

‘Departures’

**Speech to the Australian Marketing Institute Breakfast
Melbourne, 22 April 2009**

By Justin Milne¹

It seems to me that in the early part of 2009 we find ourselves at a number of big Departure points. We are departing from a world with which we’ve become reasonably familiar and comfortable over the last 20 years or so and we are moving to one which is going to be very different. Some of the differences will be good, some might not be.

We’ve been used to a relatively smooth trajectory for some time. We’ve been enjoying the ‘Long Boom’ – a phrase Wired Magazine Editor Peter Schwartz coined back in the late 1990’s when he convincingly described a future world of ongoing prosperity led largely by the marvels of technology.

However, there are moments in history when things really do change irrevocably. There are some really big departure points. For example, when Model-T Fords rolled off Henry’s production line, the world changed forever for blacksmiths. They either turned themselves into motor mechanics or lived out the remainder of their lives in escalating poverty. When fridges were invented, ice delivery men were out of business.

I want to outline for you some of the Departures we are seeing right now and then talk briefly about what some of them might mean for marketers. For me the departures group themselves around recession, climate and technology.

Global Financial Crisis

Firstly, the Global Financial Crisis represents a huge collection of Departures for us.

The centre of economic gravity has shifted from the Atlantic to the Pacific. It is shifting from the US to China. The US and European economies are in rapid decline and it seems certain that it will be some years before they turn around. To pinch a line from Winston Churchill, “This is not the end; it’s not even the beginning of the end. It may be the end of the beginning.” There is a real question as to whether the world economy will ever be the same again.

¹ Justin Milne is Group Managing Director, Telstra Media. Justin is responsible for the growth of Telstra’s domestic and international content and advertising assets, including BigPond, Sensis, FOXTEL and an expanding range of online content businesses in China. In 2008 Justin received the Sir Charles McGrath Award, the highest accolade for marketing and business professionalism in Australia. He is a member of the South Australian Economic Development Board and the Sydney Children’s Hospital Foundation. He has previously been president of the Internet Industry Association, CEO of OzEmail, and Managing Director of the Microsoft Network in Australia

The G8 has become the G20 and while we are all wondering what to do next, China continues to power ahead – especially in the major cities where some consumer businesses I run are continuing to produce high double digit annual growth rates and are beating their forecasts each month. China will soon have the biggest English speaking population in the world. They have a political system which, whilst evolving to a kind of commercial socialism, allows them to make rapid decisions and rapidly execute. While the US, Europe and Australia are planning infrastructure spending and economic stimulus packages, the Chinese are digging tunnels, laying rails for fast trains and rolling out vast new wireless broadband networks.

In Australia we are yet to feel the real effects of the GFC but feel them we will as unemployment heads towards double digits by the end of 2010.

The GFC has given rise to another extremely important political departure. World leaders are announcing the end of capitalism as we knew it, arguing that governments must play a role in the economy that they haven't played since the great depression. Whether you agree or not and whether it works or not, there's no doubt that this new age of Government ownership and control is a very big departure from the economic philosophy which we've know in Australia since the Second World War.

So looking at the global economy as a whole, there is no doubt that we have over-consumed, over-spent, and over-financed our consumption with debt. Our patterns of consumption, spending and financing are all changing fast as the economy plunges into recession and spending and production slows. I think the GFC is a big departure point and it will be many years before we get back to the idea of The Long Boom -- if in fact we ever do. I've lived through a few recessions since the early seventies and this one feels different.

The Environment

Let's look at another set of Departures around the environment.

All but the most cynical now accept the fact that the planet is in trouble and that we will need to significantly reduce our emissions of carbon and other pollutants if we are to have a reasonable future. The debate about how to do it is raging and so far, while the snow and ice melts, there isn't too much action. One way or another, the things we do that pollute will have to become more and more expensive to discourage us from doing them. This will have a dramatic effect on consumer behaviour and I believe you can feel it already in the zeitgeist. Conspicuous consumption and excess is now out and frugality is in. Recycling, second handing, growing our own, eating locally, buying Australian, are all ideas we as consumers have rapidly accepted. These ideas of frugality synchronise immediately and neatly with the consumption it appears we can no longer afford due to the GFC.

