The Online Upside:
Today's New Go-to-Market Model

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Across the board, consumer packaged-goods manufacturers are cutting marketing departments, promotion departments and sales forces.

Unfortunately, trends toward micro-marketing, retail consolidation and marketplace fragmentation have increased the workload on these newly downsized marketing organizations. Outsourcing and sales automation tools have done little to address this issue, and actually tend to create as many problems as they solve.

The new go-to-market model is based on an online marketing exchange that restores the controls required to ensure the effective execution of go-to-market strategies.

A CHANGED MARKETPLACE

The Upshot of Outsourcing

- A dangerous game of "telephone"
- Multiple parties; conflicting agendas

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- Micro-marketing
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Double the Industry's Profits

- The marketing supply chain
- Marketing program ROI
- Control over messages and relationships

The Upshot of Outsourcing

Downsizing has decimated the marketing departments, promotion departments and sales forces at consumer packaged goods companies. Outsourcing these functions to promotion agencies, brokerage companies and third-party merchandisers is the common remedy. However, fractured communications, conflicting agencies and loss of control are the unintended side-effects

A Dangerous Game of "Telephone"

Outsourcing injects additional intermediaries and layers between downsized marketers and the points at which their marketing programs finally connect with their target consumers. This has turned the marketing process into a high-stakes game of "Telephone." As more steps and more layers are added to the marketing chain, the risk increases that the marketing program and, consequently the brand message will become distorted.

Multiple Parties, Conflicting Agendas

Introducing outside parties into the marketing chain means introducing outside agendas. Unfortunately, these agendas do not always align perfectly with that of the marketer who's giving the orders.

- For example, a broker organization has a whole set of agendas in addition to selling the marketer's brand and marketing program to the retailer. Brokers are free to "spin" programs to better fit their needs, to build their own relationships with the retailer. But brokers don't necessarily twist the promotions in a way that serves the brand message or the marketer's relationships with retailers.

- Outsourcing field implementation to merchandising companies presents the same problem. Third-party merchandisers make their money by serving many masters from the same cooperative "cart." They are hard-pressed for time, attention and training, among other things. Again, the marketer's messaging at the store level is at risk.

- Agency trends add yet another layer of potential interference. Advertising holding companies are buying promotion agencies because clients, led by Procter & Gamble, now compensate them on the basis of performance, not media commissions. Promotion agencies can help them do that. Promotion agencies, in turn, are buying some of the tactical pieces of the pie — event marketing, in-store marketing or co-marketing specialists. This all increases the possibility that self interest will color how these entities work and handle a given manufacturer's interests.

Implications:

- Prevalent outsourcing means that the brand message delivered to the consumer via a marketing program is likely not what the CPG marketer intended to convey.

- The greater the level of outsourcing, the greater the risk.

Complicating Factors

Numerous factors magnify the need for outsourcing and exacerbate the risks that it creates. Each factor, individually, presents a notable challenge. But when aggregated, they can completely overwhelm a CPG company's downsized marketing, promotion and sales departments.

Micro-Marketing

While companies are downsizing, the complexity of the marketing function is increasing. Compare a traditional 1970s marketing plan to one today. The key difference is the shift away from mass-marketing to *micro*-marketing.

For example, what was once a simple mass-media vehicle, such as a national FSI coupon, is today perhaps fifty or sixty different key account programs customized for each, individual account. That kind of customization traditionally would have fallen to the sales planning sector of a packaged goods company, or the promotion department. But, as noted above, those departments have been downsized dramatically—in some cases, cut in half, or worse.

The crux issue is control. When marketers are forced to outsource, they are forced (at least at present) to relinquish some degree of control. As every marketer knows, control is not just crucial in executing a marketing program. It is, itself, an objective. Control enables marketers to come as close to the gold standard of the plan as possible.

By making the marketing process more complex, micro-marketing is forcing CPG companies with smaller marketing, promotion and sales staffs to outsource even more of their program execution, which in turn is stripping them of more control.

Retail Consolidation

As CPG companies are reducing consumer and trade marketing payrolls, retailers are consolidating and, consequently, increasing their leverage over CPG companies.

Retailers are gaining not just in size (i.e., market penetration), but also in retail technology and know-how as they integrate best practices and learning from the different operations being consolidated. The boost in technology and information enables retailers to capture more consumer data and to better segment their stores. Retailers are driving the technology, and therefore the programs, because they own the point-of-sale data—the fuel—that drives the engine of one-to-one communication.

The net is that CPG marketers face, in effect, retailer titans demanding various programs and concessions from them that are more complex than ever. CPG companies have little choice but to comply.

