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Agency: Fallon

Author: Laurence Green and Felicity Morgan

JOHN BARTLE AWARD FOR BEST NEW AGENCY
BEST CHANGE OF DIRECTION
&
GOLD AWARD

It's A Skoda. Honest.

The Profitable Return on Brave Communication

SKODA. YES, SKODA

This paper relates the turnaround of a brand so maligned that until recently the very notion of an IPA submission on its behalf would have had a marketing audience bracing themselves for the inevitable punchline.

ABSTRACT

Despite the car industry's stranglehold on the nation's airwaves (863m was spent on automotive advertising in 2001, second only to retail expenditure), there are remarkably few established effectiveness cases. The category's purchase cycle is typically made scapegoat: the fact that cars are bought infrequently and after much consideration means that car advertising expenditure is unlikely ever to pay back over the short-term. (1) In Skoda's case, however, we believe that we can already demonstrate a short-term return on advertising investment. (A return on investment achieved despite the brand's history and a category share of voice of less than 2%.)

For all the smart integration of marketing efforts on the brand's behalf (DM, PR and design efforts were swiftly aligned behind a new strategic approach) our story is in some ways an old-fashioned case of 'only advertising can do this', as the brand's very public problem demanded broadcast as opposed to private communication.

The pub version of the Skoda brand turnaround is this: ridiculed brand and ailing business stumbles on decent car and radical advertising and the VW Group's ugly duckling is reborn as a swan.

The truth, inevitably, is more complex than this. This paper scrutinises four key periods:

1. A brief history of Skoda's UK performance until 1997, a period of creeping growth within the limits of the budget sector and against a small base of loyalists.
2. The (failed) launch of the Octavia (2) in 1998.
3. The launch of the Fabia (3) (and brand re-launch) in March 2000 onwards demonstrating the broad effects of brand marketing and intermediate evidence of advertising effectiveness.
4. A specific focus on the 2001 relaunch of the Octavia, a model whose sales curve we noticed had behaved contrarily, and an analysis which allows us to strip out new product effect.

1. PRE 1997

British consumers know nothing of Skoda's genuinely splendid engineering heritage, having first become acquainted with the brand during the dog days of communist rule in Czechoslavakia and Skoda's unhealthy monopoly on car production. The Skoda joke, a uniquely British phenomenon, the unfortunate outcome.

As the jokes peaked in the late '80s, change was afoot. Czechoslovakia's Velvet Revolution prompted courtship from Volkswagen and a

partnership which soon bore fruit in the form of the Felicia, a car impressive enough to win seven consecutive What Car? 'Budget Car Of The Year' Awards. (4)

Though ridiculed as a brand, Skoda's UK sales grew through the mid '90s (Figure 1), and extraordinary levels of loyalty were achieved (see Figure 2).

No one could argue that the Skoda brand was ill-defined or its franchise particularly open to competitive incursion. But nor could it be argued that Skoda was making genuine inroads against the broader consumer base; rejection figures for the brand remained stubbornly fixed at around 60% over the period. (5)

And as the brand's future product reality became more obvious, it was apparent that Skoda's image deficiencies would soon become a critical commercial limitation. Higher quality, more expensively priced cars would be rolling off the production line (as VW moved to a shared platform production strategy), Skodas that would have to compete for different consumers and against a new competitive set.

Skoda's brand rehabilitation in the UK was not just a matter of pride then, but a commercial imperative.

2. THE LAUNCH OF THE OCTAVIA, 1998

The first unarguable demonstration of the product transformation led by Volkswagen emerged with the launch of the Octavia in 1998. Launch reviews were invariably flattering:

> 'The Octavia is far and away the best car Skoda has ever made.'
> *What Car?*

The Octavia's 10m launch advertising budget remains Skoda's largest ever. Skoda braced itself for success.

The launch was a failure:

- Only 2,569 Octavias were sold in 1998 (that's an advertising cost per car in the region of 4,000). By the year end, Octavia accounted for only 12% of Skoda sales, so that the Felicia remained overwhelmingly the Skoda car most often seen on the road.
- Skoda's brand image was unaffected, with no significant image improvements recorded over the launch period.

The failure, in retrospect, was one of strategy. The Octavia's marketing had been model-specific and product-centric, targeted at the small band of brand considerers; in short, Skoda was behaving like a brand without a problem rather than facing the truth and addressing the stigma.

