P&G Slashes Digital Ads by $140M Over Brand Safety. Sales Rise Anyway

By Jack Neff. Published on July 27, 2017.

Procter & Gamble's concerns about where its ads were showing up online contributed to a $140 million cutback in the company's digital ad spending last quarter, the company said Thursday. That helped the world's biggest advertiser beat earnings expectations. Perhaps even more noteworthy, however, organic sales outperformed both analyst forecasts and key rivals at 2% growth despite the drop in ad support.

P&G didn't call out YouTube, the subject of many marketers' ire earlier this year, in its fiscal fourth-quarter earnings release, but did say digital ad spending fell because of choices to "temporarily restrict spending in digital forums where our ads were not being placed according to our standards and specifications."

Those cuts amounted to nearly a percentage point of profit margin for the quarter, with cuts to agency and production fees further boosting profits.

People familiar with the matter said P&G left YouTube in March over brand-safety issues, though P&G has also had problems with ads appearing on video content that didn't match its goals. It's unclear whether or to what extent the digital cuts came from other venues, though Chief Financial Officer Jon Moeller in a media call also noted Chief Brand Officer Marc Pritchard's broader efforts to eliminate "a significant amount of waste" in the digital media supply chain.

YouTube parent Google reported strong revenue growth last quarter despite what appears to be a dwindling advertiser brand-safety revolt. But P&G isn't in a hurry to resume spending either. Despite the cuts P&G had "very strong relative organic sales growth," Moeller said. "So we stand in pretty good net as a result of all those choices."

Asked whether P&G sees any need to put that money back into digital media in the future, Moeller said, "Clearly we don't need to be spending money that is seen by a bot and not a person. Clearly we don't need to be spending money on ads that are placed in inappropriate places, and that's why you see a significant reduction."

So how well did P&G do in the quarter? Globally its organic sales, excluding effects of divestitures and currency, rose 2% to $16.1 billion on a unit volume increase of 2%. That compared to categories that were roughly flat, Moeller said on an investor call later, adding that P&G's organic sales actually accelerated over the fiscal year even as category growth slowed.

P&G U.S. revenue rose 2% on 4% unit growth. The spread there owes largely to a 12% cut in prices of Gillette razors, which boosted volume but reduced sales at least for the short term.

The beauty business, long a company laggard, this time led with 5% organic sales growth.

All-in net earnings rose 15% to nearly $2.3 billion for the quarter, with nearly half the gain from those digital media cuts.

Rival Unilever, which hasn't pulled out of YouTube but similarly reduced marketing spending last quarter, increased global organic sales 3% on flat volume. Rivals Kimberly-Clark Corp., Colgate-Palmolive Co., RB (Reckitt Benckiser) and Johnson & Johnson's Consumer business all had down or flat organic sales and volumes, mostly combined with decreases in advertising spending where that was reported.

P&G's forecast for its new fiscal year, which began July 1, leaves room to hike marketing spending from productivity gains, and the $140 million cut last quarter could grow further still if P&G follows through on its threat to stop spending on digital media that doesn't have third-party audience measurement verified by the Media Rating Council by the end of the calendar year.

While P&G has increased its U.S. TV upfront commitment for this year, according to people familiar with the matter, it's far from certain all digital dollars it cuts would go there or elsewhere. CEO David Taylor was non-committal on the investor conference call when asked about plans for next year's spending.

"Certainly we are and have been rethinking marketing overall, and it will evolve," Taylor said, but didn't specify what that would mean for media spending. While Taylor has criticized past P&G moves to cut spending in the fiscal fourth quarter to boost profits, last quarter's digital cuts, motivation aside, essentially did that. Over five years, P&G is aiming for $2 billion in marketing cuts, including media, with a heavy emphasis on cleaning up the digital supply chain.

P&G'S $140 Million Lesson on Transparency

By George Popstefanov. Published on August 03, 2017.

The industry had a seismic reaction to the news that Procter & Gamble slashed digital ad spend by $140 million last quarter, and did so without any negative impact on their business results. P&G cited brand safety and "largely ineffective" ads as the reasons behind the massive cut. Many in the industry reacted with trepidation and anxiety -- likely because of what it portends to their own business model -- but P&G'S move shouldn't have come as a surprise. The company started making waves in 2016 when it put the industry on notice (first privately to its partners; then publicly at an IAB event) about their new standards for digital advertising transparency. After examining all of its agency partner contracts, as well as taking a broader look into its media supply chain, P&G didn't like what it saw. (Or, rather, what it *didn't see*, due to the lack of transparency throughout the supply chain.) In April, P&G announced it would cut spending by $2 billion over the next five years. So the news of a $140 million cut follows what P&G has been promising for about a year now.

It looks like P&G had some fat to trim from its media plans, mostly due to inefficient ad campaigns. That shouldn't be news to anyone, since not all digital media spend is accretive, especially when advertisers don't have viewability benchmarks for their channels. Given that reality, advertisers of all sizes need to move away from black-box technology providers, publishers and agency partners that rely on opacity as an advantage. Additionally, sophisticated marketers need to develop their own marketing-mix model, powered by data-driven, multi-touch attribution, so that they can accurately evaluate how each channel impacts the overall mix.

Marketers need to ask their publishing and agency partners the following questions, and if you have a partner whose priority is your brand's business health, you shouldn't have to compromise on any of these.

- Are they measuring the effectiveness of your digital spend? Anyone who tries Jedi mind tricks on you about the inability to tie any type of spend -- whether it be direct response to branding -- to performance should immediately be put on notice.

- Beyond measurement providing quantification, do you understand your partner's methodology? How are they ensuring the accuracy of those numbers, and managing consistency across myriad publishing and programmatic partners?
- What are the actual results of your spend? P&G did not invent the concept of "ineffective spend." If your agency isn't already constantly trimming the proverbial fat, then there's a ton of low-hanging fruit to grab (though you may want to consider getting a new partner to do the harvesting).
- Beyond cutting spend in ineffective or brand unsafe areas, you should also look to see if your media mix allocation is optimized for desired results. This doesn't just mean low-funnel acquisition, but also audience-expanding brand building.
- Do they maintain a dynamic list of brand-safe publisher partners, and how are they actively managing adherence of those partners to your brand's standards? In this post-truth era, you need to be sure your ads are running alongside appropriate content.
- Lastly, demand that your agency clearly illustrates the results of where each dollar is spent. If they can't, it either means they don't have the capabilities in-house to do so, or they are more interested in serving their business than growing yours.

By taking these proactive steps, brand marketers have the unique opportunity and a second chance to reevaluate their digital ad spend, get more value for their investments, and ultimately create a better experience for their customers.