

New Technology Produces Ads That Cost Less – and Get 10X More Response

How the Vector Sales Optimization System Produces Explosive Results for Direct Marketing Campaigns

This report introduces The Taguchi Based Vector Sales Optimization System.

- This system provides the large or small business with a proven technology for producing increasing revenues by using highly effective, scientifically optimized advertising.
- Requires far less testing than previous methods
- This proven process consistently increases customer response by 3 to 5 times that of conventional advertising by using a step-by-step process that is based on advanced system optimization principles adapted from state of the art manufacturing processes.
- Media Optimization Examples Include:
 - Direct mail
 - Email marketing
 - Pay-per-click advertising
 - Newspaper space advertising

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Executive Summary

An Overview of Business Advertising Today

20.54 Billion Dollars (US\$) were spent on advertising and media exposure in 2003 according to a report compiled by Advertising Age. The operative question is:

How much of that money used to purchase media exposure produced a measurable profit for the businesses?

To answer this question, we must understand two points.

- First, effective advertising is **not** only a creative pursuit.
- Second, advertising in the pursuit of profit should never be approached with mere guesswork and speculation.

Traditionally, measurable profitable results from advertising have been overshadowed by creativity. Recently, the terms marketing and advertising return on investment (ROI) have become “buzzwords” throughout the business community and old assumptions are being overturned. The inherent measurability of web traffic is the major driving force behind this. Yet, the question of advertising effectiveness (profitability) is only rarely dealt with. This has to change.

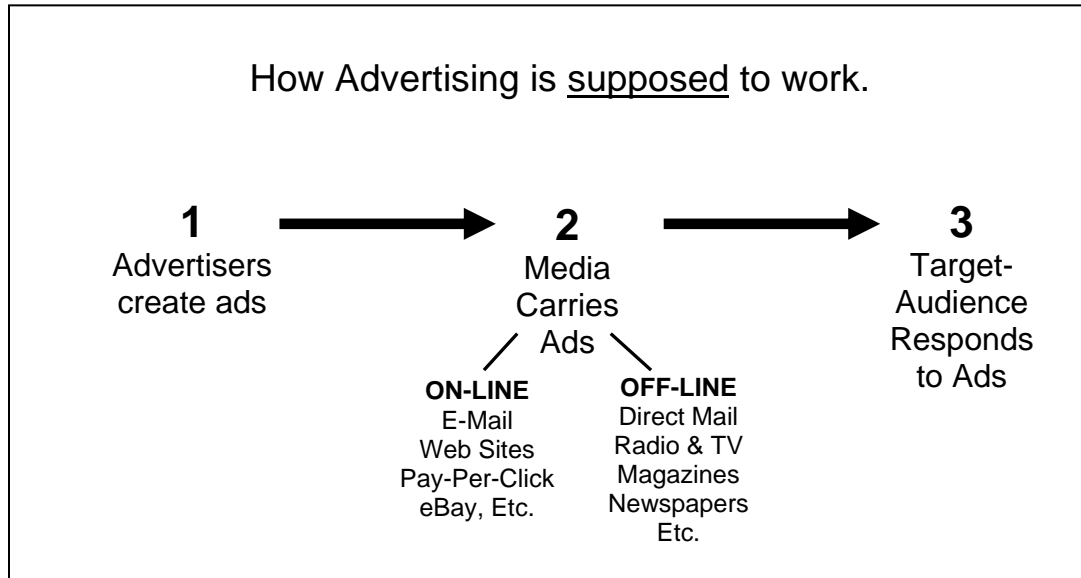
Advertising must increase sales. But most of what is called advertising does not fulfil this most basic requirement. Most advertising is unproductive and unprofitable.

Dynamic Advertising Component Optimization (DACO) provides a workable solution and methodology that:

