

# REPORT

## The CMO's Imperative

Tackling New Digital Realities



THE BOSTON CONSULTING GROUP

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# Executive Summary

**N**ew digital media—including online video, social media, and mobile advertising—are transforming the marketing landscape. The Boston Consulting Group has spoken to dozens of chief marketing officers (CMOs) and other leaders who realize that 50 years of marketing-management approaches must change dramatically. These marketers don't need a call to action. Rather, they are actively seeking to build a twenty-first-century marketing capability that can navigate whatever comes next.

In this report, BCG offers new insight derived from *The BCG Future of Marketing and Advertising Study, 2010*, which encompasses a quantitative survey of marketing executives, one-on-one industry interviews, and benchmarking research. This report is a follow-up to our 2009 White Paper, *The CMO's Dilemma: Can You Reach the Masses Without Mass Media?* It is also the second release in our new *Marketing in the Digital Economy* publication series. Over time, this series will examine a variety of digital-marketing topics: word-of-mouth advocacy, digital listening, organizational capabilities, multi-channel implications, and more.

**After years of evolutionary change, emerging digital media have brought marketing communications to a breakpoint.**

- ◇ The new watchwords for marketers are transparency, authenticity, and engagement—a significant change from centrally created, custom-crafted broadcast messages.
- ◇ The sheer complexity of marketing vehicles and the rapid pace of changes in the field are overwhelming the traditional approaches to marketing management.

- ◇ The balance of investment is shifting as companies spend less on media purchases and more on labor-intensive tasks such as managing digital content.

**As the list of digital-marketing options grows, companies are reshaping their media expenditures.**

- ◇ Newer digital media are finally meeting marketers' main criteria for investment: scale, audience targeting, standards, a common marketplace (for the buying and selling of ads), and measurement.
- ◇ Dollars are actively shifting to digital media: around 90 percent of our survey respondents expect to spend more on Internet, social-media, and mobile advertising over the next three years.
- ◇ However, traditional media—in particular, television—still garner the majority of spending and will for years to come.

**Making the right tradeoffs across digital- and traditional-marketing vehicles today depends on understanding how each media category will evolve.**

- ◇ Companies have been surprisingly quick to adopt social-media vehicles such as Facebook, Twitter, and YouTube as part of their media mix. But there are real risks if companies execute poorly in these areas. Companies are starting to build better internal capabilities to deal with the specific challenges of social-media marketing.
- ◇ Mobile advertising, long a fixture of advanced markets such as Japan, is finally beginning to realize its potential in Western countries. More than 80 percent of survey respondents plan to increase their spending on

mobile advertising, albeit from a very small base. Drivers of growth include the proliferation of smartphones, the development of advertising marketplaces, and a host of new start-ups. Now is the time to take these media seriously.

- ◇ Television still remains one of the few mass-marketing vehicles that can reach millions of consumers at once. But the shift from traditional television viewing to on-line video viewing will happen more quickly than many observers expect, as Internet-connected televisions roll out over the next few years. Marketers must rethink their approaches to traditional television—and experiment actively with online video.
- ◇ Print media stand at a crossroads. While print has lost a massive share of ad spending to the Internet, tablets and e-readers offer some hope for the future—at least for magazines. As the ecosystem of tablet advertising begins to form, marketers and the publishing industry must work together to help shape the future.
- ◇ Measured Internet media, such as search and display advertising, is among the more stable categories now. True, online targeting technologies have improved somewhat ahead of marketers’ abilities to utilize them—and they raise some privacy concerns. But leading companies are increasing their allocation to measured Internet ads and cautiously taking advantage of the new opportunities to target consumers.

**Marketers understand the urgency to adopt digital media—but need answers on many issues including optimizing spending, budgeting, organizing, and navigating agencies.**

- ◇ Only 46 percent of our respondents said they have the tools required to make tradeoffs across media vehicles.
- ◇ Respondents were comfortable with their companies’ planning approaches for most media vehicles, but they ranked planning processes for social-media and mobile advertising at or near the bottom.
- ◇ Only about one-third of our survey respondents said they felt their advertising agencies were helpful in making the right tradeoffs between digital and traditional media.

- ◇ Although all marketing activities tend to be decentralized today, marketers shared sincere ambivalence about the best organizational “home” for digital activities.

**No one has yet developed the winning formula—but some patterns are emerging that suggest how companies could build their digital capabilities.**

- ◇ The executives in our survey who were most committed to digital marketing share several traits in common. Their companies establish minimum levels for digital investment firmwide and possess the tools required to make tradeoffs across media vehicles. And they believe that digital marketing is important to their personal success.
- ◇ To lower barriers to digital investment, brand-building businesses (such as those in the food and beverage sector) may need to rethink their emphasis on metrics that track short-term increases in volume sales. They will also need to look at return on investment (ROI), customer engagement, and word-of-mouth referrals.
- ◇ A good rule of thumb is to develop digital-marketing strategies as closely as possible to the business unit. The center, however, should own standards of excellence, best-practice sharing, and the basics of technical execution (such as the coordination of e-mail blasts).

**Instead of trying to guess the perfect marketing model in a fluid landscape, companies need to think about maintaining maximum flexibility and adaptability.**

- ◇ A more dynamic approach to strategy—one that emphasizes iterative experimentation in order to keep pace with incessant change—delivers what BCG calls “adaptive advantage.”
- ◇ To determine what works, companies should start by piloting a 360-degree digital-marketing plan for a brand or category in a single region. Experimentation, at this point, is preferable to inaction.
- ◇ Over the next five years, we anticipate a significant skills-based battle to define the next generation of marketing leadership. Your company can’t stay on the sidelines.

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# Back to the Future

Imagine the year is 1960. In the United States, there are only three television networks: NBC, CBS, and ABC. Most programs are still broadcast live and sponsored by advertisers. The now-ubiquitous “30-second spot” has yet to be standardized as an ad unit. Radio is still a powerful force.

Marketing in this era seems simple and straightforward to us today, but for consumer marketing companies and for Madison Avenue’s ad agencies then (currently showcased in the popular *Mad Men* series on cable television), it was not. Television was an emerging medium, not yet found in every home. No one knew how television would evolve, or which advertising formats would break through. Marketers had limited syndicated data—from The Nielsen Company or elsewhere—to guide decision making. However, some companies, such as Procter & Gamble, worked closely with their ad agencies and took bold steps to invest in new and untested brand building via television. Even amid massive uncertainty, they shifted market share and created powerful brand positions, setting the foundation for 50 years of competitive advantage.

Today, some companies are shifting their spending from television and traditional media to Facebook, blogs, and their own purpose-built websites. They are experimenting with advertising on computer tablets and with location-specific mobile targeting. What’s more, consumers are having real-time online conversations with one another about marketers’ products and messaging.

In short, we believe that it is 1960 all over again. Those marketers that figure out not only how to use the new tools but also how to integrate them with traditional media will build brands and shift market share just as in the days of the gurus of Madison Avenue. The problem, as in

the early days of television, is that no one yet has the formula for success. In addition, the challenge now is even tougher than it was then.

To develop a snapshot of current changes and future plans, The Boston Consulting Group launched The BCG Future of Marketing and Advertising Study, 2010. We tapped into the views of almost 100 industry experts, leaders at advertising agencies, and marketing executives across industry sectors. We conducted a quantitative survey, one-on-one interviews, and research on best practices.<sup>1</sup>

While our participants were based primarily in the United States, the study has relevance for all global companies, and our work includes many examples from other regions. The findings help to scope the current media landscape, anticipate what’s coming next, and understand how companies are reallocating budgets and building capabilities to prepare for the future.

After 50 years of evolutionary change, BCG’s analysis shows, we are at a breakpoint in marketing communications.

**The watchwords of the new marketing environment are transparency, authenticity, and engagement.** This shift represents a significant change over centrally created, custom-crafted broadcast messages. Digital-marketing vehicles enable interactive communication: between marketers and consumers (sending messages down the

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1. We had 56 survey respondents and interviewed 45 experts from various types of companies including advertisers, venture capital firms, media firms, and ad networks. Most of the respondents and experts worked in the United States; however, many represented multinational companies with global experience.

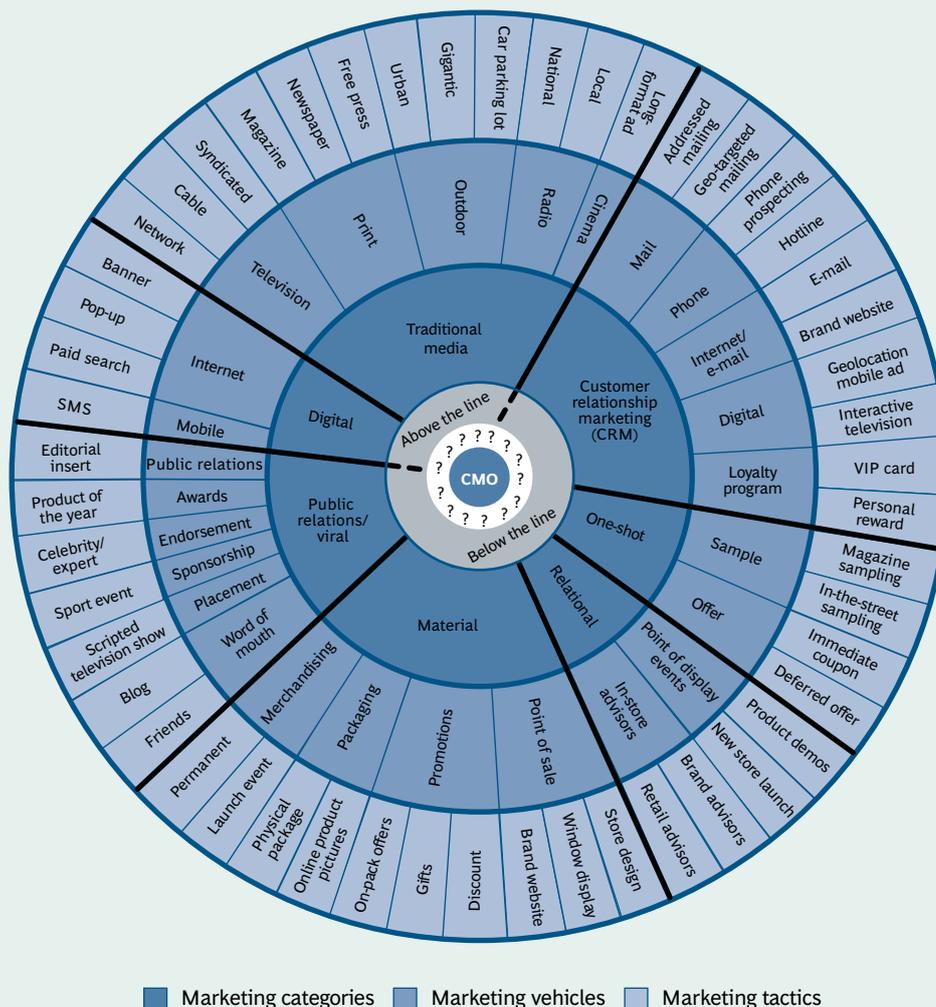
historic one-way path); between consumers and advertisers (engaging in a dialogue); and among consumers (commenting on and calibrating the messages being received). Such interaction is changing the nature of marketing communications from crafting one-to-many brand messages to curating conversations about the brand among consumers.