I don't want to be a Pollyanna about it. I don't think we're all doomed. On the contrary, I suspect there are some fantastic opportunities in this big set of changes. I do however think that these changes are departures. The ship has left the shore and the global economy and our management of the environment will be different from here on.

Media and technology

There's another huge set of changes occurring in media and technology.

Moore's Law says that every 18 months computing power doubles or the cost of the same computing halves. Apply that to mobile phones and it means that in 15 years the mobile device in your pocket will be 1,000 times more powerful and it will be connected to a network providing speeds well over 100 Mbps. If 15 years seems like a long way off, just think about the next five years or so. The pattern is the same. There will be more than six billion mobile phones, all of them evolved into extremely powerful devices, connected to the net and each other at very high speeds. I suspect that this will represent a departure we haven't even started to comprehend. My personal view is that the net is going mobile, and that this will affect almost every aspect of our life – most of it in a positive way. You can see the very beginning of this today with wealthy early adopters using iPhones which flip between 3G and wifi networks, provide satisfying access to the net and have spawned a whole new software development environment and industry (not to mention culture) around small mobile applications.

A few years ago a phone with a clock was cool, and then suddenly camera phones just took over the world, decimating businesses like Kodak virtually over night. In the very near future most phones will be GPS-equipped and location aware. They will rapidly move to include projectors, a variety of code readers, speech recognition and voice commands not to mention some huge advances in gesture recognition allowing you to command your phone with a set of hand movements.

Today iPhones are relatively expensive. Tomorrow the Chinese will produce them for pennies. Just like today they produce 2G phones based on the Chinese MTX chipset for about \$1 apiece.

Over this huge mobile, connected, English-speaking population now lay the phenomenon of social networking in the forms we currently understand it such as Facebook, and Twitter and you have a world which represents a very big departure from the one which existed only two years ago.

I could go for a long time about technology, but let's look at Media for a second as technology is changing that irrevocably too. Start with newspapers.

In the US, Newspapers with 100 years of heritage are closing or in some cases only "printing" an online version. Ad revenues are in serious decline and the value of Newspaper stocks continues to fall dramatically. A few years ago you would hear Newspaper executives telling us how heritage brands with their hundreds of journalists made them immune to upstarts on the net. Now look at where we are. News has become commoditised. We really don't care much about the "authority" of the journalists nor the heritage of the brand, in fact we seem just as interested in bloggers who are not experts and we're happy to get rebranded news from wire services.

The old establishment are losing their position. Here's an example from the Mobile space. BigPond is by far the biggest provider of news services to mobile customers in

Australia, disintermediating the established interests. That just happened overnight with the launch of content on our 3G phones.

Free-to-Air TV networks are suffering an only slightly less dramatic decline today but their departure point is just round the corner and here's why. Next year the major TV manufacturers like Samsung LG and Sony will release most of their new models with internet connectivity built into them. This will allow viewers to "plug in" the internet – not to surf the web or do email from the couch – but to see the huge and exponentially expanding array of video available on the web today. These screens (we used to call them TVs) will provide users with an electronic program guide which seamlessly combines TV, YouTube, Movie Downloads and sport on demand – plus all of the media files stored on computers within range of your home WiFi network. Just arrow key down with the TV remote and click. No keyboards or mice. Add to this the fact that Telstra is currently planning to roll out a 100 Mbps network and so is the Government. Then lay Moore's law over the top of this scenario, and you have a future where people will seamlessly combine video from Pay, Free-To-Air and the Net on multiple screens around their homes without caring where it comes from.

