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Market Leader

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Is Mr C really Mr K or only Sunny D? Should we blame marketing for political spin?

Jeremy Bullmore

For quite a long time, 15 years or so, I've had a nagging, amorphous suspicion at the back of my mind. I've chosen not to take it out and examine it more carefully in case I didn't much fancy what I found. Better to leave it there, I thought. If it stays in the dark it may shrivel up and go away. But while still amorphous, it's continued to nag – so I finally decided to confront it.

The suspicion is this. A couple of the most questionable techniques of political persuasion, from the dubious to the despicable, seem to have been lifted from commercial marketing and advertising.

Is this suspicion well founded? If not, why not? If these techniques are dubious and despicable when used for political purposes, why are they not dubious and despicable when used for commercial purposes? Or is there some fundamental difference in principle that allows us, without hypocrisy, to condemn the one while continuing to practise the other? You can see why I was happy to leave my suspicion unexamined and tucked away for so long in a corner of my attic.

MY CONCERNS ARE THESE

Political parties once based their appeal on the promotion of their policies. Peter Mandelson and Alistair Campbell changed all that. They understood about brands; they understood that voters see political parties as consumers see products: not as an itemised list of functional benefits but holistically and emotionally. Yes: the scrapping of Clause Four was of huge significance to party workers and political commentators – but of far greater significance to the wider electorate was the choice of Tony Blair as leader: young, articulate, enthusiastic, full of hope and optimism; as good as classless, deeply reassuring to southerners and the middle classes; as valuable to his party for what he wasn't as for what he was. Mandelson was surely right: irrespective of policies, Gordon Brown could never have epitomised New Labour as seductively and wordlessly as Blair so triumphantly did.

Despite the Thatcher phenomenon, the Conservative Party failed to follow suit. Perhaps they refrained on principle, believing the deliberate personalisation of parties to be meretricious. Perhaps they simply didn't get it. Looking back, it's clear that under Hague, Duncan-Smith and Howard the Tories never stood a chance. Now that they've got David Cameron, they do. With no high-profile change of direction – with no equivalent to the ditching of Clause Four – perceptions of the party have begun to change. As polls make clear, the electorate's approval of specific Conservative policies has measurably increased – even when those policies have yet to be announced. This, in spades, is an example of the blind versus named product test phenomenon: nobody knows what the policies are but Cameron's are significantly preferred. The name is the only variable.

It used to be said that you couldn't sell a political party as though it were a washing powder. Now it seems that you can't sell one any other way.

ARE WE RIGHT TO FEEL UNEASY?

On reflection, and on this particular issue, I think not. I believe that the majority of people have always chosen their parties as they've chosen their washing powders: on an indivisible blend of function and feeling. It's a perfectly respectable way to arrive at any choice and modern party managers are entirely right to recognise the fact (see Figure 1).

But it is a blend – and that's what saves us. Any politician, just as any brand manager, who believes that all you need is an appealing image – just punt the sizzle and forget the steak – is in for a painful piece of re-education. Feeling without function is never enough – or at least not for long. Had Mr Kipling not made exceedingly good cakes, he'd never have become brand leader. By contrast, Sunny Delight was something of a disappointment. We still don't know if Mr C is a Mr K or only Sunny Dave. People – be they voters or consumers – can spot an empty image from a hundred paces and will eventually reject it. Their rejection will be contemptuous and absolute – and in that lies our insurance. Politicians, too, can be caught marketing.

The longevity of the Blair brand seems to challenge this optimistic interpretation but I think it's explicable. It began as a strong brand – not least because it was almost without challenge. Strong brands acquire one priceless characteristic: they are more readily forgiven by their supporters. Persil was able to survive the Persil Power publicity and return to supremacy mainly because its users wanted it to. Blair, until recently, and in the absence of any beguiling alternative, has been largely forgiven for his many functional failings. It won't look so good in retrospect, however – and I very much doubt if any future political leader will ever be granted such a lengthy stay of judgement.

SPIN VERSUS HYPERBOLE

At question time after a lecture once, I was asked to define the difference between spin and hyperbole. Fortunately, I can't remember how I answered; I know only that I failed. It took me until the following day to work out what I should have said.

Hyperbole doesn't seek to mislead on elemental matters. It may seek to imply that white is whiter than white – or that my white is whiter than your white – but it never sets out to imply that white is black. Spin does. That's the big distinction. Spin sets out deliberately to distort a fundamental truth. And, for me, the most despicable form of spin is what's called conflation.

It's a little unfair on the word conflation, which simply means the merging or blending of two things to make a single whole. Political conflation usually involves something a great deal more sinister than that.

In the western world, and primarily in America, tens of millions of people are convinced that the invasion of Iraq was a direct and necessary response to the events of 11 September 2001. They hold that conviction because they have been knowingly and cynically invited to hold that conviction through a sustained programme of conflation. If you blame Saddam Hussein for 9/11 often enough, and for long enough, and with the backing of the most imposing of authorities, then the two become one. Two factually unrelated occurrences have been conflated; and one of the most deliberate and shameless of lies has become, for countless people, a sort of truth.

Advertising and marketing have long been aware of the value of simple association: often to compensate for some perceived weakness in a brand's reputation. Factory-made products present themselves in sylvan settings; a menthol cigarette is clear as a mountain stream; Captain Birds Eye lends a whiff of sea salt to the humble fish finger; jeans made in Taiwan borrow heavily from the imagery of the Wild West. This technique, I suppose, is a form of conflation – the blending of two conflicting sets of values – and I think I could convince quite a lot of people of its fundamental dishonesty. I can't, however, convince myself.

While not harmless hyperbole, neither is it the knowing perpetration of a demonstrable lie. To my immense relief, I can find no commercial equivalent to the 9/11–Saddam Hussein conflation. The use of attractive associations serves much the same purpose as attractive packaging: adding both to a brand's appeal and its users' enjoyment. And whenever it's employed to disguise some more functional deficiency, we can again take comfort from people's innate ability to spot an empty image and choose not to vote for it again.

That marketing and advertising emerge as reasonably innocent from this brief analysis is not to suggest that we're all people of high-minded principle. The need to win votes on a daily basis is at least as effective in keeping us honest as the Advertising Standards Authority. If politicians, too, had to face daily elections I can't help feeling that they'd suddenly rediscover the attractions of truth.

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NOTES & EXHIBITS

FIGURE 1: DAVID CAMERON: IS THERE SUBSTANCE BEHIND THE STYLE?

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Don't shoot the advertising

Hugh Burkitt
The Marketing Society

The Advertising Association recently held an excellent debate at the House of Commons where it offered, somewhat ironically, the motion 'Advertising is bad for your diet'. The proposition was heavily defeated, but sadly this was something of an empty victory as the voters were almost exclusively members of the advertising and marketing community. Elsewhere in the Palace of Westminster the view had already taken hold that advertising is bad for children's diets, and legal restrictions on the freedom to advertise food brands to children will soon be imposed by Ofcom.

Along with a number of other people in marketing I regard this as a sad outcome because advertising in itself is not bad for anyone's diet. Everyone agrees that there is a problem in wealthy countries with increasing levels of obesity among children. But there is no evidence that this is caused by advertising. Indeed in Sweden and Quebec, where advertising to children has not been allowed for most of the past two decades, there is no discernible difference in the level of obesity among children. Endless surveys have been conducted on who thinks what about obesity, but most marketers would agree that these two examples offer the only true market test of the effect of advertising.

NO SIMPLE ANSWERS

So why has advertising been curtailed? I am reminded of Stanley Holloway's monologue about Albert and the lion. Albert, you may recall, had been eaten while on a visit to the zoo and his mother was vexed, 'Someone's got to be summonsed, so that were decided upon.' Politicians and campaigning organisations need to blame someone for obesity and advertising has taken the rap. Those who have campaigned against advertising in this instance have managed to produce a successfully simplistic argument by muddling up no less than three things: the role of advertising within the whole marketing mix, the role of individual foods within a complete diet, and the role of diet within the lifestyle of children today.

Martin Glenn wrote an excellent piece in this journal last year on the need for a proper marketing strategy for tackling obesity, and deep in the bowels of the Department of Health there is someone tasked with developing 'social marketing' strategies for the key health objectives the government has set – including obesity. He or she and one or two others in the Civil Service have realised that real marketing, whether for a brand or a cause, requires a more in-depth approach than simply turning on an advertising campaign. And solving this particular problem will require more than turning advertising off.

WHAT CAN ADVERTISING DO?

The myth that advertising is a hidden persuader that makes us all, and especially children, powerless automatons is a persistent one in campaigning circles. But those of us who have toiled in the cause of brands for any length of time would be more likely to agree with Professor Ehrenberg's definitive view that 'advertising can increase awareness of a product, it can encourage trial, and it can increase

post-purchase satisfaction but there is little evidence that it can strongly manipulate or persuade'.

Advertising people are often brilliant at simplifying complex problems, but ironically no one in the advertising business seems to have come up with a simple argument that defends the freedom to advertise. Yet it needs a simple sound-bite or a touch of Maurice Saatchi's 'one word equity' to survive the next round of attacks that in an increasingly neurotic age will surely come.

The campaigners on the other side have certainly got the one word equity message. Speaking out against advertising in the diet debate was an organisation called Sustain. It speaks up for organic food and against junk food – which means just about any food that is advertised but is not organic. Virtually all advertised food brands from Mars to McDonald's have now been successfully categorised by the likes of Sustain as junk. Like many *Archers* listeners, I was deeply saddened about Tom Archer's sausages losing their organic status when he was forced to go into business with his horrible Uncle Brian, but junk food can be organic and organic food can be junk. It just depends how many sausages you eat.

When on the ASA Council, I learned that there is no claimable taste or nutritional benefit for organic food. It makes a useful premium for hard-pressed farmers, and no doubt makes the eaters feel more virtuous, but it is one of the many curiosities of the obesity debate that a higher standard of truth is required for brand advertising than for NGO press releases. But over time the truly truthful arguments will win and there should be freedom for Sustain and others to campaign both for organic food and against what they think is junk food if they can produce persuasive arguments. But it is not right that they should be allowed to stop commercial organisations having the freedom to advertise their brands.

In my lifetime, which stretches back to the end of the Second World War, and the last days of rationing, I have seen consumer choice expand enormously and I believe this is a great privilege for us all. Responding to customer choice is not only the best way to run a business, letting individual citizens choose as much as possible for themselves is also the best way to run society. Consumers should have freedom of choice and full access to information about the consequences of their choices. Children should be taught about nutrition in schools and that freedom of choice is a privilege that also has responsibilities.

FACING NEW CHALLENGES

I want to see health campaigners using the creative skills of the advertising business to get their message across, as the National Obesity Forum has with its striking image of a child's head on an old man's obese body. And I want to see the new team at the Advertising Association developing some sound-bites about the benefits of advertising. Advertising is a medium that encourages choice and competition. Its messages are already strictly controlled by the ASA to ensure that they are socially responsible. Advertising can allow new products to be launched that are healthier or more environmentally sound, just as it can offer those that fattening or selfish. It cannot make anybody buy anything.

As the pessimists in society become ever more excited about health, climate change and consumer debt, the Advertising Association must campaign to allow freedom for all sides to put their message across. And it must use all its lobbying skills to ensure that the government does not panic in the face of the next media mob and shoot the advertising.

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China's big problem: growing old before growing rich

Aruna Natarajan
MindShare Shanghai

In November 2005, Jerry Chen bought a minivan. By doing so, he joined thousands of other Chinese people who did the same and helped the multi-purpose vehicle (MPV) segment almost double in size, making it one of the fastest-growing segments in China's automobile industry.

What made Jerry, a 34-year-old Shanghai resident, a happily married man with a wife and a child, who works as a senior executive for a multinational company, buy a car larger than necessary in a time of rising fuel prices?

His parents.

Jerry's case is a real-life example of how China's aging population and low fertility rates are changing more than just the demographics of the world's most populous nation. That's a big event in itself, with immense implications. What should concern media and marketing professionals now is that China, by growing old before growing rich, is directly impacting the consumption capacity and patterns of its most desirable consumers: the up-and-coming urban middle-class.

Not only will the number of people in their prime decrease as a result of aging, their incomes too will shrink due to a combination of reduced GDP from labour shortages, and (possibly) higher taxes to pay for medicare. All this at a time when their expenses are increasing because they are caring for their aged parents and their child.

Will this market of one billion-plus customers still seem as attractive then as it does today?

ANCIENT CHINA

- By 2010, China will no longer be the world's most populous country. That will be India.
- By 2010, China will have 300 million people older than 50. That's almost as many people as the entire population of the United States by then
- From 2010 onwards, China's sandwich generation, i.e. people 20–49 years old, who are the core consumers for a majority of marketers, will actually start decreasing.
- By 2030, China's population will actually start shrinking.
- By 2050, close to half the population of China will be older than 50. That's more than 600 million people, and China's population will be lower than it is today.
- By 2050, China's elderly population will outnumber India's by 103 million, whereas the total

Chinese population will be smaller than that of India by 51 million (see Figure 1).

THE DRAGON GREYS

As is the case with any China-related statistics, the absolute numbers are quite startling. There are close to 100 million people aged 65 and over in China today. One in every two 60-plus Asians is Chinese and one in every five 60-plus people in the world is Chinese.

The demographic profile of the Chinese population is changing rapidly. A combination of factors, including controlled birth rates, lifestyle changes and improvements in medical care, has led to an ageing Chinese population.

For years the world has worried about the Chinese population and how there are far too many Chinese around. But projecting forward, a far bigger problem will be how *there will be too few Chinese people.* This is particularly important for the Chinese themselves.

Their economy, known as the factory of the world, depends on an endless supply of young desperate workers willing to work 16 hours per day, for meagre wages. A population decline will reduce the supply of factory workers, increase the upward pressure on wages, and make goods made in China uncompetitive when compared with other parts of the world such as South America, where devout Catholicism, proximity to the United States (China's largest trading partner) and poverty combine to reduce costs in these markets, and are likely to make them more attractive for manufacturers.

In short, population implosion is going to hurt China's GDP, putting less money in the pockets of Chinese consumers.

DIFFERENT SHADES OF GREY

Ageing population is a demographic issue which many countries the world over have been facing for years. In such terms, Japan is currently the oldest nation in the world and many European countries such as Italy and Germany are fast closing in on Japan. But compared to these other nations, China is in a unique position in the world today. Countries like Japan, Italy and Germany got rich first before they got old, but the same cannot be said for China.

In terms of development indices and prosperity China is still closer to developing nations of the world, but in terms of population demographics it mirrors the developed nations of Europe and Japan. Additionally, China lacks the social safety nets of the Western nations and Japan to care for the elderly.

Unfortunately for China, its GDP growth has been unable to keep pace with the declining fertility rate, thus causing an imbalance much more acute that anything seen in other countries with aging populations.

With fewer mouths to feed, increasing GDP per capita and improving the general standard of living could prove easier. This is exactly what has happened. Over the last few decades China has had one of the strictest population policies the world has ever seen. The one-child policy has been implemented so successfully that in urban China an entire generation has grown up without siblings. But through this policy, China has increased the standard of living of the existing population. Any visitor to Shanghai will attest to that.

