Brand power in an inflationary market

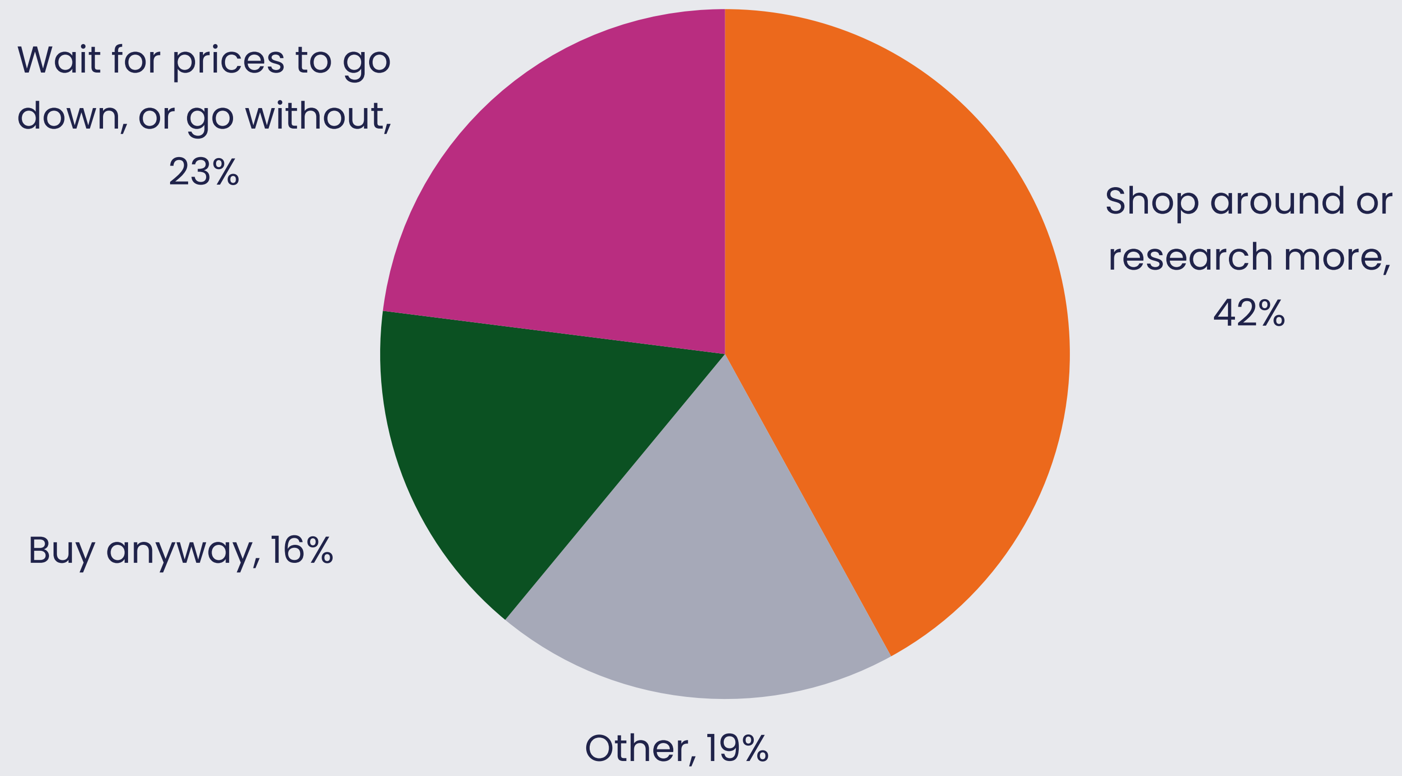
Dr Grace Kite
Economist and Founder, Magic Numbers & Magic Works

Steve Taylor
Joint Chief Strategy Officer, VCCP Media

People respond to rising prices by taking more care over their purchases

Thinking more, researching more, shopping around

If you wanted to buy an item that increased in price from 6m ago what would you do?

