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NEW IDEAS AND BEST PRACTICES IN MARKETING COMMUNICATIONS

Consumer Packaged Goods Get Intimate

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It's a difficult time to be a marketer in the packaged goods industry. Brand recognition is down, media consumption is fragmented, and retailers are playing hardball. The industry that defined mass marketing and pioneered retail promotions is experimenting on the opposite side of the spectrum - with relationship-building direct marketing.

nilever's CEO has proclaimed that the mass-marketing approaches that helped build his company are doomed and that marketing to individuals, not mass markets or even demographic groups, is the centerpiece of Unilever's marketing future. Other consumer packaged goods (CPG) giants, ncluding Kraft Foods, Nestle and Procter & Gamble, all have active lirect-to-consumer (DTC) initiatives in place.

To the practicioner of integrated marketing communications (IMC), this scenario raises a number of intriguing questions. Why he course change? How successful are these programs likely to be? How closely will they resemble the programs and practices of more DTC experienced industries? What lessons can be learned from the DTC experiences of CPG manufacturers? What developments are we likely to see in the near future?

The purpose of this article is to propose answers to these questions and initiate a dialogue with the readers of this journal around his topic. While building stronger, unmediated relationships with consumers may not wind up being a viable strategy for all CPG manufacturers, it is clear to us that the traditional CPG marketing model needs to be replaced. When the smoke clears and the new CPG marketing model arises from the ashes in phoenix-like fashion, we believe that DTC will have a significant role to play.

he Brave New World Has Arrived

Thirty years ago, children all over the U.S. could effortlessly sing the Oscar Mayer jingle, recall the names of the Rice Krispies elves with no prompting and instantly recognize Bill Cosby as the Jell-O spokesperson. Thirty years ago, the only television that the average American watched was network television, the average American household received at least one daily newspaper, and most Americans had never visited a Wal-Mart. Thirty years ago, the best packaged goods products were branded products and the few private label packaged goods products that were available were viewed as pale shadows of their better-known branded cousins.

Flash forward to the brave new world of packaged goods marketing. The world of 2003. Brand recognition is down, newspaper readership is down, and network television watching is down. TiVo allows consumers to skip right through television commercials (observers estimate that more than 30 percent of all commercials will be skipped over by 2005 thanks to TiVo and its competitors) (Rubin 2000) and many formerly popular brands are now appreciated primarily for their antiquarian value.

The retail landscape is also radically different. (Cappo, 2003) The top three supermarket chains (Kroger, Albertson's and Safeway) operate 6,500 stores in the U.S. and generated $122 billion in sales in 2001. In addition to its own branded stores, Kroger owns 15 other supermarket chains, 789 convenience stores (operating under six different banners), two food warehouse stores, two department stores and 437 jewelry stores. Meanwhile, the increasingly ubiquitous Wal-Mart sells more supermarket merchandise than any single supermarket chain. Private label goods now represent 15 percent of total food and beverage sales and are expected to rise to 18 percent by 2004. The quality of these brands is often viewed as equal to or better than branded products from major manufacturers, while profit per unit to the retailer is significantly higher.

This brave new world is a potential nightmare for the CPG manufacturer. Getting shelf space with retailers, particularly for new products, is the major challenge for CPG manufacturers. And if a manufacturer cannot get the product on the shelf of the retailer, then it is awfully difficult to get it on the pantry and refrigerator shelves of its consumers.

The traditional method for securing shelf space and retailer mindshare has been providing retailer incentives (a.k.a. trade promotions), coupled with investments in brand-building via mass-marketing. The other approach is communicating directly with consumers (DTC), using many of the tools and approaches pioneered by direct marketers and refined by IMC practitioners. Increasingly, this is an approach being tested by leading CPG manufacturers.

hy Now?

Trade spending buys less retailer loyalty than it once did. Its downstream effects on consumers may be even more tenuous. Trade spending has, at times, been analogized to drug or alcohol addiction. Once a CPG manufacturer starts down the path of retailer incentives, the decline into the retail equivalent of hell is fast and furious. In fact, CPG manufacturers have increased trade spending as a percent of gross sales from 13.5 percent in 1997 to 16.9 percent in 2001. (Cannondale Associates) One of our clients, a leading CPG manufacturer, now spends 80 percent of its marketing dollars on the trade. (Rubin, 2000 and Deloitte Consulting)

Private label goods are no longer just interesting oddities. Real people spend real money on private label goods—more than $70 billion annually. (Cappo, 2003) Given the typical marketing spend for branded CPG products of 30 percent of sales, retailers have an awful lot of pricing flexibility when it comes to private label goods. How many other industries have to outperform competitors with this kind of built-in cost discrepancy?

