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Papers

The Megatrends: What to expect in direct and interactive marketing in 2010

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Abstract

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Preamble

At the Winterberry Group, we perform strategic planning and investment banking, which gives us a particular lens through which to view this market. Our view is all about enhancing shareholder value and the role that marketing plays in doing that.

Marketplace dynamics

Overview

I would like to start by outlining the marketplace dynamics that you, as marketers, are going to have to live with as the consumer demands change. We have heard about above- and below-the-line today; for us, above-the-line means television, radio, magazine, outdoor and newspaper — it is about gross rating points, impressions, frequency and reach. We live in the world of below-the-line: direct mail, direct response television, PR print, email, event marketing and interactive promotions, which are much more measurable, as opposed to measured media.

Advertising clutter

Something that nobody spoke about today was clutter. Advertising clutter has been getting worse:

- In the US, starting in 1960, there were five channels in television; today, the average is 104.
- There are 19,000 magazines today.
- 122 billion pieces of direct mail are pushed through people's mailboxes (US).
- There are 13,000 radio stations.

Consumers have become involved and their response has been to start to take back control. Clutter has been driving return on investment down at a very steady rate.

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Regaining control

- As they looked for control, they decided to adopt broadband, create their own content and stop paying attention to our messages, other than those that are relevant or timely to them.
- They decided to look at new media in places like Google and Yahoo! and to look for what they were interested in.
- They decided to go to YouTube and other social media sites to interact with those who think like them or who may have a similar point of view.

Multitasking

Multitasking children and young adults

In terms of the generations at home, we have mobile phones and broadband devices. I have two children at home who watch television or listen to their iPod, who are asking me questions at the same time and who are eating while they do all of this. They are multitasking non-stop, and it is not just the children. I look at my staff who are in their 20s — they consume media differently from us. I look at people who are in my peer group, in their 40s, and while we still read the newspaper, we may get our news first online before looking at it in-depth, offline.

Video

We are also increasingly looking at video, either on the television or on a PDA. They are many different forms of consuming video — some good and some bad.

Time shifting and the digital video recorder (DVR)

Finally, we have time shifting and the DVR. The US networks have agreed to look at 1+3: the day it was shown plus three days, to capture the number of impressions, because of time-shifted viewing, more and more of which we are going to see over time.

Consolidation

Consolidation on the marketers' side has a big impact

Something else that I have not heard mentioned today is consolidation on the marketers' side, which is having a big impact. The big marketers are getting bigger and adding more brands. This then puts pressure on marketing service providers, who are scrambling to realign with marketers who are living in a different competitive environment marked increasingly by scale issues.

In the US, we saw it first in the banking sector, with Chase and Bank One, Bank of America and MBNA; we are also seeing it in the retail and telecommunication sector, which creates a problem for marketers, who now have to consolidate brands, and for service providers. We expect this to continue over the next few years; the M&A environment has never been as hot as it is right now. This is going to be something that marketers and service providers will be living with, not only today, but through to 2010.

Do not call; Do not mail

Fifteen states now have 'Do Not Mail' petitions on the table. Three of them, however, have already rejected them. The issue is that, if we were to enact 'Do Not Mail' in the US, we would have to change the way that we deliver the mail. If you removed 50 per cent or more of the volume going into mailboxes, the Post Office could not operate in the way it does now while continuing to provide universal coverage. Forty-seven per cent of everything that is printed goes by post in the US, and so this would have a huge impact on the printing industry. Those two lobbies joined together are going to ensure that 'Do Not Mail' does not become legislated in the US, and so I do not see that as an issue.

'Do Not' legislation to continue

Consumer privacy

Consumer privacy issues and data legislation are moving us towards a 'Do Not Do Anything' scenario. We are taking some of our cues from the UK and the European Union. It is an easy platform for politicians to jump on: 'I am on your side, Mr Consumer, even if I do not look like it'. We will, therefore, see more 'Do Not' legislation, specifically around data.

Channels

Multi-channel marketing has always been around; I do not know of anybody who has used just one channel. That coordination between on- and offline is increasingly important as time goes by. In a survey of marketers in the US, 40 per cent are heavily using three channels because they are getting a better response rate, which is what they care about. Multi-channel marketing is very much here to stay, but there is a big issue around how to coordinate channels off- and online, or above and below the line. It does not really matter.

