




Report on Regional TV Effectiveness

“Regional TV can generate up to 40% of FMCG sales from only 20% of a national TV advertising investment”



Regional TV: A compelling opportunity to improve brand growth and profitability.

Research Highlights

- ▶ Response to TV advertising in regional markets is higher than the national average
- ▶ ROI from TV in regional markets is double the national average
- ▶ Grocery spending varies by less than 3% between cities and regions
- ▶ Reduced TARP weights in regional markets are a false economy

Regional TV Marketing, the regional TV research group, has carried out a major study, which takes the analysis of TV advertising effectiveness a step further by measuring return on investment and consumer response on a market by market basis. The results show that TV campaigns in regional markets typically return up to double the national average in terms of sales to ad spend ratio.

RTM also compared the initial sales lift and retained market share from TV advertising for grocery brands, which received “equal weight” support in all East Coast TV markets. The sales results showed a distinct performance advantage in the regional markets where advertisers’ share of voice within a given category or segment tends to be greater. The dividend from these additional regional sales over the long term was shown to be far in excess of any short-term savings that could be made from lower regional TV weights.

Clearly the prioritisation of TV markets must be in the context of their ability to deliver profit, growth and volume to consumer brands. On this basis regional TV should be a mandatory inclusion in any marketing campaign, with its ability to reach 36%+ of all but the most esoteric target audience for around 20% of the cost of a national campaign.

Measuring advertising effectiveness

From the humble focus group to the measurement of neuro-transmitter activity in the brain, much effort has gone into attempts to predict how consumers will respond to different advertising messages and media with frequently inconclusive results.

In contrast, measuring how consumers actually respond to real advertising campaigns can be done to a remarkable level of detail and accuracy. So the question is no longer “which half of my advertising is working?” but “which half of my advertising is working better?”

It is generally accepted that television is the most effective and cost efficient advertising medium for generating both short term sales and longer term brand equity for mass market consumer goods and services.

The RTM study was designed to assess variations in consumer and market value in Australian TV markets by analysing household grocery spending, consumer brand loyalty and TV advertising effectiveness. The objective was to produce an index, which could predict the likely return on investment of an approximately equal weight TV campaign in each market. *In other words, where will the TV based marketer get the most bang for their buck and exactly how big will the bang be?*

Australia's TV marketplace

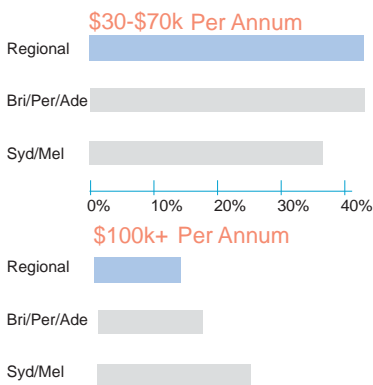
Australia, like most developed economies, has a hierarchy of media markets which allows planners to prioritise a proportion of the national audience. Besides simple population size, the reasons for market selection being so critical are the demographic variations in family size, spending power, media consumption and of course media cost.

Australia is unique in that its TV market structure and network ownership are based around geographically small capital city markets, as opposed to larger regional, state or national coverage areas that each deliver a proportional mixture of city, commuter belt and rural populations.

Television advertising rates in the regional coverage areas are around 30 percent lower than the national average and as little as half the cost of the most expensive TV markets. This may seem surprising given that middle income households (\$30-70K), the primary target of most mass market brands, are



1.0 Household Income Levels



Source: Roy Morgan March 2003

very evenly distributed across Australia. Only the highest income households have a skew to capital city markets and are largely concentrated in Sydney and Melbourne.

Household spending

The vast majority of regional Australians live in towns or urbanised areas and do their shopping in the major grocery and retail chains, where they spend remarkably similar amounts on groceries and household durables.

Household grocery spending data is collected by ACNielsen Homescan via an ongoing survey of 5000 grocery buyers in the capital city and eastern seaboard regional markets, which together represent 91% of Australian households. The participating grocery buyer simply records the price of every grocery and household consumable item, regardless of whether bought in a supermarket or local convenience store.

