The CMO's Dilemma

Can You Reach the Masses Without Mass Media?

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Traditional media outlets—newspapers, magazines, radio, and broadcast television—are under tremendous pressure, their loss of revenue, readers, listeners, and viewers well chronicled by journalists at the businesses under siege. The shrinking of these media, of course, has painful implications for the people who work within them as well as for investors. But it also spells trouble for the chief marketing officers (CMOs) who rely on mass media to reach a mass audience.

When a daily newspaper stops publishing or moves to an online format—as happened this year in Denver and Seattle and could happen as well in Boston, Chicago, and Los Angeles—a critical marketing and communications vehicle disappears. Of course, advertisers are shifting their dollars to new types of media and to other marketing categories. But for the first time in history, their actions are undermining the economic model that supports traditional media businesses—and creating broader problems for marketers who still need those outlets to broadcast their messages.

The future of mass marketing and advertising, at least in developed markets, is now just as much in play as the future of the traditional media industry itself. Online search, advertiser microsites, word-of-mouth marketing, social networking, and Twittering all have an important place in the marketing mix, but for the foreseeable future, they will not be able to match the reach, efficiency, and speed of mass media.

Amid this uncertainty, CMOs face difficult choices about how and where to allocate resources. Not too long ago, they had to choose between "above the line" mass-media marketing and "below the line" activities, such as promotions and direct mail, which tend to be more targeted and measurable. Now these decisions are much more complex. (See Exhibit 1.) Does it make sense to move advertising dollars to MySpace, Facebook, and other nontraditional channels? What about shifting mass-media dollars to below-the-line activities, such as public relations, street events, and in-store events? Each of these techniques has a specific purpose and audience, and CMOs have to figure out how to balance their messages across all of them. Finally, they need to decide how to work with the expanding galaxy of advertising agencies and other service partners. This is not your father's Madison Avenue.

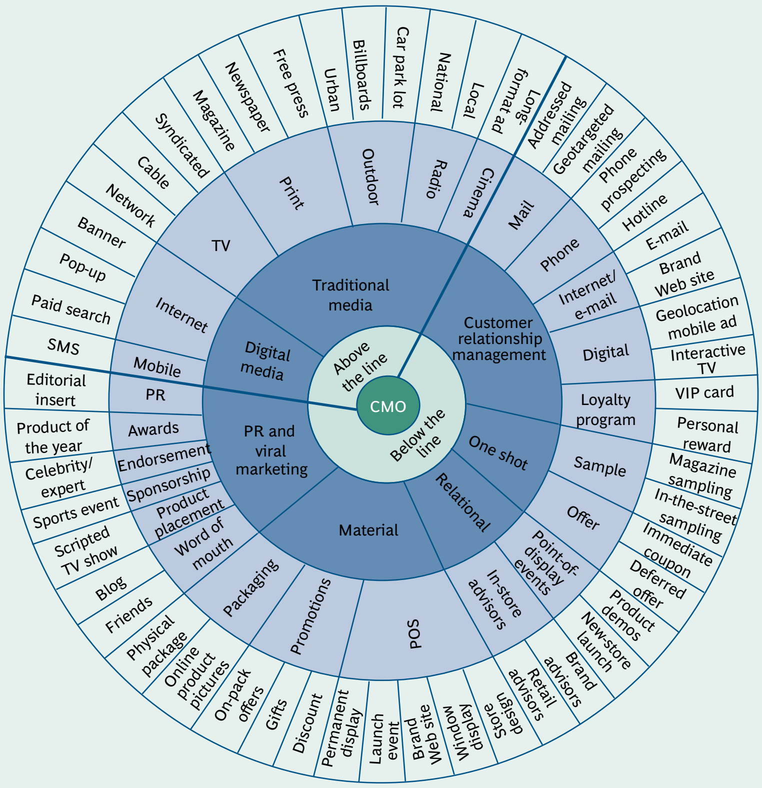
In this murky new world, the primary objective of CMOs should be to understand the market, establish specific goals for each channel and targeted segment, and measure the effectiveness of different marketing techniques against those goals. However, many of the tools and support services needed to help CMOs make, manage, and integrate these choices do not yet exist. And too few agencies and other service providers are successfully guiding CMOs into the future.

Shifting Economics

The recession has disrupted all marketing spending. Newspapers, television, magazines, and radio are all experiencing declines in ad revenue. (In the case of newspapers, the recession has sharpened a preexisting dip.) Even online advertising has slowed in the past year or so. But the downturn is disguising a more fundamental shift away from traditional media spending.

