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Market Leader

NEW THINKING, DIFFERENT PERSPECTIVES

In pursuit of value

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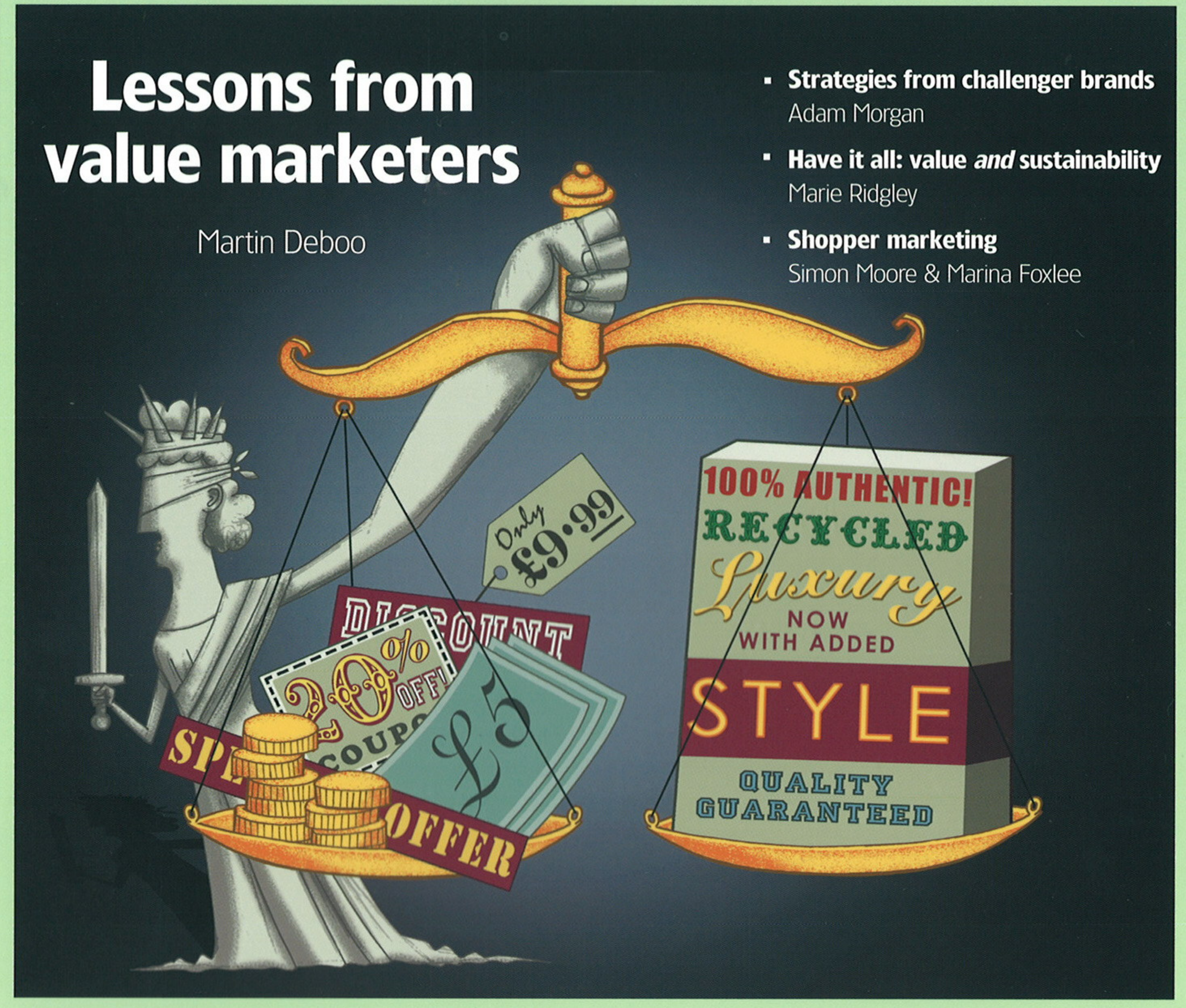

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MARKETING SOCIETY

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How to postpone the beginning of the next recession

Jeremy Bullmore

Editor's note: Ten years ago, in 1998, there was much frenzied talk of an imminent recession. In March of that year, the following article appeared in the very first issue of Market Leader. That the much-heralded recession didn't in fact materialise for another two years is powerful testimony to the new magazine's immediate influence on opinion formers. Foolishly, we forgot to re-print it in 2006.

There was the one that started in 1974 and there was the one that started in 1981 and there was the one that started in 1990 and there's been quite a lot of talk recently about the one that may or may not start in 1998.

What I thought you might find valuable is some actionable advice on how to keep this next recession at bay for a bit.

Like all good economic theories, this one is based on an analytical understanding of human absurdity.

In all communities – in all villages, in all families and certainly in all companies – there are two quite distinct groups of people. The first are called Go-For-Its and the second are called Toothsuckers. These names are self-explanatory so let me explain them to you.

Go-For-Its are genetically, thoughtlessly optimistic. They worship action and despise thought. When faced with a predicament, a crossroads or a choice of any kind, their immediate instinct is to say, 'Let's go for it!' They will expand, acquire, invest, gamble, proliferate, launch 17 brand variants and confidently set out to take the American retail market by storm.

All communities, particularly commercial communities, need Go-For-Its. Without Go-For-Its, little if anything would ever happen.

Toothsuckers are different. When faced with a predicament, a crossroads or a choice of any kind, their immediate instinct is to suck their teeth: 'Oh dear, oh dear, oh dear, oh dear, I can't say I like the look of this one, Chairman.' Irrespective of the intrinsic merits of the circumstance, they will argue for caution, dilution, circumspection and a ten-year test market.

All communities, particularly commercial communities, need Toothsuckers. Without Toothsuckers, companies would go bust even more frequently than they do.

These two groups are in constant conflict. And the critical factor that determines expansion or recession is the prevailing balance of power between them.

A BRIEF HISTORICAL REVIEW.

The Thatcher years did not favour the Toothsuckers. For the best part of a decade, doubt was not only unfashionable but unconstitutional. And so it was that the Toothsuckers were made to feel lowly people: derided, despised, ignored. For nearly nine years, not a single Toothsucker's name appeared on the Honours List.

With only the most muted of challenges, the Go-For-Its held the rampant stage. All over the country you could hear their cries: 'Let's go for it! Let's go for it!' While almost inaudibly, in the background, you might just pick up a weak and plaintive: 'Oh dear oh dear oh dear ...'.

And then came 1990 – and the Toothsuckers were back in business.

It is wrong to believe that everybody hates recessions. Toothsuckers love them.

Toothsuckers have their own vocabulary – and within days of the downturn, it was joyously taken out of mothballs and returned to front-line use: 'inappropriate'; 'imprudent'; 'precipitate'; 'not altogether timely, Chairman'.

So, after ten years in opposition, the Toothsuckers, in a landslide result, not only reacquired power but became doggedly determined to retain it. Throughout the land, unreported, Toothsuckers moved stealthily into top management positions.

The recession continued. Economic commentators expressed surprise that consumer confidence was so slow to return. Those of us in marketing didn't. Marketing people know a great deal more about human nature than economists do. Marketing people (although they don't like to acknowledge it) have every reason to be grateful for the existence of reluctant consumers: if it weren't for them, we wouldn't have jobs. Can you imagine if all consumers were Go-For-Its? Marketing departments and advertising agencies would become obsolete overnight. (Unless, of course, their talents were re-employed in a mammoth state-funded campaign in favour of consumer restraint.)

Luckily for us, a great many consumers have a natural aversion to consumption. They are some of nature's most stubborn Toothsuckers. Often, they seem to be in the majority – and they are not stupid. Toothsucking consumers are the only ones who've rumbled what consumer confidence really means; it means re-acquiring enough confidence to get back into debt. No wonder the length of the recession continued to baffle the economists.

Because what a rattling good recession does is give congenital Toothsuckers the confidence not to consume. It legitimises caution and sanctifies parsimony. Visit any furniture showroom and look and listen. A slow shake of the head: 'I only wish we could, my love' – said with lingering enjoyment.

The reason that the 1990 bust hasn't yet turned into another boom which is about to bust is that at least some top executive Toothsuckers are still hanging on in there. But if they came to power in the early 1990s, then most of them will soon be slipping into their Home Counties cardigans to be replaced by a new, eager generation of managers; a generation who didn't (as managers) live through the pain of 1990; so a generation, as likely as not, containing an unusual number of Go-For-Its.

Maintaining the balance of power between Toothsuckers and Go-For-Its cannot be left to market forces alone: that's what induces cyclical economic turbulence. This is a job for a small, low-profile group called the 'Head-Scratchers'. Head-Scratchers honour both Go-For-Its and Toothsuckers, but value balance more.

There is bound to be another recession, I suppose. But if every company listens very carefully to its resident Head-Scratcher, it needn't come just yet.

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The magic of words

Maurice Saatchi

Today, hundreds of students from all over Britain will converge on Golden Square in London to learn about 'creativity' in business. On this side of the Square, advertising. On that side, the movies. Over there, radio and TV. And back there, the media financiers who make this world go round.

These are the so-called 'creative industries', where, as the words suggest, art and commerce touch most closely. But not all are agreed that they should touch at all. There is an irremediable tension between art and commerce.

Some say, like Paul McGuinness, the brilliant founder-manager of the world's best-selling band, U2, that there is no point in having the best music skills if you don't have the best business skills to back them up.

Others contend that for an artist or writer to be 'successful' means posterity, not money. Artistic integrity requires them to sign a self-denying ordinance so far as commerce is concerned.

You can see why stock markets call these, the 'people businesses', and judge them too risky investments for widows and orphans. Private equity bankers agree. Why invest in people's relationships with people when you can invest in their relationship with an electricity cable? Bankers prefer to invest in pipelines than straplines.

The men of industry see 'creativity' coming – someone who has never run anything, head in the clouds, feet that don't touch the ground, other-worldly, contemptuous of the philistines who cannot grasp the staggering novelty of their achievements, with an ego whose size is matched only by its fragility.

The men in suits say: here comes trouble. Perhaps that is right. Such people are dangerous. They are dissidents – a threat to the established order, the conventional way of doing things.

As Picasso said: 'The purpose of art is to disturb'. And they are ambitious too. They seek power by what John F. Kennedy called 'the mastery of the inside of men's minds'. Their method? Extreme simplicity. Velázquez described it:

> *If a painter cannot capture in a sketch a man falling from a fifth floor window before he hits the ground, that artist will never be capable of monumental work*

They can take the three humble tools at their disposal – words, pictures, music – and carve from them weapons that change the world. They make, what seems highly improbable, in fact happen. Consider just one of these powers. Words. When they are the only possible words in the only possible order.

WORDS IN POETRY

John Keats was sitting in a coffee shop with his friend, Stevens. He was writing. He said,

> *A thing of beauty is a constant joy. What think you of that, Stevens?*

No response. Keats carried on. A while later he said,

> *A thing of beauty is a joy for ever.*

That, said Stevens, will last for ever. And it did.

WORDS IN PROSE

Is it an accident that Kafka lives for ever, when you consider the opening words of *The Trial*?

> *Someone must have laid false accusations against Joseph K because one morning he was arrested without having done anything wrong.*

WORDS IN DRAMA

Could Shakespeare have imagined that 400 years later, there would be a performance of *Hamlet*, somewhere in the world, every three minutes.

WORDS IN INDUSTRY

For years, Avis told Americans that because Avis was number two, 'We try harder'.

The Avis share of the car rental market rose and rose. But then, one day, Hertz explained in an advertisement:

> *For years, Avis have been telling you Hertz is number one. Now we're telling you why.*

That was the end of, 'We try harder'.

When the tobacco industry introduced a 'safe' cigarette, people were interested. Until the Department of Health ran an advertisement showing a man jumping out of a sky-scraper, with the words:

> *Smoking the safe cigarette is like jumping out of the 47th floor instead of the 65th.*

That was the end of the safe cigarette. When William Procter and James Gamble started Procter & Gamble, they only had one tiny product – Ivory Bar Soap. Until they called it: '99 and 44/100 per cent pure'. That was the beginning of the P&G legend.

WORDS IN POLITICS

During the darkest hours, Winston Churchill was presented with the proposal for a Local Defence Volunteers Force to be Britain's last stand in a German invasion. The LDV. He liked the plan, but he didn't like the name. He changed it to 'The Home Guard'. The rest is history.

The 1918 General Election was won by Lloyd George, with four words: 'Homes fit for heroes'.

The Conservatives were helped to win the 1979 General Election, by three words: 'Labour isn't working'.

And sometimes, words, pictures and music all work together. Who is not moved, when John Wayne says, at the end of *The Searchers*, 'That'll be the day'?

Nobody can resist that kind of creativity. Its reach is global. It strikes a chord in humans everywhere. Nobody is immune.

You will hear it said today that without these powerful creative industries, especially the occupants of Golden Square, Britain would shortly return to an agrarian peasant society. Maybe. But that is not it at all. The real importance of creativity does not lie in economics. It is important because creativity is a force for good in people's lives. It is the hope for the future. The Nobel Laureate V.S. Naipaul confirmed the point. He was asked whether he was happy.

His answer was that you can only be happy if three conditions are fulfilled: first, you are doing something creative; second, it is going well; and third, you think (even if nobody else does) that it is important.

We are all victims of a drug administered by the gods to all humans. As human beings grow older, they grow more disillusioned. The gods are being cruel to be kind – it is easier to leave the world if 'The country is going to the dogs', or if 'It's not like it was in the good old days.' The only known antidote to the drug of disillusionment, is creativity. If the pursuit of happiness is truly the right of every human being, then creativity is the means to that end.

Usually, it is young people who dream of a better world – which is why it is so good that those 200 students are coming to Golden Square today to investigate creativity.

