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CONSUMER



■ Proliferating messages in the marketplace—and consumers' increasing ability to avoid them—present huge challenges for marketers, who must become more cost effective and resourceful if they want their messages to get through.

■ To focus spending where it will have the greatest impact, companies need to take a holistic approach founded on zero-based budgeting, aggressive differentiation of investment levels by brand and market segment, and precise metrics and planning systems.

■ Such an approach optimizes the entire marketing process by taking into consideration the company's portfolio and brand strategy; insights into consumer segments and the purchasing pathway; marketing planning, execution, and impact; and capabilities such as IT systems and analytical competence.

Smarter Marketing for Tougher Times

Consumers are being bombarded with marketing messages—by some counts, more than 3,000 impressions per day. Yet they are also able to avoid them better than ever before, thanks to such technologies as digital recorders, no-call lists, and pop-up-ad blockers. These new tools present a huge challenge for marketers, who must become more cost effective and resourceful if they want their messages to get through. Very few are succeeding. Many companies still allocate as much money to advertising as they do to capital projects, but they can only guess at the return on their marketing investment. Too often, major marketing campaigns are launched on little more than a hunch; budgets are simply pegged to “more than we spent last year” or “more than our competitors spent.”

Marketers require rigorous processes to ensure that money invested is well spent. It's not so much that they lack breakthrough thinking—it's that their basic marketing practices have become slack. Consumer companies we've worked with around the world have had exceptional success with our holistic approach, which is founded on zero-based budgeting, an aggressive differentiation of investment levels by brand and market segment, and precise metrics and planning systems. By rigorously applying our framework, these companies have freed up as much as 20 percent of their advertising and promotion investment, allowing them to focus spending where it will have the greatest impact.

A Back-to-Basics Framework

Many companies have tried to optimize discrete parts of their marketing investment, but few have taken a comprehensive approach to all the levers that drive marketing effectiveness. Too often, they lack the tools to identify clear goals and determine which marketing vehicles are most cost effective and will deliver the highest returns. Although making such a calculation is complex, it is imperative given the confusion created by proliferating messages in the marketplace. Furthermore, companies must constantly update their calculation through feedback loops as the competitive environment evolves.

A holistic approach optimizes the entire marketing process by taking into consideration the full range of marketing activities. (See Exhibit 1.) A company’s portfolio and brand strategy overlies all five levers of marketing effectiveness, which consist of insights into consumer segments and the purchasing pathway, as well as marketing planning, execution, and impact. Those levers, in turn, rest on a platform of capabilities comprising organizational alignment, integrated processes, a metrics-driven culture, analytical competence, and IT systems and infrastructure. Ideally, a company would evaluate its marketing effectiveness across all five levers, but concentrating on the largest areas of opportunity first can yield surprisingly quick results.

Portfolio and Brand Strategy. Few companies with a portfolio of brands targeted to a variety of market segments adequately differentiate their investments on the basis of strategic priority and responsiveness to market conditions. The portfolio strategy should drive all brand decisions and inform such brand objectives as growth, market share, and the ability to meet a segment’s needs. It should also identify which regions or business units to invest in according to the competitive environment. The priorities that emerge from this process will guide the marketing budgets for individual brands.

