Solution Review

Optimizing DTC Performance

How TNS Healthcare Helps Clients Build a Lifetime Connection Between Consumers and Brands

By John Mack

Direct-to-Consumer (DTC) advertising spending is increasing despite increased criticism from politicians and the recent implementation of *PhRMA's Guiding Principles* that put limits on some forms of advertising to the general population.

In the first half of 2006, DTC advertising spending was up 9% compared to the same period in 2005, according to data compiled by TNS Media Intelligence, a marketing information firm (see Table below).

Category	Q1Q2 2005	Q1Q2 2006
Total Spend	*$2.26 billion*	*$2.46 billion*
TV	$1.46 billion (64%)	$1.45 billion (59%)
Magazines	$0.66 billion (29%)	$0.84 billion (34%)
Newspapers	$0.07 billion (3%)	$0.07 billion (2.9%)

What is the pharmaceutical industry getting in return for this increase? However you look at the numbers, typical DTC approaches often don't deliver the impact they should for the dollars invested, according to TNSfyi, a product forecasting and healthcare/pharmaceutical modeling division of TNS Healthcare.

TNSfyi forecasts incremental sales (ie, prescriptions) for DTC campaigns and also evaluates campaigns retrospectively. "We've probably done 400 to 500 analyses of different DTC campaigns over the years," says Ken Sobel, Senior Vice President at TNSfyi.

TNSfyi analyses help their clients

1. decide whether or not it makes sense to use DTC in support of their pharmaceutical products,
2. choose the right budget levels for their DTC programs if it makes sense for them to run the programs, and
3. calculate the likely returns on investment, which is a critical issue for them in making all these decisions.

The Two Most Common DTC Mistakes

The number one DTC advertising mistake that TNSfyi has seen is in how the overall DTC budgets are set.

"One the main issues of DTC advertising," says Sobel, "is the tendency for companies and brands to overspend against the opportunities. This is a natural consequence of how pharma marketing budget levels are set."

Sobel listed the following factors that pharmaceutical marketers may use to set the annual DTC budget in their organizations:

- Reach and frequency criteria
- Matching competitive budgets
- Recommendation of the agency
- Formal analysis of ROI or profit goals
- Gut/Other

"Often, the way brand managers do this is to ask their advertising agency what the right level is," says Sobel. "Or by deciding that they need to match a key competitor's budget level, whether or not it makes economic sense for their own brand."

These days, with the kinds of analytical tools available to marketers, there is no excuse to make these kinds of budget errors, claims Sobel.

In Figure 1 (next page), the blue line (round data points) is the revenue "response curve" for a sample DTC campaign. Its declining economies-of-scale shape is typical that is, the more you spend, the less incremental amount of revenue is generated. (Similar response curve analyses can be done for other Rx promotional elements, including detailing, sampling, symposia, etc.)

Revenue is maximized at the highest feasible budget. The orange line (without data points) is profit of the DTC campaign, calculated here as "revenue – cost." The shape of its curve—with a maximum value—is also typical. In this case, maximum profit is reached when the DTC budget is about $52 million.

"Probably the most common metric of all in DTC," says Sobel, "is return on investment or ROI, which is typically defined as profit divided by budget" The pink line (triangular data points) is the return-on-investment (ROI) curve for the sample DTC campaign.

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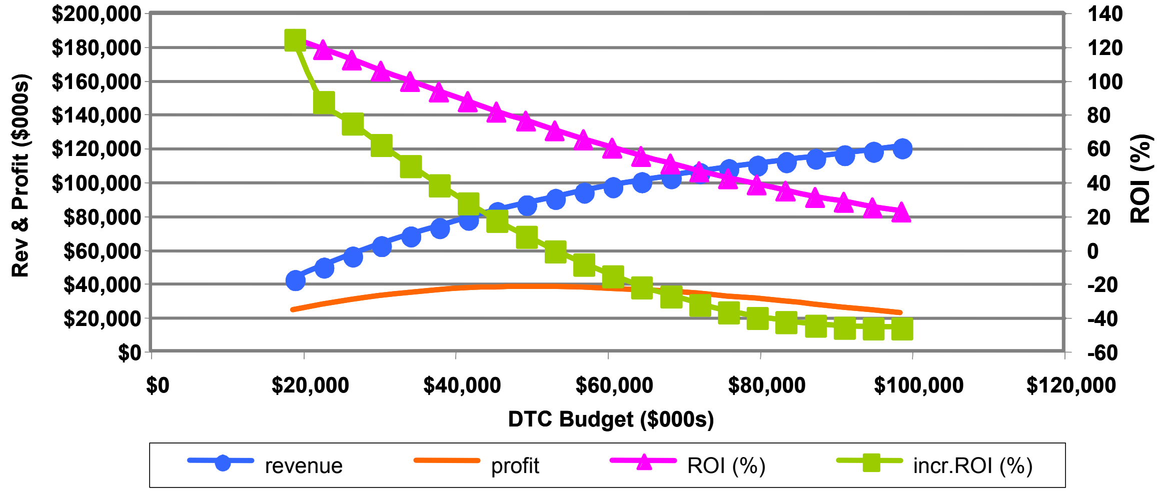

