

# Market Leader

NEW THINKING, DIFFERENT PERSPECTIVES



## INNOVATION

# Why innovation funnels don't work

And why rockets do

**DAVID NICHOLS**

**Beware the siren voices of innovation** Anthony Freeling

**Vodafone: adopting a system for managing new ideas** Jonathan Turner

**A manifesto for mavericks** William C. Taylor & Polly LaBarre

Every little helps: fresh&easy brings 21st century retailing to the US

INTERVIEW WITH TIM MASON



Five myths about television advertising

TESS ALPS & DAVID BRENNAN



# Why the end of the world could be the salvation for marketing. And vice versa

Jeremy Bullmore

The office Switchboard once connected me to a caller from a small business based in Reading. 'We're having rather a challenging time at the moment,' he said. 'We've got a new competitor who's developed a very similar product which he's somehow selling at a much lower price. So we had a board meeting this morning and decided we could probably do with some marketing.' He went on to wonder if we could provide him with some.

Before a meeting could be arranged, his firm was in the hands of the receivers.

Despite all the books, the conferences and the business schools, the word marketing continues to be seen as a slightly more socially acceptable synonym for selling; for getting rid of more stuff more often to more people. It's what you do right at the end of your business process, when you find that your warehouse, either actually or metaphorically, has become uncomfortably full. Study the way that many companies treat marketing and it's not hard to work out why.

New marketing directors are usually appointed when sales have proved disappointing. Here are some phrases from recent job ads: 'You will be responsible for building shareholder value by profitably growing the volume and value share of the brand ... for developing and delivering growth drivers ... for managing activation and commercialisation of all brand initiatives.' The language is unlovely but the meaning is clear: you'll be judged almost entirely on how much more stuff you manage to get rid of.

The skills that marketing people bring with them are all to do with distribution, pricing and promotion. These skills are equally applicable to mortgages, Maltesers and mobile phones – so marketing directors can flit quite easily from sector to sector; they're not expected to know much about, or even be particularly interested in, mortgages, Maltesers or mobile phones. Getting rid of more stuff is what it's all about.

None of this is new, of course – and to complain about it seems a bit pedantic. So what does it matter if marketing's just a posh word for flogging things: it doesn't seem to have done much harm.

Up until now, that's probably been true. But it may not remain so for very much longer – because something is happening that's never happened before and it doesn't bode well for the wrong kind of marketing.

## **A SEA CHANGE**

Up until now, except by the fastidious few, consumption has been universally seen as A Good Thing: comforting evidence of a strong economy, growing disposable incomes, liberated and discriminating consumers and successful government. Harold Macmillan may never have said, 'You've never had it so good' but that's what his and all successive governments have been anxious to imply – and take

most of the credit for. Standards of living are calculated on the basis of consumption; there's general agreement that standards of living should continue to rise; so it's been widely accepted that increased consumption is A Good Thing. Up until now.

It's not the purpose of this piece to rehearse the facts and potential effects of climate change – but there's one change of climate that's already taking place: and that's the climate of opinion about consumption. In most of the more developed countries, most people now recognise that – if nothing is done – their planet's petrol tank will run dry. Nobody knows exactly when it will run dry but few now deny that it will.

As a result of all this, some people, perhaps even a sizable minority of people, will consciously modify their behaviour and consume less. Governments will certainly urge us all to consume less. Competitive commercial enterprises such as budget airlines, until recently seen as the consumer's friend, will be seen as threats to our survival. And activities that seem to encourage unnecessary or extravagant consumption will be held up for critical inspection. Legislation would seem more or less inevitable.

## **TURNING THE TIDE**

When obesity in the young came to be seen as a serious national problem, one answer seemed obvious: curtail the promotion of undesirable food products to children.

When excessive consumption comes to be seen as the greatest threat to our survival since the end of the Cold War, an equivalent answer will seem just as obvious. Marketing – that conscience-free discipline that's heedlessly, recklessly, mindlessly dedicated to flogging more and more stuff to more and more people – will become an extremely convenient new villain. Marketing, as currently understood, may well be drinking in the Last Chance Saloon.

And that's why the real meaning of marketing, and the real function of marketing, urgently need to be rehabilitated: because we're all going to need more of it, not less.

Examine some of the classic and unchallenged definitions of marketing.

*Kotler: Marketing is the social process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others.*

*Drucker: Marketing is much broader than selling, it isn't a specialised activity at all. It encompasses the entire business.*

*Adcock: The right product, in the right place, at the right time, at the right price.*

*The Marketing Society: A management process that should be the focal point for a company's total activity.*

In all these definitions, either implicitly or explicitly, the invention and manufacture of things invariably precedes the promotion of those things. True marketing inspires and encourages vision and inventiveness – spurred by the knowledge that, once invented, things can be quickly and efficiently brought to the attention of millions.

The most wanted things in the coming decades will be things that decrease our contribution to the imminent end of the world while allowing us to continue in the way of life to which we have become so agreeably accustomed. Most of the existing examples will seem pitifully inadequate in a few years' time – if indeed they don't already. But we shouldn't mock solar panels and wind turbines and low-energy light bulbs and hybrid engines and faltering experiments with bio-fuels. We need lots

and lots more of them, and much, much better ones – and we need to encourage their adoption by more and more people. And that's what marketing – and uniquely marketing – should be seen to be able to do.

Long before the word was invented, it was marketing – true marketing – that led to the invention and widespread adoption of the horseless carriage. If we're to postpone the end of the world, we need marketing to invent and promote its successors. And maybe, just maybe, the imminent end of the world will in turn revive our understanding of what marketing really means.



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# What they didn't teach me at Business School

Raoul Pinnell

Shell Brands International AG

I've spent a lifetime in marketing creating new products, briefing new campaigns, starting new companies. I've worked in different sectors: fast-moving consumer goods, financial services and oil among others. And with world-class brands: Heinz, Nestlé, Prudential, NatWest and Shell – where latterly I was Chairman of Shell Brands International AG.

I have learnt much, made mistakes and enjoyed success. As a marketer, I have always tried to take the 'customer point of view', believed in the 'power of research data' and the value of 'impactful communications'.

I have been privileged to learn at the feet of masters, through gaining an HND in Business Studies and a postgraduate Diploma in Marketing; and through attending courses at IMD in Switzerland, London Business School, Wharton and Harvard in the US. I learnt and applied much of what I was taught.

However, in retiring from Shell at 55 I find myself reflecting on what they *didn't* teach me at business school. What did I learn as a practitioner? Here is my personal answer: ten lessons, from the coalface of business.

## 1. LANGUAGE

No one prepared me for brutal and foul language used to intimidate. I started my career with HJ Heinz, a fine company, obsessed with delivering quality brands and great training. Armed on my first day with the confidence of height, polished shoes, smile, firm handshake and briefcase with a thermos of hot soup to sample buyers, I had been taught that you seize the door handle, enter the store and announce: 'Mr Heinz here – to take your order.' The Tesco manager responded with: 'Fuck off!' I quickly retreated, found the nearest phone box and called my area manager. I thought it might be an offence to repeat such language over the phone (so naive), but I had to tell him the story of my failure at the first hurdle. His advice was: 'Go back in there, tell him to fuck off and give you the order.' With heart in mouth, I did, and got the order.

*Lesson: fight fire with fire.*

## 2. ETHICS

At Nestlé, I took over the most successful region in the country. Could a young marketing man take over a sales role, and keep the top spot in the national league tables for the region?

I took one of our best customers to lunch. On the walls of the restaurant were pictures by a local artist. My customer admired them, said he would like one, but didn't have any money. I instantly realised I was expected to give him a gift – a bribe. I had a millisecond to make it clear that I would not buy it for him. I was punished. He made my life hell. However, in the end we delivered great

business results.

*Lesson: be clear about your personal value system so, when you are tempted, be able to reject without the bat of an eyelid.*

### **3. CREATIVITY**

You learn about the importance of the advertising brief, of managing the creative process, of getting it all together in an integrated campaign. But no one told me about the 'magic moment'. At Prudential, the agency (WCRS) developed a 'big idea' – looking at people's aspirations about what they wanted to be. In one of the executions, a couple sat on a sofa, talking about their dreams. It was mildly humorous and engaging. At the end the actress gave 'a look' to her partner, a look that was worth a thousand words. It set the work alight, and sent the recall scores through the roof.

*Lesson: where in communications materials is the 'hot button' that connects with audiences in a way that achieves breakthrough?*

### **4. CONSULTANTS**

We are warned: 'Be careful of consultants. They borrow your watch to tell you the time, and then charge you for telling you the time. The clever ones keep the watch – so you become dependent on them for telling you the time.'

When I joined NatWest, a major international consultancy firm slotted themselves into my diary during my induction period to present their work on the 'way forward'. My heart sank as I noticed a deck of presentation slides land on the desk with a thud. The first slide presented the proposition of their work. It said: 'Britain's Biggest Bank'. I said, 'I thought that the future was about not being boastful about our size, but about being more than just a bank.' They said, 'Oh, we'd better start again.' The bill was £1 million.

*Lesson: employ consultants in a series of single work orders, for agreed prices, and manage their time.*

### **5. FACTS**

At Shell, I inherited a major sponsorship contract with Ferrari and Formula 1. The feeling in the company was that this was 'a good thing'. I had been taught about the benefit of sponsorships in a new media landscape, where traditional advertising needed to be supplemented with new ways of engaging with customers. But would shareholders accept a renewal of the contract based merely on our gut feeling? We set out to use quantitative research to understand the correlation between the awareness of Shell's association with Ferrari, and how it influenced the buying behaviour of our target – and hence its value in dollars. We learned what we needed to do to improve the value of the brand association between an oil company and the passion brand of Ferrari.

*Lesson: data are your friends. Be dispassionate and objective. Don't perfume the pig. Use market research information, not just to confirm your instincts, but to generate an understanding of value in monetary terms.*

### **6. MULTI-LEVEL WORKING**

Business schools have modules on 'work–life balance', and in companies like Shell this was taken up as a cause célèbre. But when your boss sends you a series of emails on a Sunday when he himself is on holiday some of the 'cause' is nonsense. Work and life are not compartmentalised. Much of work

is a privilege and a joy. Some of life is hard work.

*Lesson: try to go beyond sequential working – do parallel working. Prioritise every day and become an expert juggler. Learn from a working mother – they do it best.*

## **7. STAMINA**

Stamina is never mentioned as an issue, but you surely do need it. We're told we should continuously get out and about, to 'keep one's feet in the street'. The older I got, the earlier I started work. The competition doesn't sleep and customers don't care that we need to sleep. That electronic boss the laptop, and a continuous flood of emails is remorseless and relentless. It really is a 24/7 world. And much international travel takes place over weekends. This in itself is not a problem, but manage it or it manages you.

*Lesson: plan and book your holidays. Give yourself quality time moments; keep your brain alive to the wider world.*

## **8. PATIENCE**

We are taught that business is action, that impatience is a virtue and that aggression is good. Military language and models of war are common. Analogies using 'Supertankers', 'Elephants' and 'Dinosaurs' are bandied about to get us off our butts and into the jungle firing on all cylinders. But magic wands or silver bullets don't work for big companies. Progress is a long and winding road.

*Lesson: you enter a market town by town. You grow a market town by town. You retake a market town by town. The 'stairway to heaven' is about a patient understanding that moving forward is about the steps from today to tomorrow. It is not about grand gestures. It is not just about talking about 'vision', but delivering it.*

## **9. POLITICS**

The subject of company politics is avoided at business school. It is associated with 'brown nosing', and wasting time on internal distractions that have no external value. So it isn't worth teaching.

But does your network in business matter? Is it important? Surely business is about results, and these will be transparent to all?

I observed one man that I worked for. He was no better than others around him, in fact in many ways he was worse. Shallow and self-interested, he loved to use the shock tactic of foul language, to bully across his point of view. But, did he ever focus on his boss, keeping in daily touch, continuously feeding morsels of good news, often the achievements of others (implied as his), passing by the boss's door on the off-chance of a soundbite, lurking by the lift and delivering a quick 'lift speech' about his achievements.

*Lesson: as a boss, people who focus on internal politics are quite easy to spot – they talk 'I' and not 'we'. And if they do talk about the team, they rarely know anything about their private lives. Good bosses are always available to their teams, and have regular face-to-face and one-to-one meetings. Think about managing up. But do it through sound business cases and lobby before you present the final case. Provide cover for your team, and try always to support them.*

## **10. CUSTOMER**

We are taught that the customer is king, that customer-centric companies win. We are encouraged to

have rafts of staff dedicated to identifying consumer insights.

But what about the value of your own experience? At Nestlé we had tastings and samplings several times a day, and were encouraged to buy and try our own and competitor products at home.

Before I joined NatWest I went into a branch to open an account. I believed that I should use and experience the product and service that I was going to be promoting. It was hard to open an account. Over the coming weeks, I found the queues in the branch challenging, and was horrified when Direct Debits didn't stick and call centre staff were clearly trying to get rid of me as quickly as possible. Awful direct mailings landed on my doorstep – clearly with little knowledge of my income, lifestage and likely wants. I shared the outcomes of these experiences with my director colleagues, who were aghast that I should bother to use the bank – they didn't. They used a private bank in the group, so they had no direct experience of the pain of our customers.

Also, in the same bank, I was called in by the chairman one day, to explain why we were getting such a mauling in the press for bad service. The answer was that our research over many years confirmed the assertions of the press. The problem was that somehow the data didn't get to the board – or they didn't listen.

*Lesson: become a consumer of the product or service you market. Challenge and expect all board members to do the same.*



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# Why brand marketing needs a relaunch and how to do it

Martin Glenn  
Birds Eye Iglo Group

I believe that brand marketers are facing a crisis of confidence. I want to talk about what we can do to restore that confidence and reclaim their authority in terms of being marketing-led businesses. If we accept that brands are now going to be managed by the vagaries of a global chat room, we're in big trouble. As Benjamin Franklin said, drive your business or it will drive you.

So what are the issues? I think there are five major factors that have led to what I see as a lack of confidence, a lack of direction and a lack of authority in brand management over recent years. These issues are not going to go away and they make our job more difficult to do.

Two of these factors aren't new but they are relentless – constant challenges that, if anything, are likely to get worse. The other three are new difficulties facing brand management.

## **CHALLENGE 1: PRIVATE LABEL IS MORE THREATENING**

First in the 'old but relentless' category of problems is the continued growth of private-label discounters, or, if you're in services, any form of disintermediation. What makes this problem more serious is that we are facing an interesting polarity in the way consumers shop.

On the one hand, there has been a huge trend in people wanting to buy luxury products. People have been trading up in many categories where they are looking for some form of accessible luxury.

On the other hand, the corollary of trading up is that people have also been trading down in many sectors. So in areas that people don't judge to be valuable, we are seeing price/value offerings working very well. So for every story where you hear the growth of luxury brands, you will also see the growth of areas, such as budget airlines, where people decide that service isn't that important.

For fmcg marketers where price continues to be a factor in a number of areas, private label can make that much more difficult.

## **CHALLENGE 2: TECHNICAL DIFFUSION IS GETTING FASTER**

The second ongoing factor is the power of the global economy, which means that technical diffusion happens much more quickly. So the job of making a real functional, tangible USP is much harder to manage. This, along with the increased strength of private label, makes building a lasting brand proposition harder than in the past.

## **CHALLENGE 3: TALENT AND RESOURCES BEING SIPHONED AWAY FROM MARKETING**

Let me move now to the three new factors that have led to a lack of confidence in brand marketing. The first is the siphoning away of talent – from brand management into the financial sector.

I started work in 1981, when I joined Cadbury-Schweppes. The environment I joined at Cadbury (and this was true of Unilever, Procter & Gamble and others) was a hothouse of very smart people. The intake that year was about 120 in the graduate training scheme, all clearly very bright. It was competitive as hell to get in, and you were pleased to get a job offer.

This recruitment trend began to change in the early 1980s with the growth of the City, the Big Bang and the liberalisation of financial markets.

What seemed to happen was that graduates had more choice, and financial services jobs paid more money. I also think that many of these financial jobs are fundamentally simpler to do. The role of a dealer is less complicated than being a brand manager, but it obviously yields massive returns. And this has affected the flow of talent into brand management and marketing. We still get very good people but we don't get the same quantity of talented individuals.

### **The Rise of the Consultant**

In addition, there's been a huge boom in consultancy. This was partly driven by the City of London requiring change management during the process of liberalisation of nationalised industries. I did a spell in consultancy and I seemed to be permanently working at BT, which was trying to make sense of how this new liberalised world worked for it. And once again that siphoned off good people at an important age.

### **The Decline in Resources**

Another characteristic of the past was numbers of people and amounts of time. I recall when I was in the marketing department at Cadbury, although it was a hard-working environment there was time to learn and observe. We don't give our young people that time and we've got to try to recreate a better learning environment.

Also the resources were so much greater. The advertising agency was a legion strong and when they came up for the Nielsen results they must have filled a whole train. It was really impressive. There were seriously smart people in ad agencies looking at linkages between this factor and that factor adding in some of the other consumer data; it was like a little workshop every four weeks, which, if you were open to learning and remotely intellectually curious, you learned an enormous amount. I don't see us doing that much today.

But that environment of massive marketing departments and massive agencies did feel like a big party. And at the end of any big party, there will be a hangover. Sometime in the late 1980s the accountants moved in because profits weren't being made. Marketing people and investments were all treated as costs and got cut back.

### **Information is not Used Effectively**

Today there's a paradox. We have more and better data than ever, but less capability to do anything about it. I see marketers being very conscious about the need to be accountable but not really sure about what that means. I also see marketers not having the confidence to state the case properly or argue with the finance director about the value of their marketing programme.

Marketers today have been taught that if they can't prove to the world how fast they can move, they're not doing a good job. They fall out of their seat to tell you how well they understand the retail

trade and how well they understand Tesco or Sainsbury's. That's important, but it's not the only thing. There's a good general level of trade understanding, but consumer understanding has to come first or the retailer won't be interested in listening to you.

There's less time to think and if you're a young brand manager, you are probably disconnected from the annual plans with no linking narrative and no sense of journey. I think that's quite a serious problem.

