

Crowned at last

A survey of consumer power | April 2nd 2005



Crowned at last

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The claim that “the customer is king” has always rung hollow. But now the digital marketplace has made it come true, says Paul Markillie

IT IS the biggest advertising event of the year. On February 6th, half the households in America sat down in front of their televisions to watch the 2005 Super Bowl. Never mind the game: the Super Bowl is a showcase for television commercials, and more than a quarter of the viewers tune in just to watch the ads. For days before and after the event, these are discussed in the newspapers, on radio and on tv. At an average cost of \$2.4m for a 30-second slot, a Super Bowl commercial is the most expensive pitch an advertiser can make. For some, such as Anheuser-Busch, it has become an institution. The brewer's decision to drop one of its ads from the ten slots it had booked made headlines. The commercial was a cheeky take on Janet Jackson's “wardrobe malfunction” (a slipping top) during the half-time show at the 2004 game. The resulting publicity prompted large numbers of people to visit Anheuser-Busch's website to look at the ad, which meant that probably as many saw it as if it had been screened.

The Super Bowl is a great excuse for a party, especially for the advertising industry. It shows that people still enjoy ads that are creative and entertaining. But it raises an awkward question: does it actually sell any more bottles of beer, cars or pills for erectile dysfunction? Although tv viewers tend to be able to recall a particularly good commercial, many cannot remember the product it featured. And for the most part

they try to avoid the rising barrage of ads. Getting their attention is becoming increasingly difficult, because audiences are splintering as people use different kinds of media, such as cable television and the internet. The choice of products and services available is multiplying, but at the same time consumers have become more sceptical about claims made for products. In today's marketplace, consumers have the power to pick and choose as never before.

All-seeing, all-knowing

This new consumer power is changing the way the world shops. As this survey will show, the ability to get information about whatever you want, whenever you want, has given shoppers unprecedented strength. In markets with highly transparent prices, they are kings. The implications for business are enormous: threatening for some, welcome for others. For instance, the huge increase in choice makes certain brands more valuable, not less. And as old business divisions crumble, a strong brand in one sector can provide the credibility to enter another. Hence Apple has used its iPod to take away business for portable music players from Sony; Starbucks is aiming to become a big noise in the music business by installing CD-burners in its cafés; and Dell is moving from computers into consumer electronics.

“I am constantly amazed at the confi- ➤

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► dence level and sophistication of the average consumer," says Mike George, Dell's chief marketing officer and general manager of its consumer business in the United States. Dell soared to the top of the personal-computer business by cutting out retailers and selling directly to consumers. If Dell changes prices on its website, its customers' buying patterns change literally within a minute. "That tells you people are well-researched and knowledgeable," adds Mr George.

Even buying a car, long considered to be one of the worst retail experiences anyone can have, is being transformed. Over 80% of Ford's customers in America have already researched their prospective purchase on the internet before they arrive at a showroom, and most of them come with a specification sheet showing the precise car they want from the dealer's stock, together with the price they are prepared to pay. Similarly, more than three-quarters of mobile-phone buyers in America do their research on the web, even though only 5% buy online, says John Frelinghuysen of Booz Allen Hamilton, a firm of business consultants. They still want to go to a shop to hand over their money and get their phone, but first they want to see exactly what the service package covers, and to read what other users say about their proposed purchase.

With consumers becoming increasingly empowered, how can the marketing, advertising and communications firms that companies use to promote their products hope to get their messages across? And what does it mean for media businesses relying on advertising revenue, the traditional channels for reaching this increasingly elusive audience? Disintermediation—the process of middlemen being cut out—seems to be in the air. The three big TV networks in America have all hedged their bets by acquiring cable channels. The advertising business is reorganising itself, seeking safety in size. Many agencies are now clustered into four big global groups: America's Omnicom and Interpublic, France's Publicis and Britain's WPP. In some ways they are recreating the big, vertically integrated advertising giants of the past, but with separately run companies to deliver the range of specialist marketing services they think their clients will need in the future.

So what will that future hold? "For the first time the consumer is boss, which is fascinatingly frightening, scary and terrifying, because everything we used to do, everything we used to know, will no lon-

ger work," says Kevin Roberts, chief executive of Saatchi & Saatchi, part of Publicis. Shelly Lazarus, head of Ogilvy & Mather, part of WPP, is more sanguine. "Advertising is as vibrant as it has ever been. It's just that the way you define it is so much broader now, with new ways to reach people," she explains. "In the past you would keep pounding the creative message out into the market place and look at reach frequency," says Howard Draft, a veteran direct-marketing expert and chief executive of his eponymous New York agency, part of Interpublic. "Well, basically that is dead. What you have today is an informed consumer who is taking control of the way he learns and hears about products."

Companies with some of the world's biggest advertising budgets are beginning to look for new ways of attracting consumers' attention. Jim Stengel, global marketing officer for Procter & Gamble (P&G), is one of the advertising industry's harshest critics, awarding it a "C minus" for its ability to embrace new media. And Larry Light, who has been giving McDonald's a makeover as its chief marketing officer, says bluntly: "The days of mass marketing are over."

Mass retailing, however, looks as healthy as ever. The supermarkets are taking an increasing proportion of consumer spending—and on a lot of things beside groceries. A growing part of Wal-Mart's business comes from people searching online for information on products such as consumer electronics, and then visiting a store to make a purchase. "I think it works to our advantage, because we are the price leader," says Lee Scott, chief executive of the world's biggest retailer. "There's power for them and us."

Consumers, of course, care not a jot about marketing machinations. They are delighted to have more choice, which

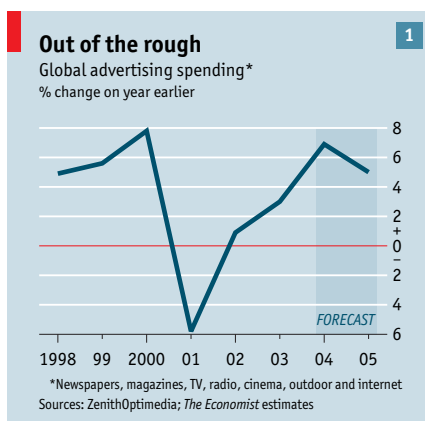
makes it easier for them to turn their back on a company they do not like and buy elsewhere. For some this is sweet revenge. "Consumers have become jaded and cynical," says Rob Markey, a partner at Bain & Company, a consultancy. "There is a pile of broken promises heaped on the floor."

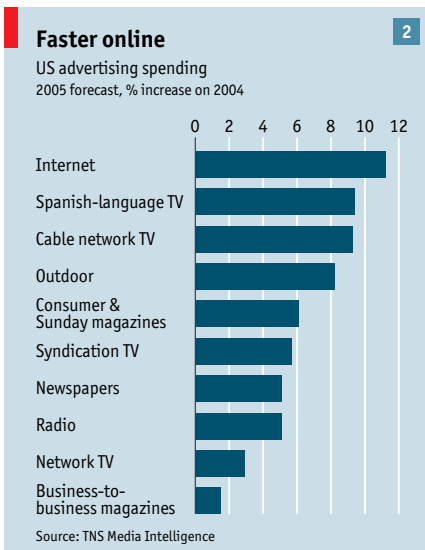
The ads we love to hate

In fact, consumers have been telling market-research companies for 50 years that they do not trust advertising. But they have become even more negative about it recently, says Eric Schmitt of Forrester, a research firm. Indeed, people are actively looking for ways to avoid ads, using tools such as pop-up blockers on web browsers and digital video recorders (DVRs) that allow them to skip the ads when they record TV programmes. Forrester found that 60% of the programmes watched by DVR users are recorded, and 92% of the ads on such programmes are skipped. The firm reckons that by the end of 2008, 36m households in the United States will be using DVRs. So what will happen to the \$60 billion spent on TV advertising in America every year? Mr Schmitt thinks that if the TV industry can no longer guarantee its audiences, a lot of that money will move elsewhere.

For the moment, advertising expenditure gives no hint of trouble ahead. The business is bouncing back strongly from the slump that began in 2001, when the bursting of the technology bubble caused a sudden collapse in ad spending. Worldwide advertising expenditure on the mainstream media and the internet in 2004 grew by around 7% to \$370 billion, estimates ZenithOptimedia (see chart 1). Universal McCann, a media-services firm, uses different measures but sees a similar recovery. It says that in America last year \$264 billion was spent on national and local advertising and other marketing, such as direct mail (a \$50 billion business), up 7.4% on the previous year. And it expects ad spending in the world's biggest market to grow by more than 6% this year.

