

Market Leader

NEW THINKING, DIFFERENT PERSPECTIVES

Are your costs too low?

Jules Goddard



Laurie Young **Why is marketing so underdeveloped in technology services?**

Martin Kornberger **LEGO and the rise of the brand community**

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Editorial: On costs and culture

[Judie Lannon](#)

Why do CEOs automatically assume that costs are too high, asks Jules Goddard, in his fascinating lead article? Perhaps we are so saturated with the public discourse of recession, living beyond our means, bureaucracies and hair shirt environmentalism. Or is it something in a puritanical, Protestant temperament that sees waste everywhere? Or some kind of macho impulse that comes over CEOs in power?

In these febrile political times, it is tempting to draw parallels with UK plc. In government, one person's waste is another person's unemployment benefits; whereas in business, one company's waste is another company's added value. But the parallels end there since government must subject its strategy to the popular will which, as we have just seen, is more than usually muddled.

As has been pointed out many times, the British want Scandinavian services but with US tax rates: an unsustainable combination for any government. Like trying to sell Jaguars with Vauxhall costs. Companies, on the other hand, have the luxury of controlling strategy decisions and can decide if they are marketing a high quality, added value product/service with the requirements of huge investment in staff and resources, or a pared down, cut-price offer requiring none of the above. As Goddard points out, a cost strategy is an output of brand strategy, not a strategy in itself. Would that governments grasped this principle more firmly.

Recent exchanges on the Marketing Society's website have illustrated a wish for more on B2B markets. *Market Leader* has been remiss here, and this issue begins to right the balance with an article by Laurie Young on marketing technology as a service. His analysis goes to the heart of why technology companies have been slow to adopt the kind of sophisticated marketing we are familiar with in consumer markets. Such companies are staffed by engineers, and the technical skills and attitudes of engineers pervade the company culture. This has particularly detrimental effects on marketing, which is typically relegated to a sales function.

An unwillingness to embrace the full potential of marketing can be typical of many B2B sectors if the culture is dominated by a professional skill: lawyers and accountants are obvious examples. The broader point is that marketers have to work hard to recognise the uniqueness of their business culture, rather than grafting ideas and activities directly from consumer goods experience.

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How clients and agencies can improve their relationships

[Mark Hunter](#)

In this edited version of his address at the IPA annual lunch, Mark Hunter spells out his vision for transformational change in the relationship between advertisers and their agencies

My hypothesis is that transformational change is required in the marketing communications industry, – and I am not alone. For example, on the agency side, Rory Sutherland's President's Foreword in the *2009 Annual Report* offers great insight, anchored in the need for a better understanding and modelling of human behaviour.

And on the advertiser's side, Jim Stengel, the former global marketing officer at P&G, has said: 'I believe today's marketing model is broken. We're applying antiquated thinking and work systems to a new world of possibilities ... The traditional marketing model is obsolete.'

So with those perspectives as a backdrop, let me run through 13 opportunities for transformational change: eight for agencies and five for clients. First, the agencies.

1. Responding to change. The generation now reaching adulthood has an expectation of instant gratification and quest for control well beyond the reach of previous generations. Add to this the rise in groups bound by shared interests rather than geographies, or segmented by common demographics, and the whole approach to engagement needs to be reworked.

Marketers need to be more fleet of foot and agencies need to help them: by experimenting with content and creative, tracking, feedback loops, and reworks to get optimum return on investment.

2. Ownership of the strategic agenda. In the past, advertisers looked to their advertising and media agencies for an understanding of both the world of communications and the lives of consumers. But recently client companies have stepped into this space, which they feel has become increasingly vacant.

How, then, can the agency world demonstrate leadership that connects the power of brand ideas at a consumer, category, shopper and customer level?

3. Irrelevance of above, below and through the line. The concept of 'the line' came from a financial model that no longer exists – production funded from commission – yet it is still in use today.

If consumers do not recognise the segmentation of different types of brand touchpoints, why do we have an agency structure that continues to reflect silo thinking and production which increases the pressure on brand owners to act as the lynchpin in holding together often warring parties?

4. Open sourcing for ideas. While still in its infancy, open sourcing is raging through the social media and, in terms of innovation, we are seeing a sharp rise in the number of companies offering co-creation services.

Technology has provided an effective aggregate service, allowing individuals to post briefs to and view solutions from a multitude of problem solvers. As eBay and Amazon fight to own the 'marketplace' for goods, who will emerge as the winner for services?

The appeal to clients of paying only for ideas they love is huge. That this conflicts with the agency compensation model is no reason to ignore its potential. So how can open sourcing be effectively developed to provide a viable financial model for agencies?

5. The impact of digital. This has permeated all aspects of people's lives but none more so than communication. Yet creative and media agencies have been slow to pick up on the change. Still focusing on creating great TV ads and buying mass-media slots, they have left the areas of content, search, wireframes, social media, gaming and mobile to new – but often very narrowly defined – 'speciality' players.

so, what is the optimum resource model for developing and delivering content to run across many channels? how do we avoid advertisers picking up the bill for overheads fattened by specialists?

6. Outcome-based compensation. With client companies and media owners financially dependent and accountable for results, the payment model of agencies which still focuses on hourly rates and manpower seems out of sync. Outcome-based compensation involves risk sharing between parties, but is only successful if both parties share the same goals and have similar risk preferences.

The recession and the pitch frenzy of last year did a lot to tip the balance towards a focus on media pricing and commoditisation. Throw in a need for greater transparency, and the increasing role of procurement departments and specialist auditors. If space is becoming commoditised, surely an outcome-based model offers both parties the opportunity for financial wins?

7. The new advertiser-media owner relationship model. To maximise their revenues, many media owners are starting to forge direct relationships with advertisers. They have a lot in common: their revenue stream is based on outcome rather than hours spent so they are able to provide clients with seemingly 'free' resources to support brand and marketing teams. They also share many of the same pressures from procurement and overhead challenges.

Google has led the way in this 'direct-to' model – but with major advertisers investing in funded programmes and/or innovative use of the ad break. We have also witnessed agencies taking a spectator role while media-owner creative divisions develop content.

In the USA, Johnson & Johnson, Kimberly-Clark Corp, Hewlett-Packard and P&G have all called upon media to serve as 'co-creators of programs'. In the UK, Channel 4's creation of bumper breaks and ad-funded programming all result in creative agencies potentially becoming a hindrance in the development of more cost-effective content.

This direct relationship offers great value to advertisers, with media owners taking a lead on training and development, and the presentation of innovation and case studies to stimulate creative thought, at little or no additional cost.

8. The ever-increasing pressure on overheads. The economic climate has accelerated the pressure on marketing budgets and resources. The revenue models for advertisers do not monetise 'talent': their income is based on transactional relationships, where the purchase of goods and services drives economic growth. Annual operating plans tend to focus on two key areas: increasing revenue growth and margins.

The need to reduce costs has resulted in a focus on the revenue spent and the company overheads, and we have witnessed a growth in procurement teams – whose goals are often at odds with marketers – and their agency partners, as well as a reduction in headcount. This reduced central resource means that advertisers no longer have the people and/or time to act as co-ordinators, managing multiple agency relationships.

We are starting to see a push to reduce the number of suppliers on rosters at a time of the emergence of nimble 'speciality' players. How can agencies step into this space to offer project management as well as creative/buying services?

But advertisers have responsibilities too. Here are five areas from the client side.

1. Involving agency partners closely in the world of advertisers. Advertisers need to take responsibility for ensuring that their agency partners really understand the total client business: business plans, scorecards and metrics, the way client contacts are judged and so forth.

2. Ensuring clarity of purpose. What are our real business challenges and do advertiser briefs reflect these? How do advertisers see the agency's role – who does what? What does success look like? Clear business metrics and openness on how we will judge our agencies need to be shared.

3. Working seriously at the relationship. Identifying and addressing areas of discontent before they become major issues is key, and can be addressed with a simple structure of checks. Exploring no-pitch pitches or silent pitches to refresh relationships is a great way to force advertisers to reassess their business needs and to check that agencies have the right resources. The best relationships develop when agency and advertisers share agendas, talk frequently, and take responsibility for training and development.

4. Setting and sticking to best practice. In the USA they would describe this as 'grooved processes'. Advertisers need to ensure that they establish and maintain a consistent and robust framework for managing agency relationships and tasks on a daily basis.

5. Addressing the emergence of procurement departments. There is a perception that marketers have deferred the gritty part of relationship management to anonymous procurement teams whose focus is unit cost, not value. Agencies are often caught in the crossfire between warring departments, with frivolous marketers on one side and procurement professionals on the other.

Procurement functions provide real benefit to business, and advertisers must take responsibility for setting out the strategy for their involvement in agency relationships.

I believe that both agencies and clients have a responsibility to work together to drive transformational change so that the world of marketing communications delivers on its promise.

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Why a Ruritanian poltergeist can be as valuable as an automated processing plant

Jeremy Bullmore

Jeremy Bullmore reflects on the paradox of how assets are valued. Tangible assets, such as plants and machinery, are inevitably impermanent while the intangible assets represented by brands can endure forever

We're in the boardroom of a company that makes fast-moving consumer goods. At the heart of today's agenda is budget allocation for the forthcoming year. The two most prominent supplicants are the Production Director and the Marketing Director.

The Production Director has a meticulously prepared case for an increase in capital expenditure. A concerning proportion of the company's manufacturing capacity is obsolescent. Working together, Production and Procurement have put their requirements out for tender and have interrogated the competitive proposals within an inch of their lives. They are wholly satisfied that they've got the most cost-effective deal. Full-colour plans and scale models are on display to augment the imagination. Visits have been made to other sites where equivalent plant has been installed – to the complete satisfaction of the operators. The suppliers' calculations of expected ROI have been double-checked and audited: the predicted payback is mouth-watering. Unless this programme is fully funded, competitive pricing of the company's goods may soon become impossible.

The Production Director's case is a sturdy one: proposed investment at its most responsible, with deeply reassuring numbers attached to every item. Like the assets it's designed to protect and enhance, it's wonderfully tangible: it's concrete. And so is the language in which the recommendation is framed.

The Marketing Director is responsible for the company's brands. On the company's balance sheet, they are categorised as intangibles. Marketing budgets have traditionally been decided on the basis of last-year-plus-a-little. The Marketing Director's most high-profile recent campaign is aimed at teenagers and features a Ruritanian poltergeist who wears a kilt and is called Feliks. Although there's evidence to suggest that this campaign is greatly appreciated by its target audience, and sales are indeed buoyant, not every member of the Board fully appreciates Feliks nor is familiar with the largely digital media on which he features. When compared with a new robotic processing plant, a kilt-wearing Ruritanian poltergeist doesn't intuitively strike them as being as deserving a recipient of precious, finite funds.

The Marketing Director makes an excellent case. He doesn't resort to jargon, sensibly plays down the creative awards that Feliks has accumulated and musters an impressive array of research that demonstrates a strong correlation between levels of marketing spend and his brand's market share and profit contribution. The Board listens attentively to his presentation and asks intelligent questions. But as the Chairman puts it in summary: times are tough, and there's universal agreement that costs must be contained. So on balance, with economic conditions being what they are, and with the brand's momentum looking gratifyingly healthy, perhaps some modest reduction in promotional support would be the more responsible course of action at this moment in time.

At the end of the Board Meeting, the Marketing Director is not as happy an executive as the Production Director.

Are tangible assets more manly than intangible ones?

The above cameo, of course, is fiction. But it was prompted by a remarkable investors' note issued by the Consumer Staples Research team from Deutsche Bank, Europe, in January 2010 (1). Its stated purpose was to analyse 'the effect of advertising and promotional investment on the consumer staples sector, its impact on profit growth rates and the likely shape of profit recovery coming out of the recession'.

Throughout the report, the Deutsche Bank team use 'A&P' as shorthand for this investment. Here are three of their conclusions.

- 'Brands are critical in consumer staples. Intangible assets account for more than 100% of the market value of the consumer staples sector reflecting the power of brands built up over many decades. Indeed, just as Capex protects the tangible assets, advertising and promotional spend builds and protects the value of consumer brands.'
- 'The importance of A&P is not well understood. A&P spend is the second largest cost for the staples industry and critical to the health of brands and thus valuation. However, financial disclosure of these items is generally poor and 73% of respondents in our investor survey said that they did not have a good idea of how the industry spends its marketing budget.'
- 'Actions in recession are key to shape of recovery. Our analysis shows that companies who continue to invest grow faster, and we can see clear trends in terms of A&P investment during the downturn. The actions of companies through the recession have diverged significantly and it is those actions that we believe will drive the trajectory of subsequent profit recovery.'

Deutsche Bank's analysis of more than 30 large European and US consumer staples companies over more than 15 years shows 'that companies that increase A&P to sales ratios deliver sales growth 30% faster than those who do not'. And while it's self-evident that cutting marketing spend delivers an immediate cost benefit, 'companies that increase A&P deliver profit growth faster than those that cut A&P'. It

adds the chilling comment: 'Losing market share can be quite a profitable experience – it is the cost of stabilising and rebuilding a brand that is expensive.'

What the Deutsche Bank note does is to remind us of the remarkable differences in vocabulary in the use of language, that are employed when we talk about a company's different assets.

A company's tangible assets are exactly that. They're tangible. The money that is commonly agreed to be necessary for the maintenance and enhancement of those assets has a commonly agreed name: capital expenditure, or Capex. A public company's Capex is necessarily disclosed.

A company's brands, perhaps representing more than 100 per cent of its market value, are called intangibles. Synonyms for intangible include insubstantial, elusive, vague, ethereal and indefinable. The money that every company knows to be necessary for the maintenance and enhancement of those assets has no commonly agreed name. Among the 30 companies scrutinised, Deutsche Bank identified 10 slightly different terms for A&P expenditure. The precise composition of different companies' A&P expenditures also varies widely – and in several instances, their expenditures are not disclosed at all.

To attempt to compare the relative values of Capex and A&P would be as pointless as attempting to determine which is the more important wheel on a bicycle. To be unable to make what you sell is neither better nor worse than being unable to sell what you make. But because of their elusive quality the value of brands – rather more than the value of machinery – badly needs periodic championing; and so, it follows, does the importance of A&P.

Mere products may have life cycles – and tangible assets certainly do. But if nurtured and nourished by its A&P, a brand can be forever. It seems somehow appropriate that the only company asset capable of returning a profit for all eternity should be called an intangible.

FOOTNOTE

1. European Consumer Staples: the Importance of A&P, 15 January 2010, Deutsche Bank AG, Consumer Staples Research Team. Extracts reproduced with kind permission.

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Are your costs too low?

[Jules Goddard](#)

When Kraft announced it was taking over Cadbury, it wasn't long before a hefty round of cost-cutting started. But is this depressing and familiar scenario really the best way to grow a company? Jules Goddard examines the flawed assumptions inherent in efficiency drives, concluding that it is strategy, not costs, that determine competitiveness

Within A Day of acquiring Cadbury, before the ink was dry on the contract, Irene Rosenfeld, CEO at Kraft, was announcing \$2 billion of cost-cutting. How utterly predictable. How depressing. How unimaginative. But more than anything, how puzzling.

You pay £11.4 billion for a thriving company and the very first thing that you choose to announce are cuts. How on earth can Kraft really know that Cadbury's costs are too high rather than too low? What evidence does Kraft have – that presumably the board of Cadbury either did not have or that it misinterpreted – to demonstrate that the company has for years been systematically overinvesting in, say, new brand development, or advertising, or product quality, or working capital or wages?