While this strategy might have worked in the short term, in the long term it has created an entirely new demographic crisis. Going into the next century China will be the oldest poor country in the world. For all the rapid progress and economic reform that's happening in China, it still remains among the poorer countries, placed 122nd in the list of nations ranked by per capita income.

LESSONS FROM JAPAN

Given the unique position that China is in, it's difficult to take corrective action by emulating the model of Western countries and Japan. Let's take the example of Japan, China's Asian neighbour, which has been living and coping with this phenomenon for a while now. Last year for the first time, the number of deaths in Japan outstripped the number of births and the population of the country actually declined by 19,000. The current fertility rate of less than 1.3 children per woman of child-bearing age, increases the pressure on the working population significantly.

But there are a few critical factors that make the situation in Japan quite different from what China faces.

Japan as a nation became rich before it became old. Also the baby-boomer generation in Japan, who are just about entering the over-60 age group, are a well-qualified group and are the custodians of years of accumulated technical and managerial skills. This, coupled with the fact that average life expectancy is currently at 82 years and climbing, makes it easier for the government and the corporate sector to respond to this new situation.

Japan has identified that the solution lies in fixing employment and retirement systems so as to allow people to work more easily for more years to come. Changing mandatory retirement laws and removing age restrictions on hiring, are other changes that are being actively discussed to battle the problem. This way, Japan will be able to keep its ageing workforce employed for longer, thereby reducing the burden on society. Japan is also slowly opening corporate doors to women – an area that has been predominantly a male bastion. This again will help spread the burden of supporting an aging society among a larger workforce (see Figure 2).

THE EFFECTS OF IMMIGRATION

Western countries grappling with the problem of an aging population have another big advantage apart from trying to keep people working for longer: immigration. Immigrants moving en masse to Europe, the USA and even Australia help support the tax burden of the older population and also provide the numbers to keep the nation young.

In spite of the fact that China is opening up, and a huge number of expats are entering the marketplace, immigration is still a long way off and cannot be looked at as a panacea. Current rates of unemployment and underemployment are already so high that the question of keeping older people in the workforce for longer simply does not arise. Also, the equivalent of the baby-boomer generation in China have spent most of their lives working for state-owned enterprises and the skills they have acquired are not really suited to the current rush of private-sectors jobs that are flooding the market. The gender equality mandated under the communist regime has already ensured a place for women in the workforce so there is no new able-bodied group to look towards to share the burden.

POLITICS AND PENSIONS

The over-60 age group in China today are mostly those who entered the workforce in the days of the Cultural Revolution and were tied to their government jobs for life. These jobs didn't provide them with much opportunity to save for retirement. The state took care of all their basic needs but didn't really plan what would happen to these people post retirement. In the prime of their careers they were not allowed to own property, and investment options were close to non-existent.

State-owned enterprises do provide a meagre provident fund scheme to their employees, but with the aging population and the increasing number of lay-offs, many companies find themselves in a situation where they have more pensioners to support than actual workers. Even today, China does

not have a proper social security system for its people.

Medical insurance is the other area of growing concern in China. Only around 3% of the 1.3 billion population enjoy the benefits of health insurance policies, compared with 63% in the United States. And, in many cases, this system is not sufficient to cover most serious aliments.

With rising medicare costs, this could prove to be another big burden on the aging Chinese population. So as we can see, the older generation of the Chinese population lack the financial independence or the continued earning capacity that similar age groups in Japan and other Western countries enjoy.

Currently, books on 'marketing to one billion customers' are bestsellers in China. By 2050, with more than 600 million people older than 60, will marketers continue to woo and invest in this aging market when India with its young and growing population is right next door? Admittedly, there'll still be more than 500 million people who will be between 20 and 44 years of age, but their incomes will be under severe pressure when they have to care for the older generation.

THE 'SANDWICH' GENERATION: CAUGHT IN A JAM

In a sense, Chinese society is closer to other Asian societies, where the main investment that people can make for the future is their children. As in India, thanks to the absence of government-mandated social security and medicare, the older generation lack financial independence and rely on their children to take care of them in their old age.

This brings us to the crux of this demographic crisis. With the changing demographics of the Chinese population, the bigger fallout is not the growing consumer segment in the over-60 age group, but the impact that this segment is likely to have on the core 25–44-year-old consumer group. With an increasing retired population to support and the next generation to look out for, our core consumer group is bound to have increasing pressures on their disposable income and this is likely to significantly impact their purchase decision-making process and consumption habits across a variety of categories. Previously the commonly used adjectives to describe this omnipresent, consumerism-frenzied group included terms like 'upwardly mobile' and 'young working class,' but looking ahead a key descriptor for this consumer group will be the fact that they are the 'sandwich' generation (see Figure 3).

For a multitude of marketers and advertisers in China the 20–44 age group form their core target group. Purchasing decisions by cohort make the difference between success and failure for many brands in this market. But their lifestyle and purchasing decisions are slowly but surely undergoing changes. Eventually, this group of consumers themselves will shrink.

In an attempt to correct this shrinkage of a highly desirable consumer group, the Chinese government is trying to implement measures such as slowly relaxing its tight control over the number of children women are allowed to have. Rules are being relaxed in smaller cities; couples are allowed to pay fines and have more than one child; if both parents are single children, then they are allowed more than one child, etc. In the future it is also likely that the government will impose a medicare surcharge on people to offset the cost of caring for so many senior citizens.

While these measures are targeted at avoiding disaster in the long run, in the short term so much damage has already been done that these measures could make the situation worse. If couples start having more than one child, then the pressure on their already limited financial resources will only increase: two sets of parents and two children to take care of! And given the strict manner in which population policies have been enforced and tied in to economic reform, many young urban couples in China today do not want to have more than one child. Also any kind of tax or charge imposed by the government with the idea of benefiting the older generation will directly impact the money

earned by the sandwich generation, thus putting even more pressure on a working population which is already supporting a growing retiree base.

In the short term, China is caught in a vicious circle of its own making, and soft measures by the government are not helping much.

IMPLICATIONS FOR MARKETING

The situation is serious and the fallout is not just restricted to the government, social scientists and economists. Given that a population of one billion and the growing middle-class spending power is what makes China arguably the most attractive, developing market for foreign investment today, the implications for marketers, advertisers and communication specialists are significant.

For categories such as automobiles and real estate, bigger will be better. With both children and parents to take care of, people will need to buy bigger houses to keep everyone together and take care of both their old and young loved ones. In the automobile sector, assuming the majority of the Chinese population continue to be single car households for some time to come, people will need to upgrade to seven-seaters and minivans to transport their extended families.

WHICH BRING US BACK TO JERRY CHEN AND HIS MINIVAN

Married with a child, he started off the decision-making process like most people in China do, for this category, with a price range in mind. This basically put him in the C/D segment within the automobile category. He did his initial information search, spoke to friends who had recently bought cars, and after a few dealer visits he had narrowed his choice down to two brands. So far a fairly typical decision-making process for the automobile category in most parts of the world. Then over a long weekend when his wife's parents had come to visit, he and his wife suddenly realised that there was one important thing they had forgotten to factor into their choice of car.

Both sets of parents were retired and living in different cities, but they usually ended up having at least one set of grandparents over to spend time with the grandchild as often as every other month. This would mean that every second month a family outing would involve the couple, the child, the nanny and two grandparents – a tight squeeze in a sedan. Needless to say, the budget was immediately increased and the final winner was a Honda minivan. This is a simple, but not uncommon, example of how changing needs can impact consumer choices in China today.

THE IMPORTANCE OF GIFTING

There are also other product categories that have slowly started to see the impact of demographic changes on their sales volumes. Apart from regular gifting categories such as confectionery and chocolates, mundane fmcg products including coffee, milk powder and multi-vitamins grow a large part of their sales volumes in China from gift packs.

Gifting as a concept works as a two-way system: gift packs targeted at children to give to their parents and also aimed at older consumers for giving to their children and grandchildren. Abundant potential exists given the number of gifting opportunities, which range from marriage, childbirth, birthdays and anniversaries to Chinese New Year, Moon Cake festival and Mid-Autumn festival to name just a few.

Gifting extends to other fmcg categories too. Given the rapid increase in migration from rural areas and smaller towns to the big cities in search of work, a large proportion of the working population still have their parents far away and need ways and means to keep in touch with them and take care of them. Mobile phones with larger keys and simple functionality for older parents to keep in touch

with their children, no frills computers with easy-access internet connections, cameras to capture special occasions which are missed, are just a few examples.

Now as categories and product innovations go, these aren't new. In many of the Western countries and even in Japan, marketers have started to realise the potential that exists with the older group of consumers and have started to market products and brands targeted at them. But what makes this different in China is that for most of these categories, the actual purchaser could still end up being the sandwich generation and not the older consumer. The older consumer is still the end user but given their financial and physical dependence on their children, they will rely heavily on their children to make purchase decisions for them.

SOME CATEGORIES BENEFIT MORE THAN OTHERS

The sandwich generation lack avenues for investing their wealth to prepare for old age. The stock exchange is nonfunctional, banks are not transparent ... so where will they invest? This explains the booming real estate market. If the government has any intention of helping at least the next grey generation prepare better for the future, they will need to start offering dependable retirement avenues for its citizens. Financial services and investment funds will become a sunrise industry.

There will be a predictable boom in products targeting the old, where Japanese products will lead the way. Their proximity to China, decades of experience in the market, and offering solutions to their own aging population, will give them a head start. We may even see special lanes in downtown areas for the elderly using Toyota hybrid wheelchairs.

Pharmaceuticals are the largest spending advertising category in China and the bulk of these spends are controlled not by the large multinational brands but by strong local Chinese brands who offer a wide range of products in this market.

The other category is insurance which thanks to WTO policies is slowly opening up in China. If the private insurance sector in China mimics what happened in India when FDI was allowed in, we are bound to see a lot of multinational players coming in with aggressive marketing activity.

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NOTES & EXHIBITS

FIGURE 1: AGE DISTRIBUTION IN CHINA 1950–2050

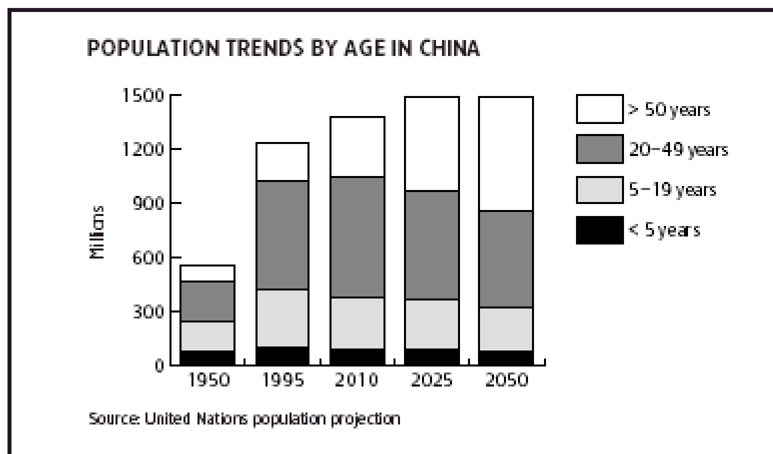


FIGURE 2: SELECTED WORLDWIDE FERTILITY RATES

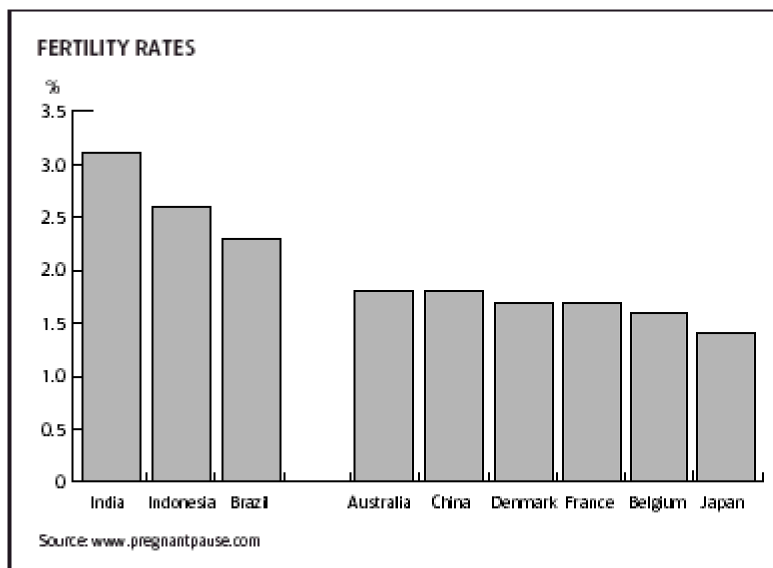
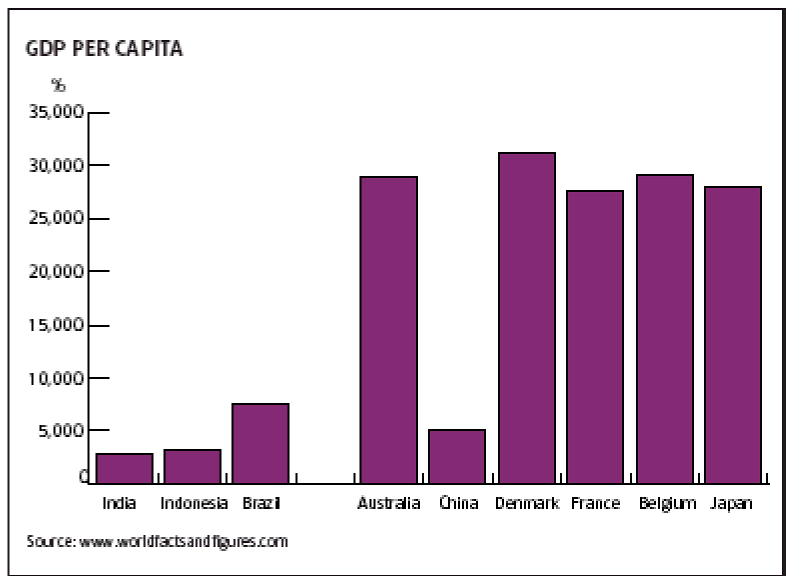


FIGURE 3: SELECTED WORLDWIDE GDP PER CAPITA


GDP PER CAPITA
%
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
India
Indonesia
Brazil
Australia
China
Denmark
France
Belgium
Japan
Source: www.worldfactsandfigures.com

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Managing brands in the oil industry: the case for demerger

Paddy Briggs
BrandAware

Experienced marketers know that there are often tensions in companies between those in the factories who produce, and those in the marketplace who sell. But in the best customer-driven companies these tensions are usually resolved by managers making a judgement about what is in the best long-term interest of the brand, and therefore of the consumer. All the world's great brands do, of course, have to source or produce their products and services – but the manufacturing process is always subservient to the market and must always deliver products that the consumer wants to buy at a price that they can afford. The world's great brands have reached their prominence by having a customer-obsessive mindset throughout their organisations – and especially at the top.

