

PERFORMANCE-BASED ADVERTISING

HOFFMAN|LEWIS

Performance-Based Advertising

Ask the average ad agency person about the fundamental principles behind what she does and you will likely get stunned silence. When she recovers, you will probably hear a series of buzzwords rather than principles, vague statements about “cultural conversations” or “360-degree touchpoints” or “consumer engagement.”

The reason ad agency people have a hard time articulating underlying principles is that for the most part they don't have any. Instead they rely on a grab bag of platitudes handed down unchallenged from agency to agency, generation to generation.

In response to that, we have developed a set of principles called Performance-Based Advertising (PBASM). PBA is meant to displace the fuzzy beliefs and horrible clichés that masquerade as critical thinking in much of the advertising and marketing world today.

PBA defines a very specific set of principles by which advertising should be developed and managed. It avoids the tired truisms and replaces them with simple ideas that will

help you understand why your advertising isn't performing as well as you'd like it to and what you can do about it. PBA is about strategy, it's not about creativity. Thankfully, imagination is still rare and beautiful and can't be formulized in books like this. Strategy can.

We hope PBA will challenge what you think you know about advertising. We also hope it will give you a fresh, practical way to approach the advertising decisions you have to make every day.

The Principles of Performance-Based Advertising

The premise behind Performance-Based Advertising is simple—there are ways to advertise that are prudent and efficient, and ways that are wasteful and inefficient.

Your ability to advertise efficiently and get maximum value and performance from your advertising is largely determined before you create or approve a single ad. It has to do with:

- What you expect advertising to accomplish
- Whom you direct your message to
- What you tell them

These fundamental questions are the foundation on which PBA is built.

We want to emphasize that PBA is a series of principles, not rules. PBA is about probabilities, not absolutes. (For that matter, any statement about human behavior is about probabilities, not absolutes.) There are plenty of examples of ad campaigns that do not follow these principles but have been successful. There are also situations in which PBA principles will not be relevant. If you apply PBA principles, you are not guaranteed to

succeed. And if you don't apply them, you are not guaranteed to fail. However, if you follow them, we believe the probability of success is far higher.

Performance-Based Advertising has three principles:

1. Advertising is most productive when it is focused on changing behavior, not attitudes.
2. Advertising messages should be created for, and directed at, the heavy-using, high-yield customers in your category.
3. We don't get them to try our product by convincing them to love our brand; we get them to love our brand by convincing them to try our product.

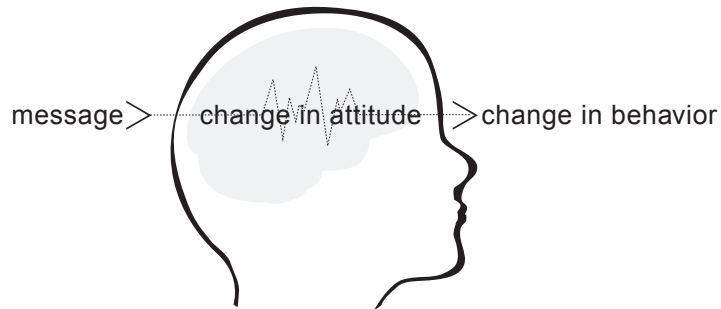
Now let's look at these principles one at a time, and explore their rationales and implications.

Principle #1

Advertising is most productive when it is focused on changing behavior, not attitudes.

One of the fundamental questions about advertising that no one seems to ask is this: is advertising best suited to change behavior or attitudes? The answer to this question has huge consequences for advertising strategy.

The common wisdom is that first you change a consumer's attitude and this will lead to a change in her behavior. In graphic form, it looks like this:



The only problem with this model is that attitudes are extremely hard to change. Once someone's a Dodgers fan, he's probably going to stay a Dodgers fan. Once he's a Coke versus a Pepsi, Democrat vs. Republican, United vs. American, Mac vs. PC, paper vs. plastic, his mind is not likely to be easily changed.

As author and neuroscientist Sam Harris puts it:

It does not require any special knowledge of psychology or neuroscience to observe that human beings are generally reluctant to change their minds.

Economist John Kenneth Galbraith says:

Faced with the choice between changing one's mind and proving that there is no need to do so, almost everyone gets busy on the proof.

