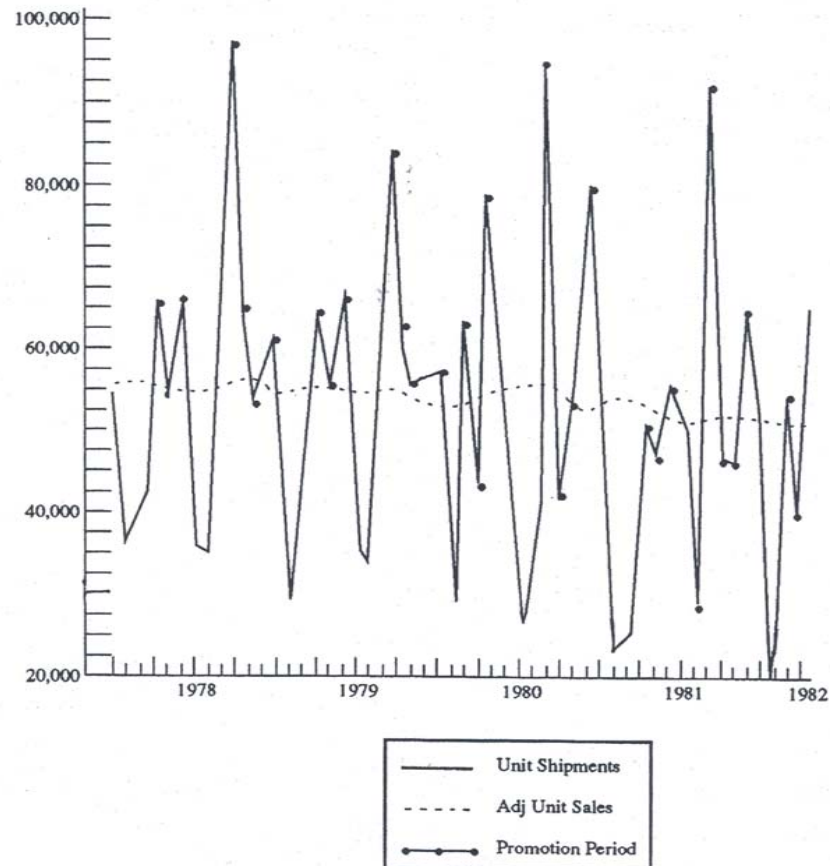
# Changes in Promotion

Changing Promotional Landscape

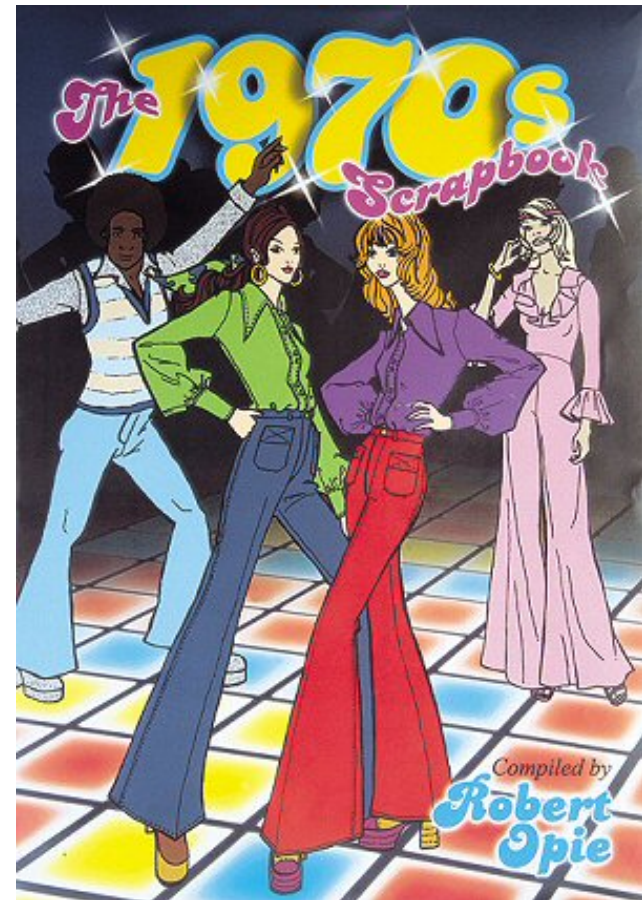


Hoyt/Carol Wright/Accenture/  
Cannondale/Donnelly

# So Why the Emphasis on Deals?



A plot of consumer sales and shipments shows major promotional peaks and troughs for shipments to the trade but less apparent effects at the consumer level.