MARKETING DRIVES PRODUCTION ... BUT NOT IN THE OIL INDUSTRY

Consider, for a moment, an oil industry multinational such as BP or Shell. The success of these energy companies over the past 75 years has primarily been built on their technological competence and innovations in the 'upstream' and on their willingness to invest heavily in the search for new hydrocarbon assets. This imperative undoubtedly still drives the business today – it is the main source of the companies' profit streams and it is where by far the largest proportion of the companies' investments are made. Unsurprisingly, most of the members of the senior management teams of these corporations have been chosen from among their successful practitioners in the upstream.

But most multinational oil companies are also world-scale branded marketing businesses. They are, then, a curious amalgam of a global, branded consumer business and a high-technology raw material extraction, production and processing business. And there is only the very loosest connection (and no interdependency) between these two segments. Shell or BP's consumer business (most visibly their petrol station networks) is not in any way dependent on their production business for its products, which can be (and are) obtained from any available supply source. While there may be 'value added' along the supply chain from production to consumption, this is incidental. There is no need to have a vertically integrated structure in order to realise that value; each segment is independent.

THE CALL TO SPLIT UP BP

Cazenove's suggestion that BP be split into two quite separate businesses and corporations will probably have been welcomed by BP's marketers. In all oil majors, managers in the 'downstream' struggle daily with the reality that marketing is the poor relation of exploration and production. The consumer end of the business is always subordinate to the upstream search for, and production of, crude oil and gas.

Consumer-driven marketing, and production-driven geology, engineering and technology are quite different disciplines – and there is little evidence that those with talents for the latter field can also be competent in the former. But while the upstream is their main focus of attention and their main

source of profitability, companies like BP, Shell and ExxonMobil also have substantial marketing assets: strong marketing brands and millions of customers. Shell is the world's leading branded retailer (in any product category) with around 45,000 petrol stations in around 100 countries (compare this with 30,000 McDonald's restaurants). But in my experience matters related to this huge business occupied little of the time of the company's senior management and were rarely agenda items at board meetings.

SUCCESSFUL MARKETING REQUIRES FOCUS ON A SINGLE SKILL

Historically, the big players in the oil industry created vertically integrated businesses with marketing as the final link in the chain. In the past, marketing was a core competence to such an extent that many of the most memorable advertising campaigns in both the inter-war years and the post-war decades were from the oil industry. Mention 'You can be sure of Shell' or 'Esso blue' to a British baby-boomer and he or she will sing you the jingles that went with the campaigns. In the years before the first oil crisis of 1973 we were all 'going well with Shell' and believed that the 'Esso sign meant happy motoring'.

In Britain one of the reasons for this marketing success was the existence of a company, now long forgotten, called 'Shell-Mex and BP Ltd'. This was a joint venture between Shell and BP to market products under these two brand names in the British Isles which was, for a time, one of Britain's largest companies. Shell-Mex and BP was 'only' a marketing company and it did not even run refineries. The company's products came mostly from its parent companies, which then substantially left it alone to build its business. Because it was exclusively a 'single skill' marketing business Shell-Mex and BP's board of directors, and all of its managers and employees, concentrated principally on brand management and on the customer. It was also a very innovative company, creating the concept of self-service at petrol stations and the domestic central heating market among many other customer-led products and services.

YIELDING LOST VALUE

The likelihood that dedicated marketing companies would more successfully manage consumer brands in the oil industry was no doubt part of Cazenove's thinking in its suggestion of an upstream/downstream split for BP. Cazenove has suggested that such a demerger could 'yield £35bn of lost value to shareholders' – an astonishing sum, but no doubt it has done the math.

Certainly the downstream businesses of the oil majors are huge concerns, with assets, revenues and an international scope that would make them world-class businesses on their own. The most compelling reason for a demerger is, however, not just that the resultant downstream businesses would be substantial, but that the management of them would be 100% focused on the brand and on the customer.

Take the most visible asset that a BP or a Shell has: its worldwide networks of petrol stations. In some markets tentative steps have been taken in recent years to use these assets to market a wider range of goods and services (notably convenience stores). Imagine how much extra impetus would be given if this retailing, rather than being seen primarily as the thing that you do at the end of the integrated oil chain, was the primary focus of the business.

EXTRACTING MAXIMUM BRAND VALUE

The brand implications of a upstream/downstream split for Shell or BP would have to be carefully considered but, coincidentally, each of these corporations has an obvious strategic brand solution readily available.

For Shell the Shell brand and logo and visual identity system could be allocated to the new

downstream marketing business. The existing petrol station networks and product brands would pass to the new corporation as its most valuable tangible and intangible assets.

The upstream business could be re-branded 'Royal Dutch' – the traditional name of the Dutch part of the Shell Group and a name that is already familiar. (At this year's first annual general meeting of 'Royal Dutch Shell plc' the 'Royal Dutch' part of the corporate name was very prominent – along with its 'crown' symbol. So, a ready-made corporate brand for the new upstream company is already substantially in place.)

For BP there is also an attractive and fairly easy to implement solution to the brand issue in the event of a split. The BP name and logo could be allocated to the upstream company and the downstream business could be re-branded 'Castrol' – exploiting the high brand value and excellent reputation of this famous lubricant brand, which is now part of the BP family. There is no reason why the Castrol name could not be 'extended' also to brand petrol stations and other marketing assets and products.

In both companies the refineries would remain separate from the marketing business and could form a third independent business. As we have seen, there is no need for oil marketing companies, however large, to also own and operate production facilities.

REPUTATION MANAGEMENT

Another advantage of a split as suggested is that virtually all the reputation damage that oil companies have received in recent years has come from their upstream not from their downstream activities. But damage any part of an integrated oil company and you potentially also harm the consumer brand. The petrol station is the most visible manifestation of an oil company and can become a focal point for protesters.

Demerge the consumer brand from the upstream business and not only do you remove the risk of this type of brand damage you also put all your reputation management and communication efforts for that branded downstream business into areas that are close to the consumer.

For example, the oil companies' failures to communicate the rationale for petrol price increases over the years have been directly attributable to their lack of internal focus on developing effective communications with the consumer stakeholder.

More than 20 years ago Tom Peters wrote: 'The most successful [companies] of all are those diversified around a single skill.' If ever a business needed to concentrate on the 'single skill' of marketing to maximise its business potential it is the oil industry – with the added benefit, of course, that the explorers and the drillers and the refiners could also focus 100% on what they do best. Shell (or rather 'Royal Dutch') might even improve its oil reserves, as well as maximising the potential of its brand, if it took the step to demerge.

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How to be a customer champion: turning insight into action

Martin Hayward
Consumer Strategy and Futures, dunnhumby

When I started my career in marketing with Ogilvy & Mather in the early 1980s, life was slower. Email hadn't yet been developed, so the arrival of the morning's post set the agenda for the day. Lunches – with booze, of course – were viewed as an important part of the day's business priorities; research respondents had to be found on the street by ladies with clipboards; and Nielsen reported on sales in the grocery sector bi-monthly, with a four-week lag, so it took a minimum of three months for any evidence of sales effects to arrive.

Today much has changed. Virtually everything is faster, but perhaps nothing more so than the availability of insight of every type.

Let's take the provision of grocery sales data as an example. From a leisurely three-monthly reporting lag of bi-monthly data, a research company such as dunnhumby can now provide hourly sales data for more than 12,000,000 shoppers within days of the actual event taking place.

Consider research recruitment: today dunnhumby can immediately identify purchasers of a particular product, invite them to participate in research through a message on their till receipt, telephone call or email, and have integrated feedback on attitudes and behaviours for the same customers within days. There has been a truly remarkable step-change in the speed and detailed precision of insight within the space of a few years.

THE PLANNING PROCESS – STILL TOO SLOW

However, one thing hasn't changed in all this time. And it's a thing that takes place in almost every marketing department soon after the summer holidays, but before Christmas. It happens, if you're lucky, in a luxury country house hotel and perhaps even allows time for the odd game of croquet.

I'm talking about the annual brand planning session. As annual today as it ever was: a fine out-of-office experience to provide the time to think deeply and strategically about brand strategy and tactics for the coming year.

Despite the massive increase in speed of almost every other aspect of the marketing process, the planning process remains resolutely fixed to the timetable of a bygone era. An annual process was about right at a time when it took months to get any feedback about consumers or the market. But given the speed and detail available from today's integrated insight sources, one can only guess at the number of opportunities missed by a planning process that is so slow and unresponsive.

Because the planning process is so slow, we find that many of the tools that marketers use remain on the same tardy timetable. New product launches are evaluated over months rather than days, yet samples of millions of shoppers allow the source of buyers, repeat rates and switching to be

monitored within days.

In an era of enormous price pressures, retailer power and consumer reticence, perhaps the greatest single opportunity for today's marketers to exploit is the ability to respond much more rapidly to the signals that the market and the customer can provide. For years marketers and their agencies have aspired, and indeed claimed, to keep a 'finger on the pulse' of the consumer. But to date this pulse has either been very, very slow as a result of the research lag we've all grown up with, or very, very qualitative and over-reliant on a few focus groups.

Today, however, there is little excuse for not demanding accurate, rapid feedback from the market and the consumer on a daily basis (see Figure 1). At the heart of this new capability lie a number of developments:

- the emergence of shopper loyalty schemes that provide rich, precise and rapid insights into consumer behaviour (today dunnhumby receives over 5 billion pieces of information from Tesco shoppers each week)
- the growth of the internet's influence, which creates a rich information source about interests, communities, transactions and requirements that can be explored at an individual consumer level
- The unstoppable digitisation of media, which is inevitably creating direct linkages between what is broadcast and who is receiving TV, press, radio and even poster activity; this will increasingly be directly attributable to their viewers, readers and listeners as the method of delivery changes and new measurement tools are developed
- the rapidly emerging possibility to 'connect the dots' of consumer insight, creating true links between all elements of the marketing world.

COMPOUNDED ERRORS OF TRADITIONAL MEASUREMENTS

Traditional efforts to connect data about different elements of the marketing process lead to decisions being founded on compounded errors (see Figure 2). This is because different elements have been measured by different companies, using different (normally small) samples, at different times and with different methodologies.

Today, we are beginning to experiment with true single-source data capabilities. The same consumer's awareness, media consumption, attitudes and behaviours are all measured continuously and coherently to provide what can only be regarded as the holy grail of marketing: linkage between cause and effect.

We can begin to do this by building on the breadth and depth of the shopper loyalty schemes that provide rich and accurate purchasing data on a huge scale. We can then overlay media consumption data from a variety of sources (e.g. press and magazine purchasing data from the loyalty scheme itself, TV viewing data from matched digital viewers) as well as awareness and attitudinal data from a panel of shoppers whose views can be researched, when required, by telephone, internet or in-store.

This means that for the first time, truly integrated insight is available; it's fast and it's built on robust samples.

TEST AND LEARN

In the light of these developments, we need to rediscover our desire to experiment. We have the ability to try things out and to take risks, because the scale of risk is much smaller if the feedback is quicker and more accurate. It doesn't have to be a national launch any more because data samples at a regional or even store level are so large now that they provide robust analysis. It doesn't have to be a TV region launch because advertising can be targeted more accurately to specific consumers through digital or in-store media.

Overall, perhaps the marketing industry at large needs to learn from the direct marketing sector and embrace the concept of 'test and learn'. Try something out, measure whether it works, and then decide whether to do more of it. (Having said that, it's probably time that the direct marketing industry learned that a 1% response rate is not a great result – think of the other 99%.) This experimental approach wasn't appropriate for many types and categories of marketing even five years ago, because it took so long to measure the market effect. Today, the market impact can effectively be monitored in real time providing a sensitivity and speed that should liberate creativity and responsiveness.

COLLABORATION RATHER THAN COMPETITION REQUIRED FOR GREATER EFFICIENCY

The other major new dynamic that this new era of insight, speed and granularity should herald is a shift towards closer collaboration between all those involved in the marketing of products and services. Given that the insight now exists to inform very rapid response to the market and consumer needs, it will become imperative for brand owners, media and retail parties to work more closely and more cooperatively with each other to maximise the available opportunities.

Many of the positions being adopted in the marketplace are the product of years of conflict, suspicion and lack of transparency due to the absence or slowness of feedback that used to characterise the business. Today, there is more to be gained from working together to experiment, respond to and learn from the market.

A GENUINE RESPONSIVENESS TO CONSUMER NEEDS IS POSSIBLE

Starting to use these new tools and capabilities will inevitably start to shift the focus of marketing organisations towards the needs of their customers, which can only be a good thing. Up until now, a huge proportion of marketing thinking has had to be based on intelligent guesswork because the feedback loop has been so slow.

We are now moving towards a happier state of affairs, where real consumer behaviours in response to marketing stimuli can be measured immediately. The key challenge for marketing subsequently changes from trying to find out what's going on, to trying to keep up with consumers. Another way of saying this is that the focus shifts from relevance to response.

To some extent consumers are already well ahead of brands in this respect. They don't understand why companies still deluge them with irrelevant messages and offers, nor why companies don't respond to information they have already given. People provide personal information, respond to surveys and express preferences. Yet few brands, retailers or services seem to be able to respond to their needs in meaningful ways within a meaningful timescale.

This will have to change, and the leading organisations of the future will be those that manage to embrace the potential of rapid, detailed feedback from their customers, and equally rapidly do something about it. As Jack Welch of GE once said:

'There are only two sources of competitive advantage: the ability to learn more about our customers faster than the competition and the ability to turn that learning into action faster than the

competition.'

What I've tried to demonstrate is a growing mismatch between the evolving capabilities to paint a dynamic picture of the consumer, on the one hand, and the ability, or will, of marketing organisations to grasp this opportunity of responding with more relevant offers on the other. Undoubtedly, there are some who have a vested interest in maintaining the obscurity that slower feedback loops have provided. It will inevitably be harder work to sell in that national year-long campaign in a world of rapid feedback where test and learn becomes the development mantra. However, ultimately the results will begin to speak for themselves and, if it works, then of course it will be extended (see Figure 3).

We must also all remain sensitive to the longer-term, softer impacts of marketing activity that accrue over time as our feedback loops accelerate, ensuring that we measure and nurture the slower-moving attributes of our brands in tandem with the faster-moving responses to ever faster changing consumers.

The more we know, the more we must do; but for those who truly subscribe to the notion that long-term business success is driven by satisfying customers then there probably hasn't ever been a better time to be in the game.