**The sheer complexity of marketing vehicles and the rapid pace of new communication opportunities are overwhelming chief marketing officers.** (See Exhibit 1.) This is true whether marketing is managed internally

or externally. Advertisers are struggling to integrate functional capabilities within brand teams; agencies and specialty third-party service providers are struggling to provide integrated advice and services.

**Companies are shifting the balance between internal and external spending on marketing.** Managing an effective communications program in a real-time, interactive way requires extensive company- and brand-specific information. With traditional advertising, the requirements for internal staff and spending are low since most activity is outsourced to agencies and most cost is gener-

**Exhibit 1. CMOs Face an Increasingly Complex Set of Options**



Source: BCG analysis.

Note: We defined measured media expenditures as “above the line” marketing categories; all other marketing categories were defined as “below the line.”

ated by the purchasing of media. In the new world, companies invest less in media purchasing and more in developing content and maintaining customer dialogue—and the cost of managing and updating digital content can be high, whether companies outsource it or manage it themselves. For example, while some companies assign their public relations firms or digital agencies responsibility for maintaining a brand’s Facebook presence, others view this as a critical brand touchpoint to be controlled internally.

Take the example of the beverage brand Gatorade, which has made significant investments in social media and digital listening (monitoring consumers’ online comments). Gatorade maintains an actual “mission control” center in its Chicago headquarters, featuring a panel of screens reminiscent of NASA. Relying on five full-time marketing employees, the company tracks a wide variety of conversations through blogs and Twitter conversations, online-media performance, sports trends, and social-media per-

formance. The mission control center allows Gatorade to identify conversations in progress and proactively engage in discussions with consumers.

Companies outside traditional consumer goods are also building their social-marketing capabilities. Even mainstream banking firms such as Wells Fargo and Bank of America actively leverage social media with activities that include soliciting user-generated product reviews online, providing customer service on Twitter, and developing online communities for small business owners.

Chief marketing officers (CMOs) are tackling a critical mission: transition from the marketing organization that worked in 1960 to a twenty-first-century marketing capability that can navigate the future. To pursue this goal, companies are taking widely different approaches, even within the same industries. Some best practices, however, are starting to emerge.



# An Inflection Point

## Why Now?

**A**s digital-marketing options expand, companies are reshaping their media expenditures—and reshaping them so profoundly that we can no longer accurately project spending trends based on the past five decades of experience.

We expect that traditional spending on above-the-line (mass-market) “measured media” will not continue its past pattern of rising and falling in sync with the economy. Instead, as developed markets continue their slow recovery, we believe overall ad spending will anchor near current levels and grow at a lower rate than it historically has. Companies will permanently replace big-dollar ad purchases in television and print media with less-expensive, unmeasured investments in digital media. And they will reallocate marketing budgets from media spending to spending on the head count and technology needed to support digital marketing in-house.

The marketing executives we surveyed cited decisive plans to increase spending in social-media, measured Internet, and mobile advertising over the next three years.<sup>2</sup> The move to these categories will come at the expense of print newspaper and magazine advertising, and, to some extent, traditional television advertising. (See Exhibit 2.) Few of the executives we surveyed are ignoring social media: at least 80 percent—and as much as 90 percent—of our survey respondents told us they are using, experimenting with, or planning to try social-network and viral marketing.

Why has this shift become more pronounced? What’s really changed? In fact, a number of marketers’ criteria for investing in emerging marketing vehicles—such as social media and mobile—have finally been reached:

**Scale.** Digital vehicles are finally reaching the point at which they deliver sufficient reach with targeted audiences. Before CMOs in most major corporations are willing to invest heavily in a medium, they need to be able to reach 40 to 60 percent of the target population through that medium. They can accomplish their goals today through most online display advertising and through some social media, such as Facebook, with its 500 million global members. In order to experiment with new media, however, CMOs may require a minimum reach of only 1 million to 5 million adults—as long as there is a visible path to broader reach in the near future. Mobile advertising and other social media are beginning to hit, and in some cases vastly exceed, these thresholds.

**Targeting.** The clear advantage in audience targeting goes to online and mobile media, since, compared with traditional media, they offer marketers access to more sophisticated, context-driven, and location-driven targeting. Traditional media such as television and print have gotten by for a long time with targeting that is based on simple demographics linked to the type of content, but marketers are starting to see the advantages of trading broad reach for deeper relevance.

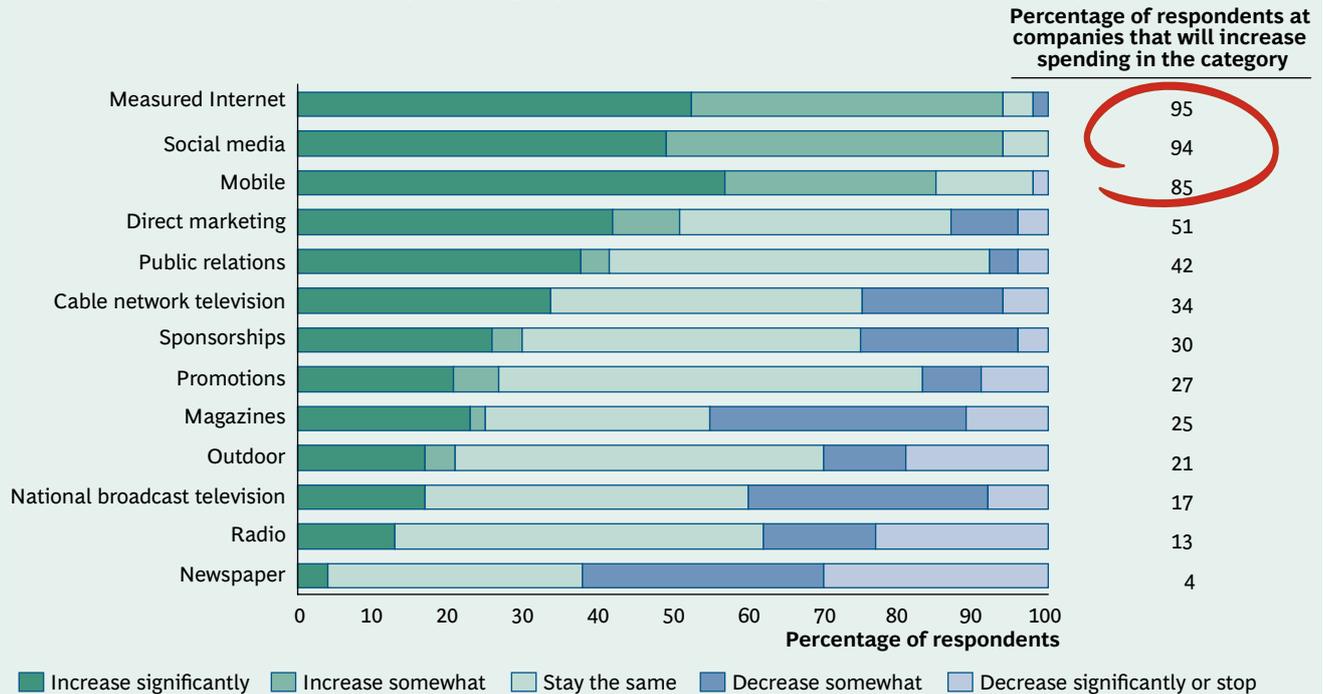
**Standards.** As technologies, formats, and ad-serving mechanisms in mobile advertising mature, the barriers to marketer commitment will fall. The lack of standards for ad units and creative formats, such as standard sizes for banner-ad displays, has hindered the development of mobile advertising. However, a few smartphone winners are

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2. Measured Internet advertising refers to traditional online-advertising spending that is tracked by third-party research firms. It includes online search advertisements and display ads—such as banners, videos in static webpages, and pop-up ads.

## Exhibit 2. Nearly All Respondents Plan to Accelerate Spending on Digital Media

How do you think your company's allocation will change over the next three years?



Source: The BCG Future of Marketing and Advertising Study, 2010.

Note: The data reflect 53 responses.

now emerging, reducing market fragmentation and establishing greater certainty around standards.

**Marketplace.** Another coming-of-age sign for digital media has been the emergence of well-defined places for marketers to access aggregated advertising inventory. Measured Internet advertising offers ad exchanges and networks that perform this service; similar models are now emerging in mobile advertising as well. Digital media are also benefiting as marketers embrace and adopt their unique pricing models: performance-based metrics such as cost per click, cost per visitor, and cost per action (lead, order, or engagement) support a more general emphasis on return on investment (ROI).

**Measurement.** CMOs still struggle to holistically measure results from integrated campaigns across traditional and digital media. We see a few companies starting to address this issue by incorporating newer marketing vehicles into their efforts to model return on marketing in-

vestment (ROMI), and we expect this practice to become more widespread. However, marketers simply don't have the same wealth of historical benchmarks to project the revenue impact of digital-advertising efforts that they possess for traditional media such as television or radio. Only time and experience can fill this gap, and companies must be willing to experiment in order to learn.