# So Why the Emphasis on Deals?

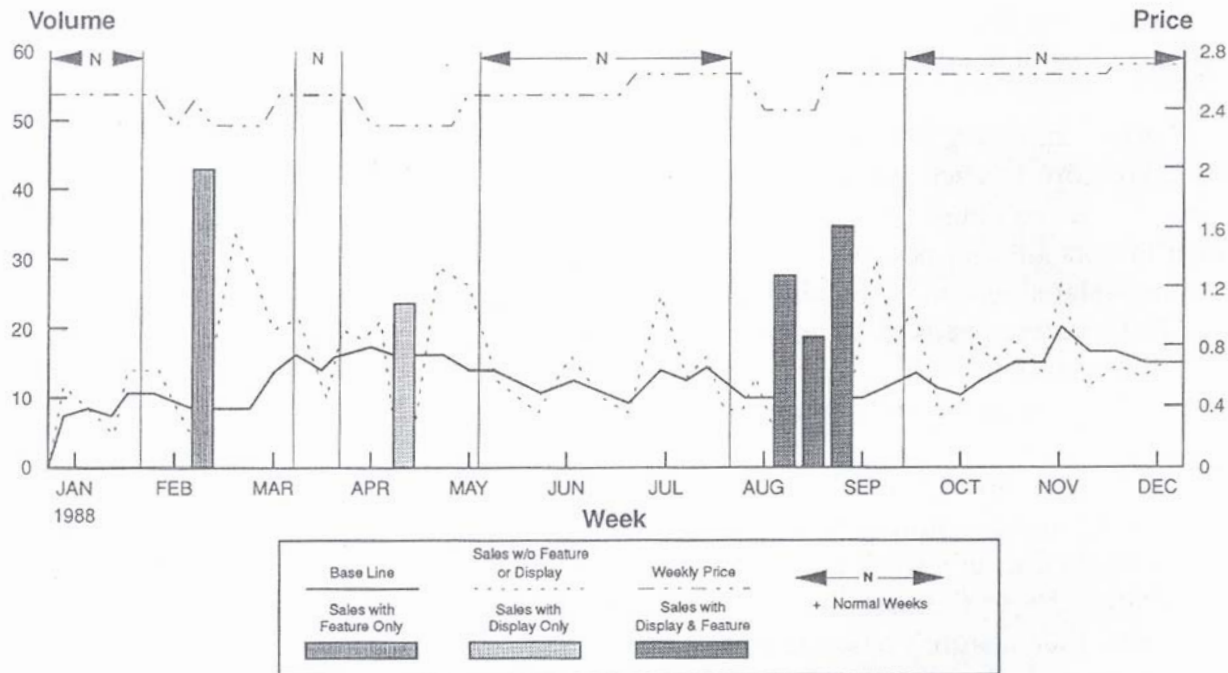
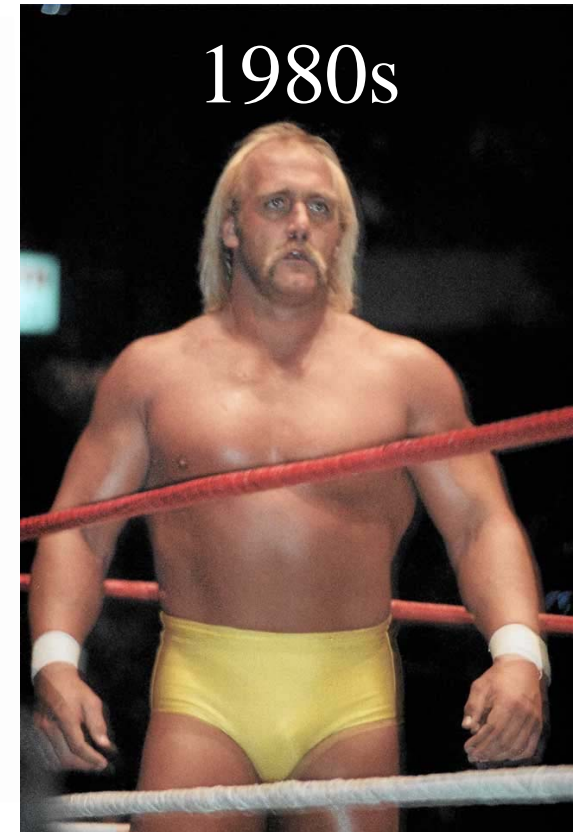
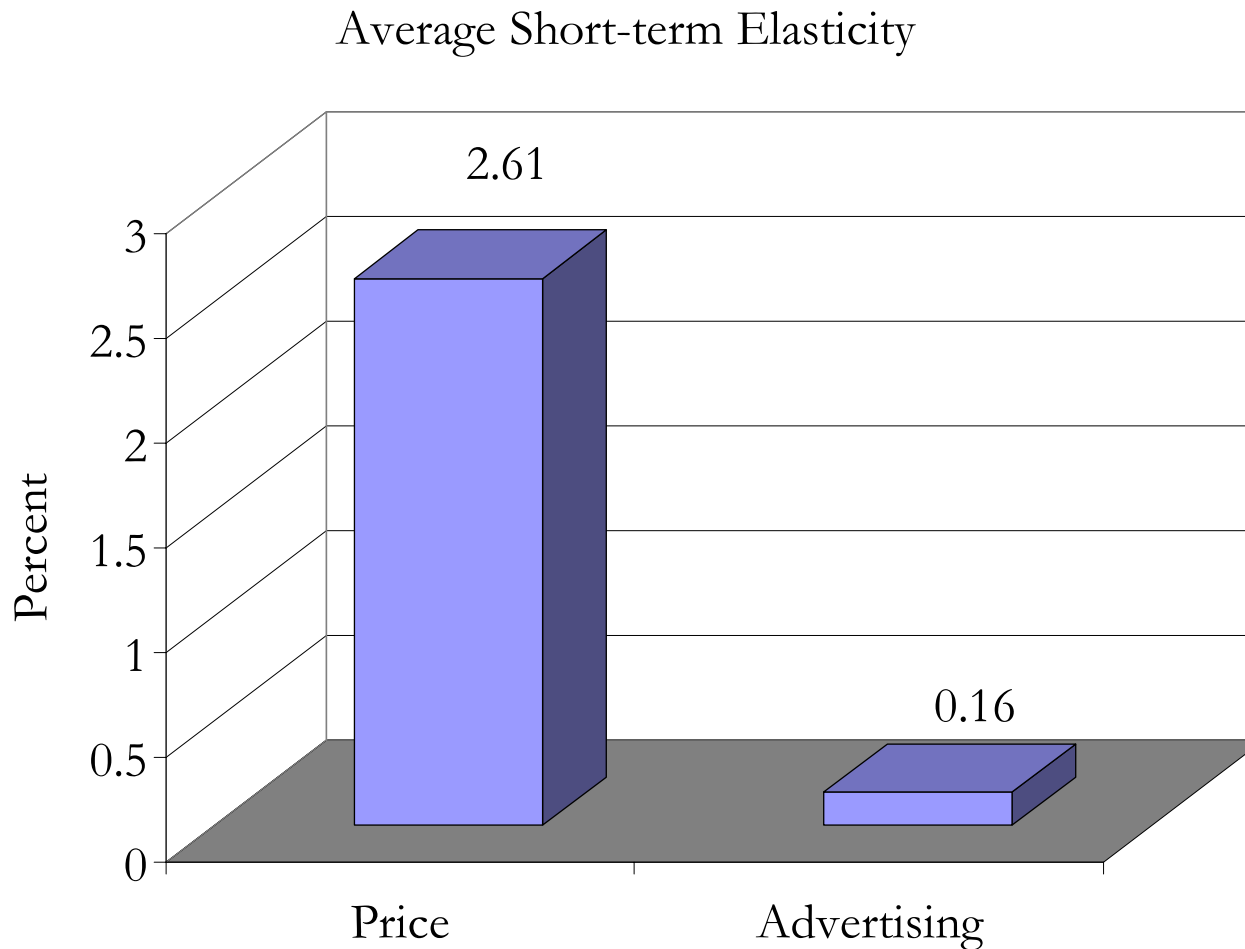


FIGURE 2A. A Store-Level Baseline, TRIX 12 oz., Store E.



