



Stop Wasting Money on Advertising

How the epicentre of marketing shifted
from Madison Avenue to Silicon Valley

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EXECUTIVE SUMMARY

In advertising, historically, a lack of accountability isn't the exception, but the rule.

This isn't to say that marketers and agencies are unprofessional or incompetent: it's just that they preside over an activity that is at once essential and unmeasurable.

In every other area of business, thanks to advances in technology, decision makers are able to track their projects' return on investment and manage them more closely than ever before. Unfortunately, this has not been true for advertising. Now is the time for information technology to reshape advertising into a measurable and even more compelling marketing medium. We believe this transformation will let marketers reach more people with better messages at lower costs.

Marketers have always had tactics other than advertising, many of them effective and efficient ways of promoting brands. But their scale and reach have been minimal compared to advertising, and marketers have justifiably focused on the highest impact solutions in their toolkit. Typically this means advertising through so-called "paid" channels.

In today's digital world however, alternatives are growing to equal or surpass paid advertising in reach and effectiveness. We group these options into categories that we call "owned" or "earned" promotion and show how they can be used independently or to supplement paid advertising spend.

Well-crafted marketing campaigns that employ all three promotional alternatives can resonate with customers and outperform traditional campaigns for a fraction of the price. It's the best of both worlds for marketers: increased effectiveness and lower costs. When executed effectively these options increase consumer engagement and allow marketers to stop wasting money on advertising.

INTRODUCTION

In the late nineteenth century the innovative retailer and advertising genius John Wanamaker said, famously, “I know that half of my advertising dollars are wasted... I just don’t know which half.”¹ Marketers chuckle nervously at this but have to admit that it’s always been hard to show basic return on investment for most advertising. Historically this may have been an unfortunate fact of life, but the world will no longer tolerate it. Business managers today live by the maxim “if you can’t measure it, you can’t manage it,” and marketers should be held to the same standards. In this paper we’ll tell you how today’s digital technologies are finally enabling marketers to demonstrate their worth.

Before we dig into the failings of advertising we need to be clear: we are strong advocates of marketing! We agree with Peter Drucker: “The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself. Ideally, marketing should result in a customer who is ready to buy. All that should be needed then is to make the product or service available.”²

But Drucker’s philosophy has been shouldered aside and the average consumer today believes that “marketing”, “promotion” and “advertising” are synonyms for each other—and sometimes synonymous with “offensive” or “useless.”

In this paper we discuss two major trends that are shaking the world of marketing:

- The rise of digital, with all of its inherent advantages
- The inexpensive supplementation of paid marketing promotion with owned and earned promotional alternatives

These two trends are driving important and disruptive changes inside the firm and even more disruption in the advertising agency world. We believe that many characteristics of modern advertising are relics from an earlier time that waste money and annoy consumers. It’s time to admit that the Madison Avenue emperor is wearing no clothes and that marketing and promotion needs to be dragged into the modern world.

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MARKETING REVIEW

To ensure a shared understanding of the questions under consideration, we’re going to review the tried, tested, and true marketing frameworks that have informed our thinking. This is a brief and decidedly abridged review of the topic but it’s important to start from the basics, and, as you’ll see later, to keep them in mind.

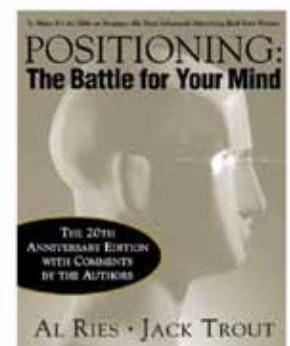
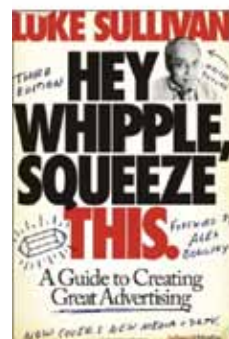
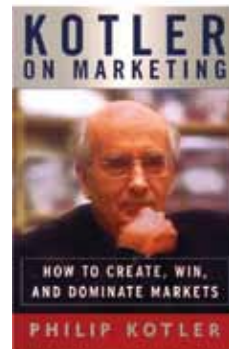


Figure 1: A non-exhaustive collection of the classic texts of marketing and advertising.

What is marketing? One of our favourite early formulations comes from Philip Kotler of the Kellogg School of Management, who says that marketing is “a social and managerial process by which individuals and groups obtain what they need and want through creating, offering and exchanging products of value with others.”³ Another more concise way of saying this is “meeting needs profitably.”

MASS MARKETING

The starting point for our review of marketing is mass marketing, represented by the early days of Madison Avenue. In mass marketing a company engages in mass promotion (with supporting production and distribution) of one product to all buyers. Coca-Cola, with its ubiquitous 6.5 ounce bottle, was a great example of mass marketing. Andy Warhol once said, “You can be watching TV and see Coca-Cola, and you know that the President drinks Coke, Liz Taylor drinks Coke, and just think, you can drink Coke, too.”⁴ Because the product had been perfectly standardized, it was possible to advertise the exact same thing to all customers. Mass consistency by way of industrialization was an advertising competitive advantage.