Marketplace Fragmentation

Over the next five years, technology and the Internet will arm "power retailers" with the consumer data and insights necessary to market directly to individual consumers. The more information retailers have, the more they will demand specialized programs to leverage one-on-one communication opportunities, and the more detailed the programs will become.

Despite the overwhelming intricacy of these programs, marketers cannot just walk away from these "power retailers". They must do what these retailers demand because the retailers own the link to the consumer. It's a daunting challenge.

■ **Ability to reach individual consumers.** Suppose, for example, there are 200 retailers that matter as key accounts for a brand. That brand then goes from one theme and tactic in an FSI to perhaps as many as 200 themes and tactics across a range of media vehicles. As technologically advances, retailers will begin to segment stores into sectors. There may be ten sectors within those 200 chains—that adds up to 2,000 different message variations.

Some experts might argue that eventually promotions will be store-set driven. In that case, there might be 15,000 different variations of a theme. Traditionally, that would be impossible to do. Traditional tools would simply be unable to communicate all those messages.

But it's now possible to implement Web-based communications and customization on the household level. Within a given store, there might be 3,000 households that each receives a custom roto and a custom coupon. That brings the potential variations of a promotion to 15 million!

■ **Multiple contact points within each retailer.** Matters grow more complicated when CPG marketers realize that there are multiple contacts points within each retailer. If CPG marketers think of the top ten retailers simply as ten contact points for marketing at the store level, they are oversimplifying the situation. For instance, Ahold has four or five divisions, each of which is chartered as a local marketer; each of which is empowered to create its own messaging to consumers, to have its own personality or brand.

Ahold, as just one example, is consolidating purchasing into a single location. Moreover, they're realizing new efficiencies via single source administration, buying and logistics. But when it comes to *marketing*, retailers must still address five different groups with different personalities and marketing objectives.

So, even as individual store chains are centralizing on some fronts (e.g., buying), they are diversifying and de-centralizing on others (e.g., marketing programs).

■ **No truly national retailers.** To make matters worse, CPG marketers must also deal with the reality that, by and large, no single retailer dominates all its markets. So marketers must function under a dual retailer reality. On the buying and selling side, the marketer must meet certain demands of the stronger, consolidated buying center. But on the *marketing* side, the CPG marketer must think more strategically about local marketplaces. Downsized marketers still need to contact as many distribution points as they did before, despite retail consolidation.

Organizational Implications

This dual retailer reality affects how CPG marketers organize their sales forces and make decisions about how to manage each retailer both locally and on the corporate level.

Account Teams

Many CPG marketers have adopted separate account teams for each major retailer. A CPG marketer might have one account team for Food Lion, one for American Stores, and another for Albertson's, for example. Given the different constituencies within each retailer account and the regional and local specificity of the programs that retailers are demanding, CPG account teams cannot simply call on a region or a city. They must call on the local groups and key stores within each retail account to understand what each market looks like.

Local Linkage

This demands knowledge and understanding of each local marketplace as well as a system through which that knowledge can travel. The marketer needs a common link—or a backbone—to connect each piece of information about each local marketplace in one location. This enables marketers at headquarters to understand better what type of program to design to meet the co-marketing needs of the individual retailer at the divisional level.

Top-to-Top Communication

At the same time, marketers have to understand how each piece of information plays into talking to retailers on the corporate level (e.g., corporate management at American Stores) as they start contemplating accrual dollars for the coming year and how they're going to spend money together, for example.

If there's a corporate branding initiative underway at Kroeger for instance, that activity occurs in addition to the divisional activity the marketer may be implementing with Kroeger. All of these activities need to play into decisions on spending for marketing programs.

Automated "Bridge Points"

CPG marketers, as they downsize, are looking for sales automation tools. But these tools often create as many problems as they solve.

Often, the sales automation tools of the CPG marketer differ from those of their brokers or third-party merchandisers. Different systems cannot communicate with each other, so a translation process is required at the "bridge points" between the brand owners and their marketing services providers.

Ironically, the time, effort and money spent to make the world simpler and more efficient all make the world more complex because the various systems are incompatible.

Implications

- From a pure cost standpoint, outsourcing is less expensive for many CPG companies. If they line up the cost of putting their own person in the store, versus the cost of sharing a third-party person with other companies, it's definitely cheaper to outsource. For many marketers, it is a necessity.
- However, the pursuit of efficiencies via outsourcing can exact its own price if marketers do not take specific steps to reclaim control of their marketing programs.