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NOTES & EXHIBITS

FIGURE 1: NEW TECHNIQUES AND TECHNOLOGY HAVE INCREASED THE SPEED OF MARKET FEEDBACK

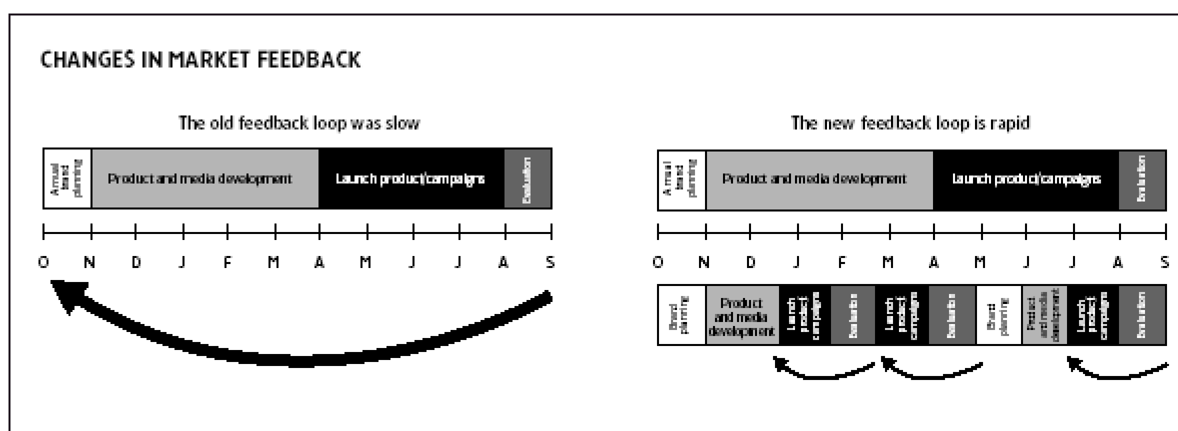
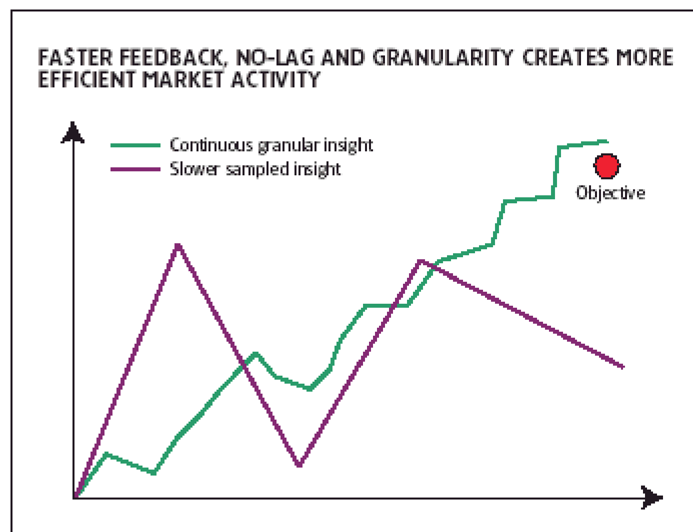


FIGURE 2: THE PROBLEMS OF LINKING SEPARATE RESEARCH SOURCES

FIGURE 3: THE EFFECTS OF FASTER MARKET FEEDBACK



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Marketing without waste: how to stop spamming people

Simon Silvester
Wunderman EMEA

Marie arrives home from work. She checks her email on her laptop. She has 12 offers for sexual potency pills, three from music download companies and 58 offers from online casinos.

'**Spam**' thinks Marie.

She checks her mobile. On it are three texts offering her a free holiday, discount ringtones and a pizza.

'**Spam**' thinks Marie.

Her home phone rings. Someone wants to sell her new doors and windows.

'**Spam**' thinks Marie.

On her doormat are five letters offering her credit cards, loans and a hair colouring treatment.

'**Spam**' thinks Marie.

She looks out of the window. Outside are eight billboards talking about credit cards and loans.

'**Spam**' thinks Marie.

She switches on the TV. There are three ads for ringtones, followed by one for loans. Then comes the show – sponsored by an insurance company. Marie realises that the TV is spamming her too.

Marie is being bombarded by more commercial messages than any human being ever before. And like most mammals in such a situation, she's developed a defence mechanism. A laboratory rat forced to live next to a constantly ringing bell learns to switch the sound off in its head. After a while, its brain just doesn't register it.

Faced with so many messages, Marie too has reached overload. And she too has learnt to switch off the noise in her head.

But Not Quite All of It ...

But Marie doesn't ignore quite all the communications being flung at her. She replies to the offer of a pizza. She also reads the offer about the new hair-colouring treatment. And she looks at one of the emails about music downloads as well.

Why does She Do So?

She responds to the offer of the pizza because it came from her *mum*, whom she hasn't seen for two weeks. She looks through the hair-colouring offer because it's from her *favourite hair salon*, and she wants to know what her stylist Pierre has planned for her. And she looks at the email about the music downloads, because it was from iTunes, and she is in love with her *iPod*.

What's the Common Link?

In each case, Marie registers and reads the message because she has an *existing relationship with the sender*. The existing relationship makes the message stand out to her like a light in the gloom. It lets messages get through that usually wouldn't – no matter how many times they are repeated. In a world where companies otherwise scream all the time about their wares, how much they scream is no longer the decisive factor.

Today, it's not *what* the consumer knows, but *who* they know that matters.

MARKETING WITHOUT WASTE

Relationships are a powerful answer to the incessant noise of modern marketing. They allow messages to get through when they otherwise wouldn't. But they are also a much more efficient way to market than spamming (or 'classical marketing' as its advocates prefer to call it).

Classical Marketing Isn't Efficient

Classical marketing uses the blunt instruments of mass media. It's not that easy to target a specific group of people with them.

If you're looking for women aged 18–30, your TV commercial, however carefully targeted, is going to hit millions of people who aren't in that group. Indeed, in some countries, TV stations will only sell you one broad audience anyway – like 'housewives 18 to 49'.

The end result is money down the drain.

You spend ten million euros on advertising to women aged 18–30, and nine million of those euros hit men, and women who aren't aged 18–30. Only one million euros hit home. If you are targeting a smaller part of the population, things get worse.

If you're targeting say the 5% of people who buy premium skincare products, then as much as 95% of your advertising goes to people who don't ever buy premium skincare, and only 5% hits home.

And if you are targeting a very small audience, say the 1% of a city's population that fly frequently on business, as much as 99% of your advertising impressions are wasted, and only 1% hit home.

Compare that with Relationship Marketing

Compare that with marketing within a modern computer-powered relationship:

- Supermarkets now have efficient loyalty schemes that combine customer address details with a complete record of every item that their customer has ever put into their basket in their store. So that supermarket can easily promote a new product to the 5% of its customers who already buy premium skincare products – and to those people alone.

- The better airlines possess an intimate picture of their customers' travel habits, as computers process everything from bookings to seat preferences to lounge visits. So if they want to talk to the 1% of people who fly frequently on business from a city, they can do so – and to those people alone.

- Even taxi services are developing good databases nowadays. London's Addison Lee takes its bookings via the web, and alerts customers to their taxi's arrival by texting their mobile phone. So they too can talk to all their best customers – and to those people alone.

Plane Sense

The massive new efficiencies of relationship marketing explain why you rarely see airline commercials on TV any more. In the 1990s, TV ad breaks in London, Paris and New York were full of business-class air travel ads. Today, they're virtually all gone.

But the relationships the airlines have made with their frequent fliers have got stronger – they receive more information, more frequently and more timely than ever before – but via email and post with 100% efficiency, rather than via television with 1% efficiency.

What's more, because it knows who it's going to, it's better information than before. It allows customers to change their seat the night before they fly. It clears airport queues for them. And it allows them to select their meal – regular, vegetarian, halal or kosher.

Competing on Relationships: Package Goods RIP?

However, when packaged goods companies try to compete on relationships, they face an uphill battle. A modern supermarket has a €7000-a-year-plus relationship with its shoppers – it feeds them and their family, provides them with toiletries and cosmetics, clothes them and ensures their homes are clean.

This big need makes for a big relationship. By comparison, the needs that packaged goods fulfil are simply not big enough. People value their relationship with their supermarket. But no one wants a relationship with a can of beans.

Beans Means Small Needs

The problem is that packaged goods brands were built for the era of TV, not for the new era of relationship marketing. In a 30-second TV commercial, the kind of thing you need is small, like 'fixes dandruff'. As long as the benefit and the brand name stick in the prospect's mind, all's well and good.

But that need isn't enough in the era of relationship marketing. Strong relationships have bigger needs at their core. Packaged goods brands need to redefine themselves around big needs to succeed in this new era of relationships.

It need not be too much of a leap. We have been so used for the past 50 years of thinking of packaged goods as simple brands in cans that we have forgotten that they can be bigger than that, that they can form systems, educate their consumers as well as mirror them, and that the needs they address can be as big as the human imagination is large.

No one wants to form a relationship with a pot of skin cream. But they will form a relationship with something that helps them look young at 40.

No young man wants to form a relationship with a deodorant. But he will form a relationship with a brand that promises to get him a hot date.

And indeed no one wants to form a relationship with an insurance company either. But they will form a relationship with someone who promises to look after them in old age.

No More Problem/Solution

'But we can't fix big needs the way we can fix body odour', complain packaged goods marketers. They are still living in the era of 30-second TV.

The point of a relationship is not to provide a quick before-and-after fix for problems, but to share them and discuss them. Solving things permanently is only a goal. If packaged goods can redefine themselves around these big needs, they can prosper in this era of relationships.

If not, as the supermarkets get smarter, packaged goods brands are likely to struggle – and become the roadkill of the relationship revolution.

WHY LOOK FOR A NEW CUSTOMER WHEN YOU ALREADY HAVE ONE?

Each year marketers spend billions of dollars on activities aimed at finding new customers. They spend precious little on keeping their existing customers. Perhaps this made sense when marketing was invented in the 1950s. Then, Western populations were young, with huge numbers of young adults in their early twenties.

With cheap television and few channels to watch, you could hit all of them, every night. Acquiring new customers was like shooting fish in a barrel. Today Western countries are much older. Their populations have flat age profiles: there are no more 20-year-olds than there are 60-year-olds.

Western populations today can be visualised as conveyor belts with roughly equal numbers of young adults getting on at one end each year, and roughly equal numbers of 80-year-olds falling off at the other end. In such a population, the way to win is to make sure the people who commit to you remain with you for the six decades they remain on this planet.

This Means Keeping them Loyal to You

Today, the most important mission of marketing is to ensure that those people stay the course. Does this mean building a real relationship with them, or just treating them well? In the short term, the commercial impact is negligible.

But in the long term, the commercial difference between treating them well each year and thus keeping 90% of them, and building a secure relationship and holding on to 99% of them is astounding.

- Keep 99% of them each year and after ten years, you've lost 10% of your business.
- But keep only 90% of them each year, and after ten years your business is only a third the size it was on day one.

For most businesses, this is the difference between success and collapse.

Relationships can make Money Too

What's more, unlike trial-based marketing, relationship marketing can actually make you money. In the past, most big companies made most of their sales on five or fewer product lines. In the 1980s for example, toy giant Fisher-Price produced hundreds of types of toy. But around 80% of its sales came from its talking telephone and four other toys.

Strip a company down, and most of them are like this. They sell lots and lots of a few lines, and very little of anything else. In the age of digital-based relationships, that need no longer be the case.

With a modern e-company like Amazon, something like a third of their sales come from lines that aren't just in their top five, they aren't even in their top thousand lines.

The picture is similar for online tune downloads. And ringtones. Once you have a customer in a committed relationship with you, you can offer them all sorts of products and services via your website that they might otherwise never discover.

The infrastructure you need to set up to fulfil is small. Distribution can be via online download or mail. And you don't need masses of marketing support. You can talk to very few people, with no waste. And as they are committed customers, they are half sold on your products already.

In the offline world, small, niche product lines nearly always lost money for their makers. Today, the so-called 'Long Tail' can be a source of massive, easy incremental revenue. Relationships are thus not just a more efficient and more impactful way to market. They may also – eventually – make your marketing process pay for itself.

Here are ten principles that should help.

1 THINK IN CUSTOMER TIME

In the past, relationship marketers sent out mailshots. They ran relationships according to their own timetables, not the consumer's timetable. Today, they can strengthen the relationships they build with consumers by thinking in customer time. Here's an example.

If you are the mother of a six-week-old baby, then it's pretty likely that the top issues in your life concern six-week-old babies. But go to any newsstand, and there is no magazine that caters for you.

Most mother and baby titles have articles on toddlers, one-year-olds, and the first months of pregnancy. There are no magazines specifically about what it's like to be a mother of a six-week-old baby. And that's where relationship marketing comes in.

A good relationship marketer, like Tesco, finds out when your baby was born, and sends you a magazine tailored to you. So mothers of a six-week-old baby get a magazine about being a mother of a six-week-old baby. And mothers of babies aged 18 months get a magazine tailored to them too.

2 ALLOW FLIRTING

With most relationship marketing schemes you have to fill in three pages of personal details before you get into the website. But many people at this early stage aren't convinced they want a relationship with the company. Like people in a singles bar, they want to connect and they want to know more. But they don't want to make a binding commitment.

Good relationship marketing builds in a flirt phase, where customers are allowed to feel their way around the facilities, meet other members, and enjoy the benefits of being part of it – but without the hassle of total commitment.

3 DON'T BE ARTIFICIALLY UNINTELLIGENT

'Congratulations Ms Smith' run letters from some direct marketers 'on your purchase of your new product from us.' It's personalised. It's a nice, interesting letter. But it doesn't know what model you just purchased.

In a relationship, forgetting basic facts about the other person is plain rude.

If you buy a washing machine from the man at the local white goods store and you go in a week later and he can't remember what you bought, you'd be more than a little insulted. The trick is to make your purchasing computer and your marketing computer talk to each other.

If they don't, your relationship marketing can actively turn customers off.

- You have fifty thousand euros on deposit, but your bank keeps sending you loan applications.
- The online travel company keeps sending you offers priced in dollars when you live in France.
- You surf onto an investment website, and it instantly spawns 20 new windows all selling online casinos.

People you meet face to face are rarely this brainless. You know they are smart, thinking people – even if the only messages you get from them are via text. If relationship marketing can match the simple intelligence of a teenage text message, it will move on miles.

4 DON'T MOVE TOO FAST

'Congratulations Mrs Dupont, you're married.'

'Please take the keys to our home, car and credit cards.'

'And live with me happily ever after.'

Real relationships aren't like this – they develop slowly over time.

Let yours do so too.

5 AND DON'T GET INTIMATE TOO SOON

'Hello Ms Dee. We noticed that you bought a tube of haemorrhoid cream at our store a few months back. We've got together with the manufacturer and can now offer you a 5%-off coupon on your next purchase.'

Yes, if you're a supermarket, you can do it. And certainly most relationship marketing has a sexy intimacy that most people find a little troubling the first time they see it.

But this goes too far.

Overall, the trick is simple. Treat customers with a little respect and distance at the beginning. Get your kit off together later.

6 LET THEM MEET FELLOW USERS

'Come and join our club' say many of the Japanese electronics brands when you buy one of their digital cameras. They make you fill in three pages of personal details, and then offer you passworded access to ... nothing. The software downloads on the site are the same as those on the CD that came in the box. There is absolutely no value in the clubs whatsoever.

How much better if these clubs offered something of value to their users – perhaps offering lessons in digital photography on their pages, or a gallery where users can upload their latest snapshots, and where they can discuss issues that they are having with their new purchase.

If you buy a new digital camera and the next day you see someone else at a party with the same model, you will not be able to resist talking to that other person.

And this is the role that such clubs can perform to perfection.

7 DON'T WASTE WORDS

There's a certain sort of family that sends out a detailed five-page letter at holiday time about what they have been doing all year: '... and Dee Dee the dog has started to eat dried dog food, but she's been having problems with her bowels ...'. They send it to everyone, occasional acquaintances included.

