STRATEGIC SPOTLIGHT

ALL CHANGE: FMCG GETS FIT FOR THE FUTURE

Exploring the big issues facing FMCG brands – and finding a way forward

WAVEMAKER
MEDIA. CONTENT. TECHNOLOGY.

WHAT'S IN THIS PIECE

1. FMCG brands are facing multiple issues that threaten their business model and growth.
2. The old days of mass reach via TV are slowly (but surely) coming to an end.
3. Mass reach in new channels must be assessed and measured differently.
4. Right now we're measuring the wrong things – demolishing the value/attention exchange with our consumers and slowing growth by focusing on efficiency over effectiveness.
5. Finding the right balance between short-term sales-driving and long-term brand health, with its proven effect on pricing power and profitability.
6. Harnessing the second-mover advantage in digital commerce.
7. The new thinking we need to succeed on new platforms.
8. Learning from the agility and new models of the D2C brands.

In 2019, everything is competition. Brands compete for attention with bloggers and 24-hour rolling news. They compete for shelf space with traditional manufacturers and celebrity-backed start-ups in a world where the shelf is virtual. They compete for innovation against a backdrop of driverless cars and contactless payment. They compete for purpose when public consciousness, from plastics to politics, has arguably never been higher.

Manufacturers are the guardians of exceptional, longstanding and profitable brands. But it *feels* like they are under threat.

This article seeks to identify and describe the issues we see as having both the largest and the most immediate impact on the growth of FMCG brands. It doesn't look at the (important) longer term issues whose impact is either nascent or uncertain at this stage – the likes of AI, Blockchain and Voice. It also avoids getting into the weeds of implementation and execution (Mar Tech etc). Again important, but this piece focuses on implications not particulars.

The declining power of TV

These two chapters explores the effect of Byron Sharp's *How Brands Grow* on the way brands think about and approach media. They look at the impact of OTT services on TV's role as a mass reach channel and discuss the role of addressable TV and alternative ways FMCG brands can build reach, particularly digital.

The single biggest thing keeping clients awake at night is reach. Reach isn't the most contemporary issue to open with; in fact its perhaps the least contemporary. But two antagonistic events have happened in the past few years that put reach into focus.

Firstly, we cannot underestimate the impact that Byron Sharp's *How Brands Grow* has had on the way brands think about and approach media. I can't think of many organisations, in the FMCG and adjacent spaces, that don't have their own take on 'The Laws of Growth'.

An unfortunate outcome of this has been the reductive way we consequently think about media. It is boiled down into a formula easy to remember and theoretically simple to implement; 'Reach as many people as you can, continuously, with distinctive assets.' The strategic implication of this is 'spend more and outshout competitors'. It devalues the role of creativity, craft and smarts in the mix and if everyone has the same strategy, where is the competitive advantage? Unfortunately, sales-based evidence has been conflated with strategy.

The arrival of *How Brands Grow* coincides with an increasing scarcity of reach (interestingly the book was published less than a year before the international expansion of Netflix), meaning Sharp's didactic approach is now harder and more expensive for brands to execute.

Television has been the default mass reach channel of the last 60 years and remains so to this day. But its supply of reach has dwindled, and that dwindle is turning into a slump. It's not hard to find the source. Unbundling and the consequent proliferation of OTT services (the majority ad-free environments) means that consumption of non-linear video content is now mainstream, and increasing, and the supply of linear broadcast television is contracting, and becoming more expensive.

The death knell for TV was sounded prematurely, but in its current form, certainly as a mass reach channel for advertisers, it's hard not to feel that 'telly' is moribund. Certain facets will show signs of life for longer – live sports and event television being two of the more obvious examples. With the same level of demand chasing a reduced supply, the cost of entry will increase.

Addressable or programmatic TV cannot arrive quick enough for traditional broadcasters, but primarily this will serve to open the medium to longer tail advertisers who want to reach a very discrete audience, or advertisers willing to pay a higher cost to reach a tailored audience. For a mass-reach high penetration brand there will be some benefits in talking differently to different audience segments but not if your audience is everyone with teeth or a stomach.

