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Proving Our Value: Measuring Package Design's Return on Investment

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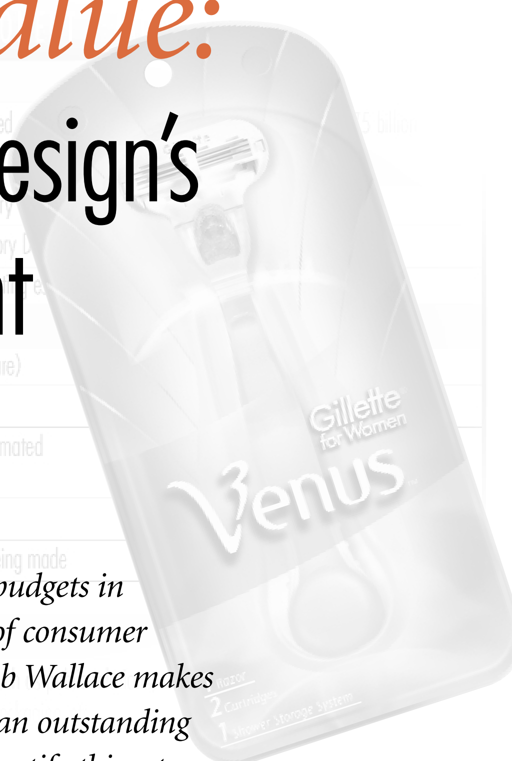
Proving our value:
Measuring package design's Return On Investment

by Rob Wallace



Since resources are scarce, it makes sense to allocate budgets in ways that generate the highest yields. In the arena of consumer awareness and influencing the decision to purchase, Rob Wallace makes the case that money spent on package design results in an outstanding return on investment. He outlines a methodology to quantify this return, and challenges design management colleagues to refine the calculus.

I've spent the better part of 20 years on the package/brand identity design pulpit. With my colleagues in corporate and consultant design, I have tried to spread the gospel of package design's pre-eminent role in communicating the brand's core identity, its emotional essence, and its primary connection to consumers. Together, we've shown that, if brought into the strategic marketing process early and given the chance to set the visual platform for all brand communications, package design can effect unprecedented results. Together, we've elevated even the term *package design* into *brand identity design*, better representing its role and importance. For most consumer products, we believe, package design is the single most sales-effective and cost-efficient marketing tool. This message has started to reach the larger marketing community.

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Yet, during this same time, the design management function inside many corporations has been ravaged by mandatory staff and budget cuts. Some of the largest, and seemingly smartest, consumer product corporations have reduced their brand identity management team from a position of partnership to that of caretakers of a process largely overlooked by executive management. Many of these corporations still don't engage brand identity until well after brand strategy has been established. And only a precious few actually validate the results that brand identity generates.

What's wrong here? Although we've

been promoting the right message, we've been speaking, in large part, to the wrong audience, using both the wrong tools and the wrong language. Quite frankly, we've been preaching to the choir. If we seek the recognition and acknowledgment of executive management, we need to stop talking about *creativity.* We need to stop talking about *process.* We specifically need to stop talking about driving costs down and speed up. In addressing an audience that believes, "If you can't measure it, you can't manage it," we need to start speaking about *return on investment.* And to do this, we need a tool that empirically quantifies the value of package/brand identity design in terms of dollars and, in their minds, sense.

A keen grasp of the obvious

For the great majority of consumer products, package design is the single most effective communicator of a brand's core identity. Based on consumer buying decision dynamics, package design is also the single most influential marketing communications tool. Let's analyze these statements by several widely accepted measures.

Let's start with efficacy: Which tool has a higher influence on sales? Research shows that well over two thirds of consumer product purchase decisions are made at the point of sale. In some categories, impulse purchasing at shelf accounts for much as 85 percent of sales.[1] It is quite evident that brand identity and package design drive this all-important dynamic.

Regardless of when the purchase decision is made, packaging is certainly the last opportunity a company gets to influence consumer perceptions. Even if your brand makes the shopping list, when the consumer gets to the shelf, he or she will be influenced not only by your package but also by your competitors' packages. In both print and TV advertising, you'll notice, competitive commercials and print ads are intentionally buffered so that they do not run adjacent to one another. But in the store, the competition is always sitting right next to your brand, pulling at your consumers' loyalty, providing a new promise, evoking a new experience. It is vitally important that your package capture consumer hearts, as well as their eyes.

