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Market Leader

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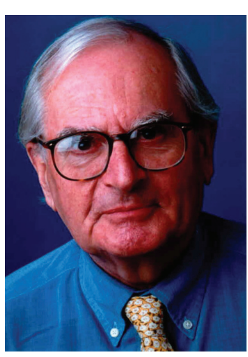
In praise of antinomies



THERE ARE SOME subjects that don't get talked about because they're not worth talking about. And there are some subjects that don't get talked about because they have no commonly shared vocabulary – often no familiar name. Antinomies belong squarely to this category.

The best definition of antinomy I know comes from the wonderful and sadly neglected EF Schumacher. Thirty-five years ago he published a book called *Small is Beautiful*. That's not really what it's about – the title was suggested by his publisher and it served him well – but the book is full of wisdom, almost all of it still relevant to business, to invention, to making things happen: and therefore to the future of planning. Let me quote:

Top management … inevitably occupies a very difficult position. It carries responsibility for everything that happens, or fails to happen, throughout the organisation, although it is far removed from the actual scene of events. It can deal with many well-established functions by means of directives, rules and regulations. But what about new developments, new creative ideas? What about progress, the entrepreneurial activity par excellence?

'We come back to our starting point: all real human problems arise from the antinomy of order and freedom. Antinomy means a contradiction between two laws; a conflict of authority; opposition between laws or principles that appear to be founded equally in reason.

Excellent! This is real life, full of antinomies and bigger than logic. Without order, planning, predictability, central control, accountancy, instructions to the underlings, obedience, discipline – without these nothing fruitful can happen, because everything disintegrates. And yet – without the magnanimity of disorder, the happy abandon, the entrepreneurship venturing into the unknown and incalculable, without the risk and the gamble, the creative imagination rushing in where bureaucratic angels fear to tread – without this, life is a mockery and a disgrace.

All this from an economist, born in Germany, writing in 1970 and working at the time for the National Coal Board. It's magnificent stuff. Never has antinomy been more evocatively defined.

For those who've read the 'Art and Science' chapter in Stephen King's brand planning book, with its entertaining introduction by Rory Sutherland, there'll be an agreeable sense of the familiar. We're back to that centuries-old debate about logic, induction and intuition; right brain and left brain.

Let me start by trying to rescue an extremely dirty word. One of the most devastating accusations you can make of account planners is to accuse them of a despicable act of intellectual dishonesty called post-rationalisation. The underlying inference is this: they've been shown some really weird idea, apparently plucked out of nowhere by two under-educated people in black T-shirts; and all the planner has done, with Jesuitical levels of low cunning, is to represent its origins – as if this weird idea had been arrived at through some linear, evidence-based and respectably scientific step-by-step process of deduction.

Non-scientists tend to be more respectful of the scientific method than the better scientists are. Or, to be rather more accurate: non-scientists like to believe that the scientific method employed in the act of discovery eliminates luck, guesswork, the wild generation of hypotheses, human prejudice and – naturally – post-rationalisation. In believing all this, of course, non-scientists are not to blame. Those responsible are the scientists themselves who, for a couple of centuries, led us to believe that all properly scientific discoveries were arrived at by a process of forensic thought in which every step was wholly dependent on the demonstrable validity of its predecessor. And we believed that to be true because every scientific paper published in every learned journal told us in peer-reviewed detail that that was indeed the way it was done.

It was one of the greater scientists – the Nobel prize-winner Sir Peter Medawar – who first blew the gaff, at least for me. This is what he wrote in a racy little number called *Induction and Intuition in Scientific Thought*:

Scientific papers in the form in which they are communicated to learned journals are notorious for misrepresenting the processes of thought that led to whatever discoveries they describe.

In other words, by a wonderful and circular irony, those marketing case histories, which we all suspect have indulged in shameless post-rationalisation, have done so in the sublime

belief that this makes them almost as scientific as those scientific papers that have indulged in precisely the same deceit.

(It's possible that the only honest case-study in the history of marketing is the BarclayCard case written by Paul Feldwick, once of BMP; it describes in hilarious detail just how luck, agency obduracy and a collision of events entirely fortuitously led to an award-winning campaign of great commercial effectiveness.)

Marketing case histories and scientific papers don't put much store by antinomy – or at least in one half. They quite like the bit about order and central control and discipline, but they're not so keen on 'the unknown and incalculable, the risk and the gamble, the creative imagination rushing in where bureaucratic angels fear to tread' – without which, says Schumacher the economist, 'life is a mockery and a disgrace'.

But this is where real life yet again intrudes. However beguiling the risk and the gamble, however fruitful the unknown and the incalculable, at some point a real-life client has to be persuaded that they should spend £35 million of their company's money on – as it were – an animated vampire duck. For all I know, there may be exceptions, but I've yet to meet a client who's perfectly happy to sign off £35 million of their company's money on an advertising campaign featuring an animated vampire duck on the sole basis that somebody in a black T-shirt tells them that it's pushing the creative envelope. One half of this particular antinomy may favour the 'trust me, I'm an art director' school of campaign planning and presentation, but the other half certainly doesn't. Nor is the reluctance of clients to accept work on this basis, as is sometimes suggested, clear evidence of their cowardice. Penicillin may have been discovered in part by happy accident – but a lot of retrospective digging had to be done before it was released on a trusting public. Nobody said, 'Here, take these tablets. I invented them yesterday. Trust me, I'm a scientist.'

Post-rationalisation is not only respectable; it's essential. But it's also essential that those who practise it don't cheat. Tom Peters advanced the cause some years ago by describing the process not as post-rationalisation but as 'retrospective sense-making'. Edward de Bono said that you sometimes have to get to the top of the mountain to discover the shortest way up. All these things are true, and nobody gains by pretending they aren't.

Stephen King famously plotted account planners on a scale from Grand Strategists at one end to Ad Tweakers at the other. It's easy to see these two figures as representing the two wholly contradictory pressures that form our particular antinomy: order versus freedom; discipline and relentless logic versus risk and unanchored intuition. At the one end, the Grand Strategist, with a 72-slide PowerPoint deck, coshing his audience into exhausted submission; and, at the other, the Ad Tweaker, performing elegant little creative pirouettes with never a single validated fact to spoil the party.

But to Stephen King, these were just extremes on a scale, not alternatives. We seem to be bemused by alternatives. We've all caught binary fever. Everything has to be zero or one, black or white, Britain or Brussels, quant or qual, Grand Strategist or Ad Tweaker. If you're not totally in favour of one while being totally opposed to the other, you're a wimp.

Let me return to the great EF Schumacher:

Whenever one encounters such opposites, each of them with persuasive arguments in its favour, it is worth looking into the depth of the problem for something more than compromise, more than a half-and-half solution. Maybe what we really need is not either-or but the-one-and-the-other-at-the-same-time.

And, as Schumacher points out, in every aspect of our lives – our home lives and our working lives, on a daily basis – we're having to face, and manage, the simultaneous and contradictory requirements for both order *and* freedom. And somehow we do. Good parents do it instinctively, 24 hours a day.

The real danger in Schumacher's antinomy is this. To people in creative organisations, one of his compelling laws or principles is so much more attractive, so much sexier, than the other. If you were interviewing a potential creative director, what would you think if he claimed blind and blinkered allegiance to 'order, planning, predictability, central control, accountancy, giving instruction to underlings, obedience

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and discipline'? (Come to think of it, there are probably some agency CEOs who'd say, 'Just the person we've been looking for.') To creative companies, 'the magnanimity of disorder, the happy abandon, the risk and the gamble, the creative imagination rushing in where bureaucratic angels fear to tread' – these are infinitely more alluring and more flattering. And therein lies their danger.

If, over the next 40 years, account planners are to deliver as much worth to their agencies and their clients as they have over last 40, they cannot choose between the competing halves of Schumacher's antinomy. They will have to embrace both – and put them both to good use.

To celebrate the magnanimity of disorder and risk liberates no one from the responsibility for maintaining discipline and order and painstaking accuracy. They'll need the-one-and-the-other-at-the-same-time.

Those that can deliver the first without the second will be valued data analysts, responsible administrators and deadly boring drinking companions. Those that can deliver the second without the first will be valued as the occasional alchemist but seen as fundamentally flaky.

Those that can deliver both – the one-and-the-other-at-the-same-time – will inherit the earth.❦

15 July 2008 marked the 40th birthday of account planning as practised by advertising agencies. JWT, which together with Boase Massimi Pollitt pioneered the discipline, celebrated the occasion by staging an event for clients and planners at its Knightsbridge offices. It was called Planning Begins at Forty and invited speakers and audience to define the qualities required of planners and planning over the next 40 years. This column, with the kind agreement of JWT, is based on Jeremy Bullmore's contribution to that evening.

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Sub-prime marketing is over

Derek Williams, former Managing Director of Cadbury Schweppes, and veteran of recessions past, takes a look at the current scene and offers some tough advice.

WE ARE AT the beginning of the age of spectacular discontinuity, where the past is no longer a safe guide to the future. As companies rapidly prepare for defence or survival, all tests are now 'suitable for purpose' ones.

For most marketers, this will be a test of survival management as the organisation takes stock of itself and prepares for a new future. It will be a period of rapid and constant adaptation. We never get back to where we were on the old escalator.

Consumers are already using their savings to cope with the costs of standing still, and when it gets beyond that they will begin rationing themselves. Consumers will change their needs and behaviours rapidly because the pleasure principle of recent times will not be with us for some time to come. For business, this can be an incredibly exciting time. Here are my tips for survival.

Criteria of adaptiveness

Once your organisation is strong on adaptation, you will find that the rate of learning and the behaviour change in the organisation becomes faster than the rate of change outside, and internal flexibility will be greater than external turbulence.

The human race has survived turbulence only through adaptation; the same goes for organisations. Some of the changes required to come out the other side are shown below (see Table 1).

Operating plan vs budget

You may need to have a budget, but have an operating plan as well. The operating plan can be less optimistic on performance and can set out resources and costs at lower levels. If there is an upside it will be small, and productivity will have to take care of it.

The operating plan gives departments money for resources but that amount is also expressed as a percentage of the assumed revenue. Budget holders have to assume revenue may be lower so as a contingency they have to have savings ahead of the game.

Table 1

Adaptive	Non-adaptive
Non-linear	Straight line
Manoeuvrability	Fixed
Ad-hocracy	Bureaucracy
Invent	Copy
Adjust swiftly	Too little too late
Radical	Incremental

Nilum spendum – at all times throughout the organisation

The false Latin is mine but the law is Peter Drucker's: 'What is the minimum I need to spend to avoid serious malfunction?'

Hold your nerve marketing

The good times are over and we are likely to have too many products, prices and packages. And much of our activity is sub-prime: high risk, high spend with low or no margin, and subsidised by the core products and packs.

Concentrate on your best performers and support them. But keep your price and avoid price wars. This is the blood stream of the company, particularly when the costs of staying in business are rising unpredictably.

Appoint a pricing manager

Find a very good, cold-hearted operator, who will ride hard on pricing. He will be the gold prospector. He will find gold in pricing that's not being implemented and then can really make savings. This senior manager is a source of joy and salvation, and will be seen often in the office of the MD.

Fewer and better

There will be headcount casualties: not just redundant jobs but redundant skills in people that are no longer relevant. The rule is you cannot cut too far – but you won't anyway. It is crucial: headcount attracts activity, which attracts cost. Always feel free to look for new money for proposals. Much as you might want this to happen, you cannot give more resources if the operations plan doesn't allow it. But you can have all managers examine what is in their budgets: how long ago was that cost acquired? Is it still better spent that way than on the new proposal?

Conclusions

Forecasting darkly always sounds melodramatic, writing lists always seems simplistic and generalising over the whole industrial spectrum can be naïve. But to survive you have to have an adaptive organisation that will work out its own philosophies and programmes.

I have always found that management learns brilliantly on the run – momentum is precious and brings its own insights and wisdoms.❦

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Your compass in a changing world

By JAMES MURDOCH

In this edited version of The Marketing Society's Annual Lecture 2008, James Murdoch argues that in an increasingly fragmented media world, marketers who are in tune with their customers' values and their own can create an internal compass to steer their companies to rich rewards.

MARKETING TO TODAY'S consumer is a hard business. Audiences are fragmented. People have no time to listen. They're cynical, media-savvy and more clued up than ever. Long gone are the days of Thomas Jefferson, who once observed that advertising was the only bit of a newspaper you could trust.

There is some basis to all of the pessimistic talk we hear about marketing and advertising. I've made more than my share of terrible decisions in marketing, and I've been talked into, or talked myself into, some truly awful work.

But amidst the accumulated flotsam of any large company's marketing history, I do hope we've learned some things about what works at News Corporation and at Sky – and perhaps what might work for you. There are a number of ideas we wrestle with and problems we encounter. We are trying to understand some of the really fundamental – indeed revolutionary – changes in global society that are happening now, and how they relate to our business, and, possibly, yours.

Societies are more connected than ever before, which means that marketing and brand communications are more challenging. But my belief is that if you grapple with the big changes until you really get them and if you develop an internal compass to steer your marketing and communications, you will be working in a discipline that is more exciting, more intellectually rich, more delightfully complex and ultimately more rewarding than it has ever been.

James Murdoch is Executive Chairman and Chief Executive of News Corporation, Europe & Asia and Non-Executive Chairman of BSkyB.

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The power shift

We all realise that marketing to today's consumer is less transactional than it was even just a decade ago. It's more based on understanding shared values. It's about working with a truly empowered interlocutor.

We are in the middle of a transformational shift in power. And when everything around us looks different, we are going to need our compasses to steer a true path.

This shift in power has many dimensions. Some are obvious. Some are less so. There is a shift from elites to individuals and communities. A shift from content controlled by a few to that created, adapted or distributed by a multitude. A shift from passive consumers – the hapless victims of some Madison Avenue three-card trick – to connected, informed and proactive counterparties who are, by and large, well aware of what you are trying to do. We know why these changes have occurred – and we know they are irreversible, and accelerating.

Connectivity in action

Connectivity is becoming ubiquitous. The march towards it is self-evident. It is already empowering consumers in a way that would have been unthinkable to our predecessors. This kind of connectivity means fundamentally that the individual becomes the agent of everything. Moving from one community to another; consuming, freely, from a wide universe of sources; publishing, from each individual to any number and any size of audience – this is the consumer of the age we live in.

This is not just challenging for marketers. Look at broadcast journalism – for so long the preserve of the state or the wealthy. It is now an option open to anyone with technology costing less than £50. When the attempted car-bomber was tackled at Glasgow Airport last year, coverage on Sky News was better and faster than its rivals because of our immediate access to material provided by eye-witnesses at the scene – almost instantaneously sent from their mobiles and hand-held video cameras, to our newsroom, and then back again to homes, computer screens and mobiles. This is connectivity in action.

These people are not customers of Sky News in the conventional sense. As well as an audience, they are partners in the fundamental act of creating our product. Sometimes they supply it to us or to others, sometimes they post it on YouTube. In fact, many probably do both. But if we decline to transmit their material, it will still gain exposure somewhere.

We are constantly confronted with an explosion in the plurality of information. Conventional news programmes can debate an issue like the ethics of water-boarding as an interrogation technique, but they would never dare to show the reality. Now a journalist like Kaj Larsen is willing to undergo it and post it on Current TV for everyone to watch it on the web, and on air, and make up their own minds.

Plurality taken to this degree, brought about by intense competition, is uncomfortable for those who have a vested interest in the status quo of the 20th-century information economy. It's frightening to them; it prompts calls for endless intrusion by regulators and governments.