The ongoing progress within these five investment criteria suggests that an inflection point is at hand. Yet it is important to keep in mind that, while much is changing, much also stays the same. Traditional vehicles such as television still comprise the majority of total global spending on measured media. While some companies are moving aggressively into digital marketing, others are taking a much more cautious approach. And traditional media are not disappearing; vehicles such as radio, outdoor, and television still work for specific marketing objectives. They will continue to command the largest expenditures for years to come.



# Change on Every Front

**M**aking the right tradeoffs across marketing vehicles today depends on understanding how each media category will evolve tomorrow. Does measured Internet advertising still have the capacity to grow? Is mobile advertising finally poised to take off? Can tablets rescue print media? Is television dead?

We hear very little agreement within the marketing community on these issues, even among the most successful business leaders. Few executives have a holistic and detailed view of how the media landscape is changing in every key category, how various media are converging, and how the entire media ecosystem is likely to evolve in the future.

Some of the following findings may seem old hat to some CMOs, but when considered collectively, they suggest the contours of the new world. We hope that many leaders will want to engage broadly on the integrated perspectives that follow—and in such an uncertain space, we hope that many different opinions will abound.

## Social Media

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Companies have been surprisingly quick to begin experimenting with and, in some cases, adopting as part of their media mix such social-media vehicles as social networking, viral videos on YouTube, blogs, and branded websites. In our survey, 61 percent of the marketing executives we interviewed said that they were already experimenting with social media, and 27 percent had adopted the vehicle as a core part of their media mix. More than 90 percent of executives in our survey planned to increase spending on these activities in the next few

years. A few pioneering companies, such as The LEGO Group in Europe, can point to social-marketing efforts as a cornerstone of recent successes. (See the sidebar “Transforming Marketing Brick by Brick.”)

Across the social-media and marketing landscape, a few social-media sites have emerged as the current front-runners.

**Facebook.** Almost all the respondents in our survey said that their companies have built a presence on Facebook. The site now boasts 500 million users and extensive global reach. The social-networking site is translated into 60 languages and draws 70 percent of its users from outside the United States. Given its draw, advertisers feel unable to sit on the sidelines, and CMOs are working Facebook activities into integrated media campaigns. Facebook is now developing applications, games, and commerce engines (such as Deals for Facebook Places) that expand opportunities for marketers.

**Twitter.** Another ubiquitous social-network-marketing opportunity is Twitter, which boasts more than 100 million user accounts. Limited to 140-character messaging bursts, Twitter is ideally suited for promotional activity such as announcing new-product introductions and special events, driving word of mouth, and responding to consumer complaints. Humphry Slocombe, a 14-seat ice-cream shop in San Francisco, announces its new flavors in edgy and entertaining Tweets (one printable example: “Oh Carrot Mango, I thought love was only true in fairy tales, meant for someone else but not for me”). These have gained the store more than 300,000 followers on Twitter, compared with fewer than 25,000 followers for national chains Dairy Queen and Baskin-Robbins combined.

## Transforming Marketing Brick by Brick

The LEGO Group is the owner of an iconic brand, a recipient of multiple awards for marketing excellence. Yet, as recently as 2004, the company was struggling. Since then, under a dynamic, young leadership team, the company has accelerated out of the downturn stronger than ever. Transformation of marketing has been a key contributor to its success.

Traditional marketing to children will continue to play a crucial role, but The LEGO Group has increasingly made social media, viral media, and networks an integral part of the mix. The purpose of the evolving approach is not merely to add another medium but also to enhance the experience of physical play and build brand loyalty. Creating platforms for communities also builds customer advocacy for the brand.

- ◇ Online mini-movies, featuring properties such as Star Wars and Indiana Jones, provide inspiration for play.
- ◇ “Design byME” enables online users to design unique products and ship them directly to their homes.
- ◇ LEGO Club, with more than 3 million members, offers even very young aficionados access to the brand.
- ◇ Legoclick.com is an online community platform with posts, Tweets, and a link to an iPhone application.

- ◇ The next stage of the journey features the launch of LEGO Universe, a multiplayer online world created to offer fans from all over the globe opportunities to safely build, play, and socialize together online.

Although some of these initiatives may sound sophisticated, the company is acutely aware that digital integration must not become a barrier to experiencing the brand. To succeed, it must balance aggressive expansion of digital media with continued exploitation of traditional media.

The LEGO Group considers internal capabilities a critical asset on this continuing journey. The company seeks both to work with external partners and to develop internal resources. Standard technical platforms are also critical. Management of digital marketing has been fairly centralized until now, but it will increasingly become a distributed capability.

This experience illustrates how the new digital reality requires a companywide perspective that fosters working across functional silos to encompass traditional marketing strategy, product development, and supply chain capabilities.

**YouTube.** YouTube is one of the most popular websites in the world, with more than 2 billion views a day. Of the top 100 advertisers (as measured by *Advertising Age*), 94 have run a campaign on the site. YouTube offers both an advertising platform and—increasingly—a social-networking opportunity through the active comments section and extensive links with other social sites and blogs. In September 2010, YouTube’s number-one sponsor (measured by page views) was the skin care brand Old Spice. The reason? The brand posted more than 100 customized video responses to individual user comments taken from Facebook, Twitter, and blogs; each response was personally delivered by the actor playing the “Old Spice Guy” in television commercials. The campaign has gained wide recognition as a best-practice illustration of social-network marketing: it deploys humor, rapid response, and personalized customer engagement and taps the viral nature of Internet communities.

**Groupon.** Groupon became the most-visited coupon destination online in August 2010, with more than 6 million unique visitors. The site combines elements of traditional promotions, digital media, and social networking by encouraging users to bring their friends on board. Groupon has been embraced by major retail chains such as Gap, along with smaller local businesses. The number of online visits and redemption rates at Groupon are high, in part because consumers commit by purchasing coupons up front.

In the emerging category of social media, we’ve observed a few best practices.

**Listen to what consumers are saying.** Companies have shown they can gain valuable consumer input from online communities to drive innovation, customer service, and other critical operations. There is an increasing number of tools to help companies monitor consumers’ con-

versations on blogs, social networks, and other places on the Internet.

**Begin to (cautiously) curate conversations with consumers.** To take advantage of blogs and use them as a marketing vehicle, marketers must adopt a new role in a dialogue, becoming the curators of consumers' conversations—participating, sparking discussion, and shaping positive word of mouth. Maintaining dialogues with and among consumers is often a very resource-intensive activity. These dialogues can also entail a degree of risk if they are not monitored properly.

**Integrate social media online with your offline strategy.** Both social media and blog conversations present excellent ways to *amplify* a brand, but it is quite difficult to scale up efforts in these areas. Therefore, the most successful strategies integrate social-media initiatives with other, more traditional media strategies to *extend* the brand. Examples include using targeted television campaigns to drive users to Facebook pages or linking sponsored events to social-media outlets.

**Ensure that conversations are authentic and transparent.** Consumers demand honesty. In fact, in a survey of 5,000 consumers that BCG conducted across five countries earlier this year, respondents selected transparency (from a list of 12 options) as the top priority for online advertising. In addition to exposing themselves to poten-

tial marketing and ethical issues, companies that engage with customers via social media and blogs may face a real and increasing threat of legal action. Last year, the Federal Trade Commission issued guidelines that require companies to disclose “material connections” to bloggers, and the agency began initiating investigations against companies that crossed into gray areas, such as offering bloggers the opportunity to win prizes for their postings without providing sufficient instructions about the need for disclosure.

## Mobile Advertising

Mobile advertising is a fixture in some advanced markets, such as Japan and South Korea. (See the sidebar “Mobile in Japan.”) However in the United States and Europe, mobile telecommunications has long been known by most marketers as the medium whose future is always around the corner yet never quite arrives. Mobile advertising encompasses several categories of ad vehicles, including SMS/text messaging, mobile display and in-application advertising, promotional applications, and sponsored applications.

For most Western companies, mobile advertising has accounted for a very small percentage of the marketing budget (typically less than 2 percent for our survey respondents) and often has been the first victim of budget

### Mobile in Japan

Throughout much of the world, the mobile medium has been—up to now at least—an insignificant piece of the advertising puzzle. Not so in Japan, where mobile payments have been used for about five years and have been adopted by more than 20 percent of consumers. These payment technologies have several implications for advertisers: they provide a wealth of targeting data; allow for point-of-purchase promotions and next-generation loyalty programs; and enable much better measurement of ROI on mobile campaigns.

NTT DoCoMo has been one of the leaders in this space. In 2007, the company created a joint venture with McDonald's to manage McDonald's mobile communications to its loyalty club, including e-coupons and mobile campaigns. Consumers can download coupons to their phones while waiting in line, and then use them when they place

their food orders. McDonald's can even push targeted coupons to the users based on their purchasing patterns.

Another DoCoMo innovation is its i-concier offering, a mobile personal-assistant service that provides weather, transportation, sports, and, of course, coupons to more than 5 million users. With i-concier, users can customize their services and manage their loyalty programs in a way that minimizes unwanted spam. The service incorporates data from a variety of sources including user preferences and GPS location-based data to ensure that the right offers are targeted to the right people.

cuts. Globally in 2009, the tracking service TNS reported only \$1.7 billion in expenditures on mobile advertising, including both SMS and mobile display ads, compared with \$182 billion spent on television advertising.

We believe, however, that mobile media appear at long last to be coming of age, even in the United States. In fact, more than 70 percent of survey respondents said they plan to increase their allocation to mobile advertising over the next three years. As one participant explained, “Mobile is a small area of our overall inventory, but it is a big investment area.”

Growth in mobile advertising has been boosted by the proliferation of smartphones. Now that there are more than 50 million smartphones in use in the United States, marketers are getting excited about mobile display, such as mobile banner ads, and in-application advertisements. These advertisements allow companies to deliver an incredibly rich media experience to consumers using very specific targeting at the individual level, including geo-specific, demographic, and even behavioral targeting. One major driver behind growth in mobile display advertising has been iAd—Apple’s mobile advertising network. (See the sidebar, “The \$60 Million Experiment.”)

Now, a host of new start-ups are taking advantage of the uniquely mobile nature of the mobile device. The biggest star has been Foursquare, the mobile application and loy-

alty program that allows users to check into locations in return for special promotions. Another example, Shopkick, launched its application earlier this year, enabling its users to receive special promotions depending on where they are in its retail partners’ stores. Most of these applications are still in the very early stages of development, and it still is not clear who the winners and losers will be. Even the success of Foursquare has been called into question after the launch of Facebook Places, the social-media giant’s competing platform.

