HD Marketing 2010: Sharpening the Conversation

The Team and Tools You Need to Market in an Increasingly "Digitally Savvy" World

by

Edward Landry
landry_edward@bah.com

Carolyn Ude
ude_carolyn@bah.com

Christopher Vollmer
vollmer_christopher@bah.com

Marketing & Media Ecosystem 2010

ANA

Interactive Advertising Bureau

Booz | Allen | Hamilton

AAAA
American Association of Advertising Agencies
www.aaaa.org

HD Marketing 2010: Sharpening the Conversation

The Team and Tools You Need to Market in an Increasingly "Digitally Savvy" World

Marketers, agencies, and media companies today face a changed environment. Consumers are now media producers, programmers, and distributors. The convergence of media and technology, combined with the fragmentation and personalization of media, is affecting the connection between marketers and consumers in unprecedented ways. The mix of media channels has shifted from a one-way broadcast model to a set of dynamic two-way media forums. Now, consumers not only talk back to marketers and interact with marketing messages, but also reshape and distribute those messages through global communities.

With this shift comes the potential for more direct dialogues between marketers and consumers. Marketers can take control of the relationships and create new opportunities to directly reach, connect with, and influence consumers. In the past, marketers couldn't listen to consumers in real-time, or predict what they were going to do or say. But now, they can—and they do.

How, then, do marketer capabilities and relationships need to change as disruptive technologies transform the marketing value chain? To answer that question, the Marketing & Media Ecosystem 2010 study was recently conducted by Booz Allen Hamilton jointly with the Association of National Advertisers (ANA), the Interactive Advertising Bureau (IAB), and the American Association of Advertising Agencies (AAAA). This project was the first cross-industry partnership of its kind. More than 250 marketers, including 75 industry leaders—ranging from operational marketers to agency and media executives to digital strategists to chief revenue officers to CMOs to CEOs—participated in surveys, interviews, or both. Together, they identified the ways in which the complex media environment is reshaping the marketing ecosystem. And they spotlighted the priorities, capabilities, and partnerships that will be increasingly required across the marketer–agency–media value chain.

The Marketing & Media Ecosystem 2010 study highlights six key trends:

- **Marketing as Conversation.** Listen, facilitate, and create advocacy. Marketing is less about pushing messages *at* consumers and more about co-creating experiences *with* consumers.
- **Media: The New "Creative."** Marketing message distribution—timing, context, and relevance—is as important as creative execution.
- **Marketing + Math.** Data quality, quantity, and accessibility have brought math to marketing. New digital tools, predictive models, and behavioral targeting will turn insight into foresight.
- **Mind the Gap.** Marketing spending in digital media is far from commensurate with consumer behavior shifts—when will the divide between traditional and nontraditional media end?
- **The "Digitally Savvy" Organization.** Technology without an aligned organization, the right talent, and a progressive culture is inadequate. Functional skills are rising to the level of brand strategy.
- **The Network Effect.** Partnerships and collaboration among agencies, media companies, and marketers will grow in number and depth. New players will assume important roles and continue to reshape the value chain.

Marketing as Conversation

The balance of power has shifted—consumers are the new marketers. The message is only one input to a conversation that consumers conduct 24/7 in digital forums, on blogs, in social networking, through YouTube, via mobile phones, and elsewhere. This shift in control makes traditional strategies, channels, relationships, and metrics less useful, and in some cases irrelevant. But it also presents enormous opportunities. When consumers use digital media to search, shop, blog, socialize, or seek entertainment, they create opportunities for marketers to gain immediate insights. Now, marketers can have real-time conversations with consumers. They can identify and draft high "consumer influencers" as brand advocates, gather ideas to improve their products or services, and change their marketing messages and media mix instantaneously, depending on what is working *now*. And they can do all of the above immediately.

Consumers have always been powerful marketers, but their toolbox has been significantly upgraded, and the new digital tools for expression have dramatically expanded their power of voice. Their needs and behavior are now more transparent. Leading marketers are taking advantage of this shift and turning it into a competitive edge. More than half of the survey participants agree that advocacy is a more important marketing objective than awareness. Dave Morgan, founder and chairman of Tacoda (now AOL)—the world's largest behavioral targeting advertising network—stresses this in saying, "Marketing will be about leveraging and activating consumer groups—turning *con*sumers into *pro*sumers." Brand evangelists, equipped with the right tools and motivations, can be the new 30-second spot.

To activate a consumer, you must understand the consumer. To understand a consumer, you must listen and observe. When you listen and observe, you drive insights. It is no wonder that 80 percent of marketers in this study say that consumer insights are more important now than they were five years ago, and that they will become even more important in the future as media becomes increasingly digital. Furthermore, the definition of consumer insights is expanding. Ninety percent of the participants agree that it is important to understand how consumers use online media for information, and almost two-thirds emphasize understanding the use of online media for community. Understanding consumer media use and digital media behavior is becoming as important as understanding product usage, demographics, and psychographics. Sixty percent of the marketers are formally measuring media usage behaviors as a part of their consumer insights capability. Ogilvy is segmenting consumers based on their "Personal Circuits" of media. Marketers in leading geographies—such as Alex Kim, SVP of Carlson Marketing in Korea—note that "generations have shortened from a 10-year time frame to a three-year time frame; the media behaviors of an 18-year-old are very different than those of a 15-year-old." The currency of consumer segmentation and insight has evolved again—first was demographics, then psychographics, now "behavographics."