When you acquire a company – particularly if you have Kraft's wretched track record of stodgy growth and insipid innovation – presumably you buy it for its potential to inject some imagination, energy and leadership into the system, not simply to become another victim of your own malaise.

Wouldn't it have been wonderful if instead Rosenfeld had announced: 'We're immensely proud of becoming the new owners of Cadbury and the enthusiastic stewards of its future success.'

'We bought it because it is a better, more talented, more innovative company than our own. With immediate effect, we are investing \$2 billion in four highly innovative, global projects that will be designed, led and managed by the existing Cadbury management. No one in Cadbury will lose their job. On the contrary, we are investing \$25 million over the next three years in a development initiative to make even better use of the assets and skills of Cadbury that we believe were neglected by its management over the past 20 years.'

'The Cadbury cost base is simply far too low. In our eyes, the company woefully underinvested in its extraordinary people and, as a result, surrendered market opportunities that we would say truly "belonged" to Cadbury. Over the next five years, as Kraft makes up for past shortfalls in capital investment, we will see Cadbury achieve the success that it deserves.'

My point is not that Kraft should necessarily add to Cadbury's cost base (Rosenfeld may well be doing the right thing) but merely to argue that, in business generally, there is a pathological bias in favour of cutting costs and against adding to costs – and that there can be no rational basis for this bias.

A COST STRATEGY IS A CONTRADICTION IN TERMS

If it is a strategy, defined as a unique way of adding value, then costs are simply a measure of the monetary effort required to execute it; if cost is the focus of attention, then strategic thinking is superfluous.

All that is required is the determination to cut costs. Toyota is the cost leader in its industry, not because of the ruthlessness of its cost-cutting but because of the radically original assumptions underpinning its production system. Its costs are the outcome of its operations strategy, not vice versa.

This strategy has involved nothing less than the wholesale reinvention of the technology of mass production. Costs are not the basis of a strategy, but the result of putting it in play. If, when executed, the strategy proves to be uncompetitive, it is invariably the strategy that is flawed, not the costs that are too high. The most prevalent source of corporate failure is management's conviction that their costs are out of line rather than that their strategy is misconceived. The majority of firms that are destroying wealth focus their attention on reducing their cost base rather than reinventing their strategy.

Napoleon argued that it was a poor general who relied upon the bravery of his troops to win battles. In the same vein, I shall suggest that it is a poor CEO who relies upon the efficiency of his operation to earn economic profits.

All genuine strategies, by definition, entail differentiation; but cost cannot be differentiated. Costs are different because strategies are different. Thus, the choice of strategy precedes the estimate of costs. Questions about performance concern not the magnitude of the cost but the strength of the strategy.

Costs are the inputs required to achieve an output. The choice of output is the task of strategy. Since outputs, in order to be competitive, must be unique, it makes no sense to compare the costs of competitors.

For example, comparing Porsche costs with Ferrari, or even Volvo costs, is meaningless. The only competitive comparison worth making is between the strategies of these companies. The only cost comparison worth making is between each company's cost base and the market's perceived value of the offering to which it gives rise. In other words, costs should be compared with prices, not with competitors.

Cost pressures are, in reality, strategic pressures in disguise. When a company finds its margins are falling, looking to the cost base for a solution, such as finding ways of slashing prices without decimating margins, is invariably mistaken. It is the business model that is being questioned, usually for being insufficiently distinct from competitors. In effect, strategy is the technique of thinking that renders cost management superfluous. An effective strategy makes operational efficiency a second-order activity.

WHY ASSUME COSTS ARE ALWAYS TOO HIGH?

There is a common prejudice that holds that business costs are more likely to be too high than too low – that taking cost out leads to higher levels of competitiveness than putting costs in. Perversely, executives speak frequently of cost-reduction strategies but rather rarely about cost-enlargement strategies. This is illogical. A level of cost is like a level of service – the aim is to find the right level, the minimum level.

Both in theory and in practice, costs tend to be treated as 'a bad thing': they are seen as being too high; they need to be cut; they are symptomatic of waste, excess, profligacy and irresponsibility. Consultants are expected to reduce costs, not add to them.

An incoming chief executive will normally want to rationalise costs, not justify them or grow them. Competitiveness is usually defined in terms of the cost base – and the lower the better. Predator companies will traditionally want to make economies in their newly acquired prey. It is a rare acquirer who is looking to 'grow the cost base'.

Why is this? Why is there an assumption that costs are biased on the high side rather than the low side?

Is there any evidence, for example, that cost-cutting strategies enrich shareholders? Do investors employ managers principally to strip out cost? Tom Peters has shown that cost-reduction strategies tend to reduce revenues at an even faster pace. At what point do – or should – shareholders step in and say: 'Enough is enough; change the strategy, not the costs.'

In capital markets, it is assumed with a high degree of reliability that share prices are unbiased estimates of the true value of the business. In other words, it is meant to be just as difficult to buy a portfolio of shares that underperform the market as outperform the market.

Why do we see costs differently? Why don't we also assume that costs are an unbiased estimate of the optimal investment in human talent, in working capital, in research and development, in advertising and sales, in investor relations, and so on?

Why do we tend to believe that managers are sloppy in their decisions on cost, systematically and wantonly paying people too much, holding excessive inventory, recruiting too many, travelling too much, over-training their staff and supporting bloated research departments?

When did you last hear a CEO proclaim: 'Our costs are simply far too low. Our plants have become alarmingly efficient. We have made too many economies in our operations. Our cost base is perilously low. We must pay our people more. We must stop skimping on inventory.'

'Our suppliers must be more generously remunerated for their efforts. We must raise our cost base to something closer to the industry average.'

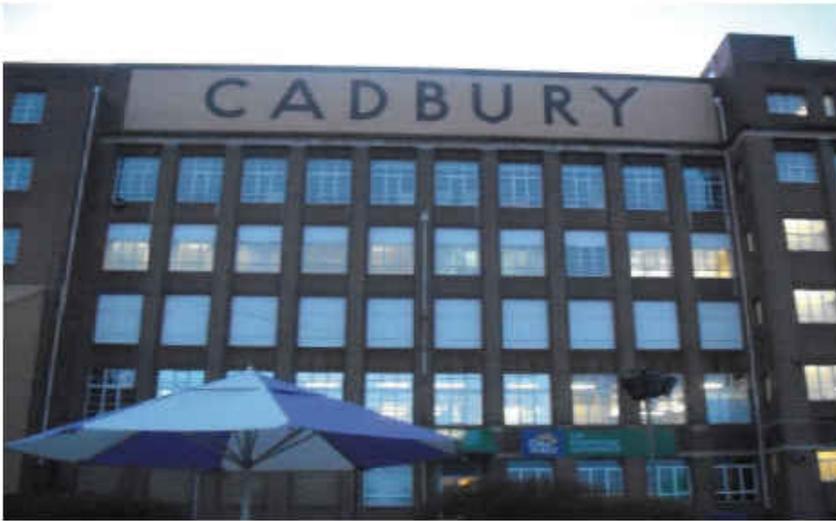
And yet these remarks are no sillier than their antithesis.

I shall argue that any cost carried by a business is just as likely to be too low as too high. We assume that cost levels in a business are not biased one way or another. In the case of inventory, for example, as many materials, parts and products will be understocked as overstocked.

In the case of quality, as many products will be under-engineered as over-engineered. In the case of marketing, as many service levels will be set too low as too high. In the case of compensation, as many salaries will be too stingy as too generous.

The presumption that costs are more likely to be on the high side than the low side is simply sloppy thinking – and an insult to earlier (possibly more entrepreneurial) generations of management who once – boldly and against the odds – chose to put these costs in. The management of cost is never as easy or straightforward as simply cutting it. It is as difficult to cut costs profitably as to raise costs profitably. Disinvestment is as skilful as investment.

If firms want to be more competitive, then their strategy is as likely to include upsizing as downsizing, insourcing as outsourcing, and on-shoring as off-shoring. If this were not the case, then management would be easy. We would simply keep 'taking cost out' until there were no costs left to cut. By definition, at some point, we would have over-cut costs. As a working hypothesis, wouldn't it be wise – and conformant with market theory – to assume that current levels of cost are, on average, unbiased?



How can Kraft know that Cadbury's costs are too high rather than too low?

If our line of reasoning is valid so far, then certain corollary arguments can also be made.

The rule for cost control should be to cut back on those existing costs that are not germane to the strategy, and invest in those costs that, if they were to exist, would strengthen the strategy.

The benchmark of competitiveness should be value, not the competition. For example, James Dyson was right to outsource his manufacturing to Malaysia because his strategy was in no way dependent on domestic manufacturing and it reduced his cost base.

But we should not be under any illusion that when the story of Dyson's global success is finally told, it will focus on his design philosophy, his entrepreneurial resilience and his world-beating products. It is unlikely to dwell on his decision to off-shore his manufacturing. Cost-cutting in the context of a game-changing strategy is very different from cost-cutting as the only game in town.

As a concept, cost leadership is as meaningless as price leadership, operational leadership or working capital leadership.

Cost leadership makes sense only in the context of a commodity market which, by definition, is a set of trading conditions characterised by an absence of competitive strategy.

When companies are competing on the same terms, the only differentiating variable is the cost base. The more that companies are seduced into believing that cost leadership is a viable strategy, the more commoditised markets become, the less their wealth-creating capacity and the slower the growth of the economy of which they are a part.

Recessions bring out the worst in cost-cutters. It is irrational for costs to become more important when economic conditions are difficult. If costs are important, their significance should not vary at different stages of the business cycle.

Perhaps there is an implicit assumption that costs have something to do with affordability, and that in a recession firms must cut back, not because they don't produce a return, but because there isn't enough money to go round. However, a cost is borne because it leads to sufficient revenue to cover it. Recession is a lame excuse for giving up on strategy, and choosing instead the lazy option of cost reduction.



Dyson's story is likely to focus on his design brilliance, rather than his business strategy

The 'back office' invariably – and unfairly – bears the brunt of every efficiency drive and change initiative. Why should the back office provide easier pickings for cost savings than frontline services? Cutting costs in the back office is somehow regarded as less harmful or less contentious or provocative than cutting 'frontline services'.

This is illogical. It suggests that when these costs were originally put in they were hugely biased towards the back office and that therefore this degree of slack can be safely cut out. A recent monograph on public sector efficiency by the think-tank Reform reversed this logic by showing that waste is more likely to be a feature of 'frontline services'.

The emphasis that top management places on cost is inversely proportional to the trust they place in their middle managers to make responsible decisions. When dealing with costs, managers are more often assumed to be profligate than frugal – and generally to err on the side of waste, extravagance, irresponsibility and indiscipline – hence the need for supervision. Left to themselves, most managers are expected to become spendthrifts, with little concern for shareholder value, particularly when times are tough.

Indeed, the main role of senior management is seen as reining in the natural exuberance of middle management.

The traditional model of management has the unintended consequence of making cost-cutting the default option. In the standard version, top management sets the strategy and everyone else executes it.

Skilful execution is defined as the minimum cost to deliver the strategy. The only variable subject to middle management discretion is operational efficiency.

It is no surprise that many managers interpret this rule to mean 'the lower the cost base the better'.

When pressures on margins increase, better execution implies even lower costs. Managerialism has a built-in bias to interpret competition in cost terms rather than value terms.

CASE STUDIES

The moral of these stories is clear: as a business executive, you incur a cost for no other reason than to pursue a strategy; and it is the strategy, not the cost, that determines the competitiveness of your business

Managing cost through managing price: the case of Ford

Henry Ford is famous for the invention of the assembly line – but this is to misunderstand his genius, or at least to ignore his own explanation for his success. Ford got to the idea of mass production by first imagining the possibility of mass marketing.

He started with a hypothetical price, not a cost. He asked himself: 'How many cars would I sell if the price were just \$500?'

The answers so excited him that he put his mind to finding a way of 'making the price'. It was this 'transitional object' that led to the assembly line. As Ted Levitt put it: 'Mass production was the result, not the cause, of his low prices.'

This is how Ford himself described his philosophy: 'Our policy is to reduce the price, extend the operations, and improve the article. You will notice that the reduction of price comes first.'

'We have never considered any costs as fixed. Therefore we first reduce the price to the point where we believe more sales will result. Then we go ahead and try to make the prices. We do not bother about the costs. The new price forces the costs down.'

In short, Henry Ford did not set the price on the basis of the cost; he set the cost on the basis of the price. This was his genius.

Managing cost through managing organisational learning: the case of Toyota

The Toyota Production System has been written about extensively. One version, that of Steven Spear and H Kent Bowen, interprets the success of the system in terms of a small set of tacit rules that every worker and supervisor discovers through a process of iterative questioning and problem solving.

The rules that guide production can be simply stated:

- Every task – its content, sequence, timing and outcome – must be specified in detail.
- Every connection between (internal) customers and suppliers must be unambiguous and direct. For example, every request for help must come from a single, pre-specified supplier.
- Every product must follow a simple, pre-specified path (with no forks or loops) –and at every step to a specific person or machine. For example, each type of part must follow only one production path through the plant.
- All improvements must comply with a scientific methodology whereby problems are stated, hypotheses are formulated, experiments are conducted, and conclusions are formed – publicly and under close scrutiny by others.

Workers and supervisors absorb these rules and learn how to do their work, not by being instructed by managers but by being asked questions to which they are expected to discover the answer – questions such as:

- How do you perform this task?
- How do you know you're doing it correctly?
- How do you identify defects?
- How do you resolve problems arising from the task?

Under this form of Socratic inquiry, workers not only take ownership of their own learning but acquire the habit of critical thinking and an appetite for continuous experimentation and improvement.

It is the respect paid to the worker's desire and capacity to learn that puts energy into the system. The rules themselves are not the secret.

Toyota's cost base is managed as the outcome of a humanistic process whereby every employee shares the responsibility for the performance of the firm.

The recent crisis had little to do with Toyota's vaunted production system (particularly the principles underpinning it) and much more to do with complacency setting in (that is, the practice of these principles), particularly in the supply chain far away from Japan.

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Has the internet really changed everything?

[Paul Feldwick](#) and [Mark Sherrington](#)

This series begins a debate about the issues in the internet revolution. Paul Feldwick, the sceptic, opens the conversation with some thoughts and questions, and evangelist Mark Sherrington takes up the challenge. We will be continuing the debate on the Marketing Society blog (<http://blog.marketing-soc.org.uk> – go to Judie Lannon). We encourage readers to join in with their views and we plan to publish extracts from the site as it develops in subsequent editions of *Market Leader*

Dear Mark,

I seem to see a lot of comments about how the internet – and currently 'social media' – have changed all the fundamentals of marketing.

Because everyone can now communicate with everyone else, people can't be fooled any more by brands or advertising. Instead there will be a new transparency, and the newly 'empowered' consumer will choose only better quality and service.

Richard Scase's article (*Market Leader*, Q1, 2010) is a fine example of what I'm talking about, and I had a go at it in one of my *Admap* columns (Feb 2010). Now I'm looking at your recent blog where you are developing a similar argument. Permit me to quote:

'In the second half of the 20th century mass production, distribution, media and just about everything else relegated PR and word of mouth further down the list of effective marketing tools and along with them a focus on true product quality and authenticity. They did not render them redundant, just less important.'

'A great ad, some stand-out packaging and a full listing in Tesco could trump a better product with a small but loyal following, including some opinion leaders. Any marginal product deficiencies were drowned out by didactic mass and, to be fair, mass production based on mass distribution gave the big brands cost advantages.'