Some companies are even designing or sponsoring mobile applications of their own to appeal to consumers. The most successful applications manage simultaneously to offer value to the consumer and closely reinforce brand equity. For example, Procter & Gamble’s Charmin partners with Sit or Squat, an application that provides user-generated listings of public restrooms, complete with hours of operation and user ratings.

Given this type of news-catching “sizzle” in the mobile-advertising market, many marketers are still asking, “Where’s the steak?” Admittedly, the large-scale effectiveness of mobile advertising is still largely unproven. But given the recent developments, companies should consider a few critical steps:

**Revisit your segmentation.** Mobile phones offer an incredibly rich set of targeting options, including not only

## The \$60 Million Experiment

Earlier this year, Apple completed the acquisition (and subsequent closure) of Quattro Wireless, one of the largest mobile ad networks in the United States. The company soon after announced the creation of iAd, an effort to create more-effective mobile advertising to drive revenue to its application developers.

The new ad units would enable users to view ads without leaving the applications and would feature very rich media. Apple attracted more than \$60 million from premium advertisers, each of which pledged a minimum of \$1 million, for the second half of 2010—essentially doubling the size of the mobile display market.

The early demos have been visually impressive, but questions remain about the relative effectiveness of these new ad vehicles. The mobile medium is widely perceived as a

natural fit for coupons, promotions, and location-based services. However, it remains an open question whether the new displays and formats will be effective media for brand advertising. Progress has been cautious, as Apple, advertisers, and creative agencies learn to work together effectively on developing appropriate mobile campaigns.

If the results of this \$60 million experiment are positive, several developments could finally take mobile advertising off the sidelines. First, advertisers experimenting now have expressed a willingness to increase their commitments. Moreover, other advertisers will likely begin to make greater use of these mobile ad vehicles. And we would expect other ad-based platforms, such as Google’s AdMob, to follow in iAd’s tracks to develop new types of innovative ad inventory as well.

traditional demographics but also, in some cases, behavioral and geographic targeting. Understanding how the primary target segments line up against your mobile-targeting capabilities could have a dramatic impact on the effectiveness of your marketing programs.

### **Begin a program of planned experimentation.**

Because these are the early days of mobile media, it is not clear which programs will work—and which won't. CMOs should begin investing to understand which programs really “move the needle.” The first targets should be mobile-advertising vehicles that take advantage of the unique nature of the mobile phone: individual-level targeting and GPS- and location-based promotions such as coupons.

**Hire an expert.** In the field of mobile advertising, solid execution is both vital and very difficult. For example, an advertisement may be rendered differently on different devices. Messaging in mobile advertising is extremely important—limited space means that simple messages work best. Find an agency or hire someone internally who has experience with these nuances.

**Actively monitor developments in the market.** The world of mobile advertising is very dynamic. New entrants, new experiments, and new competitive moves emerge almost every day, and many of these developments could provide incredible opportunities for your marketing programs.

Winners and losers in the mobile-advertising market will begin shaking out over the next couple of years. And while mobile advertising may not be vital today, the learning curve is quite steep—and it will take time to get right. So now really is the time to begin these experiments if you hope to get a jump on your competitors.

## **Television and Online Video**

Television—the epitome of mass media—is under pressure, but it continues to offer many advantages for traditional marketers. Television still accounts for more than 50 percent of global spending on measured media, making it by far the largest media vehicle. It remains one of the very few mass-marketing vehicles that can reach mil-

lions of consumers at once, making it ideal for awareness-building campaigns.

Several key challenges are emerging, however, to the pre-eminence of television media.

### **Ad-skipping behavior by consumers is on the rise.**

According to Nielsen's *Three Screen Report* for the first quarter of 2010, 37 percent of U.S. households now own digital video recorders (DVRs), representing an increase in adoption of 6 percent per year over the last two years. Media and reporting agencies have tried to downplay this development. For example, Nielsen's numbers claim that the time-shifted viewing of commercials has remained steady, with about

45 percent of commercials watched—even on DVRs.

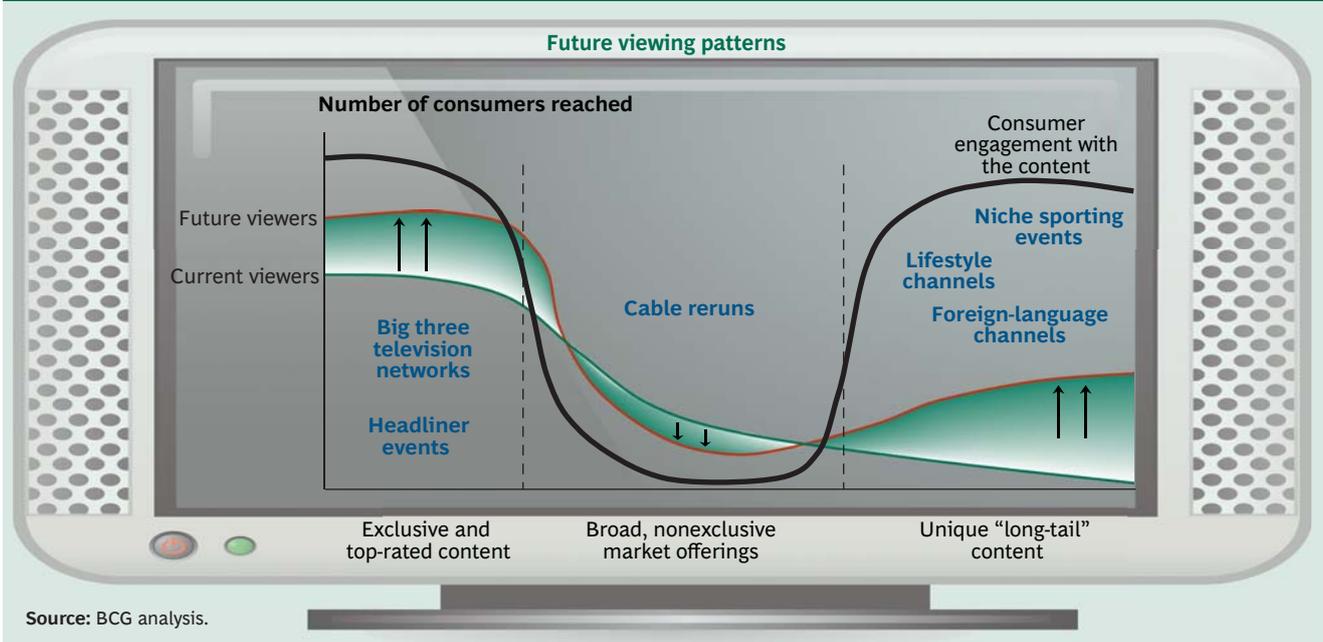
**The consumer audience is fragmenting.** Of course, consumers are dividing their time across a wider array of media—often viewing several media simultaneously. But even within the array of television offerings in the United States, we see a “trifurcation” of the broadcast and cable world. (See Exhibit 3.) At one extreme, popular content is becoming even more popular, thanks in part to the ability of consumers to time-shift viewing (although of course, this raises questions about whether ads placed in these media are actually being watched). At the other extreme, the explosion of niche content with high viewer engagement has helped attract those viewers at the long end of the tail. This will mean decreased viewing for the remaining “middle of the road” content; for example, far fewer viewers will watch dated reruns of *The Golden Girls*.

**Advertisers desire flexibility in spending.** Television “upfronts”—the annual ritual in which networks pitch their lineup of new programs to advertisers in hopes of selling ad inventory in advance—are becoming increasingly challenging to maintain. With audiences fragmenting and new alternatives both on and off television arising practically on a daily basis, most marketers are not looking to make annual commitments many months out. In fact, quite the opposite: savvy marketers expect to evaluate their television ad campaigns in real time and reallocate expenditures that are not achieving impact.

Taking all the challenges into account, we expect television to undergo massive changes over the next five years.

Mobile advertising may not be vital today, but the learning curve is steep—and it will take time to get right.

### Exhibit 3. Television Viewing Will Shift to Top-Rated and Niche Content



Underlying all these changes is the ongoing shift from traditional television to online video. Already, almost 50 percent of the U.S. population watches video on the Internet—although the time spent viewing still averages only around three hours per month per viewer. We expect this measure to rise, particularly as the proliferation of consumer electronics enable consumers (even nonengineers and those over the age of 21) to easily access Internet content directly through their televisions.

Right now, marketers are struggling with two extremes with regard to online video. At one extreme, premium content is scarce in online video, as many premium networks have held back inventory to keep the cost per 1,000 impressions or “ad views” (known as CPM) high. We suspect that this scarcity is likely to abate over the next couple of years as premium cable-network content proliferates on the Internet—particularly if the cable operators’ “TV Anywhere” and “TV Everywhere” initiatives gain traction—and as television networks gradually increase the amount of inventory available online.

At the other extreme, marketers are overwhelmed by the incredible amount of long-tail video offerings—that is, the high volume of unique online videos, each one viewed by relatively few consumers—many of which are short-

form and often user-generated content. Companies must ensure that their advertising appears only on brand-appropriate sites and that the video advertisement formats themselves are of a brand-enhancing quality. Over the near-to-medium term, the combination of marketer pressure, the likely consolidation of video ad networks, and industry efforts—such as those by the Interactive Advertising Bureau in the United States—will likely help alleviate these concerns.

In online video advertising, marketers will continue to struggle with measuring performance and, in particular, creating the predictive models that link online ad spending to overall sales. As one marketing executive in a consumer-packaged-goods company explained to us, “Click-through rates aren’t really meaningful to my business. With television advertising, I can clearly track the link between my media spending and sales volume lift in a given week.”

As a result, marketers are not yet ready to move significant dollars away from television. In fact, overall television expenditures are still high, although they continue to shift from broadcast to cable. The networks are still critical for their ability to deliver a major number of eyeballs in the mass market, as demonstrated by continued adver-

tiser support for large-scale audience events such as the World Cup.