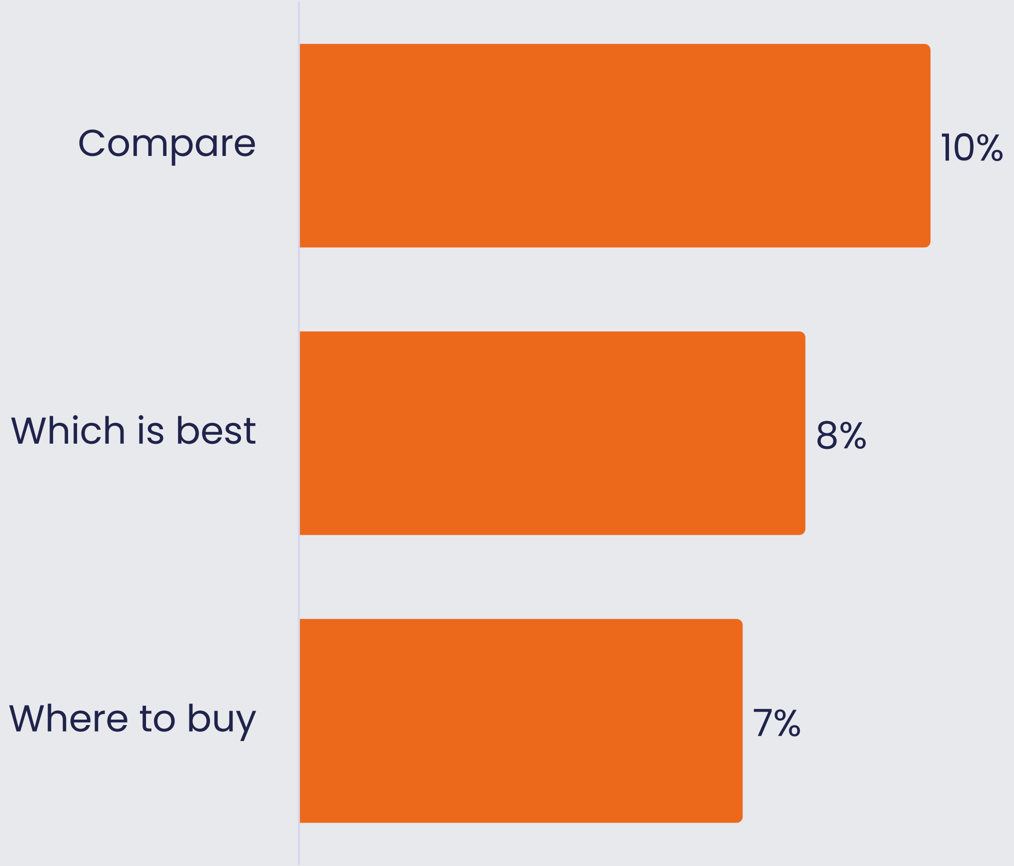


Source: WARC, GWI Zeitgeist, 15000 respondents, Nov 22, average across 6 sectors

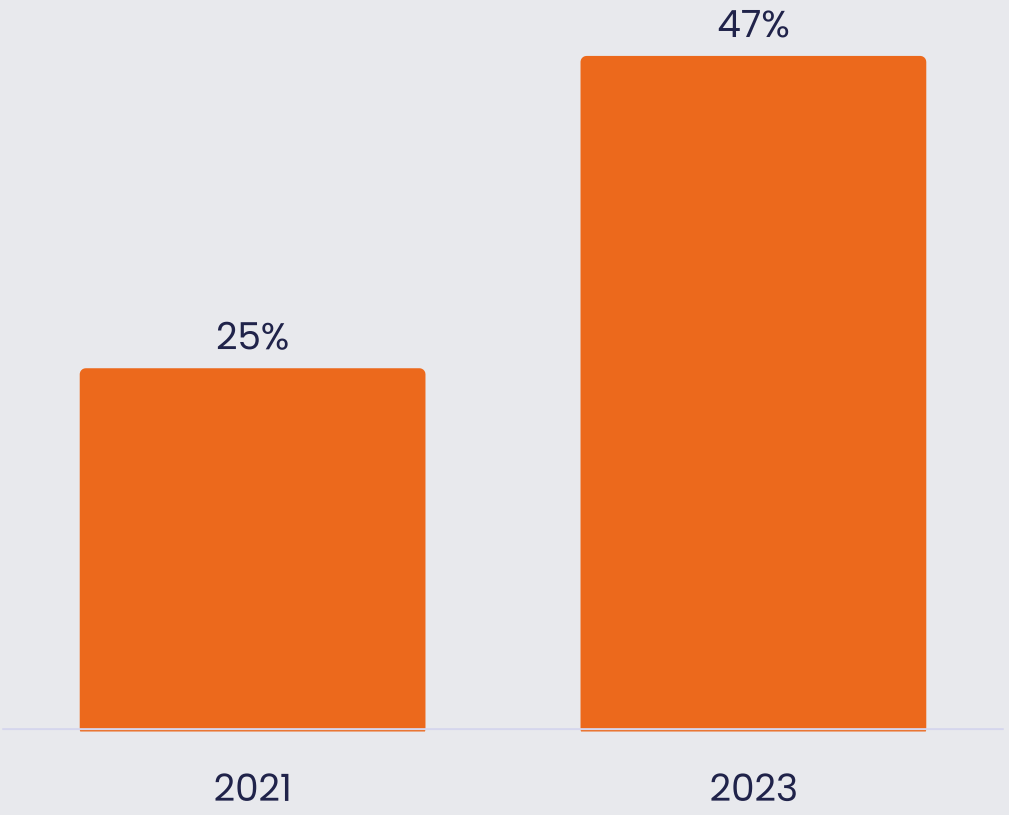
We are no longer shopping on auto-pilot

People are searching for more alternatives and buying different things

Increase in google searches 2023 vs 21



Tried a new brand or retailer in the past 6 months



Source: Trinity McQueen, Google trends

ARC: A brilliant data source on the effect of advertising

Brought to you by econometrics businesses that want the whole industry to be more effective

840

real-world cases

£7bn

worth of advertising spend

data2decisions | Ekimetrics. | magic numbers | VCCP | Circana. | OMG OmnicomMediaGroup

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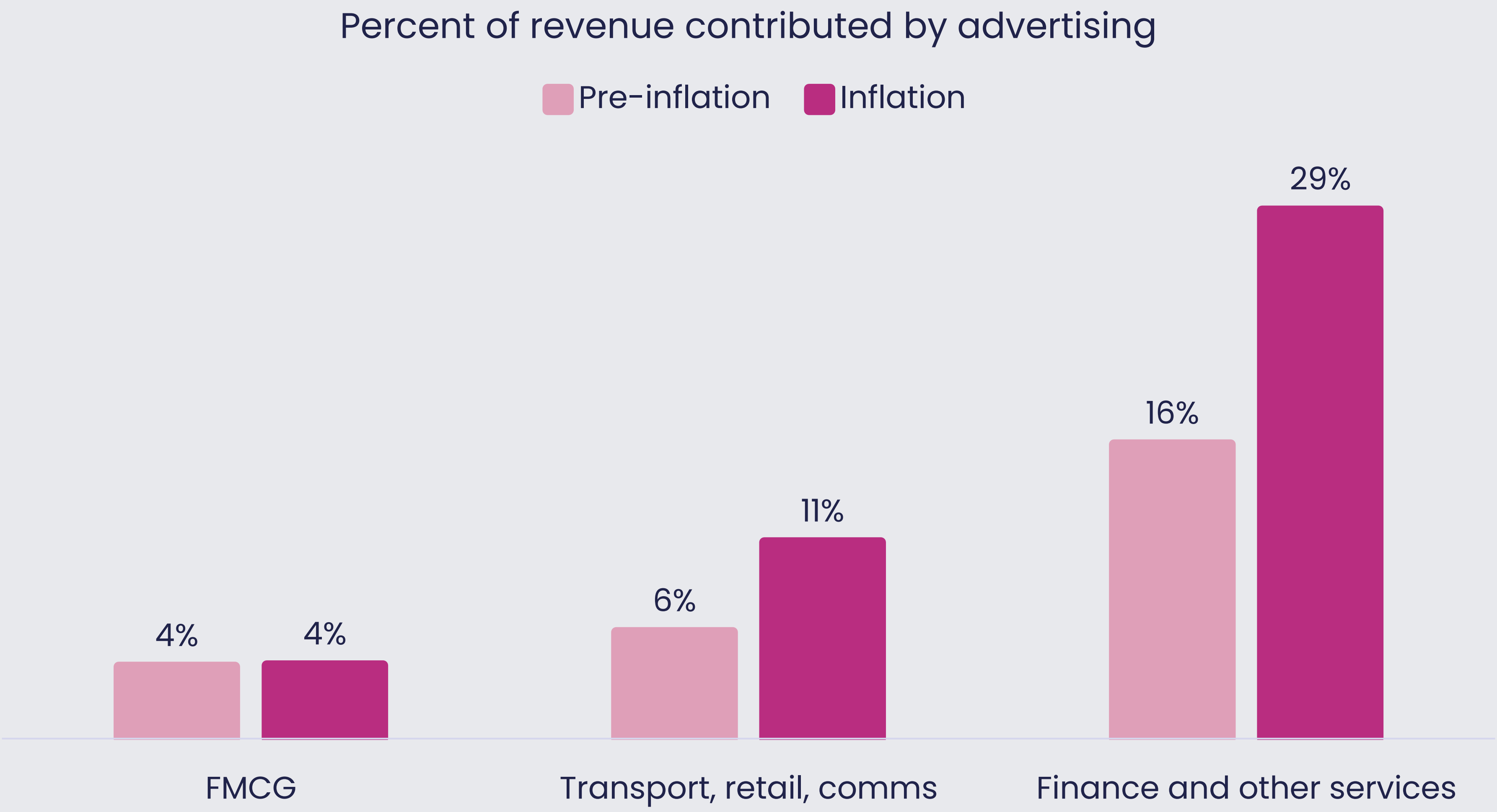
Wherever purchase decisions are up for grabs, advertising works

