VAB
VIDEO ADVERTISING BUREAU

A QUESTION OF IMPACT:

Exploring the Correlation Between TV Spending and Business Performance

Why we did this

In 2014, the Cabletelevision Advertising Bureau released a report entitled “What’s Driving Digital?” that examined the impact of monthly TV advertising on the website traffic of 75 “pure-play” Internet brands. The list included such Internet stalwarts as Priceline, E*Trade and Match.com. The report showed that the top Internet brands spend more than $4 billion/year on TV advertising. Fully 85% of the brands (63 out of 75) saw a direct correlation between TV ad spending and website traffic. The conclusion: TV drives substantial leads to brand websites.

As we expand our purview as the newly rebranded Video Advertising Bureau (VAB), we wanted to explore this correlation on another level. Our charter is to develop methods to equate advertisers’ spending on professionally produced, premium, multi-screen TV and video content to key metrics of business performance.

Whereas impact studies have typically focused on marketing measures, we decided to look at performance through the lens of the C-suite, which means revenues, stock price, and earnings per share. This white paper compares the historical TV spend of 100 large, well-known parent companies across major categories (auto, CPG, entertainment, financial, pharma, restaurants, retail, travel, telco) to domestic revenues, stock price and earnings per share. To ensure a diverse representation, we included public and private companies, both US- and foreign-based, with nationally and locally advertised brands.

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The impetus for this analysis stems from recent coverage of the television marketplace. Over the course of the past year, there have been many articles in advertising and business media about marketers' shift to digital media, oftentimes at the expense of TV. They all had one thing in common: They lacked mention of actual business results that have occurred from these shifts.

In February 2015, Advertising Age published an article called *"Marketers Look to Digital as Cure-All"* which questioned the unknown returns of these digital shifts by major global advertisers. The article pointed out that a number of the companies talking the most about increasing digital investments are simultaneously posting slower or disappointing sales results. For instance, both P&G and Unilever, the world's two biggest ad spenders, talked publicly about spending more money on digital media for the sake of efficiency and effectiveness; yet both came in below analysts' revenue forecasts for the fourth quarter of 2014.

What we did

Currently, there is a dearth of measurable, accurate reporting of brands' digital spending by third-party monitoring sources, therefore our analysis focuses purely on the potential impact of television investment (based on the Nielsen measured TV media of national cable & broadcast, which includes Spanish language networks, spot TV and syndication TV) against key financial indicators. In order to properly align all the data with publicly available financial reports and SEC filings, we concentrated our analysis on parent companies, not individual brands.

A long list of factors can influence business and financial metrics – including pricing, inventory, promotions, weather, costs, distribution, acquisitions, product launches, competitive activity, economic trends and specific company / category / marketplace dynamics. This makes it difficult to draw a straight line between media spending and business results, so the following analysis should be considered directional. The purpose is to inspire conversation among marketers and their agency partners on the right media mix to achieve the greatest business results.

We looked at 100 large, well-known parent companies with significant media spending in nine advertising categories – automotive, CPG, entertainment, financial, pharma, restaurants, retail, travel and telco. Company media spending and financial metrics were analyzed over a four-year period from 2011-2014 to determine correlations. Out of the 100 parent companies analyzed, 60 had increased their TV investment in 2014 vs. 2011 while 40 had decreased their TV spending during the period.

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We used the 2011-2014 period for two reasons. First, by consensus of financial analysts, it marks the exit from a “down” economy. Second, it marks the highest point in evolution for TV, Internet and social media, and therefore is the fairest window for comparison.

Auto, CPG, Entertainment, Financial, Pharma, Restaurants, Retail, Travel, Telco

List developed based on selecting multiple companies within major categories that are historically significant TV advertisers

What we learned

Almost all companies that increased their TV spending over the last four years saw substantial growth in revenues, stock price, and earning per share relative to the marketplace. Results for companies that decreased their TV spending were not nearly as robust. In fact, these companies vastly underperformed the averages of all 100 parent companies studied.

