The Big Agenda: What Lies Ahead for Marketing in an Increasingly Ad-Free Future

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Everything You Need to Know Going Into 2016

Unilever spends $7.7 billion on global **advertising**, and $15 million protecting that investment.

That's how much the consumer packaged goods giant has committed so far to its Foundry program, which has vetted 4,000 **marketing**-tech startups and done pilots with 80 to date. The program is among the most ambitious and highly organized forms of "future hunting" that goes on in most **marketing** departments today. And it points to what's on the agenda as the industry comes to grips with perhaps the most pressing issue of 2016: How to achieve **marketing** efficiency when consumers are going out of their way to avoid ads and the bottom is falling out of the middle class, making mass **marketing** even less relevant.

For decades, **marketing** searched for the "next big thing," be it **brand**ed entertainment, **social** media, native content or content **marketing**. But the coming years are likely to boil down to the industry seeking dozens, hundreds or even thousands of little things.

Babs Rangaiah, **Unilever**'s VP-media **innovation**s and ventures, makes a case that should grab the attention of most major marketers: In what's long been a primary ad medium, TV, a Deloitte study last year found 55% of viewership is now delayed via DVRs, video-streaming subscriptions or other options. And that number rises to 72% among millennials ages 14 to 25. "For the first time, more people now watch TV on demand than live," he said. At the same time, online ad blockers, which had been primarily for "techies and teens," Mr. **Rangaiah** said, are likely to find a much wider audience now that they're incorporated into Apple's iOS 9 operating system. "Once simplicity hits," he said, "the mainstream gets affected."

Wither the mainstream

But just what is the mainstream anymore? In the U.S., the middle class, once the primary target of mass media, has lost importance as the Great Recession wiped out construction jobs, pushing more people into the lower class. And the economy, tax policy and monetary stimulus **design**ed to boost the economy helped the wealthiest Americans take a greater share of income.

"People are polarized in the U.S. and around the world," said **Clorox** Co. Chief **Marketing** Officer Eric Reynolds. "The U.S. has First World income with Third World income distribution." This polarization weakens mass media as more people get their news, often fit to meet their own outlooks, from customized **social** media feeds.

Rather than fight fragmentation, **Clorox** is embracing it. The company's shift of more than 40% of its media spending to **digital** uses programmatic media not just to save money, but also to serve the most relevant ads to people, which helps overcome avoidance. Using **Google** and the Oracle **Marketing** Cloud to serve the right recipes to people according to their tastes is part of the secret behind **Clorox**'s steady market share growth for Hidden Valley Ranch, he said.

Better targeting, however, is just a part of it. The industry's agenda this year will be finding more creative, targeted and efficient ways to reach consumers, either by getting them to opt in or simply sit still for the message.

Avoiding ad avoidance

Many marketers are putting more money into media where the ads are harder to avoid. For some, such as GE, that has meant shifting money to sports and other live TV programming. GE has suddenly become one of the most noticeable and improbable advertisers on NCAA and NFL football this year as a result.

Money is also flowing into the least avoidable forms of **digital advertising**, which happen to be owned by **Google** and **Facebook**, whose search, pre-roll video and mobile newsfeed ads are difficult, bordering on impossible, to avoid and largely immune to ad blockers. The two dominate **digital** ad revenue, accounting for 60% of the market, according to an estimate by Pivotal Research Group analyst Brian Wieser. **Google** and **Facebook** are even more prohibitive heavyweights on mobile, which eMarketer estimates was set to account for more than half of all **digital** ad spending in 2015.

Mr. **Wieser** doesn't believe the relative immunity of **Facebook** and **Google** to ad-blocking technology is the primary driver of their dominance. Rather, he sees their edge in reach, thanks to their huge audiences, making them efficient and effective for marketers and agencies looking to maximize reach while minimizing transaction costs.

Content marketing

Love the term or hate it, marketers are doing more of it. Count Procter & Gamble Co. Global **Brand** Officer **Marc Pritchard** among the haters -- at the **Cannes** Lions International Festival of Creativity, he called "content **marketing**" a term that's "overused and underdefined." He'd prefer calling what marketers do "**advertising**," since it's all ultimately about swaying people toward the **brand** or its objective, however sublimated or subtle that effort may be.