As an example, a sentence or two from the annual plan of Ofcom, our UK media regulator, caught my eye recently. It's something we should all pay attention to. Discussing convergence, Ofcom said:

'Convergence, alongside more intense competition, can lead to complexity and varying degrees of confusion and anxiety … there will continue to be a role for Ofcom to intervene decisively to protect people from actual or potential harm whenever this proves necessary.'

Let's be clear. The confusion and anxiety referred to is in the minds only of elites who are terrified by people taking power from them. Is it the job of a regulator to invent sources of potential harm and forestall them? All the talk of protecting consumers is just a fig leaf: what they are really saying is that competition and innovation may result in an outcome different from the carefully constructed, central planner's fantasy about how a market might work.

I think we all realise that marketing to today's consumer is less transactional than it was even just a decade ago. It's more based on understanding shared values. It's about working with a truly empowered interlocutor

In reality, our customers are both sophisticated and demanding, and they understand the media. And they are not the exception to the rule. They *are* the rule. People aren't stupid, even if regulation obliges us to treat them as if they are.

Here's an example drawn from the rules on sponsorship and advertising in licensed broadcasts, enforced partly by Ofcom, partly by the European Union.

Star Plus – a Hindi language entertainment channel – has been banned from showing in the UK the Indian version of *Are You Smarter than a 10 Year Old?* because the logo of an Indian mobile phone company, which does not even operate in this country, appears on the set. The regulations that prohibit this seem to operate on the basis that viewers are not only not smarter than ten-year-olds but would struggle to compete in a nursery.

Is there some grave harm to our society if our Hindi-speaking customers are exposed to the fact that a mobile phone company not only exists in India, but sponsors a game show?

I think we can probably cope with this wholly imaginary threat to our way of life.

Aiming Sky high

But the heart of this is not petty rules about advertising. Those rules are simply a consequence of the establishment's much deeper discontent with a free media.

And that is really just an old tune played by new musicians. The delight that British newspapers have taken in upsetting the governing elite has rankled with the powerful for decades. From the 19th-century *Times*, thundering against the mismanagement of the Crimean War, to today's *Sun*, exposing the failures of bureaucrats to deliver safe streets and clean hospitals, the willingness of British newspapers to take on the authorities has been as characteristic as the elitist outrage it has always evoked.

It remains the proper job of the media, as a campaigning journalist once observed, 'to comfort the afflicted and afflict the comfortable'. That's wise, and it's right, and it's part of our compass.

The elites of course do learn from their mistakes. The advent of radio and television allowed them the opportunity to exert the kind of grip, through control of access to spectrum, that had never been possible with newspapers. They created a state system that both stifled innovation, but crucially institutionalized a collective groupthink in broadcast communications. So we had for many years a vibrant and diverse newspaper sector, but a stagnant television oligopoly that was bland, uncontroversial and deferential, if not to politicians, then certainly to the bureaucratic zeitgeist of the day.

So the response from the establishment when Sky launched was partly fear of what might happen now that more choice was available, and derision because no-one could possibly want anything other than four channels – three state-owned – all saying much the same thing.

As we know, the reality turned out to be rather different. And although others must judge, I would argue that a wholly commercial television company, entirely reliant on the choices made every day by its customers had to be much more innovative and in tune with the values of the nation from the very beginning. It was, and is, answerable to its customers in a far more direct sense than provided through a hypothecated tax, a board of trustees or some other abrogation of accountability.

That's not the way some critics argue. They believe that the increase in the bandwidth and connectivity that enables huge choice for individuals is a process that does indeed transfer power. But they see this transfer as from elected politicians to various – they would say nefarious – media and communications firms, which have become the new powers in the light-speed tumult of our contemporary information economy. This is their argument against consolidation and for greater regulation – largely of traditional media – in a hyper-competitive environment.

I think we can challenge this and show that it is not only wrong on the facts, but dangerous in its implications.

First, it ignores the absolute power of competition. What makes a media company successful is how it copes with competitive markets in which people have a choice. Competition today is at a more intense level than it has ever before been because the barriers to providing information in the virtual world are so low and the choice of provider nearly infinite.

Incumbent interests – private or state-sponsored – may not like it, but people remain thirsty for choice. New providers are constantly breaking through. But also because it ignores the bigger picture. Without a free, unmolested media there can be no genuine free society. A democracy can only be effective and judicious if its decisions are clear to the general public, debated, challenged and scrutinised. As the Romans established, the fundamental question to understand when examining any decision is 'Who gains?' A free media allows that question to be put.

This is the context in which I think it's best to look at News Corporation. It was born from a struggle to make a success of a single newspaper in Adelaide in the face of an established, richer and aggressive incumbent. We grew through a mixture of risk, investment, and dedication that revived some once-great but ailing newspapers

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– like *The Times* or the *Sun*, for example – and gave them a future. We recognised the complacency that infected broadcasting in the US, UK and other markets, and we shook them up.

Connecting with customers

The basis of our growth has never been the creation of a monolithic view of the world. Our compass has been about respect, empowerment and choice. We are restless, we are questioning and we are individualistic.

Our values spurred us to pitch Homer Simpson, against Bill Cosby, on Fox Broadcasting in primetime. To launch TG24 against RAI and Mediaset in Italy. To make the *New York Post* what it is today, and *The Wall Street Journal* what it will be tomorrow.

At every step of the way we've learned a little more about our customers and what they want – and now, increasingly, what they believe in. We've learned through experience what difference the new empowered world means for our relationship with customers. This is not a question of scale. It is a different way of existing.

At first we perhaps saw technology as a great opportunity for brands to talk to more people in the same old way. But that was wrong. Connectivity doesn't just mean you get a lot more chances to deliver messages about customer service and pricing plans. This isn't one-sided. It enables people to talk back.

Etiquette queen Miss Manners once suggested that if we stopped communicating to each other we might be able to have a conversation. In fact, we can have an almost infinite series of conversations. This changes our whole idea of marketing.

That's why complaints about the attention deficit of modern consumers are in reality admissions of something gone badly wrong: a listening deficit on the part of brands. Trouble cutting through might have more to do with the fact that one's brand values aren't in tune with those of the modern consumer.

Of course, the idea of values-based marketing and dialogue with the customer is not new. But we're all guilty of talking about it, and then still falling into the familiar routines: the 30-second spot, the great poster, the PR stunt – the conventional tools of commercial sloganeering.

There are a handful of campaigns that are driven by real values – one example is Dove's campaign for 'Real Beauty'. They are famous because they are so unusual. Anyone who has seen the execution of 'Onslaught', the film that focuses on the pressures that a young girl faces from the beauty industry, can see that values-based, challenging marketing is extraordinarily powerful.

And the fact that this ad was made by Dove, a leading participant in the same industry, is not a weakness – it gets people talking and thinking. That level of engagement is great for any brand, because it creates the opportunity to learn things about how people think and about how people feel. And it creates trust with its customers.

Conclusions

Part of trust comes from good old-fashioned values like customer service, transparent pricing and treating customers fairly. These are fundamental. But people rightly expect more of companies these days, and we should be ready to respond. If we can consistently show how our values and our compass guide our businesses then we will stand out from the superficial corporate makeover or the cynical marketing slight of hand.

Customers may be concerned about education, or health, or the environment. So are we. They may worry about crime. So do we. And they expect their chosen brands to be aware of these concerns and respond to them. We should all want to work in places that hear that and do something about it.

When we take direct action we get a powerful customer response. On a Saturday in January, the *Sun* offered a free energy-efficient light bulb to every reader. Four and a half million light bulbs were distributed. And the paper sold over 400,000 extra copies that day. Readers recognise we are engaging with them on issues that matter deeply.

At first we saw technology as an opportunity for brands to talk to more people in the same old way. But that was wrong. Connectivity doesn't just mean you get a lot more chances to deliver messages about customer service and pricing plans. It enables people to talk back

The future belongs to brands that do more than pay lip-service to real dialogue and recognise that their customers want them to believe in something.

It's tough out there at the moment. But choppy waters are usually those times when innovation makes a difference and outstanding marketing has a real impact. And the way in which society is changing means that good marketing people are going to have a seat at the top table – they are the people that companies will need to succeed. People who respect and listen to their customers. People who see that they can create value by understanding values. People who get freedom and celebrate it as an opportunity for genuine dialogue. People who have a compass and steer by it, in good weather – and in bad. These are the people who understand that there has been no better time simply to do their business better.❦

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Marketing in a downturn: lessons from the past

By PETER FIELD

As we approach what is increasingly looking like a recession in the UK, it is timely to review the state of knowledge of how businesses should most profitably approach marketing in a downturn. Peter Field looks at the lessons from previous downturns coming to the conclusion that some large companies have wisely learned to maintain their marketing budgets and are thus in a powerful position to squeeze smaller competitors who have not learned this lesson.

IN AN ARTICLE produced by the *Financial Times* in June 2008, both Procter & Gamble and Unilever revealed their intentions to maintain marketing spend into the downturn. And although more recently investment analysts have questioned Unilever's commitment, these companies' belief, clearly, is that this is an opportunity to gain market share at the expense of weaker businesses that choose, or are forced, to cut marketing expenditure. This intention was echoed by an analyst at Investec, at a recent International Advertising Association conference, who reported that there was no evidence that any of the major fmcg companies that he scrutinised were planning to cut marketing expenditure. But we know from IPA Bellwether data (see Figure 1), as well as anecdotally, that budgets are being cut.

So the suggestion is that it is chiefly the lesser players that are cutting budgets, while major players maintain theirs. The wisdom, or otherwise, behind these strategies was reviewed earlier this year at a conference convened by the IPA. Here, I summarise the Four presentations that were made.

The presentations addressed the likely impact on brands - and their profitability - of reducing marketing communications expenditure during a downturn. Clearly, if all brands in a category were to cut expenditure equally, then apart from some minor effects on the category as a whole (the most important of which might be an increase in price sensitivity) there would be little impact on brands individually. But experience of previous downturns reveals that this is not the general response: some brands maintain or even increase their expenditure, while others cut theirs. And the Bellwether data corroborate this variability in spending intentions. So the question under examination in reality

Peter Field has been a marketing consultant for the last ten years and set up the IPA dataBANK in 1996.

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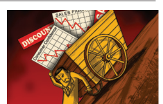


boils down to: what is the impact on those who cut their expenditure vs those who maintain or raise theirs?

Impacts on brand health

Setting the scene for later presentations that examined the impacts on profitability, the first presentation, from Millward Brown, explored the effects of budget cutting on those consumer research metrics that are widely regarded as leading indicators of business performance. As a leading UK provider of consumer research-based brand metrics, Millward Brown has an extensive database to examine the impacts of budget cutting. Its data show a strong correlation between market share and the level of 'bonding' – an aggregate measure of multiple brand–consumer relationship metrics. The clear implication being that if budget cutting results in a decline in 'bonding', then market share can be expected to decline.

Crucially, further data demonstrates that two key constituent brand relationship metrics – brand usage and brand image – suffered considerably (13% and 6% declines respectively) when brands 'went dark' (i.e. ceased to spend on communications) for a period of six months or more. More broadly, 60% of brands 'going dark' see decline in at least one key relationship metric after just six months.

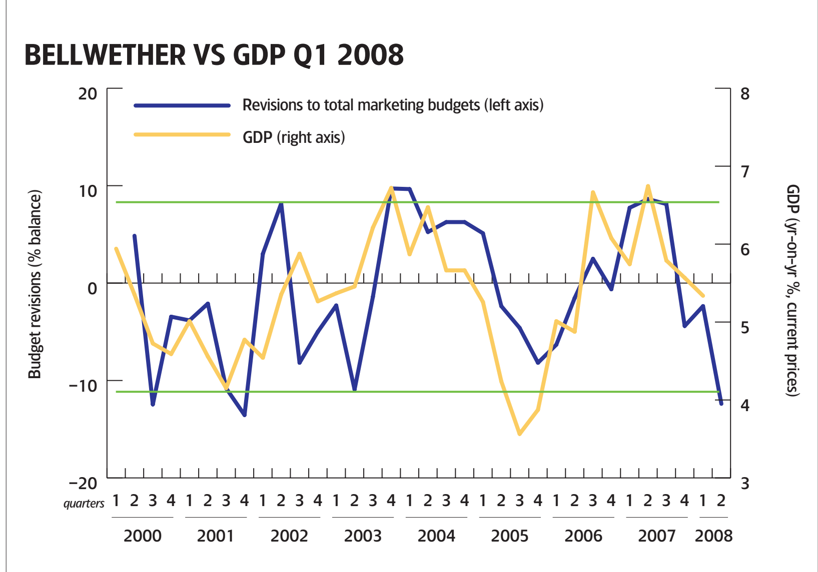
Moreover, the risk of failure increases when communications expenditure resumes after the end of the downturn. There is a strong relationship between the level of risk of loss of share and the key expenditure metric: share of voice – share of market (SOV–SOM), where share of voice is defined as share of total category communications expenditure (see Figure 2).

Thus brands that cut their budget relative to competitors are at greater risk of share loss.

The level of risk is greater in some categories than others. Brands in categories that are more price-driven and where brands carry less importance to consumer choice (such as motor fuel, mineral water and apparel) are more susceptible to share loss when cutting budgets. Conversely, brands in categories where the reverse is true (such as luxury cars, financial services and fragrances) tend to be more resilient. The average proportion of consumers across all categories who are exclusively motivated by price is around 10% and so even if this increased considerably during a downturn, the proportion would remain small; there is therefore good reason to continue to build brand preference during a downturn.

Millward Brown sounded a final cautionary note concerning the speed with which 'buzz' (online and offline word-of-mouth) now spreads consumer views of brands. A brand judged to be on the way down, because it has fallen silent, will very rapidly see this manifested in word-of-mouth, which will accelerate the perception of failure.

Figure 1



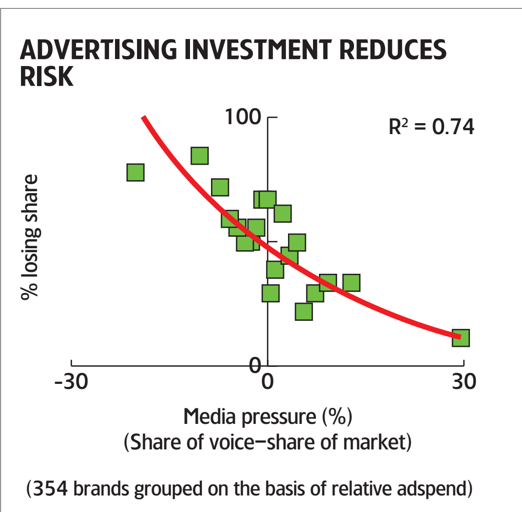


Figure 2

Impacts on business performance

The remaining three presentations, examined the effects on the profitability of brands of reducing communications budgets during a downturn.

Data2Decisions

The first of these, from econometric modelling consultancy Data2Decisions, identified a key factor in determining the business effects of budget cutting: the time lag effect. Although most estimates of short-term payback from advertising (i.e. over small numbers of purchase cycles) is around 50%, the payback over the longer term (one to four years) is usually considerably greater than this.