'The views of experts did matter and some negative word-of-mouth could be very damaging, but who knew who the experts were, and how many people could you practically share your negative experiences of such and such a brand with? National newspapers and TV told you who the experts were in their "unbiased opinion" (hmmm) and they did not give you much of a platform to share your views other than the letters page or Watchdog.'

'Search engines and social media platforms have changed all that. We can research in seconds and we can share our views with millions of folk all over the world in just a few seconds more. PR and word-of-mouth are back on top and with them the need to make consistently better spears.'

You make the case in a more elegant and nuanced way than some do. Word-of-mouth, of course, isn't new. Your claim is just that during the 50 years to 2000 it was somehow drowned out by the power of mass media, and that the growth of the internet has now restored it to its former dominance. Hence product quality will become more important than brands and advertising.

It sounds plausible, but I'd just like to challenge whether this narrative can really be supported by evidence (and I'm open to being convinced if the evidence is there).

First, did PR and word-of-mouth ever really lose their importance?

Second, has the internet in practice really made word-of-mouth significantly more important in consumer choice?

Third, would that mean that consumers are now making more rational, product-based decisions rather than (the implication seems to be) being conned by the old smoke and mirrors?

Of course these questions are big ones, and even if we knew how to find solid answers they would have to be framed in terms of 'how much?' rather than 'yes or no'.

But if we could just agree on that it would, I think, be an improvement on the grand narrative of 'internet changes everything' and 'the empowered consumer'. Let me just add a brief, contrarian thought on each of these questions before I kick it over to you: was word-of-mouth really sidelined in the era of mass media?

Perhaps it was in marketing departments, because there was no easy way of listening in to it or influencing it. But I think it was probably no less important for all that.

Bill Bernbach claimed that word-of-mouth was still the best kind of advertising. First-hand testimony from someone you know has always been the most credible source of a message.

And even without the internet, word-of-mouth could travel around the world if it was interesting enough. Men talked about cars and beer, and women talked about make-up and still do, and I suspect offline is still much more important than online in all that.

In practice, has the internet made word-of-mouth significantly more important in consumer choice? Agreed, it offers new channels for it and is searchable.

In many situations, this can be transformatory: people sharing knowledge about disease or computer problems, for instance. So, in theory, this could apply to brand choice. But how often does it? In a 'high involvement' decision, such as booking a holiday, I can go on TripAdvisor and find 50 reviews of each hotel I consider. Typically five of these describe it as the hotel from hell and another five as the earthly paradise, with the rest somewhere in the middle.

More information doesn't always make for easier, or better, decision making (see Barry Schwartz, *The Paradox of Choice*).

For some choices I can use a comparison site, but I still need to decide which one – and that choice (for insurance sites in the UK) has recently been powerfully influenced by a good old-fashioned TV campaign. Because yes, people still watch TV, and all the evidence is that they are still influenced by TV commercials.

As for sites such as Facebook and Twitter – which increasingly seems to mean 'Facebook and Twitter' – how much of what goes on there is brand related, and how much is really effective in influencing behaviour? I don't really know, but I suspect it is 'not that much'.

Lastly, I suspect the whole story is underpinned by a lingering belief that consumer decision making is primarily based on objective judgments of quality, whereas I believe it has just as much to do with associations and feelings that are unconsciously acquired. Some of those may come through the internet, but they don't outweigh those that come through TV, the telephone or the packaging, or who else you see using the brand. Most of us still spend more time in the real world than the virtual one.

It's tempting, at a time of rapid and complex change, to come up with simple stories that appear to make sense of them. Tempting, but probably not that useful. Certainly the internet changes things for marketers, and will do so increasingly more in the future. But just what will change, and how much?

The answers to that are likely to be more complex, and more interesting, than this popular narrative of the empowered consumer.

Best regards,
Paul

Dear Paul,
Thanks for your letter (which arrived instantly, digitally and without the need to cut down any trees). I am really looking forward to this debate, not just your erudite contribution and that of, hopefully, many others, but also the chance that we will build a point of view about how the internet will change things in the future – not whether, nor even how much, it has already.

We are not going to disagree on that I am sure. In fact, let me quickly get past that and some of the comments you make on my recent post.

Have the internet and social media changed the fundamentals of marketing? The fundamentals – building and sustaining reputation based on value added – remain the same. But the means by which we market goods and services, and the opportunities to market new products, have changed profoundly.

I made a point about word-of-mouth (or mouse) becoming much more important than it was during the era – out of which we are now passing – of mass marketing/media/distribution. To answer the questions you posed, was word-of-mouth sidelined in the era of mass media?

No, word-of-mouth was never sidelined, nor even drowned out, by bigbrand, big-budget advertising, but it was rendered less important. Evidence – unless we were all stupid – the relatively small amount of time, attention and budget we gave to good old PR in the good old days.

Has the internet made-word-of mouth/mouse significantly more important in consumer choice?

Yes, it has. Evidence – where do I start? Well, let's look at what is getting more and more of marketers' attention (not necessarily budget since this can be done very cheaply).

The answer is social media. A local retail brand I looked at just this week got 100 online mentions in tweets and blogs (good and bad) which reached more than 100,000 people.

More conversations about brands are going on than ever before thanks to the internet, and marketers have dived into social media tools to listen and, wherever possible, to participate in, these conversations. I have described this previously as a move away from market research towards market intelligence since these conversations can be tracked, evaluated and measured in real time.

Now there is a fundamental change in marketing: less time spent in focus groups and more time actually listening to real feedback virtually for free.

Does this mean consumers are now making more rational choices?

My problem with this is that I think they always did. It was marketers who deemed badge values to be an emotional choice and functional benefits to be rational.

I believe that making a choice based on what it says about me, and how it makes me feel, is entirely rational because, like the rest of my fellow primates, I am a social animal. But that is not the point.

Whether I want to learn more about the benefits, relative prices or see which celebrity is wearing it, the internet has empowered me to do this much better and pass my views on.

No, I don't think we will get very far debating whether things have changed profoundly versus the fundamentals having changed.

Whether by foot or by plane, the fundamentals of travel (and why we want to travel) remain largely unchanged. But trains, cars and planes have changed society fundamentally.

Since Iron Age tribes displaced Stone Age tribes, technology has changed society and the economy. The printing press, steam engines, telephones and television all changed society. What is interesting is that they did not do so predictably. And that is where I hope our debate will take us. No one foresaw mass media advertising when they invented the printing press.

No one foresaw the annual holiday, – and thus the tourist industry – when the first steam engine rolled down the tracks.

No one foresaw reality TV when the first television flickered into life, nor even the internet when they discovered computers.

So where is this all heading? I would argue that the internet has fundamentally changed three things:

- the way we can and will market existing goods and services
- the goods and services we can market (people pay money for virtual merchandise for their virtual avatars for goodness sake)
- the actual market itself.

I'll make a few points about each to see where you want to focus the debate.

HOW WE MARKET EXISTING GOODS AND SERVICES

People are empowered, they can share and compare more, we can measure everything, we can co-create innovation, we can aggregate a viable market for a niche product (cf Anderson's 'Long Tail').

Maybe the fundamentals have not changed – most of this was possible before to some degree – but I refer you back to walking or flying to China.

WHAT WE MARKET

Whatever we market, from information to ideas to applications, there is a whole new economy exploding as much, if not more so, than post the industrial revolution.

THE ACTUAL MARKET

The market itself has changed – this is a point I want to emphasize. The internet is essentially a market, a place where we – and I mean all of us, not just the owners of capital – can exchange our time, attention, opinions, ideas and indeed our money for things that we value which in turn may be ideas, information, social kudos, entertainment or goods and services.

Marketers have made an even bigger mistake than they made in the 1950s when they assumed television was radio with pictures. Too many see the internet as a 'new medium' and treat it as such by wasting money on banner ads and pretty but unvisited websites.

The internet is indeed, as Jeremy Clarkson so amusingly calls it, an 'interweb' of social and commercial exchange. Walking has more in common with flying than a conventional market has with the internet. We have only scratched the surface – the possibilities are endless.

But I guess if you think that selling a few, literally branded cattle down at the market is similar to brand marketing, then it is hard to see what all the fuss is about.

You caution against using simple stories (analogies) to make sense of how the internet is changing our society and, along with it, our marketing profession. With a brain dulled by age and swamped by change, it is the only way I can make sense of things.

But we are in violent agreement about the core of this debate – what precisely will change, how much and, I would add, how, as marketers, must we adapt our game? I have some ideas but look forward to hearing where you think it would be most useful to start.

My best wishes,

Mark

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What price continuity in a short-term world?

[Chris Baker](#)

Demands for change, newness and freshness are constant in business, and balancing the short term and long term is a difficult trick. Chris Baker looks at brands that have managed to dominate in their field, and explores how consistency can be fused with innovation to produce a potent and enduring property

1990 saw the addition of a new 'longer and broader' category to the IPA Effectiveness Awards, opening up a rich seam of knowledge about the longer-term effects of advertising and its broader benefits to a business. As a result the 1990s yield many great examples of the commercial value of continuity, both across time and across different elements of the brand mix.

Of course, most people involved in brand marketing would agree that an element of continuity is generally a good thing. But look around and you see an awful lot of examples of a lack of continuity in the way many brands are behaving and communicating.

And, as we all know, the business and marketing communications environment we face today is increasingly short term in its pressures, with a faster pace of innovation and a more complex, often co-created communications palette. The clamour for change and innovation can easily drown out the quieter, less sexy voice of continuity – especially as change and continuity tend to be regarded as polar opposites.

So what is the relevance of these case histories from the 1990s, great examples that they were in their time? The question I set myself was, 'Is continuity as valuable today as it was in the 1990s, and if it is what learnings are there about how to deliver it in today's dynamic environment?'

Starting at the end, several things led me to the conclusion that creating and maintaining a meaningful and explicit element of continuity in consumers' experience of a brand remains hugely important today – if anything, more so than in the past.

HOW THE BRAIN WORKS

One reason for this relates to the human brain and how it works. Thanks to neuroscience we know a lot more about this than we did in the 1990s. In particular we now have a scientific explanation for the importance of repetition (although you obviously need to repeat things that resonate emotionally in the first place).

Neurons in our brain fire together when an association is made – and when this happens over and over again neurons eventually wire together to form semi-permanent, resilient networks that remain for a long time, sometimes forever.

Thus red buses came to symbolise London, red roses became a symbol of love, a red telephone came to symbolise Direct Line coming to your rescue, and Orange came to stand for optimism.

Neuroscientists estimate that hardwired associations take up to six months to create, and a minimum of two years to erase, so a brand wanting to establish a fresh positioning has a difficult task.

Arguably the most important task for marketing and communications is the creation, maintenance and commercial exploitation of hardwired associations that are the basis of brand meaning (and continuity benefits). Brands still need fresh news and innovation to stay relevant and interesting, but while doing this it's critical that a brand identifies and maintains its 'golden thread' of continuity.

BRANDS ARE VEHICLES FOR INNOVATION

This fusion of consistency and innovation has long been at the heart of brand marketing, but it's something that's easily forgotten.

Back in 1994 Sir Michael Perry, then chairman of Unilever, made the case that the continuity that brands – and related communications – provide makes them an effective vehicle for successful innovation.

'In a dynamic economy, brands are ... the vehicle whereby the manufacturer can turn around innovation ... to the customer ... Advertising is at its best, and most effective, when it communicates new information that consumers actually want to hear – and when its impact is cumulative and coherent.'

As in any valued relationship we don't expect to have the same conversation every day, but we do reward brands that behave in a consistent way that we can rely on.

The more dynamic the marketing environment we face, the more important brands are to both their owners and consumers to help successfully navigate change.

Examples from the IPA Effectiveness Databank provide concrete proof of this. I have focused on five of the many great stories first documented in the 1990s – Felix, Direct Line, Tesco, VW and Peperami. I could just as easily have selected Stella Artois (2000), PG Tips (1990), Andrex (1992), Orange (1998), Marmite (1998) or BMW (1994).

The most significant point is that these are brands that are still going strong today, each benefiting from continuity, but showing that it can be delivered in different ways. They have prospered by following a dynamic model of continuity that accommodates innovation.

The old model of continuity – the good old-fashioned, long-running campaign – tended to rely simply on repetition of an overall idea, albeit often in a very engaging way.

Examples of this were the original Heineken campaign and other famous beer campaigns such as Castlemaine XXXX. Old model 'pure repetition' campaigns still work but have a finite life as they struggle to adapt to changes in the marketplace, or simply wear out.

CONTINUITY WORKS

The great thing about these 1990s cases is that we don't just have to look back, we can also look forward at continuing effects, often helped by later IPA case histories updating us on the next chapters in the story.

All five of my selected cases have sustained long-term profitability, and often substantial growth, based on a golden thread of continuity – not just in the distant past – right up to the present day.

All have in common a very strong sense of their brand and its role in their consumers' lives. This is more than having a brand pyramid in the bottom drawer; it's about making continuity explicit in terms of brand execution, and what consumers experience and feel.

All have been a vehicle for innovation, sufficiently flexible in approach to accommodate new information and adapt to the changing world about them – if they hadn't been they wouldn't have continued to prosper.



But the way that they approached continuity differs considerably:

- Felix – via a character, identity and creating its own brand world
- Direct Line – via an icon, sonic logo and brand metaphor
- Tesco – a total business philosophy encapsulated in a consistent line and tone of voice
- VW – via the role of the product, a tone of voice, shared consumer values and attitude to life
- Peperami – by turning its product into an iconic brand spokesman.

WHAT'S YOUR CONTINUITY STRATEGY?

Every brand needs its own 'continuity strategy' and, more importantly, a way of executing it that consumers actually connect with and feel.

Continuity is more important than it has ever been – it's an essential tool in navigating ever-accelerating change.

Without continuity, you don't have a brand or a vehicle for innovation. Without a strong brand you don't have sustainability, and innovation is harder to deliver.

For sustainable success every brand needs to identify its own 'golden thread' of continuity to create, maintain and benefit from hardwired associations in people's brains.

There are many ways of delivering continuity in a dynamic, flexible way. In helping to do this, the IPA Effectiveness Databank provides learning and inspiration, beyond the five examples summarised here. The IdOL analysis tool (<http://idol.ipa.co.uk>) makes it easier to interrogate the 1,000-plus cases now held, and identify examples with close parallels to your particular situation.



- Felix: how continuity wins over discontinuity.
- Continuity via a character, identity and creating its own brand world.
- First documented in the 1996 IPA Awards, and subsequently in 2000 and 2006.

On the back of a single campaign, Felix has grown from a 5% brand in 1989 to brand leader over the past 10-plus years, despite often lagging competitors in terms of innovation.

Felix shows not just the benefits of continuity but also the cost of discontinuity. While Felix has run a single campaign, Whiskas has run more than ten different ones and lost half its share. Continuity also brings huge efficiency benefits – Whiskas still outspends Felix by 2:1.

The campaign has also been a vehicle for innovation for Felix, successfully launching the single-serve pouch and the premium 'As Good As It Looks' range. Proof that you don't need a completely new campaign to launch innovation.

If, like Whiskas, you think every new product needs a new campaign, you'll never build the hardwired connections in people's brains that so strongly influence brand choice.

By rooting its communications in a deep consumer insight, in this case the relationship between cat lovers and their cat, Felix has reaped the value-creating rewards of continuity.