This brave new world is a potential nightmare for the consumer packaged goods manufacturer.

Media fragmentation has made mass marketing vehicles a far more costly way to teach the Oscar Mayer jingle to millions of American children. While the cost of a 1972 Super Bowl 30-second commercial was $86,000 and it reached 56.6 million, the cost of a 2001 Super Bowl ad was $2.1 million and reached 88.5 million people. The average cost-per-thousand for the commercial increased from $1.52 in 1972 to $23.74 in 2002 (approximately 16 times overall or 3.7 times adjusting for inflation). (Ries, 2002)

It is not hard to see why a strategy of "more of the same" is not very appealing. "More of the same" means higher costs and lower margins, with no recipe for market share or revenue gains. That is the negative case against more trade spending and more spending on mass-marketing vehicles. It reminds us of the joke about the man with splinters in his forehead. When asked why he had splinters in his forehead, he pointed to a nearby wooden door and indicated the spot where he had been banging his head against the door. When then asked why he banged his head against the wall, he replied, "Because it feels so darn good—when I stop."

There may also be an affirmative case for DTC. **CPG manufacturers have broader product portfolios**. What this means is that there may be a much greater opportunity for more robust messaging. It is one thing for Kraft to market Kraft Easy Mac. It is another thing when Kraft uses recipe-based programs to address common consumer problems such as, "How to get dinner on the table in 30 minutes or less." The solutions (and messaging) become far more interesting as the breadth of the portfolio expands and the company is able to sell more of its brands to a household. Broader product portfolios also support compelling lifestage marketing. Mead Johnson & Company can offer Enfamil baby formula to an infant, Poly Vi-Sol vitamins as the baby grows, Boost through her growing years, Natalin vitamins when she is pregnant and finally, Sustacal to maintain her calcium intake during old age.

The increasingly diverse market demands more heterogeneous marketing approaches. The U.S. market is more diverse today than it has been since its inception. Hispanics now constitute the largest minority group in the country and will soon surpass Caucasians as a percentage of total population. Meanwhile, the average age of the population is increasing dramatically. This diverse market is crying out for an alternative to a "one size fits all" marketing approach.

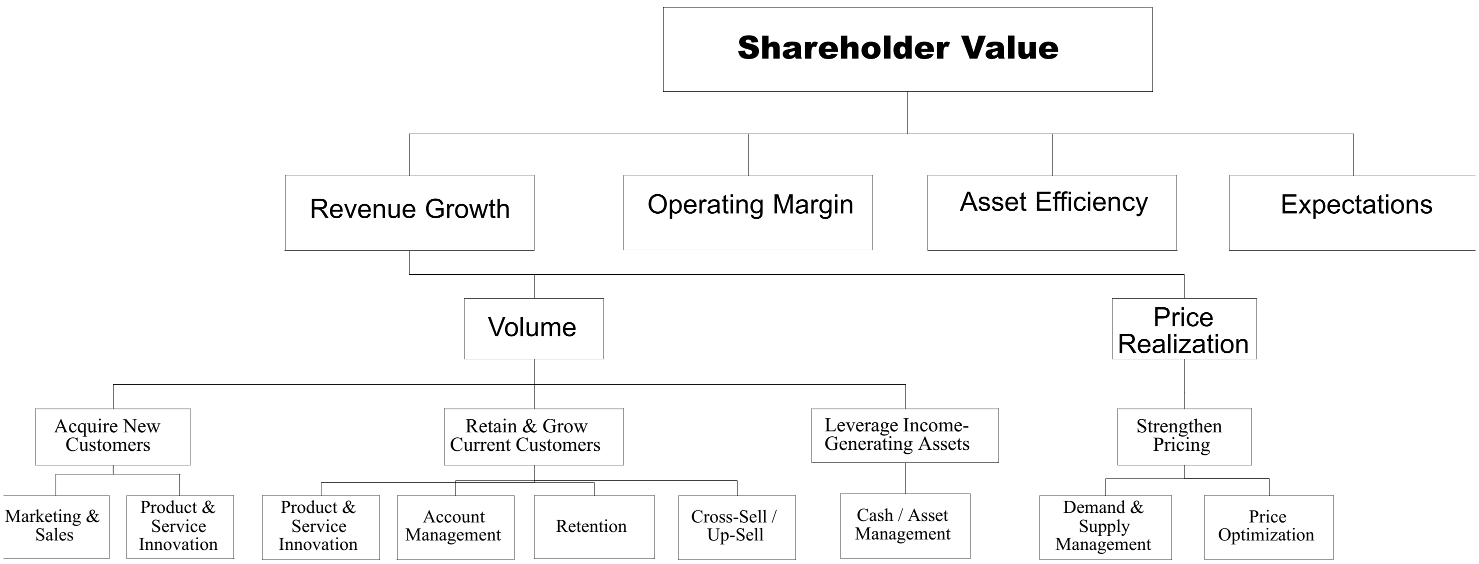
It is a lot easier to build a cost-effective DTC infrastructure and execute a DTC program. The technologies that support DTC marketing become less expensive with improved capabilities. Increased email and Internet penetration are now sufficient to support direct contact at substantially low costs, better targeting and in real time. The increased ability of companies to link consumer information to marketing efforts based on segmentation and predictive modeling also makes DTC significantly more feasible.