They need only look at three results of the 'creative industry' to be inspired. They will be deeply affected by all three of them – perhaps the three most iconic documents in Western civilisation:

- the Declaration of Independence, by the Founding Fathers of America.
- the Communist Manifesto, by Karl Marx and Friedrich Engels
- the Sermon on the Mount, by Jesus Christ.

The aim of their creativity was revolution. Their effect was revelation.

Beside creative people, who have such powers, the rest of us, the men of industry, the men in suits, are just bag carriers.

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Hot for offshoring: why it makes sense for marketers

David Wethey
Agency Assessments International

There is nothing new in the idea of sending work overseas, although the term 'offshoring' itself is new, and many of the venues are a surprise. Even before the economic downturn, actively controlling cost in the supply chain made perfect sense for marketers, as Charles Kirchner argued eloquently in Issue 42 of *Market Leader*. Now it's a no brainer. If we factor in the fevered debate about how agencies should be remunerated, offshoring is clearly also in the interest of agencies, as they rush to find ways of proving added value and reducing their dependence on charging for input cost.

Global companies and international agencies don't find it difficult to buy into the idea of profiting from their ubiquity. Trade followed the flag in all the world's great empires. IT, the internet, fast broadband and the wonders of digital now give extraordinary advantages to both suppliers and buyers of services, if they can leverage cost differentials while maintaining (and even at times enhancing) quality and continuity of supply.

I am going to try to put the discussion in context by pointing out that advertising in particular, and marketing in general, have always been truly international businesses – largely because most of the biggest brands are global, multi-market or regional. Brands are marketed and advertised across frontiers by multinational agencies on behalf of multinational clients.

During the last 40 years or so companies have tended to swing from centralisation to decentralisation, and back again. By common consent we seem to be looking at a big move towards centralisation, driven by efficiencies, technology and a desire to maximise economies of scale. The credit crunch and downturn are likely only to intensify this trend.

Even if we didn't use the word 'offshoring', it has certainly been going on:

- brand owners taking away marketing control from local teams, and concentrating their efforts in hubs and regional HQ's
- agencies similarly co-ordinating, and indeed creating, campaigns out of regional hubs, and sub-hubs – as opposed to doing everything at the centre
- printing devolved to parallel quality/lower-cost countries (e.g. Malaysia in the 1980s) – a process that gathered pace as digital reduced costs further still)
- similarly with TV production (e.g. South Africa, and then the Czech Republic)
- decoupling production (ATL and BTL) from agencies, leading to the growth of companies like TAG and Freedman.

OFFSHORING VS INSHORING

We tend to think of the UK as an offshoring country, but we have also benefited from a lot of 'inshoring' at the strategic, brand management and creative level, as companies took advantage of London as a European hub and talent pool. Equally, relatively high-cost countries like Belgium and Switzerland (the latter benefiting from being outside the EU) have attracted companies to locate their HQs there.

China and India have been the main recipients of production offshoring – but many other countries have joined in. India, which has been for some time a magnet for offshoring in areas like IT, telecoms and call centres, is now leading the way. Examples in digital production include Sapient, which opened in India in 2000, and now has 3000 people across three offices

It is perceived that there is a growing exodus of work and process in marketing/advertising – away from UK, US and other traditionally strong markets to lower-cost markets. Digital is one obvious sector – but it is not the only one.

I'm interested in benefits and problems. I'm interested in the 'why' as well as the 'how'. Do we see the future as one-way traffic from high-cost to lower-cost economies? Or is there a chance of a repeat of the co-ordination/regional hub inshoring that boosted employment and agencies here in the last 20 years of the last century? Could a concentration of digital talent in the UK bring that about? Would the London village be the only winner, or might benefits be spread around less expensive parts of the UK? Will UK plc benefit if the trend gathers pace? But are there contingent problems also?

VIEWS FROM THE TOP

I was interested in what people think might develop – and looked for concrete examples of what is happening already, and the upsides and downsides of the phenomenon.

Tom Eslinger, Worldwide Creative Director Interactive at Saatchi & Saatchi, is an enthusiastic user of Prodigious, the Digitas digital production subsidiary. Prodigious has production units in China, India, Costa Rica, Ukraine and the Czech Republic. Tom is as impressed by the quality and speed of the service he gets from these countries as by the cost savings. He explains that each unit is a 'diamond', with a producer (responsible for all dealings with customers), a project manager, and two or more Flash programmers. Most of these people will have been trained from scratch by top-flight locally based management. 'The training is superb,' says Tom. 'When we first worked with Ukraine and Costa Rica out of New York and London, we sent them test projects (which had been already executed locally). We expected lots of questions and some false starts. What we got back was superb quality first time, and faster turn-round time'.

Gwilym Lewis, Managing Director of Kieon (a 60-strong software development company in Bangalore), agrees completely about the importance of training. New recruits spend at least four weeks being trained and inducted into the company's operations, its clients and its zero defect culture. He also says that the set-up at Kieon would surprise sceptics. 'We interview only 5% of the people who apply to work here. Then the first interview is always by an existing employee. Our existing team are the toughest filter. They understand how Kieon differs from the original outsourced Indian model, where employees weren't empowered, and never questioned their superiors'.

His London colleague, Christopher MacColl, owner of consulting firm Marketing Unleashed, takes up the story: 'We looked at early experience in outsourcing to India. Call centres were lowest-cost providers, with basic technology and little or no investment in quality or training. Consumers in the UK were rightly critical of abysmal levels of service. When we started we were attracted by the availability of talent potentially better than in the UK. But we knew we had to make heavy investments upfront – not just in the staff, but also in technology, infrastructure and in creating an outstanding working environment'. Lewis is proud that the company has an Anglo-Indian management and culture. Kieon also has a flat structure, shorter than average working day, and a motivated team, who 'straddle both the Indian and British environments', as he puts it.

Martin Barrett, Operations Director of Freedman International – the international campaign implementer – is another Bangalore enthusiast. Freedman uses its production partners in India to offer its clients a 24/7 studio service. In late afternoon, jobs are transferred to colleagues in Bangalore, and back again for the London team when they report for work the next morning in Shad Thames. 'There are constant advances in online and offline studio technology, and our Indian colleagues keep abreast of these changes,' says Barrett. 'They can offer us and our clients quality at much lower cost.'

Ogilvy & Mather appear in the list of the world's top 250 offshoring companies, and like all the major international agencies devolves production overseas: press and print (through TAG), TV, and digital. It has a 24-hour creative support studio in Bangalore for global accounts such as Lenovo. But London Vice-Chairman Rory Sutherland has a vision of solutions closer to home. He has a dream he calls 'Ogilvy Brighton'. 'Why do London agencies have to do everything in London?' says Sutherland. 'The BBC is moving much of its activities to Manchester. Smash hit computer game *Grand Theft Auto* is put together in Dundee and Edinburgh. Half the good programmers in Britain wouldn't live anywhere else but London. The other half don't want to. We should set up a digital agency in Brighton.'

THE OTHER SIDE

Not everyone is sanguine about the idea of agencies offshoring. Guy Hayward, Managing Partner of 180 in Amsterdam, buys the core argument about cost savings, and indeed points to the advantages of shooting TV commercials in Uruguay and Argentina. But he worries about the idea of taking offshore the IP part of the business. 'Imagine the day when Unilever puts all its global personal care business into an agency in Mumbai or Shanghai. As consumers in China and India become more and more valuable, it is ever more likely that this will happen. This is the threat to us. We will have nothing left unless we can show that we're better strategic and creative leaders than our Mumbai counterparts. The danger is that we are too complacent and do not nurture the right talent for the new world. We're already looking to hire people from China and India in our Amsterdam office.'

Hayward also questions whether in a tough economic climate clients will inevitably move towards greater centralisation. 180's client Adidas has stripped out central costs and devolved more freedom and authority to markets, thereby allowing the countries to use their marketing budgets in whatever way is most likely to enable them to hit the numbers.

Julian Ingram, Managing Partner at McCann-Erickson London, also distinguishes between the two business models operating in international agencies: high value-added IP (which needs talented teams, and will be expensive), and the production process (requiring systems and implementation expertise, which can be delivered at a competitive cost). 'At McCann, by seeking to separate the two models we have been able to offshore the production process for some of our clients' European business using a joint venture between a third-party partner and a low cost agency network office. We have in each of these cases retained the value creation element in a separate location.'

Ingram also describes how McCann has experimented with taking lower cost centres of proven value creation in Latin America and Asia, linking them with teams based close to the physical location of the client.

'There are of course downsides to this trend for clients and agencies alike', Ingram adds. 'First, the cultural differences cannot be underestimated. Second, without enough volume, the production process fails to generate the economies and commercial return and, third, it only really works where you have a strong creative idea that can be easily adapted.'

WPP, with its 2000 offices, and an estimated 110,000 employees in over 100 countries, is the most international agency group of all.

WPP Digital, the digital investment and operating arm of WPP, has launched Deliver, a global digital production capability that distributes work among the group's stable of digital agencies to ensure that clients get the best solutions at the best price.

Deliver has over 700 digital production professionals on tap, located all over the world. I asked Neal Prescott, the company's CEO, what is the most important consideration in offshoring. 'Teamwork', he said. 'Just because a team lives thousands of miles apart, with creatives in New York, and production in Colombia, it doesn't mean you have different rules. Everyone needs to identify with the brand, so you need brand thinkers in the destination office. To make sure there is a collaborative way of working, everyone – even the guys in the most remote location – needs to be briefed on the brand.' Prescott says that expectations need to be set, and managed.

There will be teething troubles with new teams. The people in Costa Rica or Romania will respond far better to a pat on the back, and to being treated as 'us', not 'them'. He urges starting with the low-hanging fruit, and trying the easier jobs first (like resizing an existing banner). To make collaboration easier, he suggests starting by nearsourcing within adjacent time zones with obvious cost benefits (e.g. Western Europe with Eastern Europe, North America with Latin America, and sophisticated Asia with lower-cost Asia). He recommends leaving the biggest gaps in time zones and complexity of task until the offshored units have really learned their trade.

Tribal DDB is also a keen nearshorer. The London office works hand in glove with highly skilled programmers and designers in Tribal DDB Lisbon. In this way Tribal gains extra capacity, additional flexibility and enhanced value – all within the same time zone.

But all remote operations need management and communications with the mother ship. Sutherland of Ogilvy believes that the secret, particularly in tough times, is to look beyond the normal formula of putting people on planes, sending emails and using the mobile phone. He (like the author of this piece) is an enthusiast for the latest generation of video conferencing equipment.

However Prescott of Deliver emphasises that collaboration will suffer if there aren't enough visits to the remote locations. And that you also need great phone links and shared whiteboards.

CONCLUSIONS

There are five conclusions from all this:

1. Clients and agencies will have to think more internationally than ever, with pressure on big centres like London and New York to be less parochial.

2. The trend to offshore in our business will accelerate as digital technology is used to take cost out of the centre and relocate work to new locations (although very big agencies will try to make sure those locations are their locations).

3. Investment in management, infrastructure, selective recruitment and training is essential to ensure the remote end of the partnership works optimally.

4. Teamwork and collaboration are even more important when colleagues are working in different places.

5. There is huge potential in smaller markets, not just for being on the receiving end of jobs, but in terms of the opportunity to use their acquired skills and knowledge to become originators in their own and neighbouring countries.

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Lessons from the value marketers

Martin Deboo
Investec

Recessions have always produced a certain amount of trading down – often merely transient. But, in 2008, things might well prove to be different. For the first time, the UK consumer has real choices to make between established brands and a range of highly credible, easily available, low-priced alternatives. In the last recession there was no easyJet in air travel, in clothing there was no Primark (to speak of), in supermarkets Aldi, Netto and Lidl had a minimal presence and, in hotels, budget brands like Travelodge and Premier Inn barely existed. All came to the UK in the 1990s.

This growth in availability of low-priced alternative brands has taken place during a decade characterised by a renaissance in the performance of traditional standard and premium-priced brands. In a climate where price inflation has only recently become a factor, the leading players have done an excellent job of growing their sales via astute 'mix management'. For example, P&G has repositioned Olay away from its roots as 'Oil of Old Lady' to a modern skin care regimen whose highest price points reach up to those of Clinique and Clarins. Reckitt Benckiser has migrated the humble dishwasher tablet from a mono-functional block of compacted powder to the multi-functional, all-singing all-dancing Finish Quantum. In retailing Tesco has premiumised its own-label offer via its highly successful 'Finest' range, while Marks & Spencer drove its product-led turnaround on the back of premium private-label apparel brands such as Per Una and Autograph.

This premiumising model has been strikingly successful. The result of the model's ability to expand margins has been that an industry, condemned by investors as terminally 'mature' at the peak of the dotcom boom in early 2000, has been comprehensively re-evaluated. A portfolio of the leading UK consumer staples companies, such as Cadbury, Unilever, Reckitt and Imperial Tobacco, traded on an average price: earnings multiple 64% below that of the FTSE 100 in early 2000. In November 2008, they traded at a premium of 25%.

As we enter what might prove to be a vicious downturn, the potential for the market landscape to be reshaped is dramatic. Because value brands barely existed in the 1991 recession, there are limited precedents for speculating about how fast they might grow market share. The early evidence of market re-shaping is significant – Aldi has recently reported like-for-like sales growth of 22% in the UK. Primark has bucked the trend of the depressed UK apparel sector in posting 4% like-for-like sales growth, while Marks & Spencer and Next have reported 6% and 4% like-for-like sales declines respectively.

But just as value brands pose a challenge to markets, they pose a challenge to the practice of marketing itself. The core task of 'classical' marketing, as we all know, is to 'identify consumer needs and meet them (at a profit)'. While there is nothing in this definition that is at odds with the concept of value, observation would suggest that it represents first and foremost, a manifesto for product and service differentiation.

