1
The APE

E = mc^2 is not a formula. You can't write it down on a sheet of paper, take it home, and calculate the answer. Albert's equation is merely a statement of the relationship between energy, mass, and the speed of light. Basically, it says that the inherent energy of a thing is equal to its mass times the speed of light times the speed of light.

Likewise, the APE — advertising performance equation — is not a formula. It's not a list of steps and rules. It's simply a "statement of relationship," similar to E=mc^2. But it's a very beautiful thing.

The triad of APE sub-equations looks like this:

Share of Voice × IQ = Share of Mind
Share of Mind × PEF = Share of Market
Share of Market × MPo = Sales Volume

Thus, the master equation reads,

SoV × IQ × PEF × MPo = Sales Volume

where

SoV = Share of Voice
IQ = Impact Quotient
PEF = Personal Experience Factor
MPo = Market Potential

The unfortunate truth, however, is that you can't measure your impact quotient, share of voice, or personal experience factor with any degree of accuracy. The APE statement of relationship remains true, nonetheless. It is the measurement of its individual components that's the tough part.

Specifically, the problems are these:

1. **Utimately, share of voice is unique to the individual**, as each person has different reading, listening, driving, and viewing habits, and is therefore exposed to different ads than his fellows. And will we measure share of voice for the past six months, one year, ten years, or fifty years? The percentages would change significantly with each new term of measurement.

2. **Likewise, impact quotient is unique to the individual.** An ad that is a 1.7 to one person may be a 0.9 to the next. Marketwide, impact quotient can only be approximated.

3. **And, of course, the individual PEF is also unique**; you may exceed one customer's expectations by 90 percent, then fall miserably short with the next. PEF can only be approximated marketwide.

So don't get all "left brain" about this stuff, okay? You can't measure it accurately. The only important thing is to be generally aware of the interaction between these factors.

Silva's CPE

My friend Jon Silva offers in-house financing on much of what he sells. The term in the credit industry for what Jon does is that he "carries his own paper," meaning that Jon actually loans his own money to his customers. Jon has become rich because Jon is a genius. When I asked him, "What rules do you use for determining who gets credit and how much credit they get?" Jon answered, "Rules are for fools. When the day is done, there are only 5 things that really matter: (1) the size of the down payment, (2) the amount of gross profit on the sale, (3) the credit history of the applicant, (4) the length of the loan's payout, and (5) the interest rate. You can let the customer have his own way with any one of the five as long as you control the other four. If I have a nice profit in the sale and the customer has a clean credit history, he can have anything in my store for nothing down, get a super-low interest rate, and take as long as he wants to pay it off. But if the profit is short or if the customer's credit history is weak, then it changes the whole equation. But give me a large enough profit in the sale, a big enough down payment, a short enough term, and a tall enough interest rate, and I'll carry paper on anyone."

It seems that Jon Silva has found his own "Credit Performance Equation." Now, if we could just bottle it, I'll bet we could sell it for a billion dollars.

2

Share of Voice

Of all the advertising that is currently being done in your business category, how much of it is yours? Do you know your share of voice (SoV)?

In media terms, "reach" is the number of people that your advertising schedule will reach. "Frequency" is the number of times, on average, that your message will reach them. In other words, frequency is the media's term for repetition.

If you run a television ad fifty times, how many of these ads will the typical viewer see? What will be the frequency? If you run a newspaper ad twelve times, how many times will the typical subscriber read it? What will be the frequency? If you run a radio ad 100 times, how many of these will the typical listener hear? What will be the frequency? Do you assume that every person who is reached just once or twice is fully and sufficiently "reached"? And how much time is elapsing between repetitions? Do you think it doesn't matter?

It is essential that advertisers be aware of their seven-day frequency because sleep erases advertising, a little bit each night, and human beings are programmed on a seven-day cycle.

You and I live in an overcommunicated society. Advertising messages relentlessly peck us and pelt us each day like ice balls in a hailstorm. Your customer lives in this same overcommunicated society. Consequently, it is far more effective today that you reach fewer people with relentless frequency than that you reach more people with little repetition.

It is important that you be aware of your share of voice.

"During the day, many bits of information enter short-term memory, but most of it is unimportant and can be easily discarded. But other information is important, so the brain needs to meld it with older memories, storing the new information as it updates the older."

— Dr. Terence Sejnowski, neuroscientist, Salk Institute, La Jolla, California

"The brain accomplishes this by entering a series of different chemical and electrical states during the day and night."

