

The Vanishing Mass Market

July 12, 2004 Issue

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With Tom Lowry in New York, Robert Berner and Michael Arndt in Chicago, Ronald Grover in Los Angeles, and bureau reports

To most of us, Tide is as familiar as home. Last year, Americans bought some \$2 billion worth of Tide, which has ranked as the country's biggest-selling laundry detergent ever since Procter & Gamble Co. took it national in 1949. If ever a brand epitomized the great, one-size-fits-all mass market, it is Tide, right? Wrong. Or so says Procter & Gamble itself. James R. Stengel, P&G's global marketing officer, insists that his company's bulging portfolio of big brands contains "not one mass-market brand, whether it's Tide or Old Spice" -- or Crest or Pampers or Ivory. "Every one of our brands is targeted."

In the boom decades after World War II, it was P&G more than any other company that put the mass in marketing, relying on TV commercials and print ads to flog its standardized wares from coast to coast. Along with Coca-Cola, McDonald's, General Motors, Unilever Group, American Express, and many other consumer-products giants, P&G now is standing mass marketing on its head by shifting emphasis from selling to the vast, anonymous crowd to selling to millions of particular consumers. "You find the people. You are very focused on them," Stengel says. "You become relevant to them."

McDonald's now devotes a third of its U.S. marketing budget to television, compared with two-thirds five years ago. Money that used to go for 30-second network spots now pays for closed-circuit sports programming piped into Hispanic bars and for ads in Upscale, a custom-published magazine distributed to black barber shops. To sharpen its appeal to young men, another of its prime target audiences, McDonald's advertises on Foot Locker Inc.'s in-store video network. The company zeroes in on mothers through ads in women's magazines such as O: The Oprah Magazine and Marie Claire and on Web sites like Yahoo! and iVillage Inc. "We are a big marketer," says M. Lawrence Light, McDonald's chief marketing officer, echoing Stengel's disavowals. "We are not a mass marketer."

For marketers, the evolution from mass to micromarketing is a fundamental change driven as much by necessity as opportunity. America today is a far more diverse and commercially self-indulgent society than it was in the heyday of the mass market. The country has atomized into countless market segments defined not only by demography, but by increasingly nuanced and insistent product preferences. "All the research we're doing tells us that the driver of demand going forward is all about products that are 'right for me,'" says David Martin, president of Interbrand Corp. "And that's ultimately about offering a degree of customization for all."

At the same time, the almost-universal audience assembled long ago by network television and augmented by the other mass media is fragmenting at an accelerating rate. The mass media's decline is an old story in many respects; prime-time network ratings and newspaper circulation have been sliding since the 1970s. What's new is that the proliferation of digital and wireless communication channels is spreading the mass audience of yore ever-thinner across hundreds of narrowcast cable-TV and radio channels, thousands of specialized magazines, and millions of computer terminals, video-game consoles, personal digital assistants, and cell-phone screens.

In the 1960s, an advertiser could reach 80% of U.S. women with a spot aired simultaneously on CBS, NBC, and ABC. Today, an ad would have to run on 100 TV channels to have a prayer of duplicating this feat. Adding a few Web sites would help, but not even the biggest new media conduits -- not Home Box Office, not Yahoo, not AOL Instant Messenger, not even X-Box -- is likely to ever match the ubiquity of the Big Three networks in their prime. "Monolithic blocks of eyeballs are gone," declares Eric Schmitt of Forrester Research Inc. "In their place is a perpetually shifting mosaic of audience microsegments that forces marketers to play an endless game of audience hide-and-seek."

Tipping Point

This is a complex, high-stakes game for its players, who include many of America's largest companies. Figuring out the right way to send the right message to the right person at the right time is difficult work. It is also risky, not unlike hunting game birds with a high-powered rifle instead of a shotgun. If you miss, you miss entirely -- an alarming prospect for companies accustomed to measuring progress in minuscule gains of share of the mostly mature and fiercely competitive consumer-products markets.

On balance, the dawning era of micromarketing holds great promise for consumer marketers and, by extension, the U.S. economy. By adding hugely to the overall supply of advertising time and space, the proliferation of new communications channels can be expected to tamp down ad-rate inflation. The surprisingly impressive recent results of P&G suggest that targeting might also be a boon to corporate productivity. In 2003, P&G spent \$4.4 billion, or 10.1% of sales, on advertising. In 1998, the last time its spending reached 10%, unit sales volume rose by nearly 4%. Today, P&G's unit growth rate is running closer to 9%. "You can draw the inference that they are spending smarter on advertising," says William H. Steele, an analyst at Banc of America Securities. "They are spending about the same money and getting three times the lift."