A typical brand case study shows that the long-term element of payback can be over four times greater than the short term. The importance of this is considerable. Following a budget cut, a brand will continue to benefit from the marketing investment made over the previous few years. This will mitigate any short-term business effects, and will result in a dangerously misleading increase in short-term profitability. The longer-term business harm will be more considerable, but will not be noticed at first. To illustrate this, the long-term effects of two different budget-cutting scenarios are modelled for the brand. In the first scenario the budget is cut to zero for just one year and then returns to usual levels. In the second scenario the budget is halved for one year and then returns to usual levels. Sales recovery to pre-cut levels takes five and three years respectively, with cumulative negative impacts on the bottom line of £1.7m and £0.8m.

However, there are other dangers of common downturn behaviours. The diversion of communications expenditure into price promotions is a common response to downturn. The experience of widespread use of price promotions in the US automotive category illustrates how consumers quickly come to expect ‘incentives’. They therefore lose their efficiency as a generator of incremental sales and end up as a loss of profitability.

Another widely overlooked impact of reduced brand communications expenditure is on price elasticity. Analysis of a brand’s pricing data across a campaign shows that it reduced the price elasticity of the brand (i.e. the percentage change in volume for a 1% change in price) from -2.2 to -1.5. Such improvements often account for the majority of the profit impact of a successful campaign. By extension, the abandonment of communications is likely to result in the gradual increase in price elasticity and the growing need to reduce pricing to maintain volume. This may have a very damaging effect on profitability, but again one that is deceptively time-lagged.

Finally, the Data2Decisions presentation raised an unfortunate side effect of markets in downturn: greater unpredictability and hence risk. In particular, increased volatility in the response curve to marketing results in radically different optimum levels of expenditure for maximum profitability. This risk can deter expenditure, but the solution is to use modelling to determine the optimum expenditure and to maintain brand support.

Malik PIMS

The second business effects paper is by Malik PIMS (Profit Impact of Market Strategy). PIMS has analysed data collected from around 1,000 business units in developed economies during periods of market downturn and subsequent market recovery. The data are extremely robust and highly respected, and enable a comparison of downturns pre-2000 with more recent ones. Three performance metrics are examined: inflation-corrected ROCE during downturn, inflation corrected ROCE during the first two years of market recovery, and market share change during the first two years of recovery.

A previous (2001) analysis of the winning business strategies deployed during earlier downturns demonstrated the importance of increased commitment to marketing during a downturn.

That analysis showed that while maintaining or reducing fixed costs was desirable, the opposite was true of marketing costs. Communications, R&D and new product development were all areas where increased expenditure was associated with business

success during downturns. Improving customer preference while enabling maintained relative price were the means by which increased marketing expenditure drove success.

More recent data bring the analysis of the effect of increased spend on marketing and R&D, and more active NPD, up to date.

Looking first at marketing spend, the recent data show that ROCE and market share after a downturn are considerably enhanced by increased marketing expenditure during the downturn. ROCE during the downturn is perhaps mildly adversely affected by increased marketing spend, but not significantly, and the longer-term upside greatly exceeds any short-term downside. By contrast, cutting marketing expenditure results in less ROCE recovery and reduced market share post-downturn. This pattern of more recent findings is therefore broadly the same as was found with the earlier data.

Turning next to the effects of increased R&D expenditure during the downturn, the recent data reveal that some developments in the pattern have occurred since the earlier analysis. While the effect on market share post-downturn of increased R&D spend during it remains very positive, the effect on ROCE recovery post-downturn is now more muted. There is little or no observed adverse effect on ROCE during the downturn caused by increased R&D spend. Cutting R&D expenditure appears on balance the least successful approach.

And turning lastly to the effects of increased new product development activity (expressed as percentage of sales derived from new products) during the downturn, the recent data again reveal that patterns have evolved slightly from the earlier analysis, but the central conclusion remains the same: NPD has a strongly beneficial effect on ROCE during the downturn, but rather less so post-downturn. This is explained by the observation that increased NPD brings less lasting effect on market share post-downturn. Competitor response to NPD has become swifter since the earlier analysis, resulting largely in only short-term benefits to the first mover.

So the Malik PIMS analysis provides clear evidence that increasing marketing communications expenditure in a downturn is a profitable strategy for recovery because media costs and competitor activity tend to fall. Essentially downturns provide a window for cheaper market share gain to brands that increase investment. Increased expenditure on R&D brings similar benefits, while increased NPD is the best strategy for enhancing short-term ROCE during the downturn, but brings little benefit thereafter.

Figure 3

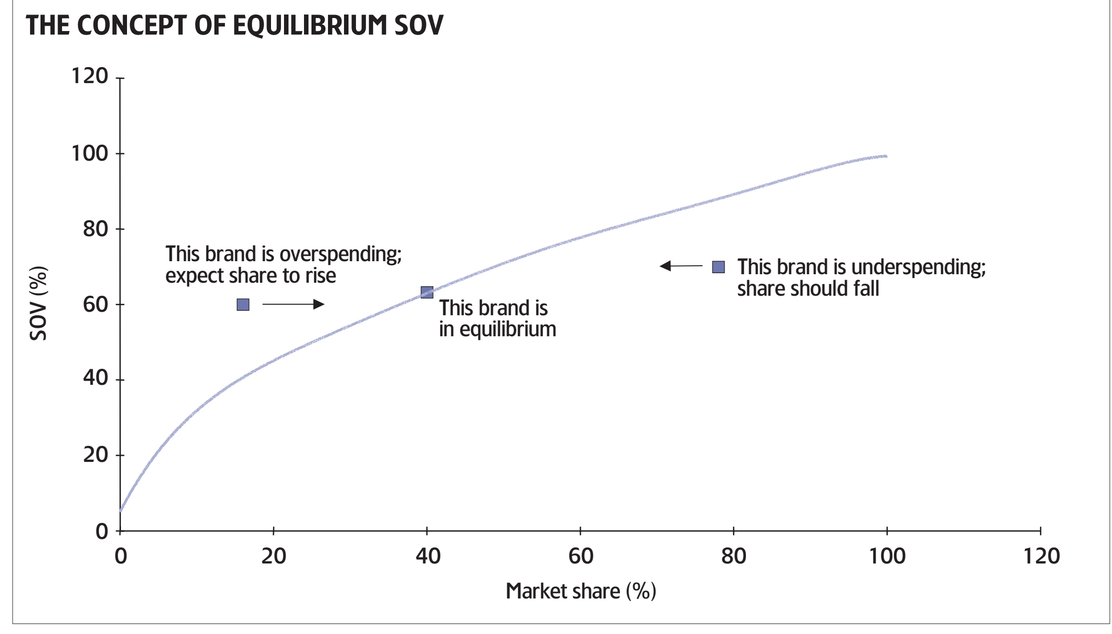
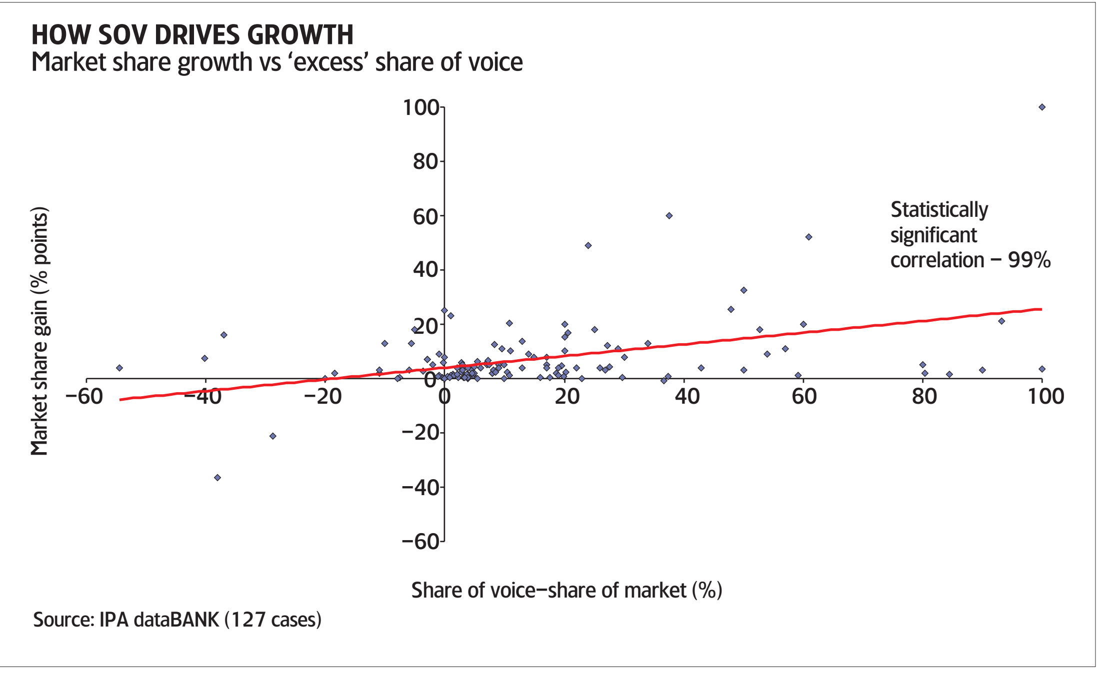


Figure 4



IPA DataMINE

The final presentation was based on an analysis of 880 IPA case studies submitted to the IPA Effectiveness Awards since 1980.

Share of voice (SOV) and share of market (SOM) data from the case studies have been collected and used to examine the relationship between SOV and SOM and by extension the effect of cutting SOV.

The theoretical relationship between equilibrium SOV and SOM, is shown in Figure 3. Brands spending above equilibrium SOV will grow, whereas those spending below equilibrium will shrink.

The dataBANK data validate this theoretical relationship closely.

Brands lying above the curve tend to grow market share in proportion to their distance from it, while brands below tend to lose market share commensurately. Thus 'excess share of voice' (SOV–SOM) is the most critical factor in explaining subsequent SOM changes. This relationship holds during buoyant times and downturns.

The actual relationship between market share growth (or decline) and the level of excess share of voice (SOV–SOM) recorded in the case studies is shown in Figure 4. It is statistically very reliable and closely mirrors findings from other databases.

The rule-of-thumb finding from this analysis is that for every ten points that SOV exceeds SOM a brand can expect to gain one point of market share per annum. The corollary of this is that a brand can expect to lose one point of market share for every ten points it allows its SOV to fall below its SOM. This is an average finding across all categories and ideally the relationship for any given category should be derived from econometric modelling. Nevertheless this rule of thumb can be used as a forecasting tool for the effects of different marketing communications expenditure strategies during a downturn. An important facet of this relationship is that there is an inherent time-lag between relative marketing expenditure (SOV–SOM) and market share growth. Table 1 shows the share resulting (in the following year) from expenditure in the previous. It is this lag that causes deceptive short-term profitability effects during periods of sudden marketing expenditure change.

Table 1 applies the forecasting rule of thumb to a hypothetical brand in a fairly common scenario. The brand operates in a previously buoyant category, and prior to the downturn mildly under-spent its SOM. A 'panic' scenario is modelled in which budget was cut to zero for two years (while competitors maintained real spend). The forecast market share in the third year falls to 5.7% from 7.1%.

The likely impact of this decline on the profitability of the brand is modelled in Table

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2, assuming a fairly typical cost structure for a packaged goods brand. Other assumptions made are that category growth ceased for two years and resumed 5% growth in the third year; that marketing communications expenditure for the brand is restored in the third year; and that fixed costs for the brand rise with RPI across the downturn. The result: a short-term improvement in profitability is rapidly overtaken by a severe decline, becoming acute in the third year when the marketing budget is restored.

It is important to note the deceptive short-term profit improvement due to the lagged effects of marketing on sales (recent authoritative PricewaterhouseCoopers research suggests that 45% of the return on TV expenditure comes through more than one year later). This short-term improvement provides the stimulus for budget cutting and briefly masks the considerable damage inflicted on longer-term profitability.

Applying this modelling to a less severe but more common budget cut of 20% for two years (with other assumptions remaining the same) reveals a similar but less severe pattern. However, the brand still emerges from the downturn in a considerably weaker profitability position, as shown in the top row of Table 3. Table 3 compares this scenario with the forecast profit pattern for the minimum recommended expenditure level (where SOV equals SOM). This comparison reveals the wisdom of maintaining marketing budgets during a downturn: cumulative profits generated in the SOV=SOM scenario over the three-year period greatly exceed the mild cut scenario, despite a disadvantage in the first year. Though it should be noted that no DCF analysis has been applied, which would tend to lessen the overall advantage.

Conclusions

The key conclusions from the four presentations can be summarised as follows:

- Cutting budget in a downturn will help defend profits only in the very short term.
- Ultimately the brand will emerge from the downturn weaker and much less profitable.
- It is better to maintain SOV at or above SOM during a downturn: the longer-term improvement in profitability is likely to greatly outweigh the short-term reduction.
- If other brands are cutting budgets the longer-term benefit of maintaining expenditure will be even greater.

So it appears that the major players are the wise ones - they have learned to take advantage of downturns to grow. Perhaps they are encouraged by the investment community, which has also clearly learned the lessons of previous downturns: on the day analysts questioned Unilever's commitment to maintaining marketing expenditure, the company's share price fell 8%, despite better than expected short term results. Budget-cutters take note. ❦

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Table 1

SHARE FORECAST FOR 'PANIC' SCENARIO
Panic scenario: zero budget

Year	2007	2008	2009	2010
Brand X spend	£7.9m	£0m	£0m	
Competitor spend	£117m	£120m	£123m	
Market spend	£125m	£120m	£123m	
Share of voice	6.3%	0%	0%	
Excess SOV	−0.7%	−7.0%	−6.3%	
Share growth	−0.07%	−0.7%	−0.6%	
Share	7.1%	7.0%	6.3%	5.7%

Table 2

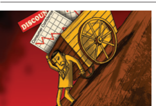
PROFIT FORECAST FOR 'PANIC' SCENARIO
Panic scenario: zero budget

Year	2007	2008	2009	2010
Brand X sales	£317m	£314m	£282m	£269m
Fixed costings (excluding marketing)	£68m	£70m	£72m	£74m
Variable costs (excluding marketing)	£202m	£200m	£180m	£171m
Marketing spend	£7.9m	0	0	£7.9m
Total costs	£278m	£270m	£251m	£253m
Operating profit	£39m	£44m	£31m	£16m

Table 3

PROFIT FORECASTS FOR MILD CUT VS. SOV=SOM
Comparison with SOV-based approach

	Operating profit:			
	2007	2008	2009	2010
Mild cut	£39m	£38m	£33m	£32m
SOV=SOM	£38m	£36m	£34m	£38m



Supermarket retailing in troubled times

By ANDREW SETH AND GEOFFREY RANDALL

All downturns produce winners as well as losers and the supermarket sector is no exception. Looking mainly at the UK and US, Seth and Randall see the predictable pattern of polarisation with Wal-Mart and Tesco as having the capacity to cope with troubled times. Winners are also the discounters with question marks over just how well the premium brands M&S and Waitrose will cope. Losers are mainly the independents with further question marks over the big brands (Sainsbury's and Morrisons) in the middle. Looking further ahead, the authors speculate on trends that will shape the post recession period: more personal service, smaller high street stores, sustainability, continued internet shopping and the ever-present attacks by a range of lobbying groups.

SUPERMARKET retailing has been much in the news – for obvious reasons. In difficult times, it is the weekly shopping expedition that the crunch hits first and, for many people, hardest. This article looks at the supermarket scene in the UK and US to see who the winners and losers are in this important category. In addition we look at longer term trends already taking shape.

Who is winning?