The argument for mass marketing is that it pursues the largest potential market, which can lower the producer’s costs (which means lower product prices or higher margins of profit). The downside of mass marketing is that all customers aren’t necessarily the same and don’t necessarily prefer the same product.

To address this downside, marketing became more sophisticated and began to integrate the tools of segmentation, targeting, and positioning.

SEGMENTATION, TARGETING, POSITIONING

The practice of segmentation, targeting, and positioning was built around selecting similar categories of customers and designing and promoting products to profitable groups. Specifically:

1. Market segmentation: Segmentation recognizes the fact that different groups of people prefer different things at different times. Customers in a market segment share a similar set of needs and wants and it’s up to the marketer to identify them.

2. Market targeting: Once a marketer has identified available market segments they need to identify which segments they will pursue.

3. Market positioning: With the segments identified and prioritized, the marketer now works to create a value proposition that meets the needs of the chosen segment(s).

This shift implies directly that the better a customer can be understood, the more profitably their needs can be met. The problem for marketers was doing the cost benefit analysis of how fine-grained they needed their customer segments to be. The process of understanding an individual and designing a product to their needs is labour intensive, so marketers instead worked to service groups of reasonably similar consumers. Not perfect, but it meant that some degree of personalization made it to customers in terms of both advertising and product design.

THE MARKETING MIX

Once a marketer has completed the segmentation, targeting, and positioning process, it’s time to move on to the marketing mix: the ways in which the marketer creates, communicates and delivers value to consumers. The primary tools for devising a marketing mix are the “four P’s of marketing,” first defined by Harvard’s Neil Borden, and now second nature to today’s typical marketer:⁵

1. Product: What are we selling? The answer will include a full description of product variety, size, quality, design, features, packaging, warranty, etc. “Product” need not be an object or a consumable—it could be a service or an experience.

2. Price: How much does it cost? Are there variations in price due to discounts, allowances, payment periods, credit terms?

3. Promotion: How do we make the customer aware of our product’s existence and benefits?

4. Placement: Where will the product be available?

Taking these frameworks together, the job of a modern marketer is to understand customer segments and cost-effectively design products and services to cater to them—and to develop strategies to inform those segments about the products that the marketer is making available. Marketing today is about finding the optimal level of market segmentation that lets marketers design and pitch products to profitably large groups of consumers. That's the end of our marketing 101 review. On to the new ideas!

INTRODUCING PAID, OWNED, AND EARNED

Beginning in 2009 a new view of “promotion” questioned the assumption that all promotion must be bought.⁶ In the digital era, some effective promotion options are no longer paid for on a traditional “per impression” basis. “Owned” and “earned” media are becoming equally important. But what do we mean by “paid,” “owned,” and “earned” media?

- **Paid media** is what we think of as traditional advertising. It includes TV, radio, out of home (billboards, bus shelters, etc.), print, and other forms of advertising. In the digital world it includes display ads, paid search ads, sponsorship and the like. Essentially it's the process of paying fees to someone who controls a channel in exchange for the opportunity to put a product offer in front of the channel's users. Historically, this was the world of the advertising agency: the creative side devises the message and the media buying side figures out how best to get the message to potential customers.
- **Owned media** are assets or channels that the company directly controls—akin to signage on or in a store. In the digital world owned media include email address lists, websites, Facebook pages, and Twitter feeds.



Figure 2: Coca-Cola effectively leveraged owned assets for an untold number of free branded impressions.

- **Earned media** refers to the impressions that a brand gains from customers sharing a branded message with others. Earned media historically included activities such as word of mouth or public relations. In the digital world it includes referrals from search engines and the viral growth of traffic to videos or websites. Earned media is powerful—especially in the digital world—because of the potential multiplier effects, but can also be risky because the advertiser has no control over it.

Although this paid, owned, and earned paradigm is usually used in twenty-first-century contexts, there are powerful insights to be gained by applying it to the historic development of the advertising industry.

Our research indicates that all three promotional frames have been around since the beginning of modern marketing, though until recently paid promotion dwarfed owned and earned media. But with the advance of digital and information technologies over the last century, owned, and earned alternatives are challenging paid promotion for pre-eminence. Well-crafted marketing campaigns that employ all three promotional alternatives can outperform traditional campaigns, and for a fraction of the price. It's the best of both worlds for marketers: increased effectiveness and lower costs.

THE EVOLUTION OF MODERN MARKETING

Brands and advertising are so deeply related that a discussion of either is a discussion of both. Brands came first, originally identifying ownership, and eventually differentiating otherwise identical products, usually commodities. From a consumer perspective, if all your choices for grain are the same, why should you favour one vendor over another? And so advertising was born.

Widespread elementary education meant a literate culture, which enabled the rise of the newspaper. It also enabled the rise of written advertisements, which found a home in newspapers. The newspapers sold the attention of their readers to businesses, which benefitted from the widespread exposure to their sales arguments.