Lets analyze packaging design, as my advertising friends do—in terms of recall, also known as "brand equity." Cross-category studies show that in unaided awareness tests, consumers remember more about the package than they do about the advertising or promotions. Try it yourself: In your next research session, before you show consumers anything, ask how they remember your brand. Based on his analysis of hundreds of brand equity studies, Elliot Young, chairman of Perception Research Services, confirms that consumers recall the color of your package first, the shape of your package second (if you have a proprietary or distinctive package structure), and the style of your brand logo third. These features prove to be the most recognized components of your brand's equity.

In addressing an audience that believes, "If you can't measure it, you can't manage it," we need to start speaking about return on investment

Another advertising measure by which we can analyze brand identity is *impression.* Figure that every consumer who has a potential interest in buying your brand will be influenced by your package. That's 100 percent of your current and potential audience. Imagine what your media budget would be if you had to guarantee that every one of your potential consumers saw your ad! And don't forget—your package's influence continues well after the purchase is made. It remains in the pantry, on the vanity, throughout the home, reinforcing brand perceptions every time it's seen.

If we analyze packaging from another measure, sustainability, we'll see that the investment in package design is far more lasting than for advertising, sales promotion, or direct marketing. In our experience, a package/brand identity system frequently outlasts up to three ad campaigns and more than eight promotion cycles. Quite simply, packaging is a far more pervasive and permanent part of the brand communications platform than any other marketing tool.

Package/brand identity design also proves its value in terms of cost. Brand identity budgets are literally dwarfed by those dedicated to advertising. Even if you discount advertising's huge

1. Point of Purchase Advertising Institute Consumer Buying Habits Study, 1999.

media expense, on average creating an effective package and brand identity system is still a fraction of the cost of producing a single 30-second commercial.

Please understand that I am not ad-bashing. Yes—all brand communications vehicles provide an essential role. And absolutely yes, synthesizing these efforts into one cohesive visual, verbal, and experiential message is the key to successful brands. However, for most consumer products, package design is the hardest working, most sustainable, and most cost-effective tool.

As evident as these facts may be, they are still soft measures of brand identity's value. To prove them empirically, we need to be able to directly tie package design to increased sales.

Money where our mouths are

In the past year, I have been exploring ways to initiate a "best practice" for measuring the direct impact package design has on sales and profits. I asked a wide variety of people in the design, marketing, and research industries for their thoughts on quantifying package design's ROI. It was a topic that sparked a great deal of passion. Almost every person I spoke with expressed a strong opinion. However, precious few had ever proven brand identity's impact in tangible financial terms. To me, this spoke of a need for a more comprehensive survey.

For most consumer products, package design is the hardest working, most sustainable, and most cost-effective tool

I chose 50 corporate design managers and brand-identity consultants as participants in a survey that asked respondents if they had any current measures in place to track the financial value of brand identity, product design, advertising, sales promotion, direct marketing, or other marketing communication programs. I used follow-up phone calls to help complete their responses. Although just over half actually responded, their insights point to interesting opportunities for further study.

More than several respondents knew that their companies measured the financial impact of advertising and consumer promotions. And a great majority of respondents kept meticulous track of their package design project budgets. However, of those who responded, only one verified that his company had a measure currently in place to track package design's direct impact on brand sales and profitability. Unfortunately, the company considers its process one of its competitive advantages; therefore, it is reluctant to share its methodology and its findings.

Virtually all the respondents agreed that an accurate measure of brand identity's return on investment would be very valuable. However, I found that in general, my colleagues had three central concerns about such a process.

Can it be done?

One of the common concerns was the belief that it's simply not possible to measure ROI for brand identity. Most respondents believed that all the measures they had seen in the past had been largely subjective. When directly asked, "Can design be quantified?" management guru and self-proclaimed "design freak" Tom Peters emphatically responded, "You should never allow design's value to be calculated by some bean counter using a bullshit process that you know is bullshit."[2]

However, despite Tom's concerns, the fact is the sales promotion and advertising industries long ago established an objective, empirical process for verifying their impact. Using manufacturing shipment data, retail sell-through, and inventory statements, marketers have analyzed the impact of whole brand communications programs. Until recently, these measures could only analyze brand communications programs in their entirety; there was no way to study the effect of each component. However, fast, accurate, and affordable measures are now available to identify the distinct impact of individual components of the overall communications mix. One of these is a process called effective marketing performance (EMP), which uses a number of statistical models to determine the critical success of retail advertising, circulars, direct mail, point of sale merchandising, and assortment planograms. Chris Grindem of consulting firm Integrated Marketing Solutions, which