## **CHALLENGE 4: THE CHALLENGE TO MARKETING'S LICENCE TO OPERATE**

The fourth difficulty is an even bigger one: it's what I call the challenge to marketing's licence to operate. The world has changed and I'm going to give you two examples, linked by chocolate, to bring this point to life.

Cast your mind back a couple of years. Cadbury is one of the most progressive food companies in Britain and in a very well-meaning initiative it was determined to try to seize the whole obesity issue and look at it more holistically.

The evaluation criteria for obesity was seen to be 'calories in', but of course it's really about calories both 'in' and 'out'. So Cadbury said it was going to do a 'get active' campaign, a great piece of cause-related marketing. So it did 'get active' and Cadbury was absolutely killed for it.

What was interesting was that Cadbury did not see the problem; it was astonished by the reaction the campaign received – the only mistake it made was probably being a bit niggardly on the ratio of reward for wrappers for sports equipment. It wasn't a bad idea, but with hindsight it was poorly executed.

But what surprised Cadbury was how many pressure groups there are that have a point of view about obesity and which were determined to criticise Cadbury and hold it to account. I thought that was one of those defining moments where it felt like the world had changed.

The second anecdote also has to do with chocolate. David Cameron's first big speech on food policy was about chocolate oranges in WHSmith. Now why on earth would the leader of Her Majesty's opposition have a bee in his bonnet about chocolate oranges on sale on by the till in WHSmith?

Why? Because he's a good marketeer. He'd been up and down the country listening to focus groups and he was hearing people talking about healthy eating, children's diets and so forth. So for his first public policy speech on food he talks about impulse selling.

New curbs on TV advertising have come into force because the food industry failed to put its case forward properly, and the government was looking for some easy wins. One of the results is that we're seeing a curb on the freedom of speech and freedom to operate.

Furthermore, post-Enron the public has a renewed interest in how business is done, and burdensome pressures have been put on business reporting. So it's no longer good enough to do a P&L; you need a CEO to attest under oath that his or her numbers were correct. Big change. Restrictions happen because trust has broken down and there's clearly been a breakdown of trust underpinning these curbs.

There are more people concerned about how things get done or how products are made, and there's more processes supporting this than ever before. How a company operates has become part of the evaluation criteria that consumers apply to a brand or a service.

## **CHALLENGE 5: THE RISE OF PRIVATE EQUITY**

The final issue is the rise of private equity. About a quarter of the UK food industry is private-equity owned. In the minds of the public at large and in the minds of much of the marketing community private equity is short term whereas brands are long term – therefore a marriage made in hell.

There is no doubt in my mind that being in a private equity environment changes the rhythm and the tone in which brand management is done. But, in fact, it's for the better because what it means is that private equity provides a chance for marketing to become more accountable. In the first year of the Birds Eye Iglo business we increased marketing expenditure by 7%. Private equity may not be a panacea for everyone, but marketers should see it as less of a threat than changes in talent and resource allocation, and the challenge to 'licence to operate'.

Those are my five key challenges to marketing. So in the face of them, we've got to get a lot more radical in thinking about what brand marketing needs to do to operate in this environment.

## **THE SOLUTION: RELAUNCHING BRAND MARKETING**

Companies that produce high-quality brands, whether at the low end or the high end of the market, are profoundly important for society. We can't detach the increase in standards of living from the successful working of the market, so we need to be vigilant in continuously explaining how brands contribute to the public good. If we give up on this we're all going to be poorer for it.

Brand management needs a re-launch. And it composes five steps.

### **SOLUTION 1: BACK TO BASICS**

First, we've got to get back to basics on brand management. Twenty-five years ago brand management was relatively easy to learn – lots of people and resources. We've got to find a way to provide that same kind of learning in this new and more complex world.

#### **Execution**

The first basic we've got to fix is the separation between setting strategy and executing it. We need to get back to a more holistic way of operating where we connect thinking and activation – ideally in one head, in one individual, or certainly one department. So that's the basic number one.

#### **'Simply Better'**

The second basic is a truth that's been ignored. And that is the tendency to over-value 'difference' and under-value 'better'. This isn't an original thesis: Barwise and Meehan's excellent book called *Simply Better* does a better job of explaining that than I will. But the obsession with differentiation came from Michael Porter who said 'if you compete against a competitor on the same dimensions, you're running the same race faster, so you must differentiate'. This has turned into spurious differentiation, which overlooks why people are buying something in the first place.

'Better' has been behind the success of Tesco. Tesco didn't reconceptualise the shopping experience, they just did every bit of it better. Another example is Walkers Crisps. In 1993 Walkers had been in decline for about three years. There was lots of growth in what we call the extruded snack sector and processed things that looked like crisps – brands like Roysters, Discos, and Frisps.

So what was to be done about this? After a lot of discussion we came to a simple conclusion: Walkers decided to make a better potato crisp, every day, every bag, every bite. And apply some

of the principles of more exciting marketing that you've seen in the world of snacks to potato crisps. It was a better, not a different, strategy.

## **Continuity**

The final back-to-basics point is to learn how to embrace continuity.

Marketing managers get bored with campaigns and ideas much earlier than the consumer does. There's a real boredom trap in business – often it's the new brand manager cycling in every couple of years who wants to put his or her own stamp on the process. I'm not saying don't be challenging, but the first instinct shouldn't be to change something that's working.

## **SOLUTION 2: APPLY MARKETING PRINCIPLES TO PUBLIC AFFAIRS AND PRESSURE GROUPS**

We need to apply some marketing principles to the issue of external affairs and pressure groups. All public affairs issues are not equally important. We're operating in a world that engages pressure groups and civic society widely, but every issue is different. Choose your issues carefully, don't feel you have to respond to all of them, and when you do, do it well. Do some segmentation to prioritise issues.

In other words, don't let events run your business. For example, in our business sustainable fishing feels like a massively important idea but, I'm a little less sure whether sustainable packaging is quite up there. When we make a decision to do something it will be based on enlightened self-interest and we'll do it well.

Linked to that is the more systematic measurement of social attitudes in planning, so that we don't get surprised by things that we shouldn't.

## **SOLUTION 3: TRUST CONSUMERS**

The third part of the relaunch is: trust consumers. It sounds like a bit of a platitude but it's all part of holding our nerve. If we are clear about what consumers really value, we don't have to worry about our brand's reputation being on a razor's edge all the time or if your supply chain isn't as professional as it could be. Consumers don't suddenly shift if fundamentally the proposition is right.

We need to understand what the consumers really value versus what they say is important. How can we improve fish fingers we ask people? 'Make them twice as big and half the price please'. If you unthinkingly do what consumers ask, you go out of business. It's all about managing trade-off.

## **SOLUTION 4: PRIVATE EQUITY IS AN OPPORTUNITY**

The fourth part of the relaunch is to recognise that private equity – if it owns your business – represents an opportunity. There's no way that a business that goes up for auction with private equity can be justified by cost savings alone. So the only way for 99% of any private equity deal to work is to create value and you create value through building demand.

So there's a unity of self-interest. In my case, it's not because anyone in Primera or CVC has got the remotest interest in the process, in the philosophy or in the craft of building brands: they don't. They are business people and are quite cold and calculating. But if you've got a business that is growing sustainably and is underpinned by a good level of advertising and promotional support you will get a higher price for it than for one that has had the guts ripped out of it.

In fact, what has been quite beneficial about private equity in my new business is that while they're neutral about how you get growth, there is a great culture of measurement. There is an almost naive curiosity about how these measurements work. So this culture of measurement of brands has been a good thing and, consequently, private equity is a non-issue when it comes to the pressures facing marketing.

## **SOLUTION 5: BALANCING SHORT AND LONG TERM**

The final thing is that managing a brand is a bit like how you should manage your own life in the sense of trying to achieve balance. We know what an unhealthy lifestyle in brand management looks like: it's obsessed with extremes – either too focused on the long term or too focused on the short term.

So we've got to achieve a balance that tells us what the right short-term measures are and, at the same time, what the prospects are for longer payback. We need a balanced lifestyle, because if we don't we're going to fail.



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# Why innovation funnels don't work and why rockets do

David Nichols  
BrandGym

It's true. Innovation funnels don't work. In fact, they stifle creativity and make innovation less likely to be successful.

But how can this be? The innovation funnel is the way that nearly all big branded businesses manage their innovation. Innovation is the business strategy of our age – saving brands, businesses and share price with the power of its promise. CEOs every where have their innovation speeches prepared and will roll them out as the answer to a panoply of corporate ills: encroaching competition, margin erosion, brand revitalisation, sluggish growth to name but a few. CEOs are also putting their money where their mouth is and innovation is attracting more and more resources – dedicated teams, huge R&D departments and seemingly bottomless research budgets.

But the statistics make for dismal reading: eight out of ten brand extensions fail. If you add in how many innovation projects fail before even getting to launch, then the real chances of success for a team starting an ideation process are very small indeed. Oh dear. The innovation funnel, it appears, is only good at funnelling one thing, resources – right out of the marketing budget.

## **SIX REASONS FUNNELS DON'T WORK**

Here are six ways that innovation funnels encourage bureaucracy, negative thinking and conservatism; stymieing the very thing they were created to promote.

### **1. Focus is on Picking Winners not Creating Winners**

The entire focus of the funnel and stage-gate process is to 'whittle down' a large number of ideas to a smaller number by 'killing off' weaker ones and 'picking' the winners, rather than being constructive and finding solutions to the problems each idea poses.

A great example of using problems as stimulus for improving ideas is Kellogg's Coco Pops. In development, the team kept hitting a product problem. R&D couldn't find an easy, cheap way of making the chocolate coating stay on Rice Krispies when put in milk – it all fell off. The team took it as a challenge to find an ingenious solution – so they thought like kids. The answer was suddenly obvious: 'New Coco Pops, so chocolately, it even turns the milk into chocolate milk!' The 'problem' became a key part of the launch of a huge success.

At a standard evaluation stage-gate the focus would have been on marking this concept down as it had a manufacturing 'problem'. This deconstructive mindset gets reinforced at every gate and can easily pervade the whole system.

### **2. Admin is at the Core, not Ideas**

The funnel process brings with it a huge paper load, one that is getting bigger, not smaller. As companies put more and more expectations on their innovation, so too do they expect it to be efficient, accountable and best-in-class, and thus it must be measured.

An accountability-free innovation process is not the goal. Far from it. But with no counteractive force, the weight and influence of data and admin can take over. This is very dangerous because when ideas are so new and ill-formed, the data we can get are at best 'iffy'. An issue highlighted very well by Clayton M. Christensen in his book *The Innovator's Dilemma* is that data-led innovation evaluation tends to favour the familiar. Concepts that are close to the existing product get scored higher than new, difficult, strongly different ideas. Flavour variants suddenly become very appealing as you can predict how they will perform pretty accurately. But that is a nonsensical reason to favour them over newer ideas. Isn't it?

### **3. Promotes 'Not Invented Here' Syndrome**

If ever there was a company destined to own a whole new category it was Sony and portable digital music players. It owned the world's leading brand in the portable music market, Walkman; it had all the technological expertise in storage, file formatting, user interface, consumer electronics design and distribution. It had all the retailer relationships you could wish for. But Sony blew it, big time. Why?

One of the key reasons has to be Sony's insistence on only using bespoke components, developing its own software (not its strong suit) and building it around its own proprietary file format, ATRAC, not the common MP3 format. The result is that two full years after iPod's launch is the first time Sony managed to release a player that accepts MP3 files; even so, they still had to be irritatingly converted before they could be played. Here is a company being killed by the 'not invented here' syndrome.

Funnels promote this kind of bickering behaviour. When several concepts are in the funnel, it is all too easy for teams to show how 'mine is different' in order to get picked as the winner over your internal competitor.

### **4. Senior Expertise is Focused on Evaluation not Improvement**

In your last few innovation projects, when did the most senior and experienced R&D, marketing or operations people get involved or were asked for their opinion? Most likely it was at an important 'go/no go' meeting and evaluation point. Their experience and expertise was being called upon to do one thing: spot the flaws. Which ideas won't work, won't go down the manufacturing line or won't pass muster with the retailer? Which concepts contain hidden costs or unforeseen problems further into their development? Spot the weaklings and weed them out, that's the job. This is no doubt a valuable task, but is this the best value that these venerable people can bring to your project?

Would it not be better to focus the inputs of senior people into solving problems thrown up by new ideas such as: how can we get this to go down our line? What cost savings does this new idea allow vs our existing product?

Funnels don't demand this kind of input. What they do demand is strict evaluation, flaw-spotting and the systematic weeding out of ideas with weak links. That's why they are highly-efficient idea-killing machines.

### **5. Makes it Longer and More Expensive**

How much does it cost to come up with an idea? Nothing or several millions? One thing that's sure is that developing an idea through a stage-gate funnel process costs more and takes longer than it needs



to. If you add up the time you spent in your last innovation project on all the admin, justification and evaluation, then similarly add up the time spent in creating ideas, what is your ratio? 2:1, 5:1? I bet your ratio is probably nearer 10:1, admin to creativity. The stage-gate system creates this imbalance and turns a simple (but challenging) process into a much longer and more arduous one. In these days of own-label copycating and internet business models, speed is an essential competitive tool you cannot afford to squander so readily.

Funnels are there to weed out the under-performers. They are designed to do it systematically, traceably and with defensible logic. That is why to decide between two fairly similar concepts – say, one of which suggests that a blue product colour cues increased efficiency and the other indicates that a green product colour cues extra efficiency – requires a detailed, nationally representative comparable, repeatable and totally objective quantitative study with a control cell of the existing concept to provide an answer. The result is that costs rise and timescales lengthen, but idea impact stays the same.

## **6. Assumes Good Ideas are Easy to Come by**

Whenever an innovation funnel is drawn there are always loads of arrows coming in at the larger end representing ideas. It's as if it's the easiest thing in the world to get ideas to fill a funnel with. The funnel is utterly indiscriminate in its entry criteria for initial ideas.

Well, that's good, isn't it? We shouldn't be screening ideas at birth, should we? And as to the source of ideas, that's just a matter of doing a brainstorming; they always produce tons of output, right?

Er ... no.

The issue here is one of *quality*. Anyone can come up with 100 ideas for innovating, say, a yoghurt – let's make it blue, taste of eels, smell like deodorant etc. – but how easy is it to come up with the idea of putting the fruity bit in the corner, separately, so people can mix it in themselves? How about coming up with 25 ideas of that quality? Not so easy.

Funnels are open to any ideas, and tend to get filled with any old ideas. They all get dutifully worked up into neatly typed concepts and suddenly everything looks shipshape ... to an accountant.

Generating ideas is somehow a low-status affair in the innovation funnel process. You can get away without any kind of process, if you want to. Senior managers seldom come to brainstormings. Why is that? Surely it is the most important part of the process? Because no matter how good your process for development is, if your input is bad then so will your output be. So dictates one of the most well-known and fundamental innovation principles: CRAP IN = CRAP OUT.

## **ROCKETING**

Here is a way to avoid the tears and frustration of yet more funnel-driven 'hamster-wheel' innovation (where you keep going round the innovation loop but never actually launch anything successful).

Turn your funnel into a rocket.

Rocket motors are very simple, but very powerful. They turn potent fuel into vast amounts of energy which is directed and built up into maximum thrust – thrust so strong it lifts the entire structure up. If we take this as an analogy for innovation, it works extremely well.

### **1. DESTINATION: Set a Clear End Goal**

The first and single most important part of generating a successful innovation is to know where you are going. This is the job of your brand vision (you knew it was there for something). Being clear on where you should and shouldn't go with your brand makes it a lot easier to run a process to create new ideas. Like a great tennis player, you need to visualise the end result before you even swing your racket (see [Figure 1](#)).

A few years back, when I was working at Added Value, we were tasked to develop a breakthrough innovation for Unilever's Calippo water ice brand. It wasn't the growth star that Magnum or Cornetto was, and it was consumed mostly by young kids. The stretchy task was to innovate it into a teen refreshment brand.

The starting point was the sharp brand positioning the team had developed, from which they wrote themselves a detailed innovation brief that fitted the corporate process. But they took it one step further and boiled their ambition down to a crystal clear, unequivocal challenge.

### **Calippo – the innovation challenge**

- Target teens
- Substitute soft drinks, not ice cream

The clarity and simplicity of this innovation challenge gave the team the strongest possible starting-point: a clear vision of the end game. No vagaries here, no bland requests to simply increase share or hit broad volume targets. This was a tangible target that the team could see in glorious technicolour; a teen goes into a newsagent looking for refreshment with taste. On going to the fridge he sees Calippos in the freezer, and buys that instead of his big brand can. This was a target that could be easily qualified by seeing if teens actually did buy it, and easily quantified by looking at substitution effects in teenagers' refreshment portfolios. The other side of this challenge was the commercial one; anything new in the freezer had to replace something already there – no extra shelf space is available when you are locked in a freezer that you supply yourself. This meant it had to either have a better margin per unit or a significantly higher rate of sale to win through. The result was Calippo Shots, which outsold everything in the freezer by a factor of three in its first outing, stealing directly from soft drinks, not ice cream. As a teen refreshment, it has earned its place in freezers worldwide.

*Rocketing Workout: Write your next innovation brief as succinctly as the Calippo team did.*

## **2. COMBUSTION: Get Potent Insight Fuel**

I am willing to bet that you have a load of data available on your brand and market. But data are just a collection of findings and, like a badly laid fire, are pretty incombustible. To generate mind-blowingly great innovation that will power your brand into unstoppable growth you will need more than just information 'padding' to get you going; you need potent insight fuel.

To turn data into fuel you need to use different sources of insight. If you look in the standard places – your core target, standard focus groups and existing internal knowledge – you will get standard insight. Probably exactly the same insight your competitors are looking at.

If you look in new places in different ways, you are more likely to turn up something potent. Fringe user groups and ethnic minorities can illuminate your product afresh, as can using techniques that sound a bit scary like semiotics, observation or talking to experts.

Kotex were facing a war of attrition against the big brands in Latin America. They needed a new angle on feminine hygiene to give them an edge. Instead of asking the same twenty- and thirty-something consumers they were used to interviewing, they spoke to a different type of user:

prostitutes. This eye-opening experience brought them a whole new view on menstruation – that it was 'time off', a holiday, an excuse for pampering.

