

How Ads Work Part 2

This eBook will teach you an important equation from Roy H. Williams, aka The Wizard of Ads and offer you examples of how to make your ads more memorable and powerful. To start, though, we're going to recap some important info from How Ads Work Part 1

Two Types of Customers: Transactional & Relational*

MIT students did a study of shoppers who used Directlink.com to shop for DVD's. Directlink is a search engine that searches the web for every site that sells the item you request. It lists the items in order of price from lowest to highest. The MIT students theorized that 99% would click on the first listing (lowest price). Actual results? 51% of shoppers chose to pay on average \$3 more for DVD's. (Went to more recognizable sites like Amazon, Wal-Mart)



Grocery Store Marketers – When asked by Roy H. Williams if they believed “price drove traffic”, 290 out of 300 hands went up. Williams then asked if anyone offered a loyalty program (swipe card). One person remarked that his store did better than national average and had 43% of all transactions by loyalty card holders. Williams inquired if everyone was asked to join program. “Yes”, responded the Marketer. “Our cashiers are well-trained and ask everyone.” To which Roy pointed out that 57% said, “No thanks, I’ll pay more.”

Moral? Price is not everything.

In shopping there are primarily two types of customers, **Transactional Customers** and **Relational Customers**. It is important to understand the difference between these two types because advertising to them is completely different.

The Transactional Customer

- Looks at every transaction as a **Single Encounter**
- Has done all the research and believes **She is the Expert** on the item
- Is on a hunt to find the **BEST PRICE**
- Fear is **Paying Too Much**
- **Big on Word-of-Mouth** – loves to brag about the deals she made
- **Low on Loyalty** – only loyal to the best price

The Relational Customer

- Looks at every transaction as **one in a line of many transactions**
- **Does Not Believe** she is the expert on the item
- Is on a hunt to find **the EXPERT** she can trust
- Fear is **Buying the Wrong Item**
- **Big on Loyalty** – once you gain her trust, all other stores disappear

By The Numbers

| Relational | | Transactional |
|------------|-------------|---------------|
| 10% | Advertising | 90% |
| 20% | Traffic | 80% |
| 50% | Buyers | 50% |
| 60% | Sales | 40% |
| 70% | Profits | 30% |

Advertising: Most Advertising is spent on Price – Sale, Sale, Sale!, Inserts in newspaper, Automobile Advertising 0% Down, etc.

Traffic: Transactional Customers go to many stores looking

How Ads Work Part 2

for best price. Relational Customers only go to one store, the store with the Expert they trust

Buyers: 50% of the market in ANY category are Transactional, 50% are Relational

Sales: Transactional Customers only buy the stuff on sale

Profits: Transactional Customers only buy the stuff on sale

**(Relational vs. Transactional study courtesy of "Making Ads Work" by Wizard of Ads Partner Craig Arthur)*

You reach **Transactional Customers** by advertising price and price alone. You reach **Relational Customers** by branding yourself as the place that matches their worldview and gives them feelings of trust and confidence that won't steer them wrong.

Note: we are all both Transactional and Relational, it just depends on the category. For instance, you might drive all over town to save 4 cents on a gallon of gas (Transactional) but wait two extra days to have your own mechanic work on your vehicle (Relational).

The Advertising Performance Equation*

$$\text{Sales Volume} = \text{SoV} \times \text{IQ} \times \text{PEF} \times \text{MPo}$$

This formula from Roy H. Williams is the most remarkable way of understanding the relationship of the factors in advertising that influence your sales. It is not meant to be a plug and chug type formula. You can't just put in numbers and get a result. It is too subjective.

But by understanding the terms, you will better understand why your business is growing (or not).

**The APE was created by Roy H. Williams and introduced in his book, Secret Formulas of the Wizard of Ads, pg 105*

The Terms

SoV = Share of Voice—your percentage of all of the advertising done in your market for your products

IQ = Impact Quotient—how memorable your ad is compared to other ads—very subjective

PEF = Personal Experience Factor—the level at which you EXCEED your customers' expectations in the store

MPo = Market Potential—the total amount of sales in your category that your market can produce

According to this formula, to increase sales, you need to increase the factors. Over the following pages we will explore how to increase each of the different factors.

