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The Marketer's Dilemma

To stay relevant, all participants in the vast marketing ecosystem must develop new capabilities.

by Christopher Vollmer, Kristina Bennin, and Deborah Bothun

Massive shifts are afoot in media and marketing. Sectors that didn't exist a few years ago — social media, native advertising, and in-app advertising, to name a few — now compete for user and marketer attention. Adults in the U.S. spend about 25 percent of their 12 hours of daily media consumption on a mobile device. With the growth of mobile viewing and multitasking, watching video is no longer a television-centric experience. When *Variety* recently asked people ages 13 to 18 to name the most influential personalities in pop culture, the top five were all YouTube talent; the online comedy team Smosh was number one. A recent Harvard Business School study showed that the percentage of TV ads getting high attention has decreased dramatically, from 97 percent in the early 1990s to less than 20 percent today.

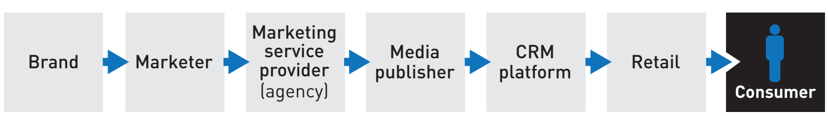
These developments have given rise to what we call the marketer's dilemma. Today's marketer has more options to reach her target audience than ever before. Yet it has never been more difficult to earn the attention and engagement of that user.

In the traditional marketing value chain, each player — the marketer, the agency that was the primary marketing service provider, the media publisher (the supplier of advertising inventory), and the end consumer — had a clearly defined role. Work flowed in linear fashion between a series of controlled touch points and well-understood baton passes (*see Exhibit 1*). But in today's new tech-driven marketing ecosystem, the customer or user has assumed center stage and dictates where he can be found and how he wants to receive messages and information from brands (*see Exhibit 2*). Touch points have proliferated as marketers have added their own direct-to-consumer (DTC) channels and diversified their media spending. What used to be a drawn-out "funnel" has now collapsed into a hyperaccelerated, more targeted, and more interactive path to purchase. "Everything is one step away from purchase," one chief marketing officer proclaimed.

In early 2016, Strategy& conducted a series of in-depth interviews with CMOs and senior marketing executives from sectors such as consumer packaged goods, technology, media, hospitality, and retail. Our conversations focused on their changing priorities, the strategies they are using to cope with growing marketing and media complexity, and the expectations they have for the converging landscape of vendors, media channels,

Exhibit 1: **Traditional Marketing Value Chain**

For decades, the work of marketing flowed predictably from one participant to the next.



Source: Strategy& analysis

and their partners. These conversations have made it clear that solving the marketer's dilemma will require marketers, media publishers, and marketing service providers to reshape their capabilities. Marketers must develop the capacity to cope with the growing complexity of the task at hand. Media companies need to create new advertising products, rethink their distribution strategies, and use data to slice and dice their audiences in ways that deliver more targeting value for their customers. And marketing service players must shift to focus more on content and intellectual property development, evolve from a services supplier to a strategic business advisor, and accelerate marketers' ability to move from experimentation to scale.

Changing Marketer Needs

Even if her expanding influence is not always evident in the org chart, the CMO, who has long been at the forefront of addressing the challenges and opportunities represented by the shift to digital, is becoming more influential across the converging system of customer experience touch points. In our interviews, five key themes emerged with respect to the critical capabilities that marketers need to navigate the new ecosystem.

Firsthand insights. Big data may be all the rage. But often, "little data" about a customer's prior interactions is more useful in determining how to optimize the experience to make the next engagement or, increasingly, the next transaction more likely. The best way to get a meaningful understanding of your customer is to go directly to the source. A senior marketer at a beverage company said, "If [you] can form a direct relationship with the consumer, even if you can't transact directly, the relationship is the holy grail." To that end, blue-chip marketers like Gillette and Luxottica are emulating digital natives like Harry's or Warby Parker, which sell directly to consumers in the same categories. Knowledge of site usage and consumption can lead companies to develop more granular segmentation and more effective targeting of messages. From its own consumer data, a furniture marketer may learn that its most likely potential buyers are women ages 45 to 55 who have shared posts about their kids' Ivy League college admissions on Facebook and bought a new car more than four years ago.

To get close to their customers, more marketers are building DTC capabilities. According to the Economist Intelligence Unit, the percentage of manufacturers selling directly to consumers is expected to grow 71 percent over the next year to more than 40 percent of all manufacturers. To execute DTC strategies, marketers need to reduce silos between marketing and other operating functions — especially sales and customer service — and become more integrated.