What classical marketers tend to obsess about is gaining an edge, either from improved features and benefits, or from a superior image. Something that you can charge a bit more for, for something that's just a bit better.

Value marketers don't think this way. What they are interested in is the power of low pricing, not product and service differentiation, and how a business system can be designed and sustained to deliver this at a profit. Value marketers tend not to have had a classical marketing training and tend to eschew much of the paraphernalia of the classical marketing approach, such as heavyweight media investment and intensive market research. What, then, has made them successful?

PRICE, RATHER THAN DIFFERENTIATE, TO GAIN ADVANTAGE

Pricing has arguably been a neglected tool in the world of classical marketing. Read any marketing textbook and you will find limited wisdom on it.

The pricing decision is one that tends to get made at a late stage after many of the fundamental decisions around the product, its formulation, packaging and launch budget have been taken. And, because of the premiumising impulse, prices inexorably move upwards by a few per cent, rarely down.

Value marketers challenge these conventional wisdoms and reject the accompanying incrementalist mindset. They are not interested in charging 5% less, but 50% less, or more. Pricing differentials between the premium, standard and value segments are now huge.

Pricing differentials between 'cheapest' and 'best' (the latter a definition that many value marketers might dispute) are between 3x and 22x across a sample of categories researched for this article.

While the price points of most conventional brands might be clustered within, say, 10–20% of each other, value brands seek to overturn the category pricing paradigms entirely and set radically lower price floors.

The resultant differentials are beyond the experience of conventional price elasticity analysis. The inverse 'sticker shock' created by value brands has the potential to force consumers to rethink how they consume a category – and overcome the occasional disadvantages and inconveniences that choosing the value alternative imposes (like flying from Luton rather than Heathrow, unless, of course, you live nearer

Luton).

GROW MARKETS, NOT JUST MARKET SHARE

Classical marketers look to grow market share. Value marketers look to expand markets by creating markets where none existed before. Figures 1, 2 and 3 show the long-run impact of value brands on the size of the relevant product category in airlines, clothing and hotels.

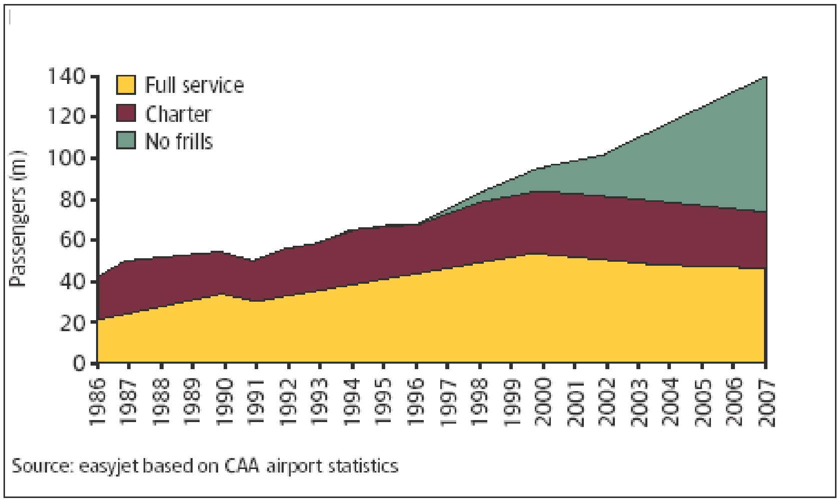

Figure 1: UK–EU Passenger traffic by carrier type, 1986–2007

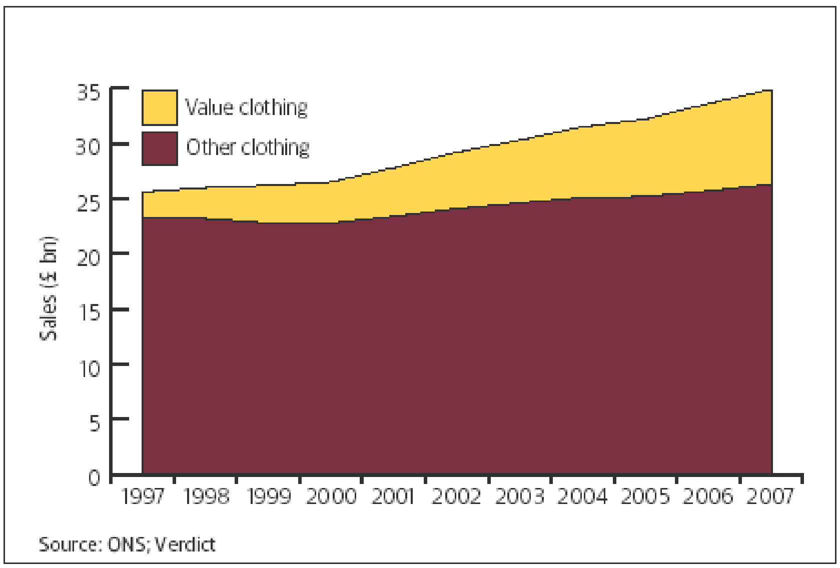

Figure 2: Development of UK clothing market

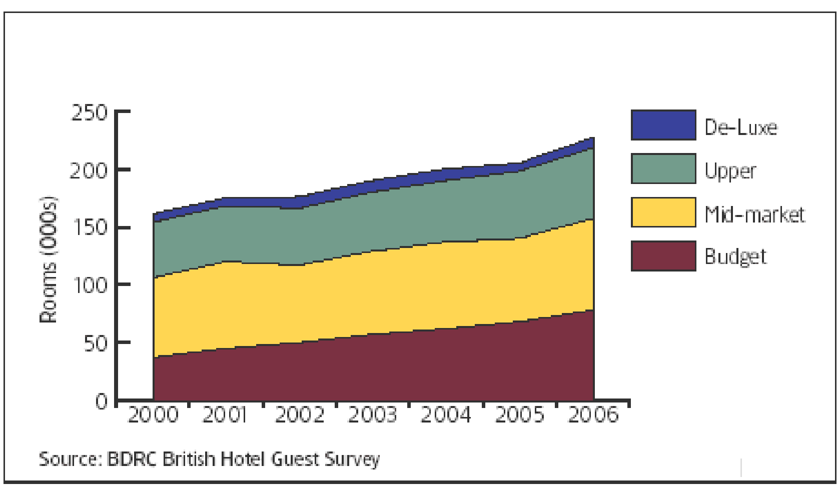

Figure 3: Development of UK hotels market

Viewed through the classical marketing lens of gaining market share, value brands have been demonstrably successful. No-frills airlines have grown from nothing in the early 1990s to take 40% of the market for air travel between UK and Europe. Budget hotels have expanded their share of UK branded hotel rooms from 23% to 35% in six years. Value clothing retailers like Primark have grown their share of the UK apparel market from 9% to 25% in ten years.

But what is striking about these markets is that growth in value brands has largely not been at the expense of existing standard brands. Instead value brands have expanded markets – on the one hand by reaching out to segments that couldn't previously afford to access the category and, on the other, by changing fundamentally the way people consume categories.

The anecdotal evidence corroborates this picture. Weekend breaks in Maastricht and stag nights in Prague are now *de rigueur* since the advent of budget airlines. And, further upmarket, budget airlines helped create and support a growing market of second homes in France. In Germany, Aldi inspired the 'Audi and Aldi' phenomenon whereby the affluent middle classes have started to unbundle their grocery purchases between pantry-filling for the basics at Aldi and more discriminating purchases elsewhere. Back in the UK, Primark and others have stimulated a market for fast, affordable fashion that has driven clothing more towards a frequent, grocery-style purchase rather than an infrequent 'destination' one.

UNDERSTAND COSTS, NOT JUST FEATURES AND BENEFITS

Classical marketers focus on features and benefits, and the price premium required to afford them. Value marketers focus on lower prices and the cost structure required to sustain them. This represents a fundamental difference in both focus and skill sets.

In the case of easyJet/easyGroup, founder Sir Stelios Haji-Ioannou's critical insight was that incumbent players in capacity-sensitive industries like airlines were failing to price aggressively and creatively enough to fill that capacity. Unlike in consumer goods, the marginal cost of a sale is zero. So it makes no economic sense to fly an empty airline seat anywhere; easyJet and Ryanair therefore recognise the 'perishability' of their product and price flexibly to fill their capacity. The driving goal is to have sold 100% of the seats by the day of the flight at the best possible prices. According to easyJet, when sales open – about 200 days before the flight – they price tickets on a cost-plus basis; 100 days or so before the flight, a series of escalating pre-set fare classes are made available, triggered either on a days-to-go or demand-level basis. Close to departure, the customer pays a peak last-minute fare. Figure 4 shows this strategy in action on the basis of a return flight from Luton to Glasgow.

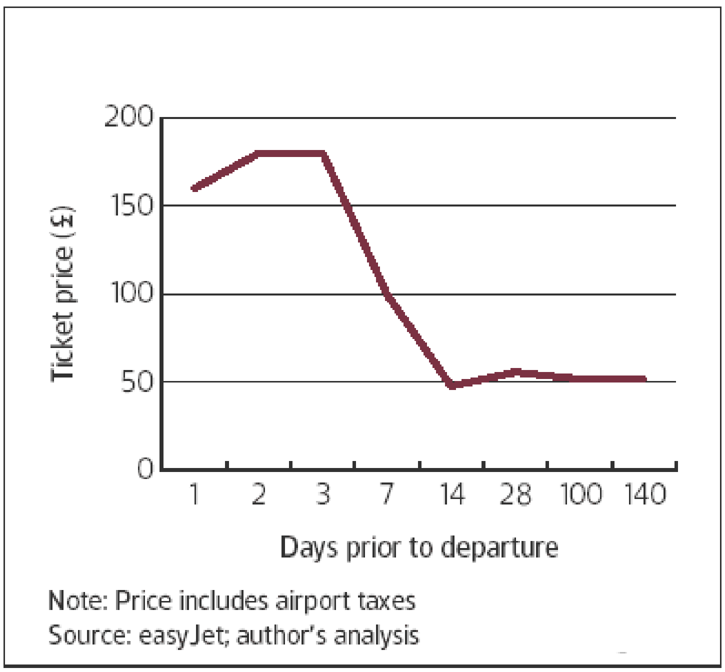

Figure 4: Price of a return flight to Glasgow

Value marketers also adopt a parsimonious approach to their product and overhead costs. Primark was one of the early adopters of outsourcing manufacturing to the Far East, with resultant ability to keep prices low. Aldi has been opportunistic in exploiting over-capacity in the European food industry to find low-cost sources of supply for its portfolio of mainly tertiary brands. In-store, cost-consciousness also prevails. Aldi favours a basic store fit with minimal displays and other accoutrements. Shelf-ready packaging is used to minimise in-store handling. At Primark there are no changing rooms, check-outs are concentrated in a single area and the store fit is kept simple.

But the importance of high volumes and resultant cost efficiencies in the value marketing model means that value marketers are prepared to invest big to secure these benefits. Primark favours flagship city centre locations, not out-of-town sheds, to drive the footfall that its model requires. Aldi's stores may be basic, but they are clean and bright with good car parking. easyJet has one of the 'youngest' aircraft fleets in the business (at an average 3.5 years) in order to reduce maintenance costs and exploit the latest fuel-efficient engine technology.

The general point here is that value marketers demonstrate an acute understanding of how costs behave in their business, and understand where adding cost is sensible to support the consumer proposition and where it isn't.

In contrast, classical marketers tend to lack such an acute understanding of the tradeoffs between different levels of features, benefits and their costs, with the result that the overall customer value proposition can be sub-optimal.

FOCUS – RUTHLESSLY

Because value marketers understand cost/benefit trade-offs so well, they focus ruthlessly on delivering only those attributes of the product and service that are either strictly necessary and/or consistent with a low price positioning. In contrast, classical marketing can fall into the trap of a too-disparate, too-inclusive approach to products and propositions.

In the budget hotel sector, brands like Travelodge and Premier Inn have recognised that, in city centres, the availability and diversity of eat-out options now means that an (often indifferent) hotel restaurant imposes significant additional costs that are not commensurate with its benefits. Similarly, there are no more than minimal in-room toiletries and no mini-bars, with resultant savings in the costs of housekeeping. However, the room fit is to a high and consistent standard, and must-have features like in-room internet are widely available.

At easyJet many of the conventional elements of the airline business model have been done away with; easyJet don't sell through travel agents, in order to eliminate commissions. There isn't a Club Class cabin and there aren't any executive lounges. Where differentiated services are provided (e.g. a faster check-in), these are charged for.

In terms of consumer perceptions of features and benefits, value marketers might be said to be happy with high ratings on just one feature and low on others, whereas a classical marketer is more inclined to optimise the offer around a bundle of features and benefits. While this may maximise the appeal to the middle market, the clarity of the proposition (and the cost of delivering it) can get compromised.

LOW PRICE NEEDN'T EQUAL LOW MARGIN

If value products and services are 50% or more cheaper than the competition, how can they possibly make money? This is a natural reaction of both observers and direct competitors to value brands. However, the reality is that value brands frequently have higher, not lower, margins than their established competitors. How so? (See Figure 5.)