3. 20002001: FABIA LAUNCH (BRAND RELAUNCH) ONWARDS

i) Strategic foundations

When Fallon was awarded the advertising account in 1999, it was clear a new approach would be needed if Skoda's next launch of the Fabia supermini wasn't also to fall on deaf ears. Although the Fabia was once again rumoured to be 'great product' it was clear that product alone wouldn't be enough to drive people to reappraise the Skoda brand. And indeed that we had to win reappraisal of the Skoda brand for any product to achieve its potential.

While, again, positive motoring press coverage was to accompany the Fabia's launch, we understood the role for marketing to be to complement product endorsement by directly attacking the prejudice against the Skoda brand. (6)

Despite the Fabia winning the What Car? 'Car of the Year' Award at launch the popular press gave us a truer representation of the car's likely reception:

> 'I see the Fabia has been named "Car of the Year" but I don't think I'm ready to drive one yet. I still think that it's less embarrassing to be seen getting out of the back of a sheep than getting out of the back of a Skoda.'
> *The Mirror*, (February 2000)

We concluded that the stigma attached to Skoda had become a shared cultural phenomenon, and that to target only those who might consider buying one was to ignore the vast mass of their friends, neighbours, colleagues and even children who were likely to ridicule that decision (as well as leaving that broader base of prospects unmined.) (7)

To summarise our two key strategic building blocks:

1. A new role for advertising: use the Fabia to confront the biggest barrier to buying a Skoda the irrational prejudice against the brand.
2. A new target audience: create a general shift in attitudes so that potential buyers feel confident they can choose Skoda without being laughed at.

As a result, our media plan was contrary, eschewing the narrowcast and the new in favour of an old-fashioned broadcast plan: Coronation Street, posters and all.

PR played a critical role at launch; since press coverage was part of the problem, it had to be part of the solution. PR was charged with convincing opinion-formers that Skoda had changed (with car and campaign as evidence) and more generally to create an impression of success for the advertising to work against.

ii) The creative idea: repositioning the consumer

Our objectives and strategy were well understood, but the consumer of course sees neither. The creative response to our brief summarised in the line 'It's A Skoda. Honest' turned our ambitions into tangible reality. Skoda would make advertising featuring people who still thought their cars were poor. But by gently ridiculing these people, the consumer would conclude that he/she 'wasn't one of them'.

Launch executions featured an enthusiastic but buffoonish diplomat on a factory tour; a know-it-all motorshow supervisor; and a faintly moronic car park attendant. Each thrown by the evidence of Skoda's transformation sitting right before their eyes.

The creative work didn't so much reposition the brand as reposition the consumer's attitude to the brand. This was later to be summarised as follows:

> 'The brand's existing memorabilitya poisoned chalice if ever there was oneis made into a plus. How stupid the mistaken fools in the ad are, thinks the viewer, who ten seconds ago wasn't aware of what the new Fabia looked like either. The commercials tell us something and make us feel superior about knowing it with the speed of light. How clever is that?'
> Creative Review, February 2000

In creative development research, respondents responded as hoped and the campaign's strategic basis was validated:

> 'It's a bit tongue in cheek. They're obviously well aware of their reputation and this comes across as proud of what they've got.'
> Man, 4555, Reading
>
> 'Skoda used be the joke. Now the joke is the joke.'
> Man, 3545, Swindon
>
> 'This research strongly indicates that it will be important to acknowledge consumer's prejudices to accept them. To start the conversation with agreement finding common ground with the customer. Ignoring these perceptions risks leaving them festering.'
> Shaw Research and Planning, November 1999

iii) Setting objectives

Faced with a new objective and audience, we established a tracking study based on that used by Volkswagen and spanning prospects across the relevant sectors.

Though the study would gather the usual advertising diagnostics, these were of marginal interest. The objectives we had set could only really be measured by changes in Skoda's brand imagery and ultimately in marque consideration (which, remember, had been static for a decade). In the car market, as in most mature markets, imagery and consideration figures are remarkably obdurate and often follow rather than lead behavioural change. (8) Our first burst success criteria duly became simply whether or not we could achieve the following:

- statistically significant improvements in brand imagery
- a statistically significant decrease in marque rejection.

iv) Campaign Results

The Fabia launch/Skoda relaunch campaign broke in March 2000 and key TV spend since has comprised the following:

- Fabia executions launched March 2000 (Figure 3)
- Octavia executions launched January 2001 (Figure 4)

Our first evidence of in-market effectiveness came from an unlikely source, the campaign being voted top of Campaign's 'People's Jury'. (9) Some plaudit for such a much maligned brand, but no use to us if the campaign was failing to win minds as well as hearts.