Integrated brand experiences. In a nonlinear world, every marketing action has to be connected to several other potential actions — and it has to be no more than one step away from the point of sale. The CMO of a major consumer technology company told us, "We never do an isolated marketing activity. Everything is about integrated campaigns." For 2016, this CMO's company is focused on "creating experiences across all passion points: music, video, retail experiential zones, digital avatars, and social." As a result, the chief marketer's job is expanding to be an "integrator in chief," as the CMO interweaves the digital with the physical, social with video and mobile, and everything with the in-store experience. Making all this happen requires moving further beyond the traditional confines of marketing and into sales (i.e., retail). To enable such efforts, companies must build bridges between the silos that still stubbornly

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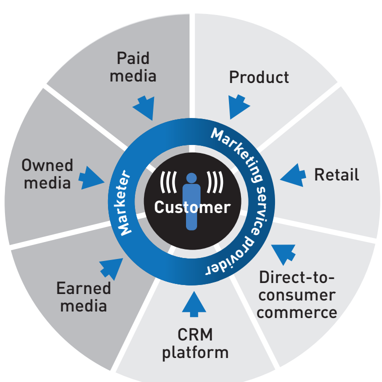
Exhibit 2: **New Customer-Centric Marketing Ecosystem**

In today's more complex environment, every participant in the traditional marketing chain is one step away from the customer.



Source: Strategy& analysis

exist in the organization's technology infrastructure, and in their media and advertising choices.

To foster more integrated brand experiences, marketers can start by identifying the key moments in a consumer's experience and then prioritize investing more in those moments. Maryam Banikarim, CMO of Hyatt, suggested that marketers focus on the brand's purpose. For example, Hyatt started a partnership with the online education pioneer Khan Academy to expand hospitality training into open source life skills training to allow students to set and reach higher goals. To pursue this path, companies will have to invest in training the entire organization to embody the purpose of the organization, and then develop the right metrics to assess progress.

Breakthrough content. Younger consumers are more willing to engage with brand-promoting content on social media if it is entertaining, informative, and shareable. Actor Cody Johns, for example, posts Snaps, Vine videos, and tweets on behalf of brands like Coca-Cola and American Eagle to his large fan base. (Johns has 356,000 followers on Twitter and 626,000 on Instagram, and his Vines have been looped more than 1.4 billion times.) As they seek such compelling content, marketers are increasingly turning away from the purveyors of "traditional" advertising services. "We are now working directly with publishers because that's how we create the best content," said Eva Barrett, global head of marketing communication at Philips. "We're bringing the journalist into our business.… They're able to then create incredible stories that are relevant to our audience." In 2008, when spirits company Diageo launched a cocktails-focused content marketing website, it was created and run by an agency. Diageo has since evolved the site, which forms part of the core of its DTC marketing efforts. But it is now shaped and run by a digital media firm.

Experiments for ROI. Sixty-one percent of 288 CMOs surveyed in 2015 by Duke's Fuqua School of Business reported feeling pressure from the CEO or the board to prove the value of marketing. Yet the CMOs are also expected to be entrepreneurial and experiment with hot platforms like Snapchat and new formats like Facebook Live videocasts. As Lisa Baird, CMO of the United States Olympic Committee, shared, "You're testing and learning constantly. You're in a flow."

But the proliferation of options for the marketer shouldn't simply lead to more marketing; it should lead to smarter marketing. Investments have to be prioritized to optimize return. To do so effectively, companies must develop an approach to portfolio optimization that can inform and shape their marketing decisions. Coca-Cola famously has an approach that focuses 70 percent of resources (e.g., time, energy, effort, or money) on "tried and true" investments that have a history of working; 20 percent on scaling experimental investments; and 10 percent on truly new endeavors. Marketers will need to devise their own approaches based on factors such as the original investment budget, industry, size of the organization, and business objectives.

Whatever the mix a company chooses, if something works, it must be analyzed and scaled up as much and as rapidly as possible; if the return is minimal, it should be discarded. CMOs must execute these experiments at the same time they streamline the technology infrastructure that supports marketing. And it all has to happen quickly and become part of an ongoing, rapid cycle of experimentation, measurement, and execution.