# So Why the Emphasis on Deals?

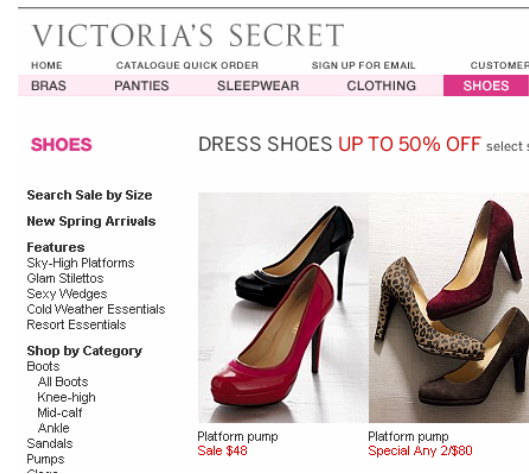
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Source:  
Bijmolt et al.  
2005 JMR,  
Lodish et al.  
1996 JMR

# Why the Short-term Orientation?

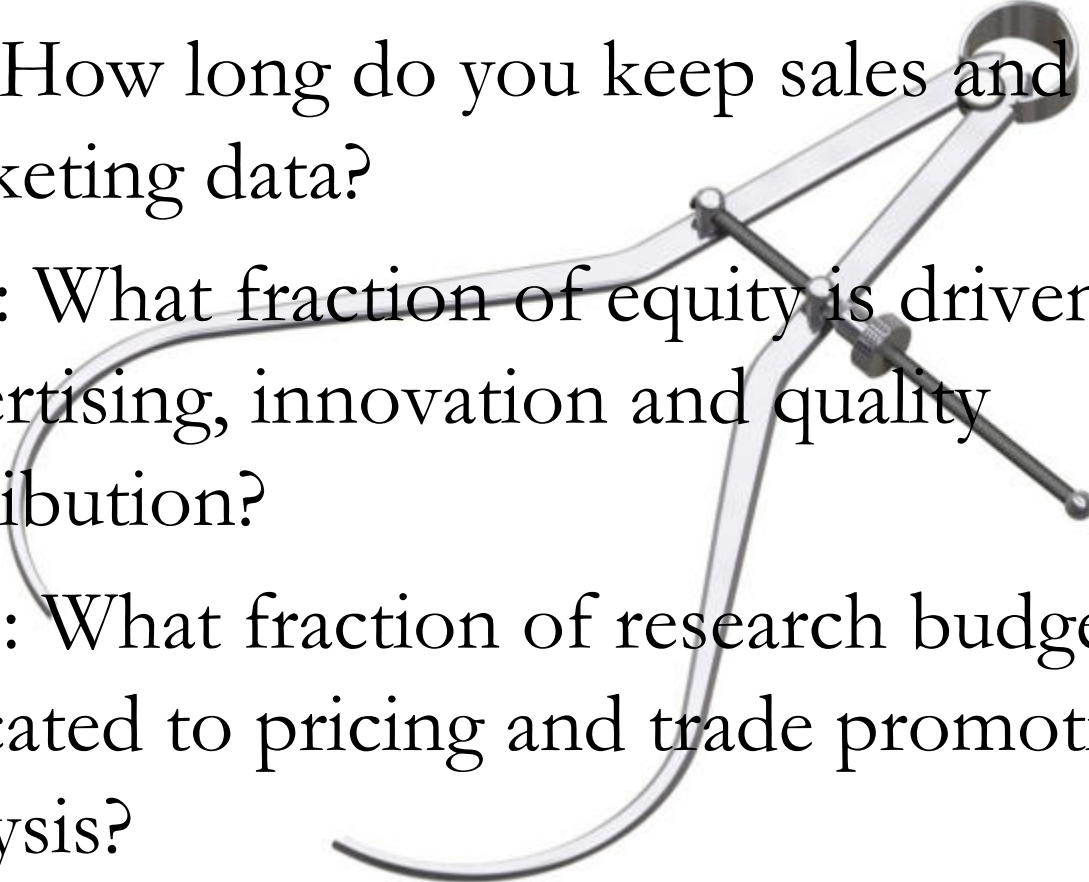
- Hard data drive out soft
  - Measuring price vs. ads, distribution and product
    - Advertising dynamics
    - Advertising affect on margins



- Wall Street analysts have little information beyond quarterly revenue and profits
  - Looking instead to sustainable growth
  - Data they have vs. data they need

# Measurement Practices

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- Q1: How long do you keep sales and marketing data?
  - Q2a: What fraction of equity is driven by advertising, innovation and quality distribution?
  - Q2b: What fraction of research budget is allocated to pricing and trade promotion analysis?
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# Why the Short-term Orientation?

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- Tenure Issues
  - Brand managers promoted within year
- Data Ironies
  - More data
    - but more discarded
  - Years to build brands
    - but managed by days



# Yet Short-term Orientation Ignores

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- Consumer learning
- Brand purchase attributions
- Stockpiling
- Competitive response

# Some Recent Findings

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- IRI study of 24 brands in 2004-2006
  - Long-term sales effect is 80% of short-term effect
- Major CPG firm study of 71 brands in 1995
  - Long-term price lift is 1/7 short-term price lift
- Positive advertising effects can last over 2 years

# Back to the Future: Long-term View

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- Short-term effects
  - Current period lift over base from marketing
  - Yet lift and baseline are not immutable
- Long-term effects (brand health)
  - Changes in price premium (margins)
    - Lower price sensitivity means higher margins
      - For manufacturer *and* retailer
  - Changes in quantity premium (baselines)

# Tracking

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- Do you track price elasticity over time?
- Do you track baseline sales over time?
- If so, do you know if and why they change?



