

MEDIA INVESTMENTS IN THE DIGITAL ERA

HOW BRANDS CAN ADAPT TO THE NEW AGE
OF DIGITAL ADVERTISING

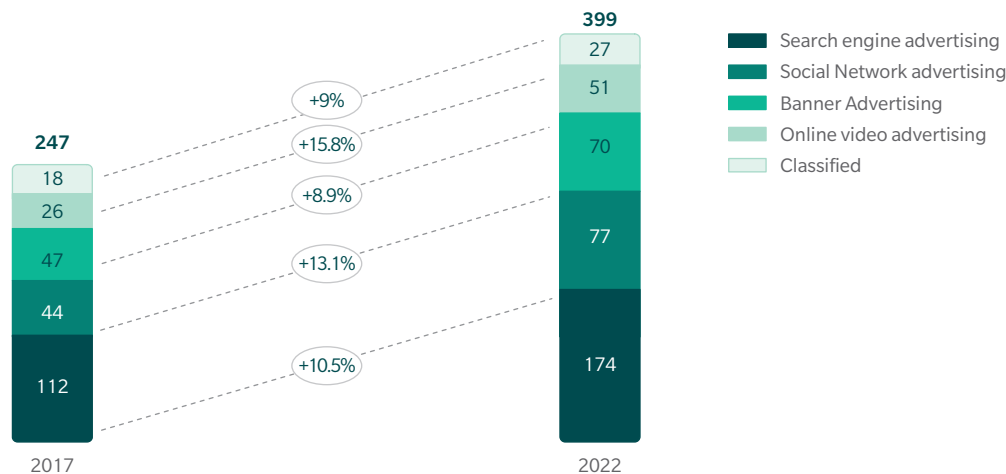


HOW BRANDS CAN ADAPT TO THE NEW AGE OF DIGITAL ADVERTISING

The mid-20th century (the Mad Men era) was a golden age for advertising, thanks to the proliferation of mass media. Fathers would turn on the radio and hear an ad for the latest car. Mothers would open a magazine and see a full-page ad for state-of-the-art household appliances. The ads might not have been backed with data analytics, but companies knew they were reaching their audiences one way or another. “Half the money I spend on advertising is wasted; the trouble is I don’t know which half,” as John Wanamaker, the founder of one of the first department stores, used to say.

Today, the digital media revolution is creating another boom. With the rise of the internet, social media, and advanced data analytics, brands hope to target their customers more than ever before.

Exhibit 1: The digital advertising areas



Source: Statista

But despite the promise the digital advertising represents, it has become increasingly complex. Brands need to invest in digital media while also maintaining their position in traditional advertising: this is no simple matter, given the constraints of companies’ advertising budgets and the challenges of online. Bot followers and fake likes can be as harmful to advertising as fake news to politics, so measuring the return on digital media is challenging.

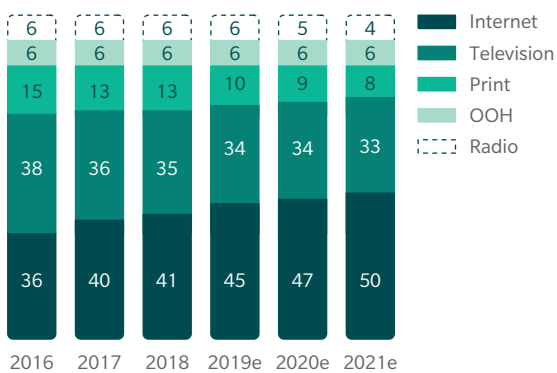
The digital world is different, and brands must take control of their destinies if they are to end up on the winning side in an era that is just beginning. Recent scandals involving ad agencies have given consumer brands the right to control the narrative by dictating new standards and demanding increased transparency. This is the time for chief marketing officers to act.

THE PROMISE OF DIGITAL MEDIA IS EFFICIENCY

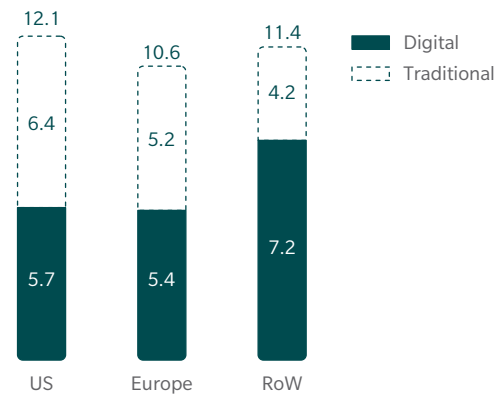
Digital media represents the biggest revolution since the arrival of television. (See Exhibit 2.) Digital advertising has rapidly narrowed the gap with television as the top advertising medium, aligning well with people's media exposure.