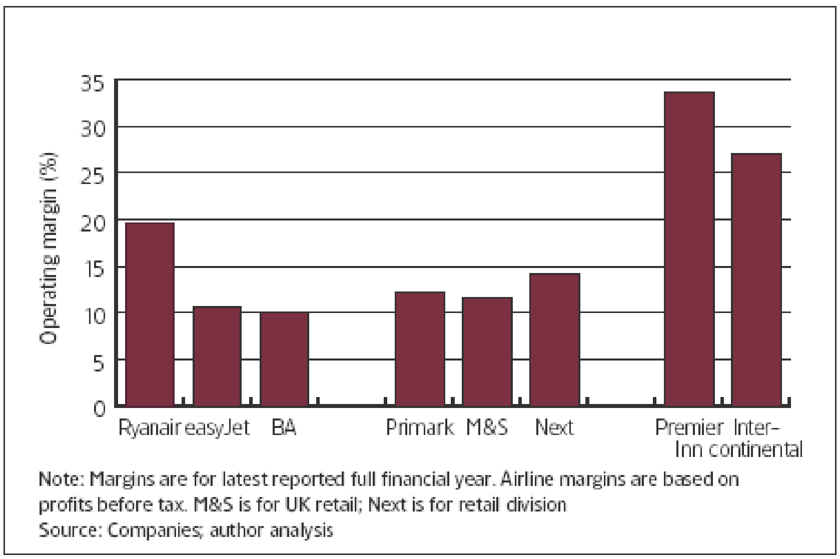

Figure 5: Operating margins: value brands and standard competitors

Two principal factors explain this apparent paradox. First, value brands have lower overheads and, second, they spread their costs by sweating their assets harder. Low-cost airlines make for the perfect case study here.

Ryanair, thought to be the least-cost carrier in Europe, sustains a cost per available seat kilometre (the standard measure of unit cost in the industry) less than a third that of the top three carriers. This dramatic advantage is achieved in a number of ways.

The biggest advantage accrues from lower product, distribution and overhead costs. As we have discussed above, the focus on online ticket sales, disintermediation of travel agents and elimination of Club Class and other frills lowers unit costs substantially. Ryanair also get a big advantage from lower infrastructure costs (principally landing charges) as it uses secondary airports (easyJet prefers to use primary airports and accepts a cost penalty relative to Ryanair for doing this). Lower aircraft and fuel costs are also an important factor, reflecting a younger, lower-maintenance and more fuel-efficient fleet. Finally, there is a material benefit from higher seat density (spreading fixed costs over fuller aeroplanes).

THINK LIKE A CHALLENGER

The emphasis in this article has been on the economics of value marketing and how much better value marketers understand business economics than classical marketers. But a final – and striking – contrast is the different background of value marketers. Crucially, this seems to have imbued them with a 'challenger' mindset and willingness to both think and act differently to their more traditional counterparts.

While there are few similarities between the profiles of easyJet's Sir Stelios Haji-Iaonnou, Ryanair's Michael O'Leary and Primark's Arthur Ryan, significantly, none of the three comes from a classical marketing background. Instead all came from professional and managerial disciplines of high relevance to a value marketing mindset – Stelios in shipping, O'Leary in tax accounting and Ryan in buying and merchandising. All three have demonstrated a willingness to be entrepreneurial and think differently to their incumbent competitors. And while their three businesses are now powerful brands in their own right, they have eschewed many of the techniques of classical marketing.

IN CLOSING: HOW TO RESPOND?

The argument of this article has been that, as we enter the first consumer recession in the UK for 17 years, we do so with a very different and more diverse pricing landscape than we did in 1991. There is therefore a major window of opportunity for value brands to make further advances. Whereas to date value brands have served to expand markets, the next couple of years look much more like an old-fashioned fight for share. What is a window of opportunity for value brands is a corresponding threat to traditional ones. So how to respond?

1. Be prepared for change: despite the economic turmoil, the evidence for decisive shifts in market share between traditional brands and their value counterparts is still tentative. Primark's recent strong LFL performance has been impressive, but implies that it has gained something like a quarter of 1% of the UK clothing market. Worth having but not as spectacular as its sales growth might imply. Aldi and Lidl are thought to be growing their sales by 20–30% in the UK, but still have less than 5% of the grocery market. But we are likely to see further share migration into the value sector given the magnitude of the pricing differentials on offer.

2. Beware the perils of 'followership': 'if you can't beat them, join them' is the knee-jerk response to value brand insurgency. But the success of value brands resides in distinctive cultures and cost structures that are fiendishly difficult to replicate inside traditional companies.

The textbook example of failed 'follower-ship' is Continental Lite, which failed to emulate the US low-cost carrier, South West Airlines, in the 1990s. Continental Lite was ultimately too embedded in the infrastructure and labour practices of its parent, Continental, and lost $140m in its two-year existence. When British Airways attacked easyJet with the launch of Go in 1998, it avoided some of the pitfalls of Continental Lite by putting Go under its own leadership team and basing the operation far away from Heathrow, at Stansted.

3. Play to your strengths: this article has been written – consciously – as a paean to value marketing and a critique of classical marketing. The thrust of the argument has been that, by ripping up the classical marketing textbook and focusing on price and cost economics, value marketers have had notable competitive success. None of this is to say that classical marketing is dead, but it is to say that its mettle is going to be strongly tested in the coming years. What classical marketers need to rediscover and re-celebrate is the power of the single-minded proposition, and the value of strong functional and/or emotional benefits, strongly communicated.

The vulnerability of value brands is that they lack inherent loyalty (for example, Ryanair and easyJet were voted people's 'least favourite airlines' in a TripAdvisor poll in 2006) and have proved to be vulnerable to economic shocks (such as the high price of aviation fuel).

Value brands are also vulnerable to reputational risks unless they ensure that their low costs are consistent with ethical sourcing and employment practices. But classical marketers would do well to adopt some of the same ruthless single-mindedness that characterises the value sector. It's going to be an interesting downturn this time around.

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Strategies from a new generation of challenger brands

Adam Morgan
eatbigfish

As we move into what looks to be the most severe downturn most of us have worked through, we will obviously need to consider what changes and what stays the same in how we approach brand building, marketing and sales.

The tendency will be to think in terms of a profound change in tactics. But I would argue that what is needed is a profound strategic shift in the way we think about marketing, and using what we have to build stronger relationships with consumers.

THINK ABOUT NEW STRATEGIES, NOT JUST NEW TACTICS

For years many marketers have been unintentionally lazy. They haven't explored the full potential of the marketing tools in front of them because they haven't needed to – they've always more or less worked. Over the next two to three years, the consumers are going to be short of money, time and attention. A recent study by OMD and Yahoo! suggests that the average global family man or woman was getting through 43 hours of activities in a 24-hour day, because they were doing a number of them at the same time – 36% of texting in the UK occurs in front of the TV.

So the challenge facing us is not just one of consumers being more value conscious, or having reduced budgets and resources. It is how we gain the attention, interest and renewed relationship with a consumer who has less time and inclination to listen to anything from people they do not have a strong and valued relationship with.

So what can we learn from people who have already been in this position?

Analysts typically tend to look at how brands generally have succeeded in previous recessions. I would suggest a different model – let's look at recent examples of brands that have built strong relationships with time-poor consumers in busy marketplaces with very limited budgets. In other words, people whose circumstances have always been those we are now suddenly finding ourselves in. Let's take a recent generation of challengers and see what we can learn from how they have succeeded in creating stronger relationships with challenged resources.

I would suggest that there are five thought-provoking themes for us to draw on.

1. Make Yourself Visible

At the risk of stating the obvious, if you are competing in a world where attention is at a premium, the first thing you need to be is visible. Yet most of the brands around us are, to all intents and purposes, invisible. Unremarkable in their product or service offer, they rely instead on communications to give them visibility, and difference.

But if we cannot rely on adspend to make us visible, we will have to find ways of creating more intrinsic visibility.

Look at method, for instance (Figure 1). Unable to rely on advertising they have built unique visibility into their structural packaging by investing in eye-catching iconic design.

Figure 1

In the service sector, npower has recently looked to compete against British Gas' boiler service by creating a hometeam who want to make visible the respect they give to their customers' homes when they service them. They make this respect instantly visible by literally rolling out a red carpet to protect the floor and furniture while they are working – a brilliant piece of theatre that has led to business increases of up to 50%.

2. Be Startlingly Useful

Google has risen from being one of a number of search engines to become not simply the global leader in search, but one of the world's favourite brands (in May, it was voted 'the UK's Best Loved Brand'). And yet it has done this without any active marketing of itself at all.

For those of us trained to believe that powerful marketing was the way one built brands with strong relationships with consumers, this is an extraordinary disruption. How on earth did it do that?

The answer is that it did it by being startlingly useful. I search for the 'meaning of life' and it gives me 20 million possible answers in 0.08 seconds. Or if I want to see what my neighbours' gardens look like, I punch in their details on Google Earth and there they all are. I have forgotten to send my party guests directions – Google Maps helps me do it in a couple of minutes. It is this startling usefulness that makes Google loved without doing any marketing – over and above, of course, having an exceptional product.

Not all of us can offer startling usefulness in everything we do. But we can look for places to create it. And those challengers that do are rewarded with word of mouth and affection disproportionate to their actual size. Virgin Mobile in Australia has offered its users a variety of startlingly useful services that show it understands the real lives of its customers – rescue services that help you get out of a bad date, for example, or that stop you calling up your ex when you are a little over-refreshed. Without any paid-for communication, it became the talk of every bar and party every weekend.

Of course I am being a little glib here because Google is not just offering startling usefulness, it is also free. But the challenge to us holds: how could we make all or some of our offer startlingly useful?

3. Find a Source of Conflict

So we have made ourselves genuinely visible, and are looking at how to make our product or service startlingly useful. What next? We need to be more compelling as brands.

There is much that we have forgotten from English classes, but the one thing we do remember is that what makes any story compelling is conflict. Not necessarily in the sense of person vs person, but in terms of the protagonist needing to overcome something in order to succeed. And if we look at challengers who break through with very limited resources, it is because they are often creating compelling stories for us by finding something else in popular culture to rub up against. They recognise that having a clear sense of themselves is only half of what they need in order to capture our imaginations – they need another surface of some kind to rub up against.

There are said to be seven kinds of conflict to create a drama that draws us in. The seven types of conflict are:

1. man vs man
2. man vs nature
3. man vs societal environment
4. man vs machines
5. man vs religion/God

6. man vs self

7. man vs supernatural.

The conflict that deserves a little more attention is the last of these (man vs supernatural), and particularly the idea of how challengers create and use monsters to make themselves more compelling to us.

Monsters have a number of important values in stories. They raise the stakes by creating drama, emotion and conflict. They throw up a hero. They give the hero a very visible adversary and clearly position the hero as being on the side of right. They highlight what his or her virtues are – there is nothing like a little darkness to give definition to light.

Perhaps most important from our point of view, monsters unite the community against them. This is one of the important differences between a monster and an enemy: an enemy is a threat to you, but a monster is a threat to the larger community. This is what brings the community together: however disparate, divided or simply indolent the community had been up to that point, the presence of a monster brings them together in unity against it. And in fighting the monster, the hero (or challenger) is thus fighting not just for themselves, but as the champion of the community as a whole.

We have seen challengers use monsters in this way for years. In many ways Richard Branson's brilliance has been to convince us that his personal business enemies (such as BA) are in fact monsters working against the interests of us all, and that he is our champion, fighting them on our behalf.

Fast forward 20 years. What makes this strategy much more interesting and powerful for a challenger today, is the ability we now have to mobilise these communities against our chosen monsters. This kind of mobilisation can take place in both grass-roots marketing and within social media and networks. The monsters we see such challengers rallying their chosen community against are not always other brands – they are often historical characteristics of the category that they are making redundant (the postal film service Netflix railing against late fees for DVD return) or social tendencies such as conformity (Vivienne Westwood's bête noire).

The household cleaning range, method, whose packaging we noticed earlier, has created a monster in the US called Toxicity. Method goes to a city, sets up in a pop-up store and invites people to 'Detox their lives' – to come and exchange all their toxic products for method's environmentally friendly ones. All of this, of course, is publicised and the community engaged and mobilised through blog and press. Through the careful creation of a monster, method has created a compelling and involving story which people tell each other for them.

We tend to think of the classic challenger as 'little guy vs big guy'; in fact, it is far more often 'hero vs monster'.

4. Rethink your Media

We all know the innocent story, yet we continue to misinterpret its real relevance. To judge from the tsunami of imitations across all categories, you would be forgiven for thinking that the key learning from innocent is to be a little more chatty on the side of our packs.

But innocent's thinking as a challenger was much more profound than that: it was to recognise that packaging of all kinds, delivery vehicles of all kinds, and POS presentation of all kinds are all media. These media are, in many ways, the most effective media you can ever 'buy' because every single piece of it is reaching your desired target audience. If you characterise them as house media, they need as much creativity, refreshment and senior attention as any other kind of media we have more traditionally put on a conventional plan.

So as paid-for communications budgets are pared down, look at putting our house media on the media plan, and behave towards them with the creativity and senior attention they deserve. Packaging, leaflets, service plans, stacking trays – think of these as the canvas for brand expression.

Next is social media – not to be automatically confused with digital media. There may be all kinds of social media that would create more goodwill and attention than a viral communication.

For example, Umpqua Bank, a regional challenger bank in the North-west of the US, has for a number of years operated what it calls 'handshake marketing' – acts of neighbourliness in its physical community that create goodwill and conversation. So for instance, at one point they rented and branded vans that simply drove around distributing free ice cream in summer and free hot chocolate in winter. This simple act of social goodwill inexpensively positioned it as the bank that really is a friend of the community, and created considerable social conversation and coverage in the process.

5. Take Personal Responsibility for Talkability

Which brings us to talkability. We know that challengers thrive on PR. But up to now we have left it to our PR agency to come up with an episodic series of initiatives planned out in advance throughout the year to generate on- and offline buzz. What a more recent generation of challengers is teaching us is that the people in charge of the marketing take personal responsibility for making sure the brand is always being talked about.

42BELOW, the New Zealand super-premium vodka, has never had a formal advertising budget and so constantly sought to keep itself in the news through PR. When the founder felt the brand had been out of the news for a few weeks, he would convene his team, they would look at the day's papers and see what topical stories they could attach themselves to that week.

