PART ONE

Marketing Is Broken

(But It Can Be Fixed)

CHAPTER ONE

1

Making It Stick

The New Marketing

Marketing is failing: CEOs sense it; top marketers know it; and our research proves it. Businesses spend nearly $300 billion per year on advertising in the United States alone,[1] and our research analyzing more than $1 billion in worldwide ad spending *proves* that as much as *$112 billion is wasted.*

The purpose of *What Sticks* is not to damn the advertising or marketing industry—that would miss the opportunity for capturing the competitive advantage that we have observed the best marketers achieve. Instead, our goal is to *help* marketing and advertising professionals understand the scope of this marketing malaise—and then *solve* it with the use of new approaches, new thinking, some hard data, and quite a few ideas based on what we've learned from our research with leading marketing departments in Fortune 200 companies.

This chapter takes an insider's look at the problems facing marketing and then points the direction to some of the solutions.

THE PROBLEMS FACING MARKETING TODAY—AND THEIR DISASTROUS EFFECT ON A BUSINESS'S BOTTOM LINE

Leading marketers are realizing that their time-honored methods aren't working—consider just the following three warning calls, out of many we could cite:

1. One of the world's most respected consultancies—McKinsey & Co.—observes: "Today's chief marketing officers confront a painful reality: Their traditional marketing model is being challenged, and they can foresee a day when it will no longer work."[2]
2. Jim Stengel, the CMO of Procter & Gamble (P&G)—one of the world's most respected marketers—declares: "I believe today's marketing model is broken. We're applying antiquated thinking and work systems to a new world of possibilities."[3]
3. A 2005 Association of National Advertisers (ANA) survey of senior-level marketers found that the vast majority (73 percent) said they didn't see the sales impact of their marketing campaigns. And although approximately 60 percent said that defining, measuring, and taking action on ROI is important, only about 20 percent reported being satisfied with their ability to do so.[4]

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> *Jim Stengel, CMO, Procter & Gamble*

The ANA's own senior vice president, Barbara Bacci-Mirque, gave a provocative presentation once in which she presented a program for marketing accountability modeled on the 12-step program for Alcoholics Anonymous.[5] Marketers, she pointed out, have been living in denial regarding the severity of the problem. Therefore, she suggested that the first step for marketers was to admit that their current approach to marketing renders them *powerless* and that achieving marketing success with their current tools is *unmanageable*.

The problem isn't lack of brain power or diligence (marketers and agencies have very bright people who work very had to do the best job possible). The problem is a rapidly changing marketing landscape that has made the old approaches and research tools obsolete. A new approach is clearly necessary.

The most important causes for the waste include a lack of solid business processes to deal with the complexity of marketing, lack of objective measurements of each campaign element's performance, and a lack of a predictable means to improve results.

It is a lack of really knowing what works or "what sticks." The industry calls it a *lack of accountability*—it means that budgets cannot be rationally spent and returns cannot be evaluated against investment and that produces waste. W*aste* is a chronic problem in marketing departments. Compounding the lack of accountability are outdated approaches to communication planning, project management, and teamwork arrangements among marketing departments and their advertising agencies and media suppliers. These old-world approaches stymie the ability to react to changes in the marketplace and respond to consumers' changing attitudes, behaviors, and media habits. The old-world marketing measurement that's used in most companies today was developed decades ago under different conditions. Most measurement systems don't measure the complexity of today's media landscape, and, compounding the problem, most measurement systems deliver results *long after* the campaign is over. How helpful is that? Not very.

BACKGROUND ON OUR RESEARCH WITH 30+ MAJOR MARKETERS

The foundation of this book is the gold-standard, expert-endorsed research we conducted over five years among more than 30 of the bluest blue-chip companies, including McDonald's, Ford, Procter & Gamble (P&G), Unilever, Kraft, Johnson & Johnson, GlaxoSmithKline (GSK), Colgate, Philips, Volkswagen, ESPN, Motorola, and Carlsberg, in the United States, Europe, and Asia. We measured more than $1 billion in advertising spending and analyzed the buying behaviors and attitudinal shifts of more than 1 million consumers. Many of the marketers cited in this book conducted the research as part of

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public studies—agreeing to release the results whether they were good, bad, or indifferent. They did so for the betterment of their own marketing and to contribute to the knowledge base of the marketing industry.