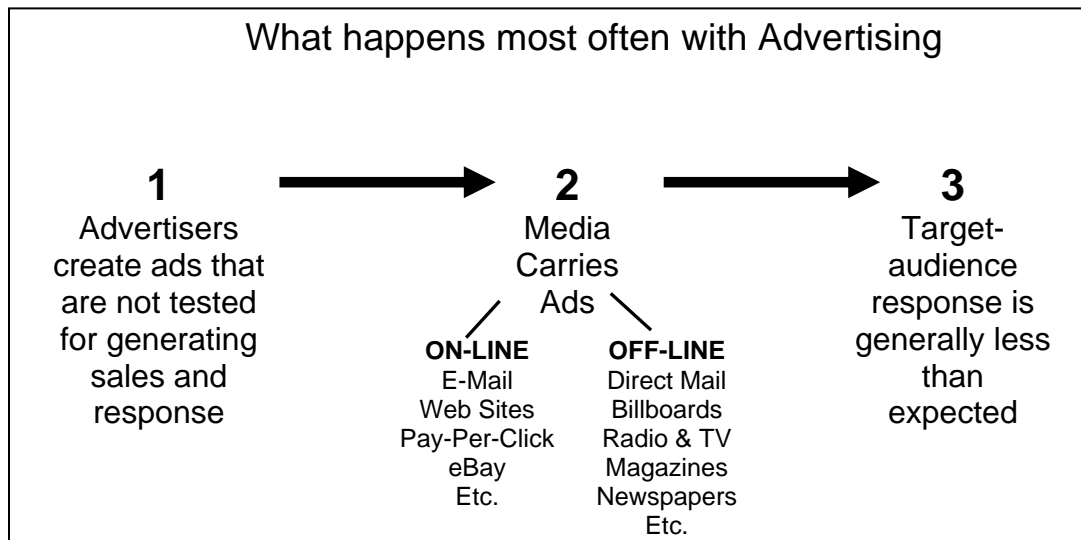
- Provides a defined set of criteria and standards for every component of an advertising campaign to predetermine profitability.
- Provides standard practices so that profitable results are achieved with minimal cost, time and resource.
- Provides a step-by-step system so that creativity is incorporated into the advertising process. But at the same time, creativity is not permitted to overshadow “marketplace response” as the metric for effectiveness.

Ideal Advertising Versus Reality

Ideally, advertising cuts through the noise in the marketplace and communicates your marketing message to the target audience via the most effective media channel.



In reality, because of the “noise” in the marketplace your advertising message often does not perform as designed.



Advertisers spend significant amounts of money for exposure without significant measurable returns.

Business Challenge

Most businesses fail in their attempts to generate increased revenues with advertising. They believe that frequency and repetition are the key elements to effective advertising implementation. Most advertising creation is in the hands of those who are not skilled in practices of profitable advertising. To implement a profitable advertising campaign many skills are required.

An **advertising optimizer** is a specialist who designs, creates, builds, tests, analyzes and optimizes advertising so that it achieves the desired effect in the marketplace. This is a combination of advertising, marketing, copywriting and sales.

Most people who create advertising messages are woefully inexperienced in producing advertising that gets results in the form of increased revenues.

Revenue generation is a function of sales. Yet, profitability is not a component factored into most marketing strategies and advertising tactics.

In addition, advertising, whether online or offline, is rarely analyzed for maximum response and Return On Investment. Effective advertising depends upon media, market and message interaction, yet there are no standards or criteria for what constitutes effective advertising.

The reasons for this are as follows:

- Evaluation and some creation of advertising has been given to media outlets.
- There is a belief that advertising agencies and media outlets are competent and knowledgeable in effective advertising practices. Some advertising agencies do specialize in direct response advertising methods. Most, however, are just specialists in media placement.
- There is no standard practice or methodology to track and monitor media spending verses produced revenue.
- There is no step-by-step methodology grounded in the scientific process that is proven to work in the marketplace.

These shortcomings are eliminated by optimizing the media, message and market match using Dynamic Advertising Component Optimization. This process suppresses “marketplace noise” and allows your advertising to perform in the marketplace.

Business Solution

From the engineering and manufacturing disciplines, Dr. James Kowalick has developed The Dynamic Advertising Component Optimization Methodology based on the Taguchi Method of process optimization. In essence, Dr. Kowalick borrowed methods from engineering and used them to analyze marketing processes.

This methodology has been proven over the last 40 years in the manufacturing and high-tech design arenas. Dynamic Advertising Component Optimization allows the advertiser to analyze the interaction of the 12 critical variables that affect any advertising message in any media. By analyzing the way that the ad **message** reacts and interacts with the **media** and the **market**, the entire advertising campaign can be optimized to produce maximum response and sales conversions.

Solution Description

The Maximum Response Rate (MR2) advertising optimization system is a unique and versatile tool that puts extensive marketing test power at your fingertips without requiring any special knowledge of statistics or large efforts in terms of time and resources.

This methodology uses scientifically proven mathematical and statistical formulas to generate the optimized advertisement by analyzing the response to a few test ads representing thousands of possible combinations. *It is not necessary to test each combination, because this method calculates the interaction of each element.*

Media That Can Be Optimized

Offline	Online
Newspaper	Web Site
Magazine	Email
Direct Mail	Pay Per Click
Coupons	Sponsor Ads
Inserts	Landing Page
Radio	URL Selection

Solution Benefits

This solution is a step-by-step methodology which provides the following benefits to any business that is using advertising:

- Increased response rate
- Higher sales conversions
- Higher profits
- Lower costs

Further, a working database of what is effective in the marketplace to produce the desired results can be developed without the costly traditional method of trial and error.