Advertising agents who handled the logistics of ad placements were originally employed by newspapers, but in the late nineteenth century, third-party advertising placement agencies began to appear, buying up as much print ad space as they could and reselling space to their own clients at a tidy profit of 15% (a number that became a mainstay of the industry).⁷ From here, it wasn't a stretch for the advertising placement agencies to hire their own copywriters and offer an expanding array of services for creating and placing advertisements.⁸

The advertising agency was born.

THE MAD MEN ERA

Mass Marketing and Broadcast—1950 Onwards

The craft of copywriting and advertisement design evolved in advertising agencies through the two world wars, and by the 1950s power had largely consolidated in a handful of large, international agencies. The firms of this era were tremendously successful and they expanded quickly. But as industry guru David Ogilvy wrote in the seminal Ogilvy on Advertising, "The bigger an agency grows, the more bureaucratic it becomes,"⁹ so that by the early 1980s, he says, "90 per cent of staff don't [produce advertisements]. They do research, they prepare media plans, they buy space and time, they do things loosely described as 'marketing.' And about 60 per cent of them do clerical work."¹⁰

The typical advertising fee structure, pioneered by Ogilvy, meant that advertising agencies financed their operations by taking a percentage of the media buy they made on behalf of their clients. Advertising agencies were essentially incented to advertise and to ignore other promotional alternatives, no matter how effective.



Figure 3: Tobacco advertisements were hallmarks of the Mad Men era.

The brands themselves, in client companies, typically had brand managers who owned the relationship on their end. Brand managers talked to ad agency account executives, who were responsible for representing their needs at the advertising agency. The account executive worked with brand and media planners to choose channels, for which copywriters would then design campaigns, under the direction of creative directors, and in concert with producers and editors as required. The advertisement would then be turned over to media buyers to find the campaign a home.¹¹ And this is just in the advertising agency, not taking into account marketing services agencies, which add to the mix market research, field marketing, strategy, and a host of other roles and functions. The overhead costs start to become downright menacing.

For all the rigorously defined processes in the marketing world, the actual return on investment was nearly impossible to quantify for customers. If sales went up, the campaign was a success. If sales didn't go up, external factors were to blame. The tracking of ROI would have to wait for the arrival of computers.

Almost unnoticed in this golden era of paid advertising were the owned and earned alternatives that supported brands and were becoming ubiquitous: Coca-Cola is a great example. Their signs, bottles and vending machines were terrific alternatives to "per impression" paid advertising of the era.

These pedestrian physical objects carried no “per impression” cost, but they supported the strong Coke brand, and they were everywhere.

At the same time, the earned media of the era included the rising practice of public relations and word-of-mouth campaigns. Amway, Tupperware, and Avon, for example, are brands that built themselves by leveraging the goodwill of their customers.

THE ENTERPRISE COMPUTING ERA

Information Technology Arrives at the Table—1970 Onwards

As we moved into the next marketing era, paid advertising continued to grow at a breathtaking pace. Television continued to lead the way (TV penetration approached 100%) and the world moved from a network model to one that also supported cable and satellite alternatives.¹² These models fragmented the market and made mass marketing more difficult, but they opened new opportunities for segmentation, targeting, and positioning. Other channels also began to fragment. Print proliferated with the growth of glossy magazines for every imaginable niche. Out-of-home advertising saw the increased penetration of traditional billboards. Alternatives that delivered marketers’ messages were almost everywhere: elevators, washrooms, taxicab roofs and many other alternatives were added to the advertisers target list. By the 1980s an entire generation raised on advertising had grown to adulthood. Children who had spent their early years seeing commercials on TV were now adult consumers.

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The ‘80s also saw the ascent of branding as a means of self-definition: take for example the rise of Nike or Ray-Ban. The ingenious and pervasive advertising-based marketing, for all of its flaws, had succeeded in elevating brands beyond the marks on cows: brands had become a powerful language for individualization and identifying status.

In addition to the growth of paid advertising however, this era saw information technology begin to enable owned and earned promotional alternatives to approach the effectiveness and scale of paid advertising.

Following the advances in computing spurred by World War II code breaking in the 1940s, mainframe computers started making inroads into the private sector.¹³ Originally, only the biggest firms could afford or implement first-generation enterprise-wide IT systems. Initially, these systems had multiple functions, but a key driver was the elimination of labour costs through automation.

As enterprise computing systems penetrated deeper into the enterprise, business functions such as administration, accounting, finance and operations were automated. Finally, in the 1970s and ‘80s it was marketing’s turn and information technology in the enterprise began to be deployed in ways that would directly impact customers: the ascent of direct marketing, contact centres, and loyalty programs.

