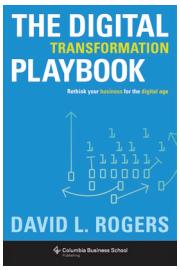
David Rogers, a faculty member at Columbia Business School, is a globally-recognized leader on digital business strategy. He is author of four books, most recently *The Digital Transformation Playbook* (in 6 languages). Rogers delivers keynotes at conferences world-wide on the impact of digital technologies on business. David advises global companies such as Google, Merck, GE, Toyota, Cartier, Visa, China Eastern Airlines, and Pizza Hut on digital strategy and has led workshops for executives in hundreds of companies from 66 countries.



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"For marketing to succeed in the digital era, we need to stop thinking of customers as targets (to market at) and start seeing customers as networks (to connect with)."

— David Rogers, faculty – Columbia Business School, and best-selling author, *The Digital Transformation Playbook*

CHAPTER 1

Digital Marketing and the 4 P's

Digital Marketing has become mainstream. No longer is "digital" the parsley on the marketing plate at a fancy dinner, an afterthought, or a cool extra to add some sizzle to a marketing plan. Digital is now the main course of the marketing meal — the connective strategy that pulls all the elements of an integrated marketing program together, ensuring that all messaging and communications strategies are effective at reaching the customer. Yet in many organizations, the digital marketing mix is still handled arbitrarily, after the fact, or managed by a junior member of the team who has some personal familiarity or a willingness to learn how to work in the digital medium.

This book is designed to bring the educated layperson — the typical marketer or business professional familiar with the topic — to a point where digital methods become an essential element of their integrated marketing strategy from the onset. We will approach the topic strategically, but also dive into elements of tactical execution across all the major digital channels: search, display, email, social, and mobile.

Our approach will focus on the ultimate business goals and results of a marketing strategy — and how to frame these objectives and measure them for success — rather than just showcase every "shiny new object," app, or social network. Given the rapidly changing subject matter in the book, we'll provide extensive examples, tools and resources for use outside the confines of the text, and in a special section at the end of each chapter.

Digital Is Different

Ultimately, this sea change in marketing, driven by digital, requires a more quantitative and thoughtful approach to marketing strategies — reaching the right person, at the right time and place, with the right message. Less than a decade ago, senior marketers could dabble in a few experiments with digital, or in many cases ignore digital altogether in favor of more traditional and comfortable personal or mass media channels. Fast forward to today, and marketers who ignore digital do so at their own peril. New competitors in every business and industry have been born and are flourishing in the digital and mobile world. Even the very investments in

traditional media channels that have been trusted for so long, now require an integrated digital component to truly leverage them. Even the well understood traditional media investments themselves — television ads for example — require a complementary digital component to leverage the online activity generated by them, like searches for more information or social network activity.

One needs to only look at the billion-dollar acquisition of *Dollar Shave Club* by Unilever[1] — a startup company that was essentially built on a viral video[2] (more on this company later in Chapter 6).

Dollar Shave Club CEO Michael Dubin from his YouTube video; over 25 million views!

From the early viral marketing experiments (Hotmail launched with a tagline offering a free email account), to ride sharing apps like Lyft and Uber that give you credit for recruiting friends, to the new mobile food delivery apps offering discounts and loyalty benefits in exchange for using them, digital marketing has become an essential component to launching and growing any new company. Today, even when utilizing a more traditional approach, no marketer would launch a branding campaign on television without a website to drive traffic to, a coordinated search and social strategy for leveraging the campaign, and plans for digital touchpoints to keep your prospects engaged throughout digital and mobile channels.

As Wayne Gretsky famously said, "A good player plays where the puck is. A great player plays where the puck is going to be."

If you've chosen to read this book, it's clear you already know that any marketer or business professional must understand these changes and be able to plan and integrate the power and potential of digital marketing channels.

Digital provides many destinations for marketers to consider.

Digital Continues to Grow

This new reality is shown in the sheer amounts of budget being deployed to the digital channel. As seen in Figure 1.1, digital marketing now represents the single biggest channel of any marketing budget — passing venerable categories such as newspapers, magazines, and radio. Only television — when broadcast and cable are combined — is larger. According to projections, digital made up 36.7% of total media ad spending in 2016 and will account for around half by 2021.[3] Sources from eMarketer, Forrester, to ZenithOptimedia anticipate digital becoming the undisputed champion — the largest channel by revenue — in just a few short years.

■ Figure 1.1 Media Ad Spending by Share

U.S. Total Media Ad Spending Share, by Media, 2012–2018 (% of total)

	2012	2013	2014	2015	2016	2017	2018
TV	39.1%	38.8%	38.1%	37.3%	36.9%	36.2%	35.7%
Digital	22.3%	25.2%	28.2%	30.9%	33.2%	35.3%	37.3%
Mobile	2.6%	5.7%	9.8%	14.0%	18.7%	22.6%	26.4%
Print	20.7%	19.0%	17.7%	16.5%	15.5%	14.7%	14.0%
Newspapers*	11.5%	10.2%	9.3%	8.6%	8.0%	7.5%	7.1%
Magazines*	9.2%	8.8%	8.4%	7.9%	7.5%	7.2%	6.9%
Radio**	9.3%	8.9%	8.6%	8.2%	7.8%	7.5%	7.1%
Outdoor	4.0%	4.1%	4.0%	3.9%	3.8%	3.7%	3.6%
Directories*	4.5%	4.0%	3.5%	3.1%	2.8%	2.5%	2.3%

* print only

** excludes off-air radio & digital

Source: Kagan 2018, based on data from eMarketer.

Throughout this book, we will approach the discussion of digital marketing to be suitable for any marketer beginning their career, or one looking to increase his or her longevity; the direction is obvious.

In Figure 1.2, we can see that every digital channel is growing at double-digit rates. This is fueled by a torrid pace of innovation in both technology and execution that makes it possible for anyone to carve out an area of expertise.