Example of Results

23 Times Higher Response At One-Sixth The Cost

Michael Malloy, Owner of Malloy Insurance Services, Oregon House, CA:

"I was skeptical at first, but the results were clear" says Malloy. "Where my expensive ads weren't working, what did work were much simpler stories that were cheaper to tell." Malloy's advertising costs dropped from \$1,800 per week to \$300 and his response rate increased from two or three responses per week to around 70 - 23 times higher at one-sixth the cost.

Brief Explanation Of The Ad Optimization Technology

How Advertising Optimization Works

The advertiser isolates the influential components of the advertising creative and campaign. For example: for a direct mail campaign, the five major components are headline, body copy, offer, call to action. Options are created for each of the components. From the advertisers input, only 12 test ads are needed – not thousands.

Those 12 ads are then tested in the marketplace. As the market responds differently to each of the 12 test ads, the response to those ads is tracked, monitored and recorded.

The recorded response is then entered in the advertising optimization matrix software which analyzes the response to determine the most effective combination of components. It calculates the optimum mix of message elements out of thousands of possibilities.

Why Advertising Optimization Works

In any advertising situation, there is marketplace noise and success factors.

Noise is defined as those influences on advertising that exist and can affect the outcome but are not able to be controlled.

Success factors are those influences that affect advertising that can be controlled.

Dynamic Advertising Component Optimization

- Minimizes the noise factors surrounding an advertising effort.
- Identifies the success factors that are most influential on an advertising campaign based on response and feedback from the marketplace.

The advertiser is provided with an advertising piece that is tested and optimized based on the response from the actual marketplace and with media that is targeted for the marketing message.

Who This System Was Created For

This system was developed for those who are seeking to use fiscally responsible advertising in their overall marketing strategy in an effort to lower costs and maximize revenue.

- Business owners
- Marketing directors
- Sales managers
- Copywriters

Case Study Results

The Dynamic Advertising Component Optimization Technology has been successfully used in the following areas and industries:

Advertising Channel	Product / Service	Industry	Increase In Sales Conversion
Email Marketing to In House Mailing List	Service	Insurance	23.3 x
Email Marketing to Opt-In List	Product	Consumer Electronics	17.1 x
Newspaper Space Advertising	Product	Home Furnishings	8.3 x
Online Pay Per Click Advertising	Service	Subscription / Membership Site	8.8 x

This system optimizes advertising for all media with response increases typically 3 to 5 times greater than the original advertising message.

Insurance Company - Malloy Insurance Services, an insurance firm in California (USA) whose regular campaigns to an in-house list weren't working very well, decided to use the MR2 technology.

"I had an opt-in e-mail list of 7,500 names and was sending out very nice ads I paid a lot of money for but was getting almost no response at all, nothing." recalls Michael Malloy, owner of Malloy Insurance Services.

In three two-hour sessions with his team, Malloy identified the variables that affected the ads and designed the resulting experiments. The design process finally came down to 12 test e-mails that would define the right e-mail campaign for this particular product and audience. The variables included subject line, sender, forms, graphics, colors, and use of humor. The tests were 12 mailings to 625 recipients each -- two mailings per day over six days. Analyzing the results took two days, so the whole process, start to finish, took two weeks. Once the variables were optimized, all further mailings followed the form dictated by the test results.

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Furniture Company - A furniture company in Texas (USA) was spending \$75,000 per month advertising their furniture collection in the weekend edition of major newspapers in their metropolitan area. The results were disappointing: only 2 to 3 visits at each of the 5 show-rooms resulting in 1 or 2 sales per show-room per weekend on average.

The company hired MR2 to increase the response rate of their newspaper ads. After 2 days selecting variables and options, a team of 5 people created 18 test-ads to be published in newspapers in 2 consecutive weekends. Variables included ad headline, ad size, ad copy, image, and offer.

The collection of the test data took 10 days and in less than 2 weeks the team had the newspaper ad optimized. On the following weekend the optimized ad was published and the average number of visits per show-room on a weekend increased to 24, with an average of 14 sales per store!

Mortgage Company - A mortgage company in Southern California (USA) was buying 5,000 qualified leads per month from lead aggregators at a cost of \$20-40 each. After that, a team of 25 loan officers were calling those leads to sell mortgage refinancing. Since the average conversion rate in the mortgage refinancing industry is around 2%, the company needed a less expensive way to generate leads.

A group of 4 people, that included the top performing Loan Officer, designed the 18 tests in one day. After that, the tests were sent to 500 people each. Finally, the results were collected and the optimized email was generated.

The company now uses the optimized email for lead generation at the cost of \$3 per lead, compared with an average of \$30 before implementing the MR2 technology. As an additional benefit, the lead conversion rate increased to 3.5%.