2.0 Ave Household Grocery Spend (Jan - Dec 2002) - Market Indices

SYD	NNSW	NNSW		
99	98	99		
BRI	QLD	MEL	VIC	
99	96	104	101	

Ave Eastern Seaboard 2002 Grocery Spend (\$3,254 =100)

Source: ACNielsen Homescan 2003

During 2002 the average annual spend on groceries by Australian households was \$3,254. Looking at grocery spending in each TV market, the most striking finding is the minimal variation in household grocery spending between capital city and regional households, typified by NSW where the difference was less than 1%. Given the survey is designed to measure total grocery shopping value of all households, it suggests a remarkable parity in the purchasing power of regional and metropolitan grocery buyers.

The major differences in household spending profile between the most affluent and urbanised markets of Sydney and Melbourne versus the rest of Australia are in home ownership and education costs and areas of discretionary spending such as eating out and

personal purchases like clothes or luxury motorcars.

It follows, from the parity in grocery spending, that the potential value of regional households to a national FMCG or food brand marketer should be around 36% of the Australian market.

Brand loyalty

Is there a difference in the level of loyalty towards major brands from region to region and city to city? To assess this RTM tracked loyalty levels for five grocery brands, which had consistent and comparable levels of TV support in East Coast TV markets from January 2000 to December 2002.

The loyalty data was recorded over six months in the latter half of 2002 by ACNielsen Homescan. Loyalty is defined as each brand's share of consumers' purchasing repertoire in a given product segment.

The five brands chosen in the loyalty study were selected because of their high

market shares, middle range price point, broad consumer appeal and history of consistent advertising support. The categories were peanut butter, breakfast cereals, salad dressings, toilet paper and snacks.

While there are some variations in the loyalty index from market to market these are not statistically compelling given the relatively small number of brands measured. The conclusion, assuming all things are equal in terms of

3.0 Brand Loyalty Index

SYD	NNSW	SNSW		
107	101	99		
BRI	QLD	MEL	VIC	
105	98	95	106	

Loyalty Index (Nat Ave =100)

Loyalty Definition: The proportion (volume) of household repertoire that is allocated to 'xyz brand'

Source: ACNielsen Homescan 2003

demographics and advertising exposure, is regional consumers are as likely to maintain purchasing loyalty to a brand as their cousins in the city.

But what of the higher share of generics or store brands in regional markets, which is used as a demonstration of lower brand loyalty among regional grocery buyers?

On the evidence of RTM's analysis this is more likely a result of the disproportionately low investment in regional TV advertising of many leading grocery brands. This is the result of concentrating shrinking budgets in the five capital city markets at the expense of lower reach and frequency targets in regional markets.

Return on regional TV investment

To measure the long term return on investment from advertising in Australia's regional TV markets, RTM reviewed the supermarket scandata it had gathered over a three year period in the course of carrying out individual

segment, be a significant TV advertiser and to have used regional TV at similar (+/-15%) weights to metro TV over the three-year period.

Results from this analysis show that advertising ROI in regional markets of Victoria and Queensland was around twice that of their corresponding capital cities, whilst comparative returns from NNSW & SNSW were even higher, at just over 2.5 times that of metropolitan Sydney.

Advertising responsiveness

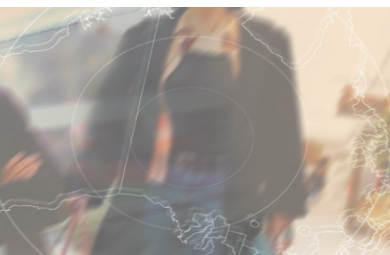
Having looked at the long-term return on investment of regional TV for brand building, RTM wanted to compare the relative effectiveness of regional TV in creating an immediate impact on sales.

RTM selected a dozen examples of brands, which used equal weight TV campaigns in metropolitan and regional markets for a launch or had been inactive for a suitable period. By comparing pre-campaign and post-campaign sales data, an accurate index of incremental growth was produced for each TV

The explanation for the strength of regional markets' performance relative to that of metropolitan markets is undoubtedly a combination of a number of factors. They include:

Higher share of voice: Typically not all of a brand's competitors will be active on TV in regional markets and many of those that are present on regional TV used lower ad weights. This may explain why regional NSW has such a high effectiveness index compared to Sydney, which is the first market selected for any brand launch and therefore share of voice is harder to achieve.

Media consumption: Regional free-to-air TV viewers have less exposure to some forms of competing media. Pay TV subscription levels are 36% lower in regional households than in metropolitan households and outdoor media has low penetration in regional centres. While viewing habits are broadly similar across all TV markets, there are slightly more "heavy viewers" amongst regional GBs+kids.



