Market Leader

NEW THINKING, DIFFERENT PERSPECTIVES

Winner takes all in the networked economy

Kieran Levis

Google

Microsoft

Robert Shaw and Philip Kotler on leaner, faster marketing

Post-crunch trends explored by **Peter Cooper and Simon Patterson**

Tim Jones and Tom Baxter say television is still alive and kicking

Mark Earls goes to the heart of The Chaos Scenario

MARKETING SOCIETY

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Editorial: It's tough being a consumer today

Judie Lannon

Consuming in the analogue world is easy. If I want to try Ariel instead of my usual Persil, Kenco instead of Nescafé, or Tesco's brand instead of Andrex, all I have to do is nudge my hand further along the supermarket shelf. Loyalty is in the mind, my mind, to be strengthened or weakened at will, my will. All fmcg markets contain a number of competing brands where the top two or three often have very similar shares.

In dramatic contrast, Kieran Levis (page 22) describes the way things work in the digital world where powerful network effects and positive feedback loops result in a 'winner takes all' picture, leaving a competitive frame wholly unlike familiar fmcg or services markets. The power of Medcalf's Law (the value of a telecommunications network is proportional to the square of the number of connected users of the system) has ensured that through these powerful barriers to entry, a small number of smart operators such as Google, eBay and Microsoft each dominates its particular space.

But these barriers can leave consumers frustratingly powerless because of the huge switching costs involved – not necessarily in terms of cash but in time and sanity. Try getting out of AOL and you will be required to re-enter what may run into hundreds of names in another ISP's address book because AOL has been automatically saving addresses and, not surprisingly, won't let you switch them over. It's hard to find a consistent position on this: like most users of internet giants, I'd be lost without them.

Instead, if you think of networks and positive feedback loops as metaphors, you can draw some comfort in seeing how these same principles are beginning to apply to brands not in the digital world. People increasingly make judgments on reviewer sites, price comparison sites, blogs and feedback forums. Similarly campaigning user groups can cause serious damage to brands that behave unethically, incompetently or just plain rudely. Consumer-generated bandwagons and snowballs lack the power of physical networks but go some way to restoring the balance of power.

RORY GETS THE LAST WORD

We are pleased to welcome a new regular columnist, Rory Sutherland, vice chairman of the Ogilvy Group UK and newly installed chairman of the IPA, whose words of wit, contrariness and paradox may be found on the final page of this issue.

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Tory victory will be dependent on their very own Labrador puppy

Jeremy Bullmore

I've just had a sneak preview of the first draft of next year's Conservative party election manifesto. It was a card left on my table at a restaurant in London W1. To spare the restaurant embarrassment (and because I'd like to go back) I'll conceal its identity. The card was what they call a tent card and it drew my attention to a new private dining room. It read, in full, 'Intimate but also formal, somewhat reminiscent of the gentlemen's clubs of this area but with a distinctive feminine touch.'

Like all such statements – and we've all seen dozens in planning documents and 72-deck PowerPoint presentations – there's a little something there for everyone. The trouble, of course, is that when you put in a little something for everyone, you risk ending up with nothing much for anyone. 'Yetism', as Stephen King repeatedly reminded us all, is the infallible sign of a flawed strategy. 'Full of flavour yet mild to the taste', 'Contemporary chic yet with traditional overtones', 'Premium quality yet at affordable prices', 'Roomy enough for the family weekend yet perfect for city parking'.

The advertisement for the restaurant's private room, while skirting round the word itself, simply reeks of yetism: intimate yet formal; like a gentlemen's club yet with a feminine touch. The reason that all such strategies are flawed is that, when reduced to mere words, they draw our attention to their innate improbability; they rub our noses in the stench of compromise.

Yetism sets out to convince us that we can have the best of both worlds while every iota of personal experience tells us we can't. Yetism emphasises irreconcilable qualities and exudes anxiety like an insecure comic: if that funny story didn't make you laugh, what about this one? What time would you like it to be?

When presented as starkly as they tend to be, yetisms not only fail to persuade us that we can have the best of both worlds, they leave us suspecting the worst of both. De-coded, 'Roomy enough for the family weekend yet perfect for city parking' strongly suggests a car that's still too small for the family's luggage while remaining a real bugger to park.

Where yetisms exist, it's almost always the consequence of indecision and greed. Many brands would be more than satisfied with a loyal 15 per cent of their respective markets. Terrified of missing out on any part of the other 85 per cent, they smooth off their own edges, dilute the base spirit and generally equivocate. There will be those in the client company who believe in the conversion model of marketing, and those who believe that extracting more money from existing users is the easier route; so there's got to be something in the strategy for both. 'Objective: to congratulate loyal users and persuade them to purchase more frequently whilst at the same time strongly appealing to current users of Brand X.' (Whilstisms are nothing other than slightly shamefaced yetisms.)

The Tory's first draft election manifesto will contain a great many yetisms and probably even more whilstisms. The party's policies, even when clear and comprehensibly articulated, often seem internally contradictory. 'Compassionate Conservatism' may not be an oxymoron – but the 'yet' is almost audible. How can a party so wholeheartedly in love with the NHS convincingly blame the existence of the state for the state we're in? And will they remain the only political group in the country to fail to acknowledge publicly that, just over a year ago, without the intervention of the state (and all the other states), the country would have experienced financial meltdown? And how does the word 'progressive' square with fox hunting and the sanctity of marriage?

When asked whether they agree with Ken Clarke or William Hague on this country's future relationship with the EU, how will the party answer? Yes and no, probably – and indeed vice versa.

SEEN TO BE PARTY OF THE PEOPLE

They need to reassure existing users and at the same time win back lapsed users, and at the same time win over non-users. They need to hint at the ruthless resolve of Thatcherism and at the same time reveal their bottomless concern for the socially deprived. They need to be seen to be the party of the people and at the same time have words of comfort for Sir Bufton Tufton. (The beady reader will have noted that the phrase 'at the same time' is nothing more than a disguised version of whilst which is itself nothing more than a disguised version of yet.)

That's why the first draft of the Conservative party's election manifesto will be torn up. Its internal inconsistencies will be all too laughably apparent. Even if they went unnoticed by the entire electorate, they would be seized upon with shrieks of joy by political editors and the campaign managers of all the other parties. So a new group of eager young researchers will be instructed to render those inconsistencies invisible: to smooth out the corners and dilute the base spirit. And eventually one of them will be inspired enough to remember Andrex.

In the public mind, strength and softness are antinomies: but only when presented, starkly, in words. By spelling out these properties, attention is drawn to their apparent incompatibility. A long time ago, Andrex tried the rational approach and coined the word 'stroft', a mechanical attempt to resolve the conflict, and it doesn't work. All it does, again, is emphasise the inherent improbability of the claim: there's a yet in there, longing to get out. ('Compassionervatism' wouldn't work either.)

As the Tories will undoubtedly come to realise, what they really, really need is their very own Labrador puppy. They need a symbol.

COMPLEX AND COMPLICATED IMPRESSIONS

Symbols can achieve what even the most evocative of words may fail to do. Because they work wordlessly, they invite no forensic analysis. They can convey complex impressions that, if articulated, might well be seen to challenge each other. That's what the Andrex puppy does – with never a hint of a yet or a whilst or an at the same time.

When New Labour abandoned its commitment to Clause 4, the last defining discriminator bit the dust. If the two major parties were to attract enough voters to achieve an overall majority, they needed to jostle for position in the middle of the road. Clear and consistent differences of class alignment or policy would be dangerously divisive. Now it's down to brand personality: and one that allows millions of individuals to imbue it with their own, often contradictory interpretations. No Marmite strategy for them.

Brand personality can never be argued; it can only be demonstrated; it can only be symbolised. Today, the only effective symbol left to a political party is its leader. Change not a word of its manifesto, and a Tory party led by Norman Tebbit would be a totally different brand from one led by David Cameron.

If they manage to conceal their inconsistencies and refrain from overt yetism, Cameron could well be their very own Labrador puppy.

I make this point, you understand, purely in the interests of understanding brands and not at all in the hope that it will be fulfilled.

The iPod generation looks for honesty, not marketing spin

Richard Scase

Is the growing dominance of an online business culture an opportunity or a threat for the marketing and PR industries? The shift to B2B and B2C from conventional offline channels offers huge opportunities, but only if marketing and PR experts reinvent themselves. There is still too much complacency among senior marketing professionals who have been brought up in the 'old school' and who are predominantly male, pale and stale.

For too many of them, the online world is a niche. Certainly they regard it as growing and important, but they still interpret it as one that can be incorporated within the old, fixed and taken-for-granted marketing paradigms.

If only the 21st century were as simple as that. The consumer market is being revolutionised by the radical new psychologies of Generation Y and, within this category, what I describe as the iPod generation. These are the highly educated and talented young men and women of diverse ethnic and national cultures who will make up a growing proportion of the affluent, high-spending consumers of the coming decades. How do they decide which goods and services to buy? What channels of selection do they use? How do they research what is available to them?

We already have clues to these future trends. Have you noticed how little TV these young men and women watch? And very rarely do they watch programmes as they are directly transmitted. Instead, they pre-record and then replay, fast-forwarding through the ads.

The laptops and PDAs have taken over. The iPod generation lives in an almost completely digitalised world, in online global communities in which interpersonal communication is spontaneous, egalitarian and supportive of intense information and decision-making flows.

The iPod generation is in control. No one tells them what to buy or – and this also has important ramifications for companies that want to recruit this talent in the future – what to do. They will not be told, as in old-fashion management, how they should work and perform tasks. They expect to sort things out for themselves.

As consumers they are not persuaded by the marketing and selling strategies of corporations. The top-down approaches through TV, radio and press channels cut little ice with this growing category of affluent consumers. Instead, they are persuaded by the advice and experiences of their online friends. So how should the marketing and PR industries respond?

The first challenge they face is the need for rebranding. The iPod generation has little faith in marketing and PR professionals because of an assumption that they do not 'tell the truth' but only what their corporate clients want us to know. All professionals are subject to the same scrutiny. In the past, patients went to their doctors and clients to their lawyers assuming them to be the experts. Not anymore. Today, we check the expert advice online to assess its credibility. Hence the boom in online communities of patients who have been diagnosed with cancer.

There is no alternative but for corporate PR and marketing to tell the truth and be seen to be telling the truth. It is no good a company extolling its green credentials if it has skeletons in the cupboard. Sooner or later an employee will the spill the beans on Facebook or some other community.

This is not to suggest that marketing and PR professionals have been a bunch of dishonest crooks – far from it. But it is no longer any use generating corporate or product spin to consumers who are suspicious and cynical.

Those responsible for PR and marketing strategies need to educate their clients and their bosses that the top-down, controlled information flows of the past don't work any more. The only way to promote products, services and companies is for the spin to be consistent with the reality. We now live in an age of transparency, with consumers expecting honesty and integrity. Talk to any top UK banker or to any over-indulgent 'expense claims' MP – they know exactly what I mean.

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Winner takes all in the networked economy

Kieran Levis

Ferocious competition is the norm in most of the networked economy, but a single supplier has dominated the markets for desktop software, internet search and online auctions almost from the outset. How did winners like Microsoft, Google and eBay manage not just to take virtually all the prizes but to hold on to them?

The winners' explanation would be that they are immensely innovative organisations that came up with vastly better products and services than their competitors and made them the standard. There is some truth in this, but much the same could be said of all entrepreneurs who create new markets: they start with a radical idea, deploy or develop capabilities that nobody else has and make propositions to customers so compelling that the market explodes.

Their reward is enormous competitive advantage, something close to a monopoly for a while. But this is nearly always shortlived as others start to acquire once unique capabilities. More often than not the pioneer is displaced as industry leader, as happened to Apple and IBM in personal computers, and Netscape in internet browsers.

There are two ways to avoid this fate. One is to keep capabilities so distinctive and customer propositions so compelling that competitors cannot match them. The other is to cultivate strategic assets that act as barriers.

The two are not of course mutually exclusive – the safest strategy combines both. Google's innovativeness accounts for much of its competitive advantage but, like Microsoft and eBay, it has also benefited from a strategic asset that even now few people understand – network effects. The more customers they acquire, the more attractive they become to others, and the tighter their grip on them. A network generally becomes more valuable to its members the bigger it is, and the more members or nodes there are.

This is true whether it is a telephone system, the members of a stock exchange or the subscribers to a dating agency: they have more people to speak to, trade with, fall in love with.

A virtual network can include those who use the same equipment, listen to the same music or belong to the same community.

Once a network gets to a certain size it becomes difficult to tempt members away – they face significant switching costs if they leave. Bob Metcalf, the creator of ethernet and of the 'law' that bears his name, suggested that the value of a network is proportional to the square of the number of its members.

eBAY WAS AN ACCIDENT

Facebook is the most striking recent example but this has yet to prove its business model and staying power. eBay, though it only became a business by accident, was profitable from the start. Pierre Omidyar started the site in 1995 so that computer buffs like him could trade bits of old equipment with each other, with no idea of making money from it. Anyone could post items for sale and anyone else could bid for them.

When his internet service provider told him it was getting too much traffic and he'd have to pay the business rate of $250 a month, Omidyar asked the virtual community to contribute a percentage of the value of each sale they made. In the first month, March 1996, he was amazed to receive more than $1,000, in May $5,000, and in June, $10,000. Every month traffic and revenues kept growing. It wasn't so much computer paraphernalia – now toys and dolls were selling like hot cakes. Then antiques, stamps and coins took over.

There was apparently no end to the imperfect markets eBay could make work better. It would continue to grow exponentially for years to come, like a giant snowball rolling down a mountain, gathering more and more buyers and sellers.

Total sales reached $95 million in 1997 and hordes of competitors tried to move in. A few eBay traders were tempted away but most came back: there was more stuff to buy and more people to sell to on eBay than anywhere else. Above all, it was the size of its virtual network that made it so attractive to traders. Sales hit $5 billion in 1999 and $50 billion by 2006.

POSITIVE FEEDBACK LOOPS

What fuelled eBay's extraordinary growth was another distinctive feature of the networked economy – positive feedback loops that amplify small changes to produce a bandwagon effect: success breeds success, and failure, failure; the strong tend to get stronger and the weak weaker. Positive feedback accelerates the growth of all new markets and is critical to the development of networks, producing virtuous circles like the growth of eBay or vicious ones, as when Netscape's market started slipping away from it. When it became clear that Microsoft's Explorer would win the battle of the browsers, nobody wanted to be stuck with the loser.

The importance of feedback has long been recognised in physical systems. It is only recently that its role in social networks has been understood. (Though Shakespeare got it 400 years ago: 'There is a tide in the affairs of men, which taken at the flood leads on to fortune. Omitted all the voyage of their life is bound in shallows and in misery.')

In a much more complex, networked economy, feedback loops explain how ideas, and the adoption of new products such as the iPod, can suddenly become social epidemics. The growth of a network typically follows an S-curve. In its early days, it is too small for its size to attract other members, and it grows slowly, accelerating sharply if and when positive feedback kicks in, slowing down as the network approaches maturity.

