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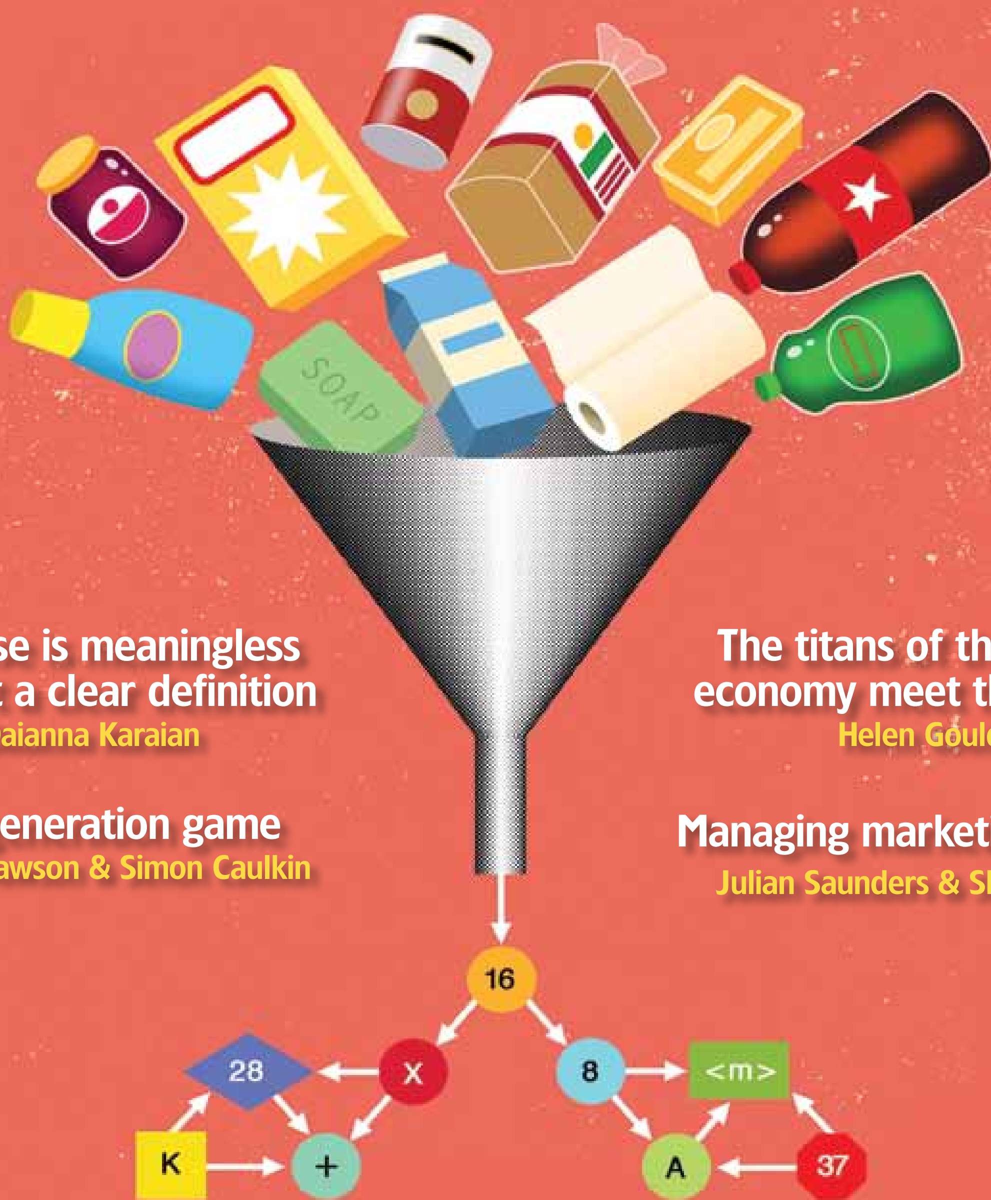
Market Leader

NEW THINKING, DIFFERENT PERSPECTIVES

The Know-Demand Economy

Engagement and programmatic consumption

J Walker Smith



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The Know-Demand

Engagement and programmatic

The rapidly improving power of digital systems to anticipate or predict demand has triggered a shift by consumers to programmatic consumption. With these technologies, algorithms do all of the work, giving consumers just as much value with far less engagement in shopping and buying. This so-called Know-Demand Economy is now at hand and it will require a radical rethinking of how we interact with consumers, **J Walker Smith** explains

CONSUMERS SPEND MORE than money to shop and buy. In addition to the purchase price, they spend the currency of engagement, or the time and attention it takes to shop and buy. This is off the books for marketers, yet the currency of engagement is a real expense for consumers, and it can no longer be taken for granted that consumers will pay it.