Across all sectors in ARC, the % of revenue driven by advertising has increased



Source: Magic Numbers, OMG, Ekimetrics, Circana, D2D, VCCP Media via ARC. "Inflation" is studies including 2022 & 2023

Strong brands can charge more

Challengers have an opportunity

But beware, category matters

Strong brands can charge more

If price is going up, we want sales not to drop too much

Econometricians measure the effect on sales using price elasticity

You put the price up

Volume of sales will for sure go down, but by how much?

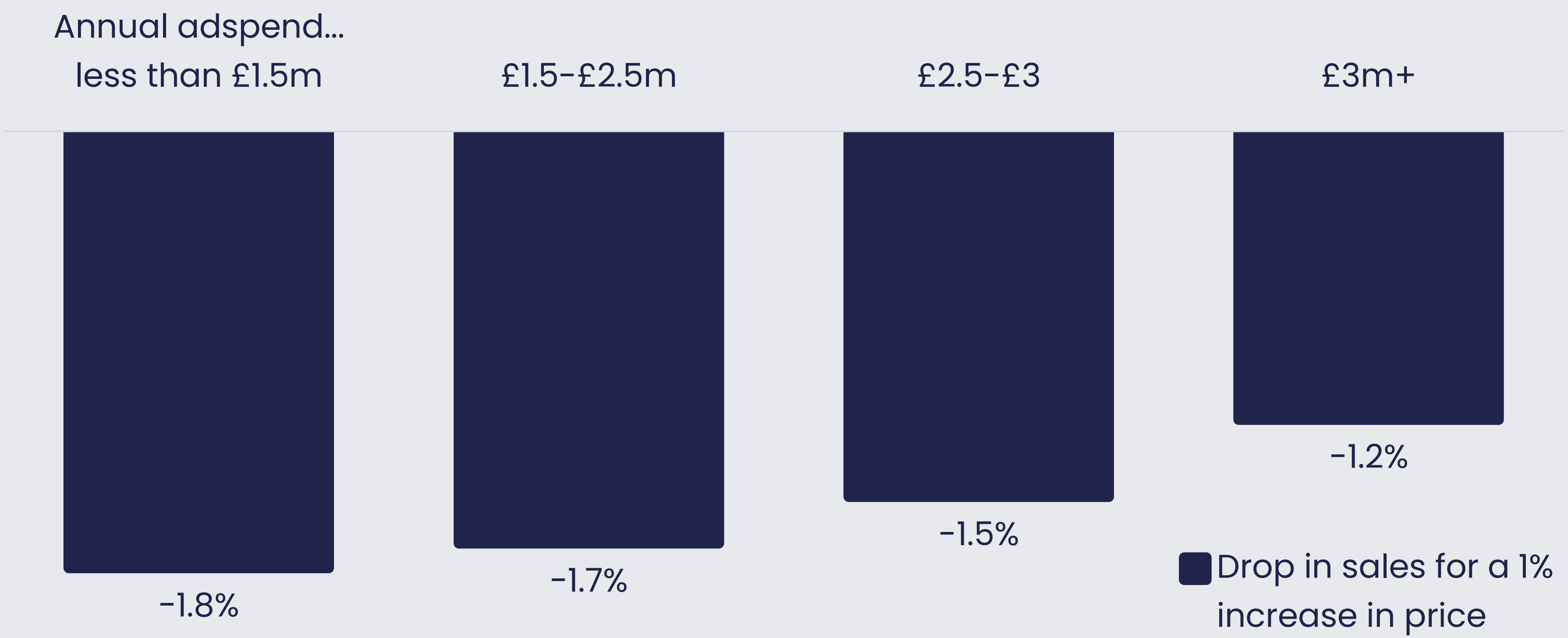
Down a little
That's good.
Revenue holds up and costs go down.
More profit.

Down a lot
That's bad.
Revenue and profits go down

We're going to look at change in volume sales for a 1% increase in price. It will be negative, but we want it as near to zero as possible

Businesses that spend more on advertising get the good outcome

When they put price up, the drop in sales is smaller



FMCGs that advertise more have customers who are tolerant to price rises

Source: Magic Numbers, OMG, D2D. 40 econometric studies in FMCG

Spending on advertising reduces your sensitivity to price rises

While being outspent makes you more vulnerable

Changing price sensitivity for 3 sister brands with different excess share of voice

Excess share of voice...

