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Market Leader

NEW THINKING, DIFFERENT PERSPECTIVES

Why marketing has been the death of innovation

John Kearon

GRANT MCCRACKEN names the Philistines in the corporation

MARK EARLS says he'll have what she's having

NICK SOUTHGATE explains how to be a Choice Architect

JOHN QUELCH AND MARIA IBANEZ GABILONDO explore marketing dilemmas in China's interior

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Editorial: Barriers to innovation

Judie Lannon

We have looked at innovation a number of times, but in the cover story of this issue John Kearon takes a heretical approach – arguing that marketing science itself and the centralisation of marketing expertise in large organisations may be at the root of the lack of genuine new category innovation. The theme of the ponderous, risk-averse corporation which is excellent at nurturing what it has (and, indeed, is the reason it got big) but not so hot at creating genuinely new category brands is familiar territory. But Kearon's evidence is compelling. And challenging.

However, another light at the end of this particular tunnel may lie with the work being done with online communities and other forms of co-creation. Done bravely and imaginatively, this dispenses with the cliché of consumers not knowing what they want by going straight to the more creative thinker-users (often fanatics who, theoretically, could be just as inventive as any company research and development department or engineer).

This approach is radical in itself and has the potential to encourage large companies to behave like the more adventurous startups. But, as has been examined in several articles in previous issues *of Market Leader,* the problem never lies in having the idea – that's the easy bit. Getting it through mazes and silos of the organisational hierarchy is the difficult bit.

But the search for barriers to innovative thinking goes much wider than merely the size and structure of the organisation. Academic anthropology has in the past been the preserve of masochistic travellers in primitive cultures (accounts of these intrepid creatures living with natives make for fascinating, if hair-raising, reading). But modern anthropologists in search of meaning use the same techniques and the findings are the very stuff of branding.

Commonplace nowadays are ethnography – observing people in their natural habitat – and semiotic analysis which decodes visual communications. But for the real deal, the Canadian anthropologist Grant McCracken is the expert. He makes a case for a new type of C-suite executive – the Chief Culture Officer – and in his article, 'The enemy within: Philistines in the contemporary corporation', nails business schools, economists, code crackers and the corporation itself as the key barriers to cultural learning being central to brand marketing.

The observant among you will note, and I hope approve of, our new design. The brief was for a Botox tweak rather than the full facelift. We're delighted: it feels fresher and crisper and altogether more stylish. See what you think.

Judie Lannon

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How to improve client-agency relations: whose responsibility is it?

Richard Pinder and Camilla Honey

New media and the economic challenges have changed the landscape of marketing forever Richard Pinder argues that clients must take the lead, while Camilla Honey (panel, opposite) offers tips to agencies

Our future needs reinventing. Of that there is no doubt. Agencies need to change out of all recognition in the next generation to provide better service in the new marketing landscape. And to succeed they need senior clients who are visionary in reshaping their own organisations to lead some of the change.

There are good reasons why much of the 'heat' in the marketing debate is focused on agencies' perceived inability to change.

For one thing, it's partially true. The advertising industry has been a simple business, where the required management skills have been primarily client service, staff development and a minimum of simple financial control. Few senior managers have broad experience of marketing disciplines, far less a deep understanding of change management.

These areas of management are far better developed on the client side – consider the skills needed to manage an HP or a L'Oreal for long-term growth – but they are slowly seeping into the communications industry, often through research, media and digital businesses.

A less obvious reason why the finger is so often pointed at agencies is that, quite simply, it's easier. As a chief marketing officer, changing agencies in search of a more integrated, more digital line-up is a relatively straightforward process. However, remodelling your marketing organisation is much harder. It requires reimagining the marketing dynamics in your industry and gaining acceptance among your management, peers and stakeholders of a vision of how marketing will be in the future.

And, of course, you need to do all this while delivering results. Small wonder, perhaps, that some CMOs try to avoid wholesale restructure of their functions, and focus on delivering short-term sales out of flawed marketing departments.

WHY CLIENTS NEED TO BE THE LEADERS OF CHANGE

I'd like to argue, though, that there are at least three good reasons why clients truly need to be leaders of change.

Changing the agency model or capabilities without changing the client operating system simply doesn't work. Over 50 years, clients and agencies have developed a shared set of expectations, a shared language, a shared set of tools. You can't change one side of a shared conversation.

The future will belong to the innovators. It is highly unlikely that you can be a winner by squeezing more miles per gallon out of the current engine. You need to design a machine that can manage fully integrated communications, is ahead of the curve in digital, and manages the conversation about your brand holistically.

More pragmatically, changing your own organisation is the best way to make your current agencies perform better almost immediately. If you ask different questions, and lead in a different way, then almost any agency or set of agency partners will start to act differently. Agencies are service organisations and react fastest to changed service needs.

WHAT CLIENTS NEED TO CHANGE

So, what do agencies look for in visionary CMOs? How do we need them to act differently to help us to produce the campaigns that will reinvent the future?

Consciously create a new marketing model from the top down. Marketing reinvention must be led. If it percolates upwards or is allowed to drift, your organisation will send conflicting signals, and won't run smoothly. Juniors will reject the sort of work you want them to buy; research will kill the ideas you think are best; talent will leave.

A great CMO has a vision for how to integrate conventional marketing, social marketing and other techniques in a rapidly changing marketplace.

Be true partners in reinvention. This leadership process is, without doubt, daunting. Reinventing a marketing model so that all the pieces fit together is a time-consuming and difficult process. It involves rethinking assumptions built up over decades. You won't get it completely right first time.

But your agency partner can be a true help since they are likely to have 20 other clients with similar problems.

Put the consumer back in the middle. Tactics, measures and metrics are now in huge conflict. As we reintegrate, each discipline, on both sides of the client/agency fence has its own set of processes and standards. There's only one way to reintroduce objectivity: go back to the consumer and view the communications world through their lens, not ours.

Take silos out of the structure. From a consumer point of view, there is only one brand experience.

But there can be many barriers to agency integration. Do different departments handle advertising, PR, CRM, digital? Our overwhelming experience is that it doesn't work to integrate the agency structure if the client structure remains fragmented. The Brand Agency Leadership structure that we pioneered with P&G works because P&G has one point of contact.

Brief by objectives, not means. Increasingly, there are many roads to Rome. Sadly, agencies are usually briefed to produce a particular result by using a particular medium, such as TV – even today.

Remove perverse incentives. Equally, the way agencies are compensated tends to create incentives to do the most expensive thing. It's still true today that agencies usually suffer if they suggest anything other than TV, which is the most expensive (though perhaps still a cost-effective) way to market.

We must all prepare for a world after media payment, a world in which content (embedded in social networks and mobile networks) and recommendation are the major parts of the marketing mix.

CHANNEL RESEARCH AND PROCUREMENT

No sensible agency head would contest the value of these important departments. However, too often they operate on a separate agenda, either because they are not fully briefed on the marketing director's vision, or because they are not under his/her control, or because they are incentivised to different goals. As they say, hang together or be hanged separately.

We live in a complex marketing communications landscape which requires fundamental change from both agencies and clients alike. I am optimistic and totally confident that, in partnership, the advertiser/agency world can drive this change to remain vital for the future.

Be true partners in reinvention. This leadership process is, without doubt, daunting. Reinventing a marketing model so that all the pieces fit together is a time-consuming and difficult process

FOCUS ON THE RELATIONSHIP

Arguably agencies have never had any other option than to change; in a service business, success depends on playing a long-term game. Adapt, evolve, or die. Track successful agencies more than ten years old and you'll see an evolutionary timeline of ownership, management team, competencies and clients. Some, such as AMV, CHI, Dare and Engine, are more adept at managing change than others.

The speed with which traditional marketing models are becoming obsolete is putting huge pressure on both clients and their agencies to evolve in terms of what they do and how they do it. The drivers of change are well documented – be they economic, technological or consumer behaviour – and in most cases are beyond the client's control. More than ever clients need their agencies to stand with them as they reinvent their marketing. A recent example would be Wieden & Kennedy Portland's advertising for Old Spice, a popular winner at the Cannes Advertising Festival, which took an ailing brand and helped to turn around its fortunes with a well-executed campaign, bringing together traditional and new media possibilities.

To enable them to do this, agencies need to create strong and enduring client relationships built on leadership, trust and added value. Without a relationship you become a commodity. It becomes unworkable. The announcement in July that BBH was resigning its Levi business after 28 years highlighted this.

John Anderson, president and chief executive of Levi Strauss & Co, said: ‘We're grateful to BBH for nearly three decades of inspiring work. Their talent and leadership helped create memorable and award-winning campaigns. Both teams decided that it's the right time to end our partnership!

SIX TIPS FOR SUCCESSFUL ENDURING PARTNERSHIPS

Know your client's business This starts with understanding the business issues they face and more specifically what brand communications can do to solve them.

Increasingly this means taking a more strategic communications planning view above and beyond execution. Some agencies are better equipped to do this than others and some only do the former. Effective communications means not just putting creatively expressed messages out there in front of the right people – now it is about creating conversations and experiences between brands and consumers.

Define your agency The best agencies realise that to be the catalyst of change for clients, they have to first change themselves. This means developing new skills and competencies. Too many agencies are over-promising and under-delivering. Separating strategy from execution and recognising when the client's best interests are going to be met by working with other partner agencies builds relationships.

Be a true partner Establish trust and respect at the heart of the relationship by listening, asking the right questions, anticipating and solving problems, meeting commitments, managing expectations, avoiding unpleasant surprises (particularly relating to time or money), bringing new and different perspectives, taking ownership, acting with integrity, being accountable.

Work with and within the client organisation You can't lead from behind a desk. Relationships take time to develop. You have to personally invest in them; spend some time in a client's shoes/in their business. See the world as they see it.

Great work is borne out of a great relationship The incentive for any agency is to produce work that meets its objectives and exceeds expectations. This kind of work invariably involves some element of risk for the client. The better the relationship the more trust and respect your judgment and recommendation will carry. The slightest hint of dishonesty, insincerity or manipulation kills any relationship.

The true value of an agency lies in existing relationships One positive to come out of the recession has been the rebalance of loving the clients you've got versus the allure of new ones. Knowing a client's value above and beyond the revenue they generate is the perfect starting point for any discussion with procurement people.

All of the above can be found in any of the 'first generation' agency founder books. The difference lies in the agency and client's ability to apply them.

Richard Pinder is chief operating officer at Publicis Worldwide. richard.pinder@publicis.com

Camilla Honey is managing director of jfdi, camilla@jfdi.uk.com

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‘Mad Men’

Jeremy Bullmore

In a Market Leader exclusive, Jeremy Bullmore reveals what it was like for a young man going to a New York agency in the late 1950s

I've always enjoyed patronising younger people, but for a decade or two, younger people and I got rather out of touch. There was little about me to interest them. I wasn't bitter about it and I certainly wasn't going to demean myself by forcing myself upon them. Then came *Mad Men.*

This is what Jerry Della Femina has written about the first episodes of *Mad Men: ‘*Audiences were shocked by all the sex and alcohol and outrageous behaviour on screen. But let me tell you, the reality was so much worse.'

No wonder younger people suddenly wanted to buy me drinks. They knew I must have been around at the time and they knew I must have spent some of that time in New York. If the reality had been so much worse than the excesses depicted, then I must at the very least have witnessed it – and maybe even (how shall I put this?) *participated.*

Jerry was explicit. ‘We were wild. We made the antics on every episode of *Mad Men* look like *Rebecca of Sunnybrook Farm.* Our little agency was permanently filled with the sweet smell of burning cannabis. Everyone smoked … everyone drank Martinis … and everyone screwed around. Thousands of people took part in the Agency Sex Contest. One very shy girl in Accounting got into the spirit of the contest, Xeroxed her breasts and hung pictures of them on the walls.

'Was it sophomoric? You bet. Was it politically incorrect? You bet. Will you be seeing it in future shows of *Mad Men?* You bet.'

Today, when younger people cluster round, plying me with drink and lubriciously lusting for lewd detail, I play it cool. I look knowing. I raise my eyes to my eyebrows and make little puffing noises to suggest unmentionable excess.

And feel just a little bit ashamed of myself.

So now, in an exclusive for *Market Leader,* here are my first-hand memories of advertising agency life in New York, New York, during those infamous, scandalous *Mad Men* years.

I was sent to New York in 1958. My first inkling that I wasn't about to be plunged into a seething pit of moral laxity came from my department head. His briefing, in full, was as follows: ‘Get your hair cut and don't wear suede shoes.’ It seemed that long hair would have been seen as evidence of anti-Americanism and suede shoes of unmanly sexual preferences.

The J. Walter Thompson offices were in the Greybar Building on Lexington Avenue. The building led directly into Grand Central Station. Every morning, agency personnel arrived from their comfortable suburbs at exactly 8.30am and every evening left with equal punctuality at 5.30pm. As far as I can remember, no advertisements were on display and there was certainly no staff bar.

The remarkable Stanley Resor had bought J. Walter Thompson from James Walter Thompson in 1916 and 42 years later was still Chairman. He was a man of high intelligence and almost tangible integrity. A few years later, he attended a demure JWT London dinner-dance. On his return to New York, Mr Resor reported that he had found the occasion quite enjoyable – although featuring ‘rather too much drinking and licentious dancing'.

Under the leadership of Stanley Resor – and of his wife, Helen, a talented copywriter -J. Walter Thompson's aims were unswervingly unambiguous: to advance the cause of their clients’ businesses. To this end, the agency pioneered the use of market research and was perpetually obsessed with curiosity about how advertising worked.

Mr Resor himself was neither a copywriter nor an account man. '*The Journal of Marketing* said: 'He went into packaging, pricing, distribution and consumption. He sought reasons why people bought or did not buy' Today he'd be a spectacularly successful head of planning.

No one thought it anything but justified when *Fortune* magazine described J. Walter Thompson as the University of Advertising. There was no Don Draper because there was no Creative Director because there was no Creative Department. There was an Art Department and an Editorial Department. On professional grounds, the agency declined to take part in speculative presentations and on ethical grounds accepted neither liquor nor tobacco accounts. Women copywriters sat in their own designated area and wore hats.

In the course of my first two weeks, my most exciting social experience was to join a television producer on the 5.42 from Grand Central to upstate New York where I was greeted warmly by his wife and helped put the twins to bed.

J. Walter Thompson was a thoughtful, professional, principled and hugely successful advertising agency. But I can quite understand why the producers of *Mad Men* chose not to base their series on it.

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The death of innovation

John Kearon

John Kearon examines the heretical proposition that the adoption of 'marketing science' is the reason why large corporations no longer seem capable of creating the kinds of new category innovations that made them big in the first place. He argues that it is freedom from the constraints of marketing science that has enabled small startups to innovate and initiate new behaviours

As marketing's second century gets into full swing, the world economy is coming out of the worst financial meltdown in living memory. Gone for now are the endless rounds of mega-mergers that have created little or no value for anyone other than senior management of the companies involved.

If Red Bull had heeded early market research, it would not have become the huge success it is now

However, just as the devastation of forest fires has been found to be necessary to the healthy regeneration and increased biodiversity of flora and fauna, so it is with human crises. America, Japan and Germany all emerged stronger from their 20th century postwar crises and my prediction is that it will be the same for most of the developed world, so adversely affected by the recent financial meltdown.

The good news for marketing is that organic growth and innovation are back at the top of every company's agenda, and any get-rich-quick financial engineering will hopefully be treated with the deep suspicion it deserves for at least a generation.

There is every possibility that in the next 20 years we can be part of an innovation renaissance, creating new categories and brands that generate huge and lasting value for those companies brave enough to seize the organic growth opportunity. The bad news, and the crux of this article, is this inventive renaissance will not come about through the disciplined and faithful application of 'marketing science'.

It will not be MSc-bearing graduates of marketing courses in the vanguard of this new era but engineers, designers, inventors and entrepreneurs who instinctively understand what it takes to challenge the status quo and originate new categories capable of creating the most enormous value.

When originating a new category, everything has to be invented, everything is new and by definition contrary to the way things are. Trying to research new category ideas is pretty near impossible since people are notoriously bad at predicting whether they will adopt new behaviours in the future and generally reject such changes as alien and odd.

Examples of hugely successful brands that originated their category but which failed disastrously in market research include Sony Walkman, Bailey's Irish Cream, Post-Its, Perrier (in the UK), Red Bull and Cashpoint machines.

Originating new categories takes mavericks and contrarians, people prepared to follow their intuition and passion about an idea or a belief in the face of opposition, against the status quo and without being able to prove the opportunity in advance of actually doing it. They tend to be utterly focused on the product, like an engineer or inventor would be, and not on the consumer.