This insight took them into the new territory of joy, pampering and celebration rather than the usual 'I can wear white trousers with confidence' area.

*Rocketing Workout: Challenge your team to turn their research into potent insight fuel.*

### **3. NOZZLE: Set 'Drop-Dead' Lines**

Why is Apple so good at innovating? One year after its extremely successful launch of the iPod Mini it was ditched and the iPod Nano introduced. Most businesses would simply not be able to do that. After a successful launch, any subsequent new idea would be tested and tested and tested a third time before it was considered for launch. Management teams would go to expensive hotels in far-flung countries and ruminate for hours on the pros and cons of pulling a successful product from the shelves a mere 12 months after launch. It just wouldn't happen. But Apple did it and keeps doing it. Apple is a pathological innovator. Every time Steve Jobs stands up it seems he has yet another dazzling product ready to ship. One of Apple's biggest and most powerful innovation weapons is a thing it calls Macworld Expo.

We've all seen it; Steve Jobs standing on stage in his trademark black polo-neck giving a seamless introduction to a blockbuster new product. It is their 'Drop-dead' line. Everyone including the pizza delivery boy knows when Macworld Expo is, so there is total clarity on the date. No one need even bother coming to a meeting with a serious delay because they know what the answer will be – just fix it. Steve Jobs is not going to stand on stage in front of the world's media and say 'This would have shipped today but we had a few problems with the samples for the quant test so it'll be three months late'.

There is real power in unequivocal, universally acknowledged deadlines. Just imagine if once a year your CEO stood up in front of the media and talked not about what the company has done, but what it will do. If he or she made promises, with timings, on launches of new products. Would that focus the business on delivering? You bet.

*Rocketing Workout: Set 'Drop-dead' lines for your innovation projects and commit to them publicly.*

### **4. EXPANDER: Less Tests, More Testosterone**

What is the driving force behind your innovation projects? Is it to outwit the competition? Perhaps to drive margins up? Maybe even to placate the trade? My bet is that the one thing that drives you forward each day is research.

We seem to be running innovation projects in order to meet research timings and to hit research targets: top box scores, blind tests and then link tests when it gets to launch. In principle we use research to give us more certainty, to help define solutions better. In reality we use it as a crutch to make decisions for us. To truly succeed with innovation we need to do less testing and put more faith in real insight (in our heads) and take more risks.

When Peperami was needing innovation to stimulate growth, Unilever took a conscious decision to step outside the normal procedures and launch four innovations at once and see which one worked. Peperami Firesticks was the eventual winner, with Canniballs, Sarni and Dunkers falling by the wayside. Was this a profligate waste of resource? No. In fact internal estimates suggest that this 'suck it and see' method costs them £1 million less than doing it the 'test and decide' way. It also meant that they were on shelf a year earlier, gaining sales all the while.

It is an extreme example, but the point is clear. It might actually be cheaper and faster just to get launching without all the testing.

*Rocketing Workout: Do real test markets, not simulated test markets.*

## CONCLUSION

This simple analogy of turning your innovation funnel into an innovation rocket can help you realign your innovation process and make the funnel work for you, not against you. You didn't know it, but innovation is, in fact, rocket science.



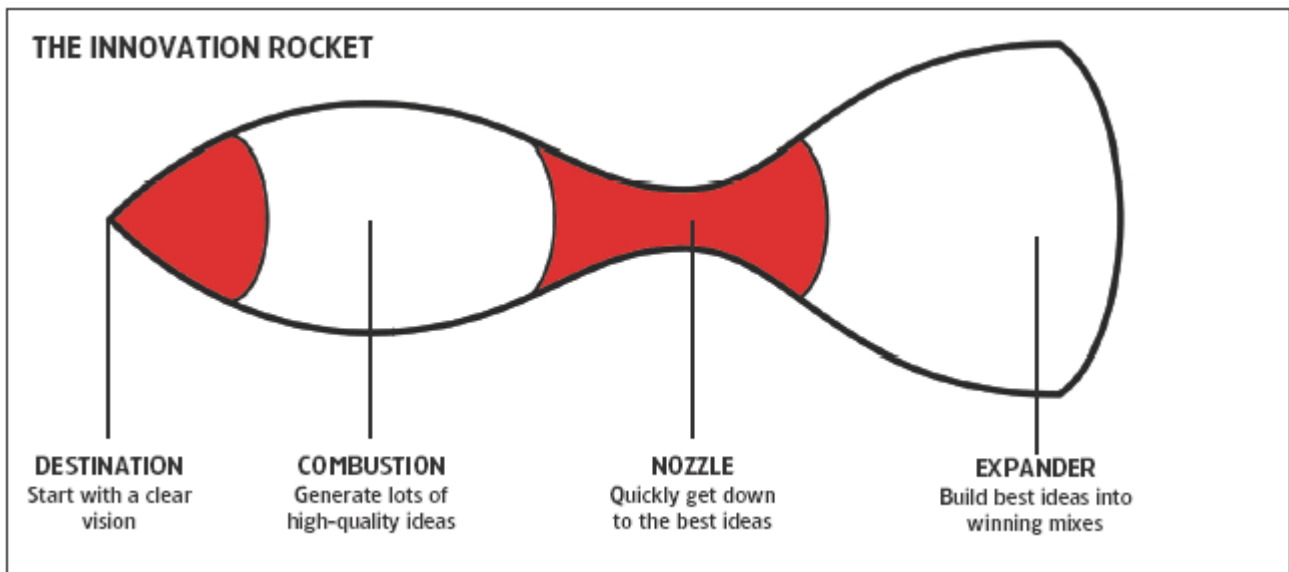
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## NOTES & EXHIBITS

**FIGURE 1**



## **Beware the siren voices of innovation**

Anthony Freeling

Ashridge Strategic Management Centre and a freelance consultant

It is a funny thing that people who write and think about strategy and about marketing almost never seem to read each other's books and articles. This means that the two areas of management thought have diverged much further than an outsider could have believed possible. But one topic that both parties write about extensively is innovation – perhaps because marketers think it is a marketing topic, and strategists think it is a broader strategic topic.

Whatever the reason, the facts from the strategic work are clear: most radical innovations fail, most innovative companies fail, and most successful innovations do not come from large companies. I would add that even fewer successful innovations come from the marketing departments of big companies.

An example of this theory is the book *Fast Second* by Constaninos Markides and Paul Geroski. They suggest a simple characterisation of different types of innovation, depending on the degree of change the value proposition creates in consumer behaviour on the one hand, and on the necessary extent of change in the established firms' competences on the other (see [Figure 1](#)). I have populated the matrix with some well-known examples.

### **RADICAL INNOVATION RARELY COMES FROM LARGE COMPANIES**

Markides and Geroski's argument (summarised in *Market Leader* Spring 2004) is that first-mover advantages for radical innovations have been misunderstood. They demonstrate that it is not the first company that enters a new market that gets the advantage (indeed it usually exits fast too) but rather the first company that succeeds in the market that gets these advantages and becomes the big winner. This is why I have put product categories rather than brands in the matrix in the radical innovation box. None of the successful, well-known brand names actually created the market: for example, Charles Stack was first in online bookselling, not [Amazon.com](#), while Napster held sway before iTunes.

They also argue that most radical innovations such as television, the internet, mobile phones or aspirin are supply–push innovations (i.e. they start from supply and try to create demand), not demand–pull ones at all (i.e. identifying needs and then creating products that meet them) and therefore not driven in any way by marketers. They conclude by arguing that large companies should not worry about the initial stages of 'colonising' the new market, but rather wait to be fast-second 'consolidators' of the market. I will return to the potential for marketing in the other categories of innovation.

*The Innovator's Dilemma* by Clayton Christensen examines in greater depth why large companies are unable to create or even compete with 'disruptive innovations' – demonstrating that these innovations typically fail the screening criteria of large companies because they do not meet current customers' needs. They also fail on quality hurdles, they make lower margins and they risk cannibalising existing products.

The response to this work, to the extent it has filtered into the marketing arena, has been to develop recommendations of how a company and its marketing can become more entrepreneurial, more innovative, etc. But the point of 'fast second' is that even after all this, most radical innovation comes from upstarts who mostly exit the new industry soon after entering. Fast second is less sexy, but strategically smarter and much more practical to execute.

## **UNPREDICTABLE BLACK SWANS**

Another recent book from the field of finance rather than strategy, examines very low probability events. NN Taleb calls his book *The Black Swan* because these events can happen even after many, many occasions of them not happening – just as black swans were first seen after everyone had concluded that all swans were white on the basis of only having seen white swans. In financial theory, black swans are very important in spite of being rare, because they can dominate the overall results from history.

For example, if the best 10 days are taken out of the performance of the stock market over the past 50 years, returns reduce by 50%! Furthermore, if they are predicted, they are not black swans: by being predicted, their most surprising consequences are most likely negated and thus no longer a surprise. I would argue that innovations such as Amazon and Starbucks, while easily explainable after the event, were in fact black swans that could not be accurately predicted beforehand. (If you doubt this, think how many different retail propositions and dotcom companies set up shop and have never been heard of again.)

This unpredictability pervades life and business, causing persistent failure in spite of all best efforts. We have all seen statistics suggesting that around eight out of ten line extensions fail. In biology, 99.99% of all biological species that have ever existed are extinct. In business 10% of all companies in the US disappear each year. We know that smaller companies fail more often, so you might assume that perhaps big companies survive. Unfortunately not. In 2001 my colleagues at McKinsey, Dick Foster and Sarah Kaplan, wrote in *Creative Destruction* that of the first list of top 100 companies formed in the US in 1917, by 1987 61 had ceased to exist; 21 still existed but were no longer in the top 100; and only two of them outperformed the overall market in share performance.

## **PREDICTING THE UNPREDICTABLE?**

It is bad advice to tell people to keep trying to predict the unpredictable by aiming for a few, major innovations.

The problem with all the research in strategy, finance and economics is that it appears quite fatalistic – most things fail, so you will fail too. The response of most managers and consultants is, perhaps unsurprisingly, to produce prescriptions of how not to fail. Managers and consultants are by nature optimists. This helps us all get up in the morning, which waiting for a black swan to wipe us out might not.

But this is neither good science nor, it appears, good advice. Companies are if anything failing faster than ever before, and in spite of decades of management advice, major innovations are still coming from outside the large companies. This advice, of which I too have frequently been guilty, is akin to saying: 'We are surrounded by water. Fish are good at swimming in water; you are not. So become a fish.' The better life strategy is, if you can't swim, avoid water.

On top of this, there is also a risk that recommendations on how to improve innovation suffer from business delusions. So-called successes may not be as great as they are believed to be, there may be luck more than judgment involved, and there may even be logical flaws in the research.

## **TEST, LEARN AND COMMIT**

To understand how marketing can contribute to successful innovation when the changes in value proposition are smaller, we can learn a lesson from evolution. In biology, progress is made in small steps, with lots of failure, relying on variation, selection and scaling.

Variation is where it all starts. If there is no variation, so that all creatures are the same, then obviously there can be no progress. Variation in marketing means changing the value proposition or how it is communicated. Trying out new variations is a necessary element of making improvements.

Selection is critical because evolutionary progress rests on the assumption that fitter creatures are more likely to survive. We need to be confident that the better marketing variation is selected. If not, inferior marketing offers will survive. This is particularly important in the realm of marketing communications for example, where it is notoriously hard to assess which advertisement has been most successful, and thus less good ones may be selected, leading to slower progress. Selection is enhanced by good research.

Scaling is key because it is necessary for the offers in the marketplace to reflect what was selected. If there is constant chopping and changing, evolution would be stopped in its tracks since the step by step progress would be lost. In marketing this means committing wholeheartedly to the improved value propositions.

## **SO WHAT IS MARKETING'S ROLE IN INNOVATION?**

Marketing's role is to maximise the potential of the existing consumer environment by testing new ideas at low cost, being rigorous in identifying which tests work best, and being good at scaling up successful ideas.

Marketing is concerned primarily with making improvements on the customer dimension of [Figure 1](#). I believe that marketers are kidding themselves if they believe they can reliably predict major changes in consumer behaviour. There are too many uncertainties in how consumers may react and too much unpredictability in competitive response for single-shot leaps into the unknown to be relied upon.

This explains why Markides and Geroski emphasise the importance of supply–push rather than demand–pull. Neither *radical* nor *major* innovation can reliably be produced through market research, no matter how imaginatively the research is designed. These large leaps are best made by R&D labs or from new smaller companies simply trying out new value propositions.

In other words, marketing can lead evolution in value propositions, not revolution. Steady improvements in performance are marketing's natural domain; huge leaps are not.

### **Primary Leadership in Incremental Innovation**

This means that marketing's primary leadership role is in *incremental* innovation, the bottom left box in [Figure 1](#), where the limited change in consumer behaviour required for success means it is predictable. Furthermore, since little change is required of business systems, marketing can take the lead. Incremental innovations can be much more than line extensions, such as plain chocolate KitKat; I would argue that industry icons such as Innocent drinks or Dove or Mars Ice-Cream also fall into this category. In addition almost all of Tesco's marketing, under the self-explanatory 'Every little helps', is of this type.

This does not mean there is no role in major or strategic innovation. Far from it. Once the big leap has been made, marketing has a critical role in exploiting the initiative. In other words, companies can be 'fast second' in radical and major innovations by using the same approaches that are normally used for incremental innovations.

Apple was not first with hard disc music players with the iPod, but its incremental changes to the earlier offer from Creative Technology have made it the big winner. The essence of marketing is to understand how consumers are reacting to products and why, and to make the necessary small adaptations to value propositions.

These changes may be to the product if initial customer response shows weaknesses, but equally may be around price, which will have been even harder to predict, or other 'traditional' marketing activities such as advertising, promotion, packaging and distribution.

## **A Support Role in Strategic Innovation**

Finally for the bottom right box of [Figure 1](#), *strategic* innovation (where the business system is redesigned although the customer demand is not that different) marketing will play a support role to the initial business process redesign. Its role is to ensure that small changes to the customer demand are positive, although the major challenge will be to the operations of the business. (In consumer terms, Skype, after all is just a more dramatic way of delivering standard telephony; Pret A Manger is just a different way of delivering M&S fresh sandwiches; easyJet delivers air travel cheaper than British Airways.)

Once in place, incremental marketing can again take the lead in modifying the offer and communicating the improvements created by the more efficient business approach.

For those who argue that marketing is all about creativity, and fear that I am ignoring that, please note the critical role of variation of the value proposition to test and learn in my argument. Variation is where creativity comes in – and there can be loads of creativity in these incremental changes. I would argue that all advertising, promotion, line extensions, new segmented offers and international expansion lies within the domain I have outlined for marketing. It is really only the heroic innovation leaps that I am excluding.

## **MARKETING'S INNOVATION OPPORTUNITIES**

In my previous contribution to *Market Leader* with Fiona Stewart and Fran Cassidy we presented the finding that CEOs felt that marketers were often undisciplined, uncommercial and not accountable. The argument in this article suggests one way to address this challenge.

Big leap innovations may remain the sexy part of organic growth, but it is not what CEOs are, or should be, looking for from their marketing departments. By improving the evolution of marketing offers and focusing on rigorous exploration of smaller changes, marketers could reverse this opinion by giving CEOs what they expect in terms of market share and profit growth.

## **COMMON BUSINESS DELUSIONS THAT AFFECT JUDGMENTS ON INNOVATION**

### **The Halo effect**

One of the most pervasive delusions in business is the halo effect – when a company does very well, people conclude that everything about that company is fantastic – the leader, the people, the strategy, the culture and execution. So a company that is successful at innovating is immediately viewed by commentators as all of these things. And, often the same company a few years later, when its performance dips, is terrible at everything – awful leader, processes that did not adapt to the new reality, sclerotic culture, unable to execute in the new world – Enron is the classic example.

### **Confusing Luck With Skill**



A second error that I fear is often present in discussions of innovation is confusing luck with skill. We have already seen that there is a big chunk of luck involved in innovation, so how can we know that a successful company has been skilful as opposed to lucky? We see a company that has successfully innovated and we conclude that it is a great company (no doubt influenced by the halo effect). But we cannot be sure that it has not just been lucky – any more than seeing a lottery winner allows us to conclude they are great at picking tickets.

## **Connecting the Winning Dots**

Another problem with discussion on innovation is that much analysis only looks at the winners. But if you only look at the winners, you are falling into a logical trap. The advice we are giving managers is of the form 'If you do this, then you will be successful at innovating.' But logically you cannot conclude that statement from the statement 'If you are successful at innovating, you will have done this.' Why not? Suppose 'this' is 'get up in the morning'. Our analysis of successes indeed shows that those successful at innovating get up in the morning, yet suggesting that getting up in the morning will guarantee innovation success is worthless. Instead, we need to have demonstrated that 'If you fail at innovating, you will not have done this.' We must examine failures and how they differ from successes, with facts that are not sullied by the halo effect, before making conclusions.

## **Applying Lessons From One Domain To Another**

A last logical error we must avoid is to assume that because something improves innovativeness for one company, it will improve it for others. We need to be confident that there is sufficient similarity between the two situations for such a conclusion to be drawn. What works in packaged goods may not have much relevance for computer makers (where the role of technology may be much higher). What works in grocery retailing may not have much relevance in packaged goods (because the ease of experimentation in retailing is so much higher). What works for a challenger may not have much relevance for a market leader. Good science pays a lot of attention to categories – trying to group observations into categories that differ on critical dimensions and then using scientific method to test hypotheses about these categories. In innovation we must take the same care (source: Phil Rosenzweig (2007) *The Halo Effect*).

## **WHY OPEN INNOVATION CAN OUTPERFORM ALTERNATIVE APPROACHES**

To illustrate the power of increasing variation combined with selection and scaling, let's examine the often-cited example of P&G's Connect + Develop initiative. This programme has its roots in the announcement by AG Lafley, P&G CEO, in 2003 that his vision was that in future '50% of P&G's discovery and invention could come from outside the company'. At the time less than 10% of P&G's programme arose from this source. The big advantage in evolutionary terms of looking outside through what has become known as 'open innovation' is an increase in variation. By limiting yourself to new ideas only from inside, there is a massive reduction in variations that can be put out there, giving evolution less material to work on. But as we have seen, evolution also requires selection and scaling.