One of the transformational marketing categories enabled by information technology in the enterprise era was direct marketing. The advent of direct marketing, widely credited to Lester Wunderman,¹⁴ was a “secret weapon,” according to David Ogilvy:

[In the mid-1980s], direct mail has exploded—an explosion caused more than anything by computers. They make it possible to select names from mailing lists by every imaginable demographic classification, by frequency of purchase and by amount of purchase. With a computer you can remove duplication between mailing lists and within a list—a process called ‘merge and purge.’ You can even avoid mailing to people who don’t like receiving mailings.¹⁵

With the help of computing power, firms could bypass the incumbent channels and breathe new life into mail marketing through rudimentary personalization. And direct marketing was measurable: if customers only received offers through the mail and could only order through a specific phone number or address, calculating cost versus revenue for the project was simple.



Figure 4: A relic from the enterprise computing era: the IBM System 360 mainframe, sold 1964 to 1978.

In addition to direct marketing campaigns, growing telephony sophistication paved the way for the first call centers. By extension, this enabled a one-to-one, if limited, relationship between customers and companies in real time. At inbound call centres, customers could contact a company through a 1-800 number and purchase products and services or provide feedback. At outbound call centres, thanks to predictive automated dialing, companies could reach out to legions of potential customers with an individual voice, allowing for an unprecedented level of personalization. Of course, telemarketing quickly became tedious for consumers, but it was an early example of in-firm marketers reaching customers without paying rents to advertising agencies. It also added a degree of measurability, as customer households were uniquely identified by phone numbers.

IT systems also spurred a drastic shift in the dynamic between customers and retailers by allowing for purchase history tracking and loyalty programs. For a very long time, retailers had tracked recurring patronage with punch-cards, stamps, or retailer-specific currency that eventually yielded small rewards for repeat customers. Sophisticated computing systems

now enabled loyalty programs that gave customers a unique identifier, and marketers a flood of information about buying habits and interests. Consumers then received discounts and special offers on products that might be attractive to them. This also meant that it was now possible to calculate customer lifetime value, and to segment customers by behaviour rather than demographics. Better customer insights made call centres and direct mailing campaigns more effective, and the customer experience and targeting quality of campaigns improved dramatically.

The most prosperous such company was, for a time, the Reader's Digest Association, which led a double life as purveyor of wholesome Americana and one of the earliest database-marketing giants.

This newfound ability to deal with customers at once individually and in large numbers led to the explosion in mailing list companies, who prided themselves on maintaining—and offering for sale—databases of customers segmented in every which way. The most prosperous such company was, for a time, the Reader's Digest Association, which led a double life as purveyor of wholesome Americana and one of the earliest database-marketing giants.

THE DOTCOM ERA

The Digital March Continues—1995 Onwards

As we approached the millenium, the paid advertising juggernaut continued to grow. TV advertising still led the way and overall spend continued to rise, but the growth rates began to vary significantly by channel. And for the first time, digital alternatives began to supplant traditional broadcast advertising channels. In 1999, Napster began its radical disruption of the music industry, an early peak at how technology would transform entire industries.

The rise of the consumer internet and widespread adoption of email changed the potential relationship between customers and companies. If call centers and 1-800 numbers gave customers the ability to get in touch with companies to gain information about products and services, corporate websites meant that huge volumes of customers could choose to learn about a company, at almost no expense to either side. A corporate website was the first piece of owned media that scaled globally for very little cost. By the mid-90s, there were 20 million global internet users; by the end of the decade, there were 300 million.¹⁶

Traditional media buying agencies were slow to expand online, leaving a vacuum for the buying and selling of virtual ad space. Early internet companies such as AOL, Yahoo, Google, and DoubleClick were more than happy to step into the void and offer advertising placement services. But this digital advertising was different. Marketers didn't just buy ad space: they had to choose how they wanted to pay for it. CPM, or cost per thousand impressions, and CTR, or Clickthrough rate became the default language of marketers.¹⁷ Compared to the pricing models for offline advertising, both were much more effective marketing tools. You could pay either for an audience of an exact size (via CPM), or you could pay when you knew your ad had drawn a prospect through to your product page (Click Through). It was now possible to track a return on investment in advertising, albeit without knowing exactly whom a given ad was targeting.

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But this wasn't the only advertising opportunity. As people moved online, it became clear that Yellow Pages-style directories were on their way out. Yahoo!, the first internet directory and portal, was quickly displaced by Google's search-based approach to information management. This

move to search created new advertising opportunities. While directories were interest-focused and allowed for some targeting of advertisements, search keywords allowed extremely specific targeting of advertisements based on context, specific topics, or combinations of topics. (So, for example, if a Google user typed "Maui honeymoon" into the search box, advertisers could confidently predict that the user would be interested in travel-based ads.)

While PageRank propelled Google to the top of the search market, another clever innovation of theirs was to set up a bidding market so that advertisers could pick, place, and track advertisements themselves. Google's self-service data-driven approach to advertising improved the customer experience by displaying relevant ads, and improved the marketer's effectiveness by moving from Click Throughs to Pay-Per-Click alternatives that were action based and very insightful.