In response to these dramatic changes, we recommend that companies take the following actions:

**Move to a “zero-based-budgeting” approach for television advertising.** Companies need to understand what the real return on television expenditures is. Building marketing budgets from scratch—rather than continuing to add annual increases to existing advertising allocations—will help them discover and reflect the new digital realities. Television will continue to have its place in the marketing mix, but too many of our clients have become overly reliant on television over the years.

**Experiment with over-the-top video advertising.** Marketers should try both long-form and targeted short-form advertisements in online video. However, be careful to ensure that your messages are associated only with video content that is consistent with your brand.

**Work with cable multiservice operators and content aggregators to create ad formats that work.** The basis for the next generation of television advertising is being laid now. New technologies can help avoid ad-skipping and create new ad formats that are more effective. Already, we have begun to see some experimentation, particularly in some areas of Europe—and some of it is more successful than others. To ensure that their voices are heard, marketers need to participate in the industry conversations that are now taking place.

## Print Media and the Promise of the Tablet

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Even a quick glance at the facts makes it clear that print media are in trouble. According to the tracking firm TNS, print media fell from 41 percent of global advertising spending in 2003 to 33 percent in 2009, and almost all the share lost shifted to the Internet.

Print magazines were slow to exploit their depth of content online, fearing cannibalization of subscription and newsstand sales. Meanwhile, newspapers were financial-

ly crippled by the loss of classified advertising to Internet applications.

If the past is any indication of the future, print advertising (in its traditional format) will continue to struggle over the next five years. In our survey, about 44 percent of respondents said they planned to decrease spending on print magazine advertising in the next three years, while 62 percent said they planned to decrease spending on newspaper advertising. Industry veterans also reported seeing massive changes on the horizon. In a recent interview with BCG, one senior executive from a leading fashion magazine predicted, “We believe that there will be no such thing as a magazine in five years.”

Can tablets and e-readers rescue print magazines and newspapers? For newspapers, the answer is maybe. For magazines, however, tablets hold clear potential, given their ability to make rich content completely accessible anywhere.

Tablets like the iPad, in particular, are strong vehicles for magazine publishing, since they allow more creative features and color imagery to gain prominence. In addition, a tablet has the potential to deliver an inventory of advertising that combines the best of video, high-quality still graphics, and interactivity.

These are still the very earliest days of the tablet, however, and the ecosystem for tablet advertising has yet to form. Through our analysis, BCG predicts that the installed base of tablet devices will reach approximately 100 million in the United States alone by 2014—and could rise substantially higher if corporations transition business-use laptops to tablets. (For more on this topic, please see BCG’s 2010 White Paper *Tablets and E-Readers: The Last, Best Chance for Digital Content?*)

Once the installed base exists, both marketers and the publishing industry will need to address several questions over the coming years, chief among them:

- ◇ What are the standards for creative formats?
- ◇ How will all these creative formats be rendered on the individual devices?

- ◇ How should ad effectiveness be measured? For example, should CPMs with and without pass-along viewership be used?
- ◇ How can the industry take advantage of targeting and dynamic ad placement while remaining compliant with the guidelines issued by the Audit Bureau of Circulations (ABC)?

Advertisers will need to take an active role in shaping these ecosystems. Many groups are already trying to put their own stamp on how the advertising markets for print publications on tablets and e-readers will evolve. Device manufacturers, and their associated ad networks, are trying to shape the ad landscape. Publishers are working to create a set of industry norms. More traditional industry associations such as ABC and IAB are also trying to create a set of norms. Ultimately, however, the large marketers that are making early investments will have the most influence in shaping this ecosystem: their marketing dollars will fund the content that appears on this new medium.

It is important to remember that not all online traffic is good and profitable traffic.

It is also important to remember that not all traffic is good and profitable traffic. One client we worked with was buying very expensive advertising links to keywords in order to attract consumers—but these online visits never actually converted to sales. The company therefore decided to cut the SEM budget by 80 percent and reallocate the spending to more productive offline channels and vehicles, thereby dramatically increasing online sales. In this dynamic environment, companies must monitor consumer searches, competitor spending, offline marketing expenditures, and Google search criteria on an ongoing basis.

When it comes to online display advertising, many marketers we interviewed voiced concerns about these vehicles. Premium inventory that offers broad reach—as ad placements on MSN and Facebook do—remains scarce. Marketers say that it is difficult to identify effective, brand-enhancing inventory among the long, long tail of literally millions of content websites offering advertising space. Meanwhile, consumers are becoming more difficult to reach, as they shift their time to social-networking activities and respond less frequently to online advertisements.

Despite these obstacles, several opportunities remain for marketers to further take advantage of measured Internet media.

## Measured Internet Media

At this point in time, measured Internet—traditional online-advertising spending that is tracked by third-party research firms—is actually one of the more stable media categories. While, as we describe in the chapter on television advertising, online video advertising is still evolving, search advertisements and display ads—such as banners, videos in static webpages, and pop-up ads—are well established. In fact, we refer to these as traditional digital or “tra-digital” media.

Search engine marketing (SEM), and in particular maintaining a presence on Google, continues to be a vitally important component of the marketing mix for most companies. However, companies must understand the real cost and impact of SEM activity, assess the resulting profitability of the customers they acquire through this means, and optimize spending accordingly. It is not enough to simply pay for sponsored listings (known as paid search-engine advertising, or SEA). Best-in-class companies drive performance both through paid SEA and search engine optimization (SEO); the latter utilizes the natural order in which search results appear.

**Increase the overall allocation to measured Internet advertising.** CPMs for Internet display advertising remain well below the average CPMs for television advertising. In our survey, measured Internet advertising was considered to be more effective than advertising in other media by 80 percent of respondents. Similarly, 95 percent of our survey respondents expect to increase their budget allocation in this category over the next three years.

**Adopt new formats.** Some marketers are experimenting with engaging custom formats that go well beyond the traditional banner ad, often taking advantage of rich media animation and video. Apple, for example, has been very innovative over the past few years with its “Mac vs. PC” ads. In one example, the Mac and PC rivals spoke to each other across banner ads on the website. Although these advertising campaigns are often very difficult to scale up beyond the most premium of sites, they catch

eyeballs and generate tremendous media buzz in technology blogs.

**Take advantage of improved targeting.** Targeting technologies have advanced rapidly, in most cases well ahead of marketers' abilities to utilize them. Most marketers we have spoken to are still relying primarily on demographics and location (at the country level) to reach specific end users online. However, marketers that use the following, newer targeting capabilities can increase click-through rates by more than five times:

- ◇ *Behavioral Targeting.* Leverage the wealth of new user information—such as preferred activities, interests, television programs, and music—offered by websites such as Facebook. Use cookies to gather information about other websites that users have visited, and incorporate those insights into marketing strategies.
- ◇ *Retargeting (or Remarketing).* Target online ads to consumers who have previously visited your website or clicked on another related ad in order to recapture their interest.
- ◇ *Data Sharing.* Exchange data with other websites that may target consumers who have similar or complementary profiles.
- ◇ *Use of Data Exchanges.* Leverage data exchanges, such as BlueKai, that enable advertisers to access a broader set of information than ever before, including psychographic, behavioral, and occupational data.

There is a great deal of excitement about the future of targeting data—but also some caveats. All players—advertising platform owners such as Google, content providers such as magazine publishers, and device manufacturers such as Apple—are trying to harness their own consumer-usage data, in many cases across platforms. Over the coming years, however, the industry will wrestle with three main issues raised by targeting:

- ◇ Digital technology will likely continue to outpace marketers' abilities, generating more data than they actually can use.
- ◇ We expect increasing legal and public scrutiny around privacy issues, particularly after recent attention to Google's collection of data. (*The Wall Street Journal* this summer created an entire webpage, titled "What They Know," dedicated to the collection of online marketing data).
- ◇ There is the "creep factor"—consumers are increasingly demanding a higher degree of transparency. They want to know why the pair of Donna Karan boots they viewed at Zappos.com three days ago keeps following them around the Internet.



# The Marketer's Response

Over the last six months, we've held dozens of conversations with CMOs and other executives who realize that 50 years of history in marketing organization and management approaches must change dramatically. Most marketers understand the urgency. They do not need a call to action. Rather, they need a clear answer on the "new" solution.

Executives we spoke with raised four types of questions most frequently:

- ◇ *Planning and Budgeting.* Given limited marketing resources, how do we evaluate the relative effectiveness of our marketing options and make tradeoffs accordingly? How do we ensure that our internal process for budget allocation supports rather than hinders investments that advance our digital-marketing goals?
- ◇ *Internal Capabilities.* How should we strengthen our own organization and processes—for each ad vehicle and each stage of the advertising value chain?
- ◇ *Outsourcing Decisions.* Which digital-marketing activities should we manage internally and which should we outsource to our agencies?
- ◇ *Agency Navigation.* How should we manage the full spectrum of ad agencies, digital-ad agencies, and PR agencies?

Our interviewees agreed that no company out there has all the answers yet. Instead, most companies are taking a leap of faith when it comes to digital marketing. They are investing despite their lack of capabilities, measurement tools, and agency supports. Certainly, companies have

been tackling a steep learning curve in digital marketing largely through trial and error. But we are already starting to see the emergence of some patterns that can provide better answers to the questions above.

We distilled some specific insights on best-practice approaches by segmenting our survey respondents into two groups: marketers who were more deeply committed to digital marketing, our Digitals; and those marketers who were still taking a wait-and-see approach, our Traditionalists. We segmented our sample by defining Digitals as respondents from companies that had above-average rankings on three dimensions:

- ◇ Budget allocations to social media, Internet, and mobile advertising
- ◇ Intention to increase spending on social-media and mobile advertising
- ◇ Perceived ability to make tradeoffs across media

In this way, we observed several characteristics commonly demonstrated by the companies most actively engaged in digital marketing. (See Exhibit 4.) We found that Digitals were nearly twice as likely to be in a direct-response business with a high e-commerce presence (such as retailers, financial service companies, telecom companies, and airlines.) Traditionalists were more likely to be in a brand-building business selling products largely through third-party retailers (such as food and beverage, health and beauty, and consumer durables companies).

