

Profit Ability 2

The New Business Case for Advertising

thinkbox[®]



ebiquity

essence**mediacom**

GAIN
THEORY

MINDSHARE

Wavemaker

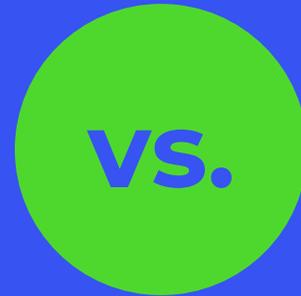
The City generally 'get' the case for advertising

79%

of analysts believe brand and marketing
is important in appraising a business

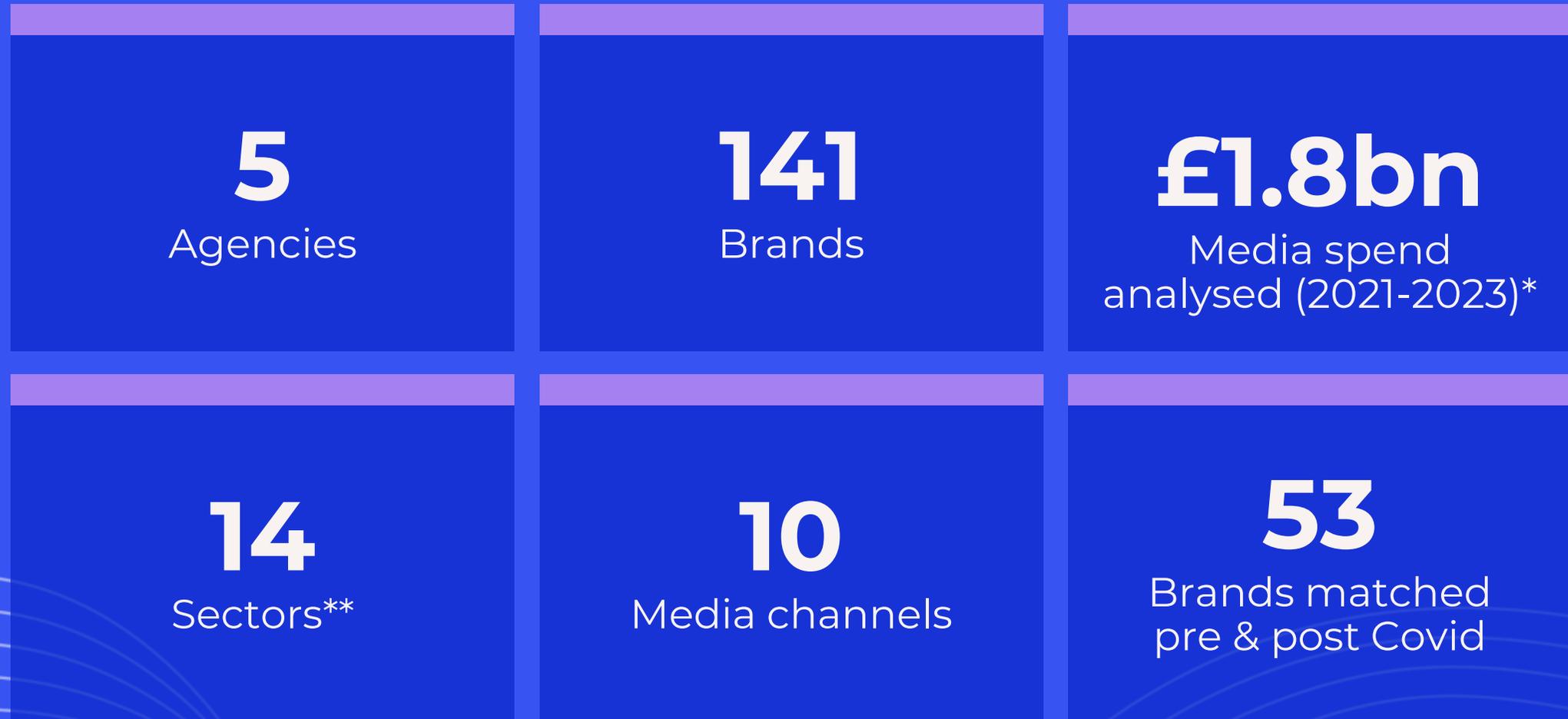
But we often remain disconnected from the boardroom in how we build the case for investment

Reach and Frequency
Share of Voice
Brand & Performance



Incremental Profit
Return on Investment
Payback Horizons

To create the ultimate media effectiveness databank



*Based on end date of analysis period. Spend by year: 21% 2021, 32% 2022, 47% 2023 All analysis based on most recent 52 weeks available.

**Total databank has 14 categories only 7 have sufficient granularity to report individually

Using marketing mix modelling (MMM) to link advertising spend to incremental profit

- MMM is the gold standard for understanding media effectiveness
- It's a statistical modelling approach looking to explain the variation in an outcome we care about by correlating this variation with consistent changes in the inputs
- This allows us to isolate the contribution of advertising from other factors that drive a business (pricing, distribution, seasonality etc.)

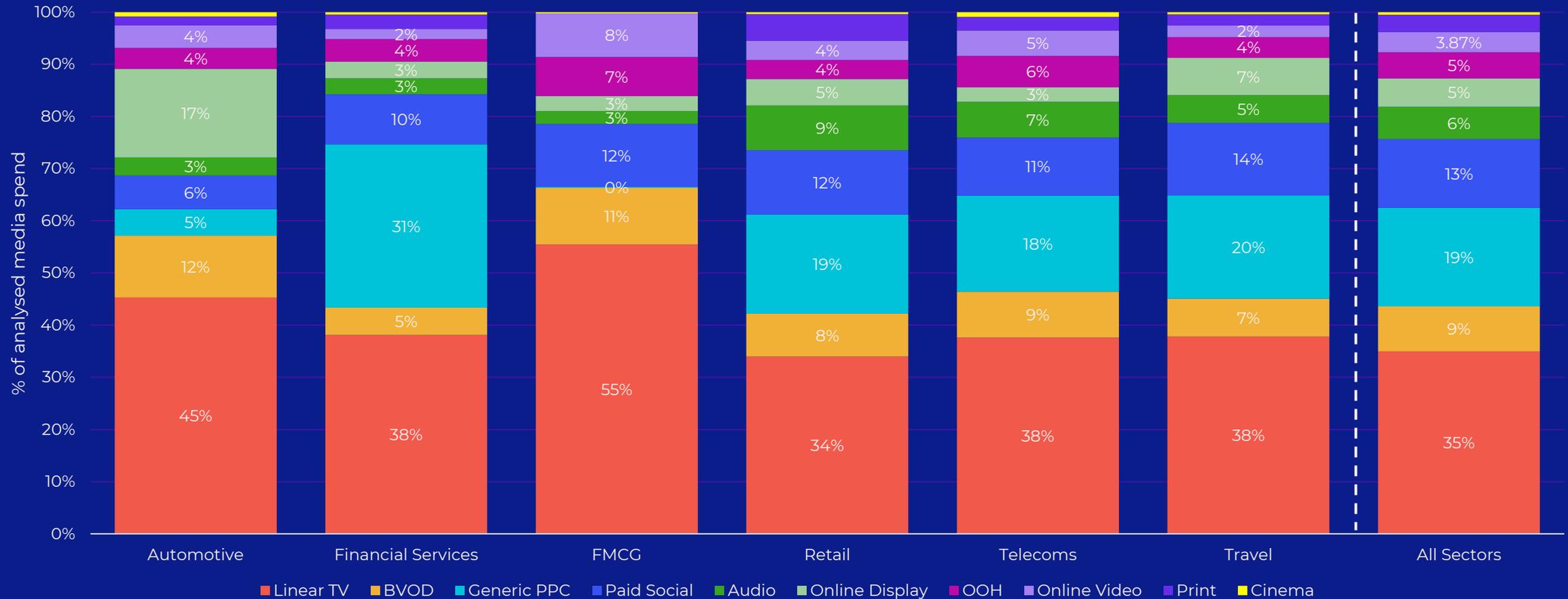
The Model



The Inputs



How the analysed spend breaks down by channel & sector



Three headlines of the analysis to share with you today

01

Advertising is a profitable driver of business growth but profitability varies greatly by sector

02

There are three dimensions that impact profitability – scale, efficiency & time

03

Rather than a seismic shift, advertising effectiveness has more gradually changed as media consumption has evolved

Three headlines of the analysis to share with you today

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Advertising is a profitable driver of business growth but profitability varies greatly by sector

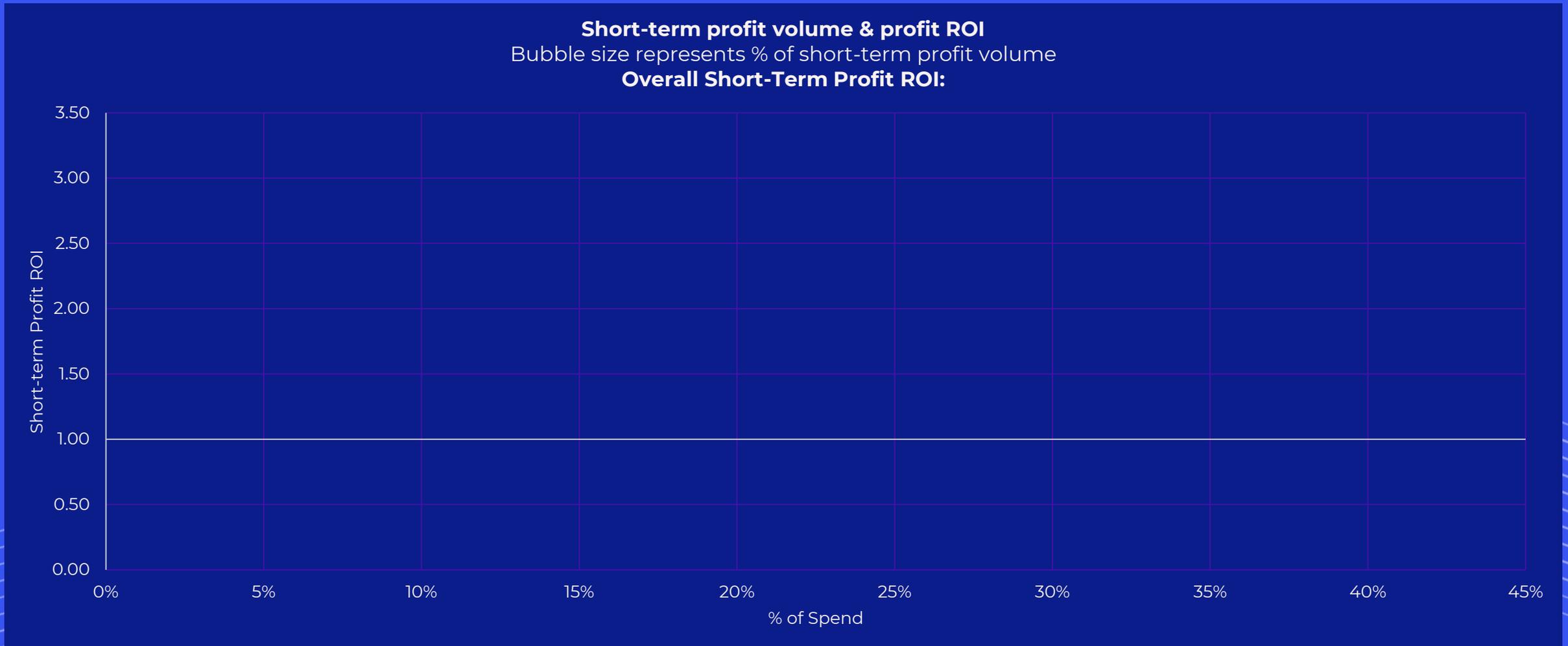
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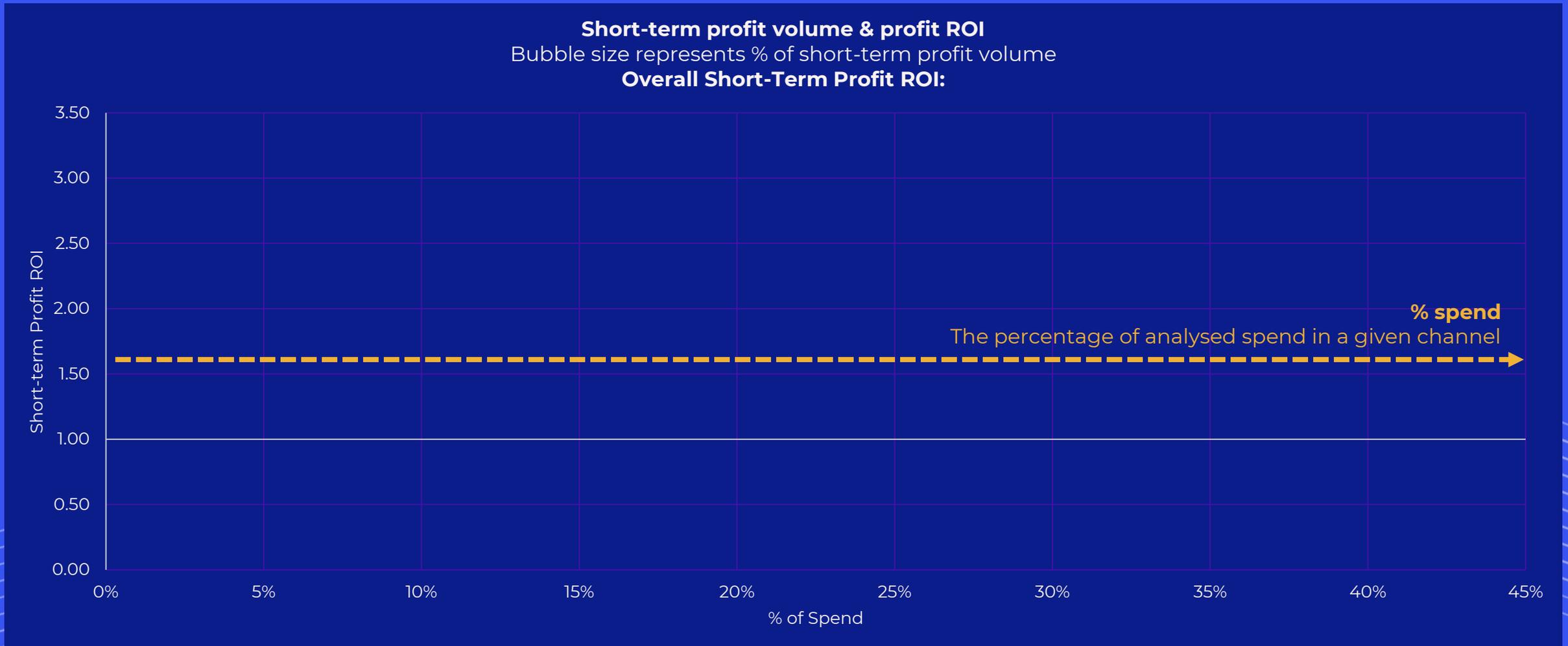
03

Rather than a seismic shift, advertising effectiveness has more gradually changed as media consumption has evolved

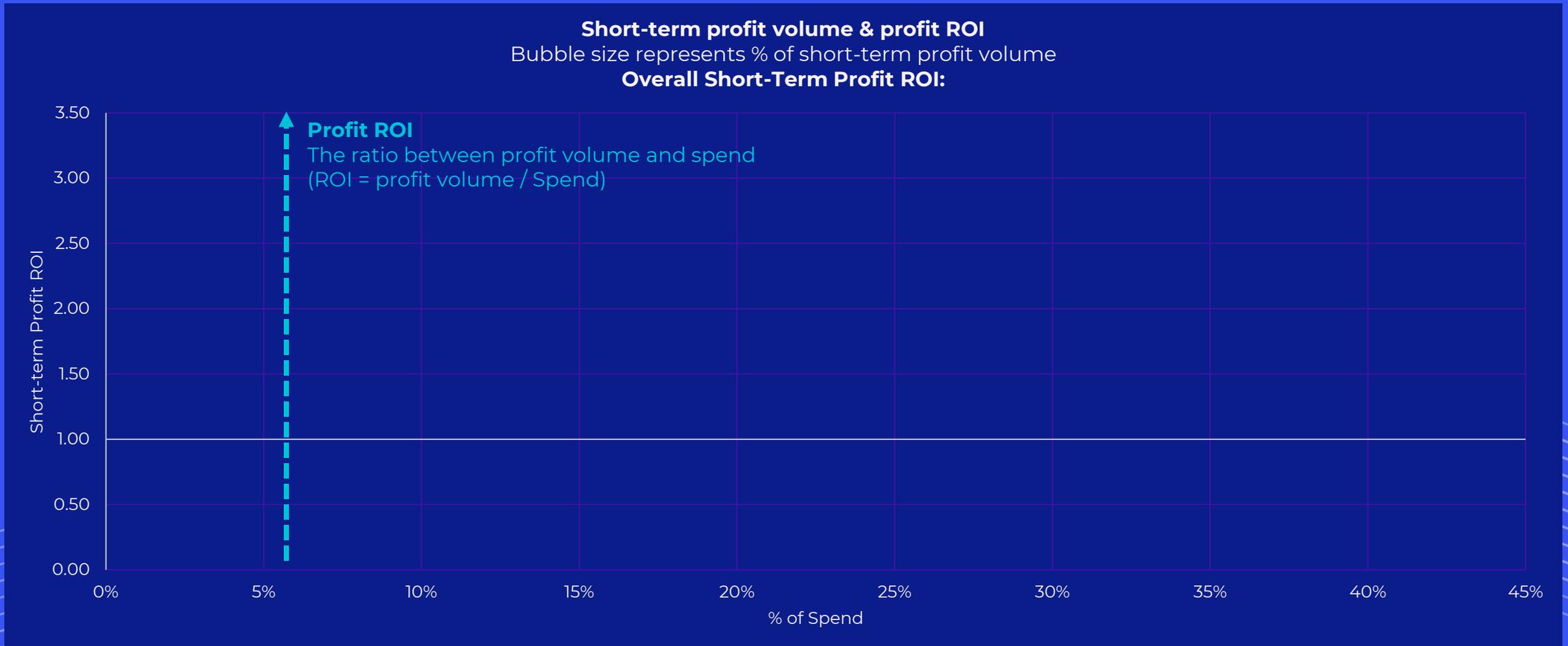
A quick explainer of the bubble charts you'll see throughout today's session