— Dr. Alexander Borbely, University of Zurich sleep researcher

Bad Math

Most stations have a computer loaded with the latest ratings information. A media sales rep need only press a few keys, and this computer will spit out the correct answer to whatever question it is asked. Unfortunately, most people are asking the wrong questions.

Advertising is bought and sold today using a system of "gross impressions" (GIs) and "gross ratings points" (GRPs). When the ratings computer is asked to calculate GIs, it immediately examines the latest survey data, multiplies reach times frequency, and then spits out the number of GIs that the schedule in question would yield. In other words, if the schedule's reach is 100,000 people and the frequency is 10, the computer will spit out "1,000,000 gross impressions." The computer will give you the same answer if your schedule were going to reach 1,000,000 people once, 100,000 people ten times, or 50,000 people 20 times. In all three instances, the computer would answer "1,000,000 gross impressions," and in a city of 1,000,000 people, that's exactly "100 GRPs." In other words, 1 GRP is earned by reaching the mathematical equivalent of 1 percent of the city, 1 time. One hundred GRPs is the mathematical equivalent of reaching 100 percent of the city 1 time, or 10 percent of the city 10 times, or 5 percent of the city 20 times. Are you beginning to see the problem? Only a fool would say that it doesn't matter.

Gross impressions and gross ratings points are bad math. Use these in making your media buying decisions, and you'll reach too many people with too little repetition. This is one of the major reasons most advertising in America today isn't working like it should.

Every time I warn a roomful of advertisers about the dangers of reaching too many people with too little repetition, I can always count on someone raising a hand to ask, "Just how much repetition is enough?" My answer is always the same: "On average, you need the same listener to hear the same radio or TV ad at least 3 times within 7 night's sleep, 52 weeks a year. The number of people you can afford to reach will be determined by your ad budget." To get this information from a ratings computer, you need only ask it to calculate a reach-and-frequency analysis that will show you exactly how many ads you'll need to run in one week, and at what times they'll need to run, for your budget to yield a 3 frequency each week with the maximum number of listeners.

3

Impact Quotient

The impact quotient (IQ) of your message is its power to convince the customer. To what degree is your message relevant, or salient, to your customer? If the average ad in your product category scores an impact quotient of 1.0, what do your ads score? If they're 40 percent stronger than the average ad, your impact quotient is 1.4. If they're 10 percent less convincing than the average ad, you get a 0.9. Your impact quotient is measured against a marketplace average of 1.0.

Impact quotient, saliency, the relevance of your message to the customer, is the single most overlooked factor in advertising today.

In "Share of Voice" and "The Neurology of Branding," I told you that the average message needed to be heard about three times a week, every week, to have a shot at being transferred from short-term, electrical memory to long-term, chemical memory. But that's the average message. The higher the impact quotient (saliency), the less repetition is required to store it. An off-the-chart impact quotient is why you can still remember exactly where you were when the O. J. Simpson verdict was announced, even though you heard it only once. Unfortunately, it's not likely that your advertising message will ever achieve this sort of impact quotient.

A strong ad with a smaller budget will beat a weak ad with a larger budget almost every time. The difference in the results of these ad campaigns is directly attributable to the difference in the impact quotients of their ads.

How strong is your impact quotient?

Good ad writers answer the telephone like teenage girls who have been waiting for their boyfriends to call. "Hello, hello, is it

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uncovery: an investigative effort to find an advertiser's unique and wonderful story; "digging for the diamond." Every worthy business has a story that is uniquely and wonderfully its own. The job of the ad writer is to "uncover" this story and tell it.

Sword in the Stone: the focal idea, the axis around which all else will revolve, the non-negotiable standard at the heart of the company; the North Star in the heart of the client.

finally you?" What the writer will most likely hear is this: "I need some new ads. And make sure they're good ones." (Click)

Oh yeah, that's real inspiration. I'll bet we're going to see some really good ads now.

CEOs, if you haven't taken the time to convince your ad writers, how do you expect them to convince the world? Your sales job is a comparatively easy one. Your ad writers are anxious and their minds are open and they're willing to give you their undivided attention. Can the same be said for your customer, the person these ad writers need to reach?

Selling begins with the ad writers. If you own a business, selling your writers on your company is the single most important sale that you will ever make.

True selling is never based on pressure, deception, trickery, or gimmicks. True selling is nothing more, and nothing less, than a transfer of confidence. The job of an ad writer is to transfer confidence to your prospective customers. But how can your writers transfer what they do not have? Your ad writer needs to believe in you and in your company.