On the other hand, **PepsiCo** Global Beverage Group President **Brad Jakeman** would like the industry to stop using the term "**advertising**" in favor of "content," a case he made ironically enough in a speech last October at the biggest annual meeting of the Association of National

Advertisers, of which he's a board member.

To some extent, it's a distinction without much difference. One of **P&G**'s most prominent "**advertising**" efforts of recent years has been what would widely be viewed as content **marketing**, and a **Cannes** entry for **brand**ed entertainment: **Leo Burnett**'s "Like a Girl" video for Always, which was edited down to a Super Bowl ad and backed before and afterward by considerable paid YouTube distribution. Content **marketing**, broadly defined (as there's no other way), accounts for $67 billion in U.S. spending, according to PQ Media estimates. The U.S. TV ad market is around $70 billion. Both are big, and while the former is growing far faster, neither is going away soon.

The search for cost containment

It's long been assumed that growth of content **marketing**, which entails a wide range of videos, **Pinterest** boards, recipes, tips, apps and much more, often distributed without paid media support, would inevitably increase agency creative fees and production costs relative to media spending. Big marketers and their procurement departments have fought this tide, but haven't really succeeded.

A survey of 300 senior marketers across industries last year by Percolate found 40% of **advertising** budgets and 20% of overall **marketing** budgets are devoted to creative costs (also dubbed "nonworking media" by finance folks and marketers). That share is growing, even if marketers think it's too high already, Percolate found. And here's the kicker: Content **marketing** may not even be the biggest driver. Marketers cited the rising cost of creating ads for traditional media as the area where creative costs are highest relative to media spending -- accounting for about half the budget.

That puzzled **Chris Bolman**, Percolate's director of growth. But a recent discussion with the **marketing** team at a major telecommunications company shed some light on the cause. "They spend upward of $1 million on production per TV spot to get the quality and type of content they feel will stand out," Mr. **Bolman** said. "For the most part, you're paying more for a director who can create an engaging story versus a more traditional point-and-shoot, or a hit song, high-profile actor, etc."

In other words, marketers are spending more to make their traditional ads more appealing to overcome people's urge to avoid them.

Taking the bore out of the store

Even if people avoid the ads, they still have to buy stuff. So reaching them in stores, and finding ways to make them come into stores rather than order online, has become more important.

Revlon, which long relied on traditional **advertising** and the more limited mass-retail promotion displays, in December began experimenting with shopping mall cosmetics counters staffed by beauty consultants. It hopes to drive trial and, in turn, purchases at mass stores.

Even fast feeders are moving their stores more upscale as a **marketing** tool. **Domino**'s Pizza has redone 2,000 stores and counting as part of its "pizza theater reimage," which emphasizes freshness for customers and produces orders in openly visible kitchens with fresh ingredients. Wendy's has adopted a sleek new look in remodeled stores, with horizontal lines on the outside, plus flat-screen TVs, fireplaces and low-slung cushioned chairs on the inside complementing more traditional tables and booths.

More grocery stores are adding upscale amenities such as sushi displays, oyster bars and coffee shops. Kroger, which has long succeeded with a merchandising approach more steeped in Midwest basics, has been buying its way into higher-end merchandising in recent years with its acquisitions of Harris Teeter, and more recently, Wisconsin-based Roundy's, the latter primarily for its expanding jewel Mariano's in the Chicago area.

But the reality is that **brand** marketers trying to get a lift from retail are getting less bang for the buck. A study late last year from IRI found that despite increased spending on trade promotion, **brands** on average are seeing declines in sales lift from each event, continuing a trend that began during the Great Recession but has persisted through years of anemic recovery. The average **brand** sales lift per merchandising event across all measured outlets fell from 89% in 2012 to 78% last year, with 58% of consumer packaged goods categories seeing reduced promotion impact.

The reasons aren't entirely clear. Sue Viamuri, VP-thought leadership for IRI, blames the decline on **brands** running the same promotions year after year and expecting consumers not to get bored. "We need a new approach to promotion," she said.