Share of Voice

Your Share of Voice is the percentage of all advertising that is yours.

There are two ways to increase Share of Voice:

Spend More Money

Dominate Your Media

The more ads you buy, the higher you increase your percentage, the higher you increase your Share of Voice.

Share of Voice is also subjective. In most media, there is one "dominant" voice. Regardless of their actual percentage, the *perception* of their dominance gives them the equivalent of 100% Share of Voice for that medium.

When you dominate your medium, you increase your *perceptual* Share of Voice.

Most advertisers, however, do not dominate any one me-



How Ads Work Part 2

dium because they fall prey to one of the biggest marketing myths around...

Myth: Mixed Media Gets Best Results

Reality: When you mix your media you often spread your message too thin to be remembered



Many advertising advisors and agencies will tell you that to be most effective you need to spread your advertising around.

They believe that potential customers that hear your radio ads, see your TV ads, read your newspaper ads, browse your website, get your direct mail piece, finger your yellow page ad, drive by your billboard and scan your email will connect all those impressions into one coherent thought about your business.

The truth is, each of those messages is stored in a different part of the brain so no connection is ever made. Plus, we are bombarded by advertisements. It is like trying to fill a teacup with a fire hose. So we learn to filter.

Unless you have enough money to dominate every media in which you advertise (like Coca Cola or Budweiser), you are better to choose one medium and get the *perception* of a higher Share of Voice. Otherwise your message will get lost in the shuffle. Mixed media may reach more people, but it convinces them less effectively.

Impact Quotient: Say Something Interesting

Your **Impact Quotient** is how memorable your message is. The *least* interesting thing you can talk about is you. The customer doesn't care how much you know until she knows how much you care. The *most* interesting thing you can talk about is her.

With so much advertising being filtered, you have to say something that is far more interesting than what she is currently thinking.

You have to get her interest.

You do that by **telling a story**, or by **making it about her**, or **about a product**, but never about you. Sorry, you're just not that interesting.



Say Something Interesting Radio Example...

*If the lowest price is all you're after, this isn't the camera for you. Another downside of this camera is that it's not the sleekest, prettiest one in its price class. No one is going to tell you how cool your camera looks. The upside is that it takes far superior pictures. The prettiest camera in this price class has a shutter speed of 1/15th of a second. But the shutter speed of the ugly Canon PowerShot S500 is a superfast 1/60th of a second, allowing you to take fabulous photos in low-light situations. Your indoor photos will look rich and vibrant when all the others look dark and grainy. And your nighttime photos will make people's eyes bug out. Beautiful contrast and luminance, even without the flash. This camera can see in the dark. Take a picture of your lover in the moonlight. It will become your favorite photo ever. And that superfast shutter speed is also very forgiving of movement. That's why no one ever replaces their PowerShot S500. Go to your local pawnshop and see if you can find one. We're betting you can't. But you will see several of that "prettier" camera available cheaper than dirt. So if you're looking for a great price on a sleek-looking camera, that's probably where you should go. For the PowerShot S500, we've got yours waiting.**

This is a classic example of an ad that is all about the product and the customer. It uses the most powerful three-letter

How Ads Work Part 2

word in the world, **"you"**, to engage the listener and make her feel that the announcer is talking directly to her.

Notice two other techniques that all good ads should have.

One, it *backs up every claim with evidence*. Unsubstantiated claims are the fastest way to get tuned out. Make a claim without evidence and the customer says in their most cynical voice, "Yeah, right."

Two, this ad isn't afraid to *tell the downside*. Everything has an upside and a downside. Your customer will immediately start looking for the downside, so you can help gain her trust by being upfront about it in the first place.

Who is ready to go find this camera with me??

(*ad written by Roy H. Williams, aka Wizard of Ads)

Say Something Interesting Print Example

This is a print ad, but could work just as easily on TV or Radio. Again it is about the product and the customer. You have to look very carefully to find the company.

The picture is simple, and the copy is very interesting. If you see this, you will probably want to read more.