Exhibit 2: Global advertising spend and usage

MARKET SHARE PER TYPE OF MEDIUM
EVOLUTION AND FORECAST, DATA AS A % OF GLOBAL REVENUE



SHARE OF TIME SPENT PER TYPE OF MEDIA PER REGION
2017, DATA IN NUMBER OF HOURS PER DAY PER CAPITA



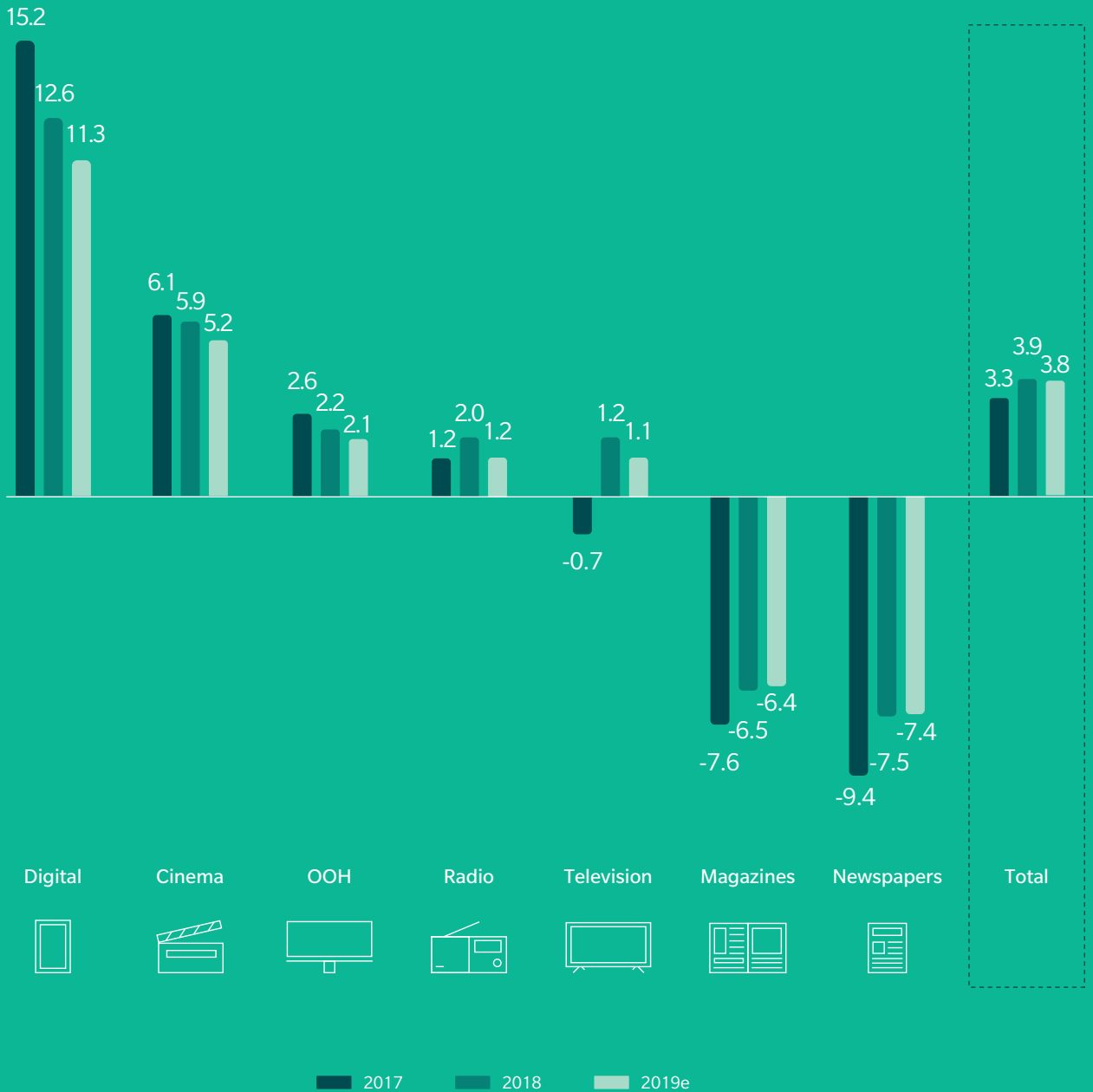
Source: Statista

Finding the right allocation of budget between digital and traditional media is a challenge. When managed correctly, digital allows for more precise targeting than traditional media, making it more efficient. However, invest too much in either traditional or digital media, and marketing budgets are suddenly stretched thin; invest in the wrong manner or decrease your presence in traditional media too quickly, and the brand's image can take a hit.

Digital advertising investments promised to increase efficiency but have often only increased the total bill and put the current operating model in question. The global advertising market is growing, much of it driven by digital spend, which is forecast to grow at three times the rate of global ad spending. (See Exhibit 3.)