The relative youth and dynamism of these channels offer huge upside potential and opportunity for marketers. For example, Snapchat launched advertising with a handful of partners in just the last couple years; Instagram went from zero ad revenue at the end of 2013 to over $3 billion today.[4] Dozens of apps break through to popularity each year. How many people aside from a few teams at their respective brands even claim to be familiar with something so new? And, the first movers keep getting bigger. According to Gartner Inc., by 2021, 20% of every activity an individual engages in will involve at least one of the top-seven global digital giants (Google, Apple, Facebook, Amazon, and globally Baidu, Alibaba, and Tencent by virtue

■ Figure 1.2 Digital Marketing Growth by Channel

U.S. Digital Marketing Forecast, 2014–2019

	2014	2015	2016	2017	2018	2019	CAGR
Email marketing	$2,067	$2,266	$2,466	$2,665	$2,865	$3,067	8%
Social media	$7,518	$9,736	$11,724	$13,511	$15,359	$17,342	18%
Display advertising	$19,801	$23,680	$27,916	$31,281	$34,477	$37,547	13%
Search advertising	$27,899	$31,622	$34,995	$38,470	$41,890	$45,386	10%
Total	**$57,285**	**$67,305**	**$77,101**	**$85,928**	**$94,593**	**$103,370**	**12%**
Percentage of all ad spend	24%	27%	30%	32%	33%	35%	

Source: Kagan 2018, based on data from Forrester Research and eMarketer 2017.

of their home market size and dominance).[5] Most of the enormous growth in digital advertising accrues to existing giants Google and Facebook, who continue innovating and acquiring upstart challengers to stay on the cutting edge. As new channels, technologies, and gatekeepers relevant to their business continue to emerge, there are always fresh opportunities for the savvy digital marketer to become the organizational expert.

Digital Marketing is Effective

There is no disputing the power and potential of achieving sales goals through digital channels. From the branding power of a viral video, the sales generated through shopping and search ads transacted through an e-commerce website, to the qualified leads generated from expert content marketing, digital offers the most cost-effective way to reach and target customers.

Digital also offers firms unique ways to build superior customer relationships through email, social media, and collaborative communities. Even the word of mouth from online reviews, blogs, games, or contests all drive huge business outcomes for marketers that master their methods. We will discuss both strategy and tactics for all these channels in subsequent chapters.

Digital effectiveness is driven in part by an enormous and democratized access to the unprecedented amount of data about the factors driving success. Department store magnate John Wannamaker purportedly said, "Half the money I spend on advertising is wasted; the trouble is I don't know which half." For the digital marketer, this is decidedly different. Proper *tagging* (snippets of code allowing the tracking of consumer activity, interest and data) of ad campaigns and their components, emails, social media monitoring, and the website data from Google Analytics provides better information for decision-makers on their digital advertising campaigns.

This means that the ads that work are shown more often, that budgets can be planned more effectively, and the return on advertising spend can be tracked and managed with greater

accuracy. Digital also allows for optimization and improvement on an ongoing basis, rather than waiting to the end of a campaign to evaluate performance and make improvements.

Sadly, this has led to the eclipse of the "Mad Men" era of the "big idea" in creative advertising — but excitedly to a new "Revenge of the Nerds" era of quantitative marketing. The hot new driver is not the creative director but in many cases the data scientist. In the era of "big data" and analytics, understanding campaigns and performance rapidly equates to success.

Digital Marketing is Dynamic

All of this tracking, monitoring and optimization is in sharp contrast to mass media's much slower pace; leading to a variety of new ways for customers to buy and marketers to measure their activity. For example, the traditional concept of the "upfront" in television allowed major mass media buyers to receive discounts for buying in bulk in advance. The more you buy the more you get, but there's no practical way to test and refine. With digital, committing budgets in advance is at odds with basic principles of optimization that digital offers across all advertising channels.

A digital campaign may run *dynamic creative* (flexible ad content, message and imagery) across multiple destinations against highly segmented audiences, all at the same time. This allows for experimenting with and optimizing for all three simultaneously, learning what works best, and buying more media only when the combination of message, media, and audience proves its value. Contrast this to the old school rate cards, advance discounts based on estimated audience, limited inventory, and opaque and time-delayed understanding of the effectiveness of a traditional television commercial and you clearly understand the value to today's marketer.

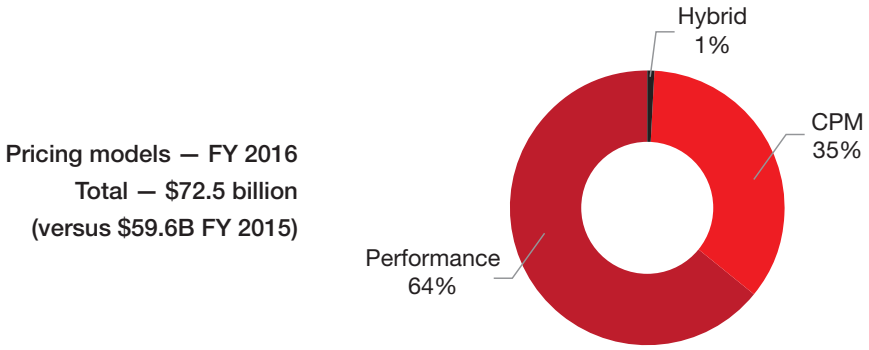
Pricing is also significantly different in digital media. Most traditional media prices are based on some combination of real estate (how big or long the ad is), audience size (potential versus actual people who could see the ad), and some measure of the quality of the demographic reached. There are only so many commercial spots in a half hour show. *The CPM* — an acronym for Cost-Per-Thousand impressions — has been the standard that rules all. In traditional media the *potential* that someone sees the ad, based on consumer research, is enough, and it the scarcity of inventory that keeps prices high.

In the dynamic world of digital, pricing can sell on a CPM basis as well, but the audience size is not usually the limiting factor. Existing inventory can be sliced and diced by volume and audience segment, with no real limit on the number of advertisers. And almost all ad inventory is sold in some form of real time auction, which finds the market price based on demand.