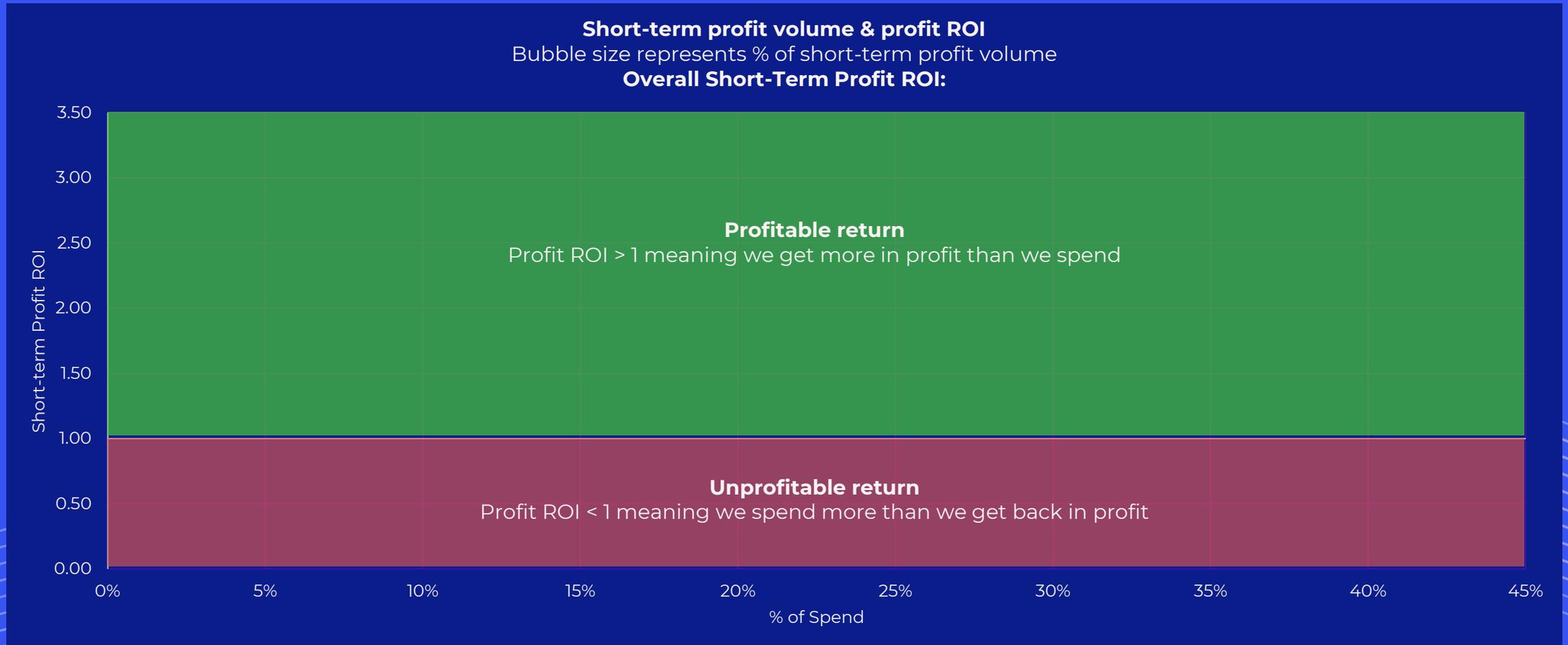
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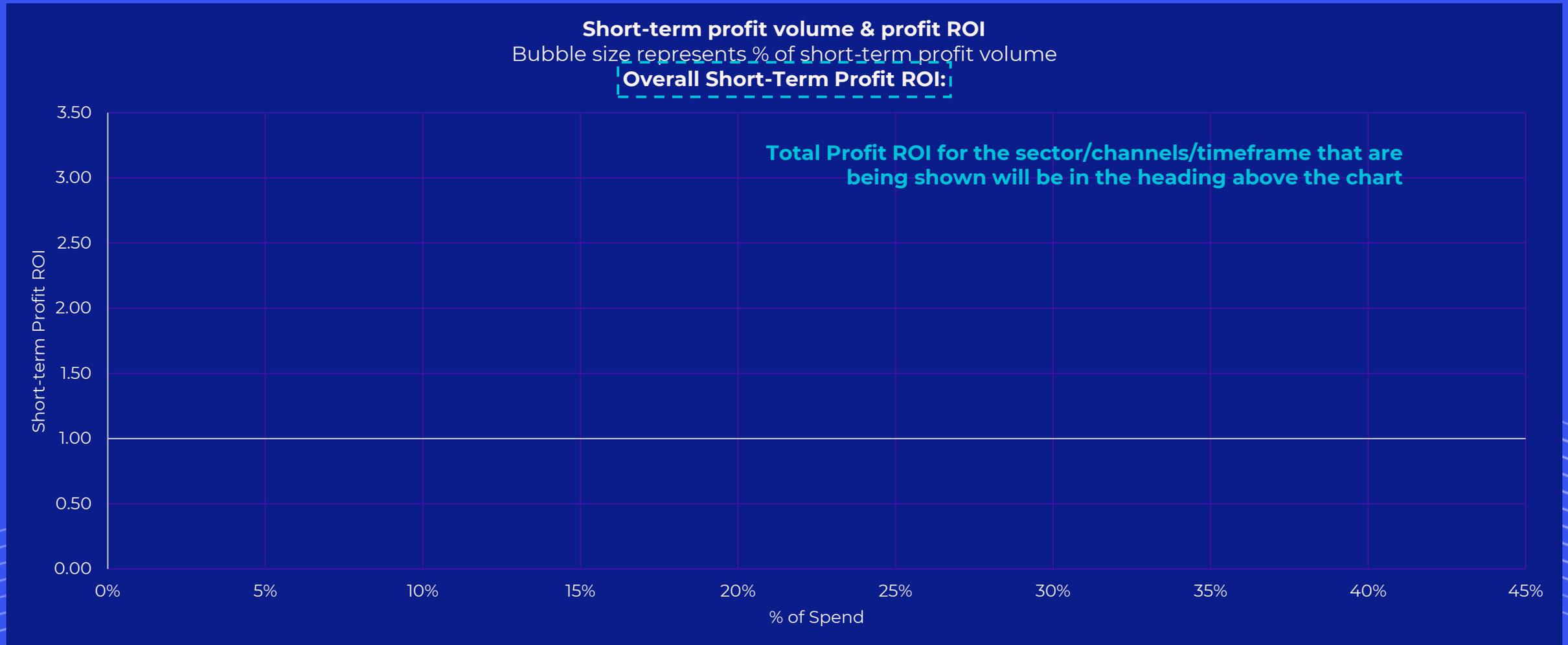
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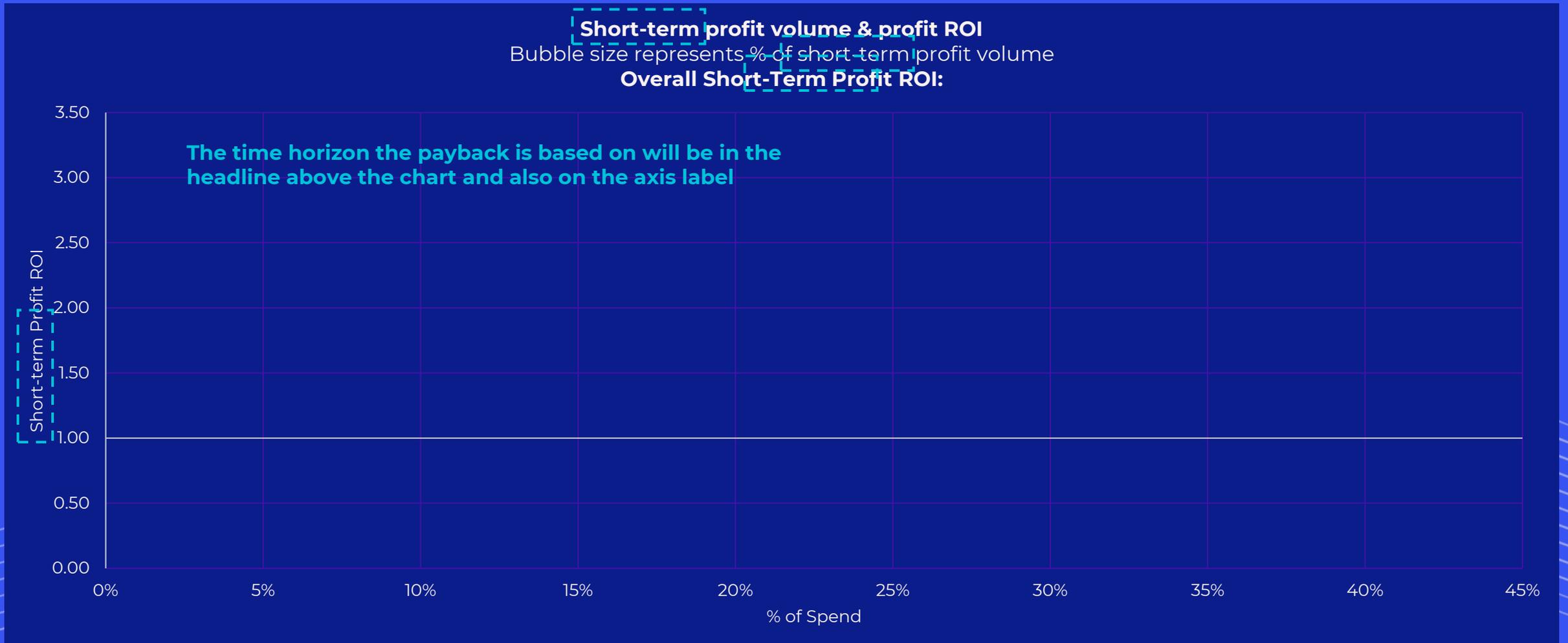
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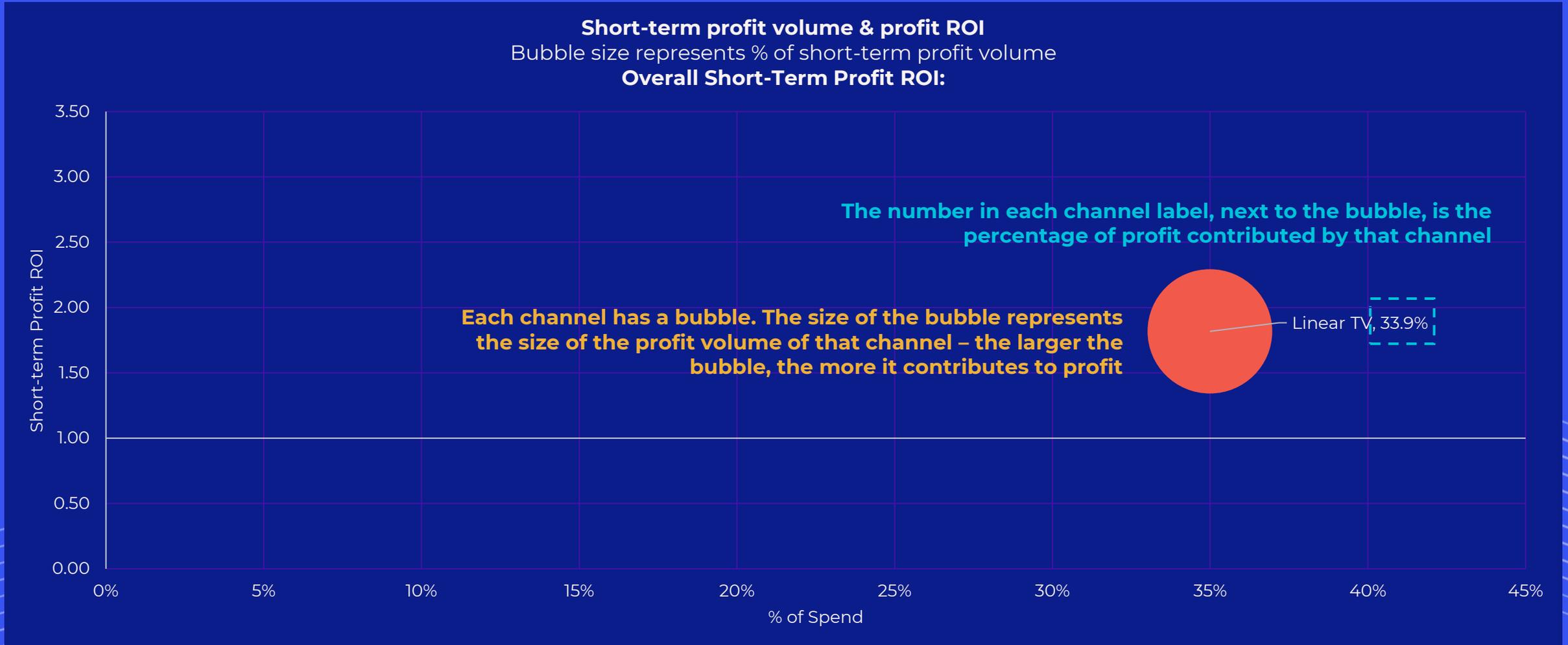
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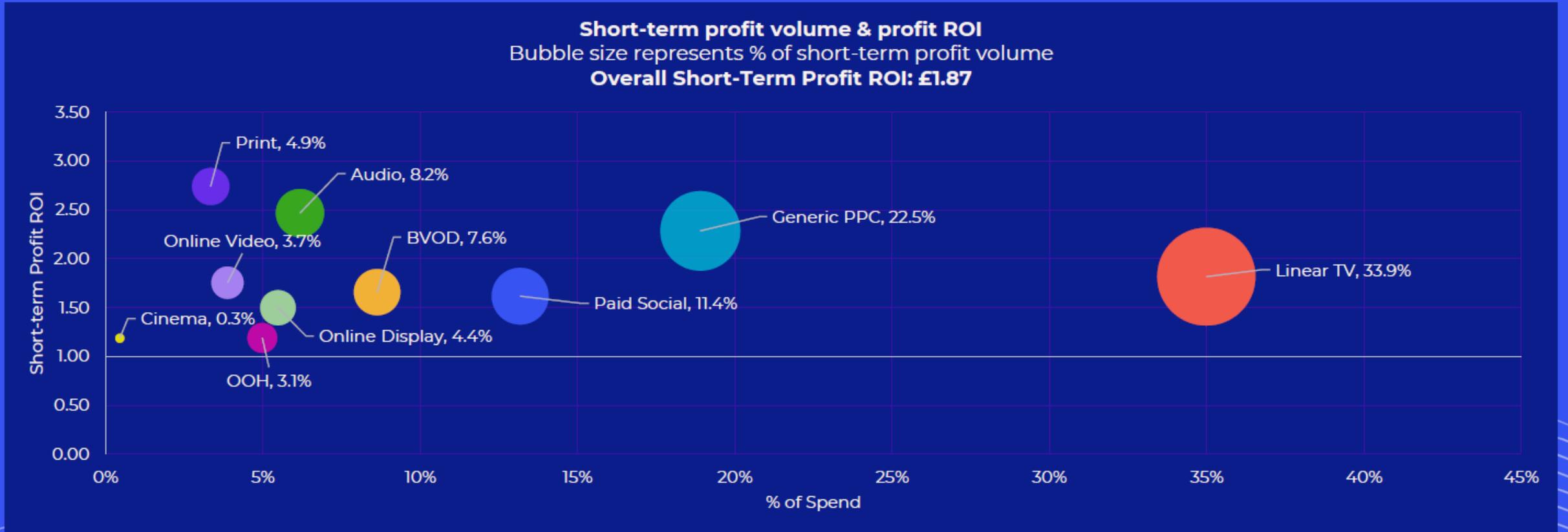
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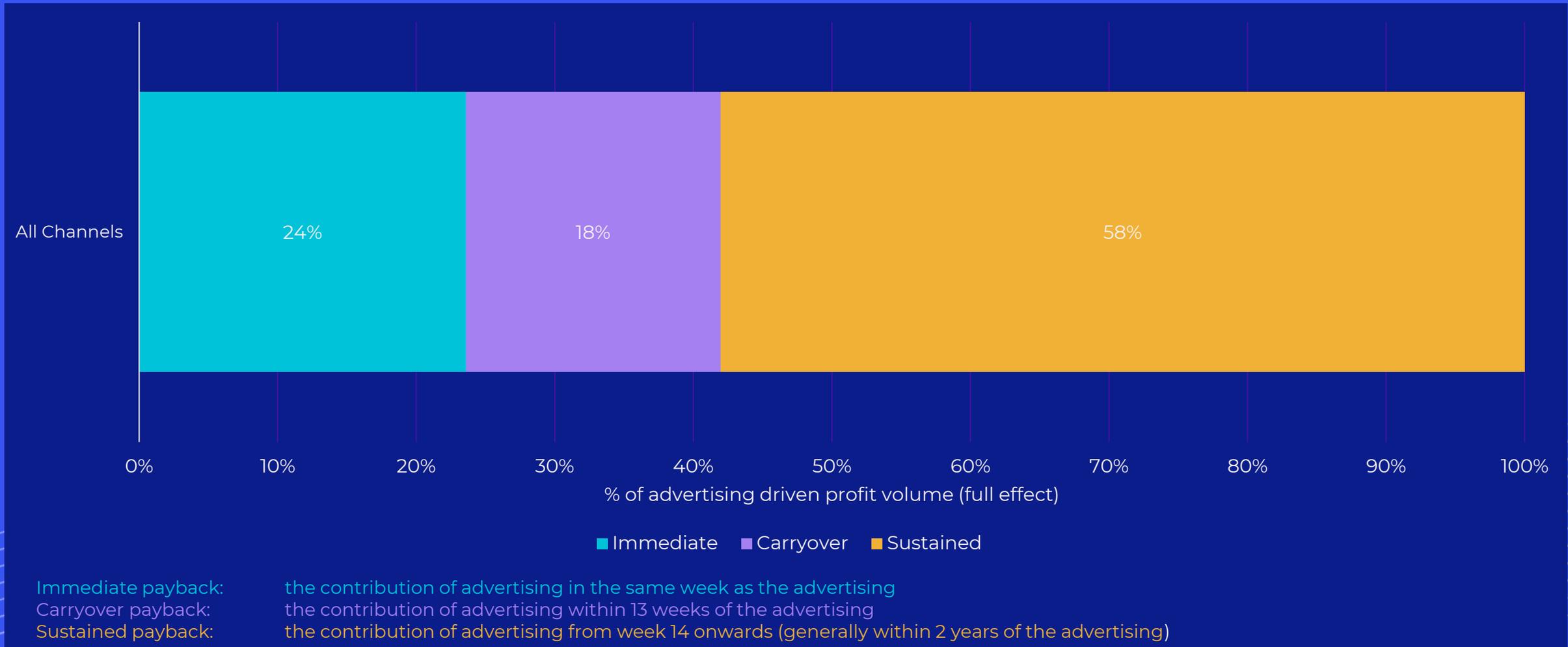


Overall Short-term Profit ROI is £1.87 with all channels showing, on average, a profitable return