Marketers who didn't want to spend money for Google ads were still able to benefit through a new earned promotional alternative: Search Engine Optimization (SEO). An entire cottage industry of SEO practices cropped up as digital marketers tried to reverse engineer Google's algorithm so that their combinations of keywords would rank most highly and their sites would be displayed first to consumers. When keyword optimization worked, it turned a company's owned asset, its website, into a channel for attracting customers who might not even know the company existed. From a marketer's perspective, one of the best things about SEO was that it was free on a per impression basis. You had to be smart or hire an expert to be smart on your behalf, but once executed there was no incremental cost. Measurement and management were finally coming to the paid advertising world.

At the same time, direct response marketers were expanding into email, which was practically free. The ability to send unique customers their own uniquely identified email meant that when they clicked on a link, you knew that they were interested—but you also, and this was crucial, knew their identity. Email also immediately bounced inactive or inaccurate email addresses, so marketers could clean up their mailing lists and save themselves the cost of trying to contact

Measurement and management were finally coming to the paid advertising world.

that person again. Mailings could be done in-house, and were tightly controlled, making email marketing an inexpensive owned channel. Because it was so inexpensive and scaled so well, email marketing grew to be, for many, a nuisance: when used without respect for recipients, an email ceased to be an advertisement and simply became spam.

All of the information that marketers were able to gather from their websites and mailing campaigns were, with relative ease, combined into their Customer Relationship Management (CRM) databases, which in most cases allowed non-technical users to explore customer records and perform rudimentary analysis on customer data. Similarly, individual marketers were free to segment customers into lists of their own creation, giving them more freedom to choose how they approached their prospects.

Finally, online stores and customer self-service began to grow as customers acclimatized to the idea of giving out their credit card numbers online. eBay and Amazon, which both launched in 1995, provided customers with immediate access to products online. For these vendors the challenge became finding ways to display relevant products to existing customers.

Throughout all this, for the first time since its inception, traditional Madison Avenue-style multichannel advertising grew below market rate—with the bulk of losses in print media, which found itself increasingly disrupted by the internet.¹⁸ If the advertising industry was going to continue to grow, it would have to expand online, but by this point the space was carved up by a set of disruptive, IT-savvy firms who were aggressively hiring software engineers and developers to design online advertising solutions.

THE SOCIAL ERA

Digital and Data Dominate—2004 Onwards

By about 2004, the digital social era had started. Traditional advertising continued to grow but real differences in reach and promotional effectiveness fractured the paid advertising world. Despite the rise of the 500 channel universe and the resulting splintering of the customer base, TV continued to dominate paid advertising, and attractive TV assets like major sporting events were more in demand than ever. Other paid advertising alternatives began to decline precipitously—print advertising in particular lost ground to digital alternatives. Newspapers saw their advertising-based business models falter and the presses began to shut down. Digital, however, continued to expand and to usurp traditional media business models.

It didn't take long for the consumer internet to go from read-only to read-write. Consumers, thanks to forums, blogs, and comments, could now share their opinions, experience, and expertise with one another on the internet. The online dynamic changed: corporate websites and advertising campaigns, no matter how polished and targeted, were no match for the sheer volume of user-generated content: users out-commented, tweeted, posted, and Facebooked the professionals. Put simply, this is because an increasing slice of social interaction is now done on social networks, which leaves a record of everything. Increasingly, users are choosing social networks over traditional media alternatives.^{19, 20}

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This increased consumer attention online has one enormous consequence: a massive trail of unstructured data. Online customer data was originally limited to click-through maps and limited demographic facts, but now, thanks to text and

rapidly improving sentiment analysis software, it's possible to know exactly what customers are talking about, and how those topics make them feel. Marketers can now quickly and easily find out how customers think and feel about specific brands, ads, services, and one another—both en masse and individually. Powerful information.

What's special about the information that marketers collect from social media monitoring is that it's as close to perfect as we've ever come. In market research, marketers ask customers specific questions—often, deliberately or not, with bias built-in. In social media monitoring, marketers eavesdrop on the casual conversations between consumers. The only selection or collection bias is that the conversations have to happen online, so they exclude customers who aren't plugged in—a demographic that is shrinking quickly.²¹

It's quite striking digital venues are tremendously popular places for socializing—especially given that Facebook (for example) didn't even exist until 2004. Across all social media venues, marketers are now able to use this social interaction data to better understand consumers' needs and to segment and target with growing precision.



Figure 5: A visualization of the relationships that social networks (Facebook in this case) allow marketers to tap into.

TODAY'S MARKETING LANDSCAPE

THE MARKETING CONFIDENCE GAP

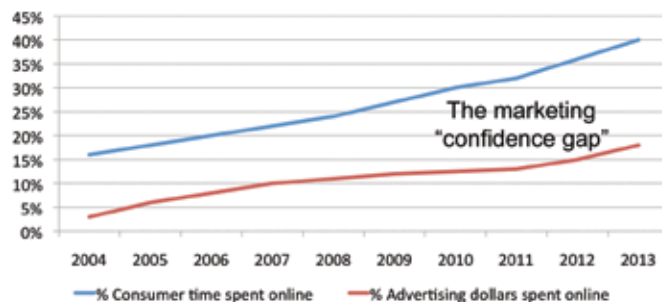


Figure 6: The marketing confidence gap, described by eMarketer and Ogilvy & Mather. Source: eMarketer.