Predicting the precise moment of death is risky business, but Ebiquity have modelled a worst case scenario which suggests that by 2022 the medium will become cost prohibitive, that is, given the declining impacts and increasing CPM of TV, and its benchmarked ROI compared to other channels, on a steady state basis TV will become no more effective than other channels in terms of efficiency and effectiveness.

Analysis by Kantar of their CrossMedia data shows that TV's contribution to changes in brand metrics has fallen, down 15% for KPIs like awareness, image and purchase intent, and cost effectiveness has also fallen against other media.

Marketing guru Mark Ritson asserts that the case against TV is overstated, and that as younger audiences mature and enter a new lifestage their viewing habits will change, but it is hard to envisage someone growing up with unbundled ad-free content on-demand switching to ad-funded linear broadcast content just because they've hit their mid-thirties and own a semi-detached house in the suburbs.

At the moment TV is better than the next best alternative and will remain so for a few years. That's why tech brands are the fastest growing and largest investors in the medium. The FAANGs (Facebook, Amazon, Apple, Netflix, Google) have more than doubled their US TV investment to over $2bn, and collectively rank as the number two TV advertiser in the US. It's why start-up brands embrace TV as soon as they can afford it – witness the transformative impact of Dollar Shave Club TV advertising on their search volume in the UK. It still delivers reach at speed and is a unique creative canvas for brands.

Preparing for life beyond TV

The growth of FMCG brands is intrinsically linked to mass reach media. The two have been mutually dependent. Can FMCG brands survive without mass reach media (and, indeed, vice versa)? We don't know, but progressive advertisers anticipating the scarcity that lies ahead are already looking at alternative ways to build reach.

FMCG faces a stark choice when it comes to TV. Either reach less people with the same budget (risking campaigns that underperform) or increase investment to maintain reach (thus by default reducing ROI from the channel).

The alternative is to reassess the role of other channels which currently comprise only a small proportion of total media investment. The decline in TV reach (and simultaneous growth in ad blocking) is reframing channels like radio (now more than 50% 'digital') and OOH (expected to grow 10.1% each year globally between 2018 and 2021) as must-have mass reach channels. When salience and recall are two key advertising KPIs then can a six-sheet play an equally effective role as a 30-second spot?

The channel requiring significant reappraisal is that of digital. Sensible planning means most brands now include online video in most plans to efficiently build incremental reach among lighter TV viewers. But when everybody is a light TV viewer, how do we use digital?

Right now the primary use of digital is mass reach, an extension of the TV planning approach, and this is largely true of creative strategy too; making the 30-second spot work in six seconds. The future looks very different. Precision at scale. Multiple messages served to multiple audiences so that overall reach isn't compromised but different audience segments receive different messages. To do this effectively brands need the right data, the right technology and the right content.

Finally, as reach becomes scarcer, it requires us to forensically scrutinise how we are managing our brand and portfolio. When building mass reach quickly for every campaign isn't achievable we need to be choosy about what messages we put where. TV will increasingly be the preserve of the masterbrand, building fame and maintaining brand salience and distinction, while shorter, more rational product messages will be distributed and optimised in precision-based channels to efficiently deliver short-term sales.

Paying the price for poor measurement

Right now, we are measuring the wrong things – demolishing the value/attention exchange with our consumers and slowing growth by focusing on efficiency over effectiveness. The chapter explains where brands are going wrong and how they find the right balance between short-term sales-driving and long-term brand health, with its proven effect on pricing power and profitability.

The challenge with building reach in non-TV channels is that we don't know whether it works or not. Sure, we can try and achieve the same audience delivery. But we shouldn't conflate audience delivery with effectiveness. If we do, we believe:

- That the fast-building element of TV reach wasn't as important as the overall ratings delivery
- That a multi-tasking viewer is worth the same as a passive viewer
- That adverts without sound are as valuable as those with
- That 8 cms of real estate is as valuable as 120 cms

We don't believe that a 10" is worth the same as a 60" or a quarter page is worth the same as a DPS.