At the same time, though, the fading of the age of mass marketing poses a threat to the traditional mass media and their heavily ad-dependent business models. To date, network TV and its mass brethren have held tight to the lion's share of advertising, despite their dwindling audiences. Even as prime-time ratings fell by 41.5% from 1977 to 2003, network TV's advertising revenues rose nearly fivefold. Why keep paying more for less? For a marketer looking to build brand awareness or to convey a simple, timely message to a big swath of the country, there is no effective substitute for mass media, particularly TV. If anything, the decline in network ratings has added scarcity value to the few remaining widely watched special events like the Super Bowl and the Olympics.

However, mass media's share of advertising is declining now as marketers boost spending on more targetable, narrowcast media. "Mass is still mass, but we're nearing the tipping point," says Robin Kent, chairman and CEO of Universal McCann, a media buying agency. "Then, there will be huge segmentation." A recent study by the Wall Street firm Sanford C. Bernstein & Co. predicts that the ad revenues of narrowcast media will grow at 13.5% a year from 2003 to 2010, while the mass media putter along at 3.5% -- well below the projected 5.7% gain in gross domestic product. By 2010, Bernstein predicts, marketers will spend more for advertising on cable (\$27 billion) and the Internet (\$22.5 billion) than on network TV (\$19.1 billion) or on magazines (\$17.4 billion).

'We're Everywhere'

It's no surprise that the big advertising agencies also are in harm's way. Madison Avenue came of age as a content supplier to mass media and remains much better versed in making 30-second TV spots than in exploiting the interactive intricacies of the Internet. What is more, in the same way that network TV's dominance of media is eroding, advertising's dominance of marketing is diminishing. Marketers are increasing their spending on telemarketing, direct mail, e-mail, in-store displays, and other forms of closely

targeted, nonmedia spending. Says Interbrand's Martin: "An increasingly heterogeneous marketplace requires much more one-to-one communication, instead of one-to-many communication, like advertising."

Big media companies and advertising agencies have sought to reduce their vulnerability to shifts in the flow of marketing dollars by diversifying and consolidating like mad over the last decade. "What advertisers buy is platforms to get their brand promoted, and we've got four platforms for them" -- broadcast TV, cable TV, billboards, and radio, says Sumner Redstone, chairman of the multimedia conglomerate Viacom. "We're everywhere, because in this day and age you have to be where the advertisers need to be."

Meanwhile, the mass media have tried, with varying degrees of success, to adapt to micromarketing's growing momentum. There is not much that broadcast TV, the quintessential mass medium, can do to accommodate the growing demand for targeting; in essence, it is technologically hamstrung. Meanwhile, cable continues to nibble away at its broadcast rivals by adding highly specialized channels and such services as video-on-demand. According to Nielsen Media Research, the average U.S. household receives 100 TV channels, compared with 27 in 1994. The audiences attracted by even the largest cable stations remain far smaller than those of the broadcast networks. Collectively, though, cable now rules prime time, with a 52% share to broadcast's 44%, according to Nielsen Media.

Print, the oldest mass medium, has been "niching down" for decades but appears to be bumping up against the limits of its adaptability -- at least when it comes to creating themed newspaper sections or demographically targeted editions of magazines. Time, the prototypical mass magazine, long has been able to craft an almost limitless number of ad-customized versions of its national edition. "We've done as many as 20,000 versions, but that's not something we want to do every week," says Publisher Edward R. McCarrick. Even so, no more than 35% to 40% of Time's ads are targeted, on average, and McCarrick does not expect this percentage to increase much, if at all. "The vast majority of clients want to run national ads," he says.

Believing In The Web

While a new daily newspaper is a rarity, thousands of consumer magazines have been founded over the past decade, including 440 last year alone, according to Samir Husni, a journalism professor at the University of Mississippi. Virtually all of them were born targeted. Husni estimates that only 10% of the 6,200 consumer magazines published today in the U.S. are general-interest titles, down from 30% two decades ago.

One of the most financially successful of last year's class of startups is W Jewelry, a monthly spun out of Fairchild Publications' high-fashion weekly W, which has a paid circulation of 469,000. Fairchild created W Jewelry by creaming off 75,000 W subscribers who spend at least \$60,000 a year on jewelry. Filled with glossy ads from the likes of Cartier and Saks Fifth Avenue, W Jewelry turned a tidy profit in its first year. "It used to be that the mass magazines made all the money," says Mary Berner, Fairchild's president and CEO. "Now, it's not size that counts most, but the ability to deliver someone elusive to advertisers."

The growing particularity of print and cable pales in comparison to the infinitely expandable variety of the World Wide Web, which now includes online versions of most every TV station, newspaper, and magazine in the country. Spurred by the spread of high-speed broadband connectivity, the Internet has shaken off the effects of the bursting of the dot-com bubble and now is rapidly coming of age as an advertising medium. The crude banner and pop-up ads that initially defined online advertising are giving way to larger and more refined formats, while blue-chip companies like General Motors Corp. and SBC Communications supplant fly-by-night dot-coms in rankings of the largest Internet advertisers.