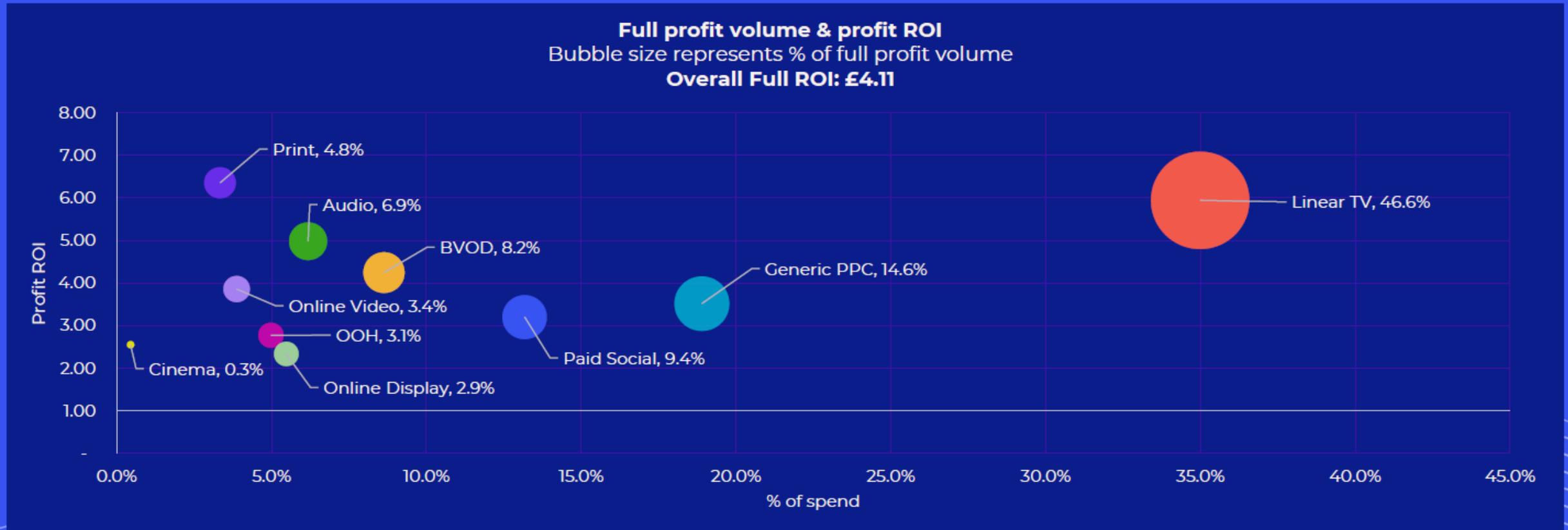


	Audio	BVOD	Cinema	Generic PPC	Linear TV	Online Display	Online Video	OOH	Paid Social	Print
Spend %	6.18%	8.63%	0.45%	18.90%	34.99%	5.48%	3.87%	4.98%	13.18%	3.34%
Short-Term Profit ROI	2.47	1.66	1.19	2.29	1.82	1.50	1.76	1.19	1.62	2.74
Short-Term Profit Volume %	8.18%	7.59%	0.29%	22.54%	33.95%	4.40%	3.65%	3.14%	11.35%	4.90%

Sustained effects are substantial – nearly 60% of advertising’s overall contribution to profit

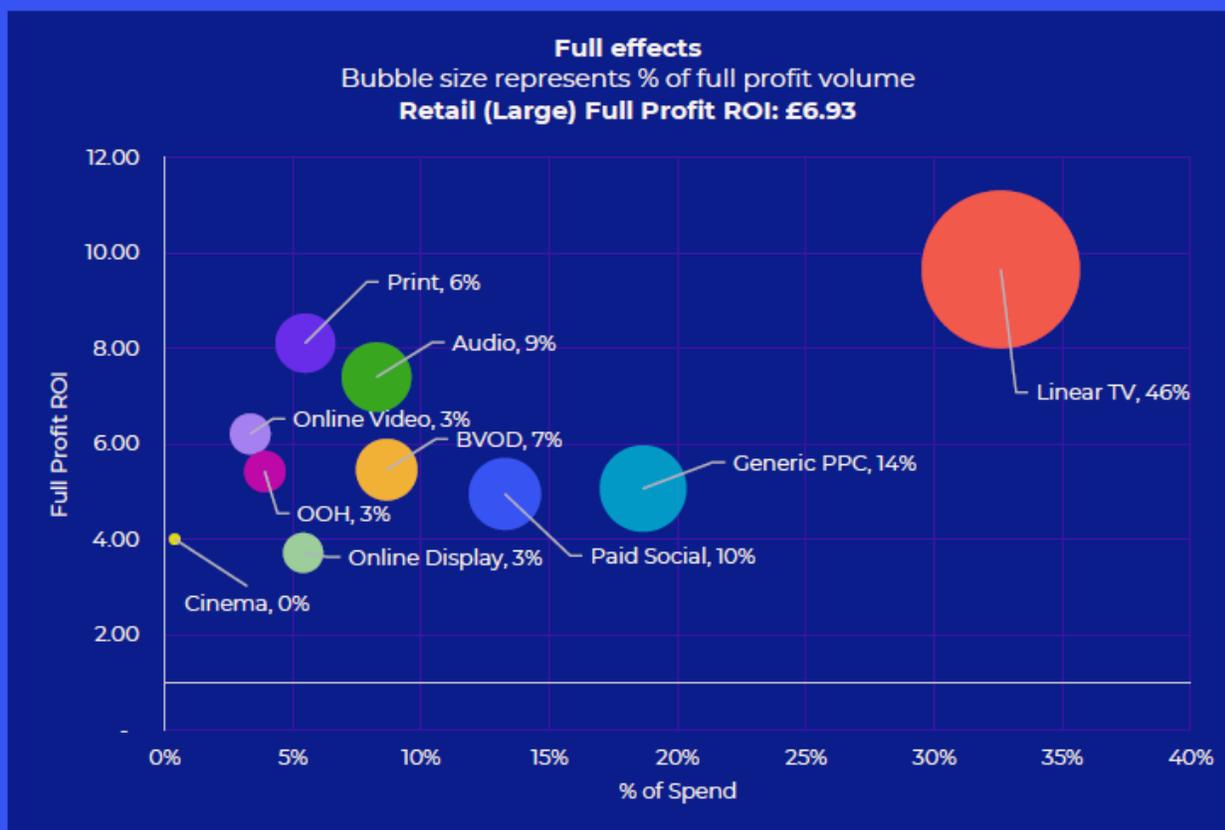
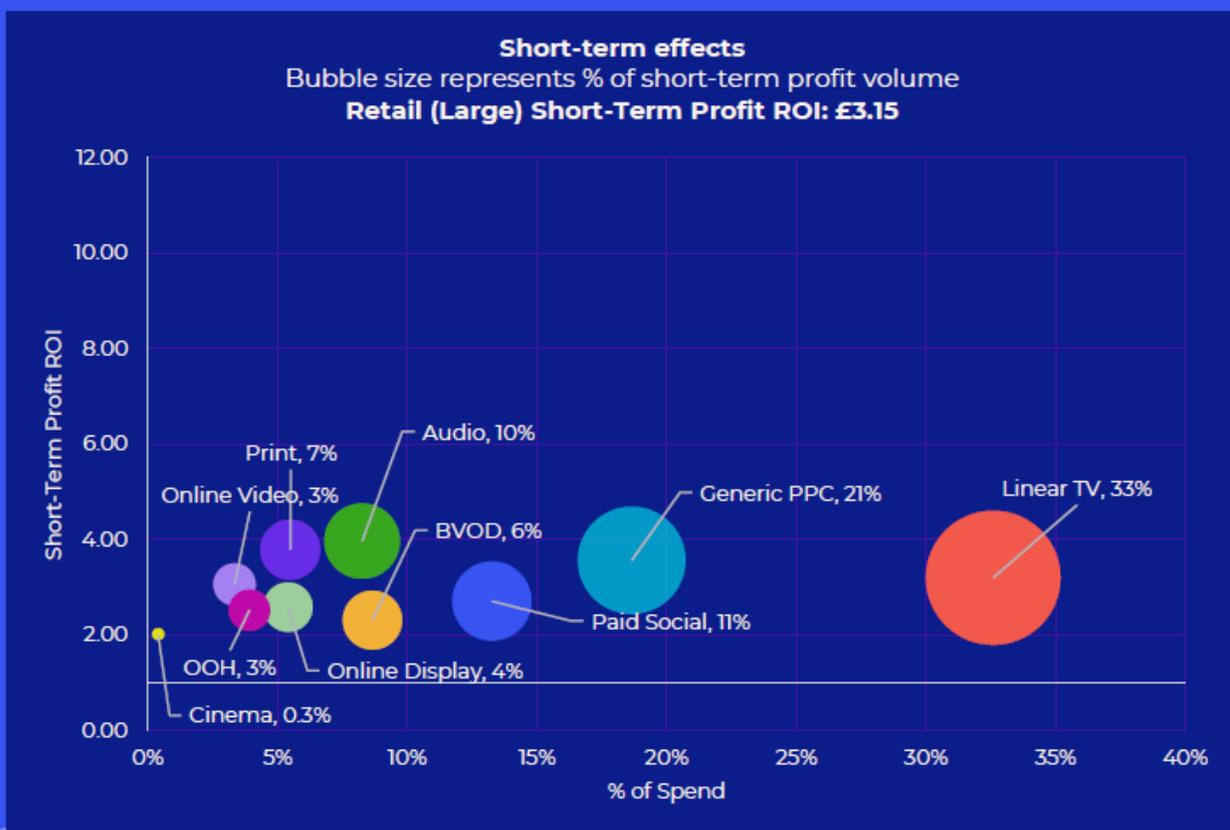


Including sustained effects, average Profit ROI increases to £4.11



	Audio	BVOD	Cinema	Generic PPC	Linear TV	Online Display	Online Video	OOH	Paid Social	Print
Spend %	6.18%	8.63%	0.45%	18.90%	34.99%	5.48%	3.87%	4.98%	13.18%	3.34%
Full Profit ROI	4.98	4.25	2.56	3.52	5.94	2.34	3.86	2.78	3.20	6.36
Full Profit Volume %	6.93%	8.15%	0.26%	14.56%	46.57%	2.88%	3.37%	3.07%	9.43%	4.77%

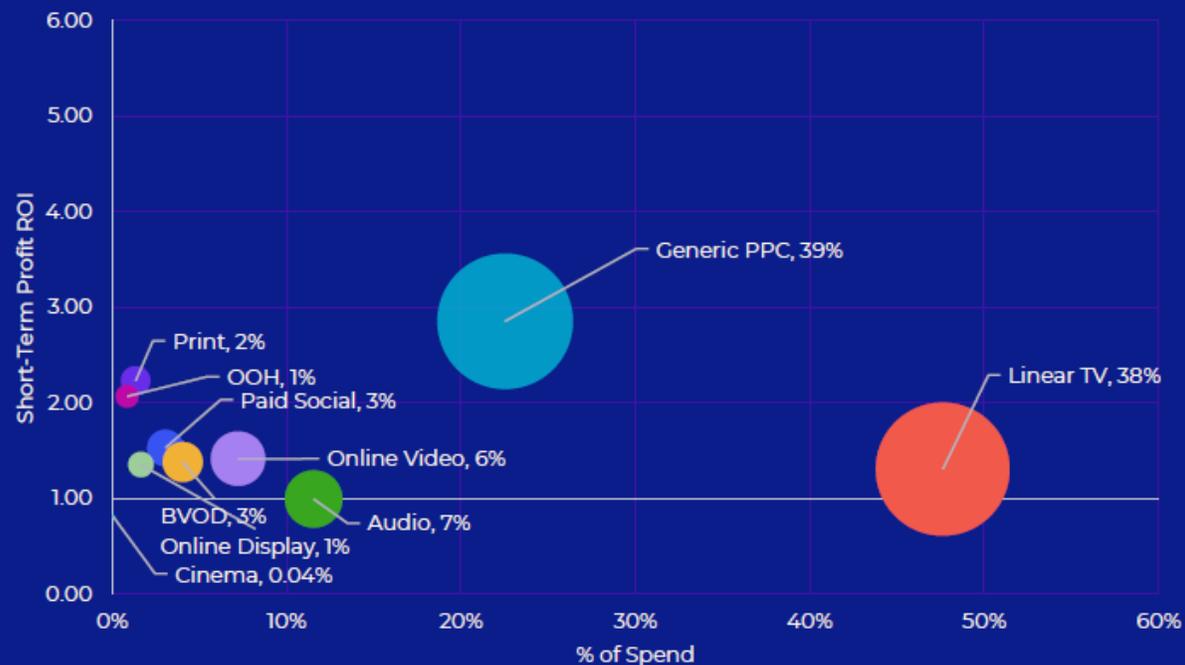
In the case of Large Retail, all channels are profitable in the short-term getting even stronger with the full effect



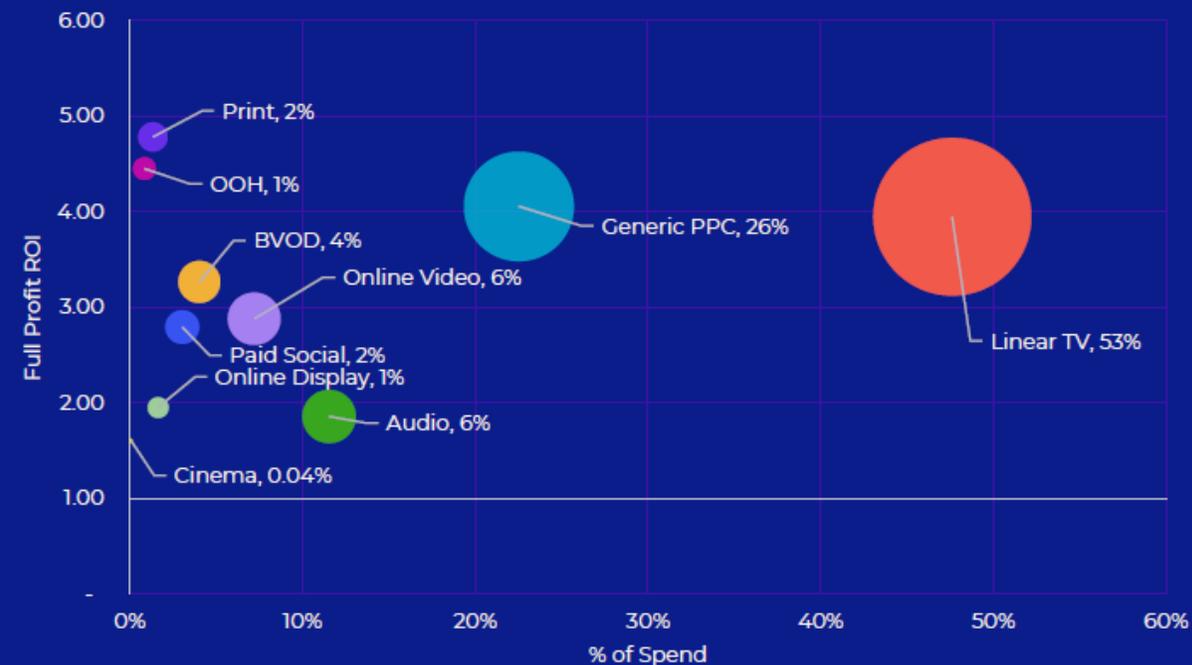
	Audio	BVOD	Cinema	Generic PPC	Linear TV	Online Display	Online Video	OOH	Paid Social	Print
Spend %	8.26%	8.66%	0.40%	18.66%	32.60%	5.40%	3.34%	3.91%	13.27%	5.49%
Short-Term Profit ROI	3.97	2.31	2.02	3.57	3.20	2.59	3.06	2.52	2.71	3.79
Short-Term Profit Volume %	10.40%	6.35%	0.26%	21.10%	33.09%	4.43%	3.24%	3.13%	11.41%	6.60%
Full Profit ROI	7.40	5.47	4.01	5.07	9.66	3.72	6.21	5.43	4.96	8.11
Full Profit Volume %	8.83%	6.84%	0.23%	13.67%	45.51%	2.91%	2.99%	3.07%	9.50%	6.44%

And it's similar for smaller retail but Generic PPC notably stands out as a stronger channel for smaller retailers

Short-term effects
Bubble size represents % of short-term profit volume
Retail (Small) Short-Term Profit ROI: £1.66