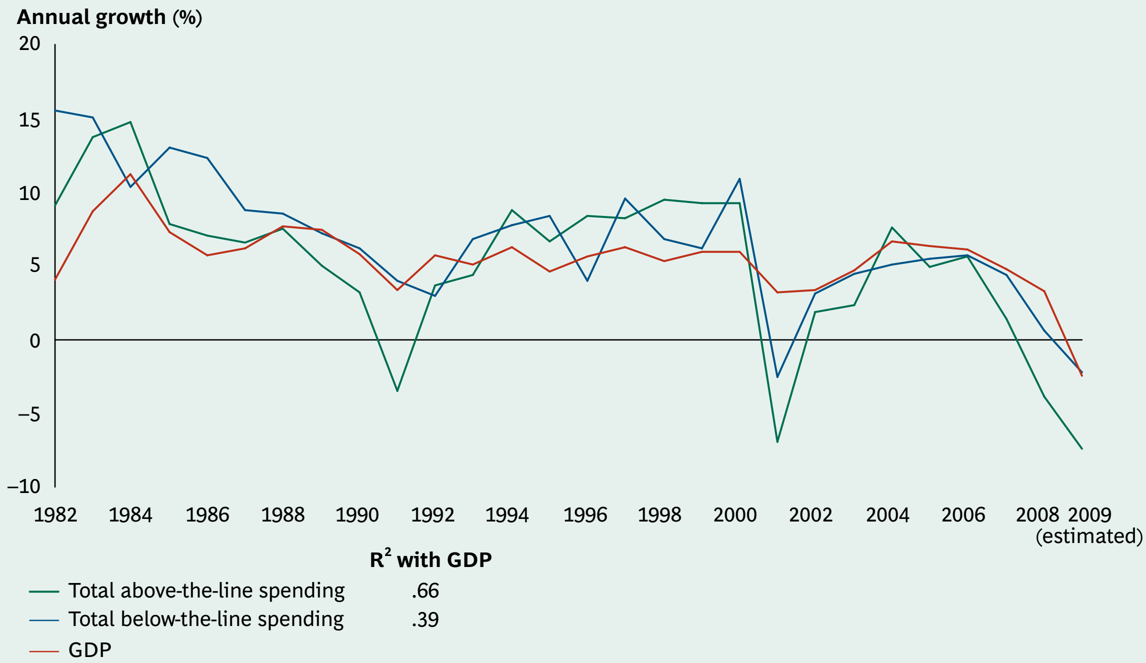
Total advertising spend has historically been tied to gross domestic product, rising and falling in lockstep with economic activity, with advertisers reallocating their budgets across channels. For example, when the economy slumped after the bursting of the dot-com bubble earlier in the decade, advertising spending sharply declined, according to data provided by Veronis Suhler Stevenson, a private equity firm. (See Exhibit 2.) The big winners in recent years have been Internet advertising—both search and display—and below-the-line marketing. But until now, these shifts among categories had not led to a structural decline in traditional media spending.

Exhibit 1. The CMO Is Surrounded by a Galaxy of Choices



Sources: John R. Rossiter and Peter J. Danaher, *Advanced Media Planning*, Kluwer Academic Publishers, 1998; BCG analysis.

Exhibit 2. Advertising Spending Is Closely Tied to GDP



Sources: Veronis Suhler Stevenson; BCG analysis.

Even after the recession ends, traditional media spending will not reach previous high-water marks, because advertisers will continue to drift away from print and television. The decline in newspaper reading is not reversible, and while overall television viewing is rising, it is fragmented across channels and devices. The medium itself has become old. People between the ages of 18 and 24 watch half as much television as those 65 and older. And with competing options such as YouTube and the mobile Web at their fingertips, younger consumers are unlikely to change their viewing habits as they age and return to traditional TV.

For newspapers, magazines, and television—all high-fixed-cost businesses—any leakage of ad dollars can quickly destroy the underlying economics. The irony, of course, is that by shifting just a small share of their media spending, large advertisers are undermining the foundation of businesses on which they still depend to support major product launches, big promotional pushes, and other popular uses of mass advertising. They are, to slightly twist the idiom used by Elvis Costello in his song "Radio, Radio," biting the hand that still serves them. (See Exhibit 3.)

Mass messages are still most at home on television and in newspapers and magazines—and will be for at least several years. Even following its recent decline in popularity, *American Idol* is still able to draw more than 20 million viewers to its season finale. The most popular YouTube videos cannot generate that much traffic in a month—or in three months, for that matter.

As David Carr, media columnist for the *New York Times,* wrote recently, "At a time of ever-atomizing audiences, broadcast television's slice may be smaller, but it is still the biggest slice." He went on to observe that despite the growing popularity of targeted Web advertising, "Apple, a tech company, and by the way, probably the most talented marketing company on the planet, is all over network television."[1]

Meanwhile, Google has built a $20 billion global business around online search—representing more than one-half of the entire U.S. newspaper industry's advertising revenue in 2008—by serving targeted, specialized ads. By design, this model does not provide advertisers with broadcast-size audiences all viewing the same or similar content.