Brand A: -2.0% Brand B: +2.9% Brand C: +9.3%

Drop in sales for a 1% increase in price:

Year 1 Year 3

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Source: Les Binet, Adam & Eve DDB

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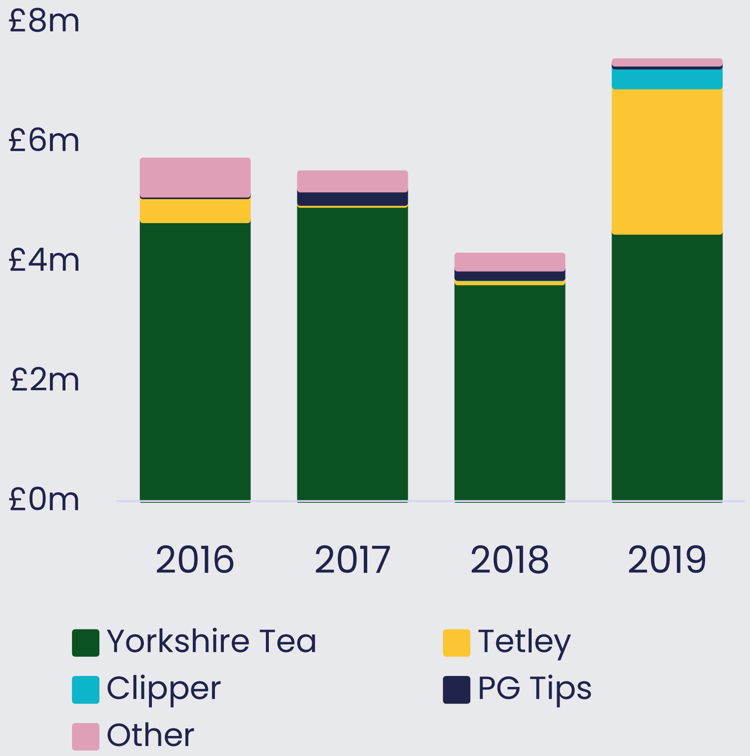
Yorkshire Tea built a strong brand

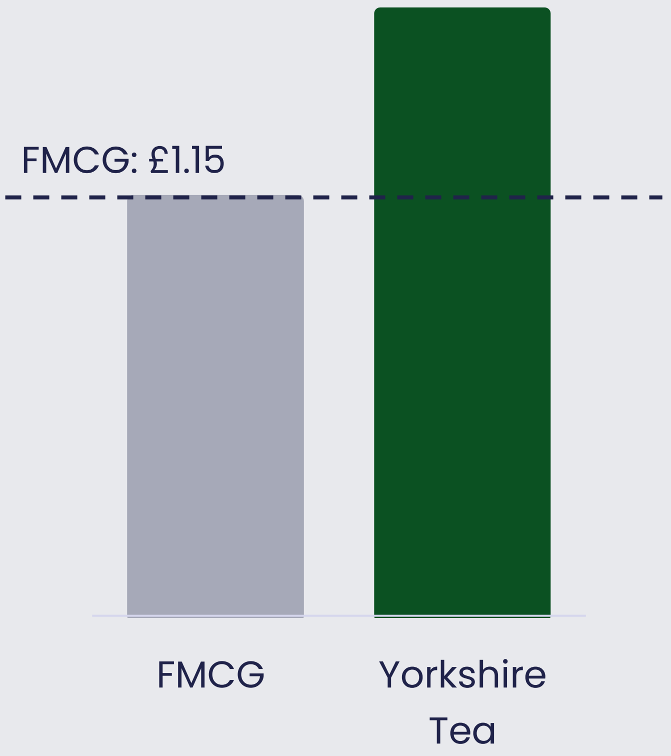
The traditional way, by buying lots of telly and investing into great creative