Because of this, the majority of online ads are sold on some basis of performance such as cost per action, like a click. This allows the marketer to, in theory, only pay when someone

demonstrates genuine interest in the advertising message. And with the advancements in analytics just discussed, it makes it much easier to understand the link between the price paid and the return gained. (Figure 1.3)

■ Figure 1.3 Digital Ad Revenues by Pricing Model



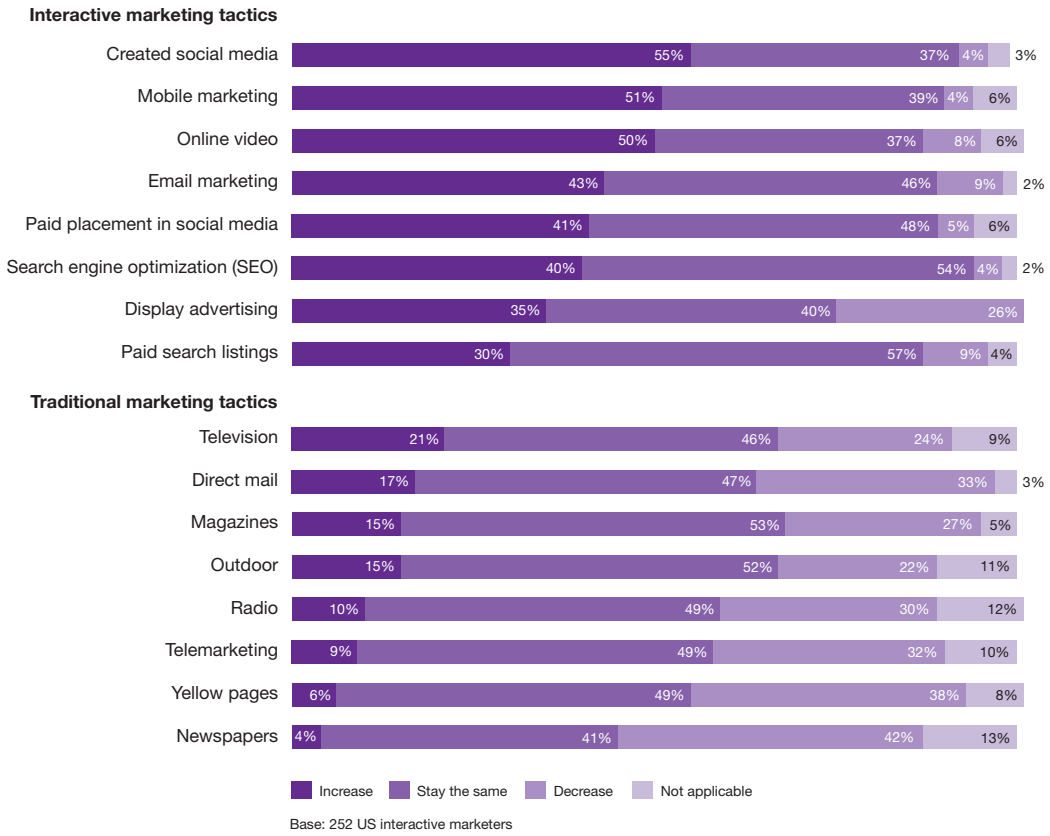
Source: IAB/PwC Internet Ad Revenue Report, FY 2016. © 2018 Interactive Advertising Bureau. All rights reserved.

Growth in *performance-based pricing* is also driven by the almost ubiquitous auction-based pricing models of digital. Search, display, social, and other channels use sophisticated reverse Dutch auction bidding that clears the market at prices advertisers can determine based on their returns. An additional layer of complexity is waged between tools and technologies designed to work within these auction environments to minimize price for the advertiser on one side, or maximize yield for the publisher on the other. (We'll cover programmatic and auction pricing models in detail in later chapters on display ads and social media). All a far cry from the rate card of yore.

The ability to buy and target much smaller and specific groups has also allowed for an explosion of niche marketing. While a retailer specializing in all kinds of hot sauces might never have a way to reach target customers effectively using mass media, digital provides the ability to target searches, context, and discussion in a way that aggregates up demand into profitable sales.

Finally, when surveyed, professional marketers make it clear that they are adopting digital channels in force because of these very factors. As seen in Figure 1.4, advertising budgets of the future are moving to where people are spending their time; and they are spending their time in digital and mobile media. If the collective plans of those managing the marketing budgets of the future are an indicator, the secular move of budget dollars from traditional media — directories, magazines, newspapers, and television — has only just begun.

■ Figure 1.4 Increase of Digital Tactics



Source: Data from Forrester Research, Inc., U.S. Interactive Marketing Executive Online Survey, 2010.

It's important to understand that digital marketing is not a monolithic area of similar spend like television. Whereas television is primarily dominated by the 30-second spot, digital represents a wide array of distinct channels for deploying marketing messaging. Search marketing, display advertising, social media, email, and mobile all broadly capture the attention of marketers and their budgets, and each has its own challenges of creative, targeting, and measurement. In this book, we will review each in turn:

- *Search Marketing*, reviewing both Search Engine Optimization and search advertising,
- *Display Ads* across banners and video,
- *Social Advertising* including community and content strategies,
- *Email Marketing* from customer acquisition to retention and loyalty, and
- *Mobile* with all its Apps and channels.

Marketing's 4 P's Revisited

One might think that with the drastic differences noted for digital marketing, we're planning to "burn the ships" and march into a new land … but our previous marketing experience actually provides an excellent foundation for change. Traditional marketing has relied on models of the four P's: Product, Price, Placement, and Promotion. Each of these broad areas has been dramatically impacted by the advent of digital and mobile channels and the changes and opportunities they provide. Digital marketing has forced marketers to rethink many of these fundamental assumptions from past eras, when marketing was all about mass audiences, repetition, and broad-based metrics. Now the marketing toolkit favors new approaches for targeting and segmentation, customization and personalization of messaging, and new and better ways of measuring effectiveness. The toolkit also offers ways to *optimize* messaging in real time to be more effective with current and prospective customers. Reviewing the four 'P's with this new perspective provides an excellent foundation, as well as a 'jumping off' point for building our digital marketing understanding.

"Product" as we know it has changed from a one size fits all volume play for the mass market, to a mass customized and personalized platform approach. The fundamentals of product features and design have changed too. Price is notable not just for its unrelenting transparency, but for the emergence of new models of auctions, group buying, subscription models, and direct to consumer. Placement has forced a reckoning of the advantages and disadvantages of brick and mortar versus online, as e-commerce takes more and more revenue away from traditional methods — drastically disrupting some categories like travel and retail for example. And finally, with the rise of the Internet and mobile media, so too have our methods for reaching potential customers moved to match and take advantage of the advertising potential of the channel. Not just *where* brands advertise, but *how* they do it continues to change.

Product

In the digital world what constitutes a product — and what we can do with it — has changed dramatically. It used to be that products were produced and sold to a mass market with a one size fits all approach. Product design and feature decisions were made by the company based on the best information they had from consumer feedback — or none at all. And equally important, a product once sold was the last point of contact the company had with the consumer unless they decided to buy more.

