

# THE DEATH OF ADVERTISING

## INSIGHT

The insight this time is mine. I worked in advertising from 1989 to 2013 – arguably the least rewarding period of my life. However, it was certainly a valuable learning experience as I witnessed first-hand the decline of a once powerful industry.

The 1990's - early 2000's was a time of rapid change for advertising. It was a period during which threats to the existing advertising business model undermined the viability of the industry and questions about its lack of accountability were destroying confidence in the industry.

Technology was beginning to erode advertising agency income streams, including commissions on film making, plate making, and printing. Digital technologies were changing the very definition of advertising and how media was purchased. As a result, once expensive processes such as typesetting, photography, and artwork preparation, were becoming simpler, easier, and cheaper.

The move away from print, radio, and television advertising to online media started to reduce production costs, thereby lowering media commissions and agency revenues. The increasing number of provider options, along with more efficient competition, began to put pressure on advertising agency revenues and profitability.

There was also increased questioning, by business, of the value of advertising and advertising agencies. More and more of the advertising process was being assigned to low cost specialists or simply brought in-house, thereby marginalising many advertising agencies. The industry was also fragmenting with the advent of direct marketing practitioners, digital agencies, and social media practitioners etc.

There was increasing concern about poorly qualified media representatives providing *advertising* services and pretending to provide *marketing* services. There was also a growing concern about the value of the 'creative' expertise offered by agencies, most of which had never produced anything original, while overstating the importance of originality in the first place.

This was the beginning of the end for the advertising agency and advertising in general.

## THE PROPOSITION

Underpinning this paper is the proposition addressed in the last paper in this series:

- Marketing is the management of human behaviour with the express purpose of achieving social and/or commercial outcomes.

Contrary to the popular misconception, the term 'marketing' is not synonymous with the word 'advertising'. Advertising is nothing more than one of a number of tools in the marketers 'communication kit', and communication is just one of a number of 'kits' available to marketers. The others include: the product; pricing; distribution and access; branding and packaging.

Further, it will be argued that after more than 50 years of development, growth and dominance, advertising is in decline, and the importance of external communication is also diminishing. The central proposition is that:

- The 'advertising era' is coming to a close and is being replaced with a more thoughtful and comprehensive approach to driving performance through marketing.

It is unlikely that advertising will ever disappear completely, but its contribution to marketing and its influence on performance will continue to decline and will be very small indeed within 10 years.

The transition from traditional offline advertising to digital online advertising is well documented, but it is merely the first stage of a much larger change. The next stage will see a decline in digital advertising and the diversion of funds into other areas that will generate a superior return on investment.

Further, it is proposed that the transition away from advertising is both inevitable and beneficial. There are often more effective and cost-efficient ways of managing the behaviour of target markets than simply spending more and more on advertising. In many instances, there is an opportunity to generate superior returns on investment by shifting the focus from communication to other marketing tools.

The growing and justifiable scepticism about advertising agencies will continue and will add momentum to the rate of change.

## ADVERTISING IN 2018

In 2017/2018, Proctor and Gamble reduced its advertising budget by \$750 million and sacked 50 advertising agencies. In the first quarter after the cut, sales increased by 3%.

This is the beginning of a trend.

In 2017/18, some of the worlds largest brands including Zara, Rolls Royce, and Krispy Kreme have no advertising budgets at all while other major brands such as Apple and Ikea spend very little on advertising compared with revenues.

This trend will also continue.

Traditional advertising has been in decline since the late 1990's. The following estimates are anticipated for Australia in 2018:

- Overall growth – 3%
- Digital advertising – 10%
- Out of Home – 6.6%
- Radio – 1%
- Television – (4%)
- Press – (17%)
- Magazine – (18%)

These numbers point to notable trends including:

- A growth in digital and out of home
- A decline in just about everything else

Digital and outdoor advertising are growing and, indeed, their growth is currently more than compensating for the decline in other media. It is, however, likely that growth in digital and outdoor advertising will slow and in time decline. Evidence for this includes:

- The growing use of 'ad-blockers'. Some 25% of American internet users are now using 'ad-blockers' to block digital advertising.
- The growing use of advertising-free subscription services as offered by the likes of YouTube and Netflix
- The growing preference among marketers and popularity among consumers for content that informs, educates, and engages.
- The concentration of media ownership or control, with 50% of all digital advertising now placed through Facebook and Google.

