THE FUTURE OF MARKETING: **CHANGING MARKETERS' MINDSETS**

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For the past 60+ years, the consumer packaged goods industry has had the perfect formula for success: develop economies of scale, an integrated value chain, and then build brands and go-to-market strategies based on the traditional 5Ps of marketing. But in a new world with ever-increasing complexity and turbulence, will this same old formula still create success? The answer is a deafening no; it can no longer provide the correct amount of strategic stability to minimize the effects of the gale force winds of change heading our way. So how do companies create a stable foundation while facing turbulent marketing conditions? Savvy marketers must embrace a new philosophical foundation for the future by changing how they *think* about the discipline of marketing.

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THE WINDS OF CHANGE

The old, industrial-based formula for success is founded on one common denominator — mass: mass sourcing, manufacturing, distribution, retailing, media, and audiences. While most marketers today would agree that mass can no longer be the common denominator for success, they are still building go-to-market strategies as if it were.

> ***"For 100 years mass marketing sat right next to mass manufacturing. But now it's over. It is just over. Mass manufacturing is over and mass marketing is over. And you can do all sorts of things to try to get it to come back, but it's not going to come back." -*** Seth Godin

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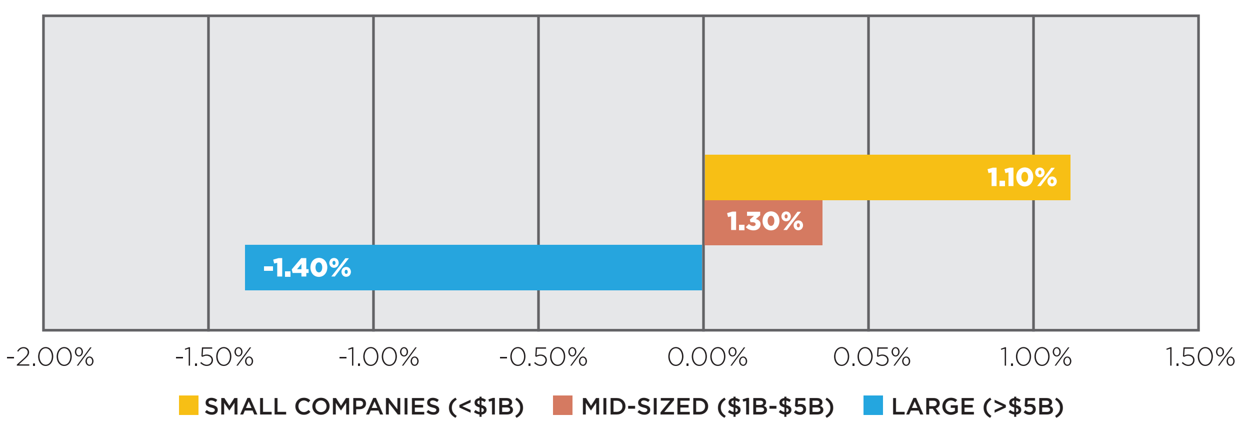
What worked in the past will no longer work in the future because the pace of change in our economy and our culture is accelerating — fueled by technological innovations that are disrupting traditional consumer and shopper behaviors, making it hard for companies to keep up.[1] One of the many indicators of the death of the industrial-based formula is the amount of market value small and mid-sized companies are stealing from the behemoths. Large companies lost 1.4% market share to smaller companies from 2009–2012.[2] In 2014 alone, small companies stole $4.5 billion in market value.[3] Small, entrepreneurial companies are more agile and able to respond to changing market needs faster than bigger companies. Additionally, small companies are not looking for a sales number that gets them tens of millions in their first year, like the larger CPG firms.[2]

GAIN/LOSS CPG MARKET SHARE BY COMPANY
Size (2009-2012)



Source: The Symmetrics Group. (2014, September 2). Lessons in Growth for Mid-Sized CPG Firms: Small CPG Firms Are Stealing Share from Industry Giants: What's the Sales Lesson for Mid-Size Players?

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1. Safian, Robert. (2012, January 9). This Is Generation Flux: Meet The Pioneers Of The New (And Chaotic) Frontier of Business. Fast Company.
2. The Symmetrics Group. (2014, September 2). Lessons in Growth for Mid-Sized CPG Firms: Small CPG Firms Are Stealing Share from Industry Giants: What's the Sales Lesson for Mid-Size Players? Retrieved from http://symmetricsgroup.com
3. IRI data for MULOC (Multi-outlet and convenience) 2014; BCG and IRI Analysis

THE INDUSTRY'S RESPONSE

The CPG industry's response to all the changes in the marketing ecosphere — technology, innovation, manufacturing, consumer and shopper behaviors — was to take the centralized, strategic discipline of marketing and decentralize it into vertical, isolated support functions: Brand Marketing, Shopper Marketing, Trade Marketing, Customer Marketing, Digital Marketing, Social Marketing, Portfolio Marketing, and Integrated Marketing. Over time, this has led the discipline of marketing to become much more tactical in nature and less strategic.