But the way that money is spent is changing. In America, growth in ad spending is led by the internet, Spanish-language TV and cable networks, according to TNS Media Intelligence, a media-monitoring company (see chart 2, next page). And as with P&G's \$4 billion advertising budget, a growing proportion is shifting from mainstream media, such as television, radio and print, to new media and other forms of sales promotion, such as direct mail, public relations, promotions, sponsorship and product placement. Collectively this ►►





▶ sort of spending, sometimes called “below-the-line” advertising, or marketing services, is already worth more than twice what is spent on traditional display advertising. Together, the two sorts of spending added up to more than \$1 trillion last year, says WPP.

By comparison, the \$10 billion or so spent on internet advertising in America last year looks tiny. But it was 32% up on 2003, according to a study by the Interactive Advertising Bureau and PricewaterhouseCoopers. And that growth is accelerating, leading some forecasters to suggest that the online ad market could double in value this year. The internet is also becoming a lot more sophisticated as an advertising medium, beyond banner ads and pop-ups. In search advertising, companies buy words that, if they appear in searches made on sites such as Google or Yahoo!, will bring up a link to the company’s website, displayed alongside the search results. The advertiser pays only if someone clicks on his links. This makes the results of search advertising reassuringly measurable, because tracking how many people go on to make a purchase is relatively easy. Google is beginning to work like an advertising agency, placing small text-based ads on other people’s websites on behalf of its clients and splitting the revenue with the website owners. Google’s software scans the sites to match the ads it serves up to the site’s content.

Local search could be the next big moneyspinner on the internet—for whoever comes up with a winning formula. Microsoft’s MSN site, for instance, will provide details about a local shop, and a map

to get you there. A9, a new search engine from Amazon, has a feature called “Block View” with pictures of streets and their shop fronts, so if you have forgotten the name of the restaurant you are looking for, you may be able to recognise it in the picture. The next step will be a feature that allows users to “click to call”. Initially this service is likely to be free, but in time it could be developed into another big source of online revenue.

Media from dawn to dusk

Some changes in consumer behaviour that were already under way have been speeded up by the growing use of the internet. For example, consumers are spending more time with media of all kinds: currently about ten hours per person per day in America. According to Veronis Suhler Stevenson (vss), a New York-based media merchant bank, this is likely to grow to 11 hours by 2008. James Rutherford, the bank’s managing director, thinks this is due to a relatively new phenomenon he calls “media multi-tasking”: using different media at the same time. “This has enormous implications for advertisers and programmers,” he says. “It used to be that they were competing to get you to turn on the television. Now the tv may be on, but they are competing to keep your attention on the tv as opposed to the computer screen, the magazine or the iPod.”

Fujio Nishida, chief marketing officer of Sony’s electronics division, points out that this forces advertisers to think very carefully not only about which media to use for the market they want to reach, but what people are likely to be doing when their ad appears. In Japan, he says, in the past you could be fairly sure that 90% of your potential targets would be watching tv at some point between 8pm and 10pm; but now only 70% may be watching and 60% will be using the internet—many doing both at the same time. Advertisers can take advantage of this by putting on tv ads specially designed to encourage consumers to go straight to a website, as Sony has done.

“Who actually controls distribution in this type of world?” asks Bill Gossman. “The individual does. That’s where the ultimate consumer power comes from.” His company, Revenue Science, is developing new ways of “behavioural targeting”. This involves analysing online consumer behaviour and then delivering ads that are likely to be relevant to groups with common interests. Mr Gossman thinks that as the world becomes more digital, his techniques will increasingly be used by all

kinds of electronic media.

Amazon, which has long evolved from an online bookseller into a mass retailer, uses a form of behavioural targeting by suggesting products its customers might like, based on their past purchases. Jeff Bezos, Amazon’s chief executive, was among the first to spot that the transparent pricing and product information the internet was able to provide would allow people to shop just about anywhere. The trick was to make it easier for them, so Amazon’s website now operates as a shop front for lots of other companies too. And it gives customers the chance to read not only the sales blurb but also other customers’ comments on the products.

For some companies this is scary stuff—the same as throwing open your customer-relations files and hoping that people have said enough nice things about you. Companies can, of course, try to control everything that is said and written about them through advertising and public relations. But nowadays a web search can turn up all sorts of skeletons in the cupboard, especially from news groups where people post comments, from online journals (called “web logs” or “blogs”) and more recently from “podcasting”, in which individuals produce their own audio programmes for others to download to their Apple iPods or other MP3 players. Video versions of this are sure to follow. Not all of this can be dismissed as amateurish twaddle. Microsoft, for instance, is taking blogs seriously enough to have hired its own celebrity blogger, Robert Scoble, even at the risk that he might be scathing about the company’s products.

This is a clever move. The less control a company has over its marketing message, the greater its credibility, says Pamela Talbot, an expert in consumer-product marketing and chief executive of the American side of Edelman, a giant public-relations firm. Indeed, Saatchi & Saatchi’s Mr Roberts thinks marketing departments must accept that brands no longer belong to them, but to the people who use them. The most valuable users of a company’s brand are what he describes as “inspirational consumers”—people who are closely associated with a company and its products. It does not even have to be another company. Some of the most successful agents for generating a buzz—and plenty of free publicity—can be the people who run the business.

For example, the celebrity status of Sir Richard Branson has rubbed off on the Virgin brand, so his businesses, from music to ▶▶

▶ airlines to space travel, get instant consumer recognition. Stelios Haji-Ioannou, a familiar face in Britain, founded easyJet, one of Europe's first cut-price airlines. Mr Haji-Ioannou, who describes himself on his business card as a "serial entrepreneur", believes that a brand represents "a promise". So whether he is attaching his name to a car-rental business, a new no-frills hotel chain or a new cruise line, the consumer knows what to expect from the person putting his reputation on the line. Donald Trump has also turned himself into a brand, but the New York businessman is especially well known for "The Apprentice", a business reality show on tv.

This is a huge hit in America (unlike Sir Richard's own show), and companies pay to be involved.

What is it worth to have the contestants on such a show design a new product for your business, as Burger King did? The fast-food chain then went on to mount a similar competition on its own website. Measuring the effectiveness of such marketing is not easy. The marketing profession has yet to catch up with new media, says Malcolm Hunter, chief strategy officer of Vizeum, a London agency set up to seek out opportunities from recent trends. "Consumers are real people, and companies that understand that can do well." That

might seem blindingly obvious, but he is right to remind the industry of it. Advertisers are still inclined to depict their activities as a form of warfare. Consumers are "targets" and ad "campaigns" are meant to "wear down resistance" and score "hits".

The rise of consumer power can best be charted through three industries: packaged goods, consumer electronics and cars. In each of these three very different categories consumers carry increasing clout. As the cost of the product goes up, they spend more time and effort considering which make and model to buy. The battle for their attention and money begins at the supermarket. ■

Warfare in the aisles

Competition in your local supermarket is getting vicious

NEXT time you are hurtling through a supermarket, slow down and look around the packaged-goods battlefield. There are the massed battalions of supermarkets' own labels—no longer just cheap stuff, but increasingly segmented into things like ready meals, "healthy" options or pricey treats. Confronting them are goods from branded manufacturers, which must pay for the privilege of appearing in the grocery department. And surrounding everything are shelves heaving with personal-care products, clothing, books and DVD recorders.

Even if you can resist the smell of fresh bread from the in-store bakery, other forms of psychological warfare will entice you to spend more than you intended. Dairy products, which most people buy regularly, tend to be lined up at the back of the store, so shoppers have to pass along the aisles where temptation can be put their way. Positioning is everything: people typically spend at most six seconds selecting a grocery item, and if they cannot find it they may not buy it. The best slots are at adult eye-level, so that is where relatively expensive products are put, often to the right of popular items (to increase the chances that right-handed shoppers will pick them up). Price is not always the deciding factor: more than half the people leaving a supermarket cannot recall exactly what they paid for individual items.