Given our ambition to publicly reshape the brand's reputation a truer measure of effectiveness was the apparent sea-change in attitudes towards the brand in the national press which coincided with our advertising and PR efforts. Best exemplified by *The Mirror's* sudden about-turn:

> 'History's biggest comeback since Bobby Ewing stepped out of the shower, new Skoda is hip and sexy yes, sexy.'
> The Mirror, March 2000

Our first tracking results confirmed that consumers had not just noticed the advertising, but responded favourably:

> 'Rather cheeky, very effective.'

'A true reflection on how people relate to Skoda.'
Millward Brown Verbatims, April 2000

More importantly, after only one burst of advertising, key image measures had responded rapidly (Table 1).

TABLE 1

	Pre %	Post %	Change
Skodas are better than they used to be	54	79	+25
Skoda make cars you can't take seriously	47	32	-15
I'd be proud to have one on my drive	20	33	+13

Source: Millward Brown, July 2000

There was also dramatic impact on consideration. Having proved impervious to product innovation and previous marketing efforts, the number of prospects who would not consider Skoda dropped from 60% to 42%, a rejection figure now lower than the equivalent figures for Fiat and Citroen for the first time ever.

Since that first burst these results have been remarkably consistent and the top box measure of 'active consideration' has grown from 18% to a peak of 28%. (10) Even those left rejecting the brand are now far less entrenched in their rejection. Fabias, for example, are now more commonly rejected on the basis of unfamiliarity than brand reputation (Table 2).

TABLE 2: REASONS FOR REJECTING FABIA

	March 2002 (%)	March 2001 (%)
Bad reputation	24	15
Negative image	21	10
Don't know what they're like	21	28

Source: Millward Brown

The Fabia re-launch was the start of an amazing two year period for Skoda. The advertising and PR campaigns spearheaded a dramatically re-thought marketing programme that included innovative media thinking, new 'brand-led' direct marketing, POS and website.

All catalysed and were catalysed by the change in direction. DM, for example, adopted the advertising objective, strategy and tone and coordinated targeting, timing and creative. (For example, a Skoda badge was mailed to 100,000 prospects with the invitation to 'live with it for a while'.) DM response increased by between 50 and 100% and 2050 sales directly generated at an average cost per sale of 279 (source AIS)

PR efforts against opinion-formers, meanwhile, continued to pay back across the period.

'I knew my Skoda was trendy, but not that trendy. I'd parked it on Shepherd's Bush Road to find both badges missing. To lose both looks like a style phenomenonthe green arrow silhouetted against a white background has become the twenty-first-century equivalent of the VW badge.'
Toby Young, GQ

Collectively, these efforts have had a striking business impact. The rest of this paper is devoted to demonstrating the scale of that impact and attempting to provide further proof that these effects can at least in part be attributed to marketing activity.

v. Topline business results

Since the Fabia launch, volume growth has easily outstripped the market, winning record share for the brand (Table 3).

TABLE 3

Skoda volume (%)	Market growth share (%) (11)	Skoda Market	Growth (%)
1999	5	-2	1.0
2000	35	1	1.3
2001	23	11	1.5

Source: JATO/SMMT

We have already reflected on the direction and degree of response to our marketing efforts. Now we discount other factors which might have driven Skoda's business.

vi) Eliminating other variables

Price

The years 2000 and 2001 witnessed sharp price deflation in the car market following the Byers' Report. (12) Skoda bucked the trend, the average price paid for a Skoda now 60% higher than in 1997. Skodas had always been priced competitively and the deterioration in the brand's relative price position over the campaign period means that we can rule out price as the source of sales success.

Distribution

Though Skoda continually seeks to upgrade the retail experience, there were no step changes in either numbers, share or quality of distribution over the period which might explain the dramatic sales uplift. (We would expect price and distribution variables anyway to work hardest against live brand considerers, while it is our contention supported by data that marketing has served to broaden the total base of considerers of the brand.)

Fleet marketing

Given the British car market's unique reliance on fleet sales, we must also eliminate this variable. Skoda's fleet business has always represented a small fraction of total sales (c. 18% compared to Vauxhall's 65%). More tellingly, retail sales have grown three times faster than fleet sales over the period in question. Fleet, in short, has not been the brand's engine of growth.

Product

This can be less easily dismissed as a factor in its own right, and we would not seek to diminish the importance of the Fabia itself in the transformation of Skoda's fortunes.

But at its most basic, marketing publicises products. At the very least then, marketing activity has catalysed awareness of the Fabia and therefore its effect on parent brand perceptions (Table 4).