There is certainly a body of evidence to suggest that not all eyeballs are equal. Reach doesn't mean attention, for example. In addition to (or indeed, because of) better screen coverage and attention, Think TV in Australia has shown that the length of time that an advertisement on TV continues to impact sales far exceeds Facebook (decays 2.5 times faster) and YouTube (decays 3 times faster).

We have measured what we can, not what we should. And this has had fairly devastating results, for brands and for people.

Firstly, to measure (and profile and target and retarget) our industry has infringed on the user experience by burdening it with an enormous layer of technology. Further, in our pursuit of eyeballs and not engagement, we have prioritised the delivery of content over the content we deliver. The outcome? The consensus estimate of internet users actively using an ad blocker is around 25% and growing. The tacit value/attention exchange between viewer and advertiser that served television and advertisers so well has been bent out of all recognition in the digital age. As Belinda Smith of *Electronic Arts* states, "We are creating entire false economies by ascribing value to the act of acquiring inventory, as opposed to generating value by building lasting relationships with consumers."

Secondly, businesses (and therefore brands) have become increasingly short-term focused, often under pressure from shareholders. Our metrics follow suit. Immediate gratification isn't just the preserve of millennials. It's for marketers too. ROI, CPM, CPV, CPE, Completed View, CTR, last click attribution. All optimise the plan for the short term. All prioritise efficiency over effectiveness.

The risk is we optimise ourselves into invisibility. The merits and risks of over targeting have been debated elsewhere. But if we agree that reach is important, then what role does targeting have for FMCG brands (beyond niche portfolio outliers)? Scrutiny and cost benefit analysis of the additional investment in creative development, data and targeting technology vs the anticipated short- and long-term outcomes should be mandatory.

Thirdly, focus on the short term means we take our eye off the long term. As Brin and Page of Google posit, “A management team distracted by a series of short-term targets is as pointless as a dieter stepping on a scale every half hour”. The IPA has extensively and exhaustively documented the detrimental effects of focusing on the short term and the positive effects of focusing on the long term on bottom line business metrics. But for some reason this knowledge and long-term brand building approach hasn’t permeated businesses at large.

So investment is aimed at channels that have either served brands well in the past or that can be measured immediately, at the expense of what might be the right channels for a brand’s objectives.

OOH for example delivers the largest long-term multiplier for FMCG brands.

As brands are forced, or want, to use new advertising channels to reach and engage audiences they must embrace measurement. More specifically measurement of outcomes against desired and pre-defined objectives. Brands need to shift from pre-test and hope to execute, measure, iterate and reapply.

FMCG businesses have historically focused on measuring media outputs. Cost per reach point, GRPs, share of spend, CPM. These are useful metrics for assessing the efficiency of media spend, but far less directional for assessing the effectiveness of our media spend. As brands increasingly move investment into new and emerging channels, we need to know what this is doing for the bottom line, as little or no historical data exists to evidence their efficacy.

Placing too much emphasis on efficiency (which is even easier and more tempting to do in digital with its vast array of immediate metrics) risks compromising the effectiveness and therefore business outcomes of our media choices.

The measurement lens is even more acute when we try and separate the short and long-term objectives and outcomes of our media investment. It is imperative that brands strike the right balance between measuring what is immediately measurable (ROI for example) and measuring the more intangible and harder to measure attributes (brand health) that we know have a demonstrable effect on hard business metrics such as our pricing power and profitability.

Finally, FMCG brands must rethink their culture of pre-testing. This is a sensible approach when we are TV centric. The nature of the medium forces us to 'launch and wait'. However with digital channels we can pre-test in real time, and optimise accordingly, running multiple 'soft launches' to identify which creative approach is resonating. If we are going to pivot to producing 'more, faster' then we need a measurement and evaluation approach that is as agile as the creative process.

Playing catch-up with digital commerce

A topic that could fill a whole book on its own, FMCGs have often been criticised for being slow to embrace digital. When appraising the subject, there are four topics that stand out as pressing.