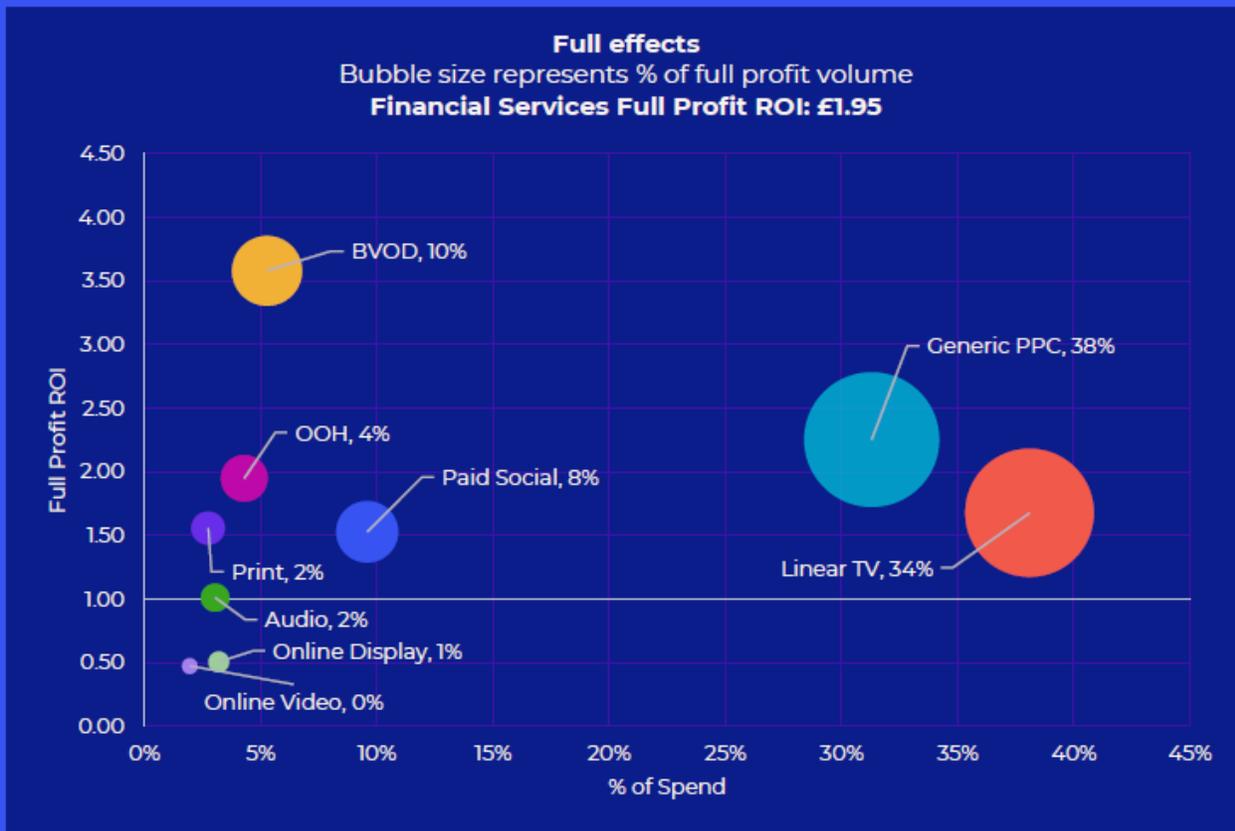
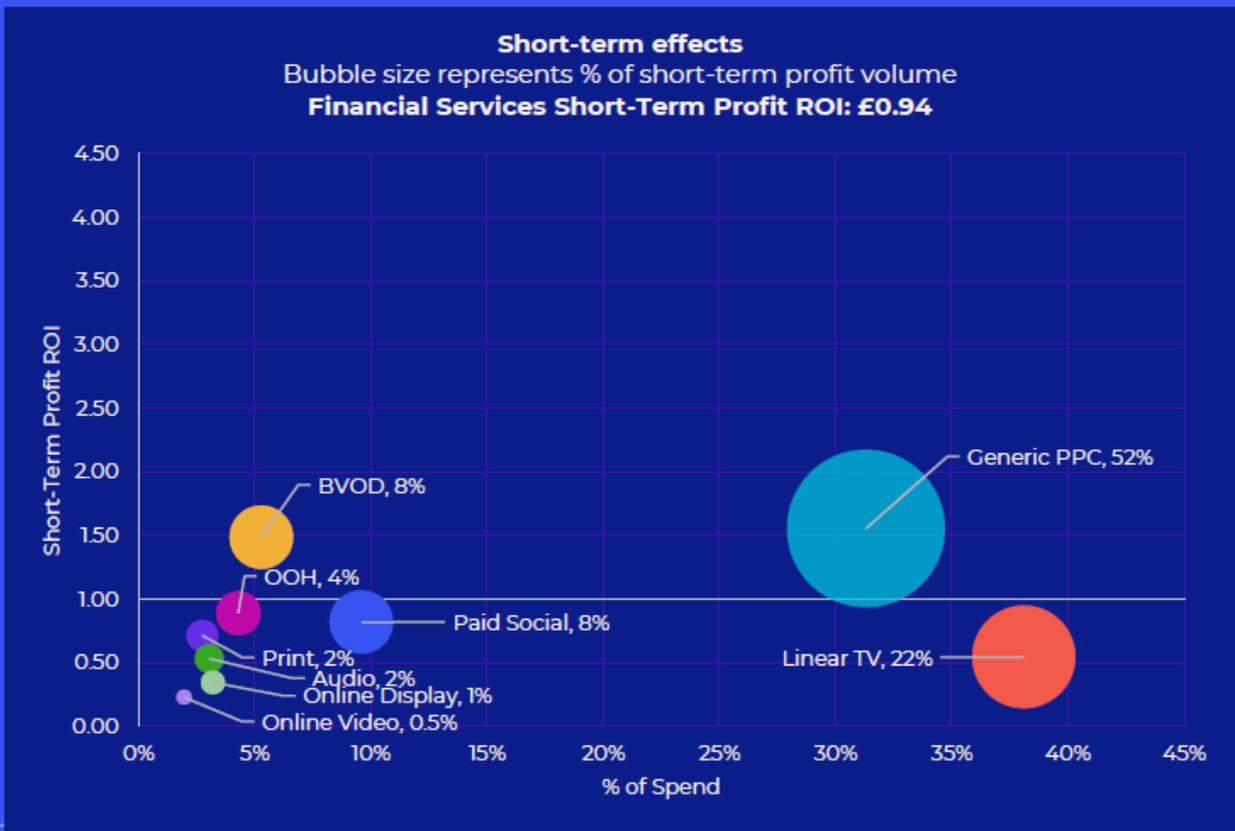


Full effects
Bubble size represents % of full profit volume
Retail (Small) Full Profit ROI: £3.37



	Audio	BVOD	Cinema	Generic PPC	Linear TV	Online Display	Online Video	OOH	Paid Social	Print
Spend %	11.55%	4.05%	0.08%	22.54%	47.63%	1.65%	7.22%	0.87%	3.06%	1.35%
Short-Term Profit ROI	1.00	1.38	0.81	2.85	1.31	1.36	1.42	2.07	1.53	2.23
Short-Term Profit Volume %	6.94%	3.37%	0.04%	38.79%	37.61%	1.35%	6.18%	1.09%	2.82%	1.82%
Full Profit ROI	1.86	3.27	1.61	4.06	3.95	1.95	2.88	4.45	2.80	4.78
Full Profit Volume %	6.00%	3.70%	0.04%	25.58%	52.67%	0.90%	5.82%	1.09%	2.39%	1.81%

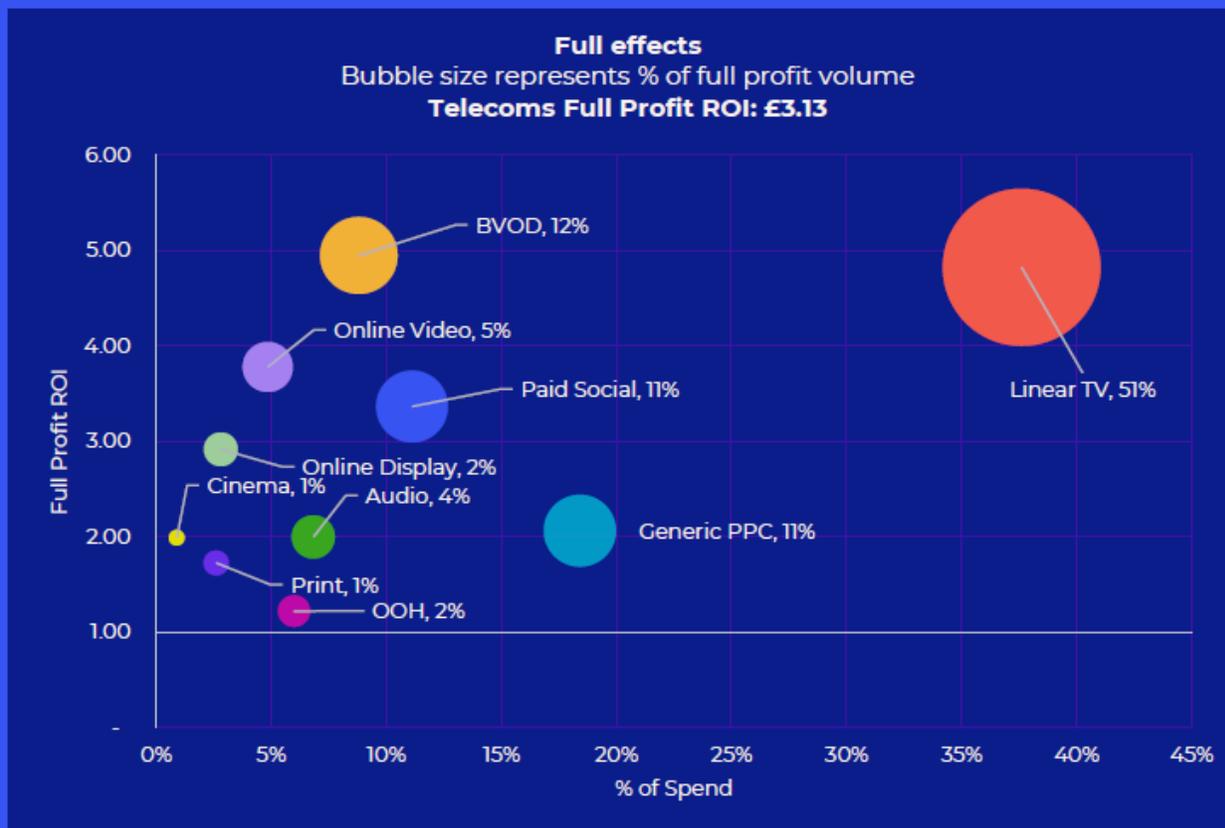
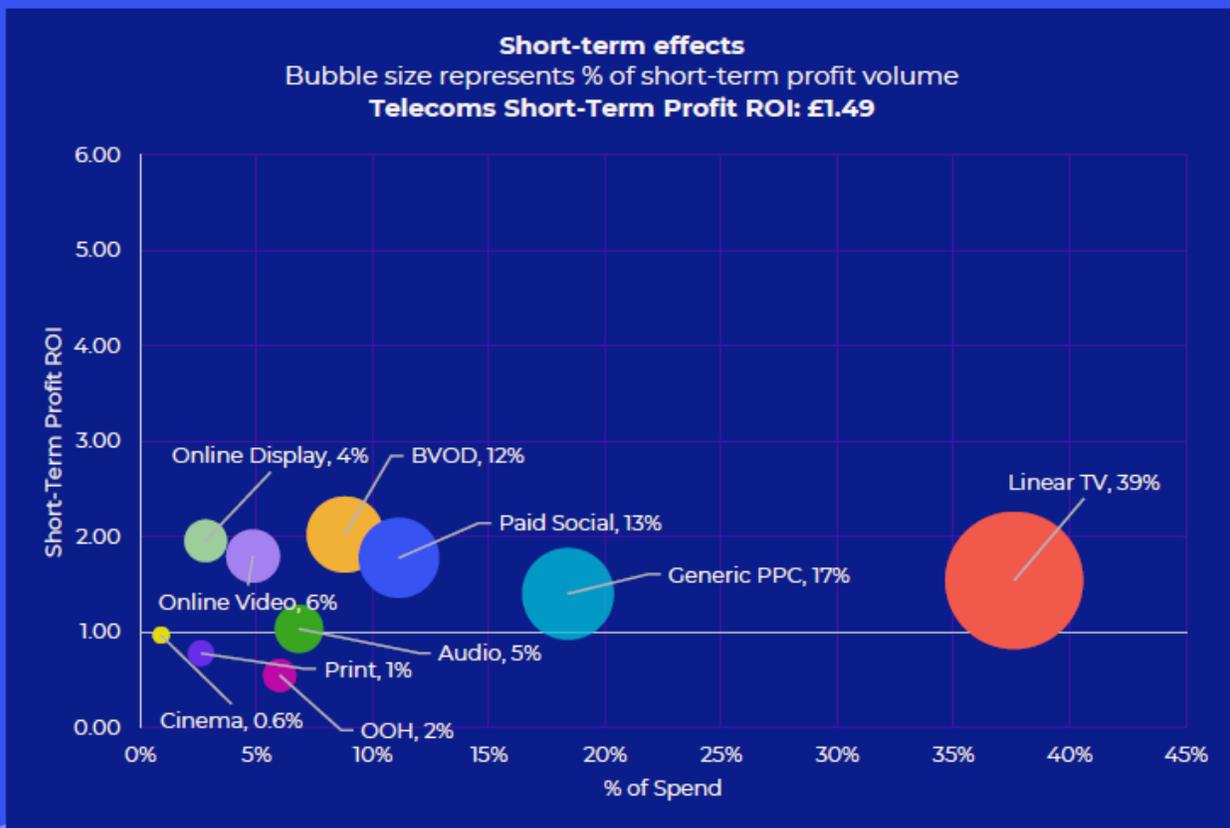
Similarly Financial Services see a very strong Generic PPC ROI as well as BVOD punching above the efficiency of Linear TV



	Audio	BVOD	Cinema	Generic PPC	Linear TV	Online Display	Online Video	OOH	Paid Social	Print
Spend %	3.05%	5.28%	n/a	31.31%	38.10%	3.20%	1.96%	4.30%	9.59%	2.75%
Short-Term Profit ROI	0.53	1.49	n/a	1.55	0.55	0.35	0.23	0.89	0.82	0.71
Short-Term Profit Volume %	1.72%	8.34%	n/a	51.74%	22.02%	1.18%	0.48%	4.06%	8.36%	2.08%
Full Profit ROI	1.01	3.58	n/a	2.25	1.68	0.51	0.47	1.95	1.53	1.56
Full Profit Volume %	1.65%	10.16%	n/a	37.89%	34.25%	0.87%	0.50%	4.50%	7.87%	2.30%

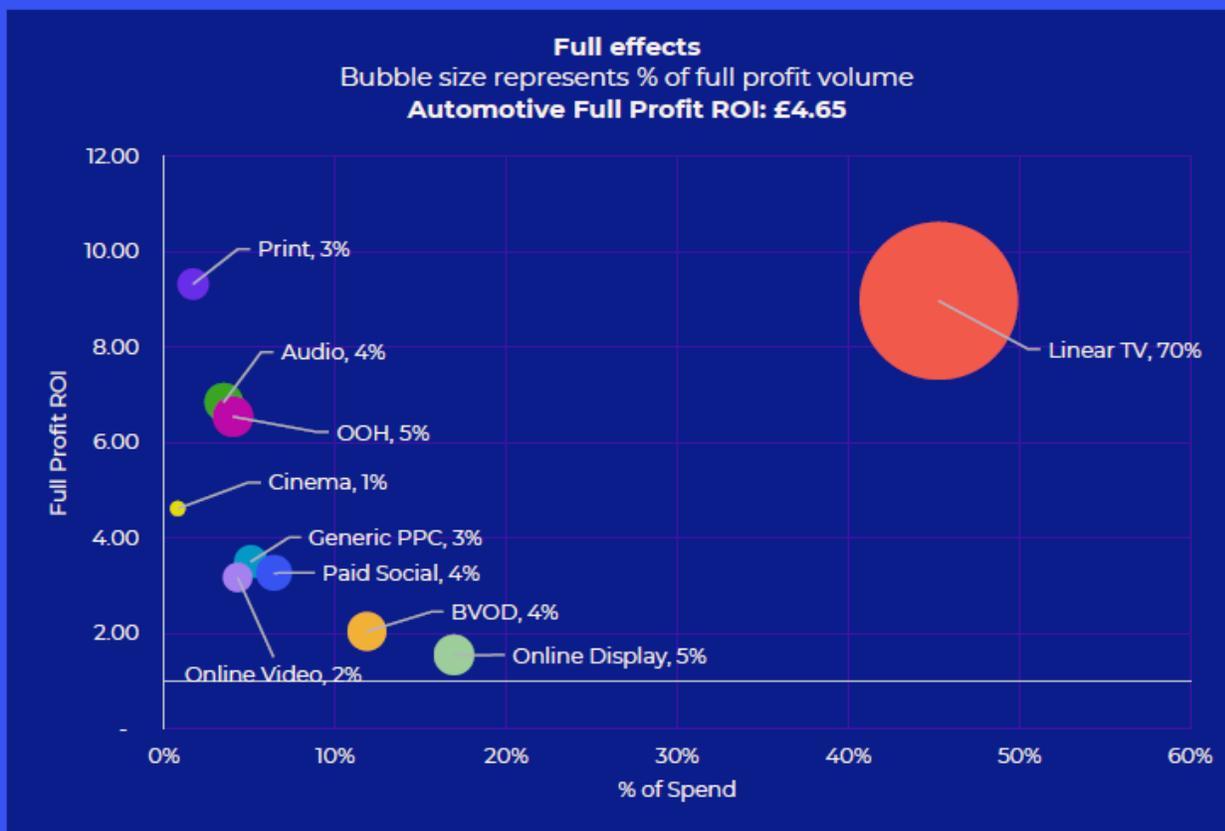
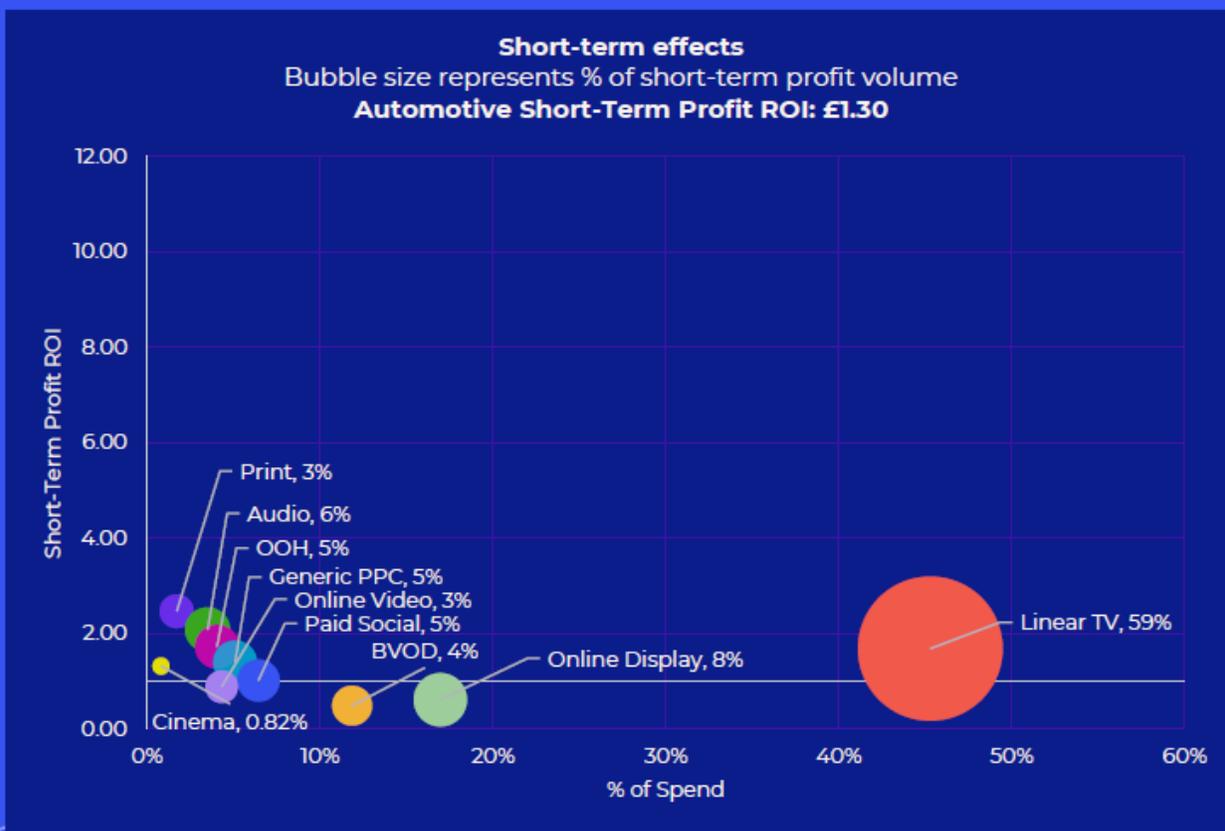
Source: Profit Ability 2, April 2024 – Short term benchmarks: Ebiquty, EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK.
Long Term Multipliers: EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK

