Advertising Isn't Dead, It's Just Woefully Overfunded

Chris Kneeland

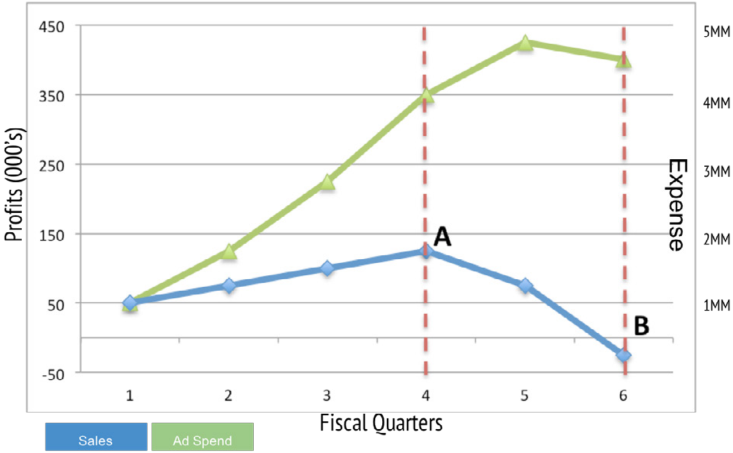
If you Google, “Is advertising dead?” you’ll find nearly 90 million articles, blogs and PhD theses on the subject.

The health of the ad business is a hotly debated topic in trade journals and at industry conferences, but there is no universal consensus. Media publishers and agency insiders still claim the industry is stronger than ever, while other credible marketing minds bemoan the fact that advertising is dying a slow and painful death. At Cult, we believe the ad agency model is archaic and beyond repair, but advertising itself is here to stay. Brands will always need ways to communicate compelling messages, and consumers will always accept a certain amount of ad interruption if it means they can get free access to content they want to consume. Also, believe it or not, consumers sometimes even enjoy advertisements. We know people who’ve requested Ikea’s catalog, opted in for Victoria Secret’s emails, and watched the Super Bowl solely because of the commercials. I even admit to once voluntarily clicking on a Facebook ad.

But, rest assured all is not well in ad-land. An awakening of sorts is happening amongst enlightened brand leaders who are starting to ask a different question. Rather than debate the viability of the craft, many are now wondering, "How little advertising can my brand get away with?" This is perhaps a bit scary for those who make their living in ad-related disciplines, but this is truly a better question. No business owner started a company because they wanted to advertise. Rather, they wanted to manufacture or sell a great product or service, and engage customers in meaningful ways. Then someone convinced them that if they advertised, they could sell more. And in some cases that was true. But there are several negative consequences to that behavior that too often get neglected, such as:

1 | **The correlation between ad spending and sales isn't consistent; worse, it diminishes over time.**[1] Therefore, frequent advertising and sales promotions are not a viable long-term strategy. Unfortunately, too many brands no longer consider advertising the necessary evil that it is. Rather than rely on it occasionally to help do temporary things like launch a product or move clearance items, they overdose on it almost weekly, and even pride themselves on their advertising prowess.

Hand in glove with advertising are sales promotions, because they comprise the content for media like print flyers and radio spots. *Fortune* magazine wrote a fascinating article last year blasting the retail sector's seven-plus quarters of disappointing stock performance. They reasoned that one of the reasons for retail's failure is something they labeled "Death by Discount."[2]



The article referenced how many retailers are now selling the majority of their products more than 50 percent off. Businesses simply can't continue to promote steep discounts and expect sustainable profits. As such, advertising should *not* be a core business competence. If your business has an entire marketing department and agency relationships dedicated to helping advertise stuff that otherwise won't sell on its own merits, you're completely missing the point of what marketing is truly about.