Advertisers have adjusted their spending enough to threaten the economic viability of traditional media companies. But the shift has not been dramatic enough to create alternative ways of achieving what traditional media does best: provide national advertisers with broad demographics and massive reach. New advertising platforms that reach the masses—whether they are online or mobile—will not emerge without a massive shift of ad dollars away from traditional outlets. The media choices for CMOs are, in effect, a big blur.

As this structural change unfolds, many traditional media companies could and likely will go dark—and many advertisers will face unprecedented challenges in reaching the masses.

The Big Blur

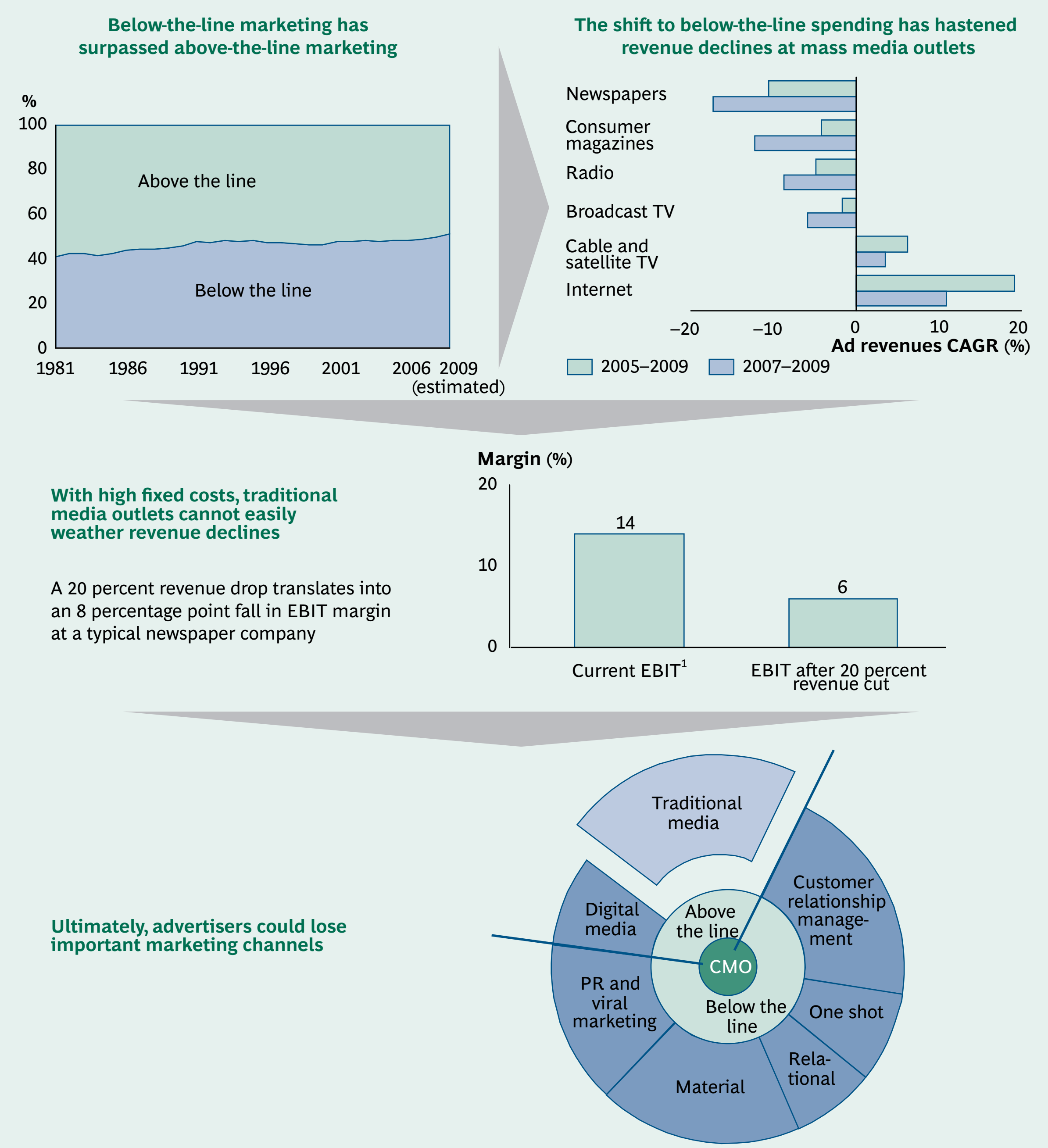
At a recent industry gathering, a group of media executives, advertising professionals, and CMOs discussed these structural shifts and the blurring of the boundaries among advertising, marketing, and promotion.[2] For instance, many of the fastest-growing brands at Estée Lauder do not rely on traditional advertising. Instead, they use public relations, events, and in-store promotions to build recognition. Such below-the-line vehicles made up 62 percent of U.S. marketing spending in 2008, up from 57 percent in 2004, while traditional media spending fell from 43 percent to 38 percent during the same period, according to Veronis Suhler Stevenson.