With a similarly strong BVOD performance coming through in Telecoms although Linear TV dominates the volume



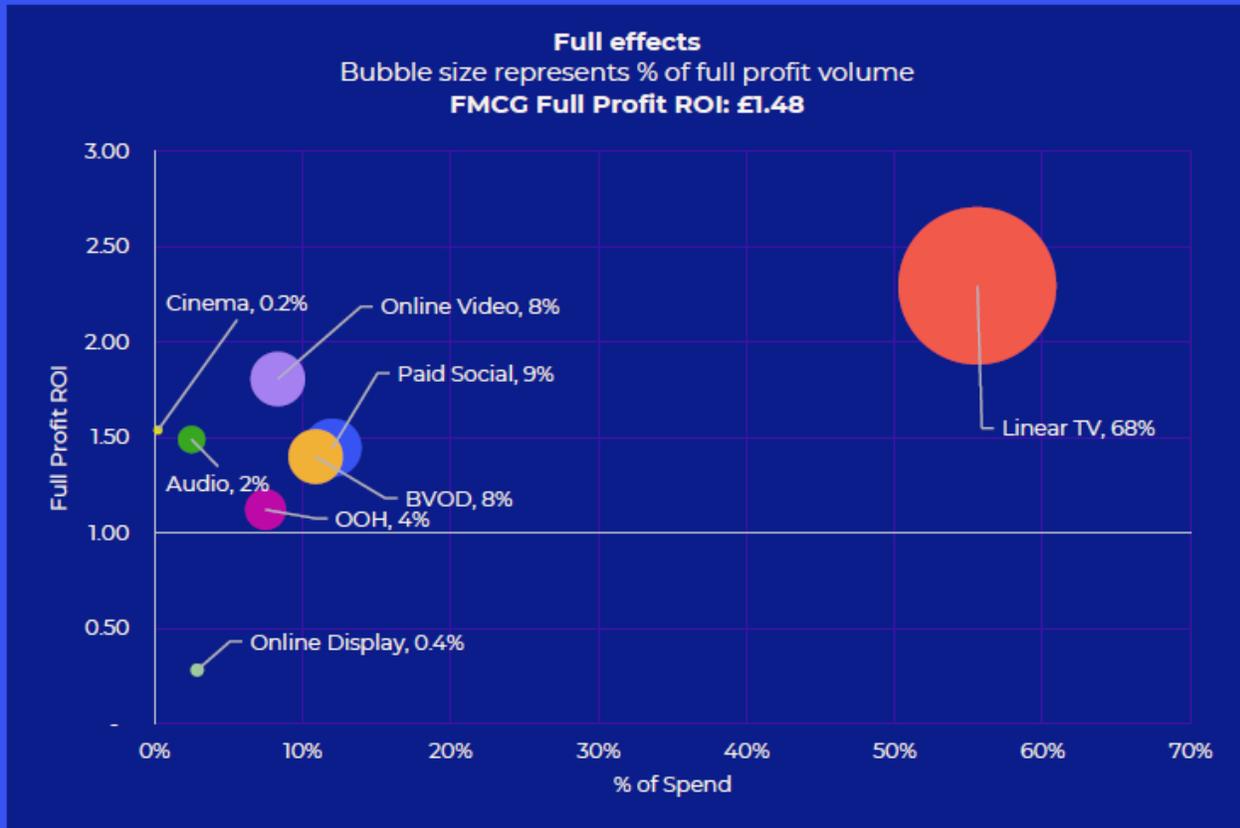
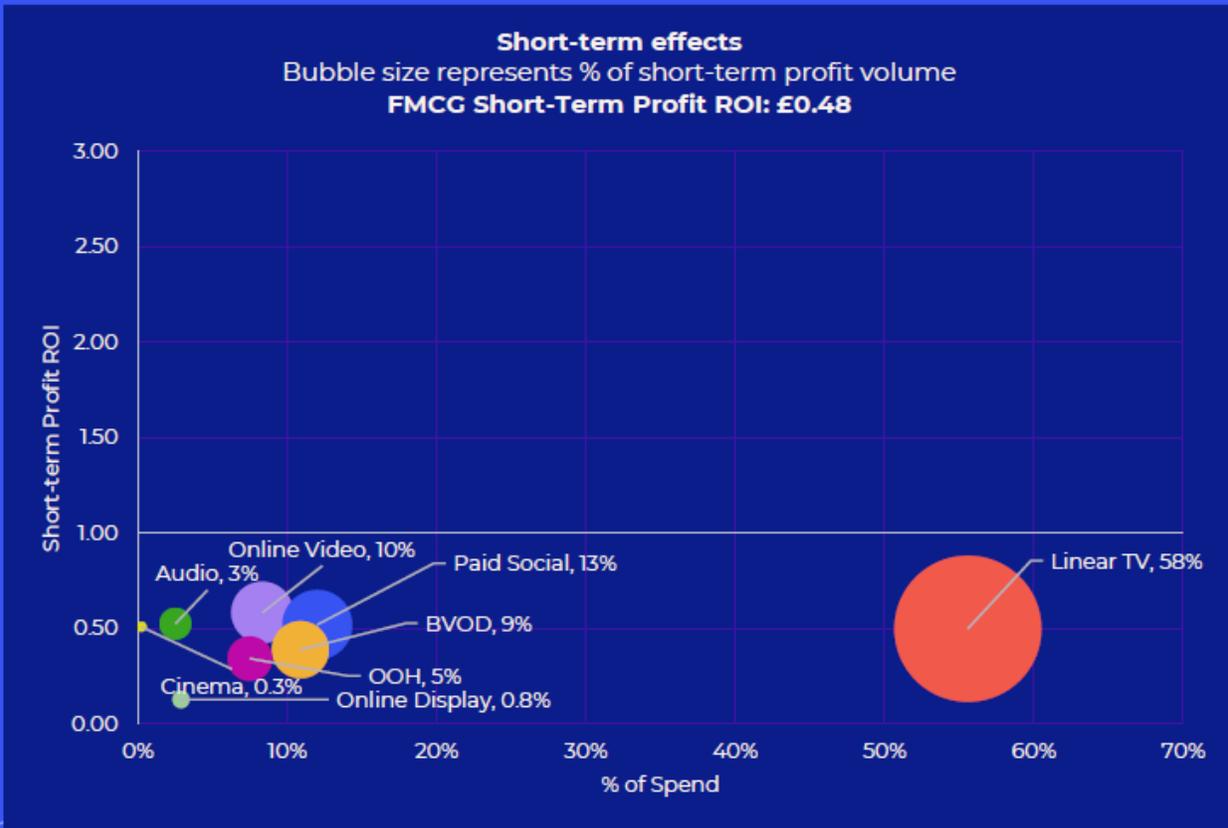
	Audio	BVOD	Cinema	Generic PPC	Linear TV	Online Display	Online Video	OOH	Paid Social	Print
Spend %	6.84%	8.81%	0.90%	18.41%	37.61%	2.82%	4.86%	6.00%	11.13%	2.62%
Short-Term Profit ROI	1.04	2.03	0.97	1.40	1.55	1.96	1.80	0.55	1.78	0.78
Short-Term Profit Volume %	4.74%	11.96%	0.58%	17.34%	38.97%	3.70%	5.85%	2.21%	13.28%	1.36%
Full Profit ROI	2.00	4.95	1.99	2.06	4.82	2.92	3.78	1.22	3.37	1.73
Full Profit Volume %	3.85%	12.31%	0.50%	10.73%	51.21%	2.32%	5.17%	2.07%	10.56%	1.27%

As it does in Automotive where Linear TV is far and away the largest profit driver with its ROI also very strong



	Audio	BVOD	Cinema	Generic PPC	Linear TV	Online Display	Online Video	OOH	Paid Social	Print
Spend %	3.49%	11.86%	0.80%	5.08%	45.30%	16.96%	4.31%	4.04%	6.44%	1.71%
Short-Term Profit ROI	2.08	0.49	1.32	1.40	1.69	0.61	0.89	1.73	1.02	2.47
Short-Term Profit Volume %	5.61%	4.48%	0.82%	5.47%	58.98%	8.03%	2.94%	5.39%	5.03%	3.26%
Full Profit ROI	6.85	2.05	4.62	3.51	8.97	1.55	3.18	6.55	3.27	9.33
Full Profit Volume %	4.12%	4.17%	0.64%	3.07%	70.15%	4.55%	2.36%	4.57%	3.62%	2.75%

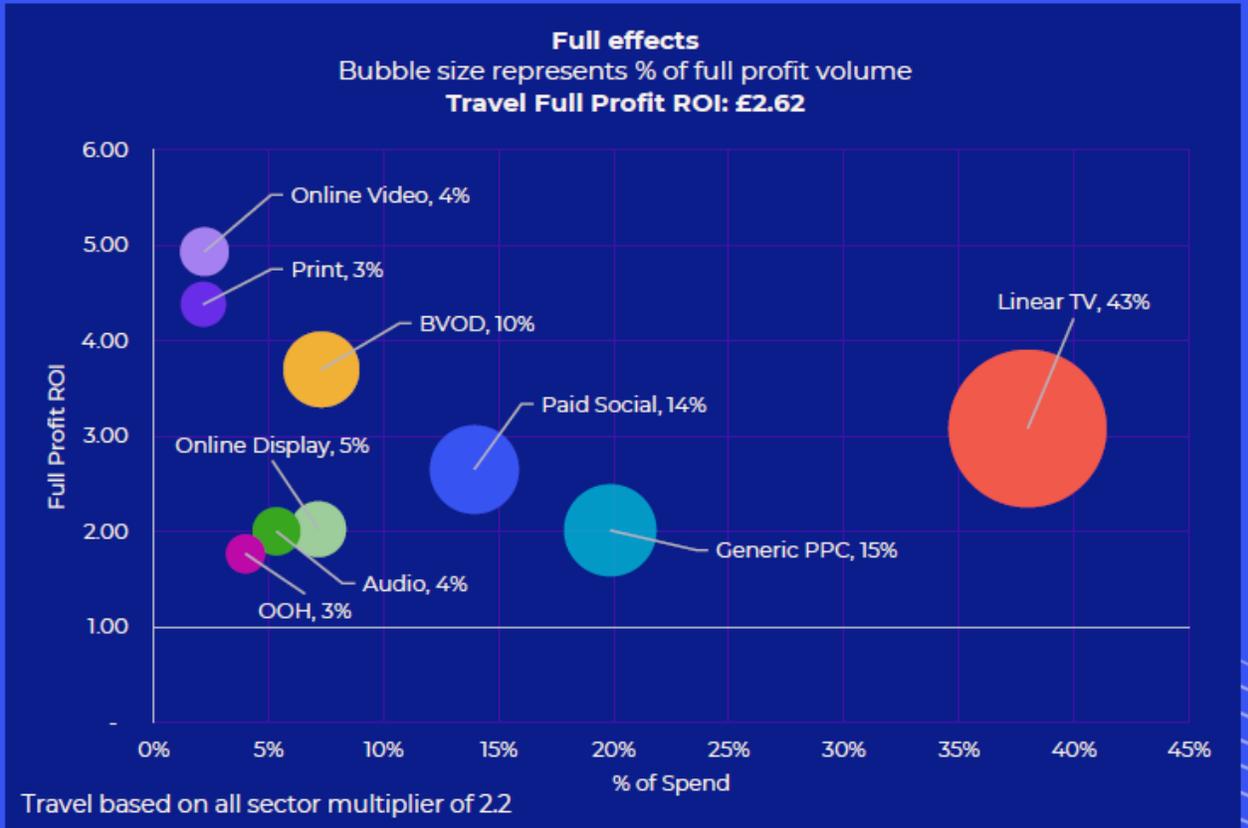
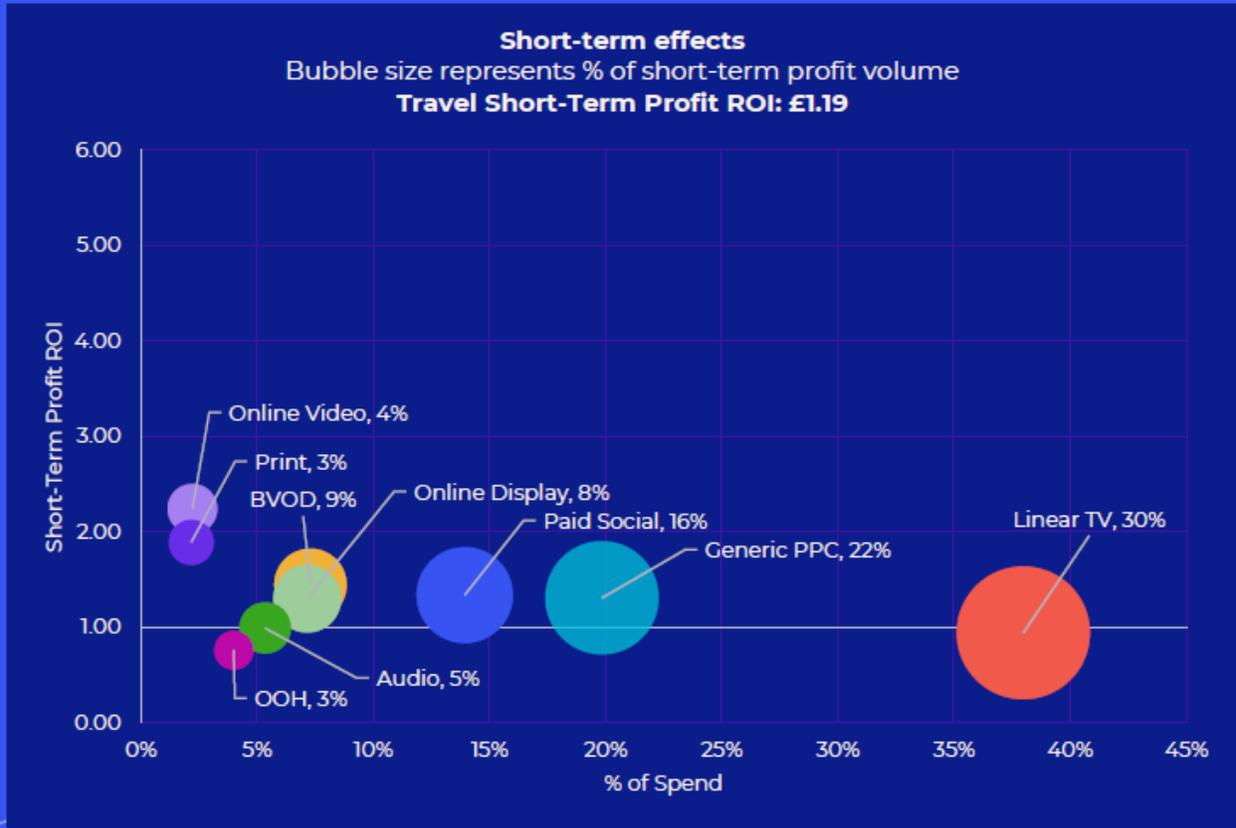
Linear is also a key volume driver in FMCG but short-term ROIs are all low whilst full ROIs start to show profitable payback



	Audio	BVOD	Cinema	Generic PPC	Linear TV	Online Display	Online Video	OOH	Paid Social	Print
Spend %	2.51%	10.89%	0.24%	n/a	55.59%	2.89%	8.33%	7.51%	12.03%	n/a
Short-Term Profit ROI	0.53	0.39	0.51	n/a	0.50	0.13	0.59	0.34	0.52	n/a
Short-Term Profit Volume %	2.76%	8.87%	0.26%	n/a	58.44%	0.79%	10.29%	5.39%	13.19%	n/a
Full Profit ROI	1.49	1.40	1.54	n/a	2.30	0.28	1.81	1.12	1.45	n/a
Full Profit Volume %	1.97%	8.04%	0.20%	n/a	67.64%	0.44%	8.01%	4.45%	9.25%	n/a

Source: Profit Ability 2, April 2024 – Short term benchmarks: Ebiquty, EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK.
Long Term Multipliers: EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK

With Travel also fairly dependent on its sustained effects to yield strong ROIs



	Audio	BVOD	Cinema	Generic PPC	Linear TV	Online Display	Online Video	OOH	Paid Social	Print
Spend %	5.35%	7.30%	n/a	19.85%	37.99%	7.16%	2.22%	4.01%	13.95%	2.17%
Short-Term Profit ROI	0.99	1.45	n/a	1.31	0.94	1.30	2.24	0.76	1.34	1.89
Short-Term Profit Volume %	4.51%	8.96%	n/a	22.07%	30.39%	7.90%	4.22%	2.59%	15.86%	3.48%
Full Profit ROI	2.01	3.70	n/a	2.02	3.08	2.03	4.94	1.77	2.65	4.38
Full Profit Volume %	3.92%	9.87%	n/a	14.61%	42.73%	5.30%	4.00%	2.59%	13.51%	3.48%

Source: Profit Ability 2, April 2024 – Short term benchmarks: Ebiquity, EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK
 Long Term Multipliers: EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK

What this means for the business case for advertising

Advertising is a profitable driver of business growth

Sustained effects are significant as part of advertising's overall payback

Channel efficacy varies greatly channel to channel/sector to sector

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There are three dimensions that impact profitability – scale, efficiency & time

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Rather than a seismic shift, advertising effectiveness has more gradually changed as media consumption has evolved

**The most unhelpful
bit of language in
our industry when it
comes to media
optimisation**

A decorative graphic consisting of multiple thin white lines that originate from a single point on the left and fan out towards the right, creating a sense of motion or a signal. The lines are set against a solid blue background.