Some of these forms of video will provide entirely accountable performance-based advertising and some will not. Meaning internet video will show users clickable video ads which will work exactly like a banner ad does today. Advertisers will only be charged for click-throughs or indeed sales that result. Meanwhile regular TV stations will have linear, hard to track, non-active TV commercials like we have had for 50 years. As marketers, which would you choose and where do you think the money will go.

Let's talk about advertising a little more as the New Media provide another huge departure for marketers from which there will be no return.

Just a couple of years ago, as marketers of main brands we all bought media schedules across TV, Print and Press, Radio and some outdoor and DM. Today you have to buy online too and marketers are doing it at a prodigious rate because we love the accountability and adjustability of it. But it's getting very, very complex and is a LOT harder for mere mortals to understand - much harder than just buying a TV schedule.

For a start there are many different models of payment for display ads like cost per click, cost per action, and cost per impression. Then there is a rapidly emerging trade in video ads online (and it's not at all clear how they should be charged as they can be very effective branding but also include a click-thru component).

But then there's search which involves both search engine optimisation - building your sites in such a way that they naturally rank well on Google - and there's Search Engine Marketing - buying keywords. Now if that's not different enough, there's also a very rapid trend towards this entire inventory being available through an auction engine enabling it to be bought and sold - but bought and sold in real time. So this means that campaigns can be tweaked and adjusted hourly depending on results. Managing all this closely can provide significantly enhanced results.

Feels a bit different from buying a full page ad in the paper. 'But wait, there's more' -

as they always say. All this works for mobile advertising too. Today mobile ad volumes are still pretty small. However they're growing at a very rapid rate and now we can add location based information to an interactive-mobile-video-ad campaign.

The simplest way to imagine this is, I'm walking down the street, and I get an SMS with a link in it. I click on the link and see a video about a special deal available right now from the widget shop that is immediately to my left. All I have to do is walk into the shop I'm standing in front of, with my phone, show the SMS and redeem my discount on the widget. Of course Widget Co can be running this campaign simultaneously for their chain of 200 high street widget shops all over Australia - only providing the special offer to people close to their shops, getting feedback in real time and adjusting the offer and the copy on the fly based on results.

Implications for marketing

The big question is what do these departures mean for marketers?

I believe there are several possible ways for marketers to exert leadership in their organisations by leading strategic re-thinks, aggressively seizing opportunities, or changing the competitive game altogether. These ideas draw on the idea that multiple departures have conflated to create a kind of 'threshold moment'.

Some marketers will feel the pinch immediately as their budgets are cut. My view is that this is exactly the time not to cut marketing budgets but to get on the front foot. Whilst I do think there's no going back from many of these changes, I am confident that the economic cycle will turn and the companies which have maintained good momentum as we come off the bottom will benefit greatly. So let me give you my two bob's worth on some marketing strategies in the middle of all these departures.

People will become more price conscious without question. They will feel good about saving but, at the same time, there will be the time honoured flight to quality. In businesses like mine I think it becomes critical to have very attractive entry level pricing. To have pricing that removes barriers to entry. This doesn't mean reducing prices. It does mean making it easy for people to try your product or service and then self migrate to higher value parts of your portfolio over time. I realise this doesn't work perfectly easily for all categories but even FMCGs can think about producing some cheaper packs with less in them allowing consumers to "test the water" with low risk.

Most importantly, consumers are a lot more selective about how they spend money. They are adding filters to their expenditure, even where their income has not changed at all. They are demanding value. They are foregoing large, extravagant purchases in favour of small, affordable luxuries. And they are much less tolerant of product or service failures.

There are many examples of this.

The Australian Bureau of Statistics revealed earlier this year that consumer spending at cafes, restaurants and takeaway outlets fell by a seasonally adjusted 2.2 per cent in the December quarter. Of course consumers are not eating less. They are simply

substituting one kind of experience for another, creating unexpected opportunities for some businesses.