Online business models and services have transformed this approach. Even physical products in the digital world have changed dramatically with the advent of more interactive and adaptive market strategies. Companies are creating better products designed to be platforms for personalization and customization, and developing new products using the data and feedback from the customers themselves.

Consider Apple and its original mass market computer, the Apple II. The computer was the same for everyone — a beige box with limited customizability. The company's connection with the customer ended when the box was sold to a consumer they never knew through a retailer who had the customer connection. Today, the iPhone is the beginning of Apple's relationship with the consumer. The product itself is defined as much by its ability to download apps, access services and social media as its primary function of the 'computer' in the box. Want to win a bet? Ask everyone in a given classroom to pull out their smartphones. Even among those with the same brand of phone, it's an easy wager to bet that not a single one has the same applications downloaded, services accessed, or accessories used to personalize their device. Apple's ongoing relationship with customers through its App Store — a multibillion dollar business that didn't even exist ten years ago — closes the loop with the consumer, allowing them to have a continuity of engagement with them they never had before. Apple can collect ongoing service revenue, function as a software marketplace, a data clearinghouse for advertising and commerce, and of course suggest upgrades and new hardware based on a user's individual profile.

What a difference a few decades make!

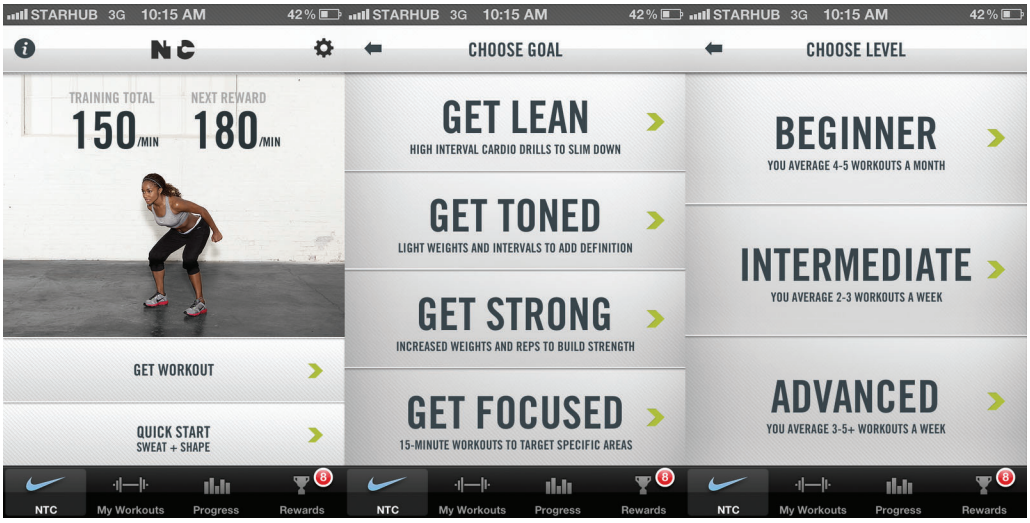
The changing value proposition of what defines a "product" and the opportunity of brands to finally connect to their end consumer in a more ongoing relationship is altering the way even traditional brands approach the market. Nike is best known for selling athletic shoes and apparel. In the past, it might have been fine to think of themselves as an apparel manufacturer and approach their marketing by pushing clothing and sneakers to everyone at every consumer touchpoint. However, Nike has invested a great deal in high quality, broad based digital content that suggests it is adopting a new approach that's more targeted, responsive and consumer friendly. Nike sees itself not as a company that just sells you athletic shoes and gear, but *as your partner in reaching your health and fitness goals.*

Is this too broad a definition? Not at all. A company's message "selling" you something is only relevant when that consumer is *in the market for that item*; and their advertising messages are

ignored or annoying when the consumer isn't searching with intent to purchase. But a company supporting your broader goals or needs — in this case, fitness and health — can message with you almost daily in a welcome way, if they approach it properly.

Look at the *Nike Training Club* program shown in Figure 1.5. It consists of a well-designed website, a large investment in high quality video content, and a mobile app allowing access on the go to experts in various areas of fitness. The program is aimed at women and allows them to register and design an exercise regimen, compete and train with friends, and track their progress. There's no cost, yet the investment in the site, app and quality content is significant. Are they crazy?

■ Figure 1.5 Nike Training Club



The workout partner to Nike+ Run Club, NTC has a huge variety of workouts, from yoga to gym moves. Nike sells shoes, not app subscriptions, so everything including the workout plans are free, *https://www.youtube.com/watch?v=2l9x59ibKEQ*.

Nike realized that by becoming a woman's partner in achieving her fitness goals — whether specific like running a marathon or more general like getting more active and into shape — it has permission to interact with her as a brand on an almost daily basis. If the message was a simple sales message, it would be ignored. But by providing a branded environment of support, encouragement, instruction and learning, Nike can be there every day. When the program participant does finally need athletic apparel, the goodwill and countless branding opportunities ensure that Nike is "in the running" for this purchase opportunity.

Nike has also created a unique window into its customers' behavior that it previously never had — and the data gathered can be used in many ways. Participants using the app or website provide information of incredible value: how often they exercise, with whom, and what sorts

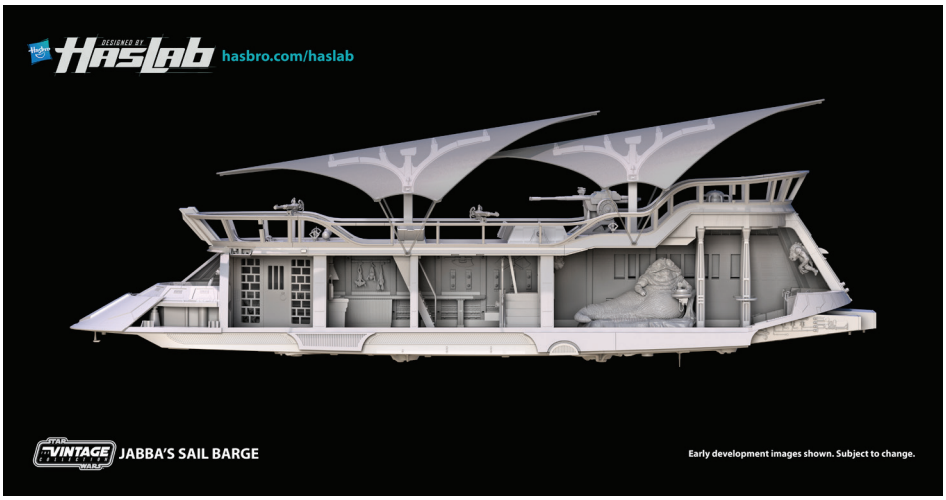
of things they do. This information can help Nike design better products, target sales messages to the right people, and generally refine its strategy.