Through their focus on e-commerce and driving online traffic over the past decade, direct-response companies

## Exhibit 4. Companies with Higher Digital Engagement Have Stronger Internal Supports

	Lower digital engagement	Higher digital engagement
	Traditionalists	Digitals
Average company revenues	\$22.2 billion	\$30.8 billion
Percentage of respondents in direct-response industries <sup>1</sup>	38	68
<b>Percentage of respondents who agree or strongly agree with the statement</b>		
“We have the tools to make tradeoffs effectively across media”	29	<b>52</b>
“My agencies are helpful in making tradeoffs across media”	25	<b>37</b>
“My company mandates a minimum investment in digital marketing”	19	<b>39</b>
“Our KPIs provide incentives to invest in digital marketing”	14	<b>35</b>
“Digital marketing is important to my personal success”	48	<b>61</b>

**Source:** The BCG Future of Marketing and Advertising Study, 2010.

**Note:** We categorized 24 respondents as being from Traditionalist companies, and 27 respondents as from Digital companies. We defined Digitals as those respondents from companies that had above-average rankings on three dimensions: budget allocations to social-media, Internet, and mobile advertising; intention to increase spending on social-media and mobile advertising; and perceived ability to make tradeoffs across media.

<sup>1</sup>We defined direct-response industries as businesses with a high e-commerce presence, such as retailers, financial service companies, mobile telecom companies, and airlines.

have embraced the realities of digital marketing. For brand-building companies, however, the value of investments in Internet and social media seems hardest to prove. “The biggest gap in digital media is the inability to link our advertising spending to a high-confidence ROI metric,” said one marketing executive.

This gap is grounded in business realities. While direct-response companies see digital-marketing clicks driving consumers to their e-commerce sites and can track each subsequent sale, brand-building companies are left with a more tenuous connection between their online marketing activity and a purchase in a physical store. In addition, managers in large consumer-goods companies may tend to focus on sales volume rather than ROI as the primary metric for success, causing them to focus on activities such as trade spending and television advertising—which have greater audience reach. By contrast, for certain consumer companies, online vehicles on average tend to deliver higher ROI but lower increases in sales volume (marketing impact) than traditional media do. (See Exhibit 5.)

## Planning and Budgeting

Most marketers have seen their planning and budgeting approaches evolve greatly over the past decade.

Traditionally, marketing budgets have been set by simply maintaining a consistent ratio to sales growth, despite evidence suggesting that this is a poor way to make spending decisions. (For more on the topic, please refer to our recent report, *No Shortcuts: The Road Map to Smarter Marketing*.) In our survey, however, only 25 percent of respondents told us that their budgets were set this way. In fact, 45 percent of our respondents told us they are building marketing budgets from scratch.

Most likely, the recent economic downturn, combined with the realization that new marketing vehicles need to be incorporated into the mix, have pushed CMOs to change to this zero-based budgeting approach. We found this finding encouraging, as it avoids perpetuating suboptimal spending patterns simply through status quo budgeting.

## Exhibit 5. For a Sample of Consumer Companies, Online Media Provides a Relatively Higher Return on Investment

### Marketing impact

Percentage of unit sales volume attributed to marketing<sup>1</sup>

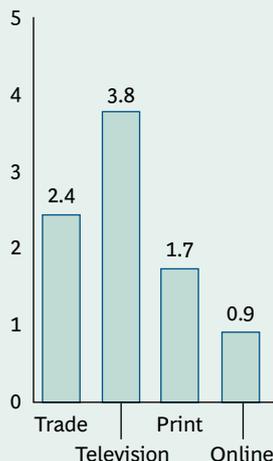


Number of brands in sample:

75 64 43 29

### Marketing efficiency

Spending per percentage point of unit sales volume attributed to marketing<sup>2</sup> (\$M)

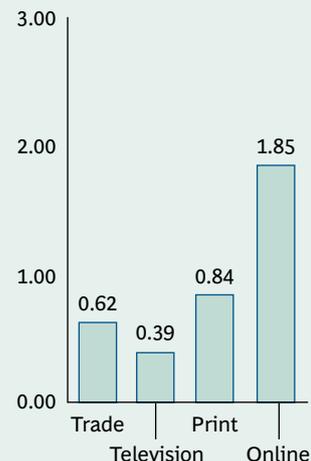


Number of brands in sample:

75 64 42 29

### Return on investment

Incremental gross margin per \$1 spent on marketing (\$)



Number of brands in sample:

75 64 43 29

**Source:** 2010 ROMI modeling meta-analysis by The Boston Consulting Group and Marketing Analytics.

**Note:** The models for the 75 brands were based on at least two years of marketing activity and weekly sales in the U.S. food channel between October 2005 and July 2009.

<sup>1</sup>This percentage reflects the amount of sales volume that can be attributed specifically to the impact of marketing expenditures.

<sup>2</sup>This calculation reflects the marketing expenditures that can be linked specifically to an incremental increase in unit sales volume.

In light of all the changes in the advertising landscape, marketers have mixed views on their own ability to allocate marketing resources. About two-thirds of the respondents we surveyed said that overall they felt comfortable optimizing ad spending between new and traditional media. But only 46 percent said they possessed the tools needed to make these tradeoffs.

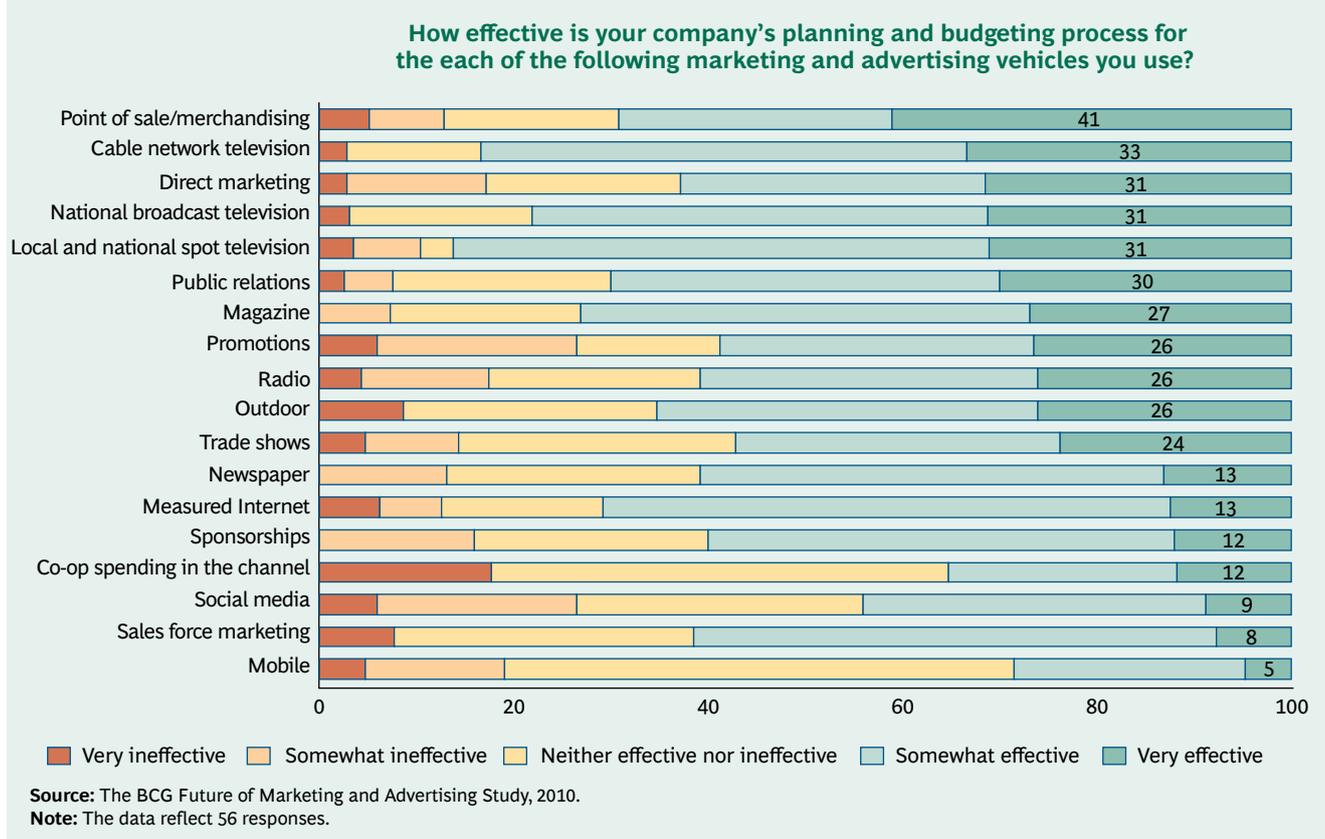
An even lower percentage of our Traditionalist segment reported confidence in this area. In interviews, marketers described the importance of obtaining an integrated view on ROI across marketing vehicles—but seemed to view it more as an ideal than the reality.

Across most traditional media types—including measured Internet—a majority of respondents felt that their current planning and budgeting process was effective. But these same respondents ranked the process used for social-media and mobile advertising at or near the bottom. (See Exhibit 6.) Nevertheless, some leading compa-

nies are placing a strategic imperative on digital investment, and therefore adopting specific mandates to drive the strategy. Over the past year, leading companies including Unilever, Procter & Gamble, and Ford publicly announced setting minimum targets for investment in digital media. In our survey, Digitals were about twice as likely as Traditionalists to set minimum thresholds for spending on digital marketing and to have key performance indicators linked to incentives for investing in digital media.

According to one former executive at Procter & Gamble, investment in digital marketing has historically been hampered by a prevailing consensus among brand managers that “no one ever got fired for spending more on television.” It may be that this is no longer consistently true. In our survey, 55 percent of our overall respondents—and 61 percent of executives from Digitals—said that digital marketing was important to their personal success as executives.

## Exhibit 6. Few Respondents Find the Planning Process for Social and Mobile Media Very Effective



## Internal Capabilities

When considering their internal capabilities for digital marketing, executives often want to establish where, within their organizations, digital activities should reside.

Today we see that most marketing activities—digital as well as traditional—tend to be decentralized and performed at the division or brand level rather than centralized across the company. (See Exhibit 7.)