2. Tom Peters, "Design as Advantage No. 1: The Design+Identity 50," DMI Annual Conference, Chatham, MA, October 25, 2000.

owns the EMP process, mentions that it works even in industries that the usual syndicated reporting services (Nielsen, IRI, and so forth) do not track. While EMP has not yet been systematically applied to package design, Grindem believes that given the proper data, package design's impact could be isolated. He believes these findings could also be used as a diagnostic tool to verify a new design's impact even before it is introduced to the market. "It's certainly possible to introduce a short run of new package design systems into test stores and measure their sales uplift by comparing same-store sales versus a baseline forecast derived from historical data. This may require several weeks of measures, but would result in a statistically valid ROI projection."[3]

Should it be done?

Even if an accurate financial measure were to be created, some respondents still had concerns about how the information would be interpreted. They felt that segmenting the value of each aspect of a brand communications program flew in the face of integrated marketing. One respondent commented, "It's taken us this long to encourage executive management to think of all brand communications as one synthesized whole. Why would we want to separate these individual services and analyze them individually?"

What will management do with the results?

The third and perhaps most ardently expressed concern was the question of how the results might be used or misused by management. This "be careful what you wish for" concern was expressed in several ways. One respondent suggested that management might acknowledge those case histories that showed significant value, but by the same token, they would have much stronger concerns with those that were less successful. Another respondent suggested that once a mark had been set, it would become a mandated paradigm that would have to be outdone with each successive program: "Once management knows they can generate $2 for every dollar invested, tomorrow they'll expect $4, then $6, then $10."

The benefits

Despite these concerns, most respondents agreed that the benefits of establishing brand identity's ROI would be a great value in elevating its role in the marketing mix. They saw it as effective ammunition in the fight for the budgets and resources needed to optimize the brand identity design process. Marie Grygienc, category design manager for packaging and brand identity of Kraft's pizza division, explained, "During the launch of a brand redesign, sales went up more than 15 percent. Because other brand communication was fielded during this same period, it was difficult to prove that the new package identity could be largely responsible for this sales increase. If we had a tool that could prove this, I'd be able to better help my marketers establish appropriate design and production budgets and prove the value of increasing their investment in packaging."

Could you strengthen your case for investing in new substrates, new print techniques, or a new package structure if you had an accurate way to gauge the investment's financial impact?

One possible methodology

In their book, *Measuring Brand Communications ROI,* Professor Don E. Schulz of Northwestern University and Jeffrey Walters of Targetbase Marketing, identified a number of brand valuation models that follow traditional accounting practices. One of these models has been applied to a series of differing brand identity assignments. A slightly simplified example of this method is outlined in the following charts.

In essence, the methodology calculates a brand's base income flow according to historical data. It removes from consideration noncommunications costs (that is, product manufacturing, package production, distribution, and other fixed costs not affected by a change in communications strategies). Based on historical data, it establishes a projection of sales and profits, assuming no change is made to the communications platform. It then uses the same measures based on the implementation of an actual, new communications program. It measures share

3. Chris L. Grindem, "A Way to Solve Advertising ROI," *Advertising Age,* January 15, 2001.

Chart 1. This integrated brand communications program included new advertising, consumer promotion, and package/brand identity design. It resulted in $7.21 of increased sales for every dollar invested.