To seize these opportunities for increased consumer insight, marketers are redefining themselves. Rishad Tobaccowala, founder and CEO of Denuo, says, "If a client asks me where to invest, I say first in improving the product...then in listening." Marketers are developing the skills and habits needed to talk less, listen more, outsource to consumers, relinquish control, and sometimes just go with the flow. Some successful marketers are partnering with companies such as Technorati and Nielsen BuzzMetrics that monitor the blogosphere—which has surpassed the size of the newspaper-reading audience—to understand, track, and quantify online word-of-mouth. Other companies are deepening their direct relationships with consumers and engaging in real-time dialogues with consumers in diverse ways, including product sites, branded and unbranded community sites, interactive television, online test groups, mobile text programs, and blogs.

For example, American Express developed the Members Project, giving its cardholders an opportunity to connect with each other online. A leading consumer goods marketer encourages his brand managers to blog regularly with consumers. Michael Dell, CEO of Dell Inc., regularly reads posts to the company's "crowdsourcing" innovation site, "IdeaStorm." Wal-Mart wastes no time letting consumers know it is listening—it aims to respond directly, within an hour, whenever a consumer posts a comment on a blog. That kind of active listening inspires respect and wins loyalty.

As marketers move across the frontier into the new consumer environment, they are even bringing ethnographers along. Kevin George, a GM/VP of marketing at

Kevin George
Vice President and General Manager, Deodorants, Unilever U.S.

Global marketing giant Unilever has been an early leader in deploying digital media effectively. It has realized great success with its Axe and Dove brands.

In 2002, Unilever introduced the Axe range of deodorant body sprays using a healthy dose of viral Internet messages and a significant reduction in pure television. Within two years, Axe had essentially created a new product category and was ranked as the #1 male deodorant. What has driven your success?
Three things. First, we have changed the culture to one that actively encourages taking risks. I repeatedly tell our brand teams, "Take some chances. It's very rare that we would put you in a position where your decisions could bring down the company." There should be no hesitation in voicing ideas, and I need my teams to embrace that. We've also embedded consumer insights deeply throughout the company. We have an internal initiative called "Consumer Nation," where all employees (from the finance director to the supply chain assistant) are tasked with experiencing "what the consumer experiences," such as trying a new organic deodorant, reading a teen magazine, or blogging with consumers. It is tracked and monitored, and learnings are shared across the organization. These tasks foster a culture of learning, plus, they are fun. And, since every employee does it, there is a shared understanding of the consumer across the business.

Second, we've done a great job of focusing on how to adapt and use digital media in marketing. We strive not just to have brands that understand the digital space, but rather, to build "digital brands" that view the area much more broadly than we have in the past. We start by defining the type of experience we want consumers to have with our brands, then determine the right media channels that deliver that experience—and we are finding more and more that the digital channels such as online, interactive television, and mobile are the best solutions out there for creating that two-way dialogue. The most important thing is that we don't let the technology drive the strategy.

We are also moving from awareness to advocacy. That shift away from just driving mass awareness changes the mentality of which media channels you use. When you focus from the very beginning on creating a conversation about your brand ***between*** consumers, not just brand ***to*** consumers, your approach is much more effective.

Third, we stay as close to the consumer as we can. Three years ago we made the shift from "behind the two-way mirror" to using ethnography to generate insights. Observing what consumers actually *do*, rather than what they *say* they do, has made a huge difference. Talking to them about things other than the product and brand offers a much deeper understanding of who they are and what motivates them.

Finally, we engage players and use tools from across the value chain to generate insights. For example, we use Communispace to poll people online and get almost instantaneous consumer research. We also learn from search—the "database of consumer intentions." It has enormous predictive capabilities and tells us trends. Consumer insights can come from a number of sources, so a hybrid approach works best.

Unilever is continuing to push the envelope with unconventional integrated marketing efforts for brands such as Axe, Dove, Degree, and Caress. How has your team changed how you work with your agencies to meet your needs?
The roles of the creative and media agencies are changing. Their role is always to be strategic, creative, and act as our agent in the media marketplace, but more and more they are becoming partners in media and content creation with us. No one agency can do it all. While Unilever works with many strong agencies, for a recent new variant launch on Axe we tried a different model. We hired a separate agency to act as the core integrator for the one big idea. This "conductor" agency managed the budget and timeline and was wholly responsible for the execution of all aspects of the campaign. At first, it was politically challenging for our other agencies to work through the conductor agency, but it gave our brand teams one point of contact, which saved a great deal of time, strain, and complexity from our end. This is not the right approach all the time, but we gained a lot of learning about a different way of working.

As you shift marketing dollars into nontraditional media, where effectiveness is often much more ambiguous, how do you measure success?
It's more of a migration of dollars to digital rather than a large shift away from "traditional." Overall we need to do a better job of understanding the funnel by which consumers consume media. They use a portfolio of media to experience our brands, so a dramatic shift from one to another would be a mistake. Rather, our shift in thinking from awareness to advocacy has changed how we think about metrics and success. Unilever has certain measures that are standard

Kevin George (continued)
Vice President and General Manager, Deodorants, Unilever U.S.

across brands, and many that are measured based on specific brand objectives. The digital space brings a lot of opportunity for real-time feedback, and we monitor most of our digital campaigns every week.

Some of the best analytics tools are free right now. The digital world allows the company to be more of a data-driven, learning culture that then allows us to instantly change campaigns as they are executed in the market.