Note: Does "Sex" Sell? Here's my opinion... Sex gets attention. Sex affects one of the most powerful emotions – love.

So sex certainly is a powerful tool in advertising for two reasons – gaining attention and creating emotion. But is the emotion or reason for gaining attention consistent with the



traits of your store? If not, "sex" will not sell for you. The same can be said for both humor and music. A bad jingle can do far more damage than a good jingle can do good. A bad joke has the same negative effect. Be very careful of the backfire effects of sex, humor, and music. Roy H. Williams says that humor, music, and testimonials are the nitroglycerin of advertising. Mixed well, they are very powerful, but one wrong step and it could blow up in your face. I would add "sex" to that list.

Impact Quotient: Make Only One Point

With the limited time you have to capture someone's attention in a print, radio or TV ad, you can only expect a prospective customer to remember **one point**.

Most ads, however, try to make more than one point, which just makes it harder for the customer to remember *any of the points*. The more points you make the less likely any will be remembered.

The most effective ads are boiled down to one point and only one point. And... The more concisely you can say what you need to say, the more powerful the message becomes.



Think of a bottle of perfume. If you take two bottles, each half full, and then fill the second bottle the rest of the way with water, which is more potent? The first.

Make only one well-concentrated point.

Impact Quotient: Make it Relevant

The easiest way to get someone's interest is to make your message Relevant. Make it *important* to someone.

How Ads Work Part 2

Passive ad mediums such as newspapers, magazines, and direct mail *need* to be Relevant to be seen. You can read a newspaper from cover to cover and not remember a single ad. Why? None of them were Relevant to you.

Products are Relevant to anyone in the market for that product. Include the product in your ad and it instantly becomes more Relevant to everyone looking for that product.

If you need a new lawn mower, you will suddenly “see” every lawn mower ad out there. If you’re hungry, you’ll see or hear every food and restaurant ad – the same ads you didn’t see before you needed the product.

Emotions are also Relevant. Make your ad have emotional appeal and it will appeal to those who feel that emotion.

“You” are Relevant. Make your ad about the customer and it becomes more relevant. We don’t want to hear about your business, we want to hear about ourselves.

Impact Quotient: Speak to the Heart



You can speak to the mind or you can speak to the heart. But when the two are at odds, the heart will always win.

We use logic to justify what our hearts have already decided.

The heart is the world of emotion, the world of art, the world of beauty. The heart is visual. The heart likes stories. The heart likes happy endings. The heart likes things positive.

Most buying decisions happen at the store, and almost always when the heart sees something it has to have. Then it makes the brain figure out how to get it.

Use the heart to make your ads more interesting and your

message more memorable.

Note: *Fear is a powerful emotion, too. Fear drives a lot of our decisions. But fear is lousy at advertising. Fear is a negative, a turn-off and makes people less likely to remember you positively. Do not use fear as the emotion in your message.*

Speak to the Heart Radio Ad Example

Squealing rubber, crunching metal, breaking glass. Sheila’s baby daughter, Livvy, was in the back seat. The next day she called to thank me for installing the car seat that saved Livvy’s life. This is Phil Wrzesinski from the Toy House. Since that day my staff and I have installed over two thousand car seats to keep kids like Livvy safe and give parents and grandparents peace of mind. It’s just something we believe in. I guess you can call that the Toy House Way.

This works best as a radio ad because of the vivid images the opening line conveys. By the time you’ve tuned in, you’re worrying about Sheila’s baby daughter as much as she is.

Yes, fear plays a small role, but not as the driving force of the message, only the driving force of gaining the customer’s interest.

The opening sequence uses verbs to convey emotions, the language of the heart, to get your attention.

The message? We want to help keep your kids safe.

This is also an example of another “technique” for making your ads powerful – Show, Don’t Tell.

Rather than *tell* you that we install car seats that protect kids, we *show* you by putting you into the car with Livvy.

How Ads Work Part 2

Impact Quotient: Don't Look/Sound like an Ad

Only 15 years ago, our filters were used 6 minutes a week scanning junk mail, and about 1 hour a day scanning newspaper headlines. Now we scan websites, emails, and more looking for relevant and interesting information. Our filters are on at least 6-8 hours a day.

