DISPATCHES™
Insights On Brand Development From The Marketing Front

PAYOUT VERSUS PAYOFF & SPENDING WHERE THE BUSINESS IS

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If you're a regular reader of DISPATCHES, you know that from time to time we like to go digging into our brand-building files from yesteryear—with the intention of recalling to mind a timeless principle or two. Since we both spent (and took so much from) our earliest "yesteryears" while at Procter & Gamble, it's no surprise that a good many of our brand-building files were originally penned and disseminated by senior managers at P&G. This week we are combining two of these, both dealing with marketing spending, or better termed, *investment spending*. We say "better termed" because, though not unlimited and dear as it is, all ought to be regarded as spending that demands *"return accountability."*

Payout Versus Payoff

"In the course of reviewing a variety of extra spending tests and expansion proposals, it appears that there may be a tendency on all our parts to confuse the difference between a 'payout' spending proposition and one from which there is a 'payoff.'

The difference is fairly fundamental, and I believe important to the way we view the business. 'Payout' is essentially the amount of extra volume needed to recoup an initial investment over some period of time, whether three or four years in the case of a new brand, or six months to a year or more for an investment spending plan. Yet, by its very definition, it should be clear that achieving payout **and only payout** is not a worthwhile business goal—for it says is that you've recouped your investment—not necessarily with 'interest,' not necessarily with the promise of future business gains—simply that you've gotten your money back. For that goal and that goal alone, I doubt that any of us would put money in a savings and loan association, much less a far riskier business proposition involving the fickle consumer and some marketing program that we've tested in 1.5% of the country and which we're assuming is representative of the other 98.5%.

A 'payoff' result is what we're really looking for from an investment-spending test. This is where we not only retrieve our original investment, but end up with more business than we started with at the end of the payout period…and keep that business on into the future, providing a continuing return for having taken the risk of the original investment. In simplest terms, it means building the business.

As a general rule, I think you would agree that we do not really want the profitless volume that results from simply getting 'payout' of our original investment and nothing more. What we want is a 'payoff'—an increase in business and profit after our investment has been recouped, which we can either *prove on the basis of evidence (an increase in share)*, or have a reasonable expectation of achieving on the basis of logic and marketing common sense (e.g., a not yet proven increase in market share resulting from *demonstrated* better-than-expected trial of a new product which we're being asked to invest in)."

Spending Where the Business Is

"With budget meetings coming up, it is appropriate to review the question of 'offensive' versus 'defensive' spending strategy, and the merits of 'spending where the brand's business is' versus spending against category development or some other measure of opportunity.

On occasion I sense there may be some confusion as to the implications of skewing support to current business development, and why this represents one of the important operating techniques of our business.

The natural reaction to a strategy of spending against brand development is that it's protective or defensive. It is interpreted as saying, 'I'm going to put my money against my existing customers because it is easier and cheaper to keep them than to switch over somebody new.' As such, it can be viewed as an outgrowth of the principle that we must make sure that our existing business is well managed and in good shape *before* we expend significant resources against new opportunities.

There is an element of truth to this interpretation. However, I've always been more impressed by this strategy and the results it brings time and time again because of the way it can 'signal' where a brand's **real opportunity** is. Almost every brand we market shows wide discrepancies in share level district-by-district. In some cases, share is twice as high in a brand's best district as in the weakest. Most often, we don't really know why. Some unexplainable quirk of history has simply caused people in given locations to be more or less attracted to a given brand than the national average. Yet, even where we find very strong development, we have few brands which enjoy a majority of their category tonnage.

Hence, I believe 'spending where the business is' is an *offensive* approach. The mere fact that people in a given location are more inclined to buy your brand—as evidenced by your high shares or development—says they find something uniquely appealing about your product. This is obviously true of the people who already are customers in this geography, but probably also applies to the people who might *become customers.* If you're selling a brand with a strong demographic skew, it's easy to understand the logic behind this—i.e., Lava Soap is likely to have higher share and development in districts with large rural

populations, so when you spend against the business, you spend against the farm population which is your target market. But, even if you can't isolate the logic this directly, you can't escape the fact that strong development of the existing business is an indication that this geography is particularly susceptible to your brand's appeal.

Net, I suggest for your consideration that our *basic operating philosophy should be to allocate spending against the business we already have as an indication of where our potential customers are,* rather than choosing some philosophical or theoretical concept of opportunity, which in the last analysis, is defined by somebody else's business. This is where we should start our appraisal of marketing plans and their emphasis. Whenever we deviate from this standard, I believe we should have strong reasons and careful evaluation of progress/results."

Can you hear—loud and perfectly clear—the brand-building/marketing principles being expressed in these two memos? And can you appreciate how such principles, when inculcated into a Company and its Marketing Teams so as to be followed consistently by all, how such a Company can be so successful—for so long? Okay, maybe your business or brand doesn't deconstruct into "geographies" with "districts." Maybe what's more logical for you is "accounts" or even a more precision breakdown such as "academic centers of excellence." Whatever. The principles of (1) spending where the business is as a fundamentally *offensive spending strategy* and of (2) insisting upon highly attractive, *evidence-based payoffs* hold true.

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