For instance, consumers are increasing their purchases of small, affordable luxuries including ice-cream, chocolate and take-away alcoholic beverages. They are entertaining at home more often, using once dusty cookery books or firing-up the family barbeque more often. They are cooking cheaper cuts of meat, eating sausages and mince-based products, or maybe growing vegetables in the home garden. In other words, the downturn could be a catalyst for supermarket sales, hardware stores, and even the local garden centre.

There is also an accumulation of evidence that fast food restaurants are experiencing an upturn.

The CEO of Domino's Pizza, Don Meij, revealed that his company had seen same-store sales leap by 14.5 per cent in the six months ended 31 December 2008. As he put it, "[consumers]... who might spend \$100 at a cafe or restaurant are now buying a \$20 meal instead".² The Australian CEO of McDonalds, Peter Bush, told the Australian Financial Review in February that he has increased, by five per cent to \$63 million, the marketing budget for McDonalds in 2009.³ He recognises that consumers respond to tough times by increasing their use of low-price high-value restaurants, and by taking advantage of experience-oriented venues like McDonalds for affordable family outings.

Had Dominos Pizza or McDonalds responded to the downturn by cutting prices for key goods and services, they would have eroded margins with very little payoff in consumer volumes. The smarter response – one presumably informed by an understanding of the public mood – was to emphasise the qualities of each service and product to the extent they matched the new public mood.

But there's more to the story this time around as the eco-factor plays out. Consumers may also be willing to pay a premium for products that are greener, that won't risk poisoning them or that won't add unnecessarily to their carbon footprint. Witness the discussion about 'food miles' or the debate about imported mineral water.

Channels and advertising are changing rapidly. As we catapult to an online and mobile world, relying on high street real estate may not be enough. If you're already advertising online, relying on portal traffic might not be enough, you might have to develop a social networking strategy. Or maybe you really need to be in people's pockets on their mobile phones. Being rung up at dinner time by foreign call centres doesn't have much appeal anymore for punters whereas getting an SMS at the right time and in the right place will be much more effective.

Social media, too, presents real opportunities.

There's lots of research to show that corporate and product advertising is the least trusted source of information for consumers, and that business blogs, social

² *The Australian*, 19 February 2009, 'Discounters, fast-food chains revel in tight times'.

³ *Australian Financial Review* Marketing Section, 9 February 2009, interviewed by Neil Shoebridge.

networking sites and personal blogs are relatively more influential. The same research claims that consumers' opinions depend on hearing the same information from multiple sources, multiple voices and multiple times.

The Obama Presidential campaign was a stunning example of New Media marketing. Using very sophisticated push-polling and tracking, campaigners were each given a group of ten houses to attack. These homes had been carefully targeted using a variety of techniques from the web and from opinion polls. The campaigners were then sent to doorknock these houses, then follow-up using ordinary mail, SMS, Twitter, MySpace and Facebook. And more impressive still, they were given a specific set of messages that had been refined for their particular group of voters. Clearly it worked. The new media and new techniques not possible even four years ago were used to elect as President a candidate who may otherwise have lacked the pedigree, experience or reputation to win.

In other words, social media environments represent enormous possibilities to for the marketing profession to innovate. By accessing and analysing the data available, conversations can be tailored to very small groups. Just making one execution and repeating it endlessly to the population is yesterday's marketing. Tomorrow's is all about data, targeting and conversing with customers.

Conclusion

So.... I began by claiming that we are witnessing major points of Departure. The three forces of change – recession, climate and technology – are all global in their scale and impact. They are converging in a way that will change the way consumers spend money. The changes won't be temporary, as they have been in previous downturns. This time I believe we'll feel the effects for generations. But as always, times of great change represent a huge opportunity for the fleet of foot and the brave. We won't cost cut our way to victory and salvation. We'll have to change our businesses, adjust our products, and embrace the new journey that these departures have created for us.

Thank you.