2 | Most businesses fail to properly account for the actual cost of advertising. Too often, they only calculate the media cost to run the ads, and occasionally consider the cost to physically produce them. But fully loaded ROI requires properly accounting for reduced margin, incremental demand on labor to facilitate the sales, and third party fees paid to manage the campaign. If you're really good at math, you will also calculate the opportunity cost of discounted sales from people who would have purchased at full price anyway, as well as the long-term impact of conditioning consumers to expect more markdowns in the future. Just ask JCPenney about that. They tried to take away some discounts after years of improperly conditioning consumer behavior with ad stimuli and their customers revolted.

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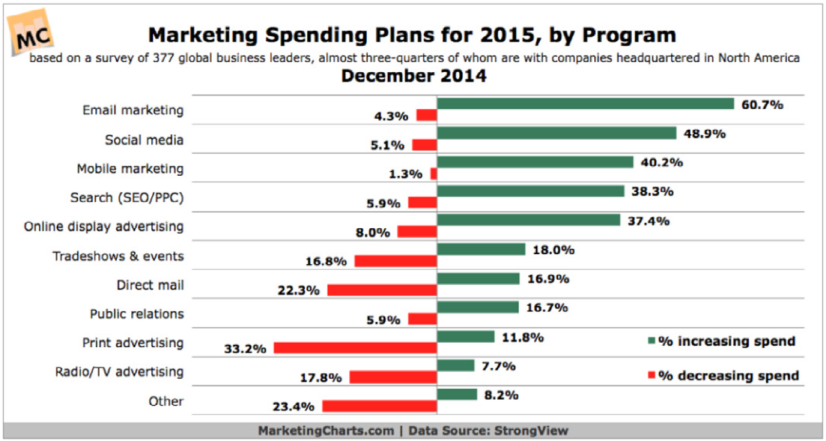
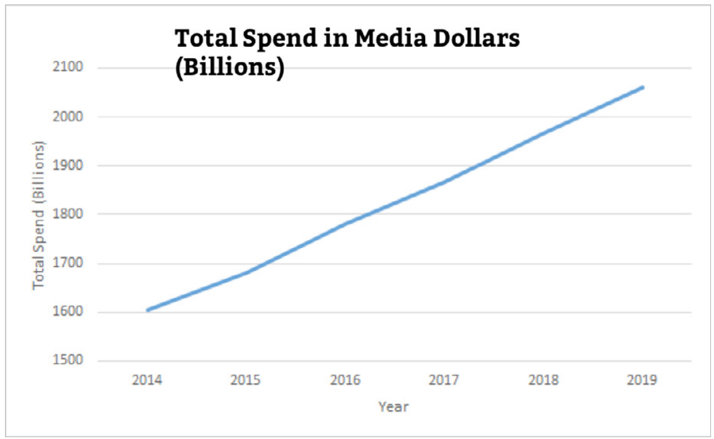
3 | Increasingly, more marketing budgets are devoted to paid media strategies. This overexpenditure is completely irrational because increased spending on paid media perfectly correlates with macro businesses trends showing firms are failing faster than ever before. Also, various customer engagement metrics have reached all-time lows. Relying on mass media to grow a business is the equivalent to taking aspirin to fix a broken bone. It may help you deal with some pain, but does nothing to heal the actual problems hurting your brand.



Marketers' overdependence on paid media is a growing concern that not enough business leaders are having candid conversations about. So let's start the dialogue…

In the Fall of 2014, the *Washington Post* reported that for the first time in 30 years, the number of business "deaths" outnumbered the number of business "births."[3] This is significant because something about marketplace dynamics recently changed, resulting in unfavorable business performance. That same Fall a congressional hearing was devoted to understanding business conditions in America. Their conclusion was that new companies are going out of business more quickly, and firms that do succeed are growing slower. Other economic data proves the average lifespan of a publicly traded company has now decreased from over 50 years in the mid-1900s, to just 15 years now.[4] The rules of engagement supporting sustainable commerce aren't working like they used to. Our hypothesis is that is largely due to business leaders adopting an unholy dependence upon advertising to mask substantive shortcomings in core brand value propositions.