This is arguably where P&G's traditional strengths as a marketing company come to the fore. With its passion for measurement, it is able to ensure selection on the grounds of true success in the marketplace, not merely initial observation of a range of image measures, or worse, gut feel of the marketing department. And with its strength in processes, it is able to ensure successful tests are committed to and scaled up.

## **THE POWER OF SMALL ADAPTATIONS**

Consider what happened in the early days of loyalty grocery cards, when Safeway launched the ABC

card and Tesco its Clubcard. Both marketing departments recognised that the greatest long term value would lie not in increased sales due to the 1% discount it provided, but rather in using the data that the cards provided, for the first time allowing them to link sales to individual customers. Loyalty card members would opt in to a relationship in which they permitted the grocer to learn more about their behaviour, and in return the grocer would tailor their offer to the individual consumer, in particular through targeted promotional offers.

However, the two companies approached this opportunity in quite different ways. Safeway adopted an approach seeking to analyse every element of every transaction. They attempted to understand their customers better through this enormous analytical undertaking, developing a segmentation approach capturing all the intricacies of shopper behaviour. This enormous effort failed as it resulted in an analytical load beyond their capability.

Tesco, on the other hand, consciously threw away most of the data in an attempt to develop a few useful insights initially. When these insights were proven to be of value, they slowly added complexity to their analysis and to the activities they prompted, with the complexity increasing every year.

Today Tesco delivers a huge number of different promotions to its customers, each driven by an understanding of their own specific purchase patterns. Investment analysts have credited Clubcard with being the most significant driver of Tesco's success, so important has it become to the Tesco way of doing business.

By making many small adjustments to its strategy, over time evolving to a very complex set of tactics, Tesco was able to find much greater value from its loyalty card than Safeway in its attempt to leap straight to a fantastic solution.

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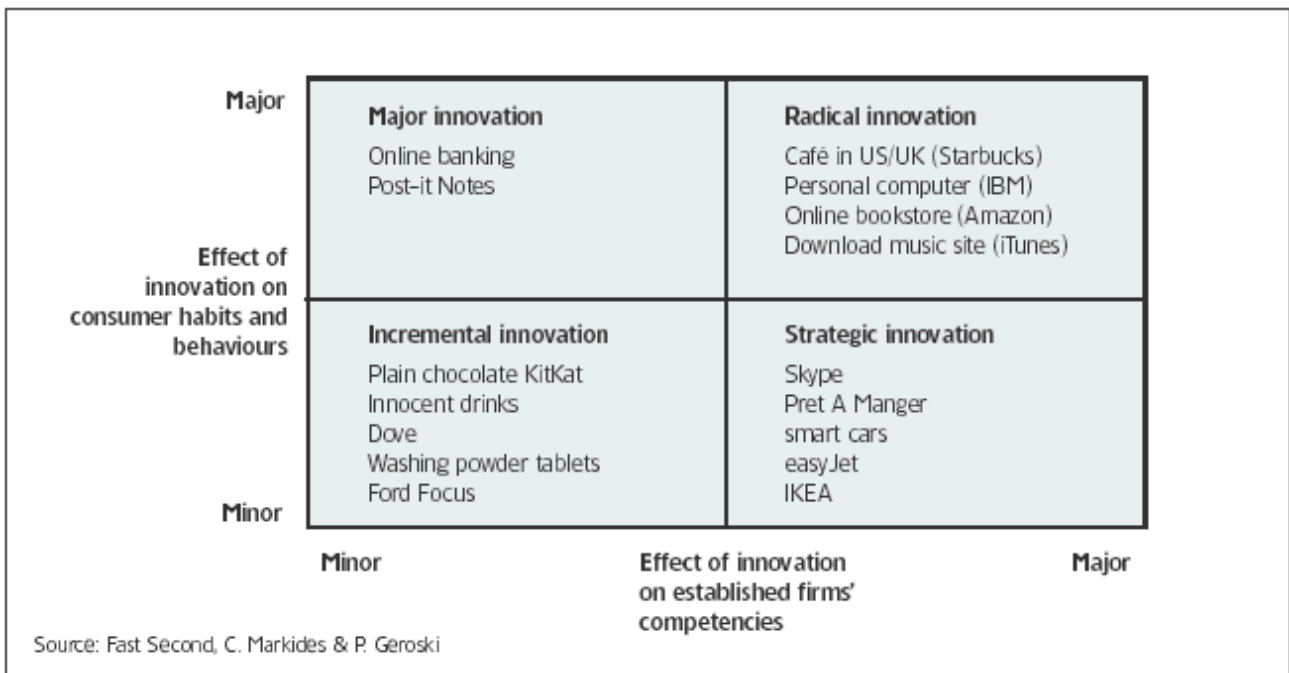
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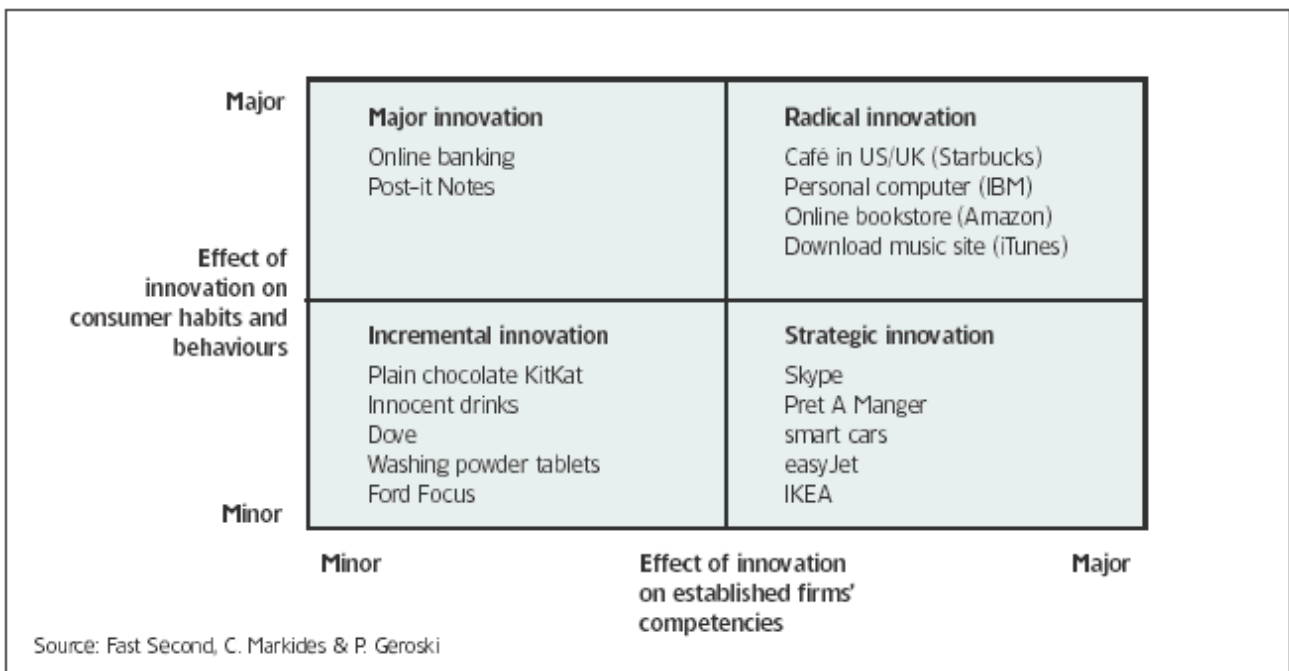
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## NOTES & EXHIBITS

### FIGURE 1



**FIGURE 1**



# Vodafone: adopting a system for managing new ideas

Jonathan Turner  
Oxford Strategic Marketing

The Vodafone Group provides a full range of mobile telecommunications services, including voice and data communications. Vodafone has equity interests in 27 countries and partner networks in a further 27 countries with almost all the group's mobile subsidiaries operating principally under the brand name 'Vodafone'. Turnover for year end March 2006 was £29.4 billion.

A big issue for companies like Vodafone in the mobile phone market has been how to differentiate. New, breakthrough products are critical to win in this highly competitive sector. However, the industry has traditionally been technology-led, rather than customer-led. This has meant a pronounced lack of competitive differentiation.

Vodafone had come to realise that its traditional concept testing was not working hard enough. While hundreds of product concepts were tested, there was no standardised testing, no benchmarks and no way to compare one concept with another.

To overcome this, the Vodafone Global Insights team developed the Differentiation Potential System (DPS). This was an end-to-end system designed to put customer insight at the heart of product development. It was a complete business process to ensure that the voice of the customer was integrated into the way products were developed and priorities set.

By the end of 2005, the system was providing Vodafone with the common currency by which teams could measure the success of their product ideas. In addition, highly detailed diagnostics meant that further development on every individual product could be based on understanding customers. Even more significantly, it changed the way the company does business by having a profound affect on the way it perceives and reacts to customer needs.

## **SETTING THE SCENE: RETHINKING THE NEW PRODUCT PROCESS**

Sustainable differentiation has been a huge challenge in the highly competitive mobile telecoms market. All mobile operators have already been offering their customers a wealth of different products and services: voice, text, picture messaging, video calling, games, mobile internet and so on. For the customer, the options can be bewildering. Price/value promotions have played their part, but can't ultimately deliver sustainable differentiation. The market is awash with a huge array of different tariff options, bundles and offers. While these might be effective for a short period, offers can easily be replicated by competition (and often are).

### **The Importance of 'Breakthrough' Products**

Vodafone has been keenly aware that 'breakthrough' product concepts are critical to maintain its position as the market-leading mobile operator across the globe. Customers' expectations in the

mobile market move very fast, so it is critical to have a pipeline of new ideas and new products ready to deliver against their needs. And, within Vodafone, there has been no lack of new product ideas. At any one time, there can be upwards of 50 different products at various stages of development.

The question for the company was: how could it be sure it was putting development resources behind the best ideas with the greatest potential? It was critical to ensure that these important decisions were informed by the best information possible about what customers really wanted and what they would really use.

However, different methods of testing were making comparisons impossible. Each was using different metrics and methodologies. There was no way to make objective comparisons of one product idea vs another.

The lack of a historical database also meant ideas being reworked for no reason. With no way to track what ideas had been tested in the past, and how they performed, the organisation was wasting resources on unnecessary rework. And changing business objectives mean that there could be no single consistent measure of 'success'. As the organisation's focus shifted (for example from 'acquisition' to 'revenue per user' to 'brand'), so did the measures of success.

## **Getting Results**

To overcome this, Vodafone's Global Insight team set its sights on bringing all concept development research together into one system to promote consistency, simplicity and actionable results.

Working in conjunction with strategic marketing consultancy Oxford Strategic Marketing and market research company Research International, a comprehensive global diagnostic tool and process was developed.

There were four key objectives of what was named the Differentiation Potential System (DPS).

- Provide one top-level measure of customer appeal for products and services at all stages of development by introducing a consistent, comparable 'currency' by which all products and concepts could be measured.
- Provide diagnostics on every product concept – driven by customer insight – to help optimise the development process. This called for communicating customer insight in a way that was digestible for development teams, enabling them to apply what they learned to the products they created.
- Provide a way to reduce the complexity of many ideas researched with many customers in many markets, both in terms of the testing process to manage this, and the way in which results were reported.
- Make it easier to put the right resources against the best ideas and product concepts for the right reasons. Consistency in one common measurement approach, used across the globe, was critical to make this happen.

## **CREATING A NEW SYSTEM FOR MEASUREMENT**

First, a new and harmonised way of measuring product concept performance was developed: the 'DPI Score'. This combined a number of key product concept performance metrics into a single number. To measure these metrics properly, a great deal of preliminary research and analysis was conducted by Research International to identify the 'killer questions' that had the greatest correlation

with actual product performance and overall appeal.

The score effectively creates the common, consistent criteria that enable the swift comparison of any product concept with any other. This is critical in addressing the first objective for the new system: to establish one common currency by which all product concepts can be measured.

However, a single score was not enough. Vodafone worked with OxfordSM to design a 'performance profile' which would be delivered for every concept. A good score is not a necessity, but an indicator of 'a worthy concept'. The performance profile measures every concept tested against the most important key performance indicators (KPIs) for Vodafone's business.

The full mix of metrics helps establish what role (if any) a product could play in the portfolio. Few (if any) products can deliver great results against every KPI. Different products need to play different roles in the portfolio. Some will help drive frequency of usage, others will help drive brand preference, and so on.

## **BUILDING A BUSINESS PROCESS AROUND RESEARCH**

The new system is not just about smart customer research: it is an end-to-end system, designed from the start to have a maximum impact on the business. A top-line overview of the different elements of the DPS process designed by Vodafone and OxfordSM would consist of:

- idea generation
- prepare and prioritise stimulus
- fieldwork
- analysis
- action planning.

Management sponsorship and training for each stage ensures that the system is being embedded into the organisation. That means that insights generated by research will now be at the heart of how products are developed and prioritised.

Centralising the process provides a 'hub' for all development teams and eliminates the need for different testing on different products in different markets. The cycle is run four times a year. There is always an opportunity for any development team in Vodafone to submit their ideas, and get detailed results back in just a few weeks.

Better still, the system allows them to see the results for their own ideas in context with 45–50 other concepts run during the same wave of fieldwork, and also compared to the results for every concept ever run through the system (already over 130 by the end of 2005).

## **ANCHORING IDEAS IN CUSTOMER NEEDS**

A structured approach to concept creation ensures that every new idea is anchored in customer needs. The new approach thus breaks down concepts into their constituent elements – need, benefit, features etc. (the 'raw material' for each concept). There are clear guidelines for what goes into each part. The approach enforces rigorous, customer-focused thinking.

Extensive training has established capability across the organisation, enabling non-marketing staff to

regularly submit the elements of a well-structured concept. The company could not simply rely on a few marketing-savvy individuals adept in concept-writing. It 'demystified the art' and trained development teams, so they no longer need to go through the marketing department or an agency.

An online concept-submission system has reinforced the discipline. Users fill in all the key elements of a good concept, with online hints and tips available to build on the training. Every submission is crafted into a well-articulated product concept in customer language. An independent copywriter ensures consistency in quality, style and use of language.

## **FIELDWORK ON AN INTERNATIONAL SCALE**

In every wave of research, Research International managed concept testing with over 20,000 customers across four countries. This mix of countries means that a sufficient range of different customer needs are collected to help predict likely reactions in most markets.

Every product concept is tested with every customer segment in every market, enabling Vodafone to see if its product targeting is right. In any wave of research, each of the 45–50 concepts will be seen by around 1200 customers. Every concept can be tested with a significant sample of each of Vodafone's strategic customer segments in every market. The company can thus immediately see the relative potential of any idea across segments and across markets.

Doing fieldwork online makes sure the process is fast and flexible, with research turned around in just three weeks. Customers are recruited from online panels, while Vodafone can also recruit 'on the fly' during fieldwork and react to unexpected shifts in customer mix.

The research questionnaire is very focused. Every question is chosen to deliver against specific pre-planned analysis. Even though the company has collected very comprehensive data on every concept, the questionnaire takes just 20 minutes to complete. Within this time, the company can capture information on the customer's profile, their usage of technology, and the critical KPIs of concept performance.

Because the research is totally consistent, it enables comparisons across all products, all segments and all markets. This is critical if the system is to establish a common currency and benchmarks to underpin the building of a massive database of results with both qualitative and quantitative data.

## **REPORTING BACK**

Vodafone worked with OxfordSM to develop a suite of bespoke reporting tools which allow immediate comparison of every concept with every other. This has revolutionised the company's approach to portfolio planning, allowing Vodafone to answer a range of important questions such as:

- which will drive high penetration of usage?
- which will encourage highest frequency of usage?
- which concepts are most likely to drive revenue?
- which will encourage switching or loyalty?
- how does each compare with class bench marks?

Further diagnostic tools have been designed to provide a detailed understanding of strengths, weakness and opportunity areas for each individual concept. The product development teams are

now better informed than ever because they can answer questions such as:

- which customer segments does this concept appeal to?
- what's driving the appeal?
- when and how might they use this product?
- what impact might it have on Vodafone's business?

Within six months, the system was fully established as the single consistent global approach for testing new product concepts and was helping Vodafone move from a technology-led to a customer-led organisation. By the end of 2005, the system had already built up such value and credibility among the insight, product and proposition teams, that the company found that people throughout the business were keen to submit even more ideas than there were research slots. That led the company to review ways to improve the capacity and flexibility of the system.

## **TRANSFORMING THE BUSINESS**

Within a relatively short time the company had become far more decisive about putting resources behind the best ideas and killing off the worst. Six key initiatives were halted or de-prioritised as a direct result of the system's output. Again, this was a very tangible measure, demonstrating that the results had gained real 'currency' in the organisation. Senior managers were genuinely using the system to guide them in some of their biggest decisions.

For example, the features of the 'Vodafone Simply' handset (one of the best-selling in the market) were changed based on the system's output. Even for a product which had already hit the market, the powerful diagnostic results were crucial in defining 'release 2'.

All decisions on which products to include in the product roadmap now always incorporate the system as a critical input. It is used not only to help prioritise resources for one concept vs. another, but also to check that each individual product concept is genuinely delivering against a real customer need.

It has also revitalised the focus on customers' core need for communication. The mobile market continues to be drawn by the excitement of products delivering entertainment through mobiles. But the system has provided a great reality check, and is helping Vodafone renew its efforts to look again at what customers really want their mobile to do: help them to communicate better.

## **BECOMING MUCH MORE EFFICIENT**

The efficiency of the system has also meant that more concepts are being tested more rigorously than could ever have been achieved in the past. Centralising the concept testing process for the globe has delivered huge economies of scale as well. Funds and resources are no longer being wasted on ad hoc testing.

In addition, the system has been used to help build business models and inform financial planning. The system's range of metrics on potential penetration, usage and revenue from new products is proving invaluable to teams that need to estimate the business potential of new product ideas.

Furthermore, it is becoming a key input in understanding customer trends. Comparing the results over time allows the company to see how customers' needs from their mobile are changing. This is an important input for the innovation and idea-generation process.