Despite the growing proportion of customer time spent online—both on social networks and off—traditional marketing spend is not keeping up. This isn't to say that traditional advertising services firms aren't trying to expand online; just that the percent of marketer spend online doesn't reflect the percent of customer time spent online. Based on eMarketer research saying that the overall percent that advertisers spend online lags behind the overall percent of time that customers spend online, Ogilvy & Mather have concluded that marketers and their agency alter ego's have a 'confidence gap' when it comes to online advertising. As our long-time friend and colleague Denis Hancock, lead strategist of DECODE, writes, "this seems backwards."²² Denis argues:

I take a different perspective, based on two very simple, inter-related observations. One, the value of advertising – from a marketer's perspective – should be based on the impact it has on customers, not (rather perversely) on how much it costs to reach them. Two, marketers can increasingly connect with their customers for free through the leading social media platforms.²³

CASE STUDY:
TRAVEL AND HOSPITALITY
FROM NEIGHBOURHOOD TRAVEL AGENTS TO
TRIPADVISOR.COM

Information technology has had a drastic impact on the travel and hospitality industry. First generation travel agents were informative experts who guided prospective travelers through glossy print brochures and handled the logistics of travel—liaising with airlines and hotels over the phone. Destinations, airlines, and hotels had to promote themselves and used paid advertising almost exclusively, while travel agents took a commission for the bookings they made.

The industry structure started to change in the enterprise era thanks to American Airlines' (AA) Sabre system. Originally designed by IBM and AA in the 1960s to manage flight data, Sabre was the first real-time reservation system, and by the mid-60s, it was the largest privately-owned computing network in the world.²⁵ In the mid-70s, AA began installing Sabre terminals at travel agencies, allowing travel agents to book flights directly, instead of calling a booking representative.²⁶

This shift to the enterprise era offered many benefits. AA was able to reduce headcount by replacing operators with computer booking while travel agents could provide better flight data and book trips for their customers on the spot. Things continued to get better as hotels and rental car agencies integrated with Sabre and its competitors through the late 80s and 90s. The collection of transaction data meant it was now possible to perform robust database

marketing and engineer loyalty programs—something that AA started in the early 80s when they mined their databases for their 150,000 most-loyal customers and launched the American Advantage loyalty program.²⁷ Marketing was transformed. Paid advertising continued, but very specific direct marketing was now possible.

The next disruption was the arrival of the consumer internet. Customers could now forgo the travel agent and book a trip online themselves, either, through airlines themselves, or through vendors like Expedia who plugged into flight booking systems in much the same way the travel agent terminals had years earlier. Travel agents lost their near-monopoly on bookings, but were still seen as experts on destinations and travel. Advertising migrated towards search: if a given internet user were researching a typical destination, chances were good that they'd be interested in seeing deals on trips to that spot.

With the rise of social networking, travellers could easily share their experience and opinions online, and travel agents lost the real value they added: their expertise and perspective. With their user-generated content, written by people who had just travelled to a given location on a given airline, online reviews provided authentic testimonials that advertisers loved—except when the reviews were bad. A customer can now research and book an entire trip, online, from home, in one sitting.

While travel agents do still exist, they have only a niche presence. The advertising and customer service functions of the industry have been largely replaced by IT systems. Both quality of service and profitability are better for the shift.



Figure 7: Vintage travel advertisements from the Mad Men era.

We agree. Social channels are cheap or free to set up, and customers choose to receive messages from them (and often repeat or share marketing messages with their friends). Everything about social channels make them the perfect channel for earned promotion, the cheapest and arguably most effective form of brand-related messaging. From an agency's perspective, lagging online advertising spend is a problem: that's revenue they could be capturing. But from a marketer's perspective, it's fantastic news.

THE RISE OF EARNED

User-generated content is created, shared, and consumed faster than other types of media: it's like traditional word-of-mouth on steroids. In the past, brand-focused conversations were limited in time and scale: conversations occurred either in person or on the phone and left no record, or they occurred through the mail as one-to-one exchanges. The ability for consumers to easily broadcast messages to their friends and the world at large drastically changed this dynamic: all of a sudden it was possible, for free, for any individual to attract the same audience as even the best-marketed brand online—provided they had something people wanted to hear.

By the same token, social platforms such as Facebook, Twitter, and YouTube allowed internet users to keep tabs on a personalized collection of whomever and whatever they found interesting. When combined with the easy ability to re-post or share the content that they liked, users were empowered to take any message they found and rebroadcast it to their friends and followers with little or no effort. The ease of finding something interesting and passing it on to an unlimited number of peers is what makes the internet such an effective

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It's this combination of forces that makes earned promotion such an attractive medium for marketers. If they can get a message to turn viral, their customers become deputy marketers, and the message spreads free of charge through a social network with built-in credibility. So marketers should be asking: how do we leverage this?