Unilever, Axe, and Degree specifically have partnered extensively with media companies to develop custom content and opportunities. How have you seen your relationships with media companies shift?
We are working much more closely with media companies across all mediums. We insist on having a direct relationship with many, and provide them a strategic brief with the brand idea for them to concept against. In return, many media companies are incorporating our team at Unilever into their development process. Google is a great example of a media company that gets that. They'll get all of us in a room and say "tell us what you need"—and then they tweak tools accordingly. We work closely together, and it is not about them selling more search terms, but codeveloping solutions. Some media companies still see that increased level of interaction and collaboration as new—which is similar to the way that we, as a large CPG company, felt about the nature of our relationships with our retail customers such as Wal-Mart a few years ago. Five years ago we wouldn't want to share our product launch plans, but now we work with retail partners to develop execution strategy two years before launch. That has changed with retail, and it is changing with media companies.

Unilever (Axe), says, "Observing what customers actually *do*, rather than what they *say* they do, has made a huge difference." Robert Lachky, EVP of global industry development at Anheuser-Busch, says, "Basic focus groups are still important, but they are not enough. Now, we are taking it a step farther and diving into ethnography. We live with a customer for a few days or stock their fridge one day and come back the next. This yields much deeper insights than only focusing on the lab environment." Kevin Roberts, worldwide CEO of Saatchi & Saatchi, highlights the agency's dedicated Xplorers. These are essentially ethnographers who live with consumers, but don't hound them with questions. The Xplorers' nightly blogs communicate what they learn in real time. Almost 30 percent of the study participants agree that ethnography should be part of the marketer's tool kit. More than 20 percent have developed that capability, or intend to have it by 2010.

Media: The New "Creative"
Marketing message distribution—timing, context, and relevance—is becoming as important as creative execution. Marketing is now about conversations. And media, specifically digital media, make those conversations possible. As a consequence of this shift, the media function is changing rapidly. Media strategy and planning have developed a higher profile within marketing organizations. What used to be a transactional corporate role has been elevated to the core of strategic communications. Marketing processes, ranging from strategic planning to media buying, are changing and will continue to morph as media sourcing becomes automated. Experimental budgets, media innovation funds, and experimental line items are becoming standard practices.

Marketing staffs are already adapting to this new emphasis on media: they are establishing senior media positions, building communications planning functions, and shifting their recruiting strategies. "Communications planning"—a function charged with determining relevance across media and delivering holistic marketing communications in a fragmented environment—has become not only a buzz word, but a mainstay in many marketing organizations. Approximately 20 percent of marketers in this study have invested in internal communications planning functions, with leaders planning to add departments and create centers of excellence in the next two years.

This new activity is shifting media planning and buying processes and demanding flexibility and speed. Marketers want to buy and adjust media on a weekly

Robert Lachky
Executive Vice President, Global Industry Development, Anheuser-Busch, Inc.

In addition to having a reputation for building some of the great consumer brands of the television age (such as Budweiser), Anheuser-Busch is known as one of the most consistently capable experimenters in digital media and other new approaches to marketing.

While Anheuser-Busch is famous for creating "water-cooler worthy" television spots, how has it adjusted its marketing mix for the digital age?
Television will always play a key role for us, but we are looking to engage other media forms and expand messaging across many consumer touch points. During the 2007 Super Bowl, we tied a traditional TV investment and commercial idea called "Apology-Bot" to our e-mail database, text programs, brand Web site, and viral video to make huge inroads with our core customers. The buzz marketing around having "forbidden" Super Bowl spots exchanging hands virally was a huge win for us. It demonstrated the power of our marketing, and how we could leverage ideas across multiple platforms. Going forward, we are emphasizing multimedia programs, and our best programs are truly multi-platform. They incorporate online media, cell phone technology, buzz marketing, grassroots efforts, and/or doing a massive PR campaign around all of it.

We are also investing heavily in branded content sites like Bud.TV and "Here's to Beer." We have gained a great deal of consumer insight and are continuing to experiment, test, and learn every day. The digital space presents great opportunity, and I believe we're just scratching the surface.

Anheuser-Busch has an internal media buying function instead of negotiating through a media agency. How has your approach to the media process changed as the marketing mix has fragmented across the media landscape? And how have you had to adapt to the elevated need to have media and creative work developed in tandem?
We originally brought the media buying function in-house for efficiency. But it became obvious pretty quickly that it was a huge strategic benefit when negotiating directly with the networks and other media owners. A-B's Tony Ponturo and his team have done an incredible job getting us important long-term properties and exclusivities. Now, however, we are seeing a greater need for flexibility around our spending. We need to be able to redistribute spending as we see continued media fragmentation and new platforms emerge.

Our in-house planners help us bridge the gap between media, creative, and the consumer, ensuring that our message is consistent and reaching the appropriate audience. Our folks have always worked in tandem. That's the benefit of having the media function inside.

Our media team has expanded recently to include online planning and buying, and they have done a fantastic job. Our brand teams and the media group work together, developing plans that use all the new platforms available. We are all pushing in the same direction.

or even daily basis. Many want to reduce up-front spends. One major consumer goods marketing leader said, "We want to buy media 52 weeks a year." This represents a stark contrast to historical patterns of up-front buys. David Kenny, chairman and CEO of Digitas Inc., indicated that he has teams that monitor and adjust both media buys and creative messaging in real time for many of his clients: "The media mix should be adjusted every 36 hours." This flexible approach to media planning and buying will spread quickly. In fact, more than half of the survey participants agreed that media sourcing will look like the equities market in five years; they expect media to be bought, sold, and adjusted on a real-time and constant basis.