Wal-Mart

If you accept its statements and recent revenue figures, it's once again in rude health as US customers, on whom it is largely dependent, reacquaint themselves with Wal-Mart's 'low price – always' message and its omnipresent one-stop-shopping model. Wal-Mart has six mammoth shopping centres on a 20-mile stretch from Phoenix to Scottsdale. Simultaneously they're all flourishing.

However, Wal-Mart's success outside the US is confined for the moment to NAFTA (Canada and Mexico) and British Asda. Germany was disastrous and Japan looks little better, although its efforts persist.

Tesco

Powerful at home, now justifiably viewed as the West's most innovative retailer. Far from slowing its expansion as hard times bite, Tesco has been putting the foot down. No question, Leahy's team see tough times as more of a help than a hindrance. Taking an international view, Tesco is now best in class: strong in Eastern Europe, a good and growing presence

Andrew Seth worked for Unilever for 30 years and Geoffrey Randall is an independent consultant.

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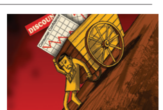

in Asia Pacific (see page 36). But it is its going west that has caused most fluttering in the dovecots.

By its own high standards, the Tesco move into California is brave and innovative. By anyone's standards it shows revolutionary elements, starting with the brand name (Fresh&Easy). Unlike anywhere else, it adopted a small-store format (10,000 sq ft) perhaps anticipating emergent trends, (of which more later), and rapidly opened 60 stores before controversially announcing an understandable pause in proceedings.

Its food distinctiveness is built around a locally owned 'kitchen' supplying much of the fresh food, and features personal counsel on recipes and food matters in-store, while unmanned checkouts are mechanised. Differentiation is based on high-quality, fresh food, visible store service and deliberately low pricing. The ambition is there for all to see.

Is it working? Commentaries are mixed, but the company remains confident and essentially it will be months or years before anyone knows. However one sure sign of salience is that both Wal-Mart (Marketside) and Safeway (Vons) responded by opening their own comparable outlets, apparently concluding this was a trend they could not ignore. Less obvious is the latter's high-price strategy, no doubt aimed at keeping its new brands as 'niche' entrants, and minimising cannibalisation of existing business – an anxiety that Tesco does not have.

Our view, obtained on the spot in California this year, suggests that Tesco may have got a lot right. The combination of fresh food quality, unique in-store consumer service, and competitive pricing looks formidable. Tesco has put its best talent into the US, and its ten-year track record has been outstanding. With Wal-Mart defending itself vigorously, others imitating, and a strong Aldi brand (Trader Joe's) alive and well in the US west, Fresh&Easy will be thoroughly examined. If it works, the company will have an interesting brand available elsewhere – probably including the UK, where a small-store high-street and suburban presence can be exploited.

Discounters

There are other winners. As you would expect in a recession, discounters are in fine form, notably Aldi in Europe and its Trader Joe's US subsidiary. Next Lidl, which is a force right across Europe. Its stripped-down stores, scrimpy ranges and bargain-basement prices gain share virtually everywhere.

Who loses?

The short answer is the independent trade – smaller than ever, but destined to become smaller still, given its lack of competitiveness.

Secondly, middle-ground retailers, probably including Sainsbury's, recovering from its traumas but acutely pincered by Tesco and Asda on the left and Waitrose and M&S on the right. Sainsbury's remains unable to deliver decent trading margins. Morrisons, having absorbed Safeway, retired its doyen founder and relaunched under new leadership, looks better placed.

The rest will surely find life difficult. Circumstances similar to the UK will apply in Western Europe and the US. Discounters with limited product range, good space utilisation and rock-bottom prices attract more consumers and grow. The best self-service operators – Wegman, Whole Foods, Publix, H.E. Butt in the US – may remain unhurt. But the undifferentiated, less clearly positioned supermarket brands will certainly suffer share decline.

How will the top end fare?

Will the top-end of the market collapse? Perhaps not. In Britain Waitrose does well and confidently announces smaller stores. Waitrose delivers consistent quality as does M&S, although we have yet to see how much further damage will be done to M&S's share price and how the new foods director will work out. But providing it keeps quality perceptions, consumer concern with nutritional values and health will stand these brands in good stead, and will not disappear.

Longer-term trends at work

Recessions do not last for ever, however, and we should look beyond the current depressed climate to ascertain whether there are more lasting forces at work that will change the

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The end of cheap food?

In addition to the current economic downturn there are more fundamental issues. Indeed, some critics have concluded our whole retail model is unsustainable. If you're feeling strong, try the melodramatic opinions in *Hungry City: how food shapes our lives* (Carolyn Steel 2008) or *The End of Food: the coming crisis in the world food industry* (Paul Roberts 2008) for a genuinely frightening world vision.

These authors argue that the quantity and quality of food we have come to take for granted in the West can't last much longer. The paradisal dream of plenty realised daily on supermarket shelves piled high with cheap, colourful, convenient and reliable produce turns out in fact to be more of a nightmare. It not only denies the nature of food itself ('seasonal, squashable, bruisable, irregular, unpredictable, in Steel's words), it is unsustainable as well as dangerously destructive in the long run. It rests on coercive, conformist and monopolistic policies openly dedicated to the suppression of individuality, autonomy and free choice.

We expect to see more of this kind of polemic.

Adapted from Hilary Spurling, The Observer, *8 June 2008.*

consumer's outlook on food shopping. We think there are, and though some may be embryonic, they are noticeable and different from past trends. We suggest that these trends may be strong enough to become permanent.

At its most fundamental we see an emerging relationship between provider (the store) and customers, which will differ from what we have been used to for most of the past half-century. This sounds a bold claim and we need to offer evidence.

The prevailing model of out-of-town superstore/hypermarket/supermarket shopping that has dominated food retailing in the West – and, increasingly, elsewhere – for almost half a century may be in for a change. Trends are not for ever; they are by definition cyclical, even though cycles may be very long.

If consumers see important advantages in some new offer, they will change their behaviour and what were originally seen as maverick providers gradually gain momentum.

Our contention is that we may be at the earliest stages of such a change in food retailing. Here are some signs that we see emerging.

Demands for personally relevant goods and services

At its root is the arrival of more demanding and discriminating shoppers. This is no new phenomenon – people have said this for years. However, the providers have remained firmly in control hitherto, and delivered what they saw as the appropriate response as and when they were ready, and invariably at no cost to themselves.

The importance of food and nutrition, concerns for health and physical well-being, obesity worries, genuine attention and delight in food preparation, and an overall awareness of 'what I want and need' drives this change. It manifests itself in a desire for information of value and personal counsel – consider the plethora of recipe books, omnipresent food pundits and unavoidable food programmes on prime-time TV. Food stores will need to respond – Whole Foods, Waitrose, Marks & Spencer, Trader Joe's, Fresh&Easy all know they have to do so.

Personally relevant information becomes the relevant discriminator, delivered as and when it's wanted, and wherever possible, face to face by individuals, i.e. not by machine and not to the world at large. That this will cost the providers is self-evident. That it will therefore frequently be resisted long and hard follows – remember human service costs in developed societies are those that rise fastest. But, at the end of the day, consumers rule, and when they decide on change, it will happen. That time may well be with us now.

Internet shopping

Of course interactivity between provider and consumer can take place in many ways. The internet has been a radical new force in developing information provision to shoppers and in some cases it has taken over entire transactions. We can expect this to continue. We can also expect higher standards of demand to become pervasive as consumers seek more precise, personal, reliable and accommodating responses to their

requirements. Ocado, the well-regarded but still after eight years unprofitable internet specialist, is poised interestingly as recession bites. Whether it can grow and, a fortiori, deliver profits is uncertain

Our contention is that the era of the impersonal transaction-managed food shopping is already beginning to disappear, and through time the need for informed and personal guidance will grow – if it works for, say an expensive fillet-steak meal, why can't it also work just as well in home hygiene, health and beauty, bread varieties, even water?

Ironically we may be witnessing a return to old corner-store patterns of behaviour, where the retailer's first move was to greet shoppers, whom they usually knew well, – invariably by name. A resultant shared communal relationship existed between them, which was often very hard to break.

Climate change and sustainability

Environmental concerns have been significant new forces affecting consumers and providers. While the recession may have driven this down the priorities list for the moment, it has not gone away. For many people, and for a high percentage of 'thought leaders' these issues remain paramount. Research shows 25% of UK consumers list this as an enduring high priority. Their deeply held and rational concerns will not be resolved by frenzied action from retailers or an expedient government on matters such as plastic bags. The issues are more enduring and comprehensive.

It is heartening after decades of endemic decline to talk about the Co-op's capacity to differentiate and grow using ethical and environmental values, the Co-op is now better placed to succeed.

Packaging is certainly a major element in its resolution and it's interesting to note that it is 'over-packaging' of fresh food that apparently worries Fresh&Easy's leadership most. Our view is that as this issue retains its prominence and grows in significance it will affect many more aspects of food provision and buying, and in a more radical way than it has done so far, affecting ingredients, food composition, distribution, communications and indeed all significant aspects of the shopping transaction.

The return of the high street?

Shopping by car (still the invariable norm), store parking, traffic congestion, poor public transport provision and the high price of oil are all major and linked issues. Given the constellation of store availability in the UK, but even more in the US, there is today little alternative to shopping by car. One-stop shopping is an appreciated consumer benefit. However, this may not last in its present form.

Alternative models exist. French towns retain vibrant high streets, and well-patronised food shops invariably populate them. Of course, time-starved families rarely have time to shop for fresh bread twice a day but some adjustment towards this alternative model, among others, may be imminent.

Could this be one reason Fresh&Easy opened (many) local stores – small in size – in the US? Does Waitrose have similar notions in the south of England? May this even be a part of the Co-op's future arsenal – possessors as it is of many little-regarded high-street stores? Tesco began its modest rejuvenation of the high street with the Metro operation ten years ago so it – and Sainsbury's, who quickly followed – knows that it can work.

However, it is the notion of 'consumer engagement' and of an emergent 'community' that may give this movement its big kick forward. This is a bold assertion and would, were it to happen, represent a major change for free-market Western society. It is certainly not established among a major cus-

We may be witnessing a return to old corner-store patterns of behaviour, where the retailer's first move was to greet shoppers, whom they usually knew well – invariably by name. A resultant shared communal relationship existed between them, which was often very hard to break

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Asia in the cockpit

Now we have Asia, responsible for seismic change in the world market. No question this is the cockpit, a place where anyone who wants to figure in global retailing simply has to be. For a period it has been China dominating thinking, and every major player beats its way in and jockeys for early advantage. Carrefour was first and it has fine stores in big Chinese cities, but Wal-Mart, possibly negotiating cleverly with the Chinese authorities, could accelerate its expansion, while Tesco, with its Hymall partnership, and Metro's cash and carry format are all present. It will be years before the real winners emerge.

If China was an entry challenge, dynamic India shows signs of being much more difficult. With the largest young population in the world – 900 million people under 45 – India is staggeringly attractive. The 'modern' retail segment grows at 40% p.a. compared to the overall growth rate of 10%. Recently India has witnessed rapid store transformation by encouraging a whole set of scalable and profitable retail models. Increasing penetration of hypermarkets, supermarkets and even one thousand or more mega speciality stores are expected quickly.

There are several well-funded Indian retailers (Reliance, Godrej, ITC, Birla), and aspiring international competitors will have to strike partner relationships with local Indian companies – as Wal-Mart achieved and Tesco desperately covets. Their urgency is understandable. While the West reels under recession and collapsing spending, supply exceeds demand. India confronts inflation and industry, and retailers can't provide what consumers want. This change is as significant as the arrival of the post-war European supermarkets and it should have comparable societal effects. However it's worth noting that, true to form, the Indian government sets out to make it inherently difficult for foreign investors to enter – the process won't be easy.

tomer segment today and has a long way to go before Anglo Saxon food culture gets anywhere close to, say, its Mediterranean equivalents. All we are saying is that some early signals of this kind of change in the US/UK can now be detected.

Big retailers under attack from pressure groups

From what has preceded you might conclude that competition is alive and well around the retail world. In fact divergent trends can be seen. Alongside increased willingness in some places to 'let markets decide' and assume the consumer will benefit at the end of the day, there are countervailing trends. Immense pressures exist on major retail players from consumer movements. The biggest companies experience the most determined and frequently hostile, pressure. Wal-Mart tries with difficulty to control a big-scale America-wide protest movement, where articulate forces collaborate to arrest its apparently unstoppable expansion.

The same thing happens at British Tesco, with assorted groups of animal-rights activists, high-value chicken farmers and overseas shop-floor representatives uniting to seek to destabilise the company's AGM. Of course we need not feel sorry for these companies: they are big and strong enough to state their case, which they do firmly and occasionally with venom. But pressures grow. They are better informed and effective, and since they often attract tacit or even overt political support, they have become major factors preoccupying company leadership. In the UK, supermarkets have been investigated three times in a decade by government agencies and a fourth investigation seems now to be underway. Is this sensible use of resources?

A different (and better?) future

The conclusion seems to be that food retailing has never been more excitingly poised between a group of developing consumer demands and a set of highly competitive companies. The market has over ten years become, once and for all, truly global, which makes these movements more visible and relevant, wherever you live. Some of the results may represent the beginnings of a genuinely better world, as indeed were the first self-service stores 50 years ago. What seems clear is that the most determinedly innovative deserve to win fastest – be they consumers or retailers.❦

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The future of big box electrical brands

By RICHARD JENKINGS

The downturn is the catalyst for a number of different trends in electrical goods retailing; Richard Jenkings summarises the key challenges for the leading electrical goods brands. The internet increases its appeal as a place not only to check prices but also to shop, with competition from Amazon turning the screw. On the high street, supermarkets increasingly stock electrical goods at keen prices, new outlets such as HMV are emerging and Carphone Warehouse's link with US retailer Best Buy will bring a greater professionalism and customer service to the market-place. These activities together with pressures on manufacturer brands, constant price pressure, green issues and convergence of technology promise much change in electrical retailing.

With the credit crunch entering the *Oxford Dictionary* for the first time we are all aware of the way that consumers' spending power is being squeezed between rises in fuel, food and housing costs. What then does this mean for the companies that sell electrical goods?

The past world of electrical retailers in the UK is littered with companies that are gone, although in some cases still remembered. Powerhouse and Miller Brothers went into administration in 2006 and before them Tempo, Radio Rentals, Rumbelows and others passed into history.

At the moment the industry is dominated by a small number of major multiples, most notably Comet and the Dixons group with a wide range of specialists from John Lewis to Richer Sounds. The supermarkets have also seen a significant rise, with Tesco having a larger market share than John Lewis after

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Increasingly people are using the internet not only to compare the price and features of electrical goods, but also to buy. Most of the bricks-and-mortar electrical retailers sell on the net, and the move of Amazon into this area has certainly hotted up the competition

2006 and Asda adding electrical space. (Verdict). Meanwhile online sales from Amazon and others have grown to be a significant part of the market.

Verdict considered that the Comet and Dixons group had nearly reached full market saturation by late 2006 and were in-filling the remaining gaps. Since then Dixons has had a programme of 75 closures (for mainly Currys Digital in-town stores) to concentrate on out of town in larger stores and online. Most recently Carphone Warehouse and US retailer Best Buy have announced a tie-up, potentially bringing the Best Buy reputation for scale, low costs and staff knowledge to the UK. For the electrical retailer, 2008 is becoming an interesting year.

All the current electrical retailers now face a wide range of challenges that are likely to shake up the present market structure. Let's now look at each of these and what they may mean for the current players.