Contrast the decline in successful business ventures with the radical overinvestment in mass advertising since the early 2000s. Global spending on media is rising at a compound annual growth rate of 5.1 percent—estimated to reach $2.1 trillion in 2019.



Ad spending from the 100 largest American advertisers has increased by 4.6 percent, on average, per year, since 2010. Yet, the US's actual economic growth rate (as measured by GDP) indicates consumer spending is growing less than 3 percent per year. That means brand leaders have decided to overspend on advertising 50 percent faster than Americans are willing to buy the goods and services being promoted.[5]

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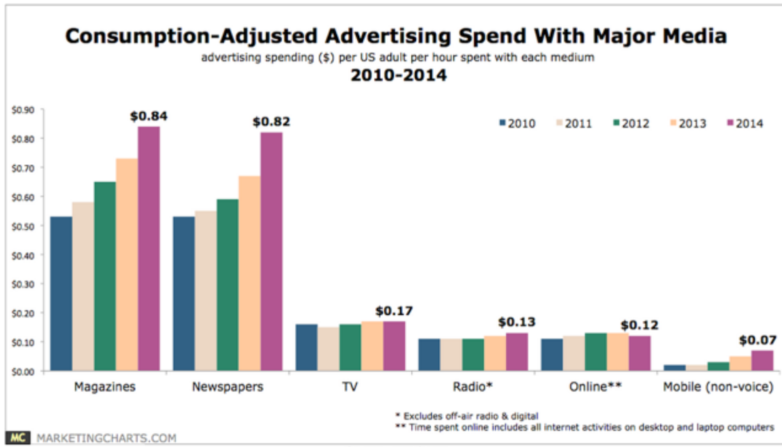
Better business performance requires us to rethink the marketing playbook and change corporate cultures so businesses become more committed to creating customer advocates than crafting clever ads. There are at least two big ways marketers can immediately start to course correct.

First, marketers are distracted by the efficient instead of focusing on the effective. Given all the dramatic changes to their discipline over the past 10 years, the amount of activities demanding a marketer's attention is overwhelming. Just grasping media landscape dynamics is enough to keep everyone busy. Add in advancements to marketing technology and the implications of today's new, empowered consumer, and the marketer's daily "To-Do" list has become overly cluttered and complex. Most marketers are totally stressed out trying to do everything, and the rest are paranoid or guilt-riddled that they can't keep up.

In an understandable act of self-preservation, marketers have sought out time saving solutions. Third-party publishers and media buying agencies have been especially quick to provide them. The result is a multi-billion-dollar industry dedicated to helping brands buy mass media with an emphasis on hyper-efficiencies.



Source: eMarketer

Aside from my own interactions with media buyers who have confessed to the reality of being tasked with buying the most impressions for the lowest cost in the least amount of time possible, I'll share a few examples to further prove my point.

Study where brands' ad dollars are actually being deployed and you'll find shockingly little accountability for the excessive expenditures in various channels. For example, eMarketer's study of ad spending by medium, between 2010-2014, reveals a significant jump in magazine and newspaper ad spending. Yet, eMarketer also reveals consumer engagement with magazines and newspaper is at all-time lows. PEW Research reveals that, "The consumer magazine industry experienced another difficult year in 2014. Overall magazine circulation declined for the seventh year in a row. Things were particularly bad for newsstand sales, which fell 14 percent."[6]

Share of Average Time Spent per Day with Select Media by US Adults vs. US Ad Spending Share, 2014
% of total

	Time spent share	Ad spending share
Digital	**47.2%**	**30.5%**
—Desktop/laptop*	23.9%	19.1%
—Mobile (nonvoice)	23.3%	11.4%
TV	**37.3%**	**41.2%**
Radio**	**12.0%**	**9.3%**
Print***	**3.5%**	**19.0%**
—Newspapers	1.9%	10.0%
—Magazines	1.6%	9.1%