It's too much information. Many relationship marketers do the same:

- Some write letters to tell their consumers about their company's investment in shiny new computers.
- Others want to explain their exciting new granular marketing strategies.
- Others just want to introduce customers to their thrilling new CEO.

The consumer doesn't care. The old adage of 'the more you tell the more you sell' doesn't apply to communication in a relationship.

If you don't have much to say, just say it and leave.

8 LET THINGS DEVELOP

Relationships between humans develop through three stages. In the first early stage, the protagonists are attracted to each other through stimulus. As the relationship progresses, both sides in the relationship move on to find a sense of shared values. Finally, they negotiate roles as a precursor to moving in together. We are coming to realise that commercial relationships go through exactly the same processes.

Thus a skin cream evolves from something that delivers a moisturising benefit into something that reflects their personal sense of beauty, and then develops into something that occupies a deep, important role in their personal care regimen.

Your relationship too needs to move on and deepen over time.

9 WORK ESPECIALLY ON ROLES

As just said, people first look for stimulus. This is what gets them into the relationship. Then they are looking to share values. They want to know that you think the same way they do. Finally, they start

to negotiate roles with you.

In long-term relationships, clear roles are vital. This is particularly important for customer magazines.

Defining the role of the customer magazine in the life of its user is absolutely vital, if that user is going to value and relate to its editorial in the medium and long term.

By defining its role, we mean whether the magazine seeks to be a solid and trusted advisor on the issues of life, or a provocative and animated friend who exposes the reader to all that is new and cool in the urban world she has recently left to start her family. A clear role in the consumer's life gives them a clear reason why they should look out for subsequent issues of the magazine, and helps it embed in their lifestyle.

If you achieve this, you'll find your consumers waiting for it to land on their doorstep.

10 RELATE TO THE RIGHT PERSON

Good relationships mean understanding who makes the real decision to transact. In many cases, this may not be the end user. AmEx understands this well.

It understands that the people who get their corporate charge cards into companies are the finance decision makers, not the people who carry them. And so it rewards finance people for letting them in.

The only people with prestigious Amex Black cards are billionaires and rock stars – and the finance directors who sign up for corporate card deals with AmEx. Imagine you're a finance geek and someone offers to give you the same pulling power as Coldplay. You're not going to say no.

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Beyond brand management – the anatomy of the 21st-century marketing professional

Richard Rawlinson
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In the 1920s, the Radio Corporation of America invented the broadcast network, a mass communications medium as broad in scope and reach as the contiguous United States. In the 1930s, Procter & Gamble Company, recognising the growth opportunities in this newly connected mass consumer market, revolutionised marketing with the introduction of brand management.

This new organisational structure enabled multiple brands from a single company to compete in the same product category by providing each brand with a dedicated team of professionals and specialised marketing strategies. In the 1950s came the capstone, broadcast television: mass communications about mass products, illustrated with emotionally compelling moving pictures. Marketing as we know it was born.

For the best part of the next half century, television and brand management held sway over marketing theory and practice. The practice was based on a judicious blending of television and print advertising, direct mail and trade promotions, supervised by managers trained to analyse (and base decisions on) measurements of magnitude (the size of the audience reached). These managers were abetted by sets of contractors skilled, by turns, in art and science. To this familiar recipe, modern marketers added a pinch of the internet, a sprinkle of product sampling and a dash of PR, but the basic model remained largely unchanged. Until now.

OLD MARKETING: CAREER PATH WELL TRODDEN

In the long period of incremental change since the arrival of commercial TV, marketing careers followed well-trodden paths. New university graduates with liberal arts or undergraduate business degrees trained for five or six years with one of a few major companies, such as Procter & Gamble or Unilever. They got broad cross-category marketing experience, often in an international context. Working with outside advertising agencies, they bought mass communications media, available to all competitors, on the basis of syndicated research, which was also available to others for a price.

Advancing marketing professionals learned to choose and integrate outside agencies into the marketing team, to interpret consumer insights from a market research study, and, using those insights, to build a brand with TV commercials, print ads, consumer promotions and trade promotions.

Thus seasoned, in their thirties they became brand managers. In their forties, they might become general managers – or they might leap to the 'agency side'. This kind of career path established an industrywide pattern: specialised grooming for a role with familiar lines and a well-worn plot (see Table 1).

It also set a career trajectory that attracted people with energy and commitment, as well as a strong focus on action, results and achievement. Their training helped marketers assess campaigns and

pitches – for example, from advertising agencies – and to relate them to mass data on consumers and the market.

But it did not attract or nurture abstract thinking. The 20th-century marketers tended to prefer detail and structure to the ambiguities and uncertainties of the new. They wanted (and knew how) to get things done, and their goal was to manufacture marketing as efficiently and as uniformly as they manufactured goods.

KEY FEATURES OF THE NEW MARKETING

The marketing profession is currently undergoing its most significant transformation in more than 50 years. Driving it are massive shifts in technology and society, which are converging to make the old marketing model obsolete. As the world changes, so must the capabilities of marketing professionals.

Marketers can read the writing on the wall. Many companies are experimenting with new approaches and techniques. But most of these experiments constitute mere tinkering with the traditional marketing model.

'Marketing communications in particular is stuck in the late 1980s paradigm of tactical implementation', says Don E. Schultz, professor emeritus of the Integrated Marketing Communications programme at Northwestern University's Medill School of Journalism.

'We keep planning on the basis of campaigns, looking for short-term returns, using measurement systems that don't work. The real questions today are about how we can develop horizontal integrating processes and systems that work across disciplines, not just across communication formats. We need some new concepts and new approaches, not just rehashes of what we have been doing for the past 75 years.'

The transformation of media and markets has profound implications for the way in which marketing is organised, the skills and outlook required of professional marketers, and the types of training that marketers will need. Some features of the new professional model for marketers are already clear.

More Diverse Skills

Marketing teams increasingly will address a broad, complex agenda for consumer engagement, through a wide range of communications media, including electronic, experiential and non-traditional channels. Success will mean blazing new career paths that combine the sophisticated quantitative skills and the leadership ability needed to supervise teams working in multiple, rapidly changing markets, with traditional creative and management capabilities.

Entrepreneurial Aptitude

The typical business marketing career has attracted gregarious people who operate comfortably within a familiar professional culture with well-defined techniques. But now marketers must not just select and purchase proven instruments: they must envisage, shape and develop new tools for designing and engendering more effective consumer connections. This demands openness to experimentation, an inclination towards pioneering, and an ability to integrate marketing with strategy as never before. The new marketing team must do this while honing the number-crunching analytical ability that is needed to justify and fine-tune new strategies.

In-Sourcing the Marketing Value Chain

The new marketing organisation will start to reintegrate the marketing supply chain. For the first

time in decades, marketers will develop their own in-house, proprietary, and custom media operations. This wave of in-sourced media will put a premium on the marketing department's ability to orchestrate a fluid marketing system with some new actors – and to do without outsourced help when it is faster and more effective to develop these tools internally. The shape of the future of marketing is too novel and too important to be left to traditional marketers. Just as P&G pioneered brand management for the 20th century, now is the time for marketers to reinvent their role – and to shuffle the marketing team to do it.

BEYOND BRAND MANAGEMENT

Creating New Business Propositions

The capabilities required for marketing professionals in this century are already very different. Today, marketers have to create and assess business propositions built around seemingly polar opposites: vast databases on the one hand, and marketer-to-individual-customer interactions on the other. As internet distribution of digital media moves beyond text, static images, and sound to include the equivalent of cinema and television, the range of media and consumer experiences is becoming as limitless as the number of web pages.

The 21st-century marketer will increasingly have to choose between investing in a music download site and investing in a campaign that makes use of mobile messaging, or between funding banner advertisements and funding a new video-on-demand service. Nobody yet really knows how to make all these decisions with consistent success. It will require a great deal of experimentation and risk taking – qualities associated more with R&D than with marketing.

Inventing and Producing New Formats

Most contemporary marketers are not accustomed to shaping, producing and directly overseeing the media in which they place advertising. Yet those are the skills that are most needed today. Just as Procter & Gamble was active in the design and development of early TV programming, so marketers in the current period of media and marketing flux must expect to imagine, create and finance new kinds of digital or interactive media and the innovative new forms of advertising and marketing they engender.

Marketers, working inside consumer product and service companies, not for ancillary suppliers, will be among those who invent the new programmes and formats that will be to the next few decades what soaps and sitcoms were to the past: vehicles for capturing audience loyalty and imagination.

For a marketing professional, exploring and shaping this kind of newly tailored consumer experience calls for much more than was ever required by conventional selection and purchasing decisions: to develop, deliver and promote the new formats. Today, it is Massively Multiplayer Online Games and Internet Protocol Television. Tomorrow, we can't even begin to guess. Marketers will have to reengineer and reimagine the relationships among all participants in the marketing chain.

Alternatively, they will do it themselves. Companies as disparate as P&G and the electronics retailer Best Buy have already begun to bring the necessary capabilities in-house. Either approach requires a new combination of commercial entrepreneurship, technological competence, strategy skills and consumer sensitivity.

Number-Crunching Creatives

Undoubtedly the most salient features of electronic media are the diversity and differentiation they bring to the marketplace. Digital media excel in selecting the 'audience of one' (or, to be more

accurate, in allowing it to select itself) and tailoring offerings to these individual consumers. Thus, a precise and highly tailored implicit contract is evolving between the consumer, who grants access and time, and the marketer, who reciprocates the consumer's interest with responsiveness and opportunities for more extensive dialogue, as well as with entertainment and information.

To conceive, evaluate and invest in new commercial propositions that engage audiences across many dimensions, marketers will be called upon to make decisions that reflect broad marketing savvy, close awareness of the product's or service's current position in the marketplace, and in-depth knowledge of quantitative techniques and the capabilities of new technology.

Thus, one of the new marketer's key skills is the ability to marry fluency in higher mathematics and computer modelling to marketing flair and creativity. Just as mathematics has revolutionised finance, it will now invigorate the marketing field, as new models and algorithms are developed to extract value from consumer and business databases, and to allow more precise targeting of 'hot' topics to each consumer.

The exploding availability of electronic consumer data makes marketing a new frontier application for business mathematics. It is no wonder that Booz Allen Hamilton's ongoing research with the Association of National Advertisers has found that 66% of senior marketers believe their greatest need is to develop capabilities in consumer insights and return on investment (ROI) analytics.

The leaders that are doing so are outcompeting their rivals. These leaders are not just internet powerhouses such as Google and Yahoo!; they include innovative number-crunchers in retailing, finance and other industries as well.

CURIOSITY AND EXPERIMENTATION

Does this mean that tomorrow's marketers must be rocket scientists, cousins to the PhDs who have long populated investment banks and the obscure corners of the financial services industry? Not at all. But the pervasive disdain that many professionals express towards marketing science to this day – recall advertising legend Bill Bernbach's scornful declaration that 'advertising is fundamentally persuasion, and persuasion happens to be not a science, but an art' – must give way to a more nuanced understanding of the profession's inherent, necessary cross-functionality.

The most successful professionals will display an intense curiosity about new approaches and tools, the ability to think in novel and creative ways, a higher-than-normal inclination to experiment and much greater tolerance for ambiguity. These skills will be put to work as marketers evaluate propositions, define their strategies for media and creative investment, and devise new ways to engage with consumers in more intimate and effective marketing dialogues. General Electric Company CEO Jeffrey Immelt has stated that 'sophisticated marketing' is now one of the company's three imperatives, along with risk taking and innovation. The next-generation marketing team will itself embody all three of these qualities.

SOPHISTICATED INTEGRATORS

A thorough going change is also under way in the fragmented supply chain that has come to characterise the marketing world. Over years of stability and growth, marketing has subdivided itself into ever more finely granulated specialities. A typical fast-moving consumer goods company orchestrates a web of suppliers that includes advertising agencies, buying agencies, creative specialists, direct-mail firms and market researchers of all manner. This proliferation of outsourcing has grown steadily since the rise of mass television in the 1950s and 1960s. Many specialities have subdivided, adding responsiveness to the marketing-services system, but also adding many layers of complexity.

A New More Complex Picture

With the increased use of international marketing suppliers spread across several continents, yet with media buying decisions often made in local markets, the complexity has mushroomed. Supervising that huge extended enterprise could be deemed the central skill of the hundreds of thousands of men and women currently serving in marketing management roles. (In the United States alone, 664,000 people were serving in sales, marketing, advertising, promotions and public relations management in 2004, the most recent year for which figures have been published by the US Bureau of Labor Statistics. Broadcasting accounted for another 327,000 jobs. The motion picture and video industries contributed 368,000 more.)

True, with so many participants, there are many springboards from which new ideas and practices can take flight. Local experimentation often works. But the complexity inherent in the system suppresses its ability to absorb that experimentation or use it on a larger scale.

That's why it is so hard to rewire an existing marketing strategy or move to a better approach, especially internationally. Each component in the system – each local agency, research supplier or creative group – depends on others playing their established roles in the ecosystem. Change for one implies change for others. Yet with so much vested in the current ways of doing business, no individual supplier or department can be sure that its individual change will be met with complementary changes in the others – and few can (or should) take the risks of changing their practices unilaterally. Thus, only a radical approach to innovation, affecting many of the players at once, will succeed.

In-Sourcing – A Real Possibility

For many, the solution will be reintegration. After years of outsourcing, that won't be easy or optimal. As Paul Bay, former director of consumer communications at Levi Strauss, has commented: 'Being "integrated" means the creative agency thinks of the idea and everyone else executes it. Changing that convention needs a lot of education. It will be very tough.'

Some of the giants of the marketing world have been the first to look beyond the current system to create new vehicles for integrated marketing supply chains. Strong retailers are a good example. They are the new arrivals on the branding front lines, with much less vested in the traditional marketing system. They have found it natural to do much of their marketing themselves.

Tesco bypasses large chunks of the conventional marketing system in the UK and has integrated its market research and analytics capability, which was formerly conducted by an independent firm. Other retailers are reinventing media at the point of sale. Wall-Mart, for example, has made a major commitment to in-store TV, creating a new medium powerfully connected to the consumer shopping experience and to the purchaser's moment of decision.

INNOVATIVE USES OF DATA

Capital One

Consider the capabilities that took the Capital One Financial Corporation from its position as a spin-off of Signet Banking Corporation in 1994 to being the 115th-largest company in the S&P 500 in 2005, with more than $10 billion in revenues and 50 million customer accounts. Its credit-card business is built on a foundation of minutely fine-tuned product development, market testing and analysis, all of it resting on a bedrock of terabytes of customer data. 'When we started this company,' Chairman and Chief Executive Officer Rich Fairbank once told *Fast Company* magazine, 'we saw two revolutionary opportunities: we could use scientific methodology to help us make decisions, and

we could use information technology to help us provide mass customisation.'