In one meeting the team read that that morning the New Zealand Navy had announced it was selling off one of its frigates. By early afternoon that same day the team had sent the paper an illustrated story that they were pitching to buy the frigate to turn it into a 42BELOW nightclub. The paper published the picture the next day alongside the story, and the radio stations soon followed. 42BELOW was back in the news again.

Reframing your objectives for your story will help you push it as far as it needs to go to really break through. Skandia had sponsored British sailing for years but coverage had never got beyond the sports pages. Looking for more mainstream coverage before the Olympics, it asked itself what it would take to get in the main body of the papers. The answer it came up with was to get the future Olympians naked, and then paint them gold. The story and picture got a double-page spread in a leading Sunday newspaper and was then picked up by a number of dailies in the week that followed.

IN CONCLUSION

This is not a time for tweaking, or simply falling into temporary tactical offsetting. It is a time to embrace what it will take to succeed as a brand in an environment where it will be much harder to genuinely engage a consumer's imagination and pocket.

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Having it all: value *and* sustainability

Marie Ridgley
Added Value UK

In virtually all market sectors, the squeeze on consumers' wallets as a result of today's economic roller-coaster is forcing difficult choices and uncomfortable trade offs. Every penny counts, so being sure to get the best 'value' possible is imperative as consumers come to terms with their options – consume less, demand more for less or make new and different choices altogether.

The term 'good value' has become synonymous with cheap or low cost. But the reality is that the meaning of value has evolved as consumers expect more for their money, basing all decisions on the question 'Is it worth it?' We could all take a leaf out of billionaire Warren Buffett's book; he said 'Price is what you pay. Value is what you get.' Perception is key – a weekly shop from low-cost but no-frills discount store Lidl offers value in an entirely different way to buying this season's limited edition handbag from an exclusive event at Chanel. Value can be communicated in different ways, from low-cost bargains such as the Tesco Value range, product bundles like Boots '3 for 2 Mix and Match' or an end-to-end experience such as Ocado's home delivery service offering.

So, in an era where sustainability is increasingly part of the choice equation, today's cultural context is creating a tension between a sustainable choice and one that offers 'good value'. Consumers are interacting with or disengaging from sustainability issues for different reasons, placing them firmly at opposing ends of the spectrum. At one end are the committed, who see changing their detergent for a more environmentally friendly one as a no-brainer; at the other end are the cynics, who believe that it's either simply all greenwash or are put off by the often premium price tags attached. Even in prosperous times, value comes top in the decision-making criteria for sustainability. In fact, our 2007 research showed that consumers were not willing to go beyond a price premium of 10–15% for sustainable products, and that's likely to be even lower today.

However, we also know that sustainability is seen as a driver of emotional value and, in fact its absence can be seen as a negative. Brands have a chance to gain competitive leadership by creating choices that offer not just sustainability or value, but both. Not only will this boost brand loyalty by displaying a clear appreciation of consumers' needs in tough times, but also reaping much needed financial rewards. To achieve this holy grail, brands need to find that elusive 'sweet spot' where the brand's value proposition and sustainability strategy overlap.

FOUR BRAND MODELS FOR INCORPORATING SUSTAINABILITY

First, brands should decide how they are going to engage in sustainability in a way that fits with their core brand DNA. There are several factors to bear in mind, from the brand's personality to the core proposition, and to what level sustainability should be translated into a consumer dialogue. Added value has developed four sustainable brand models as guidance when communicating sustainability. There's also a fifth model, which relates to brands that have embraced sustainable practices but chose not to do anything in a consumer-facing way. Ultimately we believe that sustainability will be a table stake in doing business, so at some point brands operating the fifth model will need to choose a consumer-facing approach, as outlined below.

The Crusader

Brands like Ecover, American Apparel and the Body Shop, built on strong ethical beliefs with a cause-led approach that demonstrates leadership by raising awareness of an issue. While these brands are authentic because they deliver a constant evolution of the cause, they need to be mindful not to sound too worthy, or too niche, to be irrelevant.

The Harmonist

Brands like Yeo Valley, Patagonia or Innocent, have a set of holistic sustainable ideals, brought to life with strong brand values, tone of voice and guiding principles. Authenticity is inherently part of the brand aura. These brands need to be careful to keep culturally relevant as they grow.

The Changeling

Brands like M&S and GE, which have made a decision to make responsibility a part of their brand DNA: a fundamental repositioning that shows their commitment by pioneering initiatives and showing a willingness to take risks. Authenticity comes through tangible delivery of initiatives, being honest and open about the journey they're on. This is, however, a transition state moving towards a harmonist.

The Selector

Brands like Sainsbury's, HSBC, Tesco – in fact most brands – fall into this model. They have a clear brand positioning and a clear idea of how and when sustainability issues will be incorporated into their core values. Brands demonstrate commitment by targeting specific issues and executing each one well, which in turn drives credibility. The problem, of course, is that these brands are most susceptible to criticism of greenwashing.

CHOOSING THE ISSUES

Having decided on an approach, companies then need to identify which issues they will tackle from the three areas of sustainability options: public health, social and economic fairness or the environment (see Figure 1). This is an opportunity for brands to tackle either a brand or category issue head on, which will resonate most with consumers and gain leadership in the process.

Public health	
Toxins:	Reducing or eliminating the presence of dangerous substances that damage health
Sickness and disease:	Providing aid, education and prevention to halt the spread of disease
Healthy eating:	Driving awareness of and education on ingredients
Social and economic fairness	
Poverty:	Reducing poverty in both developed and developing countries
Fair trade:	Ensuring a fair price to producers in developing countries
Occupational health and safety:	Safety, health and welfare of employees and local communities
Employee exploitation:	Ensuring non-discrimination, fair wages, benefits and working conditions (no sweatshops)
The environment	
Waste management:	Reduction/recycling waste over product life cycle
Biodiversity and resource scarcity:	Reducing impact on depleting raw materials (water, forest, ...)
Pollution:	Reducing air, land and water pollution
Energy efficiency:	Reducing energy consumption and creating energy-efficient solutions
Climate change:	Reducing greenhouse gas emissions such as CO_2

Figure 1: Sustainable Options

M&S, firmly established as pioneering sustainable initiatives with its 'Plan A because there is no Plan B' campaign was predictably the first retailer to charge 5p for plastic bags, already donating £246,000 to the charity Groundwork. Other examples include Ariel tackling energy efficiency with its 'Turn to 30' campaign and Ren pioneering the concept of 'Clean Bio Active Skincare' to counteract the growing concern over toxins in beauty products.

Once a brand has a clear understanding of how to approach the sustainable journey in a way that's right for its DNA, the challenge of reframing value to incorporate sustainability becomes clearer. Consumers need to be shown how value comes from seeing that 'what goes around comes around'.

In the same way as economies are only now starting to take into account the costs of past irresponsible behaviour, so consumers need to consider the long-term impact of their own individual choices. And of course there is value in avoiding that cost. Encouragingly, there is already evidence of brands stepping up to the challenge of integrating sustainability into their value proposition. Here are some examples:

- A healthier diet will lead to less sickness avoiding expensive medical bills. Brands leveraging the health and quality benefits of organic produce include success stories like Yeo Valley, Dorset Cereals and the extended range of Sainsbury's So Organic.

- Locally sourced produce reduces pollution from transport, supports local businesses and is more convenient. For example, Waitrose proudly sells local products within a 30-mile radius of a branch with its 'Local Food' range. Abel & Cole, the fastest-growing organic home delivery service, not only provides environmentally friendly convenience but also educates its customers about the virtues of seasonal produce.

- Better-quality fashion is more durable than 'disposable' options that rely on cheap labour, thereby eliminating child labour, reducing waste and creating savings in the long run. Primark was famously exposed on BBC's *Panorama* and could take learnings from American Apparel, which offers sustainable everyday basics at affordable prices.

- Energy-saving appliances reduce carbon emissions and create savings on energy bills. Corporate giant General Electric launched its 'Ecomagination' brand to focus efforts on a production line of products that are as economically advantageous as they are ecologically sound. Aveda creates the perception of value by being the first beauty company to manufacture with 100% wind power. It integrated this message into its value proposition with the launch of its 'Smooth Infusion' range, which states 'Our newest way to smooth hair protects clean air'. Supermarket giant Wal-Mart has firmly aligned sustainability to its value propositions of giving customers the best price with its new tagline 'Save money. Live better' supported by regular product offers that 'Save money. Save energy. Save the environment'.

- Packaging reduction and recycling minimises waste going to landfill and reduces carbon emissions. P&G has stated its corporate intent by embarking on a consumer education programme, 'Future Friendly'. Significant sustainable initiatives are spearheaded by key brands such as Lenor Concentrate, whose advertising campaign claims to 'Save Money. Concentrate' – not just by reducing packaging, but also using less due to the concentrated formula.

- Transparent practices are a form of insurance against danger or corruption and a sense of security about the brand choice. Being 'good' with money remains central to the values of the Cooperative Bank, which has turned away £900m of loans to businesses not in keeping with its ethical policy.

- Virtual working, communicating and shopping reduces carbon emissions, but also saves both time and money. Ocado has built its continued success on this premise by delivering shopping to homes in biodiesel vans and saving an estimated 40 car journeys to the supermarket each day.

- Biodiversity protects natural resources, eliminating impact on the land. Coca-Cola is committed to become water neutral by preserving and protecting fresh water resources worldwide. Unilever has pledged to source 100% of its palm oil from certified sustainable sources by 2015, bringing an end to the destruction of Indonesia's peatland rainforests.

When we don't care about the impact we're having today, there is always payback tomorrow. Brands will benefit by developing a strategy that meets consumers' values in terms of sustainability coupled with their growing need to get the best value in terms of price. The key to success is to create a seamless and relevant fit with the brand DNA so it doesn't feel at odds with the familiar brand promise.

The economy will recover, probably within the next two to three years, but sustainability and the health of our planet is a tougher disease to cure. Companies have a responsibility to provide sustainable choices to help consumers make the right choices that also deliver against their need for value. To quote the UN Environment Programme, 'The only way out of this recession is towards a low-carbon economy.' It's no longer a question of sustainability *or* value. It's got to be both.

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Shopper marketing – the key to unlocking growth in a recession

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Oxford Strategic Marketing

During these difficult economic times, the key is to ensure that consumers not only continue to want use your brand, but also to ensure that shoppers buy your brand in the first place. Fail at this 'first moment of truth' and you will not even reach the second moment of truth – consumption. Win at 'shopper marketing' and you just might unlock growth in a recession.

So, what is shopper marketing? We define it as 'the capability to drive growth through insight-led, shopper-based demand creation and fulfilment'. In a nutshell, it's about institutionalising shopper insights to drive business growth. And it's hot. In May 2008, OxfordSM conducted a survey on shopper marketing among 28 top fmcg manufacturers and retailers on behalf of ECR Europe, revealing that companies already see shopper marketing as critical to success, and expect its value to rise dramatically in a downturn.

The deepening recession is changing consumer priorities, and disrupting their traditional buying patterns. Shoppers' category allocations and brand loyalties are shifting too. Recently, Sainsbury's announced that sales of its Basics range rose 30 per cent in the last quarter through its 'switch and save' campaign, which aims to lure shoppers to own-label goods from branded labels. And the search for value can drive more extreme retailer loyalty. The hard discounters Aldi, Lidl and Netto are claiming double-digit growth at present as a result of more people coming through their doors. Tesco is responding by positioning itself as 'Britain's biggest discounter', setting up specific discount aisles and promoting over 350 products in-store where customers could save up to £24 a week. So people are still consuming bread, beer and washing powder, but they are shopping for them differently.

Shopper changes are not limited to down-trading and discounting, though. More complex shopping behaviours are visible too. Datamonitor has shown that 15% of shoppers are now trading down and trading up in the same basket. For example, the wine category is already starting to polarise into 'below £4' and 'over £10' sectors, with the much vaunted £4.99–£6.99 price ranges losing shelf space.

Now, more than ever, it is vital to really understand the attitudes and behaviours of your target shopper. Some behaviours are unpredictable. Will cash-constrained shoppers be less likely to respond to multi-buys and favour price cuts on individual products, making bulk-buying a boom-time behaviour? Or are shoppers taking fewer trips to the supermarket to save on fuel costs, making bulk buying a smart option in the current climate? Or, conversely, are they shopping more frequently but with smaller basket sizes? Will they buy more online? Only by embracing and institutionalising shopper marketing in your organisation can you anticipate and capitalise on these developments.

Whatever the diagnosis for your category and brands, the credit crunch is putting a premium on the need to generate and act on shopper insight. Our 2008 ECR survey indicated a significant variation in how effectively and widely companies leverage shopper insight. Leading companies are those who are applying shopper insight most widely. The three broad applications are as follows.

1. EXECUTIONAL

This is about optimising and promoting the offer at point of purchase – through pricing, merchandising, display and promotion. If it is based on a true understanding of the shopper it can be very simple but highly effective. For example, P&G uses shopper messaging on outer cases via shelf-ready packaging, as in Fairy Antibacterial washing-up liquid stating 'Stop bacteria breeding on your sponge tonight' – an instant call to action versus other products with no message at all. Another example is Guinness, which drove sales by almost a quarter via improved visibility and navigation based on deeper shopper understanding.

2. CHANNEL AND FORMAT STRATEGY

This means finding where best to place the offer and flex the offer by format. Coca-Cola is the acknowledged expert in defining needs based on shopper mission and channel, and using that to drive range choice. Its lunchtime promotion – buy a sandwich, bag of crisps and a Coke – is a great example of understanding a broader shopper mission. Minute Maid replicated this in the US with its breakfast solution fixture – 'Squeeze a minute into your morning' linking Minute Maid orange juice to other breakfast items like bagels and newspapers. The result? Increased frequency and value of purchase from beverage shoppers. Minute Maid volume grew by 26% and retail profit by 32% (source: Research International).