Finally, experimental budgets and media innovation funds are critical. Carla Hendra, co-CEO of Ogilvy North America, advises her clients to "set money aside for experimentation. Testing is such a critical part of marketing now…if you are not taking 15 percent of your marketing budget and asking your marketing partners to bring you tests, you will be in trouble." Such companies as Procter & Gamble, Johnson & Johnson, and Unilever currently use a centrally controlled innovation fund that brands can tap into to experiment with upstream and unproven media that have the potential for scalability. Close to a quarter of the companies surveyed currently have a centralized media experimental fund. One leading consumer goods company takes the idea of a centralized fund even further; it employs a "venture capital–like model" to determine investment opportunities, funding criteria, and "go" and "no go" points for upstream media and technology concepts.

Marketing + Math

The influx of data into marketing has been one of the biggest changes to players across the landscape. Carla Hendra agrees, and explains, "The increase in availability, usability, and affordability has changed the landscape. Historically, data had been hard to get, expensive to manipulate, and difficult to manage.... The change in data landscape dramatically changes what type of people, processes, and capabilities are needed....You need integrated databases and Ph.D.s in statistics. Marketers now all have to understand the power of algorithms." Advertising strategies, campaigns, and distribution are increasingly based on predictive algorithms, spreadsheets, and math. Marketing and math have intersected.

Data mining is a "great example of a disruptive technology that dramatically changes marketing and enables individual targeting," says Dave Morgan. "It changes how you have to approach your markets." Every Web page's individual views, every word typed in a search query box (also known as the "database of consumer intentions"), every video download, and even every word in an e-mail may create one more data

Carla Hendra
Co-Chief Executive Officer, Ogilvy North America

Ogilvy North America, a member of the WPP Group, has been one of the earliest and most effective online advertising agencies, known for its pioneering work with such clients as Cisco, IBM, and Dove.

The marketing and media ecosystem has undergone significant changes over the last few years. What have been the biggest impacts to your business?

One of the biggest impacts revolves around the use of data in marketing and advertising. The increase in availability, usability, and affordability has changed the landscape. Historically, data had been hard to get, expensive to manipulate, and difficult to manage. This has changed how marketers think about measurement, and has led to a clear focus on accountability and ROI—which is really about using data to increase optimization and to make trade-off decisions. Marketers need to know how to allocate their budget, what they will get in return, and how they can adjust it according to market activity.

At Ogilvy, we are heavily focused on analytics. We have had these skills ingrained in our business thanks to our history of database marketing, where you test a lot, get the results, and go out into the market again. In many cases, clients that have a history in database marketing (such as business-to-business, and financial services) have a clear advantage and are ahead of other sectors in terms of having and using the data that is now available. For years, we have worked with several financial-services clients that live and die watching their standard metrics and dashboards, and we see that they are better equipped for this complex data and media environment.

This level of rigor is a new thing for some marketers. The difficult thing to do these days is to overlay the scalability that Web data gives you, because there is so much of it. And it is much cheaper. The reason that this data wasn't used 30 years ago is that it was cost prohibitive and time consuming. Now, it is more immediate, broad-scale, and less expensive as customers are directly interacting with marketers through the Internet.

The change in the data landscape dramatically changes what type of people, processes, and capabilities are needed. For example, you need integrated databases and Ph.D.s in statistics. Though we have always been strong in analytics, we are building up our marketing analytics capabilities as fast as our clients are. In some cases, clients have asked to borrow Ogilvy staff for a period to aid them in getting their systems up to par.

Carla Hendra (continued)
Co-Chief Executive Officer, Ogilvy North America

What are some of the things that you would advise your clients as the "Things to Do Tomorrow"?
Focus on your consumer. The idea behind the Dove work that won twice at Cannes, for both Best Film and Best Viral, was born from consumer research indicating that 98 percent of women in the world do not feel beautiful. And beyond knowing that "beautiful" was something other than herself, there was very little consensus. Dove's *Campaign for Real Beauty* began as a nine-country Web site that initiated a conversation around what real women consider to be beautiful. All of this was rooted in deep research and consumer insights. Ideas as strong as that can live across multiple channels and are truly media agnostic.

Set money aside for experimentation. Testing is such a critical part of marketing now. I often tell clients that if you are not taking 15 percent of your marketing budget and asking your marketing partners to bring you tests, you will be in trouble. You will not know which of the multitude of new channels and opportunities work. We don't yet know if mobile really works, or how viral works. And each company needs to test them individually because viral will work differently for IBM than for Dove than for American Express. Each will need an understanding of the different approaches and how it can work for them. We are trying to give our clients the tools (both marketing and cultural) to help be the change agent that may be needed. The hardest thing for clients is to know "What do I do differently when I go to work today?" They need the tools, the ideas, but also need to have the right people in place.

Don't underplay the importance of partnerships. We are lucky to have Ogilvy Interactive, who have deep skills and hard-core technology, as a close partner. We are also partnering outside our agency network, and have close ties with technology companies. On the other hand, there has also been a huge rise in the importance of partnerships with entertainment, media, and content developers. We must keep our eyes open and continue to look to partner with those that bring critical capabilities to the table.