Building trust. In a seeming paradox, transparency and the availability of data and metrics coexist with a high and rising level of distrust. Marketer concern about fraud is very high for most digital formats; for instance, according to Advantage Business Research, 60.7 percent of marketers are very or extremely concerned about the viewability of mobile video. And for good reason. According to a 2014 study by Google, an astounding 56 percent of the digital ads that are served are not actually ever seen by site visitors. The distrust of new digital intermediaries — advertising technology platforms matching marketer demand for audiences with publishing inventory — appears to have also spread to marketers' long-established partners: agencies of record.

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In light of these developments, marketers need to trust but verify. Already, large ad platforms like Facebook are adding optional guarantees that ensure, for example, 100 percent in-view impressions. As well, new technology solutions such as Moat provide anti-fraud analytics as a service. Marketers should proactively ask their partners for transparency and build up a process for reviewing the metrics on a regular basis.

The Media Response

Media — the publishers that receive a large chunk of advertising spending — need to maintain their market share while capitalizing on the opportunity to work more intensively and directly with marketers in new ways. To do so, they have to build the following three critical capabilities.

Ad product innovation. Thanks to their core capability of content creation, media companies are uniquely able to tap into the growing business of branded content. Many media firms have launched branded content studios as new business units. Cable networks like CNBC have started their own global marketing agencies, and publishers like BuzzFeed excel at developing custom-branded content for their marketer clients. The *Atlantic* expects native ads to account for 75 percent of revenue in 2016. But many media companies have not yet figured out how to produce native advertising at cost-efficient volumes that would allow them to scale these nascent businesses.

To combat complacency and ensure continued relevance and a seat at the marketer's table, media companies should invest in continually rethinking branded content and developing relevant vehicles. Hearst Corporation's *Cosmopolitan* recently rolled out 10-second ads for Lancôme and Target on its Discover media channel on Snapchat that allowed users to shop for products directly from the ad, without having to leave the platform. Since it was acquired by Amazon founder Jeff Bezos in 2014, the *Washington Post* has created a team (named RED) dedicated to ad product innovation, placed engineering teams in the newsroom to address tech-related questions as they arise, invested in technology (e.g., in-memory content caching, embedded analytics), and launched a proprietary video format that offers interactive functionality.

Distribution beyond "O+O." In March 2016, Internet users reported that the three most widely used video platforms were YouTube (80 percent), Facebook (64 percent), and Instagram (25 percent) — the last also owned by Facebook. Yet, in a study published by eMarketer in August 2015, 76 percent of publishers said they use their company's owned and operated (O+O) sites as the primary channel to distribute branded video content. As a result, media companies will need to develop a comprehensive approach to distributing content across both O+O channels and third-party channels. Marta Martinez, senior vice president of AOL Advertising, put it this way: "Now content has to go find the consumers wherever they are — on their mobile devices, on the social networks, sometimes on the run, sometimes [with time for a] very deep and engaging story."

Marketers need to trust but verify. Already, large ad platforms are adding guarantees that ensure 100 percent in-view impressions.

The only way to alleviate concern about the potential for lost revenues is to proactively develop partnerships to enable revenue-sharing models. Media companies with television in their DNA should leverage existing capabilities in content distribution negotiations with multiple platforms, including established players like Facebook and new entrants such as Verizon's Go90 and Snapchat, to maximize the potential monetization of their content on third-party platforms. Publishers with a print origin or digital natives need to develop these same capabilities now.

Segmentation. Having lost the battle for reach to the digital platforms, media publishers must play a quality-over-quantity game focused on proving their audiences are more engaged, more likely to recommend and share, and more likely to consider a purchase. Once media companies have a distinct view of their audience, they can use that insight to reinforce their other capabilities in the areas of content creation and branded content.

As they do so, however, they must acknowledge that the concept of segmentation has evolved dramatically in recent years to reflect not just demographics but information about interests (e.g., music, sports), life events (e.g., engagements), community/connectivity, and location. Interest in a product is not necessarily driven by age group. The real value in aggregating data points around interest is ultimately to understand taste. For example, the streaming music company Spotify lets users create their own playlists; some 1.5 billion user-generated playlists were reported in November 2015. Spotify collects user data in an effort to develop a "taste profile," which can then inform the Spotify Discover Weekly playlists it generates.

Marketing Service Providers

Agencies, which arguably face the largest amount of change in the new marketing ecosystem, need to redefine their roles to prevent getting squeezed in the middle. Beyond taking actions to expand in emerging markets, the big five agency holding companies — WPP, Omnicom, Publicis Groupe, Dentsu, and IPG — will have to invest in three key capabilities that will help strengthen the role of the marketing service provider in the new ecosystem or risk being acquired or forgotten.