Some networks have long gestation periods. Fax was technically possible early in the 20th century but only really caught on in the early 1980s, when cheap machines came on to the market and there were robust, automated telephone networks in most rich countries. By the end of the 1980s just about every business was using fax every day.

Fax was soon eclipsed when email became even more ubiquitous. The original email systems were closed – proprietary ones, used mainly for internal communications. When the internet emerged as the common standard and big companies switched over, there were suddenly hundreds of thousands of email users on the net. Very quickly, every business and most individuals could see a reason for joining the internet, which more than doubled in size every year in the 1990s.

Nobody owned these customers, and proprietary online systems often lost theirs. AOL, though, convinced many people, notably Time Warner, that 'owning' so many eyeballs made it the most valuable company in cyberspace. This particular network proved to be a perishable asset and Time Warner paid dearly for its naivety.

Very few businesses enjoy network effects to the extent that eBay has. The biggest beneficiary has been Microsoft, which achieved its domination of the desktop long before the internet became a mass medium.

The key step was holding on to the rights to the DOS operating system it obtained for IBM's first PC. But it was far from obvious, even in the late 1980s, that DOS's successor, Windows, would become the universal standard.

IBM had a new operating system for business customers and Apple's Mac was easier for consumers to use. However, when it became clear that Windows 3.0 would have the largest market share, a bandwagon started: most businesses and consumers wanted the same system that everybody else was going for, and Microsoft sold 10 million licences between 1990–92.

MICROSOFT'S DOMINANCE

By now it was extending its dominion to other desktop markets, edging out Lotus and WordPerfect, the previous leaders in spreadsheets and word processing. The new vogue for connecting computers over local area networks encouraged standardisation in these programs as well as operating systems.

Once people started exchanging files, it was infinitely easier if they all used the same software. Naturally they standardised on the products that had emerged as the new market leaders, and which worked so conveniently well with the new standard in PC operating systems.

By 1994 Microsoft had 70 per cent of the markets for spreadsheets and word processing and more than 90 per cent in operating systems. This was not entirely planned. Bill Gates acknowledged that he had been slow to spot the significance of computer networking in general and the internet in particular, but he benefited enormously. Microsoft went on to pulverise Netscape and to extend its hegemony to the browser market. It really did look for a while as if one winner was going to scoop up all the prizes.

ENTER GOOGLE

In fact, far from dominating as many feared, Microsoft's brand was seriously damaged by its ruthless exploitation of its strategic assets. The company that later emerged as the most powerful on the web was Google, which was soon challenging Microsoft for leadership of the software industry.

Like eBay, Google is a business whose most valuable assets are networks. The physical one is an enormous pyramid of computers and server farms. Equally important are two virtual networks of consumers and advertisers which only emerged, like the business itself, serendipitously.

For its first two years, the founders did not know how they were going to make money. They hated the idea of funding Google through advertising, which they thought could only bias search results towards advertisers. They concentrated on building the biggest and best computer network – and on 'organising the world's information and making it universally available'.

Google attracted such an enormous public following that when it discovered a form of advertising it could live with, it was like striking oil. Until it launched AdWords in October 2000, revenues were negligible – then they rocketed. In 2001 they hit $86 million, two years later $1.5 billion, and by 2008 $22 billion.

Google wasn't the first to offer contextual advertising, but it had the strongest brand in search and the largest possible audience for advertisers. The growth of that consumer audience fed its advertising revenues – these were feedback loops and networks on the scale of eBay's. What made Google's proposition for advertisers so compelling was the exponential growth in the number of searches being made. And the quality of those search results was the product of another virtuous circle – that scalable network of computers that got better as it got bigger.

All fast-growing businesses benefit from virtuous circles but very few from network effects. One market creator understood them from the outset: PayPal deliberately set out to attract a critical mass of users as quickly as possible, offering $10 to all new members and another $10 for introductions. It soon found itself in a race with eBay, which tried and failed to marginalise its rival. In 2002, however, eBay had to bow to another network with unstoppable momentum, and paid $1.5 billion to acquire PayPal. It now enjoys near monopolies in both auctions and payments.

WHAT LESSONS CAN BE LEARNED?

Most businesses cannot hope to emulate these winners, but they can learn lessons from their stories.

- The first is only to go head-to-head with the owners of enormous strategic assets if you have powerful weapons of your own and a smart strategy. Monopolists capable of crushing challengers tend to exercise their power.

- The most powerful strategic assets for incumbents are switching costs. If it's expensive for customers to leave a supplier, only an immensely compelling proposition will tempt them away. Strong networks have high switching costs but they are not their only source. Companies that make their technology the standard in a market enjoy equally effective customer lock-in. Gillette's razors and blades business model is still working well after more than a hundred years.

- Excessive reliance on strategic assets can lead to complacency and customer resentment, as both Microsoft and eBay discovered. This can leave incumbents painfully exposed when the rules of engagement change. Former monopolists such as telephone companies and many national airlines have found competing in a deregulated market uncomfortable. Technological revolutions can have a similar effect on those with previous advantage.

- Most leaders in the networked economy rely primarily on their distinctive capabilities for competitive advantage. Capabilities are what gave Google, Apple, Amazon and Nokia their original leads, and burnishing and extending them have been crucial to their enduring success. All these companies acquired strategic assets, notably brilliant brands, but used them mainly to support their superiority.

- Finally, these cases demonstrate that first-mover advantage is far from being universally true. It may help in building a lead but is no guarantee of holding on to it. Microsoft has scarcely ever been first into a new market. It made itself master of the universe to a considerable extent by painstakingly copying other people's ideas and occupying their markets. Google likewise benefited from improving on what pioneers had done.

Sometimes, a single supplier can tie up the lion's share of a new market, generally because of developing capabilities that competitors cannot match, forming binding relationships with customers or building other barriers to entry.

Being first is nearly always a means of achieving one of these. It was critical in the cases of eBay and PayPal, as feedback loops helped their networks to reach a size that no one could match. But this strategy only works if you have a very strong hand.

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A serious examination of the myth of TV viewing

Tim Jones and Tom Baxter

Internet overtakes television to become biggest advertising sector in the UK – IAB, October 2009

So that's that, is TV finally dead? Contrary to what we may have read, reports of the death of TV advertising have been greatly exaggerated. This article does not profess TV to be a 'silver bullet', but rather seeks to defend it as a viable channel.

We will focus on TV as a medium and the role of the traditional TV spot in today's media landscape, and we'll look at some of the myths such as:

- People don't watch TV any more.

- People don't watch or engage with TV advertisements.

- TV advertising is becoming less effective.

- Fragmentation means we can't afford reach.

We will conclude that TV advertising is far from dead, that it is maintaining if not increasing its audiences, and that it continues to be effective on a range of hard business metrics.

Reaching this conclusion has taken us to a position that requires questioning some core assumptions of how all advertising works and reaffirms the supremacy of TV as an emotional medium.

MYTHS SURROUNDING TV ADVERTISING

'Belief in myths allows the comfort of opinion without the discomfort of thought' – John F Kennedy (1963)

We begin by examining some of the myths surrounding TV advertising.

Myth 1: People No Longer Watch TV

The average number of TV sets per household in the UK is 2.7, 44 per cent of us have three TVs or more in our home (1). So what are we doing with all these TVs? Of course we must consider computer gaming and DVD viewing, but the fact remains that we are buying bigger, better and more TV sets for our homes.

TV viewing data provides us with a valuable insight into what we are actually doing with our TV sets. As a population, the number of hours of TV watched per person is at its highest level since 1993 (2). Furthermore, data from a range of sources shows that we spend on average more hours watching TV (21–25 depending on data source) per week than we do online (3–5 depending on data source) (3).

Breaking media usage down by age and gender still shows that we spend more time watching our TVs than online (Figure 1). When Ofcom asked consumers which media channel they would miss the most if removed, 51 per cent of all adults answered TV, with internet coming second (15 per cent) and mobile coming third (9 per cent). Surprisingly, Ofcom data shows that the importance of TV has increased in the period from 2007–09 (4).
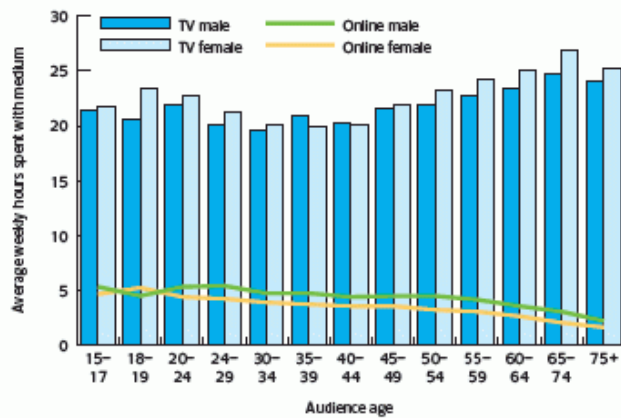
Source: TGI GB, Q309 survey, base: all

TV vs Online Usage: Average Weekly Hours

It would be fair to argue that TV viewing time may not hold for all demographics. To disprove this hypothesis we chose to study two audiences we thought most likely to watch less TV: 'digi-natives' and high-earning professional families (AB £50k+). We found that 47 per cent of digital natives, (defined by this study as 15 to 20-year-olds) watch at least three hours of TV a day (more than 21 hours per week) (5); 27 per cent of ABs earning £50k+ watch more than three hours a day (17 hours a week) (6).

The idea that we no longer watch TV is a myth. TV viewing time has increased despite the growth of online, an indication that perhaps they are being used together or that we are spending more time with media in general.

Myth 2: People Don't Watch or Engage with TV Ads

We may be watching as much TV as we ever did, but are we still exposed to as many TV ads and do we still engage with them?

The 1998–08 average weekly viewing time for commercial TV was 14.4 hours (all individuals) which is now at 15.7 for 2009. Commercial impacts are now at their highest for five years for a variety of audiences (7).

Quantitative data shows us that the amount of commercial TV to which we are exposed is increasing. But are we actually engaging with TV advertising?

ThinkBox used in-home video ethnography combined with quantitative research techniques to find out what actually happens when the ads come on. It found 68 per cent of the 16,000 commercial exposures showed some observable ad-related behaviour, with positive behaviours outnumbering negative behaviours by almost 2:1.

The types of behaviour observed included everything from singing along/whistling/shouting/tutting/to rolling of eyes. The study goes on to find that observable ad-related behaviour increases with more than one person in the room, with the optimum number being two.

This makes sense; having someone in the room to discuss the advert with should increase interaction. Finally, numerous examples of high engagement were observed to spring from low-attention scenarios. 'Heads in' activities such as eating, exercising and some forms of housework increase observable behaviour (8).

It seems we do still engage with TV advertising when exposed to it.

Personal video recorders (PVRs) are thought to reduce engagement with TV advertising. However, data has shown that homes with PVRs actually watch up to 2 per cent more live TV ads than those without (9, 10). Even skipped ads may still have a role to play – key frames from ads only seen at x30 can still elicit positive emotional reactions compared with unexposed ads (11).

The idea that we are watching and engaging with fewer TV ads is a myth, but is TV advertising still effective?

Myth 3: TV Advertising is Becoming Less Effective

In the era of interactive communications one might assume that the old one-way broadcast channels must be declining in effectiveness. Why would consumers still accept interruptive advertising when they are king of their own media consumption?

The IPA dataBANK has shown that campaigns that include TV advertising are more likely to increase share of market (SOM) at comparable levels of share of voice (SOV) compared with campaigns that do not use TV, gaining around +2 per cent more market share (12).

Not only are campaigns that use TV advertising more effective, but TV is actually becoming more effective over time. The IPA dataBANK shows us that during the 1980s, campaigns that included TV produced an average market-share gain of 6 per cent. Data available since 2000 has shown that campaigns using TV have seen an average of 8.5 per cent growth in market share (13). It seems TV ads still work.

Myth 4: Fragmentation Means We Can't Afford Reach

We may still be watching TV, and TV advertising may still be effective, but that matters little if advertisers can no longer afford to reach their audience. It's worth first considering the cost of airtime. After adjusting for inflation, it is now the cheapest on record (14).

There is no doubt that we have witnessed media fragmentation over the past 10 years. However, closer inspection reveals standard terrestrial TV to still reach a considerable proportion of the population (see Figure 2).
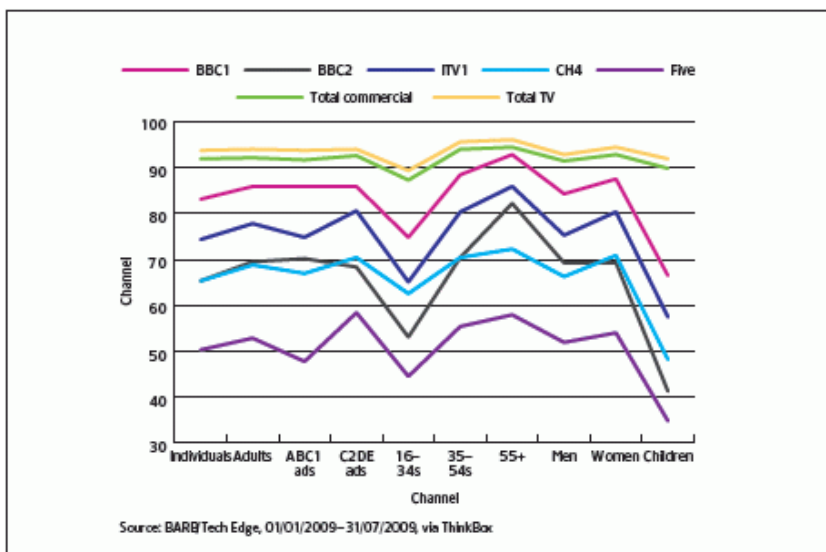
Average Weekly All-Home Reaches for Terrestrial TV

Commercial terrestrial TV (ITV, C4 and C5) makes up more than 40 per cent of total TV viewing time of all individuals (15), and 60 per cent of all adults watch one or more hours of commercial terrestrial TV per day alone (ITV and C4 data only) (16).