Most ads, however, are neither relevant nor interesting. We have already learned to filter out anything that looks or sounds like an ad. Think of it as an automatic spam blocker.

As soon as we hear or see an ad, we tune it out. Blah, blah, blah.

To get your customer's attention you need to surprise them with something new, something different, something that doesn't look or sound like an ad.

Your ad has to be *more interesting* than whatever is currently occupying your customer's mind, and if it looks like an ad or sounds like an ad, I guarantee it is not more interesting.

Don't Sound Like an Ad—Radio Example

He left Detroit 9am Christmas Eve. Some store somewhere had to have the one toy his sweet little six-year old wanted. Six stores...seven hours later, he stood, travel-weary, across the counter from me. "I suppose you don't have any Simon games either." As I handed over the last of our Simon games he smiled and said, "God Bless You!" Believe me, He already has. Merry Christmas from the Toy House in Downtown Jackson. We're here to make you smile.

This is another radio ad that tells a story and speaks to the heart. It also doesn't sound like any other radio ad you've



ever heard.

Believe it or not, but we banked an entire Christmas ad campaign on this ad. End result? Our best Christmas season in over 15 years!!!

It was so good in 2005, we rolled it out again in 2007 and outpaced Michigan retailers in general, and toy retailers across the country in 4th quarter sales.

Impact Quotient: Increase your Frequency

Your ad is *Interesting*, makes *Only One Point*, is *Relevant*, *Speaks to the Heart* and doesn't *Look or Sound* like an ad. Someone that heard it once still isn't convinced...

...mainly because she has already forgotten it!

Sleep is the Great Eraser of Memory.



Everything that happens throughout the day is put into electrical or **Working Memory** (think RAM like a computer). At the end of the day all of your Working Memory that wasn't relevant or impactful is erased by sleep, including stuff only slightly relevant or impactful.

Declarative and **Procedural Memory** are chemical memories. These are stored in your brain (think hard drive). They come from repetition. Declarative is the memory of things you can recall if asked (your cousin's phone number). Procedural is memory that comes without thinking (slamming your brake when a deer crosses the road)

With repetition, electrical Working Memory is converted to

How Ads Work Part 2

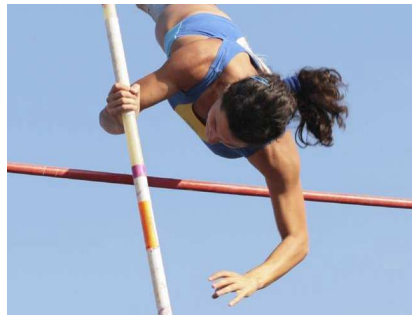
chemical Declarative memory, and as repetition continues, from Declarative to Procedural.

The amateur practices enough to get it right (Declarative). The professional practices until he cannot do it wrong (Procedural)

In advertising, the magic number is 3. It takes the average person hearing/seeing an ad 3 times in 7 days before it gets stored as Declarative Memory. And they must hear it 3x every week until they need the product or service! (Note: the more impactful your message, the lower your frequency needs to be, but for the average ad, 3 is your number.)

Personal Experience Factor

This is the world inside your door. No one acts until they first see themselves doing it in their mind. This creates a set of expectations for anything we do.



Your business reputation and advertising (your brand) has set up an *Expectation* that customers will have when they see you. To increase your PEF, you have to **meet or exceed** that expectation every time.

To increase the PEF:

Raise the bar internally. Expect more out of your staff. Train them better. Get rid of the ones who can't do it. Empower your staff to do more.

Be consistent. Match the traits of your business in every aspect of your business, right down to the odor in your bathroom and message on your answering machine.

Use your ads to create the expectation. This gives you control over what people expect so that you can pleasantly surprise them with more.

Be careful about bragging up your customer service too high. It raises the bar of expectation making it harder for you to *exceed* what customers expect.