What is the Business Case?

The CPG industry is a mature one. Many of the obvious operational efficiencies have been realized and no longer offer the key to competitive advantage. Leadership and shareholder value must now come primarily from revenue growth. Consequently, we believe that while DTC can reduce overall marketing costs, it will need to prove itself out on the back of sustainable revenue gains.

The Enterprise Value Map is a tool that we use frequently with clients to clarify the value of various initiatives that they are considering. In the case of DTC, we focus on the revenue branch, particularly around consumer acquisition, "stomach share," and new product success.

The Enterprise Value Map



The Enterprise Value Map is a tool that demonstrates the relationship of various drivers to shareholder value. In the consumer packaged goods industry, it is useful to focus on customer acquisition, "stomach share," (retain and grow customers), and new product success (product & service innovation) when considering new initiatives.

arning Back Investments in Consumer Acquisition

Spending a lot of money to get a customer to buy a fully-oaded, top-of-the-line, Mercedes-Benz may make a lot of sense. Spending a lot of money to get a consumer to buy another pack-ige of a fast-moving consumer good does not. This is why so nany CPG companies use coupons in free-standing inserts (FSI's). Redemption rates are extremely low and no mechanism exists to prevent current consumers from using these coupons, but the costs ire low and FSI's drive volume increases. The only way to justify ising DTC to acquire new customers is if the initial investment is earned out from subsequent purchases.

Nestlé's DTC initiative illustrates how this can work. The mar-keting team at Carnation baby formula recognized that expectant nothers are hungry for knowledge on health and nutrition and top-cs such as week-by-week development during the gestation period. Nestle responded to this need with a combination of its website, verybestbaby.com and direct mail. The campaign enabled Nestle to develop a relationship with potential consumers before they made the brand decision on which formula to buy. By capturing con-sumers at the outset of their purchasing cycle with an emotionally compelling message, Nestle built a relationship that led to high brand loyalty and repeat purchases. The economics are not complicated. I you assume that the average infant consumes a can of formula every two weeks, the average margin on a can of formula is $10, and the average infant remains on formula for 52 weeks, then each relation-ship produces $260 dollars of gross margin.

The Gillette Company offers another example. Gillette has start-ed to send shaving kits to 16-year-old boys to start a profitable rela-tionship. Its view is that as boys mature, this initial introduction to Gillette will induce them to consider and choose Gillette products such as Duracell batteries and Braun coffeemakers.

The increased access to quality consumer databases and data cap-ture ability on the Internet are accelerating the use of DTC for con-sumer acquisition efforts.

Winning "Stomach Share"

Most marketers accept that the costs of retaining their best con-sumers are significantly less than the costs of acquiring new con-sumers. There are, however, two problems. The first problem is fig-uring out who the best consumers are. The second is figuring out how to communicate to them with very targeted messages. DTC can help with both.

It is often tempting to use spend as the primary criterion for value. The problem is that overall spend may mask very different loyalty patterns. Consequently, we recommend to our clients that they use a grid that maps out consumers based on relevant spend and the percentage of that spend that comes from a given CPG manufacturer (a.k.a. "stomach share"). The experience of our clients is that you are much more likely to optimize your investments by following different approaches to consumers in the different quadrants of this figure. For example, you may want to retain consumers that have high category and brand spend in contrast to focus on expansion activities for those consumers that spend a lot on the category but much less on your brand.

The Kraft DTC marketing program was built on the concept of leveraging existing relationships to increase its stomach share. The entire Kraft program is built around "permission households" that have agreed to disclose information about their purchases and preferences in exchange for value-added services.

