Binet and Field's lessons for digital startups, disruptors and advertising refuseniks

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Research by effectiveness experts Les Binet and Peter Field found that advertising can play a vital role for digital-first enterprises, even if these brands often diminish the role of paid-for communications.

- As startups and disruptive firms often benefit from organic growth in their early days, they frequently dismiss the role of advertising.
- When digital companies begin to mature, the importance of advertising and building a brand grows in importance, Binet and Field's research has found.
- If online brands want to raise prices, advertising can play an especially important role, as it can typically help reduce price elasticity.

As a variety of digital-business models emerge – from direct-to-consumer brands to monthly subscriptions and social commerce – the importance of traditional advertising has been dismissed by many online enterprises.

"I think a lot of people, particularly in the world of tech and digital, have questioned the whole idea of whether you need to advertise at all," proposed Les Binet, head/effectiveness at London-based agency adam&eveDDB.

Les Binet, head/effectiveness, adam&eveDDB

Few people are as well placed to assess this claim as Binet, who, along with marketing consultant Peter Field, has **authored** several publications **taking a numerically-driven approach** to **discern the secrets of effectiveness**. Their source material is the IPA Databank, a collection of over 1,000 case studies gathered together by the Institute of Practitioners of Advertising (IPA), a trade body in the United Kingdom.

And, **having crunched the numbers**, Binet challenged various assumptions that have taken root everywhere from digital-centric Silicon Valley to the new-media hubs of London:

Brand Maturity

Digital startups often doubt the usefulness of advertising as they enjoy dramatic user growth via other means – be it word of mouth, media coverage, or accruing customers through platforms like Facebook and Twitter.

“Certainly, a few years ago, it was fashionable to say that spending money on advertising was kind of cheating; maybe it was lazy; or maybe you could get exponential growth without spending any money at all,” Binet told an IPA Breaking Brand conference in New York.

Disruptive companies – with Binet focusing on the initial expansion of ride-hailing app Uber as an example – can drive organic growth for a significant time. In discussing why, he cited the “Bass Diffusion Model”, as developed by marketing academic Frank Bass in the late 1960s to delineate the consumer adoption of new goods and services.