Those rules apply in supermarkets no matter where they are. If you live in America, you might be shopping in a Wal-Mart,



run by a company that has become the world's biggest retailer by driving down suppliers' prices and passing the savings on to its customers. In Britain, you could be in a Tesco store, owned by the biggest of four large supermarket chains that between them sell around three-quarters of the country's groceries. Tesco's recent growth has come mostly from expanding into non-food lines. In China, you could be in a Carrefour, run by the French-owned inventor of the hypermarket, which by the end of this year could have some 300 Chinese stores, making it the leading foreign chain in a hugely coveted developing consumer market.

Pity the shopper, says Saatchi &

Saatchi's Mr Roberts—and in a supermarket the poor creature is usually a woman. There are so many items on offer and they are so jumbled up that she often cannot find what she is looking for. It is cold because fresh produce needs to be refrigerated on open shelves to make it easy to pick up. "The lighting is awful and she has to listen to Phil Collins," he commiserates. "She can't wait to get out." Mr Roberts knows a bit about consumer goods. He was a marketing executive with P&G, Gillette and Pepsi-Cola before becoming the head of one of the world's best-known advertising agencies.

Female supermarket shoppers' interests range from health, family matters and ▶▶

▶ the environment to politics and social issues, such as the welfare of overseas workers making some of the products they buy. They also share and discuss the information they acquire, much more so than men. This is how they become attached to certain brands and products, says Saatchi & Saatchi. So it is no good simply to bombard shoppers with ads for items that are invariably billed as bigger, brighter, stronger and so on. It leaves them bored to tears, says Mr Roberts. In order to reach and influence them, packaged-goods producers have to engage them in many different ways—for example on the internet, where many women now spend as much time as they do watching television.

Who needs brands?

With so much choice and information available, why don't shoppers simply ignore brands and make a purely rational, economic decision about what to buy? Because that is not human nature, says Jez Frampton, chief executive of Interbrand, a London brand consultancy. "Brands offer trust," he expands, "and they enable people to navigate through complex markets." There is something in that. In the old Soviet Union, where all products were supposed to be the same, consumers learnt how to read barcodes as substitutes for brands in order to identify goods that came from reliable factories.

Consumer-goods companies invest in brands to convince supermarkets to stock their products and to get shoppers to buy them. This is never straightforward. Jeremy Bullmore, an advertising guru with WPP, once likened brand-building to a bird building a nest "by the scraps and straws they chance upon". Consumers used to get most scraps of information from advertisers. Now they are more likely to find them by themselves.

To keep in touch with their customers, consumer-goods companies are shifting their spending away from traditional media, such as network TV and print, to other types of promotion. A decade ago, P&G used to put about 90% of its advertising budget into TV, but now it spreads the money more widely. For some new products, TV may account for only a quarter of total spending. P&G has long been an advertising pioneer: by sponsoring radio programmes, and later TV shows, as a way of promoting its detergents, the company helped to create a new term: "soap opera".

Nowadays, advertisers want to do more than just sponsor a TV show. Kellogg's, for instance, promotes its cereal

brand, Special K, in co-productions with the Discovery Health Channel in America. The benefit of a strong brand is that it can convey information about a product very efficiently, reckons the company. Nevertheless, even venerable brands have to be worked on constantly to keep them fresh, says Alan Harris, Kellogg's chief marketing officer. "In some cases we have got to experiment and do things differently to learn how our brands can operate in this different environment."

A brand may have only seconds to convey its message. "If I'm going to get shelf-space in the major retailers I need to stand for something, and that something needs to be relevant and it needs to be clear. That's what brand-building is at its most basic," says Scott Garrett, the brand director for Heinz in Britain and Ireland. Some of Heinz's ads are classics. The company's "Beanz Meanz Heinz" campaign, for its tinned baked beans, first ran on British television in the 1950s, and many British consumers still recognise the phrase. But Mr Garrett accepts that it would be unrealistic to expect today's shoppers to march into a supermarket and demand his products. "I have to get people pre-dispositioned to the Heinz brand and then hope that the wavering hand on the shelf veers towards the turquoise can [the colour of the Heinz baked-bean label] rather than another one."

To make things even more complicated, marketers detect a growing trend towards "cross-shopping": the same people buying very expensive and very cheap things at the same time. They might splash out on a \$500 Gucci bag and then economise with a \$5 T-shirt as they flit from Saks Fifth Ave-

nue to H&M. Buying some things from discount chains is considered "smart", even for people who can afford to shop elsewhere. Some chains, such as Target, an American mass-merchandiser, compete against Wal-Mart with a more carefully edited selection of goods and employ top designers for some own-label goods. Now Wal-Mart has taken global its successful George brand of clothing, initially developed by George Davies for the British supermarket chain, Asda, that Wal-Mart bought in 1999.

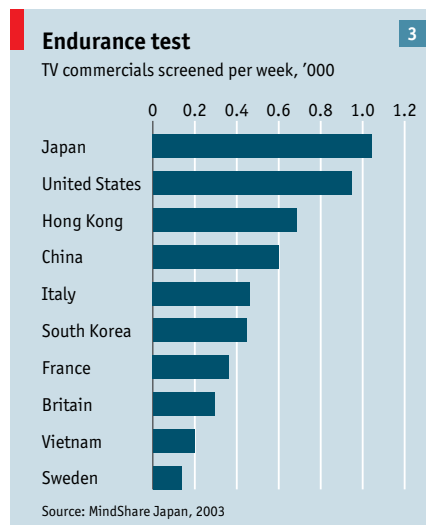
Will the big supermarkets take an ever-increasing slice of consumer spending? Target and others have shown that there are ways to counter-attack. Some people avoid supermarkets and buy their groceries online from firms such as Fresh Direct in America and Ocado in Britain. The internet has also enabled suppliers to go direct to the consumer. Riverford, a British organic-vegetables specialist based in Devon, runs a successful web-based home-delivery service. It entertains customers with recipes and nuggets of information about products—such as that supermarket carrots are mostly chosen for their ability to pass the "wellie test". This means they can be bashed against a wellington boot without breaking, which shows that they will be easy to harvest, clean and polish. Riverford says its varieties are selected for flavour, and offers no apologies if they arrive with a bit of mud attached.

The big retailers like their private labels because they typically provide 5-10% more profit than branded products, says Euro-monitor International, a market-research company. This limits the pricing power of the branded-goods producers: consumers may not be able to recall the price of an individual item, but they usually remember whether their purchase was more or less expensive than similar items.

Here today, gone tomorrow

But it is hard to stand out from the crowd. Every day an astonishing 400-700 new brands are added to the 2.1m brands tracked by TNS Media Intelligence. "It's very easy to get a brand out there," says Steven Fredericks, the company's chief executive. But there is no guarantee that any of them will be noticed, he adds. "Consumers' attention is becoming a scarce economic resource."

To boost their sales and negotiating power with the supermarkets, consumer-goods companies are concentrating on their most powerful "superbrands". Unilever, Europe's biggest producer of con- ▶▶



► consumer goods, has cut its portfolio of brands from 1,600 to around 400. P&G, which in 2000 had ten brands with annual sales of more than \$1 billion each, by last year had increased their number to 16. Its \$54 billion deal earlier this year to buy Gillette will add another five superbrands.

The merged group is also heavier on beauty and grooming products, which have strong growth potential, especially in the Chinese market. Having been sold many fake and shoddy products, Chinese consumers want brands they can both trust and afford. China is already P&G's sixth-biggest market and could in time become its most important after America.

With fewer brands, producers can concentrate their resources to better effect.

This is especially necessary in Japan, the second-biggest advertising market in the world after America, and one of the most cluttered (see chart 3, previous page). Drinks and snacks are one of the hottest areas: hundreds of new ones are launched every year. Andrew Meaden, the chief executive of MindShare Japan, a media agency, calls the process "commercial Darwinism". Newness matters a lot, so many products appear just to catch the moment. Most struggle and die, not only in their efforts to get noticed but also in the battle to find shelf space in Japan's small shops. And if you are selling to young people, "you have to be much more savvy about how you talk to them," says Mr Meaden.