However, several issues make digital marketing more complex than traditional marketing:

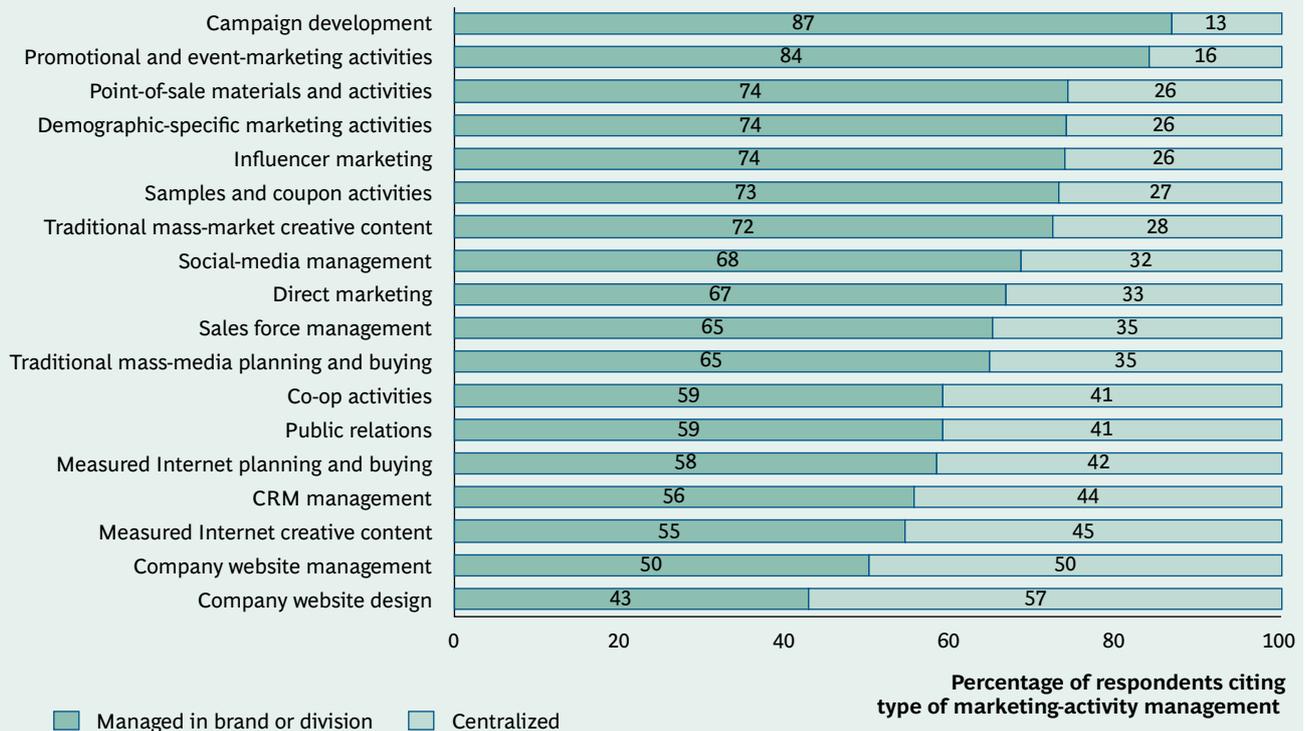
- ◇ Strong talent in the digital space is scarce and often requires incentives that differ from those provided by a traditional corporate structure.
- ◇ There are very few established “rules of the road” in digital marketing—experience matters.

- ◇ The nature of digital marketing itself is more global than traditional marketing has been, since activities on sites such as Facebook and Google can be viewed by Internet users in any country.

Recognizing that every company is different, companies can use a good rule of thumb: keep the strategic digital-marketing activities as close as possible to the business unit and ensure that they reflect the specific marketing direction for the division, brand, or region. Where possible, however, execution—such as coordination of e-mail blasts, the purchase of measured-Internet display advertising—should be centralized.

The center should also mandate specific quality standards for execution at the edges of the organization. These standards should be used to set a minimum floor for excellence across the company; the idea is not to “bring down” high-performing groups, but rather to share successful approaches with other brands and divisions.

## Exhibit 7. Marketing Activities Are Not Often Centralized



Source: The BCG Future of Marketing and Advertising Study, 2010.  
 Note: The data reflect 49 responses.

## Outsourcing Decisions

One of the most frequently asked questions we hear from marketers is whether they should be insourcing or outsourcing digital marketing and advertising activities. In traditional media such as print, radio, and television, the value chain and the primary roles in each step are generally clear. Typically, internal marketing teams set the strategy, advertising agencies develop the creative execution and copy, and media-buying organizations acquire ad pages in magazines or 30-second spots on prime-time television. The digital world is much more complex, however, requiring new skill sets and interfaces with new sets of players—ad networks, device manufacturers, and bloggers, among them.

There is no single winning model. Our survey shows that companies defined as Digitals were about as likely as our Traditionalist segment to outsource online creative execution, online buying, and social-media management.

(See Exhibit 8.) Similarly, in our interviews, we found that even high-performing companies can easily make sharply contrasting decisions when it comes to outsourcing digital marketing.

An executive we interviewed from an education company shared his organization’s decision to eliminate the agency of record and bring all marketing activities in-house. The company now manages a substantial internal staff that includes four employees dedicated to SEM, ten dedicated to website development and construction, eight working with paid vendors, and the remainder handling marketing operations and other activities. The company embraces the benefits of managing search engine optimization in-house and developing face-to-face relationships with partners in the advertising value chain, such as Google.

By contrast, a leader from a midsize consumer-goods company described a hybrid approach: this company

contracts with both a digital-advertising and traditional-advertising agency and also manages some activities internally. A four-person brand team, plus one central employee dedicated to digital initiatives, interacts with a much larger team of people at the digital-media buying and creative agencies. In this setup, the skills in agency navigation become crucial; in order to produce integrated campaigns, the company must “force” its agencies to work together once the creative message is defined.

The outsourcing decision must be made on a highly de-averaged basis, depending on the specific activity and step in the value chain. For example, who exactly should be responsible for responding to Facebook fans? Such engagement can be critical to brand reputation and customer loyalty. Too often, however, companies entrust these tasks to 20-year-old interns or to third-party PR firms or digital agencies that lack sufficient context. At the same time, in-house approaches face several obstacles: engaging digital consumers is a very complex and labor-inten-

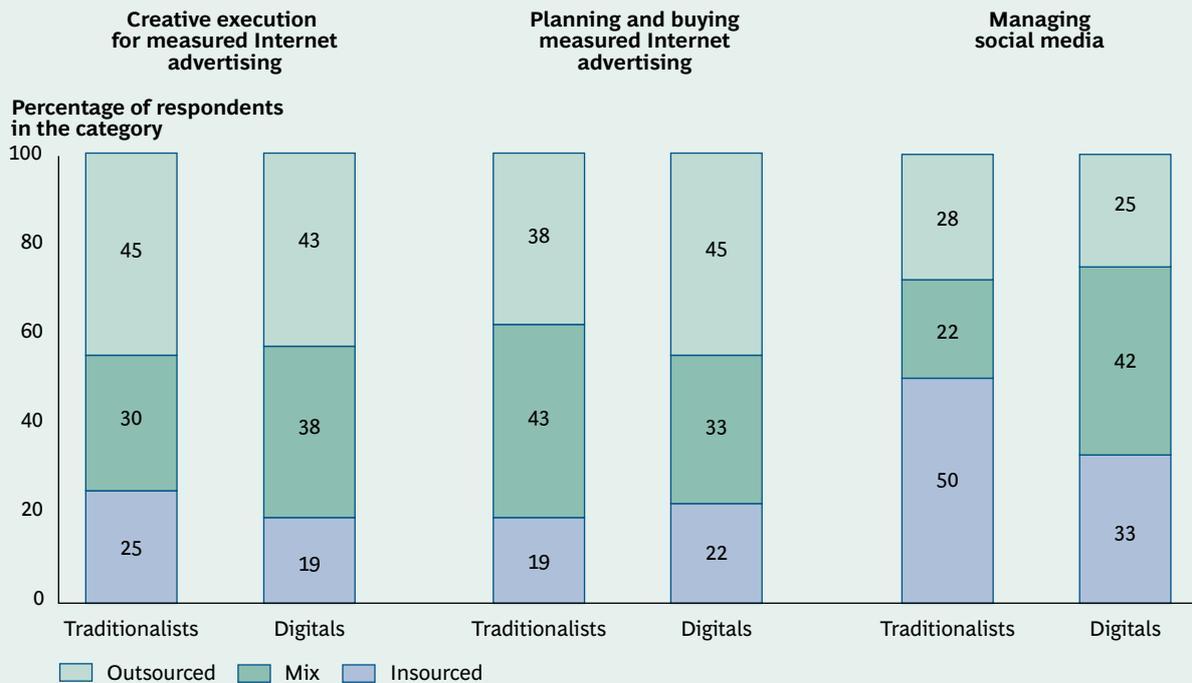
sive activity, and it is difficult to attract digital talent into a traditional corporation. To determine the right path, CMOs should consider the sensitivity or risk level of an activity, the availability of qualified third parties, and the difficulty of building internal capabilities.

## Agency Navigation

As most companies are likely to outsource all or some digital-marketing activities, the ability to navigate and manage advertising agencies becomes more critical than ever. Unfortunately, working effectively with agencies is also more complicated than ever. Only 31 percent of our survey respondents said that they found their agencies helpful in making the right tradeoffs between digital and traditional media.

On the one hand, traditional “holding-company” agencies, with their wide range of subsidiary businesses and

### Exhibit 8. No Single Model Exists for Outsourcing Decisions on Internet and Social-Media Marketing



**Source:** The BCG Future of Marketing and Advertising Study, 2010.  
**Note:** The data reflect 51 responses—24 Traditionalist companies and 27 Digitals.

service offerings, can promise one-stop shopping for marketing support and integrated campaigns across media. However, few agencies are fully achieving that ideal today. The agencies are hampered in many cases by organizational silos (although these are improving), by an incentive system weighted toward experience over experimentation, and by simple inertia. Since they want to optimize purchasing and to share scale across clients, they lean toward large-scale media purchases that don't translate well in the digital world. They also may lack real, bleeding-edge expertise in all aspects of digital marketing. As a result, holding-company agencies often fail to develop cross-campaigns that make the most of opportunities in different media.