By the beginning of 2006, even Vodafone's local market operating companies were seeking to apply the approach. There is enormous potential for the system to spread its wings further, and for the techniques established at a global level to be used at a local level, especially for testing local variations of product concepts, or market-specific initiatives.

The company is confident that putting customer insight at the heart of new product development will result in a step change in the usage and adoption of Vodafone's future products because the products which are being developed as a result of this comprehensive approach are better grounded in real customer needs than anything ever done in the past.

## **EXTENDING THE TOOLKIT**

Beyond the bespoke tools mentioned in this article, there are also a range of different analytic and reporting resources available to meet the needs of different internal stakeholders. These include the following.

1. Standard global reports for the whole business. Quarterly reports, published by the Vodafone Group Insight Team, summarise results from the latest wave of research, with comparisons against all historical benchmarks. They are based on a standard set of customer breaks and include commentary and interpretation of the data.
2. Online analyser for specific queries. This is a flexible system to create a user's own customised charts, with search results for any concept past and present. It also contains plot results for any customer group in any country.
3. Interactive Excel database for detailed analysis. This encompasses every data point for every concept by market and by customer segment. It is available for detailed analysis and understanding of what lies beneath the published results.
4. Action planning tools to help development teams. These deliver all key data on one concept in a form that highlights key issues and opportunities, along with a structured approach for planning how to develop the idea further.



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## **A manifesto for mavericks**

William C. Taylor & Polly Labarre  
Maverick

American business needs a breath of fresh air. We are, at last, coming out of a dark and trying period in our economy and society – an era of slow growth and dashed expectations, of criminal wrongdoing and ethical misconduct at some of the world's best-known companies. We've seen the face of business at its worst, and it hasn't been a pretty sight. It's time to rediscover the power of business at its best and to develop a better way to lead, compete, and succeed.

The good news: despite all the bleak headlines and blood-boiling scandals over the last five years, the economy has experienced a period of transformation and realignment, a power shift so profound that we're just beginning to appreciate what it means for the future of business – and for how all of us go about the business of building companies that work and doing work that matters.

In industry after industry, organisations and executives that were once dismissed as upstarts, as outliers, as wildcards, have achieved positions of financial prosperity and market leadership. There's a reason the young billionaires behind the most celebrated entrepreneurial success in recent memory began their initial public offering (IPO) of shares with a declaration of independence from business as usual.

'Google is not a conventional company,' read its Letter from the Founders. 'We do not intend to become one.'

That unconventional spirit is the defining spirit for the next era of business leadership. In an age of hyper-competition and non-stop innovation, the only way to stand out from the crowd is to stand for something truly unique. You can't do big things anymore – as a company, as a team, as an individual executive – if you're content with doing things a little better than everybody else. Originality has become the acid test of strategy.

Maverick companies aren't always the largest in their field; maverick entrepreneurs don't always make the cover of the business magazines. But mavericks do the work that matters most – the work of originality, creativity, and experimentation. They demonstrate that you can build companies around high ideals and fierce competitive ambitions; that the most powerful way to create economic value is to embrace a set of values that go beyond just amassing power; and that business, at its best, is too exciting, too important, and too much fun to be left to the dead hand of business as usual.

### **THE NEXT AGENDA FOR BUSINESS**

Alan Kay, the celebrated computer scientist, put it memorably some 35 years ago: 'The best way to predict the future is to invent it.' We believe that a new generation of hard-charging companies, change-oriented executives, and breakthrough-minded entrepreneurs is inventing a more exciting, more compelling, more rewarding future for business. Across the economy, mavericks are winning big at business – attracting millions of customers, creating thousands of jobs, generating tens of billions of dollars of wealth – by rethinking the logic of how business gets done.

They have devised provocative and instructive answers to four of the timeless challenges that face organisations of every size and leaders in every field: how you make strategy, how you unleash new ideas, how you connect with customers, how your best people achieve great results.

There are, of course, many ways to be a maverick – experimentation and individuality go with the territory. But most of the mavericks we've come to know, based on our in-depth access to 32 different organisations in a wide variety of industries, subscribe to a set of principles – about strategy, leadership, creativity, and success – that represent the new face of business at its best, a better way to compete, lead, and win. Here are four of those principles.

## **1 BEING DIFFERENT MAKES ALL THE DIFFERENCE**

Winning companies don't just sell competitive products. They stand for important ideas – ideas that shape the future of their industry, ideas that reshape the sense of what's possible among customers, employees, and investors. Behind every maverick company we've come to know is a distinctive and disruptive sense of purpose – and the companies with the clearest sense of purpose win.

### **Southwest Airlines**

Is there any more powerful example of this message than Southwest Airlines? For decades, Southwest was dismissed as a flighty sideshow to the blue-chip airlines that ruled the sky. Today, it is celebrated as the only major airline that generates consistent growth, creates (rather than eliminates) jobs, and generates real shareholder wealth. From a financial perspective, the airline industry ranks among the least-attractive businesses of all time – the established carriers lost a combined \$30 billion from 2001 through 2004. But over its lifetime, Southwest has been among the best-performing stocks in any industry. Indeed, if you were smart enough to have invested \$10,000 in the company's IPO back in 1972, you'd have more than \$10 million today – a 1000:1 return on your money.

Southwest didn't achieve these spectacular results because its fares were a little lower than Delta's or its service was a little friendlier than the not-so-friendly skies of United.

It achieved these results because it re-imagined what it meant to be an airline and why you'd want to be in the industry in the first place. Southwest's leaders don't think of themselves as merely being in the airline business. They think of themselves as being in the freedom business. Their purpose is to democratise the skies – to make it as flexible and affordable for rank-and-file Americans to travel as it is for the well-to-do. The unique elements of its economic model – the strategies that create so much economic value – are a direct result of the value system that inspires the organisation. That's instructive: maverick leaders don't just strive to build high-performance companies. They champion high-stakes agendas. They create a competitive edge around an edgy critique of their industry. They present a fresh take on the world that clicks with customers, energises employees, and shapes their business: which markets they target, which customers they serve, what messages they send.

### **ING Direct**

ING Direct, the fast-growing internet bank, is a classic example of a high-performing maverick whose disruptive presence is based not on the speed of its technology but the originality of its point of view. ING Direct is to banking what Southwest is to airlines – a maverick player that thrives by challenging the status quo and offering alternatives to the worst practices of its rivals. The leaders of ING Direct declare that the purpose of their company is to 'lead Americans back to savings' – to serve as an antidote to a toxic financial culture that encourages individuals to save too little, spend too much, and make investments that are far too risky. In less than six years, the company's deeply held ideas and brash attitude in the marketplace have attracted nearly four millions customers – and \$40 billion worth of deposits. Ideas matter: the only sustainable form of market leadership is thought

leadership.

## **2 SHARING YOUR VALUES BEATS SELLING VALUE**

There is a tension at the heart of the relationship between most companies and their customers. Companies are offering better deals than ever, literally the best bargains in history. It has never been cheaper to fly from Dallas to Los Angeles, to make a phone call from Boston to Brussels, to buy a laptop computer or a DVD player. Yet the more companies raise quality and lower prices – and the more they spend on flashy ads and frantic promotions – the less they seem to impress their customers. All the market research arrives at the same conclusion: there is a customer-satisfaction crisis across the economy. There's a simple reason for this apparent contradiction: when just about everything keeps getting cheaper and better, offering customers something that's a little cheaper and better today won't win them over – because something else is bound to be cheaper and better tomorrow. It was Clare Booth Luce who wrote, 'No good deed goes unpunished.' The business world has its own version of that ubiquitous aphorism: 'No good deal goes unchallenged.'

### **Starbucks**

That's why the most precious asset in business is an emotional connection with customers – a psychological contract that redefines expectations and reinvents a category. Think about Starbucks. Seattle's espresso empire is one of the true entrepreneurial miracles of the last two decades – more than an iconic brand, more than a growth company, it's a destination and an institution that has become a recognisable piece of the American landscape – a so-called 'third place' between home and work where people meet, think, relax, listen to music, check email (and, by the way, happily spend \$3.50 for a latte). Starbucks doesn't just sell coffee. It offers a sense of connection.

### **Commerce Bank**

Commerce Bank, a standout performer in the humdrum world of retail banking, looks directly to the Starbucks phenomenon as a source of inspiration and differentiation.

The bank embraces what it calls 'retail-tainment' to make the experience of dealing with its employees colourful, convenient, and flat-out fun. Commerce has attracted more than \$35 billion in deposits not by offering the highest interest rates in New York City, Philadelphia, or the other ultra-competitive cities in which it operates, but by providing the most inviting and entertaining atmosphere – by creating a company that people go out of their way to do business with, even if they can get a slightly higher interest rate from the boring bankers down the street. Experiences matter: people want to do business with companies that share their values and put those values on display in a consistent and engaging way.

## **3 NOBODY IS AS SMART AS EVERYBODY**

If you believe, as we do, that behind every maverick company is a set of distinctive and disruptive ideas, then the obvious question is: 'Where do great ideas come from?' The answer is: they can come from anywhere in the world, and anyone in the world, if you're smart enough to ask.

This is a big change. Business leaders used to assume that if they were in charge, they were supposed to have all the answers, the boss did the thinking, the troops did the work. When it came to generating ideas, if you were the CEO, or the head of a business unit, or the leader of a team, you were, by definition 'the smartest person in the room' – whatever room you happened to be sitting in. That's the old world of innovation. The new world of innovation is built on the principle that 'nobody is as smart as everybody'. Tim O'Reilly, founder of O'Reilly Media, the computer-book publisher, and a leading authority on open-source software, argues that innovation is no longer just about who

has the most gifted scientists or the best-equipped labs. It's about who has the most compelling 'architecture of participation'. Which organisations make it fun, interesting, and rewarding for far-flung engineers and talented amateurs to contribute an idea or solve a problem? Ultimately, O'Reilly argues, the companies that are most likely to dominate their business are the ones most adept at harnessing the collective intelligence of everyone with whom they do business.

## **P&G's Connect + Develop**

That's the mind-bending logic behind P&G's Connect + Develop initiative. A 170-year-old global giant has borrowed ideas from the nascent world of open-source software to rethink its whole approach to innovation. The company's leaders understand that not even an organisation as big and rich as P&G can afford a do-it-yourself approach to innovation – not in a world where thousands, tens of thousands, hundreds of thousands of well-trained researchers are working in labs in Russia, China, and India, on all kinds of innovations that are relevant to the company's huge assortment of brands. That's why P&G looks outside the walls of its celebrated research labs, and beyond the breakthroughs of its full-time scientists, to tap the brainpower of the whole world. Even though P&G employs many of the smartest scientists and engineers in their fields, its leaders understand that people don't have to work for the company in order to work with it – and not everybody can work for P&G.

Hence the aim of its Connect + Develop programme: to import half of all new technologies and product ideas from outside the company. Not to outsource existing work from its labs, but to insource breakthroughs from anyone in the world and anywhere in the world – so long as those ideas are relevant to P&G's business.

Your leadership mindset matters: applying the new outside-in logic of innovation means abandoning familiar assumptions about where great ideas come from, who gets to be part of your organisation, and how to inspire the best contributions from them.

## **4 THE PEOPLE ARE THE COMPANY**

It is the most ubiquitous platitude of corporate life: 'People are our most important asset.' The undeniable reality, of course, is that the human side of enterprise remains the ultimate backwater. Be honest: how many companies do you know that are as creative, as disciplined, as businesslike about the people factor in business as they are about finance, engineering, marketing?

Over the years, as we've travelled the world to evaluate the changing state of business leadership, we've searched for those companies. We haven't found many. In fact, we haven't met all that many CEOs who could provide a compelling response to a simple question we like to ask when we visit an organisation for the first time: Why would great people want to work here? (The answer, we add, can't be about salaries, bonuses, or stock options.) What is it about the ideas your company stands for, its point of view in the marketplace, the ways in which employees interact with customers or collaborate with each other, that becomes irresistible to the best people in your industry?

These are not trick questions. They are the building blocks of long-term prosperity. For one thing, you cannot have happy, satisfied customers if your organisation is filled with unhappy, dissatisfied people. And the most direct way to fill a company with great ideas – in addition to opening its walls to outside brains – is to fill it with great people.

That's why maverick companies are as unconventional and uncompromising about the people factor in business as they are about every other factor. They understand that among the most urgent business decisions they make is not just which new markets to enter or which new products to launch, but which new people to let in the door – whom to hire, and how to mould great teams out of gifted individuals. There is an iron-clad connection between your approach to the talent market and

success in the product market.

## **Pixar**

Few organisations understand this connection better than Pixar Animation Studios, which, among business pundits, has become a kind of entrepreneurial movie star. In early 2006, Walt Disney Company agreed to acquire Pixar in a deal valued at \$7.4 billion – not bad considering that Steve Jobs paid just \$10 million to gain control of the fledgling outfit back in 1986. From \$10 million to \$7.4 billion – that's what happens when you lead a studio that has produced an unbroken string of hits, mastered the art and science of digital animation, won 19 Academy Awards, and generated more than \$3 billion at the box office.

Ultimately, though, Pixar's rise to stardom isn't about clever strategy, powerful technology, or affecting scripts. The company doesn't just make films that perform better than standard fare. It makes its films differently – and, in the process, defies many of the familiar (and dysfunctional) conventions that have come to define how the movie industry works. In an industry where talented individuals – actors, directors, studio bosses – spend much of their time jockeying for advantage and scheming against rivals, Pixar has mastered a distinctive model of all-for-one team-work, symbolised by the central role that Pixar University plays in its operations.

Pixar became the envy of Hollywood because it never 'went Hollywood'. Its powerful results in the marketplace relate directly to its wholly original approach to the workplace. How Pixar works explains why its films work so well with audiences. Talent matters: any company or leader that aspires to unleash a disruptive presence in the marketplace needs to devise a distinctive approach to the workplace.

## **THE MAVERICK CHALLENGE – TEN QUESTIONS FOR YOUR COMPANY (AND YOURSELF)**

We've made the case as forcefully as we know how that you can't do big things in business if you're content with doing things a little better than your rivals. That's the central message behind the performance of every company we visited and every executive whose work we explored in this manifesto and in our book. To help you put our messages to work, we've compiled ten questions that amount to a maverick challenge.

### ***1. Is there a distinctive and disruptive sense of purpose that sets you apart from the competition?***

The best companies are the ones that stand for the most original and compelling ideas. What ideas are you and your company fighting for?

### ***2. Can you be provocative without provoking a backlash?***

There's a difference between challenging the status quo and inviting retribution from rivals that are bigger, richer, and more ruthless than you. One key test of any would-be disruptor is whether he or she can also be a convincing diplomat.

### ***3. If your company went out of business tomorrow, who would miss you and why?***

We first heard this question from advertising maverick Roy Spence, who tells us that he got it from Jim Collins of Good to Great fame. Whatever the original source, the question is as profound as it is simple – and worth taking seriously.

### ***4. Are you the kind of person that other smart people want to work with?***

If you expect outsiders (or even colleagues) to share their best ideas with you, then don't be surprised when they expect something in return. It can be money, it can be recognition, but more often than not, what draws people into open-source projects is the chance to push themselves and develop their skills.

### ***5. Can you make innovation fun?***

Ideas are serious business, but if you're working to tap the brainpower of outside-the-mainstream contributors, then you have to work to keep your open-source project colourful, dramatic, and energetic.

### ***6. Do you treat different customers differently?***

If your goal is to establish a psychological contract with customers, then almost by definition you won't appeal to all customers. One test of how committed a company is to its most important customers is how fearless it is about ignoring (even offending) customers who aren't central to its mission. Not all customers are created equal.

### ***7. Why should great people join your organisation?***

The best leaders understand that the best rank-and-file performers aren't motivated primarily by money. Great people want to feel like impact players inside their organisations. Great people want to be surrounded with and challenged by other great people. Put simply, great people want to feel like they're part of something greater than themselves. Does your company give them that chance?

### ***8. Do you know a great person when you see one?***

For organisations that are serious about competing on talent, who you are as a person is as important as what you know at a moment in time. That is, character counts for as much as credentials. Do you know how to conduct a character test?

### ***9. Does your organisation work as distinctively as it competes?***

It's a simple question with huge implications for productivity and performance. Leaders who are determined to elevate the people factor in business understand that the real work begins once talented people walk through the door. HR maverick John Sullivan says it best: 'Stars don't work for idiots.'

### ***10. Are you learning as fast as the world is changing?***

We first heard this question from Gary Hamel, the world-renowned strategy guru, and it's the ultimate challenge for any executive or entrepreneur. The best leaders we've met, regardless of their age, experience, or personal style, have all been insatiable learners. In a business environment that never stops changing, you can never stop learning.



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## **Every little helps: fresh&easy brings 21st century retailing to the US**

Tim Mason  
fresh&easy

**JUDIE LANNON: I understand you and your team have studied American shopping patterns very extensively. When you first saw the research and analysis what were the things that surprised you most?**

**TIM MASON:** Probably the most surprising thing to me was the number of different stores that an American family uses to shop. They shop in up to 20 different stores – many more than the equivalent would in the UK. They will use different types of shop for their food, for their cleaning products and for their personal care products. What I discovered is that you just can't get everything that you want in one place. For instance, they will use Trader Joe's, which is a very innovative shop, for new and unusual products; they'll use Whole Foods for their added-value fresh products; and they'll use a mainline supermarket for basic commodities.

The main retail brands in Britain have much higher levels of loyalty and genuinely do fulfil the notion of a one-stop shop. That's less of the case here. People will wait for flyers and coupons and indeed, people who have time but not money, will actually take their shopping list and walk to two or three big players and then decide what to buy.

**JL: That does surprise me as the supermarkets in the US are so huge.**

**TM:** Yes they are, but the quality in the main supermarkets is all rather homogeneous. Obviously, Whole Foods' fresh-food counters are significantly better than a standard super-market's fresh food counters so if you're in a supermarket and you want a good-quality pre-cooked piece of chicken or fish and salad for supper, you know that there's a retailer out there who does it significantly better. The trouble is that the retailer who does it significantly better does not sell Coca-Cola, razor blades or washing powder. So if you need razor blades and supper, you're faced with the prospect of going to two stores on the way home.