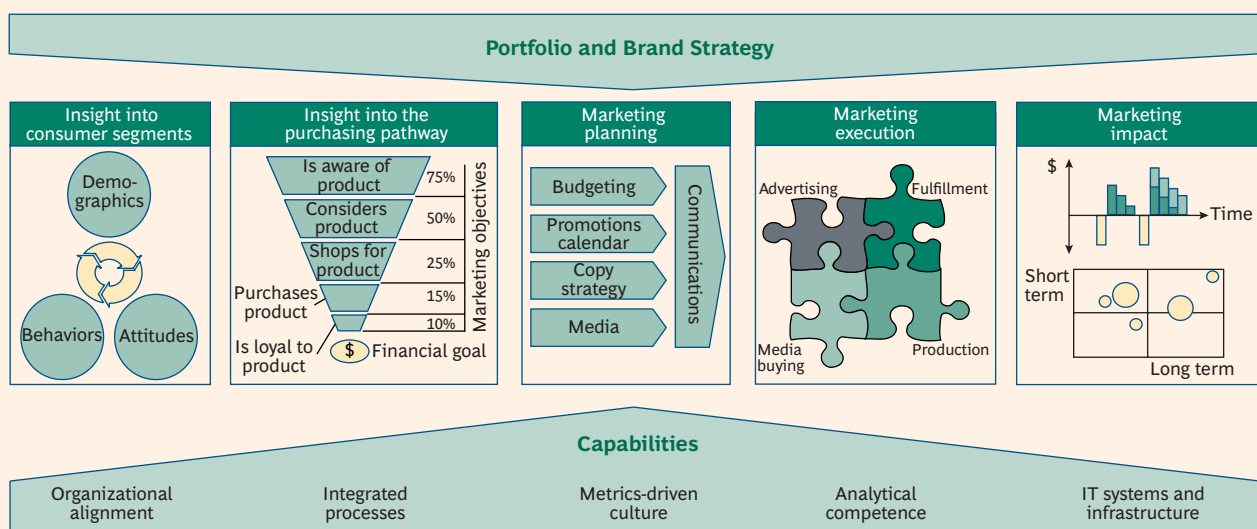
A common mistake at this stage is for companies to scatter their spending across the portfolio. The result

is underspending on small, high-growth brands and overspending on large, stable ones. Correcting such misalignments can prove immediately profitable. One client, for example, was able to increase profits by 9 percent after reallocating spending across its portfolio. Instead of disbursing the marketing budget among brands and countries as a percentage of revenue, it adopted a model in which advertising and promotions were allocated according to potential return. That reallocation decreased spending by 5 percent and generated more than \$200 million in value creation.

Insights into Consumer Segments and the Purchasing Pathway. The next critical element of marketing efficiency is defining clear value propositions and cash-flow objectives for each brand and segment in the portfolio. Those calculations will have implications for brand investments and new-product launches. It is especially important to manage spending holistically—including both above-the-line efforts (traditional marketing) and below-the-line efforts (such as trade incentives and sales promotions). Because those budgets are often controlled by different parts of the organization, making the optimal total spending transparent to everyone can unlock considerable value.

In allocating resources, we recommend an analysis of three elements:

Exhibit 1. A Holistic Approach to Marketing Requires Optimizing the Entire Process



Source: BCG analysis.

- Targeted consumer segments, especially the heavy spenders
- The purchasing pathway—that is, the decisions consumers make in advancing from awareness of a product to considering it, shopping for it, purchasing it, and becoming loyal to it
- The marketing vehicles that can reach targeted consumers at critical points along the purchasing pathway, and their relative costs and effectiveness

Exhibit 2 illustrates the considerable impact on sales of the conversion rate from one step of the purchasing pathway to another. Although awareness of Company A's product is higher than that of Company B's (80 per-

cent compared with 69 percent), consumers' lower rates of conversion from being aware of Company A's product to actually considering it and shopping for it result in fewer consumers purchasing the product and becoming loyal to it.

Marketing Planning and Execution. In determining the best level of spending and mix of media for a category, some companies look only at their competitors. Although relative share of voice (SOV) can be a helpful metric in mature categories or when spending and share position are stable, relying on it exclusively can be counterproductive when a category is growing very fast, when players are trying to outspend one another, or when positions are fluid. (Imagine the disastrous results if every player tried to increase its ad spending 100 percent per year.) As a diagnostic metric, SOV can indicate competitiveness in a category, but it shouldn't be used indiscriminately.