A long history investing into extra share of voice…



…using traditional brand building media…

…and doing it well, with category beating ROIs



Source: Yorkshire Tea, Magic Numbers

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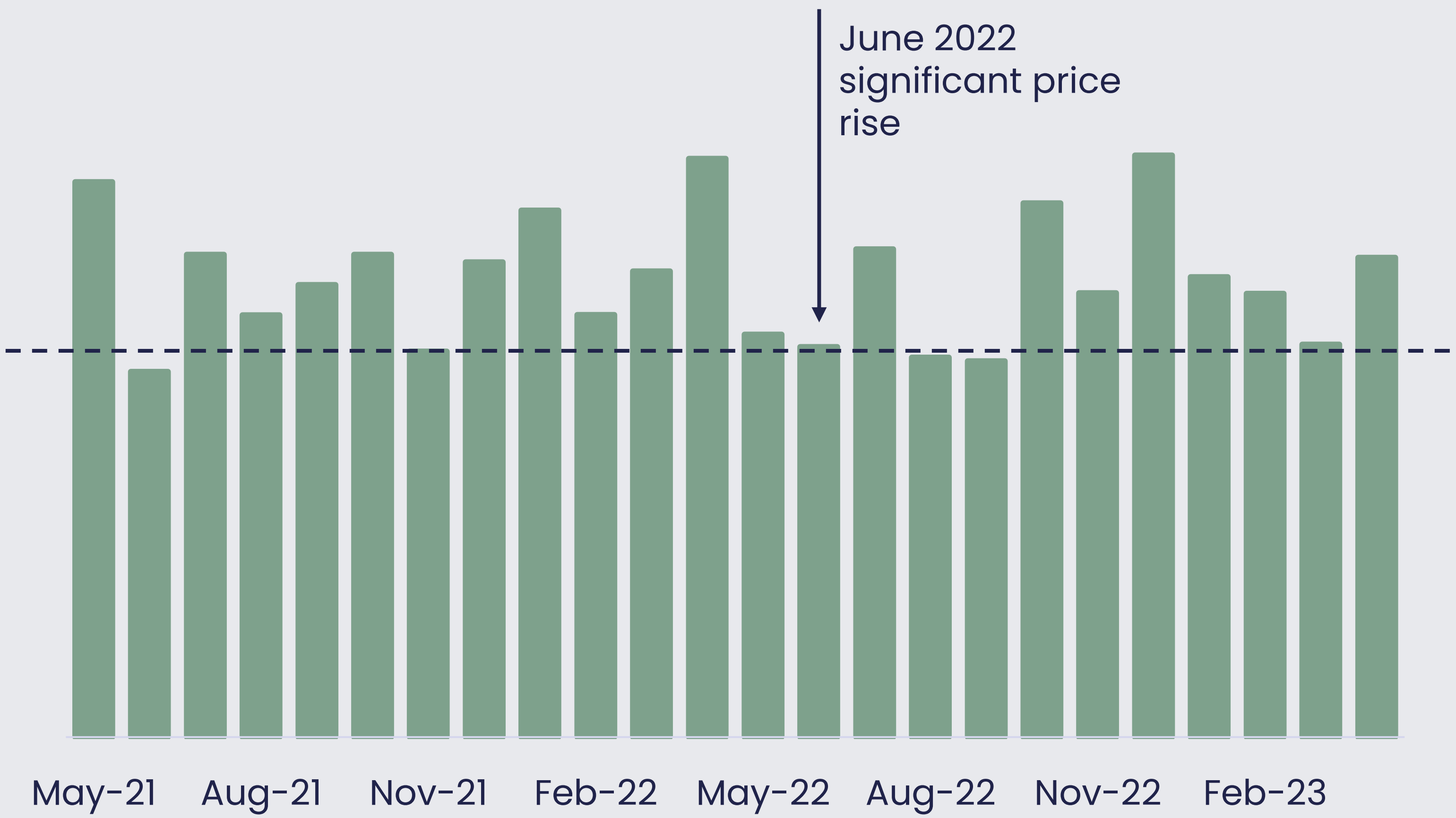
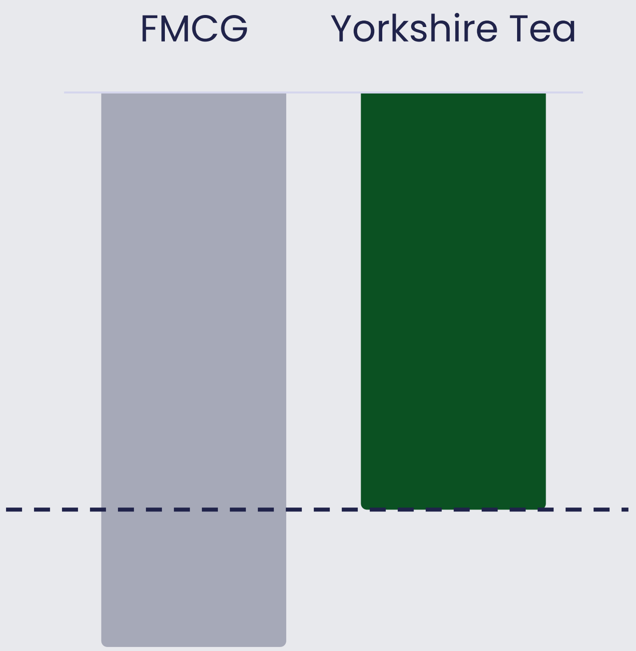
When they increased prices in June 2022, the reduction in sales was modest

Much less damaging than expected for FMCGs in ARC

Yorkshire Tea monthly volume sales



Drop in sales for 1% increase in price



Source: Yorkshire Tea & Magic Numbers, OMG, Ekimetrics, Circana, D2D, VCCP Media via ARC

Challengers have a rare opportunity

Little Moons made the most of a previous crisis moment

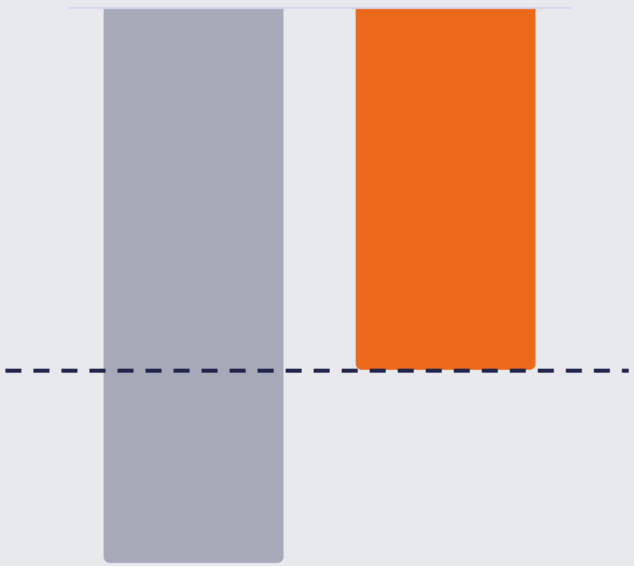
With modern brand building – driven by TikTok and platform native creators

