The Future of Marketing

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(Opening Video) Good morning to everyone in Orlando! I apologize for the last minute change in plans. I'd much prefer to be there in person. The 4-As has brought us together to explore a topic that is near and dear to every one of us – "Staying in Touch with the Consumer."

The consumer is fundamental to each of the disciplines represented in the audience today…how could it be that we have, collectively, come to a point in time where we question whether we are truly in touch—

(Jim's video is interrupted as a TiVo screen appears with the three themes of his speech displayed on the menu: holistic marketing, permission marketing and new forms of measurement. As though a viewer in the audience has elected to skip ahead to another portion of Jim's speech, a highlighted cursor selects "holistic marketing" and the video resumes with Jim speaking...)

We know consumers today are less responsive to traditional media, they are embracing new technologies that empower them with more control over— *(Jim's video is interrupted by TiVo two more times. The screen then fades to black and Jim appears, in person, at the podium.)*

*This image may not be used without permission from TiVo Inc.**

Good morning – again!

My TiVo demonstration this morning is just one example of the challenges we're all facing in reaching the consumer. I know it personally – I have two teenagers and we are a TiVo household.

I'm delighted to be here – in person – to speak to an audience that has such potential to shape the future of marketing. We've seen how technology has shifted our audiences so far, and we are anticipating more change.

A wise man once said, "The advertising business may be heading for trouble — or it may be heading for a new age of glory. Believe it or not, the direction — up or down — is in our hands."

The year was 1994 and the wise man was Ed Artzt, who was CEO of Procter & Gamble from 1990 to 1995. And what a difference 10 years makes. It's hard to imagine a world without eBay and Amazon as household names. A world where online advertising and interactive marketing were fringe ideas.

For me … I had just taken the position of general manager of the P&G office in Prague where – just 10 years ago – television advertising was fairly new. I remember we could reach most of the country with a few TV spots. We know this because, back then, it was not only easier to reach consumers; it was also easier to measure our success. Technology was on the horizon, but it seemed a distant threat to advertising life as we knew it.

In hindsight, we can deeply appreciate Ed's insights relating both to advertising and to P&G's business overall.

Ed guided P&G to an unprecedented global expansion of the company's Beauty Care and Health Care businesses which underpin much of P&G's growth today. 10 years ago, when he spoke to a 4-A's audience in a forum much like this one, Ed painted a vision of a "new media" future, and today, we see those technological advancements in play.

His speech was punctuated with predictions from media visionaries, including Barry Diller, and Gerald Levin. He spoke of a future where consumers, not advertisers, pay for content. A future where consumers control what they watch and when they watch it.

Ed's words applied to 1994, but they have tremendous relevance today. Let's take a look:

A Report Card of Our Progress

Heeding the Warnings from 1994

Advertising & Pay-Per-View	C	*Consumers accept advertising even when they pay for content – for now. Make it worth it.*
Programming Segmentation & Networks	D	*TV is more fragmented than segmented – some consumers needs are unmet. Mentality change required .*
TV: The Media of Choice	B+	*Good progress toward adopting new holistic practices; still too dependent on :30 spot.*
Technology	D	*Far behind the times; DVRs looming; must improve creative.*
Content Sponsorship	C	*Good progress; keep exploring new options; don't be afraid to take risks.*

On the left, you see the key issues that Ed identified in 1994. Reading across the report card, you'll see my assessment of where we stand on each issue today as an industry. I've taken the liberty of grading our industry's progress in preparing for the changes and capitalizing on them. Bottom-line, we have work to do.

In 1994, we believed TV was evolving to a pay-per-view or subscription-based environment designed – potentially – to carry little or no paid advertising. In other words, we assumed consumers would bear the costs of programming. Consumers have borne some costs, but advertising continues to play a significant role. This will continue to shift. Have we experimented enough with new communication models in the environment? No. I give us a grade of "C" in this area and that's generous.

In 1994, we anticipated an explosion in TV channels, resulting in significant fragmentation in viewers. Today, the average U.S. household has more than 90 TV channels – this is up from an average of 27 channels in 1994. Share for the big four networks during primetime has dropped from 52 percent to 31 percent.