Ours was likely the largest and most comprehensive research project ever conducted to quantify and understand advertising's real impact. This research applied proven marketing research methods (*continuous tracking* with *design of experiments*) in a way that had never been done before. Although applying design of experiments is new for marketers, this method is in essence what governments require drug companies to do to quantify the precise effects of new drugs by giving the drug to one group (the test group) while giving a placebo to another similarly matched group (the control group). We were therefore able to create perfect (or near-perfect) test and control groups that enabled us to examine the impact of advertising versus no advertising, or the impact that many combinations of advertising creative, media mix, spending levels, etc., had at a very fine level.

For the first time ever, we really determined what the next dollar of advertising spending would accomplish at different levels, in different media or media combinations, and sometimes among different segments of consumers. We measured $500,000 campaigns and $200 million campaigns, a weekend and a six-month span of advertising. More on the research itself can be found in Appendix A and online at *www.whatsticks.NET.* Suffice it to say here that the 30+ brands, more than that number in major advertising agencies, 25 media company researchers, the Advertising Research Foundation (ARF), the European Society for Opinion and Marketing Research (ESOMAR), and quite a few PhDs have signed off on the validity of this measurement. And the results should concern all marketers, CFOs, CEOs, shareholders, and every consumer. They provide rich insight on what sticks.

THE ILLOGICAL WORLD OF ADVERTISING

Welcome to the illogical world of advertising. Our research calls attention to the battle between the old magical *faith-based* approach to marketing and the ascendance of a *scientific-process* approach to marketing. Our research shows the growing divide between companies that are changing their marketing cultures and processes to improve ROI and those that are clinging to the outworn mythologies and lore of marketing's alchemist past.

Consider the illogical world marketers find themselves in today. For example, look at the way some marketers set their budgets: In Detroit, the big spenders are General Motors, Ford, and Chrysler—"The Big 3" as they are known in Motown. The media director of a major Detroit agency told us that when he was working on one of the Big 3 accounts, they set the level of TV spending based on the reported TV spending of the big guy across town, assuming they must have the magic formula for determining spending. A few years later, he went to work the very competitor across town and asked the ad agency how they set their TV budgets. You'll never guess: They said they look at the other Big 3 auto brand's TV spending and set it at that! Billions spent, with the seemingly blind leading the blind. He thought that was funny; we'd bet that the Big 3 would think it's *outrageous*. Finding a new path may very well determine survival, let alone success.

Or consider how ad agencies discuss the success of a marketing campaign for the marketers who are paying their bills: Advertising man turned TV Host Donny Deutsch[6] said recently to 500 marketers:

> We did a wonderful . . . commercial on the Super Bowl . . . for Mitsubishi Gallant . . . that stops at the end and [says] go to *seewhathappens.com.* We got about 600,000 clicks. Was that great or was that not great? We told the client it was great, so it was great [nervous laughter]. [7]

The audience responded with a nervous laugh, perhaps because many of them realized that they themselves lacked a clear understanding of what constitutes success. Because most marketers don't define a precise definition of success (and a means to measure it) prior to a campaign start, they are prone to wait for the campaign to run and then latch onto any metric that suggests something good might have happened as a result of marketing and advertising. Lack of a precise definition for success is undoubtedly a recipe for heartache. It's not a recipe for better ROI and continuous improvement in marketing.

Or, consider the conflict of interest between ad agencies and their clients. Two recent *Wall Street Journal* articles pointed out the increasing pressure from marketers to see ROI and results from advertising. The articles cited how the three largest advertising agency holding companies have set up analytic groups to measure advertising effectiveness and media selection, often within the very agencies that buy the media. But how can this measurement be objective?[8]

We think it's *problematic* to have the advertising agency's own performance, which is worth hundreds of millions of dollars, measured by *itself*! One of the agency CEO's summed up the conflict of interest nicely when he said, "If you can show the value of what you are doing with analytics, advertisers will be more responsive." That's probably true—and what he's recommending is good for the *advertising agency*, but that strategy may or may not necessarily be good for its *client's* marketing efforts! Of course, most ad agencies work hard to serve their clients well because they benefit if the client is happy and the advertising works; still, isn't there a potential conflict of interest in having the agency measure itself? And, in a worst-case scenario, might these dysfunctions in advertising have direct consequences on a business's bottom line?

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Or, consider the disconnect in measurement within an advertising agency. While the more progressive advertising agencies see opportunity from embracing independent measurement because it addresses the pressure to make marketing accountable, many other advertising agencies, and the rank and file who work day-to-day on client accounts, see scientific measurement as an inconvenience and a threat.