Figure 1: Promotional Response Curve

ROI, which is the profit rate, is maximized at the smallest feasible DTC budget. "What we've noticed," says Sobel, "is that for any given product, the higher your budget is, the greater the awareness and incremental sales will be but the lower the return on investment will be. This tells us that using ROI for determining what the best budget should be is pretty much a misnomer."

For example, rumors regarding decreasing return on investment for TV DTC may very well be true, but that doesn't mean that television DTC is not a wise thing to do. The decline in ROI may be because TV ad budgets are over inflated.

Another way to look at ROI is to examine the incremental return on investment. That is, how much return do we get for the next million dollars spent? The green line (square data points) in FIGURE 1 shows the marginal or incremental ROI of the sample DTC campaign. It signals the point of maximum profit when it crosses into negative territory.

What should be maximized—revenue, profit, or ROI? For most publicly traded companies, the answer is profit (not ROI). "From this perspective," says Sobel, "it makes sense to continue spending on DTC until the next dollar spent creates a loss."

The Second Mistake

Awareness generation is a critical success factor in DTC advertising. Awareness is driven not just by DTC budget, but also by DTC copy quality.

"The second most common mistake in DTC advertising that we've seen," says Sobel, "is going to market with subpar copy quality despite the fact that everyone knows good copy quality is essential."

At every budget level there is a big variance in the awareness level achievable depending upon the copy quality.

"Everyone I talk to," says Sobel, "is adamant that they will go to market with superior copy or, at a minimum, normative copy. The sad reality is that the press of business, the requirement to get to market quickly, means that DTC campaigns are rushed into market and all too often do not follow guidelines to assure that ad copy quality is at norm or better."

Imagine that to reach a target incremental script and profit level your DTC campaign must achieve 40% awareness. As the example in Figure 2 illustrates (next page), you can achieve this goal with a budget of $50MM with normative copy quality. If you are fortunate to go to market with copy that is superior—20% over norm—your goal can be achieved at a budget level of about $35MM. If, on the other hand, your copy quality is only 50% of norm, then you will need to spend about $85 MM to achieve the same goal.

Forecasting

TNSfyi approaches DTC analyses and modeling from two directions: (1) Forecasting and (2) After-the-Fact Analysis

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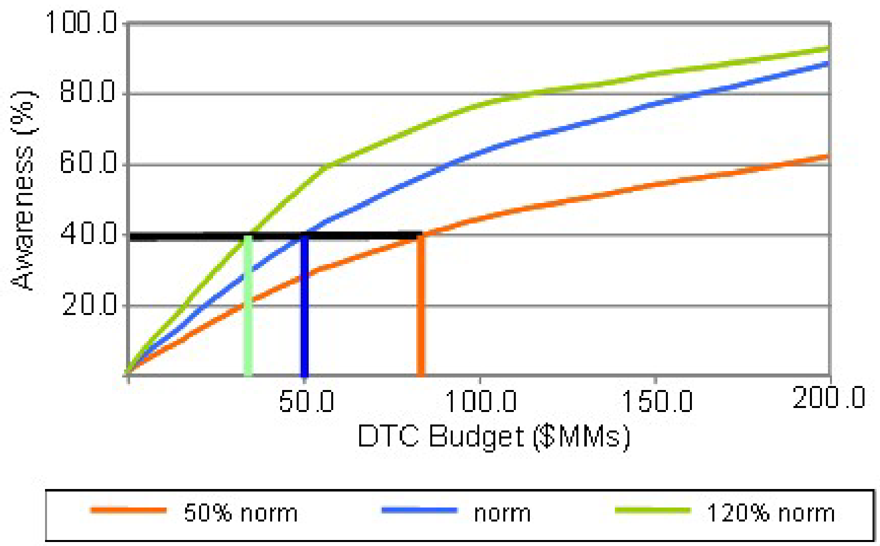