Although it may still be possible to reach large numbers of people through the use of single channels, fragmentation actually allows us to be more targeted. The number of digital commercial TV channels may be increasing, but they are also starting to attract their own specific audiences (see Figure 3).
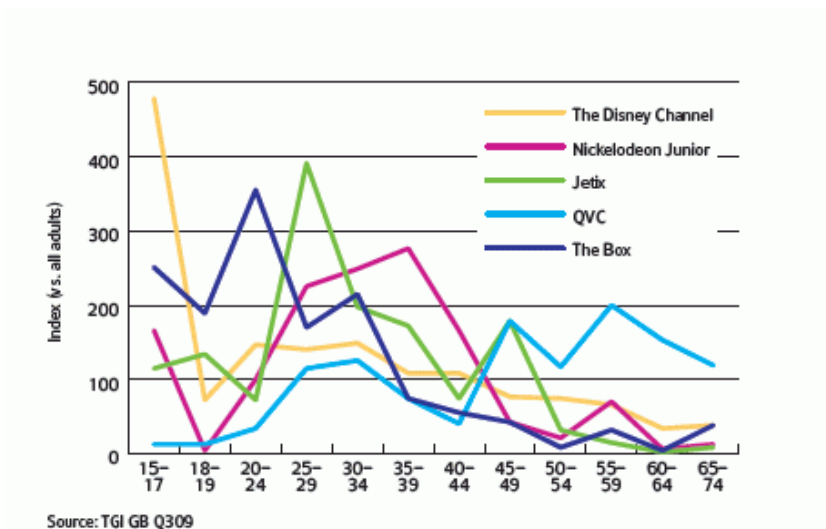
Favourite TV Channels by Audience Age

More specific media buys also make it possible to target by programme, attitude or interest. The 2007 IPA Effectiveness Award Winner Original Source (17) employed these approaches well to take advantage of fragmentation and maximise budget.

USING TV AS AN EMOTIONAL MEDIUM

'The basic difference between emotion and reason is that emotion leads to action while reason leads to conclusions' – Donald Calne, neuroscientist

We talk about brands as having 'personality' and 'emotional values' but continue to focus on the USP and rational persuasion such as 'message take out', 'believability' and 'persuasion'.

This contradiction has been a recent hot topic among industry experts, and their conclusions help us understand why TV advertising is so effective and how we can best use it in the future.

A common assumption is that advertising works through message transmission, and that the role of creativity is to maximise attention in order to transmit that message (AIDA).

Instead, Feldwick and Heath (18, 19) have found that brand favourability is primarily driven by emotional connection, and contrary to traditional theories, emotional connections are most likely to form during low-attention scenarios.

The ThinkBox study that reported higher levels of behavioural engagement in reaction to TV advertising occurring during low-attention scenarios supports these findings.

Feldwick and Heath's hypothesis makes intuitive sense. Emotions are not usually formed by intense study; they are feelings that arise in reaction to a general impression. When was the last time you heard a friend say, 'After intense study of my partner I decided to love her'?

The dataBANK also supports the role of emotion in campaign effectiveness. Field and Binet categorised all the case studies in the IPA dataBANK by communication strategies, rational (information or persuasion) and emotional (emotional involvement or 'fame'). Emotional campaigns were found to outperform rational campaigns (see Figure 4).
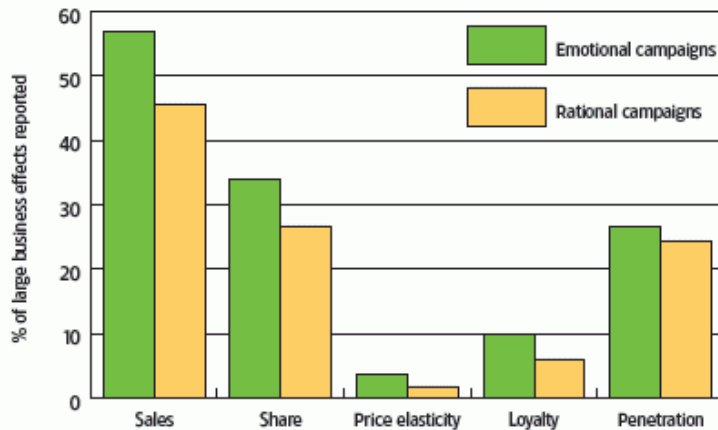
Source: *Marketing in the Era of Accountability*, Peter Field and Les Binet, Warc/IPA, 2008

Effectiveness of Emotional vs. Rational Campaigns

Emotional campaigns were also found to outperform rational campaigns in both emotional and rational categories (20). Peter Field attributes the effectiveness of TV as a channel to the 'supremacy of TV as an emotional medium'. IPA effectiveness data supports Feldwick and Heath's hypothesis.

It seems prudent to explore how advertising forms emotional bonds. Paul Feldwick introduces the idea of analogue communication: 'TV ads work, I believe, through the analogue mode where emotional engagement is created through the actual sights and sounds of the commercial (21).'

Feldwick is referring to modes of communication. Digital communication is used to describe that which is always verbal or numerical; it is precise, logical and intellectual. Analogue may be verbal but it is also visual, audible, gestural or tactile. Analogue communication does not always need to be consciously processed and by its nature is hard to define.

Analogue communications are at the core of how brands form emotional connections. Feldwick defines associations as 'connections in the brain that link together ideas, images and feelings'. Associations don't have to be conscious and verbal. Analogue communications also play a vital role in expressing the relationship between the brand and the consumer.

Human communication relies on two elements: the content (digital communication) and the way it is expressed (analogue communication), with the latter often being more influential. If we believe the role of advertising is to build personal relationships between brands and consumers, then we have to accept the importance of using analogue modes.

TV AND ONLINE TOGETHER

We do not claim that TV is the total solution but simply aim to defend its status as a valid communication channel. The DataBANK shows that campaigns that also use below-the-line channels alongside traditional channels are more efficient (22).

Online is often reported to be the enemy of TV advertising as it is seen as taking the viewer's attention away from the TV in either absolute terms or by dividing the viewer's attention while they are 'dual screening'. However, campaigns using both online and TV achieved a 10 per cent increase in effectiveness success rate, so were more likely to have achieved very large business effects (a reliable proxy for actual ROI) than those TV campaigns not using online (23).

Dual screening should be detrimental to the effectiveness of TV advertising – approximately half of all adults have been found to use the internet and watch TV at the same time at least once a day (24). However, as emotional connections are most likely to be formed during low-attention scenarios, we should not presume that divided attention means reduced effectiveness. Furthermore, we should not presume that being online and watching TV are always two separate activities; correlations between search terms and TV content observed by Google show the opposite to be true.

'TV and search are highly compatible, money should be taken from below the line and pushed back into TV alongside massive growth in search. We see huge spikes in query volume following TV exposure, both editorial and ads (25).'

IAB/ThinkBox observe cross-fertilisation at many levels. TV advertising can prompt online search/purchase behaviour, and online communication increases the saliency of the TV ads. IAB/ThinkBox have also found that TV and online are better at driving purchase via different means.

TV is much more likely to prompt consumers to visit a store in the real world versus online advertising (+22 per cent). This study also found that TV advertising was more likely than online to prompt purchase online (+7 per cent). It is clear that TV and online are more effective together.

CONCLUSIONS

This article aimed to review the best of industry thinking and data sources available to evaluate the state of TV advertising in its traditional sense of live broadcast to sets in our homes.

We found that TV viewing is actually increasing, that it is increasing in effectiveness and that fragmentation does not have to threaten reach.

Analysis of hard business metrics has proven that effectiveness of TV as a channel is rooted in its 'supremacy as an emotional medium' (Peter Field). Contrary to traditional theory, TV advertising is most likely to be effective when it forms emotional bonds between the brand and its consumers, and this is most likely to occur during low-attention scenarios.

Understanding that these bonds are formed by associations, and influence the relationship between brands and consumers (Paul Feldwick), is key to the creation of effective TV advertising.

TV advertising is more effective when used with online channels. Our finding that online advertising works better to support TV as opposed to the other way round is more controversial and needs further investigation.

TV still provides a point of shared cultural experiences. YouTube hits such as the Cadbury 'gorilla' and the T-Mobile 'flash mob' ads have been viewed, re-edited and re-viewed by consumers millions of times.

In today's media landscape, traditional TV advertising is far from dead.

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Money can't buy me love

Peter Cooper and Simon Patterson

True, there are green shoots. US job losses are slowing. Western countries are coming out of recession, and BRIC growth is recovering sharply. UK manufacturing is rising. Consumers and businesses worldwide are slowly gaining in confidence. But – and it is a big but – growth is fragile and supported by huge Government debt, credit conditions remain tight, and consumer expenditure is still limited. Severe aftershocks may be expected.

Much has been written and said about the crisis from an economic and political perspective. Here we look at the crisis through the minds and hearts of consumers.

ACTION FOR MARKETING

Our purpose is to understand what they have been through, what they expect and what they want from the post-crisis world. And on that basis we aim to draw out some actionable conclusions for marketing and research.

Our analysis is based upon ongoing qualitative, ethnographic and quantitative research, together with semiotic studies of how branding and advertising are changing.

Our view is that consumers will come out of this emotionally, socially and culturally fitter. But a crisis opens up major opportunities for marketing, branding, communications, and market research for the future human good. However, to achieve that we also show that profound changes in marketing and research practices are needed to meet the needs of the post-crisis consumer.

The crisis did not occur in a vacuum. Over the past 10 years public surveys have warned of increasing social divisiveness, rising public anger, eco concerns and distrust of authority.

The economic crisis has been a catalyst for exposing these pre-existing vulnerabilities. It came at the end of other world-shattering events – 9/11, terrorism, natural disasters, global warming and continuing war.

MATERIAL BOOM

For the past few decades, the UK, US and other Western economies experienced increasing prosperity. Materialism boomed. Indulgence, individualism, greed, me-first and 'keeping up with the Joneses' held sway.

Then, in September 2008, Lehman Brothers collapsed. Anxiety and depression broke out, producing heavy demands on people's economic and psychological resources to cope.

Many are still in a state of fear for the future. Others feel it is cleansing. Yet others are turning to past values. Virtually all express wishes for a new beginning or a new reality, a shift from fear to hope.

Hence President Obama's proclamation in his inaugural speech early on in the recession: 'We have chosen hope over fear, unity of purpose over conflict and discord.'

SOCIAL PROBLEMS

Studies of previous recessions predict the following: first, negative growth, rising unemployment, reduced household expenditure and loss of confidence. Second, slow growth returns but unemployment stays high, carrying with it increasing social problems and rising crime.

Third, healthy growth returns but remains patchy, involving long-term unemployment, dependency on Government, and social divisiveness.

Society breaks up into unstable 'haves', 'have some', and a distinct sector of 'have none', at least as far as credit is concerned.

But out of it comes hope for new beginnings. In fact, many studies from past recessions demonstrate how companies that have invested in their brands have surpassed their rivals after the crisis.

SEGMENTATION

Although exact data on its speed, decline and intensity are difficult to determine accurately, we estimate that in the UK and US some 10–15 per cent of the population have been directly affected through lay-offs, dispossession, and forced into onerous debt repayments, voluntary

agreements or bankruptcy.

A further 20–25 per cent have been partially affected through short-term working or where their family or friends have been directly affected.

But even among those not materially affected – around 50 per cent – there is an atmospheric effect. People here are economising, changing priorities, making more conservative choices, avoiding display of their wealth as a result of social pressures, media, and the national mood.

Only some 10 per cent appear unaffected or actually benefiting as a result of accumulated wealth, contractual employment, lower mortgage and interest rates, and even they are sensitive to displaying their luck.

Psychological effects of the crisis have brought about marked increases in anxiety and depression, use of anti-depressants, mood stabilisers and psychotherapy by those most severely affected (see, for example, the NHS Credit Crunch Stressline).

The symptoms of current economic malaise, however, go well beyond these to include anger, guilt, strained relationships, fear of the future, impaired coping with bills and debt, physical distress, disturbed sleep, unhealthy eating, excess drinking and substance abuse. These symptoms are not limited to those suffering direct impact but have rippled across society as a whole (1).

We find that men are more vulnerable to loss of job and virility. Unemployment, or the risk of it, is a major source of mental distress.

Women gain more support from their community. Older people brought up with thrifty values cope better. Blue collar sectors often cope better than white collar. Young people and recent graduates are being particularly affected and are deeply anxious about their futures.

Of course there are geographic differences. Impacts were immediate and greater in the US and UK, but also have reverberated in France, Germany, Italy, Spain and Japan, and in most countries throughout the world because of their interconnected economies.

In some, like the BRIC markets, prosperity has been on a shorter time-scale so that psychologically they are in a better position to cope.

As our Eastern European and Latin American commentators put it, 'Crisis, what crisis? Our lives are always in a crisis.' They are therefore more emotionally resilient, over and above differences in local banking regulations and fiscal control.

COMPLICIT CONTAGION

The crisis cannot be put solely at the doors of bankers. Those of us in marketing, communications and market research were also complicit. All joined the bandwagon or herd behaviour in the rush towards materialism, indulgence, and keeping up with the Joneses. And all have suffered, or are still suffering, the consequences

Few chose to speak out about the likelihood of the current crash, or if they did most fell silent in view of the apparent prosperity.

Consumers participated in the same spree on capital goods, homes and luxuries. Many are now aware of how they succumbed, hence their anger at others and guilt at themselves. And wishes for a new and clean beginning.

MENTAL ILLNESS

Significantly, the English-speaking nations, the US and UK particularly, are twice as likely to suffer from mental illness as nations in mainland Europe (World Health Organisation data). GDP went up but differences between rich and poor increased, and most benefits went to the already well-off. This point is captured by clinical psychologist Oliver James, who aptly coined the term 'affluenza' to describe the way in which materialism spread like a virus through American and British societies, putting them at greatest risk of economic malaise (2).

Although during interviews there is a temptation by consumers to deny these effects, probing beneath the surface reveals deep traumas.

What has life really been like living in the crisis? It differs of course according to where you are on the crisis ripple.

Before the crisis, life was like a magic carpet, colourful and transporting. But in the crisis the mood drops sharply. There are ups and downs, hopes, question marks and challenges. Some things are now possible but it is one way, you can't go back. In the future the life curve goes slowly up. There are new horizons, opportunity and possibility, but now cautious with your eyes wide open.

The metaphors and stories people tell often use a U-shaped or W-shaped form. The future will be up but different, a new beginning is wanted. That is, life dropped suddenly from the past, there is a bumpy bottom, and then a slower optimistic rise is expected but to a different future.

The crisis itself is a burden, a weight you have to live with, or like an incoming tide that's going to overcome you.

Early on, it was like dark clouds, big and menacing. But there are also many positive challenges, something you've got to put your head down and get through.

SENSES OF GUILT

Biblical or moral metaphors occur too, it's like the Great Flood washing away impurities, like the Ark. Buried in many people's feelings are senses of guilt at their own past indulgence, and blaming of bankers or Government.

Visualisation (or psychodrawing™) techniques are not only instructive for understanding and relating to consumers' experiences, but powerful analytic tools in their own right for marketing management and research.

They can be used to diagnose what brands fit the future and how brand positionings need to be modified.

Take, for example, the confectionery category. For some sectors, luxury pralines were the magic carpet pre-crisis image, but the stress of the crisis shifts to cheaper chocolate bars.

Post-crisis the consumer wishes to feel good and create new visions with organic ingredients.

Consider financial services. The pre-crisis magic carpet here is clear: borrowing without too much concern. In the crisis images, financial stress, insecurity and distrust of banks take dramatic priority. Post-crisis the need is for caution and a back to basics image is called for.