And why a mobile app? The best website and content in the world is useless if the customer can't or won't use it. While consumers rarely exercise next to their desktop or laptop computer, it's almost impossible to pry the typical consumer away from their mobile phone. It's with them at the gym, in the park, on the beach — indeed anywhere they might want to exercise. So, the content investment almost necessitates the app to ensure usability and access.

Another example of a company that gave away software in order to drive sales of high margin and unique items is LEGO. LEGO's "Design by Me" (original name) program allowed a user to download free computer-aided design software to create their own LEGO models. You could, for example, create the very building you are reading this in. The software, based on your design, was able to store your design, calculate the bricks needed, order and ship the bricks enabling you to construct it as a custom product.

LEGO then gets interested parties to invest their time and energy in designing a unique product tailored exactly to their tastes. Likelihood of conversion to a sale? High. Chances of comparison shopping — zero — it's unique. This, combined with the high perception of value for something you have spent so much time designing, leads to a high-priced, high-margin, and high-satisfaction product.

Another new initiative in the toy industry is from Hasbro, called "HasLab," a crowdsourcing platform that hopes to put dream products into the hands of fans. Fans of Hasbro products can interact with the company and one another by providing input and financial support for a limited edition toy. If the goal is met, Hasbro will produce the toy and they'll receive it. According to an announcement April 2018, HasLab is kicking things off in a big way with a big Star Wars playset from *Return of the Jedi*, "Jabba's Sail Barge."



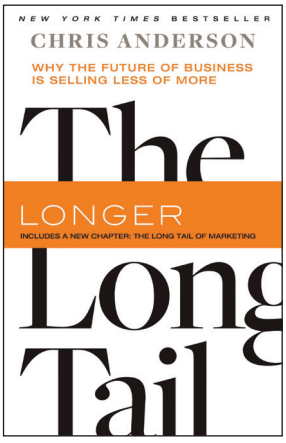
The benefits that LEGO and Hasbro also get — even if these toys and designs never become a sale — is one-on-one engagement with their customers and a sense of what they want. The data and insight are invaluable.

Leveraging the "Long Tail"

There are quite a few examples that reflect this fundamental change in how we can address markets and expand business models. It's no longer about a mass customization model; it's about the ability of the digital world to eliminate or remove the challenges of the physical that forced a mass market model in the first place.

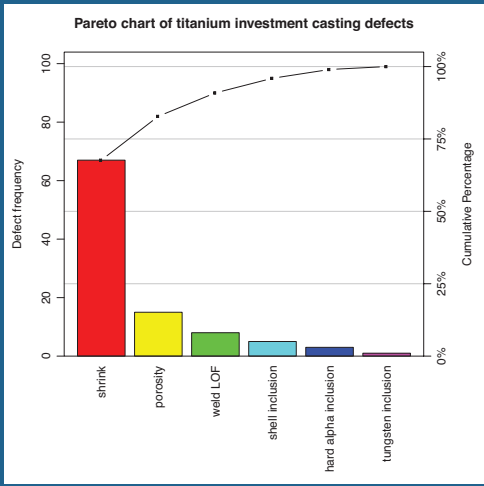
The removal of the limitations of real estate and shelf space allow near limitless selection. This encompasses the ability to be open 24/7 with infinite "shelf space" to capture incremental sales; and the ability to aggregate demand from locales not within drivable distance to a store, but where we can ship to. These new models are thanks to the Internet (and our excellent payment and logistics infrastructure).

This new reality was noted best in 2004, by Chris Anderson, in an article "The Long Tail" in *Wired* magazine (and expanded into a subsequent book in 2006).[6] *The Long Tail* is referring to the distribution of popular products and services offered by retailers. For example, in the traditional media world, a music retailer or bookstore often carried just the most popular artists or titles. A movie theater shows just the blockbusters. This makes sense from an economic standpoint — only the popular titles sell enough to justify keeping them on the shelves and paying "rent" for the space to store them. Thus the "Fat Head" of the distribution channel becomes self-reinforcing and those with more eclectic tastes may simply miss out.



The *New York Times* bestseller that introduced the business world to a future that's already here, by Chris Anderson, former Editor in Chief of *Wired* magazine.

Internet-based retailers, however, have no shelf space for their online stores, just database entries. The least popular song, movie or book can be downloaded from a server at the same cost as the most popular. The cost of technology is very low and dropping. However, shipping



The Pareto Principle (also known as the 80/20 rule, the law of the vital few, or the principle of factor sparsity) states that, for many events, roughly 80% of the effects come from 20% of the causes. Management consultant Joseph M. Juran suggested the principle and named it after Italian economist Vilfredo Pareto who showed that approximately 80% of the land in Italy was owned by 20% of the population.

It is a common principle in business management; e.g., "80% of sales come from 20% of clients." Richard Koch authored the book, *The 80/20 Principle*, which illustrated a number of practical applications of the Pareto principle in business management, leading many business professionals to cite the "80/20" rule as a tool to maximize business efficiency.[7] Most recently the Pareto principle has been linked to the long tail theory in its explanation that products that are in low demand or have low sales volume can collectively make up a sizable market share that rivals or exceeds the best sellers.

a physical good implies a warehouse facility with a much wider selection of product. Even if this is located in a very low cost area, or at a partner's site, it adds cost to each transaction. For this reason Amazon has helped support the growth of e-readers and on demand technologies to lower their cost base further.

Movie theaters have the same challenges. With a limited number of screens, each theater must show movies that appeal to a broad audience; people who can drive to the theater, pay for tickets, and fill the seats. Despite a large demand for independent films, or documentaries, or Bollywood films, there's simply not enough audience density except in a few major cities to allow for them to appear on the big screen. Similarly, even with hundreds of channels, television stations must build mass audiences to show advertising to justify the 'screen time' they give a show. Old shows, cult hits and shows that simply don't have time to find their legs all fall by the wayside.