Tesco

Another leader – in an utterly different industry – is the global consumer goods retailer Tesco plc. Mining scanner data and personal data captured through the company's Clubcard programme, Tesco's marketers practise intensive information analysis, cross-tabulating purchase data against the information gleaned from customer responses and requests, and distinguishing the 'signals' of genuine indicators of customer purchase potential from the 'noise' all around them. Using this technology, Tesco's marketers have redesigned their traditional tools, like direct mail and 'mother-and-baby clubs', tailoring hundreds of thousands of individual messages to customers. In a supermarket industry characterised by historically low margins and fierce competition, Tesco reported revenues in 2005 that rose more than 10% from the year before, to $46 billion, with profits up 19%. More than 150,000 orders now come in weekly via the web.

THE NEW MARKETING AGENDA

In traditional marketing teams, the action-orientated, authority-driven mind-set rules. Indeed, too often it squeezes out the more innovative dispositions and the exploration and experimentation they bring. But the strategic agenda for marketers has changed.

Creative and commercial business-system perspectives must play a greater role in team composition, so that companies can look up and down the value chain to imagine and experiment with new ways of operating. As marketing teams gain diversity and balance, team management in turn becomes more integral to marketing effectiveness. It is thus crucial to have active and deliberate leadership capacity on the marketing team.

It is tempting to think that only outsiders, in the form of small, entrepreneurial upstart companies, can effectively tear down the international marketing system. Yet the big consumer goods companies are uniquely positioned to reinvent the marketing model for the 21st century. Indeed, they and the large retailers are the only companies positioned to do so. Only they can take responsibility for the system as a whole – and use their spending to reshape it. Their money and leverage influence the whole system.

These corporations also have the most direct and compelling need for the system to perform. Unlike the specialised suppliers, they don't have to answer to any one client. This means they are less constrained than other members of the system and are free to reassemble the pieces in new and interesting ways. And some of the best are leaders in using their freedom and power. The broader agenda being pursued by such companies as Procter & Gamble, Capital One, Tesco and Coca-Cola is symptomatic of the change that will affect marketers across industry and geography.

The winners will be driven by their vigour and determination in reshaping the marketing team. That's the place for companies to start. New times call for new capabilities, and for team structures that can win in an era of technology, uncertainty and change.

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NOTES & EXHIBITS

TABLE 1: 'FAST-MOVING CONSUMER GOODS' MARKETERS: THE EVOLVING CAREER PATH

	Qualification	Previous experience	Experience at current company	Core competencies	Personal qualities
Conventional marketing career path (1935–1999)	College degree, seldom MBA.	Usually none, joins as management trainee and goes through cross-functional training. For external recruits, background is very diverse but academic records consistently good.	Promoted from within. Exposed to very different brands and product categories. Broad marketing experience (brand, business development, strategy, project work).	Understands brand building: develops insights about consumers and finds effective plat-forms for connecting with them; integrates internal and external resources in effective brand teams.	Gregarious and outspoken; tends to 'work hard/play hard'; prefers detail, numbers, and structure to abstract thinking; motivated by power, responsibility and fear of failure, as well as by desire to create cash value and wealth.
Ideal career path for the new marketing environment (2000 and beyond)	Postgraduate work might include analytics, statistics or media competence.	More likely to be an external recruit with experience in one other type of firm (e.g. in new media).	Moving from project to project within companies, with periods in non-mark-eting functions related to other needed skills (finance, R&D, venture investment).	Understands and focuses on market opportunities and system management; is an informed and skilled selector and buyer; has commun-ications, analysis, contracting, cross-company managerial and strategic skills; has strong knowledge of interactive media, audience engagement and technological developments.	Creative, flexible and rigorous in judgement; holds a long-term goal orientation; fairly innovative; motivated by new ideas, unstructured environ-ments, wealth and responsibility.

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How to improve your new product success rate

Kurt Lyall
FirstPartner

It's a familiar story of too many cooks ... In 2000, European mobile phone companies bid for the then next-generation 3G licences. With these licences, mobile phone companies set about launching new data services, which would continue their growth story and drive customer spending to even higher levels.

T-Mobile won its 3G licences and set up a business unit called T-Motion. This unit was responsible for the mobile internet portal called T-Motion (later T-Zones) and performed primarily a marketing role within T-Mobile. T-Motion did not have responsibility for any of the T-Mobile messaging services (e.g. SMS or MMS). In theory T-Motion had a clear mandate – build and launch data services for the T-Mobile group and deliver on the 3G promise. The reality was that internal squabbling, overlap, confused priorities and over-optimistic forecasts derailed the ambition. This is what happened.

- When T-Motion was formed, new management was hired instead of using people from existing operations. This caused the first point of friction as 3G was seen as everything in the industry that was exciting. Existing staff, not surprisingly, resented not having a role to participate in product development for the future of the industry.

- Second, T-Motion was created as a group function and tasked with rolling out its services to each T-Mobile country. Unfortunately, because of loose governance, each T-Mobile country established its own 3G services and operations, which competed with T-Motion – effectively removing the requirement to adopt T-Motion. With limited deployment across the T-Mobile group, T-Motion became an expensive overhead.

- Third, the one source of compelling data revenue stream has been texting and this was unfortunately outside the scope of T-Motion. For a business unit without a healthy sales line and with spiralling costs it was inevitable that restructuring would take place.

At its peak the T-Motion/T-Zones business operated with almost 300 full-time and contracted staff. We estimate that more than €100m was spent over its lifetime.

Yet during that period very little return was generated. The double loss for T-Mobile has been that much of the talent hired into T-Motion has moved outside the organisation, frustrated with the difficulties. Valuable staff and experience moved to Google, Vodafone, Orange, O_2 and Sky, as well as to start-ups.

T-Mobile has consequently suffered the final frustration of seeing some of its best ideas and ambitions now being delivered by its suppliers, or in some cases by competitors.

WHY FAILURES LIKE THIS OCCUR: BUSINESS FRICTION

Marketing directors and product development directors use more technology and have better data and intelligence at their finger-tips than ever before. Despite these resources the success rate of launching new products and services remains alarming and unchanging. Within the UK less than 5% of all products and services launched survive beyond two years (based on UK DTI data, 2006).

For large companies, where the sums invested in new product development are in the tens of millions, this means only a fraction of the potential return on investment undertaken is delivered back to shareholders.

So, if having the latest technology and most up-to-date customer and market intelligence is not driving new product development success, there must be other, more fundamental reasons for failure.

In this article I am specifically looking at the internal barriers that must be overcome to deliver a product to market, before even considering the external market and the competitive environment. We call this 'business friction'.

Business friction is not commonly identified or even talked about as a success factor. However, virtually every organisation has its own combination of internal barriers. They are the accumulated by-product of different departments working to different objectives and performance/reward priorities. It is inevitable when different professions and disciplines (e.g. marketing, finance, technical, sales) operate with different cultures talking different languages.

THE SYMPTOMS OF BUSINESS FRICTION

In our experience of the telecommunications and high-tech industries, the symptoms of business friction can easily be spotted within an organisation. Some of the critical interfaces for new product development – and points of friction – are defined in the table.

Different Departments Working on the Same Market Opportunity

This creates product offerings that overlap, targeting the same customers and creating internal competition. This in turn results in substantial lobbying of management to gain sponsorship and the diversion of resource in efforts to win internally, instead of focusing on external market forces.

Use of External Strategy Consultants to Provide Opinion

Extensive use is made of external consultants as a tool to establish opinion and recommendations because the internal opinion is not valued. This means that decisions are made despite consultants likely having only a 'snapshot' understanding of the business. (See Table 1)

External Appointments Rather than Internal Promotion

It is often believed that a new person with no political alignment or established track record will find it easier to make an impact on development projects versus someone internally whose characteristics are well known. As highlighted in the T-Mobile case above, frequently the opposite happens: other departments are resentful, with time lost while the new hire gets familiar with the machinations of a business.

Lengthy Decision-Making Processes

Companies tend to have decision-making forums with established agendas for evaluating new product development proposals. This typically results in a narrow band of concepts and proposals that fit the governance criteria, missing smaller, simpler opportunities as well as limiting the scope

and range of opportunities considered.

Delays and Significant Project Overruns on New Product Development

Like a soap opera, once into the governance system more questions, more decisions, continuous reappraisals and more project administration limit the speed and pace of development. The results are projects that double and often quadruple the money and time it takes to bring to market.

Frustration by Partners and Suppliers

External parties responsible for part delivery of the new product become frustrated with the pace and cost of running the project. This can result in suppliers actively avoiding working with particular companies or, worse, becoming indirect competitors as they seek to by-pass and go direct to the customer.

Reorganisations as Management fails to Deliver on Objectives

Like a poisoned chalice, new product development is a high-risk business. Traditional managements rarely attempt bold and market-changing new products, instead preferring to play by the corporate rules. The uninitiated, in contrast, often overstep their mark, attempting to cut across the organisation, and their tenure is too often quickly ended.

HOW MARKETING CAN MANAGE BUSINESS FRICTION

1. Adopting A Proposition Development, Customer-Centric Approach

Product development must be customer centric from the very beginning of the process. This may sound obvious to classically trained marketers, but in the relatively immature but fast-growing and highly technical sector of TMT, the marketing function tends to be poorly developed, with lower status compared with that of the technical experts.

Consequently, the attention to consumer benefits is an exercise bolted on at the end of the process rather than integrated into the development process.

Discovering that they have developed the wrong solution – just when they are due to go to market – is disastrous. By contrast, a proposition-led approach gets the team at every stage to consider the needs of the customer and so ensure that the user experience is as true to this as possible.

Adopting this approach means that points of friction in developing a new product can be resolved by using traditional qualitative and quantitative research specialists to ensure the right questions are asked of consumers from the beginning.

2. A Much Wider Role for Marketing is Required

In most companies the job of the marketing department is disproportionately taken up with the increasing complexities of promoting brands. Too much of an external focus and not enough internal.

To successfully launch and build a viable market for a new product or service, the marketing department must work much more closely with its organisational peers. In this capacity the marketing project team needs to work closely with other functions planning and designing shared project areas such as the following.

- Business plan – setting a challenging target without raising expectations that mean underperformance 12 months from launch.

- Developing a product roadmap – balancing technical intuition with hard market facts on customer needs, ensuring investment is spread appropriately between development, business change, market launch and in-market support.

- Channel strategy – impacting customer support models, pricing points, channel training and production of a joint marketing plan that clearly articulates the benefits of the solution to the end customer as well as to the channel for selling a solution.

- End-to-end customer experience – covering awareness, choice, purchase, use, support and replace/cross-sell.

Furthermore, once the new product or service has been launched, marketing must then go on to take on the performance management role, ensuring delivery against the design and addressing features of the product and the promotional approach that need redevelopment or improvement.

These interfaces require a proper project structure, even for relatively small projects, to ensure that for each interface there is: identification of the decisions required; a forum for discussion; a structured process to drive consensus on agreed actions and the way forward.

3. Working with and Managing a Multi-Disciplined Project Team

New product development requires relationships to be built with many different departments and their disciplines. But these relationships can't be managed using a single marketing resource.

Instead, a multi-disciplined team is required that can bring the skills and knowledge to work with different disciplines, but still represent the interests and objectives of the marketing function.

In recent times, TMT companies have begun to recruit classically trained marketers on brand communication but in most cases they still don't have such sophisticated marketers upstream at the product development stage.

Here the business is still very much driven by the technology experts, who are product focused rather than customer focused. It is vital that marketers are involved at an early stage in helping to define the user experience to ensure the end product is consistent with customer needs and the marketing messages.

4. Using Interim Resources to Enable Marketers to Expand their Role

Inculcating a marketing orientation into a technology company takes time, resources and often politically difficult restructuring to do properly. For many companies a better solution is to use interim resources to help expand the marketing function on a project basis.

Specialist agencies have been set up that have experience of working end-to-end for clients (i.e. from finding the right insights to agreeing what the end product and its customer benefits look like) and so are well positioned to ensure that the proposition, when released into the market, addresses customer needs.

In the telecommunications market, companies such as Vodafone, BT and Orange have been early adopters of such an approach. They have used interim resources to augment their core expertise, and have then back-filled with full-time resources once comfortable with the approach and structure.

SUMMARY

Companies need to achieve new product success. Following an accelerated proposition approach is proving popular not only among marketers but CFOs and CEOs.

Enhancing the capabilities of the marketing department can help reduce business friction, cut product development costs and improve in-market success

Marketers can enhance their profession and their careers by taking steps to proactively manage business friction with the use of interim resources who specialise in enabling multi-disciplinary teams to function constructively.

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NOTES & EXHIBITS

TABLE 1

Interface	Activity	Friction	Resolutions
R&D	Adoption of a concept created by R&D for product development	R&D develops blue-sky concepts, whereas product development must deliver commercial returns within three years. Timing differences create friction. R&D naturally want all concepts taken forward. Product development is continuously negative.	Establish deep and continuous dialogue to steer R&D to better understand objectives and criteria for product development
Platform/ manufacturing	Process change to support the new product being launched.	Platform and manufacturing processes incur significant cost to change. Any changes for new products may also impact in-market products and services with loss of revenues today.	Establish and understand the real capabilities of platform and manufacturing, and what is achievable versus what is going to be impossible. If the platform cannot be changed to support a proposed new product, look at alternative solutions (venturing or outsourcing).
Customer service	Defining the customer experience for the new product	If the proposed customer experience for the new product is different to existing products and services supported this will require process change. If service support systems are not flexible, the experience cannot be delivered without further systems change and project delay.	Understand the existing support processes of customer services in detail before designing the new customer experience for the product. Define the aspiration experience and then the least impact experience. Understand the benefits and costs of changing systems.
Finance	Proposing the investment requirements and return projections	Finance typically sets the financial hurdle and criteria for new product development projects. If a product falls outside these criteria it is difficult to pursue. This leads to business plans becoming inflated in order to meet the criteria.	New product development should be assessed on a combination of margin performance and quantum. The gover-nance process should allow for smaller opportunities. Utilising skilled and experienced financial analysts to author the business plans will limit overstating the revenue potential of a product.
Sales and channels	Designing the route-to-market and channel business model	Channels will sell only those products and services that are easiest to sell, to deliver on their targets. New products with uncertain demand risk not being properly promoted by existing channels.	Using channel experience, develop new products to develop better than current product performance. Where sales volumes for effort are initially high, look to potentially build a ring-fenced channel to carry the new product.
Board	Seeking approval of plans for investment and proposed designs	Board sets the governance process for approving investment in new products. Board becomes frustrated when products refused are not killed, but come back in an alternative form.	Marketing needs to cut products where feedback is clear, even if it believes there is still opportunity and perhaps the original positioning for approval was incorrect. Effective project management to strong-arm individual projects is essential.

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How to win friends and influence people

Philip Beeching
Beechwood

'Social Networks' are not a new phenomenon. The term was first used in the 1950s by a man called J.A. Barnes, who was studying human relations in a Norwegian fishing village, and social network analysis has emerged as a key technique in modern sociology, anthropology, social psychology, information science and organisational studies.

The so-called rule of 150, states that the size of a genuine social network is limited to about 150 members and the 'small world phenomenon' is the hypothesis that the chain of social acquaintances required to connect one arbitrary person to another arbitrary person, anywhere in the world, is generally short. The concept gave rise to the famous phrase 'six degrees of separation' after a 1967 small world experiment by psychologist Stanley Milgram. He found that two random US citizens were connected by, at most, six acquaintances; other experiments suggest this is five on the internet.