2 THE ONLINE UPSIDE

The New Go-to-Market Model

CPG marketers can reclaim control of the marketing process and help to neutralize many of the obstacles by leveraging the power of the Internet, recruiting the right personnel to execute their marketing programs, and empowering "new-age" agencies to facilitate the process of marketing in the radically more complex retail arena.

Tap Technology

In the marketing process, the Internet is the great enabler, the great equalizer, for CPG marketers with diminished headcounts. Control is a function of how effectively this technology is harnessed to achieve several different ends.

Enable the Communication and Reporting Processes

This involves establishing standard communications pathways with outsourced suppliers, whether through email, Intranet, or Web browser-based Extranet communications. The technology is often available off-the-shelf. What's proprietary is the discipline and an understanding of the local market structure.

It's a matter of understanding what's going on in the stores today. It's a matter of understanding what sort of hurdles and roadblocks companies are facing with their agent, broker or direct sales forces.

Ensure Brand Message Flow-Through

CPG marketers must be confident that after they develop brand messaging and approve it at headquarters, the brand message travels smoothly through the communications chain. The message has to flow from sales planning to a broker (or direct sales force) to a retail buyer to retail store management. From there it must flow to retail personnel to an outsourced individual who places point of sale material or stickers product, for example.

Technology enables marketers to control and track the process all along the way.

Ensure Continuity, Create Standards

In an outsourced world, CPG marketers need to be sure that their marketing tenets and processes are not compromised each time they change suppliers. An integral component of continuity is the existence—and acceptance—of standards.

Standards are beginning to emerge on the agency side. For example, News America has already developed industry-accepted standard tools that deliver promotions to consumers. A number of News America's competitors are taking similar approaches, although much work remains.

The conduit doesn't necessarily have to be a third party (i.e., an agency). Just as manufacturers are gathering into marketplaces on the Internet, they will soon begin talking to each other about

standardizing the way they talk to retailers. It's possible a federation of marketers could decide that they need to control the channel to ensure they are talking in a consistent way to consumers in any given market through the medium of the retail store.

Obviously, there is a chance for conflict between marketers within each category. But category leaders could meld their categories with others to create standards, even if somewhat limited. In so doing, they can begin to develop a common system through which marketing implementation instructions travel.

The opportunity is to create a central command for the communication of marketing messaging from headquarters to sales to retailer to store. A homogenous approach to that process, over time, will be critical to this whole new marketing environment.

Train Talent

Reality is, there's more technology—good technology—than anybody has time to use. However, absent a context for the process, the technology becomes yet another source of distraction for the organization. If there's not a design and a cohesive process through which people are connected and data is exchanged, then all of these sales force tools are useless.

Power to the People

In every industry, but particularly in this one, technology drives labor needs. Despite technology, you still need everything from a great logistics manager and a database manager in a warehouse down to the people that put materials in boxes and ship them out to the end-user.

When a CPG marketer is segmenting stores, certain tools are available to deliver information electronically to stores. However, marketers still have point-of-sale at the shelf and floor graphics, for example. There are so many tried-and-true tactics that need to be implemented. That reality drives the need for people to be more sophisticated as they go into store locations to implement these tactics.

So, a new need for personnel management has emerged. It once was easy. Marketers just went into a hundred stores and put the same things in those hundred stores. But now they must use manifests, or maps, that show which stores get which versions of a given marketing program. The marketer might have fifty different versions of a program going into those hundred stores.

Culture Shift

In this new environment, some cultural change is required. As marketers move down the food chain in an organization, they have on-the-street people who need to become more sophisticated. This means the instructions these front-line people receive need to be more sophisticated—while remaining understandable.

Consequently, each manager—a supervisor of a group of ten or so people going into a store—must become more information-enabled. It also requires that marketers must have a tool to communicate information to managers, and their groups, who are going to be doing much more varied tasks than in the past.

Front-Line Execution

CPG marketers will need more from front-line executors, not just their managers.

An individual perhaps might still visit a store and adhere a floor graphic to the floor. However, that individual needs to know that each store has a different floor graphic, and that some stores do not get floor graphics. It's the marketers prerogative to communicate such information to the front-line executors.

Becoming more technology-enabled, information-rich and effective at communicating information will help CPG organizations to combat any resistance from the front lines in changing how marketing programs are executed. Once again, this represents a cultural change, both for marketers and for the "troops" executing their programs.

The Human Touch

If the economy continues to be as robust as it is, the challenge will be finding people to implement basic tasks.

Amazon.com, like everybody else, has the same problem. They probably have a million square feet or more of book warehouse space. So far, they have not developed an automated drawing system that covers the whole warehouse. They're still basically pulling books with human beings.