**JL: It also surprises me that US supermarkets haven't developed different price/quality ranges in one store as most British ones have.**

**TM:** The fact is that Tesco, in particular, has done a very good job of covering a broad section of the market. Rich people with no time can buy convenience products of a very high quality and people who have time but not money can buy amazingly good-value basic items.

Whereas here it is more obvious that there is always an alternative out there that is different and better. You know that if you just stayed in your car for another five minutes there's a store down the road that is just a bit better for that particular thing.

Also I think that Americans like to shop and they may be making food shopping more interesting for themselves by going to a lot of different places.



**JL: If you put the idea that women like to shop together with the fact that there are such a large number of available shops, isn't it just possible that they don't really want a one-stop shop?**

**TM:** I think the answer to your question is that they do not want a one-stop shop at the cost of price or quality or usefulness. They do get irritated about the fact that they can't get everything in one place. Of course, you can get every commodity from a standard supermarket, it's just that other stores have better-quality versions of the same thing.

**JL: So I assume this is the gap you are planning to fill. What then is the proposition you are putting to people?**

**TM:** The core proposition is that fresh&easy is offering 'specialty standard foods', not actually specialty foods but specialty standard foods at everyday prices.

**JL: What exactly does 'specialty standard foods' mean to the American consumer?**

**TM:** We will be offering products of the quality that places like Whole Foods sell – and there are a lot of those kinds of stores targeted at affluent consumers – but at significantly better prices.

Also we're offering an easier shopping trip, with wider aisles, lower shelves, easier to get round, and a carefully edited range. The stores are smaller, with the advantage that it is easier for the customer to select. But the disadvantage is that the ranges will be more limited.

And because we have to offer an edited range, our buyers have to be category experts. They have to stand over the category and select each individual product. And each product has to have a reason for being, a place, a point of view. This will be different from many of our competitors whose business is more about real estate. They have big stores with lots of space in which they put every brand known to man and the poor consumer is forced to search. I went out at the weekend to buy salad dressing and it took me 20 minutes to find the one we normally buy.

**JL: How are you going to introduce this concept? What kinds of promotional activities are you planning?**

**TM:** We have to find ways to let people sample as many of our products as possible. The biggest proportion of our marketing budget for the opening years is actually on product sampling and buying.

In the store we have a thing called the Kitchen Table which is the heart of the store and we'll have people whose only job will be to run the Kitchen Table. They will be expert about every product and enable customers to participate in intensive sampling programmes. This means that whenever you come to one of our stores, we will be trialling various different foods that will demonstrate the quality of the fresh&easy products.

An important thing we picked up in our research is that the clamour is not so much for healthy food and healthy eating, but simply less adulterated food. People increasingly feel that food is much too processed.

This has led to a big effort in finding the right suppliers. A very few products carry preservatives because things like bacon and ham aren't bacon and ham if they don't have preservatives. And we've got some preservative in our dried fruit because people won't buy a dried apricot if it's brown. But generally we can promise no artificial additives, no artificial preservatives, no artificial colours and no trans-fats.

**JL: How much of your range will be your own products and how much manufacturer brands?**

**TM:** We're planning on about a 50/50 split. We took the view that this is the land of branded, fast-moving consumer goods. And going back to the point about being more of a one-stop shop and being more useful, certain branded items you just have to carry if you really want to satisfy a range of needs.

One of the things that you can do if you have a lot of your own products is control the whole delivery experience. You see it with Marks & Spencer and you will see it in sections of our stores that are heavily fresh&easy branded. You can organise how it looks on the shelves, how the shelf-ready packs look, how the packaging looks – everything is under your control. So you can really make it look nice, and if things look nice people tend to buy more. In areas that are more manufacturer branded you've got lots of different colours, lots of shouting going on, it looks less aesthetically pleasing. But those are the products we need to sell.

**JL: I understand there isn't such a wide range of prepared foods in the US compared to the UK. Did you have trouble finding quality suppliers for these kinds of products?**

**TM:** That's true and we've worked very hard in finding good suppliers. I've never come across as motivated a group of people as the fresh&easy brand supply base – other than fresh&easy people themselves. The reason is because we have gone out and found like-minded people. For example, we've found a family business based in Los Angeles, that makes great tortillas without any additives or preservatives. We told them who we are, what our vision is, and how big we plan to be if we're successful. And they decided that this is the opportunity for them to go from being a small local business supplying Los Angeles to a step change in their business. A major factor in the long-term development of our own brand over the past 20 years in the UK has been our partnerships with innovative suppliers. We are applying that partnership approach in the US, and our suppliers seem to really enjoy working with us.

**JL: Are there a lot of these kinds of companies in different Sectors?**

**TM:** Yes, there are and every product in the range has a back story – some specific reason why the fresh&easy buyer said that's the supplier for me. There's a coffee supplier called Rogers, out of San Francisco, again a family business, and they have a significant family charitable foundation. Every farm that they take coffee from, they put a social programme back so part of the way that they trade is to say we buy your beans but we also put back a water purification plant, a school or drainage system or something. They've become our coffee supplier and we've gone into that programme with them. So people can come in with us at the beginning and then scale up.

Our team has done a great job of sharing the better food, better quality, more natural, more environmentally concerned vision. And people have found it attractive and have wanted to come with us.

**JL: Are these back stories from your suppliers going to be used in any kind of consumer promotion?**

**TM:** They will be used extensively through packaging and some point of sale. But one of the findings from our research is that people are sick of being bombarded with messages. Everything screams, everything shouts, everything over-claims. They're saying just give me the information to enable me to make my mind up; tell it like it is. The American consumer is looking for the antidote to over-claiming marketing.

**JL: Is your approach of opening a lot of stores at once the way retailers do it typically? Or is this a risk you're taking deliberately?**

**TM:** It's basically a consequence of having such an integrated supply chain and having so much own-brand. Normally, if you open big stores, you put a big warehouse on the back and have direct

deliveries. So when you go into a new country you keep your infrastructure costs as low as you can. And when you get critical mass you then make the supply chain investments. But because fresh&easy is a business of small stores, it is critically dependent upon its supply chain. Therefore this can't mean having a few very high-performing, high-turnover stores. It has to be about having a lot of medium-turnover stores.

That's how we will build our market share and therefore we have to get them open quickly because we're building a distribution centre that has the capability of serving over 400 shops.

**JL: When do you think 400 shops will actually be open?**

**TM:** Probably quicker than you'd think. What we've said so far is that starting with Los Angeles we will have opened 50 by the end of the year and in excess of 200 by February 2009.

**JL: Who do you think will be your biggest competitors?**

**TM:** Our biggest competitors, statistically, are obviously the supermarkets because they are still the ones who have the lion's share of the food market. How they will respond remains to be seen. There clearly will be a price-based response because American supermarkets have an unbelievable number of price lists on which they run their stores and they all use price optimisation modelling. So I'm sure that they will come after us pretty aggressively on price.

But it's not that easy because one of the first things they will realise is that we're quite small and nimble, and difficult to catch.

**JL: British supermarkets have tried to crack the us market and failed. Why did Marks & Spencer and Sainsbury's pull out?**

**TM:** The main thing I think was that they both bought existing businesses whereas we have deliberately built our business model ourselves. If you look at the history of Tesco since Terry and I and the others on the executive board have been at the company, it's been a story of product development. We've developed new formats, developed new brands within the format and we've developed new businesses that live underneath the umbrella of the brand.

We're taking what we've learned in the UK in terms of customer insight and product development, as well as staff selection, management and motivation, and applied them in a way that is purpose-designed for the American market.

**JL: What is the proportion of British to Americans in your senior management?**

**TM:** My marketing director, my buying director, and my real estate director are all ex-Tesco in the UK and have between them 70 years service. My retail operations director, my supply chain director and my IT director are all American and they came into Tesco about ten years ago from Tesco in Thailand.

**JL: So they're all really pretty imbued with the Tesco culture aren't they?**

**TM:** Yes, and it helps enormously. It's easier to have discussion about the things you've done that have worked, and the things that haven't worked because you share similar knowledge.

For example, we are in the process of hiring at the moment. As you can imagine, if we're going to open 50 stores between now and next February, we're going to need people. If you have a huge amount of hiring to do, the obvious thing is to use a recruitment consultant to do it. So we looked into using them. It was horribly expensive and it just didn't seem good value. Then suddenly we said why

don't we offer personnel managers from our stores in the UK four months in California to come and join this adventure and they can do the recruitment. So we've been able to get a dozen people who are deeply imbued with the Tesco culture to come out here and be the front face of our recruitment. And it's been fantastic.

**JL: That must be the best way to build a culture.**

**TM:** A lot of what we are trying to do at this stage is just that – to establish a culture. We're saying this is going to be a great place to work and we've worked hard to have excellent standards of communications, excellent standards of objective setting and feedback. We have a communication meeting with the whole company once a week when we get the whole company together. We have what is in effect a market square here and everybody gathers in the market square on a Tuesday afternoon (see [Figure 1](#)).

We've said this is a job you can be proud of and is worth getting up in the morning for. You are bringing better quality, better value food to every neighbourhood. But we're not only doing it for middle-class people, we're going to take it to every neighbourhood in Southern California to start with so that's a real contribution to society and to public health in America. And by the way, we're going to be a good neighbour because we're going to do it with less impact on the environment. So they all feel that they are doing something that is interesting, important, exciting and worthwhile.

**JL: Do you have more sceptical colleagues who question whether you can actually talk to both upmarket and downmarket customers in one store?**

**TM:** I think everybody questions that, and I think my response is that if we do our job right, we can do it. There are examples, after all – Starbucks, Apple, Microsoft. These are products and services which do transcend all these barriers.

Tesco in the UK is classless and democratic and we believe that there's a 21st century way of doing this which a grocery retailer can take advantage of because it is capable of offering so many different things to people. For example if you're disabled, the most important thing about the shopping trip is what the disabled parking is like, what the accessibility is like and how friendly the staff are. If you're a mother with a baby then it's what about the baby-changing facilities and the baby products?

Different people want different things from a shopping trip and your job as the retailer is to try to meet as many of those needs better than other people – hence 'every little helps'. The 'every little helps' philosophy is absolutely written through the core of what we're doing at fresh&easy. We're just doing it under a slightly different name and a slightly different guise but the same sort of values and the same philosophies about service and development and innovation.

**JL: The Tesco Clubcard has always seemed one of your strongest features and one that's the hardest to copy in the sense of all the experience you have in managing the data. How are you going to handle loyalty cards?**

**TM:** Yes, it's clearly been massively important for our business in the UK. One of the great things about Clubcard is that for a very, very big business like Tesco in the UK it has enabled it to think small, think about individual consumers, individual shopping trips, individual experiences and that's been a real feature of its success. Once you understand this, it becomes part of the philosophy of how you go to market.

But the issue with loyalty cards in the US is that they are horrible. People don't like them, you can only get a decent price for a product if you carry the loyalty card otherwise you get ripped off, so they have a very bad reputation. So we won't be launching with them and we'll be working over the coming year to see what the new modern application would be in the market.

But the Clubcard can only ever be the icing on the cake. What we have to do here is to see how the core positioning and marketing mix of fresh&easy performs before judging that the cake is right for decoration.

**JL:** Finally let me ask you, what personally has been the most satisfying aspect of your time in this project?

**TM:** It's been watching the team develop and get more and more excited and more and more focused on what we're doing. There is a tremendous atmosphere at this place and visitors pick it up almost before they get through the front door. People feel that they're involved in something special, something to be proud of, something that they're really enjoying.



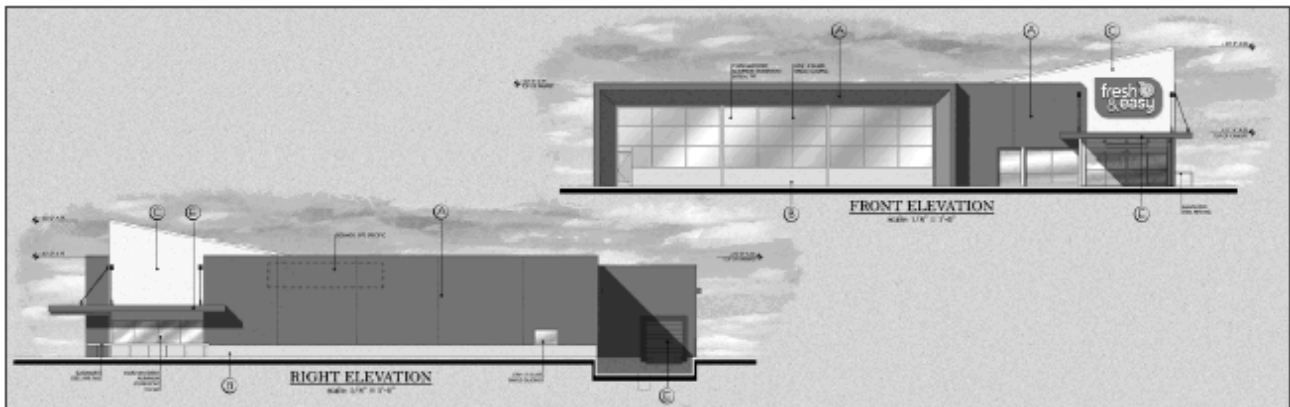
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## NOTES & EXHIBITS

**FIGURE 1: ELEVATIONS OF A PROTOTYPE FRESH&EASY STORE**



# Five myths about television advertising

Tess Alps & David Brennan  
Thinkbox

In the process of examining all of the research available, we have been able to demonstrate that many of the most widely held myths about commercial television are simply wrong. As a result there seems to have been a noticeable drop in the doom-laden headlines and sense of mild despair. Here are five of the most prominent myths.

## **MYTH 1: COMMERCIAL TV IS IN TERMINAL DECLINE**

Contrary to what the doom-mongers have been saying, we can see that broadcast viewing figures have remained at exactly the same levels, or even slightly higher, than through the 1980s and 1990s. This has happened despite reports of new technologies and platforms taking viewers away from the domestic set, currently the only device measured by BARB.

The fact that commercial share of viewing continues to rise in line with an increasing digital universe as people get access to relatively more commercial channels, (especially among younger people) has highlighted TV's ability to reach mass audiences as well as niche targets. This trend is likely to continue until digital switchover is completed in 2012 (see [Figure 1](#)).

## **MYTH 2: TV ISN'T COST-EFFECTIVE**

These trends have helped disprove Myth 2: that TV is increasingly less cost-effective and hence unaffordable. In real terms, TV is bought at a more cost-effective price than we were seeing in the mid-1980s (we'll get on to the effectiveness part of that equation later). On a daily basis, the average British consumer watches 40 TV commercials in real time – that's 2.2 billion ads viewed every day – delivering deflation and sensational value for advertisers (see [Figure 2](#)).

Media pundits predicted consumer resistance to digital switchover. But with digital penetration now over 80%, multi-channel TV is helping to drive viewing and improve targeting. We have whole channels now that can reach niche consumer groups as efficiently as their equivalents in the magazine world. It is also possible for brands to get closer than ever to the TV content these viewers enjoy.

## **MYTH 3: PEOPLE ARE FALLING OUT OF LOVE WITH TELEVISION**

In fact, the opposite is happening. We've seen a massive vote of confidence by the UK public in terms of the amounts spent on big new TV sets (the size of the average TV screen in the UK is growing by an inch a year) – widescreen, flatscreen, HD-ready – and often with cinema surround sound – and we have an opportunity for advertisers to engage with their consumers in bigger and better style.

## **MYTH 4: TV CAN'T DELIVER TRUE ADVERTISING EFFECTIVENESS**

One of the most important myths being shattered is that television can no longer deliver true advertising effectiveness. Two of the major business successes across 2006, the launch of Magners Cider and the resurgence of Marks & Spencer, have both publicly credited the contributions of their TV advertising activity.

An even more comprehensive analysis of media 'payback' came from the recent IPA publication *Marketing in the Age of Accountability*, which demonstrated that TV was the most effective media channel in influencing major shifts in sales, profitability and market share.

Not only that, but the report by Les Binet and Peter Field showed TV's effectiveness has been increasing since the launch of multi-channel TV. We have just embarked on a study of advertising payback with PriceWaterhouseCoopers, which we expect to shed more light on this important topic (see [Figure 3](#)).

## **MYTH 5: YOUNG PEOPLE DON'T WATCH TELEVISION**

The young are reported to be taking to the new ways of accessing content with enthusiasm. However, they've always been enthusiastic about television, especially when they can make it more relevant to themselves. They are watching just as much commercial telly as ever and their higher than average interest in TV as social currency through the shared experience of viewing live programming does not suggest they are going to desert it in the foreseeable future. Instead, as the young always do, they will make it relevant to their own lives (often with the help of the broadcasters themselves: Channel 4's teen drama *Skins* is a good example of this brave new world).

## **SO, WHY THE APOCALYPTIC HEADLINES?**

We believe there are three interlinked factors: the growth of high-speed internet, the liberation of TV from the living room, and the fears wrought by the PVR. They have been harder to disprove because they are all related to TV's future.

## **THE INTERNET: FRIEND OR FOE?**

The impact of the internet, not just on business but on all of us at a personal level, has been profound. We use it for many of the things that used to devour vast chunks of time (paying bills, shopping, pursuing passions) or were limited by time and space (finding new friends and hanging out with them, sharing the fruits of our creativity). But there is no evidence that we are changing the essential nature of *what* we do, just the *ways* we do it. Young people have always 'hung out' with their peers, it's just that we used to do that in coffee bars or shopping malls or behind the bike sheds.

The internet, of course, is not a medium but an overarching technology that can deliver existing media, including newspapers and radio, as well as giving birth to new ones such as social media, turning private pursuits into public discourse.

There has been limited research on the internet relative to the amount people talk about it, and what has been conducted has often been questionable. Unfortunately, online does not have anything to compare to BARB to help us evaluate the two activities fairly. But we do now have the IPA's Touchpoints survey, as well as that hardy perennial the TGI, to see how much time is spent on the internet compared to TV (see [Figure 4](#)).