SOCIAL NETWORKS AND THE INTERNET

Social networks and the internet were first considered in a book called *Virtual Community* by Howard Rheingold, published in 1993. It discussed a range of computer-mediated communication and social groups using chat rooms and electronic mailing lists (the web was obviously still in its infancy). It pointed out the potential benefits for personal psychological well-being, as well as for society at large, of belonging to such virtual communities.

Virtual communities are now considered a vital aspect of the Web 2.0 concept (the in vogue term being used for the next-generation stage of the internet), which depends upon social interaction and exchange between users online.

The first social networking website was classmates.com, which began in 1995. Other sites followed, including sixdegrees.com, which began in 1997; however, it was not until 2001 that websites using the 'circle of friends' principle started appearing. In these communities an initial set of founders send out messages inviting members of their own personal network to join the site, new members repeat the process, growing the total number of members and links in the network. Sites then offer features such as automatic address book updates, viewable profiles, the ability to form new links through introduction services and other forms of online social connections.

This form of social networking, widely used in virtual communities, became particularly popular in 2003, and flourished with the advent of a website called Friendster.com, which was one of the most successful at using this circle of friends technique. The popularity of these sites grew rapidly and by 2005 MySpace.com was getting more page views than Google, which had launched its own social network called Orkut in 2004. Yahoo! entered the fray with its offering Yahoo! 360 in March 2005, and in July 2005 News Corporation caught everyone off guard and snapped up MySpace.

A WORD OF WARNING

If you are over 30 then you will probably find many of these sites as incomprehensible as a petulant teenager – they are often unfathomable, tedious, boring, offensive, fickle and egotistical. Yet also, like teenagers, they can be original, funny, innovative, revolutionary and provocative. It is teenagers and twentysomethings (or the teen-minded) who are largely fuelling the extraordinary growth in these sites. MySpace membership, for example, grew 111% in the last six months and each member spent an average of 184 minutes per month on the site. So what are they doing, and why?

MySpace is essentially leveraging the angst of youth – social acceptability – it allows people to create their own online world through enabling anyone to build their own homepage free of charge. Members spend their time uploading their personal web pages with photos, blog links, video, musical tastes, checking out friends and leaving messages. On a social network site a teenager can micro-manage their persona and can be judged on factors other than clothes, weight and skin condition.

And it's not just a US craze. The Sheffield band Arctic Monkeys are reputedly meant to have risen from obscurity to celebrity, purely through 'word of MySpace' and MySpace says they already have 4 million UK members and climbing.

Other forms of social networking sites include Flickr.com and Youtube.com. Flickr is a photo-sharing site that popularised keyword 'tagging' of photographs to make them easier to find and share, and this site was sold last year to Yahoo! for a reputed $30 million. Youtube's traffic has soared in recent months as users flock there, upload, share, tag and comment on short video clips. We encourage you to go and use them as it's the only way you will get a feel for what they are about and what an extraordinary phenomenon they are.

MURDOCHSPACE.COM

But Mr Murdoch hasn't paid $580 million because he wants to help angst-ridden teenagers and, of course, MySpace is not really their space, it's in fact MurdochSpace. That's why the business model involves advertisers and media companies, many of which mimic the techniques used by individuals on MySpace and other sites such as Facebook.com, Friendster.com and Bebo.com, to create a buzz on brands and forthcoming movies.

If you want to see what an extraordinary online world it is, go to MySpace.com and search for *Snakes on a Plane* – a movie that has just been released, starring Samuel L. Jackson. The idea for this film captured hundreds of thousands of people's imaginations – video trailers, logos and rap songs all about *Snakes on a Plane* were created long before the movie was in production.

Burger King has recently sponsored a branded 'Have It Your Way' page on MySpace.com, where users can download free episodes of Fox's *24* and, through the page, Burger King plans to encourage users to chat about the show, upload their own content and download other shows for $1.99 each. The goal of Burger King's sponsorship is to give young internet users another reason to think about the Burger King brand and to marry that association to popular TV shows and entertainment.

Social networks have grown so fast that operators are struggling to come to terms with controlling content that might offend, and that means marketing through edgy social network sites involves some risk. MySpace has been in the hot seat after online predators have been found stalking teens via the site. In response, the company in March reportedly pulled 200,000 'objectionable' profiles from its network and was said to have increased policing of the site. And Google's Orkut, which has a fanatical following in Brazil, was recently asked by that country's government to shut down some communities, which it claimed were advocating violence and human rights violations.

THE BIGGER PICTURE

In 1938, aged 72, English writer H.G. Wells published a short book of essays and speeches entitled *The Brain Organization of the Modern World;* it lays out Wells' vision for 'A sort of mental clearing house for the mind, a depot where knowledge and ideas are received, sorted, summarised, digested, clarified and compared.' Wells felt that technological advances such as microfilm could be utilised towards this end so that, 'Any student, in any part of the world, will be able to sit with his projector in his own study at his or her convenience to examine any book, any document, in an exact replica.'

H.G. Wells demonstrated remarkable prescience of the internet and his concept of a 'world brain' has more recently been revived by others in the guise of the 'global brain'. The global brain is the name that has been given by a leading group of academics to the emerging intelligent network formed by all people on this planet, together with the computers and communication links that connect them. The idea is that, like a real brain, this network is an immensely complex, self-organising system, which processes information, makes decisions, solves problems, learns new connections and discovers new ideas. They propose it could play the role of a collective nervous system for the whole of humanity. No person, organisation or computer is in control of this system: its 'thought' processes are distributed over all its components.

Some might argue that social network sites are the precursor to this grand vision and undeniably, as the world becomes more connected, there will come a point at which the vast majority of the planet will be linked via the internet. If you are intrigued by this 'global brain' concept and you want to find out more then take a look at the website for the Principia Cybernetica Project (http://pespmc1.vub.ac.be).

SO WHAT DOES IT ALL MEAN?

The social networking internet phenomenon is happening at such a pace that no one quite knows where it's going, and don't let anyone pretend to you that they do!

The only way to get a real feel for it is to get on the sites and take a look around.

These sites can be used commercially, but remember if you are mimicking the way individuals use a site, your brand is no longer in your control and good and bad things may happen. For example, the Burger King/Fox *24* MySpace pages contain an awful lot of chat about things people would like to do to Jack Bauer's daughter – most of which is pornographic. Is this something with which Burger King wants to be associated?

These sites are another challenge to how advertising agencies and marketers understand a changing consumer – a consumer who makes their own films, trailers, music, commercials, logos, blogs and is starting to shape brands as much as the marketing department.

If you are in any doubt that your brand's image is now being manipulated by forces beyond your control, go to Technorati.com, which tracks over 46 million blogs, and search your brand name – you may be somewhat surprised.

H.G. Wells' vision has come true with the development of the internet, and the idea of a global brain may not be science fiction after all.

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New research to quantify the linkage that really matters

Brian Smith
Marketing strategist

Malcolm McDonald & Keith Ward
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It's different at the top. While your subordinates are in the product or service markets and measure success in sales and profits, the board has to think differently. You are in the capital market and success is measured in shareholder value created. Shareholder value is not the same as profit; it is a function of both returns and risks. So main board directors concern themselves with the risk-adjusted return on capital, a worry their subordinates are generally free of.

Unfortunately, the tools for assessing business risk are inadequate. They are either uncomfortably qualitative, based on vague assessments of intangibles, or hopelessly general, based on broad extrapolations of industry rather than company performance. What business leaders need is a way of assessing business risk both quantitatively and specifically. We need a tool that can objectively assess the probability of a business plan delivering the profits it promises. Moreover, we need a process that can be applied specifically to any business.

Just such a process has recently emerged from years of research at Cranfield, one of Europe's top business schools. It has been described in a new book, *Marketing Due Diligence*, which is summarised in this article.

In short, 'Marketing Due Diligence' is a process that assesses the probability of a business plan delivering its promises. It then adjusts the promised profit to reflect that probability and calculates if, for the firm's cost of capital, the plan would create or destroy shareholder value. It is a sophisticated process built on years of detailed research, but it can be understood in quite simple terms. In the following description the Marketing Due Diligence process is described for a single, simple, strategic business unit but the same principles work for a complex global business.

WHAT IS A STRATEGY AND WHAT MAKES IT RISKY?

Once the hype and jargon is cleared away, all business plans say the same thing: 'We're going to do these things in this market and make this much profit'. Digging deeper, we can discern three fundamental assertions that lie at the root of all business plans:

1. the market we are going for is this big
2. our strategy will achieve this much share
3. that share will result in this much profit.

It is these three assertions that give rise to the three components of business risk.

1. *Market risk*: the risk that the market is not as big as you think it will be.

2. *Share risk*: the risk that your strategy will not deliver the share it promises.

3. *Profit risk*: the risk that you will not make the margins you promised.

Cumulatively, these three component risks add up to business risk. If all three are certain, then there is no risk and the plan will deliver what it promises. To the extent that there is some uncertainty in one or more areas, the plan is risky and the promised returns must be higher to compensate for the risk. If we could objectively assess business risk, using data in a specific and systematic way, it would help us to create shareholder value in two ways. First, it would allow us to identify the main areas of risk in our strategy and act to reduce that risk. Second, it would give us a tool to sell our strategy to investors, demonstrating in detail that our plan is well thought out and creates shareholder value. The challenge lies in accurately assessing each of those three areas of risk.

MARKET RISK

It takes little business sense to appreciate that a minority of strategies have very high market risk (for instance, a brand new market and a novel product), while others have very low market risk (for instance, well-established, mature markets and established products). The test for Marketing Due Diligence is to differentiate between the large mass of strategies in the middle; to compare the market risk of two or more strategies of moderate market risk. The Cranfield research found that market risk itself was made up of five sub-component risks, as shown in Table 1.

The business plans studied showed that each of these five sub-components of market risk could be measured on an objective scale using data related to the plan. For instance, strategies that assume a much higher market price than the competition with little substantiation in the way of new product claims are riskier than those with some evidence, while the lowest pricing risk of all is to plan for me-too or lower pricing. In an article of this length, it is impossible to describe all the scales, but in practice they prove both accurate and effective at identifying actions to reduce business risk. Low market risk was not found to be synonymous with success, but a good appreciation of the true level of market risk is a prerequisite to creating shareholder value.

SHARE RISK

Once the risk associated with the business plan's assertions of market size are accurately assessed, the next key question concerns whether or not the intended strategy will deliver the promised share of that market. Share risk is inversely proportional to strategy strength, the likelihood that the strategy will create a more compelling proposition than that of the competitors' strategies. In the blizzard of promotional hype and detailed product claims, this is not easy to discern. However, our research revealed five key tests that could be applied to any strategy to reveal its strength and therefore the share risk associated with it. Just as with market risk, share risk has five sub-component risks, as show in Table 2.

The assessment of share risk proved to be an especially useful tool for separating strong strategies from weaker, high-risk ones. This was because it uncovered that failure to win the desired market share was most often due to how we apply resources to the market, rather than to do with product features and benefits. Companies that were found to destroy shareholder value tended to attack broadly defined markets (e.g. all high net-worth individuals for financial services) with a single proposition and offered much the same thing to the same customers as the competition. Such strategies both depended on brawn, not brains, and failed to use distinctive organisational strengths. By contrast, shareholder value-creating strategies defined novel segments, based on unmet customer

needs and focused tightly on those segments with distinctive propositions. In doing so, they used their strengths and avoided head-on competition.

PROFIT RISK

Profit risk is the third component of business risk and arises during the implementation of strategy. It is the risk that the planned margins are not realised either because of higher than anticipated costs or lower than anticipated prices. By contrasting cases in which the planned profit was realised and those in which it was not, our research identified a number of key factors that were indicative of profit risk. Usefully, these risk factors could be looked for and found prior to strategy implementation, enabling modification of the strategy to reduce implementation risk. As with market risk and share risk, profit risk can best be described in terms of five sub-components, as described in Table 3.

As with market and share risk, profit risk can be assessed by the objective judgement of each of its five sub-components against a graduated scale. The practicality of the tests lies in the fact that they use available data, such as internal costs from other products or readily available market research. Using the profit risk tests allowed companies that were entering shrinking profits pools with the intention of severely damaging a major competitor to see that they were naively assuming no competitor response.

Equally, the tests illuminated the unrealistic cost assumptions often built into plans in order to get funding or approval. The flaws in the strategy revealed by the profit risk tests allowed the plan to be revised on the basis of an objective knowledge and reduced the subjectivity of much business planning activity.

KNOWLEDGE IS POWER

The Marketing Due Diligence process does not end with the objective assessment of each of the components of business risk. The three assessments are used to revise the plan's three principal assertions of market size, share and profit. Simply put, low-risk assessments leave the assertions unchanged while high-risk assessments lead to a reduction in the promised numbers. This combination of revised business plan promises leads to a revised calculation for the return on capital employed. Importantly, this calculation uses the firm's own cost of capital and counts both tangible assets and intangible assets, such as brands.

The end result is a statement of Marketing Due Diligence; this plan either will or will not create shareholder value. The board can then either revise the strategy, armed with knowledge of where the plan is weak, or use positive results to help manage investor relations. Where the process shows different businesses having different risks, the board can make more informed decisions about how to fund those businesses, thus avoiding the lethal combination of high business risk and high financial risk.

Marketing Due Diligence is a new, well-founded and much needed tool for those who are responsible for creating shareholder value. In time, we expect it will become as commonly used as financial due diligence. Until then, however, it will be a source of competitive advantage to the early adopters who use it first.

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NOTES & EXHIBITS

TABLE 1: COMPONENTS OF MARKET RISK

Product category risk	Product category risk is lower if the product category is well established and higher for a new product category
Segment existence risk	Segment existence risk is lower if the target segment is well established and higher if it is a new segment
Sales volume risk	Sales volume risk is lower if the sales volumes are well supported by evidence and higher if they are guessed
Forecast risk	Forecast risk is lower if the forecast growth is in line with historical trends and higher if it exceeds them significantly
Pricing risk	Pricing risk is lower if the pricing assumptions are conservative relative to current pricing levels, and higher if they are optimistic

TABLE 2: COMPONENTS OF SHARE RISK

Target market risk	Target market risk is lower if the target market is defined in terms of homogenous segments and higher if it is not
Proposition risk	Proposition risk is lower if the proposition delivered to each segment is segment specific and higher if all segments are offering the same thing
SWOT risk	SWOT is lower if the strengths and weaknesses of the organisation are correctly assessed and leveraged by the strategy and higher if the strategy ignores the firm's strengths and weaknesses
Uniqueness risk	Uniqueness risk is lower if the target segments and propositions are different from that of the major competitors and higher if the strategy goes 'head on'
Future risk	Future risk is lower if the strategy allows for any trends in the market and higher if it fails to address them

TABLE 3: COMPONENTS OF PROFIT RISK

Profit pool risk	Profit pool risk is lower if the targeted profit pool is high and growing and higher if it is static or shrinking
Competitor impact risk	Competitor impact risk is lower if the profit impact on competitors is small and evenly distributed and higher if it threatens a competitor's survival
Profit sources risk	Profit sources risk is lower if the source profit is growth in the existing profit pool and higher if the profit is planned to come from the market leader
Internal gross margin risk	Internal gross margin risk is lower if the internal gross margin assumptions are conservative relative to current products and higher if they are optimistic
Other costs risk	Other costs risk is lower if assumptions regarding other costs, including marketing support, are higher than existing costs and higher if they are lower than current costs

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Does empirical science have a place in marketing?