Created a brand people wanted to spend time with…

Before | After

…got lucky, and then built on it with paid media investment…

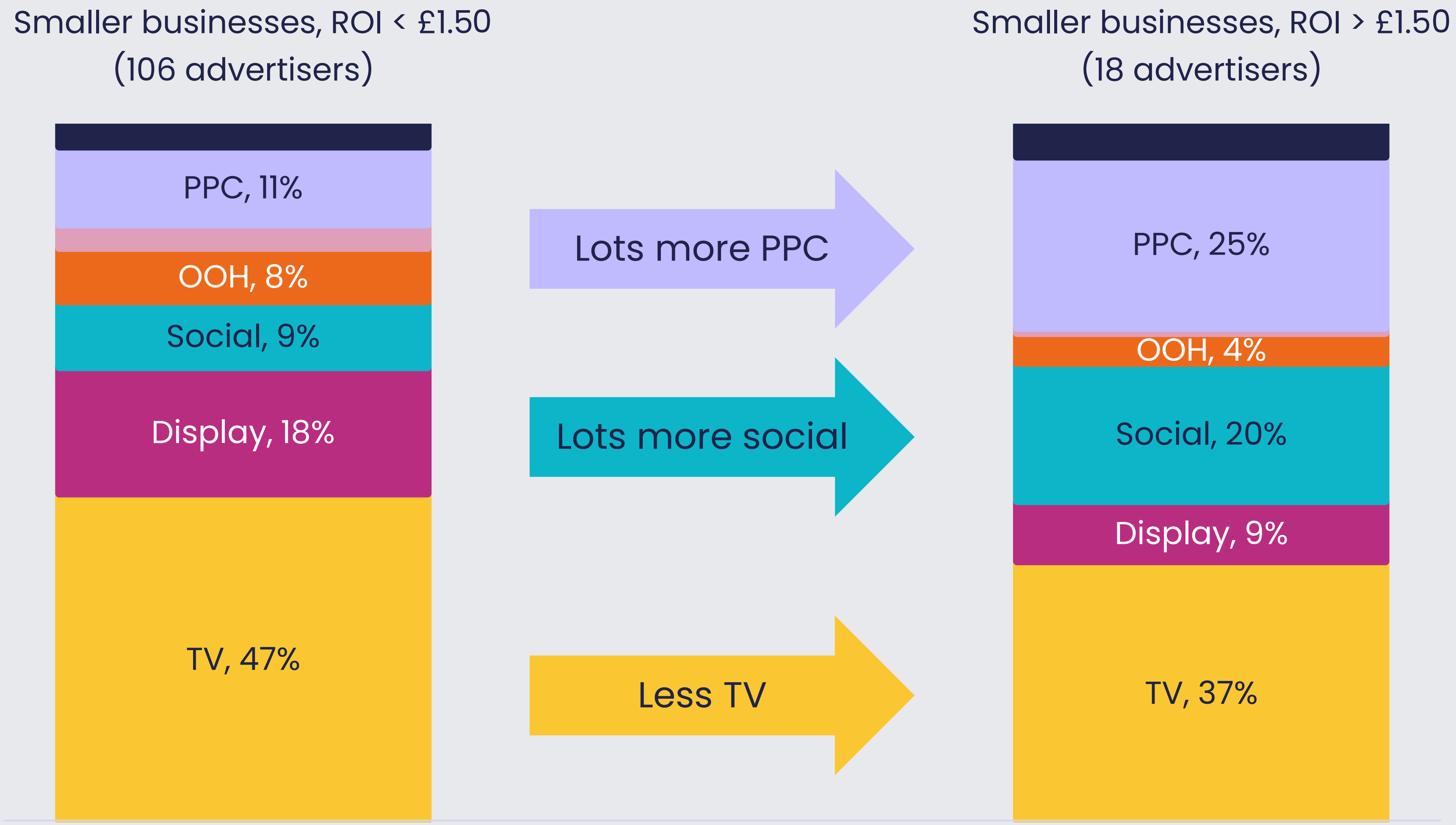
…now has a customer base that's tolerant to price rises



Source: Little Moons, PearlFisher, TikTok & Magic Numbers, OMG, Ekimetrics, Circana, D2D, VCCP Media via ARC

Smaller businesses and challengers can best take advantage using online channels

Prioritising activation using paid search and paid social, rather than brand building



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Source: Magic Numbers, OMG, Ekimetrics, Circana, D2D, VCCP Media via ARC. Smaller business is revenue < £50m per year.

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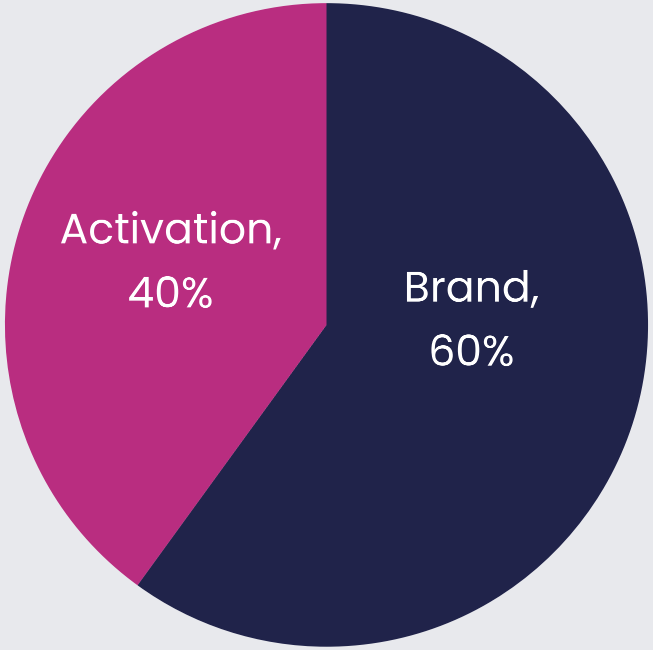
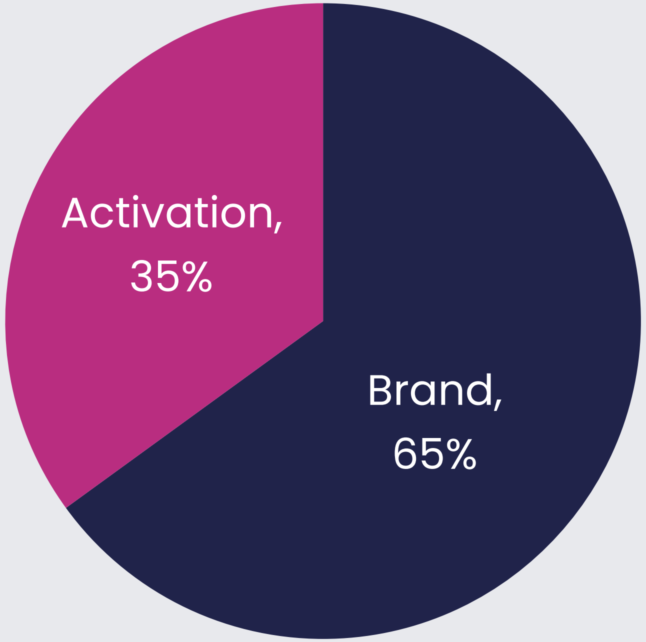
For established businesses, the old rules still apply