The Growth of the Duopoly. Facebook and Google now account for more than 50% of global ad spend, and virtually all of the growth in digital advertising. While brands have been keen to embrace the panacea of data + reach these platforms provide 'no questions asked', we are beginning to see some questioning. The platforms haven't helped themselves. Their failure to provide brand-safe environments and privacy scandals have caught the headlines but represent a PR challenge more than anything else. That the platforms operate within walled gardens and have been releasing misleading or inaccurate data from these gardens means tougher questions are being asked – how effective are these platforms as an advertising channel? This is most pertinent for FMCG brands whose objective when using these channels is to build softer, longer term brand metrics rather than drive immediate and accountable short-term action.

Reach vs precision. The allure of data-led targeting is seductive for all marketers. But so is Byron Sharp's edict to reach all category buyers. The reality lies somewhere in the middle. Regardless, Facebook and YouTube have retooled as mass reach, broadcast platforms, and it's hard to argue with the numbers they deliver for FMCG advertisers that want reach and recency.

There has to be some merit for FMCG brands taking advantage of the benefits of targeting (we can use intent signals from niche groups or identify cohorts who are willing to pay more for specific products for example) but we need to ensure we avoid focusing on subsets of subsets that will do nothing for the bottom line.

Amazon and ecommerce. Ecommerce is reshaping categories at a rapid pace. The high street is seeing record levels of closures as longstanding brick and mortar retailers crumble under increasing overheads and consumers shifting online. Yet, brands getting ecommerce right are seeing immense growth in an otherwise sensitive and fragile retail environment. As ecommerce accelerates across the West, Amazon is the driving force, changing the way consumers shop. Taking a formidable 52% share of the global retail ecommerce market, seldom do we have conversations about ecommerce without talking about Amazon With 90% of users beginning their product searches on Amazon, we must think of the channel as a search engine, and one to which Google is losing share. Critically for FMCG brands, Amazon is both the biggest opportunity and the fiercest threat as it aggressively promotes its own private label FMCG alternatives. Search has never been a more critical form of media investment. In 2019, Amazon is entering the home through Alexa, Prime and Pantry. Brands must future-proof their online propositions by leveraging the Amazon ecosystem in its totality, across both promotional retail strategy and large-scale media investments.

Getting better with data. McDonalds very recently invested $300m in Dynamic Yield, a data start up based in Tel Aviv that provides retailers with algorithmically driven 'decision logic' technology. From Big Macs to Big Data. Despite being talked about for the last decade, it feels like legacy brands, including FMCG, are now beginning to realise the opportunity that data can bring to their business, from more efficient advertising, to optimising the customer experience to developing sophisticated CRM systems to drive loyalty and sales. Not every business question or challenge is answered with data, but many of them are and it is imperative that the data approach pivots from tactical (cheaper/optimised) to strategic (profitability/long term).

Learning to lead with data

Change is a constant – hackneyed but true. Some FMCG brands may have been slow out of the blocks, but this can give them second mover advantage – learning from mistakes that others have made and identifying where data and technology can genuinely add value to the business and the bottom line.

As FMCG brands become hungry for a more data-led approach, this chapter dives into what strategies can help them get there.

We are seeing increasingly innovative uses of data and tech by FMCG brands and data moving from the fringes to a central marketing function rather than a tick box exercise.

The ambition for a more data-led approach within FMCG businesses exists. What they need is a strategy to help them get there. Acquiring, managing and utilising first party data feels like an expensive (or at the very least long term) exercise for a manufacturer that relies on retailers as an intermediary in its relationship with customers, on and offline. It is perhaps something brands want to pursue as they diversify into more niche or discreet areas (premiumisation) or if they experiment with new routes to market (selling directly to the consumer), but it won't provide a quick fix.

In the interim brands need to get smarter with second and third party data. A good example would be working closely with retailers to unlock the value that lies in their data (basket portfolios, repeat purchases, promotion/non-promotion spend) so that they can more accurately forecast and anticipate behaviour, and deliver relevant and timely messages.

Building on this, brands should strive to build a CRM-by-proxy strategy that enables them to build relationships with people beyond just talking about their brands and products. Mapping how people experience the category, across life stages, gives us meaningful and actionable segmentation.