And perhaps marketing guru Jack Trout says it best:

If your assignment is to change people's minds, don't accept the assignment.

In fact, it is usually a lot easier to change behaviors than attitudes.

- It's easier to convince you to eat a Big Mac® than to convince you that eating a Big Mac is a good thing to do.
- It's easier to convince you to go to Las Vegas than to convince you that going to Las Vegas is a wise thing to do.
- It's easier to convince you to fly Southwest than to convince you that flying Southwest is going to be a pleasant experience.



It's easier to convince you to eat a Big Mac® than to convince you that eating a Big Mac is a good thing to do.

Nonetheless, our informal estimate is that somewhere around 75% of the advertising we see is aimed at the mostly fruitless and ineffectual exercise of trying to change our minds.

It's not that attitudes are irrelevant. It's not that they don't affect behavior. It's just that they're too damn difficult and too damn expensive to change. Your marketing dollars are much more likely to prove productive if you focus on changing behavior.

To illustrate the implications of this principle, let's take a little trip on United Airlines. We know a heavy traveler who dislikes United intensely. He's had years of unpleasant experiences with United. He goes out of his way to avoid them.

This year, United will spend tens of millions of dollars advertising to him and people like him. They can play *Rhapsody in Blue* till they're blue in the face, and it won't change his attitudes or get him to like the airline any better. But they can change his behavior very easily. All they need to do is promise him a 60-second security check or a \$399 fare to Hawaii, and he'll have his shoes off and his boarding pass out so fast you won't believe it.

Nonetheless, this year United will continue on a fool's errand—running tens of millions of dollars in advertising that tries to convince people who don't like them to like them.

Most disturbing is that according to traditional advertising practices and most marketing and branding experts, United is doing the right thing. They're not.

Principle #2

Advertising messages should be created for, and directed at, the heavy-using, high-yield customers in your category.

It is a good thing to love all your customers and treat them with respect and gratitude. But it is not productive to fashion your advertising message to appeal to all of them.

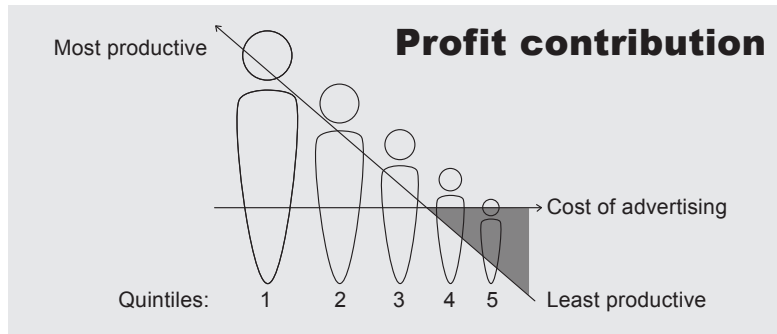
Some customers are extraordinarily valuable. Some are hardly valuable at all. One of the keys to making your advertising more productive and efficient is to be certain it is talking the language of the high-value customer.

Most marketers define their target customer in either demographic (e.g., women 18–34) or psychographic (e.g., millennials) terms. I think this is wrong.

The target customer should be defined in terms of category usage. This is just a fancy way of saying that you should define your target as *the high-value customer* in the category—

regardless of demographics or psychographics—and create your message to appeal to these people.

The following chart is not meant to be scientific, but to illustrate the wisdom of focusing your message on heavy-using, high-yield customers:



Even though some customers are much less profitable than others, the cost of marketing to them is not less. While people in your top quintile may be hugely valuable, people in your lowest quintiles may actually cost you money. Even if you market to them successfully, it may cost you more than you can ever hope to recover.

Most advertisers mitigate against this by developing media strategies that target the heavy user. This is not good enough. When you buy a spot on *Monday Night Football*, it costs just as much to talk to the guy who buys a hamburger once a month as the guy who buys every day.

Creative strategy is the key to cost mitigation. Make sure your ads are written for the right people. Be sure your advertising has been developed with the point of view and needs of the high-value customer in mind.

The reason it is critical to fashion your message for the heavy-using, high-yield customer is that they will often have a different point of view and a different set of needs from the average or light user.