Scientific measurement is seen as a threat to the standard operating procedure—the status quo. Consider the way many marketing campaigns are created. The business identifies a need for marketing. Marketing engages the agency, and together they throw a bunch of ideas out there against the wall in hope that one of the ideas will stick. The "let's see what sticks" approach is fine, except that most marketers are not scientifically analyzing if the marketing concept sticks or falls to the ground as waste. Stopping to measure what sticks adds cost, threatens control of the strategic direction, and introduces an unknown to the marketing timing (because if the idea doesn't stick, it's back to the drawing board, a deadline might be missed, and someone else might seize leadership of the project). But the value of measuring what sticks is undeniable. Measuring what sticks and adapting accordingly can be worth significant increases in sales and profits.

Instead of measuring what sticks, there is a guru mentality that suggests: "Marketing is magic, and because I know what sticks, there is no need to measure it."

The image of the all-knowing advertising guru who uses gut instinct to determine what will be effective is as phony as the wizard in *The Wizard of Oz*: a lot of smoke but no real substance. This is not to take anything away from the importance of creative brilliance—that is still at the heart of the marketing world. But the core problem is that traditional attitudes and old methods of advertising measurement are not able to create true accountability. The significant changes brought about by new media have pulled back the curtain to reveal that there is no wizard, it is just a regular person struggling to figure out how to connect a consumer with a brand to build greater value for the business and the consumer alike. There is hope. We've found in our research that any person can achieve extraordinary results with a little help from a Communication Optimization Process, which we've termed COP, and gold-standard measurement.

We know that a few marketers may want to put this book down at this point. The idea of scientific measurement clashes with the "I know it in my gut"–style of decision making. The suggestion of measuring what sticks, and adapting accordingly, is sacrilegious to them. Keep an open mind. Remember, we were able to compare the effects of advertising using powerful measurement tools never available before. Research independently reviewed and validated by the leading minds and organizations in the industry and the insights reveal hundreds of billions of dollars in increased marketing productivity.

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OPPORTUNITY KNOCKS: THE NEW MEDIA

The changes to the media landscape in the past decade have rendered many old approaches to marketing obsolete, ineffective, and counterproductive. For example, consider the expansion of the average number of TV stations in each home; the proliferation of TiVo-type digital video recorder (DVR) devices; iPods and video iPods; satellite radio; mobile media via cell phones; and, of course, the Internet. Media planning has become so much more complex and, in our experience, most marketers' methods are ill-equipped to optimize the success of their marketing campaigns in the face of this change. The significance of each new technology and media could be discussed at length, but let's just look at one—the Internet.

The Internet is completely reshaping consumers' media habits and buying preferences and has been nothing short of the catalyst for a reorientation of marketing. Taking stock of the changes over this past decade is breathtaking.

Reflect for a moment on how much your life and the life of your friends or children have changed as a result of the Internet. For example, in the past year alone, we (the authors) have each been to two weddings—and both couples met through Internet dating. We have friends whose main source of play is managing fantasy sports teams online, and others who love online poker. Neither of us has called a travel agent in years; instead, we book on the Internet. We've purchased books, toys, a vacuum cleaner, furniture, even a car (sight unseen), and countless other items online. News and research is gathered online. Packages are sent and their progress to destination tracked online. E-mail communication is now far more common a mode of communication than telephone. Sales, support, and management now keep in constant communication around the world through e-mail, instant messenger, and wireless connectivity. And, one of the authors considers his eBay rating to be more important than his credit rating.

These changes are not in what we do, but how we do it and how we think about it. They represent a fundamental shift in our *modus vivendi*—the way we live our personal and professional lives. Internet dating, for example, changes the dynamics of search and selection of a significant other. If the Internet can change the search and selection process for something as significant as a spouse, is it at all surprising that it changes the search process for a new car? Buying a vacuum cleaner online allowed me to quickly compare models based on price. We could have bought the same vacuum cleaner from a neighborhood store but instead bought from another country because the price was so much lower (even after shipping charges were added). Consider the cases where new pricing transparency has changed your buying decisions, and then consider how pricing transparency alone is changing the playing field for brands.

With such a profound influence on various aspects of life, it's no wonder the Internet can have an equally profound effect on our marketing *modus operandi* also. For example, the Internet allowed Pepsi to redesign its promotions and move them online. Pepsi's marketers discovered the move not only saved them money, but it gave them a direct relationship with their consumers.[9]

And Pepsi is not the only consumer company to rethink the nature of its products and marketing through the use of the new Internet channel: banks and financial institutions, auto dealers and auto manufacturers, pharmaceutical brands, diet services, package shippers, service brands, and many more companies are working backwards from the goal of Internet-based consumer interactivity to redefine their product concepts. They use the Internet to build a service component into the product, and that represents a new dimension to many brands.