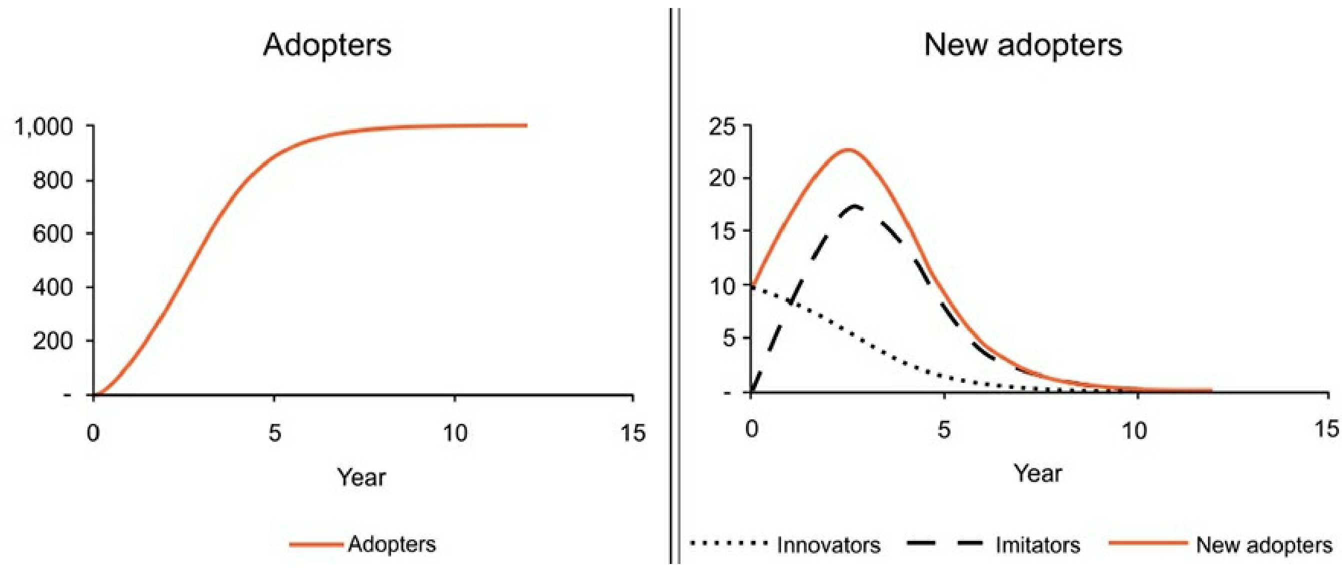
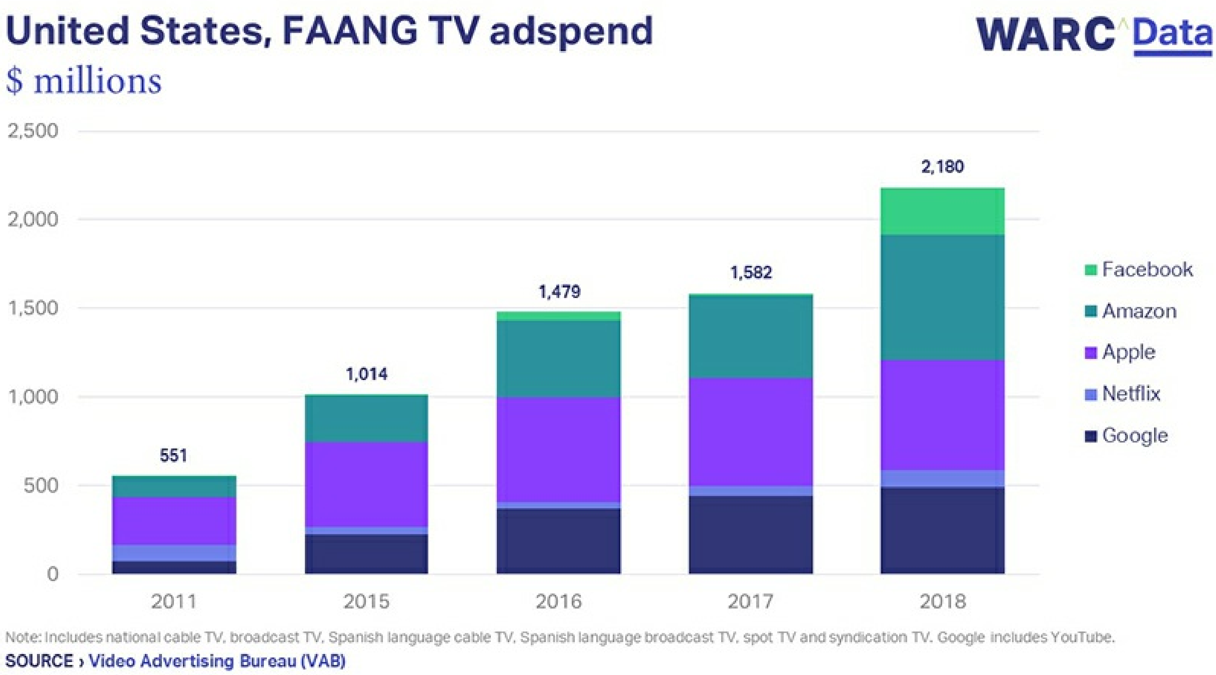


Image source: Wikipedia

The primary insight: “When you get a radically new product – or a radically new business – entering a market, you will get exponential growth in the early phase,” Binet said. “And you can get exponential growth without advertising. We haven’t really talked about that before in our work.”

Equally, though, he noted a “depressing flip-side” from Bass’s research. “The model tells you that, inevitably, growth slows down and eventually reaches zero. It's one of the iron laws of marketing.… And when you reach that point, then you need advertising.”

Such a theory seemingly has been proven out in practice by tech giants Facebook, Amazon, Apple, Netflix, and Google – sometimes known as the “FAANG” companies – **doubling their TV adspend** in the US over the last four years. Why? Because, Binet stated, they have become increasingly “mature” enterprises rather than upstarts enjoying boundless growth.



“They’re all reaching that plateau; they’re all realizing that they need brand building. And what are they doing? They’re advertising. They’re advertising heavily,” he said.

Perhaps the main lesson from this trend, the effectiveness guru reported, is simple: “The role for advertising changes as the brand matures.”