THE WORLD'S TOP 50 BRANDS

1. Coke	27. SAP
2. IBM	28. IKEA
3. Microsoft	29. Sony
4. GE	30. Budweiser
5. Nokia	31. UPS
6. McDonald's	32. HSBC
7. Google	33. Canon
8. Toyota	34. Kellogg's
9. Intel	35. Dell
10. Disney	36. Citi
11. HP	37. JP Morgan
12. Mercedes	38. Goldman Sachs
13. Gillette	39. Nintendo
14. Cisco	40. Thomson Reuters
15. BMW	41. Gucci
16. YSL	42. Philips
17. Marlboro	43. Amazon
18. Honda	44. L'Oréal
19. Samsung	45. Accenture
20. Apple	46. eBay
21. H&M	47. Siemens
22. American Express	48. Heinz
23. Pepsi	49. Ford
24. Oracle	50. Zara
25. Nescafé	
26. Nike	

■ Brands that originated their category
Source: Interbrand 2009 study

Figure 1

The mavericks that create new category brands are not generally found in large corporations, or at least not for long. By definition of railing against the status quo, these people tend to exist at the fringe, which is why real change and challenge nearly always comes from the fringes and gravitates to the centre, in time to become the new status quo.

What big corporations tend to do best is the industrial farming of existing category brands. Just like farming, the crop exists, its qualities are known, how best to grow it, when to plant, how best to fertilise and protect, when to harvest and even how to add additional value to it to maximise the yield. If blue ocean innovation is the originator of a whole new crop, the vast majority of big company marketing is the clever, efficient husbandry of that crop.

Marketing science, largely popularised in the 1950s and 60s in the US, introduced the rules and rigour of managing brands and improving their yield. Its logic and potency were compelling and its ability to add significantly to the yields of existing category brands has made it a universal practice in all large companies.

The early enthusiasm was captured by Robert Keith in an article called 'The marketing revolution' in the 1960 *Journal of Marketing*. 'When all the operational units of the organisation are finally focused on the consumer then the marketing revolution will be complete.'

The problem with putting the consumer first when it comes to originating new categories is that people instinctively reject new behaviours, and it takes inventors/entrepreneurs to ignore these reactions and do it anyway.

My central challenge to marketing science is that while it has done much to increase brand yields and add real value to corporations, it has actively hindered their ability to create the new category blue ocean innovations that made them big in the first place.

New category origination is left almost exclusively to startups driven by an inventive spirit and freed from the constraining influence of marketing science. The reason this should matter to large corporations is that the brands that originate a new category create much more value than the subsequent value of farming brands within the category.

It matters to the wider economy because not only do brand originators tend to be market leaders and usually the most profitable in the category, they can also lay claim to originating the 'category crop' from which other companies also profit.

Surprisingly, there is good evidence for my heretical challenge.

A study of Unilever would suggest that around 70 per cent of its profits come from brands that created the category in which they are generally brand leader. Unilever can lay claim to have originated many categories: washing powder with Persil, frozen foods with Birds Eye, clothes conditioner with Comfort, non-abrasive cleaning with Cif, margarine with Stork, ice-cream desserts with Viennetta, moisturising soap with Dove, teenage body sprays with Impulse and Lynx and adult hand-held ice cream with Magnum.

Many of these were created before marketing science ruled the roost and others, such as Magnum, Impulse and Lynx, were launched in the 1980s when Unilever was a highly decentralised, federal organisation where marketers had a great deal of autonomy and innovation flourished at the fringes of the organisation.

Impulse originated from a particularly innovative brand team in South Africa and Magnum was created in Austria, so the story goes, between the marketing director at the time and his neighbour, who manufactured high quality chocolate.

The most important point is that all Unilever's new category brands were invented before its much-lauded and copied move to innovation centres in the 1990s.

The logic of taking your best people, focusing serious resources and centralising the efforts within an innovation centre, is hard to argue with. The only problem is that for almost 20 years it has patently failed to help Unilever originate the sort of new category brands that deliver the majority of the company's profits.

The innovation centre model is good at creatively farming existing brands and has added significant value to the likes of Dove, Lynx and Flora. However, as a model of innovation it is too centralised, too evidence-based, too marketing-science orientated to have the freedom and contrariness to originate new categories that can create even greater value.

Unilever isn't an isolated example: eight of the top ten brands in the world originated the category in which they operate – as did almost half of the top 50 (see Figure 1). These new category brands were and still are the cornerstones of the great fast-moving consumer goods companies of today: Coca-Cola, Gillette, Kellogg's, Nestlé.

It is odd that these world-class marketing companies have failed to maintain their ability to originate new categories, leaving the job largely to small entrepreneurs such as Red Bull and Innocent. Outside of fmcg, the most significant new categories have again been originated by startups with an inventive bias, and at the same time few formal marketing skills such as Apple, Amazon, Dell, Google, Facebook and Twitter.

THE RULES FOR ORIGINATING A NEW CATEGORY BRAND

The rules for originating a new category brand depart markedly from classic marketing science as practised in big company innovation centres (see Figure 2).

The most heretical of the rules for new category brands has to be the practice of ignoring the consumer (at least at first) while focusing on inventing something truly blue ocean and then, and only then, connecting it back to consumers.

And then working out how best to engage them with the idea and encourage them to embrace the new behaviour that goes with the new category.

This is obviously completely at odds with marketing science's central tenet of being consumer led, but true when it comes to new category innovation, as captured in the Sony chairman's quote: ‘The consumer doesn't know what they want. It is for us to invent it for them.'

Entrepreneurial companies such as Red Bull, Innocent, Apple and Google demonstrate that a passionate, product-led approach is the best way of creating new category brands.

1. DON'T LOOK FOR BIG IDEAS, SEEK SMALL IDEAS THAT CAN GROW

In current marketing parlance, small ideas are defined only as niche and not worth the bother. Certainly some ideas are destined to be niche, such as products sold only at Christmas. However, even those assumptions are dangerous, as shown by Cadbury's Creme Eggs, originally sold for Easter but which now sell all year round.

But what consumer-led marketing fails to recognise in its drive to work on big ideas is that all new category brands start life as small. Anything that originates a new market and changes the status quo starts small and takes time to grow.

Big company innovation centres work on ideas that will make a significant difference in one to three years from launch. Startups by contrast are working with niche ideas that could be the beginning of a whole new category but take at least five to seven years to get noticed, and the next five to seven years to develop before you then see explosive growth.

You only have to think of the valuation of Google in its first six years (where it made no profits and had a low valuation), since when it has become one of the world's largest companies, with a market cap of more than £100 billion.

When Perrier first launched in the UK, research conducted said there was no way anyone would pay £1 for a bottle of fizzy French water. Thirty years later Perrier has been responsible for originating a £1.2 billion waters market in the UK alone.

GIANTS VERSUS STARTUPS	
Existing category innovations – big companies	New category innovations – startups
Consumer led	Product led
Trend led	Idea led
Image driven	Belief based
Big ideas worth the effort	Niche ideas that can grow
Think big	Think small
Act big	Act small
Avoid failure	Embrace failure
Avoid controversy	Embrace controversy
Please shareholders	Please yourself
It's a job	It's your life
Politics	Perseverance
Look before you leap	Leap and the safety net will appear
Advertise the innovation	Promote copying of the new behaviour
Let it go if it doesn't work	Never give up, never ever give up
Ready, aim, fire	Fire, ready, aim

Figure 2: Rules for the creation of new category innovations

New category brands take time to grow but when they do, they far outstrip the best performance of existing brands. Ironically, the big marketing companies have the resources for this type of long-term strategy, but the drive for short-term shareholder value means they don't have the patience for it.

2. FAIL FAST, FAIL OFTEN AND LEARN BUT NEVER, EVER GIVE UP

Another paradox of successfully originating a new category innovation is that you need failure to achieve it. Failure is the essential ingredient that nobody talks about or acknowledges and everyone tries desperately and understandably to avoid.

But as any inventor, creative or entrepreneur knows, great ideas are not born perfect but are forged in the furnace of trial and error. As Darwin showed, trial and error is the simple but brutal algorithm of life. This seemingly random but amazingly productive cycle of mutation and natural selection has produced the whole of the abundant diversity of life on Earth.

Niels Bohr, the Nobel Prize-winning physicist, said about progress in any field: 'Mistakes are at the heart of progress, so our challenge as scientists is how to make more mistakes faster.'

No one likes to fail and companies are no different, perhaps worse, but it seems failures are an inescapable part of successful invention and originality. Thomas Edison, one of the most prolific inventors ever, famously said: 'I now know over a thousand ways not to make a light bulb' and tellingly, the first successful Dyson vacuum cleaner was model number 5,127.

What both these inventors embraced is the power of experimentation, where each new mistake teaches you something and the more audacious and new the mistake, the greater the learning.

The challenge is to stay afloat long enough to eventually succeed. In my experience, large companies embrace the need for trialling ideas but it's the failure part they struggle with.

Failure is not generally good for careers and the tendency is to be too conservative, to narrow the field too quickly, to keep experimentation to a minimum and make every effort to reduce the risks of failure.

3. DON'T ADVERTISE, PROMOTE COPYING OF THE NEW BEHAVIOUR

As Mark Earls points out in his book *Herd,* 'we're much less individual than we think we are and much more influenced by other people than we would care to admit'.

His argument is that the most successful marketing and commercial success comes about through copying rather than formal advertising.

And this is particularly true of new category brands because they involve a new behaviour.

Harry Drnec, as a classic entrepreneur, knows this and before founding Red Bull he singlehandedly originated the UK bottled lager market when he brought in Sol beer from Mexico and persuaded Soho summer pub goers to drink it with a slice of lime in the top.

Standing outside with these bottles, both the brand and the behaviour were easy to see and copy and both spread like wildfire and initiated the explosion in the bottled larger market.

Formal advertising has its role in successful farming of existing brand categories, but not only can new category brands not afford it, they do far better by thinking up creative ways to get their brand seen and encouraging people to copy the change of behaviour.

CONCLUSION

If big companies want to launch new category brands and reap the huge rewards on offer, they have at least a couple of choices. They can try to buy the startup about seven years in, when the company has yet to witness the explosive growth that could follow. But critically they should leave the startup free to develop their brand outside of the corporate strictures.

Trying to make them part of the corporate mother ship is the surefire way to destroy their potential as KP did with Phileas Fogg, a brand largely forgotten but which originated the whole adult, premium crisps market.

Another route would be to create or fund their own startups. The nature of startups makes this sound risky but the investment is probably one-thousandth of that invested in innovation centres and the chances of success higher because its structure is better adapted for survival.

In the 1980s, IDV (now Diageo) created a startup company called Callitheke, staffed with a small cross-functional team of entrepreneurial managers. They were given seed capital and a brief to create adult soft drinks.

In the following 18 months, the company launched the first truly adult soft drink in Aqua Libra and the first health drink in Purdey's, but failed to capitalise on the potential success by selling the brands after only four years.

Unilever to its credit set up Unilever Ventures in 2002 as a venture capital firm providing funding to startup and early-stage businesses that could be the next big thing for the company.

To date, they have invested in nearly 20 businesses originating both from within Unilever and from external sources. Time will tell whether this initiative can compensate for the lack of new category brands coming from their innovation centres.

John Kearon is founder, CEO and Chief Juicer at Brainjuicer Group john.kearon@brainjuicer.com

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What hope-fuelled markets can teach fear-fuelled markets

Ann Mack and Mark Truss

Most markets can be identified as either hope- or fear-fuelled. Ann Mack and Mark Truss describe the outlook of the two types and the lessons mature markets can learn from emerging ones

Analysis of ten markets examined in the JWT AnxietyIndex research has revealed two general groups of markets: fear-fuelled (mature developed countries) and hope-fuelled (developing countries).

Not surprisingly, the hope-fuelled markets comprise what are considered the emerging economies: Brazil, India and China (BIC). While Russia is normally grouped with these three as a fast-growing market, we found that it falls into the fear-fuelled camp along with the seven established economies we looked at.

What sets hope-fuelled markets apart from fear-fuelled markets is not their anxiety levels and drivers but their predisposition to optimism and how they move past their anxieties.

Marketing of Brazilian footwear brand Havaianas has a consistently optimistic, upbeat flavour

While people in the fear-fuelled markets expect most things to get worse – from the national infrastructure to the budget deficit to the economy – the BIC markets feel that a preponderance of factors will improve.

Hope just might be the antidote to anxiety. These optimistic and pessimistic mindsets are manifesting themselves in brand behaviour – for better and for worse (Figure 1).

Fear-fuelled	Hope-fuelled
Flat is the new up	Up is the new up
Pessimism	Optimism
Eyes on the past	Eyes on the future
Attenuating the risk	Taking risks
Playing not to lose	Playing to win

Figure 1

While brands in hope-fuelled markets are playing to win, many in fear-fuelled markets are playing not to lose. The latter are focused on discounting, deals and promotions. The former, on the other hand, are focused on how they want things to be and how they can get there.

As a result, they are innovating, investing and experimenting with the hope of creating new and better futures for their consumers. And while there are instances of hope-fuelled brands in fear-fuelled markets and vice versa, each country's mindset is largely driving brand attitudes and actions.

The key difference between hope- and fear-fuelled markets is their positive outlook. The optimism scores in

Figure 2 illustrate the differences in attitudes. To arrive at a country's score, we asked people in each country whether they expected factors – from the national infrastructure to job security – to get better or worse over the next six months; we then averaged the net-better/net-worse scores.

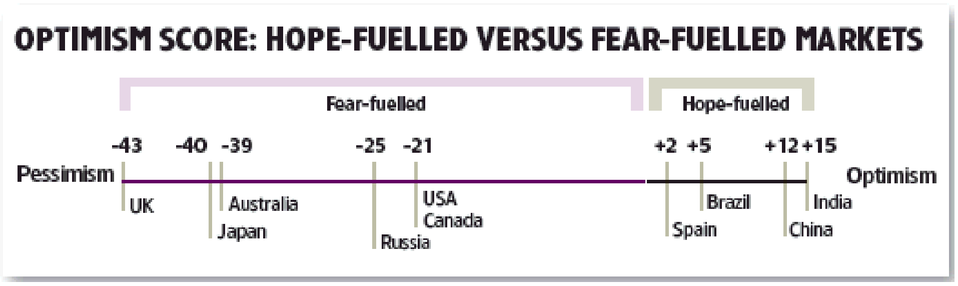

Figure 2

To dramatise this in a bit more detail, Figure 3 shows that while people in fear-fuelled markets expect most factors to get worse in the next six months, the BIC markets believe that a preponderance of factors will improve.

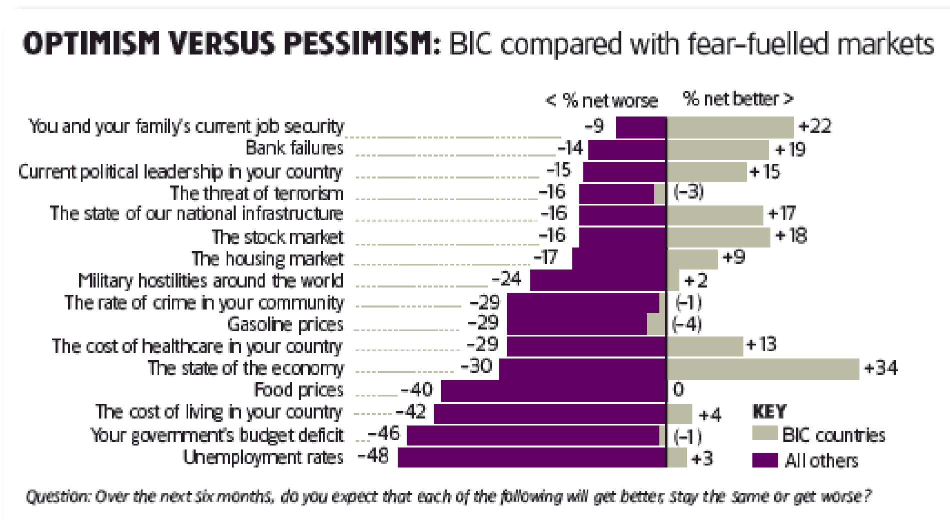

Figure 3

IT'S BIC, NOT BRIC

In looking at anxiety coupled with optimism/pessimism, Russia is distanced from the markets with which it tends to be associated. Unlike Brazil, India and China – which are relatively optimistic amid close-to-home anxieties – Russia is not only anxious but it is also extremely pessimistic (see Figure 4).

