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WHITE PAPER

The Performance Marketing Reckoning

How to Renew Brand Building

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In Search of Balance

Swift and unforeseen, the disruptor of 2020 is shadowing preceding ones and leaving very little unaffected. Normal no longer exists, and our sense of balance has been torn away. As for commerce, as the strong get stronger and the weak fade away, what will define a healthy business from here forward? For sure, the long-needed rebalancing of marketing, which was underway before the current market conditions, will happen much faster as we emerge into a new post-pandemic market.

After decades of reigning unassailably, brand marketing came under fire for its lack of accurate measurement. And as advertising venues became more interactive—via browsing, clicking, and other forms of online engagement—performance marketing was born and perceptions about marketing spend were turned on their heads. Because the performance marketing tactics were more measurable, it was accepted that they alone were responsible for activity. So the return-on-investment pendulum began its 20-year swing. Budgets were reallocated from brand programs to performance marketing. Marketing was soon operating in a state of great imbalance.

All great industries endure, learn, and get better, and advertising is no different. After years of denigrating the tactics of performance marketing, brand thinkers began to learn from them. They gained insights into the behaviors, tendencies, and nuances of audiences. In turn, performance marketers evolved their products to reflect the creative thinking and production qualities of their brand counterparts. Things were starting to balance, and a new level was being set.

The industry must now take a step forward and look at how these two things get done—together. Going forward, brands will have to relinquish any autonomous precincts for a much more unified process. We will see a revolutionary movement toward *true* integration of marketing functions. Not just collaboration and synergies, but a complete marriage where disciplines and specialties come together and parlay into the most effective marketing possible.

This report confirms the importance of balancing brand building and performance marketing, and gives practical strategies to do that. It also points to the next big phase in marketing operations, where *true* integration will become the way of the future.

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The Performance Marketing Reckoning

How to Renew Brand Building

Few executives deny the importance of branding and marketing when it comes to business success. But many have long craved greater accountability from the resources they devote to marketing and advertising, leading many brands to dedicate more and more resources to digital performance marketing and away from traditional brand building, whose rewards are longer term and harder to connect to a specific campaign or product. For many brands, that strategy eventually led to trouble.

Without a strong brand reputation to build on, all the other marketing that brands were undertaking had to work harder to convert the audience, and sales ultimately suffered. This imbalance has led to a reckoning on how to get performance marketing and brand building more in sync, with Adidas among the brands to publicly acknowledge having overemphasized performance marketing.

"I don't think that there is any large organization today globally that's not asking this question: What is a healthy mix between brand and performance?" says Beatrice Lindvall, senior media and digital executive, founder of consulting company Common Measure, and the former global media director for Danone Group.

Brand building has become especially acute in the wake of the Covid-19 crisis, when brands were challenged to avoid the hard sell and strike the right chord in messaging. In the throes of the outbreak, the Association of National Advertisers advised that "overall, the best way to ensure long-term brand health is to maintain levels of spend."

HIGHLIGHTS

After a pendulum swing toward performance marketing triggered by the emergence of digital marketing products in about 2006, **brands began to experience negative impacts in brand health, loyalty, and ultimately revenue.** Measurement shortcomings made it hard to recognize these impacts.

Marketers are now in the midst of a **slow swing back toward a healthier balance of performance marketing and brand building,** thanks to new perspectives and better measurement tools. Research has demonstrated that brands reap both short- and long-term benefits when they strike the right balance.

Best practices include **reorganizing marketing around collaboration, aligning on key performance indicators, and leveraging a range of measurement tools** to ensure brands are fully optimizing brand-building and performance-marketing activities.

There have never been more tools to help brands monitor, measure, and forecast their own marketing planning to ensure a cohesive, balanced approach that will maximize their marketing resources. By adopting best practices and a broader perspective, brands can help ensure their brand-building and performance-marketing activities are optimally balanced to deliver bottom-line results. But the first thing to admit is that they are out of step with each other and need to get back in sync.

"The reality is that you can't have one without the other," says Greg Perotto, vice president, global corporate marketing, brand, and communications for corporate travel management company TripActions. "You will not be effective as a marketer if you focus on just brand marketing or just performance marketing to the detriment of the other."