British Airways, while continuing to invest heavily in traditional advertising categories, has also created Metrotwin, a Web site for fliers who shuttle frequently between New York and London. Its goal is to build

1. "As TV Dwindles, It Still Leads," *New York Times,* May 24, 2009.

2. The event was the third annual Media Convergence Salon, hosted by Edelman, a global public-relations firm, and The Boston Consulting Group.

Exhibit 3. The Decline in Ad Spending Threatens the Ability of Media Outlets to Reach Mass Markets



Sources: Veronis Suhler Stevenson; SNL Kagan; John R. Rossiter and Peter J. Danaher, *Advanced Media Planning,* Kluwer Academic Publishers, 1998; BCG analysis.
[1]2008 weighted average EBIT margin of Gannett Company, McClatchy Company, Lee Enterprises, Journal Communications, Daily Journal Corp., and the New York Times Company.

on affinities among people who live in or travel to either city in order to create a source of tips on hotels, restaurants, and other places to go. So a traveler who likes Balthazar Restaurant in New York, for instance, might be guided by a like-minded counterpart in London toward The Wolseley.

Companies recognize that the support or dissatisfaction expressed by their customers in online communities can enhance or diminish their brands. They are participating in conversations on Twitter, Facebook, and other social-networking sites as a way to build community and context around brands in a frequently fickle world.

Glacéau, a beverage company, has created a Facebook presence for its Vitaminwater brand and is supporting it with a multichannel marketing campaign, including display ads on ESPN.com and television ads during the March Madness college-basketball tournament. The Facebook page is built around an ongoing "great debate" over the relative merits of basketball superstars Kobe Bryant and LeBron James. The page features a poll, a quiz, streaming video, an auction of murals depicting both players to benefit their respective charities, and a discussion board with thousands of posts. The site has nearly 400,000 "fans."

When marketers talk about how online communities can have higher "engagement" than those in the physical world, these fans are their poster children. So are the people who watched the 2009 Oscars while logged on to Facebook. They watched 50 percent more of the broadcast than the average viewer. Yet this active consumer involvement in products and content creation complicates the job of CMOs exponentially.

New Models

CMOs generally know what they want for their brands and understand the different communications and marketing channels—both the old familiar options and those still under construction. Their understanding of the new vehicles' impact on their brands is frequently more nuanced than that of executives at the media companies and ad agencies trying to serve them. But with the tumult in the marketplace and the pressure to contain overall advertising and marketing spending, CMOs are looking for thoughtful guidance and support.

Instead of getting the help they need, however, most CMOs are deluged with advertisers and media companies pitching "unique" sets of solutions. As Richard Edelman put it at the industry event, almost no one is "sitting on the same side of the table" as CMOs and helping them make the right mix decisions.

Google, Yahoo! and others are offering only part of the package in their targeted, online offerings. Large agencies, meanwhile, have been slow to respond to shifts in spending by their clients. When they address the new vehicles, they typically do so through loosely connected, "sister" specialty agencies. They have not been able to create an integrated marketing package with any more success than when the industry began tying together traditional advertising, public relations, and direct marketing 25 years ago, an effort that culminated in the near-complete consolidation of these functions early in this decade. Is it time to consider the "whole egg" theory once again?

What Next?

Uncertainty should not be an excuse for doing nothing or—through the force of inertia—doing the same thing that is no longer working. Although the current environment is ambiguous and the answers far from certain, CMOs are beginning to ask fundamental questions:

- What are our goals and targeted customer base for each traditional and new marketing channel? What are the specific activities that will best help us reach customers? How should we measure and judge their success?
- How do we allocate dollars across increasingly overlapping marketing activities and create an integrated cross-media strategy that recognizes the value of each channel?
- How do we work with agencies and other partners to put our media strategies together?
- Will the changes that we make in our media mix alter the media landscape by contributing to the elimination of traditional media such as print newspapers? What, if anything, can or should we do about this?

None of us can fully answer these questions until advertisers, agencies, and media companies collectively recognize that the crisis in mass media is a marketing challenge, too. Advertisers need better support from agencies to take advantage of the opportunities that arise. Large advertisers themselves should consider developing select in-house capabilities in the same way that they built corporate-development and strategic-planning strengths at the end of the last century. Finally, traditional media companies need to develop sustainable business models that directly address these fundamental shifts in spending, and they need to figure out how they can maintain their relevance in a world that is moving away from them.

The missing pieces in this jigsaw puzzle are integrated marketing solutions that take advantage of all available channels and the support of media companies and agencies in putting these solutions in place. Advertisers, agencies, and media companies are in this together.

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