COMPONENT	DETAILS ON COMPONENT	EXISTING BUYERS	POTENTIAL NEW BUYERS
Category Requirement Assumptions			
1. Estimated Category Demand	Total category dollars (estimated or historical data)	$225,000,000	$1.575 billion
Base Income Flow Assumptions			
2. Base Share	Brand's share of the category	16.00%	0.0%
3. Base income flow from customers	Base Share x Estimated Category Demand	$36,000,000	
4. Non communications Cost	Product, fixed costs, etc.(operating estimate)	69.0%	
Scenario A: No Communications Investment			
5. Change in Share	Estimate (often a declining share)	-2.0%	
6. Resulting Share	Base Share (Line 2 + Line 5)	14%	
7. Resulting Income Flow From Customers	Resulting Share (Line 6) x Estimated Category Demand (Line 1)	$31,500,000	
8. Less Non communications Cost	Line 7 x Line 4	($21,735,000)	
9. Less Brand Communications Costs	Zero, since no investment is being made	$0	
10. Net Contribution	Line 7 + Line 8 + Line 9	$9,765,000	
Scenario B: Communications Investment			
11. Brand Communications Efforts (multiple lines depending on the number of efforts)	A separate line for any effort such as public relations, advertising, trade promotion, packaging, etc.		
11a. Advertising		$2,500,000	
11b. Packaging		$220,000	
12. Brand Contact Points	Estimate of the total number of brand contacts each target consumer group would receive		
12a. Advertising		7%	7.0%
12b. Packaging		100%	100.0%
13. Total Brand Communication Investment	Estimated sum of all Brand Communication efforts	$2,720,000	
14. Change in Share	Following New Brand Identity	9.0%	3.0%
15. Resulting Share	Base Share (Line 2 + Line 14)	25.0%	3.0%
16. Resulting Income Flow from Customers	Resulting Share (Line 15) Estimated Category Demand (Line 1)	$56,250,000	47,250,000
16a. Combined Income Flow			$103,500,000
17. Less Non communications Costs (Line 16xLine 4)	(Line 16a x 4)	($71,415,000)	Combined data for both classes of customers
18. Less Brand Communication Costs	Line 13	($2,720,000)	
19. Net Contribution	Line16a- Line 17 -Line 18	$29,365,000	
ROI Calculation			
20. Incremental Gain or Loss vs. No Investment	Line 19 - Line 10	$19,600,000	
Incremental ROI	Line 20/Line 13	**$7.21**	
Comments: This case history represents a leading brand which concurrently changed advertising, promotion and package/brand identity design. The resulting $19 millon sales increase is a result of an integrated brand communications program.			

Chart 2. This case history is based on a package redesign effort that involved no advertising or consumer promotion. Package/brand-identity design was exclusively responsible for returning $415 of increased sales for every dollar invested.

COMPONENT	DETAILS ON COMPONENT	EXISTING BUYERS	POTENTIAL NEW BUYERS
Category Requirement Assumptions			
1. Estimated category demand	Total category dollars (estimated or historical data)		$4.2 Billion
Base Income Flow Assumptions			
2. Base share	Brand's share of the category	19.00%	0.0%
3. Base income flow from customers	Base share X estimated category demand	$714,000,000	
4. Noncommunications cost	Product, fixed costs, etc. (operating estimate)	75.2%	75.2%
Scenario A: No Communications Investment			
5. Change in share	Estimate (often a declining share)	-4.0%	0.0%
6. Resulting share	Base share (line 2 + line 5)	15%	0.0%
7. Resulting income flow from customers	Resulting share (line 6) X estimated category demand (line 1)	$630,000,000	$0
8. Less noncommunications cost	Line 7 X line 4	($473,760,000)	$0
9. Less brand communications costs	Zero, since no investment is being made	($0.00)	$0
10. Net contribution	Line 7 + Line 8 + Line 9	$156,240,000	$0
Scenario B: Communications Investment			
11. Brand communications efforts (multiple lines depending on the number of efforts)	A separate line for any effort, such as public relations advertising, trade promotion, packaging, etc.		
11a. Advertising		$0	
11b. Packaging		$315,000	
12. Brand contact points	Estimate of the total number of brand contacts each target consumer group would receive		
12a. Advertising		0%	0.0%
12b. Packaging		100%	100.0%
13. Total brand communication investment	Estimated sum of all brand communication efforts	$315,000	
14. Change in share	Following new brand identity	5.3%	1.7%
15. Resulting share	Base share (line 2 + line 14)	24.3%	1.7%
16. Resulting income flow from customers	Resulting share (line 15) X estimated category demand (line 1)	$1,020,600,000	138,000,000
16a. Combined income flow			$1,158,600,000
17. Less noncommunications costs	(Line 16a X 4)	($871,267,200)	Combined data for both classes of customers
18. Less brand communication costs	Line 13	($315,000)	
19. Net contribution	Line16a – line 17 – line 18	$287,017,800	
ROI Calculation			
20. Incremental gain or loss vs. no investment	Line 19 – line 10	$130,777,800	
Incremental ROI	Line 20/line 13	**$415.17**	
Comments: This case history represents a leading brand that had no major advertising or consumer promotion activity. The $130 million increase in sales is exclusively the result of the new package/brand-identity design.			

and profit growth against the cost of the overall investment made. This methodology was, as I have said, created primarily for the advertising industry; however, it also works when applied to more-comprehensive brand communications platforms.

