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The Complexity of Marketing Today

By

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The Complexity of Marketing Today

Abstract

Today, because of media fragmentation and diverse viewing habits across consumers, marketing has become increasingly complex. Firms have developed new strategies to deal with this changing environment. The first is the sophisticated use of information to allocate marketing spending. In fact, experts who provide assistance in media buying have become increasingly common. Unless firms understand the value that these experts provide and how best to make use of it, media fragmentation will significantly reduce the effectiveness of marketing. Second, major improvements in the quality and quantity of consumer information (due to information technology) and the growth of targeted media vehicles (due to media fragmentation and new communication channels) imply that firms now have the know-how and the means to precisely target advertising to segments of consumers within a market. This has critical implications for firms. How much should a firm pay to target advertising messages precisely? Will better targeting lead to higher or lower advertising expenditures? Are there ethical issues that need to be considered given the increased effectiveness of marketing communication? This article considers these questions and suggests approaches that can be employed so that marketers realize high performance from money spent on communication.

Key Words: complexity, media fragmentation, market research, targeting, targeted advertising

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1.0 Introduction

Lord Leverhulme is credited with having stated that "Half the money I spend on advertising is wasted and the trouble is I don't know which half."[1] Marketing has always been an expensive endeavour and the benefits created by marketing are generally realized long after the expenditures have been made. Today however, many marketers would be delighted if only half their money was wasted.

Media fragmentation has made it difficult to cost effectively inform a mass audience about one's products and services. In addition, consumers now have increasingly diverse habits with regards to media. Newspapers, radio and television are still the primary communication vehicles. But even these are not what they used to be. Newspapers and television are no longer local media. While national newspapers have been around for a while, it is not surprising to see business people reading the *Wall Street Journal* and the *Financial Times* as they ride to work on the MRT in Singapore. In addition, people around the globe watch CNN, ESPN and HBO via satellite in homes, hotels and in bars. The Internet, targeted mailings, telemarketing and SMS messaging are also important communication vehicles for marketers in many countries (for example, SMS messaging is a key component of media activity for cosmetic marketing in China).

How can firms manage marketing activity to ensure that it is not lost in the sea of messages and noise that confronts today's consumer? In this article, I explore a number of critical aspects of this problem and suggest approaches that can be employed so that money spent on communication generates results. In categories where competitors offer similar products at competitive prices, communication and marketing is where the battle is fought. The quality of communication and the ability to create a perceptual relationship with consumers will be the factors that determine success or failure.

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[1] This statement has also been ascribed to John Wanamaker (a 19th century department store owner). The Wanamaker chain was the original sponsor of the PGA golf tournament.

2.0 Market Research and Media Experts

First, lets discuss how firms are coping with media fragmentation. Because of the increased number of options that firms have to communicate with consumers, the allocation of media is increasingly complex. As a result, marketers have looked to experts to assist with this challenge. In fact, firms that provide services to assist with media allocation have become increasingly common. Beyond the media buying arms of major advertising companies, there are now consultants and companies that describe themselves as media experts (Soberman 2002). Examples of media-expert companies include Carat, Mediacom and Starcom. These firms commit significant resources to collecting information that links the media habits of viewers to their consumption patterns and lifestyles. An interesting example of the type of information sold by media experts is the finding (based on proprietary research) that the TV show that "active sportsmen" in Britain most identify with is ``the Simpsons" and not BBC's Sunday Grandstand or a similar sports-focused programme. It is straightforward to see how this information might be quite valuable to a firm that is interested in advertising its products to "active sportsmen".

Market research firms also build databases on the behavior and media habits of consumers. Companies such ICOM, Experian, Acxiom and Donelley Marketing have databases on millions of households, companies or individuals that can be used to identify high potential customers in many categories. ICOM is the only market research company in Canada that owns a database containing millions of households. For example, ICOM collects information on the social issues that respondents most identify with (choices include animal welfare, environmental issues, the arts, health and religious causes). This information is then used by many organizations (the sellers of various products and services) to improve the performance of their spending.

These observations raise two key issues for firms that are committed to maximizing the effectiveness of their advertising spending.

Prioritize: Do Less But Do It Better

First, depending on the market and the type of consumer, there may only be one viable provider of media information. In many situations, "sellers of information" are natural monopolies. This is true for two reasons. First, the bigger a database is, the more likely a marketer can sort through the database and find a critical mass of consumers within that database that fits specific target requirements. Second, the costs of storing, processing and sorting data are primarily fixed. Thus, the bigger a database is, the lower is the cost to process each unit of information within the database. As a result, the owners of large databases have the ability to offer greater functionality and services to marketers. Because the sellers of this information often enjoy monopoly-like situations, the best information is often quite expensive. This means that firms need to decide carefully which information to buy. In addition, firms need to establish clear priorities. It is often better to do less but to do it with impact. One of the most difficult things for a firm is to set objectives that are both ambitious and feasible.