Branding really matters

Branding

There was a period of time during which people in direct marketing said, 'Branding does not matter', but it really does. Branding really matters because it is what organically drives you up in the search rankings and it is why people will come looking for your products. If the internet is one big mall, how do people find you? They will know your brand. Branding is, therefore, absolutely critical. When you think about branding, however, you need to conserve it and build trust with it.

Response rates

Response rates have been going down for direct mail, other than in traffic generation, where response rates for driving people to a store or to the web have increased.

Email response rates are also decreasing. Eighty-six per cent of everything sent via email is spam, which is why email does not work for acquisition.

Marketing is heading:

- From brand towards direct.
- From above- to below-the-line.

- From impressions to lift.
- From off- to online.
- From image to response.
- From tactics to strategy: if you have 30 channels and you think that you are going to tactically manage each one, you are kidding yourself — the world is too complex to take that approach. Build and define a strategy and then work your way back to tactics.
- From promotion to return on investment: it is not just ‘this ad looks cool’ but ‘will this get us the desired return on investment?’

Four or five years ago, there was a huge shift to procurement driving marketing; we are seeing that shift to the C suite driving marketing once again, and so it has shifted back to where it was. It does not mean that procurement is going away by any stretch.

Megatrends and opportunities

Digital signage

Television

Four screens

We look at this in terms of four screens: Television, computer, mobile phone and place-based media. Digital signage is something that we are seeing utilised increasingly in the US, across venues, as a way of cutting through clutter. Television is not dead. Technologies in cable and direct broadcast will enable much more targeted interaction through the television set. Broadcasters will look and get smarter. The technology will take a few years but, by 2010, we will have much smarter televisions and you will be able to order through them too.

Computer

The computer has low execution costs and is easy to reach. Right now, the web seems to be the channel; it is also the channel for commerce, advertising and information. The current forecast is that, by 2012, online research will drive over \$1tn in US retail sales offline. Online research and offline consumption can no longer be separated.

Web 1.0 execution is being replaced by social media and social networks. This does not mean that the consumer will always be in control; they are in control of how they want to be spoken to and they will discard you if you are not sending them relevant communications, but it is still up to you to get those communications out. The web is also much more mainstream today; it is no longer new. It still has a new buzz around it but it is not such a new thing. People are getting used to it and living on it, and it is where they are consuming a lot of their media.

Email spending growth will not be high in a few years, but email is a critical channel, especially for building a relationship with customers. Even though you may not spend a lot of money there, you need to spend time to get it right, to reach them when they want to be reached, in a timely manner, and to trigger emails based on their behaviour.

An upfront market

Search is a primary acquisition tool and, we think, probably the most important acquisition tool online over the next few years.

We are beginning to see, on large portals, an upfront market that, if you do not book now for the end of the year, you are not going to get placed. There are a few hundred ad serving networks currently. Some are behavioural targeting-enabled; others are data-enabled. The consumer packaged goods (CPG) producers — the big spenders who control billions of dollars — have said, ‘This is great, but we still need to reach hundreds of millions of people. We need billions of impressions’. When you can deliver that through four, five or six ad networks instead of hundreds, we will start to pour money onto the web’. They are waiting for the ad networks to get the scale that is needed and have said that it is not about spending 10 per cent of their budget online, but whatever it takes. This is true for Procter & Gamble, Kraft and Unilever — not small marketers. They are ready to put the money to work, but they still need to reach a very large audience and they do not want to work so hard and have to deal with 400 ad networks.

In 2006, expenditure was \$20bn; in 2010, we are still looking at only about \$28bn. It is not a huge amount of money. Beyond that, the number goes up to \$40bn by 2012 across all interactive channels. It is feasible, but above- and below-the-line marketing, combined, was \$705bn last year in the US. It still represents a very small percentage of spend, and so even though there has been a great deal of emphasis on the web, it is about integrating the web into all those other channels. Return on investment, which used to be very high, has been slowly coming back to earth and becoming much more inline with some of the offline channels, and specifically with direct mail.