Performance

VS

Brand

Performance

Commercial
Measurable
Immediate

Brand

Theoretical
Distant
Fluffy

A more helpful view

The three dimensions of effectiveness

Scale

The size of the advertising's effect on the business

Efficiency

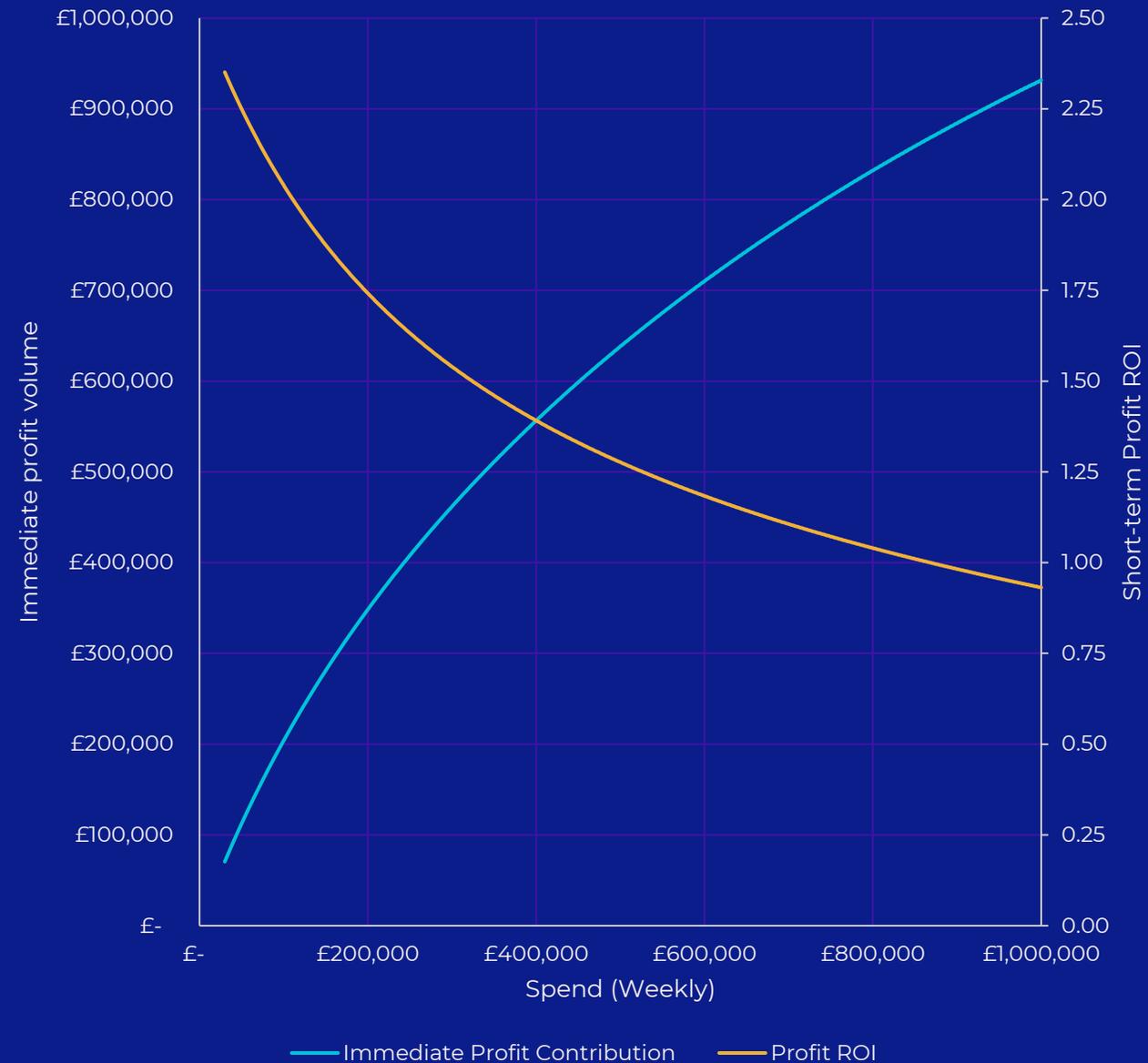
The ratio between cost and payback

Time

The period that the advertising payback is over

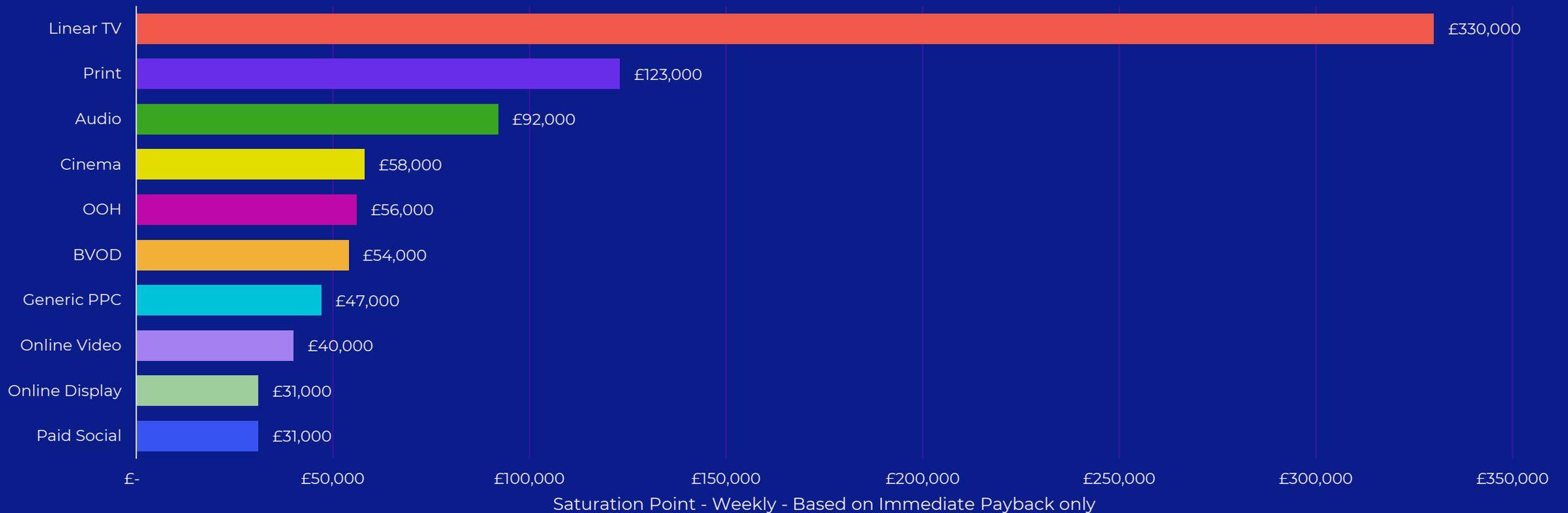
And we can use these relationships to work out when each channel saturates

- As a channel hits diminishing returns, the ROI gradually reduces. This is because ROI is the ratio between spend and sales. As each pound generates slightly less than the one before, this ratio drops the higher the spend although you drive more sales
- We can use this ratio to work out the **saturation point** for each channel – the last point where **every pound** spent in a channel generates **at least £1 profit**



TV hits saturation at the highest spend level, nearly 3x the equivalent scale of the next largest channel

Saturation based on immediate payback – all category average

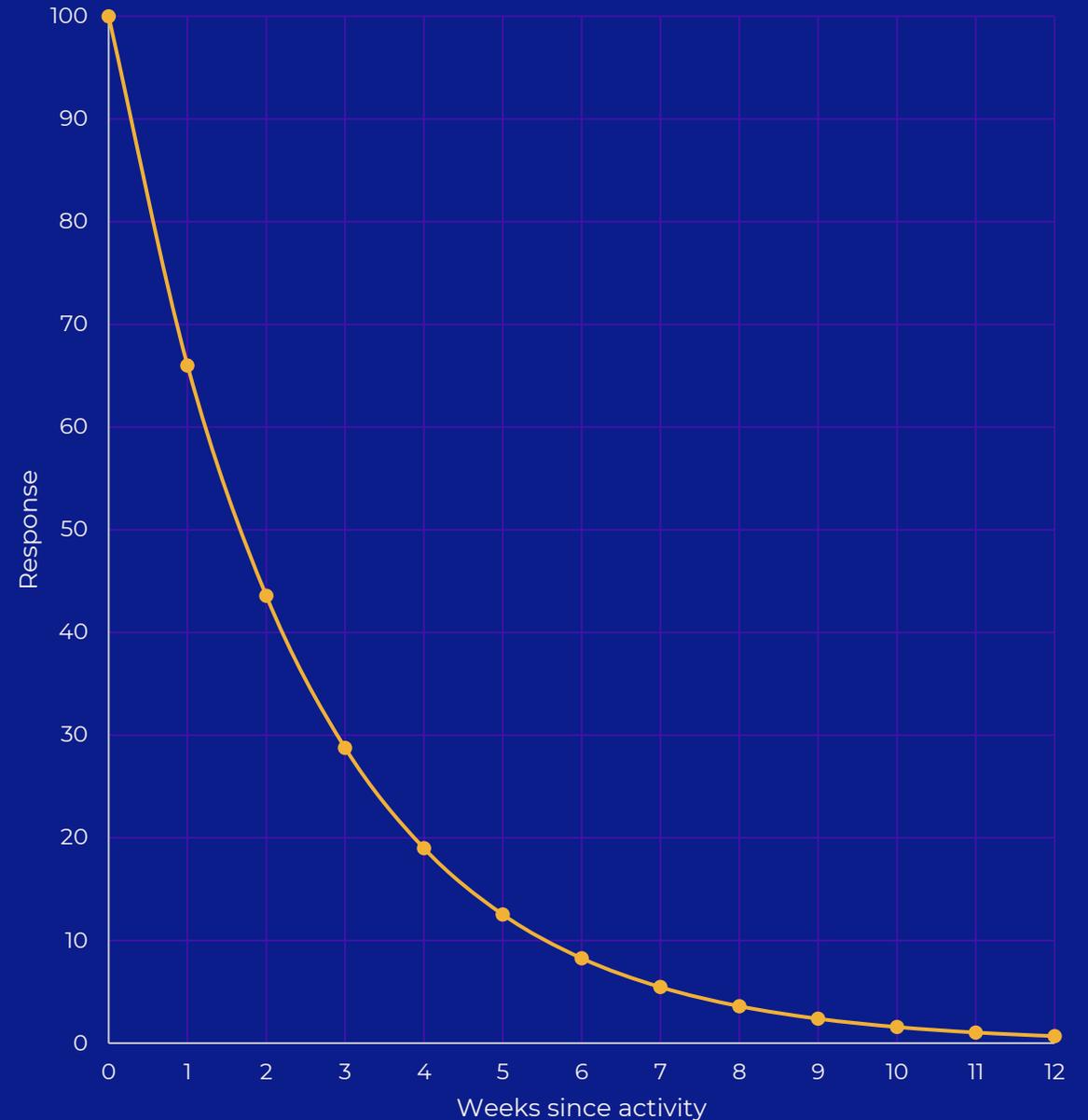


Saturation point based on all category average. Saturation ranking & values will vary sector to sector

Source: Profit Ability 2, April 2024 – Short term benchmarks: Ebiquity, EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK. – Immediate effect = profit volume in week of advertising spend

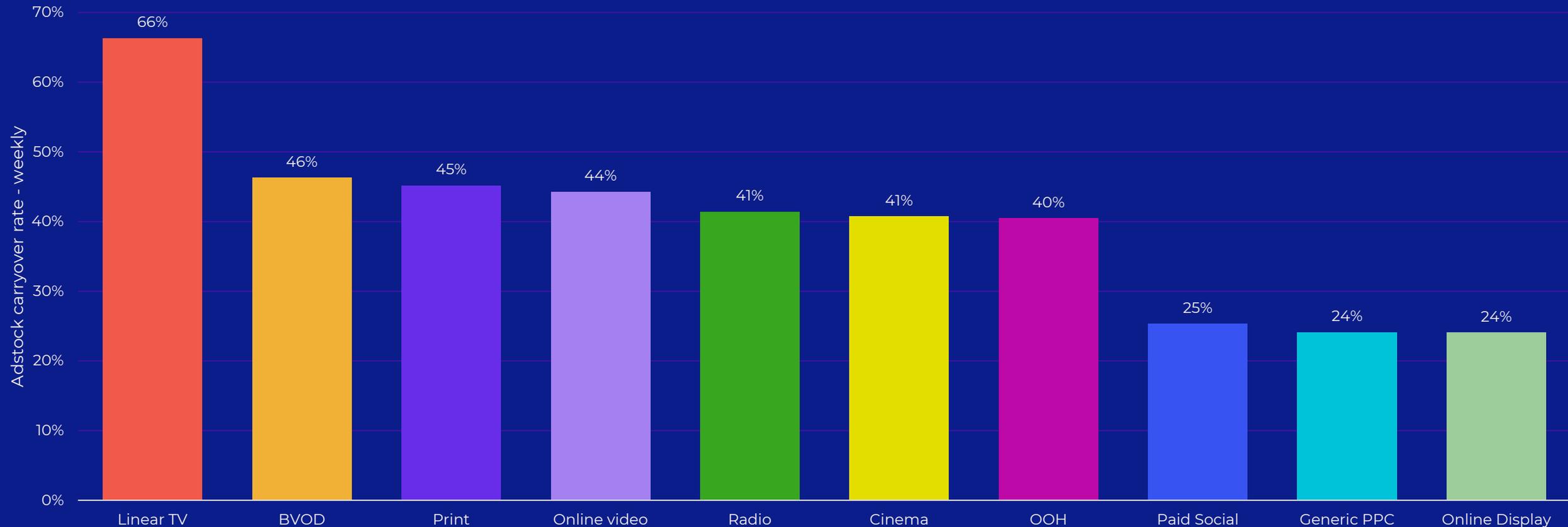
To understand wider short-term effects we need to look at adstock carryover

- Adstock or memory is how the effect of today's advertising impacts future weeks
- This is measured through a decay rate calculated in econometric modelling
- The quicker the adstock decays, the more of a channel's total effect is generated in a shorter amount of time

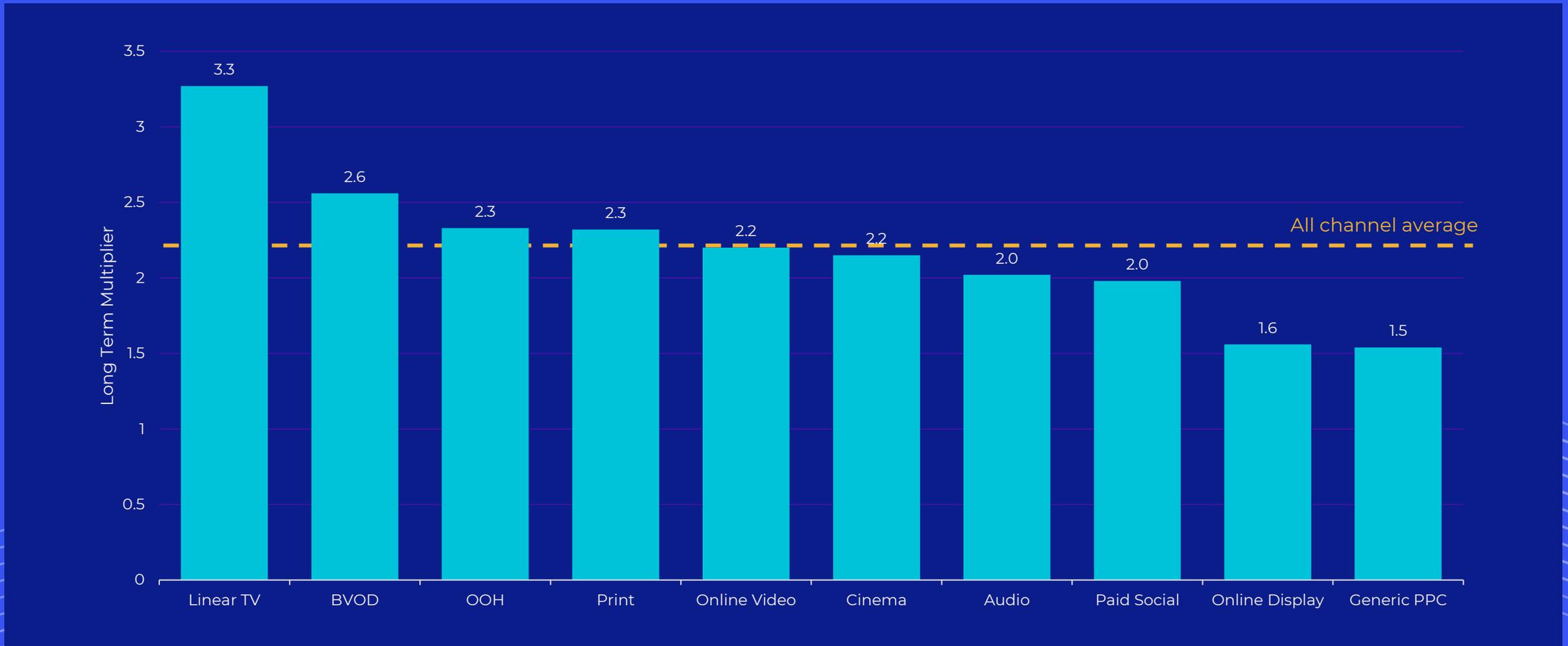


Linear TV & BVOD have the highest adstock carryover whilst Generic PPC & Display the shortest

Mean adstock carryover rate - weekly

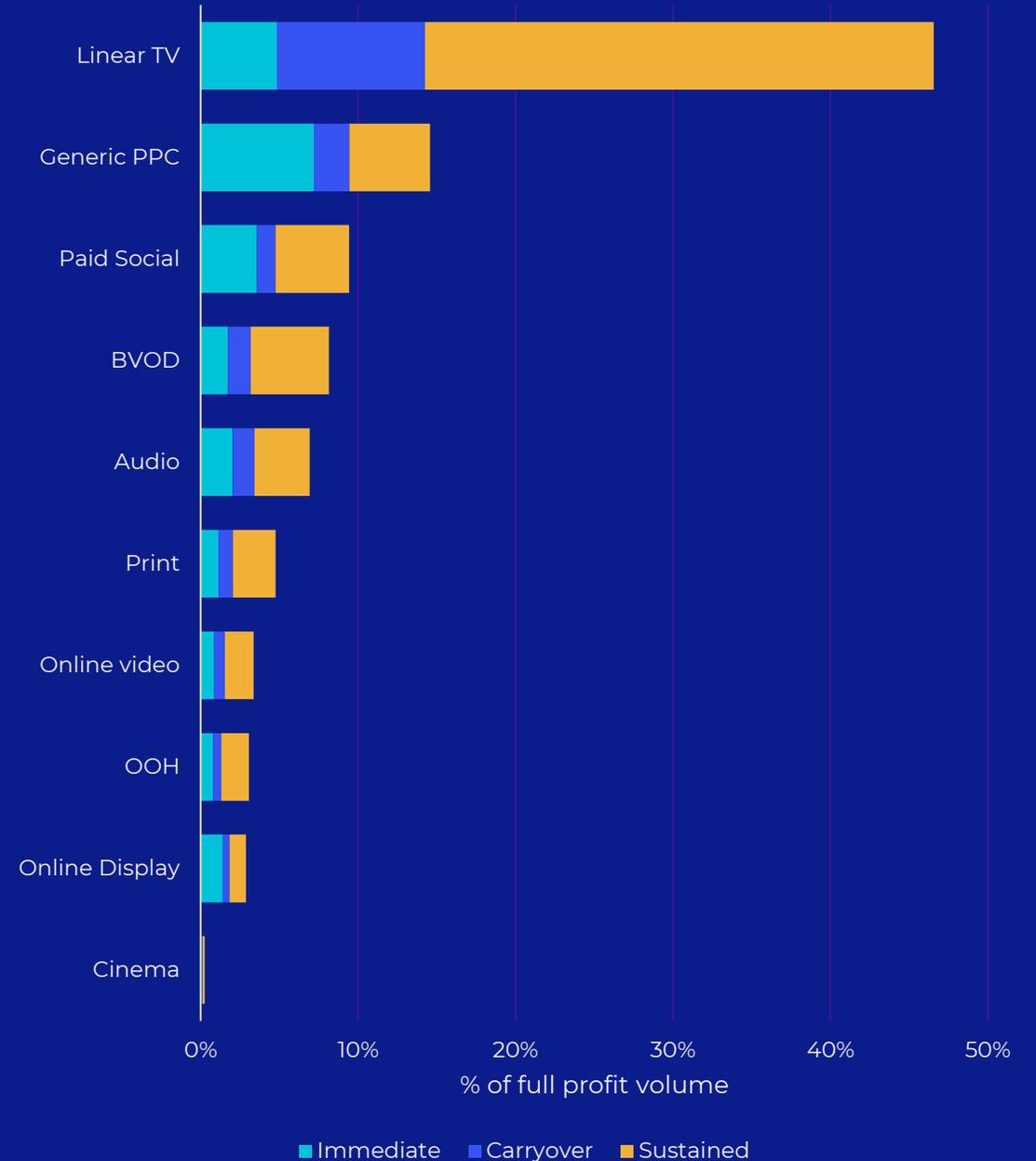


Long-term multiplier is on average 2.2 but varies significantly by channel



Source: EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK – Long Term Multiplier = (Sustained Effect + Short-term Effect) / Short-term Effect