The central challenge facing brands is that consumers don't want to spend as much currency engaging with marketing as they once did. The response of marketers has been to push harder, especially with digital technologies that use algorithms to process real-time data streams. Yet this means more of what consumers want less of, so consumers are using digital technologies to migrate in the other direction.

THE CURRENCY OF ENGAGEMENT

Marketers ask a lot from consumers. They expect consumers to pay attention to their messages and then to come to them to transact business. But marketers don't cover these costs. Consumers spend their own currencies of time and attention.

Nowadays, though, consumers are very clear that they do not want to spend as much of this currency engaging with the marketplace as they used to. It looks like marketing resistance, but it's not out of dislike, annoyance or fear. Rather, it's an engagement cost of time and attention that consumers don't way to pay any more and, quite often, can't afford to pay any longer.

The strategic imperative is to take costs out. Marketers must reduce the currency of engagement, plus adapt as consumers do so themselves.

Worries about consumer engagement have popped up on the radar screen again because of developments such as the skyrocketing interest of consumers in ad-blocking apps. The big headline last year was Apple's announcement that it was opening its mobile browser to ad-blocking apps, a decision sure to accelerate this trend.

It's worth keeping in mind, though, that while ad-blocking apps are new, the phenomenon of ad skipping is not. Harvard business school professor Thales Teixeira compiled data from studies going back to the late 1980s and found that the percentage of TV ads that people watch attentively has dropped steadily from nearly 100% decades ago to less than 20% today. No matter the medium, consumers are doing everything they can to spend as little of their currency of time and attention as possible on the marketing being pushed at them.

Resistance to marketing is often attributed to the broader phenomenon of distrust in institutions and authority figures. Consumers are more suspicious of marketers, and this discourages investment of time and attention. But what's at work is more than scepticism. Mostly, it's a problem of capacity. People just don't have the time or attention to spend any more. What consumers are doing is what people do whenever they lack the wherewithal, which is to do less. The consequence is ever more blocking, skipping, avoiding, ignoring and clicking away.

The trust consumers have in other consumers reflects this desire to keep costs low. Relying on other consumers is more efficient. Other people have done all of the work already, so utilising their information and guidance lowers the costs of engagement.

Every marketer can point to instances of marketing that have worked extremely well. No question, consumers engage. But only to the extent that they can, and no more than that. Increasingly, that means less. The key

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Economy consumption

question is how best to negotiate the balance consumers are trying to strike.

THE VALUE EQUATION

The value that consumers get from engaging with marketing is a pretty basic formula: benefits minus costs. As long as that difference is a net positive, consumers realise value and are willing to engage.

The costs of time and attention are rising. There is more marketing than ever, and it's better than ever. So whether measured by bulk or by merit, costs are rising. At the same time, people have less time and attention to spend. Life is busier. People are more pressured. There are many more things competing for time and attention.

When marketers think about the value of marketing engagement for consumers, it's rarely about the costs. Instead, marketers say to themselves, if I can just make this ad or this video or this product more entertaining or more absorbing or more emotionally captivating or more participatory or more relevant or more appropriate to the moment, then consumers will spend time and attention engaging with my brand rather than blocking, skipping, avoiding, ignoring or clicking away.

In other words, benefits are first and foremost for marketers. For consumers, though, costs come first. Marketers and consumers put first priority on different parts of the value equation. Marketers prioritise performance, experiences and delivery. Consumers prioritise time and attention. Marketers are trying to boost benefits to increase net value. Consumers are trying to take out costs.

FIGURE 1. COSTS AND BENEFITS CURVES OF MARKETING ENGAGEMENT

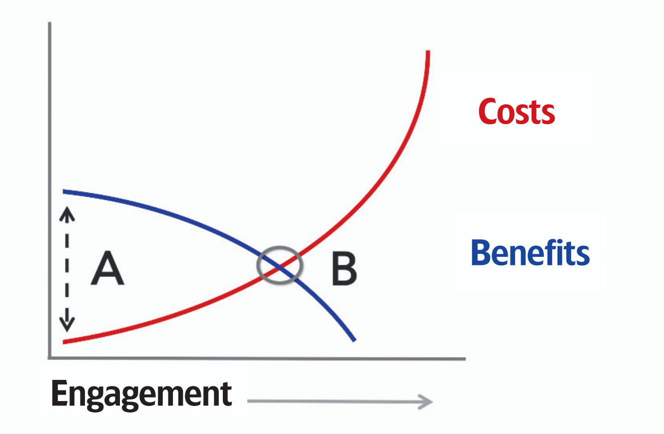
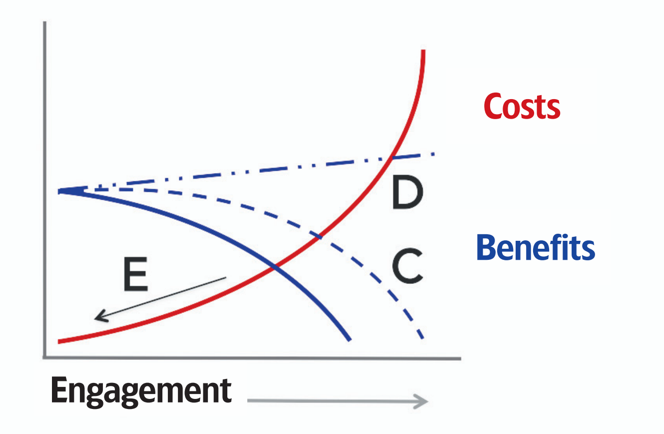