Specialized networks offer advertisers access to more segmented audiences, but in much smaller volume. And we've lost whole segments of consumers whose needs aren't being met by today's programming. We must accept the fact that there is no "mass" in "mass media" anymore, and leverage more targeted approaches. Even *Time* magazine highlighted this in their year-end edition. And, we must better understand who we are reaching as media plans become more fragmented. I give us a "D" here because our mentalities have not changed. Our work processes have not changed enough. Our measurement has not evolved.

In 1994, Ed said that broad-reach television is the only way to deliver the reach and frequency critical to frequently purchased brands like P&G's. At the time, 90 percent of P&G's global ad spending was on TV. Today, we're discovering life beyond the 30-second TV spot. Our launch last year of Prilosec OTC was one of the most successful brand launches in P&G's history, allocating only about *one quarter* of our marketing spending to TV. As an industry, we're recognizing the value of well-rounded marketing programs that are not dependent on TV. I give us an "A" for our recent efforts but a "C" for overall progress. Let's settle on a "B+" in this area.

The remote control was introduced in the 1980s, and by 1994 it had completely changed consumer viewing habits. Before the remote, networks who secured viewers at 8 pm had a much better shot at keeping them through the 11 pm news. Today, that dynamic has disappeared.

The remote also enabled consumers to easily switch channels to avoid commercials. Personal video recorders and on-demand networks take consumer control to the next level, enabling consumers to "time shift" as Ed called in it 1994. At that time, he shared predictions from John Malone and Sumner Redstone about pay-per-view services that would displace advertised entertainment. This technology has moved more slowly than we may have thought 10 years ago, which has allowed advertisers and media companies to continue to resist its potential impact. We can't ignore it much longer. It is now estimated that video-on-demand services, which began rolling out only a couple of years ago, are in roughly 10 million homes.

From the consumer's perspective, the concept of time shifting is increasingly attractive and appointment television is more obsolete. We must embrace the consumer's point of view about TV and, create advertising consumers *choose* to watch. At best, we've earned a "D" in this area.

Ed stated that to gain control of this new media environment, advertisers must do what we did when radio and TV were first invented – take proprietary financial interest in programming. It's no secret that P&G created the soap opera for the express purpose of reaching a specific segment of consumers.

Today, we're only beginning to fully leverage opportunities for program sponsorship paired with broader holistic marketing plans. Coke's partnership with American Idol is one example. Just this week, Survivor 8 premiered on CBS. P&G is playing a major role. Twenty P&G brands have come together for an innovative partnership made possible through our relationship with Viacom.

As an industry, we must continue to push our thinking in this area. I give us a "C" so far, but trending up.

The average of our marks here is a C - . These kinds of grades aren't acceptable. I can tell you that if this was one my teenager's report cards, we would be having a heart-to-heart talk – more homework, less socializing, more tutoring, more commitment to improve!

We are an industry that has historically been at the forefront of defining new media environments in ways that benefit consumers and move our entire business model forward. We must ensure that while we are moving quickly, we are also moving smartly.

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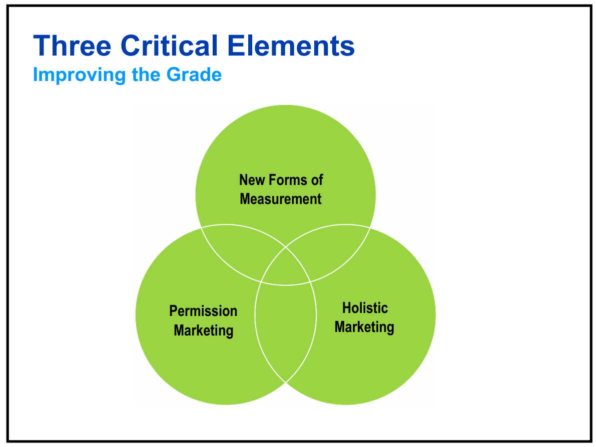
OVERALL C-

In 20 minutes it would be impossible to address all of the issues that this report card identifies. The bottom line is that we are still too dependent on marketing tactics that are not "in touch" with today's consumer. I'd like to focus on three specific principles that P&G is following to ensure we are meeting the needs of today's consumers:

- How new and traditional media must come together under the umbrella of <u>holistic marketing</u>. There must be and is life beyond the 30-second TV spot, we all say this but most of our spending and activities systems revolve around that.