Exhibit 3: Growth in global ad spend by media

GROWTH IN GLOBAL AD SPEND BY MEDIA
ACTUAL AND FORECAST, DATA IN %



Source: Dentsu Aegis Network, Global Ad Spend Forecasts report, 2018.

LACK OF TRANSPARENCY THREATENS BRANDS' CONTROL OVER MEDIA BUDGETS

One of the main reasons companies fail to reap the benefits of digital advertising is the lack of transparency. Leading advertisers struggle to measure both viewership and ad impact and to define reliable industry metrics by which to measure return on investment. Rebates have been pervasive in US media advertising buying, even though agencies have persistently claimed to not be taking advantage of them, according to a report by the ANA in conjunction with K2 Intelligence (“An Independent Study of Media Transparency in the U.S. Advertising Industry”).

To make matters worse, the study found that media buyers were encouraged by their holdings to direct clients to high-yielding media, regardless of whether this was in the client’s best interest. “We serve ads to consumers through a non-transparent media advertising supply chain, with spotty compliance to common standards, unreliable measurement, hidden rebates, and new inventions like bot and methbot fraud,” according to Procter & Gamble’s Chief Marketing Officer Marc Pritchard. The situation has led to a profound disconnect between advertisers and agencies, which used to have a mutually beneficial relationship. Large media ad spenders are now demanding more transparency and taking matters into their own hands.

The disruption in the travel agent industry in the early 2000s, when shareholder value shifted towards online intermediaries, is a sign of what awaits ad agencies. Both brick-and-mortar travel agencies and traditional ad agencies are incumbents in industries facing similar challenges. These include digital disruption from online players such as Google, the rise of personalization through big data analysis, permanently connected consumers, and a shift of trust to communities.

Beyond the technology disruptions, traditional advertising groups must cope with rising competition from tech companies that leverage programmatic and algorithmic media buying. They are also facing the threat of disintermediation, as digital giants such as Google and Facebook increasingly strike direct deals with brands. When the dust settles, some ad agencies will have disappeared – sharing the fate of many travel agents – or else have consolidated due to diminished margins. Others will have managed to reinvent themselves.

TO WIN IN THE DIGITAL MEDIA REVOLUTION, BRANDS NEED TO TAKE CONTROL OVER THEIR MEDIA INVESTMENTS

What began as a change in advertising mix has since evolved for CMOs into a transformational discussion around media strategy and operating models. Brands need to review their ad agency management operating model and take a number of steps to improve their agency management-operating model:

1

Challenge legacy agencies to ensure they have the [experience to understand emerging media channels](#) and are building the capabilities to follow the rapidly changing media market trends

2

Identify the areas where internal control is a key success factor to optimize media effectiveness and develop a thorough [make-or-buy analysis](#) to decide which capabilities should be taken in-house

3

Make sure they have the [right internal resources to play a central and active role](#) in managing the ad agency ecosystem

4

Build a [precise agency management plan](#) detailing which agency is expected to do what and define ways of working between agencies and in-house teams

5

Investigate whether some of the agencies should consider [co-location](#) with in-house teams

6

Launch [360 approaches to develop multichannel content](#) and deliver all formats at the same time (TV, print, Instagram, YouTube, Snapchat...)

BRANDS NEED TO ENFORCE STRICTER ENGAGEMENT RULES WITH AD AGENCIES

As a first step to increase their return on advertising investment, brands have started reviewing contracts with ad agencies and determining key metrics to assess advertising efficiency.

CONTRACT UNDERSTANDING

Brands and ad agencies need to reestablish contracts requiring that funds be used for media payment exclusively, rebates be disclosed and returned, and all transactions be subject to an audit – as opposed to agencies’ expenses being covered by floating amounts.

THIRD-PARTY VERIFICATION

Third-party verification from sources accredited by the Media Rating Council (MRC) is now required. While this requirement has met some resistance from agency executives, players such as Google have started viewing it as the new norm.

VIEWABILITY STANDARDS

Viewability standards are defined by the MRC, which states that an ad is “viewable” if at least 50 percent of its pixels are on-screen for at least one continuous second. The MRC defines post-ad render and video as “viewable” if the same pixel requirements are met and two continuous seconds of the video advertisement is played.

DIGITAL AD FRAUD ACCOUNTABILITY

“Any entity touching digital media” is required to receive an accreditation from the Trustworthy Accountability Group, a joint initiative of the Association of National Advertisers, 4A’s and IAB.

DISINTERMEDIATE AND UNBUNDLE

While disintermediation has been a buzzword for several years in the industry, as companies have struck direct deals with Google, Facebook and other ad tech firms, there has been little shift of budgets away from agencies.