*Note: ages 18+; time spent with each medium includes all time spent with that medium, regardless of multitasking; for example, 1 hour of multitasking on desktop/laptop while watching TV is counted as 1 hour for TV and 1 hour for desktop/laptop; numbers may not add up to 100% due to rounding; *desktop/laptop time spent includes all internet activities on desktop and laptop computers; **excludes off-air radio & digital; ***print only*
Source: eMarketer, Sep 2014

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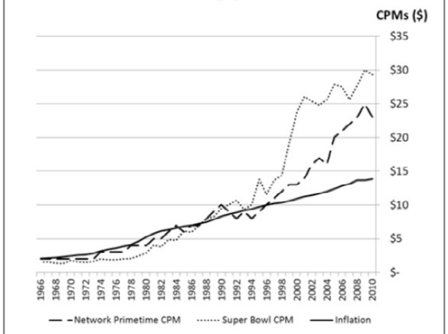
Or consider TV advertising. Due to DVR's and multi-screen multitasking, metrics measuring the percentage of ads fully viewed has decreased from over 90 percent in early 1990s to less than 20 percent in 2012. Yet the cost of TV advertising has risen sharply during this same time period. In the past 15 years we've seen average CPM's for primetime TV increase over 85 percent!

Exhibit 2 – The rising price of attention



Note: Solid black line represents inflation.

Exhibit 3 – Decreasing attention to TV ads

Note: Data compiled from various academic articles.

Why are marketers content paying more for media that is delivering less than ever before? It's because media houses and print publishers have made it really easy. Efficient trumps effective. And the story is much worse for digital advertising.

Bob Hoffman is the former owner and CEO of Hoffman/Lewis, a successful ad agency based out of San Francisco. He worked with notable brands like Toyota, McDonalds, and Maytag. After 22 years in the industry he retired and is now commonly referred as the "Ad Contrarian" because he's now making a name for himself by critiquing the ad business. In his book, *Marketers are from Mars and consumers are from New Jersey*, he expounds upon how delusional many of today's marketers have become. He also recently gave a speech in London where he said, "Marketers are pouring more and more money into online advertising. They don't know what they're buying, they don't know who they're buying it from. They don't know what they're getting, they don't know how much they're paying."[7]

The current poster child for being efficient vs. effective is programmatic online media buying. The trend towards programmatic is mind-bogglingly problematic because it now accounts for more than half of all US digital display advertising. While there have been numerous serious concerns raised in regards to programmatic, the most disturbing is that of blatant fraud. In a recap article on their recent Programmatic Summit, Digiday identified fraud as one of programmatic's biggest challenges for brands, agencies, and publishers alike. As Zachary Weiner, CEO of Emerging Insider Communications noted, programmatic advertising fraud is generated primarily "by non-human traffic, botnets and traffic exchanges" which "allow impressions to be 'stolen' from innocent computers while you sleep, or they set up a kind of black market [peer to peer] system where fraudulent impressions are generated in a network of willing conspirators." Without transparency, it is becoming increasingly difficult to weed out fraudulent impressions and clicks from legitimate ones, which means companies are paying for digital media fraught with fraud.

A *New York Times* article states, "Vindico, an ad management platform company, deemed 57 percent of two billion video ads surveyed over two months were actually 'unviewable.' … [M]ore than half of them ran without being seen by a human being."[8] Also, display ads that load below the viewable area of the screen are often counted even without them ever being seen.

These metrics are on top of disturbing survey data revealing a thing called "banner ad blindness", meaning consumers have learned how to completely ignore banner ads. Finally, if your online ads are lucky enough to actually be seen, research reveals that consumers who see the same banner more than five times actually increase their dislike of the brand.[9 & 10] Any marketer investing in digital advertising better devote large amounts of time babysitting those dollars and holding their media buyers highly accountable, or they are literally throwing money away.

Another contributing factor to marketers being distracted with efficiency is the heightened emphasis on media mix optimization models. I'm certainly a fan of using data to make more informed decisions, but I'm concerned about the false sense of security these expensive optimization models claim to provide.