You've said that clients have always focused on the brand, but now need to focus on the consumer. What new developments have you made to understand the consumer?
It's a collaborative process. Our planning group is responsible for developing the insights that drive how to position a brand. They are supported by the digital innovation team that helps them understand how behavior around emerging technologies is changing. And we have Neo@Ogilvy, our digital media team. They really dive into the target consumers' media behavior. A few years ago we came up with a concept called the "Personal Circuit" which lays out a consumer's media rituals. It's critical to understand that media consumer circuits do not necessarily fall into place with demographics. For example, the personal circuit of a 42-year-old woman who is into gaming could have certain media behaviors that are more in line with those of a 16-year-old boy. That level of insight allows us to map the media surround and deliver the "360 plan" that we strive for. What was launched as a concept is now a tool that we use to help clients understand that they cannot buy media like they used to. The complex media environment places increased importance on consumer and media behavior insights.

point that a marketer can leverage and use to more precisely target the audience with customized media placement and messaging. Tacoda (recently purchased by AOL), the largest advertising network, has more than 4,500 sites, collects over 135 million individual behaviors 50 times each month, and has segmented the online audience into behavioral buckets.

In addition to having more data and more insights, marketers are building tools to project behaviors. Marketing mix models based purely on historical spend are no longer sufficient. Predictive modeling tools are on the horizon. Almost 40 percent of financial-services/travel companies surveyed are using behavioral targeting as an input into marketing mix allocation.

David Verklin, chairman and CEO of Carat North America, the largest independent media services company, expresses the importance of agencies' investing in aggregated data and technology to centralize the data from many different sources—"that will be the bridge across media." Four-fifths of the participants agree that it is important to have one centralized database that overlays CRM, media behavior, and creative effectiveness with granular levels of sales information. Only a quarter have such database integration capabilities in place today, but 35 percent are building them for 2010.

If marketers are to understand and use the data generated from digital media channels, quantitative firepower is necessary. Almost a quarter of the marketers surveyed are adding people in marketing and media analysis roles. They are hiring quant jocks, engineers, rocket scientists, Ph.D.s in math and hard sciences, and other quantitatively skilled professionals to staff marketing optimization, investment, and productivity teams. These new hires have the number-crunching chops to work with predictive algorithms and integrated databases, overlaid consumer online behavior data, and granular point-of-sale data, which translates into increased efficiency of promotion, marketing, and advertising decisions in real time. Technology, data capabilities, and speed will establish competitive advantage.

Mind the Gap

Despite the growing interest in digital media, digital marketing spend still lags the shift in consumer behavior. Eight in 10 Americans are now online, and they spend just as much time there as they do with television. However, most marketing budgets still allocate only 5 to 10 percent of their funds to digital media. Michael Barrett, EVP and chief revenue officer at Fox Interactive Media (MySpace), expressed frustration with this gap in saying, "The gap is significant, and it is growing. It feels as if the smoking gun hasn't been unleashed."

In some industries—such as telecommunications, technology, financial services, travel, subscription media, and retail—business and marketing models are becoming digitally mature. Firms in these industries seem to have an inherent advantage in understanding and leveraging the new media environment. Agency executives frequently note that clients with roots in financial services or business-to-business marketing are inherently better equipped to compete in the digital space. Other industries, such as consumer goods, are trailing in digital knowledge, adaptation, and spending levels, perhaps because they've observed less dramatic shifts in the way consumers shop for and use their products.

Regardless of industry, marketers across all sectors are increasingly making digital media a priority. Digital media presents marketers with unique opportunities to engage consumers, generate data, and establish relationships. Mass advertising will continue to have a role (albeit a declining role) in driving reach, but marketers are prioritizing channels that attract and maintain deeper consumer relationships. Seventy-five percent of the survey participants are using online advertising as part of their marketing mix. A quarter of the survey participants are using social networking, video posts, and blogs as part of their marketing mix. Unilever's Axe brand affiliates with prominent MySpace personalities. Procter & Gamble is building a strong online community of young girls on www.beinggirl.com. IBM has invested in blogging training for staff.

While some marketers will argue that spend numbers alone do not represent their dedication to the media, most acknowledge the barriers: imprecise effectiveness measures, rigid supply chains, and organizational barriers also contribute to slower change. Metrics are neither clear nor standardized. There is no metric equivalent to Gross Rating Points (GRPs) for a conversational marketing effort in the blogosphere. Nonetheless, the one point everyone agrees on is that digital spending will continue to increase.

The "Digitally Savvy" Organization

All organizations agree that becoming highly capable in marketing in the digital environment is a challenge and a priority. However, most lament that their organizations have a long way to go. Indeed, fewer than one in four survey participants consider their organization to be "digitally savvy." Marketers highlighted several barriers. More than half of them are stymied by lack of senior organizational support and lack of experience in new media. Many bemoan the dearth of digital talent. Although such "hot" digital employers as MySpace and Google are turning people away, other companies are struggling to solve the talent equation. The question thus becomes, How do you get the right team on board and build for the future?

Marketing organizations are answering this in a range of ways: building out new, functional capabilities, adjusting people strategies, and emphasizing flexibility. Functional capabilities have become more important across all sectors. Marketing organizations are adding

Michael Barrett
Executive Vice President and Chief Revenue Officer, Fox Interactive Media

Fox Interactive Media is the parent company of MySpace, today's most prominent social networking site.

Fox Interactive Media has aggressively expanded its online asset portfolio, and obviously the addition of MySpace is a huge focus. How has your push into social networking as a more cutting-edge medium changed the way you work with marketers?
The social networking space holds a tremendous learning curve for marketers, and we have changed our structure and capabilities to help them adapt. We can't walk in and talk about widgets; we need to talk about solutions in the same language. We have essentially made ourselves a full-service media and creative shop that goes beyond just having a sales team that translates what will work and what will not. We want to work with a much broader selection of advertisers than many of the major portals would want to, and we will jump through hoops for them. In addition to the traditional research and ad technology groups, we have a marketing communications group, creative services, and a client solutions team that works directly with agencies and marketers to communicate, activate, and translate what is possible—and we have over 200 people on our team (and continue to grow). For the most part, we execute all of the ideas. If we didn't, there would be far less advertiser activity on our online properties. And, in social networking, our biggest challenge is activation.