- Why we must always remember the Consumer is Boss and adopt the mentality of permission marketing. New technologies make it easy to be distracted from this principle, but our industry will falter if we aren't focused on consumers first.
- The need for new forms of measurement in this new media environment.



Ed Artzt also said, "We run the risk of simply adapting to these changing technologies, but if we don't influence them — and if we don't harness them — loyalty to our brands could suffer in the long term."

Ed's concerns about the state of our industry are still valid today. I believe today's marketing model is broken. We're applying antiquated thinking and work systems to a new world of possibilities.

We are once again at a turning point, based on many of the same factors that existed 10 years ago. The solution is also the same: we must collaborate.

Holistic Marketing

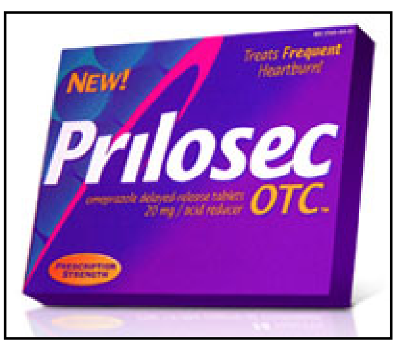
Consumers today are less responsive to traditional media. They are embracing new technologies that empower them with more control over how and when they are marketed to. They are making more purchase decisions in environments where marketers have less direct influence (in store, word of mouth, professional recommendations, etc.).

At P&G, we believe the Consumer is Boss. Consumer-centric marketing means putting the consumer first – how would she want to be marketed to?

It's clear we need new channels to reach consumers. Brands that rely too heavily on mainstream media, or that are not exploring new technologies and connection points, will lose touch.

Permission Marketing

New media will enable us to find more relevant ways to connect with consumers, but they also offer tremendous cost efficiencies.



Since 1994 when Ed Artzt delivered his speech, P&G's marketing support budget has shifted. Today we spend across more mediums. Our recent launch of Prilosec OTC demonstrated this.

We must be smart and choiceful about which new channels work for consumers. New technologies have unleashed invasive marketing practices, such as spam emails and automated telemarketing. *The New York Times* recently reported that 60 percent of all email is spam. Just because we can do it, doesn't mean we should.

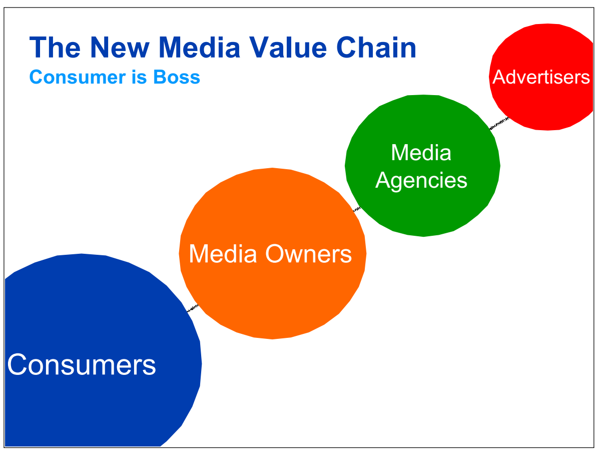
All marketing should be permission marketing. All marketing should be so appealing that consumers want us in their lives. We should strive to be *invited* into consumers' lives and homes.

When we think of permission-based marketing, most of us think about opt-in online newsletters. We really need to expand this mentality to all aspects of marketing. We must develop creative that both maximizes the channel and appeals to the consumer. For each element of the marketing mix, we should ask ourselves "would consumers *choose* to look at or listen to this," and let that be the benchmark.