1. The wider economy weakening – credit crunch starts to bite

Large electrical goods and big TVs in particular are purchases often triggered by house moves. So fewer people moving, and wider economic uncertainty and loss of confidence makes it harder to sell big-ticket electrical items, although these goods are often going down in price. Most economists seem to think that we are looking at a year or more of depressed demand.

Historically it has often been the super-luxury brands and the discounters that have fared best in hard times. So Bang & Olufsen should be safe if perceived as being upmarket enough and, at the other end, we can expect better sales of discounted televisions from supermarkets. Perhaps the biggest threat is that consumers may decide not to update their equipment and wait until the economic uncertainty is resolved.

2. Internet – clicks and bricks

Increasingly, people are using the internet not only to compare the price and features of electrical goods, but also to buy. Most of the bricks-and-mortar electrical retailers sell on the net and the move of Amazon into this area has certainly hotted up the competition. Figures show the growing volume of people using the sites to browse and buy electrical goods. With an increasingly value-conscious consumer the second-hand market can also be expected to grow with eBay and others adding to the pressure.

3. Supermarkets – buy a TV while you're here

It seems that most big supermarkets are trying to sell you TVs, DVD players and all manner of electrical goods. Indeed a recent survey stated that these items are necessities in a household's budget and not luxuries. Certainly many of the largest Asda Wal-Mart and Tesco Extra stores begin to look like department stores with their own electrical departments. Their strengths are keen pricing, space and the captive audience that is already there to buy food. The drawback is that it is rare to find staff that really know about the goods they are selling.

4. Best Buy/Carphone Warehouse link-up

The recently announced joint venture between Carphone Warehouse and the US giant retailer Best Buy has been much trumpeted in the UK press. The ability for Carphone Warehouse to sell a wide range of smaller electronic goods will add to the competition already hotting up, with moves by HMV, M&S and all other major supermarkets increasingly moving into this area. The reputation of Carphone Warehouse for customer care, coupled with existing relationship with Apple as suppliers of the

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iPhone will make it a formidable competitor.

Best Buy will bring its US model of large out-of-town electrical sheds, majoring on both keen prices and staff knowledge about its technical products. Starting in 2009 it plans 200 big blue boxes (big out-of-town stores) in the UK. The Best Buy technical support, the 'Geek squad', has already been imitated by the 'Comet on Call' service.

5. Other retailers entering the market (e.g. HMV, M&S and others)

The already crowded marketplace has got even busier as retailers on the margins of the market start to enter it. HMV, finding music sales pressured by downloaded music, is selling more electrical equipment to watch and play on. As time goes by iPods, DVD players and much more will be available in outlets that never used to sell them. It is hard to believe that everybody can sell electrical goods and I am forced to think that we may be seeing a re-run of the earlier days of pay- as-you go mobile phones when you could buy them from everywhere including my barbers. There will not be room for everyone and, in time, those offering the best combination of range, price-service and knowledge will survive.

6. Price pressure – ever cheaper deals

In an era when inflation is starting to raise its ugly head once more, many electrical goods have been falling in price, in both relative and real terms. I now have a DVD player that cost me less than some of the discs I am playing on it. The consumer may be seeing serious inflation in many items of expenditure but electrical goods have certainly got cheaper. The major existing retailers have until recent times concentrated their advertising on price, and many small electrical items such as digital cameras have become commoditised. In this market margins can be small and only large volume can make the process stack up.

7. Events

In the early days of television the first TV sales coincided with the coronation. Ever since, major events have had an effect on sales. Sadly the failure of England to qualify for Euro 2008 will have held back sales in this sector, as well as being bad news for pizza delivery and supermarket multi-pack beer. Recent events such as the Olympics in China will have helped spur demand although even the recent price cutting on large TVs has still been held back by a lack of confidence in the wider economy.

HMV is selling more electrical equipment to watch and play on.

8. Technological change and innovation

Over the years, technological innovation has driven electrical markets. Many white goods sales are replacements but many sales of entertainment products are based on newness, innovation and fashion. Records followed by eight track, followed by cassette players have given way to CDs and then hard disk MP3 players and iPods. VHSVideo has given way to DVDs and then down loaded films. The big trends are iPods, SatNavs and the combination of HD TVs linked to HD service boxes and Blue Ray players. Being up to date in timing the phasing in of new technologies and phasing out of old technologies is crucial to success.

9. Behaviour changes

A pub and restaurant operator has described how the recent Saturday night when the finals of *Britain's Got Talent* and the choice of a 'Nancy' for *Oliver* resulted in a quiet night for restaurants. This can be seen as part of a wider trend, with more people staying at home. The combination of 'better' Saturday- night variety TV and ready meals

People still think more about the cost of purchase rather than the cost of running an item over time. The price of a washing machine matters more to people than how much power and water it uses to run it

offers such as those from M&S suggesting a chilled meal and wine for a fixed price of £10, may help electrical retailers sales.

10. Rising costs of energy, and green issues

We can already see that the energy efficiency of electrical goods is a factor in people's choice of products. This is strong in white goods, with the energy rating of ABC being tagged to washing machines, fridges and dish washers. With rising costs of energy and growing environmental concern, this trend can be expected to spread to most electrical goods. However, people still think more about the cost of purchase rather than the costs of running an item over time. Printers are cheap but toner is expensive. The price of a washing machine matters more to people than how much power and water it uses to run it. It is likely, however, that the large amounts of advertising and press inches dedicated to the size of carbon footprints will influence people's choice of products, and that the lifespan, running costs and carbon rating of goods will become more important. Those retailers with a green image will benefit.

11. Manufacturers' brands

The strength of the retailer over the manufacturer still dominates, but there are a few notable exceptions, such as Apple and to a lesser extent Sony with their own stores as well as sales through other people's shops. Such stores as Nike and Apple act as brand show-cases, places of retail theatre, and help advertise the products. Historically many mobile phone shops have been strongly tied to their supplier – O2, Vodafone and Orange. But leaving issues of fashion and brand loyalty aside, customers often like to see a range of offers such as those from Phones4U and Carphone Warehouse.

12. Convergence of technology

We are moving towards a world where all you need is a single device that does everything: mobile phone, email, satnav, computer, a portable TV all in one.

For electrical retailers that are strong in one area, such as Halfords for SatNav or Jessops for cameras it can be a threat as technologies converge. When you can buy a digital camera very cheaply online or get a satnav fitted as standard in your car or on your mobile phone then this changes the market. In both these cases Halfords and Jessops have pushed the importance of service and the knowledge of their staff. It is clear that the public want to be helped and those companies offering product knowledge will do best, providing they can still offer a good deal.

Some conclusions:

Unless you are a specialist, you will need to combine the vast scale that gives you the ability to offer the best value with staff that know about your products. You need to follow fashions and key demand-triggering events.

Despite the increasing costs of fuel we expect the trend towards fewer, bigger electrical shops to continue and, with the exception of a few specialists, to be at the edge or out of town.

What then can we conclude about the future of big box electrical retailing in the UK? For many electrical goods, there is an element of play, the fascination of a new gadget is irresistible. The Future Foundation's Nvision survey shows that people still want to touch and play with their toys before they buy them. I see no reason why this should not continue. ❦

This piece is based on Jenkings' exclusive article, first published on www.warc.com, June 2008.

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Starbucks: the decline of the empire

By MATTHEW LYNN

Coffee is the pure brew of capitalism, says Matthew Lynn. As the credit crunch bites, no wonder the world's most ubiquitous coffee-house chain is heading for trouble.

In Christopher Guest's witty canine mockumentary *Best in Show*, there is a line of dialogue that tells you everything you need to know about the world's biggest coffee chain. 'We met at Starbucks,' says a woman character of her current romance. 'Not the same Starbucks, but we saw each other at different Starbucks across the street from each other.'

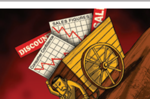
Not many companies are so instantly recognisable that their brand names can be dropped straight into a movie without introduction. Nor are there many whose ubiquity could be the punchline for a gag. Indeed, there is probably only one: Starbucks.

But, quite possibly, not any more. For the first time since it was founded in Seattle in 1971, the company that introduced the world to the double mint mocha decaf skinny latte is on the retreat. Its stock price has been hammered. Its key founder has been hauled back to restore the old magic. It is experimenting with new products to revive flagging sales. And, most significantly, it has announced that 600 of its American shops are to close, the first major cull since it was founded. For the first time, people are starting to ask if the caffeine empire is about to fall.

If so, it will be as good a symbol as any of the closing of an era of capitalist exuberance. You could have an interesting debate about which was the most iconic business of the last couple of decades. Microsoft was the richest, and Apple probably the coolest. But, for an exercise in pure marketing, for the chutzpah involved in turning frothy milk and hot air into one of the most powerful brands in the world, it would be hard to beat Starbucks.

Economic historians have occasionally noted the connections between coffee and capitalism. Stock markets were, of course, originally coffee houses. One of the first futures markets, started in New York in 1882, traded coffee contracts. As industrialisation spread, so did coffee drinking. 'Caffeine underpinned the dramatic rise of capitalism and its most successful offspring, globalisation,' notes the historian Anthony Wild in *Coffee: A Dark History*. Indeed, with its ingredients of commodity trading, industrial process and global branding, it is the capitalist drink par excellence. So it probably shouldn't come as any great surprise that the rampant quarter-century bull market from 1982 to 2007 should have a coffee company

MATTHEW LYNN



as one of its most emblematic successes. Starbucks certainly seems to have been aware of that. The original company was founded way back in 1971, its name borrowed from *Moby Dick* (Starbuck was Captain Ahab's first mate). But it remained no more than a popular local coffee shop in Seattle until the entrepreneur Howard Schultz climbed on board in 1982 armed with a big idea.

The big idea

Coming back from Italy, he figured Americans might like a Mediterranean-style coffee house. Just as McDonald's had taken a traditional German food item – the hamburger – and repackaged it for the US before selling it back to the rest of the world, so Schultz would take European-style café culture, reinvent it for the American market, then roll the format out worldwide. It worked a treat.

A fairly simple idea was wrapped up in the kind of messianic hyperbole in which American business specialises. 'I wanted to blend coffee with romance, to dare to achieve what others said was impossible, to defy the odds with innovative ideas, and to do all this with elegance and style,' wrote Schultz in his own book about the company, *Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time*.

The formula certainly worked. By the time Starbucks listed in 1992, it had 165 shops. It opened its first foreign store in Tokyo in 1996, and in 1998 it arrived in Britain when it bought the Seattle Coffee Company (a business largely cloned from Starbucks anyway) and rebranded its chain with the soon-to-be-familiar green and white colours. Over the next decade, Starbucks mushroomed to more than 16,000 shops around the world. It even opened in France – though purists will be pleased to note that it struggled there, and shied away from Italy altogether.

There was no great mystery about the model. Starbucks, whatever it liked to claim, never really had the best coffee in the world. But, like most chains, it offered something else instead: reliability. You could drop into a Starbucks anywhere in the world and you would know what you were getting. It introduced the sort of café where you could sit around drinking coffee and reading the papers to countries where such places had never really existed before. In Britain, it was a big step up from Joe's greasy spoon with Nescafé in a chipped mug. Likewise, to most Americans it was a step up from an old-fashioned diner.

A cultural icon

Along the way, Starbucks turned itself into a cultural icon, inspiring admiration and contempt in equal measure. There is a whole shelf of books about Starbucks: ten at the last count, including *How Starbucks Saved My Life*, the story of a JWT executive who goes to work at the coffee chain after getting downsized (and soon to be made into a film starring Tom Hanks). During the dotcom bubble, it became a cliché that every new business was started in Starbucks: like most clichés, there was some truth in it, and the chino-clad, Starbucks-cup-clutching entrepreneur became an archetype of the era.

For every devotee, however, there is an equally passionate detractor. During the anti-globalisation riots in Seattle, Starbucks was one of the main targets – smashed up for symbolising the bland, corporate homogenisation of what used to be small local businesses.

The chain was singled out by Naomi Klein, high priestess of the anti-globalisation movement, in her book *No Logo*: 'Starbucks seemed to understand brand names at a level even deeper than Madison Avenue, incorporating marketing into every

For every devotee, there is an equally passionate detractor. During the anti-globalisation riots in Seattle, Starbucks was one of the main targets – smashed up for symbolising the bland, corporate homogenisation of what used to be small local businesses

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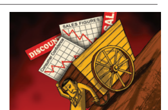

fibre of its corporate concept – from the chain's strategic association with books, blues and jazz to its Euro-latte lingo,' she wrote.

Yet what both fans and enemies failed to spot was that, like many companies before it, Starbucks was simply growing too big for its own good. In reality, very few companies get to take over the universe, and Starbucks has proved no exception to that rule. In the last year, it has found business turning as cold as a frappuccino.

In 2000, Schultz had stepped aside from day-to-day management of the chain. But in January this year, he was reappointed chief executive after customer traffic in established Starbucks outlets was reported to have fallen for the first time ever and the stock price dived. In America, Starbucks' profits were in retreat, in part because of competition from McDonald's and Dunkin' Donuts, which both started selling respectable coffee at lower prices. In memos to staff, Schultz fretted about the 'commoditisation of our brand', and worried that automated espresso machines and pre-bagged coffee beans had made stores more efficient but removed the 'romance and theatre'. Now 600 cafés across the US are being shut down, while analysts estimate that as many as half of the stores opened since 2003 don't make any money. The first 50 will have been shut by the end of this month.

Even allowing for the credit crunch, the stock has been hammered. From a peak of $40 in 2006, it has dropped all the way back to $14. Nobody is expecting a swift recovery. Nicole Miller Regan, an analyst at the US securities firm Piper Jaffray, concedes that Starbucks' management is now tackling the decline, but says, 'we do not expect those strategies to have a meaningful impact in the short term'.

The big bang

So what went wrong? One problem is that the chain simply became too hyper (maybe it was all the caffeine). In Manhattan, for example, there are 185 stores, eight per square mile. Even New Yorkers find that a bit excessive. As an analysis by Harvard Business School pointed out, Starbucks was guilty of too much expansion. 'To grow, Starbucks increasingly appealed to grab-and-go customers for whom service meant speed of order delivery rather than recognition by and conversation with a barista,' it argued. Indeed, in another leaked memo last year, Schultz himself acknowledged the problem: 'Stores no longer have the soul of the past and reflect a chain of stores versus the warm feeling of a neighbourhood store.'

What both fans and enemies failed to spot was that, like many companies before it, Starbucks was simply growing too big for its own good. In reality, very few companies get to take over the universe, and Starbucks has proved no exception to that

Rather like McDonald's, a company it increasingly resembles, Starbucks has been revamping its menu. It has just introduced fruit smoothies in the US and will roll them out around the world. Earlier this year it closed its entire American chain for part of a day to retrain staff in the craft of coffee making. It is trying to get back to the idea of a personally created coffee, delivered with a shot of friendly conversation. The trouble is, once you become a giant corporation, that's very hard to do. Most mega-corporations sell on price, convenience or innovation: they don't try to sell on service for the simple reason that they know they are not much good at it. The coffee house was meant to be small, local and intimate. Trying to take it global may well have been an absurdly over-ambitious idea in the first place. As it became bigger, it became soulless. And that was always going to be its downfall in the end.

For Starbucks, there may be a darker possibility as well. If coffee is a bull-market drink, then it may well deflate along with the financial markets. The credit crunch has, quite simply, blown the cappuccino froth off a global brand that perfectly encapsulated the easy-money, easy-living era.❦

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ICI transforms performance by marketing excellence

By KAREN JEFFERY AND NEVINE EL-WARRAKY

Winners of the Grand Prix and the Marketing Capabilities award in the Marketing Society Awards for Excellence 2008, this case history (jointly submitted by ICI and Brand Learning) is an impressive illustration of the planning and implementation of a re-engineered marketing function. The international scope and business results are testimony to the value of a major investment in people and processes to professionalise a company's marketing expertise.