TABLE 4

	Ad-aware %	Non-ad-aware %
Have you seen the Fabia on the road, in a showroom or anywhere else	64	36

Source: Millward Brown, July 2000

Without marketing efforts, the Fabia might have been written about in the motoring press and would of course have been 'on display' in Skoda's dealerships. As we know, though Skoda had enjoyed favourable motoring press for years, without any step-change sales effect, and dealerships tend only to be visited by active considerers. We would contend therefore that the mere presence of impressive new product (un-amplified by marketing) simply would not have generated the sales step-change and broadening of franchise we have seen.

The following observations also put the product effect in context:

- The launch of the Octavia in 1998 (arguably even more of a step-change car) had not created a step-change in Skoda's fortunes.
- The effect of great product alone might most plausibly have been to win high levels of repeat purchase from existing Skoda loyalists. But what has happened mimicking our tracking data is that the brand's source of business over the last two years has broadened considerably (Figure 5).

It seems unlikely that product alone could have prompted this effect so quickly.

- Perhaps most emphatically, despite a common product mix and launch timetable across Europe, Skoda UK sales dramatically outstripped those of Skoda's other major markets over the period (Figure 6).

vii) Summary and payback

In years 2000 and 2001, then, Skoda's business accelerated from its trend line and the market trend line (Figure 7).

Comparing actual sales to projected sales, we see an incremental revenue uplift of 185 million and profit uplift of 18.5 million, an uplift that

already pays back on a total marketing spend of 15.4 million over the period. (13) Factoring-in predicted repeat sales and profit from those incremental customers, this profit uplift amounts over the long run to 37 million. (14)

To summarise, we have a dramatic sales uplift which we can logically ascribe only to either the peculiar product power of the Fabia, the Skoda brand's repositioning in communications or both. We have seen how we must be sceptical of the former (given Skoda's previous experience of breakthrough product, and international comparisons); how the brand's franchise has broadened as predicted; and how the marketing relaunch coincides with a dramatic decrease in rejection, which we would then expect to turn into sales over time.

In a last attempt to account for product effect, we turned to modelling.

Though it's increasingly rare for an IPA submission to be unsubstantiated by an econometric model, early attempts at modelling Skoda's business over the period proved fraught with difficulty. (15) We found correlations between spend, awareness, consideration and sales, discovered that the previously loose correlation between media spend and awareness had intensified during the last two years of activity, and that media spend and sales only started to correlate in 2000. But none to a persuasive standard of proof. (16)

Our search for proof that marketing lay at the heart of Skoda's recent success continued. Attracted by a typical sales curve, we began to stare harder at the effect of advertising on sales of the Octavia (in market since 1998, marginally facelifted in 2001). (17) By removing 'new product effect', this, we hoped, might be the effectiveness case within the effectiveness case.

4. 2001: OCTAVIA REVISITED

As demonstrated in previous papers, new car models have predictable sales and share curves, new models winning sales exponentially at launch, then tapering off as they lose competitiveness to other, newer launches. (18)

The Octavia's sales curve defies car category precedent, peaking 3 years after launch, at precisely the point where it should have lost its competitive advantage (Figure 8). (19)

Our hypothesis at the time of campaign planning had been this: that the Octavia had been burdened by the Skoda name at launch (a burden unrelieved by model-specific marketing efforts) and might therefore be highly responsive to advertising now the 'brand burden' had been lifted (as well as itself contributing to the ongoing assault on the brand's previous imagery).

Although we deployed a dramatically smaller ad budget against the Octavia at re-launch than it had benefited from at launch, the effects had been dramatic:

- First 6 months' sales at re-launch 79% up on launch equivalent.
- 1.77% share of sector achieved, versus 0.76% at launch.

We decided to focus our modelling efforts on quantifying the impact of media spend and product changes on sales of the Octavia.

By isolating four key periods in the Octavia's recent life (see Figure 9) we were able to model three factors (those three factors jointly responsible for the observed sales curve):

1. The effect of the Fabia launch (i.e. Skoda re-launch) on Octavia sales.
2. The effect of the Octavia facelift on Octavia sales.
3. The effect of Octavia's marketing re-launch on sales.

Because of the difficulties of modelling monthly sales in such a seasonal market, our analysis was based on moving annual totals.

We ran various scenarios (Figure 10):

- The first, that there had been no Fabia launch (Skoda re-launch) and that Octavia had continued to grow at 5% p.a. (20)
- The second, that Octavia sales had continued to grow at the rate set during the Fabia launch (a rate of 24%).
- Lastly, that Octavia sales during 2001 had continued to grow at the overall rate set in 2000 of 28%: i.e. no uplift due to 2001 marketing activity.

By comparing the various projected sales figures, we established the relative effects of each force on Octavia sales (Table 5).