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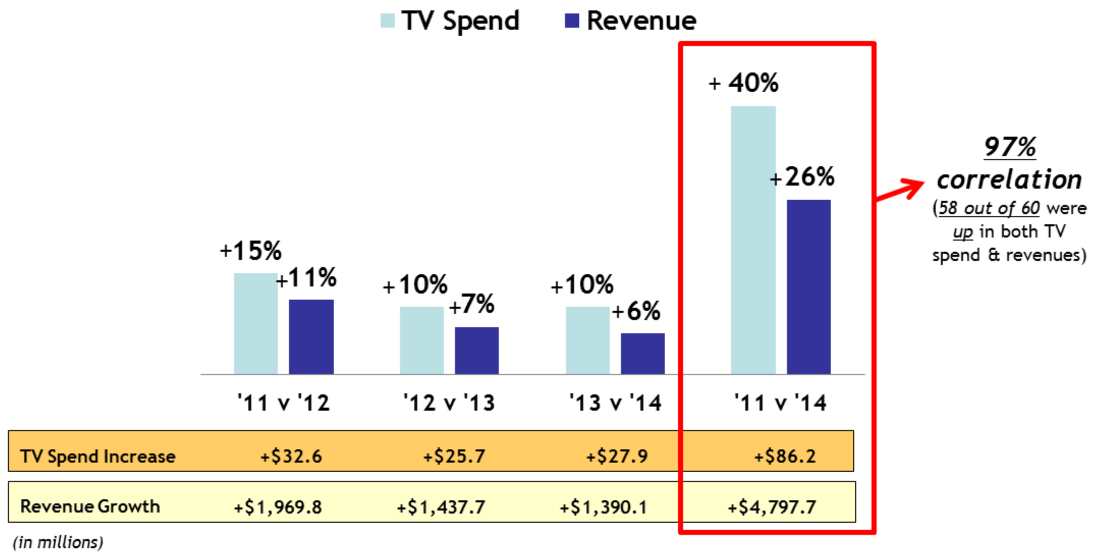
Financial results are strongest for companies with consistent increases in TV spending. This lends credence to the principle that erratic changes to the annual media mix can have an adverse effect on business outcomes.

Financial results are weakest for companies with consistent declines in annual TV spending. This supports the notion that TV is the primary mover of goods within a company's media mix.

Double-Digit Growth Correlation

On average, the 60 "TV Spend Up" parent companies increased spending by double digits (+40% on average) and saw corresponding double-digit percentage rise in revenue (+26% on average, for more than $5 billion annually) over the past four years.



	'11 v '12	'12 v '13	'13 v '14	'11 v '14
TV Spend Increase	+$32.6	+$25.7	+$27.9	+$86.2
Revenue Growth	+$1,969.8	+$1,437.7	+$1,390.1	+$4,797.7

(in millions)

Source: TV Spend from Nielsen Ad*Views; Domestic Revenue from publicly-reported financial documents

That's a 97% correlation between increased spending and increased revenues. What's more, these companies saw stock prices over-index the S&P 500 and earnings per share increase 38% on average.

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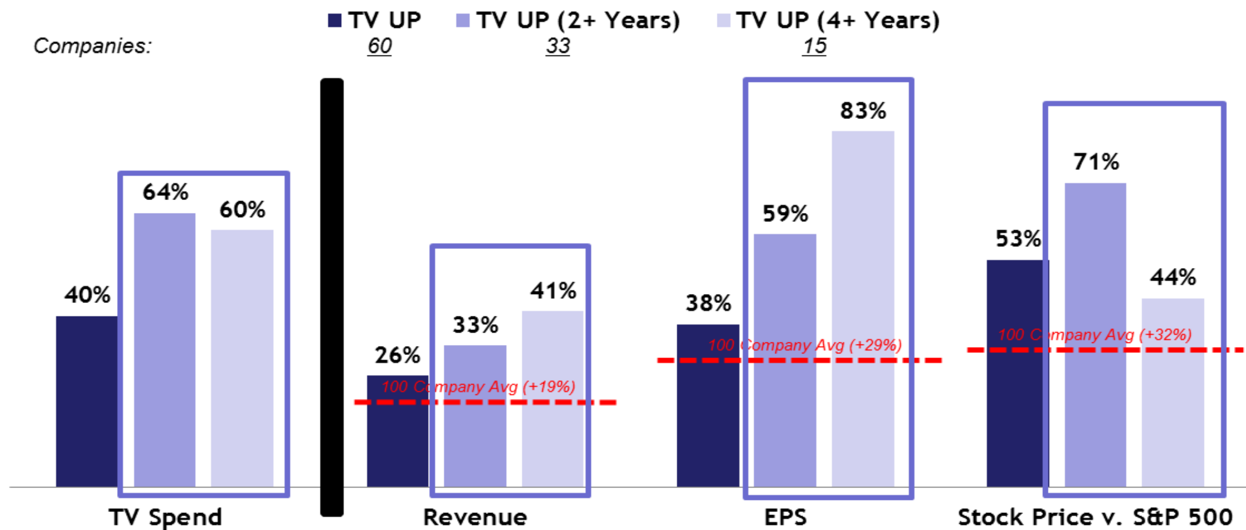
It's important to also consider the momentum created by consistent increases in TV spending. Of these 60 companies, 33 increased TV spending in each of the last two years, while 15 increased spending in each of the last four years. The companies with consistent, multi-year increases in their TV spend have seen the greatest spikes revenues and stock measures.