Marketing and media dollars are clearly moving into digital media, but there is still a major gap between where marketers spend money and where consumers spend their time. This is probably especially frustrating to you since studies show that more than 90 percent of teens use social networking to connect to their friends. What are the major barriers you see and how can you make marketers more "digitally savvy?"
The gap is significant, and it is growing. It feels as if the smoking gun hasn't been unleashed. We are doing what we can to help marketers embrace this medium, from pushing into developing specific metrics to prove the value (for example, defining the "momentum effect") to building up our teams to help usher them into this space. Metrics are clearly an issue, and as an industry, we owe it to the community to get better about ROI, but there are other barriers as well, such as getting marketers comfortable with consumer-generated media.

Marketers are slowly gravitating, but taking baby steps. For the most part, they are not throwing enough chips around the table, nor are they pushing beyond their comfort zone. They need to spend enough of their budget to really have a stake in it. It seems that many are spending in more progressive spaces like social networking to "check the box," and the incremental spending is still "experimental," as opposed to being integrated into the broader mix. In addition to changing the investment model, marketers need to attract the type of talent who know and embrace the digital space and are ready to get involved.

MySpace has a wealth of consumer data and inspires significant engagement with your audience. How do you leverage your intimate knowledge of your users and provide it as value to marketers?
As a leader in social networking, we knew we needed to come up with our own benchmark to provide value, and we are leaning on our research team and providers to develop metrics to do so. Historically the data has been panel based, and it was difficult to get to the heart of our younger audience. We are able to take advantage of what we know, based on profile information, and turn that into a powerful targeting tool. We need to make media smarter and differentiated somehow, and targeting by interest is one way to do it. It is a big change for us, and we have launched with 10 segments that will expand into many more. There won't just be a "travel" segment, but an "ecotravel" segment. This level of targeting brings better solutions to advertisers. This is something beyond behavioral and contextual targeting—that we think will be the holy grail.

Consumer-generated media can be a blessing and a curse for marketers—and many marketers are still very nervous about handing their brand over to their consumers. How do you help marketers get over that hurdle and participate in the CGM space?
This is a constant challenge. But what is important to understand is that consumers already take brand assets and make them their own. The issue is not whether or not you *should* be involved in the CGM space, but *how* you need to be. We also have plenty of "safe zones" for marketers—music channels, home pages, etc., that can safely house an advertiser message. Also, more marketers are experiencing and publicizing success—and you can't downplay the power of peer pressure in marketing.

Michael Barrett (continued)
Executive Vice President and Chief Revenue Officer, Fox Interactive Media

What are some of the biggest challenges for the Internet moving forward?
Many of the emerging platforms are very interesting—such as mobile where we distribute many of our assets (FoxSports.com, MySpace, etc.) around the world—but many of those are inherently challenging to scale. Ultimately, the big issue will be the evolution of the Internet as it moves onto the TV screen. How does the "10 foot" experience differ from the "10 inch" experience? Who sells what? Who has the control? Will online companies be making deals with the MSOs? That will be an interesting challenge for the industry to get its hands around.

resources and capabilities to digital, media, and marketing services. Nine out of 10 participants agree that digital will become increasingly important.

Recruiting talent with adequate digital knowledge is of top concern. Digital knowledge is unevenly distributed by sector and by age, so some marketers have begun recruiting more undergraduates, and fewer MBAs, into brand management. Junior talent seems to be easier to find, and it can help bring in the desired digital fluency, but it is very difficult to find seasoned management talent that understands the digital space. As a result, marketers are not only prioritizing internal training for digital marketing, but also implementing programs to share best practices across departments and geographies. One leading consumer goods company has an "extern" program in its media department: it works with its media company partners to identify high performers and bring them in from outside to rotate through the marketing organization, and naturally share knowledge across the boundaries of partner companies.

The Network Effect

The marketer–agency–media company value chain used to be simple and straightforward. Roles were clearly defined. Marketers defined a brand essence, agencies developed the idea and creative execution, and media companies put it through the pipeline. A marketer worked with a select few advertising agencies of record that handled most of the creative marketing business. Today, that linear relationship has morphed into a spiderweb of overlapping connections. Marketers are partnering directly with media companies, specialty agencies are multiplying, and media companies are building in-house marketing services capabilities. The ecosystem is in chaos. As one leading marketing vice president explains it, "The entire agency model 'value network' is based on the value of an idea, and each agency wants to protect, block, and own that idea. The model needs to change; ideas need to be shared across agencies."

In this land grab for capabilities, duplication and inefficiencies abound. Increasingly, marketers must act as integrators, coordinating ideas and execution across all marketing channels, but they are rarely staffed to do the job. A single manufacturing or service company may have more than 20 points of contact with various agencies—a creative agency, a media buying agency, a digital agency, a direct agency, an ethnic agency, a mobile marketing agency, a PR company, a shopper marketing agency, and so on. While marketers agree that today's agency model needs to change, they disagree about the model of the future. Three-quarters of marketers believe that media and creative agencies should be rebundled, but there is little consensus on the appropriate type of agency to play the lead role.