This segmentation will become more important as an increasing amount of above-the-line inventory is traded programmatically. Mass reach will still be the north star, but the ability to show the right product and message to different audience segments could deliver a meaningful increase in advertising's ROI.

There is of course one watch-out. We mustn't lose sight of the importance of creativity. Being able to reach different audience segments is one thing.
Being able to talk to them in a way that is engaging, interesting and leads to action, reappraisal or behaviour change is another.

The plumbing is only as good as the creative water that flows through it

New platforms need new thinking

Brands are now advertising in different platforms, but the baggage of the past wears heavily on their approach. A change in approach is required if we want to create effective and impactful experiences in these new platforms: think purpose first, not platform. Read on for a short summary of how some of these platforms should be treated and how they perform.

As we have just described, the duopoly commands a lion's share of online time and therefore investment. The primary form of advertising inventory (search aside) is video. And the vast majority of that video isn't watched for that long. If we park for now the impact this has on CPMs (which are significantly higher when we extrapolate a completed view compared to the charge point), what we are dealing with is fractional moments of attention.

Average view rates of video on Facebook are in the region of two seconds. It is less for Instagram Stories. We can't change this. If we show a 15-second ad, this behaviour won't change. So we need to change our approach if we want to create effective and impactful experiences in these platforms.

This means we need to think purpose first, not platform. Why are we advertising, what do we want to achieve?

Facebook performs well when we look at driving people to action (eg click) but poorly on softer, 'feeling' metrics, and its VTR and viewability scores are poor and declining.

Instagram Stories are not the saviour – their VTRs are even poorer. In a cluttered environment the need for cut-through to have any hope of creating impact is imperative; content and influencers spring to mind as potential ways of achieving this.

Twitter remains the home of real-time conversation, providing a range of tactical and contextual solutions for brands that want to 'plug into culture'.

YouTube's USP (above and beyond incremental reach and forced views enabling us to tell a slightly longer story) is discovery. It is a 'how to' medium with users actively seeking to find relevant content, and its Google algorithm is driven by relevance above anything else.

VOD should simply be treated as TV reach, albeit with a lag from the moment of broadcast. Given that most of our messaging is not time sensitive, this doesn't present a big problem.

Social channels have the ability to do everything, but that doesn't necessarily mean they are the best fit for everything. We must start with our purpose. **Why are we advertising here and what do we want to achieve?**

Facebook performs well when we look at driving people to action (eg click) but poorly on softer, 'feeling' metrics, and its VTR and viewability scores are poor and declining.

Instagram Stories are not the saviour – their VTRs are even poorer. In a cluttered environment the need for cut-through to have any hope of creating impact is imperative; content and influencers spring to mind as potential ways of achieving this.

Twitter remains the home of real-time conversation, providing a range of tactical and contextual solutions for brands that want to 'plug into culture'.

YouTube's USP (above and beyond incremental reach and forced views enabling us to tell a slightly longer story) is discovery. It is a 'how to' medium with users actively seeking to find relevant content, and its Google algorithm is driven by relevance above anything else.

VOD should simply be treated as TV reach, albeit with a lag from the moment of broadcast. Given that most of our messaging is not time sensitive, this doesn't present a big problem.

Social channels have the ability to do everything, but that doesn't necessarily mean they are the best fit for everything. We must start with our purpose. **Why are we advertising here and what do we want to achieve?**

And we must acknowledge that by advertising in these channels we invite more complexity into our professional lives. Unsuccessful brands start with a 20" TV-ready idea and chop it down.

Successful brands start with a great idea and build it platform up

Which means more resource, more creative development, more assets, more tracking and measurement. And better results.

Direct-2-Consumer: fad or foe?

Let's return to the topic where we began – scale. Much has been written about D2C brands eschewing 'traditional advertising' but the reality is, they have burnt through cheap VC cash in Facebook and Instagram to scale quickly. In this chapter Chris looks at what FMCG brands might learn from new D2C - and what D2C brands now crave from legacy FMCGs.