The Internet has brought about a re-evaluation of marketing and rendered some older approaches obsolete, ineffective, and counterproductive. The reevaluation of marketing has led many to ask, "How can I know if Internet marketing works?" Sophisticated measurement systems have emerged to answer this question. The Internet has brought transparency to marketing success measurement. Internet advertising is one of the catalysts for broader marketing accountability.

THE TOPIC OF THE DAY: MARKETING ACCOUNTABILITY

The Internet promised to be the "most measurable media ever"—and it delivered on that promise. We're not talking about the fact that marketers get a count of how many people clicked on an advertisement (that's just a tiny piece of the measurement); instead, we're talking about the ability to quantify the attitude and purchase behavior shift caused by advertising. The fact that online, by its nature, has gold-standard design of experiments research integrated into the ad delivery systems, along with having better media measurement for ad exposure, ad response, branding impact, and product sales (online and offline), means marketers can more precisely measure the true incremental impact on consumers' attitudes and behaviors caused by online advertising. Marketers' ability to measure marketing success with Internet advertising sets a new benchmark.

But the superiority of online ad measurement is not the story. The story is how savvy marketers used the measurement and data to push organizations to change and to encourage *broader* marketing accountability from *all* marketing elements. The measurability of the Internet captured the imagination of marketers. They asked: "If the Internet can deliver this level of accountability, why can't we get this from other marketing elements?" And the marketers included in this book achieved marketing measurement and accountability from their offline marketing elements too. As these marketers looked more closely, they found room to boost marketing ROI.

There's an old quote in advertising, usually attributed to retailer John Wannamaker: "I know half my advertising is wasted; I'm just not sure which half." In our own research based on careful quantitative analysis, we found that the actual waste is about one-third of the nearly $300 billion spend in the United States. More startling is that 19 percent of advertising fails outright, and another 67 percent could achieve significant improvement that would require *no additional spending*.[10] Take a look at the following specifics of marketing inefficiency that could be easily fixed (and we'll tell the full story on each of these later in the book):

- Is your advertising helping or hurting a good product? Kimberly-Clark had to grapple with this question after they spent millions of dollars introducing a new product line extension for Kleenex called Soft Pack. Near as we can tell, there was nothing wrong with the product. We know through our measurement that the advertising for it did not work as well as was needed. As we understand it, the product failed to meet sales projections and was in danger of being withdrawn.
- Are your campaigns successful, but your media allocations suboptimal—or do you even know? McDonald's found this inefficiency when it launched a new menu item. After the launch, the company learned it could have influenced *6 million more people* without spending a penny more—if it had simply reallocated its media mix.
- Are you underspending on advertising? ING Financial Services had this problem. We found ING still had plenty of upside to its spending and could have spent 50 percent *more* on its advertising, with the bulk going to TV.
- Is a single element of your advertising masking the underperformance in other aspects of the campaign? VeriSign (a B2B advertiser) learned that 10 percent of its budget drove 98 percent of the actions its marketing team wanted.

The above examples are not the exceptions; they are the *rule* under the current regime of marketing.

TIME FOR A NEW APPROACH

Our experience is that CFOs and the increasing number of CEOs, especially those with a financial background, are no longer comfortable with advertising's "loosey-goosey" approach. Neither are shareholders. Not to mention, there is a major competitive opportunity for those brands and marketers who make the leap to greater marketing certainty.

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WHAT MARKETERS CAN LEARN FROM ROCKET SCIENTISTS

Because our research found that over $112 billion out of nearly $300 billion is wasted due to suboptimal advertising, and because most marketers we researched had no systematic way of defining and managing the facets of effective advertising, we began to look into other complex business fields for guidance on a new approach. We found a very interesting parallel in a most unlikely source: The National Aeronautics and Space Administration (NASA).

Richard Grammier of the Jet Propulsion Laboratory (JPL) is a decorated hero of American space exploration; many NASA missions owe their success in part to his dedicated project management. His latest project, called *Deep Impact*, was extremely complex: Its goal was to fire two space probes 83 million miles into space to intercept a comet—one probe to hit the comet hard, creating a deep impact (hence the name); the second probe to fly by the comet, observe the impact, and collect science data to determine the chemical composition of the materials excavated by the impact. Grammier described the challenge of this project as "shooting a flying bullet at another flying bullet, while having a third flying bullet observe the impact and collect science data." It was no easy feat, to be sure.