The Performance Bias

While the ad products in question have changed, the basic challenge of balancing marketing efforts between brand promotion and performance measurement has not. "Marketers have always struggled with short-term versus long-term attention, so the tension fundamentally isn't new," says Tim Calkins, clinical professor of marketing at Northwestern University's Kellogg School of Management.

Experts attribute the current emphasis on performance marketing over brand building to the rise in digital marketing, ROI pressure from investors, organizational silos, key performance indicators (KPIs), and marketing training bias.

Research by Peter Field and Les Binet for The Institute of Practitioners in Advertising (IPA) in the U.K. has determined that a shift toward performance marketing began in about 2006. **FIGURE 1** At that time, digital marketing products such as paid search were emerging, with some irresistible benefits: bargain prices and fast, highly measurable results. That development coincided with the financial crisis, the rise of social media, and later, mobile internet. "So, at a time when things were tough, lots of this digital stuff was expanding, the capabilities of it were expanding, and the metrics were telling them that they could see immediate effects. That's quite a powerful combination," says Binet, group head of effectiveness for advertising agency adam&eveDDB.

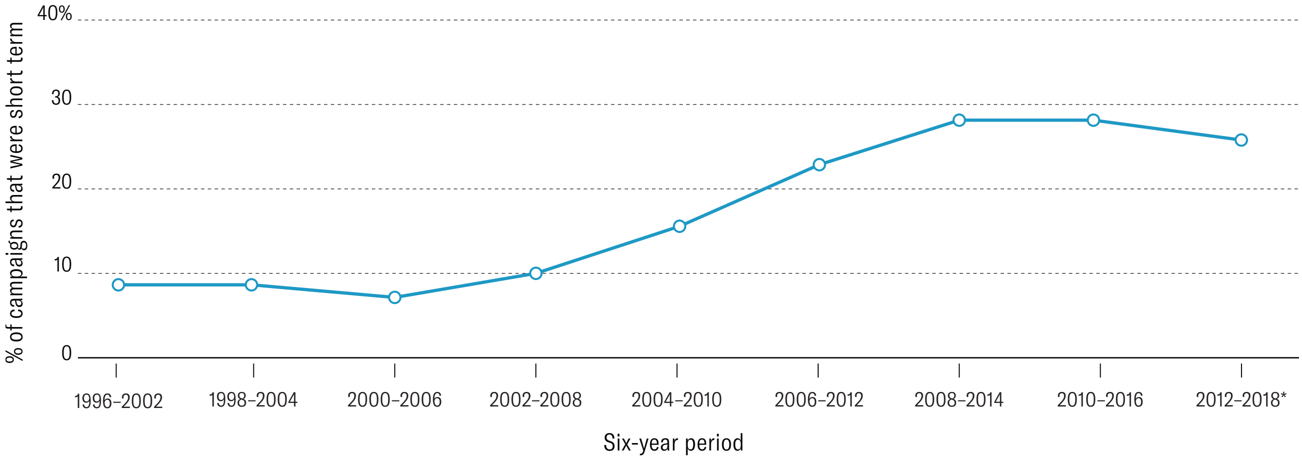
Companies have always been under pressure to satisfy stockholders' appetites for consistent quarterly returns, and ROI on marketing dollars isn't exempt. More demand for accountability for marketing dollars made short-term performance marketing vehicles an appealing solution. Companies with private investors have found themselves facing more pressure for quick results than those with public shareholders.

In many organizations, performance marketing and brand marketing are separate units, often using separate agencies. How this coexistence plays out depends on an organization's leadership and culture. While some marketing organizations are highly collaborative across these lines, others work independently and compete at every budget meeting, which can lead to siloing. When times are tight, departments that

FIGURE 1

Marketing Shift Toward 'Short-Termism' Peaked from 2014 Through 2016

There has been a slow swing back toward long-termism when it comes to advertising campaigns



Source: The Institute of Practitioners in Advertising, IPA Databank, 2019

**Data for 2018 to 2020 not yet available* can deliver tangible accountability may win a greater share of resources than those with less clear-cut ROI.

Marketing activities reflect the things a company measures. If KPIs associated largely with brand building—baseline sales, brand health trackers, and so on—are not prominent on the marketing dashboard, activities to support brand building will see fewer resources. Performance marketing-centric measurements can also overstate their impact. Econometric modeling comparisons—also called marketing mix modeling—"show that attribution modeling tends to systematically overestimate the effectiveness of direct digital channels and systematically underestimate the effect of indirect, broadcast, brand-building channels," says Binet.