Digitally native vertical brands, digital insurgents, D2C challengers. Lots of headlines, very little profit. Firstly, how big of an issue are they? Byron Sharp and his colleagues at the Ehrenberg-Bass institute have conducted comprehensive analysis of growth patterns and concluded that there is 'no universal pattern'. Some big brands have grown share, others have lost share. Some small brands are growing, some have failed and disappeared.

Others are more scathing in their analysis, dismissing D2Cs as a VC-fuelled fad reminiscent of the dot com boom. Such critics accuse D2C brands of being unprofitable, shifting traditional 'advertising' dollars into unsustainable 'customer acquisition' costs and of failing to anticipate or cost in factors such as fulfilment, shipping and customer relations into their business model – areas normally covered by retailers.

Secondly, let's acknowledge that this is as much about design and distribution as it is about advertising. It's hard to decipher whether they have captured the zeitgeist or created the zeitgeist, but either way D2Cs appear to have landed on a formula that has appeal to a certain cohort of category buyers. This formula exists in the form of simplicity (5 blades vs 1, 20 types of mattress vs 1), which does run counter to the innovation-led model of large FMCGs with sprawling countlines and variants, primarily launched not with the consumer in mind, but space on the shelf. The risk for D2C brands is that they accelerate toward and coalesce around sameness in record time.

From a distribution perspective D2C brands have mastered (or gamed) the digital eco system, using everything from influencers, SEO, content and reviews to bake virality into their model and build mass mindshare quickly. Unencumbered by retailer relationships and physical availability D2C brands have been able to sell direct, collect data, optimise and 'lock in' customers to a long lifecycle relationship. This offers competitive advantage in the form of an enhanced customer experience but how sustainable this is as a business model is questionable.

There has been much written about these brands eschewing 'traditional advertising'. The reality is, they have burnt through cheap VC cash in Facebook and Instagram to scale quickly. As they enter their next phase of growth, traditional advertising channels are firmly on their radar. There is a certain irony that legacy FMCGs crave what D2C brands have (data led, ecommerce driven, agile and quick to market) whilst D2C brands crave what legacy FMCGs have (scale, physical availability and media budgets that enable them to suppress prices charged to buyers).

It is too early in the lifecycle of these brands to assess their lasting impact, and callow to dismiss them as a fad. But all of the opportunities available to them are available to us. We need to make a call on whether it is profitable to pursue them.

Whether D2C brands are niche outliers for specific segments of the population or set to be an established part of the brand eco system for consumers, they have, hopefully, opened our eyes to what's possible for <u>all</u> brand owners.

With barriers to entry lowered and the opportunity to build distribution rapidly in non-traditional retail channels, we can experiment with different routes to market; subscription models, click-to-buy, trial and sampling are all models we can try out and learn from.

And not every launch needs to be ‘the big TV set play’. The vast majority of D2C brands launch in digital and scale quickly from there. This will be increasingly relevant as manufacturers seek to launch products that drive growth via either premiumisation or via addressing niche needs. This type of NPD approach will necessitate deep integration of teams that have traditionally been siloed; insights, trade and retail. The distinction between marketing and commerce is increasingly blurred in this new breed of businesses.

Finally, culture will always eat strategy for breakfast. Genuine aspiration needs to be matched with a genuine commitment to creating the environment and providing the resources that will enable us to thrive and grow

A peek into the future

The end of the broadcast age coincided with the end of a particular breed of management theory whose only mantra was efficiency at scale and the pursuit of more output with fewer inputs. Mass media was just as effective as the production line and advanced logistics in marching to this beat. It could even be argued that it was mass media that allowed the homogenization of goods and services. If one leg of the stool has been kicked away the stool does not stand up any more.

We read many headlines that talk of crisis; in advertising, in branding, in retail and in manufacturing. The economist Paul Romer said about the state of education in the United States “a crisis is a terrible thing to waste”. No time like the present.

MORE INFORMATION:

Chris Worrell, Head of Strategy
Wavemaker Client Solutions London
Chris.Worrell@wmglobal.com

WAVEMAKER
MEDIA. CONTENT. TECHNOLOGY.