Those human beings have a lot of other opportunities in a solid economy. The cost of labor is going up, and as you add complexity to the marketplace you're going to need more people because they have to be in more places on a more timely basis than before.

Finding those people is going to be an issue—and a top priority. Unless somebody comes up with a way to beam a shelf-talker to a store, or somebody invests in electronic shelf talkers that don't need to be placed by labor and that can be centrally activated, this is a world in which the standard tactics will remain labor intensive.

Hand-to-hand sampling, resets of shelves, point-of-sale placement, building in-store fixtures—it all requires labor. Consequently, recruiting qualified personnel is paramount.

Deploy "New Age" Agencies

Much of the burden for establishing this new marketing paradigm will fall on the agencies because they handle so much of the work within the heavily outsourced marketing process. But marketers will need to buy in on a wholesale level before an agency is going to spend time and resources developing a process or a set of standards. Retailers also need to get on board.

Technology-Enabled

Agencies typically work *within* a category; they can't work *across* categories. They are usually aligned with a competitor in a category and have category exclusives. A "new age" agency, however, would be different.

First, it would be far more technology- and information-driven to keep track, and take advantage, of the intricate executional opportunities and considerations.

Second, it would work with all brands within a category and provide a channel that these brands and their representatives could communicate through.

Front-end buy-in from marketers and, to a lesser degree, retailers, is critical in spurring agencies on toward this model.

Marketing Supply Chain Efficiency

Groups of companies are already coalescing to establish a standard system for commerce on the Internet. Other companies are talking about how to buy and sell more efficiently (for example, through Internet-based exchanges). The next logical question is how to *market* more efficiently.

There's an opportunity for greater efficiency out of the marketing supply chain. Whether marketers are interested in eliminating duplication or adding efficiencies to the process, all will agree that piggybacking in-store implementation with other marketers that are going to the same store is much more efficient than going it alone.

Third-Party Standards

Third-party media companies, such as NewsCorp, have already made the "new age" model a reality by bringing multiple marketer/brand messages to the store using one person or one system. This is merely one tactic, and other "new age" agency models will likely emerge. But eventually standards will be established for third-party marketing services providers.

To take hold (i.e., to succeed), marketers will need to help create or at least endorse the standards that best serve their marketing program needs.

3 THE $8 BILLION OPPORTUNITY

Reclaiming Control Will Enhance Profits

Eighty billion dollars are spent each year on trade and consumer marketing to the trade. The retail business is $500 billion dollars at a 2 percent net. That's $10 billion dollars in net profit in the retail industry. That's not a lot of money. If the industry could take 10 percent of the $80 billion and convert it into the bottom line, it would nearly double the profit of the industry!

■ Increased efficiencies in the marketing supply chain.

The potential savings is not realized purely in consumer messaging when, through tighter execution, you avoid giving a dollar coupon to someone who only needs a 25-cent coupon—that 75-cent difference adds up.

Significant savings also comes by cutting the cost of paying many hands to deliver what can be delivered more efficiently, perhaps electronically, or what can be delivered one to one.

■ Faster, more pronounced ROI on marketing programs.

Marketers should not flinch at investing in the marketing process, particularly the cost of developing standards that will remove costs.

For example, the return-on-investment (ROI) for an online marketing exchange is approximately 10 times the investment in the first two years. It's much akin to some of the store level automation that's now happening, such as scanning. In many states, many stores, you don't have to put prices on products anymore because the scanner brings the price up and you just put shelf labels on the shelves. The person at the register doesn't have to read a price. This has decreased the retail cost of labor by about half.

Today there are companies that eliminate the need to put stickers on the shelves because they provide electronic stickers. That system probably costs 70 to 80 thousand dollars a store to install. In a 1,000-store organization, installation would total $80 million. A sizeable sum. But consider that these types of systems pay out in two years. After that, it's all gravy, so to speak.

These are huge opportunities, assuming marketers can get past the initial knee-jerk reaction to investing that kind of money or time (as would be necessary to help create industry standards).

Marketers should create a process together, in a cooperative way. When everyone pitches in and uses the system collectively, then the return on investment is speedier because companies are investing fewer dollars up front, but still reaping the system's full benefits.

■ More control over the message and the all-critical consumer relationship.

When marketers implement marketing programs, when they implement tactics, there's always a certain slip factor, which becomes a huge slip in aggregate. Taking that slip rate down (say, by half) over time will create billions of dollars in savings—in effectiveness savings and in opportunity cost savings.

It will also increase the impact of the brand messaging that the marketing program is designed to deliver. Less slip equals a truer, therefore more powerful, execution of the marketing program, which will help to drive top-line revenues just as the efficiencies help to drive bottom-line revenues.

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