Chart 1 outlines a real-world case history in which an additional $2.5 million was invested in advertising and $220K was invested in package/brand identity design. The resulting income of $103 million in sales indicates that this integrated program resulted in a $7.21 return on every dollar invested. This exemplifies the other case histories in which both advertising and brand identity/packaging was changed.

In the past year, I have been exploring ways to initiate a "best practice" for measuring the direct impact package design has on sales and profits

As impressive as this outcome is, it becomes even more interesting when applied to projects for which there was no advertising or no change in the existing advertising creative and media strategies (see chart 2).

Chart 2 offers a case history that did not involve advertising. In this case, the only variable that changed was an enhanced brand identity expressed through a revitalized package design system. It uses the same measures. In this case, sales rose an incremental $130 million as the direct result of a package design project with a total budget of $325K. This proves that, in this case, the package design change was exclusively responsible for generating $415 of increased sales for every dollar invested. That's more than 50 times the ROI of the integrated program. Again, this finding is similar to other case histories in which only the package design was changed.

These are only preliminary findings based on a statistically small number of case histories. Additional data would be required before any relevant standard could be established. However, this points the way to the hard evidence required to prove package design's impact on a brand's bottom line.

How do we use this information?

Once design's value is proven and universally recognized, design management teams might use this new-found tool to justify putting much-needed resources into the brand identity management process.

Two of the more important resources are access and empowerment: the ability to provide value at the point at which it can do the most good. All too often, design projects are not started until well after much of the brand's communications strategy has already been established. If, in fact, the package is the most effective communications tool, package design management needs to actively participate at the very inception of the brand's communication strategy. And, if, in fact, the package is the cornerstone of the brand communications platform, then package design management's input should be paramount in integrating all brand communications efforts under a unifying visual territory.

Another much-needed resource owed to the package design process is time. The process is often started too late, and as a result, decisions are made based on meeting a deadline rather than on researched strategic plans. If marketers knew their investment in brand identity design would yield the highest rewards, they would offer it the time and attention it demands and deserves.

Once design's financial impact is qualified, production budgets should be enhanced. Could you strengthen your case for investing in new substrates, new print techniques, or a new package structure if you had an accurate way to gauge the investment's financial impact? Most design managers would answer yes. Consider how much more distinctive and effective your brand identity could be, given the chance to make a reasonable investment in innovation.

Accountability could be another benefit added to the design development process. With the ability to prove their contribution to the bottom line, design consultancies might change their compensation structures. As well, design firms looking for ways to strengthen their partnerships with their clients might find that sharing the financial risks, as well as the potential financial gains, would ultimately unite them around brand success.

Designers would also welcome the ability to validate design efficacy throughout the life of the brand. Imagine a dedicated budget to determine when a design identity needs to be enhanced or overhauled. This can be done. For instance, Elliot Young of Perception Research Services has established new analyses to determine when an existing brand identity is wearing out and requires an update. PRS's Package Check research documents changes in shopper perceptions of brands based upon exposure to existing packaging. It determines if purchase likelihood is enhanced, maintained, or hurt by exposure to your brand's existing package. Adding this resource to your brand's portfolio of services can help ensure that its most important communication and sales tool is always at its best.

Incorporating measures into your process

Proving package/brand identity design's value simply will not be achieved without the collective efforts and full engagement of the entire brand identity industry. If we are to see this actualized, we need your help in developing the data required to establish universal standards and "best practices." The Design Management Institute is actively soliciting additional insights, new methodologies, new case histories, and new ways of verifying brand identity's financial impact. A package/brand identity design user group has been established on the DMI site (www.dmi.org) to share nonconfidential information in an open forum.

Incorporating verification measures into your process need not be costly or time-consuming. Start simply by collecting sales data from before and after each design project. Compare the sales change against overall project costs. Analyze those design projects that involve advertising and/or promotion versus those for which package design is the only element that changes. As we build more information, we will be able to make more-accurate projections of the financial impact of our work and then justify the resources we need to optimize our overall process.

Once we are successful in doing this, we will own a compelling and irrefutable message—one that senior executive management will not only understand but also acknowledge. We will have together elevated brand identity to its rightful place as the most influential and cost-effective marketing tool. We will have proven that for most consumer product categories, package/brand identity design is the cornerstone of brand success. ■ *Reprint # 01123WAL20*

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Package/brand identity design forum:
http://www.dmi.org/dmi/html/interests/package/package_s.htm

Suggested readings

Don E. Schulz and Jeffrey Walters, "Measuring Brand Communications ROI" (ISNN-56318-053-7). Association of National Advertisers, 212-697-5950.