Kraft communicates heavily with these permission households via email, Web, a contact center, and a cooking and lifestyle magazine, *Food&Family*, which is personally addressed and mailed to consumers five times per year. To ensure the value of the relationship to the consumer, all communication is organized around solving consumer problems. Kraft knows that its consumers struggle with issues such as what to make for dinner during the week, how to pack a healthy lunch that a child will actually eat at school and how to prepare the Thanksgiving turkey. Kraft offers solutions that incorporate products from its wide portfolio of brands and thus introduces consumers to new product uses and provides reminders of uses for brands that are purchased less frequently. This approach allows Kraft to both cross-sell and up-sell consumers. Though the program is only a few years old, it is expected to increase the lifetime value of the consumer by addressing their food issues at all stages of life from novice cook to head of the household to health-conscious senior.

Increasing New Product Success

DTC marketing can improve new product success rates by establishing a receptive audience that is willing to share its needs, test new products, provide real-time feedback and become early adopters for new product introductions. With this type of input, product development functions in response to real consumer problems and develops relevant solutions that address these problems, rather than create new products in a vacuum (the proverbial "better mousetrap").

Playtex Products, Inc. uses a survey on its website to allow its consumers to help design a new line of bras. General Mills, claims that taste tests can now be conducted in 12 days rather than three to four weeks when done online, thus reducing the time to make take products to market and remove unsuccessful products. Successful product launches offer first-mover advantage over both traditional competitors and retailer private label and can provide the difference between a good and bad year for a CPG
manufacturer.

What Does it Take?

A strong business case is a necessary, but not sufficient, condition for DTC success. Through our experience in helping clients develop DTC marketing programs, we have identified six critical steps to success:

1. Align the organization around DTC objectives. CPG companies are most often aligned around individual brand profit and loss statements which can make corporate-wide DTC programs very difficult to implement. The real challenge lies in retaining the benefits of a product management structure while building the appropriate governance and funding mechanisms to allow DTC programs to succeed.

We have seen clients establish a formal process to seamlessly fund DTC marketing from proportional brand dollars and a DTC council with senior executives and brand representatives to help kick-start the initiative and ensure ingoing success. The council needs to be equipped with a clearly defined set of metrics for program success and needs to establish ongoing tracking and remediation processes. We have also seen how important it is to have a senior executive willing to act as a champion of and evangelist for DTC.

2. Develop the right people, process, and technology capabilities. Effective DTC programs require an organization to develop new competencies among its employees, new processes for developing program content, managing consumer information and the like, and new technological capabilities. Stinting on any of these can contribute to the failure of an otherwise well-intended program.

Some organizations tend to sort to the technological issues first and focus on selecting and implementing a new technology platform only to discover that they have failed to define the processes for ensuring the privacy of the consumer information that they have started to amass or modify their call routing processes to take advantage of the new platform. Other organizations recognize the need to recruit new talent with specialized skills, but then fail to effectively integrate them into the existing organization and decision-making processes.

The capabilities building process needs to be systematic and integrated. A well-defined program management approach with a clear schedule, milestones and accountabilities is essential.

3. Build an emotional connection with your consumers. DTC programs work only if they are based on genuine and sustainable emotional bonds between a manufacturer and consumers. Scott

Case Study: Nestlé Nestles with New Mothers

Background

Nestlé's products are in over 85 percent of every U.S. household, yet average less than three products per household. Moreover, like many of their peers, Nestlé spends a significant amount of marketing dollars on trade promotions with relatively less visible benefits. Nestle decided to pilot DTC marketing with its high-involvement baby food brand, Carnation baby formula.

Advantage Moms!

Nestlé redefined the relationship between the baby formula provider and mothers to include a relationship during the prenatal period. Nestlé developed a website called verybestbaby.com and invited expectant mothers to register well before delivery. Nestlé communicated "we are with you" during this anxious and exciting period by satisfying the consumer hunger for knowledge at a stage when nothing was expected of the consumer. The site provides information on diet for moms, weight watch and topics of interest such as how the baby will look week by week during the gestation period. Two important aspects of this relationship are its inviting, non-intrusive content and voluntary enrollment that does not require product purchase.

How Nestle Did It

To achieve this, Nestlé studied consumer problems of expectant mothers and developed a compelling consumer solution. It truly understood the emotional needs of its target audience. Nestlé leveraged technology in the areas of consumer analytics, campaign management and real-time capabilities across Web, email, direct mail and contact center channels to provide seamless, consistent and rewarding consumer experience across channels.

Bingo

By substituting relatively low-cost direct marketing for a portion of current promotional and trade spending, Nestlé benefited from a more efficient marketing model to grow brands. Benefits included a:

- Focus on their most valuable con sumers.
- Reduced dependency on mass market discounting, trade promotion and mass advertising.
- Greater consumer loyalty and incremental revenue gains through up-selling and cross-selling of other Nestlé brands.
- Proven record for internal capability around DTC marketing.