On the other hand, focused digital agencies come with their own caveats. Most are relatively small; they still lack scale and can't provide global coverage. Specialized by nature, they don't always bring a broader perspective on traditional media. They can "own" only a small slice of a company's marketing activity—the part that is purely digital and does not require coordination across traditional and digital vehicles.

In an emerging approach, some companies are choosing to outsource social-media activities to PR agencies. Having yet another vendor in the mix on integrated campaigns certainly adds to the logistical challenges. However, putting PR firms in charge of a brand's Facebook page may be a good match in some cases: these agencies are skilled at crafting messages for public consumption, responding to outside inquiries, protecting a brand's reputation, and avoiding legal risks.

We expect more companies in the future to move toward working with a mix that includes a traditional holding-company, specialized digital agencies, and PR agencies. The most successful companies will ensure that these collaborations result in truly integrated campaigns by briefing all agencies together and providing the right monetary incentives for them to work with one another.



# Launch Your Mission

**E**ven today's top marketers haven't begun to converge around a single model for the marketing organization of the future. In fact, we see examples of success in many companies despite their very different approaches.

However, on the basis of our findings, we can offer a top-ten list of recommendations for companies looking to improve their game in digital marketing:

1. *Start with an internal "health check."* (See the sidebar "Start with a Digital Marketing Health Check.") Answer the key questions that define a digital-ready marketing organization. Your responses will reveal your strengths and weaknesses, as well as areas for immediate improvement.
2. *Articulate an integrated marketing strategy.* The strategy should be based on an understanding of consumer segments, their potential media-consumption habits, and your specific objectives for marketing each brand or business. Don't be distracted by technology gimmicks or buzz; base your selection of the right mix of traditional and digital options on your strategy.
3. *Use an integrated model that assesses ROMI across the full range of marketing vehicles.* Don't simply rely on your ad agencies for guidance. Jettison outdated marketing-mix models that include only traditional-marketing vehicles. While we haven't yet seen a fully integrated approach implemented consistently, the leading players are working aggressively on continuous improvement in this area.
4. *Design customized measures for digital.* Many currently available metrics are inconsistent with one another and may not meet your company's needs. Agencies and industry groups are working to set standards, but the pace of these efforts is slow, the process is vertically oriented, and the result (which might not come for five years or more) could be output that still isn't an ideal fit. Better to seize the initiative and define your own metrics.
5. *Set minimums for digital investment and incentives for experimentation among marketing executives.* Change the internal mandate from "no one ever got fired for spending more on television" to "you can get fired for buying too much television time."
6. *Reconsider your range of agency options.* For each of your marketing vehicles, look beyond traditional-advertising agencies and consider digital-advertising agencies, digitally savvy PR agencies, and "crowdsourcing" from agencies or even online consumers. (Crowdsourcing entails tapping into your customers and using their ideas and contributions in marketing and advertising campaigns.)
7. *Brief traditional and digital agencies together and create incentives for them to play together nicely.* The standard incentive model for agencies is not structured to support seamless collaboration. However, one marketer we spoke with has arranged to withhold up to 20 percent of agency compensation on the basis of a qualitative assessment of how well the agencies collaborate.
8. *Watch out for—and embrace—the emergence of new-style advertising agencies that support their relationships with integrated campaigns involving all vendors.* We predict that the gap currently left by a fragmented array of digital and traditional agencies may be filled by these

## Start with a Digital Marketing Health Check

Drawing on our work and discussions with clients, we've developed a health check for assessing digital marketing.

### Commercial Goals and Strategy

- We understand how the targeted consumer segments behave online.
- We leverage online channels and social media effectively.
  - We understand our consumers' needs.
  - We accelerate the innovation process.
  - We test and launch new campaigns.
- Our online brand communications are authentic and interactive.

### Marketing Budget Allocation

- We make effective tradeoffs between traditional measured media and digital-marketing activities.
- We combine traditional- and digital-media vehicles into powerful integrated campaigns.
- We can accurately measure the effectiveness of our digital and new media investments.

### Consumer Interactions

- Our consumers are highly affiliated with our brand online (for example, we have fans and followers).
- We monitor what our consumers say about us online.
- We analyze consumer data from online channels and social media and feed the results back into our processes and systems, such as:
  - Customer segmentation.
  - Brand positioning.
  - New-product development process.

### Internal Organization

- We successfully attract the best digital-marketing talent in the industry.
- We have attractive career paths for staff in digital-marketing roles.
- Our organization structure facilitates a core customer focus across traditional, online, and new media activities.
- We effectively capture and communicate best practices in digital marketing.
- Our incentive system reinforces priorities for digital-marketing investment.

### Agency Navigation

- Our agencies are helpful in determining tradeoffs between traditional media and digital-marketing activities.
- Our digital-ad agencies create effective online and new media campaigns.
- When creating new campaigns, we brief all our agencies (for example, digital, traditional, PR) at the same time.
- Our agency-compensation system promotes good working relationships across digital, traditional, and PR agencies.
- We make use of consumer and agency crowdsourcing.

new players, which will take an open-architecture approach and work on an advisory basis.

9. *In most cases, push strategy to the edge but keep execution at the center.* How might this look? Brand managers would determine the most relevant marketing messages while the central CRM function would determine, for example, the most effective time of day for the SMS-message campaign. Some successful companies have created marketing specialists who can apply a digital skill set across divisions. Others have established a center of excellence that collects and promotes digital best practices to share across the company.
10. *Ensure a balance between local and global views of your digital-marketing efforts.* This might mean, for example, maintaining a global brand image while also realizing that users in the Philippines are sticking to the social-media site Friendster, even though the rest of the world has moved on to Facebook.

We expect that CMOs and other marketing executives may find the above list of actions inadequate and even frustrating. Unfortunately, it remains impossible in this fluid media landscape to design a perfect marketing mod-

el. The structures and approaches companies put in place today will need to change dynamically over time—and at a faster pace than has been historically the case.

Instead of trying to guess at perfection, companies need to think about managing uncertainty and maintaining the maximum flexibility to adapt. This flexibility is particularly crucial for companies executing digital-marketing strategies in emerging markets, such as China, Brazil, and India—which have some unique characteristics and even more uncertainty in their futures. (See the sidebar “Digital Generations in BRICI.”)

We recommend that companies consider a dynamic approach to marketing strategy—one that emphasizes iterative experimentation in order to keep pace with incessant change. With such an approach, organizations gain what we call “adaptive advantage.”

What does that mean specifically? It’s partly about *anticipating* changes, having the foresight to figure out what is going to happen next. It’s partly about *resilience*, being robust in responding to unanticipated events and trends. It’s partly about *agility*, being nimble enough to respond to competition as it moves off in another direction. And it is partly about *learning* how to apply these capabilities

## Digital Generations in BRICI

In most emerging markets, digital media are still largely in their infancy and social media face several challenges. Internet penetration is still relatively low, there is not a viable supply of ad inventory, the measurement systems are not yet well developed, and local traditional-media agencies don’t yet understand social-media dynamics.

For many of our global clients, investment in social media at the country level has come primarily from the need to satisfy top-down, global mandates for stated minimum investments in certain digital vehicles. Moreover, companies struggle with inconsistent talent in their local organizations, whose mandates to date have been simply media buying—and potentially mild adaptations—for global campaigns.

Advertisers in these markets face tremendous opportunities. However, those opportunities will likely differ from those in more developed markets. As described in BCG’s September 2010 report *The Internet’s New Billion*, BRICI

countries—Brazil, Russia, India, China, and Indonesia—will represent more than 1 billion Internet users by 2015. But with personal computers being relatively cost prohibitive in these nations, many consumers will develop distinctive Internet usage patterns, including a heavier reliance on the mobile phone as their primary access point. Specific behaviors vary tremendously by country (due to income levels, the cost of bandwidth, culture, and other factors), and digital usage patterns tend to shift quickly.

We see several implications for marketers. First, they need to monitor usage patterns among local consumers both today and in the future. Second, they need to create a long-term organization strategy to ensure that the talent and processes are in place locally to support digital efforts. Third and finally, large marketers can put pressure on the social-media-measurement companies and inventory suppliers to create more reliable tools to measure social-media usage and ROI for specific investments in local markets.

consistently and more effectively over time. If companies can anticipate plausible futures, buffer them, or respond to them faster and better, they can be advantaged in shifting environments. (For more detail, see BCG's Perspectives series on Adaptive Advantage.)

Given the scope of the challenge, it may make sense to start figuring out what works by piloting a 360-degree digital-marketing plan for a brand or category in a single region. The subsequent path can be very iterative, with companies rolling out digital initiatives and then testing and refining them to gain capabilities over time.

Experimentation, at this point, is preferable to inaction. That's because—contrary to received wisdom—inaction in digital marketing is not the safer option. In fact, it presents real downside risks.

By failing to integrate digital campaigns effectively, companies risk wasting marketing dollars by the millions. By fumbling conversations with digital consumers, companies risk damaging a brand's reputation and authenticity. By waiting too long to commit to digital leadership, com-

panies risk ceding share to competitors that are better equipped to leverage emerging media opportunities. Over the next five years, we anticipate a significant skills-based battle to define the next generation of marketing leadership: your company can't stay on the sidelines for this one.

The best CMOs know that they can no longer survive by relying on their hip agency executives or their young college interns for technical expertise. And they accept the lack of a single, silver-bullet answer for achieving success. Now, they must become digitally savvy across every part of the marketing organization, top to bottom. They need foresight, courage, and a bias for action even amid uncertainty. Only then can they successfully tackle the new digital realities.



# For Further Reading

The Boston Consulting Group publishes other reports and articles that may be of interest to senior executives. Recent examples include:

**The CMO's Dilemma: Can You Reach the Masses without Mass Media?**

A White Paper by The Boston Consulting Group, July 2009

**No Shortcuts: The Road Map to Smarter Marketing**

A report by The Boston Consulting Group, September 2010

**The Internet's New Billion: Digital Consumers in Brazil, Russia, India, China, and Indonesia**

A report by The Boston Consulting Group, September 2010

**Smarter Marketing for Tougher Times**

BCG Opportunities for Action in Consumer Goods, by The Boston Consulting Group, June 2007



# Note to the Reader

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