Consistency is Power

Financial results are strongest for companies with consistent yearly increases in TV spending.



Source: TV Spend from Nielsen Ad*Views; Domestic Revenue from publicly-reported financial documents

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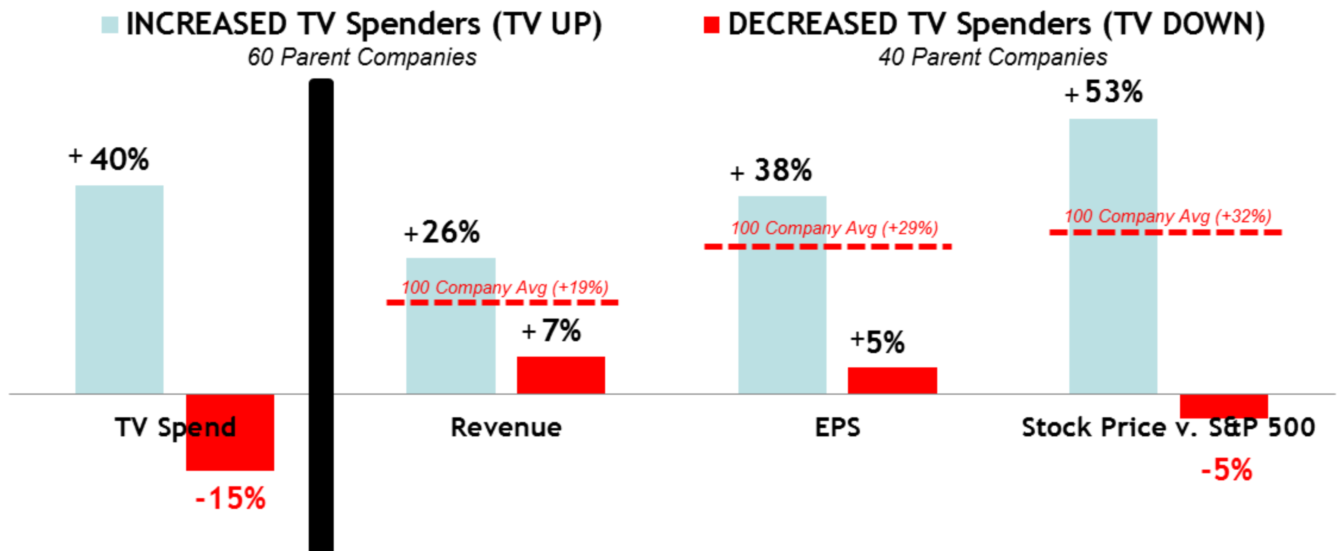
By contrast, the 40 parent companies that decreased their spending over the last four years (-15% on average) are underperforming both the “TV Spend Up” company set and the 100 parent-company average. Revenues for these companies are up 7% on average – a much slower growth rate than the overall pool – while the average stock price is under-indexing the S&P 500 and earnings per share is up only 5%.