Once the credit crunch began to bite, primitive consumer needs were exposed and still are for those at the eye of the ripple. Drivers we found after the first shock of the crisis were:

Regression

- Home, comfort, food, senses

Back to Basics

- Traditional brands, nostalgia

Price

- Economy, value

Fear

- Withdrawal, avoid the new

Safety in Numbers

- Join others, avoid display

Escapism

- Temptations, risk-taking

Most regressed and went back to basics emotionally. Price, economy, value, deals, more-for-less, and the magic £1, $1 or €1 offers took priority. Consumers withdrew from the new and took safety in numbers.

Advertising which featured glamour, sheer indulgence, materialism, display, keeping up with the Joneses and sheer kitsch were out.

But at the same time they allowed occasional temptations as rewards and escapism.

Brands have become allies, your friends in the crisis. Retailers have been quick to realise the potential of these friendly labels.

POST-CRISIS NEEDS

As we progress to post-crisis our analysis indicates the following psychological territories are evolving, some echoes of the past and others new:

New Realities

- Questioning values, re-evaluating

Ethical dimension

- Responsibility, respect

Wellbeing

- Health, happiness

Reform

- Creativity, hope

Communities

- Caring, support

Self

- Knowing your secrets, self-help

Probing more deeply, people's existential wishes are:

- Fresh meaning to their lives

- Freedom to make their own choices in life

- Deep connections with others

- Self-esteem despite economic pressures

- Retaining their own identity.

POST-CRISIS MARKETING

This calls for new marketing and new research. It calls for marketing to meet these needs for a new reality, for market research to review its methods and priorities since it is suffering from declining participation, doubts about reliability and validity, and a model often looking for 'id-like' nuggets of outdated emotion.

Marketing and research are not alone. Economics is in disgrace. Free market economic theory assumes that human beings spend their lives making rational calculations about gains and loss.

But in practice, these rational assumptions about 'homo economicus' are misleading, to say the least. People use subjective and often disruptive rules of thumb to take major let alone minor economic decisions, as is being revealed in the new 'Behavioural Economics' (3).
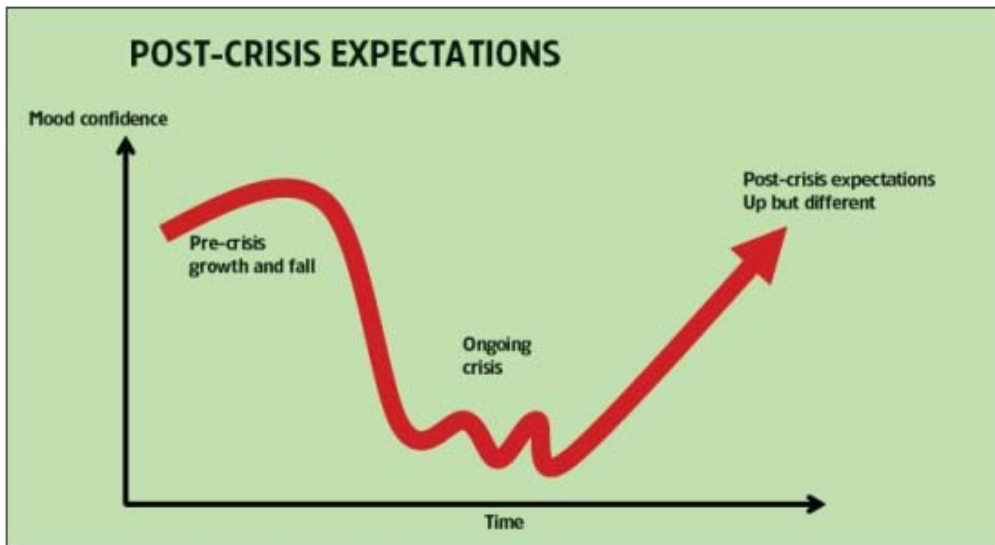
Post-Crisis Expectations

THE NEXT CHAPTER

Out of the stresses, anxieties and depression the crisis has created, and is still likely to create for many at the eye of that tidal storm, our evidence suggests a new vision. Marketing, market research and communications are powerful tools to help lead consumers into the future.

Consumers want to go beyond the crisis to a new reality. The curves they idealise post-crisis look like this (those shown in the diagram above), up but qualitatively different from the past: it is more 'V-shaped' in BRIC markets.

POST-CRISIS EXPECTATIONS

This next chapter has yet to be written. As slow growth returns, we draw the following conclusions and action points:

1. The scars of this crisis will be with us for some time, influencing the ways consumers think and feel. We need to soothe those scar.s

2. New needs are evolving in which Consumers are seeking a new reality from brands and communication. We need to create that future.

3. Consumers have been, and still are, going through profound psychological changes. We need to treat and track that psychology.

4. There is a new segmentation based upon responses to the crisis, which goes well beyond conventional pre-crisis targeting. We need to track that too.

5. There are vivid ways of understanding the likely post-crisis experience through visualisation and storytelling. We need to immerse ourselves through them in the minds, hearts and guts of consumers.

6. We find that brands are 'benevolent psychotherapies', helping people to cope. We need to position brands as therapeutic, providing comfort, support and relief from the emotional impacts of the economic crisis.

7. Brand therapy goes even further than this. We need to take people 'up', just as the best psychotherapy does.

8. There are new models in psychology to help us achieve these goals. We need to apply cognitive behavioural therapy to consumers, and arguably ourselves.

Post-crisis consumers are looking for more from marketing. They are moved by more sophisticated emotions, a new morality, new needs and a new intelligence as a result of their experiences.

These go beyond sheer measurement or yet another qual insight. They are looking for leadership and clarity.

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Getting to grips with the Now Web

Marian Berelowitz

Like any emerging technology, the web has continually reinvented itself, first as sites that simply reproduced printed matter, later as the more interactive environment of Web 2.0. Today the web is increasingly real-time and fluid, moving away from an environment based around pages to become more like a flowing stream of information.

Consumer conversations, of course, can make or break brands – and given the growing power of these streams, brands must understand what the Now Web is about and then jump in.

21 MILLION UNIQUE US VISITORS

Twitter and Facebook currently serve as tools for producing much of the stream. Both have raised their profiles immensely in the past year. Nielsen reports that Twitter went from 1 million unique US visitors in June 2008 to 21 million in June 2009. And Facebook visitors in the US spent an average of 4 hours, 33 minutes on the site in June, a 240 per cent increase over June 2008.

An array of real-time search engines from start-ups including OneRiot (which is partnering with Yahoo), Collecta and Scoopla focus on what's being tweeted and shared around the web. In October, both Google and Microsoft's Bing announced search deals with Twitter.

'This is going to become mainstream very fast,' Sean Suchter, general manager of Microsoft's search technolgy centre, told *USA Today.*

'Everybody in the world is going to expect that they can find out anything, anywhere, instantly.'

A new way of living and working online may be ushered in with Google's Wave, an application that runs in a web browser. Groups of people can set up a Wave and collaborate on a document in real time, or trade photos and video, or drag in a widget that allows them to play a game together. Users can show their content from Twitter, Flickr etc in their Wave. There is also chat via live transmission (ie, whatever you're typing is visible to the party on the other end).

The proliferation of smartphones is also driving the trend, enabling realtime connectivity and instant text, photo and video updates. Location-based or location-aware mobile mapping services are helping people to connect with friends on the go and interact with brands in real time.

In college, most of us spent a lot of time in the library but also in a social hub like the campus coffee shop. One was a place for digging up information, the other a more dynamic, conversational setting, where ideas were casually exchanged.

Google has been the web's library: archival, organised and oriented around research. Twitter and Facebook, on the other hand, are coffee shops: instantaneous, conversational and oriented around discovery.

Kevin Kelleher, tech news site, *GIgaOM*

THE MASS NOW

One implication of the Now Web is the rise of a more mass culture – people around the world experiencing events together, using the web to rally the like-minded, spreading internet memes and sometimes rumours rapidly around the globe.

Barack Obama's inauguration in January 2009 was arguably the first mass Now experience. People tweeted about it and watched it together on Facebook, which hosted a live CNN stream and a concurrent scroll of status updates from people watching.

Six months later, global web traffic reportedly surged to 33 per cent above normal during Michael Jackson's memorial. (CNN reported that Jackson's death 'nearly brought the web to a standstill, with several sites buckling under the sheer weight of traffic'.)

'The immediacy of the live web and its ability to let people collaborate and share was better than watching [the memorial] on the tube,' Mark Ghuneim, founder of social media tracking service Trendrr, told the BBC. 'The TV showed itself as a much more isolated experience.'

Many heard about Jackson's death via the Now Web – Facebook status updates and tweets – since there was a significant lag between when TMZ broke the news and when the mainstream media confirmed it.

Word can spread like wildfire through the Now Web, especially via Twitter, where people tend to re-tweet hot items. And in the wake of Jackson's death, the real-time web quickly filled with outpourings of emotion and personal stories, old video clips, favourite-song lists and so on.

Not long before Jackson died the disputed presidential election in Iran vividly demonstrated the power of the Now Web to spark mass action. While the Iranian government blocked access to much of the web, it failed to effectively block Twitter, which served as a key way for anti-government protesters to co-ordinate their actions in a country where the media is tightly controlled.

It was also one of the only ways for Iranians to tell the outside world what was happening in the country (although it's impossible to verify where tweets are coming from, and what's authentic). The darker side of this is the way in which mobs – real or virtual – can quickly form via the Now Web, where often raw emotions don't get a chance to cool off before exploding.

'Today's online communication platforms facilitate mob creation and growth like never before,' argued Michael Arrington, TechCrunch founder and co-editor, in a June post.

Real-time sites can serve as the nexus for conflicts, and 'things can get out of control instantly', wrote Arrington, who has himself been the focus of flared tempers.

This hyperactive cycle also works to propagate false rumours. In the wake of Jackson's death, word of the supposed demise of various celebrities raced through Twitter and Facebook.

While the celebrities immediately refuted the rumours, the potential is clearly there for people to spread disinformation that's inflammatory and dangerous.

Such rumours can be classified as internet memes – cultural phenomena that spread quickly through the web. These are nothing new but now they travel faster and further than ever.

In earlier times, it's unlikely the Susan Boyle video would have racked up millions of YouTube views in a matter of days. Boyle's moment became part of the mass Now, a triumph – and eventual breakdown – shared by millions worldwide.

AN ADULT MUSICAL 'POP-UP' BOOK

The weaving of the real-time stream into entertainment has many possible applications. Imagine watching an orchestra playing Beethoven's *Symphony No 6* as your mobile device displays tweets with the conductor's programme notes at specifically timed intervals. That happened last summer, when Emil de Cou, the US National Symphony Orchestra conductor, created what he described as 'an adult musical pop-up book' for Twitter members attending a performance at Wolf Trap, an outdoor venue near Washington, DC.

A CAMPAIGN THAT CAPTURES THE NOW

Is there such a thing as a Now ad campaign? Consider what this brand is doing:

Royal Caribbean

Last summer, a team from the agency JWT shot candid footage as well as scripted material on board a cruise ship. The footage was edited at night, then the company emailed the files to land-locked colleagues, who put the finishing touches on the spots.

These 'postcards', as the cruise line calls them, ran on TV for just 24 hours after they were produced. They are posted on the Royal Caribbean site, however, and the footage will be reused as content for more traditional commercials. The brand is planning additional postcard segments from upcoming cruises.

The campaign was in part a response to the more real-time planning that cruise customers have engaged in during the recession. Rather than book well in advance, people are planning shorter holidays more spontaneously, often lured by slashed prices.

The ads are meant to encourage these quick breaks, as Michael Stoopak of JWT New York told the *New York Times*. Watching a cruise in progress 'makes it feel immediate, urgent and, most importantly, attainable', he said.

NOW ENTERTAINMENT

If the web is helping to enable realtime interactive viewing, television is slowly enabling more live interaction among dispersed viewers. In the US, Verizon started adding Facebook and Twitter widgets to its FiOS (fibre optic) TV service in July, building a layer of engagement for viewers and another platform for marketers and content providers to communicate with them.

Fans can watch a baseball game on a split screen, for example, while monitoring what other viewers are saying about the action (viewers need only select 'current channel' on the widget to see all tweets related to whatever's on). But viewers won't be able, at first, to upload information using TVs.

The widgets include onscreen ads that are akin to banner ads; clicking on one with the remote launches a commercial. FiOS viewers with DVR service will soon also be able to watch web video from several sites (Bip.tv, Dailymotion and Veoh).

NOW MEDIA

The Now Web is changing our perceptions of 'current' – a definition that's already shifted radically from the days when people relied on the evening news and the morning paper to keep up to date.

Increasingly, the public itself is providing that information, re-broadcasting news via social media as soon as it breaks (as happened after Jackson's death) and also serving as on-the-ground reporters, Twittering from the site of news events.

After the terrorist attacks in Mumbai in November 2008, people at the scene broadcast numerous tweets with details.

It went well beyond Twitter though: a man walking the streets with his camera posted a hundred-plus photos to Flickr, a Wikipedia page was quickly created and fleshed out in real time with updates and background context, and local bloggers sent details from their vantage points to Mumbai's Metroblog.

In turn, mainstream media outlets cited some of these reports and showed photo and video images from 'citizen journalists', a pattern that was repeated in June following Iran's presidential election.

Of course, citizen journalism can be unreliable and is hardly a substitute for professional reporting – the future of news will likely integrate the two for a wider perspective, becoming more wiki-like, with eyewitnesses able to contribute reports and an editor assessing how they fit together.

'The two worlds of old media and new media need each other and have for a long time,' observes Jeff Pulver, a co-founder of Vonage who is now working in the realm of 'TV on the net'. He cites as an example the Boyle video – which broadcast media picked up as its popularity grew, further enhancing its profile in the Now Web.

MARKETING WITH A NOW MINDSET

For businesses and brands, the Now Web will make it increasingly easy to get a finger on hot topics and shifting consumer sentiment. The challenge is to also respond in Now time – to take advantage of short-term opportunities and to swat away potential problems before negative word-of-mouth gains momentum.

This requires adding a new set of quick-response skills. Marketers 'are built like battleships for long, sustained warfare, [but] this is guerrilla warfare,' Forrester senior analyst Lisa Bradner told *Adweek*.

Ernie Mosteller, vice president, interactive creative director for the Brunner Digital agency, uses a different metaphor: 'Advertising creative used to be akin to crafting a novel or a film. Real-time creative is like improv. To be successful, you need both skills on hand.'

The most basic Now behaviour for brands is to tune into real-time conversations and to participate in dialogue through social media platforms. How brands can best adopt social media is a complex topic unto itself, but what's important is that the consumers expect near-immediate brand response and an ongoing stream of conversation with brands (what's sometimes called social CRM).

Pepsi reacted quickly after Jackson's death, sending out a 'thank you, Michael' tweet to acknowledge the King of Pop's commercials for the brand in the 1980s.

In a *Twitter 101* case study published by Twitter, Pepsi brand director Anamaria Irazabal says that with micro-blogging, 'We can move at the speed of culture.

'Twitter means we can react to something that happens and provide a platform for dialogue. That's the key word. It's about engagement and building the relationship.'