FIGURE 2. SHIFTING THE COSTS AND BENEFITS CURVES OF MARKETING ENGAGEMENT



COSTS AND BENEFITS CURVES

The costs and benefits of marketing engagement are a trade-off. Figure 1 illustrates this. It shows the amount of engagement along the horizontal axis and some measure of costs and benefits on the vertical axis.

The costs curve shows that, for limited engagement, the costs are small and thus the currency consumers have available is more than likely to be enough. But, as more engagement is required, costs become greater, and because time and attention are scarce and resources limited, these costs pile up at an increasing rate.

Benefits work differently. The benefits to engagement are realised almost as soon as consumers engage. The benefits curve shown in Figure 1 is a slight oversimplification. Many times, a little more engagement is better, so actually the benefits curve might increase at first before decreasing. But even taking this into account, benefits tail off quickly.

The trade-off of costs and benefits often leads to a mismatch, particularly when marketers are thinking only in terms of benefits. For consumers, maximum benefits and thus maximum value are realised at the very outset, a point labelled in Figure 1 as A. Consumers get the most when they can get all of the benefits with few if any of the costs. An ad that provides full entertainment or emotional value with as little time and attention as possible represents optimal engagement for consumers.

There is a crossover point when the costs of engagement exceed the benefits, shown in Figure 1 at point B. This is when net value goes negative. More engagement yields more benefits, but the costs are more, too, and very quickly there is no more net value to more marketing engagement.

Within this framework, the efforts by marketers to boost the benefits of engagement can be better understood, as shown in Figure 2.

When marketers focus on benefits, they are trying to shift the benefits curve. Suppose a marketer is trying to extend benefits across more engagement. One such hypothetical effort is represented by the curve labelled C in Figure 2. Accomplishing this requires a very big shift in the benefits curve, which looks really hard to do even in the abstract. More importantly, as the curve shifts to sustain benefits, the costs keep rising, so even with extended benefits, the net value still shrinks.

Harder still – if not impossible – is increasing benefits as costs increase, which is depicted by the line labelled D in Figure 2. Such marketing requires that the benefits go up with more engagement, not tail off, and that is the rarest of species.

The bottom line, as marketers know from experience, is that it is hard to boost the benefits of marketing enough to keep people from eventually blocking, skipping, avoiding, ignoring and clicking away. What marketers need to do is align their view of this interplay of benefits and costs with the ways in which consumers view it, which is to put more focus and priority on the costs curve.

> Marketers must ask how to make engagement less costly – in other words, how to reduce the currency required

What consumers are doing is represented by the arrow labelled E in Figure 2. They are trying to take costs out, and in doing so move closer to the optimum value point of all the benefits with little or none of the costs. This is how marketers should approach it, too.

Marketers should take costs out rather than pile up more benefits. Marketers must ask how to make engagement less costly – in other words, how to reduce the currency required. Don't force consumers to spend more currency. Unfortunately, that's what most efforts to make marketing more entertaining or more informative or more emotionally appealing or more relevant end up doing.

Consumers are not resisting marketing. It may look like resistance that requires a harder push with more benefits. In reality, it's time- and attention-starved consumers trying to take the costs out.

Some marketing ideas have never gained much traction, like paying people to watch ads or securing private data in exchange for better-targeted ads. The benefits of cash or security for greater engagement don't change the benefits curve enough to offset the costs.

Similarly, the much-hyped industry-wide priority in the early 2000s around the concept of engagement was all about making marketing more entertaining and absorbing. It didn't pan out as hoped because spending more currency on engagement is the opposite of what consumers want.

The best objective is not how to increase engagement, but how to increase disengagement or, if you will, how to facilitate less time and attention not more – indeed, as little as possible. Consumers are using digital technologies to do exactly this.