BRANDS NEED A FUNDAMENTALLY NEW APPROACH TO UNDERSTANDING RETURN- ON-MARKETING INVESTMENT (ROMI) FOR DIGITAL MEDIA

Customer data, their integration across media and channels, and cost-base trimming are excellent starting points to improve the management of media investments. They can provide solid answers to common questions, including: *How can we better allocate our spend? Where should we invest another \$10 million? Where should we cut if we have to?*

Answering these questions isn't easy as it raises a few challenges

- Impact at a campaign level vs. for each media type: Measuring the effects of individual media as opposed to the overall campaign is a complex undertaking. The effects need to be isolated for consumers, products, markets, etc.
- Brand building vs. short-term return: For each investment, it is difficult to distinguish between the share of ad spend that impacts the actual campaign and the share that strengthens the brand, and understand the long-term financial impact that is derived from strengthening brand equity. Measuring the propensity of an investment to improve consumer perception requires consistent, frequent brand equity measures.
- Media vs. rest of marketing investment: If allocating funds between traditional and digital media has become complex, it is even more difficult in the context of ever-diversifying marketing and promotional tools.

From our experience, the biggest upside of a ROMI program is encouraging brand teams to think critically about their plans and investments: creating a common language, fostering a discussion, and leading to fact-based decisions

Brand teams have too much faith in marketing mix modeling (MMM) and other ROMI tools, tending not look at it with a critical eye (the way MMMs work, by design, makes them directionally correct, but often complacent).

Investment decisions are often made with short-term objectives in mind, rather than a long-term brand strategy in mind.

We still see lack of alignment and collaboration between trade teams and marketing teams, with brands focused on the A of A&P.

Data remains the biggest problem overall: We still see companies where data sits in many different places, including with external agencies, with no consistency, reinforcing the blindness of brand managers.

THE PATH FORWARD

An advertising revolution may unfold if ad agencies do not evolve rapidly to answer needs from brands. Without waiting, CMOs must gain better control of their media spend and build the capabilities to increase their ROMI.

We recommend that CMOs take the following steps immediately

- Challenge themselves on where they stand in the digital revolution. Is their media spend optimized? Or have traditional and digital media just been stacked in a way that dilutes their efficiency?
- Boost their internal knowledge and capabilities on digital media. Then they will be in a position to reset their relationship with their ad agency.
- Move to the next generation of ROMI methods and tools, as legacy platforms are outdated in the digital era. Organize a cross-functional conversation to align teams on the best allocation of their investments to produce short and long-term benefits in the same time.

CASE STUDY

GLOBAL BEAUTY PLAYER

A leading global beauty player with multiple prestige brands has become “digital first” by significantly increasing its digital advertising spend over the past few years; meanwhile, online sales have soared to account for 15 percent of global revenue (and about 25 percent in China), up from about 10 percent two years ago. In fact, digital marketing expertise is largely considered as the primary source of the company’s impressive overall growth over the past few years.

To increase its digital maturity and deliver on its new “digital first” mindset, the company has leveraged both internal and external resources:

INTERNALLY

The company has scaled up its digital capabilities, by

- Hiring for web and social-media roles
- Training its local digital marketing teams on both content creation and analytics to measure the effectiveness of digital ads
- Encouraging firm-wide training sessions that focus on areas such as digital marketing and search engine optimization

EXTERNALLY

The company has

- Partnered with specialized ad agencies to improve organization knowledge, and placed media buys as needed
- Partnered with Google to increase its videos storytelling effectiveness
- Subscribed to services from start-ups to identify its most engaged social media audience (“influencers”)

These capabilities and partnerships have led to new customer engagement approaches, shifting 75 percent of the company’s advertising budget from traditional media outlets, such as television and print, toward in-store and digital advertising. Key developments include

- Redesign of brand websites, with influencers featured in short interviews and videos
- Launch of an augmented reality app that enables customers to virtually try makeup products
- Targeted e-mail communications/leads, developed locally and tailored to different stages of the customer journey (such as acquisition, conversion, or retention)
- Social media platforms have also been leveraged in relevant ways, for instance

FACEBOOK

One brand’s page has 2 million-plus likes.

YOUTUBE

“How-to” videos posted by enlisted influencers. “Studio” events are also organized in large cities, where influencers are invited to meet product development experts and participate in professional photo shoots.

INSTAGRAM

Use of influencers both to tap into new audiences and as a market research tool. For instance, during a campaign, influencers were sent multiple products from various brands the company owns at once, which enabled authentic and objective product review posts. Influencers also completed surveys afterwards to directly convey their specific interests and answer questions from their followers.

PERFORMANCE OF
THOSE INITIATIVES IS
MEASURED AT EACH STAGE
(AWARENESS, PURCHASE AND
CONVERSION, RETENTION)
WITH SPECIFIC KPIS BY THE
DIGITAL MARKETING TEAMS.

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In the Retail & Consumer Goods Practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail: an obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands-on approach to making change happen is truly unique – and over the last 20 years, we've built our business by helping retailers build theirs.

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