3. STRATEGIC INNOVATION

Leading-edge companies listen and act on the voice of the shopper when taking strategic decisions including identifying new growth platforms and product innovation. For example, P&G has been looking at the total shopper experience and testing pop-up shops in Canada – called Look Fab studios. The concept is intended to get women to think differently about P&G's health and beauty line (Cover Girl, Pantene and Nice & Easy). In this new format, shoppers are treated to mini makeovers from Cover Girl, skin analysis from Olay and can book free hair colour and style sessions courtesy of Nice & Easy/Pantene.

The diagram on page 41 (Figure 1) makes the critical point that shopper marketing goes way beyond category management.

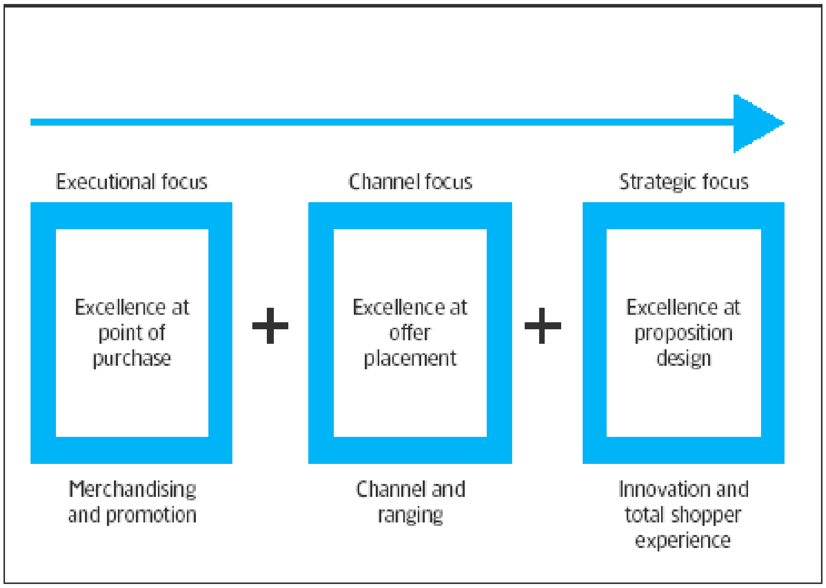

Figure 1: Shopper marketing evolution

Increasing shopper satisfaction for the entire category is one of the few goals retailers and manufacturers genuinely share. In the current inflationary and recessionary environment, agreeing to focus on shopper satisfaction can deflect from potential arguments about margin and price too. This is where the savviest branded manufacturers focus, using shopper marketing as an opportunity to build their relationship with those retail customers who are open to a genuine strategic dialogue.

This requires a really deep understanding of each retailer's goals – their priority customers, formats, market positioning, competitive dynamics, operational needs and corporate imperatives. Those manufacturers best placed to win will be those who truly understand shoppers and shopper behaviour, and use this to develop solutions that meet the specific needs of each priority retailer or channel.

Typically, discussions have focused on the right-hand side of the 'value creation' model (Figure 2) – how to improve overall margin, and how to drive profit. This is typically viewed at an individual category level. However, what manufacturers and retailers are also increasingly interested in is driving growth through the left-hand side of the equation – via increased penetration of shoppers, shopper frequency and basket size. This can require a multicategory perspective. So how ready are you and your team to leverage the potential of shopper marketing? The shopper marketing readiness box on page 5 has some questions to help you assess your readiness.

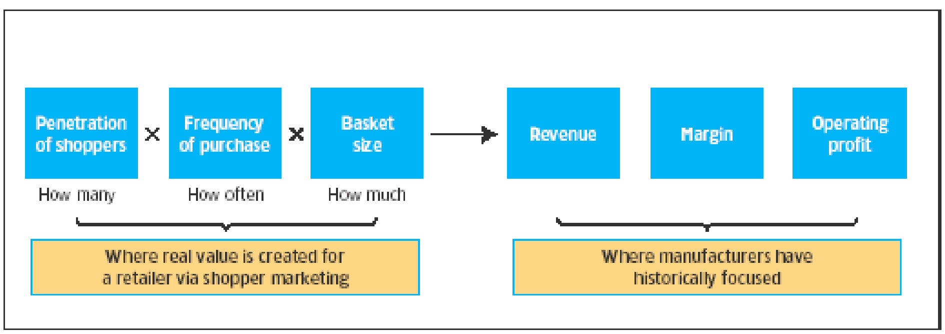

Figure 2: Shopper marketing driving real value

In thinking about this checklist, it's important to maintain a sense of perspective. We work with leading fmcg players as well as grocery retailers, so we see 'both sides', and even the biggest and best names in fmcg-marketing are still working hard to fully embed and leverage shopper marketing. (see Appendix 1).

For the marketing leader navigating the journey to strategic shopper marketing, it's helpful to hold on to some straightforward principles, as outlined below.

Know Where You are Heading

P&G and Coca-Cola started with a vision of what this could do for them, and have learned and evolved over those years. Start by defining what shopper marketing means to your organisation.

Define a Clear Business Challenge that Shopper Marketing can Help Deliver.

Too often teams just set off to do 'shopper marketing' and the result is some slightly more compelling merchandising. So before doing anything the team should be clear on the business challenge they are trying to solve with the approach.

Generate Broad Shopper Insight.

Challenge your teams to ensure they appreciate all the sources of relevant data can be accessed. The richest insight comes from making connections across data sources.

Share and Apply Shopper Insight.

Make sure insight reaches the decision makers and that insight is applied by thinking broadly about how the business challenge can best be addressed using multiple shopper levers at your disposal. Understanding the shopper can open up powerful growth opportunities. For example, Boots analysed shopping patterns among loyalty card holders and found a link between baby products and photographic goods – this subsequently drove co-location of photographic products with nappies.

Build Your Own Shopper Marketing Talent.

While organisational design is important, new organisational structures are not necessarily what is needed. A strong shopper vision and great cross-functional working practices will get you further. Moving forward, to really win at shopper marketing a company needs to develop its talent in this area. The 2008 ECR study highlighted this as a critical issue as there already a shortage of talent.

Ensure the Business Learns and can Re-Apply.

Ensure programmes are scaleable, activities are measured and what works or what doesn't work gets shared fast. On measurement ensure you have core and simple measures that apply to all activities. More sophisticated measurement tracking can be put in place for key initiatives, but applying complicated success measures across all activities can hinder the organisation (and often nothing at all gets measured). Build partnerships with retailers where possible and look to leverage external suppliers too for expertise.

In our view, shopper marketing is set to grow and become a staple discipline of modern marketing. And the next few years will prove its value in delivering the greatest bang for the credit-crunched buck. For the fmcg marketing director, the challenge will be to really understand shoppers and retailers, as well as consumers, and to work together with other functions and with retailers to anticipate and respond to the ultra-rapid changes in shopper behaviour.

APPENDIX 1 – SHOPPER MARKETING READINESS CHECKLIST

1. a. Am I really clear what 'shopper marketing' means and how it relates to, and complements, consumer marketing?

   b. Is my team?

   c. Is my company?

2. Do we really understand the relevance of shoppers, as well as consumers, in driving our brands' performance?

3. a. Is our shopper insight really good enough?

   b. Is it shared effectively with key decision makers?

   c. Have we understood the full implications of how the credit crunch has, and will, affect shopper behaviour?

4. Does my team know enough about our priority retailers' goals and strategies, and how the credit crunch may affect them in future?

5. Does my team have the right skills, knowledge and attitude to harness shopper marketing opportunities?

6. Do the current organisational design and roles and responsibilities help our shopper marketing performance?

7. a. Do we work closely enough with our sales/customer marketing/category management colleagues?

   b. Do we work effectively as 'one team'?

8. Do we have the right metrics to measure and track shopper marketing?

Brand management: then and now

Tim Ambler
London Business School

Marketing has become far more professional in the 50 years since the Marketing Society was founded. This article takes a look at that development in order to speculate about where marketing will be in decades to come. These thoughts have been influenced immensely by discussions with some of the brightest young marketers of today.[1]

As the word 'marketing' means different things to different people, we will focus on brand management. How was it in the 1960s, how has it changed and how is brand management today? What can we expect, or perhaps hope for, in the future?

'Brand' is now a word in common currency. In this sense, marketing is a two-stage process: creating demand (brand equity) and then converting that demand into positive cash flow (selling). In both stages, marketers manage their brands to obtain satisfactory short-term profitability while at the same time building their brands for the long term. The conflict between these two objectives, with the accent usually on the first, provides much of the difficulty.

THEN

Procter & Gamble is usually credited with inventing brand managers, starting with Camay soap in the 1930s. By the late 1950s the advertising for 'fabulous pink Camay' had moved beyond cliché to being a joke. Its appearance in a cinema provoked roars of laughter and cartons being thrown at the screen. Media selection was not well connected with the target audience. Those were the days!

Cinema commercials can still provoke that reaction but not when the campaigns are products of professional brand management. The 1960s had very few of those. Marketing plans, where they existed at all, were written by the ad agencies – often UK branches of US agencies who were more advanced in such matters.

Typical of most consumer marketing companies in those days was my company, International Distillers and Vintners which created its first UK marketing department in the mid-1960s. An international marketing team for J&B Rare scotch whisky already existed: one man and his secretary. Croft Original sherry was inspired by the ad agency Mather & Crowther, using the already very successful (in the US) J&B Rare as a model. J&B was a scotch for people who thought whisky was smart but didn't much like the taste. It was based on J&B's previous international spirits success: Very Special Old Pale cognac. Croft Original was also pale in colour because sherry (then the main wine and spirit category) consumers thought fino, i.e. pale sherry, was smart but found it too dry in taste. So Croft looks like a fino but is sweet to the palate. Repeating the J&B formula may not have been deliberate but it worked. The new marketing team launched Croft by sending a case to every trade customer who ordered enough Smirnoff. Not a great launch plan but it secured distribution.

However, rather more professional brand management was becoming widespread in fmcg companies selling largely through supermarkets, which were rapidly gaining strength at the expense of traditional outlets, thanks to the abolition of retail price maintenance.

Kotler's *Marketing Management* was already the dominant textbook and the 4 Ps provided the structure for marketing plans. Nielsen was the main supplier of market research and was primarily used to ginger up the sales force. Every two months Nielsen would present distribution figures including facings and out of stocks, down to quite detailed sales areas. High- and low-performing sales managers were complimented and castigated respectively, whether they deserved it or not. Research was used intermittently for consumer usage and attitudes, primarily for advertising purposes. TV campaigns were researched in cinemas by testing brand preference before and after seeing a batch of commercials that included the brands being researched. Knobs on the arms of our seats were turned this way or that to indicate pleasure or interest in whatever was on the screen at the time.

It all seems fairly simplistic as one looks back but it did not seem so at the time. Only one TV channel carried advertising. Two main suppliers dominated posters and a few chains took care of cinema. Diversity lay in the press. The full service ad agencies provided figures on cost per thousand, reach and frequency. PR completed the marcoms portfolio. Specialist marketing consultants were rare as few had enough experience to sell.

Brand managers then had arguably more control over the 4 Ps, certainly marketing communications, promotions, price and, thanks to Nielsen, distribution. On the other hand, brand managers barely existed beyond fmcg and drinks companies.

Before moving on, we should note the birth of account planning in the 1960s, created in slightly different ways by Stanley Pollitt at BMP and Stephen King at JWT. This rigorous approach to using consumer market research for ad campaign development, good as it was and is, had very little attention in its early days.

FOUR BIG CHANGES SINCE THEN

The first big change followed the recognition that marketing was essentially a competitive game. Market share replaced sales as the key measure of success. The Market Science Institute in the US, founded back in 1961, claimed that market dominance was the driver of profits. Grow market share, it was thought, and profits would then increase too. We now know that is not the case; growing market share can decrease profits if it depends on excessive price cutting or promotions. We now know that increasing the perceived quality of the brand, or brand equity, drives both share and profitability. In other words, share and profits may correlate but only because both are driven by the same thing.

The second big change was the computer. The first stage was the shift, with the IBM 360 in the 1960s, from batch processing of operational data for distribution and accounting purposes to the production of marketing information. This arrived as piles of printouts. Brand managers did not care very much for all this paper but they stacked it high to impress senior managers. It was used symbolically to show that brand people had tabs on the market even when the pile was as virginal as when it left the print room.

By the mid-1980s, brand management had spread across the business community, apart from business to business and financial services. Computer terminals provided information in a more friendly fashion. But terminals meant that marketers were less likely to leave their offices.

By the mid-1990s, terminals had been replaced by PCs, then laptops, then notebooks and then the BlackBerry. At the same time, more research agencies and in-house IT departments were each offering more information on a wider variety of topics. Available information expanded exponentially.

More recently, the digital age has given us the web, emails, Excel spreadsheets for forecasting and the dreaded PowerPoint, all on memory sticks the size of condom packets. Data protection has become more important than conception. At least brand managers no longer have to carry around piles of paper, guard books (the repositories for ad campaigns) and boxes of slides.

The third big change has been complexity. Whereas the brand manager of the 1960s had to deal with about six or eight suppliers (not that ad agencies wish to be seen as suppliers), today's brand manager has to manage both creative and media agencies, other marcoms and promotions specialists, as well as a myriad of consultants and research companies. A large company may have 30 marketing services' suppliers and, of course, media have proliferated. Trade marketing and customer relationships have developed their own teams and management, often as part of sales or operations rather than marketing in the departmental sense.