Direct Line

- Direct Line: no other insurer converts traffic into sales with the same success.
- Continuity via an icon, sonic logo and brand metaphor.
- Grand Prix-winning paper from the 2000 Awards covering the period 1990-1999.

The Direct Line Red Phone first featured in the 1992 Awards, then again In 2004.

This case shows that a brand mindset is not an alternative to a direct response one – in fact it highlights the response benefits of creating

and maintaining a brand (with TV a critical part of Direct Line's initial, and continued, success).

The continuity and coherence (as well as cut-through) provided by the Red Phone device has been central to success in a highly competitive, response-driven marketplace for 20 years. It is much more than just a simple branding device: it projects Direct Line as a consumer champion and has helped create the loyalty that has made it the most successful cross-seller in the business.

The market has changed hugely since the Red Phone was first introduced. But it continues to drive the business forward because it has hardwired meaning that can be flexibly applied to different products, ways of responding, different types of message, and indeed different styles of creative.

Direct Line has maintained continuity as the role of communications has evolved from just communicating low price, to adding service credentials, to building stature, to adding warmth.



- Tesco: a business philosophy that informs everything it does.
- Continuity via a total business philosophy encapsulated in a consistent line and tone of voice.
- Grand Prix-winning paper from the 2000 Awards covering the period 1990-1999.

In the first chapters of the continuing 'Every Little Helps' story, Tesco's turnover more than doubled from £8 billion to £17 billion between 1990 and 1999. It is now close to £60 billion.

In 1990 Tesco was a good business but a relatively weak brand, known mainly for low prices and basic groceries. By 1999 it had a brand with the credibility to sell almost anything.

The original 'Every Little Helps' campaign (1993-95) focused on service but quickly evolved to communicate a wide range of messages – service, quality, range, value for money and Clubcard.

Soon 'Every Little Helps' became a total business philosophy, a touchstone for everything Tesco does.

Over the past 17 years Tesco has run thousands of ads for different products and services, with different messages across many different creative approaches.

All of this has been made cumulative because everything it does has been informed by this philosophy, anchored by the 'Every Little Helps' line and a related tone of voice.



- VW: an undefined but enduring 'sense of Golf'.
- Continuity via the role of the product, a tone of voice, shared consumer values and attitude to life.
- Documented by IPA cases in 1992, 1998, 2002 and 2006.

The VW communications story, starring the VW Golf, goes back to 1974 and continues today.

VW via the Golf has become an iconic brand that has steadily built its UK market share while maintaining a price premium over more than 30 years.

It has done this, in its own words, by 'never defining the brand too rigidly ... with no one creative idea, no single end-line, no brand onions or pyramid ... communications have been unusually free ... able to reflect their time, without getting trapped in any one time'. But nevertheless there is a strong sense of continuity and coherence.

They put this down to never losing sight of the product ... an embodiment of continuity in design terms ... and keeping true to the inimitable Golf tone of voice, always understated but somehow knowingly reflective of its iconic status and paying into the territory of emotional reliability.

All this is summarised as 'an enduring sense of Golf'. Their approach relies a huge amount on the people involved 'getting' the brand. It's a looseness that wouldn't work for many companies, but for VW and DDB it does.



- Peperami: making the product the idea.
- Continuity via turning its unique product into an iconic (and viral) brand spokesman.
- Documented in the 1994 IPA Awards.

Peperami ('It's a bit of an animal!') is a niche product with a natural ceiling to its usage. But in 1993 it found a way of cost-effectively maximising its potential that it has used ever since, including promoting new variants.

The Peperami animal's powerful emotional appeal to generation upon generation of young male snackers seems to get it hardwired almost instantly as well as making it highly viral.

A little bit of Peperami goes a long way and it continues to maximise sales potential very cost-effectively by reprising old TV ads and increasingly online.

When a brand icon is so strongly hardwired into people's brains, and the brand idea so intrinsic to the product, it's not difficult to maintain a high level of continuity.

When the idea and golden thread of continuity is so explicit a product, anyone can create a Peperami ad, as witnessed by its recent move into crowd sourcing its advertising.

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A new vision for corporate social responsibility

[Dr Wayne Visser](#)

Corporate social responsibility has been a complete failure at seriously addressing the real issues of sustainable business practices, says Dr Wayne Visser. But now some companies are taking a different approach and doing more than just looking at quick-fix PR campaigns

Why has corporate social responsibility failed so spectacularly to address the very issues it claims to be most concerned about? On virtually every measure of social, ecological and ethical performance we have available, whether it be poverty, biodiversity loss or corruption, CSR has completely failed to avert – or even substantially moderate – the negative impacts of economic growth and business activity.

This comes down to three main factors – the triple curse of modern CSR, if you like.

THE TRIPLE CURSE OF CSR

Curse 1: incremental CSR

There is nothing wrong with continuous improvement – founded on W. Edwards Deming's TQM quality model. On the contrary, it has brought safety and reliability to the very products and services that we associate with modern quality of life.

But when we use it as the primary approach to tackling our social, environmental and ethical challenges (as it is, for example, in ISO 14001 and ISO 26000), it fails on two critical counts: speed and scale. The incremental approach of CSR, while replete with evidence of micro-scale gradual improvements, has completely and utterly failed to make any impact on the huge sustainability crises that we face, many of which are getting worse at a pace that far outstrips any futile CSR-led attempts at amelioration.



Unilever HQ in London: the company has pioneered a process called Brand Imprint – a tool which enables brand teams to take a 360-degree look at all their environmental impacts

Curse 2: peripheral CSR

Ask any CSR manager what their greatest frustration is and they will tell you it is lack of top management commitment. This is code-speak

for saying that CSR is, at best, a peripheral function in most companies. There may be a CSR manager, a CSR department even, a CSR report and a public commitment to any number of codes and standards. But these do little to mask the underlying truth that shareholder-driven capitalism is rampant, and its obsession with short-term financial measures of progress is contradictory in almost every way to the long-term, stakeholder approach needed for high-impact CSR.

Curse 3: uneconomic CSR

The rather inconvenient truth is that CSR sometimes pays, in specific circumstances, but more often does not. Of course there are low-hanging fruit – such as eco-efficiencies around waste and energy – but these only go so far.

Most of the hardcore CSR changes that are needed to reverse the misery of poverty and the sixth mass extinction of species currently under way require strategic change and huge investment. They may very well be lucrative in the long term, and economically rational over a generation or two, but we have already established that the financial markets don't work like that – at least not yet.

FROM CSR 1.0 TO CSR 2.0

If we succeed in admitting the failure of CSR and burying the past, we may find ourselves on the cusp of a revolution, in much the same way as the internet transitioned from Web 1.0 to Web 2.0.

For example, in the same way that Web 1.0 moved from a one-way, advertising-push approach to a more collaborative Google/Facebook mode, CSR 1.0 is starting to move beyond the outmoded approach of CSR as philanthropy or public relations (which has been widely criticised as 'greenwash') to a more interactive, stakeholder-driven model.

Similarly, while Web 1.0 was dominated by standardised hardware and software, but now encourages co-creation and diversity, so too, in CSR, we are beginning to realise the limitations of the generic CSR codes and standards that have proliferated in the past ten years.

If this is where we have come from, where do we need to go to? Let us explore in more detail this revolution that will, if successful, change the way we talk about and practise CSR and, ultimately, the way we do business.

There are five principles that make up the DNA of CSR 2.0: creativity (C), scalability (S), responsiveness (R), locality (L) and circularity (O).

Principle 1: creativity (C)

In order to succeed in the CSR revolution, we will need innovation and creativity. Business is naturally creative and innovative. What is different about the age of responsibility is that business creativity needs to be directed to solving the world's social and environmental problems.

Apple, for example, is highly creative, but its iPhone does little to tackle our most pressing societal needs. By contrast, Vodafone's M-PESA innovation by Safaricom in Kenya, which allows money to be transferred by text, has empowered a nation in which 80% of the population have no bank account, and where more money flows into the country through international remittances than foreign aid. This is part of the exciting new trend towards social enterprise or social business.

Principle 2: scalability (S)

The CSR literature is liberally sprinkled with charming case studies of truly responsible and sustainable projects, and a few pioneering companies. The problem is that so few of them ever go to scale. How long have we been tinkering away with ethical consumerism (organic, fairtrade and the like), with hardly any impact on the world's major corporations or supply chains?

And yet, when Lee Scott, Wal-Mart's former CEO, had his post-Katrina Damascus experience and decided that all cotton would be organic and all fish MSC-certified, then we started seeing CSR 2.0-type scalability. Similarly, the Grameen Bank went from one \$74 loan in 1974 to a \$2.5 billion enterprise, spawning more than 3,000 similar micro-credit institutions in 50 countries, reaching more than 133 million clients.

Principle 3: responsiveness (R)

Business has a long track record of responsiveness to community needs – witness generations of philanthropy and heart-warming generosity following disasters such as 9/11 or the Sichuan earthquake. Yet, when it became clear that climate change posed a serious challenge to the sustainability of the fossil fuel industry, all the major oil companies formed the Global Climate Coalition, a lobby group explicitly designed to discredit and deny the science of climate change and undermine the main international policy response, the Kyoto Protocol.

CSR 1.0	CSR 2.0
Paternalistic	Collaborative
Risk-based	Reward-based
Image-driven	Performance-driven
Specialised	Integrated
Standardised	Diversified
Marginal	Scalable
Western	Global

Figure 1

In typical CSR 1.0 style, these same companies were simultaneously making hollow claims about their CSR credentials.

By contrast, the Prince of Wales's Corporate Leaders Group on Climate Change has, since 2005, been lobbying for bolder UK, EU and international legislation on the issue, accepting that carbon emission reductions of 50-85% will be needed by 2050.

Principle 4: glocality (2)

The term glocalisation comes from the Japanese word *dochakuka*, which simply means global localisation. In a CSR context, the idea of 'think global, act local' recognises that most CSR issues manifest as dilemmas rather than easy choices. Hence, CSR 2.0 replaces 'either/or' with 'both/and' thinking. Both SA 8000 and the Chinese national labour standards have their role to play. Both premium-branded and cheap generic drugs have a place in the solution to global health issues.

A sugar farming co-operative in Guatemala has its own CSR pyramid – economic responsibility is still the platform, but rather than the legal, ethical and philanthropic dimensions of Archie Carroll's standard CSR pyramid, its pyramid includes responsibility to the families (of employees), the community and policy engagement. Clearly, both Carroll's pyramid and the Guatemala pyramid are helpful in their own appropriate context.

Principle 5: Circularity (0)

The reason CSR 1.0 has failed is not through lack of good intent, or even through lack of effort. The old CSR has failed because our global economic system is based on a fundamentally flawed design.

As far back as the 1960s, Kenneth Boulding, the pioneering economist, called this a 'cowboy economy', where endless frontiers imply no limits on resource consumption or waste disposal. By contrast, he argued, we need to design a 'spaceship economy', where there is no 'away'; everything is engineered to constantly recycle.

In the 1990s, in *The Ecology of Commerce*, Paul Hawken translated these ideas into three basic rules for sustainability: waste equals food; nature runs off current solar income; and nature depends on diversity.

William McDonough and Michael Braungart have extended this thinking in their 'cradle to cradle' industrial model, which is not only about closing the loop on production but designing for 'good' rather than 'less bad'.

GREAT TRANSITIONS AND FUTURE TRENDS

Even revolutions involve a transition, so what might we expect to see as markers along the transformational road? Figure 1 (above) summarises some of the shifts in principles between CSR 1.0 and CSR 2.0.

SHIFTING CSR PRINCIPLES

We can expect that paternalistic relationships between companies and the community, based on philanthropy, will give way to more equal partnerships. Defensive, minimalist responses to social and environmental issues are replaced with proactive strategies and investment in growing responsibility markets, such as clean technology.

Reputation-conscious, PR approaches to CSR are no longer credible and so companies are judged on actual social, environmental and ethical performance (are things getting better on the ground in absolute, cumulative terms?). Although CSR specialists still have a role to

play, each dimension of CSR 2.0 performance is embedded and integrated into the core operations of companies.

CSR 1.0	CSR 2.0
Premium markets	Base of the pyramid market
Charity projects	Social enterprise
CSR indexes	CSR ratings
CSR departments	CSR incentives
Ethical consumerism	Choice editing
Product liability	Service agreements
CSR reporting cycles	CSR data streams
Stakeholder groups	Social networks
Process standard	Performance standards

Figure 2

Standardised approaches remain useful as guides to consensus, but CSR finds diversified expression and implementation at very local levels.

CSR solutions, including responsible products and services, go from niche 'nice-to-haves' to mass-market 'must-haves'. And the whole concept of CSR loses its Western conceptual and operational dominance, giving way to a more culturally diverse and internationally applied concept.

How might these shifting principles manifest as CSR practices? Figure 2 (above) summarises some key changes to the way in which CSR will be visibly operationalised.

SHIFTING CSR PRACTICES

CSR will no longer manifest as premium-price products and services (as with current green and fairtrade options) but as affordable solutions for those who are most in need of quality of life improvements. Investment in self-sustaining social enterprises will be favoured over cheque-book charity.

CSR indexes, which rank the same large companies over and over (often revealing contradictions between indexes), will make way for CSR rating systems which turn social, environmental, ethical and economic performance into corporate scores (A+, B minus, etc, not dissimilar to credit ratings), which analysts and others can usefully employ to compare and integrate into their decision making.

Reliance on CSR departments will disappear or disperse, as performance across responsibility and sustainability dimensions are increasingly built into corporate performance appraisal and market incentive systems.

Self-selecting ethical consumers will become irrelevant, as CSR 2.0 companies begin to choice-edit, ie cease offering implicitly 'less ethical' product ranges, thus allowing guilt-free shopping. Post-use liability for products will become obsolete, as the service-lease and take-back economy goes mainstream.

Annual CSR reporting will be replaced by online, real-time CSR performance data flows. Feeding into these live communications will be Web 2.0 connected social networks, instead of periodic meetings of rather cumbersome stakeholder panels. And typical CSR 1.0 management systems standards such as ISO 14001 will be less credible than new performance standards, that set absolute limits and thresholds.

CSR 2.0: THE NEW DNA OF BUSINESS

The CSR 2.0 model proposes that we keep the acronym but rebalance the scales, so to speak. Hence CSR comes to stand for 'corporate sustainability and responsibility'. CSR 2.0 also proposes a new interpretation of these terms. Like two intertwined strands of DNA, sustainability and responsibility can be thought of as different, yet complementary, elements of CSR.

Sustainability can be conceived as the destination – the challenges, vision, strategy and goals (what we are aiming for) – while responsibility is more about the journey – solutions, responses, management, actions (how we get there).

When all is said and done, CSR 2.0 comes down to one thing: clarification and reorientation of the purpose of business.

It is a complete misnomer to believe that the purpose of business is to be profitable, or to serve shareholders. These are simply means to an end.

Ultimately, the purpose of business is to serve society, through the provision of safe, high quality products and services that enhance our wellbeing, without eroding our ecological and community life-support systems.

As David Packard, co-founder of Hewlett-Packard, wisely put it: 'Why are we here? Many people assume, wrongly, that a company exists solely to make money. People get together and exist as a company so that they are able to accomplish something collectively that they could not accomplish separately – they make a contribution to society.'

Making a positive contribution to society is the essence of CSR 2.0 – not just as a marginal afterthought, but as a way of doing business. This is not about bailing out the *Titanic* with a teaspoon – which is the current effect of CSR 1.0 – but turning the whole ship around.