ICI PAINTS (now AkzoNobel) has traditionally been a product-driven paints manufacturing company, and has grown organically through a strong brand presence in a limited number of markets and through various local acquisitions.

In 2003, the business was slowing down with the share of our leading paints brand, Dulux, declining in several key markets. At this stage, it was not clear where future growth could come from.

In 2004, a newly appointed CEO, David Hamill, outlined an ambitious growth agenda for the company to grow sales revenue by at least 4% per annum over the next three years, with an incrementally higher rate of profit than rate of sales. This was a stretching goal and required reorientating the company to become a more brand-led, customer-centric organisation.

By December 2007, ICI was the global leader in decorative paints, having achieved a sales revenue compound annual growth rate (CAGR) in excess of 5% between 2004 and 2007, compared to an average 3% CAGR over the previous three years (see Figure 1). Brand share also grew in many key markets.

How did we achieve this? Central to our success has been a global marketing capability initiative that was supported and endorsed by a committed marketing leadership team. The initiative started with the set-up of the 'Advance Marketing Academy' to develop and execute the capability transformational programme, and has led to several work streams that addressed some key strategic challenges, such as developing a focused portfolio strategy and identifying master brand positionings.

This article outlines how building marketing capabilities across the organisation with the support of Brand Learning has helped transform the

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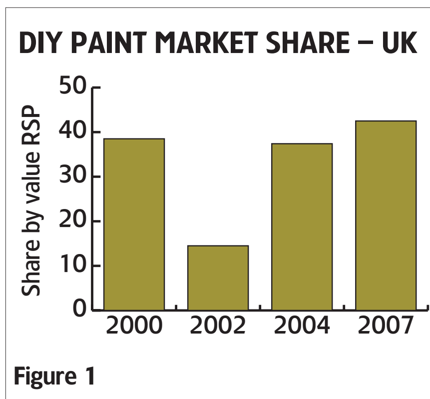

Figure 1

business and achieve our stretching commercial goals, while simultaneously developing our marketers.

The challenge in 2003

In 2003, ICI Paints was a product-driven paints manufacturing business characterised by low rates of growth that depended as much on category growth in key markets as on the performance of our brands.

While some of our brands had carved out powerful and distinct positions in their marketplaces, many more were poorly differentiated. The lack of a brand portfolio strategy meant that the available resources were spread too thinly, with many brands inadequately supported.

Marketing tools and processes were applied with varying degrees of skill around the world. Some pockets of excellence existed, but with limited transfer of best practice they remained isolated success stories.

At the heart of the issue was the lack of both a common strategic marketing framework that would provide focus and clarity of direction, and a capability agenda that would drive the performance of the marketing function.

With a number of leading brands starting to lose share, the business was looking increasingly vulnerable to any decline in the decorative paint markets worldwide.

Karen Jeffery is Marketing Capability Programme Manager at ICI and Nevine El-Warraky is a Partner at Brand Learning.

The strategic ambition

With the arrival of a new CEO, David Hamill, in 2004 came the recognition that Marketing needed to step up and play a more strategic role in transforming the business into a brand-led, customer-centric organisation that could achieve sales revenue growth of at least 4% per annum.

A new marketing vision was articulated, to 'lead the business in delivering sustainable, profitable top-line growth through developing world-class marketing capabilities and performance globally'.

The marketing function aimed to be a source of competitive advantage for the company. For this ambition to be realised we needed to create fewer, bigger, stronger brands with wider distribution, an aspiration that, in turn, relied on a more capable, professional, accountable and engaged marketing function.

With a clearly articulated ambition and stretching business objectives, we set out to develop a transformational marketing capability agenda that involved:

- reorientating the organisation for the future.
- developing the ICI way of marketing
- planning the marketing capability change initiative
- tackling key strategic business issues
- driving operational marketing excellence.

Reorientating the organisation for the future

David Hamill recognised that having a strong marketing leadership team would be critical for shaping a winning marketing strategy and delivering the business's objectives.

He appointed Kerris Bright as CMO, who created a marketing leadership team that comprised both the regional marketing heads from the six operating business units and a number of functional leaders in key marketing disciplines (insight, innovation, etc).

This powerful team formed the first marketing governance body for key strategic decisions as well as the marketing capability initiative that was to follow. They aimed to ensure that best practice would be co-developed, deployed and refreshed across the organisation.

Thereafter the 'Advance Marketing Academy' was established to plan, develop and execute the marketing capability transformation programme. Working in conjunction with the marketing leadership team to ensure alignment of key stakeholders, the Academy was also supported by regional programme coordinators who could ensure global applicability of a common ICI way of marketing.

Brand Learning was appointed as our specialist marketing capability consultancy partner to ensure that ICI were tapping into external best practice and expertise.

Planning a marketing capability change initiative

Our central challenge was to deliver a step-change in marketing capability to drive the performance of the business with marketing as a key source of competitive advantage. Only then would the ICI marketing community be able to deliver the strategic direction and executional excellence required to revitalise business performance.

The first task was to create a common marketing capability framework that would define the key skill areas that were required for marketing excellence.

This was translated into a robust process capability audit tool (PCAT), which both articulated what world-class marketing processes looked like and enabled the development of a shared vision for excellence.

This tool allowed ICI to score our performance on a ten-step maturity scale against world-class performance in a number of key elements. When the self-assessments were undertaken for the first time in 2004–05, they produced an aggregated average level of just 3/10.

Delivering the programme to the organisation started with high-impact leadership workshops designed to engage and align the marketing directors across the world. This was quickly followed by an extensive roll-out plan to the professional level. The roll-out was also supported online with a toolkit that provided easy access to the latest thinking

While disappointing, this low base was not altogether surprising and it enabled ICI to set an ambitious goal to raise the score to 7/10 by 2010.

Crucially, the PCAT has enabled ICI to prioritise the capability gaps within the marketing function; a key implication of the first audit was the recognition that we urgently needed to address relative weaknesses in strategic marketing skills such as insight, market strategy and planning, and brand equity development. These skill areas became the first areas of focus in the capability programme that ensued.

Having identified the key capability gaps using PCAT, the Academy needed to plan a means of addressing them in a way that clearly linked to business priorities. With the input and endorsement of the Marketing Leadership team, we developed a Marketing Capability Programme strategy and plan.

The key elements of this were as follows.

- Modules focused on strategic marketing capabilities in the first phase (2004–5) and operational marketing capabilities in the second phase (2006–7).
- A live-action learning approach to apply learning to real business issues. This required senior marketers to both acquire and apply the skills to develop a brand portfolio strategy for their market via a series of facilitated workshops.
- Tailored content to build senior 'leadership' skills as well as middle and junior 'professional' skills.
- Tailored content to reflect B2B and B2C business needs.
- The development and deployment of ICI trainers to embed the ICI way of marketing.
- The creation of 'Advance Lite programmes' for general managers and other functions to foster a customer-centric culture within the organisation.

Developing the ICI way of marketing

In order to provide a common language for marketers within ICI, and also to embed an integrated, 'best practice' way of working throughout the company, we began the development of the ICI way of marketing.

This sought to combine best practice from within the organisation with external world-class marketing thinking. A simple set of processes and tools was developed, with active involvement from senior marketers and leading practitioners to ensure their engagement and commitment.

Delivering the programme to the organisation started with high-impact leadership workshops designed to engage and align the marketing directors across the world. This was quickly followed by an extensive roll-out plan to the professional level.

The roll-out was also supported online with a toolkit that provided easy access to the latest thinking.

Tackling key strategic business issues

A critical factor in the success of the programme was its use to directly address the burning strategic issues facing the business through the creation of, and alignment to, a common language and common thinking framework.

The most urgent priority was the development of a global brand portfolio strategy for each of our six operating regions.

A live action learning programme was developed to fast-track capability building for key teams. The teams learned about the associated tools and processes (from the creation of a need state segmentation to the development of market maps and implementation plans) and then applied them to their own region.

Over a period of six months, each region was able to determine which brands it needed to build and how these should be positioned in the marketplace.

This process enabled ICI to begin focusing the portfolio to concentrate resources behind building fewer, more powerful brands.

For example, in Poland, the media budget, which had been shared previously across both Dulux and the locally acquired brands Pillak and Ekonowinka, is now concentrated entirely behind Dulux.

By early 2006, brand positionings had been developed for all master brands within the ICI portfolio.

The use of a common tool – the brand vision pyramid (see Figure 2) – to express these positionings enabled us to identify key areas of overlap, both in how a master brand such as Dulux was positioned in different areas of the world, and also among other brands that were targeting the same segments.

ICI began creating synergistic positionings for Dulux and other lead-

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ing brands in order to fuel higher levels of growth and to realise other associated cost benefits across the marketing mix.

Driving operational marketing excellence

Having improved strategic marketing capabilities in order to develop brand portfolio strategies, the next priority was to successfully translate the positionings of the master brands across the marketing mix.

The PCAT revealed that brand communication and activation was a key area of focus, in particular the creation of big ideas that would be brought to life through integrated media plans.

In the UK ICI developed an award-winning integrated campaign 'We Know the Colours That Go', which was translated across multiple channels (e.g. TV, online, and PR). This campaign resulted in the highest ever level of people spontaneously recalling a Dulux ad, and also dramatically improved the brand's health.

As an example, the proportion of people claiming that 'Dulux is an expert at putting colours together' increased by 21% in one year alone.

Moreover, given that the core end-user insight behind the campaign held true in other parts of the world, ICI have been able to roll out this campaign to other markets, like Ireland and Poland.

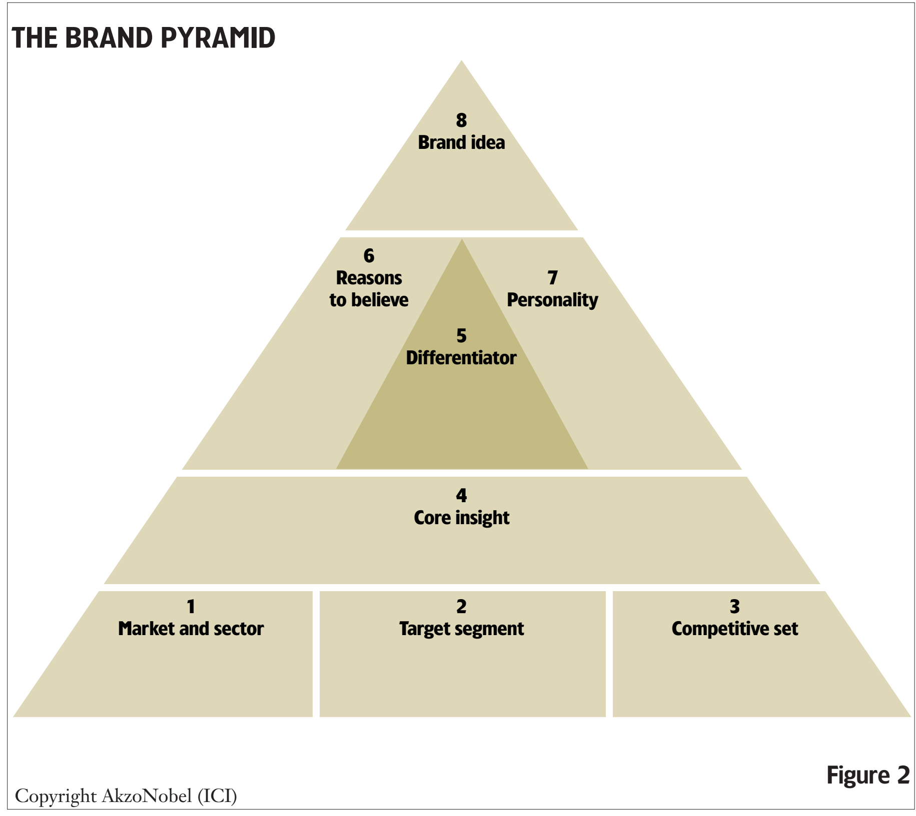

Figure 2

The results have been impressive

The impact of this marketing transformation on ICI's business performance has been very significant.

The company has achieved the stretching commercial targets set in 2004, achieving a revenue growth of over 5% per annum, while increasing the profit to sales ratio.

The latest PCAT results in 2007 demonstrate that ICI are making strong progress towards the vision for 2010. Although there is still work to be done there have been significant improvements in the discipline and rigour of ICI's marketing activities.

A further significant benefit of the initiative has been a positive impact on recruitment, motivation and retention in ICI's marketing community. It has not just been brands and business that have grown, but also people.

For example, in Asia, 44% of our marketing vacancies were filled internally in 2007 compared to 0% in 2005. In the annual UK survey to assess employee engagement, the grand mean score for the 90-strong marketing community improved significantly from 3.59 to 3.87 between 2006 and 2007.

Figure 3

In summary

Some of the key lessons from the experience are as follows.

- Investment in marketing capabilities has a significant impact on marketing and business performance.
- The leadership of the company must be fully involved to drive through the necessary changes in behaviour.
- Things don't happen overnight – a sustained commitment to change over the long term is needed.
- Linking learning to real life business issues can 'turbo-charge' performance on-the-job.
- Focusing on fewer, stronger brands can transform business performance.
- A specialist capability development partner adds significant value.❦

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New McDonald's gains Momentum

Judie Lannon talks to Jill McDonald, the Marketing Society's Marketer of the Year, about how McDonald's learned to listen.

JUDIE LANNON: I understand you were head hunted from British Airways for this job. What skills did they think you would bring to McDonald's?

JILL MCDONALD: They were looking for somebody who had brand experience. McDonald's is good retail marketer, but they wanted somebody who was going to take the brand forward. I think that was the pull I had over other candidates. And, of course, the chemistry. I really clicked with these people. McDonald's is a massive company, so chemistry was important.

I think they could see somebody who they could work with and had got brand experience from the service sector – particularly from the practical side. In an airline, it doesn't matter how clever the things you come up with are unless they work in an airport terminal or on an aeroplane which is physically constrained. The operational constraints in a restaurant chain like McDonald's are similar. Sometimes marketers will cut themselves off from the operational side. But ultimately delivering what customers want is all that matters.

JL: Tell me about the McDonald's evolution. It looks like someone finally woke up and said we have to respond to these attacks. How did that happen? Can you talk me through that?

JM: It started before I came into the business. In the early 2000s McDonald's had simply fallen behind. The business had been expanding by opening new restaurants but there came a point where the demand was falling. And that was quite a shock for McDonald's. The company was out of touch with the major trends in society.

JL: What were the main causes do you think?

JM: We were getting a lot of negative publicity and we hadn't responded. We'd just gone quiet. But then, when performance started falling, people had to stop and take a big step back and really think about what was going wrong with the restaurants.

Society was changing quickly, consumers were changing quickly, and we tended to keep our heads down and either apologise for what we do best – which is making burgers – or think about turning into a salad company, which was obviously the wrong way to respond.

But eventually we realised we needed to take a more positive stand and stick our head up with a clear view of what our core business was. We had to be more confident as well as more open and transparent in our relationship with detractors.

JL: It's interesting that a company as big as McDonald's, which is in touch with consumers all day every day, took so long to respond. There was litigation, and *Supersize Me* and all the publicity that went along with both environmentalism and obesity.