Some companies are trying to cut

through the noise with a combination of old and new marketing techniques. Switzerland's Nestlé, for instance, has discovered that people get stressed by having to decide what to cook for dinner, so in Japan it provides recipes that its customers can download to a mobile phone, enabling them to pick up the ingredients on their way home. Other companies provide coupons over the internet and deliver them to mobile phones. Like the 251 billion coupons which TNS Media Intelligence says Americans religiously clipped last year from newspaper inserts, these electronic ones can be exchanged for samples or discounts on new products. In such ways, Asia is well ahead in its use of digital media for marketing. ■

Man's best friend

Not a dog, but a mobile phone

SATURDAY morning in Myeong-dong, and the huge shopping district in the centre of Seoul, South Korea's capital, prepares for a long day and night. As the hawkers move in with their barrows, a man selling fried squid sets up his stall next to a woman displaying shawls with Louis Vuitton logos. Real or fake, just about every fashion brand in the world can be bought here, if not from the hawkers, then certainly from the hundreds of stores, shopping malls or the massive Lotte department store. A solitary preacher stands outside a Starbucks singing hymns, as if to steer the swelling crowds away from the path of Mammon. Eventually he packs up and leaves, drowned out by the music blasting from the sound systems of trendy boutiques. This is consumerism at its most strident. So where is the internet?

It is all around. Start with shops, many of which display signs showing their web-site address. Then watch the shoppers, especially the younger ones. They have acquired new skills: walking through a crowd while studying the screen on their mobile phone, or examining a rail of clothes while using their thumb to text a friend. Some will also be checking their bank accounts, getting sports news, keeping track of an online computer game, or downloading a new ring tone or avatar—a cartoon-like character that will appear as their digital representative on mobile-phone screens and in online games. Plenty

will also be listening to music downloaded from the internet. South Korea is one of the most wired countries in the world. That is why Meg Whitman, the chief executive of eBay, the biggest online auctioneer, sees the country as a "window into the possibilities" of what might happen when high-speed broadband services are widely adopted in other places too.

In 1960, South Korea had only one telephone for every 300 people—barely one-tenth of the world average at the time. Today, more than 90% of households have a fixed-line phone, three times the world average. Moreover, three-quarters of the

population carry mobile phones, which means that pretty well everyone has one, apart from tiny tots and a few elderly people. With government encouragement and the benefit of a densely populated, mainly urban environment, South Korea has been relatively easy to wire up. The country boasts one of the highest internet-penetration rates in the world, with more than 31m of the 48m population now having access to the web, most of them via high-speed services. Apartment blocks display government notices by the front door certifying the speed of their internet connection.

Those connections are about to get even faster. In January, the government licensed the country's three main telecoms firms, SK Telecom, KT and Hanaro, to offer a new high-speed wireless internet service called WiBro. From next year, this will allow mobile users to surf the internet at much higher speeds than they do now, as well as more reliably. Somewhat alarmingly, the Ministry of Information and Communication (MIC) says it will work even in a car travelling at 60km an hour.

For the country's consumer-electronics makers, this vibrant home market is an invaluable development laboratory. Samsung Electronics, South Korea's biggest consumer-electronics company, has already produced a mobile phone especially for watching high-quality video. Its rival, LG Electronics, has even unveiled one with a built-in personal video recorder, ►►



▶ which automatically switches to “record” if the user needs to take a call. Lots of other new gadgets are coming, including phones that can read the radio-frequency identification tags that will eventually replace the barcodes attached to goods. These phones, says the MIC, could be used to check the expiry date of fresh produce, say, or pick up a signal from a poster advertising a new movie, which would then prompt you to download a preview.

There seems little doubt that South Koreans will flock to use many of these services: the MIC expects the number of Wi-Bro subscribers to rise to over 9m within six years. But the way the locals use these new technologies may not translate perfectly to other countries. Watching video on your mobile phone already looks like a winner in Japan, because many Japanese face long commutes on public transport. But if you are stuck in a traffic jam on Interstate 405 on your way to work in Los Angeles, you might do better to tune your phone to pick up high-quality satellite radio instead.

E-mail is so last week

A more intriguing question is what will happen to services that many people now take for granted. For instance, many young South Koreans would be bemused by mobile devices with keyboards such as the BlackBerry, which is popular with businesspeople in America for keeping up with their e-mail. The South Koreans already have handsets that can do this, but they do not think e-mail is particularly cool, and they do not like the spam that comes with it. They prefer to send text messages, which are more immediate and are certain to be delivered instantly. South Koreans in their teens and 20s increasingly look on e-mail as an old and formal means of communication, according to one study. “You would exchange e-mails with your bosses, but not your friends,” says a young South Korean marketing assistant. The arrival of more features could reinforce this trend further: a new Samsung phone uses voice recognition to convert speech into text.

However, some of the new features that mobile phones will offer look like being universally popular. Walk into the experimental coffee bar at the MIC’s offices in Seoul, and the screen of a handset lights up with the menu. You can order two cappuccinos, pay electronically and receive a receipt, all on the handset. Mobile phones are already configured for some basic e-commerce activities such as downloading

Attention, please 4

What else were you doing when you last...?, %

	watched TV	listened to the radio	read a newspaper	used the internet	talked on the phone
watched TV	*	9	38	17	54
listened to the radio	13	*	21	16	30
read a newspaper	43	21	*	2	14
used the internet	20	17	2	*	19
talked on the phone	57	25	14	18	*

Source: Forrester Research, North American users, 2004

music, and in Asia a few can already be used to make some purchases in shops. “There is a future, not too far away, when the only thing you will need to leave home with is your mobile phone, because it will be your wallet and your key and all the things it already is,” says David Wheldon, global director of marketing and brand communications for Britain’s Vodafone, the world’s biggest mobile operator.

This summer, a new service will begin in Spain, and later spread to other European countries, to make mobile payments easier. Called Simpays, it is jointly owned by some of Europe’s largest mobile operators. Simpays is designed to function as a non-profit organisation with a common brand. The idea is that eventually all of Europe’s 70m mobile users will be able to click on a “buy with Simpays” logo whenever they use their mobiles to surf the web. Any purchases will then be charged to their mobile bill. If Simpays is anywhere near as successful as PayPal, eBay’s online payments system, it might give the banks a jolt: PayPal now has more than 60m account-holders worldwide.

The leap from paying for a music download to paying for your groceries electronically is not very big. As mobile phones are increasingly used for shopping, their appeal as a medium for reaching consumers at the point of purchase will grow. Along with services such as global positioning systems, which some handsets already provide, and software that can monitor online behaviour, a handset could offer all kinds of novel things—even telling you where to find that item you are searching for in the supermarket, and that it is on special offer.

“Anything that is screen-based will be able to be used as an ad-serving mechanism,” says Andy Jung, director of advertising and media for Kellogg’s. Other

marketeers agree. The mobile phone is a very personal device: a faithful companion that nearly always stays with its owner. Technologists used to worry about how to win the battle for the digital home, but perhaps the bigger battle is for the individuals who live in it. Mobile-media consumption will overturn many assumptions about marketing, says Steve Morris, the chief executive of Arbitron, a New York-based media and market-research firm. “The notion that all this stuff takes place only in the home is so outdated.”

The mobile phone will become an even more powerful marketing medium, says Vodafone’s Mr Wheldon. “But it is one where we proceed with gigantic caution.” People may use their mobile services differently in different countries, but consumers everywhere have one thing in common: they never seem to have enough time. If too many ads are pushed on to the screens of handsets, users could become dissatisfied with their service provider and get very annoyed with the advertisers, as they already do about “pop-up” ads on the internet. Whichever way mobile-phone marketing evolves, Mr Wheldon says it must be “hugely respectful” of users and their time. Another victory, then, for consumer power.

The mobile phone is itself a powerful brand builder, as Samsung’s success has shown. From near-bankruptcy after the 1997 Asian financial crisis, Samsung is now neck-and-neck with America’s Motorola as the second-biggest maker of handsets after Nokia. In terms of market capitalisation, the South Korean company is worth a lot more than Sony, which has long been the king of consumer electronics. Samsung was seen as a producer at the low end of the price spectrum and had a poor reputation for quality, especially in South Korea itself. Yet by concentrating on making handsets that worked better than its rivals’, at first in its home market and then for export, it improved its image. Good-quality handsets got people to look at Samsung’s other products, such as digital cameras and flat-screen televisions. This was reinforced by astute marketing, using mainstream advertising as well as non-traditional methods, such as the product placement of futuristic gadgets in “Matrix Reloaded”, a cult movie. It was all part of the strategy of Samsung’s chief executive, Yun Jong-yong, to move the company’s brand upmarket and sell products that could attract a premium rather than slug it out in the discount chains.