Managers who came of age amid a performance marketing bubble may have less experience with brand building as a discipline. As these marketers rise in the ranks, their orientations come along with them, creating a cultural bias. As a result, the intent and discipline demanded for brand building are often lacking.

Neglected Brands' Slow Suffering

When brand building is insufficient, performance marketing must work harder to convert customers who lack the brand familiarity and positive sentiment that make them more open to the message. For example, a new parent who has never been exposed to diaper branding lacks any knowledge of, or affinity for, a certain brand, so the point-of-purchase decision instead relies primarily on price. Brand has been shown to be a powerful driver of price elasticity: buyers will pay a premium for a preferred brand.

It takes time and good metrics for companies to begin to recognize the downsides of overemphasizing performance marketing at the expense of brand building. "In the short run, as you pivot a marketing budget toward some of these new tools, things will actually look quite good," says Northwestern's Calkins. "You'll have wonderful data. You will see customers respond. You will have a sense of great progress. The problem is that over time you may realize that you're really not building a sustainable brand with loyalty that customers really believe in and support."

But experts concur that the negative impacts from this imbalance in marketing activities are inevitable. "It usually catches up with you within 12, 18 months," says Common Measure's Lindvall. "That's when you start seeing that the health of your brand and baseline on your sales is declining."

Soon, other metrics begin to decline, as well: repeat purchases diminish, conversion rates decline, loyalty falters, time to close lengthens, and revenue takes a hit as top-of-funnel brand-building activities are not there to prime the audience for the call to action of performance marketing.

> "The reality is that you can't have one without the other. You will not be effective as a marketer if you focus on just brand marketing or just performance marketing to the detriment of the other," says Greg Perotto at TripActions.

Analysis by U.K. research and advisory firm Enders Analysis found the result of the broad shift in brand to activation advertising drove overall declines in both advertising effectiveness and consumer trust in brands.

But it takes time for all those impacts to become clear, largely because measurement tools offer too granular or unbalanced a view of marketing activities.

Marketers focusing on ephemeral data aren't getting an accurate picture. "One of the problems any kind of direct attribution method has is often it will tend to overstate the incremental effect," says Binet. One example is assuming all customers that came through paid search drove incremental sales, when the truth is, some of them were going to buy your brand anyway. Direct attribution metrics "underestimate, or can't estimate at all, the effects of things like TV and outdoor. That's pushed people in the direction of direct-response, short-term digital channels and undermines the perceived effectiveness of less-direct, more brand-building channels," he says.

Adidas has said in published reports that it began to notice its own skewed approach to measurement when the company temporarily lost paid search in Latin America—and nothing bad happened to traffic or revenue from SEO. The company's measurements had led it to believe that performance marketing on digital begat digital sales, but it later learned this was not the case. This epiphany was the first step toward new measurements and a complete rebalancing of its portfolio.

"We experienced something similar at Mizzen+Main when we turned off our display ads," says Stephanie Swingle, former chief marketing officer (CMO) of the apparel company and now interim CMO at premium ridesharing/delivery company Alto and entertainment startup enovLAB. "Display ads were a channel that had reported the highest return on that spend of any channel that we were deploying. But they didn't always feel on-brand with our premium positioning, and it was difficult to really account for the revenue that the vendors

A strong brand brings other benefits as well. Customers with a strong affinity are more likely to follow a brand into other channels and product line extensions, and share their passion with others through word of mouth.

were reporting. We took a pretty drastic move to validate what—if any—incremental returns they were driving by just shutting them off, and we didn't see any impact on our revenue. It was a good learning opportunity for us regarding how easy it can be to be myopic about a certain reported metric when you don't consider the bigger picture of the total marketing ecosystem."

Another change helping to push marketers back toward balance is a rise in the cost of digital performance marketing products. "Those channels are inherently becoming more expensive," says Swingle. "So those curves are even starting at a more expensive entry point, which makes more traditional brand-building channels more cost effective in comparison."

Why Brand Building Really Works

Many marketers know on an intuitive level that brand building and performance marketing are complementary activities that work together to achieve overall goals. The role of brand continues no matter what new activation-oriented advertising products come on the scene.