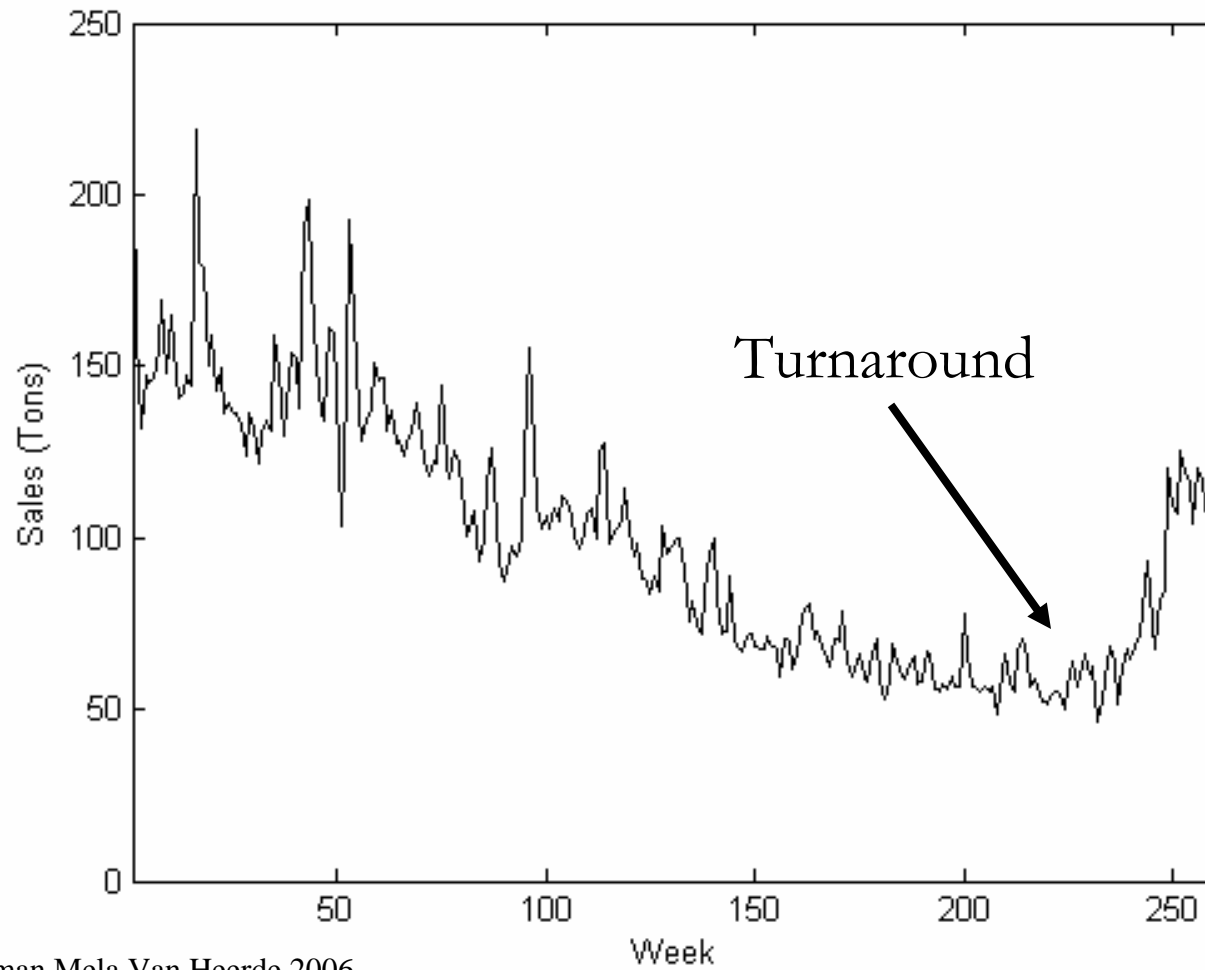
# Linking Strategies to Performance

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- Methods
  - Experiments (e.g., Behavior Scan)
  - Secondary data (regression based)
    - $\text{Sales} = a + b * \text{price}$
    - $a = f(\text{strategy}), b = f(\text{strategy})$
- Data
  - Collect more longitudinal data

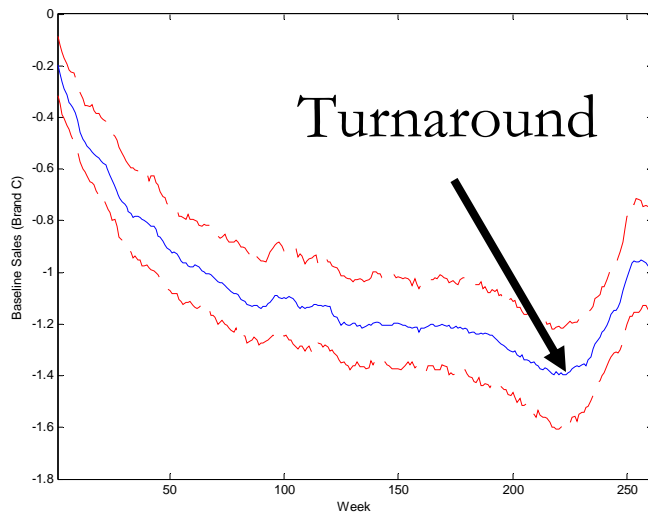
# Case Study – French Pizza

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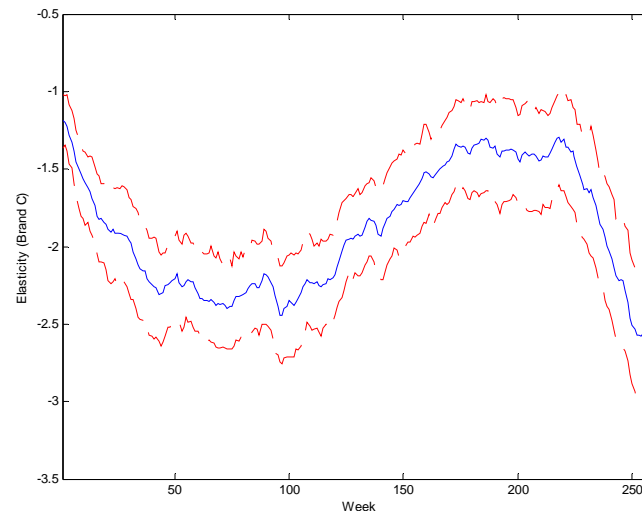
Source: Ataman Mela Van Heerde 2006