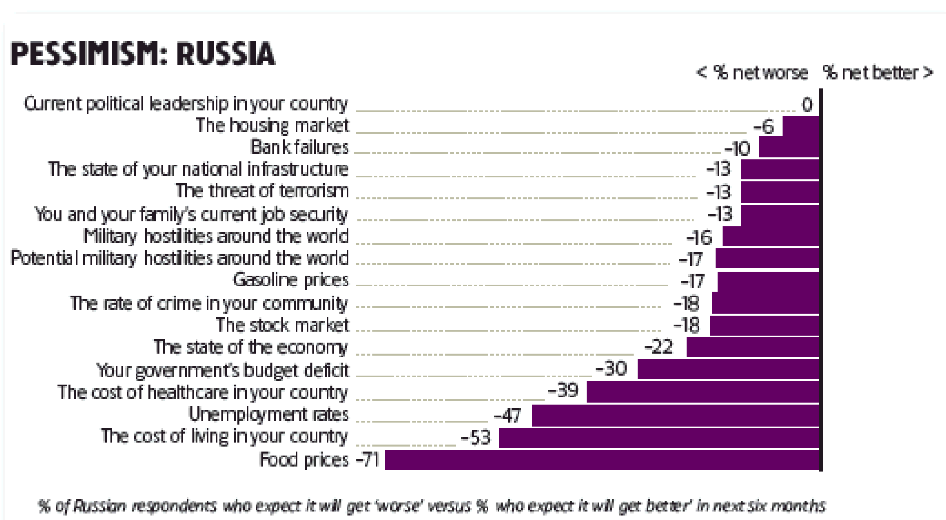

Figure 4

Memories of the 1998 financial crisis are still top of mind for Russians, and most believe this crisis will be long-lasting. Amid layoffs and salary cuts, Russians are seeing a reduction in household income even as the cost of products and services continues to climb – prices are two to three times higher in Moscow than in other European capitals. So in this case, it's BIC not BRIC.

HOPE- AND FEAR-FUELLED BRANDS

While today's realities help to determine the anxiety drivers and optimism in each market, mindset is proving to be significant as well.

Hope-fuelled markets have demonstrated incredible resilience, and they are resolutely moving forward to progress. Despite (and perhaps because of) their focus on closer-to-home concerns – some of which are legacy – they are driven by everything there is to gain.

Fear-fuelled markets, however, don't appear to be pushing past their present problems. They're going the safe route, rather than adopting a risk-taking, nothing-to-lose approach. While hope-fuelled markets are playing to win – think America at the height of the industrial revolution – fear-fuelled markets are playing not to lose. As a result, they are exposing their softness.

These optimistic and pessimistic mindsets are manifesting themselves in brand behaviour, for better and for worse. Whereas hope-fuelled brands are asking questions suited for leaders, fear-fuelled brands are asking questions more suited for followers.

While there are instances of hope-fuelled brands in fear-fuelled markets and vice versa, each country's mindset is largely driving brand attitudes and actions. With less to lose, brands in the hope-fuelled markets are focused on innovating, investing and experimenting, in an effort to create new and better futures for their consumers.

It's no surprise that we haven't found a plethora of brands in the BIC markets that are overtly referencing the economy. If anything, recession-related efforts have taken a very optimistic tone. One example of this comes from Airtel.

A recent campaign for India's No 1 telecoms service sees the return of screen couple Madhavan and Vidya Balan (both famous Indian actors), with Madhavan repeatedly sending romantic text messages to his wife. She retorts that in these times, one should use money judiciously, to which he says: ‘There should be no cutbacks in love.'

Airtel drove awareness for its customisable mobile plans by playing on the current sentiment of cautious spending, but it did so in an almost playful way.

In fear-fuelled markets, we see brands erring on the side of conservatism, fuelled by a desire not to lose ground. Brands seem to be obsessed with restoring their markets, market share, share price, brand image and stature to what they once were.

Although this is in fact the best time for brands to take risks, when consumers are changing behaviours and trying new things, nothing extraordinary is happening. Nothing famous is going on. Brand behaviour has been predictable. Hence we're seeing a lot of copycat tactics, many related to price, value and promotions that are meant to move product now.

Novel ideas like Hyundai's Assurance Plan – which many other companies are picking up and adapting to their own categories – are few and far between. Most of the time the conservative approach wins out. For example, a range of brands are trying to evoke a sense of comfort by waxing nostalgic: ‘Trying something new for 140 years: Sainsbury's'; ‘Tough but gentle for 100 years: Persil'; ‘Quality worth every penny: M&S celebrating 125 years'; the list goes on.

Despite the economic downturn, blue-collar Americans continued to prefer the traditional image of Las Vegas as a place to indulge

While it's perfectly reasonable to ramp up price-led messages during a recession, sometimes brands can go too far and come across as schizophrenic or even alienate their core, as was the case with the marketing of Las Vegas.

Last year, Vegas marketers emphasised affordability describing the city as a place for hard-working people to rest and relax. The campaign showed blue-collar Americans enjoying activities such as indoor skydiving. Yet the marketers' research showed that even during a downturn (perhaps especially during one), people still liked the idea of Las Vegas as a place to indulge. So the old 'What happens here stays here' theme was revived. How can fear-fuelled brands become hope-fuelled brands no matter what countries they market in? What can brands learn from hope-fuelled markets? How can they exert confidence and optimism while acknowledging the tough times? And how can they shift their loss-mitigation mindset to a winning mentality?

SOME SUGGESTIONS

Brands in established, fear-fuelled markets need to develop their more positive, optimistic, aggressive side – they must take a cue from the hope-fuelled brands in BIC. Rather than take a defensive approach in this recession, trying to stem further losses, protect share and attenuate risks, brands should go on the offensive. And as those in emerging markets do, brands should see opportunities where everyone else sees challenges.

For global brands, a fairly easy way to do this is to ensure that talent from these markets – people who bring an innovative style of marketing – represent a significant share of voice within the organisation. How else can brands in fear-fuelled markets embrace their inner BIC?

Fear-fuelled brands ask...	Hope-fuelled brands ask...
How do we defend the brand or the category?	How do we revolutionise the brand or the category?
How do we save the category or the industry?	How do we create a new category or industry? What are the opportunities in adjacent categories?
How do we protect our ground?	What ground can we capture?
How do we restore our market share, share price, brand image and stature?	How do we build our market share, share price, brand image and stature?
How can we better mirror the consumer? How do we empathise with them?	How do we inspire the consumer? How can we drive consumer aspirations?

Figure 5

1 Inspire consumers, don't empathise with them. Rather than mirror the fearful behaviour of consumers, treating them as downtrodden, penny-pinching and anxious, do as the BIC markets do: think of consumers as hope-fuelled and talk to them accordingly.

Don't dwell on the mess that the next generation will inherit; see these consumers as better off than their predecessors. Don't feed resentment; feed ambition. Be more aspirational.

India's *The Economic Times* has created a platform to encourage entrepreneurship by giving people an opportunity to submit their ideas, as well as receive mentoring and the chance for funding.

Its 'Power of Ideas' contest provides both inspiration and advice for business development in a recession. Many headlines reveal sentiments like this one: 'Just one big idea can lay off the slowdown.'

Also in India, Nokia has successfully positioned the brand as a means to economic and social progress. In one TV spot, Nokia highlights the economic aspirations of its target audience and encourages them to keep on dreaming.

Chinese sports brand Li Ning has launched a website, iRun Club, dedicated to runners across China. Not a new idea, as Nike launched Nike+ a while ago, but what's key is its slogan: 'Just run, and be happy'. It's a perfect pitch for people looking to destress in this volatile time.

Questions to ask: how do you inspire your consumers? How do you develop and drive new aspirations?

2 Imagine new futures. Emerging markets and brands in these markets have their eyes firmly on the future. Rather than passively watch events unfold, be active in shaping your future.

That may require you to distance yourself from what has been and to imagine what could be; legacy can impede a brand from evolving.

Bharti Enterprises, run by Sunil Mittal, is one of India's biggest conglomerates in the country. But despite Bharti's success in telecoms, Mittal went on to start new businesses in unrelated spheres. He's partnered with Walmart to become an equally big player in retail, has entered into a joint venture with AXA to provide general and life insurance, and has diversified to offer digital TV, broadband and IPTV (internet protocol television).

Questions to ask: if you discard your past, what or where will your future be? How can you get there? While your competitors are inwardly focused, what ground would you most like to capture? Which new markets offer the most opportunity for your business, and which should you actively go after?

3 Return to the core value of hope. Despite their close-to-home anxieties, Brazil, India and China continue to exhibit optimism on a number of fronts, especially relative to developed nations.

This positive outlook is manifesting itself in marketing messages. In the developed world, where brands are devolving into commodities, messages that restore hope could help make brands aspirational again.

In an ad celebrating Chinese New Year, Coca-Cola smartly leveraged one man's loss of hope to encourage the whole nation. The spot featured Chinese track hero Liu Xiang, the 110m hurdle Olympic champion who had to abruptly withdraw from the 2008 summer Beijing Games due to an injury despairing about the bitter memory of the Olympics.

His father comes into his room and passes him a bottle of Coke. 'Do you know how many hurdles you have leaped over in the past?' he asks. Silence. '100,006 hurdles,' his father continues. 'This is just another hurdle in your life.' The spot ends with a revived Liu knocking at his father's door and handing him a bottle of Coke.

Brazilian flip-flop maker Havaianas also finds hope in adversity. In one commercial, a *roda de samba* (an informal gathering of people playing samba songs, a popular event all over Brazil) is interrupted by an earnest woman complaining about the crisis.

The stunned crowd falls silent until someone lets out 'Talk about sadness', which is immediately picked up by someone who breaks into a popular samba song, 'Sadness, please go away'. The rest of the crowd follows happily along.

Questions to ask: what does hope look like for your brand? How do you develop and drive hope, especially when the situation might feel hopeless for some?

For brands in BIC markets, the advice is simple: keep going. Look at what you can teach the rest of the world.

In fear-fuelled markets, brands can win by standing out as being hope-fuelled. Start thinking and acting like brands in emerging economies – future-forward, optimistic and extremely opportunistic -because this is the best time to take risks. Seeing the world from the BIC markets' vantage point will go a long way towards reinvigorating your brand.

This is an edited version of a winning 2010 WPP Atticus Awards entry. Ann Mack is director of trendspotting, JWT; **ann.mack@jwt.com**

Mark Truss is director of brand intelligence; JWT, **mark.truss@jwt.com**

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The inexorable rise of brand response

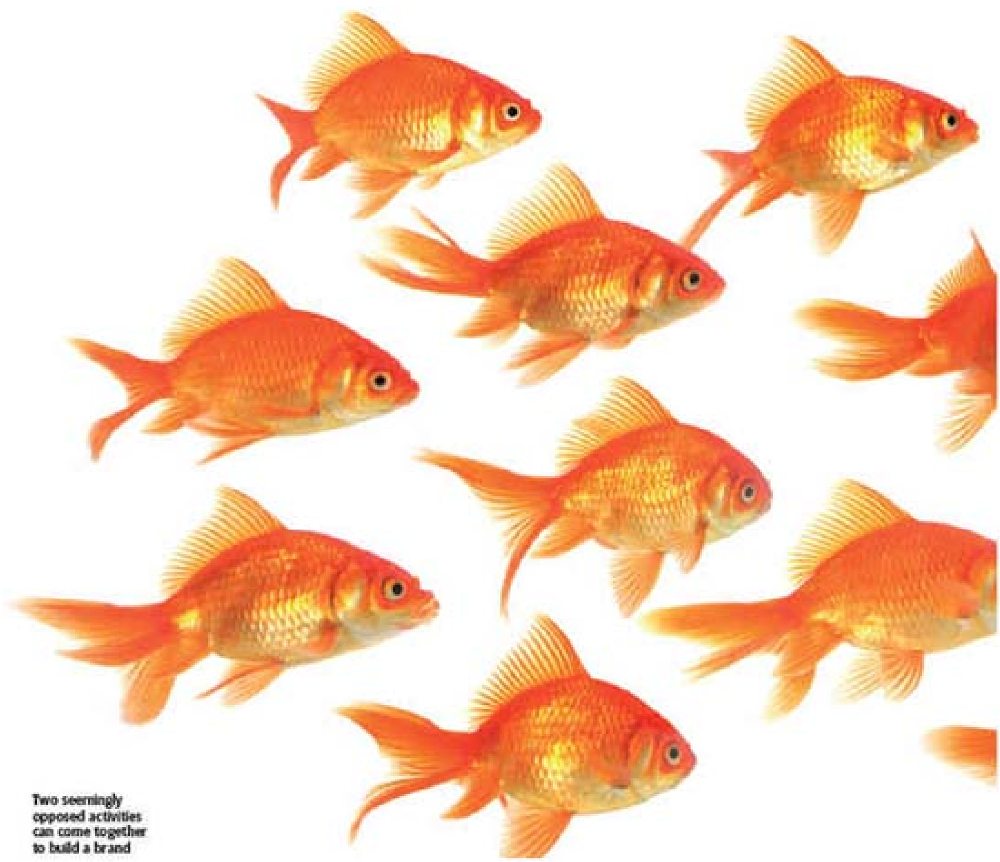
Neil Dawson

Communication campaigns traditionally have been divided between two types of activities: 'above the line' brand building and 'below the line' for gaining immediate response. Increasingly these activities are being coherently designed to deliver business results. Drawing on the IPA Databank, Neil Dawson describes examples illustrating the effective integration of these two types of activity

In the book *Built to Last,* Collins and Porras talk about how companies get caught in what they call 'The Tyranny of the OR'.This is the belief that you cannot live with two seemingly contradictory ideas at the same time: you can have change or stability, you can be either conservative or bold, you can have low cost or high quality, but you can never have both.

They found that successful, visionary companies all operate in what they call 'The Genius of the AND', driven by the 'ferocious insistence' that they can and must have both at once.

Marketers and their agencies have long been caught in their own 'Tyranny of the OR' as they have wrestled with how to achieve the right balance of brand-building and response-driving tactical activity within campaigns. Terms such as 'theme and scheme' or 'strategic promotions' have been variously used to describe this ongoing challenge.



Two seemingly opposed activities can come together to build a brand

Brand Response is the marketing communications industry's Genius of the And. It sounds too good to be true. It asks us to live with two apparently contradictory ideas at the same time. It can be defined simply as a strategic and executional campaign approach where brand-building drives response and this response in turn builds the brand in a virtuous circle of effectiveness.

Analysis of the IPA Databank shows campaigns with Brand Response characteristics becoming a force in the 2000s, with this trend set to continue. This has had significant implications for strategy, creative, media and evaluative approaches. While this may risk oversimplification, marketing communications seems to have moved through three distinct phases in the lifetime of the Awards.

1. BRAND OR RESPONSE

Marketers make a choice between two discrete activities. Brand-building and other longer-term activities are separate from short-term sales or response-driving activities. They are generally delivered by different campaigns through different channels. Typically TV is used for 'brand' and direct marketing used for 'response'. The majority of the IPA cases from the 1980s reflect this thinking.

2. BRAND AND RESPONSE

The two elements are treated as distinct but complementary activities within a campaign helped by some executional links. The Grand Prix-winning Tesco case of 2000 used Every

Little Helps, and a consistent tone of voice across different campaigns for brand and tactical work.

3. BRAND RESPONSE

A seamless blend of both types of activity is delivered through a single campaign. The purpose of all activity is to drive response (both short and longer term) while building the brand.

Building brands and driving sales are no longer mutually exclusive activities: they are now symbiotic. Critically the two elements create a powerful virtuous circle where brand helps build response, and the response itself helps build the brand through experience. The rise of Brand Response can be clearly seen from analysis of the types of campaign by decade (see Figure 1) using the new IDOL tool (IPA Databank online http://idol.ipa.co.uk/).

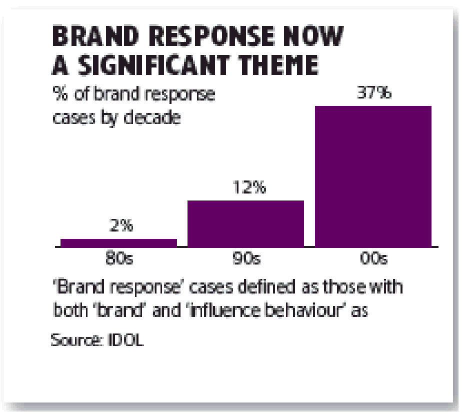


Figure 1

Brand response is not exclusively a 2000s phenomenon. There were significant portents in the 1990s – the definitive case being Direct Line and the famous red telephone. At the time it was regarded as being a sector-specific success rather than a broader breakthrough in approaches to marketing communications.

The growth of Brand Response has been fuelled by multiple factors. Since the mid-1990s the expansion of the internet has disrupted the business models of existing sectors and created new business sectors such as aggregators.

The ability to model and measure consumer 'response' has increased dramatically and continues apace. The commercial value of this 'response' remains a matter of continuing debate.

Most businesses now operate in a relentlessly short-term environment. Daily, weekly and monthly targets are the norm; the quarterly report has for many become a long-term perspective.

The downward pressure on marketing budgets of the past decade means that marketers simply cannot afford to divide the Brand and Response tasks in the way they used to. Consumers have become more 'responsive'. It is easier than ever for them to engage with relevant marketing campaigns. They are more willing than ever to respond to the right offer.

Social networks have created new opportunities for response in the form of participation and comment without invitation from brands.

Over the past decade, the marketing communications industry has consistently promoted the value and virtues of joined-up or integrated thinking and execution.

Setting aside well-documented interdisciplinary turf wars, this has created an environment where Brand Response has been likely to flourish.