Marketers are now focusing on mobile marketing

Mobile marketing

We have lagged behind Europe and the UK for several years in mobile marketing, but marketers are focusing on it now. The year 2007 is a big year for them to start paying attention; they have not figured it out by any stretch, but it is a priority. Many of the major US television networks are focusing on how to take advantage of the mobile channel, particularly with video. Many applications will be realised by 2010; hence although the US will, in three years’ time, still be slightly behind, the gap will not be as great as it is today in terms of how people use the mobile channel. Spending, however, is still quite low; people do not quite know where to put their money, but spending is expected to grow fivefold. If you were to bet your company on mobile spending, it is still not a lot of dollars, and so it is another channel to pay attention to.

Place-based media

Place-based media is digital signage, in stores and elsewhere out of home. Twenty-five per cent of all US billboards will be shifting to digital signage. I had a marketing technology company in the early

1990s that was doing place-based media on video screens, in stores and in airports. We were so leading edge that advertisers just looked at us and said, 'Why would anybody want to spend money on something like that?' This market is definitely very much alive.

Importantly, ten new out-of-home digital networks are being added every month in the US. When I was doing this, it cost about \$20,000 to roll out a single station; now, it is below \$1,000 to connect via wireless, and so the cost of testing has dropped significantly. The venues could be almost anywhere, including in-store. Nielsen has just launched a new measurement system for measuring in-store activity and signage at medical surgeries, airports, stadiums, arenas and classrooms. Almost anywhere that you can place a sign, people are thinking of how they can digitally enable it so that the message can be changed according to time of day.

**Start paying attention
to these channels**

These are all channels that you have to start paying attention to now, so that you understand the dynamics around them and you can be conversant with them when your clients are ready to use them in 2008 and beyond.

Marketing measurement

The embattled chief marketing officer (CMO)

There was very little CMO dialogue today. CMOs admit that their marketing departments are not particularly effective, that is quite a scary statement to make. If you wonder why CMOs are being turned over every 24 months, it is because they are not effective, partly because they are not told what they really should be doing. They then decide to change the agency, which is the easy solution and which might buy them another couple of months. The CMO leaves and the agency changes yet again. CMOs are expected to know about process management, financial management, channel coordination, IT, lead generation and sales. Most CMOs today did not come up through that type of direct background. We are beginning to see more of that now and, by 2010, many CMOs will have much more of a direct and measured background, and so they will come back to you, as service providers, and say, 'I want the numbers — give me the proof'.

A tight labour market

While they are doing all that, they are still responsible for strengthening the brand, aligning the corporate goals with those of the customer, tracking the net promoter scores and starting to measure brand, developing transparency, building trust and organising all this to make it work with the areas that I mentioned a few minutes ago. It is not an easy task, and so are today's CMOs prepared to survive with that set of responsibilities, and how are they doing that from a resource perspective? You cannot expect the CMO at the top to know it all.

Talent gaps widening

Repairing the talent gap

Right now, we are seeing a very tight labour market. We see it getting even tighter in 2008. Somebody this morning said that there are simply not enough trained direct people who can pick up and do interactive or direct. You have to take the time to train those people, which will take a couple of years. Talent gaps are widening, staff are forced to do more and learn on the job, mistakes are going to be made, things are going to be sub-optimal. We see that starting to be repaired and, by 2010, I think the gap will have disappeared as some of the repetitive tasks will be automated, people with more experience and in greater numbers will be coming to the market and some tasks, particularly in analytics, can be outsourced to China or India and not necessarily held here, where there is a shortage of people who are good at maths.

Data

Data gives competitive advantage

Accessing valuable data

There is a competitive advantage to those who work well with data. It is critical to have the right data. Just having the name and address and basic demographics is of a relatively low value. Psychographic and behavioural survey data moves you up in value. The data that are really important are transaction data, and the tools to capture that data and make it usable are becoming better. For so long, retailers and other providers would capture all these data but would not know what to do with it. They would put it somewhere, but the marketers could never get to it. We are now beginning to see those barriers come down. By 2010, we will be in a good place in terms of getting access to a lot of data.