Nestlé now looks to translate its success in baby products to other product categories and brands such as prepared foods.

Robinette, an IMC alumnus and author of *Emotion Marketing: The Hallmark Way of Winning Customers for Life*, talks about "The enterprise-wide pursuit of a sustainable connection that makes consumers feel so valued and cared for that they will go out of their way to be loyal." It may consist of a grouping of brands or it may be isolated within an existing brand. For example, Kraft has built a service offering across all of their food brands and providing the consumer with simple food solutions, while Nestle has taken a single brand, Carnation baby formula, and built a "very best baby" program specifically for that single brand. Absent this connection, consumers will quickly abandon a DTC program or view it as just another "pay for play" ploy akin to frequent flyer miles.

4. Adapt to ensure adoption. While the most effective DTC marketing programs combine channels such as Web, email and direct mail, not all channels are well-suited to all brands. At Kraft, for example, some ready-to-eat brands are not a fit for emailed recipes. Instead they might be better served through advertisements in *Food&Family* or direct mail coupons.

5. Optimize and guard consumer data. Consumer data is the key to an effective DTC program. The data strategy should include the capture, maintenance and hygiene of consumer information. Long-term planning should include strategies for data enrichment and segmentation.

Legislative and privacy issues must be considered. Most companies are aware that they must comply with legal regulations regarding consumer data. But many companies do not pay as much attention to protecting consumer information inside the organization as they do outside it. To protect the consumer experience, the company must decide who within the organization owns the consumer information and coordinate campaigns appropriately. It must establish and enforce governance policies to ensure the privacy of data, control the frequency of communications and manage the overall consistency of messaging. Think of this as a "consumer cop" who monitors the communication with your consumers to make sure that for example, one brand in your organization is not promoting diet pills while another is promoting high-fat foods to the same consumers.

6. Conduct rigorous evaluations. Mechanisms need to be developed to measure the impacts of DTC programs. Obviously, the best metrics are those that can directly link campaigns and elements of campaigns to increase product sales. When direct sales impact cannot be demonstrated, other metrics should be developed to demonstrate results. Kraft uses consumer referrals and the number of registered con-

Case Study: Kraft Keeps it Simple

Background

Kraft Foods is one of the largest CPG manufacturers in the world with revenues of roughly $30 billion and a broad portfolio of food and beverage products. Kraft developed a DTC program aligned around the theme of simplicity.

Great Meals, Simple

To create a valuable relationship with the consumer, Kraft focused on providing solutions to everyday problems in the kitchen. Kraft discovered that while different consumers faced different problems, most challenges could be expressed in terms of ideas, skills or time. Thus, Kraft developed content around solving these three challenges.

How Kraft Did It

To achieve this, Kraft studied food and demographic trends, worked with experts in nutrition and on cooking shows and conducted primary research with consumers. Kraft developed a pilot DTC program in its Canadian market with four major components: a personalized quarterly publication called *What's Cooking*, addressed mail promotions wrapped around seasonal food themes, a personalized monthly e-newsletter with weekly customized recipes, a web site featuring advice on meal preparation and a database of 2,000 recipes.

Say Cheese!

By creating a highly-personalized direct marketing pilot in exchange for a portion of current promotional and trade spending, Kraft benefited from a more efficient and compelling marketing model to both retain and acquire new consumers. Benefits included a:

- Greater number of permission-based registered consumers.
- Focus on most valuable consumers.
- Greater number of referrals used to demonstrate consumer loyalty.
- Quantifiable sales increase associated with specific components of the program.
- Proved internal capability around DTC marketing - the program was rolled out to the entire North American Market.
- Reduced dependency on mass market discounting, trade promotion and mass advertising.

Kraft continues to lead the CPG industry in its DTC program. Program size and scope are continuing to grow as results are proven.

sumers who have given Kraft permission to contact them as metrics for success, the assumption being that consumers who register for Kraft's program and provide personal information must see some value in Kraft's program. The key to metrics links back to the strategic objectives of the program—acquisition versus stomach share versus new product success.

n Closing

We set out to share some experiences, some insights and some beliefs. Chief among these is the notion that the status quo in CPG marketing is not sustainable and that the new model needs to consider DTC as one of its key elements. We hope that we have made the case for this, but will leave this to you to decide. Nevertheless, just in case you believe that we are Chicken Littles, we thought that we would close with a quote from Aldous Huxley, the author of *Brave New World*, "Maybe this world is another planet's hell."

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