In the interim, many of the leaders are finding new ways to work with long-standing agency partners and at the same time take advantage of best-in-class capabilities. Unilever VP/GM Kevin George explains the company's foray into testing new agency models this way: "While Unilever works with many strong agencies, for a recent new variant launch on Axe we tried a different model. We hired a separate agency to act as the core integrator for the one big idea. This 'conductor' agency managed the budget and timeline and was wholly responsible for the execution of all aspects of the campaign. At first, it was politically challenging for our other agencies to work through the conductor agency,

Rishad Tobaccowala
Chief Executive Officer and Founder, Denuo

Denuo is a new kind of agency: part management consultant, part advertising agency, part connector. It delivers foresight and strategic direction to clients and acts as a catalyst in delivering future-forward communication ideas.

The marketing and media ecosystem is undergoing radical changes. What do you see as the lasting impacts?
There are five major shifts that have taken place across the marketing landscape: time, place, area, speed, and power. Each creates an issue, but the combination can be a major pinpoint of pain. Time is compressed, and often victim of arbitrage. Place doesn't matter—people can blog or access content from anywhere. Area has shifted to a digital focus; content can be anything or come from anywhere. Speed of marketing, in both process and execution, is critical. And, finally, there has been an enormous power shift—people are now gods. They have the voice, the tools, and hence, the power.

The onset of new media opportunities often brings up the challenge of investment priorities for organizations. How do you encourage your clients to move their money, and to where?
The answer is simple. First, spend your money on improving the product or service for sale. There's no quicker way to kill a brand than to continue to drive people to market a product that doesn't meet expectations.

Second, spend time and money *listening*. True conversations don't take place with you as marketer, but among people. Marketing has become increasingly outsourced to customers (the "retransmitters" of your marketing message), and you need to be sure you know what they are communicating. Your primary objective should be to encourage talking and searching.

The current marketing environment has dramatically changed the capabilities required for marketing. What capabilities need to be built now for success in the future?
Learn to act—most marketers are stuck thinking. However, you can't *think* unless you *do,* so stop thinking and start doing. Experimentation and iteration must be encouraged across the organization. Speed of action encourages the critical capabilities of maintaining flexibility and agility in the face of the rapidly changing environment.

Collaborate and partner—we need more collaboration and "co-opetition" across the industry. The technology industry has always done a better job of competing and working together, and marketers should take note. Technology needs to be more tightly linked with marketing internally as well.

but it gave our brand teams one point of contact, which saved a great deal of time, strain, and complexity from our end. This is not the right approach all the time, but we gained a lot of learning about a different way of working."

The chaos in the agency ecosystem is opening the door for media companies to compete for marketer spending and attention. New media players have joined the roster of creative partners; they bear the responsibility of educating their more established counterparts, as well as being responsible for strategy and activation. Michael Barrett explains: "We have essentially made ourselves a full-service media and creative shop that goes beyond just having a sales team....In addition to the traditional research and ad technology groups, we have a marketing communications group, creative services, and a client solutions team that works directly with agencies and marketers to communicate, activate, and translate what is possible....For the most part, we execute all of the ideas. If we didn't, there would be far less advertiser activity on our online properties."

At the same time, traditional media companies are developing teams made up of brand strategists and agency creatives, and partnering directly with marketers. For example, Time Warner has created the Global solutions team, composed of both media and agency executives, to work directly with major advertisers such as Home Depot, Wal-Mart, Unilever, and others to bring them creative ideas and solutions that cross their media properties.

Finally, the convergence of technology and advertising is changing the landscape. The US$33 billion of merger and acquisition activity in the marketing services industry in the first half of 2007 was more than twice the activity in the same time frame for the previous two years. Microsoft's $5.7 billion acquisition of aQuantive, Google's $3.1 billion acquisition of DoubleClick, and AOL's acquisition of Tacoda are all indicative of the race to own technology, data, and talent. Many companies are also racing to own the data generated from the mass online audience, and the winners will use it to push scalability, standardized metrics, and the reaggregation of the online audience.

How to Respond: Things to Do Tomorrow

In this rapidly changing marketing environment, marketers must adapt. Change must be carefully thought through and precisely focused. In what follows, we outline the nature and extent of the changes required:

- **Ruthlessly build consumer insights.** Leverage digital channels to capture insights—one-to-one interactions, blog behavior, search behaviors, and real-time behavioral patterns. Measure media usage behaviors as a part of consumer insights. Seek to understand how consumers use media for entertainment, community, and information. Partner with agencies and bring the ethnographers along.
- **Make consumers your advocates.** Shift marketing objectives from sending a message to facilitating conversations *with* and *between* consumers. Understand how consumers will use the message.
- **Use predictive tools to target your audiences.** Marketers are looking beyond such popular allocation tools as historical spending adjustments and marketing mix modeling. Emulate the progressive marketers who are incorporating new tools, such as behavioral targeting and predictive modeling, in planning their media activities.
- **Apply rigor.** Refine and iterate your marketing mix. Build partnerships with digital agencies, media agencies, and media companies to track ad placement, versioning, and effectiveness. The digital environment can bring a new level of transparency and efficiency to the optimization of the marketing mix. Web data brings scalability and can be overlaid with customer data. Leading marketers are tailoring the mix to media behavior, customer demographics, and past exposure to the messages.
- **Elevate media and communications.** Develop an internal "integrator" position (such as in communications planning). Appoint senior media leadership, incorporate media early in the strategic planning process, and integrate media with marketing.
- **Bring digital out of the back room.** Digital and interactive are no longer "niche" capabilities. They are part of the requisite skill set for all marketers. Recruit and train accordingly.
- **Institutionalize experimentation and media innovation.** Encourage experimentation and support ideas for incremental improvement. Formalize experimental spend efforts. At the very least, have a default budget framework such as about 5 percent in emerging media.
- **Pick a metric, develop a scorecard, and use it.** The industry is struggling to define comparable effectiveness metrics across channels, and standardization will come with time. Leaders build their own dashboards internally, measure against new media spend, and share data with key partners. Align metrics to objectives. Consistency counts.
- **Align the organization, hire the right talent, and initiate a progressive culture.** Technology without talent and culture is inadequate. Get the right team in place; focus on people priorities. Embed digital media at all levels of the marketing mix. Learn from new players and partners such as MySpace; create a "consumer nation" as Unilever did; recruit digital and quant specialists; reward and encourage experimentation.
- **Establish an increasing number of marketer, media, and technology partnerships.** Staff accordingly: Fifty-two percent of the participants indicated that media company partnerships will be critical in the future. Approximately 60 percent of the participants indicated that they have established internal positions responsible for working directly with media companies. Know the difference between those capabilities that should be kept in-house and those that are better managed by external partners. Place bets across the media and technology landscape.