Three of the best examples of Brand Response follow. Interested readers are invited to download the full papers at www.warc.com. The accompanying commentary is intended to show how it demonstrates a Brand Response approach.

Each one approaches the task from both a strategic and executional perspective. And in each case there's a powerful demonstration of the virtuous circle where brand aids response, and the response itself is part of the brand-building relationship.

02 – BRAND RESPONSE THROUGH TOTAL INTEGRATION

This is the story of a corporate transformation from 'troubled' Cellnet to thriving O2. The new brand was launched into a mature and ferociously competitive market. It faced the significant challenge of building a brand while gaining short-term sales as quickly as possible. More than 80 per cent of investment was sales-driving. The paper describes how O2 adopted a brand-centric approach to all activity.

Integration was delivered at two levels: visual – to deliver cut-through which helped drive awareness and led to efficiencies; and strategic – to deliver product and tactical propositions such as Pay and Go, Bolt-Ons and Home, which successfully drove sales and longer-term consideration. Econometric modelling shows a short-term payback of 6.3:1 and an ultimate payback of 62:1.

What's so impressive about the case is the speed at which the results were achieved. Significant savings were delivered by the rapidity with which O2 established itself in the market. No other brand achieved its goals as quickly or as cost-effectively during this period. In just two years O2 became the most salient brand in the market.

Importantly strategic and tactical propositions created a brand-building experience – Pay and Go, Home and Bolt-Ons completed the virtuous circle of brand response by being distinctive and relevant to the consumer.

SAINSBURY'S – BRAND RESPONSE AS AN ORGANISING THOUGHT

Salisbury's is a significant example of a campaign evolution into a Brand Response model.

Previous successful campaigns had featured Jamie Oliver and the famous recipe cards. The new strategy was founded on a clear definition of the business problem – a target of £2.5 billion extra sales was translated into £1.14 extra per shopping trip.

Try Something New Today was created to interrupt ingrained shopper behaviour and drive incremental purchase. The idea has since guided all communications, store design, merchandising, product innovation and company culture. It works with Jamie Oliver in TV ads and on the recession-busting Feed Your Family for a Fiver initiative in-store.

Significantly, the idea of Try Something New Today was not simply about building brand while driving purchase. The experience of creating and eating something new is a brand-building experience from Salisbury's in its own right.

The total effects of this campaign are £1.9 billion incremental revenue over two years. Of particular note is the modelling proof, which highlights the value of the Try Something New Today idea at £550 million in increased revenue. In other words, the initiative led to behaviour change unrelated to media spend which had a huge impact on sales (see Figure 2).

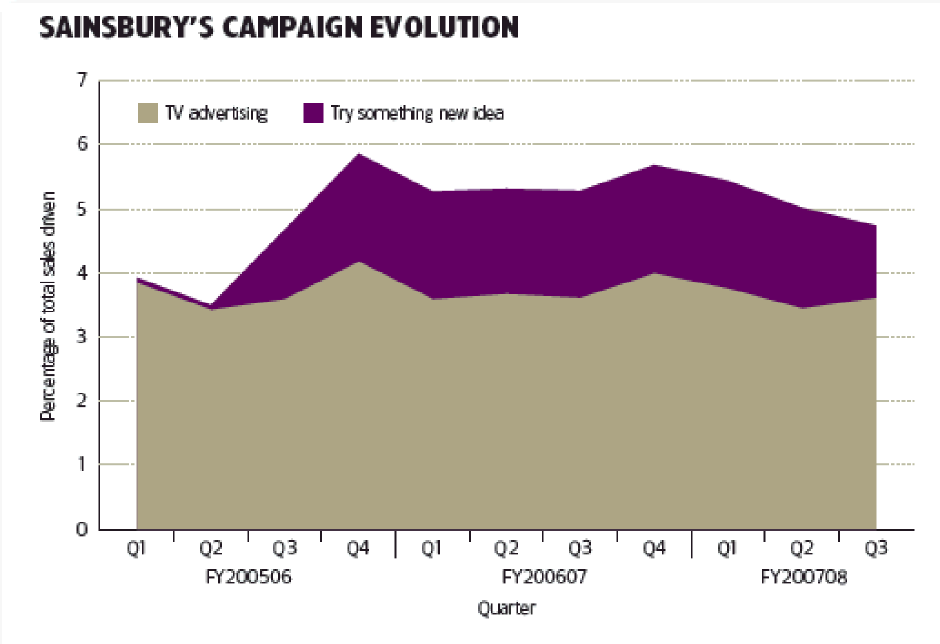


Figure 2

118 118 BRAND RESPONSE AS A CULT PHENOMENON

The deregulation of directory enquiries does not seem like an inspirational subject, yet the cult-like phenomenon of the runners propelled an unknown brand to market leadership and public affection in a short time.

The task of driving immediate calls and building a distinctive and motivating brand could not be divided. As well as creating a famous brand, response was key to building the brand via behaviour and ingraining a new directory enquiries habit.

A bold strategy included spending £2 million of the marketing budget on getting the so-called 'golden double' of 118 118 and beginning to advertise several months ahead of switch-off. This delivered 17 million calls at a time when there was no reason to call 118 118 other than the communications campaign.

The campaign idea was amplified by innovative media approaches which made the runners and their 'Got your number' catchphrase part of popular culture – appearing on *Question of Sport,* even celebrating the retirement of the elderly 192. The runners became the poster-boys for all journalistic coverage of the deregulation issue, bringing high engagement to this dull subject. 118 118 thus owned a new category.

Post switch-off 118 118 dominated the market and charged a significant premium versus competitors. Market share rose to 44 per cent compared with long-established BT's 34 per cent.

So we have seen that Brand Response is a significant theme of the IPA Effectiveness Awards in the 2000s. Two apparently contradictory elements have been united in some of the most effective campaigns of the past decade.

Brand Response is highly relevant to retailers and service brands where the consumer experience is critical in fuelling brand perceptions. However, sectors such as fmcgs are not immune – the recent Walkers 'Do Us a Flavour' campaign seems to be inspired by its principles.

F. Scott Fitzgerald once said that the test of a first-rate mind was the ability to hold two opposing ideas at the same time and still retain the ability to function.

Successful marketing communications in the 2000s passed this test as it increasingly embraced Brand Response. There is no sign of this trend abating.

Neil Dawson is the founder of Hurrell Moseley Dawson and Grimmer. neil.dawson@hmdg.com

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What choice architecture means for marketing

Nick Southgate

Behavioural economics has given us the concept of choice architecture. What it means is simply that the way a choice is presented influences how it is made. Given this, choice options can be designed to influence the way people choose as we would like. Nick Southgate explains how designing choices based on this knowledge is important to marketing

When Richard Thaler and Cass Sunstein coined the term ‘choice architecture’ in *Nudge,* they did not intend it to become just an academic term for dry debate. They were laying down a challenge for people in positions of influence to become Choice Architects.

Thaler had already done this with the Save More Tomorrow pension in the US. Everyone knows people are bad at taking out pensions. Many of us have created advertising meant to reform the attitudes that stop people taking out pensions. People, however, often remain resolutely committed to not reforming their attitude and not changing their behaviour.

What the Save More Tomorrow pension does is remove the behavioural barriers to taking out a pension, with dramatic results.

The first piece of choice architecture is to enrol automatically any employee in their company scheme (while still allowing people the choice of opting out). When enrolment is the default choice most people enrol. One company introducing the scheme found that in the 12 months before automatic enrolment, participation was at 23 per cent. In the 12 months after, this rose to 78 per cent. Once the employees are in, employers assume they want to stay in and avoid giving people the opportunity to fall out of the scheme.

The second piece of this pension's choice architecture is far more subtle and ingenious. One of the things people worry about when they take out a pension is that their take-home pay goes down from that moment by the amount of the deduction. Although, in the long term, they know a pension will make them richer, in the here and now it makes them poorer. This immediate impoverishment crowds out any long-term gain.

The answer is to make sure people never feel this loss. How? Don't start taking money until they get a pay rise. This way their take-home pay always goes up (which they like) and the deduction is taken from ‘money they never had’ (which they don't miss).

In one study the group offered the Save More Tomorrow option increased their savings from 3.5 per cent to 13.6 per cent of pay. This contrasts with those only offered traditional advice. They averaged savings of 9 per cent of pay. Redesigning the choice made people more than 50 per cent better at saving.

THE EASIEST CHOICE OF ALL – DEFAULT CHOICES

We like to think that people choose the brands we advertise deliberately. In reality, people spend a lot of their time avoiding making active choices. Instead they take the choice that is no choice at all – the default choice.

Defaults, though, are not only influential with simple and mundane choices. When faced with complex decisions – whether moral, medical, commercial, social or personal – people are just as likely to look for cues to norms and typical behaviour to understand what to do. People, not unfairly, feel that typical choices reflect a collective evaluation of the facts and represent a strength of conclusion they could not reach alone.

This, for example, is why Welsh health minister Edwina Hart announced her intention in December 2009 to change legislation on organ donation in Wales. The new rules will presume that individuals are willing donors (although family will still need to give final permission).

This ‘soft’ opt-out will increase greatly the availability of organs and follow the higher patterns seen in Spain and Belgium.

People, who are broadly supportive of organ donation in principle still stumble at choosing it, maybe feeling they could have misunderstood complex issues. A default option helps them accept a situation with confidence.

McDonald's minimised the traditional menu and switched the emphasis from choice of food to reliability of speed

Similarly, when faced with difficult trade-offs between price plans or offers, consumers are hugely reassured if there is a guarantee that their option will default to the cheapest available in the absence of any decision. They do not want to feel that defaults will work to cost them money. People look to them as safety nets.

Two things are worth noting here. First, no choice architecture is fixed; people can and do learn how to interpret, resist and play systems. If they feel the default choice is wrong, they can change their behaviour. For example, how many people have learnt to be more wary of the default choices on software, having inadvertently installed an unwanted toolbar?

Second, default choices are strong but not insurmountable. A brand seen to abuse such default choice will be punished in the long term by some, or all, of their customers. Low-cost airlines are prime examples. A growing constituency of people are unwilling to comply with the disadvantageous revenue-boosting charges low-cost airlines impose on default behaviours – for example, fees for using credit and debit cards.

While some may enjoy working out how to get the lowest possible fare, other people feel that these are charges for 'doing what is normal' and seek to avoid this way of doing business altogether.

LIMITING CHOICE

Many globally successful brands have thrived by limiting their offer to a single product, often in a single format. Take WD-40, Red Bull or Angostura Bitters, for example. These brands are strong because they enforce simple choice architectures. Such single-mindedness also focuses the businesses' support of the brand.

Likewise, McDonald's shrunk the traditionally labyrinthine American diner menu down to only four or five items. The previous customer benefit of choice and food cooked to order became unnecessary and was replaced with an emphasis on speed. McDonald's global footprint is testament to how doing a few things reliably and predictably can trump previously dominant category values.

This wisdom points to a clear area of application for choice architecture – the analysis and desirability of brand extensions. When brands proliferate choice they risk the adverse cost of presenting a poorly conceived choice architecture.

Understanding this as a cost on a brand acts as a useful counter to the belief that brand extensions are a 'free' way of exploiting a brand and increasing its profitability. The costs of brand extension are well known; they risk switching people to the new variant, encouraging cannibalisation, or confusing people to the point where they switch away from the brand altogether.

Consider, for example, a food brand that has an original product high in fat. In response to the consumer desire for a healthier lifestyle the brand introduces a low-fat variant. The brand hopes to benefit from increased sales as a result of increased consumer choice.

However, it may have failed to factor in a parallel, widely held consumer belief that low-fat variants may not taste as good. The brand's choice architecture now contains two products that both say unflattering things about each other – the new variant says the original is unhealthy; the original reminds consumers that the new variant will not taste as good.

The company behind the brand should not be surprised if the net public regard for the brand diminishes overall, and some consumers opt out altogether. Consumers react not only to the new product but also to the new information about the relative values at play in the market.

EXTRA CHOICES

Behavioural economics provides many examples of the impact of extra choice on how people choose. The most celebrated example is that produced by Dan Ariely and based on a subscription offer to *The Economist.* However, this example needs careful consideration before it is applied to marketing and advertising. The simple lessons it appears to offer are, in fact, complex and therefore worth examining at some length. Here is a recap of the experiment.

Faced with a two-way choice between an online subscription for $59 and a print and online subscription for $125, 68 per cent of people chose the cheaper offer of online-only. However, when a third option was introduced, the outcome changed. The third offer was a print-only subscription for $125. Needless to say, no one chose this offer. Everyone willing to spend $125 wanted to get the now ‘free’ online subscription.

What is counter-intuitive, at first, is that 84 per cent of people chose this option and only 16 per cent chose the online-only subscription. The third choice has the effect of reframing the others. For *The Economist,* this means the total value of subscriptions from 100 subscribers rises from $8,012 to $11,444 – an increase of 43 per cent.

What does this mean for the consumer? Presumably they are happy with their choices in both scenarios. They have chosen a subscription which represents good value for them. As they are asked to, people try to make the ‘best’ decision.

In the first set-up, most people choose to reduce the cost of the subscription by altering the media in which they consume it (getting the lowest price is considered the ‘best’ option).

In the second set-up most people pursue value for money, choosing the extra value of having two ways to access the magazine (getting more at a higher price is now the ‘best’ option).

DUMMY CHOICES AND DUMMY LESSONS

Ariely calls these extra choices on the subscription form ‘dummy choices'. The phrase suggests the choice should have no real role and carries a hint that considering it is stupid.

This language is typical of the popularising texts of behavioural economics. There is a tendency to emphasise the ‘irrational’ in our behaviour and to frame our choices as wild and unexpected. It adds to the drama and theatre of behavioural economics, amplifying effects and emphasising just how much small changes can make big differences.

The truth for the serious marketing practitioner lies in the reverse direction when we consider how sensible and expected these decisions are.

Decisions can only be described as rational by prescribing a framework with its own set of presumptions that assumes a single optimal response. When people choose a non-optimal outcome they fall short of this rational model.

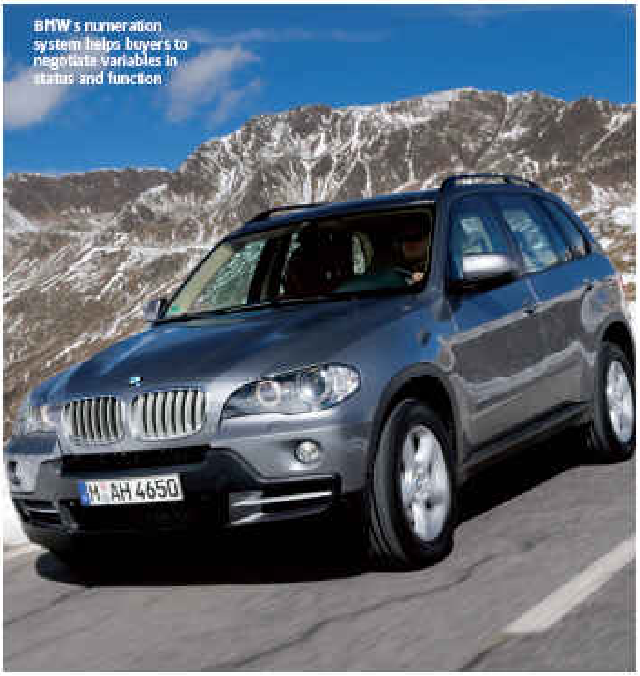
However, this does not make them ‘irrational'. It is as likely to suggest that the framework and presumptions used to understand the decision do not tell the whole story. In Ariely's example, the ‘dummy’ choice moved people from a ‘money-saving’ frame to a ‘value-maximising’ frame for their subscription choice when they looked for the ‘best’ answer. Both are rational within their own terms of reference.

Many retail outlets are designed to create closed choice architectures as far as possible. Car dealerships usually only sell one brand of car, despite the fact that the consumer might find a stockist of multiple brands of a particular format (such as estate cars) more useful, as they do when buying used cars. As a result, most car buyers expect to visit more than one dealership.

Likewise, in the days of the brewers’ ‘tied estates’ their pubs typically only provided a single brand of stout, cider or lager – and at one time they excluded real ale altogether. This practice so offended beer drinkers that they formed the Campaign for Real Ale and their vigorous lobbying persuaded many pubs to carry ‘guest’ ales.

The popularity of shopping malls is, in part, because they allow people to move easily between retail outlets devoted to individual brands, especially in the clothing sector. Although we can work to optimise choice architecture within our own brand, it is more difficult for choice architecture, on its own, to influence how consumers relate to competing brands.

This is where the art of positioning kicks in. Although brand owners can act as choice architects, they need to remember that people are not obliged to choose within the architecture they present. They can simply choose to shop elsewhere.