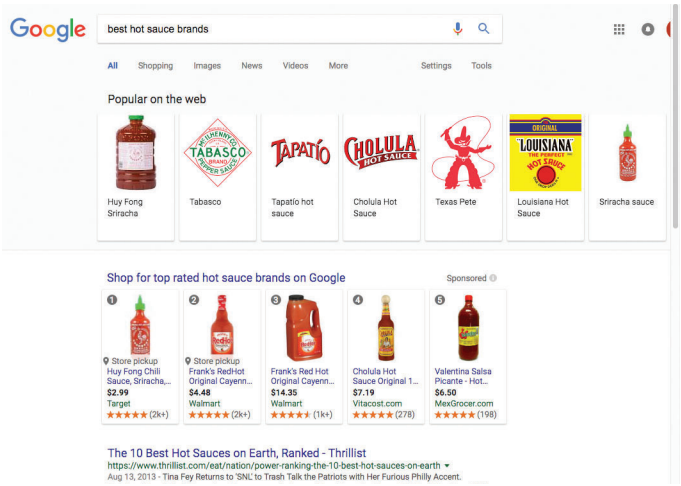
Netflix shifted the paradigm first with DVDs to your mailbox but now with streaming video and multi-device access, binge-watching is becoming the norm. Viewers choose when and what to watch, and can select anything available on the companies' servers.

The long tail phenomenon is not just limited to media and digital products. The Internet has changed the game for physical products too. Google for search, Facebook and social media

for word of mouth and crowd reviews, and e-commerce pioneers all contribute key enabling technology which allows people to find every needle in the haystack or niche product they can think of — with a retailer ready on the other side willing to service that need.

A great example can be seen in Figure 1.6. If you're an enthusiast of spicy food, you may find the selection of hot sauces at a local supermarket somewhat limited to Tabasco and Sriracha. Going online, a simple search turns up several "Hot Sauce Superstores" with thousands of selections to sizzle your palate. Savvy marketers attempt to redirect these search behaviors so their superstore can capture the majority of attention, and sales, from these dedicated niche buyers.

■ Figure 1.6 Optimized Search Results for "Hot Sauce"



Screenshot of Google search results for digital hot sauce options.
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We even see changes in the development of products as companies recognize the ability to provide options to increase sales. Dell Computer is famous for being one of the very first to sell customizable, personalized computers where you design the features, select memory options, screen size, and the like. Originally manufacturers selected all baseline features. When Dell created a website called IdeaStorm, the idea in part was to let customers suggest (blue sky) features or items that they would be interested in buying but did not exist. A forum was created by which customers could suggest what they wanted in a detailed posting. Other customers could then vote "up" or "down" if they liked it. The result? A few customers made specific suggestions; but many more voted. The best were adopted and offered for sale. And the first people to be notified? The "crowd" of thousands who had made or voted on the suggestion in the first place.

Every day new companies and products turn the process on its head. It used to be that developing a new product involved a great deal of money to design, test market, and launch — and it still could flop. The discovery tools of the Internet, virtual prototyping applications and the ability of the web to spread word of mouth have now been harnessed in the form of sites like Kickstarter. On Kickstarter, aspiring filmmakers, musicians, product designers, and the like can propose a product and presell it to the public — before launch and production — raising funds and generating demand at the same time. The process has gotten the notice of consumers looking for novel new products as well as venture capitalists looking to find the next big thing. Since their launch in 2009, 4 million people have backed a project, $35 billion has been pledged, and 137,865 projects have been successfully funded.

KICKSTARTER

And with continued evolution in tools and innovations, the demand curve gets a little flatter and the tail a little longer every day!

Price

In the world of commerce before the Internet, there was little to no price transparency. Retailers and middlemen had much more information and experience with the market and transactions, and consumers had to work hard to get pricing information they needed to comparison shop. For many, the time-consuming effort to find the best price, already limited to the local retailers, was simply not worth the effort.

Particularly problematic were very important but infrequent transactions. Products and services like travel, real estate, auto sales, and even job hunting all had arcane and opaque pricing. Often, purchase required domain expertise, with the penalty for being wrong quite high. Take a terrible vacation with your family and you might not get away for another year. Thus, reliance on middlemen, the travel agent, the real estate agent, the car salesman, and the recruiter became the norm.

Sadly, these middlemen were not only more experienced and better informed than the consumer — they were also not always incented to keep the consumer's interests at heart. On the most basic level, these were commissioned sales people with a vested interest in making the deal — and often greater negotiating experience. Finally, sales contests and commissions skewed the very offerings they provided. Travel agents, for example, received healthy commissions from the major airlines. Without access to the available flights from smaller discount and regional airlines, often at lower prices, consumers were forced to pay the higher prices of the bigger airlines, with a commission to the travel agent.

Real estate agents were even more opaque. With exclusive listings and proprietary databases on market sales, knowledge of the neighborhood and other buyers, they had quite an advantage. For a customer, it was the single largest purchase in their life, and their first and last time with this complex process. For the agent it was one of many commissions. Research has even shown that real estate agents take longer to sell their own homes to get a higher price.

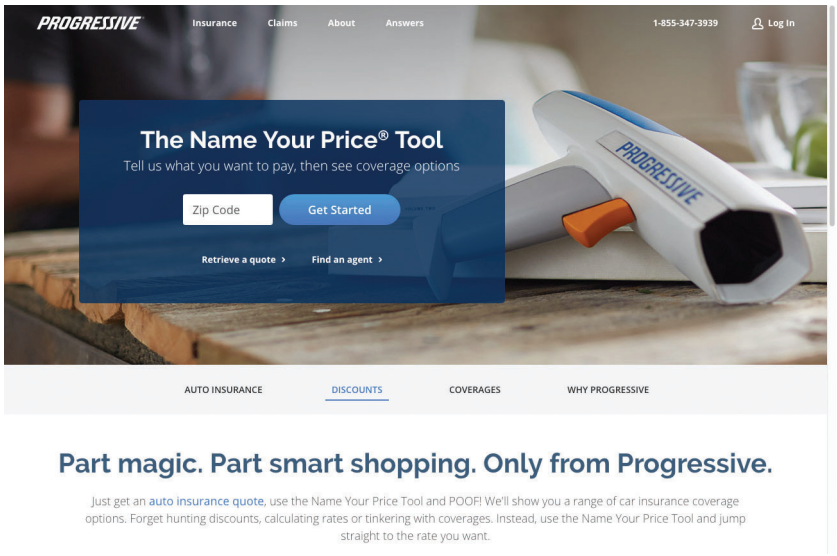
The Internet, however, brings a new transparency to pricing. It became possible to compare retailers and prices on similar products quickly and easily. Renting an apartment and viewing listings on Craigslist allows prospective renters to know the market level of rents before committing to the time and effort of visiting. Travel sites make it easy to find alternative airlines and routes, and even check on user reviews of destination hotels.