Market Potential



The gold standard is 30%. If you reach that level, you OWN your market! Way to go! Just don't expect to grow much more. Only a handful of extremely successful businesses ever hit 40% with a perfect storm of circumstances to get there.

Measure your Market Share and see how much room you have to grow within your market.

Calculating Market Potential

Find the total \$\$ spent in your category nationally. This can usually be found in trade magazines or trade association websites.

Divide that number by the population of the United States (use 308 million for a nice round number)

Multiply your result by the number of people in your trade area (your city, county, state, metro region, etc.)

This is the total Market Potential. To find your share, simply divide your sales by the Market Potential to get your market share.

This number can be quite liberating. Wal-Mart only has a total 10% market share of all retail, and only tops 30% in a

How Ads Work Part 2

handful of categories. The typical independent usually has less than 6% of the market in most communities, but 20-25% is reachable. In San Francisco, independent toy stores account for 44% of the market share, collectively.

How well do you stack up? If you have topped out your market, there is only one way to increase Market Potential...

Move to a bigger market.

Doing the Math

| SoV | x | IQ | x | PEF | x | MPo | = | Sales |
|-----|---|-----|---|-----|---|------|---|-------|
| 10% | x | 1.0 | x | 1.0 | x | 100% | = | 10% |
| 12% | x | 1.0 | x | 1.0 | x | 100% | = | 12% |
| 10% | x | 1.2 | x | 1.0 | x | 100% | = | 12% |
| 10% | x | 1.2 | x | 1.2 | x | 100% | = | 14% |
| 10% | x | 0.8 | x | 1.0 | x | 100% | = | 8% |
| 12% | x | 0.8 | x | 1.0 | x | 100% | = | 10% |

Here is a table showing the relational aspect of the APE formula. Notice how your Sales change when you change the numbers of the formula.

The two most powerful factors are IQ and PEF. Best of all, you own those two.

Neither is dependent on where you live, who your competitors are, or how much advertising they are doing. Neither is dependent on how much you spend on advertising, where you spend your ad dollars, or who you reach.

Both IQ and PEF come from your Brand. Determine your Character Diamond or Emotional Pulsar (see eBook "Understanding Your Brand" in the Freebies section of www.PhilsForum.com).

PhilsForum.com) and you have the foundation for increasing your Impact Quotient and Personal Experience Factor, and, in turn, increasing your Sales Volume.

Note: IQ is totally subjective. The same ad might be a 1.7 to one person and 0.5 to another. But think about how powerful that ad is to the first customer, and how well you will convince them to shop with you. Choose who to lose.

Ads are like magnets, their ability to attract is in direct proportion to their ability to repel. The stronger your ad attracts your type of customer, the less likely it will appeal to the other customer. Create ads that powerfully attract the kinds of customers you want and don't worry about the complaints. Only the best ads get complaints, and only because your frequency is high and your ad is impactful.

This eBook could not be written without the many lessons I have learned from Roy H. Williams, aka The Wizard of Ads.

*Nicknamed the Wizard of Ads by an early client, **Roy H. Williams** and his staff have often been the unseen, pivotal force in amazing come-from-behind victories in the worlds of business, politics, and finance.

Williams teaches creative thinking, strategic planning and human persuasion at Wizard Academy that is attended by executives from many of the world's largest advertising agencies, professors from leading universities, broadcasters, journalists and small-business CEOs from around the world.

His first book, The Wizard of Ads, was voted Business Book of the Year in 1998 and his second book, Secret Formulas of the Wizard of Ads, became The Wall Street Journal's No. 1 Business Book in America in 1999 as well as a New York Times bestseller. The third and last book in the Wizard trilogy, Magical Worlds of the Wizard of Ads, also received the honor of being a bestseller on The Wall Street Journal list. Each of the books has been translated for international distribution in China, Brazil, Korea and Israel. His other books include Accidental Magic and Free the Beagle.

A lifelong student of the human race, Williams is forever seeking to answer the question, What makes people do the things they do? And the answers that he is discovering along the way provide a wealth of practical knowledge and a constant source of entertainment for his students and friends on five continents.

Williams lives in the Middle of Nowhere, Texas, with his wife, Pennie.