ARC verifies 60:40 but suggests adjusting it for your creative strength

Optimal split if your campaign is awards-worthy
(thousands of entrants to IPA awards)



Optimal split if your campaign is normal
(UK advertisers with ROI>£10)



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Source: Binet & Field, The Long and the Short of It, Magic Numbers, OMG, Ekimetrics, Circana, D2D, VCCP Media via ARC

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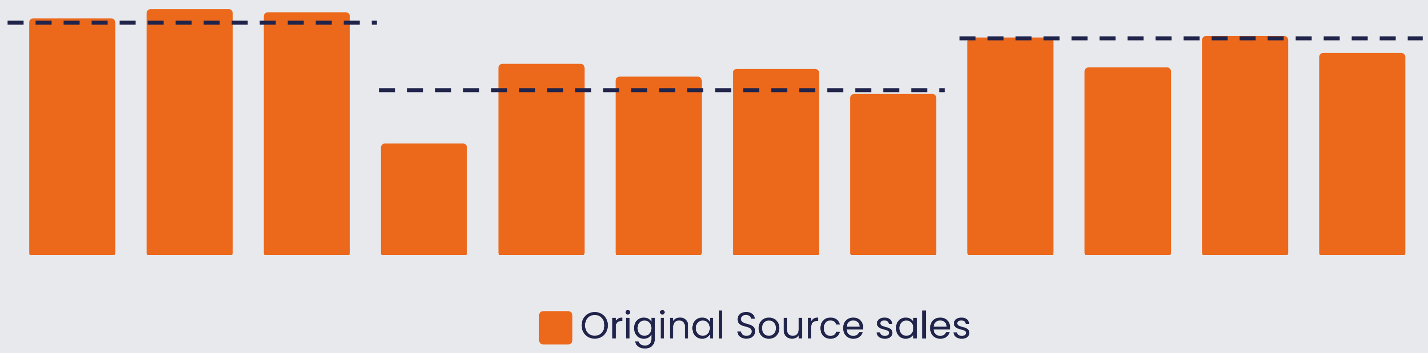
But beware, category matters

If you sell a necessity, people have to buy something from your category

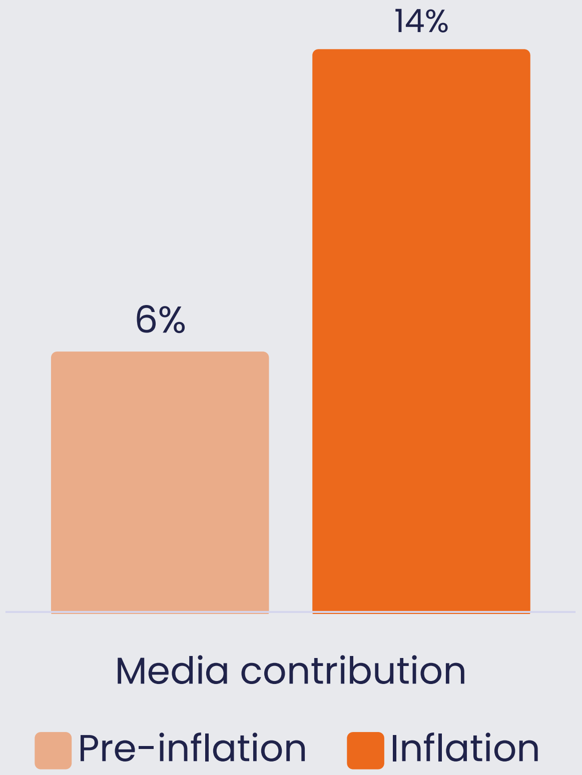
Your price relative to competitors' matters, and your investment in advertising too

Original source increased first, competitor followed…

…the dip in sales was short-lived



Advertising is working well in necessity categories



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Source: PZ Cussons, Magic Numbers, ARC.

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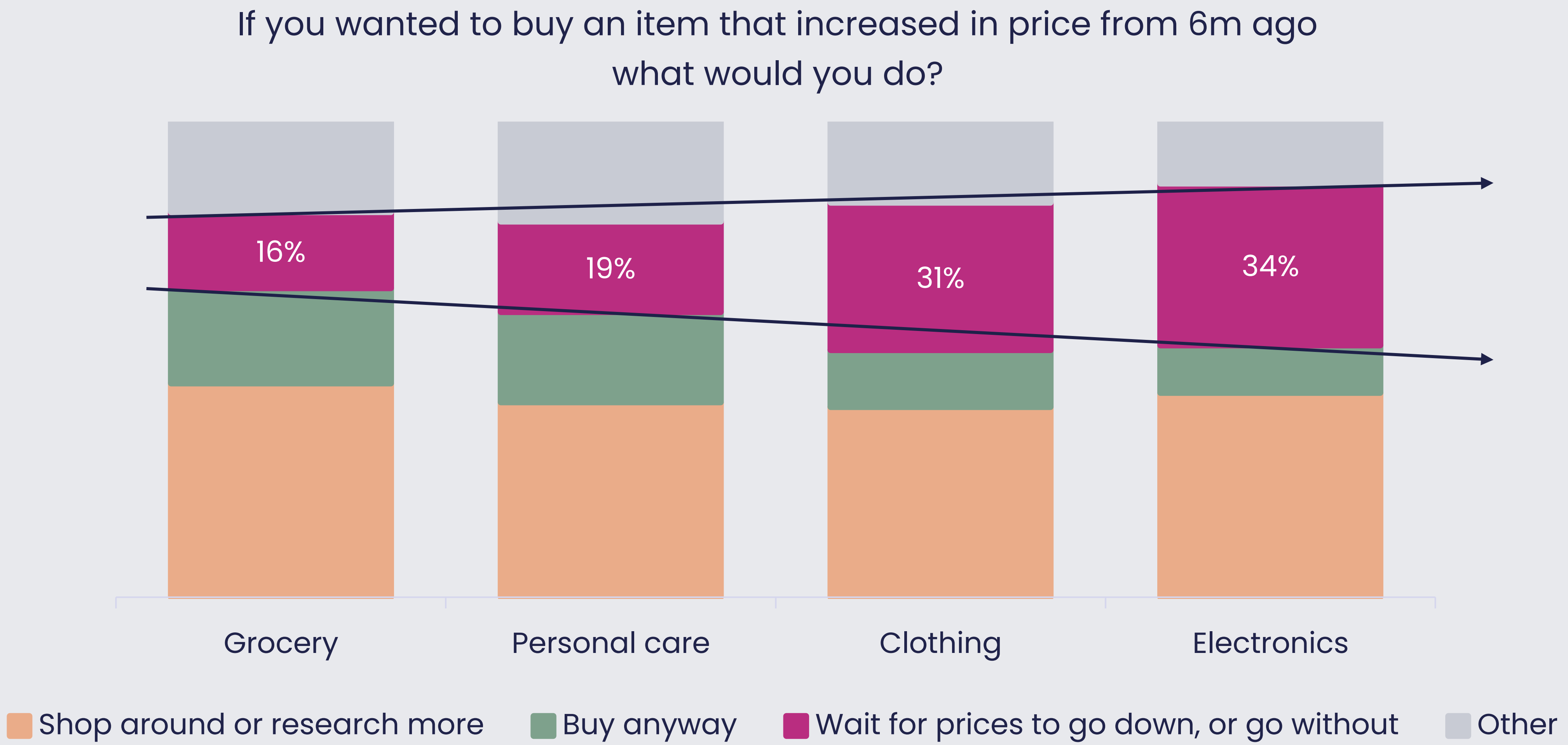
In August 2023, the ONS found

