

# The best way to short term profit growth

## A long term plan

We take the long view on the short term.

The IPA has been collating data and case studies on effective advertising since 1980.

This unique body of evidence enables us to analyse the financial benefits of advertising strategies over differing timeframes.

Our analysis shows that activation advertising designed to trigger rapid results can be effective and generate seemingly good returns, if judged over short periods.

But if maximising profits is your goal, advertising that changes perceptions of brands over time is more closely linked to very large profit rises.

In advertising, the bottom line and the timeline are connected. Here, we set out why.

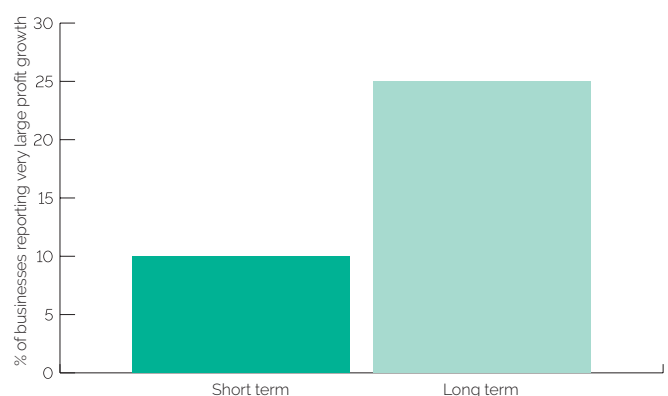
### **Don't cut profits short**

In the biennial IPA Effectiveness Awards, the percentage of entries that feature advertising running for six months or less has risen from its historic average of 8 per cent to about 25 per cent for the 2006-16 period.

Yet the evidence from the IPA Effectiveness Databank is that businesses employing long-term brand building advertising are more likely to report

very large profit gains than those employing short-run campaigns (Figure 1).

*Figure 1: Effective long-term ad campaigns are more likely to lead to large profit growth*



Data source: IPA Databank, 2014-16 cases

And the longer brand advertising strategies are maintained, the higher the percentage of businesses reporting such healthy profit increases.

By over-investing in short-term advertising, companies are therefore in danger of missing out on sustained profit growth. Brand building takes time, but our evidence shows the profits it generates can also accumulate the longer the advertising goes on.

## How brand building grows profits

Alone among such competitions, the IPA Effectiveness Awards requires entrants to detail their advertising inputs, quantify their resulting business impact, and to disprove rigorously alternative explanations for this impact.

By analysing the relationship between advertising elements, we are able to identify which are statistically most closely correlated with outcomes such as increased profits. The table below shows this breakdown.

Top profit drivers	Profit correlation
Number of very large (VL) business effects	64%
VL sales gain	40%
VL market share	23%
Number of brand effects	23%
VL penetrations	21%
VL price	18%
VL loyalty	17%
VL activation effects	15%
Return on marketing investment (ROMI)	15%

Figure 2: Impacts closely correlated with profit in IPA Effectiveness Awards cases

Unsurprisingly, the highest correlation with profitability is found in those cases that report a higher number of business effects – such as increased sales or market share – as a result of advertising.

From the table it is also clear that brand advertising effects, such as increases in brand consideration or differentiation, are statistically more correlated with profits than activation effects are.

Further, the measure Return on Marketing Investment (ROMI), which is often used to calculate that activation ad campaigns have generated high short-term returns, is shown to have a weak relationship to profit growth.

## Balancing brand and activation at DFS

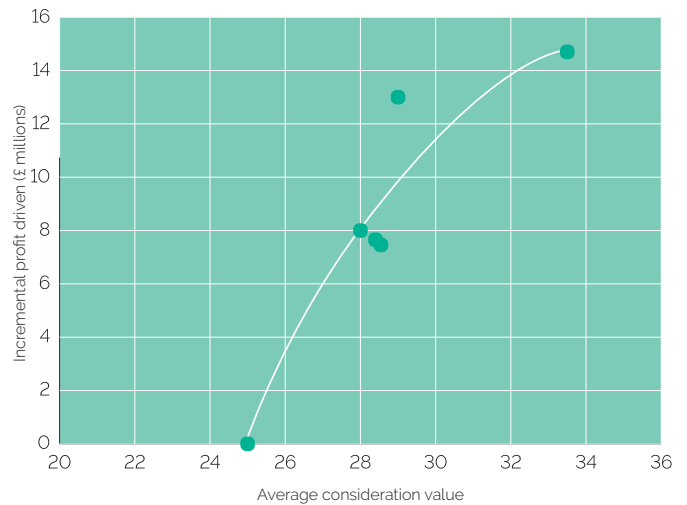
Having spent an estimated £491m between 2006 and 2010 largely promoting sales and time limited offers, the sofa retailer DFS was synonymous with 'act now' activation advertising.

It needed to broaden its customer base and grow its brand consideration and likeability, and continue to draw customers to DFS stores and sales.

A change of approach introduced animated characters and sponsorships into DFS advertising to widen the brand's appeal whilst still delivering 'warmed-up' customers for activations.

After the campaign ran for several years, econometrics isolated how improvements in brand consideration led to more store visits, increased bookings and, ultimately, greater profits (Figure 3).

Figure 3: Increases in brand consideration drove profits for DFS



Data source: MediaCom Business Science, 2018 IPA Effectiveness Awards case

The strategy won a 2018 IPA Effectiveness Award. It underlines how for DFS, as for other effective advertisers, it pays to adopt a long-term approach to growing profits by brand building advertising.

The IPA and the FT, along with EffWorks, a cross industry marketing initiative, have partnered to support more effective advertising by businesses. For more on effectiveness materials, including links to IPA publications, visit [ipa.co.uk/effectiveness](http://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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