Are you making this most important sale?

Can you think of any other investment of your time that might yield as high a return?

According to a study conducted by Edison Media Research, time spent listening (TSL) dropped 14% among radio listeners between 18 and 24 years old and almost as much among listeners 12 to 17. Although these survey results paint a pretty grim picture of the future of radio, the good news is that the problem is easily solvable. You see, it wasn't surfing the Internet or playing video games or listening to CDs that caused TSL to decline among America's youth. Fully three-quarters of those surveyed listed "too many commercials" as their principal reason for not listening to the radio. But to say "The obvious solution is for stations to play fewer commercials" would be a tragic misinterpretation of the data. The solution is not to play fewer commercials, but to play better ones. American kids hate advertising because most of it is irrelevant and boring. The solution is to increase the impact quotient.

4

Share of Mind

The terms "share of voice" and "share of mind" are not interchangeable. The difference being that share of voice can be purchased, but share of mind must be earned. Share of voice is determined by your schedule in the media, but share of mind is the amount of mental real estate you own in the public's mind. Share of mind has at least as much to do with the impact quotient of your message as it has to do with your share of voice:

Share of Voice × Impact Quotient = Share of Mind

Let's say you have a long-term, 20 percent share of voice and your ads are 50 percent better than average for your product category, giving them an impact quotient of 1.5. Your share of mind in this case would be 30 percent.

If, however, your ads scored only 0.8 impact quotient, the resulting share of mind would be just 16 percent.

You could still earn a 30 percent share of mind, however. All you'd need to do is buy a 38 percent share of voice:

38% Share of Voice × 0.8 Impact Quotient = 30.4 Share of Mind

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share of mind: an advertiser's percentage of the customer's total awareness in a product or service category.

But which makes more sense to you? To spend a fortune flooding the media with weak ads, or to spend a little time raising your impact quotient?

In your brain, short-term memory is electrical. Long-term memory is chemical. Short-term, electrical memory is like the RAM in your computer. Long-term, chemical memory is like your computer's hard drive. If you want data to be "saved," it must be saved to the hard drive before you power down the computer.

The human computer is powered down once a day when we turn out the lights and crawl between the sheets. Most of what was in RAM (electrical memory) will be lost during the night. Sleep causes the information in electrical memory to fade according to its degree of "saliency," or relevancy. Data that is more important, or "salient," does not fade as quickly from the mind.

The only things you can do to increase the transfer of your message from electrical memory to chemical memory are (1) increase the saliency of the message, and (2) increase the frequency of its repetition (essentially, raise the impact quotient of your ads and/or increase your share of voice).

If your goal is to "brand" your product, you'll need a memorable message and sufficient weekly frequency. Do you have them? Branding is accomplished only when you have a salient message that is repeated with enough frequency to become securely stored in the hard drive of the brain.

5
Personal Experience Factor

It is unusual to find a business owner who asks advertising to do only what it can. Most expect advertising to do what it cannot.

Let me say this plainly: Advertising cannot repair a broken business. It will not make you better at what you do. It cannot turn failure into success. Advertising will only accelerate what was going to happen anyway. When it comes to correcting the problems of poor selection, low quality, high prices, bad locations, lack of expertise, inconvenient hours, weak warranties, surly employees, shabby décor, and the negative word-of-mouth that flows from each of these, advertising is essentially impotent. But ask that struggling business owner why his business is in a slump, and he'll most likely say, "Our advertising isn't working. We're just not seeing enough traffic."

Think for a minute. You can name some very successful businesses in your town that do virtually no advertising, right? So why does it surprise you that a business can also struggle and fail in spite of brilliant ads?

Share of Mind × Personal Experience Factor = Share of Market

The world outside your door is the world of the customer's expectations. It's the world of impact quotient and share of voice; it's the world of advertising. But once the customer steps through your doorway, calls your phone number, or samples your product, she has moved from the world outside your door to the world inside your door. What will be her personal experience there?

If your business has what it takes to succeed, you can succeed in spite of bad advertising. But if you aren't good at what you do, or if people don't want to buy what you sell, then advertising will be just

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personal experience factor (PEF): an advertiser's reputation, through experience. Like the impact quotient, a PEF score ranges above and below an average of 1.0, with 1.0 being the expectations of the customer. The growth or decline of a company will ultimately follow that company's PEF as it rises and falls above and below 1.0.

one more bill you can't pay. (Ouch! It hurts to have to say such things, but we need to get the truth on the table.)