CSR 2.0 is about designing and adopting an inherently sustainable and responsible business model, supported by a reformed financial and economic system that makes creating a better world the easiest, most natural and rewarding thing to do.

CSR is dead, long live CSR.

UNILEVER – BRAND IMPRINT

The opportunity

Unilever has always believed that brands have the ability to create social improvement by meeting people's everyday needs and encouraging positive behaviour change.

The company's British and Dutch founders introduced branded soap and margarine in the late 19th century that, for the first time, were affordable to the mass market and made a significant contribution to public health and nutrition.

While many Unilever brands have applied this philosophy over the years, the company had never actually codified it. A formal process was required to enable marketing teams to meet the needs of the growing numbers of 'conscience consumers'.

These are people who are looking not just for functional benefits from their brands but who expect them to address social and environmental needs. In 2005 Unilever decided to devise a more systematic way of integrating the sustainability agenda into its brand innovation and product development.

The story

The result was a process called Brand Imprint – a tool which enables brand teams to take a 360-degree look at their social, economic and environmental impacts and the external influences and market forces shaping them.

For the process to gain traction in the business, it was decided to involve not just the global brand teams but also managers from key functions right across the value chain including R&D, procurement, manufacturing, marketing and customer development.

Brand Imprint requires each function to quantify the social and environmental impacts of the brand in their part of the value chain. The work is then shared at a two-day workshop.

The approach forces each part of the business to analyse the brand, not just from the perspective of the consumer but, very importantly, through the lens of civil society.

The results are often surprising and lead to a variety of actions – changes to packaging and product formulations, increasing the sustainability of raw materials, developing new product variants, or creating social missions to tackle public health or environmental challenges.

By the end of 2008 all of Unilever's global brands had completed a Brand Imprint, including several – Lifebuoy, Dove, Signal toothpaste and Ben & Jerry – that already had strong social missions.

Impacts

Brand Imprint is having a significant impact on Unilever's marketing programmes. For example, Lipton and PG Tips, two of the earliest brands to complete the process, decided to make their entire tea supply chain sustainable.

In 2007 Unilever made a public commitment to source all the tea in Lipton Yellow Label and PG Tips tea bags from Rainforest Alliance-certified tea farms by 2015.

This has had a significant impact on both volume and value market shares. It has also created new business opportunities. McDonald's, for example, made PG Tips its tea of choice in all its UK restaurants entirely on the strength of the Rainforest Alliance certification.

The initiative has also increased consumer perceptions of quality and taste, as people equate the care that goes into growing the tea with its quality and flavour.

Finally, by helping small farmers to grow better crops that can command higher prices, it will also improve the livelihoods of millions.

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How brand communities influence innovation and culture

[Martin Kornberger](#)

The shift in power between consumer and producer brought by the new technologies has implications for organisations and the control they have over their brands. Martin Kornberger uses the example of LEGO to explore how brand communities share innovation and organisation culture

When *time* magazine announced its Person of the Year in 2006, it was YOU – because that was when you started to generate content, watched each other's movies on YouTube, viewed each other's photos on Flickr, programmed your own personality in Second Life, became an instant expert on Wikipedia, and ran your own retail shop on eBay.

For the first time, technology enabled people to effectively challenge and circumvent the privileges of organisations as producers of content.

Since brands are the interface for the rapidly expanding conversation between consumers and producers, the result is a radical new configuration of production and consumption. The monopoly of organisation control is being subverted by the creativity of the networked community.

The consequences for organisations? 9.9 on the Richter Scale.

EARTHQUAKE IN LEGO LAND

LEGO experienced first hand what the seismic shift implied. In 1998, the company released a new product, called LEGO Mindstorms. The heart of it was a yellow microchip that made all sorts of movements and behaviours possible. The product became an instant hit – within three months 80,000 sets had changed hands.

There was just one small problem: the buyers were not children, but adults. And that was despite the fact that LEGO marketed the product to children, not adults. Worse, these adults did not consume the product as the LEGO masterminds had anticipated. Within weeks, hackers from all over the world had cracked the code of the new toy and created all sorts of new applications.



LEGO's Mindstorms toy found a new audience in adults

Mindstorms users built everything from soda machines to blackjack dealers. The new programs spread quickly over the web and were far more sophisticated than the ones LEGO had developed. More than 40 guidebooks advised on how to get maximum fun out of your 727-part LEGO Mindstorms set.

How did LEGO react? At first, negatively. Consumers were meant to consume, not produce their own versions. They were not meant to

challenge LEGO's in-house product developers. Confusion set in. Inaction followed. Then, after a year, LEGO started to listen to those unruly users and attempted to understand what they were doing with the product and, more importantly, the LEGO brand.

After lengthy discussions, LEGO began to understand that the community around its products was doing something interesting, and that just because the company business strategy did not include it in its planning, that did not mean it was not important.

LEGO learnt that the boisterous creators were actually not a homogeneous group.

On the one hand some of the community were into outer space, while on the other there were those who shared a love for trains.

The two groups could not be more different. The former was about fantasy, science fiction, humour and free building; the latter was about real-world models, suburban life, no-nonsense and precisely scaled modelling. Despite these differences, they formed a community around the LEGO brand that shared a passion for innovation.

BRAND COMMUNITIES: A CHALLENGE TO TRADITIONAL INNOVATION PROCESSES

The brand community is a crucial part of the organisation's innovation engine. Having an active and innovative user community helps LEGO keep an eye on trends for new products. More importantly, it helps to develop marketable product innovations.

Of course community members toying around with ideas do not develop automatically marketable new products. Most of their new ideas were incremental improvements that left basic product ideas unchallenged.

But about 12% of all user innovations represented more radical explorations of new functionalities and new experiences. These included strategy games with multiplayer features and role-play elements, such as BrickWars.

Or take mosaic-building techniques: rather than copying existing images with LEGO bricks, an image is translated into pixels (LEGO bricks) and then assembled digitally. Software called Pixelego has been developed and distributed for free by users to translate images into LEGO syntax.

Another example is LDraw (www.ldraw.org), an open source software program that allows users to create virtual LEGO models and scenes. Or take www.brickfilms.com, where animators create short films using LEGO figures.

The long list of user-based innovations that have found their way on to the shelves also includes LEGO Studies, based on brickfilms.com; LEGO Factory, based on LDraw; LEGO Mosaic, based on Pixelego; and LEGO Vikings, based on a user-developed play theme. What we are witnessing is nothing short of a revolution of the innovation process.

LEGO is not a single case study; rather it can be seen as the blueprint for innovative brand communities in other industries. But what open-source theorists have neglected to address is that creative users do not congregate around just any platform. They are attracted and contribute to a brand that acts as the platform for their interaction and innovation. In this sense brands become drivers of open-source innovation: they are the glue that keeps communities together and innovation is the result of interaction in these brand communities.

This process is different from the traditional innovation process, which is meant to occur deep inside organisations: product managers, R&D experts and scientists represent the 'mind' of the firm in search of the next 'big thing'. Marketing provides sporadic feedback from potential customers through survey data, needs analyses, focus groups and so on.

Information from these groups is taken in-house, digested, analysed and fed into the product development process. However, the flow of information is slow and distorted through noise in the channels.

The interpretation of the data by product managers, R&D experts and marketers results in solutions that are at best approximations of what matters to the customer. These are exacerbated by the limitations of the sources of feedback. For example, a focus group of consumers sitting in a room cannot adequately represent the lived experience of the product consumption. At best it is an approximation. Of course, in a relatively stable world, this trickle of information provided by traditional tools is more often than not enough to innovate. Rather, in a competitive environment, where markets are fragmented and rapidly evolving, co-creation offers an intensified communication mechanism between producers and consumers that fuels the innovation process.



Co-creation upsets the established division of labour between organisations producing new ideas and passive consumers who are waiting to be spoon-fed with new products – a division that has become firmly entrenched as part of corporate culture.

The brand plays a crucial role in the co-creation process: especially in the non-mediated medium of the internet, the brand offers the only recognisable interface that frames the conversation between producers and consumers.

The brand transformation also radically changes the socio-cultural makeup of the organisation. External communities that crystallise around it form quasi-extensions of internal cultures. In fact, culture cannot be confined within the bounds of the organisation. The LEGO brand community co-constitutes the culture of LEGO through the sharing of ideas and practices with employees. Empowered by new information and communication technology, users become actively engaged in previously internal organisational production processes.

In other words, culture extends beyond the boundaries of the firm through consumers who form brand communities and engage in creative, unruly and co-producing practices.

ISSUES IN SHARING POWER WITH BRAND COMMUNITIES

Creative consumption does not occur in a vacuum, though: rather, user communities crystallise around strong brands. These communities describe a new form of social organisation. Following more than a hundred years of mourning the decline of social organisation in everything from David Riesman's book *The Lonely Crowd* to Robert Putnam's *Bowling Alone*, they provide a new form of social cohesion.

The LEGO brand is used by tens of thousands of people to express aspects of themselves and to relate to other like-minded individuals.

However, this new form of social organisation is far from leading to a harmonious new society. Rather, the communities that form on and offline are testimony to the tribalisation of society. The defining characteristic of a tribe is its unique lifestyle; its currency is formed not from rational discourse but what's 'in' and what's 'out'.

Being part of a tribe, individuals play roles and use brands as plots and props to stage convincing performances. But while the cohesion within a tribe is high, its tolerance to change is low. In fact, those tribes organised around brands can turn out to be particularly conservative and reactionary.

At LEGO, the community thwarted innovation at various junctures. For example, the company introduced a colour change of its bricks because it felt that new colours would be more appealing to children. However, the LEGO User Group sparked controversy about that: for collectors, new colours posed a challenge with regard to integration of new and old bricks.

There were also tensions between the corporate agenda and the LEGO community. The latter was non-commercial and had a different interest in the brand. For instance, LEGO users like to support LEGO – to a point. They did not like being 'sales people for LEGO', as one user put it.

There were attempts to build an umbrella organisation that would unite the fragmented communities. But EuroBrick and Global AFOL lacked activity and drive.

Obviously LEGO could embrace one unified global user group (preferably led by some kind of CEO) but communities work differently: they are bottom up. When LEGO tried to institutionalise the company, it found it next to impossible to control the hundreds of user groups out there.

One of the most successful attempts at tapping into users' power was the LEGO Ambassador Programme. The company invited 20 to 25 LEGO fans to join each year. They were asked for their input on new product development and their ideas in general.

However, some ambassadors were asked to sign non-disclosure agreements which introduced a sense of hierarchy and exclusion, at odds with the free sharing that is a hallmark of open-source communities.

CO-CREATION CHALLENGES ORGANISATIONAL IDENTITY

The control that organisations enjoyed over production and distribution vanishes as users shortcut these circuits and relate to each other more directly.

Multiple authorship implies the loss of a single authority which is usually represented by management. The new distribution of authority puts everything at stake – including an organisation's deep-seated identity.

At LEGO, the identity of the organisation emerges out of the conversation between external communities and employees. While a brand manager might project a certain organisational identity, the brand inevitably escapes management's control. A brand represents a socially constructed meaning system; yet meaning is an accomplishment that requires understanding, interpretation and evaluation – subjective processes.

Like beauty, a brand exists in the eye of the beholder. And there it is hard to control; the sensemaking processes of the reader (consumer) co-constitutes, and sometimes overrides, the text of the author (brand manager).

The challenges for management are formidable; managing identity in the context of co-creation requires an organisation to develop high tolerance for ambiguity, uncertainty and paradox. Brands provide the arena in which an organisation's identity emerges from the interactions between consumers and producers.

Rather than searching for an enduring essence, the organisation must continuously oscillate between self-definition and definitions by outsiders.

The brand provides the space for this dialogue to unfold; it enables an organisation to focus on its uniqueness, while at the same time forcing it to keep an eye on outsiders' visions.

This is the dilemma that 21st century brand organisations must resolve.

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Marketing the work of engineers: technology as a service

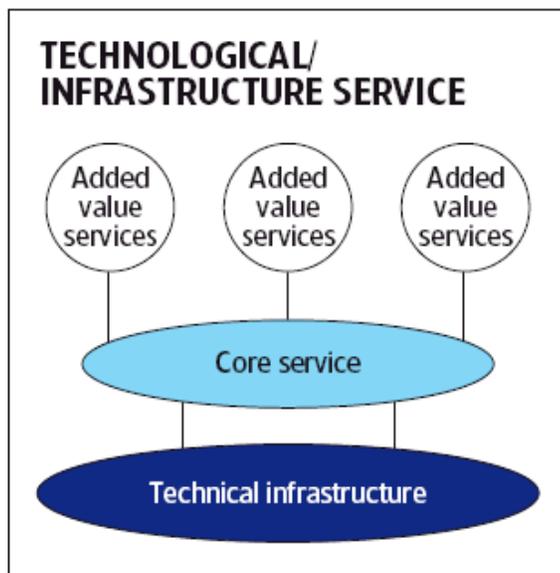
[Laurie Young](#)

In this insightful article, Laurie Young examines a paradox: why, in a world where added value services increasingly dominate, and where some of the largest and most successful companies are technology companies, is the marketing of technology services so underdeveloped – particularly in the B2B sector?

Much has been written about the marketing of consumer products, hospitality services, financial services and professional services. Very little, though, has been said about marketers who routinely deal with the work of engineers. Yet they include some of the largest and most famous businesses in the world: IBM, BT, Shell, Fujitsu, Ericsson, Michelin, Virgin, Nokia and HP.

It may be that so much of their work is business-to-business markets – a discipline neglected by so many marketers. Or it may be because marketing has had so little political weight in these organisations.

The marketing of some technology companies has been erratic, inconsistent and depressingly tactical. Now, with the advent of significant new concepts such as 'cloud computing' and radical changes in the engineering of some utilities, its best brains and leading firms are turning their attention to services.



It seems that the marketing of services that are based on a technical infrastructure is about to become as important and sophisticated as, say, consumer products.

WHO ARE THEY AND WHAT DO THEY DO?

These companies provide a service to buyers, based on a network of technology. The most aggressive members of the category are computer service companies that have made great noise about their move into more service-based business over the past two decades. It also includes the utilities and even embraces consultancies whose advice depends on advanced knowledge of technology.

They all exist to provide service to customers by exploiting an 'installed base' or infrastructure of technology. That service may be conceptual (like consultancy) or may provide specific support to a set of physical products (like maintenance).

In most, a 'core service' (which risks becoming a commodity) runs on the network platform, and 'added value' services are built on that core service.

COMMON CHARACTERISTICS

These businesses have a number of characteristics in common which affect their approach to market. They influence the agenda and decision-making processes of top management and, as a result, create a group of businesses with a similar culture and set of challenges.

A technology infrastructure: at their heart is a 'platform', which is constructed from some form of technology (such as a computer network or a piped utility). This heritage was once a major innovation allowing a new industry to develop and to distribute a basic, 'core' service.

A network: items flow through technical highways which are fundamental to their customers' service experiences.

An engineering culture: organisations tend to take top management from the most important function, usually reflecting the core competence of their business.

In these service organisations the dominant discipline has, historically, been technical. They tend to be run by engineers who create common attitudes and set the agenda throughout their organisations.

Logistics: unlike professional or financial services, those with a technical infrastructure comprise physical components. So they depend on an efficient method of managing and distributing physical components – an important competence in the successful management of a competitive, network-based service.

Fundamental changes in the core technology: they periodically face a fundamental change in the core technology upon which their entire service is provided. Television companies, for example, are upgrading from analogue transmission to digital, and telecommunications companies are upgrading their 'local loop' to broadband-based on optical fibre.