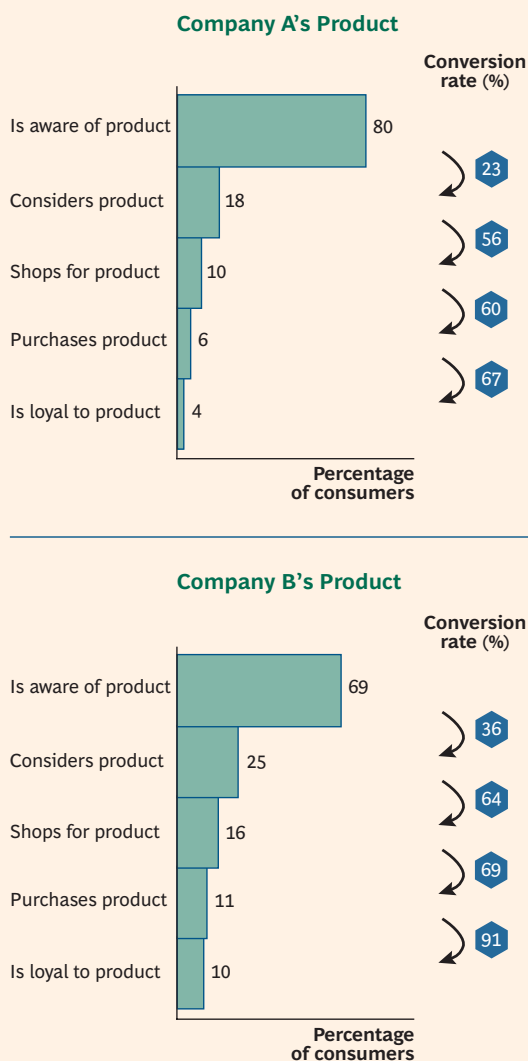
We recommend employing a variety of tactics to determine the best mix of media. Marketers should, for example, look more closely at how and where consumers use a product. They should also compare the level of spending needed to maintain current performance with the level needed for growth. And they must experiment with new approaches and constantly revisit tactical choices, such as

- network or cable
- prime time or fringe
- burst or continuous coverage
- greater reach or greater frequency
- general audience or targeted segments

Marketers struggling with consumers' ability to avoid advertisements might consider branded entertainment, sponsorships, product placements, and viral marketing tools. Growth in sponsorships approached more than 8 percent in 2006, and the product placement market is projected to be valued at \$6.9 billion in 2009. But companies don't necessarily know how to make the best use of those vehicles. Such alternative vehicles should be supported by other marketing efforts.

Marketing Impact. There's no point in determining how many consumers have seen an ad if you don't also ascertain whether their awareness leads them to purchase the advertised product. Many companies are experiment-

Exhibit 2. Marketers Must Pay Attention to Conversion Rates Along the Purchasing Pathway



Source: BCG analysis.

ing with new ways to test the advertising mix, coverage, and message content for each targeted segment. The results go into a database to ensure that future campaigns projected to generate high returns get ample funding, whereas those with lower projections get cut. Although most companies partner with an agency, they should also consider developing sophisticated measures of return in-house.

Capabilities. Today more than ever, marketing effectiveness depends on information systems and tools. But gathering data is only half the job. Advantage comes from transforming raw data into information that can be used strategically. That requires coordination across key processes.

To align its processes, metrics, and incentives with its marketing objectives, an organization must have people who feel accountable for marketing's success. Because experimentation is the key to adapting to a fluid environment, teams must feel encouraged to try new approaches. Instilling flexible processes that allow for adjustments and rapid deployment will ensure that the organization can achieve its goals.

Turning Marketing Effectiveness into an Advantage

As new marketing models take hold, integrating business strategy with marketing strategy and emphasizing research and measurement will be among the most important changes required of marketers. Some companies are looking to partners and suppliers for assistance, whereas others are planning to develop capabilities themselves. The trick is to determine the right combination of strategic and analytical tools to generate accurate data and optimal impact. The following questions should help marketers assess their organization's readiness for a marketing makeover:

- Are we willing to make tough choices? Do we understand the tradeoffs required in order to invest where we have the best chance of winning?
- Are we leveraging our insights into consumers? Do we know how to reach the heaviest spenders at strategic points on the purchasing pathway? Do we understand how they differ from average consumers in their media consumption and purchasing behavior?

- Do we experiment with our marketing mix? In addition to comparing traditional channels with emerging ones, do we test different vehicles in different markets simply to see what will happen? Does our organizational culture encourage people to learn from experiments?
- Are we developing capabilities for sustainable advantage? Can we measure the return on our marketing investments? Are we constantly testing our consumer insights? Do we use the results to work more effectively with agency partners?
- Is our organization onboard? Do we have a champion at the executive level to drive our focus on marketing returns? Are we able to attract and retain highly motivated people?

Marketing is a significant portion of most companies' budgets—often 5 to 15 percent of a company's expenses—but it is being managed with much less discipline and rigor than other items. As marketing grows more complex, it becomes too important to be taken for granted. Today a company's survival depends on its ability to integrate business strategy with marketing and to measure the returns. If your marketing expenses don't add up to the desired results, it may be because you're using the wrong equation.

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