Contrary to the popular view, both of these sources show TV time outstripping online time by a ratio of between two and three to one, across all demographic groups. There is increasing evidence of media meshing – watching TV and being online at or around the same time – which Touchpoints indicates peaks at a high of 12% of the TV audience during weekday peaktime. Meanwhile, internet

time does not seem to consist of a great deal of watching TV online – as [Figure 5](#) shows. The main use of the internet is for work and email, and if even half of those watching 'music/film/entertainment online' were watching TV content, that would still be less than 5% of all online time.

Things may change when a critical mass of households have a direct link from their high-speed broadband connection to their TV screen, but then that will still be 'TV viewing' and we expect BARB to be able to measure that viewing by the next contract start. This will undoubtedly result in more viewing away from the schedules, towards on-demand and a limited amount of 'long tail' content. But this may be more of an opportunity to the advertiser than a threat to the advertising model, because it is all part of the liberation of the TV set during the third age of television.

## **THE THIRD AGE OF TELEVISION**

The concept of the 'Third Age of Television' is one of liberation: complete freedom of choice for the consumer in an on-demand environment and liberation of content from the domestic household set. Content will be king, which explains why the major broadcasters are pioneering services via IPTV, web TV and mobile TV, which are mainly being taken up by the classic early adopters, the young.

Early data from the trials of both IPTV and mobile TV indicate a lot of additional viewing among enthusiasts but relatively modest projections of penetration and share of all viewing by the end of the decade. They will undoubtedly have an impact, but this is more likely to be at opposite ends of the viewing spectrum. At one end will be 'convenience TV', which might mean a five-minute catch-up of last night's soap on mobile or internet-delivered on-demand viewing of a series that might otherwise be missed. And at the other end will be 'treat' TV that could demand a premium, such as major sporting events or first-run movies (indeed the competition from the latter may well affect DVD stores most of all).

Although the evidence suggests a great deal of viewing will continue to be to the live schedules, on-demand also offers specific benefits for advertisers: a highly targeted audience, a selective programme environment, and an uncluttered break environment. The even better news is that, when offered a choice between paying a small fee to view or watching an ad 'pre-roll', a significant majority of consumers choose the ads.

## **DOES THE PVR MEAN DEATH TO THE 30-SECOND SPOT**

The PVR (or DTR, or Sky+ to most users) has been a revelation. It is highly valued by those who have one and yet they use it relatively infrequently. PVRs are already installed in 11% of all homes (28% of Sky homes), surpassing all predictions, and yet it has had nothing like the effect on viewing that had been anticipated. It has been touted as the supreme ad avoidance technology, producing the death of the 30-second spot, and yet the majority of PVR homes watch more ads in real time than they did before they installed one.

Why were we worried? Probably because the links to the electronic programme guides means it would be possible to set it to record a whole evening's viewing in a couple of minutes, while any part of the recorded programme can be fast-forwarded, just like the old VHS machines. So, who wouldn't want to 'download' an evening's viewing and then view in timeshift mode, zipping through the ads in seconds? Well, so far, not too many of the early adopters, who are usually more enthusiastic about their technology.

Three separate studies, released in the latter part of 2006, showed broadly similar results. BARB and Sky (via their setmeter panels) and London Business School together with ACB (through video observation of real PVR households viewing TV) demonstrated that viewing is higher when a PVR is installed; that the majority of household viewing is still to live programming, up to 88%; most



recorded content is watched on the day of transmission; and, even when they do watch in time-shift mode, between a third and half of the ads are still watched in real time.

## **THE END OF ENDISM?**

We have never doubted that television as a medium has a future. We are both old enough to have witnessed the 'death of cinema' at least four times. In fact, as with cinema, the business models that the new digital technologies are helping to create offer huge opportunities for television, and for TV advertisers. Why?

There are many reasons for the positive potential of these new business models: increased viewing opportunities; better targeting (including addressable advertising, already a reality in the US); additional revenue streams or an efficient response mechanism via online (Google is encouraging its clients to use TV as it boosts branded search efficiencies). We believe the future of television couldn't be more exciting for viewers and brands. Its proven strengths aren't going to go away but they will be enhanced by TV's controllability, interactivity, portability and enhanced creativity. There are no ends in sight, just new beginnings.

## **THE REAL CONSUMER EXPERIENCE OF WATCHING TELEVISION**

Many of the reasons for television's effectiveness could be seen in the footage from our recent Engagement Study (see 'Details of Research'). We saw just how TV viewers relate to the ads, discuss them, sing along to them and share the experience with their housemates, friends and family. It reinforced the importance of TV's role in creating brand emotions and associations in the memory, both implicit and explicit. In short, it showed us why TV advertising works so effectively.

### **Engagement can be Identified through a Wide Range of Behaviours**

When we took on this project we worried at the prospect of lots of footage of people sitting stock still, hopefully looking at the screen, but otherwise not doing much. How naïve we were! When the respondents were sitting down watching the ads, around two-thirds (68%) recorded some observable ad-related behaviour, according to ACB's team of professional ethnographers. What's more, positive behaviours outnumbered negative by almost two to one (43% compared to 25%).

The range of behaviours was fascinating. Music is important – a cue for viewers to sing along, whistle, clap and even dance – which they did on many occasions. People will stop the PVR and play back an ad in real time. They laugh out loud, openly express wonder at the creative execution, or refer the creative to things that are important in their daily lives (which we call self-referencing). They mimic the voice-overs affectionately and regularly play 'guess the ad' games. They can also shout at the telly, roll their eyes and disparage the ad to each other. Just not nearly so often.

### **Engagement is not the Same as Attention**

Although engagement is more likely to occur when attention is more focused on the TV, there were numerous examples of high engagement springing from a very low-attention base. People would interrupt deep conversation for a shared favourite and mimic an ad even when they had their backs to the screen. We recorded many examples of strong engagement occurring even when people were in a different room.

The main driver of attention is concurrent behaviours, so it is not surprising that engagement is higher when there are few distracting activities. However, we need to look closer at the types of activity being conducted; there are many common activities that are 'heads-in TV' activities – where the activity is created around the TV set (eating and drinking, exercise, some forms of housework)

where engagement is often higher than it is when viewing is the sole activity.

## **The Power of the Shared Experience**

In this era of the importance of word of mouth and the power of the viral message, it is reassuring to know that TV offers the most viral medium of them all – where ads are often discussed and shared with each other in the same physical space. It is something unique to television, and part of the power of the medium to get advertisers' messages out there.

We saw lots of examples of people discussing the ads, the brands, previous experience of the products and the people in the ads. They love to share the humour, often taking 'ownership' of favourite ads and pointing them out whenever they watch with family or friends. It is a powerful characteristic of the medium.

Perhaps that is why the optimum number of people in a room to create engagement is two. It gives people the opportunity to share their experiences of the ads, but not so many as to be distracting. The good news is that the majority of TV viewing (around 70%) in the UK is shared viewing, and it appears to be growing as more viewing comes back to the main set (where most of the new TV technology sits).

## **The Importance of Emotion in Advertising**

When we classified the ads by their primary content factors (affective, cognitive or sensory) it was the affective (i.e. emotional) ads that performed by far the best in terms of eyes on screen or positive engagement behaviour. In particular, ads that elicited nostalgia, humour, excitement or personal identification (via self-referencing) seemed to do well. Interestingly, the second most positive response was seen for highly cognitive ads – the opposite end of the spectrum – suggesting ads should not try to mix styles – it should either be highly emotive or information-packed, but not both. Worryingly, more than 20% of ads could not be classified as strongly cognitive, affective or sensory, which made us wonder why they had been made. Needless to say, these ads performed particularly poorly in our analysis.

When we tested the 20 ads in the quantitative stages of this study, we found that the strongly emotional or affective ads performed far better than the informational ones, and even better against ads that attempted to mix emotion and information too much. These ads seemed to work more intensely at an implicit level, which is not really covered by many research methodologies. Emotional ads seemed to work particularly well against ad liking, which we found to be the most important metric of them all. All of this supports the recent IPA findings, following meta-analysis of more than 800 IPA Effectiveness Awards entries, that showed campaigns that aim to strike an emotional connection with consumers performed much better than those that attempt to impart information about the brand.

## **DETAILS OF RESEARCH**

Our research partners (ACB) installed video cameras within the TV sets of 22 households, totalling 74 individuals. They represented a range of demographics, household types and technographics. The only way in which our sample differed significantly from the population at large was that half of them owned a PVR, which meant a higher than average number of them also had digital multi-channel TV services such as Sky, Virgin or Freeview. This was to 'future-proof' the research against emerging trends in programme access as well as allowing us to thoroughly test the probability that PVR ownership would dramatically impact on live TV spot audiences.

We monitored their viewing for six weeks and took samples of viewing (to commercial breaks only) after two weeks, once their viewing had settled. Altogether, we had four hours of viewing to

commercial breaks for each household, giving us a data set of almost 15,000 commercial exposures. Each of these exposures was coded for behaviours as well as commercial content and viewing context factors – a total of 170 different codes for each commercial exposure.

This was followed by a lab-based Memory Study, where we tested the impact of six test ads in different attention contexts – full attention, no attention and two partial attention groups. We attempted to measure implicit as well as explicit memory of ads, as well as test the approach for the larger-scale quantitative survey.

Finally, we conducted a full quantitative survey among 3000 respondents, using an online broadband sample (pre-recruited). This allowed us to measure viewing patterns and contexts, as well as test the impact of a wider range (20) of different ad types to test some of our theories from the earlier stages of the study.



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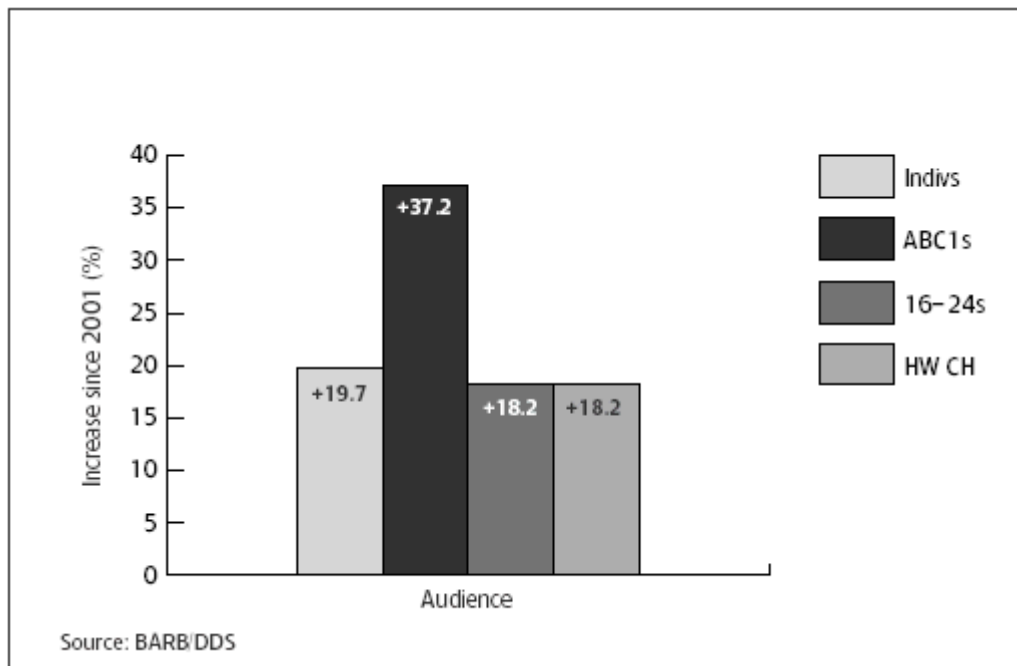
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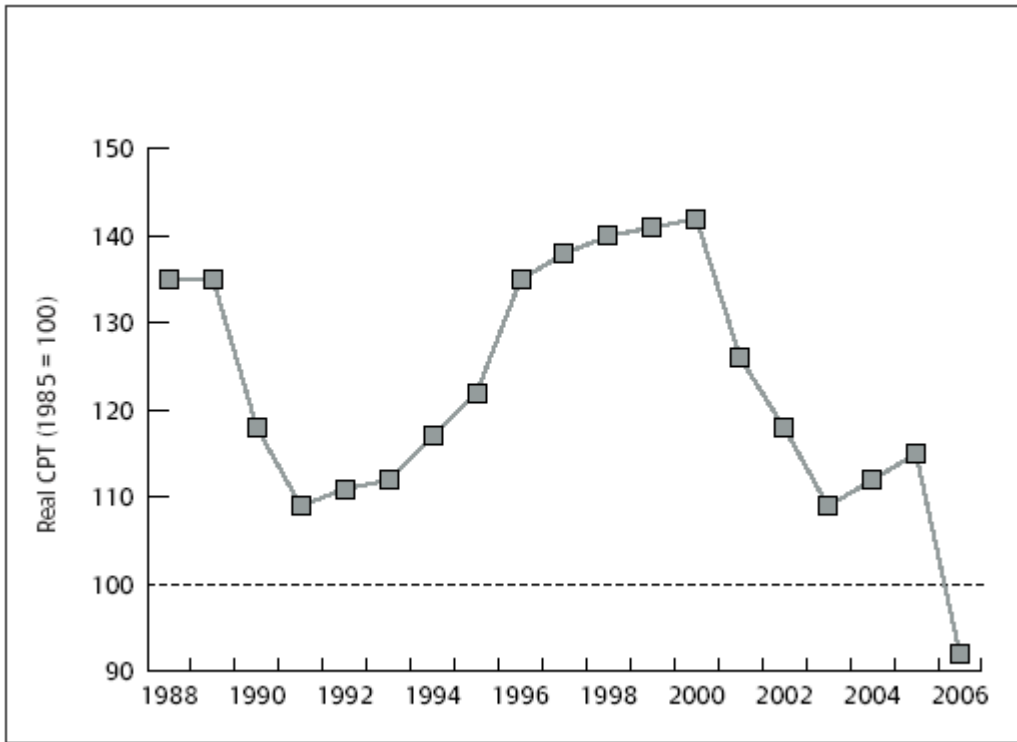
## NOTES & EXHIBITS

**FIGURE 1: IMPACTS STILL GROWING: 2006 VS. 2001**

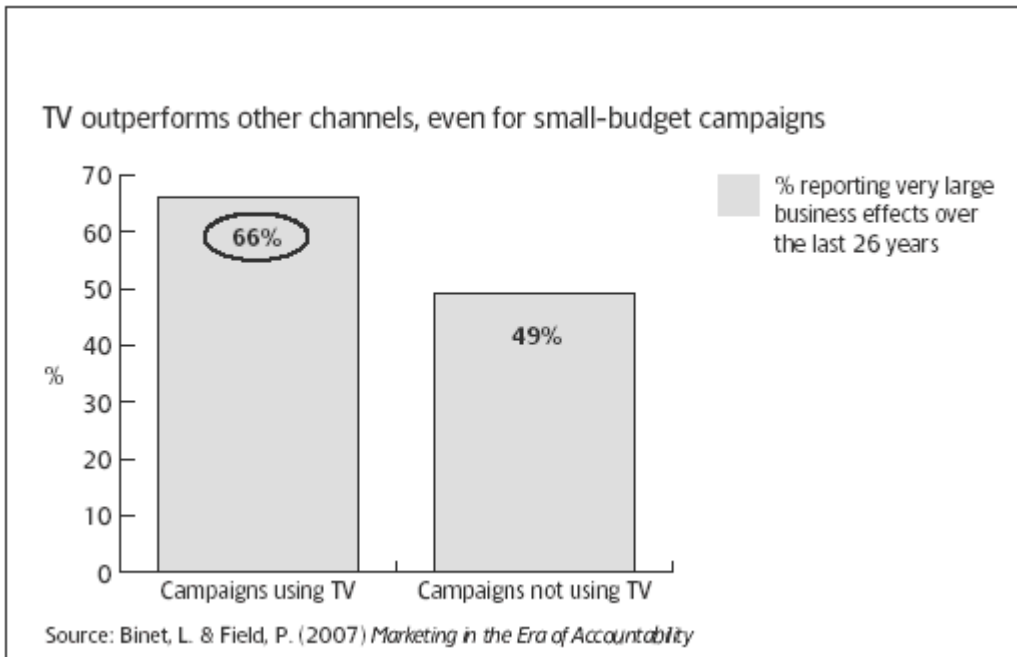


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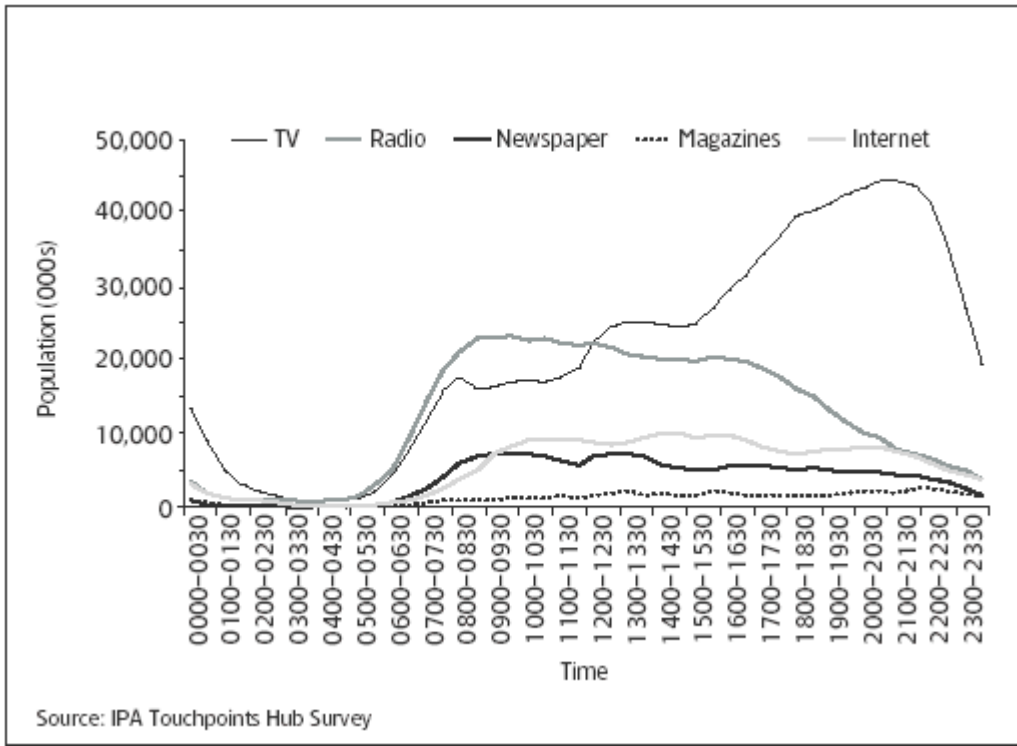
**FIGURE 2: SENSATIONAL TV VALUE NOW AVAILBLE**



