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The Year of Marketing Dangerously

by Christopher Meyer

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At a recent meeting with top marketing executives from businesses ranging from consumer products to biotechnology and all the way to massively multiplayer online games, I was stunned to hear the games SVP say that 90% of her 2008 budget was earmarked for traditional TV advertising. This was a terminally hip, youth-oriented, net-dependent offering. Why had she set aside so little for web-based alternatives, event marketing, and word-of-mouth campaigns? Hadn't she heard that the mass-media era was over?

In fact, we've all heard about a wholesale shift to alternative channels—and yet it keeps not happening. But here's a prediction: A perfect storm is brewing for network advertising at the end of the year, and it will be gigantic for having been pent up so long.

Why now? First, the shift has already begun: Digital advertising is growing far faster than other categories—by 23% in 2008, according to Carat, compared with 6% for advertising overall. Alternative channels, which tend to cost less, have attained legitimacy. The internet has become a place to reach mainstream customers; marketers' experience with it has expanded; and organizations that help companies pioneer new approaches have grown, along with methods of gauging the effectiveness of targeted, permission-based marketing. These new measurement capabilities feed management's increasing insistence on proof of marketing's ROI.

By now it's clear—to many marketing executives, at least—that emerging options such as mobile advertising, community building, word-of-mouth campaigns, and new point-of-purchase techniques are more easily measurable, and more effective, than the mass media. But despite that clarity, change has been slow. The reason lies in one word: inertia. According to Michael Gale, whose firm Strategic Oxygen interviews 25,000 high-tech customers annually about their marketing approaches, that inertia is centered in advertising agencies. "Seventy to 80% of TV advertising is for share of voice [percentage of the messages heard by the targeted audience]," Gale explains, so advertising agencies have an incentive to continue focusing on this measure. "But," he adds, "marketers should look hard at it."

For the games SVP at my meeting, the source of inertia is closer by. She sees huge potential in alternative media, based on the results of programs such as product placement in other games and a high-profile tournament for players. But she and her colleagues concur that most senior executives resist giving programs like this a larger share of the budget. "They're just not ready," the consumer products executive said to the group. Across the wide range of companies at the meeting, the marketers all agreed.

So the capability is building, and the people responsible for results see increased ROI if they use it, but a high-level dam is holding back the flood. Again—why should it burst now?

Think about it. During economic crunch times marketing budgets are almost invariably slashed; they are among the few major discretionary items available to CEOs desperate to protect profits. Faced with painful cuts, marketing chiefs quickly look for bargains, hoping to avoid a commensurate loss of impact in the marketplace.

Suppose the games CFO demands a budget cut of 15%. If the marketing SVP announces that she can sustain the level of impact despite the cut, will her bosses be ready to listen? Here's how she might do it: She could cut TV in half, from 90% to 45% of her original budget, and return the requested 15% to the CFO. That would leave 30%—enough to *quadruple* the 10% she previously allocated to the media she believes in more strongly anyway.

What if many of her peers simultaneously make the same argument? If the U.S. economy hasn't pulled out of its tailspin by the final quarter of 2008, you can bet that the biggest marketers—the Procter & Gambles of the world—are looking at a zero-based media budget. If so, the effect on television advertising in particular is likely to be catastrophic.

(Indeed, P&G may lead the way, given its recent investments in word-of-mouth marketing, point-of-purchase innovations, and even a new music label, Tag Records, to promote its products.)

Now let's consider one more ill wind in our cyclonic flow: The second half of 2008 contains two TV blockbusters: the Summer Olympics and the U.S. presidential election. Demand for TV time during these events is like the demand for software services prior to the Y2K scare—it masks an overall weakness that may lead to a crash. By the time we reach 2009, TV networks may be taking on water the way magazines—their revenues down by 8% in 2007 and forecast to decline by at least 10% in 2008—are now.

The sudden evaporation of demand will force a steep cut in rates. And when the games SVP negotiates her TV contracts for 2009, she may find that 45% of her budget buys as much as 90% did in 2008. But stay tuned: In July, Tivo and Amazon announced a partnership to allow TV viewers to buy products placed in shows—Oprah's latest book pick, say—using their remote controls. Mass advertisers, it's going to be a bumpy ride.

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