Figure 2: Copy Quality and Awareness

Forecasting typically entails doing a survey of potential sufferers or people who might appropriately use the product in question. In the survey, TNSfyi exposes the subjects to the message that the campaign would employ. Subjects are asked directly how likely it would be for them to ask their physicians about the product after they have seen or heard the message and they are aware of the product.

"We also conduct a survey among physicians and find out from them if an appropriately indicated patient asked about a specific product, how likely would they be to comply with the request and write a prescription for the product," says Sobel.

Using those two data-collecting instruments for input, combined with the media plans that the company has, TNSfyi applies a proprietary mathematical model that allows it to forecast incremental sales. Generally, the results are accurate to within about 10 or 15%.

What If Testing

This technique or tool allows TNSfyi to do what-if analyses for their clients and answer what-if scenario questions. For example, what if the message was changed from positioning A to positioning B? or what if the media mix was switched from overwhelmingly TV and little print to more of a balanced expenditure? What would the incremental scripts be? What would the overall return on investment be?

"By testing several what-if scenarios," says Sobel, "we can help clients design the best programs for their brands."

After-the-Fact Analysis.

After a client has already been running a campaign, they may be interested in learning how effective it was. They may or may not have done a projection with TNSfyi or someone else. They want to find out how much bang for the buck they got. In those cases, TNSfyi does a careful analysis of prescription sales on the one hand and how the sales have been driven by DTC and all the other channels the client is using to promote and market the brand.

"We take into account things like detailing, sampling, medical education and symposia as well as DTC so we can control for those other influences on script writing," says Sobel. "What we are left with is the portion of scripts that can be directly attributable to the advertising campaign being analyzed. Without that careful control of variables, you can get a very misleading picture of how effective the DTC campaign was."

This retrospective analysis is useful for optimizing resource allocation for the coming year.

Commitment and Brand Worth

The fyi unit of TNS helps clients see how much they are going to get from DTC. TNS's Advertising and Brand Performance Unit helps clients understand why that's the case and what they can do about it.

"We are very involved in helping clients understand the DTC spending decisions they have made and the impact of those decisions around the kind of media they have chosen to advertise in," says David Kweskin, Senior Vice President, Practice Area Leader, in the Advertising and Brand Performance Unit of TNS. "We help them understand where they may be falling down or where may be doing exceedingly well versus expectations, versus other brands in the same category."

Kweskin focuses on "commitment" to segment the kinds of users a brand will have and as a measure of a brand's worth.

"Satisfaction is a weak determiner of brand worth," says Kweskin. "Commitment, on the other hand, is a whole different animal. We find a strong relation between commitment and share of wallet or what

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the brand is getting out of the total spending in that category by the consumer” (see Figure 3, below).

In the world of DTC, Commitment means commitment to one brand over another brand. Commitment and loyalty are not synonyms. Loyalty is a behavioral measure, based on past actions. It is what people have done, such as their purchase and repurchase patterns. However, “loyalists” are not necessarily committed because they may continue on a path simply out of inertia—”it’s what the doctor gave me”—and not out of conviction. Loyalty does not predict what a person will do tomorrow.

Commitment is a psychological measure. It tells you how people feel. It's about the strength of the psychological relationship—the bond with a brand. As a result, commitment is predictive. It lets you anticipate future behavior, not just a look back in a rearview mirror.

Committed consumers are attached “at the hip” to their brand. That means they are far less likely to pay attention to competitor ads, far less likely to request another drug of physicians, and far less likely to ask friends/relatives what they use. In human terms, they are indivisible soul-mates with their chosen brands. One can count on committed customers to be there, regardless of circumstances—“until death do us part.” Moreover, they will give you as much of their business as they can. They are willing to pay more, are less likely to defect, and are active “missionaries.”