Conclusion

Marketers face a complex and sometimes bewildering combination of media fragmentation, new technologies, personalization, consumer power, and more. This study has identified some of the major opportunities of the new marketing environment. Yet realizing the full promise of these opportunities will require focused change in four critical areas: (1) consumer insight; (2) media mix and channel management; (3) marketing organization, culture, and talent; and (4) ecosystem interconnectivity and partnerships. Some leading organizations have already begun to demonstrate the kind of change required. But there is no uniform model or template for all organizations. Experimentation, innovation, and discovery are challenges, but also necessities for all. That is one thing that has not changed, and may never change, about marketing.

Marketers agree:

- 55% agree that ***advocacy supersedes awareness***
- Only 24% consider their organizations ***"digitally savvy"***
- 30% are ***using behavioral targeting to impact the allocation*** of the marketing mix
- 64% agree ***marketing departments should be organized around consumer segments***, instead of brands
- 47% agree that ***media should be bought and sold based on guaranteed "time spent"*** (a.k.a. "engagement") with brand
- 53% agree that ***media sourcing will look like the equities market*** in five years
- 76% agree that ***media and creative agencies should be rebundled***
- 51% cite ***lack of organizational support*** as a barrier to their use of new media
- ***0% will decrease spending*** in digital

What Booz Allen Brings

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for more than 90 years. Providing consulting services in strategy, operations, organization and change, and information technology, Booz Allen is the one firm that helps clients solve their toughest problems, working by their side to help them achieve their missions. Booz Allen is committed to delivering results that endure.

With 19,000 employees on six continents, the firm generates annual sales of $4 billion. Booz Allen has been recognized as a consultant and an employer of choice.

In 2007, for the third consecutive year, *Fortune* magazine named Booz Allen one of "The 100 Best Companies to Work For," and for the past eight years, *Working Mother* has ranked the firm among its "100 Best Companies for Working Mothers."

To learn more about the firm, visit the Booz Allen Web site at www.boozallen.com. To learn more about the best ideas in business, visit www.strategy-business.com, the Web site for *strategy+business*, a quarterly journal sponsored by Booz Allen.

About the ANA

The Association of National Advertisers leads the marketing community by providing its members insights, collaboration and advocacy. ANA's membership includes 360 companies with 9000 brands that collectively spend over $100 billion in marketing communications and advertising. The ANA strives to communicate marketing best practices, lead industry initiatives, influence industry practices, manage industry affairs and advance, promote and protect all advertisers and marketers. For more information, visit www.ana.net.

About the IAB

Founded in 1996, the Interactive Advertising Bureau (www.iab.net) represents over 300 leading interactive companies that actively engage in and support the sale of interactive advertising. IAB members are responsible for selling over 86% of online advertising in the United States. On behalf of its members, the IAB is dedicated to the continuing growth of the interactive advertising marketplace, of interactive's share of total marketing spend, and of its members' share of total marketing spend. The IAB evaluates and recommends standards and practices, fields interactive effectiveness research, and educates the advertising industry about interactive advertising.

About the AAAA

The American Association of Advertising Agencies is the national trade association of the advertising agency business. The 1,196 member agency offices it serves in the United States employ 65,000 people, offer a wide range of marketing communications services, and place 80 percent of all national advertising. The management-oriented association helps its members build their businesses, and acts as the industry's spokesman with government, media, and the public sector. For more information visit our Web site at www.aaaa.org.

Edward Landry is a vice president with Booz Allen Hamilton based in the New York office. He focuses on business strategy development and sales and marketing effectiveness for consumer packaged goods and healthcare companies.

Carolyn Ude is an associate with Booz Allen Hamilton in the New York office. She focuses on strategy development, marketing, and new media for consumer, media, and entertainment companies.

Christopher Vollmer is a vice president with Booz Allen Hamilton based in the New York office. He focuses on advertising and consumer marketing as well as growth and portfolio strategy in the media, entertainment, and consumer products industries.

Contact Information:

NEW YORK

Edward Landry
Vice President
212-551-6485
landry_edward@bah.com

Carolyn Ude
Associate
212-551-6695
ude_carolyn@bah.com

Christopher Vollmer
Vice President
212-551-6794
vollmer_christopher@bah.com

Marketing
& Media
Ecosystem 2010

ANA

Interactive Advertising Bureau

Booz | Allen | Hamilton

AAAA
American Association of Advertising Agencies
www.aaaa.org

20070098/01/08 PRINTED IN USA