Customer service will also increasingly need to be Now. More brands are adopting live help on their sites – a technology that's been available for some time but has improved greatly in the recent past.

SINGING THE COMPANY BLUES ONLINE

Marketers' missteps and problematic products can come almost instantly to light in the Now Web. Last summer, after Dave Carroll failed to get compensation from United Airlines for damaging a guitar he'd checked in, the Canadian musician posted a YouTube video of himself singing about the episode. It went viral, generating mainstream media coverage. This 'shows just how quickly the internet can help a disgruntled customer turn the tables on a company and its efforts to manage its public image', noted *USA Today* aviation blogger Ben

Mutzabaugh.

IF YOU'RE NOT RESPONDING YOU'RE NOT AUTHENTIC

Real-time customer service is also happening through Twitter, with company representatives monitoring tweets and offering advice or help where relevant.

'We're getting to a point where if you're not responding, you're not being seen as an authentic brand,' Adam Brown, head of social media at Coca-Cola, told the *Wall Street Journal* in August. (Brown, appointed in March, is the first person to take this role at the company.) Rival Pepsi responds to all tweeted complaints; says Irazabal in *Twitter 101:* 'When we respond quickly, people give us kudos.' By contrast, brands that don't respond in the Now risk a gathering storm of bad PR as complaints, concerns or false rumours get re-tweeted. Much as political protests can be organised quickly and efficiently on the Now Web, so too can protests.

Conversely, the Now Web can be helpful in refuting rumours. Starbucks used Twitter as one of several platforms to dismiss the false story that the company would not send coffee to troops as a protest against the war in Iraq.

Dell and Zappos are among the brands that have best leveraged this technique. The online clothes and accessories retailer Zappos – one of the most popular brands on Twitter with more than a million followers – uses the medium to advertise coupon codes and other promotions.

Dell has been especially successful using Twitter to advertise the refurbished equipment at Dell Outlet, which has close to a million followers.

There may also be a Now way to approach media planning and buying: identify which topics or URLs are heating up, then make relevant spot buys online. Those ads could later theoretically shift over to whatever pages are being re-tweeted the most.

The stream of information that people consume, produce and share online is flowing ever faster. It's no surprise that two tech launches in November were both named Pulse (a Novell software suite for Google Wave and a mobile search app). Brands will need to keep up.

SUMMARY OF THE KEY CHARACTERISTICS OF THE DYNAMIC NOW WEB

1. The Now Web is less static and more dynamic. More emphasis is being placed on real-time search and mobile connectivity. Realtime conversations are giving rise to an increasingly mass culture – people around the globe are experiencing events together, using the web to rally like-minded people, spreading internet memes and sometimes rumours rapidly.

2. The rise of real-time, interactive viewing on the web is also bringing entertainment programming into the now; at the same time, television will increasingly enable more live interaction among viewers. The weaving of the real-time stream into entertainment has many possible applications.

3. As the Now Web shifts our perceptions of 'current', how and where we get news is quickly changing. The real-time stream is a challenge to traditional news media, but the best providers of content, and those most able to leverage networks and relationships within the stream, may gain new audiences.

4. For businesses and brands, the Now Web will make it increasingly easy to get a finger on hot topics and consumer sentiment.

    The challenge is to also respond in Now time. Brands must tune into real-time conversations and participate in dialogue through social media; marketers can also inject a measure of Now into brands by making their websites, and even their ad campaigns, more real-time.

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Is your brand's share trying to tell you something?

Charles Graham

Over a month, a quarter, or a year, the sales of any brand are determined by the number of people who buy it, how often they do so and which other brands they buy. Marketing practitioners, therefore, invest substantial sums to influence consumer behaviour through communications, sales promotions and loyalty schemes, all designed to increase the penetration and repeat purchase of the brands they manage. The effectiveness of these investments is often assessed by the extent of market-share growth achieved.

One survey of nearly 700 senior managers found share to be the marketing metric most regularly reported to the board (1).

The attention is hardly surprising. In many consumer goods categories a single share point may be worth several million pounds a year. Importantly for managers, the concept is easy to understand, responsive to intervention in the short term and quick to report. It should be the ideal metric; in fact it has one serious limitation.

STATIONARY BRAND SHARES

Consumer panel evidence reveals a paradox that is often missed in day-today decision-making. Despite quarterly fluctuations, in most established fmcg categories, brand shares remain roughly stationary, at least over a year or two. Any gains or losses are only temporary.

Two explanations have been proposed, and both probably apply. The first, that the effects of competing marketing activity are usually off-setting, may instinctively feel right; the second runs counter to traditional marketing wisdom.

Far from being loyal to single brands, it appears most consumers are both experienced and habit-driven, and regard competing brands as substitutable within a repertoire. This once led Andrew Ehrenberg famously to remark, 'Your customers are the customers of other brands who occasionally buy you' (2).

DO THE LAWS OF MARKETING HOLD LONGER TERM?

Consumer repertoire buying falls into regular patterns that repeat across categories, countries and cultures, from which the few well-known laws of marketing science have now been established. These include the laws of double jeopardy (DJ) and duplication of purchase, which describe mathematically the market structure effects of repertoire buying (3).

Market structure may also be estimated more fully with the NBD-Dirichlet (4) which models many common measures – including the purchasing of light and heavy buyers, overall brand loyalties and brand switching – from just a handful of inputs.

An underlying assumption of the laws and the model is that category consumers have independent but steady buying propensities across a portfolio of brands, at least for the time being.

As long as these remain steady, relative shares remain roughly in equilibrium. Yet even in the face of some short-term market dynamics,

the Dirichlet output fits surprisingly well and it is therefore often used to analyse category structure for tactical marketing mix planning, and brand performance benchmarking.

One question that has not yet been fully addressed is whether its application might be extended to a strategic level – the longer term. The models fit because buying propensities mostly remain approximately stable, at least over a quarter or two.

Given levels of marketing expenditure on long-term brand equity benefits, in time one might expect to see at least some permanent change to buying behaviour, a shifting in established short-term patterns that would violate the Dirichlet assumptions. However, to date little work has been conducted on strategic effects, largely because of an absence of suitable data.

Now for the first time, with the benefit of a new six-year consumer panel, we can address three questions:

- Market-share equilibrium is normal for most brands in most established categories over a few quarters; but for how long does it really hold in the face of relentless competitive marketing-mix investment?

- If, as we might expect, a number of brands are seen to grow or decline permanently, can we identify any commonalities behind such change?

- To what extent does current knowledge inform an extended time frame? Do the existing laws still adequately describe long-term behaviour, even where markets are dynamic? Can the Dirichlet be used both to model strategic outcomes, and to assess them?

In answer to these questions we report three findings that establish an important extension to our knowledge of buying behaviour, extend boundary conditions for the Dirichlet, and bring us closer to an understanding of how brands grow. We describe the new panel data before moving on to the findings and a discussion of their implications.

A TWENTY-SIX QUARTER CONSUMER PANEL

Our data consist of a continuous and recent purchasing record of nearly 4,000 UK households reporting between 1999 and 2005 (six years) supplied by TNS UK. This panel is smaller than standard but the important difference is that it contains only continuous reporters rather than the usual sample with replacements, which makes it possible to examine repeat purchase at both brand and individual household level for the entire period. It is believed that a panel of this extent and nature has never been constructed before.

A range of quarterly marketing metrics has been extracted for 18 frequently purchased categories covering analgesics to vitamins, and including 140 well-known brands.

Our approach is one of replication and extension of empirical generalisation: to identify and describe known patterns observed in the data, benchmarking them with theoretical Dirichlet output. Categories have therefore been selected that differ widely in purchasing style, with average quarterly market penetrations ranging from 95 per cent to just 11 per cent, and average category purchasing frequencies from more than twice a week to less than once a month.

THREE KEY FINDINGS

1. Our first finding is that astonishingly, over six years, brand-share stationarity appears to be the norm. There is remarkably little change evident in our share data, even after 26 quarters of marketing investment.

Statisticians have developed many different approaches to measuring stationarity with more or less complex time-series analysis techniques. We believe simpler is better.

In this case a few points up or down are enough to tell the story, and using this approach we can show that, even after 26 consecutive quarters of trading, 75 per cent of our sample (105 brands), remained within just three share points of their average year one quarterly share.

A further 15 brands increased share by more than three points, but only seven from 140 increased share by more than six points; that is, by barely more than one point annually.

Table 1 identifies these brands, ordered by the magnitude of change, and includes the only two brands that lost more than six points in share over the period.

Brand	Category	Average market share %		
		Q1–4	Q22–26	+/(−)
Felix	Flexipack cat food	17.6	28.9	11.3
Kenco	Instant coffee	7.7	16.4	8.8
Flora	Yellow fats	16.4	25.1	8.7
Winalot	Canned dog food	7.6	15.2	7.5
Warburtons	Wrapped bread	8.2	15.6	7.4
Country Life	Butter	4.9	12.2	7.3
Dove	Toilet soap	14.1	21.3	7.2
——— 132 other brands ———				
Douwe Egberts	Ground coffee	18.9	12.4	(6.6)
Felix (can)	Canned cat food	24.3	13.8	(10.5)

Data source: TNS UK

Table 1

This is not entirely new. Many earlier studies have investigated share movements, including one which analysed the data in 400 academic journal articles to conclude that the effects of advertising and promotion on market share are not persistent (5).

What is new here is that our findings double the time scale: it is apparently normal for brand shares to remain approximately stationary for long periods, and certainly beyond five years.

2. What about growth? Our second finding is that exceptional, permanent, structural change in share does appear to have a common causality. It is strategic, achieved not through everyday manipulation of the promotional mix but by a major change to brand architecture, or a discontinuous innovation that demands a change in consumer behaviour.

During the period covered by our data, for example, the Unilever 'masterbrand' strategy led to the extension of Dove into personal care, and the withdrawal of the secondary brand Lux from the market. Felix cat food extended from cans to pouches and Kenco launched a new sub-brand, Rappor. Such strategies, although potentially significant to category structure, risk unacceptable levels of cannibalisation, and we discuss evaluation in the next section.

3. Our third finding is that the DJ relationship between penetration and purchase frequency holds in dynamic as well as in stationary categories.

This is illustrated in Table 2, with a six-year comparison of data from the instant coffee category. Individual brand shares have remained stationary from beginning to end, with the single exception of Kenco, which has gained eight points and moved up one place in the rank order through its Rappor extension. The table shows the familiar Dirichlet relationships in both first and last quarters. Brand shares and penetrations remain closely correlated; Nescafé has a 45 per cent market share and a penetration of 34 per cent, Birds has a 2 per cent share reaching 2 per cent of consumers.

Top five instant coffee brands	Market share %		Penetration % (b)		Purchase per buyer (w)		SCR %		Nescafé		M. House		Kenco	
	Q1	Q26	Q1	Q26	Q1	Q26	Q1	Q26	'99	'05	'99	'05	'99	'05
Total	100	100	64	56	3.2	2.7					Horizontal %			
Nescafé	45	42	34	28	2.7	2.3	76	76	–	–	18	10	19	26
Maxwell House	9	6	7	5	2.4	1.9	56	49	58	57	–	–	21	43
Kenco	8	16	9	13	1.9	1.8	57	56	61	50	20	15	–	–
Carte Noire	2	2	2	2	1.8	1.8	56	57	61	51	16	6	40	40
Birds	2	1	2	1	1.8	1.9	56	56	54	47	30	29	17	27
Average	10	11	9	8	2.1	1.9	57	57	54	45	26	15	21	34
Predicted duplication									74	66	22	12	23	34

(Header spanning "Annual % of buyers who also bought ..." over Nescafé, M. House, Kenco columns)

Data source: TNS UK

Table 2

On the other hand, although penetration and share values move in line, average purchase per buyer for any brand remains roughly constant at around two thirds the total category average (3.2), or twice per quarter.

Nescafé metrics are well above this average, but remain governed by the DJ law. (The constant, w (1 – b), is 1.8 in Q1 for both Nescafé and Birds, and about the same in Q26, reflecting how smaller brands predictably have fewer buyers who buy them less often).

Since large and small brands have roughly equal loyalties, then penetration must explain brand size. Kenco simply reached more buyers with the launch of Rappor. All other measures have remained stationary, so the share increase cannot be due to buyers drinking more coffee (in fact the data show a small decrease from 1.9 purchases to 1.8 in the last quarter), nor to increased loyalty, since SCR drops slightly too.

NO BRAND IS ABOVE THE LAW

Yet despite the fact that the market has so clearly evolved, the Q26 Kenco brand measures still conform to Dirichlet norms (and although not shown here, are in fact within a point or two of the theoretical output). Performance is entirely predictable, even five years ahead, along with the entire category structure.

Was Kenco successful? The target of the launch was Nescafé, but we can see that the share gain appears to have drawn from Maxwell House (a Kraft brand) too. Was this to be expected?

Using the duplication of purchase law, we note that Kenco has increased penetration, and therefore its duplication with other brands, but that the draw is disproportionate.

It should attract a third of Nescafé buyers but wins only a quarter of them, compensating with its own Maxwell House consumers. The cannibalisation is clear to evaluate.

Faced with the evidence of extended share stationarity some managers have said, 'Well yes, we thought as much all along ...' (but were afraid to say?). Others, perhaps more cynical, have asked, as we do here, 'What's the point of marketing anyway?' The implications of our findings, however, are emphatically not that advertising is a waste of money or that marketing 'doesn't work'.

Rather, we think it is time to re-evaluate the use of share growth objectives; they are simplistic, short term and, in most cases, unrealistic.

We argue that the point of marketing in established categories (and that means most markets) is to maintain the share you already hold in the face of intense competition.

It is clear from our data that households remain polygamously loyal over extended periods, buying habitually from repertoires of brands they know well.

For each consumer some brands are infrequently bought, others more regularly so (think about the last time you bought a Bounty or Lilt), but the continuing role of brand marketing must be to keep improving customer value, to nudge that brand towards the top of each repertoire in the face of competitors' activities designed to do the same.

As the discussion of DJ shows, the vital factor is penetration. Purchase frequency or loyalty remains roughly similar from brand to brand.

PLAN IN TERMS OF CUSTOMER ACQUISITION, NOT RETENTION

The difference between brands of different size is the number of buyers they attract in a given period, and loyalty measures. Then simply follow in line with the DJ law.

Marketers should plan in terms of customer acquisition rather than retention, encouraging back some of the huge pool of experienced but light buyers they share with their competitors. This is working hard to stand still.

Although share may increase in one period it will invariably fall the next, remaining in approximate equilibrium over long periods.

What of permanent brand growth? It is rare because it involves a restructuring of the market through a permanent change in deeply ingrained habitual behaviour.

The risks of cannibalisation, failed innovation and loss of share are serious, and the evidence points to the fact that marketing is perhaps not as good at changing behaviour as it sometimes takes credit for.

In all this, the one certain factor is that market structure continues to be predictable from the Dirichlet even in evolving categories, and now over the long term.

That is very good news indeed. We suggest that a better knowledge of category structure can only lead to more effectively defined strategic objectives and benchmarks, and so to better marketing.