JM: It's always easier in retrospect than when you're in the middle of it. Also, the external perception of McDonald's is so different from what

it feels like to work here. The soul of the company is good but when you're being attacked quite viciously from a number of different sides, the temptation is to just shy away from it. Particularly if you are growing through opening restaurants, which tends to cloud the fall in base demand.

JL: So did the people at that time just sit down and say we've got to rethink this thing altogether, or did it come in bits and pieces, and at what stage did you come into it?

JM: I think one of the key moments was when Steve Easterbrook was made Chief Executive. Steve decided we needed to rebuild our own internal confidence. There was nothing to be ashamed of, we wanted and we needed to be more open and transparent.

That was a very symbolic step because it triggered the start of a new era. Steve is very focused as a CEO. He was determined that there was no point doing superficial glossy things, we had to fix some fundamentals.

In addition, we had to make some surprising moves that would challenge people's perception of McDonald's.

The interior design of McDonald's was outdated and needed more vibrant colours.

JL: And what were the three or four fundamentals that had to be fixed?

JM: Number one was to stop getting so het up about the PR environment and focus on quality, service and cleanliness. This is what customers want from our restaurants. Make sure that we had all the right systems for monitoring and fix problems at their root cause.

So delivering operational excellence was top priority. There was a massive reinvestment in kitchen equipment so that we could offer healthy option food, particularly chicken, which was a major area of the food-eating-out market that we weren't catering for.

Also, we increased the proportion of restaurants that are franchised. McDonald's around the world is around 75% to 80% franchised. In the UK a few years ago it was probably more like 60% company, 40% franchise. If you're putting restaurants in the hands of local business men and women, it's their livelihood because it's a 20-year tenure that you sign up for. So there's a lot to be gained from franchising restaurants

JL: It must have been difficult to get the balance right between the burgers and all of the new, more healthy fresh foods.

JM: Steve saw the company as a modern progressive burger company. And all those words are important. McDonald's is a burger company, that's what people love about it most of all, so that's at the core. But our menu covers a broad range of different things. People do eat our deli sandwiches and carrot sticks, but basically they come because they love Big Macs and milk shakes.

JL: To what extent are the salads and other fresh foods window-dressing to be seen to be appealing to modern trends?

JM: We won't put anything on the menu unless it sells because we have limited kitchen space. So everything has to sell. These items don't sell in the same volume as the Big Mac or a hamburger, but, for example, we are selling three times more chicken than we did 18 months ago.

We also have things like fruit bags and carrot sticks, which sell very well. For example, we have sold over 30 million fruit bags since we introduced them five years ago.

JL: And what about the redesign of the restaurants, when did that start?

JM: Relatively recently – towards the end of 2006. We started on the high street where we were looking most outdated. We looked like an 80s brand rather than a brand for now. The design needed to have more vibrant colours but not so much red, which can be aggressive. But it's important to stress that we wanted to be a *better* McDonald's rather than a *different* McDonald's.

We also needed to be more visible to young adults, but about a third of our business is families so we had to have an environment and seating that's suitable for families. The designs have been rolled out across the world but are slightly different everywhere. There's quite a strong European design feel, though.

JL: What evidence do you have that this is working?

JM: In May, when the sales results are published, Europe was up around 9.75% and the UK has delivered on that growth so we're pleased with the way it's going.

JL: What do you think is the most radical thing that's happened in the time that you've been there?

JM: I would say probably the re-imaging, the new-look restaurants, because they are so visible, and this symbolised very quickly that something's changed. It's still McDonald's but it looks different – more modern, and fresher. That was an effective tipping point for the brand.

But the thing that is really surprising to the outside world is the way we've expanded the menus – the amount of chicken and things like Rainforest Alliance coffee, which is very competitively priced.

JL: And what's different in the way you communicate?

JM: There has also been quite a change in how we communicate – to consumers and to the wider public. There has been a sea-change in how we engage with the media.

We still advertise on television but we're also using a lot more proactive PR to engage with our detractors.

We are spending more time with key stakeholders such as the Department of Health and the Food

My main advice is, stay close to your customers and don't ever forget why they buy from you or come to you. Society moves on, so you can never stop listening and being prepared to change

Standards Agency, and although we're not going to necessarily agree on everything, you can't even engage in a dialogue if you don't understand what's driving their agenda. They too will have no idea what we're doing, if we don't have regular conversations – a proper dialogue – to get our case across.

I don't think people realise that after the Nordic countries, Sweden in particular, the UK is quite a long way down the track in terms of regulation, media attention and government intervention. We have some of the most stringent regulations in Europe.

JL: I would expect McDonald's to benefit from the current recession with people looking for cheaper ways to entertain themselves. What is it looking like?

JM: We say we're not recession-proof, but we are recession-resistant, and at the moment that's really playing out. Our footfall is significantly ahead of footfall in the high street.

We have what we call a tiered menu – the Poundsaver, which is around 99p then we have our core menu, the Big Mac, and then we also have more premium items like special burgers. People really do like to go out to eat and it's a treat for kids so we want to make sure we cater to all different needs.

JL: Many years ago it seemed like America had a positive image as the source of fast food when fast food was new and exciting. But given the negative image that America has in terms of its obesity problem, what does the American parentage mean now?

JM: We are owned by an American company and, of course, hamburgers are American in origin and we talk about the great taste of America in our advertising. But since the majority of our restaurants are owned and operated by local businessmen and women, I think there's a balance. We certainly don't shy away from it but don't think it's anything our customers are concerned with.

Also these days the global company doesn't impose global advertising. We can create our own advertising and a lot of our menu messaging is local. A Big Mac is a Big Mac everywhere and we've hit on a universal formula that people love wherever they are. But most of the time we're responding to people's local preferences.

JL: It seems that you've always had a close relationship with Disney. Do you feel that's out of date as well?

JM: We had a ten-year exclusive arrangement with Disney, which ended in December 2006. We still work with Disney if it has properties we want to go with, but it was a mutual ending of an exclusive arrangement. We wanted to be free to work with Dreamworks or Fox. Dreamworks, for instance, has some fantastic properties, such as *Shrek*, so now we don't have a single exclusive agreement.

JL: So many food and drink companies are under attack today. What advice would you give to other marketing people who find themselves in the same position you did a few years ago?

JM: Stay close to your customers, listen to what all your stakeholders are saying and pay extra attention to what your customers are telling you they want.

For example, the advertising to children and the obesity crisis that we're facing. There are many different views as to what companies should or shouldn't be doing, so the first thing to do is go with the facts. We've spent a lot of time talking to mothers about advertising to children. They tell us they want McDonald's to be a treat, so if you could make the food fun and exciting to eat so we could get good food into them, that would be helpful.

That's possible because we have access to some of the best properties in Hollywood, so *Shrek III* or *Bee Movie* or *Kung Fu Panda*, which is out at the moment. So we can apply some of our marketing know-how to make the five-a-day fruit and vegetable choices on the menu really appealing. It keeps our brand relevant and it's helping mothers get fresh fruit and vegetables into their children.

They are quite comfortable with our food because they know we're highly regulated as a market and they expect us to abide by all the regulations. But they want a trip to McDonald's to be a treat for kids.

So my main advice is, stay close to your customers and don't ever forget why they buy from you or come to you. Society moves on, so you can never stop listening and being prepared to change. It all sounds incredibly easy but when you're in the middle of it, it can be a bit difficult to see the wood for the trees.

JL: And finally, when 2009 rolls around, what do you want to see for the company and for yourself?

JM: The answer to both parts of the questions is being part of a team that's helped to turn around our business here in the UK. I want the momentum to continue so McDonald's is one of the places people feel they can always come to and get great-tasting food at affordable prices.❦

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How marketers should use brand valuation

By JANET HULL

The techniques and methodologies of brand valuation have had a dramatic impact on business. Generally this has been positive, with vastly increased interest in the value of intangibles leading to the disclosure of the value of acquired brands on the balance sheet. However, 'brand valuation techniques' is a marketplace and the competition between different valuation techniques has caused confusion and inappropriate (often misleading) league tables. Janet Hull argues that brand valuation needs to be positioned away from league tables and be incorporated more into the day-to-day marketing and brand management activities of practitioners.

ANECDOTAL evidence suggests that, in the weeks leading up to the *Business Week* issue of Interbrand's annual brand league table, bets are placed among the biggest US brand owners on who will be top, and who will have moved up most places. Putting aside any cynicism about the mechanics of the calculations behind the brand valuation, the league table itself has entered the boardroom psyche, and, for a moment in time, occupies the attention of CEOs. Perhaps this level of interest is understandable given that, typically, half of the top 100 brands in the Interbrand global brand league table are US bred and owned.

There is no doubt that the founders of Interbrand, John Murphy and Tom Blackett, who first developed the concept of brand valuation and a methodology for estimating it, were visionaries and revolutionaries. They were the precursors and champions of a new breed of consultancy, keen to 'bridge the gap between marketing and finance' (in the words of another eminent brand valuation consultancy, Brand Finance). But, 20 years on, where has the marketing community got to? How far along the road to revolution have marketing departments and agencies travelled? Are we any closer to achieving our ambition of being recognised, as an industry, for the shareholder value we create, through nurturing and developing brand assets?

This article is written from a generalist, practitioner viewpoint. My observations are based on an amalgam of this experience and address three key areas: where have we made headway, where have we shot ourselves in the foot, and what might the future hold?

1. Where have we made headway?

Increased media interest in the financial value of brands

League tables have proliferated, both globally and by geographic territory and sector. Hardly a month goes by

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without another brand league table appearing. We have bought our way into the market with exclusive sponsored features and supplements. Notable proponents are Interbrand (*Business Week*), Millward Brown Optimor (*Financial Times*), Brand Finance (Financial Director), and The Intangible Business (*The Grocer*).

Outside these sponsored features, media reporting of the value of brands has undoubtedly increased. Consideration of brand value now stretches to assessments of celebrities, football teams, countries and political leaders.

Although UK in origin, interest in brand valuation is definitely going global. Interbrand is now a global network. Brand Finance now has affiliate offices in 18 countries and claims that its India office, in particular, is doing a roaring trade.

Increased economic interest in intangibles

Intangible value has entered the vernacular of economists and politicians alike.

Economist and columnist Roger Bootle, writing in 2003, in his breakthrough book, *Money for Nothing*, indicated that the industrial revolution was behind us and that we had now entered the intangible age.

The creative economy programme, now under development through the Department of Culture, Media and Sport, is a direct result of recognition by the UK Treasury that over 7% of UK gross value added (GVA) is derived from the combined output of the UK creative industries, placing them on a par with the UK financial services sector in terms of economic value.

The first Global Intangible Tracker (GIT™), based on analysis of the enterprise value of listed companies on the top 25 stock markets of the world, and launched by Brand Finance in association with the IPA in early 2007, calculates that 62% of the value of the world's quoted companies resides in intangibles, and that brands constitute 20% of this intangible value on average.

Janet Hull is Consultant Head of Marketing and Reputation Management at the IPA.

New standards promote the disclosure of acquired brands on the balance sheet

While brand valuation consultancies make the running in terms of profile on the shop floor they now compete with management consultancies. PwC is a prime example of a management consultancy bringing an audit pedigree to the business of brand valuation. Equally, brand valuation is a service offered by mergers and acquisitions advisers in investment banks.

This growth of interest in the financial value of brands at acquisition, because of the relative disparity between book value and market value, has been recognised in the most recent International Financial Reporting Standards.

The International Financial Reporting Council, under IFRS 3, now recommends a breakdown of 'goodwill entries' in balance sheet reporting – a move that has been spurred on by massive lobbying by brand valuation consultancies). Although only acquired brands are allowed to be reported in this way (not internally developed brands), the originators of the brand valuation philosophy must have felt they had made significant headway when this development in global accounting guidelines became reality in 2007.

In summary, we have created a more favourable climate for more meaningful discussions about the value of brands to take place.

2. Where have we shot ourselves in the foot?

Fighting among ourselves about methodologies

In the attempt to differentiate themselves from each other, brand valuation consultancies in-fight about methodologies and definitions. Is it enterprise value or market value that is the basis of analysis? Is it brand strength or brand power or brand voltage that is the key dynamic? And how are any of these defined?

Although UK in origin, interest in brand valuation is definitely going global. Interbrand is now a global network. Brand Finance has affiliate offices in 18 countries and claims that its India office, in particular, is doing a roaring trade

In the case of Interbrand, brand 'strength' is ascertained through a structured evaluation (marks out of 100) of the brand's market, stability, leadership position, growth trend, support, geographic footprint and legal protectability.

In the case of Brand Finance, brand strength is called Brand Beta ® and is scored against the parallel attributes of time in the market, distribution, market share, market position, sales growth rate, price premium, price elasticity, marketing spend, advertising awareness and brand awareness. A score of 50 out of 100 implies that the brand offers average investment risk. A score of 100 implies a theoretically risk-free brand, which would be discounted at the risk-free rate. A score of zero implies a particularly weak brand that doubles the equity risk premium.

In the case of Millward Brown, brand strength is a combination of brand presence, brand 'voltage' and brand equity, and draws on the combined data sets of the WPP 'Brandz' study and other Millward Brown brand tracking proprietary tools.

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The degrees of variation might fit on a pin-head, but the consequence of the wide range of different vocabulary in use is a perceived lack of clarity, consistency and comparability, and a broad suspicion of self-interest and subjectivity in the choice of methodology.

M&A specialists at investment banks claim not to accept at face value any valuation that is provided to them, and tend to do their own. There is even a risk that, because of the disparity in approaches to brand valuation, the IFRS decision to recommend brand valuation on the balance sheet, in the case of acquired brands, may be reversed. David Haigh, of Brand Finance, who is chairing the IFRS committee looking at standardisation of brand valuation on the balance sheet, claims to be increasing sceptical about what the outcome might be.

Finance directors using brand valuation as a financial instrument

In addition, there is a real risk that, rather than bringing finance and marketing closer together, brand valuation is being hijacked by the finance department.

More brand valuations, it appears, are commissioned for financial purposes than for marketing purposes. They are being used, for example, to optimise tax advantages across subsidiaries and geographies; to bolster a balance sheet in difficult times; to fight a reverse takeover; and, in some cases, to restructure marketing departments and brand portfolios.

In conversations with brand valuation consultancies, the lasting impression is that most of the demand for their services is coming from the finance or legal teams, rather than the marketing departments of major corporates, or, indeed, from agencies.

The fact that the impairment test for brands on the balance sheet only allows for a potential value reduction, but not an increase, demonstrates a profound lack of understanding, on the part of the financial community, about the fundamentals of the value of

branding and sound brand stewardship.

Marketing and agency folk failing to utilise brand valuation's 'potential'

Up until five years ago, the head of a sister agency to Interbrand was still describing 'brand valuation' as a 'flash in the pan'. The members of the IPA Value of Advertising Group, which has the responsibility of promoting and breeding an effectiveness culture between agencies and marketing, recognise the need for greater understanding of its current application or broader relevance.

Although the word 'brand valuation' trips freely off the tongues of many marketers, there appears to be limited understanding of the process. How many marketing or agency folk can claim that they have been involved in a brand valuation, or are applying the principles or practice of brand valuation to their day-to-day decision making and management of brand assets?

When Brand Finance last ran a well-publicised masterclass in London, linked to a Haymarket Events Brand Summit on the application of brand valuation to brand marketing, of the 20 people in attendance, only two were from the UK. The remainder of the delegates were from the Middle East, Canada and Asia.