With TV being unmatched as a volume driver when considering all three speeds of payback



Source: Profit Ability 2, April 2024 – Short term benchmarks: Ebiquity, EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK. Long Term Multipliers: EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK
Immediate contribution = same week as advertising,
Carryover = within 13 weeks
Sustained = within 2 years

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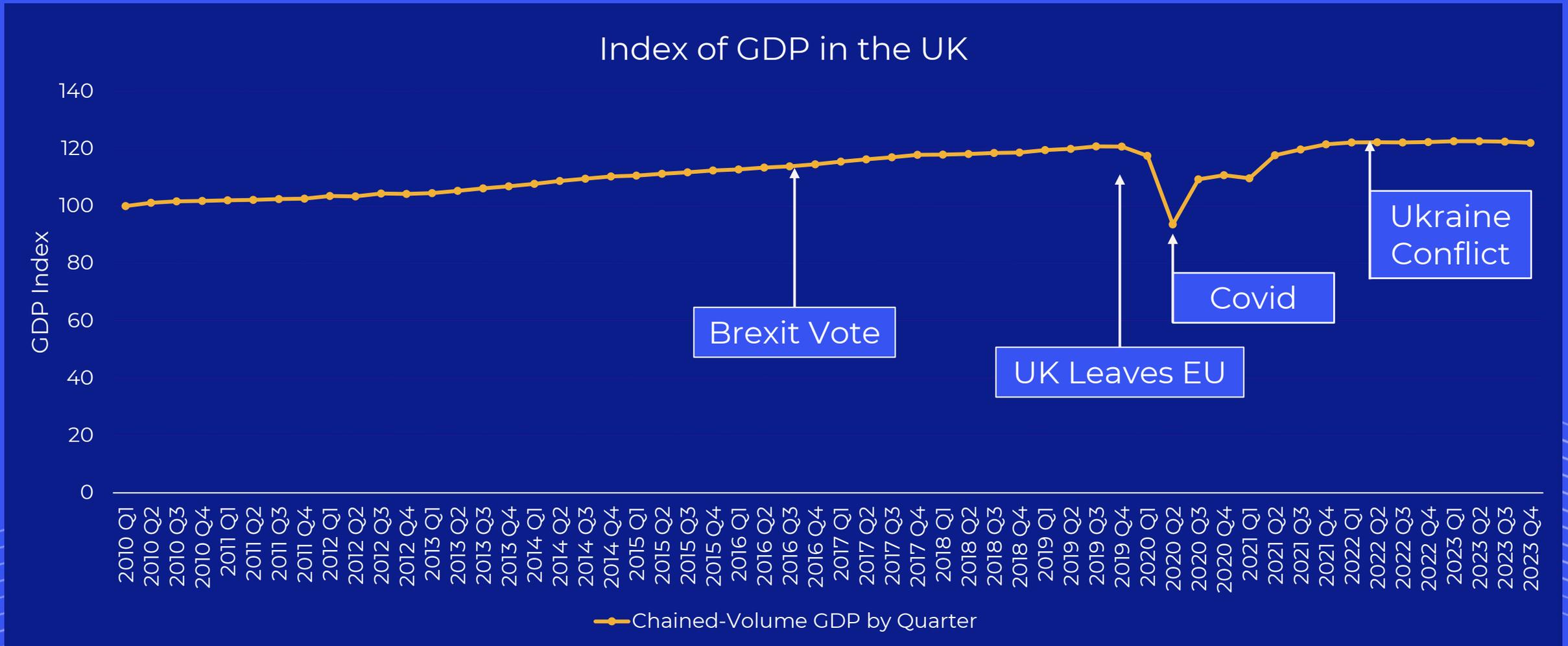
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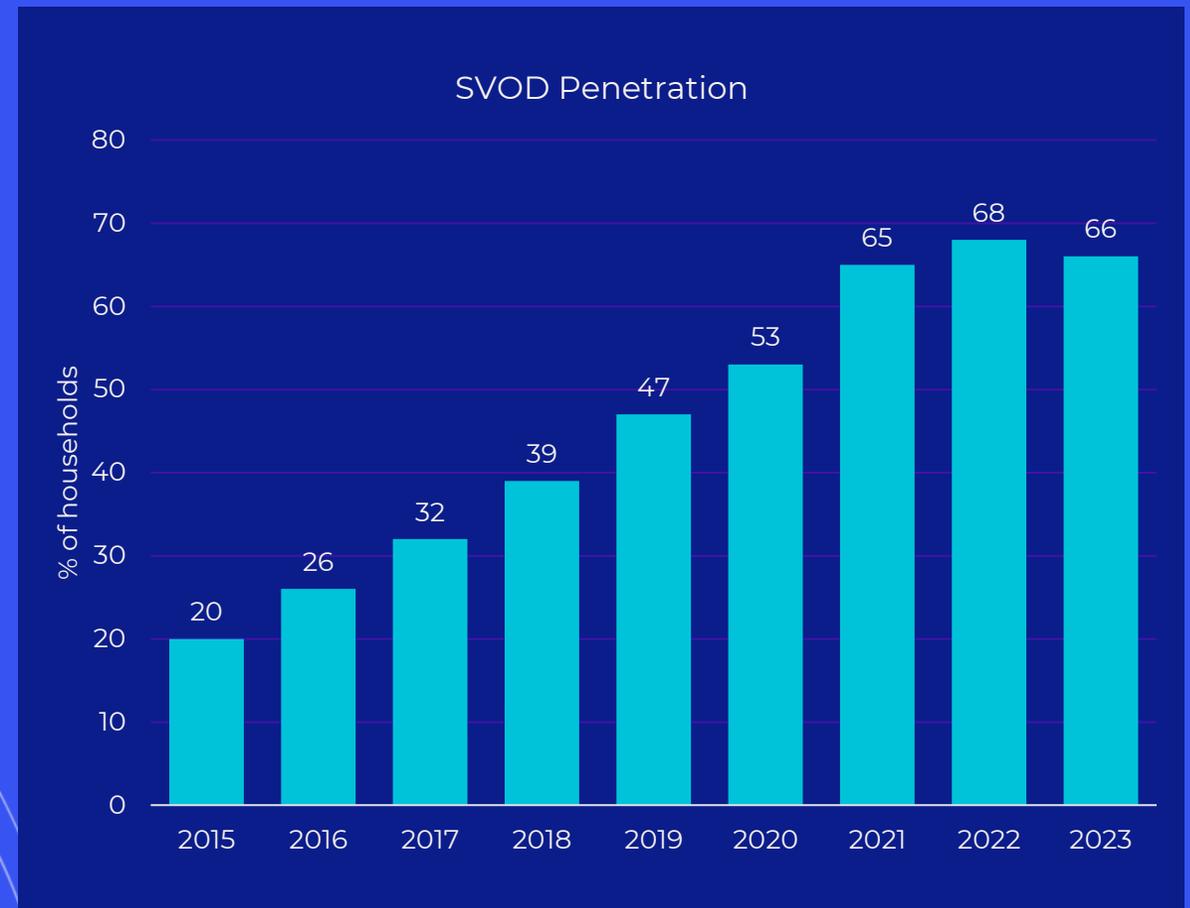
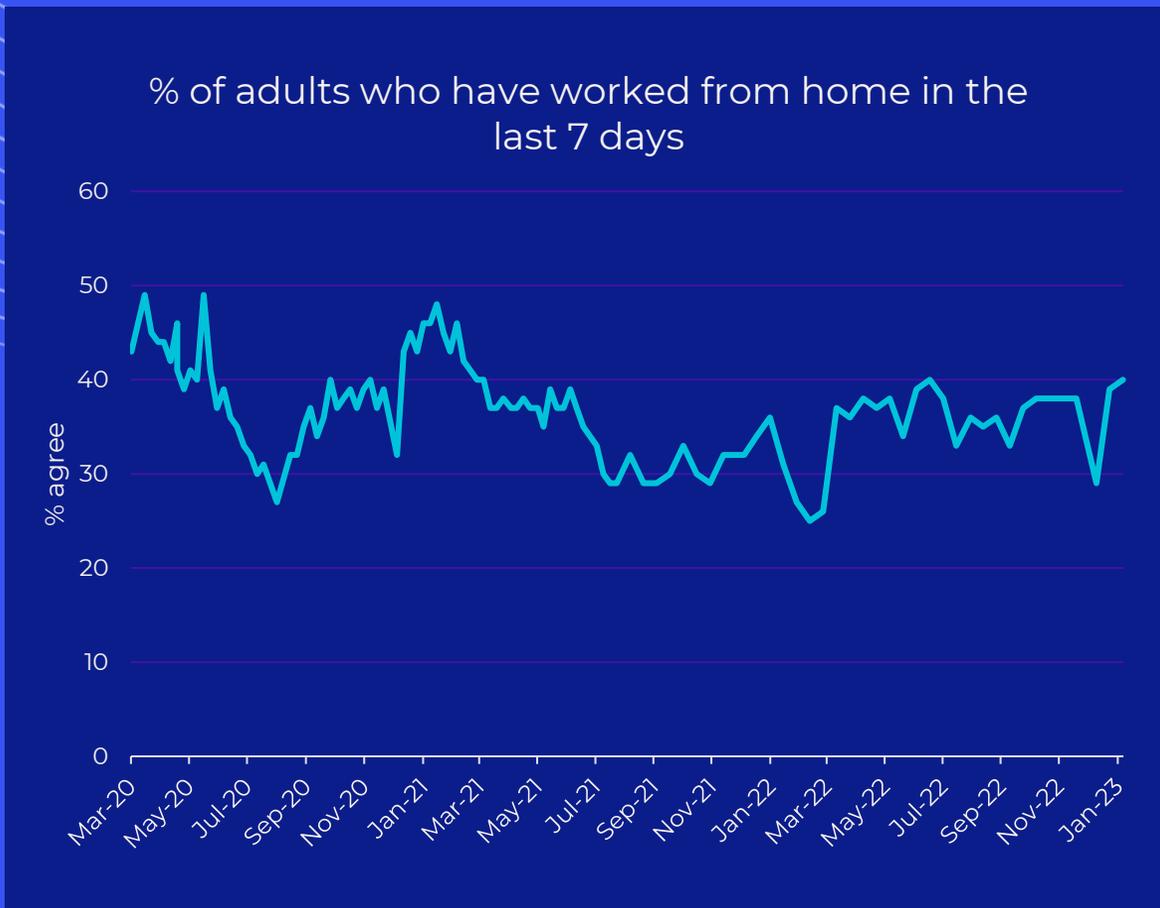
03

Rather than a seismic shift, advertising effectiveness has more gradually changed as media consumption has evolved

At the peak of Covid it felt like nothing would be the same again, but by some measures we have a new normal



And this had an impact on media habits which in turn could impact advertising effectiveness



So how have advertising ROIs changed? Composition effects can plague efforts to compare benchmark studies over time



Note: Pre-Covid is defined as 52 week ending results reported between 2018 and Q1-2020. Post-Covid is defined as projects ending in 2022 to 2023. Where multiple projects have been captured we use only the most recent results.

To understand trends over time, we've only compared brands where we have like-for-like data pre & post pandemic

Pre Covid	Post Covid
Brand A	Brand A
Brand C	Brand C
Brand E	Brand E
Brand F	Brand F

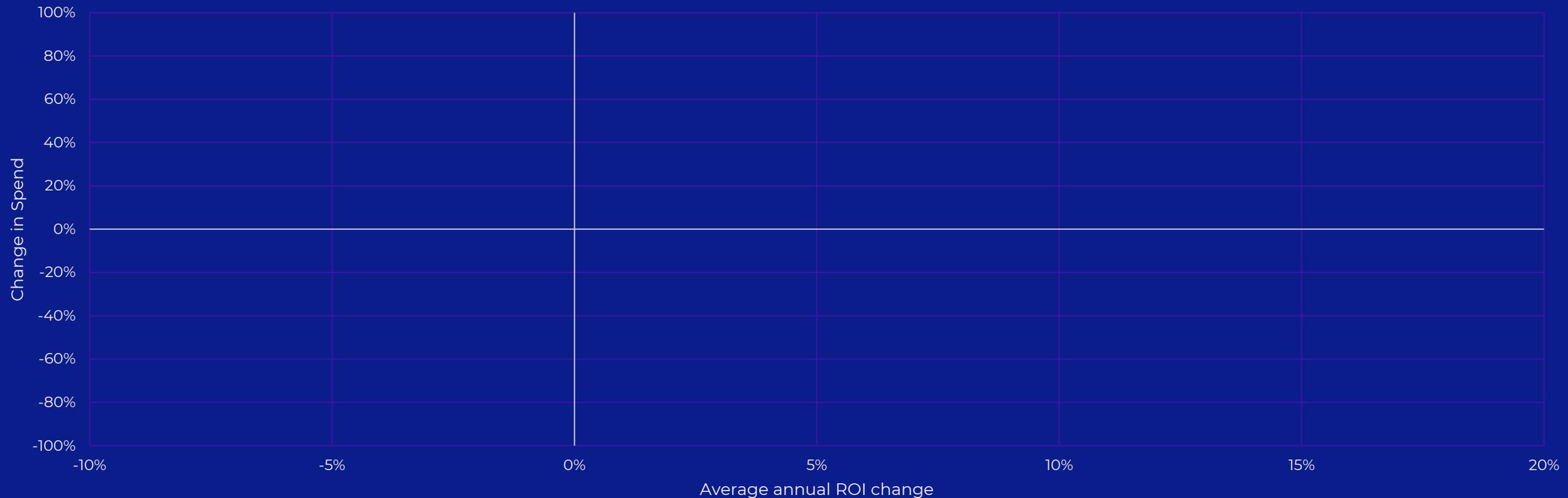
Only A,C,E and F will be included when reporting ROI trends. Spend mix is standardised to latest blend.

We found 53 brands which could be matched on this basis

How to read the charts in this section

Annual short-term profit ROI change pre/post Covid

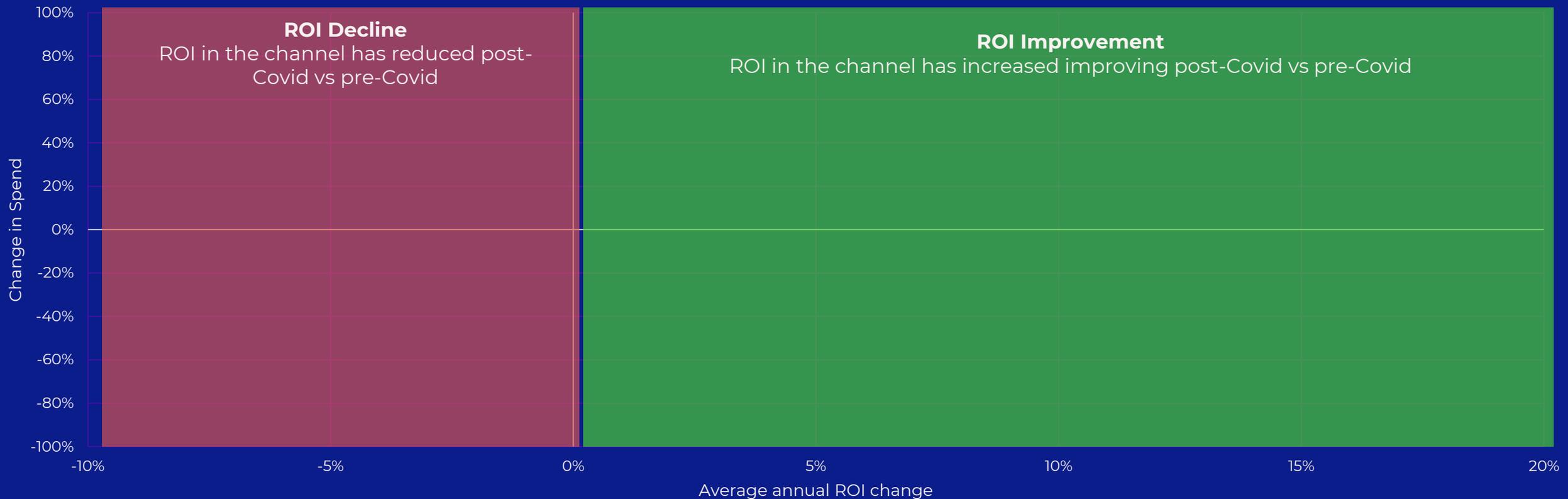
Bubble size represents % of short-term profit volume (Post-Covid)