# Case Study – French Pizza



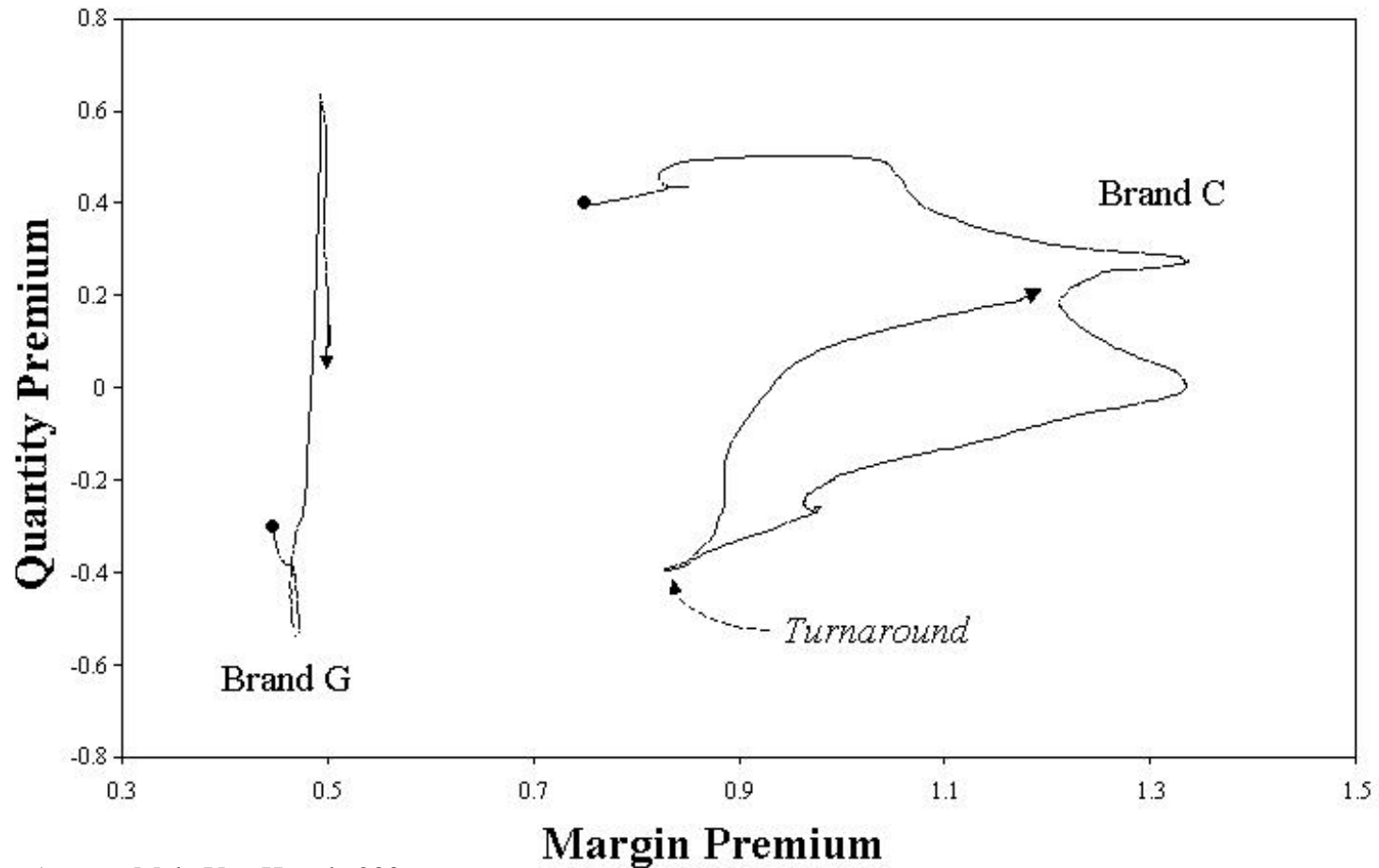
Intercept (quantity premium) is decreasing until turnaround late in period

Elasticity magnitude (price premium) is increasing during turnaround



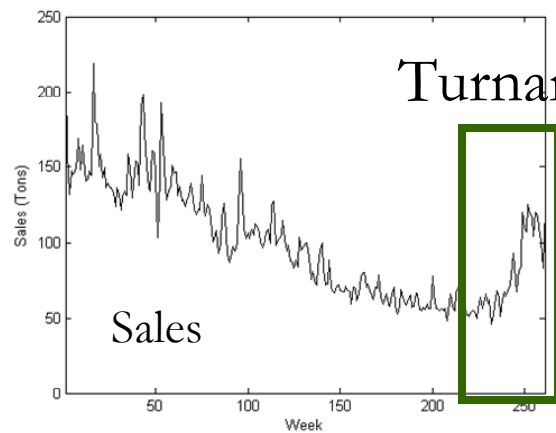
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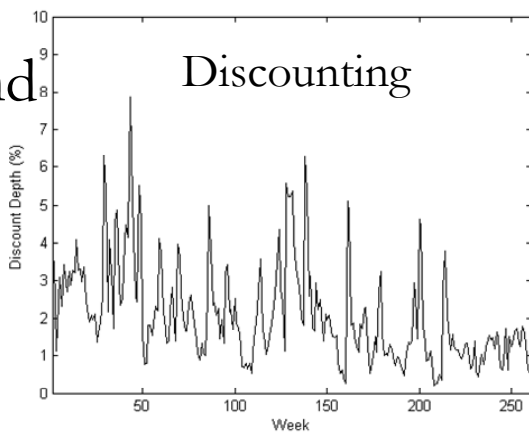


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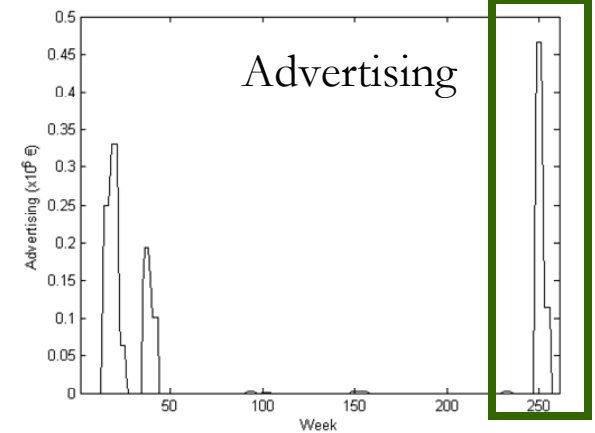
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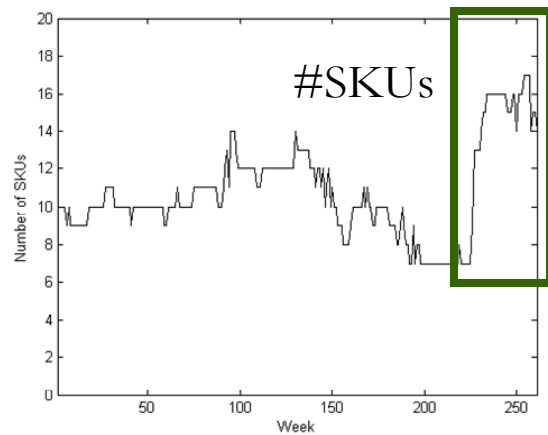
(a)