Consumers are increasingly viewing advertising as an intrusion and are using ad-blockers and subscription services to avoid it.

Advertising takes the time and attention of consumers while content gives them knowledge and useful information.

Google and Facebook are increasingly setting the rules as they dominate world advertising. This will lead to resistance from users and advertisers.

In addition to the issues specific to digital media, there is a range of issues pertaining to advertising as a whole:

- The ever-increasing level of noise with the average person viewing 8000 advertising messages per day.

- The ever-increasing resistance to the hyperbole, platitudes, and half-truths in advertising and the decline of advertiser credibility.
- The ever-increasing level of misleading advertising of the type Coles and Optus, among many have been fined for.
- A growing recognition within business that the accountability of advertising is low, and the credibility of advertising agencies is even lower.

There are too many advertisements hitting us each day for many to cut through. Despite what advertising agencies say, the creative is struggling to achieve cut through. Advertising is rapidly becoming noise.

Consumers are increasingly resistant to the hyperbole and platitudes that advertising agencies seem addicted to. Consumers don't trust lies, and for good reason, as more and more businesses are being perceived as lying – with some justification.

While digital advertising is more accountable than traditional advertising, no advertising is truly accountable. Advertising agencies still rely on the mantra – 'trust me'. I am sure no one believes advertising promises any more.

In 2018, advertising is in decline. The advertising era is coming to a close, and not before time.

## **THE COGNITIVE ERA**

It is not at all clear what the advertising era will be replaced with, but the smart money should be on something I call the 'Cognitive Era'. This will be an era that values objective, critical, and lateral thinking, an era that honours intellectual rigour over salesmanship, myths, black boxes, and bullshit.

I envisage the Cognitive Era as comprising two distinct but related pillars:

- Consumer science
- Business science

### *CONSUMER SCIENCE*

Marketing is about managing human behaviour, and if we are going to manage human behaviour effectively and efficiently and maximise return on investment, it makes sense that the customer becomes the absolute focus of marketing.

Consumer Science is all about putting the consumer, particularly the primary target market, at the very centre of the marketing process, not just in theory, but also in practice.

Putting the customer at the centre of the process involves three things:

- Knowing exactly who the customer is and identifying their characteristics
- Understanding customer needs, wants, and desires very well
- Addressing customer needs and wants first and foremost

Addressing these issues requires well-researched data, the expert analysis of that data, and a commitment to applying the findings of that analysis. It involves a commitment to market research, behavioural economics, and consumer insights. It involves an understanding of the brain and neuroscience as it applied to purchase behaviour.

There is a growing appreciation that marketing is about the *psychology* of human beings. Indeed, this, in part, explains the growth in these disciplines. There is a growing appreciation that decision making starts in the brain of the buyer, not in the imagination of a copywriter.

The fact is, few advertising executives can explain the relative importance of the brain stem, limbic system, and neocortex in purchase behaviour. Even fewer can discuss the importance of the work of Nobel Prize winner, Daniel Kahneman, on fast and slow thinking, in any meaningful way. However, it is increasingly apparent that nothing is more important in marketing than an understanding of the human brain – the organ that drives behaviour.

This scientific approach to marketing has already been cited for the success of the 'Benjamin Button' businesses such as Zappos, Google, and Amazon.

Reflecting on this, Jeff Bezos, the CEO of Amazon commented:

'All the success that we currently have is due to the fact that we put customers first.'

### *BUSINESS SCIENCE*

Business Science involves applying to marketing (including advertising) the same structures, disciplines, and processes associated with good business practice and true professionalism.

Marketing will become a profession.

In the past, advertising agencies claimed to embrace sound business practices, but there is precious little evidence to suggest that they did, except perhaps when it came to running their own businesses. With the advent of technologies that increase accountability, and the potential for automation, marketers have become more attuned to sound business practices. This is only going to accelerate.

The critical components of Business Science are:

- The product
- Business management

Contrary to what most advertising agencies and media shops might say, the heart and soul of any great marketing campaign is *the product*, not the advertising, or even communication.

Advertising may drive the initial purchase, but it is the product that drives repeat purchase and referral. As Professor Scott Galloway of New York University notes – one feature that all the great brands such as Apple, Nike, Microsoft and Google have in common is that they 'have a product that their market loves'.