The personal experience factor, like the impact quotient, is measured against a 1.0. But this time we're not comparing the strength of your ads to your competitor's ads, we're measuring your customers' expectations to their actual experience with your company. If your customers walk out your door having had precisely the experience they expected, you score 1.0. If you fall short of their expectations by 25 percent, you score 0.75. If you exceed their expectations by 30 percent, your PEF is 1.3. Congratulations! You have a 30 percent "delight factor" going for you! You're going to be thrilled with how well your advertising pays off.

But a weak PEF can undo a whole lot of good advertising. Remember the 30 percent share of mind that we earned in the last chapter? Watch what happens to share of market when the advertiser delivers a PEF of 0.75:

30% Share of Mind × 0.75 PEF = 22.5% Share of Market

You probably think your company's PEF is pretty good — at least average, right? Let me warn you, that's exactly what people with extremely low PEF scores believe about their companies, too.

When you feel your advertising dollars aren't really performing for you, take a hard look at your impact quotient and your PEF. I guarantee that your problem is with one or both of them.

One day when I was struggling to figure out if my company had a story that was uniquely and wonderfully its own, my friend Mike Webb said to me, "It's hard to read the label when you're inside the bottle." So I began asking people "outside the bottle" what they saw. When I finally convinced them I wasn't going to be angry with them no matter what they told me, I was stunned by their clarity of vision. In fact, I'm still stinging from it, because while half of what they said made me feel great, the other half cut me to the heart. But the advice Mike gave me was wise.

And now I've given it to you.

6
Market Potential

Share of Market × Market Potential = Sales Volume of Advertiser

At minus 459 degrees Fahrenheit — absolute zero — electrons freeze in their orbits around the nucleus of an atom. At the speed of light, time stands still. Mankind has never achieved either one of these.

And you're not going to sell 100 percent of your market potential.

When you've reached the sales altitude of about 33 percent of your market potential (MPo), you'll find that the air gets very thin and it gets harder and harder just to hang onto what you've got. And in all but the rarest circumstances, it's been my observation that there is a very real "speed of light" that cannot be exceeded — about 40 percent of market potential.

The advantage of the advertiser in a smaller market is that media are cheaper and share of voice is easier to get. The disadvantage is that there's also a much lower ceiling for growth.

Advertising dollars buy a proportionally smaller share of voice in a large market than in a smaller one. This puts enormous pressure on the impact quotient and PEF of the large-market advertiser, because these must compensate for his lack of budget. The advantage of being a large-market advertiser is that once you've finally achieved critical mass, you still have plenty of opportunity for growth. You don't have the problem of a low ceiling.

All other factors being equal, growth will start faster and end sooner in a smaller market than in a larger one.

Since our first client, Woody Justice, was a jeweler, we became very well known among jewelers when Woody began doubling and tripling his sales volume each year. (As you might expect, we soon

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share of market: an advertiser's percentage of the total business volume done in his business category.

market potential (MPo): the total dollars available in a business category.

had a couple of dozen jewelry-store clients and were becoming rather worried about our company being perceived as a "jewelry store specialist." But that's another story.) Three of these jewelers became close friends and made a friendly wager. Woody, in Springfield, Robert, in New Orleans, and Richard, in Milwaukee, each pledged to pay $1,000 to whoever had the highest sales volume each year. When the wager began, all three had, with our help, already significantly increased their sales volume and were reasonably close together in gross sales.

I advised strongly against the wager, knowing that each year two of them would feel that my company had let them down. When all three refused to call off the bet, I said to Robert and Richard, "Okay, just please know that you're both going to be paying Woody $1,000 a year for the next few years, then Woody will have to start mailing money to one of you. My guess is that it will be Richard, because Robert is facing two really tough competitors in New Orleans."

The average jewelry store in the United States has a gross sales volume of less than $650,000 per year. After calculating the jewelry sales per capita for each of their states and multiplying it by the population in each marketplace, I told Woody he would probably collect money from Richard and Robert until he got to a sales volume of around $11 million a year. I told Richard and Robert that when they got to about $30 million a year, they would likewise have to learn to be content. Since each of them was doing only a couple of million dollars a year at the time, they all grinned like Cheshire Cats and said, "From your lips to God's ears!" I have to remind Woody of this when he starts moaning about the $1,000 that he has to send to Milwaukee or New Orleans each year.

I don't have the heart to tell them that Los Angeles jeweler Steve Robbins bit the bullet, grabbed for the brass ring, and is currently closing in fast on his personal target of $100 million a year.