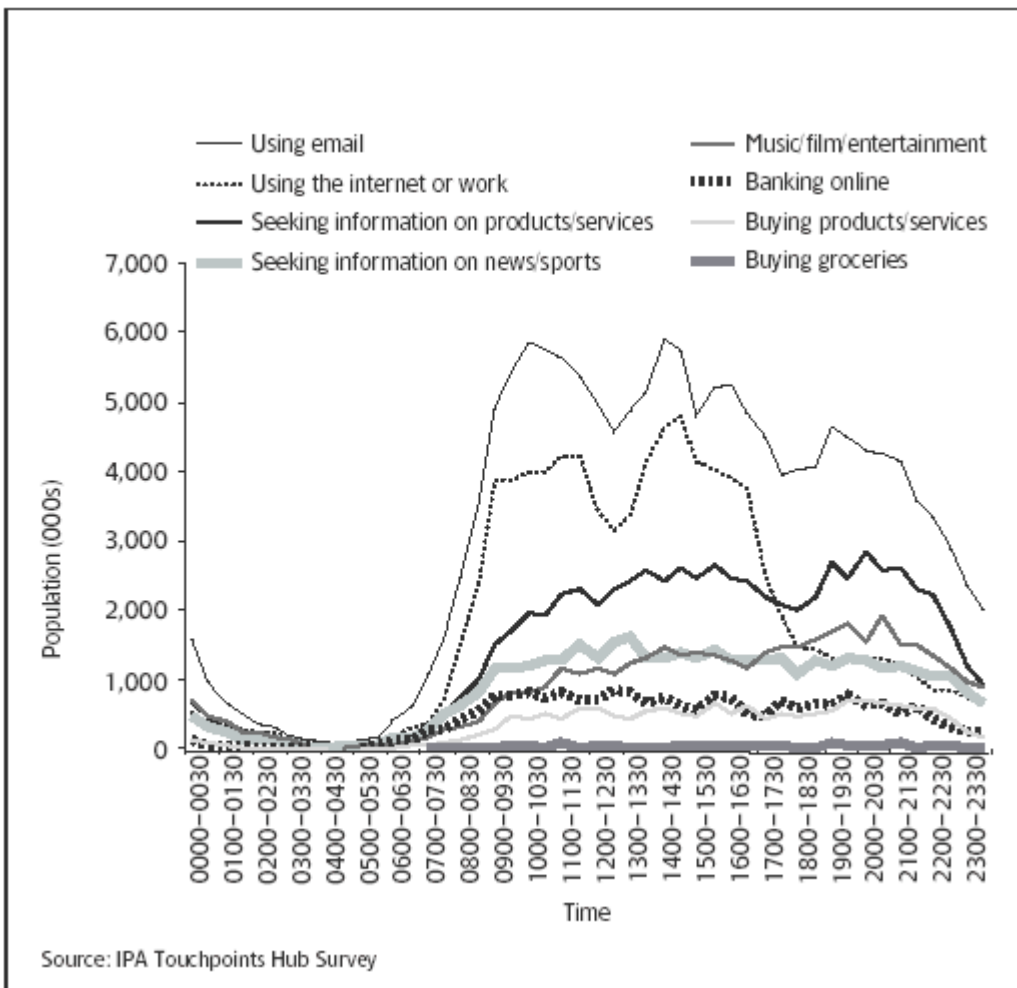
**FIGURE 3: TV IS THE MOST EFFECTIVE MEDIUM**



**FIGURE 4: BROADCAST TV DOMINATES OUR MEDIA DAY**



**FIGURE 5: INTERNET USED MOSTLY FOR EMAIL AND WORK**





## The smell of burning pants

John Ward  
Business columnist

The other week my bank wrote me a letter. I've been a customer of this bank for nearly forty years, and for twenty of them have enjoyed the status of a 'Gold High Net Worth' client. The letter advised me that they wished to 'close three regional offices in order to streamline the service we bring to you'. It ended with the phrase 'this will enable us to be even more accessible to you'.

My reaction to the correspondence was to think 'don't make me laugh'.

Last year, Royal Mail stuck a poster on our village postbox in Devon. It too announced that they were streamlining the incomparable service offered, and as a result there would now be just one collection instead of two. It didn't say 'so now you need only come here once a day' as a sop, but I'm sure if the writer had thought of it, the phrase would have gone in.

My weekend visitor read it, grinned, and said 'Pants'.

### **DIFFICULT RELATIONSHIPS**

Whenever I go round most supermarkets now, there are notices everywhere telling me (and the other customers allegedly ripe for a 'relationship' with the store) all the new, exciting and selfless things the brand-owner is doing. The signs all say things like 'because we value you', 'so you don't have to', 'taking the pressure off your budget' and so forth.

Most of what they're doing is sensible (if not essential) commercial practice. It's just that I don't believe they're doing any of it for me –and I seriously doubt whether more than one per cent of the footfall differs from this world-weary view.

Much of this instore material also relates to the brand's loyalty card offers – which, while on the whole very successful, have led marketers to believe that this represents a 'relationship'. In reality, there are very, very few brands with whom customers want a relationship; and there are even fewer customers who think a loyalty card more important than the product being there or the service working.

While I have no problem at all with the concept of relationship marketing, it has encouraged the view – among some service providers – that being big means customers are positively gagging for a relationship with them. This is a terrifyingly tertiary level of plot amnesia: the preference of vast numbers of busy consumers in 2007 would be 'no relationship at all please, beyond delivering an effective solution thank you very much'.

Far too often, such 'solutions' solve management problems, not customer problems. Practically any durable technology product or utility service these days has a call centre. Go to the websites, and they will say the centres exist to (and I quote) 'speed up the 24/7 service we offer to our customers', or (another quote) 'bring you closer to our ongoing technical solutions'. Call centres don't exist for

these reasons: they're there to cut the cost of servicing unreliable 'hi-tech' machinery, and avoid switchboards being jammed with calls from angry customers. They are, increasingly, walls behind which senior executives hide.

As a by-product of this, we occasionally get help; but I'd guess there cannot be many people left in the UK (beyond particularly sweet vicars) who think call centres are anything other than a way of dealing with customer truculence – such that nobody senior has to be hassled by any of it.

The same thing applies to out-of-stock in retail. If there's an empty box of leaves instead of the broccoli advertised at half-price and double points, it's not a 'solution' to offer the same price next time you're in, two melons on the same deal or money off at the till: the shopper decided to steam broccoli tonight, the brand pushed her firmly in the direction of that decision, and cut-price melons don't taste like broccoli, steamed or otherwise.

## **BALLS**

As a marketing communications professional, this bizarre approach to customers concerns me greatly, because I think it threatens the future of credible branding in a very real sense. In fact, I have adopted an acronym for the practice. I call it BALLS: Brand as Liar-Liar Syndrome.

We are passing painfully through the 'pants on fire' decade – and false testimony in the witness box can have very serious consequences. If putting a brave face on something you screwed up as a brand doesn't cut it any more, then using a bare face that insults the customer's intelligence is downright stupid. I don't remember 'lie your head off badly' as being anywhere in the original lexicon of successful brand marketing, but then I am getting on a bit and it might have slipped my mind.

## **WHICH WAY ARE YOU LOOKING?**

As long ago as 1997, the marketing head of a very large bank with whom I was working at the time told me 'We've got to be more customer-facing'. The idea that a brand should face that way did not exactly strike me as a breakthrough insight: what other way was there to face?

But the answer, of course, has been (over time) retailers, shareholders, City analysts, predators, merchant bankers – even accountants keen to 'take stuff to the bottom line', and thus poison those who wanted a slab of chocolate, but were awarded salmonella instead. Yes, on the whole you could say that for some brand owners these days, there are a lot of balls in the air.

So with all these balls to keep an eye on, there's no limit to which way you can face: and the easiest of the lot is away from the customer – 'Look, I'm busy doing business here – why not talk to this nice person in Thailand?'

Marketing needs to address and reverse this process for one overriding reason: if put off by self-imposed brand isolation, customers in 2007 can quickly find lots of other ways to get what they want – routes that don't involve the brand at all.

They can buy cheap unbranded Asian imports. They can go to web auctions, web warehouses, web grey sources, web swap-shops.

They can eschew call centres and go to the burgeoning ranks of independent young entrepreneurs offering quicker and far more expert service. (This is a huge growth area in the tackling of pc hardware and software problems –and as a regular user, I cannot recommend it too highly.)

They can download anti-Spam software, rather than, for example, trying to find a phone number at



[Microsoft.com](http://Microsoft.com) ('We want to talk to you!' yells their website) or listening endlessly to the mendacity of ISP helplines.

In such an environment, the last thing we need is that respect for brands should decline at the same rate as that for politicians – and for the same reasons: a lack of substance in the spin.

Sadly, in most companies, marketers live in a silo that is entirely separate from the main point of contact customers have with the company – call centres. Because as any marketer should know, if there is a hostage to fortune, it will be kidnapped: say what you mean, and mean what you say.

Marketers need to engage with this brand-damaging process by championing either viable alternative (s) to call centres or increasing their power to (a) say yes and (b) refer up the line without the Stalingrad level of resistance to doing so.

Marketers are the custodians of the substance of brand identity and values, and should be developing brand activities that consistently confirm its 'testimony' in a world where the response to so much service puffery is, more and more, 'balls'.



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# Future sense: defining brands through scent

Stephen Bell  
Coley Porter Bell

We all know that the future of brand communications is going to be multidimensional. The catchphrase 'sensory branding' is coined by marketers for the concept of any form of communication between a brand and its consumers that involves the senses. While currently being uttered in confident tones across boardrooms worldwide, it seems almost like yesterday's news before the challenge has been met.

A growing number of companies are recognising there is potential in stimulating senses other than the visual for effectively connecting brands with consumers. The research by Millward Brown also revealed that the concept of sensory branding has so far been particularly successful in Asian countries as they are much more in tune with their senses than any other place in the world. The Japanese have shown around 50% more sensitivity than Americans. Clearly, tapping into the human senses is going to become big business over the next few years, but are we really in tune with what this involves and which senses have the most untapped potential?

Consider the sense of smell. When was the last time you actually stopped and smelt flowers, took a deep breath of sea air or let your nose flirt with freshly baked bread? The sense of smell is one of the most powerful and advanced forms of human interaction with our surroundings, but one that has very often been overlooked as a medium of communication. We are always concerned with how things appear and feel, but how often do we consider their smell?

## **WELCOME TO THE WORLD OF 'SCENT-SORY' BRANDING**

About 75% of all the emotions we experience on a daily basis are generated by what we smell – not what we see or hear. Our sense of smell is extremely powerful as it acts directly on the limbic system, which controls emotion and memory. A study by the Fragrance Institute showed that, on average, people can recognise around 10,000 odours. We also have a great capacity to remember them: we can recall smells with around a 65% accuracy after a year but our recall of images is a lot lower, at around 50% after only three months. This ability for smells to stay in our memory means we form an emotional attachment to them.

Nothing new in this phenomenon, which perfume houses have built their fortunes on for years, but it is a very interesting area for brands to explore. How could they smell? How could consumers connect with them? And fundamentally, what is it they want to be remembered for?

### **Brand Identity**

The use of scent in branding really has roots in the smell of products themselves. For example, some brands, such as Playdough, Johnson's baby lotion and Marmite, have had a signature scent for years and are inadvertently ahead of the game; interestingly these brands make an impact in childhood and are built into our memories. Back in the late 1990s, Coley Porter Bell (CPB) worked with celebrity hair stylist Charles Worthington when he launched his hair care range. Not only was the transparent, frosted and distinctively shaped packaging we created key in making the brand stand out, but the

smell made an impact too.

CPL Aromas developed a scent that worked right across the range and gave it a unified Charles Worthington 'smell'. It was a strong part of the brand's appeal, keeping consumers coming back for more. Bringing this up to date, and providing the potential for customer interaction before purchase, the Eastman Chemical Company has produced a bottle with a cap that encapsulates and releases a certain smell. Still in development, it will be able to give consumers a guide to the scent of the product inside, without packaging seals being broken. And then there is the mistress of reinvention, Madonna, who was way ahead of the trend for aligning brands and scents when she released her *Like a Prayer* album in 1989 with a cover that smelt of incense.

### **Three-Dimensional Branding**

We are increasingly seeing examples of smell being a primary consideration in three-dimensional branding, outside the confines of packaging, and some brands have already managed to break into a new league as effective implementers. Starwood Hotels have been quick to use the power of fragrance and have introduced signature scents in their hotel lobbies, tailored according to their stature and the guests they want to appeal to: Sheraton will smell like fig, clove and jasmine, Westin like white tea and Four Points like cinnamon. The hotel concept 5+ Sensotel has taken it a stage further with proposed experience rooms that stimulate all the senses using light, sound and scent to suit the mood of each guest. Singapore Airlines created a patented Stefan Floridian Waters aroma for use at all consumer touchpoints from flight attendants' perfume and airplane interiors to the hot towels given out on take-off.

According to US cult clothing brand Abercrombie & Fitch's head of corporate communications, they attribute their success to the complete in-store experience; 'It's about what you see, what you hear, what you smell'. The stores have a distinctive fragrance that lingers until you get your clothes home and take them out of the bag, thus prolonging the experience. But the use of smell to extend a company's branding is not limited to the hospitality sector or relaxed fashion retail environments; Samsung, the Korean electronics giant, have developed a cool, edgy scent to create an atmosphere that encourages consumers to linger and shop a little longer. Even McDonald's are considering sensory branding as part of their re-image of outlets across the world: not only do the prototype restaurants have curved counters and touch-screen ordering points but they will 'smell' of coffee in the morning and fries in the afternoon.

As part of his book *Brand Sense*, author Martin Lindstrom revealed research that shows that introducing a scent into an environment can actually change people's perception of time. Prior to the test, at Galeries Lafayette in Paris, shoppers claimed they spent around 45 minutes in-store though the actual time spent was around 40 minutes. After spraying, consumer perceptions changed; they thought they had spent only 25 minutes in store despite spending over an hour. And there is proof that scents can influence purchases; when Hershey's store opened in New York's Times Square, the actual smell of the chocolate couldn't permeate the hygienically wrapped bars so they had to create the experience. When they sprayed a chocolate scent in-store, sales allegedly rose by 34%.

### **A BRANDED SCENT FOR CPB**

We recently decided to put the CPB brand to the test, and immerse ourselves in our own scent-sory branding exercise. Again working with CPL Aromas, we developed an atmosphere scent for our studio that we feel encapsulates the spirit of our agency. It was enlightening for our designers and planners to work in an alternative approach to branding, having become so used to expressing brands in a visual and tactile sense. Having established what we felt the agency should stand for, we then explored what this could mean in terms of the medium of scent. The three notes that make up a scent – top, middle and base – are crucial to quality and longevity and can significantly change its personality. The final fragrance, which we named 'See', has bright citrus notes with a soft green edge

on a clean woody base; the notes work together to give a classic smell that has a twist underneath to reflect the fact that we feel our agency is colourful, creative and unexpected.

One of the biggest lessons that came out of creating our scent 'logo' was the realisation of the emotional links that people have with smells; they can trigger memories and form strong and deep connections. When Marc Jacobs launched his new range of 'splashes' for summer 2006 he wanted to bottle his favourite summer memories, understanding how powerful smell can be in evoking emotions. He focused on the 'fragrances' of freshly cut grass, cool summer rain and a perfect white cotton T-shirt, each of which also has relevance and therefore emotional appeal for the consumer.

## **CONCLUSION**

The possibilities for brands to benefit from scent-sory branding are big, but it has to be relevant to your target audience and how you want them to feel about you. A long-standing example of simple, intelligent implementation is at Thomas Pink, the upmarket shirt retailer. As part of their in-store experience, the smell of freshly laundered shirts wafts through the air, reinforcing nostalgic (and hopefully pleasant) memories of clean washing. There is no doubt that a brand will reach deeper into a consumer's psyche if it can communicate with them on many levels. Smell adds a potent connection because it isn't influenced by reason on the way to the brain. This means it is even more important if you are using scent as part of a brand experience to make it a good one. Both good and bad experiences linger longer in the scent memory.

For brands that do not instantly have that direct, literal link to a smell (such as shirts and fresh laundry), the use of scent within the brand experience needs to involve more imagination to think outside the ordinary and translate the brand's character. In a bookshop, for example, the travel section could smell of sun lotion, while the business section could have a sharp, fresh smell to aid concentration. Or what about the smell of books and paper? This is surely becoming a nostalgic, soon forgotten element of a world quickly being replaced by the internet. Or even the smell of coffee and breakfast to recreate the feeling of relaxation when sitting reading the Sunday papers?

For those brands considering the scent-sory approach, it really is about relevance and creating an experience. Scent-sory branding doesn't have to be just about selling, it can build a relationship too. Why not have a hospital smelling like a tropical island or an aroma to counteract dustbin lorries? We have also seen it put to good use as an educatory tool in the Department of Health's Anti-Smoking campaign: press adverts with scratch-and-sniff panels reminded smokers that while their hair may look great, it probably smells like an ashtray.

## **Creating a Relationship**

Our sensory future will be defined by those products and services that enhance our experiences and stimulate our less-exploited senses. Brands that will be most successful will be the ones that use a multi-dimensional approach that defines their identity and unexpectedly reaches out to consumers beyond the visual appeal of their environments, advertising or packaging. If executed in the right way, it should result in making relationships deeper. And that is the key. No one wants to be overpowered by a brand's smell – but they do respond well to gentle triggers or signals they can identify with.

And with so far only 35% of leading companies predicted to be taking this on board in the next two years, there is still plenty of air space available for the smelling.



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