Colin McDonald
McDonald Research

The Ehrenberg-Bass Institute was inaugurated last March in the University of South Australia. For those whom this piece of news may have escaped, the new Institute upgraded the University's Marketing Science Centre and its long-standing partnership with the Ehrenberg Centre for Marketing at South Bank University, London. The job of this continuing partnership, which is funded by leading marketing companies, agencies and others, is to establish new knowledge about how markets work.

There is already a substantial corpus of such knowledge, which ought to be in the marketing bloodstream but, sadly, doesn't seem to be, to judge from what is written elsewhere. How many marketing textbooks, for instance, discuss Double Jeopardy or the Duplication Law, and how many marketers know about and use them?

The two pioneers for whom the Institute is named, Frank Bass and Andrew Ehrenberg, have worked in different parts of the field, but they have one important feature in common: a passionate belief in the importance of empirical science. What does this mean, and how does it apply to marketing?

THE IMPORTANCE OF EMPIRICAL SCIENCE

It is not mere empiricism. All marketers are natural empiricists. Market research, their major tool, is an empirical activity. Marketers are forever trying to observe what happens in their markets, in ever greater detail, and they use technical devices (for example, multivariate statistics and econometrics) to 'model', impose order and achieve prediction. These are 'scientific' tools, but this activity alone is not empirical science.

Empirical scientists aim for *generalisation* and their chief instrument is *replication.* They look for patterns that keep occurring, in different markets, product types, countries and groups of people. They test them, over and over again, on 'many sets of data'. Only when the pattern keeps repeating robustly, no matter what else varies, do they call it a 'lawlike relationship' (in Ehrenberg's term) and express it as a model.

Ehrenberg's laws of buyer behaviour, including Double Jeopardy and the Duplication Law, and Bass's Diffusion Model for new technological products (for more on these see the box over the page), were based on just this painstaking replicated observation and testing. 'Laws of nature are the generalisation of natural occurrences with which the occurrences are always in accordance' (1).

Unlike 'models' based on single bits of history, the models produced by empirical science are safe to use as benchmarks, because they tell you what to expect. They give you confidence in prediction, and help you to avoid silly mistakes. It is no good launching a new brand with a target like '5% penetration and an average purchase rate of five times per year' if the average purchase rate is only twice a year and even the brand leader, following the Double Jeopardy law, manages only three to

four times a year.

APPLICATION TO ADVERTISING

Some have resented these patterns in the past, especially perhaps agency people who see it as a constraint on their creativity. But this is quite wrong. Knowing the normal behaviour of markets is not a straitjacket but rather a scaffolding within which one's imagination can work freely. No architect or engineer would get very far designing a building without basic knowledge of the strengths and properties of their materials. No artist could paint a good picture without understanding how to prepare his canvas (look at what happened when Leonardo failed to do this with the *Last Supper*).

Why should we expect a market to break the rules just because we wish it? Realistically, our knowledge of buyer behaviour does tell us that it is hard to change the status quo: established brands, especially the leaders, have advantages that take some shaking. It is not damaging to know that. Rather, it means we can work with our feet on the ground.

Sometimes, too, the rules are broken. Empirical scientists expect confirmation, but are open to the possibility that some new example will not fit. As Bass famously said about his Diffusion Model: 'in forecasting the time of peak, it is helpful to know that a peak exists'. The reaction then is not to throw away the rule, but to look for a specific reason. If a discrepancy keeps occurring, the rule can be modified, although this is not done lightly.

And, of course, markets can change. We would never have had the IPA Awards if there had not been 25 years of stories of brilliant campaigns that pushed brands up, in contrast to unsupported, weakened leaders that came down. The 'laws' have sometimes been misunderstood as counsels of despair, being read as saying that nothing ever changes, so it is no use trying. This is, and always was, nonsense.

What these 'laws' do is tell you what happens when things change: how things can change and how they can't. For example, we know, from work at the Institute, that when a brand grows in share it does so mainly by increasing penetration: it also increases purchase frequency (by the Double Jeopardy rule) but by much less. The same applies in reverse when share falls. This has some clear implications: you can't grow a brand only by talking to your existing customers, important though they are. Reach matters.

This knowledge is descriptive: it tells you what is the case and how things happen. It is not prescriptive. The non-scientific aspects of marketing – 'insight', ethnographic observation, understanding how people use your product, imagination in inventing new differentiations and twists, and so on – all have full play, and so they should. Within the framework provided by empirical science, they have some chance of working. Based on nothing but ignorance and myth, they are dangerous.

The Institute and its associate researchers continue to produce original discoveries with relevance to branding, pricing, salience and forecasting, media planning and advertising effectiveness. In more detail, this includes studies into clutter, advertising avoidance, individual-level advertising effects, reach versus frequency, generalising known usage patterns in advertising awareness, sponsorship and cross-media consumption. This work could not happen without the continuing financial support received from corporate members across Europe, Australasia, USA, South Africa and Canada. Members receive prior reports of all the dramatic discoveries made by the Institute's teams, and regular tailor-made seminars and in-house briefings explaining their significance and practical consequences.

EMPIRICAL MODELS

Double Jeopardy

Brands with higher shares have both higher penetration (more people buying them) and higher average purchase frequency (their buyers buy them more often). Thus, brand leaders 'win' twice over. But penetration is by far the biggest difference – loyalty measures such as purchase frequency or share of requirements vary much less, often hardly at all.

Duplication of Purchase Law

The extent to which buyers of any brand will choose any other brand is proportional to, and predictable from, the other brand's share alone. This means that brand choices are virtually independent: buyers of Brand A are no more, or less, likely to also buy Brand B than are buyers of Brands C, D or E (to also buy B). Thus, consumers are unsegmented in terms of the brands they choose (it doesn't apply to product variants).

The model fits not only fmcgs (of which over 50 categories have been studied) but also cars (including luxury models), PCs, financial services (banking, credit cards, insurance), women's clothing, stores and store chains, telecoms, gasoline and aviation fuel, doctors' prescribing practices, and viewing of TV programmes and channels. Some of these are so-called subscription markets, which differ from fmcgs (repertoire markets) in that they have many more solely loyal buyers. Even so, Double Jeopardy and the Duplication Law have been found to apply in these markets too (2).

Diffusion Model

Bass's Diffusion Model predicts how a new product innovation will develop: the speed at which it will be adopted, spread through the market and reach its peak (if there is one). It is essentially based on observations of how similar types of innovation have performed, together with intention-to-purchase information. There have been many refinements of it over the years.

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The Long Tail – How endless choice is creating unlimited demand

Chris Anderson
Author, *The Long Tail*

This book began with a quiz I got wrong. Robbie Vann-Adibé, the CEO of Ecast, a 'digital jukebox' company, asked me to guess what percentage of the 10,000 albums available on the jukeboxes sold at least one track per quarter. I knew, of course, that Vann-Adibé was asking me a trick question. The normal answer would be 20% because of the 80/20 rule, which experience tells us applies practically everywhere. That is: 20% of products account for 80% of sales (and usually 100% of the profits).

But Vann-Adibé was in the digital content business, which is different. So I thought I'd go way out on a limb and venture that a whopping 50% of those 10,000 albums sold at least one track a quarter. Now, on the face of it, that's absurdly high. Half of the top 10,000 books in a typical book superstore don't sell once a quarter. I was, needless to say, way, way off. The answer was 98%. 'It's amazing, isn't it?', Vann-Adibé said. 'Everyone gets that wrong.' Even he had been stunned: as the company added more titles to its collections, far beyond the inventory of most record stores and into the world of niches and subcultures, they continued to sell. And the more the company added, the more they sold. The demand for music beyond the hits seemed to be limitless. True, the songs didn't sell in big numbers, but nearly all of them sold something. And because these were just bits in a database that cost nearly nothing to store and deliver, all those onesies and twosies started to add up.

What Vann-Adibé had discovered was that the aggregate market for niche music was huge, and effectively unbounded. He called this the '98 Percent Rule.' As he later put it to me, 'In a world of almost zero packaging cost and instant access to almost all content in this format, consumers exhibit consistent behaviour: they look at almost everything.'

THE CHANGING ROLE OF HITS AND NICHES

I realised that Vann-Adibé's counterintuitive statistic contained a powerful truth about the new economics of entertainment in the digital age. With unlimited supply, our assumptions about the relative roles of hits and niches were all wrong.

Scarcity requires hits – if there are only a few slots on the shelves or the airwaves, it's only sensible to fill them with the titles that will sell best. And if that's all that's available, that's all people will buy.

But what if there are infinite slots? Maybe hits are the wrong way to look at the business. There are, after all, a lot more non-hits than hits, and now both are equally available. What if the non-hits – from healthy niche products to outright misses – all together added up to a market as big as, if not bigger than, the hits themselves? The answer to that was clear: it would radically transform some of the largest markets in the world.

And so I embarked on a research project that was to take me to all the leaders in the emerging digital

entertainment industry, from Amazon to iTunes. Everywhere I went the story was the same: hits are great, but niches are emerging as the big new market. The 98 Percent Rule turned out to be nearly universal. Apple said that every one of the then 1 million tracks in iTunes had sold at least once (now its inventory is twice that). Netflix reckoned that 95% of its 25,000 DVDs (that's now 55,000) rented at least once a quarter. Amazon didn't give out an exact number, but independent academic research on its book sales suggested that 98% of its top 100,000 books sold at least once a quarter, too. And so it went, from company to company.

Each company was impressed by the demand they were seeing in categories that had previously been dismissed as beneath the economic fringe, from the British television series DVDs that are proving surprisingly popular at Netflix to the back-catalogue music that's big on iTunes. I realised that, for the first time, I was looking at the true shape of demand in our culture, unfiltered by the economics of scarcity.

That shape is, to be clear, really, really weird. To think that basically everything you put out there finds demand is just odd. The reason it's odd is that we don't typically think in terms of one unit per quarter. When we think about traditional retail, we think about what's going to sell a lot. You're not much interested in the occasional sale, because in traditional retail a CD that sells only one unit a quarter consumes exactly the same half-inch of shelf space as a CD that sells 1000 units a quarter. There's a value to that space-rent, overhead, staffing costs, etc. – that has to be paid back by a certain number of inventory turns per month.

However, when that space doesn't cost anything, suddenly you can look at those infrequent sellers again, and they begin to have value.

THE LONG TAIL

As I researched this phenomenon further, Rhapsody, an online music company, gave me a month's worth of customer usage data, and when I graphed it out, I realised that the curve was unlike anything I'd seen before (See Figure 1).

It started like any other demand curve, ranked by popularity. A few hits were downloaded a huge number of times at the head of the curve, and then it fell off steeply with less popular tracks. But the interesting thing was that it never fell to zero. I'd go to the 100,000th track, zoom in, and the downloads per month were still in the thousands. And the curve just kept going: 200,000, 300,000, 400,000 tracks – no store could ever carry this much music. Yet as far as I looked, there was still demand. Way out at the end of the curve, tracks were being downloaded just four or five times a month, but the curve still wasn't at zero.

In statistics, curves like that are called 'long-tailed distributions', because the tail of the curve is very long relative to the head. So all I did was focus on the tail itself, turn it into a proper noun, and the 'Long Tail' was born.

TAILS EVERYWHERE

One of the most encouraging aspects of the overwhelming response to the original article, which focused on music and DVDs, was the breadth of industries in which it resonated. Readers saw the Long Tail everywhere, from politics to public relations, and from sheet music to college sports.

What people intuitively grasped was that new efficiencies in distribution, manufacturing and marketing were changing the definition of what was commercially viable across the board. The best way to describe these forces is that they are turning unprofitable customers, products and markets into profitable ones. Although this phenomenon is most obvious in entertainment and media, it's an easy leap to eBay to see it at work more broadly, from cars to crafts.

Our growing affluence has allowed us to shift from being bargain shoppers buying branded (or even unbranded) commodities to becoming mini-connoisseurs, flexing our taste with a thousand little indulgences that set us apart from others. We now engage in a host of new consumer behaviours that are described with intentionally oxymoronic terms: 'mass-clusivity', 'slivercasting', 'mass customization'. They all point in the same direction: more Long Tails.

THE THEORY OF THE LONG TAIL

The theory of the Long Tail can be boiled down to this: our culture and economy are increasingly shifting away from a focus on a relatively small number of hits (mainstream products and markets) at the head of the demand curve, and moving towards a huge number of niches in the tail. In an era without the constraints of physical shelf space and other bottlenecks of distribution, narrowly targeted goods and services can be economically attractive as mainstream fare.

But that's not enough. Demand must follow this new supply. Otherwise, the Tail will wither. Because the Tail is measured not just in available variety but in the people who gravitate toward it, the true shape of demand is revealed only when consumers are offered infinite choice. It is the aggregate sales, use, or other participation of all those people in the newly available niches that turns the massive expansion of choice into an economic and cultural force. The Long Tail starts with a million niches, but it isn't meaningful until those niches are populated with people who want them. Collectively all of this translates into six themes of the Long Tail age.

1. In virtually all markets, *there are far more niche goods than hits.* That ratio is growing exponentially larger as the tools of production become cheaper and more ubiquitous.

2. *The costs of reaching those niches is now falling dramatically.* Thanks to a combination of forces including digital distribution, powerful search technologies, and a critical mass of broadband penetration, online markets are resetting the economics of retail. Thus, in many markets, *it is now possible to offer a massively expanded variety of products.*

3. Simply offering more variety, however, does not shift demand by itself. Consumers must be given ways to find niches that suit their particular needs and interests. A range of tools and techniques – from recommendations to rankings – are effective at doing this. *These 'filters' can drive demand down the Tail.*

4. Once there's massively expanded variety and the filters to sort through it, *the demand curve flattens.* There are still hits and niches, but the hits are relatively less popular and the niches relatively more so.

5. All those niches add up. Although none sells in huge numbers, *there are so many niche products that collectively they can comprise a market rivalling the hits.*

6. Once all this is in place, *the natural shape of demand is revealed,* undistorted by distribution bottlenecks, scarcity of information and limited choice of shelf space. What's more, that shape is far less hit-driven that we have been led to believe. Instead, it is as diverse as the population itself.

Bottom line: A Long Tail is just culture unfiltered by economic scarcity.

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NOTES & EXHIBITS

FIGURE 1: RHAPSODY MUSIC DOWNLOADS, DECEMBER 2005 (FOR THE NUMBER OF TITLES EQUIVALENT TO THE WAL-MART INVENTORY). BUT EXTEND THE GRAPH AND NOT ONLY THE TOP 60,000 TRACKS ARE DOWNLOADED ONCE A MONTH, THE TOP 900,000 TRACKS ARE DOWNLOADED TOO.