The Web abounds in opportunities for exactly the sort of thematic and demographic targeting that magazines and cable TV offer advertisers. However, "paid search" -- the fastest-growing form of online advertising -- is an emerging form of micromarketing unique to the Web. Type a few words into one of the popular search

engines and a column of paid advertisements or "sponsored links" unfurls next to the search results. The frequency with which an ad appears is a function of how much the advertiser paid for placement. Google and Yahoo, the Big Two of search, are adding refinements that would allow paid-search advertisers to home in on Internet users by region or city.

In the competition for ad dollars, the new digital media -- especially the Internet -- are blessed by two intrinsic advantages over mass media. First, they are interactive. This capability enables marketers to gather reams of invaluable personal information directly from customers and adjust their sales pitch accordingly, in some cases in real time. Second, in part because digital media are interactive they permit a fuller and more precise measuring of advertising's impact. "Advertisers want to exactly know what they are paying for and what they are getting for it, and you really get metrics on the Web," says David Verklin, CEO of Carat North America, a media-buying agency. "Clients really believe in the Web now."

However, the Internet is no panacea for micromarketers. The same technological advances that are fragmenting the mass audience also are empowering a new class of digitally savvy consumers who compile, edit, and otherwise customize the media they consume to their own personal requirements. "Companies must recognize that they increasingly have to engage gods and are not dealing with helpless consumers anymore," says Rishad Tobaccowala, an executive vice-president of Starcom MediaVest Group. "This is particularly true of young people."

The consumer-empowering digital device that mass advertisers and TV executives fear most at the moment is the personal video recorder. The PVR allows viewers to "time shift" -- to watch a program when they want to rather than when it's scheduled -- and to skip commercials at the press of a fast-forward button. Research shows that viewers watch 20% to 30% more television after getting a PVR, but use it to skip about 70% of ads. Today, only 4% of U.S. households are equipped with PVRs, but Starcom MediaVest predicts a surge to as much as 30% within three years.

Network executives are soft-pedaling the PVR threat even as they try to blunt its impact by opening their programming up wide to product placement. Pepperidge Farm Inc. even managed to wangle a cameo role for Milano cookies in the final episode of *Frasier*. Says Leslie Moonves, who heads CBS Television Network: "Network TV needs to find a way to have another revenue stream if we're going to continue to put on the kinds of shows that we need to attract an audience."

Redefining Status

Few observers think that product placement and an accompanying trend toward sole sponsorship of network programs will ever rival advertising as a revenue source. "They're interesting, but small potatoes," says marketing guru Erwin Ephron of Ephron, Papazian & Ephron Inc. Ephron suggests that the network's best hope of maintaining the primacy of the 30-second spot would be to do the unthinkable: Slash ad rates. "Mass marketing is based upon low cost per thousands, the ability to reach people cheaply," Ephron says. "When television is cheap, you can let it do everything. But when television becomes expensive, it opens the door to less-than-mass media."

During the golden age of network TV, from the 1950s through the mid-1970s, the size of CBS, NBC, and ABC's prime-time audience grew roughly in sync with the prices charged for 30-second spots. Ratings and ad rates began diverging in the early 1980s and the gap has since widened into a canyon. By 2002, the networks' average cost per thousand viewers, or CPM, had soared to \$16.79 in prime time, compared with \$1.96 in 1972, according to the Television Bureau of Advertising.

The same fate has befallen print. Readership of daily newspapers fell to 55% of households in 2002, from a high of 81% in 1964. Magazine circulation sustained itself for much longer, as the dwindling readership of

general-interest magazines was more than offset by the growth provided by thousands of new special-interest startups. However, the total number of consumer titles has dropped by 33% since 1999, dragging magazine circulation down by 6.9%. As with broadcast TV, though, generally rising advertising rates have powered huge revenue growth for the print media. The net result: The cost of newspaper advertising per unit of circulation has increased tenfold since the mid-1960s, while magazines have seen a fivefold rise over this period, according to investment bank Veronis Suhler Stevenson.

When mass advertising was cheap, it didn't matter much that it was so blunt an instrument. At a CPM of \$10, a packaged-goods maker only had to sell four or five units per 1,000 viewers to cover the costs of a TV ad. Chances were that the overwhelming majority of viewers watching a 30-second spot had no pressing need to buy pet food or denture cream. But they might be in the market one day and would hit the store with your brand implanted deep in their subconscious. This was the theory, anyway. It seemed to work and probably still does -- if an ad is indeed memorable.