TABLE 5

Projected sales excluding Fabia launch/Octavia facelift/Octavia re-launch	22,991	Fabia contribution	3864
Projected sales excluding Octavia facelift re-launch	26,775	Facelift contribution	1344
Projected sales excluding Octavia re-launch	28,119	Re-launch contribution	3691
Actual sales	31,810		

The results made intuitive sense: that the facelift had been a relatively weak force on Octavia sales, but that the Fabia launch (Skoda re-launch) and Octavia marketing re-launch had been strong effects.

The 'Fabia contribution', as we have already seen, is at least in partially due to marketing. The 'Octavia re-launch' contribution (now that we have isolated the product contribution) is pure marketing effect and results in incremental short-term revenues of 41 million, incremental long-term revenues of 81 million and incremental long-term profit of 8.9 million. (21) This effect against an Octavia-specific re-launch budget in 2001 of 5.2 million. So without taking into account the value of considerers who have not yet purchased, the Octavia's halo effect on overall brand consideration, dealer profits or profits from parts and maintenance, the Octavia marketing spend still pays back handsomely.

CONCLUSIONS

Enough analysis. We will leave the last word to the people at the sales frontline the dealers, typically cynical and critical of advertising efforts made on their behalf by central marketing. In 2001, Britain's dealers rated Skoda 'best make' in terms of 'product advertising by manufacturers'. (22)

ACKNOWLEDGEMENTS

This Skoda case is best summarised as an advertising-led brand repositioning.

Though Fallon are the papers primary authors (encouraged by the Skoda client team), acknowledgement is due to Mediacom, Archibald Ingall Stretton, Sputnik and Duffy, co-authors all of the brand's marketing turnaround.

And for their respective roles in evaluating the campaign to date, we acknowledge also the contributions of Millward Brown, Shaw Research and Planning, and Tortilla 71.

NOTES

1. The IPA itself was once moved to describe the business of demonstrating advertising effect in the car category as 'fiendishly difficult'. A turn of phrase which papers since have invariably played back. Including this one.

2. The Octavia competes in the upper-medium sector against the likes of the Vauxhall Vectra, Nissan Primera and Renault Laguna.

3. The Fabia supermini competes against the likes of the Ford Fiesta, Renault Clio and Vauxhall Corsa.

4. Volkswagen took a stake in Skoda in 1991 and became sole owners 10 years later.

5. Source: Quadrangle tracking. To put this into perspective, Fiat (a brand also plagued historically by product prejudice), was well clear of Skoda, with only 1/3 of prospects rejecting the marque.

6. And prejudice there remained: the three 'Skoda joke' websites on the internet were still doing good business.

7. In moments of doubt, we reminded ourselves of a peculiarly poignant remark from our client during briefing: 'We've had children crying in our showrooms.'

8. The 1992 VW Golf IPA submission concludes: 'The propensity to consider or 'desirability' of a marque seems to move slowly, if at all.'

9. 'The People's Jury' comprised a telephone omnibus survey conducted against a sample of 1000 adults by Taylor Nelson Sofres on the weekend of 14-16 April.

10. At the peak of ad awareness, consideration of Skoda amongst the ad-aware was over twice that of the non-ad-aware; consideration had never previously correlated so strongly to ad-awareness.

11. Skoda's value share has grown even more precipitously, but there is no acknowledged industry standard for computing and presenting this figure.

12. The Alliance and Leicester Car Price Index reported a 10% price decline in 2000 and a 6% decline in 2001.

13. Setting trend sales at 5% (Skoda's 1999 growth, and the car market's average growth over 2000/2001; multiplying the resulting 18,517 incremental sales by the average selling price of 10,000 and applying an average car industry margin of 10%.)

14. Car marques boast generally high loyalty rates so the principle of 'lifetime value' is well established. We computed long-term profit uplift by applying a recurring likelihood to repeat purchase of 50% (the market average; Skoda's loyalty figure is currently much higher). We have not attempted to factor-in the profit made for dealers or from ongoing maintenance, repair and parts.

15.Essentially we had too few data points, too much seasonality, and too many models to manage.

16.Source: Tortilla 71 Econometric Modelling.

17.This facelift was truly cosmetic, remodelled headlamps and grille the most obvious changes.