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The agency model is broken – but you can fix it

Chris Baker and Martin Handyside

The current 'one size fits all' commodity model is no longer fit for purpose. The future will need to be more diverse, with individual agency models better adapted to the individual needs of different advertisers. Advertisers as well as agencies also need to look hard at their processes: applying 'lean' principles and upgrading their project management, focusing on what is core and what is better outsourced.

Warren Buffet famously observed, 'You only find out who is swimming naked when the tide goes out.' The tide went out faster and further than anyone expected, exposing many unexpected skinnydippers, the most notable of whom were commemorated in the *Economist's* (hopefully once in a lifetime) 'Swimming Naked Awards'.

The full impact of recession on the advertising business is only now revealing itself. Figures emerging this summer left the traditional agency model looking, if not naked, then certainly with little more than a pair of Speedos to hide its embarrassment.

All the major holding companies have seen big profit falls and sharp reductions in headcount. Dig more deeply and you'll discover that the agency side of their business in mature markets such as the UK is often already deeply in the red.

Coincidentally, the IPA's new guidance note *Seizing the High Ground in the De-Coupling Debate* sounds another alarm to agencies, repeating the messages from 2006's 'Magic and Logic' consultation process.

THREE UNDERLYING FACTORS

It attributes the continued de-coupling of agency activities to three underlying factors identified then, but seemingly still largely unaddressed by agencies:

- a perceived lack of competence

- a lack of trust about the financial relationship an agency has with its suppliers

- a failure by agencies to articulate the added value to the client of keeping the agency involved.

As long as agencies remain stuck in the traditional agency model such problems will persist. But, as The Mamas and The Papas sang, 'The darkest hour is just before dawn.'

While the current commodity model may be unsustainable, there are better ways for clients to be served and choices for agencies to deliver these.

The long-term client dynamic towards working with multiple specialists and de-coupling is an inevitable response to shortcomings in current agency delivery: in terms of skill sets (still limited beyond traditional media); agency procurement (how they spend clients' money); efficiency and responsiveness.

But these are largely changes clients have been forced to make, rather than wanted to make.

Delivery of marketing communications via a fragmented, de-coupled array of providers has considerable downsides for clients too: transferring costs to clients (via time and skill set demands); added complexity; making it harder to create a consistent customer experience; driving up cumulative agency and production fees; creating inefficiencies, duplication and coordination costs.

Clients may end up paying less for individual elements of their marketing communications while increasing their overall 'transaction cost'.

While there is always a role for specialists, a multi-agency approach inevitably leads to unnecessary duplication across all agency functions, plus a tendency to proliferate production (rather than create core assets and make them 'sweat' across multiple channels).

Many advertisers could reduce overall transaction costs (and potentially improve quality) by working with fewer providers each doing more. If agencies can get to grips with the delivery issues they face – in IPA terms the 'Logic' issue, not the 'Magic' – there is a basis for a strong and proactive value proposition here.

Indeed there are signs that belatedly agencies are beginning to make up for their lack of proactivity in tackling ever-squeezed budgets by finding smarter ways to save clients money.

This summer several agency networks moved to invest heavily in new divisions to compete with independent production facilities for that

same backend production and delivery – in effect outsourcing production but within their overall group.

We see a future in which there will be genuine choice for clients in terms of their core marketing communications agency (there will always be a role for a niche specialist or two around the edges). That choice will be guided by how an agency is configured to meet a broad spectrum of their specific needs, not just chemistry or a creative 'beauty show'.

THE DECLINE OF THE TRADITIONAL MODEL

Since the *Mad Men* days of the 1950s and 1960s agencies have prided themselves on being generalists. Despite the departure of media and splintering off of numerous spcialisms over the years, most still cleave to a commodity, 'everything for everybody' model – and, for the most part, are allergic to anything resembling a lean process.

This has led to little true differentiation between agencies at the core of the market – so in a world where success increasingly demands being different or cheaper, it's not surprising that agencies have long faced pressure on price. And where clients have distinctive needs, as many do, they have had to create their own distinctive solutions via an array of suppliers and decoupling elements of delivery.

As night follows day, continued adherence, by most, to the commodity model has led to pressure on topline fees and the gradual unbundling of agency services to lower cost and/or more specialist suppliers, run on 'lean' principles and more fully embracing the benefits of digital technologies.

Protection of the bottom line has reduced headcounts, particularly in more highly paid, high-skilled back-office functions such as the TV department – thus further eroding agencies' capacity to deliver, and increasing the attractions of independent specialists to clients.

This process is well advanced, with strong advocacy for de-coupled solutions within ISBA's Compag group. Some independent production houses are already bigger than the biggest traditional London agency. And then along came the recession.

QUESTIONS FOR ADVERTISERS

Several new, more distinctive models are emerging and doing well despite different market conditions, but that's a different article. There's a tendency to blame agencies for all the woes surrounding the sector, but in our experience advertiser practices and processes are frequently major contributors to dysfunction.

Advertisers need to ask themselves some tough questions and give honest answers:

- Does the process of working with your agency really work?

- Are the working processes between you and your agency beneficial to you both?

- Are you and your agency's processes configured to deliver the most efficient results for both parties? How is it managed at both ends to ensure they are?

- Thinking and delivery – do you currently view them as linked or separate? What is the best choice for you?

- What added value, if any, does your agency proactively bring to the process aspect of the relationship, and therefore your business?

- Do you and your agency apply 'lean' principles rigorously to the production and delivery of marketing services (within your business as well as theirs)?

- What is the contract of expectation with your agencies in terms of detail of the process itself?

- How do you work with your procurement colleagues in relation to your agencies? Who owns the relationships?

TEN IDEAS FOR IMPROVEMENT

But ultimately it's a service business and it's up to agencies to reboot their own offer to fit the new challenges they face. We finish on 10 things agencies might consider in doing this, and also things advertisers should be looking for in their agencies too:

1. Define your own agency model, don't default to the commodity status quo. Think about your distinctiveness in terms of client type or needs (eg delivering a total brand experience, driving footfall, engaging with a particular consumer group, being a challenger brand) or even consumer type or needs (eg homemakers, pleasure, entertainment). Things such as culture, values, beliefs or thinking processes are important, but insufficient as an organising principle for a business. Refocus your business around this tangible definition of who or what you are for. If your footprint is diverse, segment it in these terms – be prepared to sacrifice or manage out current activities that don't really fit or make economic sense.

2. Then think about how you could configure your offer based on this to better meet the broader needs of your 'focus clients', simplify their lives and save them money.

3. Focus on what you are brilliant at, or want to improve; look at developing partnerships or outsourcing everything else. Outsourcing does not necessarily mean de-coupling. Intelligent, well-managed outsourcing and new partnerships proactively initiated or embraced by agencies should keep the agency at the heart of the process in terms of creation, strategy and management.

4. Talk to your clients – proactively share your plans or the choices you are considering. What's working and not working for them from a total marketing communications delivery and transaction cost perspective? How could you reconfigure things to simplify their lives and save money (and improve delivery)?

5. Divest and reinvest. Invest to better meet the needs of your chosen focus clients – for example, in a broader range of creative, strategic and project management skills to span the off/online world, and disciplines such as brand entertainment and experiential marketing. In practice this is hard to do without divesting aspects of the current offer that may be better addressed in other ways.

6. Treat delivery as a business discipline, not an add-on creative service. Aspects of delivery may just be a distraction from your central purpose of 'creating stuff', and better expertise as well as cost efficiencies may be available outside. Depending on your business focus it may make sense to keep specific elements of delivery in-house, but you have to be able to justify this to both yourselves and your clients in terms of transparency and value. With the outsourced options available you need a strong business rationale to retain print production or the traditional TV department in-house.

7. Apply 'lean' principles rigorously to the delivery/production side of your business, getting external help if you need it – external suppliers are doing this, which is what is driving de-coupling. We don't advocate the 'full on' application of lean principles to the creation side of the business – an element of managed chaos plays a vital role in creativity (although a little organisation does not go amiss).

8. Invest in project management (this applies to advertiser organisations too). Whether in-house or outsourced, you need to fluidly and competently deal with a broader delivery palette. There's a big training job to be done here as very few people have the cross-channel knowledge, or a combination of hard and soft project management skills, necessary to deliver in the new environment. Consider how other industries, such as IT and architecture, have PM at their core, a key part of their business model.

9. 'Procurement proof' your business – stress test your model using an external procurement eye, refining delivery and building your business rationale.

10. Don't forget to have fun. You'll know when change is working when you liberate creativity and make the whole process enjoyable again for everyone involved.

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A man with a plan

Simon Davies

Judie Lannon: There are a lot of good agencies around of increasingly good quality, and there's the recession. How are you different?

Simon Davies: I agree that there are many good agencies. There always have been. But what's happened is that there are too many with too many specialisations. Yes, they are good at what they do but within a fairly narrow range. All this fragmentation has increased choice, but ironically, all this choice makes life much more difficult for clients.

Things used to be much simpler. You had a marketing problem and you had a marketing partner, and you worked out the strategy between you. The solution was usually to make a TV commercial because your marketing partner was an advertising agency, and anyway your choices were limited. For example, when I started at Cadbury there were 22 brands advertised on TV. Nowadays it's more like three.

As the agency market has got more specialised, the client increasingly has had to do all the thinking in advance before choosing different specialists. You're not talking to agencies about how to divide up the total budget in the way you once did. So we feel there is a genuinely significant need for an experienced solution-led agency.

JL: There are indeed a lot of specialist agencies, but there are also those that claim to be 'media neutral'. How are you different?

SD: Those agencies have moved the game on considerably. But they are still just about media, which is only a part of the marketing mix. I've had 20 years in marketing plus five years as sales director.

I trained at Cadbury, which was a fantastic experience, then moved to Bass, which became Molson Coors, as board-level marketing director with a big portfolio, including Carling. We were investing £75 million a year in that portfolio. So I've had a lot of direct experience managing small brands, large brands, digital, sponsorship, TV, the regulatory environment and so forth.

This should be the most exciting time to be in marketing communications. We can do things never imagined in terms of ability to connect with consumers. It's mind boggling. But choice can be distracting. Having 40 things on offer and having to make choices really isn't such a pleasurable experience, never mind the opportunity cost of those you don't choose.

So what should be exciting is often frustrating because navigating your way through all these choices requires experience, knowledge and time. And, as a client, with all the other things you have to think about, you really need help that you can trust.

JL: Who are your partners and what are their skills?

SD: David Walters is the second member of the team and he's had client experience as well. We were brand managers together but he has worked at agencies for most of his career. He founded Blue Chip agency in 1989 which he ran until 2002. Since then he has been a consultant.

The third member is Mark Batey, an academic psychologist from Manchester Business School. Mark's subject is creativity – he's the fifth most published author on creativity in the world. He will be working with us but will still be connected to the business school. What he brings is a deep understanding of creativity.

Development of the overall communication strategy will be down to me and David. Then Mark will lead the creative process. He believes that creativity is a skill like any other and he will coach and work directly with clients to bring strategies to life, to clarify the core ideas that will drive them.

Mark brings an ability to look into the future. We will obviously use conventional market research when required but research struggles with genuine innovation, and that is one of Mark's strengths.

JL: Getting paid is a knotty problem. How do you intend to charge clients – by inputs or outcomes? Or do you have a different model?

SD: In all the time I worked at Coors we never used the term 'marketing budget': we used the term 'revenue investment'. It was embedded in the culture of the company. And like all investment you must get a return. We belive that our work should be able to demonstrate a return and that we should share in results generated.

I know this is very difficult – what measurements do you use? But the principle is that we should be rewarded for what we do. As a client I have seen many grandiose and naive measurements of success. But because I've been a marketer I feel I'm in a better position to judge what success looks like. But we will agree with clients in advance what the criteria are.

JL: How are you going to deliver your services? Will you use inhouse people, freelancers or both?

SD: The key criteria for resourcing are quality and flexibility. We want access to the best in each of the disciplines we will want to use. But we don't want to pay for people full time if they're only required part of the time. We will have a core staff but bring in outsiders.

The freelance market has really changd over the years. We may employ individuals or whole organisations. I ran a team of people for five years with only 10 per cent on my payroll.

JL: Most clients are buyers rather than sellers by nature. How will you adapt to being at a client's service rather than calling the shots?

SD: I disagree with that distinction. Marketing is about generating revenue. Maximising revenue requires the pulling together of parties with equal status and stakes in the outcome. Our major difference is that we will be delivering total solutions, not selling particular aspects of execution because that's what we make.

JL: Most agencies fail because of a lack of personal chemistry. How well do you know the people you will be working with?

SD: That's an excellent question. It's tempting to construct a team of people who share your perspectives but you need to be challenged. I think we have that mix right because although we don't always agree, David and I have known each other for more than 20 years. This business is the culmination of 15 years of discussion and now we feel the environment is right.

I've just got to know Mark this year. David took his degree at Manchester so he's known him for longer and finds him very inspiring to work with. He has a great personal track record.

JL: And the name MMIXX? How did you choose that?

SD: It reflects our offer – the total marketing mix solution.

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Are media for advertisers or for people? A recipe for chaos

Mark Earls

This is not an easy book to read, particularly if you are enjoying a successful career in advertising, marketing or the media. Indeed, it is provocative and polarising in equal measure – which is clearly the author's intention.

For some it might be the insistently chirpy tone that proves a little rich for British sensibilities. Certainly if you aren't used to Garfield's robust style from his longstanding *Ad Age* column, it can be a tad tiring.

Or it might be that you find yourself objecting to some detail or other of the argument: some of his assumptions about how advertising actually works could do with an update.

Equally you might just find the relentless doom of the rhetoric a bit like Anne Diamond reading you a *Daily Express* editorial over and over for several hours without a break.

But despite all of these things, it would still be wrong to dismiss *The Chaos Scenario* and fail to engage with its central thrust as too many in the US seem to have done. A leading creative agency head in America gave the book a mere two stars in his *Ad Age* review.

This book is important because it tries to force readers like you and me – participants one way or another in the worlds of mass media and marketing – to make sense of the big tides running through our worlds and to look beyond the current turbulence to work out what comes next.