Travel sites display almost all airline choices between two points allowing easy comparison of prices and other factors. Commissions on airline tickets have essentially vanished; online agents make more money cross-selling hotel rooms and rental cars then tickets these days. And many travel sites make their money only from ads, eliminating any conflict of interest with the consumer. Sites like Kayak.com compete on "efficiency" by getting consumers to use them as a travel search engine for all their options. Sites like Hipmunk have innovated further by adding new data to the decision process. Hipmunk allows ranking of flight choices, for example, on a proprietary "agony" factor, which indexes price, comfort, and on-time performance among other factors. No wonder travel is one of the categories that has moved completely online.

Hipmunk offers travel planning inside your email and calendar. Their unique tools, display and AI bots make it easy to visually compare results and choose what's best for you.

Insurance is another industry that has become extremely price transparent. No one expects to see a local drug store also tell you what the same product costs across the street at their competitor.

Yet with both home and auto insurance, personalized pricing is what the market now requires. As the insurance industry moved online it realized how very simple it is for customers to leave one website to comparison shop. To keep hard won visitors, companies now provide the information they seek — price comparison or pricing calculators — on their own storefront.



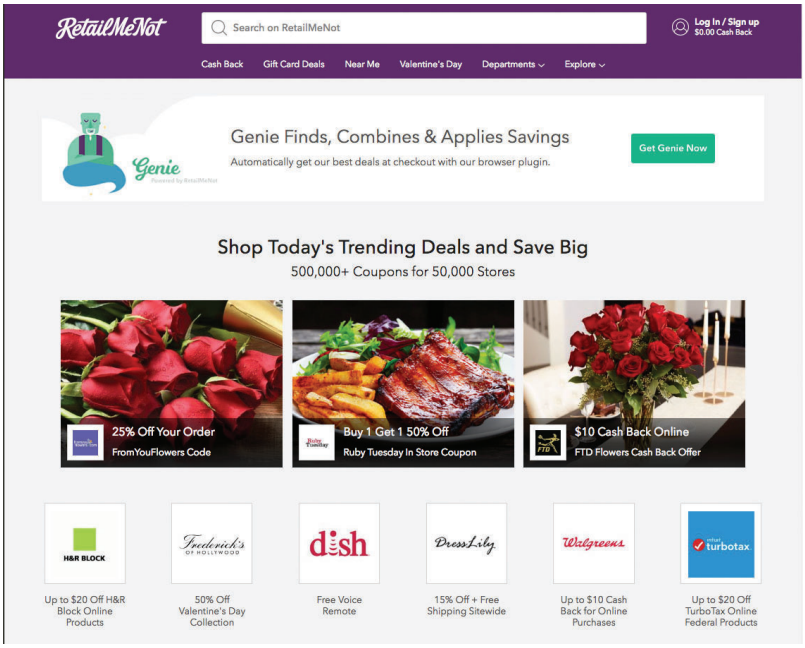
The Progressive Name Your Price Tool Campaign, 2017

Ironically, all of this price transparency actually appears to reward products with strong brands. When comparing prices on a Samsung television online, for example, it is the trust of the brand that makes a consumer choose to buy the same television from an unknown online retailer at a much cheaper price, rather than simply select a no-name brand from a larger but more expensive retailer.

The "digital" effect on pricing is not limited to the list price. Coupons and discounts, long tools of the trade, have been majorly impacted. In the past, more price conscious customers would be the ones motivated to clip coupons, which often involved circulars in the Sunday paper, then remember to bring them for redemption to the store. Only the truly price sensitive would take advantage and this allowed price discrimination of a sort for many branded products

Now coupon codes, alerts, and digital coupons have replaced this friction with a simpler, sometimes personalized process. Sites like RetailMeNot and Coupon Cabin make obtaining a discount as simple as a search on the product or retailer in a different browser tab. Want to save a lot of money? Every single time you see a form field for a discount or promotional code — check one of those sites. Free shipping and 20% offers abound for those who seek them. There are even browser plugins that will *automatically* search for and apply these codes at checkout.

For the brand trying to seek advantage by offering different pricing levels using discounting tactics, a much larger group of customers will now be taking advantage of them.



Leveraging the power of data-driven promotions, *RetailMeNot* provides a digital coupon marketplace where industry experts help companies optimize promotions to drive new business.

Mobile's ubiquity, of course, makes this trend even more dynamic. The challenge for retailers used to be getting the prospective buyer through the front door. Consumers now carry around an Internet enabled computer that can scan bar codes in real time, check prices, and direct them online or across the street for a better deal.

Placement

Placement always seemed like the "P" that they forced into the 4 P's framework — because we are really talking about sales and distribution channels. But, in the digital world, "placement" takes on a whole new meaning. Certainly, digital channels are new places to sell product — but they are far more than simply the digital equivalents of supply chain intermediaries or catalog sales. Digital channels combine great advantages in contrast to brick and mortar; with some completely new ways of doing business.

Brick and mortar retail still has a larger majority of sales due to the many advantages of a better in person "customer experience." But even in channels with a strong "touch factor," failure to recognize the influence of online or offline sales is a major mistake. A recent report by Forrester Research states that by 2017, 60% of all U.S. retail sales will involve the Internet in

some way, either as a direct e-commerce transaction or as part of a shopper's research on a laptop or mobile device.[8]

The continual merging of e-commerce research and transactions.

E-commerce is growing at a healthy rate and m-commerce (e-commerce on mobile devices) is grabbing more share each passing quarter. Despite this, e-commerce has only just broken through to the double digits in overall retail/B2C/B2B sales. This might suggest that the marketer at a brick and mortar incumbent might breathe a little easier, with time to adjust to the new reality. Nothing could be further from the truth!

While the overall trend seems to suggest vigorous growth there is a long way to go. Even if a particular sector seems immune, the actual influence of online — search, customer experience, collaboration, price comparison — is far greater on the purchase process than might appear. Even if the transaction takes place at a brick and mortar location, the purchase process is more likely than not critically influenced by online along the way.

Cars, for example, are a natural for brick and mortar sales — who wouldn't test drive the car before the expensive purchase? However, the digital influence here is extremely pronounced. Online research determines which cars to consider, from review sites to manufacturer information; price ranges and features are explored before ever setting foot on a lot; and even financing options may be lined up well in advance, removing the favored tool of the salesman to close a deal.