18, 19. VW Golf IPA Paper, as above

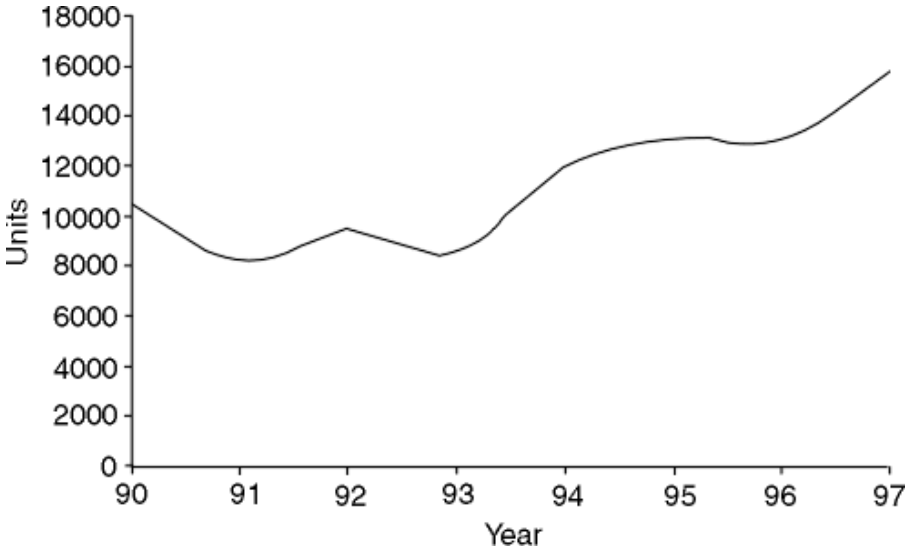
20. An optimistic projection: its sector declined continuously though 1999, 2000 and 2001.