CHOOSING CHOICE ARCHITECTURES

There are fine examples of strong brands built around business models that enshrine choice architectures. At launch Daewoo promised buyers that its showrooms would have fixed prices and no salesmen. For people for whom the rigmarole of car purchase with pushy salesmen and haggled prices was a deterrent, this new form of choice architecture in the car market was powerfully attractive.

Direct Line promised customers a better price by cutting out the middle man, but at the same time it only sold its own products. What consumers saw, and still see, is a clear choice architecture that promises value while it rejects the traditional broker's promise of finding the perfect product through wide choice.

The easyJet approach, where you can bypass the travel agent – but only by visiting a site which sells only easyJet flights – is another example of people forsaking choice willingly in return for some other incentive. So, too, are schemes such as Amazon Prime and Ocado on Demand, where customers pay the company upfront for a free-delivery saving which will pay back only if they use the service heavily.

Argos presents a choice architecture that removes many of the supposed advantages of the shopping experience – no fancy display, no helpful floor staff and no direct interaction with products. Choice is limited to what can be seen in the catalogue or online. This apparently austere presentation of stock remains one of Britain's favourite ways to buy goods as diverse as jewellery, lawnmowers, computer games and sporting goods.

What Argos customers see and value is a choice architecture that prioritises what they find important in making a purchase.

The appeal of John Lewis's promise of 'Never knowingly undersold' is another example of a different choice architecture. When people decide to trust John Lewis they outsource all the stress and hard work of choosing which goods (white goods, small electrical goods, bed linens and cookware etc) are worth buying.

The presence of goods in John Lewis is taken as a promise of high quality and excellent value.

THE IMPORTANCE OF CHOICE

Architectures also explain one of the great phenomena of marketing in recent years – the growth of the price comparison site. These sites have produced some of the most liked (comparethemarket.com) and most disliked (gocompare.com) campaigns of 2009.

The online and digital environment means consumers demand the ability to choose between offers and brands. This creates a series of brands that exist only to enable these comparisons (bewilderingly, some are now offering to compare the comparisons).

The real power of choice architecture is not its ability to coerce but its ability to persuade people that this is the best way to choose. The marketer's skills are tested when positioning a brand or offer within the context the consumer experiences it – and making that brand stand out in the consumer's own terms.

CAR CHOICE

Some car brands are better at choice architecture than others. The BMW numeration system is clear, as is the relative size of the various Fords. Both help buyers negotiate important variables – be they status or function.

In comparison the numeration of Volvos, Audis and Peugeots is opaque, communicating more to service mechanics and engineers than to simple buyers.

Nick Southgate is a freelance consultant. ***nick@nicksouthgate.com***

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Whose brand is it anyway? And can you pick its friends?

Dorothy Fitch

You can pick your brands and you can pick your friends. But if you're a marketer; can you pick your brand's friends? Should you even try? As a brand manager, your first instinct may be to protect your brand from negative influences, but if you've endowed it with a solid set of values and associations, Dorothy Fitch's advice is to just 'let go'

It'S Every parent's worst nightmare that a child should fall in with a bad crowd. Should the 'parents' of brands – the creators, managers and marketers – share this worry? Can a brand be damaged by the company it keeps?

Conversely, can keeping good company enhance a brand's reputation? If a brand is embraced by a group that is younger, hipper, or richer than its original target, is the status of that brand improved?

If the answer to any or all of these questions is yes, one key question remains: should marketers attempt to intervene in brands' relationships with consumers to maximise benefits and minimise ill effects? Is it even possible for them to do this effectively without doing more harm than good in the process?

While there is no hard and fast answer, in many cases marketers should heed that unfortunate new marketing mantra, 'Just let go'. Assuming that they have done their job – which is to establish what the brand stands for and ensure that it has forged a solid relationship with target consumers – marketers should stand back and stay out of the way as their brand encounters the wider world.

TIMBERLAND: HIP-HOP MEETS WITH BENIGN NEGLECT

Timberland is an excellent example of a brand encountering success among a completely unexpected market segment.

In creating the Timberland boot, which was introduced in 1973, the company (then called the Abington Shoe Company) used its own innovative injection moulding technique to produce a truly waterproof leather boot for workmen and outdoorsmen. Sales of Timberland footwear and outerwear had reached $200 million by the early 1990s when suddenly the brand was adopted by inner-city youth and became a standard component of hip-hop attire.

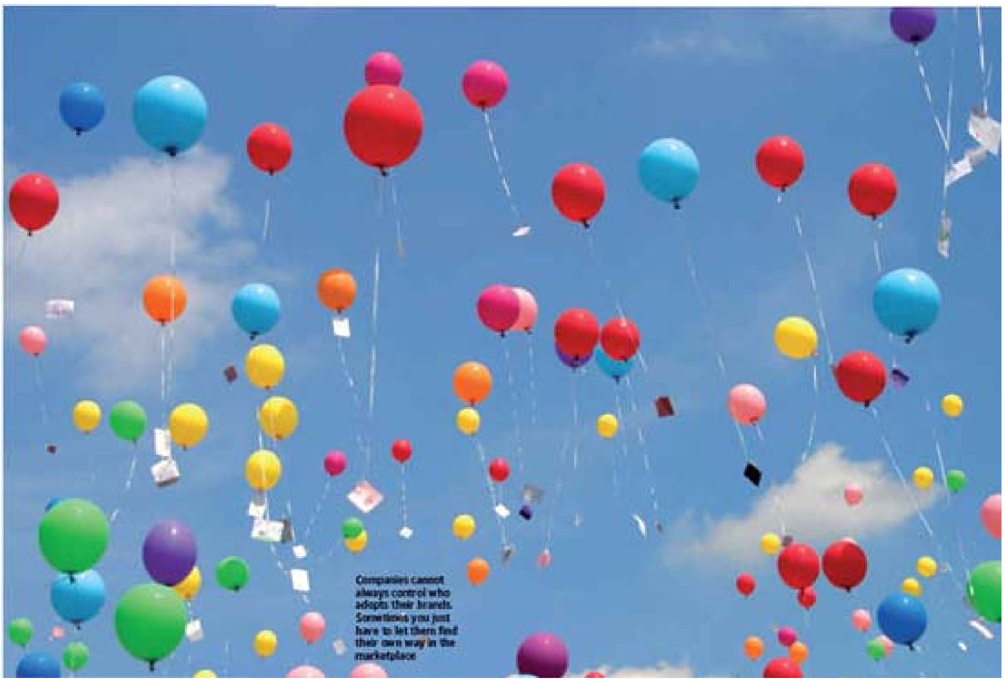
Timberland CEO Jeffrey Swartz chose not to change the brand's strategy by overtly recognising its new urban fans. 'Timberland is being adopted by a consumer that we didn't know existed relative to our target audience,' he said in a 1993 article in *The New York Times*.

While doing nothing to disavow the brand's popularity among the group, he explained why he chose not to change the brand's course: 'If you hear that hip-hop kids are wearing Timberland boots and women are wearing Timberland boots with sundresses, that's coin in current dollars. But how in the world is that sustainable?'

Keeping advertising focused on the brand's traditional target, Swartz openly expressed his intention to limit the availability of the brand.

'We are making hip hop come to our distribution,' he said.

Urban consumers continued to find Timberland products and the brand continued to grow, achieving global sales of $1.6 billion in 2007.



Companies cannot always control who adopts their brands. Sometimes you just have to let them find their own way in the marketplace

PBR AND DUNLOP: APPRECIATION AT ARM'S LENGTH

Timberland was well established on the road to growth before it was ‘discovered’ by urban youth. The famous American beer brand, Pabst Blue Ribbon (commonly known as PBR), also encountered unexpected popularity among young people, but for PBR this turn of events occurred after the brand had been in decline for a quarter of a century.

The brand's surprising resurgence (sales increased 67 per cent between 2001 and 2006) was first observed among bike messengers and students in the north-west US city of Portland, Oregon.

While other theories were offered, it seems most likely that young people were originally attracted by the brand's cheap price – a dollar a can in many bars. When they were not disappointed in PBR's taste, the young drinkers also seemed to enjoy the idea that they had ‘discovered’ a brand that was not actively marketing to them (PBR had done no television advertising for 25 years). Enthusiasm for the brand spread across the country by way of alternative groups including skateboarders, artists and musicians.

The Pabst Brewing Company appreciated the newfound popularity of PBR but realised that the young beer drinkers had adopted the brand for their own reasons.

Sensing that overt marketing could only damage a brand image it had done nothing to create, the company held off on heavy-handed marketing efforts, choosing instead to build relationships at the most local level with micro-sponsorships, such as a gift of $1,750 to sponsor a bike polo match. Even these were handled with a light touch – that is, a very low profile for the sponsor.

Timberland acknowledged but did not approach its young urban customers, while PBR courted its new drinkers with great restraint and discretion. Another brand that chose to work very carefully with unexpected success among young people was Dunlop Volley.


Burberry kept its distance when its trademark plaid became 'chavtastic' in Britain. The checked caps were discontinued

The leading brand of tennis shoe in Australia in the 1960s, Dunlop was outmanoeuvred by Nike and Adidas until, by the mid-1990s, the brand had lost mainstream relevance.

Finding its status reduced to that of a bargain brand sold in discount stores, Dunlop developed a long-term plan to reposition and revitalise the brand.

In 1999, while the company was in the midst of executing this plan, something unexpected and inexplicable happened. Dunlop Volleys became a hot item among the hip teens in Australia, prized both for their 'retro' value and their low price.

However, Dunlop management did not abruptly change course in an effort to capitalise on this turn of events. It realised that aggressive marketing would only alienate its young fans. Instead, the company set out to maximise the benefit from its new popularity among young people by making a deliberate effort to slow the diffusion of that popularity.

It advertised in underground publications and limited distribution of the brand to avoid alienating its new and influential customers. Then, when these influential teens turned away from Dunlop to the next big thing at the end of 2002, the company completed its repositioning in the mainstream marketplace.

BURBERRY: IF YOU DON'T HAVE ANYTHING NICE TO SAY…

In stark contrast to PBR, Timberland and Dunlop, the venerable English brand Burberry saw no benefit in being adopted by one particular group of young people in Britain.

Since the 1990s Burberry had been plagued in its home country by its association with 'chavs', a downmarket group associated with rowdiness and hooliganism, who adopted the famous Burberry check as part of their uniform.

While a number of British commentators lamented the damage to the brand, Burberry management stayed on the high road and kept the public response very limited. Under the leadership of the American CEO Rose Marie Bravo, the company discontinued production of the checked caps and reduced reliance on the overexposed trademark plaid, but it issued no piqued statements of distress at the brand being co-opted by such an undesirable element. (However, some company representatives did imply that most of the caps worn by the chavs were counterfeits.)

This strategy appears to have worked for Burberry. While the brand may have suffered a bit in class-conscious Britain, that country accounts for only 15 per cent of Burberry's sales. The brand's distinctive English positioning retained its appeal around the rest of the world, and the company's revenues have increased steadily over the past four years.

CONSUMERS: THE ULTIMATE DECIDERS

If the principal job of marketers is to help build brand associations in the minds of consumers, how can brands such as PBR and Timberland thrive while deliberately choosing not to build or reinforce these associations? And how could Burberry have avoided damage in the face of what seemed a very negative association?

It's all about consumer control – and that's just as it's always been. While marketers do their best to imbue brands with positive, motivating values and associations, marketers do not decide a brand's ultimate meaning. Consumers do – and sometimes they find relevance, purpose and significance that the brand's creators may not have seen or intended.

For example, in the 1993 article on Timberland's emergence in the inner city, *The Times* quoted an urban customer in Harlem who attached his own values to the brand. Pointing to the brand's tree logo, he said: 'It symbolises the world today… the Last Judgment will be based on the weather and earth and how we treat it.'

Early in his book *The Global Brand,* Nigel Hollis develops the idea that the meaning of a brand is based on broadly shared perceptions among consumers. It is not enough for a brand concept to exist in the mind of an individual consumer; rather, a consistent brand idea must be shared by many.

But the fact that brand perceptions must be shared does not mean that the same perceptions must be shared universally. Different groups may interpret a brand in the light of their own needs and lifestyles, embracing it for its positioning or for some functional benefit. As long as each brand 'meaning' is relevant to a large enough audience to deliver profit for the brand, it is rarely of any consequence that different groups experience the brand in different ways.

To Timberland customers engaged in working-class occupations or outdoor pursuits, the uniform of the hip-hop element is irrelevant. Similarly, to consumers of Burberry outside of England, the chavs' uniform is immaterial.

The success of many of the world's greatest brands actually lies not in the tightness with which they are defined but in the extent to which their promise is open to interpretation.

Many of the world's most iconic brands have values that offer universal appeal but can be interpreted differently by different groups. Harley-Davidson, for example, has long been regarded as a symbol of freedom and rebellion. But rebellion from what? For the Hell's Angels and hardcore tattooed bikers, the Harley represents rebellion against the norms and values of conventional society. But for a financial analyst or a patent attorney, a Harley might provide a way to rebel against the strict protocols he or she adheres to during the workday.

For a female biker, a Harley might represent rebellion against confining ideas of femininity.

Timberland drew on this principle, seemingly without realising it, when it treated its new urban fans with a policy of benign neglect. Mr Swartz may not have understood the appeal the brand held for them, but he made no efforts to dissuade them, instead letting them continue to draw their own meaning from the brand.

TIFFANY: PLEASE DON'T RETURN

When, however, a brand's association with a particular group actually interferes in some way with what the brand is meant to deliver to its core customers, some intervention may be called for. For example, luxury retailer Tiffany introduced a low-priced Return to Tiffany line of sterling silver jewellery in 1997, and though sales were up in subsequent years, the brand developed an image problem among its traditional clientele.

Sales associates could not provide the level of service that long-standing customers were accustomed to in the face of increased volume.

To address the problem it had created, Tiffany's management set out to deliberately reduce sales. During the period from 2002 to 2004, they systematically eliminated low-priced items and raised prices until the 'less desirable' customers went away.

Overall revenue went down and both profits and share price took a hit, but by 2006 Tiffany's reputation for luxury and exclusivity had returned. In his column for the UK magazine *Marketing,* Mark Ritson made this comment on the retailer's action: 'It's better to have 20 per cent of the market forever than 60 per cent for five years.'

CONSCIENTIOUS MARKETERS SHOULD JUST RELAX

While we recognise brands as precious assets to be supported and nurtured, we must also remember that they are not vulnerable children in need of protection from harmful influences.

If marketers have succeeded in attaching a truly relevant and well-crafted meaning to a brand, they have little to fear when it encounters an unfamiliar audience or a strange environment.

Should a new group interpret a brand in an unexpected way, marketers should welcome the opportunity to consider new possibilities: perhaps the brand's promise has broader relevance than they first imagined. But that doesn't mean that every new group that adopts the brand should be actively pursued, particularly if doing so might undermine relationships with the brand's established clientele.

By all means nurture your brands; keep them fresh, current and relevant. But don't stifle or micromanage them lest you inadvertently limit their appeal, their potential, their long-term health, and your company's profit.

Dorothy Fitch is a global analyst at Millward Brown.

The article was highly commended, 2009/2010 WPP Atticus Awards, **dede.jitch@millwardbrown.com**

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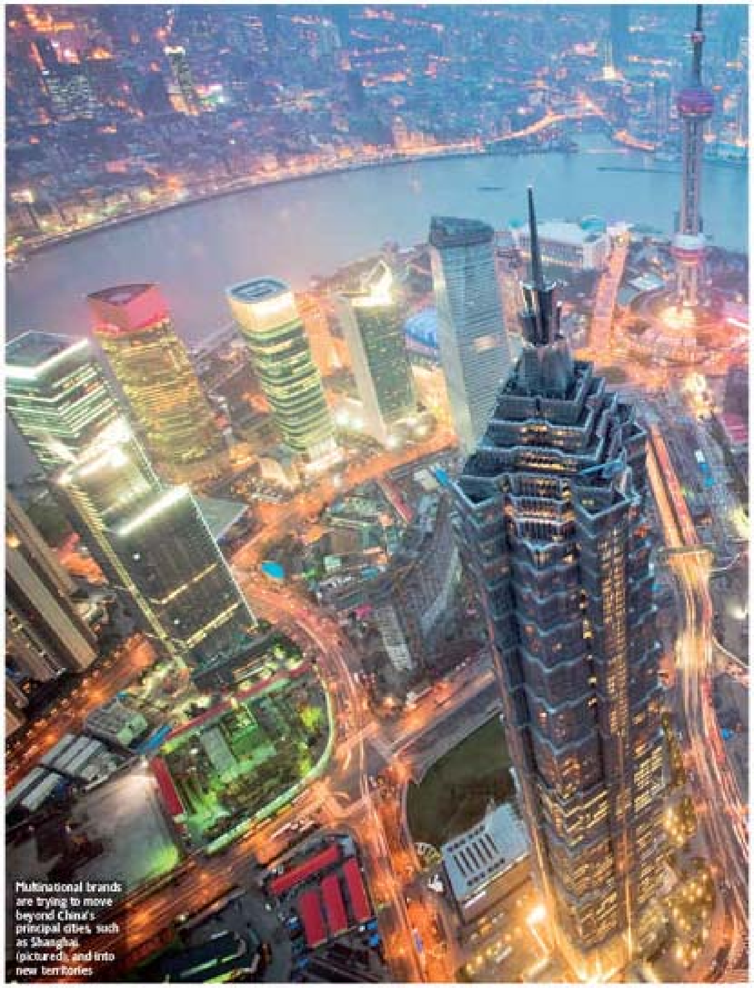
Western multinationals expand into China

John Quelch and Ibáñez Gabilondo



Multinational brands are trying to move beyond China's principal cities, such as Shanghai (pictured), and into new territories

Since the mid-1990s, many Western multinationals have established beach-heads in China by focusing on the three main population centres. The question now is whether to move beyond these major cities. John Quelch and María Ibáñez Gabilondo discuss the case for geographic expansion, reviewing the strategies that several leading multinational companies in retailing and consumer goods are already pursuing

There are six reasons why leading western multinationals are embracing the opportunities and risks of expansion.