Relevance

Relevant communications are those that people will respond to. Timely communications are those that cause people to act. If you put them together, it adds up to personalisation. Without the data, there is no personalisation, and so if we end up with every bit of data legislated away, we will have a problem. If we know that somebody is about to make a decision and that that buying behaviour starts 90 days before the event, you can hit them with an email or a piece of direct mail. If you are timely and relevant and if, every time they do something, you learn from it and that triggers the next response, that personalised, event-triggered marketing is going to be best practice by 2010. You need to start preparing your organisations for that and it is not going to be a particularly easy road:

- First, you have to clean the data. Bad data will get you nowhere.
- There is a storage issue — where do you store it all?
- Who do you buy the data from? Who has the best data?
- What do you do with all the new data coming from the web, such as non-transaction, clickstream data?

- People are realising that page views are not a good measurement; it is not about hits or page views, but about a standardised set of metrics, which we are going to see over the next few years.
- We are going to see the ability to start tracking Flash and technologies like Ajax by 2010.
- In terms of engagement measured in terms of repeat visits, time on site and conversations, all this will be tracked and put back into the data warehouse.
- Viral or word-of-mouth marketing has its own set of measurement buzzwords, such as 'offspring' and other measures of virility. Three years from now, this will have been worked through, and you will have data that you can use to be a better marketer or to support your marketers.

We are seeing the marketing data that used to live in the marketing silo becoming increasingly about business intelligence. This is just one more facet of business intelligence and is going to drive consolidation in the technology area, from your current players to, perhaps, future players.

Automation

Content storage

With the same number of staff but many more channels, how do I do this? I have no choice but to automate, through enterprise marketing management (EMM) and marketing resources management, segmentation and analytics tools, customer data integration (CDI), master data management and digital asset management. People did not talk much today about content storage. We talked about structured data, but there is a whole world of unstructured data that you need to store and index. You need to be able to re-purpose those assets.

Too many organisations today say, 'I do not know where it is — let me just recreate it', which is not particularly efficient. If your libraries are properly organised, tools are available today that allow you to pull them together simultaneously and create new marketing pieces on the fly — the billions of derivations of a particular piece. This is really important because, if you can do that without involving a lot of people, you can win at this game. You can do it with online and offline execution and marketing dashboards, so that you can see what is going on.

Technology-connected

We looked at a large credit card marketer that used 40 different technology solutions. While you could not say that it was not technology-enabled, it was not technology-connected. Where things are not connected, people throw in an Excel spreadsheet before taking it to the next platform. Nothing works together. A few years from now, we should be in a much more organised world, where you have your

Content storage is vital

campaign planning and strategy module at the top, with a combination of a routing system and a workflow management system.

Everybody needs to be able to plug into it — not just the marketers, but the marketing service providers too, so that you do not get miscommunication and poor handoffs. The technologies are there; it is a question of making them speak to each other because, unfortunately, most of them do not. They are in their own technology silos, but we are seeing that they are all building XML connectors that enable you to make them speak to each other. If you are a large marketer, you may go ‘best of breed’ across these solutions; if you are a smaller marketer, you may decide that you need one vendor to make it all work together. Either way, it is really important to be able to do this.

When you see this data world and the technologies coming together, however, you will need rapid access and the ability to automate the data for use in campaigns. Marketing technology, properly utilised, will take you there.

Consolidation

Larger companies becoming buyers

...Oracle likes to buy lots of people, but when Pitney Bowes buys MapInfo — people who make postage meters buying a mapping company — you wonder what is going on. The buyers may not be that logical at times. Google/DoubleClick is another big event in the consolidation game, as is Experian/Hitwise.

We think that, as you look out to 2010, you are going to see the larger companies become buyers: for example, Microsoft buying Yahoo! or Experian buying SAS. It will be more and more difficult for smaller players to be independent when marketers say, ‘I want all of this stuff to work together — give me one solution’. Oracle is actively pursuing this, and so their competitors are not going to sit on the sidelines.

Service provider responses

Consultative

If you are a service provider, how do you respond? We look at this in five buckets. First, in terms of consultative — the agency bucket — it will all begin with strategy. Agencies are not going away and are not going to be displaced. They are being challenged by non-traditional agencies.

- Printing companies in the US are adding agency and consultative capabilities.
- Data analytics companies are adding market research and strategy components.