Against this backdrop of a lack of broad engagement, there is a real risk that we in the UK are failing to capitalise on the inherent promise of brand valuation, and are even intent on devaluing the concept before it has reached maturity in the market, or has delivered against the original vision set for it. Arguably, brand valuation consultancies have got stuck in a rut of their own making, and are perceived by the wider market to be focused on league tables and balance sheet reporting; and marketing and agencies haven't exactly picked up the baton.

What might the future hold?

If we go back to the basics of what brand valuation is about, it is clear that it is increasingly relevant, in an era of ever-greater focus on marketing accountability.

Alex Batchelor, earlier in his career, at Interbrand, writing in *Brands and Branding*, explained the concept of brand valuation as follows:

'The value today of a brand's future earnings is a function of how high these earnings are, and of how likely it is that they will be achieved. It should thus take into consideration three things about the brand:

***1.** its financial performance (in order to identify its true net earnings)*
***2.** its marketing strength and its competitive advantage over other brands (to establish security of demand)*
***3.** its legal position (to prove that it is a separable property).'*

Paul Temporal, writing in *Advanced Brand Management*, enlarges upon this by explaining brand valuation in terms of economic value:

'How do brands add value?

In economic terms the answer is simple: they impact on both the demand and

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supply curves. On the demand side, brands enable a product to achieve a higher price at a given sales volume. On the supply side brands require lower cost of capital, lower staff acquisition and retention costs, volume economies of scale, higher trade and customer recognition and loyalty.'

Jan Lindeman of Interbrand, also writing in *Brands and Branding*, argues that what's important is that the basis of brand valuation – economic value – makes it comparable with other investment decisions within organisations. He advocates a multitude of possible applications for brand valuation; from making decisions on business and brand investments, to organising and optimising the use of different brands in the business according to their respective economic value contribution, to measuring the return on brand investments, to linking remuneration and career development of marketing staff to brand value development. In short, he advocates value-based management systems that can align the management of the brand asset with that of other corporate assets.

It is unlikely that anyone in marketing or agencies would deny the relevance of these core beliefs coming from some of the leading exponents of brand valuation consultancy. So the fundamental relevance of the thinking behind brand valuation is beyond dispute.

Being able to justify brand investment, in terms of its contribution to future cash flow and profitability encourages a mid- to long-term perspective on the value of marketing activity. Being competent in making the economic argument for maintaining or increasing levels of spend relative to the competition, in order to increase market share or optimise the impact of brand improvements, is something that most marketers and agencies aspire to.

Having the knowledge and wherewithal to be held accountable for value creation excites that contingent in the marketing and agency community, the IPA Finance Policy Group among them, who are keen to engage in more realistic discussions about value-based remuneration.

Perhaps the biggest flaw in the brand valuation process, at the current time, is the undue public and promotional emphasis placed on pinpointing net present value at a moment in time, in order to meet the requirements of league tables and accounting standards.

By focusing market understanding on the retrospective balance sheet, we have failed to gain acceptance for the broader predictive relevance of the brand valuation process. Brand valuation needs reframing as a strategic forward-planning and performance measurement tool, not a balance sheet reporting tool after the event.

We need to transform 'point in time valuation' into 'dynamic brand evaluation'.

Martin Deboo, equity analyst at Investec, speaking to an IPA seminar in spring 2007, advised the audience of strategic planners and marketers:

'Don't stress about "intangible assets" too much – get the growth/investment/ margin equation right and let me worry about the valuation implications.'

There is no doubt that the analyst community is becoming increasingly marketing-savvy and is ready to be engaged in a more informed dialogue about the relationship between marketing investment and shareholder value. From IPA conversations with equity analysts there is a real hunger for information that enables the 'City' to evaluate the quality and quantity of marketing activity in quoted companies: in order to understand the difference between good and bad brand stewardship, and to assess the effect of this intangible asset in future tangible cash flows.

There is a trend for more analysts to come from the industries they are following. The big investment banks are becoming big purchasers of data, which was traditionally the preserve of marketing and agencies. They're buying from the likes of Nielsen, TNS and IRI, and are reported to be frequent commissioners of adhoc research. Even YouGov daily brand tracking is starting to make inroads.

Martin Deboo's recommendation to the industry from the same IPA seminar, was as follows:

'Adopting a metrics-based approach, rather than putting brands and other intangibles on the balance sheet, is the best way forward. Identify yourselves firmly with the organic (sales) growth agenda – make it your business to understand how what you do contributes to this. Think financial payback and drill down, rather than intermediate variables and drill up – help your client "tell the story" of where growth has come from. Work proactively with your clients around how best to operationalise a metrics-based reporting system.'

Having left Interbrand to head up marketing at Orange, Alex Batchelor, wrote about his experiences in the board room, in *Market Leader* in summer 2005:

'To survive board meetings, you need to put what you are saying in context, and particularly how it relates to the momentum of the company: whether you are getting better or getting worse.'

In his experience:

'Data has to be in a manageable form that points clearly to action, and in an accessible form to enable management to understand why particular strategies are necessary.'

Brand valuation needs reframing as a strategic forward-planning and performance measurement tool, not a balance sheet reporting tool after the event

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Brand valuation experts find themselves grappling to make sense of the marketing and brand data available to them

Above all, we need metrics fit for purpose

Brand valuation specialists are as dependent as any of us on the quality of the market and brand data made available to them for the quality of their valuations. The subjectivity of which they sometimes stand accused, is often the consequence of a lack of relevant data in appropriate formats. Brand valuation experts, many of whom come from a finance background, find themselves struggling to make sense of the marketing and brand data available to them.

The new IPA publication, *KPIs for Marketing Reporting*, proposes a framework for thinking about marketing metrics, and provides a comprehensive set of 20 generic performance indicators from which to develop specific data sets. These include measures of success (business value, customer value, brand value); predictors of success (A&P investment strategy, promotional mix, innovation intensity) and financial metrics (marketing payback). The publication advocates that marketing departments and agencies work together to create a coherent approach to marketing reporting, using this framework as stimulus.

Finding the right research tools and techniques should then flow from using this framework. In the quest for the right metrics, our best advice is that measurement strategy precede tactics, and that, before jumping to the detail of research measures, we take a step back and think about what we need to measure and why; then set a brief to research companies indicating the type of metrics that will be of most value; and make them aware of how these metrics need to be reported and connected. In short, invite research companies to respond to client and agency needs rather than being dictated to by the techniques and tools they already have in play.

If we are successful in this process, and whether we progress to full brand valuation or stop at the point of dynamic brand evaluation, we will be better placed to communicate the value and contribution of marketing to business performance across all functions and departments, including finance. And it should follow that the quality of marketing activity will become appreciated better by external shareholders and stakeholders. Again, the IPA's endeavours to focus reporting about marketing and brand performance on the narrative section of annual reports and accounts, rather than the financial section, is confirmation of a belief in the value of this new direction. The IR Magazine UK Award for Best Narrative Reporting, and accompanying literature and research, is sponsored by the IPA for this purpose.

In conclusion

The objective of this article was to offer a generalist, practitioner view on the future of brand valuation.

It argues that in the first 20 years of the life of brand valuation, we have prepared a more favourable climate for meaningful discussions about the value of brands. But we have failed as yet to capitalise on the huge potential that brand valuation principles and practices offer for mainstream marketing reporting and decision making.

It advocates that brand valuation needs to be repositioned away from league tables and balance-sheet reporting. It should be a metrics-based approach to day-to-day marketing and brand management that is capable of withstanding boardroom scrutiny. It should also be capable of being reported in the narrative sections of companies' annual reports.

Brand valuation consultancies may well argue that there is nothing new in what I am saying and that they have strong case examples of all these things being in play. However, my belief is that there is still much room for improvement. Marketing departments and agencies in the UK are best placed to lead the charge, but need to move quickly if they are not to be overtaken by Asia, which is displaying a real appetite for improving its marketing professionalism.❦

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The marketing services supply chain: delivering the best for less

CHARLES KIRCHNER recalls the previous recession and gives tips on how to save money in the marketing services supply chain without losing quality.

DESPITE some significant blips, meltdowns and 'black weekdays of one sort or another, the last meaningful recession took place in the late 1980's and early 1990's. This means that it is unlikely that anyone under 40 will have had practical experience of operating in any other business environment than the recent relatively happy past.

For those of us who have been there before, there seem to be two principal options in this situation. The less heroic one is to take flight, dig in and look forward to donning the T-shirts emblazoned with 'I survived the last recession and I'm going to survive this one too'.

The other more challenging option is to reflect on personal experiences of the last major recession and see if there are any potentially useful hints and tips which may be relevant to the next year or two.

My memories of the early 90's recession as a Marketing Director of a branded FMCG company are disappointingly fragmentary. But I was a newly-minted marketer and I recall the marketing focus swinging from sales and volume to market share and increasingly tenuous share-of-voice measures.

The reality gradually dawned when brands which had always been regarded as mainstream were subtly re-positioned into a newly defined 'premium sector'. The low price sector brands, hitherto referred as 'price-fighters', increasingly occupied the middle ground both in consumer perception and share of market.

General market profitability nose-dived accordingly: marketing budget and headcounts followed suit. The standard response to this development was to adopt victim status: resisting all budget cutting through attritional guerrilla skirmishing, while bemoaning the short-sightedness of finance.

In a slightly panicked response to tumbling budgets and the rapid development of technology, efforts were focused on finding more effective means of communication than the conventional routes which at that time were heavily weighted towards traditional broadcast media such as TV, press and posters.

Charles Kirchner is Chairman of Marketing Supply Chain International Ltd.

However, our efforts to develop direct marketing 'one-to-one' campaigns were constrained by a lack of understanding and experience. As it turned out, this was compounded by our agency partners who, despite protestations to the contrary, were heavily reliant on third-party suppliers whose comfort zone lay in technology and data management rather than in brand marketing.

Opportunity lies in the 'back office'

In retrospect, the most dramatic impact of the last recession on the marketing world was undoubtedly on the marketing communications supply side – the 'back office' that drives the operational delivery of all marketing campaigns.

With bewildering rapidity the long-standing conventional agency remuneration of 15% commission was first questioned and then overthrown, to be almost wholly replaced by fee-based structures. Client marketers were required to master entirely new and often mind-stretching skills, both in defining the scope of agencies' work as well as linking different aspects to commercial negotiations and performance bonus metrics. Agencies also struggled with the unfamiliar concept of linking remuneration, however tenuously, with marketing outputs.

Media buying and planning was rapidly divorced from the creative agencies and placed with a growing group of independents such as TMD and PHD on grounds of eye-watering cost reductions and the less persuasive promise of specialist skills and new media insights.

In reality the people behind the independents were often the same and in due course the independents became less so, reverting back to shared ownership with the creative agencies.

Slash and preserve

What is of interest to the current generation of marketing leaders is what will happen over the next few months, and maybe years.

Are there lessons from the last big downturn some 15 years ago that have the faintest relevance to the present, or have the intervening massive changes, particularly in technology, invalidated any comparisons?

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It is a truism that in a recession 'big brands get bigger'. The reality is that in a climate of weak consumer confidence, falling demand and price warfare, the ability of marketing to influence purchasing behaviour is likely to become a great deal more reactive and tactical.

It seems that the single biggest culpable error made by marketers last time around was the failure to realise that, in a recession, proactively controlling cost becomes as important a marketing skill as great creative insight and visionary pricing strategies.

Traditional marketers are still inclined to view cost cutting as 'a bad thing with little differentiation between "working" spend (that which influences the consumer) and "operational" spend that goes to generating and delivering the marketing assets, of whatever type'.

Operational spend underneath the microscope

So what avenues are open for the modern marketer anxious to maximise 'working' spend?

The obvious first step is to instigate (often in tandem with procurement colleagues) a thorough review of the marketing cost base, taking the range, scale and frequency of activities as a 'given' and assuming that quality standards and speed to market are also sacrosanct. This will rapidly isolate the 30% of 'non-working' operational marketing spend that is dedicated to campaign delivery.

The key question will be whether this 30% of marketing investment (and associated activity) is transparent and capable of being broken down in meaningful terms. The sad reality is that for many marketers the operational processes that stands between their approval of a creative concept and final delivery are woefully opaque. In most cases they have not been systematically tackled in the last 15 years or more.

There really is no substitute for detailed analysis to ensure that significant sums are identified, ring-fenced and re-deployed to brand support in a way that is clear and convincing to the non-marketers on the management team. The guiding principle is that the better understood and clearly defined areas of spend will yield less than the more arcane and seemingly 'black boxed' operational budget pockets.

By this token, agency fees (both creative and media) despite being relatively high ticket areas

It seems that the single biggest culpable error made by marketers last time around, was the failure to realise that in a recession pro-actively controlling cost becomes as important a marketing skill as great creative insight and visionary pricing strategies

HINTS AND TIPS

Rule	Do	Don't
Get the right mindset	Think about 'working' spend in particular i.e. the 'behind the' scenes operational cost	Act like a victim and put up the barricades to protect all spend at all cost
Select the right areas to focus	Pick the elements you really can control i.e. through budget ownership or internal influence	Treat marketing headcount (both internal and agency) as sacrosanct
Understand the full spend picture	Demand full transparency on all marketing processes and spend	Round up the 'usual' suspects to avoid focusing on 'difficult' areas that have been neglected
Share and mitigate the number crunching	Ensure that available technology is being used to support efficiency	Be afraid to involve your marketing partners. Agencies will be open to suggestion and will help
Small quick wins are better than anything	Capitalise on opportunities as they arise	Retreat to a marketing ivory tower

are unlikely to be the first priority as they have usually been closely examined by both marketing and procurement over a number of years and through bruising negotiation cycles. Paradoxically the opposite is true of the performance-related elements of agency remuneration (especially media) which have usually been grossly neglected, poorly managed and can provide a very rich return in comparison to the effort required to unlock their potential value.

In contrast, the intimidating areas of advertising production and the range of marketing materials from POS to 'trinkets and trash' will provide a ripe target for swift efficiency gains, particularly when third parties (primarily agency partners) are involved in the supply chain

It is important to keep front-of-mind that these are non-creative activities and the costs incurred will be highly sensitive to both volume (through cross-brand and ideally cross-market aggregation) and origin (through low-cost countries which are often the ultimate source for more local intermediaries).

In the operational arena marketers and agencies alike have been slow and reluctant adopters of proven and technology solutions, geared to both speeding up laborious and time consuming manual processes as well as facilitating best practice sharing and reducing the futile necessity to reinvent wheels

As a general rule it is possible to free 5–8% of the overall marketing budget through streamlining these 'non-working' operational elements. In recessionary times, re-deploying these finds can make a very real difference to the fortunes of a brand, particularly when competitors are throttling back on their support programmes.

The reduction of marketing headcount is still often a taboo subject for marketers. But marketing is a people-intensive business, particularly when direct (employed) resources are added to the agency and consultancy resources. So removing unnecessary cost in this area will also provide a significant boost to sustaining brand performance during hard times.

Finally, in the operational arena, marketers and agencies alike have been reluctant adopters of proven and easy to operate technology solutions, geared to both speeding up laborious and time-consuming manual processes, as well as reducing the necessity to reinvent wheels.

Five simple rules

In summary some simple tips may be helpful to guide the willing marketer who has so far enjoyed the summer days of operating in a non-recessionary environment.

The last recession indicated that marketing is not exempt from a wintry economic climate. This time around, it will be better to anticipate and actively manage controllable operational variables rather than passively reacting to events and watching the inevitable budget cuts arrive.❦

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