No doubt there have been other big changes too, but I will mention just one more, namely accountability. Attention has shifted from sales to the bottom line. Marketers are now expected to justify their expenditures in terms of the payback. That has brought a demand for estimating customer lifetime values and customer equity. Some firms now believe they can manage customers to maximise profit. This is a complete negation of marketing: we should empathise with customers to maximise their satisfaction and only profit as a consequence of that. You could say Tesco is managed by its customers but the reality is that it is a partnership for mutual benefit.

BRAND MANAGEMENT TODAY

Marketing today is certainly more diverse – multi-sectoral, with many more opportunities, and possibly more competitive. I am often told that 'price is more important now' but that is unlikely to be true. Price always was important. Now that people have more choices, higher wealth in real terms and less time for price comparison, price is probably less important, despite price comparison websites. Talking with top young marketers today, none of them mentioned price as an issue until prompted. Penny pinching by retailers remains an issue.

The strengths of brand management today, at least in the opinion of the brand managers themselves, very much revolve around being able not just to cope with the complexity of modern marketing, but to turn that to their advantage. They are very conscious of how they can add value. As one of the respondents, Suzi Williams, observed, 'brands are no longer inert things to be controlled. They are like adolescents and we can only facilitate their development' and 'emotion leads to action where logic leads only to conclusions'.

To handle so much complexity, the numbers employed in the marketing departments of large companies have multiplied, thereby contradicting the regular headlines about cutbacks. Outsourcing is both a solution and a problem. It may be genuinely cheaper to put the work out and the agency may have better and more relevant expertise, but it is yet another agency to manage, who have different goals and may not have to implement their recommendations.

Another consequence is the universal view that brand managers do not get out enough to meet customers and share the consumer experience. No quantity of market research reports will substitute for feeling the market as it is. Some companies ensured brand managers had field force experience first and spent at least one day a week in the field. Some still do. In practice, 15% field time is quite good but the consensus was that it should, and will, grow in the future. That depends, though, on cracking the 'meetings culture' of some large firms.

There is no doubt that marketers today see themselves as tougher and more commercial. The accountability trend mentioned above is part of that, but so is marketing's coordinating role. One of the respondents for this article, Ben Crawley, said 'brand management is a great grounding in so many business issues and for networking too'. That is encouraging. Marketing has long been seen as the colouring-in department where artistic young people do their creative thing before moving to bigger marketing budgets in other companies. Judging by my respondents, that is less true. Yes, marketing is a plum job so a better marketing job will beat another role and yet more marketers now see themselves as budding general managers. They also recognise more need to increase the time and money devoted to marketing internally.

On the negative side, modern brand management has seen over-extension that has 'taken brands too far', as Liesa Johnston put it. The shortest distance between two profit forecasts is a line extension. It is a quick fix that demands no brand investment and brings instant distribution. But it can, as Baileys Irish Cream has shown, damage parent brand equity and reduce profits after the initial surge.

If true, the call for integration is encouraging because marketers should engage with their colleagues and be seen as key to achieving the firm's goals, not just marketing goals. Marketing is not just a luxury for when finances permit. MBAs today, without prior marketing experience, find it almost impossible to get marketing jobs, but that will change if brand management is going to become as commercial as my respondents claim. Marketers need general business skills and generalists need marketing skills.

There are so many facets of modern brand management that a full account would be too long and this selection is inevitably subjective. But we need to conclude with what seems to be the dominant paradigm today. As noted above, accountability is good to the extent that it keeps marketing feet on the commercial floor but bad if it:

- undermines the immeasurable long term in favour of the quantifiable short-term. In past years, short-term goals were set low enough to expect some spare cash flow once they were achieved; that could then be hidden in the following year's expenditure to protect the longer term, e.g. the ad budget; getting that past your accountants and auditors is just as feasible today; it is naïve to report a higher bottom line than it needs to be
- locks marketing into the perception that it is a cost to be cut like any other
- involves too much time forecasting, planning, and reporting – leave all that to the accountants
- is built on false performance measurement models like ROI or purely short-term financial figures with no recognition of the marketing asset, namely brand equity; regrettably, that is the general picture today
- requires simply too many metrics or KPIs – just as brand managers have to cope with complexity by increasing focus, so marketers need to agree with senior colleagues what are the metrics that matter and not be distracted by those that do not; the tool that addresses that is the 'dashboard'; none of my respondents mentioned such a thing but I am confident it is on its way.

BRAND MANAGEMENT IN THE DECADES TO COME

Clearly the web will play a growing part but it is fanciful to suggest that it will enable brand managers to have meaningful one-to-one consumer dialogue.

Consumers will communicate more with each other. Smart brand managers will monitor those exchanges and learn from them but they will rarely intervene. As the poet said 'the great advantage of keeping your mouth shut is that you cannot put your foot in it'.

On the other hand, brand managers will find ways for consumers to reach them when they really have to. Today's blank wall of call centres, ex-directory HQs and FAQs is immensely frustrating for consumers with genuine issues to resolve. Brand managers cannot be swamped by such matters but systems must be found for direct communication when necessary. Expert systems should be able to deal with most contacts but highlight those that need the brand manager's personal attention.

This may be optimistic but I believe a common business language shared by marketers and non-marketers alike will emerge. The idea that figures with pound signs in front of them matter and the rest do not, is so silly that it cannot prevail for long. At the same time, brand managers should respect continuity and stop chasing the fashionable metric or business process of the month.

Peppers and Rogers' *Return on Customer* and Reichheld's *Net Promoter Score* are two recent examples. To put it politely, both are flawed. Yet marketers leap to adopt them. Maybe the Marketing Society or the Marketing Science Institute in the US will set up panels of experts to review these things, rather as NICE does for drugs, before brand managers begin to use them. No CEO would then accept unapproved metrics.

This shared language will be part of non-marketer executives becoming far more savvy about what marketing can and should do for their businesses. They will recognise that marketing is the sourcing and harvesting of cash flow. Accountants will be measuring brand equity as part of their own routines using research shared with brand managers. HR people will be agreeing internal marketing plans with their marketing colleagues to ensure employees live their brands and marketing gets the value from their consumer experiences.

As noted above, expert systems and 'in-sourcing', eg metrics and forecasting to finance, will relieve brand managers of having to slog through the data overload and complexity. They will allow focus on essentials, thereby allowing marketers to get out more, although that may be more hope than expectation.

Neuroscience is not a practical brand management tool today but it surely will be within the next 50 years. No major new marcoms campaign or promotion or repackaging will be accepted before the neuroscientists have had their say. Modern-day pre-testing will be a thing of the past. The neuroscientists will get it wrong but not as often as pre-testers do.

It was good to see that one of the respondents for this article studied neuro-psychology at university. While marketers will always, and should, come from a variety of disciplines, this one is likely to grow in importance.

A visible symbol of both these trends will be widespread use of dashboards with which to drive the business. These are already becoming commonplace in large US companies, and are such an obvious requirement as to be a near certainty.

Imagine driving a car without a settled arrangement of instrumentation. And the dashboard will itself enhance the integration of marketing metrics with corporate goals.

Notes

1. Nathan Ansell, Benjamin Crawley, Jennifer Gershon, Liesa Johnston, Richard Lawrence, Lindsay Nuttall and Suzi Williams.

Market Leader
THE JOURNAL OF
THE MARKETING SOCIETY
www.warc.com

Co-creating with consumers: a new way of innovating

Ana Medeiros
Unilever

Andrew Needham
Face

It is no secret that the past 20 years have seen a major decline – some would say the slow death – of corporate and brand innovation, but the debate about why, and what needs to be done about it, is very much alive (1).

Some, such as Doug Hall, speaking at the Marketing Society's Innovation Masterclass at the end of last year, argue that consumers have much to answer for. And he isn't alone. In an interview with *Research* magazine (2), Drayton Bird argued that he doesn't want market research to tell him what people think because 'people don't bloody well know what they think themselves'. The argument was repeated at Marketing Week's Innovation Summit (3) earlier this year, when a number of brand owners quoted Henry Ford's remark, 'If I'd asked the public they would have said they wanted a faster horse.'

CONSUMERS CAN'T INNOVATE?

So, the received wisdom is that consumers cannot innovate. They don't have the vision or imagination of Henry Ford, the creativity and understanding of the ad agency, or the expertise and knowledge of the brand team. The message from everywhere is the same: don't get consumers involved.

Yet there are those like Eric von Hippel, a Professor of Management at MIT's Sloan School, who think that certain types of today's consumers can and should be part of the innovation solution (4). He believes that if you could measure it, the innovation driven by key consumers, or 'leading-edge users' as he calls them, is far greater than the volume of new ideas produced by corporations. He argues that the most effective and well-known user-centred innovation involves collaboration among widely distributed contributors via the internet. Thus, technology and close attention to choice of consumers is what is making the difference.

The rise of 'open source' software has shown how global communities of skilled and intelligent consumers collaborate to find better solutions and are prepared to share their innovations. Considering that for most retail and fmcg companies 80% of innovation is incremental, surely businesses should be embracing the ideas of their most dedicated consumers as part of the innovation process.

CONNECT AND DEVELOP

This, of course, is starting to happen. Procter & Gamble has pioneered the idea by investing in a Connect & Develop division, where 50% of its innovation has to come from outside the company – and not just from consumers but also suppliers and third parties as well (5).

Yet before others follow this path, they will need to be honest with themselves about their own attitudes. Do they actually trust their consumers? Do they have a corporate mindset that is not just open to consumer ideas but places a strategic value on them? Ultimately, do they sincerely believe that certain consumers can help them to innovate smarter and quicker? If a company does believe there is a greater role for particular consumers to get involved, how difficult is it, and what is the best way to achieve success?

EMPOWERED CONSUMERS

The advent of Web 2.0 signals that the time has come to bring consumers into the innovation process. The arrival of MySpace, Facebook and Bebo has given consumers confidence and encouraged them to take more control of the relationship they have with brands. They have the tools to create their own content and share it – even their own advertisements – and so re-shape what the brand means to them and how it is communicated.

Apple tapped into this when it launched the Apple iPod Touch with an advertisement that had already been created by a Leeds University student, Nick Haley, who had posted it on YouTube. Apple noticed it and, keeping very close to the original had its agency re-shoot it as a professional spot, as well as hiring Mr Haley as a consultant. The same approach was followed with the advertisements used to launch the incredibly successful iPhone (6).

It is the increase in this type of consumer involvement that has given rise to the term 'empowered consumers', a new breed of consumers who have a strong belief in their own creativity, ideas and self-expression.

Consumers don't have to be invited to 'play' with your brand or product, as HSBC found out last year in the UK when it withdrew its graduate overdraft. Within days, thousands of students voiced their anger on Facebook, defacing the HSBC brand from the 'World's Local Bank' to the 'Student's Rip-Off Local Bank'.

It is coming to the point, says Mark Earls author of *Herd*, that it is no longer about what your brand does to the consumer but what consumers are doing to and with your brand (7). Putting it another way, James Murdoch in his Marketing Society Annual Lecture said: 'Ubiquitous connectivity means fundamentally that the individual becomes the agent of everything ... and this is not a question of scale. It is a different way of existing' (8).

Yet it is precisely the ease with which brands can engage empowered consumers that is making it hard for them to do so as the loss of control, whether in terms of intellectual property or how the brand is communicated, is threatened.

Organisations charged with helping companies to protect their brand reputation are also running scared. The belief that the best ideas can come only from a few 'creatives' within the branded walled garden of the ad agency is under threat. If Nick Haley can make a TV ad for Apple who needs an advertising agency?

IDENTIFYING THE RIGHT CONSUMERS

To challenge this advice companies first need to be more understanding of who their potential empowered consumers are. Working with Unilever on its deodorant brands, we have helped it to develop a pyramid based on consumers' desire and skill set to engage with its brands at different levels, from more intimate to more open innovation.

In fact, it is only the top 1% who are willing and able to jump through some serious hoops (including signing up to NDA and IP agreements) that end up working with Unilever in our 'co-creation' sessions. It is a model also applied by Lego, who knows all its key consumers or 'Lego Professionals' on a first-name basis (see Appendix 1).

A key part of the process of helping Unilever to identify its empowered consumers was engaging with them first on Headbox (www.headbox.com), our own collaboration community of 15,000 11–35 year olds. Each 'head-boxer' is profiled by giving them an Influencer Index score by passion/category so we could single out those consumers who were not only passionate about how they look and feel but also had the right skills to co-create with Unilever's brands.

THE CO-CREATION PROCESS

With a better understanding of their most dedicated consumers, companies can quickly start to organise which types or levels of innovation can be done effectively, and with which consumers, in both online and offline environments.

We have developed a simple six-step co-creation process for clients such as Unilever and GSK called 'Helix' that brings together the 1%-ers with their insight, brand, agency and R&D teams to turn insights and concepts into something real and tangible that consumers want to buy. It lets consumers come up with their own ideas and product designs, as well as ways to bring the product to life in the marketplace. It involves consumers earlier in the innovation and marketing process and keeps them involved for longer, injecting fresh and different ways of thinking.

Last year we completed a co-creation programme for a Lynx/Axe variant where 18 members of Headbox designed the product and the activation plan for a 2009 launch. The journey started in Alicante with a three-day workshop, and finished in London with final presentations to senior Unilever stakeholders – and all done in just five weeks. It underlined to everyone that building an innovation pipeline can not only be fun and inclusive, but also quick – something companies currently struggle with.

ONLINE CO-CREATION

This is where technology has really changed the game. We have found it is better, easier and more practical to co-create with consumers from around the world online. Recently we set up an online community project, working with Axe consumers from Europe and South America to develop communication concepts including names, tag-lines and ways of expressing them for a new global product launch. Consumers from Argentina collaborated in project groups with UK consumers to develop, refine and select the best user-generated ideas using a range of Web 2.0 tools including multimedia diaries, forums and chat groups.

We have learned that with online co-creation it is important to keep the tasks simple and fairly general. But to get the best output it is essential to combine on-line with off-line.