Too many marketers place too much confidence in the model's outputs instead of applying common sense and challenging some of the recommendations. We're even more bothered when we read statements like this from the Advertising Research Institute, "As consumers are in control of how they consume content and interact with brands more than ever, understanding ad resonance across screens is the *only way* to successfully drive memorability and brand lift today."[11] (Italics added for emphasis.)

The ARI's assertion that the "only way" to achieve brand lift is by applying some form of media mix optimization is a fundamentally false assertion. Brand leaders at Google, Facebook, Amazon, Lululemon, Costco, Harley Davidson, and Zappos would disagree, as those category leaders do not rely on big, optimized paid-media buys to create memorability or brand lift.

Marketers must proceed with caution. Media mix optimization exists because most ad agencies don't know how to get paid if you're not advertising. Advertising professionals don't really care which media outlets their clients use as long as they're using some of them, because that is how they make money. Art Directors, Copy Writers, and Media Buyers have learned over the past decade to nimbly adapt their craft from TV to online video, direct mail to email, websites to social. As long as you're doing some type of advertising, they make money. But paying your ad agency should never be a marketing objective.

Media-mix optimization strategies can be used as subtle industry tricks designed to distract marketers from asking more important questions, such as "what is our brand failing at which requires us to advertise at all?" If brand leaders truly answered that question, the majority of dollars currently earmarked for mass media would be redeployed into customer value propositions that actually impact customer engagement.

Brand Keys, a research firm with no vested interest in the perpetuation of paid media, declared long ago that awareness-based advertising is one of the longest roads to profitability that a brand can take. Each year, they survey tens of thousands of consumers across 60+ industries to paint a detailed picture of the brands best meeting consumer expectations. The category winners are highly correlated with the world's most profitable brands, and have very little correlation to the list of top-spending advertisers.

The second way marketers can course correct is to understand their evolving role in managing the entire customer experience.

Improving the overall customer experience is increasingly seen as a key competitive advantage across most industries. Interestingly, according to a survey of 478 marketing executives polled by *The Economist*, slightly more than one-third of marketers say they are responsible for managing the customer experience today. However, 75 percent of marketers say that over the next 3-5 years they will become responsible for the end-to-end experience over the customer's lifetime.[12] That is exciting news, because that is actually what marketers should have been doing all along. When you're not distracted by the sex appeal of clever mass-media advertising, your can remember what your true job is, and get refocused.

Concentrating on the entire customer experience involves two things: first, more stewardship over all the things customers interact with, such as websites, call centers, store associates, packaging, store environments, and product development. Our firm did a recent review of 40 publicly posted jobs for VP's of Marketing today and discovered 90 percent of the job descriptions dealt mostly with managing communications. That has to change.

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The other aspect of the customer experience is a conscious shift from acquisition to retention-based marketing strategies. This is huge because it involves rethinking a classic marketing paradigm referred to as the purchase funnel. The purchase funnel framework was invented in 1898 and was last modified in 1924, nearly a century ago. Since the early 1960's it has been a key framework used by old school brand marketers to help them make marketing decisions.

Since Awareness and Familiarity are the first two steps, and comprise over 60 percent of the funnels surface area, many businesses prioritize those marketing activities and spend over 60 percent of their marketing resources on activities designed to generate awareness and familiarity.

But open your mind to the new reality. In 2010, researchers from Harvard proved that literally no aspect of the purchase funnel remains true today. They called the new ideal marketing paradigm a "loyalty loop" and prioritized other critical customer-decision points that are more impactful than awareness. For example, it elevates the importance of inbound marketing, such as blogs and white papers, ratings and reviews, infographics, and online videos. It also prioritizes strategic partnerships and enhanced customer service. The same talented Art Directors and Copy Writers who design your paid ads should be repurposing those skills to optimize owned assets, such as your website, improve your store experience, reimagine your product packaging, and create all your internal training or recruiting materials.