Content and intellectual property. Agencies should move from a services-based model toward one that rests on proprietary content and intellectual property (IP). That is to say, they should move toward being more of either a studio or a data mart. Both paths require building new capabilities in partner business development, development and production resources, and the monetization and what we call the "productization" of IP.

Agencies can invest in content via IP ownership or licensing. They could aggregate their own creators, redefine "creative" into "content," and monetize proprietary IP. Alternatively, agencies can move into the studio business — building a studio for consumers, for brands, and as a service for creators, à la Maker Studios. As a "minimum viable strategy," agencies should look to build critical relationships with key makers and creators. If financial resources permit, they could make acquisitions or investments in talent firms with existing relationships or create shows and bring advertisers into them. WPP, for example, has taken minority-stake investments in Indigenous Media, Vice, Fullscreen, Refinery29, and Bruin Sports Capital.

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Buoyed by their size and scale, agency holding companies could invest to build alternative data environments that stand up to the rich e-commerce environments like Amazon and provide the best, most complete, and deepest view of a brand's target customer segment. Alternatively, they could build a data cooperative for, and with, advertising clients, playing a central coordinating role between brands. Marketing technology firm Adobe Systems has initiated just such an endeavor with its Audience Marketplace data exchange, co-op, and data partner network.

Strategic advisory. Agencies can help clients navigate today's increasingly complex ecosystem by becoming more of a strategic advisor to marketers — capable of solving some of the big, hairy problems that marketers face. To do so, agencies will have to adopt a consulting model with honed skills in strategy versus tactics. "We're coming out of the tactician's age into a strategist's age," Dan Khabie, global CEO of the digital agency Mirum, said. "We need to help clients think through what is really their strategic opportunity for their business."

One such problem that marketers need help thinking through? How to create integrated branded experiences along the end-to-end customer journey. When Samsung partnered with Vice to position the Galaxy S4 more prominently with young consumers, Vice activated a variety of channels to develop a comprehensive experiential campaign: a platform on its Thump channel; original content such as music videos and editorial pieces; and a launch party that featured Samsung devices. The campaign generated more than 11 million impressions in social media and more than 1.8 million views of original video content.

To create such campaigns, which involve multiple specialist disciplines, agencies will have to move to new structures that bridge industry verticals, geographies, and functional specialization while putting clients at the center and allowing for horizontal collaboration. In this regard, strategic consultancies can provide a helpful blueprint.

Experimentation at scale. As marketers feel overwhelmed with the rapid innovation that is required of them, agencies should plug any gaps to help marketers test and scale new channels and methodologies. When asked by Forrester in the third quarter of 2015, only 13 percent of marketers said "mobile is systematically integrated in our marketing approach." Agencies can play a significant role in shepherding marketers' ongoing transition by, for example, seeking partnerships with location-based data providers to build data sets they can then share with their marketing clients.

Although retailers are showing tremendous interest in Internet of Things (IoT) applications, few can create the architectural scale to build out the necessary combination of hardware, software, and real-time data that would support such strategies. Agencies, particularly those in a holding company network, have the scale to turn the network into a real strategic advantage. For example, WPP has launched an IoT tool kit in partnership with Intel that covers emerging technologies like face and gesture recognition, Bluetooth location beacons, and touch cards that can store a code or verify a customer's ID. By building experimental, cross-disciplinary "labs" that offer infrastructure, data insight, apps, and project management capabilities, agencies can fill a much-needed role as a central innovation hub for marketing experimentation.

The New Marketing Leaders

Solving the marketer's dilemma will not be easy — for marketers or the companies that provide products and services to them. The same innovations that deliver greater insight, engagement, and connectivity for marketers are disrupting established audience-building and monetization playbooks. But although the precise formulas for success will differ from industry to industry and even from player to player, the winning direction is becoming clearer every day. Many marketers will bring more capabilities in-house. They will prioritize their spending with those providers (whether they are publishers, agencies, technology companies, or consultancies) that deliver the most effective solutions combined with the least executional complexity.

In short, these winners will embrace the marketer's dilemma not just as a rationale to reimagine their marketing capabilities. They will view it as a strategic opportunity to strengthen their overall businesses; gain advantage over their competitors; and clarify their purpose to users, customers, and partners. Here, the famous Latin proverb does indeed ring true: Fortune favors the bold. The winners will be those that aggressively embrace new models and approaches, demonstrate that they can execute them rapidly, and learn and perfect them by doing. ✚

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