This strategy has not escaped the notice ▶▶



of Chinese producers. Few people doubt that, given enough time, some Chinese brands will become world leaders. But a number of Chinese firms seem anxious to short-cut the process by acquiring western brands—although not necessarily very exciting ones. China's TCL, for example, has merged its TV business with France's Thomson, whose brands include RCA. Lenovo is taking a controlling stake in IBM's PC business, and Shanghai Automotive has been looking at Britain's MG Rover, which BMW discarded. Both Haier and Kelon, which make domestic appliances, also have global ambitions.

Give them what they want

There are three important stages in building a strong brand, says Bain's Mr Markey. The first is to have a deep insight into what customers really want—one that goes well beyond traditional market research. The second is relentless attention to making such products. Get the first two right, and the third follows as a matter of course: consumers become part of the marketing and sales force. This happens, says Mr Markey, because they are "so enthusiastic about a product or service they can't help but tell their friends and colleagues about it." Word of mouth, as every marketer will tell you, remains the most powerful form of product promotion.

But what if your brand has become tarnished and needs polishing up? That is the task confronting Philips, which in the 1990s lost its way in the consumer-electronics business. A sprawling European multinational that makes everything from light bulbs to televisions, it has been through numerous bouts of restructuring. What are its chances of gaining a new image against companies such as Samsung, and redoubled efforts by Japan's big pro-

ducers, such as Sony and the Matsushita group, whose brands include Panasonic?

Andrea Ragnetti, Philips's new marketing boss, thinks it can be done. He previously worked at P&G and Telecom Italia, and has fastened on a hugely frustrating aspect of the digital world: getting all this stuff to work. Some products have become extremely complicated, with instruction books bigger than anything else in the box. Philips cites studies saying that some 30% of home networking products are returned because people cannot get them to work, and almost half the people thinking about buying a digital camera delay their purchase because they fear they might find it too complicated. So Mr Ragnetti's plan for Philips is to make things easier. His motto is "sense and simplicity". This is not just a marketing slogan: all products, from heart defibrillators to coffee machines, must become easy and intuitive to use.

Steve Jobs, Apple's chief executive, is already brilliant at turning consumers on. Apple has long had a small but fanatical following in the PC business. It has now become the leader in portable music, a business once dominated by Sony with the Walkman. Apple's stylish iPod is the most popular digital player, with more than 4.5m sold in the last quarter of 2004 alone, and it links seamlessly with Apple's music-download service, iTunes, which sells more than 1m songs every day. In January, Mr Jobs unveiled the Mac mini, a basic version of his Macintosh computer selling at \$499. With this low-priced machine, Apple thinks it can tempt people who may have bought an iPod (and become fans of the company) to ditch their Windows-based PC and switch to an Apple machine, which uses a different operating system.

Another company that has used its brand to venture into new territory is Dell.

The conventional wisdom was that selling PCs direct to consumers would not work: they were complicated products and customers would want to take a good look at them in a shop before parting with their cash. That turned out to be wrong. Much the same concerns were aired last autumn when the company decided to expand into consumer electronics and sell its own line of 42-inch flat-screen high-definition televisions. At \$2,999, these were several thousand dollars cheaper than some rival products in stores. But surely people would want to see the picture quality before they bought?

Once again, not so. Consumers have become sophisticated and confident enough to understand technical specifications and did not need to see the picture, says Dell's Mr George. Many also put their trust in Dell's brand: if the Texas company could build good computers, it would probably make decent TVs too. This reveals another important change in attitude. "Consumers just don't have these historical brand affinities in the way they used to have them," adds Mr George. But he is aware that brand value carries risks too: "We know it could be taken away from us at any moment."

An important part of Dell's success has been that along with its direct-sales model it offers a customisation service. If a customer orders a PC online, he or she can ask for it to be configured in all sorts of ways. Yet when the order is placed, none of the components are in the factory. Within a day or so they have arrived from suppliers, been assembled into a PC according to the customer's specification and sent off to the delivery address. Carmakers may never be able to build a business as lean and as flexible as this, but they are working on similar lines to keep their customers happy. ■

Motoring online

Buying a car will never be the same again, thank heavens

“THE good news is we have attracted them. The bad news is they are who they are—they’re a handful.” Jim Farley is talking about his customers. They are what marketing people call generation Y, a group born between 1980 and 1994. They have already turned some clothing, drinks and electronics brands into winners and losers. Now they are starting to buy cars. They have grown up with more choice than any other generation. They are busy and know how to shop around, both online and offline. They make 40% more complaints than their parents do about the same car. But then they never expect things to break, and refuse to put up with irritations an older generation would simply grin and bear.

It is not as though they are buying a Lexus, Toyota’s successful luxury car, which can cost \$50,000 or more. The division Mr Farley runs is Scion, an entry-level brand which the Japanese carmaker launched in June 2003. It is aimed at young people, with prices starting around \$13,000. Mr Farley has found himself on a steep learning curve, but he thinks the lessons have been extremely useful. They could give Toyota a head start on its competitors, because by 2010 generation Y will be buying one in four cars in America.

Scion’s marketing position was deliberately chosen to avoid being “mainstream”. Its range of cars, two small saloons and a boxy little van-type vehicle often seen scooting around the narrow streets of Tokyo, are certainly not the sort of car that generation Y’s parents would drive; nor would the parents listen to the hip-hop music that Scion’s customers enjoy. To connect with the youngsters, Scion takes its marketing to where they are: at cinemas, certain night clubs and listening to particular radio programmes before they go out in the evening. But Scion also tunes the “texture” of its marketing towards the more underground elements of that music scene. So when it sponsors nightclub events, it hires local rather than national hip-hop artists; and when it arranges test-drive sessions, it parks the vehicles outside the local charity shop rather than Virgin Records.

But however careful you are, you can

still get it badly wrong. In what was thought to be a good advertising buy, Scion took a commercial spot during “The Bachelor”, an American TV reality show in which single men are teamed up with potential brides. Despite high ratings, the show turned out to be too cheesy for Scion’s customers. “We got hundreds of e-mails from owners complaining,” confesses Mr Farley. “They were so upset with us for contaminating the brand in their eyes.” Now he would rather spend money on developing owners’ clubs and helping them link up with similar ones in Japan.

It all goes to show that market research can be awfully unreliable. Many companies have stopped trying to elicit views on products from focus groups, because they can be skewed by one or two strong personalities. When Germany’s BMW decided to launch the new Mini Cooper in America, it was faced with a pile of figures that showed Americans did not want a small car—and the Mini would be the smallest in the market. Sports utility vehicles (SUVs) and pick-up trucks had overtaken cars, and SUVs were getting bigger and bigger. But the company thought it would be able to find some customers for its car. “All our gut feeling, and some of our research, led us to believe these would be interesting people,” says Jack Pitney, who

runs Mini USA. Its customers would not come from any particular demographic group, but they might share a certain “mindset”. They would be different ages, brand-conscious, but not interested in status. And they probably travelled a lot, read a lot and were very internet-savvy. “We also thought these customers would not react well to aggressive marketing,” adds Mr Pitney.

Such people like to discover things for themselves, the company concluded. But how do you point them in the right direction? The original 1960s Mini had been a big hit in Europe and Japan, but very few were sold in the United States, so only 2% of Americans knew about it. To start them thinking, the company took some of the biggest SUVs it could find and put Minis on their roofs. They drove these around some of the main towns and handed out small business cards. On one side was a picture of the Mini, and on the other it simply said: “Coming to America”. Below was the address of the Mini USA website. This sort of campaign is an example of “guerrilla marketing”, designed to intrigue people and direct them to a website to find out what is going on. Once on the site, they would find it rich in information and “viral marketing” elements. For example, you could build yourself a customised Mini Cooper ▶▶



▶ online and e-mail the specifications to your friends.

According to Mini USA, three out of ten people who configure a car online end up forwarding the specifications to a dealer and buying it. Customers who have used the company's website account for 86% of buyers. Because they can order a huge variety of both factory-fitted items, such as different body styles and colours, and dealer-fitted accessories, such as alternative lighting, audio systems and wheels, few Minis are likely to be exactly the same. Buyers of Minis and Scions seem very keen on customisation, but only at mass-production prices. "That is going to have a fundamental impact on product planning for the car business in the United States," says Mr Farley.