"The thing about brand building, the reason it's sustainable, is that it takes a long time to build," says Scott Galloway, professor of marketing at New York University's Stern School of Business. The most successful brands, he says, excel not just at marketing, but at product development and supply chain innovation. He points to P&G and Unilever as leaders in all three disciplines.

But *why* does branding work?

Not all brands are created equal, of course. There are heritage brands and new brands clawing for awareness, aspirational brands and those based purely on features or quality, and brands that can inspire passion and those for whom building trust is the goal. Marketers know emotion is a key part of the equation. But they may be harboring outdated assumptions about how emotion impacts the customer relationship.

"We were trained to believe that the way marketing works is by persuading people to buy things with compelling reasons to buy," says Binet. "Emotions were just there to get people's attention and get them to remember things and to sugar the pill of communication. But it turns out that the way we were trained was wrong. Emotions, not messages, turn out to be the main driver of sales and profit."

Facts play a relatively small role, he and Peter Field have found in their research. Instead, brand building is about emotional conditioning, so a customer feels positive feelings and associations in the brand encounter. That affinity aligns with emerging research in the psychology of human decision making, which shows that intuitive, feelings-driven "system one" thinking plays a much larger role than rational "system two" thinking.

"So the clever way to get people to buy your product is to spend a long time in the run-up to purchase making them feel good about it with emotional brand advertising," Binet says. "And then, only when they're close to the point of purchase, then you can clinch the deal with the relevant facts and figures."

The latter is something performance marketing does well. Clear evidence of this plan in action is persuading a customer to pay a premium for a branded product: It's irrational behavior driven by emotion. "I strongly think that the irrational is really important in brand building," Binet says.

A strong brand brings other benefits as well. Customers with a strong affinity are more likely to follow a brand into other channels and product line extensions, and to share their passion with others through word of mouth. When an unexpected event occurs, such as the Covid-19 pandemic, consumers turn to trusted brands to meet their needs. And they give more latitude to a favored brand than to one they don't know or don't care about, such as by giving the brand the benefit of the doubt when it struggles to meet normal delivery windows or makes a marketing misstep.

Taking stock of the benefits of brand building during decision making, along with new measurement and analytics tools to help better understand how brand building and performance marketing work together, is helping companies take a fresh look at their balance of brand building and performance marketing.

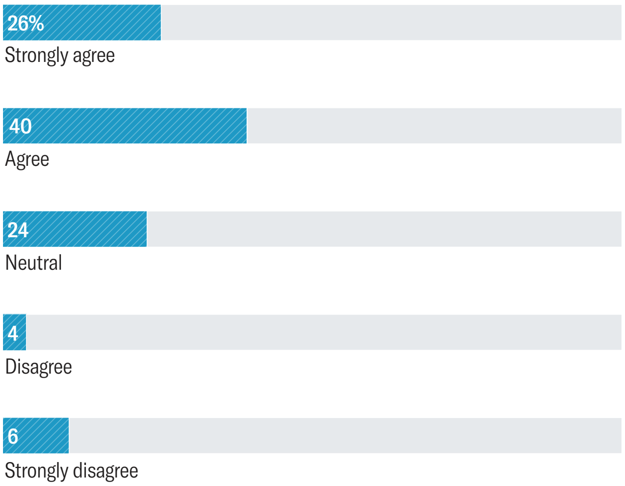
That shift is impacting the marketing landscape: Internet ad spending growth is slowing. Internet advertising accounts for 52% of global advertising spend, according to research by Zenith Media, but the 17% growth seen in 2018 is forecast to slow to 9% in 2021. While internet ad spend is not a perfect corollary to digital performance marketing, that is the channel where a lot of recent performance marketing has occurred.

Even Amazon, Apple, Facebook, Google, and Microsoft are increasing spending on traditional media. For example,

FIGURE 2

Business Leaders Are Seeing the Light

Board members agree balancing the short and long term results in "stronger commercial performance"



Source: The Institute of Practitioners in Advertising (IPA), EffWorks, *Financial Times*, 2019

according to media reports, through early December 2019, this group spent 69.81% more on ads during National Football League games than the prior year and, in turn, has seen a 49.89% increase in impressions year over year, according to data from iSpot.tv. Business leaders are clearly embracing the value of long-term marketing and balancing that with short-term performance activities. **FIGURE 2**

Despite abundant evidence that the recent performance marketing bubble is shrinking, it did have some positive impact on brand building. For one thing, the bubble pushed the discipline to become more measurable.