Each involves a major policy decision and a vast change project. It involves decisions about capital investment, human resource, project management and customer education.

Safety: it is a simple fact that, in many of these businesses, it is possible for either employees or customers to be injured, or even die, as a result of neglect. As a result, people at all levels of the organisation must give careful attention to operating practices.

This makes attention to processes and procedures unavoidable, affecting the culture of the whole organisation. It can make people rule-bound and secretive.

Intimacy with defence organisations: a large number of these businesses have involvement with their government's defence and security services. This makes unique demands upon them. There are likely to be, for instance, specially vetted employees reporting through a separate management line to dedicated senior executives. This does not necessarily imply anything sinister or corrupt. It does, though, affect the culture and style of the company.

Managing capital investment: the management of capital investment is a major consideration and focus of the leaders of these businesses. Senior management must set aside a proportion of earnings to invest in the development of the network. As a result, the judicious use of capital to keep pace with the needs of infrastructure development and the cost of capital are critical success factors.

Facing a new commercial environment: many of these organisations have experienced a radical change to their business (such as privatisation). This caused a fundamental change in the philosophy of senior management and in the way companies were run.

Over the past few decades, the market began to dictate their priorities and many have reached for sales and marketing techniques for the very first time.

Managing the corporate brand: the name and image of these service organisations often have associations which do not suit their aspirations. Large computer manufacturers, such as HP and IBM, found that they had to develop a reputation for service that was different to their previous image, in order to compete effectively in the new computer market.

Maintaining network access: access to the network upon which these services are based is a fundamental requirement of the service. If it is not correctly priced, planned and managed neither the core service, different versions of the service to different customers, nor added value services can be provided.

Making the core service relevant: their heritage is grounded in the supply of a commodity service based upon a general technology.

So it is difficult for them to think of ways to make that technology more relevant to different groups of customers. Often it is left to new entrants or challengers in a market to do this as they evolve their competitive strategy – as sir Richard Branson's Virgin group has done numerous times.

MARKETING AND ENGINEERS

In 1850, Lord Rothschild said: 'There are three ways of losing your money: women, gambling and engineers. The first two are pleasanter, but the last is more certain.'

This is not only because, in his age, a number of ventures failed due to lack of acquired learning; nor was it because science was seen as new and adventurous as well as exploratory and risky. As an experienced and shrewd financier, he also knew, as others learnt to their cost over the centuries, that engineering and technology progression tends to be incremental, carefully building on the back of other work by thousands of nameless technicians.

This leads to an attitude of precision, care, repetition and calculation, reflected in large technology businesses. Yet it can also lead to the destruction of value.

This technical heritage means that there is a preponderance of people who prefer to have precise, measurable options to problems and opportunities; and these attitudes mean that technology organisations tend to be risk adverse and slow to change.



Apple came into its own with innovative technology with the iPhone. Now it's newly launched iPad (top) has had record sales in the USA

They also tend to be slow to accept new ideas into the infrastructure of the organisation and suspicious of the value of creativity, originality and individuality – particularly where this stems from intuition and not obvious logic.

New business ideas often have to go through a period of secretive 'skunk-works' or be proven by others in their industry before they reach

critical mass and are accepted into the organisation as a whole.

Similar difficulties occur when technology firms turn to service. When they create a service it is normally crafted with precision and care. It is likely to reflect latest thinking, to comprise well-considered, internally focused processes and to involve modern tools or technology.

It is just as likely, though, to look exactly the same as competitors' offers and to be priced using a 'cost plus' approach.

As a result the maintenance service of IBM has been, in the past, substantially the same as that of HP; or the 'managed service support' of BT similar to that of Orange; while the electricity, gas or water services of different utilities have been exactly the same as their peers.

The technology industries have, to date, routinely failed to produce real value propositions which entice people to pay more for these core and added value services than they probably should.

They are the complete opposite of the luxury goods industry which uses heritage, sex, design, distribution and celebrity to create aching desire for bits of leather and fragrant water, imbued with a mystique by names such as Gucci and Chanel.

The IT industry invests huge sums in science and research. Many have their own state-of-the-art laboratories and sponsor doctoral programmes in universities across the world.

It will announce new breakthroughs and excite the world with dreams of 'life-transforming' technologies such as did, each in their day, broadband, cellular telephony and digital TV. They then market and sell their offer through worldwide distribution systems founded on the belief that everyone is changing very fast and wants everything cheaply.

They discount and throw away the value of their precious scientific advances because of the logical and systematic approaches that got them there in the first place.

CREATING A DEAD FROG

Creating a service inside a technology firm has been a little like high school biology. Students are shown a frog, which jumps and croaks. They are taught about its physiology and evolution. They are then shown how to slap it down and dissect it. They can see how the tendons interconnect and where all the internal organs are. Yet, once they are finished, they are left with a dead frog.

CASE STUDY: AN INTERNATIONAL NETWORK

Interoute is a fast-growing international, communications network which offers business-class voice and data services at an economy price. Its products and services include bandwidth, virtual private networks, high-speed internet access and transit, managed hosting, communications services and media streaming. Founded in 2003 and privately owned, it has 55,000km of fibre and eight data centres and 32 colocation centres.

It operates in 29 countries and 100 cities. The firm's service was, initially, as a niche player in the international telecommunications market. The fact that it has customers that are serious players in that market (Sprint, BT, AT&T, Deutsche Telecom and China Telecom) demonstrates the quality of its service, technology and reputation.

It started as a basic 'bearer' network offering network capacity to other suppliers. This it regarded as a 'wholesale' business because other telecommunication suppliers bought extra network capacity. Yet, although it was successful and respected, the leadership of the firm were dissatisfied with remaining a commodity infrastructure service. They set a ten-year strategy to reposition the services of the firm. They started offering 'DIY' technology to telecommunications experts but have climbed through 'colocation' and 'hosting' to 'application management'. The long-term vision of the firm is to be a player in the emerging 'cloud computing' marketplace, where computing applications will be provided as services which are remotely sourced in internationally hosted data centres.

 <p>Managed Ethernet</p> <p>"Managed Ethernet means you are always in control of your network"</p>	 <p>"we deliver bespoke modular solutions across industry sectors"</p>
 <p>"No one's really seen an Ethernet pebble with our Pay For What You Use option"</p>	 <p>"there's an even better way to get around Europe, hop onto Europe's densest, most advanced IP network"</p>
 <p>"willing can be frustrating but with Interoute, we can guarantee the smooth running of your latest technology initiatives because we own the network"</p>	 <p>Sit!*</p> <p>"managed Ethernet means you are always in control of your network"</p>

In order to do this, the company had to learn the skill of crafting its core service to different customers to improve perceived value.

The company has deliberately set out to move from a colocation centres generic infrastructure service to a higher value, tailored communications service. It identified buyers in individual companies who were either chief finance officers or chief technology officers. It then worked through the products, features and benefits that would appeal to each person in each organisation and tailored its offer to each company.

The results were dramatic. Between 2004 and 2009 there was a compound average growth rate of 67% and it reached operational profitability.

Over the same period, the percentage of its customers who were 'corporate' grew from 8% to 51%.

The company has penetrated the corporate sector very effectively by reconfiguring its basic core service to different corporate buyers. It has customers in the public sector (eg the European Union), financial services (ING and Morgan Stanley), Services (Hilton, Yahoo), retail (WE and Chopard) and manufacturing (Ford and Siemens).

Time and again, technicians inside some of the most famous technology firms do exactly the same thing with technology-based services.

They examine the offer of others and use detailed processes to specify the features of the proposed service. They know exactly how it will work and what customers will receive. Yet, when it is launched, it is a dead frog, lifeless and valueless, over which customers haggle about price and moan about tiny errors.

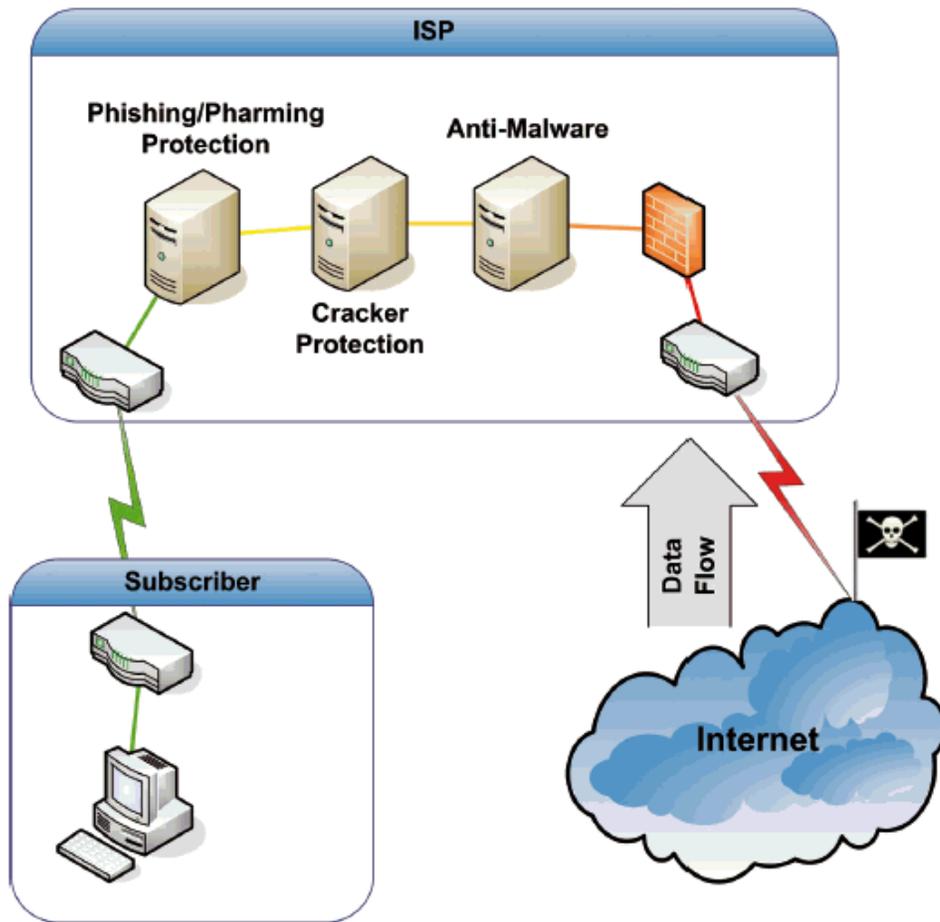
REAL PERCEIVED VALUE

Yet a growing number of leading technology firms are now showing how important it is to engineer real magic into value propositions. Steve Jobs, of Apple, is probably the most famous modern example of the application of design and insight to create real value from technology.

Users of the Apple Mac computer tend to be loyal enthusiasts who laud its ability to process information 'as if it's designed for a human being'.

This desire to create innovative and enticing technology-based products gave Apple a difficult and chequered history until it launched the iPod and iPhone. The industry had been talking for many years about one device to integrate computing, mobile telephony and email.

There had been several PDAs designed and launched with mixed success. But it was the (at the time) radical design and innovative approach that made this product so sexy and appealing. Shops were mobbed for it and Apple became a byword for innovation.



Cloud computing means the world will buy processing power in a very different way. It is internet-based and allows the sharing of resources on demand, like an electricity grid

POWERFUL MARKET FORCES

A number of relentless and powerful market forces are now causing the leaders of this vast industry to think seriously about the positioning of technology-based services, perhaps for the first time. 'Cloud computing', for example, means that the world will buy processing power in a radically different way.

It will affect products, services, risk, customer contracts and security. It will, though, revolutionise supply and demand, requiring entirely different mechanisms to create perceived value.

The leaders of the computer industry are taking it very seriously. IBM, for example, is just completing a two-decade-long repositioning while others are lining up huge investment into new offers, new marketing programmes and acquisitions.

For technology service businesses, the transformation of a commodity (their core service) into a proposition which offers different versions of perceived value to different customer groups is one of the most profound and profitable things they can do; and it is a marketing task at the very highest level.

Expect their most senior leaders to reach for marketing skills in systematic and remarkable ways as these changes play out among them.

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Mobile mania: the telephone becomes a computer

[Simon Silvester](#)

The first computers were the size of a room, and ever since they have been becoming ever smaller and more powerful. Simon Silvester looks at how the mobile phone is taking over from the personal computer



The latest generation of mobile phones, which use apps to do everything from street navigation to game playing, are fast becoming the personal computer of choice

The latest generation of mobile phones, which use apps to do everything from street navigation to game playing, are fast becoming the personal computer of choice

When computers were first invented, they were the size of a room. By 1970, they had shrunk to the size of a car. By 1982, they would sit on a desk. By 1995, they were portable. Today we have reached the age where a big, powerful computer fits neatly inside a mobile phone.

This latest stage is the most important. For the past 50 years, using a computer has always meant sitting down in front of it, followed by a startup process, and then launching applications. This desk-centric process has been so fundamental to computing, it has defined the way people think of them. The first menu command in 80% of computer software today is still the desk word 'file'. And when you delete a file, you move it from a 'desktop' to 'trash'.

The deskiness of computers has stopped them getting into every corner of our lives. They aren't there when we socialise. They aren't there when we shop, travel, or go to bed. And they are just not designed for the 80% of humans who don't sit at a desk all day.

Not so with the phone. A mobile phone is a very different device. It's always on. It's always connected. And it's always with you. It's a paradigm shift. Putting computing power into such a small device is likely to change computing out of all recognition, and our lives with it. Thirty years after the invention of the personal computer, computing is about to get intimate.

WHAT WILL CHANGE?

How will the way people use computers change as they start to carry powerful ones with them all the time? Probably in much the same way as

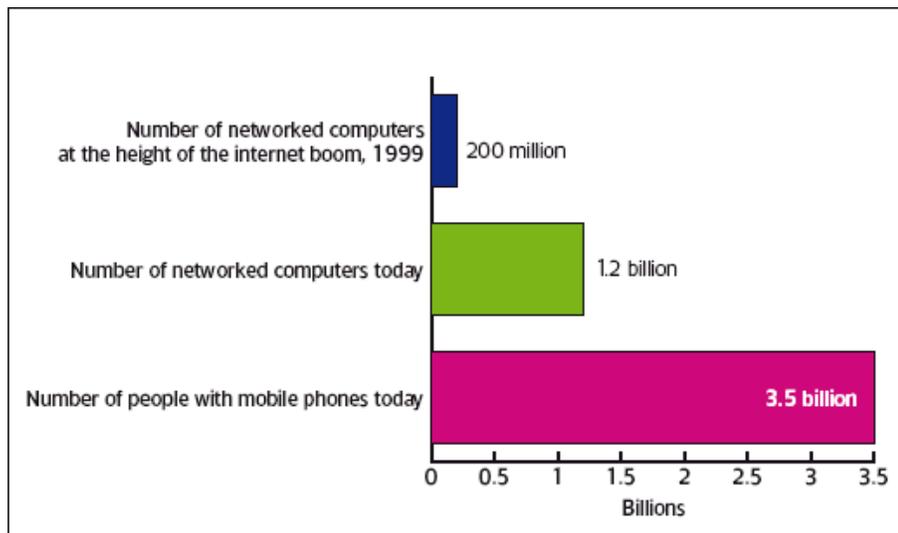
computers changed when they stopped being the size of rooms and started fitting on desks. When this happened in the 1970s and 1980s, it wasn't just about a change in size. People started doing things that were thought uncomputery at the time.