First things first: it's hard to disagree with Garfield's initial assertion that there are powerful negative forces at play in our industry today, doing their disruptive dastardly worst to the status quo of the broadcast 'big' media world that we have all lived with for half a century or more.
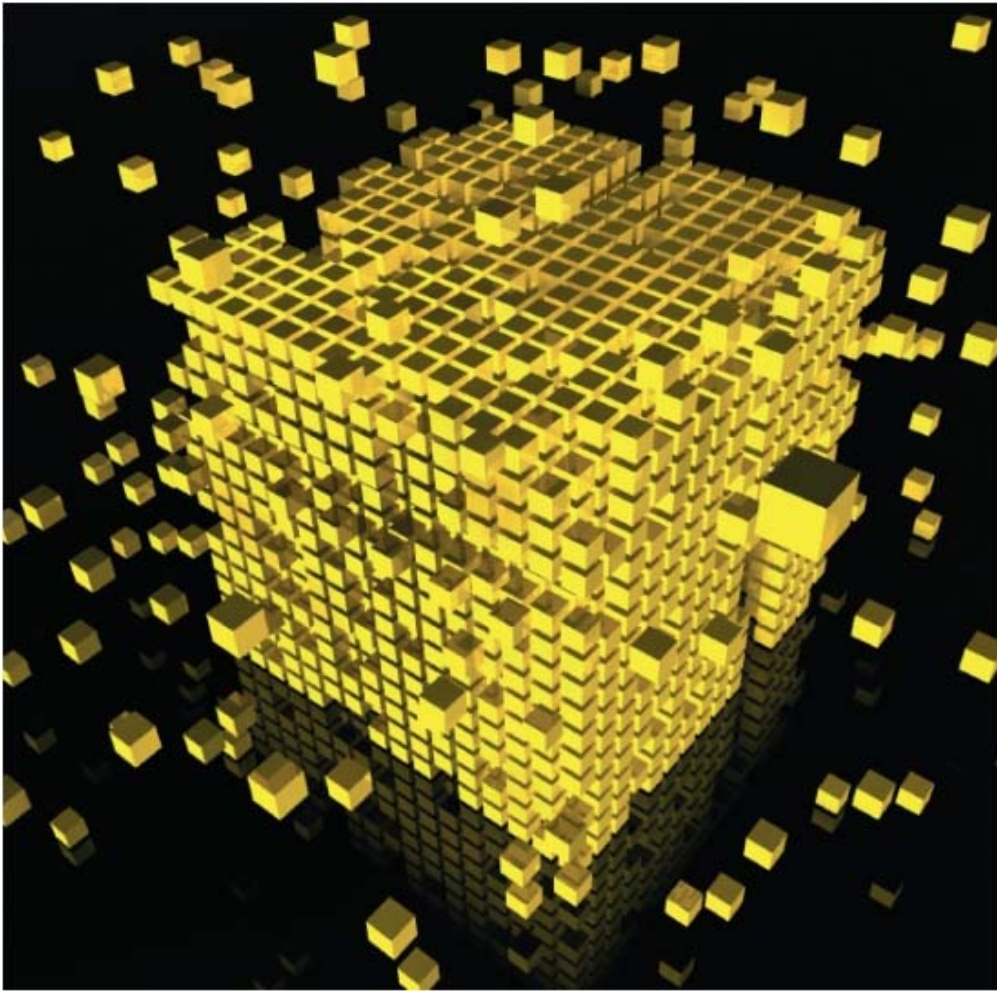
TURBULENCE IN THE MEDIA

The book opens with some hand-wringing at the closure of iconic US newspapers such as the *Boston Globe* and the long-term decline in TV audiences. On our little island over the past few years we have seen similar things with the less-than-elegant decline of ITV as a content provider and advertising medium, C4 revealing its increasing dependence on the Big Brother franchise and failing to live up to its promise as a public service broadcaster or advertising medium, *The Observer* threatened with closure, the *London Evening Standard* being sold on (and now being given away free) and the unseemly rush of advertising budgets to the online world.

There is undoubtedly something wrong in the state of all our media. We are living through a period of unprecedented turbulence and uncertainty, when old assumptions and landmarks in the media landscape are being washed away.

Not one of the media players today, including the newer participants such as Facebook and Google, have much idea about what their business model is going to be in 2019 and how they are going to be making money.

Part of the problem, Garfield observes, is that there isn't enough advertising money around to support all these content providers with the funds they need to pay for the kind of content that audiences seek. Without that content, the audiences start to drift away. (However, while business is bad for TV companies, audiences aren't drifing away that quickly – see Jones and Baxter, page 26.)

Another aspect of this problem is that thanks to wide availability of free content on the internet, the general public is less and less willing to pay for media content, whether news, music or films. So subscriptions are not an obvious model for the industry as a whole either.

For example, in researching this piece I had the choice of signing up for an *Ad Age* subscription or relying instead on asking friends to download copies of relevant articles for me. Guess which I chose?

NOT SOME TEMPORARY HICCUP

Either way, the broadcast and mainstream media on which much marketing and advertising have largely depended to reach their audience are all struggling to keep their heads above water. As one US luminary put it to me recently, just still being in the game is a good enough ambition for the next couple of years.

Garfield does not see this as some temporary hiccup – normal service to be restored as soon as all this digital stuff gets absorbed by the industry (as for example, WPP's Sir Martin Sorrell appears to be suggesting when he says that the newer media 'will [soon] cease to be thought of as new media; they will simply be additional channels of communication').

No, Garfield – rightly, I believe – sees something more fundamental at play here.

It is to do with the nature of the 'new' media that is producing the fundamental disruption of how we do marketing and advertising; even of how we are going to be allowed to go to market.

The 'new' media appears to be a fundamentally different kind of thing.

NEW MEDIA FOR PEOPLE, NOT ADVERTISERS

He points to how these new media – mobile and web – should not be seen as media in the sense that TV or radio or outdoor are, ie channels through which advertisers can transmit their messages to consumers.

Rather, they are a means for consumers (or 'people' as we are going to have to learn to call them) to interact with others like themselves.

These are not primarily media for advertising and advertisers at all, but for people to connect with each other.

This is probably why platforms such as Facebook and Twitter have struggled to develop a commercial advertising proposition that is accepted by its users. They are 'we' rather than ' media, if you like. In taking this line, Garfield goes on to echo a lot of recent thinking elsewhere, such as the IPA Social Initiative, which describes the effect of connecting large numbers of people to each other.

Most obviously, it enables consumers to do what people have always wanted to do, that is hang out with similar folks.

Who hasn't checked out a hotel or resort on Tripadvisor before booking? Or read an Amazon review before buying? Or even a book review, in print, like this?

The more people do this, the more they learn to live with each other rather than primarily with brands, as we've always liked to imagine they did, and to interact and collaborate with each other in new and exciting ways, (as Clay Shirky and Charlie Leadbeater point out). But as they do so, the smaller the role there is for business, brands and marketing as we know it. And the more we have to rethink our marketing approaches.

No longer can we assume that, for example, the audience is ours and meant for us. Rather, it is likely that the audience is better undestood to be for itself.

BEHAVIOURAL TARGETING? YES AND NO

So far, so relatively uncontroversial, if not a little scary. Garfield's critique is not that far from the consensus emerging from the frontlines of the industry.

Where I and many other readers who have got to the end of *The Chaos Scenario* probably disagree with him is in his prognosis for the industry beyond the current turbulence. What kind of future does he see? Put simply, he sees a world with much less advertising in it, and thus much less advertising-funded content being provided in terms of TV, magazines and so on.

Instead he suggests that a combination of sophisticated behavioural targeting and branded utilities (think iPhone apps or other widget) will create a world in which each of us only receives marketing communication that is appropriate and relevant to our personal needs, concerns and buying power without disturbing our peers. Advertising will become more efficient and effective and just, well, more private.

AN UNLIKELY SCENARIO

Why does this particular scenario seem unlikely to me? First, it assumes that advertising's effect is ideally always immediate and sales-oriented. On the contrary, our leading practitioners are challenging the idea of advertising being primarily a message-transmission mechanism. (For more on this read Paul Feldwick and Robert Heath's excellent 50 Years of The Wrong Model or Peter Field and Orlando Wood's upcoming work for the IPA.)

Of course it can work this way but much of the value created by advertising is not done through telling people things, then watching them

slap their foreheads and open their wallets.

Second, it is far from clear that behavioural targeting is going to be widely accepted by governments around the world – remember the noise around the rather ill-conceived BT Phorm trial?

Indeed, it is quite possible that the legislative environment could even render the dream of perfect behaviourally targeted marketing communications impossible.

Britain's own Adriana Lukas is working with original Cluetrain signatory Doc Searls and others on the VRM (vendor relation management) initiative to give individuals greater control over their data, the information that behavioural targeting techniques rely on.

Third, and most importantly, like many folk in and around the industry, Garfield seems to mistake mass media – the channels that reach millions – for mass marketing – the practices and mechanics by which people are able to influence each other around shared experiences.

He mistakes the current shape of mass media (where the media creates the content that is broadcast to the masses) for what is already emerging. Compare the *Guardian* becoming a platform for its readers to analyse MPs' expenses with the *Telegraph's* proprietary ownership of the dataset which it dripped out over several weeks.

Micro-targeting will not be sufficient to generate the social effects that underpin mass markets, so somehow we will need to use or develop mass-marketing tools to do so. Or, as the *Guardian* is doing, work with consumers to co-create such things.

THE CHALLENGE OF PEOPLE POWER

However, Garfield is completely right about how fundamentally we are going to have to change our ideas and practices in the future.

For example, he observes that we are going to have to behave differently in a world of connected consumers.

He is at his hilarious best retelling his own campaign 'Comcastmustdie' – aided and abetted by online guru Jeff Jarvis – following a terrible experience as a Comcast customer himself.

Earlier this autumn, the *Daily Mail* was reeling from the online response to a piece by columnist Jan Moir about the death of singer Stephen Gately.

So great was the volume of complaints about her ill-judged article that the Press Complaints Commission website had to introduce a special Jan Moir button to fast track visitors.

This kind of people power challenges marketing and advertising's rather selfish stance towards customers. We are going to need to listen more closely and respond better.

We are going to need to become properly intimate with the people we currently call consumers rather than holding them at arm's length with market research and data mining.

Garfield's call for an end to advertising being used as a distraction or compensation for the poor quality of a product or service, as in the case of Comcast, is also timely.

Too often in recent years marketers have reached for the advertising toolkit rather than bothered to do the hard work of actually creating something of value. Regis McKenna, the IT marketing guru, repeatedly complained that the marketing function has shrunk to mere communication management. This line of thinking is explored in more detail in another excellent recent book, *Baked In* by Bogusky and Winsor. If more and more advertising budgets get turned into product and service improvements, this would be no bad thing. More action, less wordage.

And finally his despair at the industry's resistance to these changes – or at least the slow pace of response – is something we should all share. Whatever the best agencies tell you they are doing, they are not doing enough and their followers aren't even off the blocks. Ditto the media owners and marketing departments.

The music industry has known for ages that it needs to find other ways of getting paid by exploring other businesses beyond recorded and live music, but has failed to do anything to create those businesses. Similarly, the media and marketing worlds have seen their economic models being squeezed and done very little by way of innovation.

Instead, encouraged by shareholders, we have pursued incremental improvement in performance which is fine in a steady-state world, but not in one subject to rapid, fundamental change.

We all have much to think about here but it is the agencies that should be reading the book most carefully. Not because Garfield's dystopian vision will turn out to be true, nor because he is being entirely fair about agencies' shortcomings or about advertising and its worth. But rather because many of the phenomena happening now that he extrapolates into the future are clearly, robustly, unambiguously correct.

And we – more than the rest of the players in the industry – have the flexibility and ability to rethink our business (if we can be bothered, that is).

The world is changing pretty fast and many of our assumptions, practices and models are crumbling away. So the question for you and me is this: what scenarios are you preparing for and what are you doing about it?

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# Rethinking the chain: leaner, faster and better marketing

Robert Shaw and Philip Kotler

Not A company in the world exists where top executives don't worry about future demand, or don't waste substantial money on ideas that were intended to boost or sustain profitable demand, but didn't. More than 100 organisations, in all sectors and sizes, took us into their confidence and spoke candidly about how they struggle to drive demand while at the same time controlling costs. We have distilled the essence of how the best differed from the worst, and encapsulated it into a performance-improvement framework that can be used by any company in any market.

Most organisations have an overly complex and under-controlled process. We are developinging a new process called the Ideas-To-Demand chain (I2D), with less complexity and better controls. This article provides a framework for diagnosing and rethinking your I2D, making the process faster, transparent, reliable, cost-efficient and results oriented.

WHAT IS THE IDEAS-TO-DEMAND CHAIN?

The I2D process can be pictured as shown in the diagram above; it is the mirror image of the supply chain and contains all the activities that result in demand being stimulated. Yet unlike the supply chain, which has successfully delivered economies of scale through process simplification and process control, marketing's demand chain is primitive and inefficient.

In many firms it is fragmented, obscured by departmental boundaries, invisible and unmanaged.
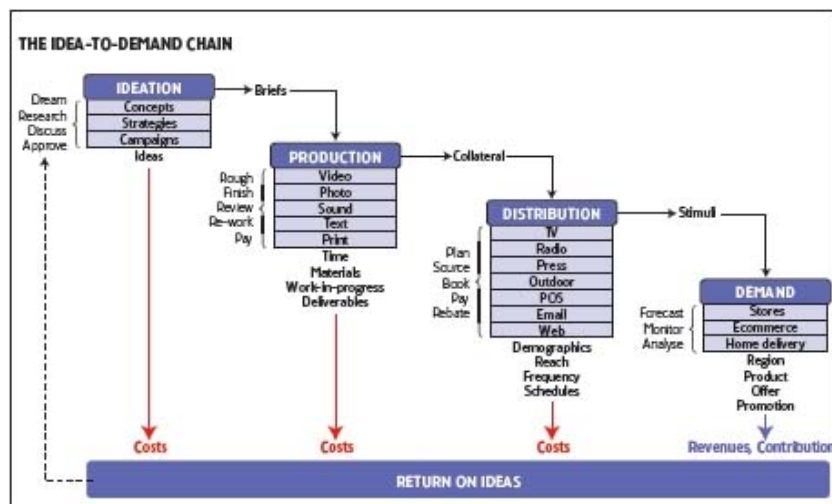
The Idea-to-Demand Chain

COMPLEX, WASTEFUL AND RISKY CHAINS

Few people fully understand the sheer size, complexity, wastefulness and riskiness of the processes by which ideas stimulate demand.

As a company grows in size its costs in managing ideas, production, distribution and demand explode. Management should assess these costs and work towards improving efficiency. The steps in the assessment are described in the box (facing page).

RETHINKING THE WHOLE PROCESS

Here are some suggestions.

Embrace new roles and beliefs. Arts and humanities graduates who conventionally seek marketing jobs widely believe ideas 'thrive on chaos'; they put up with mountains of waste, delays and cost overruns. They say, 'If we are more efficient, finance will take away our budget.' No they won't. They say, 'Marketing is too complicated to measure.' No it isn't. There is a willingness to suspend belief about numerical tests and experiments if an idea is attractive, and there is a tendency to bury dead ideas and mistakes.

Rethink the way money and resources are allocated. Money should be allocated to maximise profitable incremental demand. Yet from our discussions with dozens of organisations, it became clear that budgets were not being allocated in this way.

'What did we spend last year?' was the commonest criterion. Profit increases led to budget increases, not vice versa, and pet projects would be funded in the face of contradictory factual evidence.

The best solution is to use quantitative optimisation techniques to make a cold, objective assessment of the profit-maximising allocation.

Rethink Ideas. Manage ideas as a portfolio. Conventional organisations usually have a stage-gate process for managing individual ideas. Yet managing individual ideas effectively does not ensure that resources will be allocated effectively.