21. Setting Octavia average price at 11,000 and again setting margin at 10% and repeat purchase at a recurring 50%.

22. Dealer Satisfaction Survey 2001.

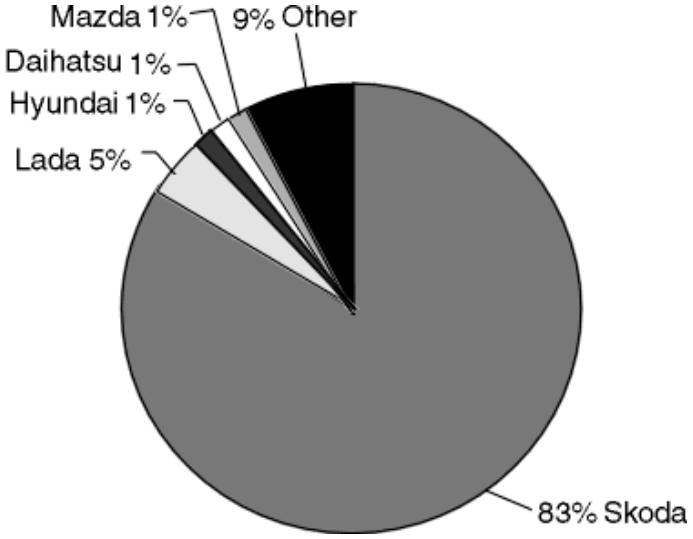
NOTES & EXHIBITS

FIGURE 1: SKODA UK VOLUME SALES 1990–1997



Source: JATO/SMMT

FIGURE 2: 1997 SKODA SOURCE OF SALES



Source: JATO/SMMT

FIGURE 3

Factory

Motorshow

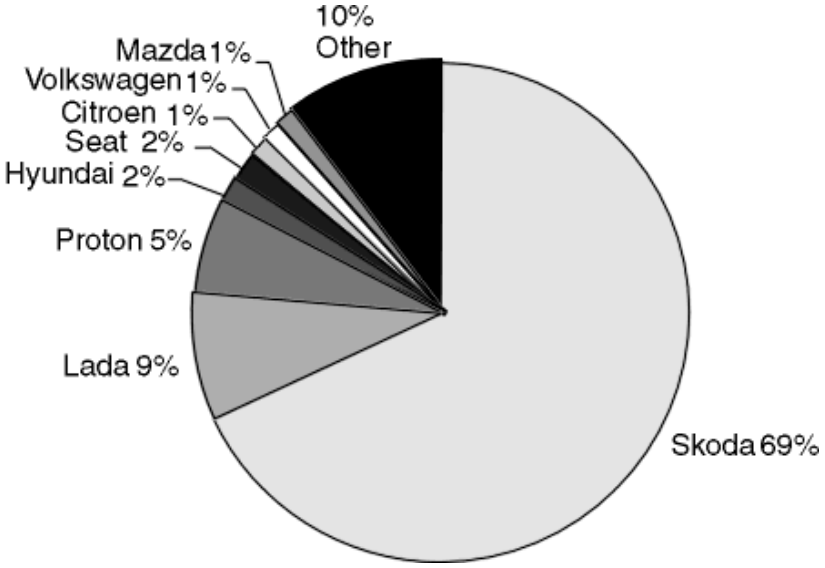
Vandal

FIGURE 4

Transporter

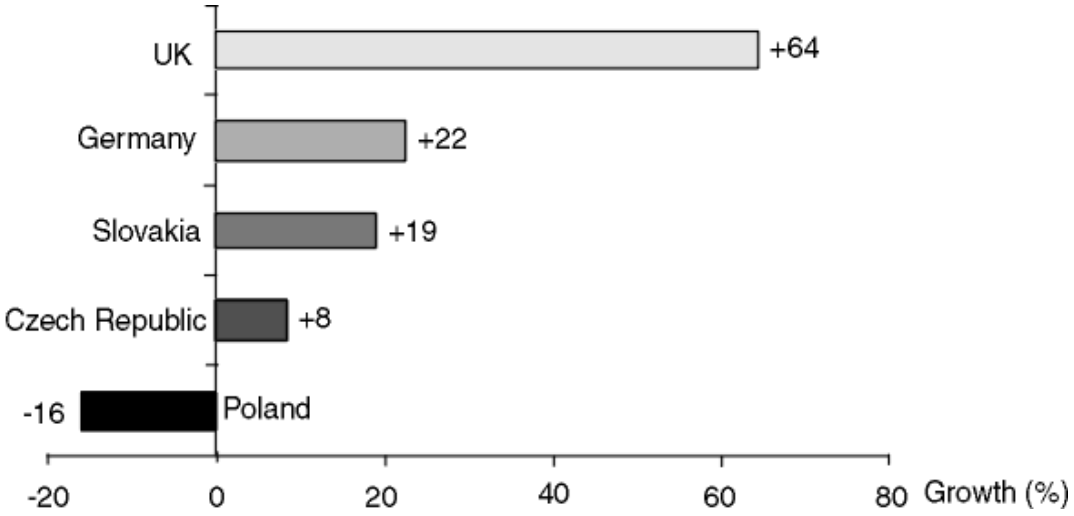
Forensic

FIGURE 5: 2001 SKODA
SOURCE OF SALES



Source: JATO/SMMT

FIGURE 6: SKODA SALES CHANGE 1999–2001



Source: Ex-factory sales