BETTER MARKETING THROUGH TECHNOLOGY

Your brand is the sum of the conversations that customers are having about you, and today those conversations are happening online.²⁴ As customers discuss brands, share links, post reviews, and interact with one another, they're publishing vast amounts of information about their identities and interests. This information is up for grabs for marketers, especially from public venues like Twitter and discussion forums.

Technological advances in text analysis let marketers understand the mood and content of hundreds of thousands of comments and distil the sentiment into a campaign monitoring dashboard. At the same time, network analysis makes it possible to identify not just groups of peers, but the roles that individuals play in those groups—the influencers, the information disseminators, the outliers.

Taking these technologies together, it's possible for marketers to digitally track the flow of information through groups of people and see how opinions morph as they're shared. Particularly influential customers can be targeted with offers or new campaigns to garner goodwill or a head start for a campaign. But the amount of work this type of analysis requires and the scale on which it needs to be performed to gain useful insight puts the problem firmly in the realm of computer science and mathematics.

RECOMMENDATIONS AND TASTE MODELLING

The value of IT to marketers extends beyond targeting users and advertisements. Thanks to technology, it's possible to create a personalized experience for every customer who

CASE STUDY: VW'S 2011 SUPER BOWL AD

One of the most famous paid advertising opportunities in the world is the Super Bowl broadcast. 2011's Super Bowl audience was more than 100 million viewers worldwide. To access that audience, advertisers were charged roughly \$100,000 per second of advertising time.²⁸ It's a lot of money, but advertisers believe it's one of the few slam dunk promotional reach opportunities in the paid advertising world.

We've made the case that owned and earned promotional alternatives present terrific extensions or replacements for traditional paid advertising. Of all the advertisers at the 2011 Super Bowl, Volkswagen seemed to have the best integrated paid-owned-earned strategy.

Volkswagen commissioned a 30-second commercial to support the launch of the 2012 Passat and contracted for a \$3 million commercial showing during the 2011

Superbowl broadcast. In return for their \$3 million spend, the VW 30 second message would be delivered to the 80-90 million North American viewers. As in all broadcast examples, the actual effectiveness of the messaging would be a function of how many actual viewers watched the ad versus texting a friend, using the washroom, or getting a fresh bowl of chilli.



Figure 8: The force is strong with this ad. VW's 2011 Super Bowl success.

But the campaign didn't stop there. In addition to the paid advertisement, Volkswagen also uploaded a 60 second version of the commercial to YouTube four days before the actual event.²⁹

The terrific creative and clever messaging of the commercial was immediately popular on the internet and quickly went viral. At the time of writing, some 40 million viewers have freely chosen to watch the commercial on YouTube—exactly the type of earned opportunity we've been advocating.

Each of the 40 million views on YouTube represents a viewer

that intentionally chose to watch the advertisement—a much higher value impression! Additionally, several other versions of the ad were posted by Volkswagen and there were many mashups created by viewers extending the messaging, largely in a positive light.

VW had a great ad. Was the \$3 million spent at the Superbowl wasted? Absolutely not, it raised the profile of the product considerably. But the impressions garnered on

YouTube were undoubtedly higher quality, and increased the viewership of the ad by almost 50% at no increased cost. VW used paid where appropriate, but leveraged another alternative to amplify their message without spending another dollar on advertising!

interacts with the firm. Take for example Amazon's now-classic collaborative filtering feature ("People who bought this also bought..."): by comparing the browsing histories of users and looking for similarities in taste, they're able to make very good recommendations to each and every user. In essence, the storefront reshapes itself around the unique tastes of each customer.

Many businesses have adopted a similar relationship with their customers: video innovator Netflix, anything-and-everything recommendation engine Hunch, and online dating sites eHarmony and OkCupid are a few. These sorts of services take the work of matching products and services to customers almost entirely out of the hands of humans—and get smarter with every new fact they learn.

CASE STUDY: RETAIL

THE MODERN MULTI-CHANNEL RETAILER

Both in terms of advertising and operations, technology has disrupted retail businesses. Even if they don't choose to shop online, many customers walk into brick and mortar stores knowing exactly the product they want, how much it costs, and how many are in stock. Customers do and will continue to browse, but the information asymmetry between retailers and consumers is vanishing, now that a list of product reviews is just a barcode scanner app away.

Retail has historically presented consumers with two types of advertisements: ones from brands themselves, extolling the virtue of their products over those of their competitors, and ones from retail outlets advertising product availability and price. Brand marketers hoped that they could influence people towards their products, and retailers hoped that that influence would lead customers through their doors—while they competed with other vendors on price and selection.

The arrival of first-generation mainframes in the enterprise era made direct-response marketing possible, essentially allowing manufacturers to sell directly to customers—bypassing retail locations (and the margins they extract) and capturing specific data about exactly who is buying what. By pushing advertising and the actual purchase so closely together, the foundations of data-based segmentation and advertising were created.