"Any advertising strategy based on maximum sales per dollar invested will have regional TV at the top of the priority list"

case studies and research projects for regional TV advertisers.

Sales data for 20 major grocery segments were available for analysis, representing a total value of \$1.7bn. The segments included personal care products, cleaning products, beverages, feminine protection and a wide range of packaged and frozen foods.

4.0 Return on TV Investment Index FMCG Case Studies

SYD	NNSW	SNSW	BRI	QLD	MEL	VIC
72	183	187	99	196	85	179

Nat. Ave ROI = 100

Adspend = Actual spend data or Adquest Estimate
Source: Sales = ACNielsen & Aztec Scandata

Twenty brands were selected for detailed analysis. To be included in the 20, the brands had to be in the top three in their

5.0 Pre vs. Post Advertising Growth Index

NNSW	SNSW	VIC	QLD
117	114	106	98

State Metro Ave = 100

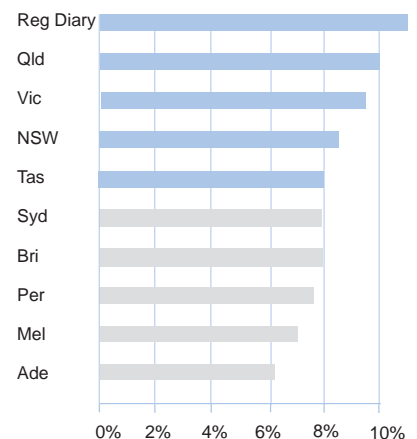
Source: Sales = ACNielsen & Aztec Scandata

market. In this analysis each regional market is compared only with its state capital (e.g. Victoria vs. Melbourne) to allow for some significant state based brand and category preferences.

The overall result shows that regional TV advertising is more effective in driving immediate sales and consumer response. In NNSW and SNSW incremental share was 17% and 14% higher (respectively) than Sydney, regional Victoria was 6% higher than Melbourne and Regional Qld was within a 2% range of Brisbane.

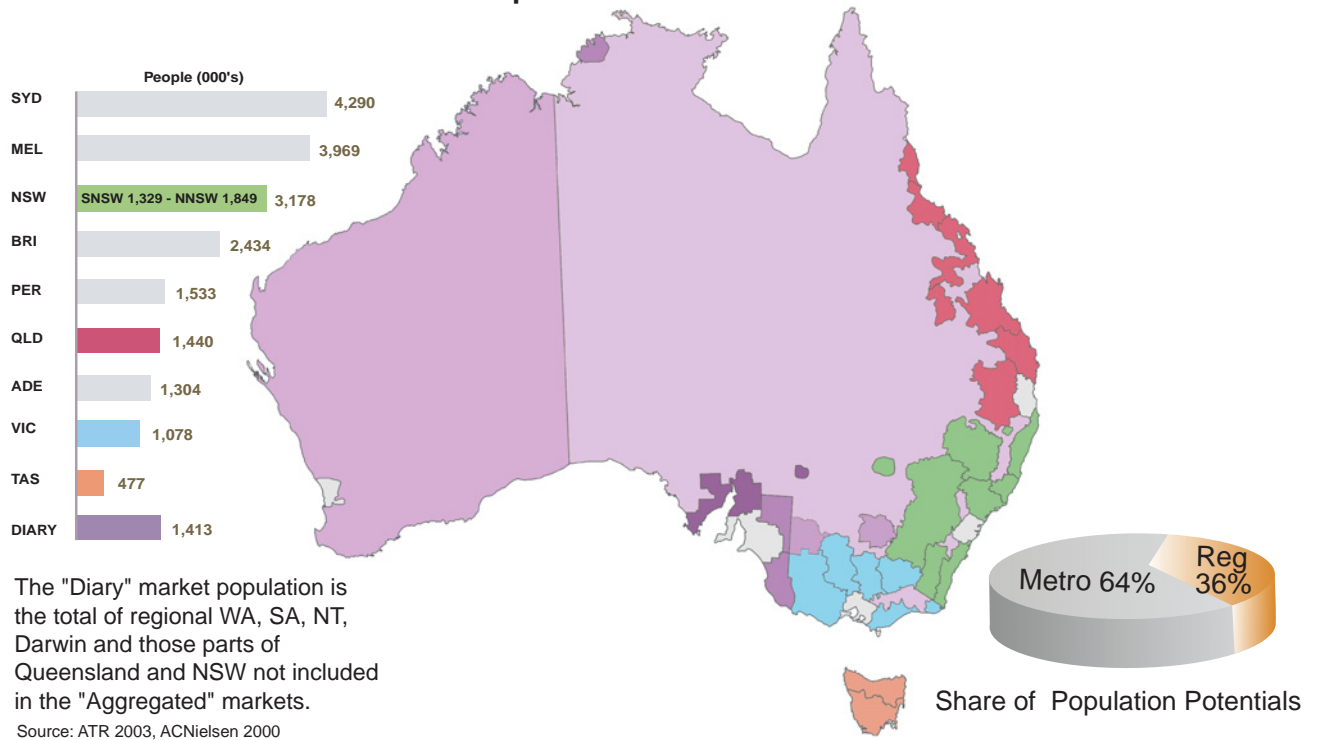
Demographics: Regional households are 5% more likely to have children than metro households and are significantly more likely to have bigger families. This demographic skew is reflected in higher per capita sales of many family grocery products.