Exacerbating this shift towards tactics is our emphasis on behaviors. As we'll further explain in the next white paper, "Five Factors Driving Marketplace Complexity in The Future", we focus much of our efforts on matching our tactical plans with consumers and shoppers observed behaviors, despite the fact that their behaviors change all the time without notice. This basically puts us in a giant game of whack-a-mole: every time the consumer or shopper pops up, we attempt to deliver the right tactical hit on the head. We're basing strategic decisions and plans on a variable that is in constant flux. For example, the surge of digital behaviors has led the industry to shift traditional advertising dollars to digital advertising, despite suspicions of digital waste. In 2014, digital ad spend for consumer goods was $4.2 billion.[4] On average, 55% of digital ads were non-viewable for a variety of reasons,[5] which resulted in an ineffective spend to the tune of $2.3 billion. This is just one example of how focusing on behaviors leads to ineffective business decisions.

EMOTIONAL TRUTHS DRIVE CONSUMPTION AND PURCHASE BEHAVIORS

One of the ways in which marketers need to change how we think about marketing is to adopt what the social sciences have known for decades — emotional truths drive consumption and purchase behaviors. And unlike behaviors that are constantly changing, emotional truths shift infrequently, making them a more stable foundation on which to deal with increasing complexity and turbulence.

4. Digital Ad Spending Benchmark by Industry: The complete E-marketer series, May 2014
5. U.S Digital Future in Focus 2015 - comScore, Inc. p.14

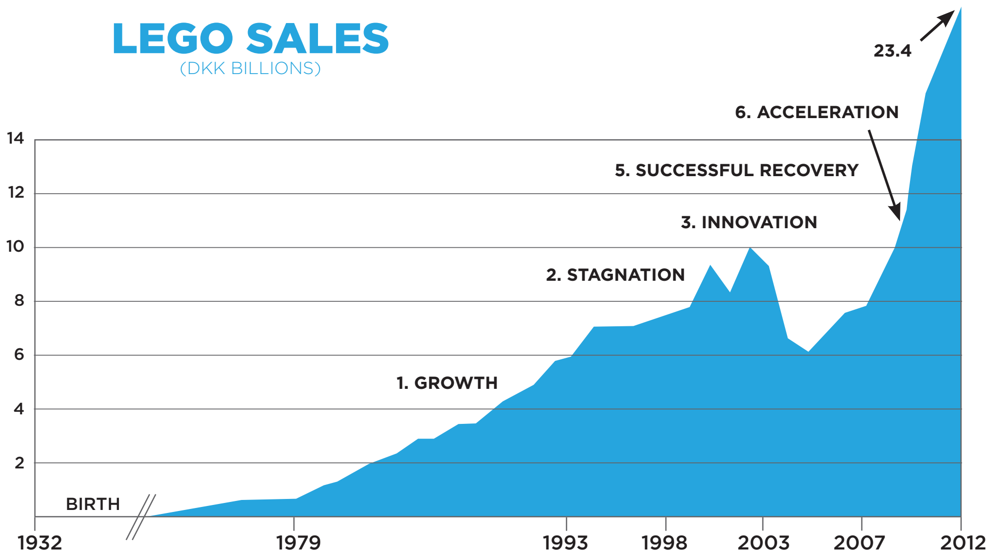
EVOLVING THE DISCIPLINE OF MARKETING

As stated earlier, the CPG industry must embrace a new philosophical foundation for the future by changing how we think about the discipline of marketing. Making tweaks to processes, organizational structures, or budgets will not be sufficient solutions. The very definition of marketing must evolve from “generating transactions that sell goods and services” to “building relationships that lead to the sales of goods and services.” While this may sound like a simple shift, it has fundamental implications in how we as marketers build brands, strategies, and communications. For example, if you evolve the definition of marketing, we must also evolve the 5P’s so they align with building relationships rather than solely generating transactions. One company that has already made this transition successfully is Lego.

After years of consistent year-on-year growth, Lego experienced its first deficit in 1998. To reverse the trend, leadership doubled down on a flurry of communications and innovations based on the traditional approach of product features and benefits. When faced with continued declines and on the verge of being sold, Lego decided to change the very nature of how they thought about their business. Rather than focusing on HOW kids play (i.e. their behaviors), they shifted to WHY kids play (i.e. emotional truths). By challenging how they thought about marketing, Lego discovered the emotional value of playtime, leading to a miraculous sales turnaround. In 2014 alone, sales grew 13% and profits grew 15%.[6]

In making this shift, Lego has already realized the significant benefits of evolving how we think about marketing:

- Higher level of organic growth
- Competitive advantages that are not only sustainable, but expandable
- Stronger brand loyalty
- Stable foundation to deal with complexities



Source: David Robertson – Brick by Brick, 2013

6. Robertson, David. “What We Can Learn From Lego”. Helping Companies Boost Innovation. 26 February 2015.

SUMMARY

CPG marketing, the traditional consumer-centric model, has served our industry well. But today, we are marketing brands in a totally different world. The previous benchmarks of marketing success must be replaced with a new definition of marketing. Given the low level of organic growth, competitive advantages that are easily matched then eliminated, and eroding brand loyalty, it's time for CPG marketing to evolve. In business, there are three motivators that drive companies to change: the threat of extinction (as in the case of Lego), the influence of natural market forces, or taking control and being proactive. Which one would you prefer your organization to take?

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