The other thing we love about Harvard's model is its emphasis on post-purchase activities designed to create repeat purchase and referrals. The original purchase funnel framework ends with purchase, which in hindsight, is totally absurd.

Research reveals that up to 40 percent of people's opinions about a brand are just beginning after they buy and start to use the product or service. Cult brands know this is when their marketing efforts are dialed up to transform purchasers, from transactional customers into die-hard converts who will never again consider an alternative.

Admittedly, to truly embrace the new Loyalty Loop reality requires significant changes at most companies in regards to their marketing programs, personnel and processes. And change is hard. But it is also necessary. My team and I have consulted with hundreds of brands of all shapes and sizes, and we concluded that in almost every case, way too much emphasis was placed on marketing communications while the actual discipline of marketing was distressingly underutilized. What once dealt with noble and meaningful pursuits affectionately referred to as the four "Ps"—Product, Price, Place, Promotion—marketing now seems to be largely devoted to Shouting, Bribing, Begging, and Harassing.

This reckless behavior has damaged marketing's credibility. According to a recent *Ad Age* study, marketers now rank as the lowest profession in regards to behaving with integrity, even scoring worse than long-time winners like lawyers and politicians.[13]

This negative sentiment seems to be based largely on the fact that we have grown way too comfortable spending our time producing huge volumes of ads that tout irrelevance into the world. Another executive survey found "78 percent of CEOs think Marketers too often lose sight of what their real job should be, which is to generate more customer demand for their product/service in a business quantifiable and measurable way."[13] Increasing demand amongst existing customers is far easier than creating demand amongst new ones. That means advertising should only be pursued if there is any money or energy left over after we've exhausted all our efforts improving our cult-like status.

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Let's wrap up on a positive note. We've read two things recently that give us hope for the marketing profession. First, I teach a marketing class at Mt. Royal University in Calgary, and was pleased to see this text in the second paragraph of their brand new marketing textbook:

We need to dispel the myth that promotion and marketing are one and the same. Often [people] believe marketing revolves around slick commercials and fancy promotions. In fact, marketers' ultimate objectives are to drive profits for a company.

A new generation of marketers is being properly trained to expect more from their career than just crafting words or pictures to be displayed on media outlets.

The second piece of encouraging news came from an executive survey in *The Economist*, which said more than 80 percent of CEOs admitted they need to restructure their marketing departments to better support their business. 29 percent of those leaders believe the need for change is urgent. So, even if marketing practitioners, and particularly their ad agencies, are slow to recognize the errors of their ways, corporate leaders appear willing to disrupt and start demanding change to their marketing people, processes, programs, promotions–everything.

Additional research suggests that many brands are now aggressively seeking new marketing skillsets. Nearly four out of ten brand leaders (39 percent) report wanting new blood in the areas of digital engagement, marketing operations and technology. Another third state they need to upgrade their talent in the areas of strategy and planning. Meanwhile, hundreds of organizations are already tinkering with new organizational structures to foster more agility, increase cross-functional co-operation, and help their organization better scale.

Do you belong to a company that has perhaps gotten distracted by its dependence upon advertising and promotions? **Is your daily job description heavily skewed towards producing a seemingly endless cycle of markdowns and mass media buys? If so, please consider this an intervention, and get help.**

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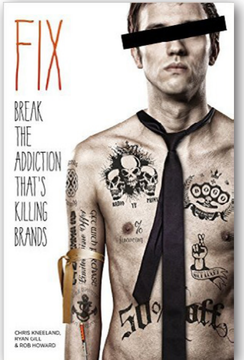

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ABOUT THE AUTHOR | Chris Kneeland is Cult Collective CEO and Partner. Beyond his family, his life's overriding passion involves helping brands reimagine new ways of doing things. In particular, he's committed to helping clients redeploy mass-media dollars into customer engagement activities that actually matter. If you fee like you need some help in that area, that is why the Cult Collective exists. They'd love to help you.

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