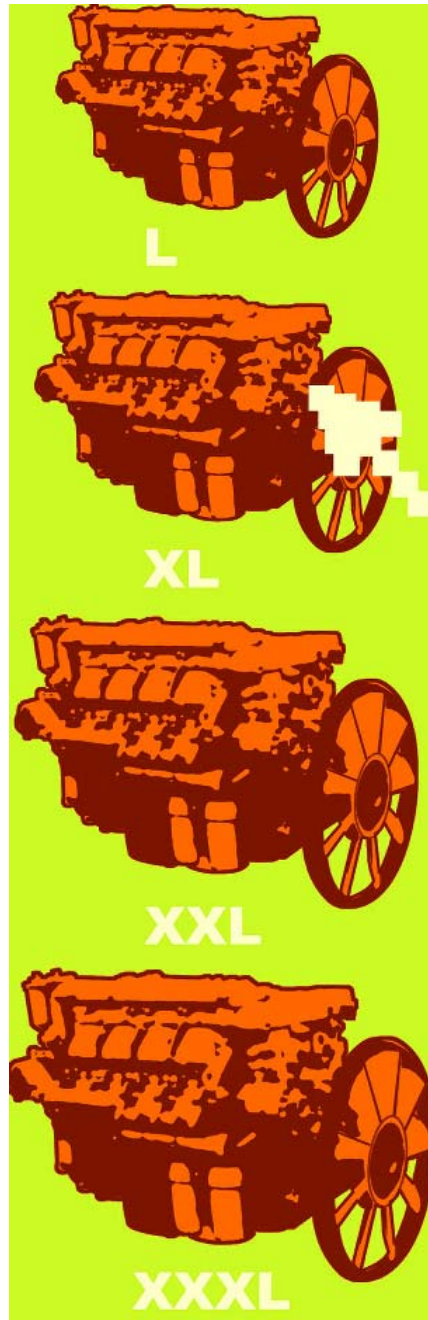
Both Scion and Mini are relatively small fry. The number of Minis sold in America last year was around 36,000, a drop in the ocean of 16.9m vehicles sold overall. Still, that is more than three times the number of Minis sold during the entire eight years that the original car was on sale in America. The Mini factory at Oxford in Britain is working flat out and has become BMW's most productive plant anywhere.

Moving Motown

But the internet has changed much more than the buying of niche vehicles: it has also transformed the mainstream car trade. Selling cars used to be a relatively straightforward business. Customers might see an advertisement in a newspaper, perhaps pick up a brochure, visit a couple of dealers, decide on a model, haggle over the price and the trade-in value of their own car, order and take delivery. "Those days are gone altogether," says Chuck Sullivan, Ford's director of business-development marketing.

With so many of its customers using the internet to research their planned purchases, Ford is changing the way it is spending its marketing budget. Four years ago, most of its advertising dollars went on traditional media, such as television, print and outdoor billboards. Non-traditional forms, such as the internet, accounted for only around 2% of the total. Now the share is 20%. One of the attractions of the internet is that its effects can be measured. For instance, a click on a banner ad on a website can be traced through to the company's own website, the selection of a model, the response of a dealer and ultimately a sale.

A website works like a living brochure, says Mr Sullivan. For example, Ford's F-150



pick-up truck, of which some 900,000 were sold last year, is shown in graphic detail. There was even a series of videos in which rival trucks were cut apart and their components compared with those of the F-150, to support Ford's claim that its pick-up is the toughest. Users can check models and prices, browse through the inventory of local dealers or get a quote for the one they have designed for themselves using Ford's build-your-own option.

So why bother with dealers at all? "The dealership is even more important than it used to be," says Mr Sullivan. "People want to touch the vehicle, to smell the inside, to kick the tyres and take it for a test drive." Beside demonstrating the product, dealers

are also needed to manage the purchase and after-sales support, such as servicing. Moreover, they can play a big part in customising cars for buyers, fitting anything from different wheels to instruments and DVD systems, all of which could make a handy contribution to profits.

Many car dealers initially resisted giving consumers so much power, says Jeremy Anwyl, president of Edmunds, one of the earliest websites in America to provide online car-buying services such as road tests, vehicle comparisons and average selling prices and trade-in values. But he concedes: "A lot of them are now realising there are efficiencies on the dealer side too." Research by Edmunds and others shows that the consumers who have benefited most from using the internet when buying a car are those who used to get a raw deal in the showrooms, including women and minorities. "So it's a great leveller in that respect," says Mr Anwyl.

Indeed, carmakers would do well to study the way people compare vehicles online. Edmunds has found that by tracking the behaviour of website users, it can predict with considerable confidence how many cars different manufacturers will be selling four weeks hence, and where. Edmunds uses special software in order to screen out car enthusiasts who are just looking for information.

The company also has a good idea of what people say about different cars. Its website receives 2,000-3,000 reviews a week from buyers of new cars who fill out an online appraisal form. They also suggest improvements to future models. Another part of the company's site is a free-for-all area on which some 500,000 people regularly post items. If there is anything wrong with a vehicle, complaints will soon pop up here. Edmunds is now developing new products to commercialise this information.

As the carmakers have discovered, a website has become an essential part of doing business with consumers, and almost all their advertising now gives their website address. That makes a lot of sense. William Makower, the chief executive of Panlogic, a digital-marketing consultancy based in Britain, explains that a typical television or print ad might get a few seconds of attention, but a website typically holds the browser's attention for 2-5 minutes. In Britain, he says, the internet is now the third most popular media form. This makes it rather puzzling that many companies devote only around 2% of their advertising budget to it. ■

Target practice

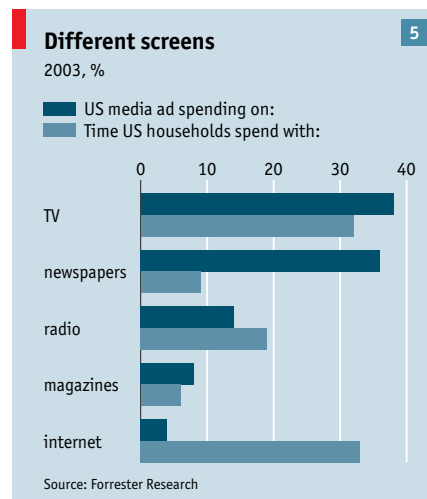
Advertising used to be straightforward. Now it has to be many different things to different people

IT IS not the sort of thing most people would notice, but for Madison Avenue, the spiritual home in New York of America's advertising industry, it signalled a sea change. In January, *Advertising Age* altered the rules for the trade publication's annual listing of top advertising agencies. Rather than covering just the creative side of the business, the list now includes companies with expertise in related disciplines, such as interactive advertising, direct marketing and public relations. Blame the pesky consumer for letting the low life in.

Adland is reacting to a glaring mismatch between dollars and eyeballs. Although most advertising expenditure goes on television and print, many of the people the ads are supposed to reach are not looking. Instead, they are playing video games, watching DVDs or, most popular of all, surfing the internet (see chart 5). Advertising agencies used to bill their clients on a media-commission basis, which gave them an incentive to recommend TV advertising because it was the most expensive and gave them the biggest commission. Now the agencies are mostly being paid on a fee basis, so they should be less reluctant to use other media. But business runs on numbers and advertising clients demand figures, especially on the return they can expect by spending their money in different ways.

The problem is measuring that return. "The research is lagging far behind the development of new media outlets," says Mary Gerzema, head of communications planning at Universal McCann. And there are many other complicating factors that can skew the figures. The decision to buy something, for instance, might be made online, but if the purchase itself is carried out elsewhere, the customer might still change his mind. If he visits a shop, he may end up buying, say, an own-brand product because it turns out to be on special offer.

Some of the alternative forms of marketing can be measured reasonably well, such as the click-through response rate to internet ads. But how do you work out the return on investing in a sponsored hip-hop evening (a question another car company once asked Mr Farley of Toyota's Scion,



who was stumped for an answer)? To make things even more difficult, media are now being delivered in lots of different ways. Yahoo!, for one, is steadily turning into an entertainment service. It is screening more shows on the internet, including premieres. "It makes media planning into much more of an art," says Michael Wolf, head of media and entertainment for McKinsey, a management consultancy. "A lot of people try to apply science to it. The science is not working as well as the art."