As an example, let's talk about fast food. The average user of fast food may visit a fast-food place once every two weeks. To him, fast food may be a guilty treat. The heavy user of fast food, however, uses it in a completely different way. He visits fast-food places 10 times a week or more. To him, it's not a guilty treat. It's his refrigerator.

In fact, in the fast-food category, as in many others, about 30% of customers account for 70–80% of the volume.

These heavy fast-food users are the key to profitability in the category. Attract them, and you're coining it. Miss them, and you're in trouble.

Often advertisers try to find a common denominator among all their potential customers and try to create a message that appeals to everyone. This is a mistake. The way to minimize waste and maximize the productivity of your advertising is to shape the message for the high-yield customer.

There's an interesting marketing hypothesis called The Long Tail. It states that companies with low costs of inventory and distribution (like web powerhouses Amazon and Netflix) can derive substantial income, even a majority of income, by selling unpopular items to tiny market segments. There seems to be conflicting data about this idea, and we are officially skeptical.

Even if it is true, however, it has very little relevance for most marketers. Unlike Amazon and Netflix, most marketers have *high* costs of inventory and distribution. Carrying every

niche book of poetry or philosophy for brick-and-mortar book retailers is ridiculously expensive and has no chance of returning profits.

As usual, a whole lot of marketing people have completely misunderstood The Long Tail. They mistakenly think it means they should focus their marketing efforts on trying to sell golf balls to tennis players.

In summary, success in most categories is directly related to the number of heavy-using, high-yield customers you can attract. (We have used “heavy user” and “high-yield customer” interchangeably. In some categories they may not be the same.)

Since nobody has an unlimited marketing budget—except, apparently, erectile dysfunction remedies and congressional candidates—maximizing the performance of your advertising dollars consists of doing the following:

- Studying high-yield customers and understanding what they want
- Crafting a message to these needs
- Treating your low-yield customers nicely, but not shaping ad messages for them

Principle #3

We don't get them to try our product by convincing them to love our brand. We get them to love our brand by convincing them to try our product.

Principle #3 is the heart and soul of PBA. It is a different view of advertising and branding. It is different because it takes contemporary advertising thought and flips cause and effect.

What this principle is saying is that the best way to build a brand is through product advertising, not brand advertising.

Let's define our terms.

In general, what people mean when they differentiate between “product” and “brand” advertising is that product ads are about features and benefits, and brand ads are about imagery and lifestyle. (This, by the way, is nonsense. All advertising is brand advertising. All advertising either enhances or diminishes a person's net impression of your brand,

whether you intend it to be brand advertising or not. Nonetheless, the idea that brand advertising is something different is so ingrained in the system that we have to deal with the idea whether we like it or not.)

We believe that “brand” advertising—advertising focused on imagery or lifestyle—is least effective against your most desirable customers. It may be effective against light users or nonusers in your category, but it tends to be ineffective against heavy users.

For better or worse, the heavy-using customer in your category is probably already an expert on your brand. By definition, she participates in the category frequently. She is more likely to be interested in the category and knowledgeable about it. When you want to learn about your standing vis-à-vis your competitors, what do you do? You ask her. You conduct research and invite her in to tell you how you’re doing. It would not be hyperbolic to say that in some ways she knows your brand as well as you do.

Her knowledge and experience in the category have far greater influence on her opinion of your brand than advertising does. Please reread that last sentence.

Because she knows her stuff, her attitudes are hard to change. That's why Principle #3 stresses the importance of product advertising. Give her a solid reason to give you a try. She will quickly recognize meaningful product differentiation, innovations, new product benefits, a good deal, a compelling offer, a service enhancement, or evidence of emotional enrichment.

She is far more likely to recalibrate her opinion of your brand by experiencing your product than by experiencing your advertising. Getting the customer to experience your product doesn't just create sales—it's what builds brands.

(One thing we need to say here. There are some categories in which imagery and lifestyle advertising are often highly effective, e.g., cigarettes, booze, soda, fashion. These are categories in which there is minimal product differentiation and, in fact, advertising often serves as the differentiator. As we said earlier, PBA principles do not apply in all cases and in all categories.)

