

Check out

An ROI analysis of the FMCG sector















## The missing link

The advertising community has two long-standing demands of online marketing:

- Prove that the online channel can build brands
- Prove that it can drive offline sales.

Whilst there have been many thousands of branding studies undertaken to address the first point, considerably less attention has been paid to the second. Studies of online marketing effectiveness have so far struggled to demonstrate a clear link with in-store behaviour.

In the absence of a proven link between online campaigns and offline sales, FMCG marketers have been reluctant to shift marketing budgets to the web. In the UK, online display currently receives approximately **1% of FMCG brands' media** allocation; **TV** gets around **59%**, **Print 26%**, **Outdoor 8%**, **Cinema 3%**, and **Radio 3%\***. With the current economic climate increasing the focus on ROI, demands for proof are more pressing than ever.

Microsoft Advertising, in partnership with econometric experts BrandScience, looked carefully at how the case for online driving offline sales can best be made. Our approach is Econometric Modelling, a technique used for over 25 years by FMCG businesses in the UK. Econometric Modelling provides a credible, cross-media view of marketing reflecting today's media landscape. Our study included all of the media channels used to a significant degree by FMCG brands. Online search advertising represents a tiny proportion of FMCG spend, and for this reason it has not been included in the study.

## What is Econometrics?

Econometric Modelling takes its name from its original purpose – to understand economies. It has other applications too, one of which is the impact of marketing on sales.

With its mathematical models, statistics and complex measurements, Econometrics is often seen as the dry end of marketing, the remit of number-crunchers, yet its capability for proving the impact of online on offline sales is nothing if not exciting. Econometrics is about data: vast amounts of good quality data, collected over long periods of time. Out of this mass of data, Econometrics identifies a brand's different drivers. Some of these are controllable, such as pricing structures or marketing activities; some are not controllable, like the weather, or competitor activity. Econometrics shows how these different drivers affect performance, whether performance is measured in market share, customer acquisition, short-term sales (as in our case) or any other metric.

One key advantage is that Econometrics can separate out the brand drivers, quantify their individual effects and arbitrate between them. Critically, it can refine itself over time to make more accurate predictions. Imagine a row of dials, each one representing a brand's driving forces. Econometric Modelling allows you to turn the dials in any combination and accurately predict how these changes would affect performance.





## Applying Econometrics to FMCG sales

Our study aggregates data from over 100 FMCG campaigns, representative of the sector as a whole. Each brand and dataset included in the sample contains at least two years of 'actual' historic sales data and takes approximately 500 hours to model. BrandScience looked at the effect of all drivers including media activity on short-term sales, modelling the historic variation in actual sales figures collected on a weekly basis over a two-year period.

Our study found that media activity contributes around **6%** of all sales with the remaining **94%** resulting from fundamentals such as stock distribution and pricing (including in-store promotions). This **6%** slice of sales variation – the effect of media activity on sales – is the basis of our analysis. BrandScience's Econometric approach quantifies the effects of different media, delivered at specific times in different combinations and weights, on short-term sales. By comparing the maths to the actual sales figures, the modelling process is refined over time.

The analysis is predominantly drawn from the UK but includes some studies undertaken in Europe, to include as many campaigns with a measurable online component as possible (35 in total). More on that later.

The sheer amount of data means that the analysis is extremely robust. On average, the model explains **89%** of the sales variation recorded for each campaign in our sample.





#### The media split in our sample is broadly representative of actual spend across the FMCG sector as a whole, as reported in Nielsen data







# Report conclusion: online delivers greatest ROI for short-term sales



The overall conclusion of our study is that online is the most efficient medium for driving short-term sales in the FMCG sector, as recorded in actual sales data.\* Online returns **€1.68** in actual recorded sales for every **€1** invested. Yet despite this, only **1%** of FMCG ad budgets are spent online. By contrast, some media with a greater share of spend show negative ROI. The role of these channels within the media mix is best understood in terms of longer-term revenue gains.