Inside brick and mortar stores, computers and point of sale systems made it possible to analyze sales records and track customer purchases. This paved the way for loyalty programs and analysis of sales patterns. Correlating in-store product placement with sales numbers shed some light on what influences customers to buy, and helped retailers understand individual and broad purchasing trends and estimate lifetime customer value. Loyalty-based marketing

programs became possible and profitable both at the retailer level and in combination with alternatives such as frequent flyer programs.

When sites like Amazon and eBay came online in the mid-90s, they began substituting for retail locations while letting customers shop from home. Even customers who weren't comfortable typing in their credit card numbers now had access to more product reviews than ever before. From technology to food to entertainment, the internet gave customers to more information about products and services than they had ever had before. This shift to the social internet benefitted online retailers in two powerful ways: user generated reviews, and taste modelling.



Figure 9: Blockbuster was not able to react in time to technological disruption.

When searching for product reviews, forums, blog posts, and user-written reviews came to overwhelm editorial reviews. By integrating and featuring user-generated reviews and scores prominently, customers better decide between products, increasing the chance that they'd be happy with their purchase. While these social reviews worked well as crowdsourced testimonials, the real promotional innovation came

from taste modelling—the first example being Amazon's recommendations.

A new generation of vendors led by Amazon and Netflix provided digital substitutes for brick and mortar services and used predictive analytics out of the gate. These services are social in a way not immediately obvious to end users: by comparing what users do (browsing and buying patterns) rather than what they say, these companies were able to understand behavioural similarities between users, and market to them accordingly. This kind of prediction changes advertising radically, and allows virtual retail spaces to reshape themselves around customers as they browse and disclose more about their interests to retailers. Instead of being displayed advertisements, customers are displayed offers for products they're actually likely to need or want.

NEXT STEPS FOR MARKETERS

- 1. Get the best creative.** Creative services are what Madison Avenue does best, and will continue to provide tremendous value. What's changing is the delivery mechanism. A great ad is still a great ad, but a great online campaign is a more complex, technically demanding creature.
- 2. Leverage owned media.** It's now possible to reach your customers inexpensively or even for free. By setting up a compelling homepage, designing and deploying a branded personality on Facebook and Twitter, and making traditional advertisements available on YouTube and other sites, you make it easier for customers to choose branded content—and share it with their peers, turning an owned asset into an earned impression.
- 3. Monitor social media.** There's a wealth of information to be captured about who is interacting with your brand, what they're saying, who their friends are, and how much sway they hold over their peers (and vice versa). This information can be integrated into CRM databases, allowing for a much richer understanding of the customer, which in turn allows marketers to better engineer the customer experience to be memorable and profitable. If you're not listening you can't respond!
- 4. Hire the right people.** Advertising is now a mathematics problem. But it still relates to people. The teams required to make marketing campaigns as effective as possible will need the right mix of hard and soft skills. Data analysis savvy needs to counterbalance user experience nuance. As the ability to capture more data increases, marketers will be able to answer the question "what do my customers want?"—but it will still take a human touch to deliver it.
- 5. Go multi-channel.** Customers distribute their attention over a growing collection of channels. But more and more (and especially as the internet subsumes TV, radio, and print media) those channels are digitally accessible and measurable. Smart marketers will design an advertising customer experience that uses just the right mix of channels to communicate value and make services available.

CONCLUSION

Global competition is intense and exceptional marketing is one of the best guarantees of long-term success. Price, product and placement continue to be key attributes of marketing success along with a transforming promotional landscape.

We believe that now is the time for information technology to reshape advertising into a measurable and even more compelling marketing medium. We are confident that this transformation will let advertisers reach more people with better messages at lower costs.

In addition to advertising, owned and earned promotional alternatives enabled by information technology are growing and will equal or surpass paid advertising in reach and effectiveness. They can be used independently or to supplement advertising campaigns.

When executed effectively, a modern, technology-centric campaign can increase consumer engagement, increase profitability, and let marketers stop wasting money on advertising. ■



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Jeff presents regularly on topics from social media to the changing nature of identity, and has delivered custom presentations and workshops for clients from industries as varied as banking through to consumer packaged goods. Jeff holds a B.A. Specialization in Philosophy from the University of Western Ontario.

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ABOUT T4G LIMITED

We design, develop, and implement technology solutions that help our customers run their businesses better. Our philosophy is based on **The Intelligent Application of Technology™**, which uses a project-based approach to solve business problems & deliver measurable value.

T4G was founded on a belief that it was possible to build an organization and culture capable of delivering complex solutions while being innovative, creative, customer driven and fiscally responsible.

With a proven track record of accomplishments, our enthusiastic people provide leadership and expertise to our customers throughout North America. Our customers are in many sectors, including: Retail, Travel and Hospitality, Energy, Financial Services, Professional Services, Health and Life Sciences, Government and Communications.

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