First, in the boardrooms of many western multinationals, slower growth in the developed economies following the global economic crisis requires more strategic emphasis on increased sales from the emerging economies as the principal source of top-line growth.

Among these emerging economies, none looms larger in potential than China. In 2009, while the rest of the world struggled to combat declining GDP, China achieved 8.9 per cent GDP growth with retail sales increasing by 15.8 per cent.

Second, to ensure social harmony, the Chinese central government is keen to spread the country's new-found wealth beyond the east coast to the second- and third-tier cities and to rural areas.

The allocation of certain Chinese government stimulus funds in 2008 and 2009 to retail sales incentives and easier credit supported this objective.

Third, the Chinese have been quick to learn the marketing and brand-building strategies of Western multinationals. As a result, many established regional, Chinese-owned companies in outlying provinces have strengthened their management skills and market positions, while new businesses outside the network of state-owned enterprises are being opened every day by a new generation of Chinese entrepreneurs.

Fourth, expansion beyond the east coast may be essential to survival. Over time, the Chinese market is likely to evolve from a collection of provinces and regions with distinctive local tastes into a national market. The central government has a strong geopolitical as well as economic interest in making the transportation infrastructure investments that will connect the dots and make distribution and supply chains more efficient.

Fifth, successful Western multinationals that are now generating annual profits in China are inclined to reinvest them there. These locally generated funds can be used to build national distribution and national brand recognition without the need for any headquarters subsidies. Currently, competition is often less intense and media advertising and retail space costs are much lower in the second- and third-tier cities, and in rural areas.

Sixth, the Chinese market is increasingly the bellwether for international corporate success. It used to be the case that no multinational could claim respect unless it had a strong position in the United States, often cited as the most competitive market in the world. Increasingly, that mantle is passing to China. A multinational's performance and relative competitive strength in China are being used by investors as indicators of the company's overall attractiveness.

GEOGRAPHIC SEGMENTATION

Success and profitability in China is a strong commendation for any Western multinational because the size and fragmentation of the China market pose significant challenges. With a population of 1.3 billion, China ranks first in the world.

A common classification for business expansion purposes divides the country into four tiers: Tier 1 now includes the four municipalities, 27 provincial capitals and a few prosperous prefecture cities such as Shenzhen and Dalian; Tier 2 covers the remaining prefecture cities; Tier 3 includes the city districts and county-level cities; and Tier 4 covers the remaining rural areas in the 1,600 counties.

The rural population is 60 per cent of the total but represents only one-third of total consumption. There are more than 120 cities with populations of more than one million and ten with more than four million.

To simplify decision-making for its clients, McKinsey has identified 22 geographical clusters that collectively represent 82 per cent of China's urban population. One McKinsey client, a food and beverage company, has classified the 22 clusters into four subgroups: stronghold clusters where they are already well-established; must-win clusters where they feel they must succeed; up-and-coming clusters where potential growth beats the market average; and wait-and-see clusters, which are lowest in priority.

Adding further complexity to the geographical variances in per capita income is the fact that the Chinese population embraces more than 50 minority nationalities and 250 spoken dialects. There are huge cultural as well as economic differences.

In urban areas, socioeconomic mobility plus an influx of ten million people per year from rural areas means that the display of brands becomes an important device to signal social status.

However, in rural areas where population mobility is lower and Communist Party traditions linger longer, everyone knows each other's social status, consumers are more conservative and individualistic, and less likely to show off their relative wealth in public

SEGMENTATION BEYOND GEOGRAPHY

Although critical to shaping a national rollout strategy, Western marketers cannot rely on geographic segmentation alone. They must consider levels of brand loyalty, varying attitudes towards foreign and domestic brands, and demographic segmentation based on age and – special to China – only-child status.

Brand loyalties are more likely to become entrenched in categories (such as moisturising creams and skin regimes) which are highly personal and where the risk of switching is seen as high. In other categories, brand loyalties are not fixed and a strong value proposition from a newcomer can quickly upset the carefully cultivated market share of any Western brand. Because consumers are often not yet locked into specific brand loyalties, Western multinationals such as L'Oreal have found that a portfolio of brands at multiple price points, some positioned as global, some as local, can cover multiple consumer segments.

While foreign brands are believed superior in quality (and therefore command a price premium) by most Chinese, three caveats are in order. First, there is a consumer segment – mainly male Communist Party members – that is nationalistic and seeks to buy Chinese.

Second, there is confusion over which brands are foreign and which are local. This is partly because many ‘foreign’ brands are made in Chinese factories via joint ventures, partly because some foreign brands seek to cultivate a local image through recruiting Chinese pop and sports stars as endorsers, and partly because some Chinese brands adopt Western names to try to burnish their images and boost their prices.

L'Oréal launched a portfolio of brands in China at multiple price points

Third, reflecting an uneasy historical relationship with China, Japanese brands are not regarded as highly as in the West, except in the cosmetics category where Shiseido is well established.

PRICE AND ADVERTISING SENSITIVITY

Compared with other Asian economies, China is more competitive. Simply put, there are 1.3 billion people competing for advancement, with women accorded almost equal opportunity to be in business and start companies. This is reflected in consumer behaviour. At every level of society there is a value consciousness that translates into emphasising the shorter-term price advantage over the longer-term buyer/seller relationship.

Even brand-conscious, well-off consumers typically search across multiple stores from street markets to shopping centres and on the internet to find the best deal. Consumers openly discuss the prices they have paid for goods and services. Many are members of buying groups *(tuangou)* to increase their negotiating leverage.

Competitiveness on the supply side plus the sheer size and GDP growth of the Chinese market means that more product choices are becoming available in more product categories to cater to an increasingly segmented Chinese marketplace.

New, potentially profitable segments are being identified and addressed by marketers each day. For example, one third of Chinese chocolate consumers now seek products with added calcium, a benefit that adds nutritional credibility and justifies a higher price.

Adding to the current emphasis on price competition is the fact that commercial advertising is not trusted by most Chinese consumers. There are two reasons. First, during the communist era, goods were only advertised when there was excess inventory or when they were of poor quality. Second, the only national advertising is delivered by the central government-controlled television channels that are part of the CCTV network.

CCTV channels tend to be viewed and trusted less by consumers in the Tier 1 cities. They rely disproportionately on word of mouth from friends, internet search and point-of-sale information. Advertising on local television and radio stations is viewed as more credible.

MARKETING ADAPTATION

Unsurprisingly a one-size-fits-all approach to penetrating the complex Chinese market is unlikely to work. Marketers committed to penetrating the entire country and increasing their national market share have to invest in adapting marketing programmes.

For example, rural areas require stripped-down, basic versions of mobile phones. Nokia, therefore, cut out functions such as Bluetooth to hit more attractive retail price points and now claims a 40 per cent share in rural markets. Downsized package sizes are also needed to enable poorer consumers to sample Western brands: Coca-Cola launched a 200ml bottle in rural areas of China in 2004 to hit a CNY1 price point.

Colgate-Palmolive has had to launch different toothpaste flavours to cater for consumer preferences in different regions. Xingxing sells fridges in rural areas with mouse protection covers on the compressor hoses and with motors that can withstand wide variations in voltages.

Such adaptations of the marketing mix cost money. A company that aims beyond the Tier 1 cities will have to run several marketing programmes in parallel and incur extra production, marketing and management costs. The hope is that extra sales, market share and profit will result from the adaptation investment – particularly enough profit to more than cover the investment costs.

EXPANSION STRATEGIES OF WESTERN RETAILERS

Distribution in China remains highly fragmented. The number of retailers per capita is ten times the level in Australia. Even in Shanghai, where modern retailing has achieved high penetration, traditional mom-and-pop stores still account for 40 per cent of retail sales.

There are virtually no national distributors for any product category: distribution coverage depends on the accretion of individual relationships with a patchwork quilt of small wholesalers and retailers, most of them unsophisticated and providing few value added services beyond the physical handling of goods. Distributors often operate only on a cash basis with their customers.

Western retailers that either owner-operate or franchise speciality retail outlets have tended to expand their geographical coverage faster than larger retailers such as Carrefour and Walmart. Among the retail brands with the highest number of outlets in China, McDonald's stands out with more than 1,100.

Turning to mass merchandisers, Walmart and Carrefour may be neck and neck in number of stores but there the similarity ends. Walmart emphasises price alone. Its product selection is more standardised. Distribution is centrally controlled. Walmart offers three private-label brands targeting different consumer segments, but the number of private-label products is double that of Carrefour.

Decentralisation of management and flexibility are the hallmarks of Carrefour. Product assortment varies, localised promotions are common and local independent distributors may be used to deliver product to stores. For example, Carrefour sells only Pampers Cloth Dry the brand's most basic product, that targets cloth nappy users in two provinces.

Latecomers to hypermarket and supermarket retailing in China include Tesco and Metro of Switzerland. Metro's strategy has been to establish a single-store foothold in as many cities as possible (38 stores in 19 cities).

Tesco has established a token presence in the big three cities but has aimed to leapfrog Walmart and Carrefour by opening company-financed shopping malls, with Tesco stores as anchor tenants in some smaller cities in the prosperous eastern provinces.

At the other end of the retail spectrum, China has proved to be an especially important growth market for Western premium luxury brands. These companies have opened an impressive number of stores, reflecting the importance of luxury brands as a signal of social status, style and sophistication in a large, highly mobile and competitive society such as China.

So important is the Chinese market that some luxury retailers plan to open secondary chains targeting younger, less wealthy but aspiring consumers, with different product assortments. The percentage of stores of luxury brand retailers that are concentrated in the three major eastern cities is higher than in the case of the mass merchandisers.

DISTRIBUTION STRATEGIES OF WESTERN MANUFACTURERS

Many Western consumer brands are content to expand into emerging markets on the backs of the retailers they sell through in Western markets. Wherever Walmart and Tesco go, they go as well. However, this strategy is rarely appropriate in a large competitive market such as China where the pressures on Western retailers to source locally make it less likely that they will have space to stock Western brands unless they are well promoted. Walmart and Carrefour together account for only 4 per cent of all Chinese retail sales.

The leading global consumer brands such as Coca-Cola cannot wait for Walmart and Tesco or even for McDonald's. They must distribute through hundreds of thousands of points-of-sale throughout China.

Coca-Cola products are bottled in China by Swire, Kerry and others. These companies also own the warehouses and sales centres that co-ordinate product distribution through a complex web of 30,000 distributors that reach 1.3 million retail state-owned enterprises, former state-owned distributors, now privatised, and new independent distributors.

Coca-Cola and its bottling partners have selected the best distributors. The company has also invested heavily in training the management and personnel of independent distributors, in information technology systems, and in sales incentives to boost volume and distribution points.

Procter & Gamble has achieved 80 percent coverage of markets where consumers have enough money to afford at least one of its entry-level brands. When P&G enters a new market, it first identifies three or four distributors with whom to try to establish a broad retail presence.

Based on comparative performance, P&G then narrows the field to a single distributor. Then it begins shipments to the larger retailers. The distributor has to reach the thousands of small retailers that are often served by bicycle carts. P&G deploys district sales reps and vehicle sales reps at its expense to help distributors improve their selling effectiveness.

For Western multinationals overseas, distribution is the element that most often constrains them or trips them up.

CONCLUSION

Although the growth in online sales in China will be rapid, mass-marketed Western brands must continue to focus on increasing distribution penetration through retail stores. The Chinese national and provincial governments have recently taken more interest in helping Chinese wholesalers and retailers in the interests of improving supply chain productivity and ensuring that foreign retailers do not dominate.

Geographic expansion beyond Tier 1 cities complicates marketing, selling and distribution. Such a strategy typically requires more marketing programme adaptation, administrative cost and risk. But for the Western brands that succeed, the profits will more than cover the increased investment.

John Quelch is a professor at Harvard Business School. *jquelch@hbs.edu*

María Ibáñez Gabilondo is a marketing consultant. *ibanmaria@gmail.com*

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The enemy within: Philistines in the contemporary corporation

Grant McCracken

The study of culture and its meanings is the raw material of branding and the contribution of anthropology to marketing. In this article, eminent anthropologist Grant McCracken describes how this core discipline is often missing in the ways companies study their markets. He fingers the culprits – the formal disciplines and the bogus gurus – that, in their different ways, obstruct the proper understanding of the importance of culture to marketing

Levi Strauss, the American maker of blue jeans, missed a change in culture, a shift in consumer taste and preference. The penalty: $1 billion. Quaker missed a change in culture. The penalty: $1.4 billion. Recently, Facebook broke faith with many millions of users and put its rocketing value cap at risk. If only these corporations had had a CCO, a chief culture officer, a senior manager who understands culture, spotting the opportunities and dangers contained therein.

What the corporation has instead is a chorus of professionals who are prepared to treat culture as noise, as a distraction from the matters that really matter, as superstructure that conceals the facts at hand. I review these professionals below. My criticism is disdainful and, let's be honest, rude. But time is short and the costs of ignoring culture are high.

THE BUSINESS SCHOOL

When I taught at the Harvard Business School I would sometimes refer to the movie or the TV programme of the moment. Frequently my students would look at me with confusion in their eyes.

'What's the matter?' I asked. The answer 'Well, we understood that when we came to school here we were being asked to put the things of childhood behind us. Now it was going to be economics all the time.'

How very grim. Here was a very good business school that persuaded its student to forget the things they knew about culture. They would graduate actually knowing less about the thing I was there to teach them about.

A couple of years ago, in an article in *The Wall Street Journal,* Clayton Christensen, Scott Cook and Taddy Hall endeavoured to set the field of marketing back a hundred years. If they were merely three cranks in a coffee shop this wouldn't matter. But Christensen is a deservedly influential professor at the Harvard Business School, Cook is the co-founder of Intuit software, and Hall is the chief strategy officer for the Advertising Research Foundation.

They asserted that a simple rule has been forgotten. To build a product that people want, you need to help them do a job that they are trying to get done. The marketer's fundamental task is not so much to understand the customer as to understand what jobs customers need to do – and build products that serve them.

Here it is again. A deliberate repudiation of the role of culture in the life of the consumer and the professional practice of the marketers. The 'purpose brand' proposition is bad thinking. Brands, at their best, are, among other things, bundles of meanings, some of them robust, some of them delicate, all of them poised to speak to one or more segments and to deliver an understanding of not just what the product does but what it means – its cultural meaning.

To reduce the brand to 'purpose' is to dumb down the enterprise, diminish the art and science of marketing, beggar the consumer, and so displace the marketer. Our three wise men are conducting themselves as proverbial bulls in the china shop of the marketing concept, method and action, destroying advances made over the past hundred years.

ECONOMISTS

We know why culture is missing from capitalism. Adam Smith removed it. He said in effect: 'To understand this thing called a market, we need two parties, engaged by interest, in an act of exchange ... and that's all. The social and cultural context we can leave aside.'

It was a liberating idea, but a partial one. We have been trying to recover from its partiality ever since.

Smith's ideas, sufficient in the 18th century, seemed to lose their candle power as markets shifted from a producer focus to a consumer focus, from supplying 'needs' to supplying 'wants'.

Economic actors appeared driven by something larger than self-interest. Furthermore, it was capitalists who addressed the culture deficit, smuggling it back into the pursuit of markets and profits.

The newspaperman Alfred Harmsworth (later Lord Northcliffe) talked not about interest but interests. The president of CBS, William S. Paley talked about taste. Charles Revson of Revlon wasn't interested in 'interest' at all. Something more was animating markets, he thought. 'In the factory we make cosmetics; in the store we sell hope.'

These capitalists were quietly, unofficially restoring the thing Smith had excised. After all, to talk about taste is to talk about culture. It is culture that informs the eye, supplies the imagination, and shapes desire.

It is culture that says what a 'person' is and the ideas of gender, age, status, ethnicity, beauty, personality and emotion that we use to classify any particular person. Culture is the platonic cave containing the 'originals' from which our thoughts and feelings spring.