Implications of this Technology

This technology has the potential to revolutionize advertising, especially online. The reason for this is the ease at which testing can be done. Copywriting decisions are reduced to a simple matrix of assumptions which can be tested in a matter of days or weeks, resulting in dramatically improved response and more intelligence about customers and their preferences. More than 2000 combinations of variables can be tested with just 12 versions of an advertisement.

Pay Per Click advertising brings new implications to the table. Because of Pay Per Click, competitors can enter your market at will – literally in 10 minutes. This is a perplexing problem for many companies.

The only way to shut out competitors is if the cost of clicks is too high – you need to be able to outbid them. The only way to do this is to have a higher sales conversion rate you're your competitors.

That's where MR2 software secures your position in the market. If you improve your sales conversion rates by 100%, 300% or more, you are now able to outspend your competitors by a factor of 2:1, 3:1 and even 5:1. This allows you to get more traffic volume and still more test results and more response improvement. Eventually it becomes impossible for a competitor to enter your market for any reasonable amount of money.

The winners will be those who implement the MR2 technology first.

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Evaluation Version of the MR2 Software is Available.

To Download A Working Demo Version Of The All Media Dynamic Advertising Optimization Software, visit www.AdEvaluator.com

Articles and Press



Better Methods

Suppose you could really figure out why advertising works.

Inc. Magazine, September 2003 - <http://www.inc.com/magazine/20030901/rcringely.html>



Dr. K, I Presume!

James Kowalick and MR2.

Advertising Age, October 27, 2003

http://www.marketingvox.com/archives/2003/09/30/improving_online_marketing_with_japanese_engineering_philosophy/index.php



Probing the Limits

Statistical Quality Techniques in Advertising.

Quality Magazine, February 1, 2004

http://www.qualitymag.com/CDA/ArticleInformation/features/BNP_Features_Item/0.6425.119447.00.html



Predictive Modeling for Email Campaign

The New Metrics Frontier.

MarketingSherpa.com, January 06, 2004



Taguchi Me This

James Kowalick and Mario Fantoni are changing advertising forever.

PBS, September 25, 2003 - <http://www.pbs.org/cringely/pulpit/pulpit20030925.html>



Improving Online Marketing With Japanese Engineering Philosophy

Marketing Vox, September 30, 2003

http://www.marketingvox.com/archives/2003/09/30/improving_online_marketing_with_japanese_engineering_philosophy/index.php

Additional Information

For the latest information about Dynamic Component Advertising Optimization products and services, please see the following resources:

www.AdEvaluator.com

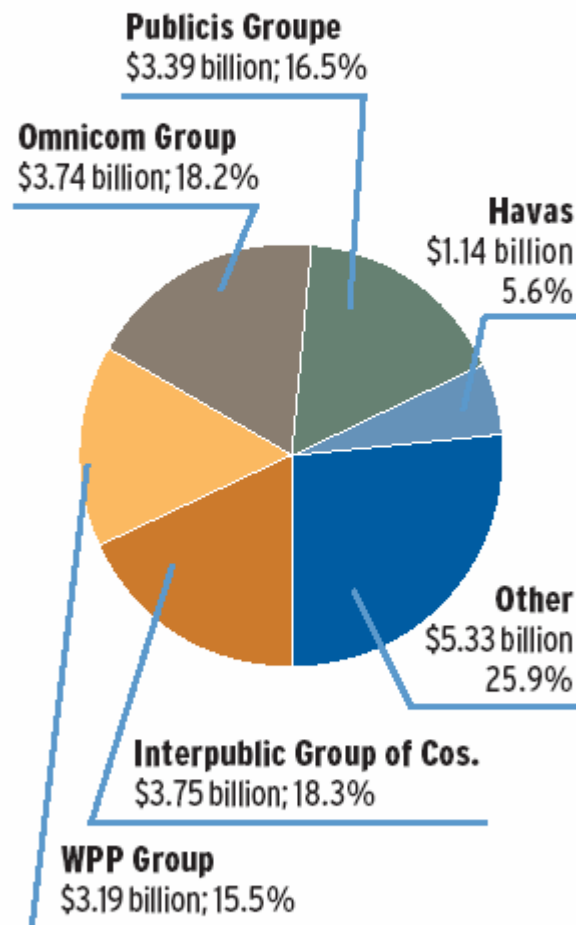
www.Kowalick.com

References

Advertising Age's

AGENCY REPORT MARKET SHARE PIE

FIVE GROUPS DOMINATE ADVERTISING AND MEDIA



Source: *Ad Age*. Figures based on \$20.54 billion worldwide revenue from 2003 advertising and media activities of U.S. agency brands and their global networks. Disciplines such as marketing services and healthcare are excluded. Figures are estimates.

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