The new grocery shelf: Amazon

Even though e-commerce accounts for a small percentage of grocery sales -- estimated at 2% by **Morgan Stanley** -- it has an inevitable impact on margins, at least on in-store promotion. The shift of sales for all kinds of goods to e-commerce inevitably leads to fewer shopping trips, so even the most enticing in-store display reaches fewer people. And this year could be an inflection point for grocery

e-commerce. A **Morgan Stanley** consumer survey with AlphaWise found 26% of online shoppers expect to buy groceries online in 2016, up from only 8% who said they planned to do so a year ago.

Such factors have led **Clorox**, among others, to devote more promotion resources to e-commerce players such as **Amazon** and **Walmart**.com.

But beyond that, in-store promotion, like everything else in **marketing**, is getting more complicated. A decade ago, the continued share grab of big-box retailers like **Walmart** and Target meant retail was consolidating even as media fragmented. Today, retail is fragmenting too. **Clorox** Chief Customer Officer **Matthew Laszlo** said in an October investor presentation that growing urbanization in the U.S. is spawning more small-format stores and a need for the company to reallocate and diversify its spending.

'Native advertising for e-commerce'

P&G, the biggest ad spender in the U.S. and globally, is known for its acronyms, and one of its hottest these days is "**POME**" -- for "point of market entry." It might seem like a complicated way of saying "sampling," but the gist is to find those times when people are most likely to make **brand** decisions and give them samples of your product at that moment. Classic examples from **P&G**'s past include Pampers diaper sampling in maternity wards, or even before that at Lamaze classes, or sending new Gillette razors to every man on his 18th birthday. The company increasingly tries to find and exploit such moments for each of its **brands**.

The growing marketer interest in getting samples in people's hands at just the right moment, combined with an effort to reach people who aren't necessarily going into stores, has helped fuel the recent growth of Exact Media, which specializes in distributing samples through packages sent by online retailers.

The company's sales have tripled in the past year with such clients as **P&G**, **Unilever**, **L'Oréal**, **Johnson & Johnson, Mondelez** and others, said Exact Media **CEO Ray Cao**. Besides being highly targeted, which is important for sending out relatively expensive samples, the idea is largely like "native **advertising** for e-commerce," he said. "If I'm getting a shirt, and I also get a sample of laundry detergent, it doesn't feel like I'm getting a random banner ad."

Rethinking product packaging to generate loyalty

Coke's customized "Share a Coke" label with people's names on the bottle, one of the **brand**'s most successful promotions ever, is perhaps the best example of customizing packaging to get closer to consumers. But technological advances hold promise for much more.

Clorox's Brita has launched a program with **Amazon** in which its water filters are equipped with chips that allow them to automatically generate online replacement orders when they're close to being used up. Various marketers have joined **Amazon** in promoting Dash buttons that allow automatic reorders around the house, but advances in conductive inks, **digital** printing and Bluetooth-enabled packaging will increasingly give marketers the opportunity to generate reorders with their packages and automatically generate offers on people's smartphones as packages get used up.

"Marketers are increasingly looking to use packaging in nontraditional ways to connect with consumers," said **David Luttenberger**, global packaging director at research firm Mintel. "**Digital** printing has been around for 20 years, but just in the past 18 months, **brands** are beginning to engage in **digital** package decoration -- adding visuals, sensory cues, raised surfaces. It helps **brands** engage with consumers on more levels."

Possibilities include using near-field communications to send usage instructions, health interactions, allergy information or other reminders to people's smartphones for over-the-counter drugs, beauty products or foods -- or a host of **brand advertising** or entertainment content options. Mr. **Luttenberger** noted a Belgian beer **brand** using NFC (near field communication) to trigger an offer for a free movie download on people's phones. But such possibilities are largely theoretical rather than actual at this point.

Then again, success with packages that can automatically trigger online reorders, with **Amazon** Dash buttons or with other sorts of subscription-buying deals, has a distinct downside for marketers too. It may be a dream for one **brand** hoping to lock in consumers for the long term, but it's a nightmare for others hoping to sway them to try something else.

"It's possibly the end of **marketing**," said **Anil Kaul**, **CEO** of analytics firm Absolutdata. And that may be a little scarier than ad avoidance.

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