FIGURE 7: SKODA UK VOLUME SALES 1990–2001

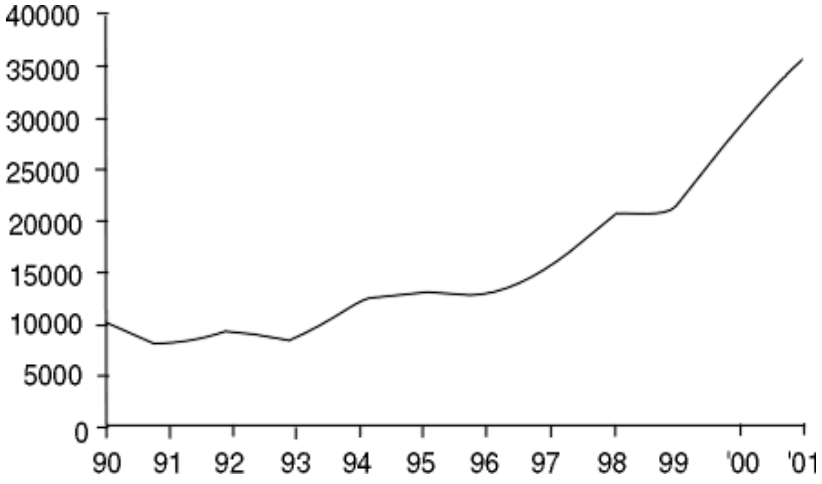
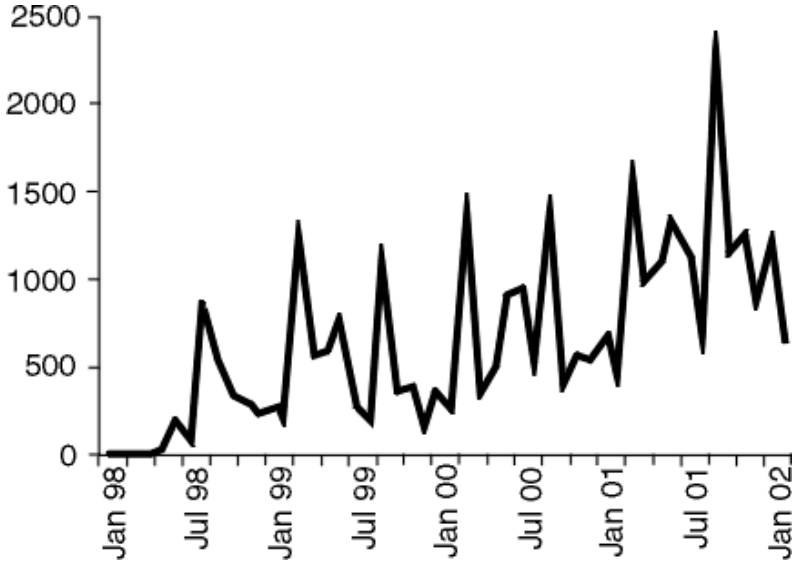
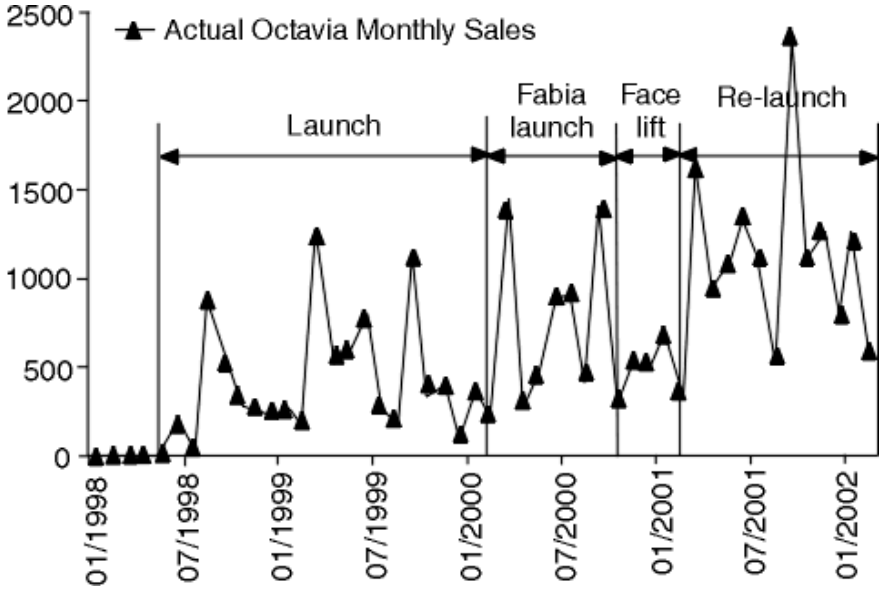


FIGURE 8: OCTAVIA MONTHLY SALES 1998–2001



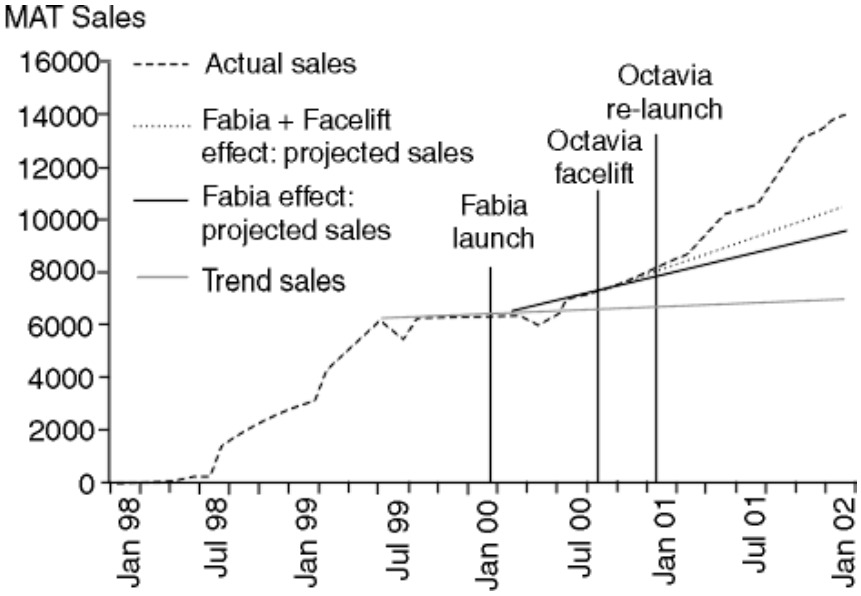
Source: JATO

FIGURE 9: KEY PERIODS WITHIN OCTAVIA SALES CURVE



Source: JATO

FIGURE 10: OCTAVIA'S SALES PROJECTIONS



Source: JATO

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Institute of Practitioners in Advertising
44 Belgrave Square, London SW1X 8QS, UK
Tel: +44 (0)171 235 7020, Fax: +44 (0)171 245 9904

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