Larger companies to become buyers

Agencies under attack

Agencies — and particularly the big holding companies — are under attack from many directions. Right now, they are saying, ‘Let us buy all the digital agencies’, and so all the digital is getting soaked up into the bigger agencies. At some point, however, they are going to have to deal with database management and analytics; otherwise, the people

who control that may not allow them to have the information that they need. They might be able to say that they can be a better strategy agency because they know what the data is. I think that this is a big issue that the agencies have to pay attention to.

Expenditures shift towards below-the-line revenue

Omnicom now derives 57 per cent of its revenue from below-the-line (including direct, internet, PR and event) marketing services activity; the figure for Dentsu is just 20 per cent. We will continue to see a shift. When I first started watching Omnicom about five years ago, the figure was about 50 per cent, and so it is steadily increasing.

Managing large marketing data warehouses

Analytics capability is important

You need data and somebody who is going to manage it for the marketers. Managing large marketing data warehouses is not necessarily a competency of most marketers. They will look for partners who can do that for them in working with, hosting and mining the data. The analytics portion will become increasingly important. If you want to be a service provider but do not have analytics capability three years from now, you will be at a competitive disadvantage.

Campaign execution

Being able to tie the front end to the back end and being able to get these campaigns out seamlessly is critical. If you can do that and do the event-triggered marketing that I have spoken about, you will become much more valuable to the marketer. In fact, you will become very difficult to replace, which is something that most marketing service providers strive for.

- Contact centres → inbound, not outbound.
- Fulfilment → a lot of digital collateral — a lot of print on demand, more and more towards just-in-time and customised printing. Many mid-size service providers in the US are doing that. To do it, you need the data and you need to be able to process it, and so that you can make these documents on demand.

Media buying moving to an auction model

The other point is that we see media buying moving to an auction model. By 2010, we will be fully in that direction.

Once you do that, you can add strategy and analytics, which is why we are beginning to see printers moving into the agency space.

Consolidation

Marketing service providers are going to consolidate, but they may not be obvious companies.

Who will consolidate?

- It could be someone like Xerox, which is increasingly moving into strategic consulting and document management, not just into production. They could combine with a company like Aegis — it is big enough.

- Will it be Microsoft/Yahoo! or Microsoft/AOL, or will it be Microsoft/Advertising.com?
- Could somebody like RR Donnelly pick up a database management company like Merkle, one of the largest independent database management and analytics companies left in the US?
- It could be Omnicom buying a company like Mosaic to get closer to retail. Mosaic manages merchandising and on-floor sales support within retail.
- It could be somebody from here who is looking to expand into new geographies, like arvato buying an Axiom and having one data company that spans the globe.

Internal assessment

How do the marketers and service providers optimise their interactions? Whether you are a service provider or a marketer, you need to understand what you can do.

- You need to establish the jumping-off point, so that you can move from as-is, all the way through should-be and into could-be; in other words, continuous improvement.
- You need to look carefully and find an organisation that can give you that very unburdened eye. The problem is that many organisations think that they are very good at process management and want to look at it themselves, but they are not necessarily willing to be as critical as they might be, because when you do that assessment, you need to determine where the silos are.
- You also have to make friends with IT. Many marketers do not necessarily get along with IT, and like IT almost as much as they like Finance. Whether you have your own marketing technology group within your organisation, which you control, or whether it is separate, it is really important that you understand what they can do for you.
- You need to find out where your data is. If you are not sure now, go and find it.
- You need to dissolve the silos. You cannot do multi-channel marketing well if everything is in its own silo. It is very difficult to get the timing right, and so your next step after doing the assessment is to break down silos. We are seeing some of this on the marketing service provider side, but they are not breaking them down that much faster than the marketers. The competition should be about strategy, not about empire-building. I think there is no chance that the silos will be gone by 2010, but they will be fewer and smaller.

Conclusions

- You need senior executive buy-in if you are going to make these changes, because you will displace people and you are going to abolish some empires.

- The next few years are definitely about testing. There are many new channels, and so testing is the new direct marketing mantra.
- Event-triggered communication is not something that you are going to learn how to do in a day. It is a question of figuring out what sequence works for you in terms of how you need to connect your systems. There will be as many false starts as big wins. Go for small wins and build on those to achieve bigger ones.
- Finally, it is about execution — training your staff and the supply chain to execute flawlessly.

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Note

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