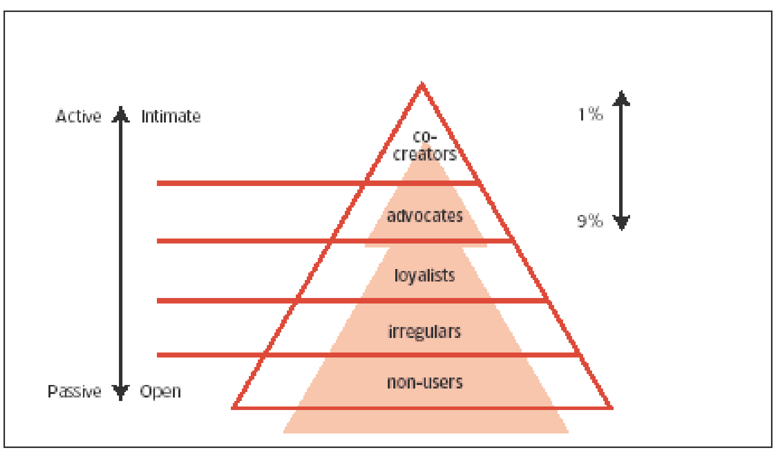

Figure 1: Consumer pyramid

And even though these examples involve co-creating with young consumers, the process is easily replicated (both online and offline) with other types of consumers and other brands from companies such as Coke, GSK and Unilever's laundry division.

NON-TRADITIONAL RESEARCH

There are inevitably questions being asked about the role of research. It is not enough to apply traditional research thinking to the new world of empowered consumers: it is too controlled to fully engage them. It is not, as Drayton Bird implies, about using consumers as crash-test dummies, only there to test things. These consumers no longer see themselves as passive respondents, but more as active stakeholders in the brand. This means researchers have to give up some control; talk less, listen and observe more. Empowered consumers have more to say and give, so just asking them a list of questions that we probably already know the answers to will not suffice.

It can also galvanise a research or insight team who have seen their role until now as merely providing PowerPoint presentations and lengthy documents to their brand team. As an equal stakeholder in co-creation, researchers can be taken much further on the marketing journey with consumers. They can become the real champions of consumer involvement, as well as the key drivers for it within an organisation, making their role more strategic, interesting and valuable.

CREATING A BUZZ

Stretching research in different ways to generate new conversations can bring other benefits. It can help to create a buzz around your brand by generating positive word of mouth.

After the Alicante project with Unilever, our 18 Headboxers enthused for days on their Facebook pages about how brilliant their Unilever experience had been. The combined number of friends who would have read or engaged with these exchanges was over 10,000 (one Headbox member had over 1500 'friends' on Facebook).

So if you can create this much enthusiasm for the brand after engaging consumers in one project, just think what you could achieve if you engaged them 24/7, 365 days a year. And the opportunities are there for brands to do this – to embrace their leading-edge users into their world on a continual basis through a range of Web 2.0 research and co-creation tools.

CONCLUSION

Web 2.0 has ushered in a new era, where certain groups of consumers have confidence to express their creativity, and the ability as well as the tools to do it.

Many organisations are finding that consumer innovation or co-creation is happening and that in many instances it can be quicker and smarter.

Notes

1. Hall, D. (2007) 'Innovation Masterclass' lecture presented figures to the UK's Marketing Society showing that corporate innovation was in major decline.

2. Bird, D (2008) interview in Research magazine, Market Research Society, February.

3. Innovation Summit conference (2008), run by Marketing Week, March.

4. Von Hippel, E. (2007) 'Users are transforming innovation', FT.com.

5. Day, P. (2007) 'Eureka Democracy' on BBC Radio 4, 11 October.

6. youtube.com/watch?v=KKQUZPqDZb0.

7. Earls, M. (2007) Herd. John Wiley & Sons.

8. James Murdoch's speech to the UK Marketing Society's Annual Dinner, at http://www.marketing-society.org.uk.

APPENDIX 1 – COMPANIES LEADING THE WAY

Lego

> *'You can't fake co-creation; it's not a gimmick to be seen to be doing – it is about a genuine, profound culture change, about making everyone in your company accountable to consumers, not just shareholders, bosses and each other. At Lego we realise that our consumers own our brand. We own the trademark, yes – but the brand only exists and comes alive in the hearts and minds of our consumers and without them we are nothing.'*
> Cecilia Weckstrom, Experiences and Innovation Director, LEGO

GSK: Sensodyne

A co-creation project that enabled insight, technical and brand stakeholders from GSK to interact directly with consumers to develop a new product. The process combined an offline workshop with three weeks of online collaboration and co-creation to develop and refine the product concepts, packaging, launch ideas and formulation. Consumers then pitched their final products to a wider audience of GSK and agency team members at a face-to-face debrief.

Unilever: Skip

Twelve females from South Africa, Asia, South America and the UK co-created with key Unilever brand and insight stakeholders in the global relaunch of the laundry product Skip. Hosted in central London, the two-day workshop built on the brand's recently developed brand positioning to develop top-line concepts and packaging ideas born from genuine consumer insights.

> *'Co-creation and all the movements we are seeing or experiencing with Web 2.0 is truly a revolution, not only because we are now innovating with consumers who are more empowered but because this is impacting the way departments, agencies and big corporations like Unilever are working.'* Ana Medeiros, Consumer Insight Director, Unilever

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What the West can learn from China

Peter Wells
Nilewide

Corrina Fox
Cree Fox Reports

As the world's economic attention turns to China and India, marketers are eyeing up new markets and new competitors. But rarely is the question asked: 'What can marketing learn from China?' When marketing commentators talk about China, it is in the same way they talk about marketing in the West – brands, advertising, markets, price, quality, etc. But there are fundamental differences in the way the West and the Chinese see their worlds.

These differences mean it is dangerous, as well as arrogant, to impose our Western marketing approaches on Chinese markets. Even more dangerous for Western marketing is that we close our minds to what we can learn from the Chinese about marketing. Just the idea that we can learn from them seems to be something that is either rarely considered or simply rejected. Yet the Chinese have been highly successful merchants for centuries.

But, at the very least, we can look at some major marketing concepts in relation to China and see that the rules of the West may not be as absolute as many think.

LANGUAGE OF MARKETING

The language of marketing reflects Western ways of thinking, in particular, concepts that primarily arose from American and English business people and academics. The original idea of the product brand, for example, places the brand at the core of the campaign and then focuses all resources on selling that brand to the target audience, who are also individuals. The implication is that the market is made up of small parts and if we understand the parts, we will be more effective marketers.

Thus, Western marketing is very much an individualistic concept, because it is more concerned with the individual buyer and less concerned about the people and environment around the product – for example, who made it, who transported it, how old it is and who else uses it. Moreover, marketing is very much concerned with immediate results, in particular reaching quarterly targets.

The Chinese are more patient and more dogged in their approaches. They even see markets very differently, as they tend to look for changes in patterns rather than breaking things down into smaller parts. This difference in the way we look at things (the Western atomistic perspective versus the Chinese pattern perspective) has been highlighted in discussion on scientific thought and processes, and needs to be more widely considered in marketing.

It has also been suggested that 'today's multinationals may have yet another lesson to learn from China's companies: the idea of thinking forward in decades'.

There are many Western marketers who would be very pleased to think forward, if only a few years, rather than simply a few months. But thinking forward in decades must create a very different perspective of challenges and goals, most notably, a view that short-term fluctuations are not important.

SOME LESSONS FOR THE WEST

An analysis of Chinese culture and values suggests that there are some fertile areas for marketing to investigate. It is ironic that we can see evidence of virtually all the following themes – fundamental to Chinese culture – developing in the West. So the Chinese may be giving the West a glimpse of its own future as it becomes increasingly clear that many of our marketing's cherished beliefs and practices are losing their shine.

Values are Crucial

The Chinese can teach us a lot about recognising the importance of values, particularly those that underlie consumption. The 'Eight Honours and Eight Disgraces' (see Appendix 1) do not glorify consumption as in the West; the idea of wallowing in luxuries is an anathema, in contrast to our belief that luxuries are something everyone 'deserves'. This is why the Beijing major reacted so badly to the outdoor advertisements promoting luxury goods during the Olympics. It was felt that conspicuous appeals to status consciousness undermines the goal of maintaining harmony between rich and poor as well as failing to maintain the balance between modern prosperity and China's ancient culture.

Relationships are All

Perhaps the most striking difference between Chinese and Western cultures is the focus on social connections – people as they exist in a group or network – as opposed to the individual by him/herself. Relationships are all important and the source of authority in virtually every area of life: people trust each other, not companies or brands. Indeed, the concept of relationships with companies as we know is alien since relationships take time and reciprocity to nurture.

Social networking, of course has become an area of great interest to us in recent years but, as the debates over viral marketing, peer-to-peer and how ideas spread show, there is still a lot to be learned. We still persist in focusing more on trying to understand the individuals within the social connections, rather than on how the connections themselves work.

Product vs Corporate Branding

The Chinese attitude to brands is complex and often seems contradictory. It is a popular view that brands are everything in China because of the 'cool factor' or status. Studies have shown that 'flaunting my status' is the number one priority in choosing a brand. However, other data suggests that the Chinese care only about low prices, and point to the millions of brand fakes (see Appendix 2).

This is not necessarily a contradiction. If companies create brand fakes, then they must think that the brand is something worth having. For example, the Silk Street Market in Beijing, which is famous for making copies of international designer and branded goods, has recently unveiled its own brand – Silkstreet. With a delicious irony, it warns that anyone who tries to counterfeit that brand will be held liable!

Brands create a level of trust, but the Chinese are more inclined to trust the companies that make the product brands rather than the individual brands themselves. In other words, they relate to the family from which a brand comes.

Brands like Haier and Lenovo have been criticised for emphasising the corporate brand over the product brand. But when safety, reliability, durability or other functional benefits are important, the Chinese are more likely to believe in the corporate brand than the product brand, which is highly likely to be counterfeit.

P&G and Unilever have taken a similar tack and, unlike their practice in Western markets, have chosen to put the parent company's name to the fore, rather than that of the individual brands. They believe the market is so fragmented, the number of new brands so large and the fear of fakes so ingrained, that firms can best reach customers by emphasising the status of their corporate brand.

Indeed, corporate branding tends to be the norm in China because, as noted above, companies enjoy far greater trust and authority than single brands. It is also a defence against declining loyalty. Studies in China suggest that individual brands may have only fleeting appeal, especially to the young, and so-called loyalty is declining, particularly for product brands. In this case, the corporate brand becomes far more important.

We have seen the rise of corporate branding strategies in the West – for many of the same reasons – but the Chinese model takes it much further. This approach also demands rethinking of product and product brand strategies, perhaps with a shift to the idea of short-term brands and short product life cycles.

Saving for Tomorrow

> *While the rest of the world struggles to raise savings, China, with a savings rate in excess of 40 percent, struggles to get its people to consume more* - Joseph Stiglitz

A key difference between the Chinese and the West is that they have a completely different attitude to saving. Savings are currently 28% of monthly income, compared to 21% in 2005 (only 3% in UK). To the Chinese, saving is a virtue that is similar to the Victorian or religious values of the West, but that few now practise. It is a reminder that we could do much more in the West to encourage saving. As Stiglitz notes, China needs to do more to encourage spending.

Consumerism and materialism in the West appear firmly entrenched. But the lack of savings is creating considerable concern among Western governments, especially given ageing societies and certainly in light of the current world economic downturn. Saving must be encouraged and governments are already moving to reward increased compulsory saving through the tax system. The result is likely to be buying behaviours more similar to Chinese behaviour than current Western behaviour.

A Long-Term View

There is a Chinese proverb that says 'A journey of a thousand miles begins with a single step', and it appears that, while China may be in a hurry to grow, it is also accustomed to an ancient culture with a long history. They respect age, not youth. They may well take a more long-term view of every aspect of marketing, preferring not to sacrifice quality for quarterly earnings, or to compromise integrity for short-term gain.

The lesson from the Chinese may be that it is desirable to take a long-term view. If marketers only learned this lesson, marketing would look very different than it does today.

CONCLUSIONS

Marketing, indeed capitalism itself, is not value neutral. All cultures interpret the basic concepts of marketing through the filter of their own deeply rooted cultural values and practices. China offers a fascinating insight into how Western marketing 'works' in a culture that differs in so many ways to our own.

What is fascinating is not just how the Chinese are adopting many of our principles and practices, but how we may, inadvertently, be adopting some of theirs.

APPENDIX 1 – VALUES IN DAILY LIFE

Values are important to China. 'Eight Honours and Eight Disgraces' is a concerted, nationwide effort to improve behaviour. Among the honours are 'Love the country,' while its accompanying disgrace is 'Do it no harm.' Another honour is 'Live plainly, struggle hard,' with its accompanying disgrace, 'Do not wallow in luxuries and pleasures.' Traditional values are pushed on TV with modern stars and praise for foreigners who adopt Chinese values or ways, such as Chinese medicine.

APPENDIX 2 – BRAND FAKES

The recent NEC case, which crossed China, Taiwan and Japan, found that sophisticated pirates were faking NEC itself. They had set up a parallel NEC brand with links to 50 electronics factories. Using the NEC name, they copied NEC products and even created their own line of NEC-branded products. They behaved as NEC managers would, carrying business cards, commissioning product research, and signing production and supply orders, even issuing warranty and service documents (Source: Jeff Swystun, Interbrand).

THE BRAND FAMILY

Yahoo! focuses on advertising its corporate brand rather than individual products. The company organises events that invite consumers to participate, knowing that people value their associations with name brands and how they are perceived by their friends and family. It also helps that Yahoo! founder, Jerry Yang, is a Chinese-American; this gives him credibility.