Recent research (Figure 1.7) indicates that more than two thirds of consumers conduct some online product research before stepping foot in a brick and mortar location, amplifying the need for retailers to optimize their customer's digital experiences.[9]

"Companies should be channel agnostic, meaning it does not matter if they start with online or offline, what matters is that all channels are interlinked to give consumers the convenience they need. Online plays a major part in the customer journey or ROPO (research online,

Figure 1.7 Online Product Research Study

Source: Retail Dive 2017.

purchase offline). The most successful multi-channel companies established their online channels as early as the late nineties, went on to establish 'click and collect,' eradicated silos across the entire organization, and established a channel agnostic incentive program so retail staff do not consider online as a separate business." — Paul Martin, UK Head of Retail, KPMG in the UK[10]

Digital commerce is well established but continues to face significant technical challenges as e-commerce and m-commerce become more sophisticated. The mobile friendly site, designed for viewability and providing the user interface for simple purchase, is critical to convert customers with smartphones. Perhaps even more challenging is the necessity of seamless tracking and identification of customer's preferences and purchases across multiple devices. The digital consumer demands that the item placed in a shopping cart or "wish list" on her office desktop computer be reflected on their home tablet or smartphone, and vice versa — or the sale may be lost. Weaving together user profiles is a technical challenge that must be met for customer sales and managing the relationship management in the long run.

New models of retail are also being enabled. In the past, the biggest customer of a manufacturer like Proctor & Gamble wasn't you — it was Walmart (and still is). Brands rely on retailers to move product and have only a tenuous relationship with and understanding of the customer. Vast marketing expenditures every year merely serve to re-capture and retain the demand for the products that are already in the customers' closet.

With online channels, brands can now go direct to the consumer. A toy manufacturer, paying large licensing fees for this year's movie tie-ins, faces two tough customers with low prices in Walmart and Toys"R"Us — but needs their volume to make its holiday numbers work. What if by going direct, they can sell at a far higher margin? This *cream-skimming* strategy is already being seen online, despite the channel conflict.

Other companies are experimenting with *subscription and replenishment models* with varying success. Offering discounts in return for commitments to monthly deliveries of sundries seems a fair tradeoff to capture and cement lifetime relationships for products like deodorant and toilet paper. (Remember Dollar Shave Club's $1B price tag?)

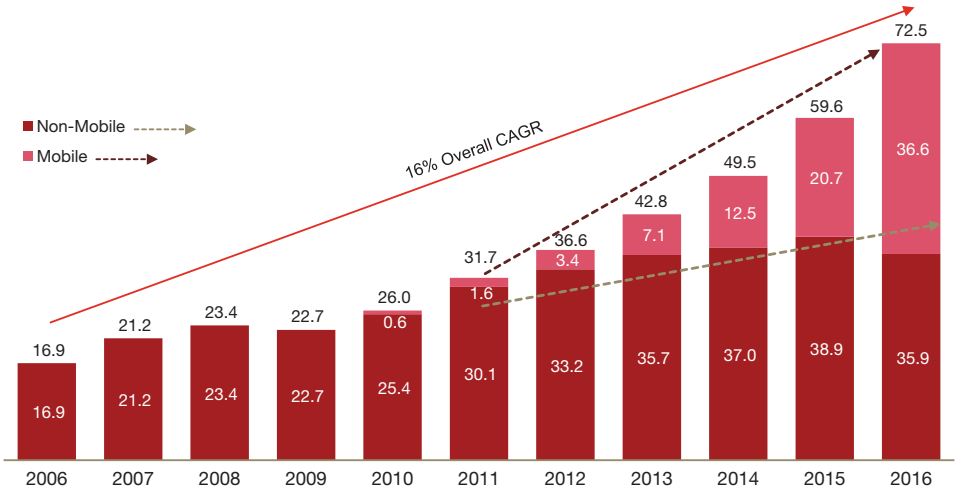
Social media has also begun to influence e-commerce in many ways. Levi's experimented with a store that only displayed items that had been liked by enough people in your circle of Facebook friends. If you are a teenager nervous about wearing the right outfit to a party on the weekend, selecting from a rack of blue jeans already screened by your peer group may be one of the most important features!

Social *buzz* is not just influencing online retail. Nordstrom has disclosed that their marketers actively monitor Pinterest and other sharing sites and select the more popular styles and products to dress their mannequins. Social buzz translates into real world displays and influences sales decisions even at the physical locations of their retail store.

Promotion

Last but certainly not the least of the "P's" is *promotion*. With a vast move of consumer attention to online media, budgets are slowly following. As we saw in an earlier chart, the trend suggests that literally over $100 billion of advertising dollars in the U.S. alone will inexorably follow the eyeballs of potential customers into the array of online media channels. These channels and the strategies and tactics needed to utilize them will be explored throughout the rest of this book. IAB research shows that mobile now accounts for 50.52% of this revenue (Figure 1.8).

Figure 1.8 Shift from Desktop to Mobile



Source: IAB/PwC Internet Ad Revenue Report, FY 2016. © 2018 Interactive Advertising Bureau. All rights reserved.

Ongoing Engagement and Customer Relationship Management (CRM)

Beyond the 4 P's and the changes to them are perhaps an even more critical change to marketing: ongoing customer relationships can be maintained and improved using digital tools better than ever before. In the past, customers might call a company when they had a problem; get the occasional catalog or promotion in the mail; or even have a 'loyalty card' providing a discount for repeat purchases. While some retailers and catalog merchants used sophisticated tools to try and optimize their performance, it has been the advent of inexpensive, direct channels of digital communications that have allowed true customer communities to flourish.

Email can engage customers and remind them of events, as well as make personalized suggestions. Social media can allow service and support — often between members of the newly emerged customer community itself. And, a customer's relationship with a brand can go beyond the occasional transaction to a broader based partnership.

Embracing Digital Change to Change Digital Strategy

With all the fundamental changes to marketing wrought by digital tools, it's important to remember that marketing's purpose remains the same — to drive sales for the organization. As we review each of the channels and many of the new tools and strategies in the text, it's important to keep things in perspective. Marketing's goals and successes will ultimately be measured and defined by its impact on the bottom line. Digital channels provide new tools and techniques to support these goals, both in new ways, and by supporting and enhancing traditional marketing methods.

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