This rehabilitation of Smith's ideas continues by fits and starts. We dolly back from interest to taste, and from taste to intellectual stopgaps of every kind: demographics, status, psychographics, lifestyle, personality, motivation, decision-making, information processing and attitudes. All have been proposed as ways to understand the secrets of the economy. The business literature of the 20th century is littered with eureka proposals, but from an anthropological point of view, all swap one partial view for another.

CODE-CRACKERS

Every time I hear the name Clotaire Rapaille, I remember a marketing conference a couple of years ago.

We were sitting around a table, four or five of us. It was late. We were deep into our cups. The evening was over. Rapaille's name came up. Someone said, 'Oh, yeah, that guy. We hired him. He told us our ATM machine was "mother".'

Heads shot up around the table, and almost simultaneously, several voices protested: 'That's what he said our product was.'

'Hmm,' I thought, 'that's the trouble with Jungian archetypes. There only a few of them, and eventually you have to start recycling.'

This is unkind. Rapaille and I are in the same business (now that I make my living as a consultant). And he's a big success. According to a recent story in *Fast Company,* Rapaille has a mansion in Tuxedo Park, a ninth century castle in France, his own helicopter and millions of dollars. Until recently, I lived in a rickety condo in Montreal where I lived without a car, a chateau, a helicopter or much in the way of a bank account.

But this is not the only provocative thing about the guy. Rapaille claims to have understood Japanese, Chinese, German, American and Indian culture by ‘cracking the code'.

He says the code is like an access code. How do you punch the buttons to open the door? Suddenly, once you get the code, you understand everything. It's like getting new glasses.

When I listen to this kind of thing I think of Milton Singer, the great anthropologist at the University of Chicago, who devoted his life to the study of India. ‘Did Professor Singer discover a code?’ I ask myself. ‘Did he breakthrough the south Asian security system?'

The head spins. I know enough about India to know that it encompasses an almost limitless diversity. And this was true before it embraced the postmodernism that has reshaped global and local cultures. The idea that there is a code and that someone can crack this code with a simple proposition, a lively phrase, a striking image is simply ludicrous.

There is no code, no prefab archetypes, no Jungian dart boards, no deep metaphors that stretch across cultures. Just good listening. To suggest otherwise is to engage in junk science.

THE CORPORATION

The corporation has deeply anticultural instincts operating within. It wishes to believe it is a fully rational enterprise speaking to fully rational consumers. But the notion of rationality is always defined too narrowly.

Take the case of Doug Ivester, once CEO at Coca-Cola. A brilliant tactician with a deep understanding of the mechanics of the company, Ivester nevertheless managed to offend several parties at Coke, from kingmakers on the board to the bottlers on the company's perimeter. He was asked to resign in December 1999, a brief two years after taking office.

There were several ‘incidents’ that suggested Ivester was the wrong man for the job. But the clearest case was his proposed reinvention of the vending machine.

The boys in the lab came to Ivester with what they thought was good news. It was possible to re-engineer the Coke machine so that it would raise prices in warm weather. Ivester was interested. Surely, he speculated, a cold Coke was worth more on a hot day?

Well, yes, a reinvented Coke machine could raise prices on a hot day. And, yes, they would speak to the economic forces of supply and demand that organise every marketplace.

But culturally speaking, would this make any sense? Actually, no, it wouldn't make any sense at all.

This is not that hard to reckon. Imagine a consumer on a dusty Alabama roadside in deep summer, thrilled to find a Coke machine. Relief. But as he reaches for his wallet, the consumer notices that the price is ten cents more than he paid yesterday in Birmingham.

He's heard about this machine but he can't believe it. And in that instant, more than a hundred years of marketing and millions of dollars of advertising vanish without trace. In an attempt to capture ten cents of value, Ivester's machine would destroy much of the brand … at least for this consumer.

But it's actually worse than this. Ivester had talked about selling pricier Coke to legions of fans as they poured from a sporting event. And if the team won? Wouldn't it look like Coke didn't care about the victory? And what if the team lost? Wouldn't it look like Coke was piling it on? The vending machine might be a technological wonder. It might be sound economics. It might be a great profit opportunity, but it was a bad idea because it was inevitably going to make Coke look clueless or cruel.

There is an opportunity here. If Ivester had some cultural training, he might have seen it. Coke could use the new vending machine not to charge more, but to charge less. Charge less when it's really hot outside – an act of sympathy. Charge less when the team loses badly – to share defeat. Charge less when the team does well – to celebrate the win. The vending machine was a marvellous marketing opportunity, not a revenue opportunity.

This is what chief cultural officers are for: to see that supply and demand always play them out in a world shaped by cultural meanings.

CULTURE IS MISSING FROM THE WORK OF MOST ECONOMISTS

Even when some economists try to escape Smithian assumptions, culture seems somehow still to elude them. In *Freakonomics,* Steven Levitt contemplates an important puzzle: that in the 1990s violent crime in the US fell suddenly and steeply

He reviews, and finds wanting, the usual explanations. He says the drop in violent crime cannot be exhaustively explained by any one, or combination, of the following factors: innovative policing strategies, increased reliance on prisons, changes in crack and other drug markets, ageing of the population, tougher gun control laws, a strong economy, increased number of police, increased use of capital punishment, concealed weapons laws, gun buybacks, to name most of them.

Levitt prefers his own, now famous, account legalised abortion diminished the population most likely to commit crime, specifically teens brought into the world by reluctant mothers. But there is a simpler, I think, more obvious explanation. And it comes straight out of culture.

As Levitt points out, we are talking not about crime but violent crime. Lesser crimes, burglary, robbery and car theft, for instance, have a ‘direct financial motivation! Violent crimes (assault, rape, homicide) appear to have an extra-economic motivation.

They damage not only the material interests of the victim, but something more. Victims of assault and rape say that they feel diminished and even humiliated, and that this immaterial loss creates injury every bit as grievous as the loss of money and possessions.

Violent crime is a crime against esteem as much as it is a crime against property. And it is as a crime against esteem that it is sometimes committed. This is to say, that the diminishment and humiliation felt by the victim is the outcome that the criminal intends.

If violent crime began to fall in the 1990s, the question is why was the need to commit crimes against esteem felt less urgently? What had changed?

To answer this, we must answer several smaller questions. First, we must ask who would commit a crime against esteem? And the answer: those who have suffered attacks upon their own esteem. And who has suffered attacks upon their esteem? Those who suffer poverty and stigma and stereotype, as a result.

Groups such as The Beastie Boys gave rap music popular appeal

The criminal commits violent crimes as an act of revenge. He or she is punishing the victim for having so much esteem when the criminal has so little. The criminal may even hope for redistribution.

REDRESS IS ACCOMPLISHED

The criminal doesn't get to ‘keep’ the esteem he/she ‘takes’ from a victim. But something like redress has been accomplished. The criminal might not have more esteem, but the victim has less.

So what changed the world of the urban criminal? Hip hop happened. The world of the criminal was transformed by the rise of the single most important development in popular musical taste of the past 30 years.

Rap is seen to be the creation, the voice, of the urban teen. And it's rise in popular culture and its domination of taste in matters of music, clothing and styles of speech had a very interesting outcome.

It bestowed new esteem upon impoverished urban teens. As long as it remained the possession of impoverished teens, black and white, rap music did not change the esteem equation. But in the late 1980s it crossed over into the mainstream, black and white.

The Beastie Boys and Run-DMC were calculated to have crossover appeal, and the former's Fight For Your Right entered the top ten in 1986.

In 1988, Public Enemy released *It Takes A Nation* and NWA released *Straight Outta Compton.* Rap was now headed for the suburbs. And once this diffusion of musical form had taken place, the position of the impoverished teen went from scorned loser to a creature of standing, status and credibility.

So utterly did rap win the day that, with a brief but interesting interruption in the form of ‘alternative music! the children of the suburbs now wanted very much to walk, talk and otherwise conduct themselves as if they came from very different socio-economic origins.

The rise of rap represented a huge transfer of esteem from the teens of the middle-class suburb to those of the impoverished city. There was in short an abrupt and thoroughgoing reversing of the asymmetries.

Those who once suffered esteem shortages now enjoyed whacking great surpluses. Violent crime? To protest what exactly? To exact a revenge? To appropriate esteem? Violent crime was now an antique of another age, the dangerous preoccupation of another generation, an activity that was now just odd. I believe this is why violent crime began to drop in the early 1990s. As the suburbs began to absorb rap, the esteem economy began to tip in a new direction. Violent crime had become an increasingly pointless enterprise.

Adapted from McCracken, G., Chief Culture Officer: How to Create a Living, Breathing Corporation, Basic Books, 2009. Grant McCracken is a

research affiliate at C3 at Massachusetts Institute of Technology, grant27@gmail.com

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How we learn socially is key to marketing

Mark Earls

Within an hour of being born, humans are busy copying and learning from the actions of those around them. Mark Earls looks at what this means for the ways that ideas and technologies are spread in society

Much Of the 1989 Rob Reiner romantic comedy *When Harry Met Sally* is eminently forgettable toothsome fare. But one scene has since become a classic of late 20th century Hollywood: Sally (Meg Ryan) treats Harry (Billy Crystal) – and the other customers of what is in reality Katz's Delicatessen in New York – to an exuberant, whooping demonstration of a fake female orgasm. When at last, Sally/Meg's cries and tics and whimpers die away, an unnamed woman at the next table (in fact played by the director's mother, Estelle Reiner) leans over to the waiter and intones the simple phrase: ‘I'll have what she's having.'

'I'll have what she's having': this simple colloquialism captures one of the most important clusters of insights into human behaviour to emerge from the human sciences in recent years. Like Estelle (the woman at the next table), we all spend most of our lives in a world of other people (Freud famously quipped that we can never escape the Other) and much of what we do is in imitation of other people, or at least following the example of others (and not as the result of independent decisions, whatever we tell ourselves, our spouses, our therapists and any passing market researcher).

As a result, ‘I'll have what she's having’ turns out to be the key mechanism behind the spread of all kinds of things through human populations: feelings, ideas and behaviour. So, if you're interested in shaping behaviour or spreading the adoption of your brand, understanding the science behind what happened in that (fictional) NY deli might just turn out to be useful.

THE APPLIANCE OF SCIENCE

In the past few years there's been an explosion of interest in the science of human behaviour – from the bestselling books of the likes of Mr Irrational, (Dan Ariely) and Mr Tipping Point (Malcolm Gladwell) to the excellent campaign by current IPA president Rory Sutherland to champion behavioural economics and all things ‘nudgey', and the COI's Common Good project to understand the mechanics of behaviour change.

While this has proved extremely valuable to marketers of all sorts (if only as a pick-'n'-mix of strategic insight), all behavioural economics and the like really do to our understanding of humans is to focus attention on how poor we are in perceiving the outside world, and how dubious our powers of thinking are.

It merely repackages the precise, individual calculating machines of classical economics as rather poor and unreliable ones. But individuals nonetheless.

And in doing so, it misses the much bigger insights into human nature that the science highlights: we are a fundamentally social creature, one evolved largely for a world of others like ourselves (and not for isolated, independent lives).

We live almost all of our lives in the company of others (in the modern idiom, that we are always embedded in social networks of our peers). Most of what we do is in the company and under the shadow of other people – under the influence of others, if you like.

WHAT SHE'S HAVING, DOING, FEELING ETC

Given this, perhaps it's not surprising to discover that learning from others ('social learning') is so prevalent and important to the highly social creature we are: ‘what she's having’ is central to what it is to be human.

From shortly after birth – 42 minutes is the earliest observed – humans copy what those around them are doing. Babies are copying machines: they mimic the behaviour of their parents, their peers and then anyone else who comes in range.

And we go on doing it, thanks partly, at least, to the so-called ‘mirror neurons', which we possess in greater number and in greater variety than in our close relatives. We copy the feelings of those around us, their gestures, their behaviours, the way they talk, their techniques and the tools they use. We do it more accurately and persistently than other primates, even when there is no obvious purpose to it. Chimps give up very quickly when there is no reward for copying.

'What she's having’ then doesn't just help describe and understand behaviour at an individual and group level but it also turns out to be the mechanism through which ideas, behaviours and technologies spread through populations.

If I can readily learn what you've learnt from some third party that I've never met, not only do I have greater knowledge at my fingertips but new ideas and knowledge can spread more rapidly so that all of us are better off.

Indeed, many scientists now believe that this kind of social learning is precisely what has allowed our curious ape species to be so successful in evolutionary terms, some going so far as suggesting that we rename our species ‘homo mimicus', or ‘copying man'.

Of course, our culture is generally disdainful of copying – we punish it as cheating when we discover it – but learning from those around us is a peculiarly human ability. ‘Monkey see, monkey do’ gets it completely wrong; ‘I'll have what she's having’ is much nearer the truth.

CATS AND SWIMMING

But to be clear, I'm not suggesting that there's no such thing as an independent decision, just that it's much rarer than we (or the consumers in our market research) imagine. As Nobel Laureate Daniel Kahneman has suggested, independent thought is as rare in humans as swimming is in cats; it's not that we can't do it, it's just that we'll do almost anything to avoid having to.

Our own research and analysis supports this. While there are some interesting exceptions (the choice of format in certain toiletries does seem to be something that an individual chooses for independently), it seems that all kinds of behaviour – the names we give our children, what and how much we drink, where we choose to live, the cars we drive, the words and jargon we use, the tools and technologies we deploy, the music we listen to, the TV we watch and the clothes we wear – are shaped and spread through populations by some kind of social learning, not by independent decision-making.

And just to complete the picture, our analysis across a whole range of markets suggests that brand choice is almost invariably a social rather than an independent decision.

IMPLICATIONS FOR MARKETERS

So what are the implications for marketers of the ‘What she's having’ world? How can we start to get to grips with a world in which our consumers are all connected to each other and spend their lives in the company of each other? What should we be doing differently to take advantage of all those Estelles out there sitting at the metaphorical next tables? How does this change how we think of marketing and its mechanics? Here are some things that I and my clients have found useful.

THE LIE OF THE LAND: INDEPENDENCE V SOCIAL CHOICE

Probably the most important place to start is to understand what the behaviour in your market and around your brand is like – are individuals largely choosing independently of each other or are they taking their lead from each other, courtesy of social learning?

We tend to assume that most choices are independent (we talk of the relationships consumers have with our brands as if they were primary) but as suggested above, the data points to things being otherwise, more often than not.

It is worth checking what you've got before rushing off and strategising in social terms. Not least because if the choice is independent then the focus of marketing really is on building a better mousetrap to satisfy consumer needs – a superior product.

Moreover, if the choices in your market turn out to be independent traditional market research which explores individual thoughts, then perceptions and feelings about products and product characteristics are still appropriate.

By contrast, if you discover that the choice is social then neither of these things apply: it's much less about the product and more about the people and how they interact with each other. This means traditional market research cannot help anywhere near as much here as it tends to focus on the individual product or individual brand interface.

There are a number of ways of doing this – from an ethnographic approach to the hardcore analytics of Alex Bentley, Matt Salganik and Paul Ormerod. However you choose to do it, the important thing is to be clear about what kind of behaviour you've got before you start 'strategising'.

THE ROLE OF MARKETING: CURATING DIFFUSION

For most of us, our job has long been about doing something to individual consumers to shape their behaviour – whether you call it persuasion or something softer, marketing has long been thought of as something we do to consumers.

If you discover that your market or your brand is based on socially shaped choices, the role of your marketing needs to be different, too. It needs to become much more about curating diffusion: 'curating' as in facilitating a process that is already under way or can be unlocked and 'diffusion' as in spread.

Your job, in other words, is less about getting folk to do stuff and more about helping them to get each other to do stuff and so on through the population. This requires a very different mindset and set of tools to those to which we default.

TARGETING 'THE' CONSUMER

One obvious area for change is in the way we think about our audience. We are used to focusing on the individual as if he or she were independent, but perhaps we should start talking about 'consumers' only in the plural. Let's perhaps go further and explore the communities and multiple social worlds in which our consumers live and love and buy our products and services. Let's define our audience in terms of social groups and social contexts rather than merely in terms of individuals.

Another way of thinking about targeting is to consider what I call 'the between space' – to focus on the interaction between people rather than on some illusory 'trigger' or 'buy-button' in individual people's heads which does not exist. I have started to design and conduct fieldwork which focuses on the human interaction first and the market behaviour second (the former being the real context and key to unlocking the spread of the latter). Whatever you do, the between space is the battleground of diffusion.

FACILITATING COPYING

Much of our work in this between space is not going to look like traditional marketing communication: we're going to have to help individuals see each other – if you can't see, you can't copy.

Apple is the master at this: the laptop I'm writing on has a beautiful illuminated logo which I rarely see: it's on the lid so that others around me can see what I'm using. iPod's white earpieces work in a similar way – no wonder the 'silhouette' campaign has run again and again since the launch. Every time you see someone on a train or a bus with these brand signatures, the effect is reinforced. Very clever.