TNS and Kweskin define commitment as having three dimensions:

- **Needs Fit**: How do people rate your brand? How do alternatives compare?
- **Involvement**: How important is choice in the market? How much does choice matter?
- **Ambivalence**: How much are people torn between different choices? Are there many or few reasons to choose another brand?

“In our system,” says Kweskin, “we develop these into four main levels of commitment: **Entrenched**, **Average**, **Shallow**, **Convertible**. No doubt other researchers have their own approaches to commitment.”

Kweskin estimates that less than 20% of users of an Rx brand are at the “Entrenched” level of commitment to that brand. Even leading brands may not necessarily have a hold on commitment (see Figure 4).

“Using the commitment model that we have developed,” says Kweskin, “we are able to help our clients understand how vital it is to the health of the brand to understand the different levels of commitment to the brand by users.”

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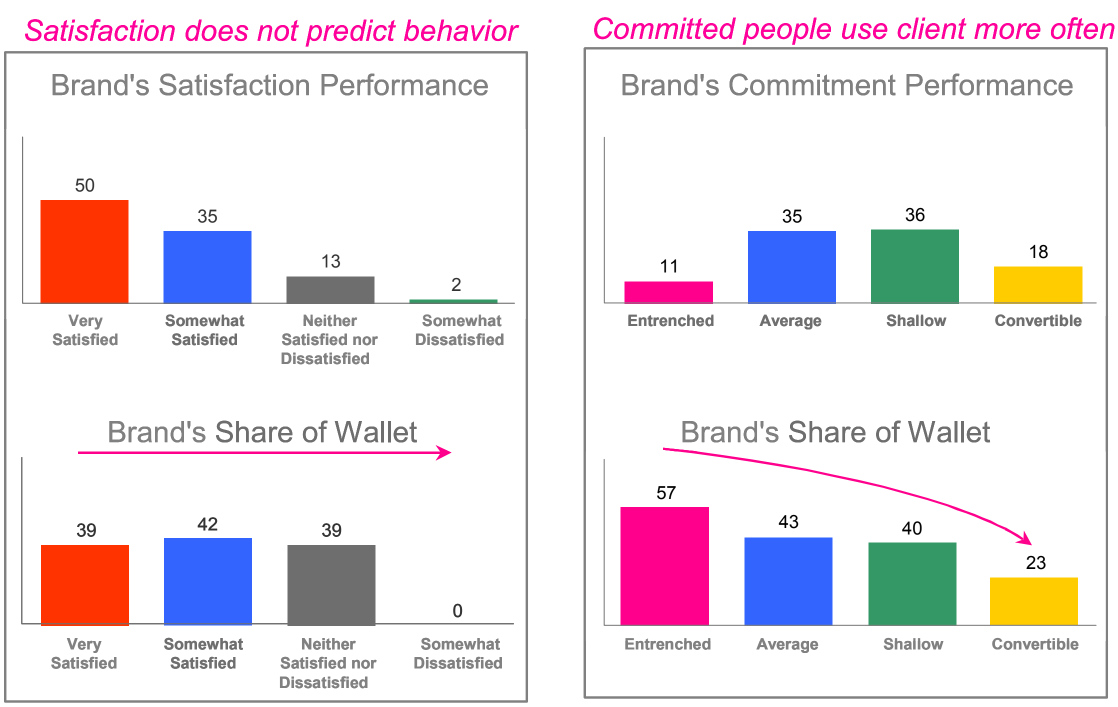

Figure 3: Segmentation According to Satisfaction vs. Commitment. There is a strong correlation between commitment and share of wallet.

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What Drives Commitment?

TNS is able to determine what the key drivers are that determine what makes one individual more committed to a brand than another individual. For example, the attribute "works longer" may be what distinguishes a committed from an uncommitted user. Therefore, the advertising should include messages about this attribute.

If someone is really committed to a brand, he or she is not really interested in anything else—sort of like a marriage. This person may not even be aware of another brand even though it is heavily advertised and has created great buzz in the marketplace.

"You have to find things that distinguish the brand and drive commitment," advises Kweskin. Ultimately, it will take users beyond loyalty to a new level of attachment to their brands that ensures optimum brand use today and into the future.

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