"We're measuring stuff that we wouldn't have even thought to measure or been able to measure in the past, because we didn't have the right technology to do it and there wasn't the pressure coming from performance marketing eating away at the share of budget available," says TripActions' Perotto. Brand marketers are more motivated to be better informed about the impact of spending, using A/B testing, and measuring the influence their activities have further down the funnel, he says.

The impact of that increased measurement cascades through the organization. "A lot of people, myself included, are attracted to marketing because it is a creative industry and there's an opportunity to utilize a wide variety of processes and skill sets with creative elements," says Swingle. "But if you lean too far into the creative opportunities without any focus on performance, you can wind up with less-effective spend."

Improvements in measurement of brand building also help shift perceptions of marketing, she adds. Coworkers are less likely to see marketing as a cost center and more inclined to view marketing budgets as working capital when there are metrics to make the case.

Five Strategies to Rebalance Marketing

Achieving a healthier balance between brand building and performance marketing requires a combination of strategies. Businesses need not only the right resources, but also cultural acceptance of the idea that both are necessary to achieve their goals.

Experts believe there are several strategies organizations can deploy to achieve marketing balance:

Align on KPIs.

When it comes to KPIs and budget planning, shared metrics are key to ensuring alignment of marketing activities with business goals as well as across marketing disciplines. This is the case both within brands and within the agencies that serve them; sharing KPIs with marketing partners can be a key strategy in breaking down silos and achieving closer alignment and coordination of marketing activities. The sharing of brand health metrics across these groups can also help maintain a collective focus on long-term brand-building activities.

In addition, annual and periodic planning and reviews should include the entire marketing spectrum so that various marketing parts of the organization can consider, probe, and analyze metrics, and understand each other's budgets and plans as thoroughly as their own. It's important to "have a very good process around overall communication, planning, and budget processing to make sure that your organization is driving in the same direction," says Lindvall.

At TripActions, marketers all share a high-level dashboard and then access sub-dashboards for their own disciplines. Shared access helps ensure better collaboration and knowledge of what's happening throughout the entire funnel, says Perotto. In addition, "If we're looking at our own data all the time and no one else's, there's the possibility we're going to miss something," he says. "If we have other people with different perspectives looking at it, that makes all of us better."

Leverage multiple media measurement tools.

Several experts cite an overemphasis on any single type of measurement tool or set of metrics as a leading cause of marketing imbalance, so leveraging a multitude of them

“It’s crucial to understand that brand and performance work in synergy, each enhancing the other. If you move money from brand to performance marketing because you think performance is working really well, the performance will start to work less well. The 60/40 rule helps to stop people doing that.”

Les Binet,
group head of effectiveness,
adam&eveDDB

is a strategy that keeps metrics in perspective. **FIGURE 3** For example, while attribution modeling tools are broadening to include some brand-building activities, they can still result in a skewed view of what's really happening. Instead, attribution modeling and similar tools should be considered in concert with other forms of analytics, research, and testing, such as econometrics and in-market testing.

Many major brands, including Samsung, John Lewis & Partners, and Audi, have embraced econometrics or media mix modeling tools to help quantify the relationships among marketing and media activities, consumer behavior, and revenue. Some econometric/media mix modeling tools supplement backward-looking analytics with a forward-looking tool to test and learn, refine, and drive results, and are often what first reveal to a brand that its marketing is out of balance. Several compelling case studies have documented the use of these tools to simulate alterations to the marketing mix that have produced nearly identical results in real life.

But even these powerful tools cannot give a complete picture on their own. Google itself acknowledges the challenge of getting measurement right in its white paper "Measuring Effectiveness—Three Grand Challenges." The paper urges marketers to address the tendency for any one method to skew perspectives by working together on a "theory of everything" for marketing. One outcome would be "transparent models to blend data of different granularities (user, segment, geo, aggregated) to get consistent and holistic measures of effectiveness."

Use a 60/40 split as a starting point.