Things like writing letters and playing games. And drawing pictures, installing screensavers and wallpapers. As computers move into phones, computing will change yet again. And the new uses of the computer will feel as weird as the idea of listening to a song on one did in 1980.

Things will also change because phones are more 'conscious' than desktop computers. Thanks to GPS location, accelerometers and compass functions, a modern mobile phone increasingly knows where it is and what it's looking at. Soon they will know other things, such as the temperature, and how many of your friends' phones are close. They will feel less like a tool and more like part of your brain.

The speed of change can be seen from the iPhone app store. Three billion apps have been downloaded from it since it opened in 2008.

Nokia, BlackBerry and other handset makers have also opened stores. The speed of change can also be seen from the rate of sale of smartphones. At the height of the 1990s internet boom, a total of 200 million computers were connected to the internet; 180 million smartphones were sold in 2009 alone.



The mobile boom will be huge

Half the people on the planet carry a mobile phone with them all the time. Nearly all use them constantly. It is likely that they will become consumers' main computing device of the future. This boom should be democratic.

The mobile phone-based internet may move faster in poorer countries than in the West. Put a copper telephone wire into an advanced industrial country, and 50 years later that wire will still be there. In a poorer country, that wire will have been dug up for scrap within a month.

This put poorer countries at a huge disadvantage during the fixed-line internet boom. But this also means that the mobile internet is now the only internet in poorer countries. So mobile innovation there may be faster.

WHO BENEFITS?

In a boom like this, the winners will be those with the paradigm-shifting insights. But where do you find such an insight? It's the most difficult question in the world. When the internet first appeared in 1993/4, no one could quite explain to outsiders what was so good about it.

Email let you send messages to anyone with an email address. But the only people with an email address in 1994 were scientists. So to non-scientists it sounded completely pointless.

The first webcam went live in November 1993. It allowed computer scientists in Cambridge, England to monitor drink levels in their department coffee pot. But why, wondered outsiders, didn't the scientists just go around the corner to check the pot? And why would anyone on another continent want to look at it?

In 1994, the funniest thing on the net was a scientific paper about exploding toaster strudels. Yes, it was funny – if you were a nerd.

It's always the same with great conceptual leaps. Before they actually happen, no one can see their value.

So how do you come up with an idea for a mobile app? It's the million dollar question at the moment. Here are some thoughts that may help you.

1. Make stuff easier

People don't like complex processes. They type domain names into Google rather than into browser address bars. Not because they need to search, but because Google doesn't make you type www. and .com to get you to the right place. Think lazy.

2. Think simple

In the age of desktop computing, software was often complex. But the user of mobile apps may well be drunk, or half asleep, or distracted. To succeed in this new era, software needs the simplicity of consumer electronics devices.

3. Cut out steps

As every e-commerce analyst knows, every stage a customer has to go through to buy loses sales. Amazon's big leap forward was one-click purchasing. Simplify your process, too.

4. Don't let 'mobile' confuse you

People use their mobile phones for voice calls at home. Don't let the 'mobile' moniker make you think 'out of home'.

5. Don't worry about gravitas

At \$50 a DVD, an Xbox/PS3 game has to be pretty compelling to work. The criteria are much lower for \$1 apps.

In *Pocket God* you manage an island of primitive people who fall into the sea and get eaten by sharks if you tilt your iPhone. It's pretty pointless. But at \$1, it's a hit. Similarly, *Paper Toss* simulates throwing a ball of paper into an office wastepaper basket. It's not quite as immersive as *Doom*, but at \$1, it doesn't have to be.

6. Concentrate on the universal

When Steve Jobs was thinking about launching a mobile device in 2000, his staff pushed him to launch a Personal Digital Assistant. After all, more and more people were bringing them to meetings. Jobs didn't think most people needed a PDA. But people had been listening to music since the dawn of mankind. So he launched an MP3 player instead.

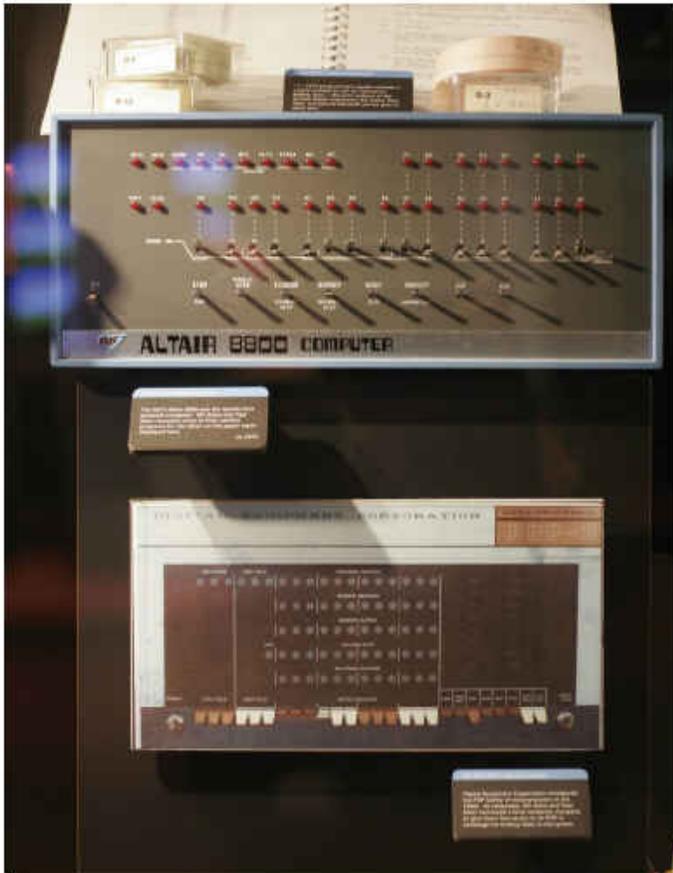
7. Focus on the human condition

Most people are dissatisfied with search engines – not because they don't know how to search, but simply because they don't know what they want. If you can work it out for them, you will become rich.

8. Look for weaknesses

It came as a real surprise to the photographic industry that no one wanted to print pictures from their digital camera, and preferred to keep them on Flickr or Facebook instead.

It shouldn't have. Most 30-somethings have crates of photos in their attic that they never look at, and can't easily share. The problems mobile apps can solve are right in front of your nose.



The world's first personal computer, a MIT S Altair 8800, on display in Washington, USA

9. Feel the power

Trucks get jammed on narrow roads because their drivers follow satnav instructions blindly, regardless of road conditions. Expect people to follow life instructions on mobile phones just as blindly. Be careful what you ask people to do – because they may well do it.

10. Don't overburden your user

Wii *Sports Resort* doesn't unlock 100 pin bowling until you are good at 10 pin bowling. *Grand Theft Auto 4* doesn't unlock Manhattan until you're familiar with Brooklyn. Apple didn't let anyone customise buttons on the iPhone for its first six months. Introduce complexity slowly.

11. Solve big problems

Google solves big problems using solutions with scale – such as the need for a global visual street map. Solutions with scale can make you impossible to copy.

12. Think retro

Home dressmaking was dying in the 1990s. Then BurdaStyle.com started offering downloadable dress patterns. Alongside this, it created a home dressmaking community, allowing women to share pictures of dresses they had made online. Home dressmaking is now on the up again. If an idea once fulfilled a need, it could do so again.

	Top of the range desktop 1999	iPhone 3GS
RAM	128MB	256MB
Storage	20GB	32GB
Processor	500 MHz	600 MHz

And finally, here are a few warnings:

1. Don't believe the hype about faster data speeds

It's more likely that demand for mobile data will grow exponentially rather than the capacity available to transmit that data. So data transmission speeds in the future may in fact be slower, not faster.

The winners in the first internet revolution planned for slow data speeds, on the principle that you shouldn't have to wait for their services. Fast-loading ugly sites such as Craigslist survived. Slow-loading beautiful sites didn't.

2. Don't make it complex

You wouldn't buy a TV that required you to press ctrl-alt-del to switch it on. Or a fridge, or a car. So why copy the outdated protocols of 1970s computing when you design your software?

3. Don't have teething problems

In the 1990s, most e-commerce sites lost most of their customers between the catalog server and the e-commerce server. They never came back.

Amazon worked from day one. And the efficiency of the logistics in its Seattle warehouse was stunning from day one too. Even in 1997 it never sent you the wrong stuff, and was the only e-commerce site that didn't.

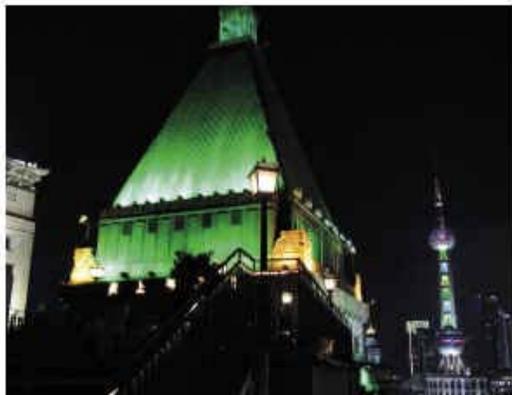
An airline takes a year to recover from launching a new terminal and losing everyone's bags. An e-commerce operation is dead by then.

4. Never forget consumer need

In the internet boom of the late 1990s, entrepreneurs stopped talking about consumer needs and started talking about business models instead. Accountants, financiers and management consultants all nodded.

They felt much more comfortable with quantitative business plans on Excel than with the complex psychology of human need. But all the businesses that were built purely on business models went bankrupt in 2000.

Business models are nice. But if your business does not fulfil a consumer need, it will never fly. Good luck.



In 2005, the Motorola Razr was a sexy \$400 phone for New Yorkers. By 2007, every taxi driver in Shanghai had one. Technology can get cheaper fast

DID YOU MISS THIS IDEA?

Back in the 1990s, the most popular search engine was called AltaVista. One of its nifty features was its ability to list links coming into your website. All you had to do was type 'link: [xyz.com](#)' into the search box and up came a list of other sites that had linked to [xyz.com](#).

It was a pretty cool feature. You could see how your web page was becoming more influential, and which journalists, websites and others had noticed it. Lots of web-savvy people knew this, and used it to reveal valuable insights. But the most valuable insight was staring everyone in the face. And no one saw it.

If the number of links coming into your site was a good measure of its popularity, would it not also be a good measure of other sites' popularity?

And so, if you ranked sites using this popularity measure, would you not create a better search engine?

If you'd had this insight, you might today be worth more than a hundred billion dollars. Because you would have invented Google.

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Is marketing playing with just one club?

[David Whiting](#)

The practice of marketing is being diminished and increasingly misunderstood by an over-emphasis on communications, says David Whiting

When did marketing become conflated with marketing communications? Did it just creep up on us, or was it always the reality, at odds with the theory?

The theory of strategic marketing and the marketing mix are still being taught to huge numbers of future marketing managers in business schools and other institutions around the world. But the likelihood is that most of them will end up in a marketing communications role, irrespective of whatever job title they come to hold.

This phenomenon was alluded to by Mark Earls when he quoted Regis McKenna, who '... repeatedly complained that the marketing function has shrunk to mere communication management'. In one sense, every element of the marketing mix has to communicate, but the reduction of marketing to mean media communication is the crux of the problem.

In the early days of modern marketing, as practised by the big fmcg companies, theory and practice were more closely matched. Brand managers did indeed have a great deal of influence over the product and price, as well as promotion, and some impact on place – particularly point of sale. To this day marketing is practised in most fmcg companies much as one would expect from the textbook, as it is in other sectors, including many retailers and some service organisations.

Marketing communications is part of successful brand building and plays a vital role at both a strategic and tactical level. Its management has become increasingly complex over the years, with choices to be made in optimising medium, message and creative vehicle for a target audience. But why has it become so dominant in recent years?

First, perhaps, there has been a renewed emphasis on communications since the dawn of the digital age. In particular, social media offer a potentially game-changing challenge for marketers, empowering consumers while offering new ways to engage with them. The increasing necessity to interact with consumers is only just beginning to be understood.

REVISIT FUNDAMENTAL TRUTH

Second, there is the silo nature of so many marketing activities, due in part to the growing levels of complexity in managing them, that can serve to reinforce the perceived tactical nature of marketing. Businesses need to revisit the fundamental truth about marketing, as stressed by Peter Drucker and Theodore Levitt, that it involves the whole organisation becoming customer-focused.

Third, there is a risk that marketing is increasingly reflecting the widely held view in both society and other disciplines that it is concerned solely with selling, advertising and promotion.

At worst this is reduced to the pejorative idea that it is concerned with 'flogging you things you don't want'. Countering this perception is an immense challenge for the profession.

Finally, the spread of marketing beyond a few sectors appears to have stalled. As Hugh Davidson has pointed out in *Market Leader*, 'whole industries with a marketing bypass remain'. They have adopted many of the trappings but never understood its essence.

Marketing roles in B2B and service organisations, in SMEs, utilities and the public sector, often do not involve much more than marketing communications, or a subset of it. Perhaps the most visible example is in the financial services industry, where the practice is often a parody of the concept.

It is not so much that, as Regis McKenna implies, marketing functions in established marketing-led companies have shrunk to control of one executional element, but that in other sectors it has never extended much beyond the use of 'one club'.

In these sectors, marketing as it is practised not only conforms to the common misunderstanding of the discipline, but reinforces it. The confusion will likely lead to a diminution of its influence in business and society.

Contrast two very different approaches taken within the Marketing Society to sustainability. On the one hand, the publication of an excellent paper *How can marketers build sustainable success?* in February, which describes case studies deploying the strategic marketer's toolkit and based upon years of work. On the other, the Marketing Society May Day Alliance, on the basis of a short breakfast event in September 2009, came up with a preferred phrase for use in all sustainability communications, ignoring all the previous work done by marketers.

Marketing should be at the heart of the business strategy that determines how the company optimises the (long-term) return to its shareholders, by fulfilling customer needs, and meeting all the requirements of stakeholders. Far too often it is seen as a function charged with building sales tactically via communication platforms.

The disjunction, however, between the theory of marketing absorbed by future managers, and the reality most of them will experience, is a critical issue for the profession as a whole.

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The anatomy of a trend: return to maximising

[Melanie Howard](#)

Melanie Howard looks at how the necessity for companies to offer value for money during the recession has developed into the trend of 'maximising'

These days trends are everywhere. They range from the *London Evening Standard* telling readers what kind of scarves to wear to deep-rooted change taking place across society – such as the much-contested functioning of the British family.

Last year we were told that recession parties were all the rage and that everyone was staying in to drink cava with friends and eat pizza.

Journalists love these short-hand attempts at capturing contemporary preoccupations and they have their place – not least if you are in the home-delivery pizza market, which flourished – but the language to distinguish one from the other is sadly lacking.

For the marketer, it is essential to assess the scope and scale of any so-called trend rather than buying into the hyperbole that tends to accompany each new arrival. First, this requires getting a quantitative handle on how many people in your market it will affect for how long and in what ways. Most brands have consumer insight teams. But more critical is responding fast enough to give you a competitive edge.

This is even more essential in times of uncertainty, such as the recession that we have just come limping out of. Most supermarkets did particularly well: within weeks they were offering eye-catching deals, such as Morrisons' Price Crunch campaign, and have effectively defended their place in consumer affections and wallets. Other sectors have some ground to make up.

Any trend worth its salt will have been gathering strength for a while before hitting the big time, pointing to the importance of effective early warning systems. Maximising is one such trend. Defined as behaviour designed to optimise the value-for-money equation of every purchase decision, it entails thorough checking and evaluation of competitive products.