Moreover, Grammier inherited a mess of a project. He summarized his management challenges in terms of the following four fundamental problems:

1. Rigorous processes either not understood or not followed
2. Inability to perform a project validation and verification (V&V) program
3. Incomplete or insufficient project progress reporting
4. Inadequate flight operations concept and contingency plans

So we asked the marketers attending this conference at which we invited Grammier to speak—representatives of ABC, Colgate, Disney, Procter & Gamble, Microsoft, ESPN, Hallmark, Volkswagen, Williams-Sonoma, and the Association of National Advertisers (ANA)—to consider whether they had faced these four problems in their recent marketing campaigns. Everyone, even P&G (who we would consider one of the best marketers in the world), agreed that they faced many of the same problems, and they were inspired by Grammier's solutions, which could be applied to marketing.

Deep Impact, however, was a complete success because of how Grammier addressed the four problems, as follows:

1. First, he ensured that the team understood and was working with *the proper process.* The process we suggest in this book is a Communication Optimization Process (a COP), and as with NASA, working with a COP can make the difference between success and failure.
2. Next, Grammier and his team fixed the inability to perform adequate *validation and verification tests.* For marketers, this is the core of measurement—it translates to testing different consumer motivations or alternative advertising messages to see which work better, or testing different consumer targeting strategies or different media mixes. Just as it was critical to the success of Deep Impact, using verification tests to ensure each element is right is critical to marketers' success.
3. Next, Grammier fixed the incomplete and insufficient *progress reports* that failed to provide a clear, overall picture of performance of key project elements. This is similar to the way marketing needs to fix its measurement and data reporting in order to provide a clear overall picture of the success of individual marketing elements. We introduce a way to organize this information—called the *4Ms*—that provides a clear, overall picture for marketers.
4. And finally, Grammier addressed the inadequate flight operations concept and *contingency plans* in the same way that marketers will need to develop a clear definition of success and contingency plans of what action to take if certain elements of the campaign are off base (we call it *scenario planning*).

Now, you might be thinking that for a project like Deep Impact, *of course* extensive process and measurement need to be central to the way things are done. After all, there's a lot of money at stake and a very narrow window to get it right; otherwise, it might be years and years before another opportunity presents itself. What we found fascinating, though, is that the total annual cost of Deep Impact is *less—a lot less*—than most big marketers spend: It's somewhere around $87 million a year (for a grand total of $350 million over four years). In stark contrast, Ford alone spends $1 billion in a single year on advertising. And, don't marketers have a similarly narrow window for success?

After hearing Grammier describe overcoming the challenges at NASA, Barbara Bacci-Mirque from the ANA commented: "It is absolutely amazing how similar the core challenges he faced are to marketers' core challenges. Hearing the management tools Jet Propulsion Lab's Grammier used to fix essentially process problems gives hope that the marketing process can be fixed too."

In the Q&A session, Grammier expressed surprise that marketers would spend so much more than NASA does on a mission such as Deep Impact and yet have so few tools and so little process in place to manage that spending. He quipped that maybe that's because "if things go wrong in a NASA project, he'd get hauled in front of Congress, and no one wants to be seated in that chair."[12]

Then again, if boards of directors are analogous to Congress, then the comment of Philips's CEO should be a clarion call to sort out marketing. As he said, marketing ROI is now the second-highest priority on his board's agenda. If marketing continues to underperform, or simply fails to document its value and performance, marketers will soon find themselves in the hot seat. Maybe there will come a day when company boards of directors begin to demand accountability for the millions of dollars spent, the way Congress does of NASA.

> *Maybe there will come a day when boards begin to demand accountability for the millions spent, the way Congress does of NASA.*

WHAT'S NEXT?

In Parts II and III of *What Sticks*, we'll show you how to apply a little rocket-science thinking to marketing. But first, to take advantage of the changes in the marketing landscape, and to ensure your marketing is successful, let's understand the problems and malaise advertising and marketing face. There are lots of problems but, in our experience, the root of the problems can be grouped into the following three major areas:

1. Knowledge storehouses for learning how advertising really works are often nonexistent.
2. The traditional marketing culture resists true commitment to scientific marketing and process improvement.
3. Organizational structures inhibit change.

These three factors contribute significantly to the waste. At the end of the day, marketers and their ad agencies want to know what sticks, but most don't have any processes or systems for gathering that knowledge in a systematic way and using it to make marketing work better. The next three chapters show why.