The other thing that these brands have in common is a recognition that the product is much more than a good or service. The product is ultimately everything the target market is buying and the consumer experience that goes along with it.

At a tangible level, the product incorporates the good or service combined with the service, pricing and distribution/access. At a practical level, the product is the solution the customer buys to solve a problem or capitalise on an opportunity. At an intangible level, the product

comprises the qualities embodied in the brand and the image surrounding the brand. None of these is a communication issue.

The increasing focus on innovation reflects a growing recognition that every product has a lifespan that can be extended only marginally, and at great cost, by advertising. All products move through a very definite life cycle, and different stages in that lifecycle requires different strategies. In a rapidly changing world, we will see a greater appreciation of the product lifecycle and the growing importance for marketers to drive innovation and consumer focused research and development.

The consumer is the starting point or stage 1 of the marketing process, and the product is stage 2. Great products get sold and require less advertising and communication to sell.

Business management texts tell us that nothing will change if it is not measurable. I would argue that few things in business are worth doing if they are not measurable. In 2017 we expect almost everything in business to be measurable and accountable, while the traditional advertising agency has been used to saying – ‘trust me’.

Business management practices in marketing are already subject to increasing levels of accountability and automation. The level of both will increase substantially, and practices that are inconsistent with either will soon be out of favour. There will be an expectation that marketers will behave like professionals, rather than just talk like them.

We will also see a growing appreciation that branding is not about communication, but, rather, culture. It is culture, not advertising, that builds a brand. It is culture that determines service levels and approach, and it is culture that ultimately determines product quality and drives innovation. Culture is central to branding and strategy success.

The marketing industry often talks about corporate social responsibility but is rarely associated with ethical behaviour. Ethical behaviour will become increasingly important and will be the foundation of many a competitive advantage. At the same time, the increasing power of social media and social activism has become good business practice. Become more ethical and more focused on delivering real value rather than confected value, and do so with respect for the community and environment.

Consumers will be increasingly reluctant to accept the alternatives, and ethics has the potential to be a key selling point for a brand. Aggressive advertising is increasingly seen as unethical. Just ask Pepsi. The outrage over their recent campaign must have done damage.

Marketing is not yet, but will become, a profession, further accelerating the decline of advertising.

## THE FUTURE

The tools of the future, for marketers will include:

- Product
- Price
- Brand
- Packaging
- Access
- Communication

Arguably, nothing is more important than the product, and the development of products that address the needs and wants of consumers. The more a product meets and exceeds the expectations of the target consumer, the more likely it will be purchased.

Price can be used in a number of ways to influence purchase behaviour. Lower prices might encourage purchase (commodities such as milk), and in some cases higher prices encourage purchase (luxury goods), while in other circumstances higher prices can inhibit purchase (cigarettes).

It might be argued that nothing is more important in 2018 than branding. Branding is the 'process of creating a culture that can bridge the gap between the 'optimal brand' (what suits the business) and the 'actual brand' (as understood by the consumer).

Packaging relates to a host of factors including physical presentation, service, and the overall customer experience. As Apple has demonstrated in its stores and on its websites, the customer experience can have a dramatic impact on consumer behaviour.

If a consumer cannot access a product, they will not buy it. Access and distribution have a substantial effect on behaviour. As delivery times get shorter, for example, so consumers will buy more and more online. Delivery times and costs are the main barrier to online purchasing.

Consumers will not purchase what they are not aware of. That said, communication need not involve advertising, PR or DM etc. any more than it involves behaviour that drives repeat business and behaviour that drives referral. Nonetheless, communication is an important tool.

Increasingly, it will be recognised that 'communication' is the last tool in the list above, unless of course the communication at issue is that related to listening to the consumer.

Growth areas of marketing over the next five years will include:

- Customer experience
- Culture and brand
- Community building
- Permission marketing
- Multichannel relationships

All of these trends reflect a more client focused and scientific approach to marketing.

## **IN CLOSING**

The advertising era is drawing to a close. A professional era characterised by a more thoughtful approach to marketing is dawning.

Marketers are and will continue to professionalise, and the 'used car salesmen' and 'creative gurus' in advertising will take a back seat.

The focus will shift from advertising to behaviour management, at the centre of which will be consumer and business science.