Parent Company Avg: YOY TV Spend Vs. Financial Results
4-Year Overview: CY 2011 vs. 2014



Source: TV Spend from Nielsen Ad*Views; Domestic Revenue from publicly-reported financial documents

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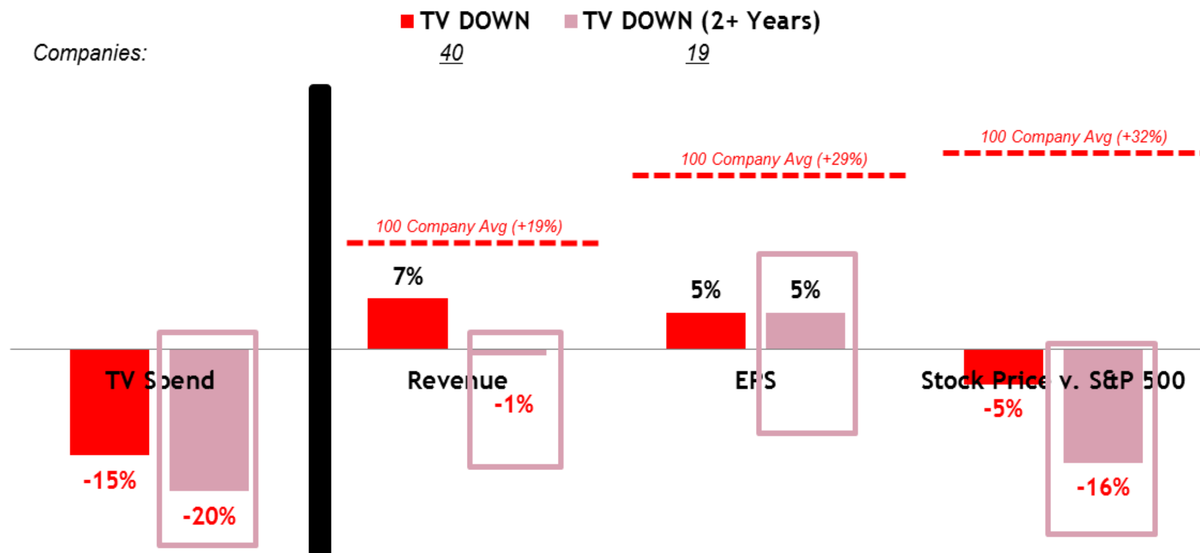
Of the 40 parent companies with a decreased TV investment, 19 have decreased their TV spend at least each of the last two years. (Note: Analysis is for two years, the longest period for which all 19 have decreased TV spending.) Those companies have seen revenues decline slightly (-1% on average) and index well below the S&P 500 growth rate.

Less In = Less Out (or, "Less on TV = Less on Wall Street")

Financial results are weakest for companies with consistent decreases in TV spending.



Source: TV Spend from Nielsen Ad*Views; Domestic Revenue from publicly-reported financial documents

Even starker is the comparison of the 60 "TV Spend Up" companies to the 40 "TV Spend Down" companies. The "TV Spend Up" set has a 274% increase in revenues when compared with the "TV Spend Down" set (26% vs. 7%) and a 723% increase in Earnings Per Share (38% vs. 5%), suggesting that increased TV spending could be exceptionally beneficial in categories where competitors are reducing their investment in the medium.

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What this means

While there is a need for deeper data, there is clearly a general correlation between TV advertising spending and business performance. The industry needs two pieces of information to translate this correlation into verifiable cause and effect:

1. Reliable reporting across all types of media spending (TV, digital, search, social, mobile, etc.) at the advertiser level
2. Complete attribution research to isolate the impact of each marketing variable on sales, profit and stock performance

In principle, stock price and earnings per share don't respond directly to consumer sentiment; they're determined primarily by sales and profit. Many factors contribute to these business and financial performance metrics. This 100-company sample spotlights the directional return on what can be the largest single investment in marketing expenditures. By taking a high-level, aggregate view, it's possible to begin gauging the impact of the largest medium on the financial measures that define business performance, not merely the awareness and sentiment measures that have defined marketing performance for decades.

Our intent is to inspire advertisers to use this as a basis to perform their own proprietary analyses of how the media within their mix affects the hard measures of their business performance.

*Sources for this whitepaper include: Advertising Age "Marketers Look to Digital as Cure-All," February 9th, 2015. Nielsen Monitor-Plus (Ad*Views). Historical financial data for publicly-traded companies was attained via www.sec.gov.*

Click here to access the "What's Driving Digital" Report: http://www.thevab.com/pdf/Whats-Driving-Digital-Report-FINAL.pdf