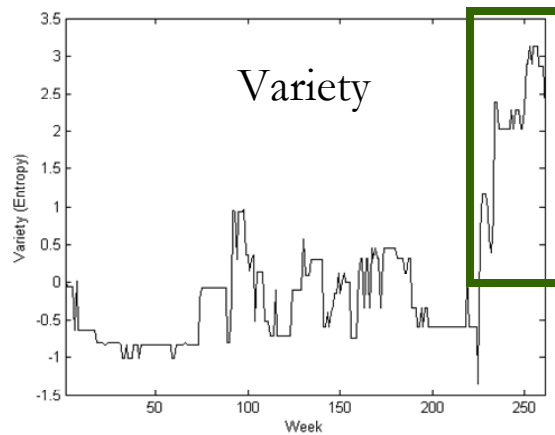
(b)



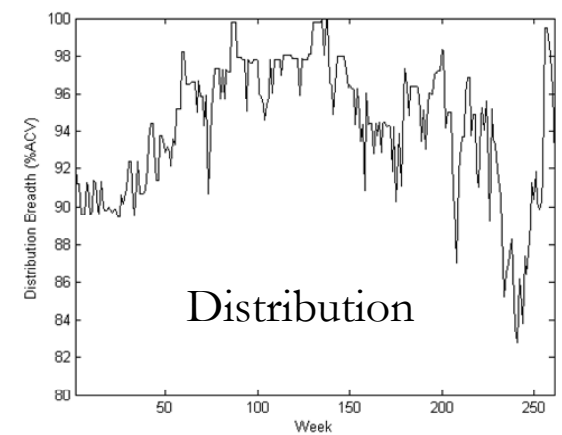
(c)



(d)



(e)

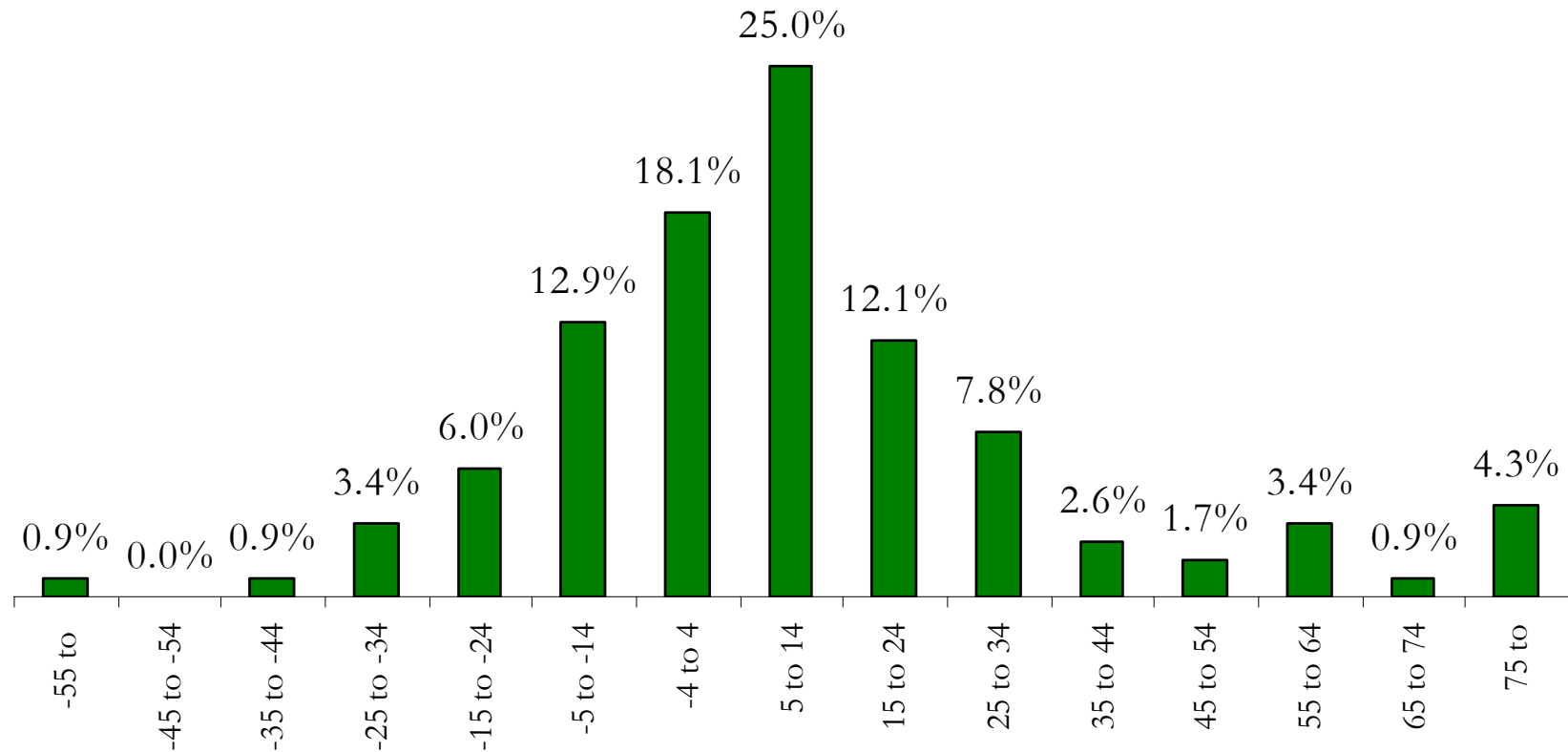


(f)