PROGRAMMATIC CONSUMPTION

Demand is burgeoning for digital systems that streamline marketing engagement. Just as marketers are making greater use of algorithms to drive targeting and media placement, so too are consumers making greater use of algorithms to evaluate, recommend and automate shopping and buying. Programmatic marketing is now being matched by programmatic consumption.

The shift from screens to sensors as the primary form of interaction with technologies, or the pivot to passive, is the primary enabler of programmatic consumption. Data are collected through sensors, fed into algorithms, matched against personal profiles, and then translated into nudges, recommendations and even decisions. Such systems are programs for consumption. These programs deliver benefits but, mostly, they take out costs by reducing the time and attention needed to make the best decisions.

People are making increasing use of such programs in the form of smartphone apps that operate as personal algorithmic assistants to make decisions for them. Pretty soon, people will be using their smart appliances and other devices in this way too.

Contextual apps are one such program. They optimise in the moment based on the situations people are in. These apps save consumers time and attention, and it's this shift down the costs curve that makes the difference. Consumers could do all of these contextual assessments on their own with other software systems. They would just have to devote the time and attention required to input the data and interpret the results themselves. People would get the very same benefits, but those benefits would entail much higher costs. Benefits matter, of course. But reducing costs is more critical, and that is the power of programmatic consumption.

It's not just start-ups that are building out the Know-Demand Economy. At 20 years old, Amazon is an established company pushing the edge of this envelope as well. Amazon Dash was first introduced as a handheld, Wi-Fi-enabled microphone into which a person could speak to add items to his or her shopping list. That was followed quickly by Wi-Fi-enabled Dash Buttons, which a consumer could stick to the wall and press when a reorder was needed. But the endgame looks to be Dash Replenishment Services, in which a consumer's appliance automatically reorders when supplies are running low. This is very much a Know-Demand Economy solution. Consumers never have to order, yet are constantly supplied. Programs, not consumers, incur the costs of time and attention.

> The programmatic tools used by marketers will be matched by the programmatic systems employed by consumers. It will be an algorithm-to-algorithm marketplace

The Internet of Things goes hand in hand with the Know-Demand Economy and programmatic consumption. Most discussions of the Internet of Things focus on what it will offer marketers, thus begging the question of how consumers will find their way around a world in which every object is embedded with a bidirectional digital interface broadcasting information and interacting with others. The answer is personal digital assistants equipped with passive sensors that feed immersive, continuous, real-time data streams into algorithms that do all the work. Not only is the Know-Demand Economy higher-value engagement, it is the only way in which consumers will be able to navigate what lies just ahead.

AS THE KNOW-DEMAND ECONOMY TAKES HOLD

The marketplace is moving to a Know-Demand Economy in which predicting choices and anticipating demand will be the critical determinant of success, not responding to demand when it occurs. Speed of response – long a central priority – will give way to anticipating demand ahead of time. Indeed, nothing could be speedier than that. On-demand is the buzz of the moment, but know-demand is the future.

In a Know-Demand Economy of programmatic consumption, the consumer evaluative process goes away, or is at least significantly truncated. Algorithms take in all the information and assess it. Options are matched against a consumer's preference profile and the best option is selected or ordered. This means the end of consideration sets. Consumers won't head to the store with options to consider. Instead, algorithms will make a single choice. In the Know-Demand Economy, automation will replace consideration. The marketing objective of getting into a consumer's consideration set will give way to getting into a consumer's preference profile.

As consumers move to programmatic consumption, their connection with marketers will become even more disintermediated. The programmatic tools used by marketers will be matched by the programmatic systems employed by consumers. It will be an algorithm-to-algorithm marketplace, not a brand-to-consumer marketplace. Marketers are expert at writing ad copy for consumers, but a future is now at hand in which marketers will have to become experts at writing ad copy for algorithms, because that's how consumers will be managing their engagement in the marketplace.

Push marketing will soon be difficult, if not impossible, to execute. There will be fewer opportunities for marketers to have direct, unimpeded access to consumers. This will be very different, but it opens up a fresh arena for innovation. One thing algorithms cannot do is consume or use a product, so marketing during usage will replace marketing during purchasing as the moment in the consumer journey in which to build brands directly.

Finally, consumers should be rewarded for less engagement not more. At the very least, more focus should be given to efficiency – how to create the greatest impact with the least engagement, not how to build more and more engagement, as marketers have tried to do for too long. The Know-Demand Economy requires a different way of thinking about brand relationships, one that reflects the realities of the currency of engagement and the new challenges of programmatic consumption.

J Walker Smith is executive chairman of Kantar Futures
jwalker.smith@thefuturescompany.com
www.thefuturescompany.com

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