And his research with Peter Field breaks down the optimal spending allocation over time:

- **First year:** 65% activation; 35% brand.
- **Early growth:** (new brands excluding first year): 43% activation; 57% brand.
- **Mature brand:** 38% activation; 62% brand.
- **Leader brand:** 28% activation; 72% brand.

In exploring the rationale behind these figures, Binet reported, “Brand building is actually the easy job in the early part of a brand’s career, because you're starting from the zero base of awareness … The hard job at the beginning is to convert – to actually get customers in the door.”

But even at a nascent stage, paid media can be valuable. “In fact,” said Binet, “new brands in that early-growth phase are highly responsive to advertising, if they can handle it. So, if you have a budget for advertising – and if you've got a capacity to cope with the demand that advertising creates in that early phase – you can use advertising to accelerate that early growth.”

The transformation of advertising from a “useful luxury” to “absolute necessity,” he added, comes later: “As you go on, and as the brand grows, and matures, and begins to dominate its market, activation becomes easy. Getting further brand momentum becomes hard.

“So, the tilt has to go from activation to brand as the company matures.”

Price

A key contributor of advertising as firms mature – and organic growth slows – is enabling price increases.

“Price is the main driver of profit for companies; it’s a much more important lever than volume. And it becomes more important as you grow,” Binet said.

While digital pioneers such as Uber or Netflix initially may build user volume by offering low prices, their long-term profitability depends on raising the amount that individual consumers pay. That strategy, in turn, risks alienating customers who do not have a deeper premise for attachment than cost alone.

“If you want to reduce price sensitivity – if you want to charge premium prices – the only way to do that is to build a brand. To get people to pay more for the same old thing is an inherently irrational thing to do, and you can't do it by rational persuasion. You can only do it by emotional seduction,” said Binet.

“What we find is that there's a massive correlation between brand-building effects and reductions in price sensitivity. And the more that you want to support premium pricing, the higher prices that you want to support, the more you have to tilt towards brand.”

Innovation

Another common refrain among digital businesses is that a relentless stream of innovation can excite consumers, thereby removing the need for advertising.

Binet and Field’s research, by contrast, suggests the optimal marketing mix for innovative firms skews in favor of brand building (72%) and gives activation (28%) a relatively limited role, not least because new features can speak for themselves.

“When you have product innovation – as you launch new features and new widgets and new bits of software and updates and that sort of thing – what we find is the more innovative the product features, the more that you get strong activation effects, and, therefore, the more you can dial down the activation,” said Binet.

“When supporting innovation, activation is the easy job; brand building becomes more important.”

Consumer Savvy

As today’s consumers have access to a raft of utilitarian digital tools – from Google’s search engine to price-comparison websites – it is regularly assumed that shoppers are less open to influence than they might have been in the past.

“People say that consumers now are much more rational; they're not influenced by emotional flim-flam; they are now rational optimizers; they will Google and research every purchase,” said Binet.

His response? “Human decision-making does not change … Yes, it's true, we have got Google now; we can find out more about products. Although, mostly we don’t.”

And when consumers **do conduct significant online investigations** into a purchase, “activation is the easier job," he continued. "Yes, it makes advertising more efficient. But the way it makes advertising more efficient is by increasing activation effects. And when activation is easy, dial it down and tilt towards brand."

Direct-to-Consumer Brands

Online brands frequently laud their first-party datasets – ranging from names and email addresses to exact customer preferences – as negating the need for advertising.

Binet, however, asserted that while these online brands often favor an activation-led strategy, they should be dedicating 74% of their output to brand building. And, once again, that is because activation is "easy" for such enterprises.

"Therefore, you can dial down activation and tilt towards brand," he said.

Subscription Models

Many direct-to-consumer brands – from Dollar Shave Club, a male-grooming unit of Unilever, through to independent enterprises like beauty expert Birchbox and health-and-wellness firm FabFitFun – are using subscriptions as the basis of their revenue model.

But, in line with their findings elsewhere, Binet and Field's work proposes that the simplified nature of activation in this area means that brand-led advertising is a priority. "[For] subscription services and goods, the optimum is something like a 74% to 26% brand to activation," said Binet.

"The whole digital revolution is pushing us to a world where activation is an easy marketing task. And that does give real efficiency gains; it allows marketers to save part of their budget," he added. "But it is the activation part of the budget that they should be saving.

"The final frontier is brand building."

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