Maximising provides a perfect example of how a behavioural tendency – itself a consequence of proliferating choice in consumer markets – can be consigned to a particular segment, but has the potential to become absolutely mainstream as circumstances change. Ethical consumerism is another that may follow a similar path.

Maximising behaviour was articulated by American psychologist Barry Schwartz in his 2004 book, *The Paradox of Choice – Why More Is Less* (HarperCollins). In this he identified how 'maximisers' and their opposite 'satisficers' (never a good word) were both groups developed by consumers in response to the burden of too much choice. Maximisers need to be reassured that they are making absolutely the right purchasing decision. Satisficers conversely settle for 'good enough' decisions as a means of saving time, using short cuts to reassure themselves, but also accepting that they will make mistakes.

First researched in the UK by the Future Foundation at the time of Schwartz's book, this showed that the principle applied to most sectors – from cars to financial services – splitting respondents into these two groups.

For some time, we monitored this behaviour to find that satisficing-type behaviour was steadily winning out as easy credit and stable prices apparently reduced the risk of getting it wrong.

No surprise, then, when the recession picked up speed, that our research showed the barometer moving rapidly in the other direction. By October 2009, nearly 70% of respondents claimed to be carefully budgeting all household spending and two thirds were spending more time on comparing prices. Maximising was no longer a minority segment but the mainstream behaviour, The New Normal (www.futurefoundation.net/newnormal).

Every brand in every market must cater for the rigour of maximising. This means demonstrating how you offer the best value for money and outstrip all competitive deals. It explains the enormous success of price comparison websites. This has now spread into the mobile environment with the ShopSaw app that will point you to the best deal available when you scan in the barcode of a product in front of you.

What does this mean for brands in 2010 and beyond? First, build an assumption of maximising behaviour into how you present your offer, reassuring customers that they really can't get better if they go elsewhere. Essential Waitrose has got it right – branding everyday items as 'quality you would expect at prices you wouldn't'. And at the low-cost end you need to impress that you have the quality as well. Thus Lidl's rallying cry is now 'luxury for all'. Both chains saw year-on-year sales growth in the pre-Christmas period. Knowing your customers remains vital to long-term brand success.

ABOUT THE AUTHOR

Melanie Howard is the chair of the independent Future Foundation

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Going social

[Julian Saunders](#)

A social media strategy has become an essential part of a wider communications strategy. Julian Saunders describes why

If your company had no website or customer service helpline, you might feel as though you had lost touch with the modern world and things needed a shake-up. Brand owners are beginning to feel the same way about social media. If you were reading this in 2012 you would be thinking, 'Don't be silly, of course we have gone social.'

Entrepreneurs and challengers are already doing it – developing a direct relationship makes you much less vulnerable to powerful intermediaries, both on the high street and online.

Anyone whose business depends on the say-so of, for example, Tesco or Amazon will jump at the chance to get closer to the people who buy their products and services.

People who have a flair for connecting with other people are creating new businesses, such as Tony Hsieh of Zappos, who sells shoes. His business uses Twitter brilliantly, and has 1.6 million 'followers' (see box, right).

The Zappos experience is a potent blend of chat, information, offers and customer feedback. It feels more like a community of like-minded people who happen to love shoes than a selling operation. The distinction is important. Tony Hsieh 'gets it'. But do we 'get it' too?

With social media there is a constant ground-swell of exciting innovation. Much that I write here will be out of date at publication. And it is not really free. You have to devote time to being good at it. So why bother? My case rests on the fundamentals of a healthy brand.

A MEASURE OF BRAND HEALTH

Social media can have a direct effect on both your reputation and sales. They are evidently not just the latest fad that the digital revolution has thrown up. More time is spent on social media than on search. In March, Facebook became more popular than Google in the USA. That simple statistic should make us sit up and take notice as it has happened very quickly.

Companies with any significant e-commerce already know that they must have a search strategy. Now they need a social media strategy too.

The two are interdependent, as success in social media is key to pushing your brand up the search rankings. Achieving a page one ranking on Google (without having to pay for it via pay per click) is one of the most cost-effective sources of sales leads. It is also a measure of brand health.

There is now a new metric of brand dynamism – to be the most linked. It has become as important as awareness, affinity, propensity to purchase or likelihood of recommendation. It may well be a proxy for all of these measures.

Zappos philosophy

'At Zappos.com customer service is everything. In fact, it is the entire company'

(From the Zappos.com website)

Zappos goes the extra mile and more in delivering customer service, which is what has made the brand famous in the USA rather than the fact that it sells shoes.

A big part of its success is Tony Hsieh, CEO, with his outgoing personality and his evangelism for the use of Twitter. His tweets are a blend of comments on the world around him, the personal ('About to try KFC's double D. If I don't tweet for 24 hours call an ambulance'), life at Zappos ('Company picnic about to start. It's a medieval renaissance theme') and the business ('Woke up this morning to the newly designed Zappos website').

On April 1 he tweeted 'Zappos.com, Inc. sues Walt Disney Company' and then later 'Apparently some people didn't realise this Zappos/Disney video was an April fool's joke'.

Zappos staff also use Twitter to interact with customers. Hsieh has created a distinctive company culture (see the staff video at <http://about.zappos.com>), a rapidly growing business with high levels of repeat purchase and referral, and it is well placed to grow into other categories such as handbags and clothes. Doubtless Hsieh's 1.6 million followers will find out new lines about it via a tweet.

CUSTOMER SATISFACTION

The rapid penetration of Facebook, YouTube and Twitter, and the widespread use of blogs and forums, will be given a further boost through mass penetration of smartphones. Intense handset competition, combined with all-you-can-eat tariffs, means that social media are about to have their Martini moment – accessed any time, any place, anywhere.

Openness and accessibility – which internet gurus have been talking about for more than a decade – come sharply into focus.

People do not just want access, they want it right here, right now as they are on the move. And here is a double jeopardy: the good listeners and quick responders are lauded, the cloth-eared vilified.

Contrast Virgin trains and Eurotunnel. When a Virgin customer tweeted that the carriage was too hot it was picked up by Virgin customer services, who contacted the train and had the heating turned down.

Several tweets later and the customer was not just well pleased but had also told his network.

By contrast, Eurotunnel was the subject of furious tweeting when it cancelled trains due to cold weather. A PR disaster was made worse by the fact that it was unresponsive.

This is a new skill – one that has been called real-time brand management – that depends on the setting up of alerts and, of course, rapid response (see box, above).

Real-time brand management

March 13: a Virgin atlantic plane gets stuck on the tarmac for four hours, resulting in angry and unhappy customers. One of them, david Martin, posts about the ordeal via his iPhone. This prompts a call from the marketing department, offering him a \$100 voucher for his troubles, which he rejects as inadequate. so the chief executive calls him and, after a short negotiation, he secures a full refund and \$100 in vouchers for all the passengers.

How quickly after its premiere do you know if a film is a success or a failure? it used to be two to three days, according to Greg Brandeau, executive vice-president of Walt disney studios. now, if you monitor Tweets and Facebook postings, you can know within hours.

Conclusion: every company must have a 'brand radar system' to monitor social media. Mistakes and bad customer experiences need not be disastrous provided the company has a reservoir of goodwill and is quick to respond

Source: Harvard Business Review

MAKING SALES

Personal recommendation has always been the most powerful form of advertising. Surveys show that it has increased in importance versus advertising and editorial.

The customer rating, familiar to users of TripAdvisor and Amazon, showed that people did not just trust friends; they trusted people they barely knew and complete strangers. Now social media makes getting recommendations from your personal network both live and real time. Consider two scenarios.

In the shop trying on jeans 1

Her: 'Does my bum look big in this?'

Him: 'No, you look great (yawns). Can we go now?'

Her: 'You weren't even looking.'

In the shop trying on jeans 2

Her: takes photo of her bum in the jeans, uploads to Facebook and captions the image 'Does my bum look big in this?' Then goes off for a latte and gets eight comments back on her smartphone over the next hour from friends who advise combination of immediate purchase, rapid weight loss and ask where the shop is so that they, too, can buy the jeans.

Fast-forward a couple of years: social media made manifest. The shop, noticing this behaviour, will make it easier for customers to

share, for example, by turning the changing room into a kind of photo booth that is directly linked to the web.

Location-based apps will have added another dimension. Our shopper will effectively be able to say: 'Here I am shopping for jeans, where are you?/come and join me/any suggestions for good shops near me?' What could be more fun or sociable?

Right person, right time, right place. The demo film for foursquare – a location-based app – visualises the commercial potential of unlocking that holy trinity in making a sale: right person, right time, right place.

Other social media brands know this too. Click on 'nearby' on tweetie – an iPhone Twitter app – and see a live map of other Twitter users in your neighbourhood.

Its commercial potential has yet to be realised but watch this space – Twitter needs to make some money to pay the overheads.

PREDISPOSING PURCHASE

We tend to buy from brands that we like and trust. Likeability has long been a predictor of an effective TV ad. Social media are another route, but the planning and mentality are different.

Listening – a good way of being liked more. Brands need to be better at listening and responding to people on their own terms and less prone to pushing out a message or a party line. But listening properly is not that easy.

You need a picture of your network, the conversations taking place, and how they connect to you. Much can be done using free tools but you may want to employ one of the new social media research firms.



Sociability. Imagine you are at a party and you run into the neighbourhood bore. He is always on transmit – if your arm dropped off, he would not notice. He should resist the temptation of posting that YouTube film.

But elsewhere there are different characters: the introverted expert who does not say much but can speak with an engaging passion; the storyteller, who knows how to entertain an audience – and he does at least laugh at your jokes. And there is the host who makes it possible for people to meet and share interests.

These people are naturals for social media, where you can be yourself but where you also need to listen, and be tuned into the codes and habits of the social group.

It is about a value exchange, not selling. Value comes in different forms: the pleasure of linking up with like-minded souls, or being the first to learn interesting things, or access to information and offers.

When you study the Zappos case or successful fan pages on Facebook – such as M&S's 125-year celebration – they blend several types of value with sociability and a distinctive voice.

ARE YOU SOCIABLE? JOIN IN

The likes of Facebook, Twitter and LinkedIn are all different, young and constantly evolving. Mobility adds another dimension. Brands need

to open up these channels and experiment.

The time to start is now. But brand management also needs something else – people who are not just bright but who are innately sociable. Maybe HR needs to hire not just the brainy types but also those who love to party.

Listening workout

There are more than 3.5 billion pieces of content (weblinks, news stories, blog posts) shared each week on Facebook. The average number of tweets per hour is around 13 million. Making sense of this social media chaos is a challenge, but follow this 30-minute listening drill to get a feel for your brand's temperature online.

Define your audience. Translate what you already know about your customers into categories that make sense online: choosing a topic your audience is likely to discuss would work. So would choosing a channel that your audience is most likely to use.

Decide what you really want to understand. Depending on your brief, your listening might focus on different data points in social media. For instance, a good grasp of popular discussion topics can help to optimise your PR campaign. Attention to the behavioural patterns can save you resources during microsite development.

Take on your customers' perspective. Think about the number of entry points to social media that your audience uses – search engines, Facebook news stream, email chains – and look for the signs of the most entertaining, relevant and useful content (it might be all three).

Keep your listening consistent. Once you have decided on your listening criteria, filter all incoming information through the same framework: entry point – discovery – analysis – interpretation. Try to see what is valuable for your audiences and what has received no traction at all.

Take it with a pinch of salt. Only 10% of all people online feel engaged enough to produce content. What might appear to be a major PR crisis could in fact be a very isolated, albeit passionate, group of unsatisfied customers.

Following the listening drill can be a mind-opening exercise for many brand managers. Effective long-term social media strategy, however, requires a bit more than a gut feeling, and for that a specialised social media audit should be a starting point for any brand that is looking to succeed online.

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It's complementarity these days, rather than advertising

[Rory Sutherland](#)

When consumers like a particular campaign, it is facetiously observed that they are 'buying the advertising' as well as the brand. Rory Sutherland examines an economic theory that suggests this may be literally the case: that advertising itself has a value that complements the product

Every time anyone takes over the presidency at the modestly named Institute for Practitioners in Advertising, they receive a small flurry of letters and emails suggesting a change of the IPA's name. Often, but not always, it is the 'advertising' bit people think should go. 'Advertising' is often seen to be too narrow a word to describe everything the IPA's membership does.

I understand this point of view. However, I fear that whatever word is chosen to replace it may be worse. In particular, I am averse to anything involving the word 'communication'. This common catch-all word fosters the widely held assumption that marketing people and agencies should be principally concerned with messaging. What we actually need is a wider definition of advertising, not a new word that constricts us in a slightly new way.

This conflation of marketing and communications – and its portmanteau description 'marcoms' – is, to use a word coined by George W. Bush, a 'misunderestimation' – something which fails to understand what something is for and at the same time undervalues it. The Chinese using gunpowder only for fireworks, or the behaviour of the Aztecs (who invented the wheel, but used it only on toys) are both misunderstandings.

In reality, the role which communication – as conventionally defined – plays within marketing may well diminish. Why? Well, first there is the sudden explosion in the volume and granularity of data which marketers have to guide them – information which will often drive actions and behaviours other than communication; for instance, new methods of price discrimination.

Second, there is the change in the nature of advertisers, more of whom are service brands, who may build their brands experientially through behaviours rather than messaging.

Finally, there is the unprecedented explosion in the number of ways by which consumers can engage with brands at their own instigation. We need a new definition of 'What is advertising?' Fortunately, one has emerged from economics.

Now, I can't understand most of the original paper written by (Nobel Laureate) Gary Becker and Kevin Murphy since much of it involves complex maths to do with shifting demand curves and inframarginal consumers, though you're welcome to read it at <http://twurl.nl/ztudn7>. More accessible is an interview with Murphy published by the University of Chicago at <http://twurl.nl/whmgjh>. Here he draws on the economists' idea of complementarity.

'Think of advertisements as complementary goods that you buy along with the product that's being advertised,' says Murphy. 'Take the example of movies and popcorn. Going to the movies makes you want to eat popcorn, and eating popcorn makes you think of watching movies. There's a complementarity there between the two items. We believe that advertising is basically the same thing. There is a tie between the product and the advertisement.'

Each time we stay tuned to a commercial or read an ad in a newspaper, we have, according to the authors, made a 'transaction'.

This theory earns extra weight when applied to today's advertising campaigns for popular items such as Levi's jeans, Coca-Cola or Nike shoes ... In some of these campaigns, little or no information is presented, but consumers nonetheless experience and sometimes even enjoy the ad as 'consumer goods' unto themselves.

Consider a study by psychologists which showed that consumers paid more attention to ads for the car of their choice after they bought it. Becker and Murphy say their treatment of ads as complements to the goods advertised can explain these findings. They believe that if ads are complements to goods advertised, those goods are complements to the ads. That is, greater consumption of advertised goods would raise the marginal utility from, and the demand for, advertising.

What if marketers and advertisers stepped back from assuming their job is to cajole and instead defined their purpose as the creation of goods complementary to their own products?

Looked at through this prism, John Betjeman's *Shell Guides* of the 1930s are not an anomalous form of promotion for a petrol brand – they are a very pure form of advertising indeed. But so, too, are a host of new possibilities – for instance, adding a social component to car ownership, or Flora's Heart-Age mass-testing campaign.

The first question is no longer 'What do we say?' but 'What can we do to add complementary value to our product?' A liberating thought.

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