6.0 Households with 3+ Children %



Source: Roy Morgan March 2003

Australian TV Market Population Potentials



Regional TV Markets Key Facts

- Regional TV reaches 36% of the Australian population
- Over 70% of regional people live in urbanised areas
- Less than 5% of regional Australians are dependant on farming
- Regional TV cost per thousand is around 30% lower than the Australian market average

Equal RTV weights produce higher share

A key objective of RTM's analysis of regional advertising effectiveness was to demonstrate the dividend from executing regional TV advertising campaigns at the same TARP weights as metro TV campaigns - as opposed to the common practice of using 20%-30% lower TARP weights or fewer weeks on air in regional markets.

Among all the categories RTM analysed, approximately 20 national brands were identified as major TV advertisers within their respective categories, which plan TV advertising weights at the same level in all markets, whether regional or metropolitan. Over half of the brands with equal weight regional TV support were found to have regional market share above their national average share. Of the brands with a higher regional share, four out of five had at least 6% higher share in regional markets than their average share across the country.

7.0 Equal Weight Regional Campaigns

Regional Sales Share vs. National Sales Share

Higher	Equal	Lower
55%	15%	30%

Source: Sales = ACNielsen & Aztec Scandata
Spend = AC Nielsen Adquest 2002

The average value of this 6% regional dividend was more than five times greater than the potential saving from a 20% reduction in regional advertising weights. The minority of brands which had a lower share in regional, were still generating at least 50% higher return on investment from their regional activity due to the lower cost of media.

Conclusions

- Regional grocery buyers have the same spending power as grocery buyers living in the state capitals.
- Regional grocery buyers show above average sales response to TV advertising in the short and long term.
- Returns from regional TV advertising are consistently 50% to 100% greater than the national average.

Regional TV is able to deliver such high returns because of the combination of lower cost per thousand and the subtly different demographic and media landscape.

This delivers brands with strong regional franchises up to 40% of their total sales in regional markets for a consistent allocation of around 20%-22% of their TV budget.

Action Points

In practical media planning terms RTM's study points to two actions that will help maximise return on TV advertising investment.

Firstly, if a campaign budget is not sufficient to effectively reach 100% of the national audience, prioritise TV markets in order of highest efficiency and highest return on investment. The RTM study proves regional markets will be at the top of this list for the vast majority of consumer brands and gives a guide to the relative return of each market.

Secondly, plan regional markets at the same weights as would be used in a comparable capital city TV environment.

The added return on investment will be far greater than the small potential saving from the regional TV budget.

There are, of course, many other considerations in making decisions about which markets to prioritise for advertising support. However, given the overwhelming penetration of the major grocery retailers in regional and metro markets and their nationally executed promotional programmes, retail and distribution issues should not be a concern.

It is likely a pro-active TV market selection and weighting strategy will increasingly become the one tool in an FMCG marketer's armoury that can be used to maximise the return from their total advertising investment.

For more information, case studies and assessment of regional growth opportunities for your individual brand, contact Brian Hogan, General Manager, RTM on (02) 9929 2122.