However, it no longer makes economic sense to send an advertising message to the many in hopes of persuading the few. The range of prime-time advertising has narrowed greatly over the years, leaving the network's continued financial good fortune heavily dependent on just four industries: autos, pharmaceuticals, telecommunications, and movies. You don't see many Fixodent or PoliGrip commercials on prime time anymore. At today's CPMs, makers of dental adhesives have every incentive to relentlessly target only the toothless.

The rise of micromarketing is as much a response to the fragmentation of consumer markets as to the fragmentation of the mass audience. In the 1950s and 1960s, the country was far more uniform in terms not only of ethnicity -- the great Hispanic influx had not yet begun -- but also of aspiration. The governing ideal was not merely to keep up with the Joneses, but to be the Joneses -- to own the same model of car or dishwasher or lawn mover. As levels of affluence rose markedly in the 1970s and 1980s, status was redefined. "From the consumer point of view," says McDonald's Light, "we've had a change from 'I want to be normal' to 'I want to be special.'"

As companies competed to indulge this yearning, they began to elaborate mass production into mass customization. As a walk down any supermarket aisle makes plain, the consumer is awash in choice. TNS Media Intelligence has 2 million brands in its database and is adding an average of 700 per day. In 2003 alone, 26,893 new food and household products were introduced, including 115 deodorants, 187 breakfast cereals, and 303 women's fragrances, according to Mintel International Group Ltd.'s Global New Products Database.

For marketers, product proliferation has proved to be a mixed blessing. Robust growth has been counterbalanced by the difficulty of attracting buyers in a clamorous marketplace surfeited with virtually identical products -- even at the luxury level -- and marketing come-ons. "Merely describing a product's attributes once was enough to make it stand out in consumers' minds," says Nancy Bachrach, chief marketing officer of New York-based ad agency Grey Worldwide North America. "Now, copycatting is so extreme that it's almost impossible to have a unique product unless it's protected by patent, and even then it will be infringed on."

Although the new-product onslaught continues, packaged-goods companies are becoming more selective in their use of mass advertising. "What they're doing is saying, 'Hey, let's look at the brands where we have a shot at it and only spend behind them,'" Ephron says. Unilever has applied the principle of brand selectivity on a much grander scale. Not only has it redistributed advertising dollars away from TV to support its most promising product lines with targeted marketing but it also has winnowed its roster of brands to 400 from 1,600.

'Permission Marketing'

At the same time, more and more companies across a wide range of consumer industries are turning to targeting to try to cost-effectively solve the Rubik's cube created by the piling up of product proliferation atop media fragmentation. In addition to altering their media mix, big marketers are moving beyond the usual demographic data to gather personal information about consumers' attitudes, desires, and habits. It's all about "relevance," the micromarketer's mantra.

American shoppers are studied in their homes by teams of cultural anthropologists and are pursued over the telephone and online by survey takers of all sorts. Over the past few years, Grey Worldwide has conducted more than 100,000 interviews and has spent millions of dollars to devise a methodology for identifying the particular emotions that lead people to buy particular products. It might sound like mumbo jumbo, but believers include P&G's Stengel. "The future of marketing will be much more oriented to permission marketing -- marketing plans and advertising so relevant that it is welcomed by consumers..." Stengel says. "Grey's work is an important step forward."

Technological advances will continue to enable marketers to draw an ever-finer bead on consumers through a variety of media. Already, many publishers -- offline as well as on -- are able to distribute content tailored to particular households. The libertarian monthly Reason customized its June issue so that each of its 40,000 subscribers received a copy with his or her name and a close-up satellite photo of his neighborhood on the cover. This stunt was meant to call attention to an article about the increasing capabilities of database management.

The logical end point of micromarketing is a personalized message -- and product -- for each consumer. However, few big companies are ready to segment markets as fine as this just yet. They worry about inflaming consumers' privacy concerns, but their hesitation is mainly a matter of economics. Done right, micromarketing is cost-effective, but that doesn't mean it's cheaper. To the contrary, advertisers typically pay a premium rate to reach a defined audience; the closer the targeting, the steeper the CPM. The notion of paying up to reach a smaller group of people remains dauntingly counterintuitive to brand managers weaned on mass marketing. Even at P&G, television remains the path of least resistance. "What P&G knows more than anything else is TV..." says Mark Schar, a former vice-president for global business development at the company. "No brand manager at P&G ever got fired for recommending a 30-second TV spot."

Not yet, anyway.

The progress of micromarketing appears to be inexorable, favored as it is both by economics and demographics. Certainly there is no stopping media proliferation, for it is providing consumers with what they crave: a wealth of new content and innovative modes of consuming it. The mass market will not disappear, nor will the mass media. But the fortunes of many of America's best-known companies now will rise or fall depending on how well they adapt to what is shaping up as a long and chaotic transition from the fading age of mass marketing to the dawning era of micromarketing.