While an IPA analysis found that in the most recently available measurement period—2004 to 2016—the optimal balance dedicated to brand building is 76% to performance marketing's 24%, data analyzed in Field and Binet's research revealed that for most companies at most stages of development, spending 60% of communications budgets on longer-term brand building and 40% on short-term activation is roughly the ideal balance. They acknowledge, though, that individual situations will vary. "It's crucial to understand that brand and performance work in synergy, each enhancing the other. If you move money from brand to performance marketing because you think performance marketing is working really well, the performance marketing will start to work less well," Binet says. "The 60/40 rule helps to stop people doing that."

Marketers can leverage econometric tools to continually monitor and fine-tune this balance over time as well as adjust it according to audiences and markets, drilling down into data to identify drivers and impacts. They can also perform what-if analysis to measure the potential impact of shifts in balance to overall strategy.

FIGURE 3

Absence of Brand Health Metrics Stymies Balance

Leaders call this the biggest barrier to balancing short- and long-term marketing

Source: The Institute of Practitioners in Advertising (IPA), EffWorks, *Financial Times*, 2019

Acquire skilled math/analytics talent.

All the number crunching requires any strategy to include an emphasis on acquiring skilled math and analytics talent. In the IPA study "The Board-Brand Rift," 27% of respondents cited marketers' use of language that is not clearly understood as an impediment to better short-/long-term marketing balance, and 39% said their organization needs more understanding of how brand strength and health deliver commercial value to support this goal. **FIGURE 3**

Math and analytics expertise, available via hiring or through third-party consultants, can help ensure alignment between business goals and metrics. These experts can also identify, configure, tweak, and "play" with measurement tools, which require an experienced hand to do correctly. To address the need for better understanding of marketing measurement identified in the IPA research, these math/analytics experts should also be skilled in clearly presenting the output of these

A study by Boston Consulting Group found that companies using advanced technology with active human supervision can improve their campaign performance by up to 35%.

tools to marketers and the C-suite to ensure leadership and buy-in on new ways of planning and allocating marketing resources. In other words, each of these experts should be "someone who can really explain how a mathematical model works in a very simplistic way—what is the strength of it, what's the weakness of it, and how it can be used," says Lindvall.

While the increasing sophistication of, affordability of, and access to advanced marketing measurement software and services may tempt marketers to shift more resources from talent to tools, it's essential to have both. A study by Boston Consulting Group found that companies using advanced technology with active human supervision can improve their campaign performance by up to 35%.

Reorganize marketing for a holistic approach.

Talent strategies also extend further up the ranks because brand building and performance marketing are complementary activities, and they work best when they are coordinated. This coordination requires strong leadership to drive a culture of collaboration versus competition. "It starts with leadership and having people in leadership positions who understand it's a balance," says Perotto. At TripActions, for example, Perotto leads brand marketing, "but my team and I do that in partnership with the folks that do all of the performance marketing in demand gen," he says. "The reality is that the line between performance marketing and brand has blurred."

For some organizations, this may mean restructuring the marketing function so there are more direct reporting relationships across what were once siloed functions. According to the CMO Club Benchmarking Study, this transition is already underway; marketing organizations are moving away from traditional setups toward centralized centers of excellence and agile operating models. More than 50% of CMOs surveyed say their departments are responsible for 11 or more marketing activities, and a majority would like to add more, such as public relations and business development.

Conclusion

Brands are beginning to emerge from an efficiency bubble that had them chasing short-term performance-marketing products while cutting spend on brand building. Thanks to new perspectives and better tools, many are realizing that overinvesting in performance and digital at the expense of brand building damages their ability to drive emotional connections with customers and maximize the efficiency of their marketing budgets. When brand building and performance marketing are properly balanced, brands enhance both short-term and long-term results.

Best practices to better balance use of marketing resources include aligning on KPIs and budget processes and reorganizing marketing organizations as needed to foster collaboration. As the marketing world continues to strive for the ultimate in marketing efficiency tools, brands can triangulate across tools such as attribution modeling, econometrics, and in-market testing to achieve a holistic view, using a 60/40 balance as a rough guide. With the right tools and perspective, brands can help ensure their brand-building and performance-marketing activities are optimally balanced to deliver bottom-line results.

"I think the brands that tend to be strongest across marketing executions have very, very close links between their brand and their performance marketing," Swingle says. "They're utilizing performance marketing to learn about their consumer and what drives their consumer's behavior, essentially using performance metrics as one proxy for dialogue instead of just using marketing as a one-way communication channel."

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