At P&G, we're emphasizing watchability for our TV ads. For example, we believe two ads I'm about to show you – one from the U.K. and one from the U.S. – meet our new criteria for ads consumers want to stop and watch: *(Daz U.K. ad plays; Swiffer U.S. ad plays)*

As consumers and the media landscape evolve, our organizational models and marketing methods must change to better support the multiple deep competencies required to compete in this environment. Simply put, those who stay loyal to the past model will be left behind.

Sometimes, when we're afraid of change, it's easier to focus on the smaller issues. There's too much conflict in the industry today about purchasing, procurement, the pitching process, fees, etc. It's time to recognize we are part of something much bigger than our individual interests.

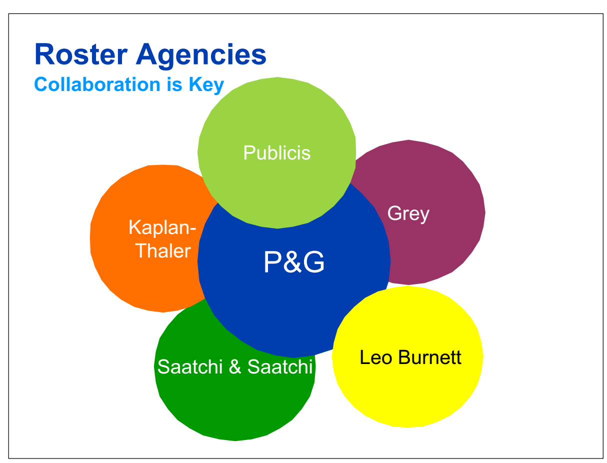


It's interesting to note that when Ed Artzt addressed the 4-A's in 1994, the audience at the time was almost entirely advertising agencies. Today, the same topics are relevant to a much broader group of constituents, from advertisers to media agencies to media owners. Collectively, we've become the new media value chain. We're each just one link in a long value chain with consumers at the end.

Looking at other industries, and even using P&G as an example, I believe the best organizations are those who understand the value they can bring and then maximize partnerships to deliver through the value chain.

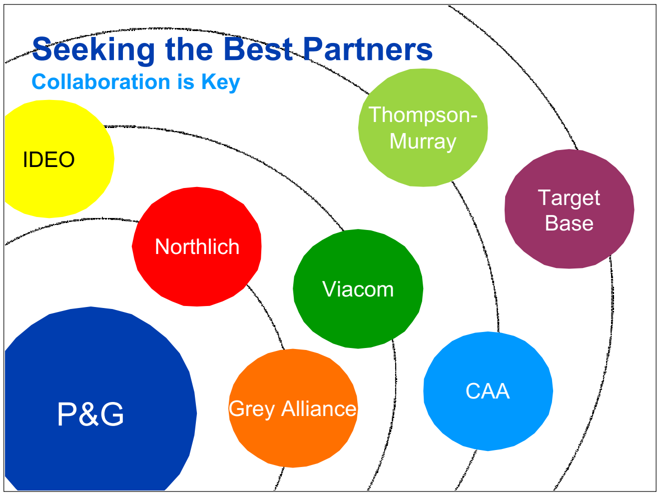
P&G is interested in forging new partnerships with people and organizations that have big ideas. This includes every kind of organization represented here today – from media owners to media agencies to a host of agencies that have capabilities in public relations, influencer marketing, in-store marketing and entertainment marketing.

To be clear, we are still committed to long-term partnerships with our roster agencies as brand equity leaders.



But we're also seeking out the best and brightest to bring us new competencies we need. Since Ed spoke in 1994, we have opened relationships with Viacom in media, IDEO in design, Thompson-Murray in in-store marketing, CAA and Grey Alliance for entertainment, Northlich for influencer marketing, Target Base in database marketing and a number of important partners for interactive marketing. Just to name a few.

In our experience, the key to making these relationships work is collaboration.



You may know that we recently named a new global manager of media and communication planning, Bernhard Glock. He is working with our global media agencies and our regional media managers to encourage media agency collaboration early in the communications planning process.