As Mr Wolf points out, increasing value is being placed on any medium that succeeds in aggregating a large audience of people with similar interests. Using Adland's militaristic language, he explains that it is "no longer the shotgun approach, very much the rifle shot." So which of the advertising and marketing businesses will prevail in this changing landscape? Here are the pitches.

Mine, all mine

Saatchi & Saatchi's Mr Roberts reckons there has never been a better time for the creative business. Agencies now have more freedom to express their ideas, he believes: "We are not going to be downtrodden by the research vampires because all the stuff they are looking at is no longer relevant." Saatchi & Saatchi's strategy is to become "the hottest ideas shop on the planet", he says.

By contrast, Mr Draft, the direct-marketing expert, insists that "the future is what we do." He says the experience of direct marketers and the information they have about consumers means that his type of agency is now best equipped to deliver measurable results. He uses a variety of media, including TV, specifically to garner responses, through reply cards, free telephone numbers or the internet. Direct-marketing techniques can also build brands, he says, pointing to successful campaigns Draft has run for Verizon, a huge American telecoms group.

Robin Kent, until recently chairman of Universal McCann, comes up with yet another angle: "The media planner is becoming the most important person on the planet." He says that it is now impossible to create an advertising message designed for any particular group "if you have absolutely no idea how you are going to reach that consumer, where they are and what mindset they are going to be in."

For his part, Richard Edelman, president of Edelman, bangs his own drum: "PR is now creating the runway for the advertising plane to take off." Companies use PR firms to help them behind the scenes and to work their messages into the media. One example is Edelman's work on the launch of Halo 2, the second version of a hugely popular video game that runs on Microsoft's Xbox. Eighteen months before the game arrived in the shops, it was handed out to an "inner circle" of committed players in order to create a buzz of excitement. When Halo 2 was launched in November last year, it raked in over \$100m in sales on its first day, thanks to pre-ordered copies—more than any movie has ever managed.

The elusive consumer they are all chasing is not only becoming more knowledgeable, but also demographically different from yesteryear's. From its skyscraper in Tokyo's Shimbashi district, Dentsu, Japan's biggest advertising agency, looks down on an ancient shogun hunting ground. Nowadays its clients' prey takes many different forms. Gone are the days when Japan mostly consisted of families of four, says Norio Kamijo, director of Dentsu's Centre for Consumer Studies. To- ➤

► day the market clusters around opposite poles. At one end is a greying population; at the other are people like the “parasite singles”, who live with their parents and spend whatever they earn on themselves, and the NEETS (not in education, employment or training). They all represent valuable consumer markets in their own way, but have almost nothing in common.

Other countries face similar fragmentation, and some of the groups are hard to place. Where, for example, would you pigeonhole Britain’s “chavs”? They are young people likely to be found late at night in the centre of provincial British cities, probably drunk and behaving loudly. Best avoided, perhaps, but as their uniform they have adopted certain styles usually associated with luxury brands, notably Burberry’s famous beige check pattern. No matter that much of it may be fake, this has prompted Burberry to stop selling its beige check baseball cap and to give other colours more prominence.

With marketing becoming both more perilous and more complex, many companies are left “vastly confused and intrigued”, says Leslie Moeller of Booz Allen Hamilton. No matter how much you spend trying to promote a brand using mass media alone, “it is not going to get the job done.”

With numbers of viewers and readers declining, the future does not look very rosy for network television and newspapers. But even among these formats there will be winners and losers, says Mr Rutherford of Veronis Suhler Stevenson, the media merchant bank, so it would be unwise to count out older media completely. Indeed, TV never killed radio and video never killed TV (see chart 6). Moreover, there are signs that the decline in TV’s share of audience has started to flatten, just as the proliferation of cable services

has reached possible saturation point, adds Mr Rutherford.

And old media can evolve. Some broadsheet newspapers in Britain are now produced in more handy tabloid sizes; and the TV networks can combat their rivals with big-budget programmes that pull in huge audiences, such as the Super Bowl, the Hollywood Oscars and some of the better reality shows. Cable networks cannot usually afford such programmes. Besides, you never know what may turn up. Satellite radio, which suddenly appeared in America in 2001, now has around 4m subscribers, providing a small but potentially interesting alternative audience to terrestrial radio.

Advertisers have to be prepared to use any media, argues Ogilvy and Mather’s Mrs Lazarus. An agency’s expertise will lie in knowing how to craft communications in each sector and be flexible about how to put all the pieces together for a particular client in a particular market. As an example, she points to a successful campaign her agency ran in India for Hutch, one of the mobile services of Hong Kong-based Hutchison Whampoa. It portrayed Hutch as a faithful puppy that followed his young master everywhere. Animals and children may be an advertising cliché, but this was a multi-media campaign, ranging from television to the internet and direct marketing. And it involved a media plan “as sophisticated as anything that runs anywhere in the world,” says Mrs Lazarus.

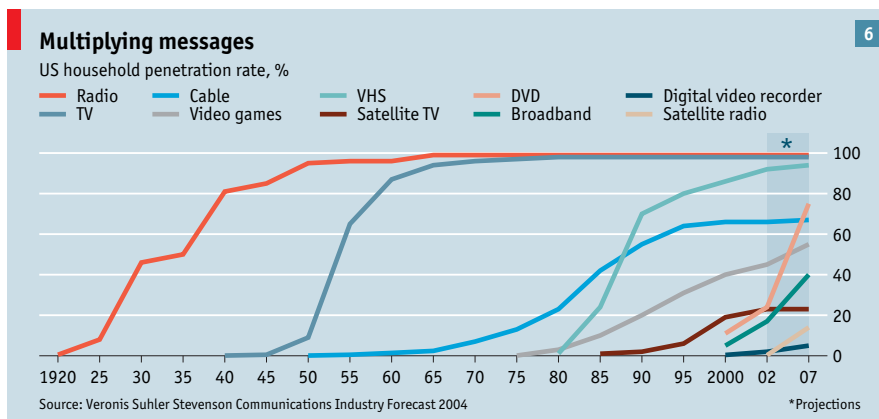
Measuring the unmeasurable

Whether advertising is an art or a science, people will not stop trying to measure it. After much criticism, Nielsen, part of VNU, a Dutch media group, is trying to overhaul its ratings system, which is widely used to measure TV audiences. Mr Fredericks, at TNS Media Intelligence, is also looking at

new ways of tracking how and where ads appear. The effects of some forms of marketing, such as product placement, look next to impossible to measure. Most TV commercials are now tracked automatically, but making sure that someone who has been paid to consume a certain drink in a show on camera actually does so is a lot harder. The most ambitious effort to measure the effectiveness of advertising is Project Apollo, which is now recruiting 30,000 households in America to become the most closely studied consumers ever. Apollo, run jointly by Arbitron and VNU, will collect information on these families’ lifestyles. To measure their exposure to electronic media, for example, they will carry an Arbitron device called a “portable people meter”. This device, the size of a pager, was initially developed to detect in-audible codes placed in radio and TV commercials. For Apollo, similar codes will be incorporated in other forms of electronic media as well, ranging from the cinema to background music in places like supermarkets and—where ads contain sound files—the internet.

A variety of methods will be used to find out how members of the households spend their day and what they buy. Nielsen’s Homescan system, for instance, uses scanners to read the barcodes on all their purchases. Linda Dupree, in charge of new-product development at Arbitron, explains that although marketers gather up lots of information, it has always been difficult to put it all together to establish a link between exposure to ads and buying behaviour. This is what Apollo is designed to achieve. One of the first companies to sign up was P&G. Arbitron hopes that eventually several hundred of the top American advertisers will take part.