To understand this principle better, think about a category in which you are a heavy user. In our case a good example is hotels. We spend way too much time in hotels, probably

75 to 100 nights a year. We are the customers every hotel operator wants. In terms of dollar contribution to the category, we are probably worth at least 10 average customers.

We know the hotel category inside and out, backwards and forwards. We know the good hotels in the cities we travel to, and the bad ones. We've seen them all, smelled them all, tried them all. Any hotel operator who thinks he's going to influence us with fetching images of his glorious Best Western is wasting his money. If he wants us to give him a try, he'd better tell us something we don't already know. And it had better be specific and it had better be good. Images of suntanned models lounging poolside may influence the light user who travels once a year, but it ain't gonna impress us.

Let's go back to United Airlines for a minute. In our lifetime they have spent hundreds of millions, perhaps billions, of dollars trying to convince our friend that they are *The Friendly Skies*, or whatever the latest incarnation of that campaign is. They may fool Grandma and Grandpa, who travel once a year, with that baloney, but anyone who flies regularly—anyone who is a desirable, heavy user in the category—knows that it's nonsense. United's attempt to change attitudes is a waste of time and money. The idea that they are going

to change the minds of high-yield customers with their advertising, and that this is going to lead to better sales, is insanity.

Now let's take a look at Southwest Airlines. Here we have an airline that offers perhaps the worst flying experience in the nation. But they don't waste their money on "branding" ads. Instead, they wisely try to sell us something. They give us specific, concrete reasons to fly with them: lower fares, more flights, more convenient destinations. As a result, they have actually built a meaningful brand—a brand that stands for something concrete and discernible—while United and American, with all their "brand" advertising, have not. Someone please tell us what United stands for?

As Southwest demonstrates, the best way to build a brand is with persuasive product advertising.

Does this mean that the image components of advertising are irrelevant or unimportant? Of course not. You always want to look good, and there is no excuse for doing ugly, annoying ads. But first things first. The first order of business is to sell someone something.

You want to build a strong brand? Forget all the ethnography, sociology, sidewalk psychology, and brand babble. Make sure your advertising gives people a damn good, convincing reason to try your product.

You think that's simplistic? It's the hardest thing an advertiser has to do.

Putting It Together

As we said earlier, Performance-Based Advertising is about probabilities, not absolutes. We're sure you can find examples of ad campaigns that disregarded all our principles and were successful. Just like there were times you didn't bother studying for an exam and got lucky. But just as there is a far higher probability of getting an A if you study, we believe there is a far higher probability of getting a better return from your advertising dollars by creating advertising based on PBA principles.

There is certainly nothing wrong with improving attitudes about your brand. And there are certain categories that are heavily attitude driven (e.g., cigarettes, alcoholic beverages, soft drinks, and fashion). But advertising is performing at its highest level when it is aimed at changing behavior—when it is giving the heavy hitter in your category a good, solid reason to do something different.

In order to get maximum value from your advertising, abandon false goals and old clichés. Focus on increasing your likelihood of motivating a change in behavior.

To help you on your way, here's a quick guide to the differences between conventional advertising strategy and Performance-Based Advertising:

Performance-Based Advertising	Conventional Ad Strategy
<p>Primary goal is changing behavior.</p> <p>Creative message is aimed at heavy-using, high-yield customer.</p> <p>Brand building is best accomplished through product experience.</p> <p>Media targets are defined in category usage terms.</p>	<p>Primary goal is positioning or branding.</p> <p>Creative message is aimed at a general audience.</p> <p>Brand building is best accomplished through attitude adjustment.</p> <p>Media targets are defined in demographic/psychographic terms.</p>

1725 MONTGOMERY STREET • SAN FRANCISCO CA 94111
t 415.434.8500 f 415.434.8484

NEW BUSINESS CONTACT:
Andrea Alfano, EVP, Director of Client Services

[e-mail: aalfano@hoffmanlewis.com](mailto:aalfano@hoffmanlewis.com)

30 MARYLAND PLAZA • ST. LOUIS MO 63108
t 314.454.3400 f 314.454.3487

NEW BUSINESS CONTACT:
Mark Schaeffer, President

[e-mail: mschaeffer@hoffmanlewis.com](mailto:mschaeffer@hoffmanlewis.com)