In the case of Unilever, creating new ideas is central to its strategy; but it is also systematically cutting its portfolio of brands, products and stock-keeping units. One of the key processes that keeps creation and cutting in balance is portfolio management. Not only do managers have to make predictions for each idea (in a similar way to Diageo), they also review the entire set of ideas as a portfolio. The portfolio is assessed by scoring ideas in terms of consumer attractiveness and technical difficulty.

Share ideas and encourage collaboration. Ideas that are being worked on by different departments, locations and business units are shared to disseminate them faster around the organisation and to reduce the reinvention of the wheel.

This has been done at Motorola, the $37 billion global company with a long history of creating innovative products and services. Its ideas were scattered across regions, countries and business units. And they were stored in emails, Word documents and spreadsheets, without any easy way of sharing and collaborating. Today, they have implemented a common 'ideas bank' so that managers share ideas and encourage collaboration.

AUDITING THE CHAIN

- Idea assessment Find out how many new products, new varieties, flavours, colours or packages are being produced: how many advertising campaigns, brochures, direct mail shots, press releases, sponsorship events and activities, telemarketing scripts and web pages, banners, and other internet activities, conference speeches, exhibition stands etc.

- Production assessment Map out the steps of your production projects. At the simplest, all that occurs is the brief, the supplier selection and a final sign-off. How many people can delay, obstruct or veto? Lawyers, sales people, procurement officers, senior executives, board directors and sometimes external regulators and civil servants. Discover how many external suppliers are involved in the production process: agencies, printers, internet firms, designers and photographers. Ask how many image and text files are created and saved, and how many more are licensed from image libraries.

- Distribution assessment Find out how many media spots you purchase annually, and check how carefully they are selected and whether all the spots are really on target. How many sales staff and managers are responsible for distribution of brochures, promotional materials, sales kits, exhibitions, events and conferences? – Investigate how much material is effective. If you work through a channel, how much of your material really gets distributed?

- Demand assessment Ask how many demand streams – products, markets, segments, regions and locations – have to be monitored and tracked. Combine them as a matrix and you may be looking at millions of little streams of demand, all needing to be monitored. Find out who owns the responsibility for stimulating these demand streams, and ask who can tell you how much growth has come from their ideas. Are they analysing demand rigorously?

Diageo, the £10 billion global drinks company, has introduced a firm-wide process, known as Activity Evaluation, to ensure that all ideas deliver a positive return. Managers must forecast the cost and out-turn of an idea before they implement it, and must include in the proposal a description of how the return will be measured. Successful ideas are then measured and actual results compared with predictions.

RETHINKING PRODUCTION

Outlaw wasteful production. The production process itself is very wasteful. Agencies rework roughs and rewrite copy over and over until it satisfies the critics in the marketing department, the sales team, general management and the corporate lawyers at each stage, losing some of its originality and meaning.

And the more waste generated, the more agencies are paid, so they seldom draw clients' attention to the issue. The answer is to monitor, rework and scrap, analyse the root causes and outlaw working practices that are generating high waste levels. (See Chris Baker/Martin Handyside, page 42).

Reduce and simplify production checks and controls. Multiple production checks and controls are useful only when the risks are high. Yet conventional production processes for advertising, direct marketing and other activities are replete with checking and control steps.

Dozens of people spend time and energy critiquing work in progress, from juniors to the CEO. These multiple checks consume time and labour, and even the cost of checking and rework may exceed the cost of the collateral being produced.

The answer is to map out the processes, find out who the signatories and reviewers are, check the legal implications of checkpoints and then robustly cut any checks and controls that are not absolutely essential.

Reallocate work to where it's done most effectively. Production work is often parcelled up around only a few powerful groups (WPP, Publicis, Omnicom) who monopolise the entire chain for key activities, such as advertising or design.

But they seldom provide consistent support across all parts of the chain, for all brands and products. Consequently many clients are renegotiating agency contracts to split away any activities where agencies are providing weak support – media, production or ideas – and they are finding alternative new suppliers who can do a better job than the dominant agency.

Conversely, there are examples of the opposite problem (ie large companies that have hundreds of advertising and other marketing services agencies, which are unmanaged and inefficient). This can lead to consolidation into fewer larger agencies.

Production specialists can offer cost-effective solutions because of their investment in the latest technologies for workflow management.

Specifically this includes project management and digital asset management; offshored arrangements to cut costs; translation specialists in 40 languages; special terms and technology integration with local production houses; multilingual local supervisory teams; sophisticated project reporting for clients; and transparent job costing and billing practices.

Compared with these specialists, most general agencies are dinosaurs.

RETHINKING DISTRIBUTION

Monitor and control media selection and buying. Another common practice is for media selection and buying to have lax supervision. Prices and value for media are in constant flux. The solution is to demand much greater transparency from the media buyers and owners: clear media briefs, rolling media plans, reviewing final media buys against planned buys, media invoices and proof.

Already it is becoming common practice for media auditors to carry out annual reviews, but companies are also starting to recognise that bringing the monitoring and control in-house is a more satisfactory solution.

Outlaw wasteful distribution. The distribution process generates yet more mountains of waste. Promotional kits, brochures, leaflets, gifts, all enter the distribution chain.

They are distributed to sales people, intermediaries, stores, bars and other points of distribution with the message, 'Please see that this is used effectively.' And from then onwards, they are neglected.

RETHINKING DEMAND

Attribute demand patterns scientifically. Attribution of demand patterns to their underlying causes may be difficult, but it's possible with scientific tools and analyses. Demand patterns rise and fall, oscillate, vacillate and jitter in ways that are baffling to the casual observer.

They are nudged and bumped and pushed and pulled by many forces and factors, many of which are not reported in detail to management.

Enhance demand forecasting. Demand forecasting in many organisations is remarkably crude. Drivers of demand, ideas that enter the I2D, are often neglected in demand forecasting. And supply chain managers often complain about the inaccurate demand forecasts they receive from sales and marketing. The solution to this is to enhance forecasting by giving early warnings of all the demand-driving activities.

MAKING THE CHANGES STICK

Between 1997 and 2008, we studied and observed more than 100 organisations. Some were studied continuously over five or more years, allowing us to observe how their working practices developed and evolved with the passage of time. All talked candidly about what worked effectively and what didn't.

Most revealing were their comments about failed attempts to transform I2D. The mistakes are all there waiting to be made, and it's important to be vigilant and avoid them. Common ones are:

- junior people in charge of reforms

- people issues overplayed or underplayed, and

- sloppy implementation.

Junior managers, such as market researchers or procurement managers, were often given the job of transforming marketing efficiency. However, they lacked the authority and experience needed to push through widespread reforms – and were successfully resisted by the majority.

Sloppy implementation was another problem. We heard slogans about efficiency and return on investment, and we saw mission and vision statements – but without project plans for implementing the reforms, little progress was made.

Change was optional, sloppy processes were tolerated, measurements were inaccurate or late, complexity was allowed to persist and benefits were not seized.

Yet a minority successfully implemented widespread efficiency improvements and made the changes stick. Key themes were:

- hands-on top executives

- people must change

- new or improved systems.

CMOs or their deputies spent part of their week ensuring the reforms were pushed through; they rolled up their sleeves, and poked in their noses.

While junior staff organised the mechanics of the change programmes, streetwise CMOs got involved, making sure the changes were made and were stuck to.

People knew that change wasn't optional. In one case, the company decided its senior team lacked sufficient commercial skill and hired a new team. Systems were introduced or improved in three areas: workflow management, financial reporting and digital asset management. Although some efficiency gains could be made without new systems, the biggest wins seemed to come with them.

Regardless of potential pitfalls, we are encouraged by the successes of companies that rethought their I2Ds. Those that approach the demand chain with thoughtfulness, commitment and strong executive leadership will reap substantial benefits.

L'Oréal is one of the world's largest cosmetics companies, employing more than 52,000 workers in Europe and the Americas. Before 2005, the company's US luxury products division's forecasts suffered from all the problems mentioned. That year, it overhauled forecasting and set up an early warning system, gathering information about ideas in the pipeline – from the sales teams, marketing planners, pricing teams and sales promotions planners. This has enabled radical improvements in the accuracy of demand forecasts.

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Constantly changing design required in Asian markets

John Matthews

There are always detractors when a high-profile brand takes a risk and does something a bit different – or heaven help it, a lot different – as Pepsi discovered in 2008. Its new identity system was widely criticised in the media, even before its 'leaked' design brief was ridiculed on the web. But Pepsi had the courage to tackle one of the biggest challenges for global brands operating in emerging markets: constant change.

Its new logos are the tip of the iceberg compared with its willingness to embrace change. Look at how many different liveries it will don to keep its consumers interested.

Developing markets are exciting, fast-moving and profoundly unforgiving. In the past Western brands wrongly assumed that they would be attractive to millions of potential consumers simply by virtue of who and what they were. Another false assumption was that processes that worked well in developed markets would replicate elsewhere.

The target for most international brands is teenagers. And in many territories they hang out in the same places, which makes design a better vehicle for communication than advertising because it achieves brand activation at the point of purchase. Environmental design, below the line, street theatre and the like enable marketers to create a huge presence in key places.

In developed markets brand equity is highly prized and strictly managed. Western consumers like the idea of brand families and are used to them. Innovation is careful and variants are taken seriously. Not so in developing territories.

Forget a variant strategy in emerging markets: it is a swift way to kill your brand. In one instance, one of China's major brewers had so many variants of its leading beer that it had no idea how many there were in total – somewhere between 450 and 600, it guessed. Not surprisingly this was very damaging to the core brand.

When emerging market consumers purchase a big brand they are buying into its security. Big international brands are more trusted because of their health and safety regulations. Some brands in developing markets can, and do, kill you. Confronting consumers with endless variants and sub-brands compromises confidence.

It is also expensive to support a large brand family. In China, for example, each TV viewer gets a mix of eight national channels as well as a multitude of regional and local channels. The solution is to keep variants to a minimum, but to innovate and develop them regularly.

Keep the core pure but change everything around it frequently. Brands need consistency to gain recognition and trust, but they also need to maintain interest. Emerging market consumers think that if a brand is not changing then it must be dead or dying. These youngsters, often 15 or 16, are used to constant noise. Brands need to have new news at point of purchase all the time.

Brands need to be redesigned continuously in developing markets. There is already a lot of activity in graphic design and we are starting to see greater emphasis on structural design. It is not unusual for a project to go from discussion to in-store in less than eight weeks.

Many of the most successful international brands in developing markets operate a canny portfolio structure.

They have an international brand with a huge communication spend behind it, positioned as premium in the market at a suitably high price point and with relatively low volumes. It has an international name and look.

The same parent company will also have a local product positioned as upper mainstream that feels local but provides cost-effective access to the equity of the global brand. This brand is communicated below the line and will provide most of the volume for the business. The localised brand attracts a premium against truly local brands, and companies may have a number of these localised brands in a single territory.

There is no doubt that developing market consumers trust huge global brands more than local alternatives, so the portfolio strategy allows them to benefit without costing them a fortune.

The most successful international brands in developing markets share similar features. They are sensitive to local nuances. They leverage brand architecture in a way that helps their new consumers. They keep a tight rein on variants and sub-brands. They keep the core pure, but change everything around it constantly. They keep pace with the markets they're in, no matter how fast-moving.

It isn't easy, but it is rewarding.

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We can't run away from the ethical debates in marketing

Rory Sutherland

A few of us were discussing the newly liberalised product placement regulations, and began musing on the ethics of negative product placement – whereby you would pay broadcasters to feature your competitors' products being used by deeply unattractive characters. So that next raid on a crack den in *The Bill* might show an array of P&G cleaning products on a shelf.

Interestingly enough, only days later a real instance of this arose. In the recent film *The Invention of Lying,* set in a world where everyone can only tell the truth, a bus drives past carrying the slogan, 'Pepsi: for when you can't get Coke.'

I suspect this was the work of a scriptwriter, not a copywriter. It is rather wonderful in its way. Yet if it were a piece of product placement it would be ethically debatable.

In my various talks I am fond of showing a slide which depicts a Buenos Aires street vendor's stall. It advertises two drinks: a glass of orange juice is priced at 5 pesos, while *jugo de naranja* is a mere 4 pesos. The Spanish speakers among you will have already spotted that the two drinks are one and the same: the vendor is merely practising linguistic price discrimination – in this case profit(eer)ing from any passing tourists who don't speak Spanish.

Is this kind of practice unethical? A classical economist may say that since no one is compelled to pay 5 pesos for an orange juice, any non-Hispanophone who does is simply deciding that a juice is worth more to them than 5 pesos, so what's the problem? An information economist may respond that we mostly outsource our notions of value to the wider marketplace, and that this system is hence a form of deception.

Certainly this debate, and many like it, will heat up in coming years. Behavioural targeting techniques online will make it possible to tailor prices to match each individual prospect's likely means and desire. Some US baseball stadia already practise real-time pricing, where the price for everything – from food to souvenirs – is varied to reflect everything from the climate, the size of the crowd and the day of the week.

One US snack food company has supposedly introduced a form of lunar targeting, selling larger, pricier crisp bags in supermarkets at the beginning of the month (after pay day) and replacing them with smaller units towards the end. All these things are highly open to debate. And, as marketers, we should once again engage in ethical discussion – and be ready to lose the argument to the public once in a while.

Oddly, I am delighted by this prospect. If there is one thing more dishonest than dodgy marketing, it is the pretence that marketing raises no ethical concerns. The truth is that marketing raises enormous ethical questions every day – at least it does if you are doing it right.

If this were not the case, the only possible explanations are either that you believe marketers are too ineffectual to make any difference, or you believe that marketing activities only affect people at the level of conscious argument.

Neither of these possibilities appeals to me. I would rather be thought of as evil than useless.

Marketing techniques can be used to achieve all manner of dubious ends. Hitler devotes a few pages in *Mein Kampf* to 'what makes an effective poster'. His only salaried job was a few weeks spent working as an art director on a campaign for an anti-perspirant. Goebbels shows a keen understanding of Dr Robert Heath's low-involvement processing when he says that 'the most effective form of persuasion is when you are not aware you are being persuaded'.

I am much keener that we should accept the vast moral implications of what we all do and debate them openly rather than fudge the issue.

We made this mistake with the frankly ludicrous claim that advertising had no effect on smoking. While I can accept that the purpose of tobacco advertising was not to encourage people to smoke, I find it astounding that anyone could barefacedly suggest that cigarette posters seen everywhere did not serve to normalise the habit.

If you want to see the long-term effects of dodging ethical questions, witness the effects of the 'shareholder value movement'. This single-metric movement suggested that the sole responsibility of a manager was to maximise short-term returns by any legal means available. The effect over time was a slow erosion of trust.

As Dr Johnson wrote, 'There is a kind of mercantile speculation, which ascribes every action to interest, and considers interest as only another name for pecuniary advantage. But the boundless variety of human affections is not to be thus easily circumscribed.'

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