#### Optimising online spend: a closer look at online ROI



#### While niche/targeted online spend is very efficient, as a rule online ROI is scalable, increasing with greater spend

Based on a meta-analysis of FMCG econometric studies by BrandScience



The Econometric model picks up any statistically significant effect on sales regardless of how small it is. Spends of up to €20K are the most efficient as they tend to be highly targeted and therefore have a significant impact on sales relative to investment, albeit on a small scale. As a result, low online spend delivers the highest ROI, but returns a low overall revenue. However, the key finding to emerge is the scalability of online spend. As spend increases, ROI increases and so, at an increasing rate, does the overall revenue returned. Within the range of online spends analysed by our study (and within the budgets currently spent online by the FMCG sector) there is no evidence of diminishing returns. This analysis suggests the 'optimal' online spend is yet to be reached, and suggests a need for further research on much higher online spends, to understand where that optimal point is (the zenith of the ROI curve). In comparison, a similar analysis shows that TV's optimal spend for short-term sales is in the mid-level.



## TV ROI suggests that the FMCG sector overspends on TV €1.40 ]





#### Online creates synergies between media

By splitting our sample into those campaigns that include online in the media mix versus those that do not, startling differences can be seen. There are two areas of synergies.

First, the synergy created between online and other media extends the length of time that campaigns deliver short-term sales impact. This is the length of time it takes for the marketing campaign's effect on sales (sometimes called the carryover rate), to fall from **100%** to **5%**. If a campaign delivered **100** sales impacts in **week 1** and **50** in **week 2**, the carryover rate would be **50%**. As the sales impacts diminishes week on week, the carryover rate is adjusted until it reaches **5%**, whereupon the campaign's effect is assumed to have stopped. The more successful the campaign, the longer this takes. For online FMCG campaigns, the average length of time is **27** days.



Second, online is an effective support medium to other media. Adding online to the media mix has a positive impact on the ROI of TV, Newspaper, Outdoor, Radio and Cinema. Online not only delivers excellent ROI efficiency itself, but it makes other media spend work harder.

We see a significant difference between those campaigns that include online in the media mix and those that do not. Where online is part of the media mix, the length of the sales effect improves for most media: further evidence that online makes other media work harder.







Interestingly, magazines did not show synergy with online. This is largely because magazines, especially monthly titles, are not as immediately impactful on sales. Newspaper ads are often deployed close to the time of purchase (i.e. key shopping days like weekends) and the performance result is therefore more immediate.



# Looking forwards: what is online's optimal share?

Pulling these findings together, it is possible to quantify the overall effect online has on FMCG ROI. Analysing the sample by the share of spend that was allocated to online, a recommendation emerges.



Increasing share of online spend increases overall campaign ROI (all media)

Where online's share was up to **1.5%** of media spend, roughly in line with current average for the FMCG sector, the campaign ROI was inefficient. Aggregating the campaigns with increased online share, (**1.5%-4%** and **4+%**) we can see that ROI increases. The analysis is based on actual campaigns, and we are limited to around **4%** share as our maximum online allocation (despite casting the net as wide as possible including campaigns that ran in Europe).

This reinforces our theory that 'optimal' online share is yet to be reached. Further research is needed into much higher online spends, to ascertain where that optimal point is reached on the ROI curve.



### Walking the talk: examining the impact of shifting spend

To look at the effects of increasing online's share, we econometrically measured a single FMCG campaign with a relatively high allocation of media spend given to online. This was **Cadbury's 'Jivebrow' campaign**, which ran in the UK to promote sales of the brand's **Dairy Milk** product. Online received **7%** of media spend, most of it on the MSN Homepage (**6%**). The online activity was deeply integrated into the overall campaign to maximise synergies across media. As part of the online campaign, a 24-hour 'takeover' event of the MSN Homepage invited users to submit their own 'Jivebrow' videos in an interactive branded experience.

Online media was the most efficient channel overall, delivering **13%** of incremental sales from **7%** spend. Furthermore, diverting **4%** of the TV spend to the MSN homepage event would have increased the campaign profitability by **11%** 



Online media were almost 4.5 times more efficient than offline media for driving short-term sales of Cadbury's Dairy Milk













### Recommendations

- Online performs well for FMCG brands, delivering strong and scalable ROI.
- Leveraging online's synergistic effects is the simplest way to optimise overall campaign ROI.
- Adjusting the media mix to increase online's allocation will deliver scalable increases in ROI whilst increasing the duration of campaign impact.
- Microsoft Advertising offers a unique combination of mass reach and audience targeting that is ideally suited to driving FMCG sales.

To find out more, visit www.microsoftadvertising.co.uk or email salesmsa@microsoft.com