62% of people

are spending less on non-essentials

The more discretionary the purchase, the more likely it is to be halted

If you are in an "optional" category it could be that a third of demand has gone

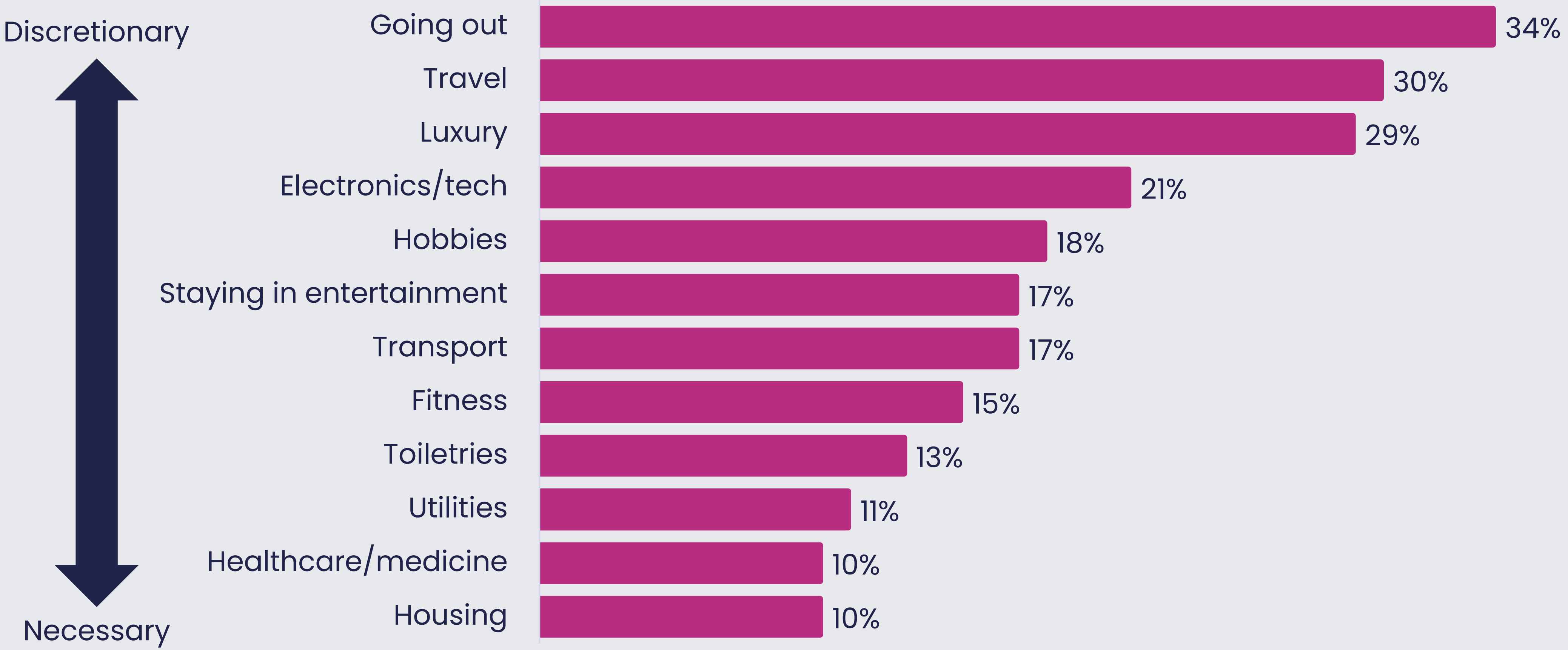


Source: WARC, GWI Zeitgeist, 15000 respondents, Nov 22

To succeed in 2024 you need to know where you sit on this scale

Drops in demand range from minor to substantial

In response to cost of living changes I have reduced spending on.....



Source: WARC, GWI Zeitgeist, 15000 respondents, Nov 22

If you're selling an expensive treat you're in a recession

Excess share of voice has to be cheap to be worth it for you

Others go quiet = Cheap share of voice = Share of market later on

So share of voice has to be cheap to ensure payback. With today's media inflation it may not be

In victim sectors the sector is smaller and may stay smaller, so this is a slice of a smaller pie

Your 3 top tips for 2024

The year of shopping around

01: Some purchases are safe, even if you do raise prices. Investing in your brand buys you in to this category.

02: People will be shopping around and researching way more than usual. It’s a rare opportunity for challengers to break in

03: Some purchases – expensive treats and delayable durables - are not going ahead. Do the maths.