Mr Gossman, of Revenue Science, has his own ideas about the way advertisers will reach consumers in the future. His behavioural targeting software is already at work on many websites. For instance, it was used by the online edition of the *Wall Street Journal* to try to establish which readers were frequent flyers from their reading of travel-related stories and sections. Individuals using the websites remain anonymous, but they can be identified as discrete users by “cookies”, electronic tracers that show which websites they have visited. When the frequent travellers returned to the *Wall Street Journal* site, they were presented with American Airline ads in whatever sections they read. The response to the ads increased significantly, says Mr Gossman. ►►





▶ As most networked electronic media will probably be using internet-based technology and protocols, the same user could be tracked even when he uses different devices, such as a mobile phone or an interactive TV set. This, says Mr Gossman,

allows audiences with common interests and passions to be grouped together, making them commercially attractive to advertisers, wherever they happen to be. "Networks used to be about distribution; now they are going to be about consumer

information," he says. Apart from delivering ads that are more likely to be relevant, the advertisers will also be able to limit the number of times an ad is shown to an individual in order to avoid irritating him. Some people may see this as an invasion of their privacy, but Mr Gossman says: "We don't know who you are, and we don't want to know who you are."

"The consumer experience with advertising will improve," predicts Arbitron's Mr Morris. The advertising industry must hope he is right. People are increasingly able to filter out ads. They can pay to avoid them, use technology to block them or simply ignore them. The average American is now subjected to some 3,000 marketing messages every day and could not possibly take all of them in. Two-thirds of consumers feel "constantly bombarded" with too much advertising and marketing, according to a survey by Yankelovich Partners, a firm of marketing consultants. Perhaps some of the back-door methods to reach consumers will get through. But many people can now spot an advert dressed up as editorial—and if they can't, there are hundreds of news groups and bloggers on the web who will happily point it out to them. Today's consumers have plenty of champions. ■

Buying the future

Now they have assumed power, what will consumers do with it?

FIFTY years ago, when products were more individual, manufacturers had the upper hand. They could charge a lot for successful items because they were made in small quantities. As competition increased and became more global, there were more products to choose from and they increasingly resembled each other. This gave retailers the advantage because they could pick and choose which products to sell, and demand the best prices from suppliers. Now the consumer is taking command.

Shoppers' rights have been beefed up by new legislation, and much more information is readily available from consumer reports and the like. All this has made it harder for merchants to rip consumers off or sell them shoddy merchandise. But above all, it is the arrival of the internet that is responsible for the big shift in power. The web makes it easy for people

to discover what they want to know and who offers the best deal. This could still be a retailer, but it could also be a manufacturer selling directly to consumers, or a trader on eBay who has bought a job lot and is auctioning it off at bargain prices. So start with the internet to see where consumer power may lead.

E-commerce is growing rapidly. Online shoppers in America during the 2004 holiday season—the busiest time for retailers, from November 1st to December 26th—spent \$23 billion online, 25% more than in the same period in 2003, according to a regular e-commerce survey carried out by Goldman Sachs, Harris Interactive and Nielsen//NetRatings. Spending patterns on the internet are increasingly coming to resemble those in the high street. Clothing was the most popular item bought online in America, accounting for 16% of online sales, followed by toys and video games

with 11% and consumer electronics with 10%. Jewellery was the fastest-growing category, with the value of sales doubling to \$1.9 billion.

These figures, however, exclude services, such as online travel bookings—a business estimated to have been worth \$50 billion in America in 2004, up about 25% on the previous year. That includes bookings made with online travel businesses, through firms such as Expedia, Travelocity and Orbitz, and bookings being made directly on airline, hotel and car-rental websites. All this threatens the future of many high-street travel agents. Through their computers, consumers now have easy access to information that once only travel agents could lay their hands on.

But as firms making consumer goods, electronics and cars have found, the influence of the net extends well beyond buying goods and services online. A quarter of ▶▶

▶ the people using search engines to get information about consumer electronics and computer products bought a product in the end—and 92% of those shopped off-line, according to a joint study by Overture, a marketing company owned by Yahoo!, and comScore Networks, a firm that monitors consumer behaviour.

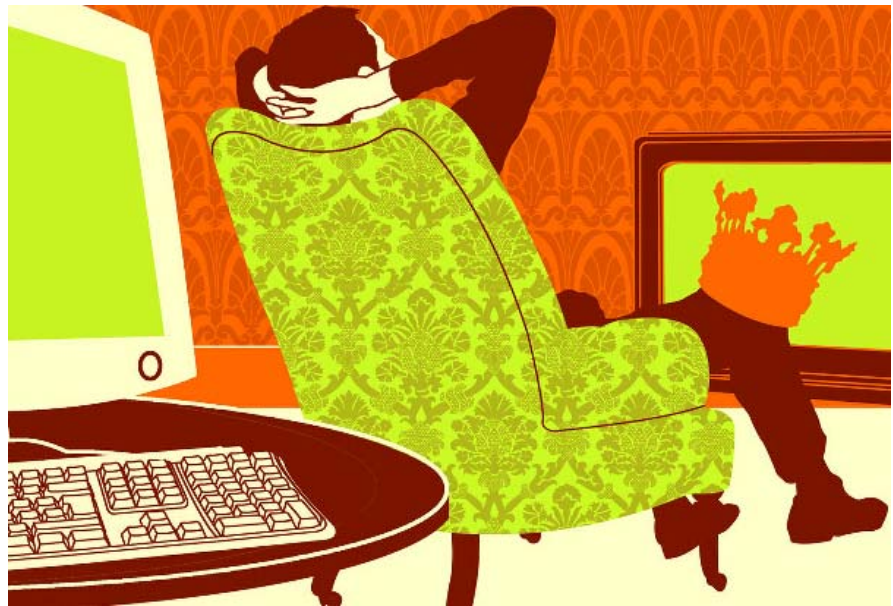
The group to watch closely is the younger generation. Young people are the most avid users of the internet because they have grown up with its benefits. In America, 18- to 34-year-olds make up 24% of the population, but account for 40% of all the web pages viewed. A joint study by comScore and America's Online Publishers Association provides a fascinating insight into their behaviour.

Tomorrow's world

More than any other group, the 18- to 34-year-olds access the internet from places other than home, school or work, especially if they are using a mobile phone. They seem to want to be connected wherever they go. They also see the internet as one of their most important sources of information and entertainment. Some 40% use the web to help them pick a film to watch, and to find out where it is playing. One-third use it to look up local restaurants and clubs. And every day, an average 30% of them visit an entertainment website, only slightly fewer than those who regularly read the arts and entertainment sections in newspapers. Perhaps less surprisingly, females are more likely to visit retail sites, whereas males surf the net in search of computer games, cars and sports.

For this age group, the internet will remain the most dominant medium in their lives, as it will be for the following generation—who even at primary school are using the web to do their homework. This does not mean they will reject the traditional retail environment entirely. Shops will be as much part of their scene as they have been for their parents or grandparents. But some shops may be used in different ways. One indication is the growth of brand showrooms, such as the Apple and Sony stores. Their main role is to demonstrate a range of the company's products, with knowledgeable and enthusiastic staff on hand who are under no pressure to clinch a sale. Where people actually buy the product in the end becomes of secondary importance.

Having achieved power, consumers will not give it up. "There's clearly no turning back," says Dell's Mr George. "The market will get more fragmented, customers'



needs will get more diverse, and sophistication and empowerment will continue to grow." As marketers adjust to this new environment, advertising may well have to become more permission-based. That could involve economic incentives, such as the bargain that has long paid for lots of free TV: in return for sitting through the ads, here are the programmes you want.

But the bargain with today's consumers will have to become more refined. Gmail, a free online e-mail service offered by Google, could provide a clue to the way things are going. It has lots of features and offers 1,000 megabytes of storage space, much more than its rivals. In return, users agree to allow small text ads to be placed in their e-mails. The ads are selected to match the subject matter of the e-mail, with Google's ad-placement software picking up on certain key words. An e-mail exchange about digital cameras, for instance, is likely to attract links to companies selling them. Despite some initial concerns about privacy,

most Gmail users are savvy enough to know that it is the computer software, not a real person, which is reading their e-mails. Lots of people have volunteered for the service's experimental stage, so Google is expected to make it more widely available soon.

As media become increasingly interactive, consumers will be able to exercise ever more choice over which of them they consume, how, when and where. Getting advertising will be optional—so it had better be good, useful and relevant to their lives. But even mass-media advertising will continue to have a role, at least for the foreseeable future. For as Ogilvy & Mather's Mrs Lazarus points out, even those ever-connected young people do not want to be interactive all of the time. Sometimes they just want to go home, sink into the sofa, switch on the television and watch the Super Bowl—ads and all. Consumer power also means you can decide to take an evening off. ■

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