Look to Non-Traditional Sources for Marketing Information but be careful

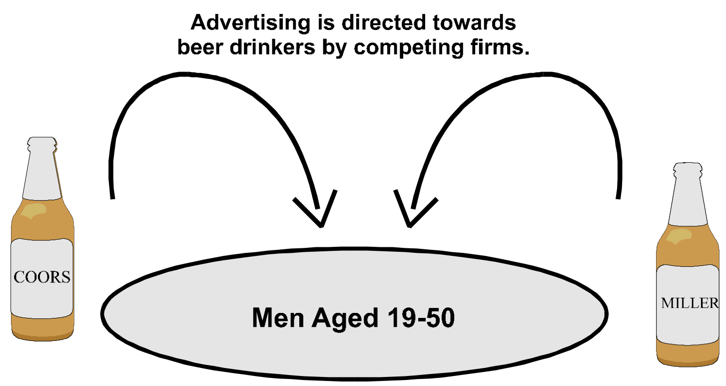
There has been a significant clouding in the distinction between what defines advertising agencies, marketing research companies, marketing service companies, or media experts. In the past, large marketers could categorize their suppliers easily and knew what each was doing. This is no longer the case. BATEY, a member of the WPP group of companies, is one of Singapore's best-known advertising agencies. It has been the advertising agency for Singapore Airlines for decades. Yet in client presentations, BATEY executives now identity themselves as a marketing services company. Similarly, ICOM was founded in the 1980's as a targeted direct mailing company yet its primary activity today is that of selling information to help firms improve the effectiveness of their marketing. These changes make managing the marketing function even more difficult. Non-traditional suppliers are often the best sources of information to improve media effectiveness. This means that marketing managers may need to look beyond their ad agency for advice on how to improve media effectiveness. In addition, many suppliers are venturing into new territory and proposing initiatives that are atypical for both themselves and clients. This clearly increases the risk for clients and suppliers.

3.0 The Means and the Ability to Target Media

Two critical changes in the last 20 years have been a) major improvements in the quality and quantity of consumer information (due to the information technology) and b) the growth of targeted media vehicles. The growth of targeted media has been driven by the fragmentation of existing media and a multitude of new advertising media (the Internet, satellite shopping channels, and infomercials).

Traditionally, the objective in media planning was to minimize wasted advertising by reducing the quantity of advertising sent to consumers who were not interested in the product category. For example, consider the challenge of effective media buying in the U.S. beer market. In the past, this amounted to maximizing the amount of advertising sent to adult males and minimizing the amount sent elsewhere. The traditional media strategy for beer advertising is shown in Figure 1.

Figure 1
Traditional Media Buying in the Beer Market

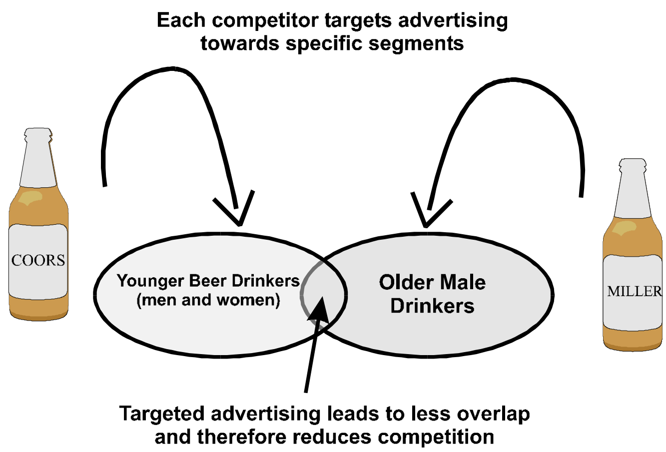


The objectives for the media buyers of beer advertisers were pretty straightforward. They were typically met through heavy buying of sports programming.

Today, the complexity of media buying (even in the beer market) is higher. Media planning entails detailed objectives with narrower consumer segments. Consider the media strategies of Miller Lite and Coors Light, two key competitors in the U.S. light beer market. Research has shown that the light beer market is comprised of distinct demographic groups which vary in their consumption profile. Miller Lite, the “diet beer”, has traditionally been directed to mature male beer drinkers in their mid to late thirties who are concerned about their waistline. In contrast, Coors Light has been more popular among young and relatively new beer drinkers (men and women in their early 20's). While these two segments are perhaps the most attractive in the light beer market, a substantial proportion of light beer consumption resides in an intermediate segment comprised of young adults in their late twenties to early thirties. These consumers are less committed in their brand preference. A critical question for brands (like Coors Light and Miller Lite) is how to allocate media budgets between segments where they have a strong following and segments of consumers who are less committed in their preferences. With the variety of media channels and programming that are available today, firms need to weigh the consequences of targeting and make tough decisions.

Recent research has shown that firms can reduce price competition by using targeted advertising (Iyer, Soberman and Villas-Boas 2004). A firm accomplishes this by targeting heavier advertising to consumers who are strongly predisposed to buy its product at the expense of advertising targeted to consumers who are less committed in their brand preferences. In Figure 2, I consider a hypothetical beer market in which there are only two competitors: Coors and Miller. When the two firms employ targeted advertising strategies, a smaller fraction of the market is exposed to the advertising of both products.

Figure 2
Targeted Media Buying in the Beer Market



This reduces price competition for two reasons. First, when a smaller fraction of the total market is informed about both brands (and willing to drink either product), less price comparisons are made. This reduces the incentive of the firms to reduce price. Second, targeted advertising means that consumers who have a strong pre-disposition to a firm's product are targeted by that firm. After seeing the advertising, these