Source: Ataman Mela Van Heerde 2006

# A Large Scale Analysis: IRI Data

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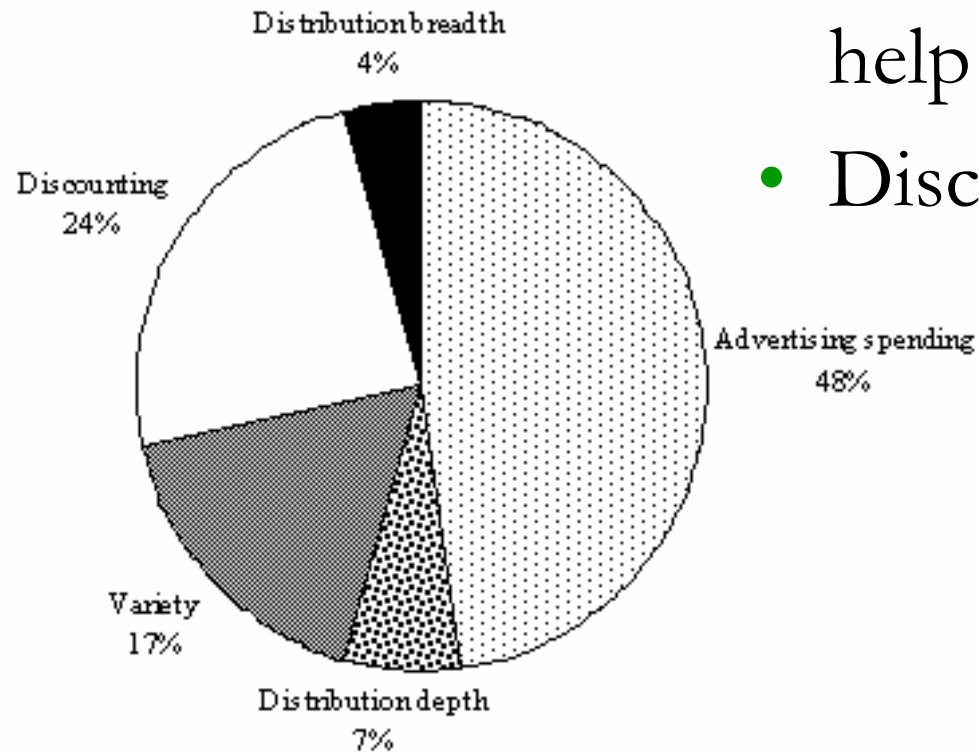


€ Sales Change (%) in last 2.5 years relative to first 2.5 years

Source: Ataman Mela Van Heerde 2006

# Strategy and Quantity Premiums

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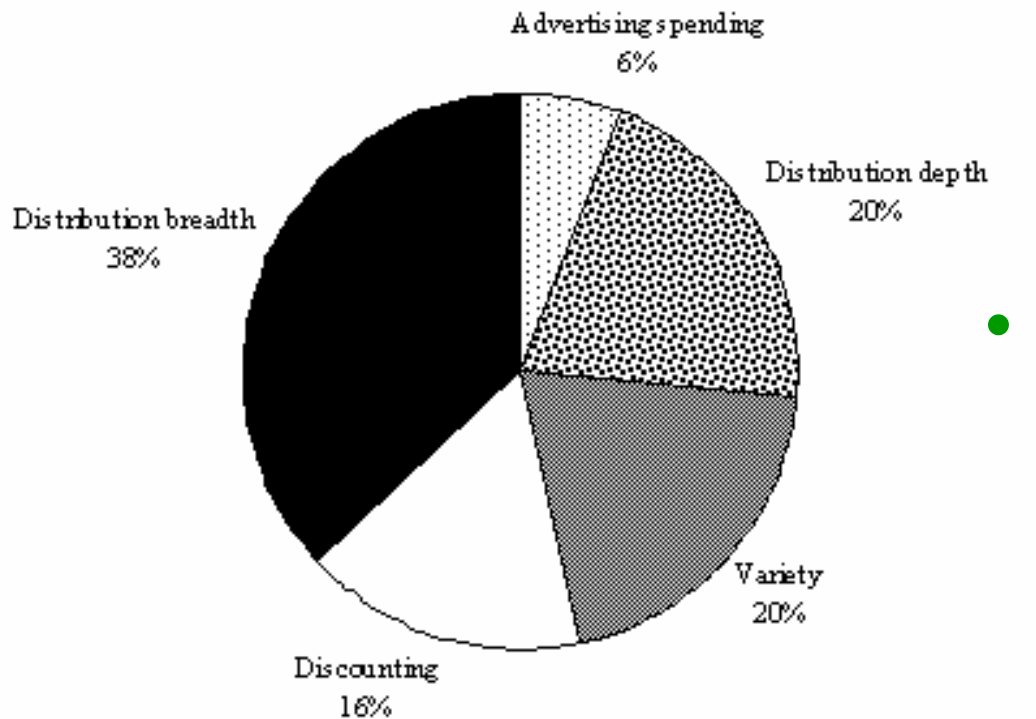


- Advertising and variety help
- Discounting hurts

Source: Ataman Mela Van Heerde 2006

# Strategy and Price Premiums

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- Distribution, variety and advertising help
  - Distribution dominates
- Discounting hurts

Source: Ataman Mela Van Heerde 2006

# A Leading Edge Application

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- Thanks to Stephen Garry and Clorox



# A Leading Edge Application

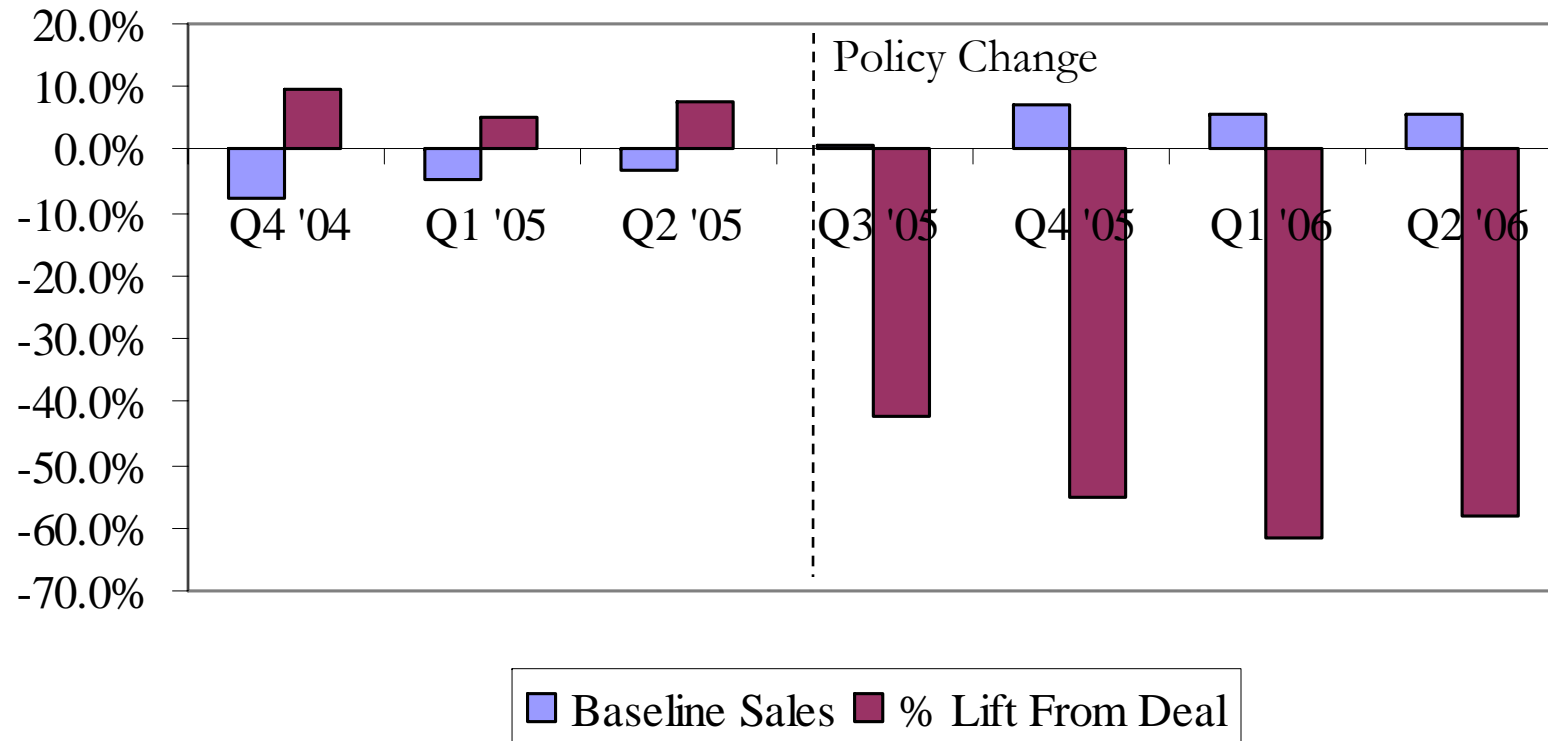
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- Monthly discount of Clorox Bleach at retail is \$0.99
  - Consumers learned to lie in wait
- Advertising curtailed
- Q3 05 policy change
  - ads to deals