Together with our partners, we're learning how new connection points can have a profound impact on how we reach consumers beyond the 30-second TV spot (in-store, mobile technology and text message groups, pop-ups, digitized billboards that can be programmed, coffee wrappers).

Let me share two examples of innovative consumer connections that are driving positive consumer response.

Our Pringles brand team identified kids' lunch boxes as a missed opportunity for the brand. Through research we learned the major barrier to trial here was the packaging, which simply contained too many chips for one sitting, and wouldn't fit in a lunch box. The answer was Pringles Snack Stax.

We launched Snack Stax with a relevant message to each of our key audiences: to the parents, we promote the ease-of-use; to the kids, the excitement of the product; and to our retail partners, the colorful, compact packaging for shelf space. Let's take a look at one of the TV spots running now for Pringles Snack Stax: *(Pringles ad plays)*

The second example I'd like to share is a new marketing tool created by P&G called Tremor.

You may have seen it featured in *Forbes* magazine earlier this month. Tremor is built around P&G's belief that the Consumer is Boss. How better to know what your consumers want than to engage them in sharing opinions and feedback on new products?

Tremor uses a proprietary process to identify teen thought leaders, who opt in to provide feedback on product ideas. They get to be the first to know about new products, and if they're enthusiastic about them, they'll spread the word using the most effective marketing channel that exists today: word of mouth. Innovation means taking risks. Establishing this non-traditional marketing tool is definitely a leap of faith for P&G. Everyone in this room must be ready to embrace risk-taking for the sake of innovation, or we face the biggest risk of all: being left behind.

The Need for Measurement

So what does all of this add up to? Possibly nothing. Because our tried and true systems of measurement don't account for new technologies and connection points.

Marketing and media metrics have not kept pace with marketing innovation. Despite the concerns Ed Artzt articulated a decade ago, we've continued to over-rely on TV for advertising and measurement. If we believe that there's life beyond the 30-second TV spot, why are we still dependent on reach, frequency, and advertising pre-market scores?

Over-reliance on TV is just one issue. There's another phenomenon occurring – a real blurring of media that happens because consumers' lives are so busy that multi-tasking has become a way of life. She watches TV while flipping through a magazine while talking with her family. She listens to the radio while surfing the Web. How do we capture the impact of these kinds of interactions?

The hard truth is, this is a $450 billion-dollar global industry and we're all making decisions with less data and discipline than we apply to $100,000 decisions in other aspects of our businesses.

We lack an industry standard for measurement. We need a method to determine the effectiveness of our efforts. We need to measure how effective our advertising is at influencing purchase intent – the ultimate goal.

We must be more proactive. Less talk, more action. I can tell you that P&G is not going to take it anymore, and you shouldn't either.

P&G is committed to leading innovation in measuring holistic marketing. We *must* find an effective way to measure holistic ROI. P&G will be an innovator in identifying and applying new metrics, and we invite the industry to join us in this commitment. Today I challenge each of you to take action to help move your own expertise and resources toward a more measurable business model. I am delighted there is a workshop this afternoon on this very topic.

As an industry, we have made progress since Ed Artzt spoke in 1994. The new technologies he described are here, yet we continue to see them as a threat. But consumers, who are on the end of a long value chain we create together, are embracing these technologies – *so we must as well*. We must adopt the mentality of permission marketing and create advertising that is so appealing consumers welcome it in their lives. New media touch points inspire creativity and innovation and, whether we like it or not, they have changed the way we approach marketing.

The traditional marketing model is obsolete. Holistic marketing is driving our business – but we're going along somewhat reluctantly and blindly. We have not found a way to measure the effectiveness of these new approaches. Our industry is in desperate need of new tools for measurement. We must apply our knowledge, our resources and our best talent to developing applications for measuring the innovative new marketing channels that have become available to us.

Finally, we must collaborate. As Ed Artzt said in 1994, "We're limited only by our creativity – and by our ability to prove it's in everyone's interest to involve advertising in these new media... We may not get another opportunity like this in our lifetime."
It's up to us. Let's go for it…together.