So one kind of activity in the between space is going to be about managing 'eyeline': what can individuals see of their peers' behaviour and choices? How can we make things more visible?

Football teams do it with scarves and replica kits but Amazon does it without you or I realising it. Every product page has at least 16 'social' features, reviews, comments and behavioural information from other people which it bakes into your 'choice-architecture' (as the nudgers have it) and then does the same with your data for other people. How can you make this part and parcel of your consumers' experience of your brand?

Another is providing connective activities that enable 'eyeline' to work: giving folk stuff to do together during which they can see each other.

Sometimes this will involve supporting existing enthusiasms (sponsorship and cause-related marketing are already playing in this space); sometimes it will involve creating experiences such as games, competitions or even brand new events.

SOCIAL BRANDS SERVING SOCIAL NEEDS

As noted above, most brand choices seem to be at the social end of the spectrum so it would make sense to rethink our brands in social terms: what communities of interest does yours serve?

How does your brand help them interact with each other (through digital or real-world means)?

What are you giving your consumers to enhance their social world? What purpose drives your brand? What higher-order mission does it serve for people to gather around?

In recent years, far too much of the noise around 'social' has been about tactics (social media etc) and far too little of it strategic – being at the heart of our brand thinking. We need to be more strategically social.

A NEW KIND OF STRATEGY: LIGHTING LOTS OF FIRES

Finally, one of the most unusual things about the spread of socially learned phenomena is that they are really hard to predict: only after the fact does it seem to us clear why the winners are the winners.

This inherent unpredictability demands that we rethink the notion of strategy itself. Rather than betting everything on one grand plan, we need to get better at spreading the bets out: let's test lots of different ways to implement and get better at learning as we go.

Mark Earls is the principal of Herd Consulting, ***markearls@hotmail.com http://herd.typepad.com***

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Smart brands enlist to fight the war on waste

Melanie Howard

Consumers are increasingly concerned about the environment, and sustainability is becoming the mantra for brand longevity, says Melanie Howard

CHANCES ARE that you are one of the large majority of the UK population who would agree with one of the Future Foundation's longest-running proprietary survey questions: 'I am personally concerned to do what I can to help the environment'. As we have responses to this statement going back more than 25 years, during which time the proportion agreeing has more than doubled, we can predict with some confidence that such attitudes will continue to represent the mainstream of British society for the foreseeable future.

Environmental concern has shown a classic long-term trajectory of a value-led trend from counter-cultural minority – what could be more radical than rejecting the choice and freedom of the consumer society in 1960s America? – to being the norm. Nowadays it may be more instructive to think about why the minority don't agree since this group now represent the counter-cultural minority, although not one that we believe will grow. The failure of the scientific community to agree on what constitutes incontrovertible evidence, and lack of clear guidance on the best ways to act to avert global warming, may be part of that story. But it also represents the heart of the challenge to the majority who do want to act.

And while many of us may feel guilty about the size and extent of our carbon footprint as we continue to jet off abroad and enjoy our cars, there is one area in which consumers have adopted a range of environmentally friendly behaviours with the gay abandon of the newly converted.

We call this the 'war on waste' and it represents a powerful and significant factor that all brands and retailers are increasingly building into their products and services. The collaboration between the Marketing Society and Business in the Community in developing and presenting ideas to Prince Charles at Clarence House, as to how to positively encourage greater sustainability among consumers as part of his Start programme, should leave us in no doubt that taking these matters very seriously is now mainstream marketing behaviour too. As a community we should both reflect and lead the society of which we are a part.

War on waste illustrates what happens when there is a happy coincidence between shorter-term pressures and longer-term value shifts. In this case, the personal need to save money now works very effectively with the underlying desire to save the planet, and is fundamentally changing our relationship to material goods.

The three 'Rs' mantra of the simplicity movement in the US just ten years ago (as expounded in their mysteriously glossy magazine *Real Simple)* seemed more like a quaint and unlikely aspiration for those with too much time on their hands.

Now reduce, recycle and reuse are increasingly describing the everyday behaviours of the British consumer, swept along by the supportive intervention of government. Three-quarters now recycle regularly. And when asked what they are doing to reduce waste, two-thirds claim to buy less and 60 per cent say that they are repairing and maintaining things to make them last longer.

You may remember a media story from 2009 in which Oxfam highlighted the negative effect this was having on the stock in its shops. Shortly afterwards, in a genius initiative, it teamed up with Marks & Spencer to offer vouchers to people donating high quality clothes to its stores. Retail expert Mary Portas has shown that she believes reuse is here to stay with her Living and Giving shop in the Westfield Shopping Centre. The cynic might see this as a ploy to promote her 'queen of charity shops' series, but it is generating good funds for Save the Children.

Only 27 per cent say they are buying fewer clothes now. But this is a healthy minority set to grow – due in part once again to government support for behavioural change.

Before Central Office of Information ad budgets were savagely cut by the Government, Defra had been spending heavily to promote the Love Food, Hate Waste campaign and cut down the 8.3 million-tonne food mountain we had been chucking out each year, along with the common practice of providing food waste boxes.

And the proportion of people who claim to be wasting less food increased by 50 per cent in a two-year period. When Tesco announced that it would be offering shoppers the chance to remove excess packaging at the till, and invested in 3,500 units around the country, it was clear the store was reading the same signs and taking them seriously.

There are many initiatives under way – from Coors' thinner glass bottles, to the growth of car clubs such as Street Car, and the fact that 60 per cent have transacted on eBay.

The smart brands are already looking at how they can cut waste from everything they do. Their investment surely signals their belief that the war on waste is an enduring and important trend.

Melanie Howard is chair of the Future Foundation. melanieh@futurefoundation.net

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How not to manage a crisis in America

Allyson Stewart-Allen

BP and Toyota made many mistakes in their recent responses to consumer concerns. Allyson Stewart-Allen looks at the lessons we can all learn from them

No one could have predicted that the crises besetting BP and Toyota in America would translate into tens of billions of pounds in market capitalisation being wiped off the value of these venerable brand owners. To put this into context: for BP alone, £60 billion was shaved off the company's value in June, which is larger than the GDP of Libya.

Besides being some of the richest corporate dramas for several decades, these crises have all the makings of great movies (Kevin Costner would play Tony Hayward, BP chief executive, since Costner just happens to have a technology company that vacuums oil out of water) given the cast of characters – tacit CEOs, angry legislators, fishermen, Gulf shrimpers, flailing pelicans, out-of-control motorists, inquisitive newscasters – which will no doubt affect governments, regulators, energy and automotive companies around the world in ways we can only just begin to imagine.

As for BP, one of the most obvious ways the game is to be changed is in how the oil industry (and probably most other adjacent energy sectors) will be regulated and scrutinised. You can imagine a world in the future where governments in Europe, the US, Latin America, Asia and the Middle East will demand upfront assurances from oil companies that they've done their homework on the environmental impact of any drilling they do – whether it's onshore or offshore.

They will be questioned about their promises not to harm endangered arctic seals especially, when no such species are found in the regions where they intend to do exploration.

Another game-changing impact based on BP's US crisis management performance is in how companies prepare their executives to communicate in the diverse parts of the world where they do business. Corporate diplomacy skills have never been more needed or valued than now, as a direct result of oil companies and others now serving international customers, who are increasingly demanding and whose expectations have risen.

The internet has been a significant shaper for most companies needing to deploy cross-cultural skills and understanding, pulling them into foreign territories whether they wanted to expand or not. As a result, executives need to be well prepared to account for their actions in a variety of cultures.

As we've seen with Mr Hayward, his ability to communicate successfully to Americans has been poor at best. Not giving enough details about his contingency plans and processes (we like processes in America) and not communicating often enough has angered the US public and legislators alike.

Unlike the UK, silence means ‘nothing's happening, we're ignoring the problem'. Showing remorse is also an expectation of American stakeholders, as Mr Toyoda soon learnt after his performance in front of Congress and American television viewers. He was accused of not showing enough contrition or sufficient empathy. And they're right: we want tears, drama, hand-wringing, offers of financial compensation and to be asked for forgiveness.

Mishaps of this kind aren't just an affliction for energy, automotive or foreign companies in the US. Consider the recent testimony of America's own Lloyd Blankfein from Goldman Sachs in front of Congress ('doing God's work') which left viewers of the proceedings angered by what they perceived as a smug approach.

Then there's the impact on how global crises affect our trust in companies and their brands. Given the public is feeling deeply let down by public leaders, religious leaders, bankers and now the world's largest energy and car companies, this trust deficit leaves a void for consumers who have now turned to celebrities and websites as trusted advisers. You could imagine a future where Eon uses a muskrat, Michael Winner or Paul the Octopus to tell us about ways to use clean energy.

The best way to restore our faith is to operate transparently and responsibly from day one. Oil and other companies will be under yet more pressure in the US to open their books to scrutiny on new safety measures, exploration techniques, their contingency plans and budgets, their designs for 'top hats' and valves, and their contributions to political and social causes.

So you could argue that the BP and Toyota fiascos have been a good thing, forcing Americans and the rest of us to re-examine our values and how we live, where we should place our trust, where we go for information, what we demand of our retailers, how transparent we want companies to be.

While no one can argue that the damage to the livelihoods of whole Gulf Coast communities, ecosystems and regional economies reliant on the car industry has been disastrous, maybe every once in a while a shake-up of this magnitude is needed to focus us on changing the world.

Allyson Stewart-Allen is director of International Marketing Partners. ***allyson@intermaketinonline.com***

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Get consumer insights closer to the boardroom

Alex Batchelor

A fortune is spent on market research but companies are failing to make the most of their investment, says Alex Batchelor

In a 20-year career in which I have worked as a marketing director for Unilever, Orange, Royal Mail and TomTom, as well as in advertising and brand consultancy, it is disappointing to report that I have met only one CEO who spontaneously asked me about market research. I wasn't that convinced that marketing directors were bothered about market research either. This is even more surprising when you consider how much money they are spending on it. Global market research was worth $32.5 billion in 2008 and has been growing for the past 20 years.

Why? The easiest place to start is board reporting. I have seen the board papers and financial plans of a lot of companies as a result of six years doing brand valuations at Interbrand; I have also sat on a few boards. All the board packs I have seen included a historical profit and loss, and in most, a balance sheet and cashflow.

All included some projections and an evaluation of performance on key financial metrics versus budget and versus the previous period or year. The good ones also included a lot of operational data – about factory efficiency, sales channel effectiveness or whatever was appropriate for the industry.

Very few, however, included any metrics on customers and their behaviour that weren't reduced to the financial metrics already covered. Even fewer contained any of the market research. I remember one finance director saying ‘Everything we need to know about our customers is covered in the revenue line – they are either buying or they aren't'.

INSIGHTS INTO BEHAVIOUR

In every company I worked for I have agitated to include basic customer information: how many customers, buying how often, in what quantities? Long-term trends on these metrics using 12-month moving annual totals can give the lie to many projections and plans and are very useful for boards. Wherever possible you want to include operational data that gives insights into customer behaviour. How many calls to the call centre; how many complaints; what are the complaints about?

However, the monthly cycle of most board meetings can be a problem and it's important to choose metrics carefully. Some tracking data is slower to change than other customer metrics. Choose one that is too volatile and people stop trusting it. Choose one that is too stable and it has no function as a predictive tool.

An issue that particularly interests me is just what consumers can usefully tell you. The wisdom of crowds work is showing us that we are better at judging the behaviour of others than giving truthful answers about our motives. Sometimes we don't know why we do things; sometimes we simply dissemble and give socially acceptable answers.

I am sure that shareholders in Marks & Spencer or British Airways would have been better served by metrics asking people if they thought those companies were getting better or worse than by many traditional metrics looking at more usual measures of awareness and consideration.

I am also sure it would have made many of the issues for the Royal Mail a lot clearer if it had been able to distinguish between the views of those who pay for most of its services (large and small companies) and those who receive the mail but do not directly pay for it (all of us).

Many of the advances in research in the past 20 years also seem to have come from behavioural economics rather than research. Like many other people I have enjoyed reading *Freakonomics, The Wisdom of Crowds,* works by Malcolm Gladwell and others. It seems that understanding customers and their behaviour is enhanced more by these works than by conventional syndicated and tracking research studies. Sometimes you have to be creative about how the data is represented.

The story of how the Dove brand/agency team sold in the Campaign for Real Beauty is a classic one of taking research imaginatively to the boardroom. The team knew from their extensive research that young girls felt huge pressure to be beautiful. They also knew the Unilever board making the go/no-go decision was made up entirely of men of a certain age. So the team made a film of them interviewing the daughters, and in some cases granddaughters, of the board members, talking about the pressures they felt, as well as their joy at what Dove was planning with the Real Beauty campaign. They showed the film, there wasn't a dry eye in the house and the rest is history.

I do not see how you can claim to run a successful business, with sustainable, customer-led demand driving profitable growth without using market research. Although there is an onus on market researchers to make their data more accessible and relevant, the key responsibility lies with marketing directors to promote consumer insights more imaginatively, to the decision makers.

Alex Batchelor is chief operating officer at BrainJuicer. alex.batchelor@brainjuicer.com*. Adapted from an article in Research, February 2010*

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When the whole is greater than the sum of its parts

Rory Sutherland

Rory Sutherland argues that mechanistic processes, artificial dichotomies and the urge to compartmentalise are alien to creative activity

One thing that often surprises people is my adoration of Ronald Reagan. Part of my admiration is simply for his breadth – he was somewhere on the scale between 'pretty good' and 'great' at about eight different things: actor, baseball commentator, radio announcer, television star, letter writer, comedian, governor, president.

That suggests someone far more unusual in statistical terms than people who are simply good at one thing. After all, by definition, if you take any one talent there will be someone who is better at it than anyone else. Things only get interesting in terms of probability when that someone is good at something else as well. Astonishingly there are 12 people who have played for England at both cricket and soccer.

Another person who does well on this score is the less well-known Eric Maschwitz. The Birmingham-born son of Jewish immigrants from Poland, he ended up as head of light entertainment at the BBC. For most people this would be achievement enough, but in an earlier life he had written the lyrics to songs such as *Goodnight Vienna, A Nightingale Sang in Berkeley Square* and *These Foolish Things.* I imagine this background came in handy when he was in television, since arguments with any creative staff could be settled with the simple 'And how many of the greatest song lyrics of the 20th century did you write, exactly?'

These Foolish Things is one of those remarkable songs where the lyrics inarguably make as large a contribution to a song's greatness as its tune or arrangement. There are a few songs where this is true *(Anything Goes,* co-written by P. G. Wodehouse is certainly one, as is quite a bit of Bob Dylan and a good deal of rap). But for every instance where the lyrics are integral to a song's genius there are many more where they are not. I don't see future professors of English being much troubled by *Wooly Bully, Duke of Earl* or *Louie Louie,* for instance.

It would be fun to get into a long debate about the relative importance of lyrics, music and execution (and how good would *Ring of Fire* have been without the Mexican horns?) But I don't think we should because we are dealing with complex systems where the importance of each element cannot be assessed in isolation from the other two.

The constituent parts of good advertising are just the same. Any ad consists of various components whose individual value is unknowable in isolation. The relative role of art and copy. The interplay between conception and execution. The relationship between what you say and how you say it; reason and emotion; the proposition versus the execution. Here again the interdependencies make it impossible to assess one component in the absence of the others.

By and large the music industry knows this and hence it usually doesn't attempt to impose any strict process or routine on the act of creation. Allowing work to be created in a non-linear black-box process is called Negative Capability (thanks to David Meikle of Salt for this useful concept which he ingeniously borrowed from Keats).

Sadly, clients and their procurement departments are rarely blessed with this ability and the work of agencies suffers.

While nobody would stipulate that you can only create a good song by writing the lyrics first, the advertising approval process now requires us to judge a proposition in advance of executing it. This is absurd. Just as the words to *Wooly Bully* look pretty dismal until expressed in music, so the proposition to the first *Economist* poster 'Don't read this magazine and you'll be a loser' is pretty dire in the absence of a joke.

The worst effect is to create false dichotomies in advertising – where one activity is mistakenly seen as taking place at the expense of another. This is very much how I felt reading the debate at the *Marketing Society* website (http://blog.marketing-soc.org.uk/2010/06/judie-lannon-market-leader/) between Paul Feldwick and Mark Sherrington about opposing views towards internet marketing.

Internet marketing is immensely valuable. And because of that, classical mass marketing is more important than ever. The two activities are complementary. If the web provides people with more opportunities to buy a product, then TV ads for that product suddenly become more effective, not less. Where's the conflict?

The internet no more diminishes the importance of great mass marketing or brands than a great lyric diminishes the importance of a great tunesmith. The idea that one competes with the other is like suggesting the Heathrow Express competes with British Airways.

Rory Sutherland is executive creative director and vice chairman of OgilvyOne London and Ogilvy Group UK.
Rorysutherland@ogilvy.com