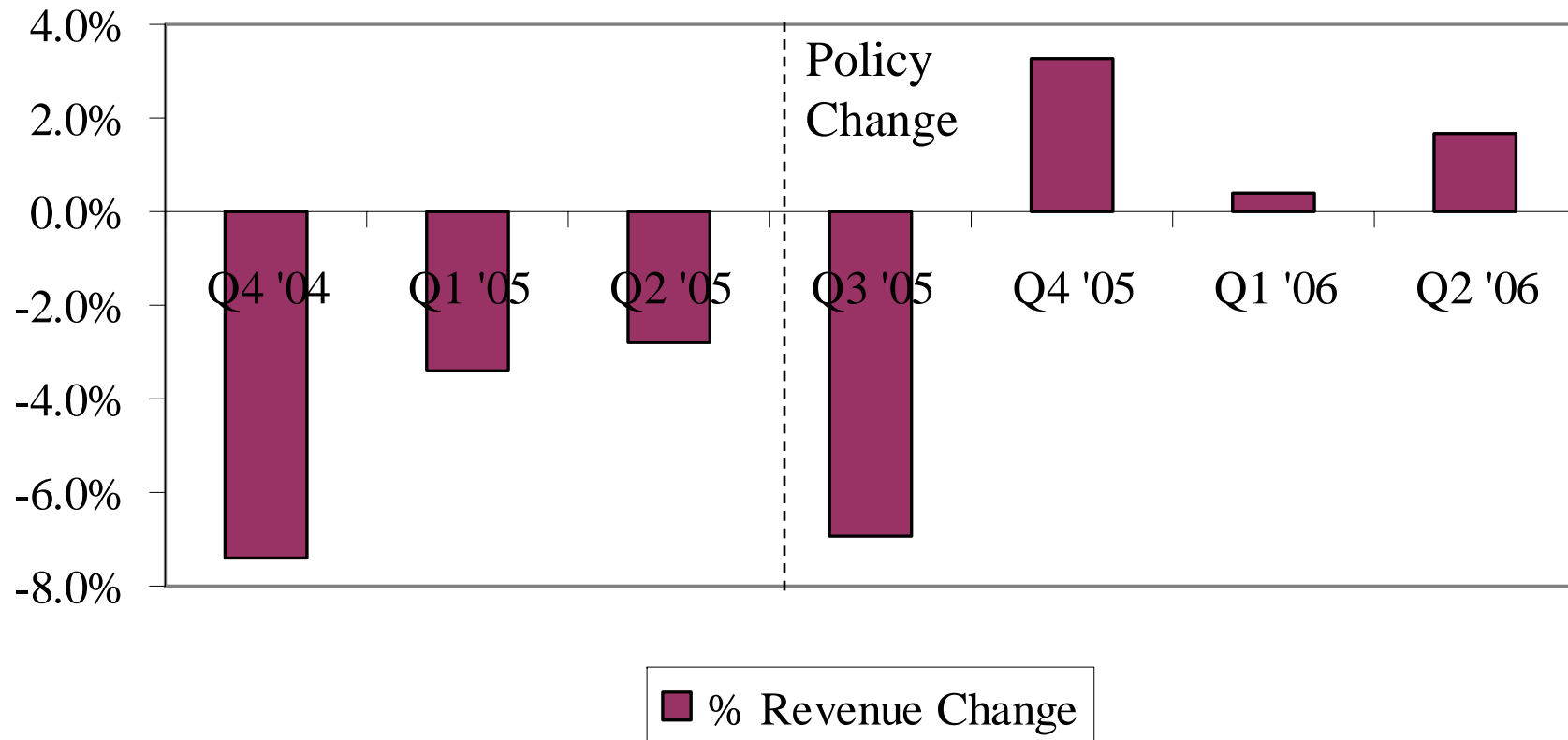
# A Leading Edge Application

Clorox Baselines and Deal Response (Year Over Year)



# A Leading Edge Application

Clorox Revenue (Year Over Year)



# A Leading Edge Application

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- Short-term perspective would not have sufficed
  - Sharp decrease in revenues in first quarter after change
  - But elasticities down and intercepts up
  - Useful info for firm and analysts and needed to stay the course

# Recommendations

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- Longer streams of data
  - Quantity and price premiums
  - Marketing strategy
  - How else to get view of changes in brand equity?
- Link strategies to brand performance
- Share insights with analysts
- Benchmark brands and brand managers against brand health as well as sales

# In Sum

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- Many brands are flailing
- Short-term orientation
  - Data
  - Manager tenure
  - Analysts
- Long-term metrics
  - Keep eyes 100 feet ahead on road, not 5
- Paper available in July/August 2007 HBR

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