How to read the charts in this section

Annual short-term profit ROI change pre/post Covid

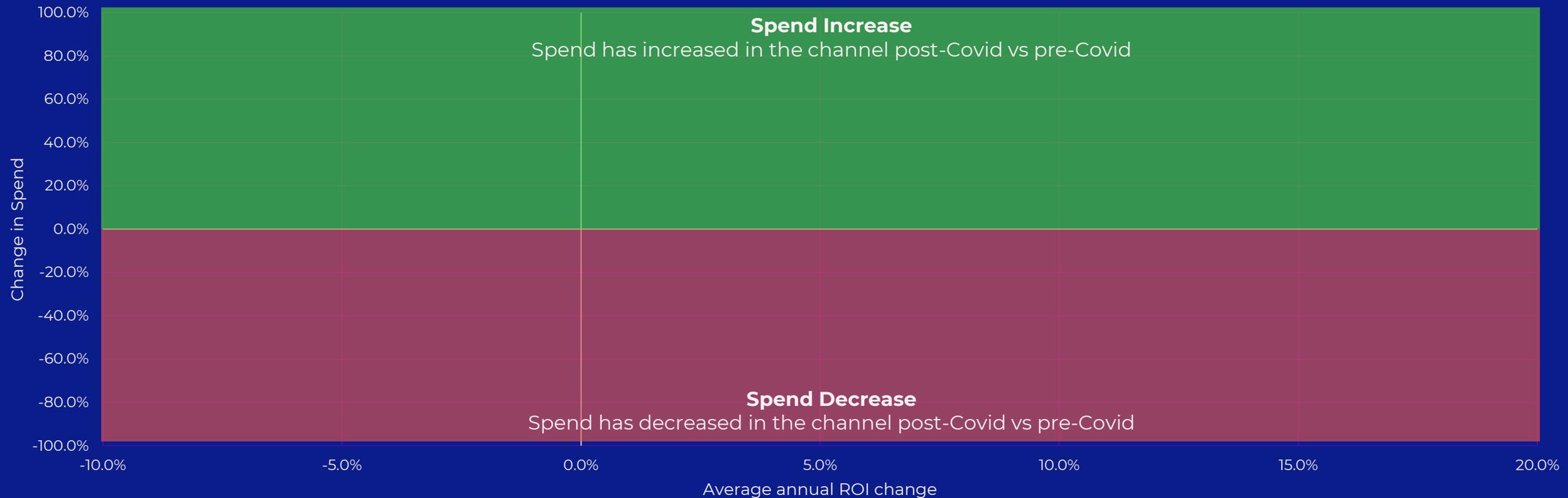
Bubble size represents % of short-term profit volume (Post-Covid)



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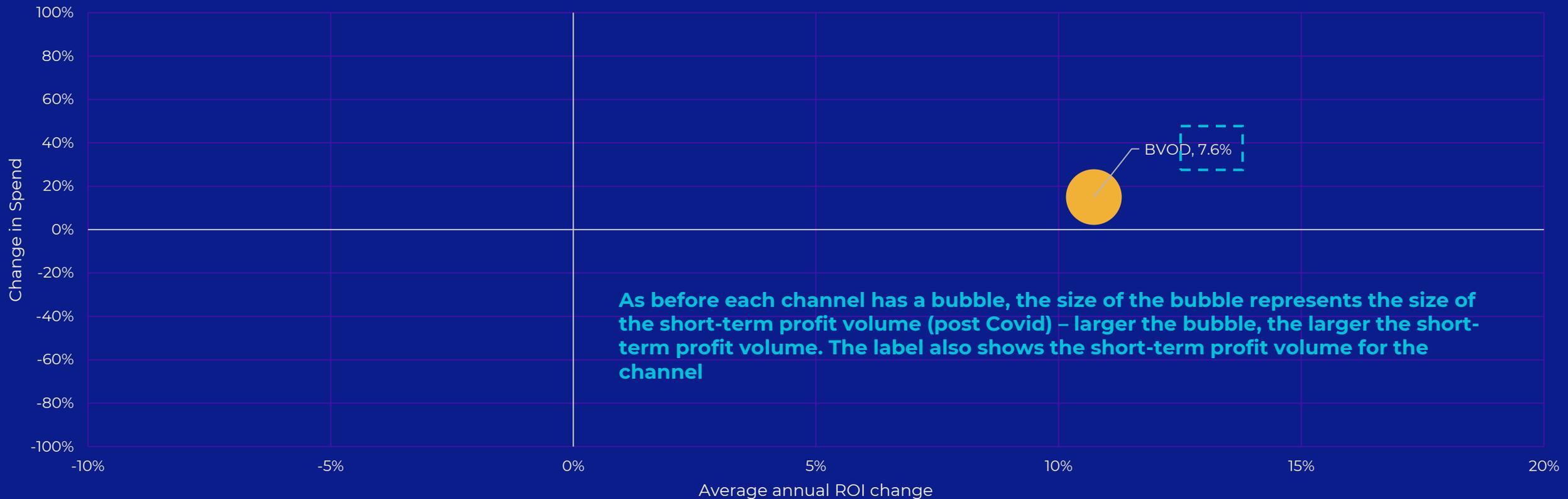
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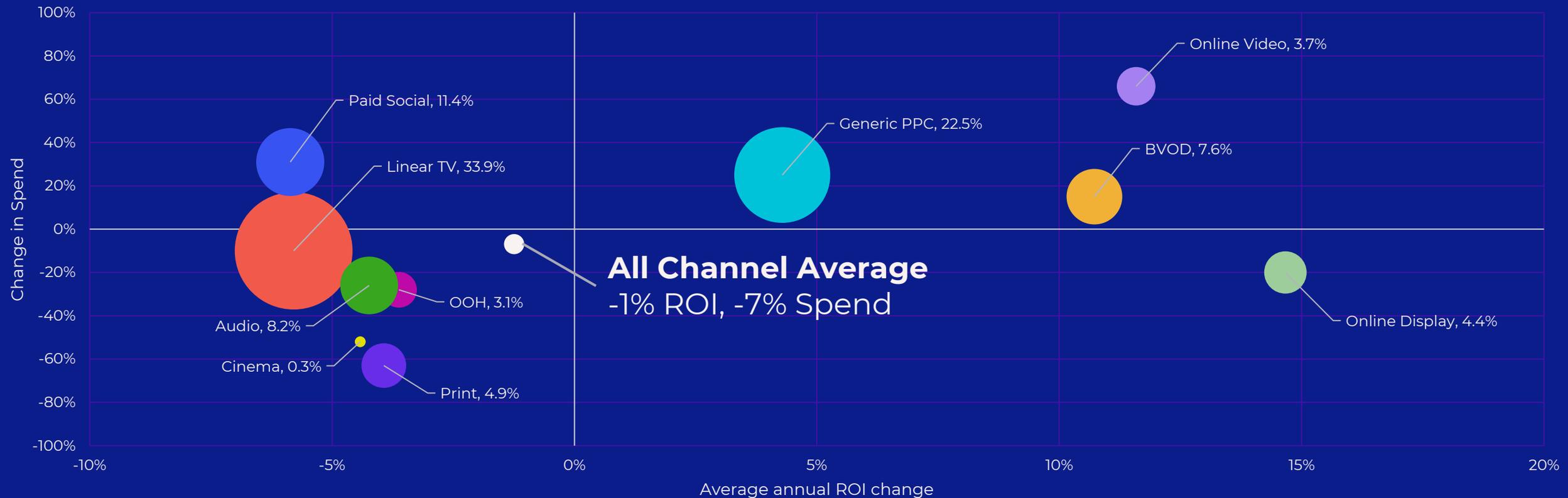
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New normal \approx Old normal

Annual short-term profit ROI change pre/post Covid

Bubble size represents % of short-term profit volume (Post-Covid). All-channel bubble size illustrative only

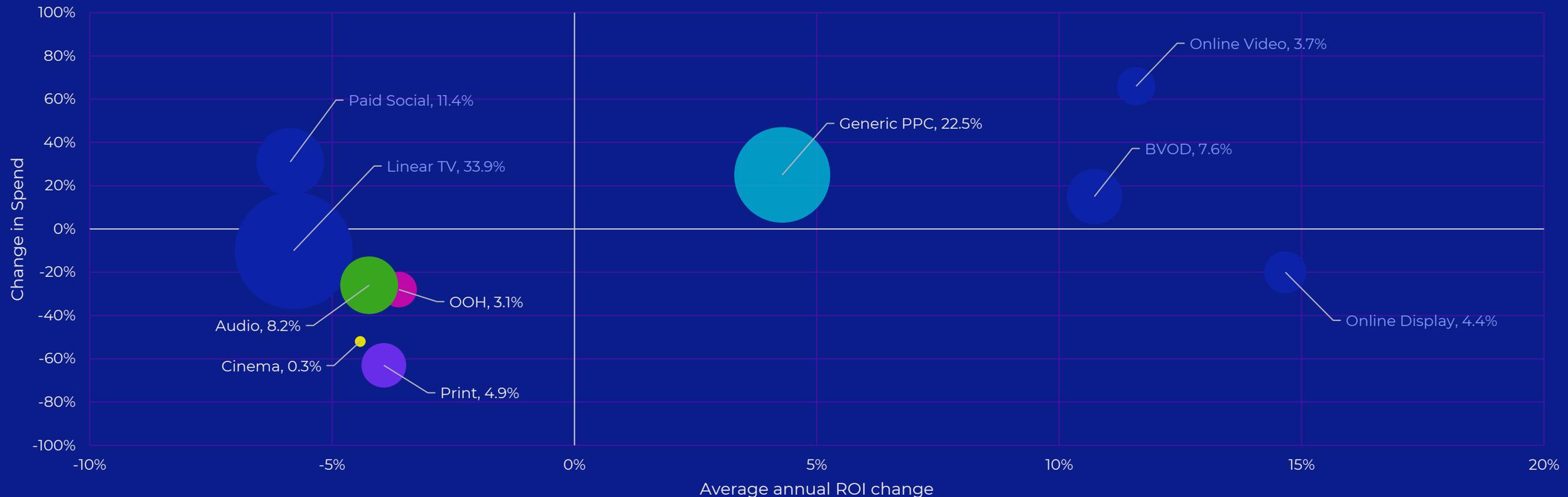


Change is first normalised to a compound annual growth rate between the latest available pre-covid MMM project and the latest available post-Covid MMM project. Matched brands are then anonymised and pre-Covid ROI set to 100. Aggregate index is calculated using a post-Covid spend weighted average. Source: Profit Ability 2, April 2024 – Short term benchmarks: Ebiquity, EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK. ROI Change & Spend Change based on 53 matched brands with pre/post observations only. Profit volume percentage based on full sample post-covid

With most individual channels seeing ROI variations within +/- 5%

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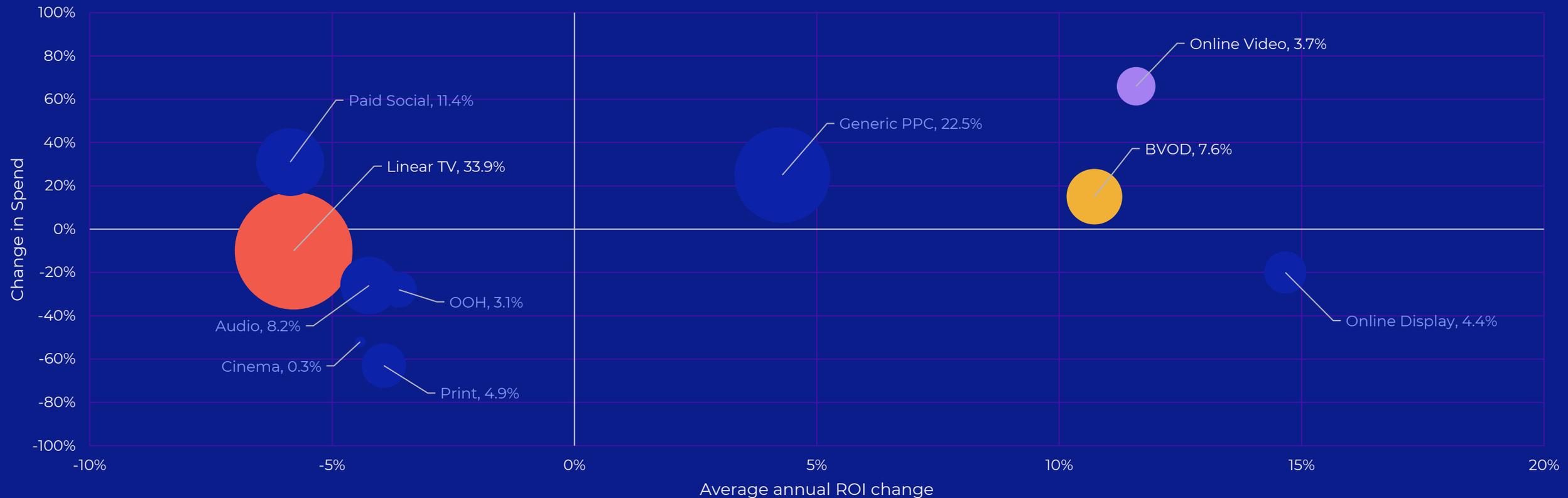
Source: Profit Ability 2, April 2024 – Short term benchmarks: Ebiquity, EssenceMediacom, Gain Theory, Mindshare, Wavemaker UK.

ROI Change & Spend Change based on 53 matched brands with pre/post observations only. Profit volume percentage based on full sample post-covid

AV sees some of the larger shifts with efficiency largely following eyeballs

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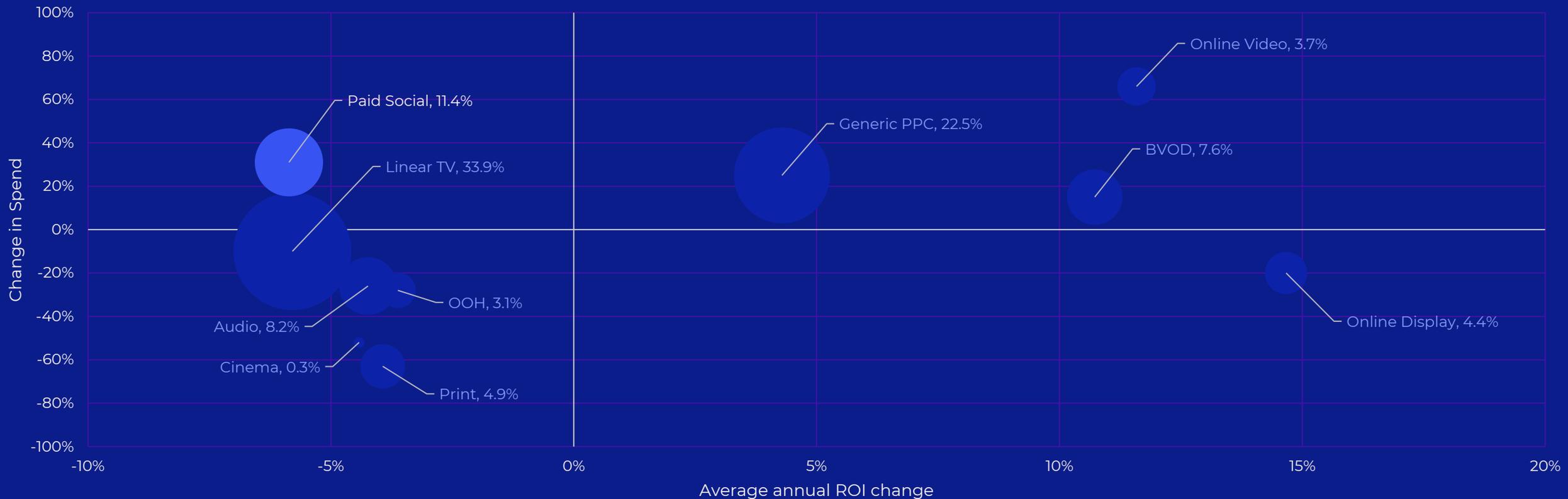
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ROI Change & Spend Change based on 53 matched brands with pre/post observations only. Profit volume percentage based on full sample post-covid

Social spend increases are out of step with efficiency which has seen the largest decline overall

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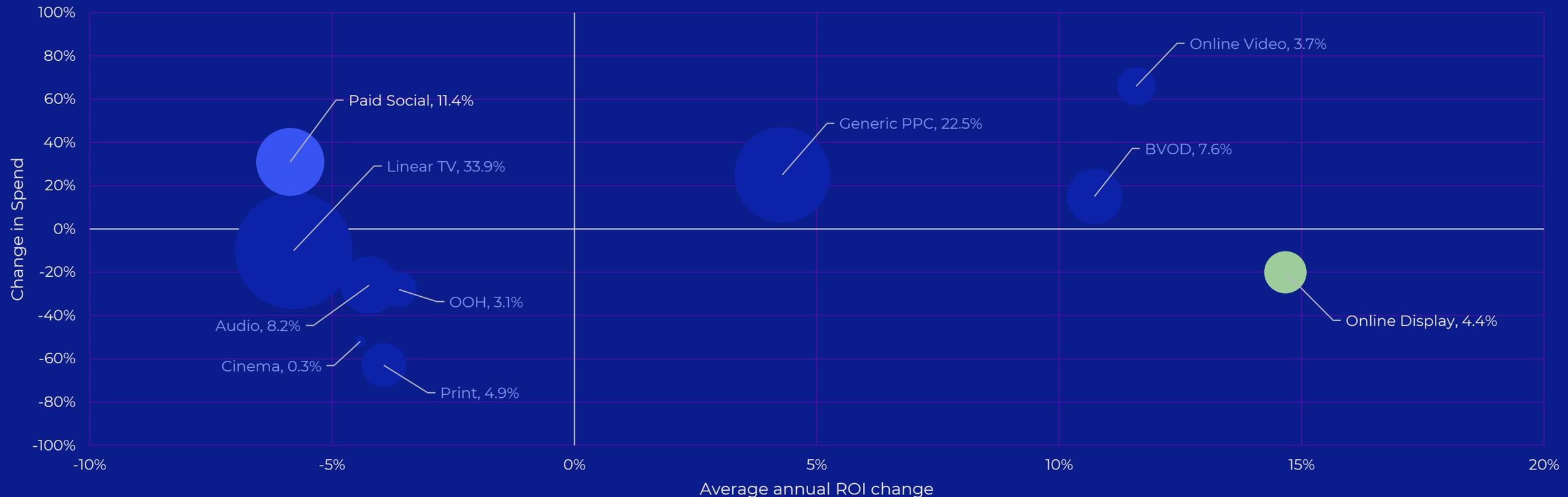
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ROI Change & Spend Change based on 53 matched brands with pre/post observations only. Profit volume percentage based on full sample post-covid

Whilst in contrast, Display spend has been right-sized and is now reaping the efficiency benefit

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What this means for the business case for advertising

Rather than a seismic shift, advertising effectiveness is shifting more incrementality over time

Most shifts follow consumer's media consumption behaviours particularly in AV

Right-sizing investment based on effect is the key for above average gains in efficacy

Thank you

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