McKinsey & Company

Reimagining marketing

Marketing in the next normal

July 2020

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The future is now

Imperatives for marketing in the next normal

The human tragedy of COVID-19 has upended lives and livelihoods around the world. A generation-defining event, it has also upset the economic order and had a dramatic effect on consumer behavior, from how we work and communicate to how we shop and what we buy. For businesses, these changes are rewriting the rules for years to come and they represent a once-in-a lifetime opportunity for marketers to reset the gameboard. Those who act swiftly—to reengage with existing customers and win new ones—across the following five dimensions can accelerate their recovery and drive growth into the next normal.

1. **Purpose-led.** Consumers are increasingly drawn to companies that lead with authenticity, boldness, and purpose. This trend accelerated during the shutdown, when shoppers switched to brands and retailers that supported their employees or that repurposed their facilities to help slow the spread of the virus. We see purpose and branding fundamentals as an increasingly important element for driving future growth.

2. **Fast and agile.** Marketers are now being pressed to respond even faster, addressing the "what now" while simultaneously looking to the "what next." To increase the speed of campaign creation (think days or weeks), leading marketing organizations are combining analytics and agile ways of working and giving teams the freedom to do rapid testing and learning, often via virtual and remote work environments

3. **Digital-accelerated.** In a matter of weeks, we have vaulted forward years in consumer and business digital adoption. Online and mobile have become the channel of choice for many consumers as they spend more time at home and seek out contactless methods, a behavior shift that is likely to endure. The importance of digital channels for B2B companies has also grown significantly, with sales leaders rating digital channels as approximately twice as important as before the pandemic. Companies that act quickly to innovate with digital-led experiences and marketing interactions and that adapt to shifts in remote working will establish a strong advantage.

4. **Hyperlocal and personalized.** With more consumers engaging with digital channels, and increasingly sophisticated technology tools available for tracking them, marketers have more data and analytical horsepower at their disposal than ever before. These capabilities allow marketers to gain a deep understanding of customers at granular levels and build an antenna for quickly detecting leading indicator changes in market demand and shifts in customer needs and preferences. Leading marketers are using these insights to target customers with razor-sharp precision, personalizing not only how and when they talk to customers but how they deliver the right products and services.

5. **Self-funded.** Consistent and aggressive spend management is hardly the most glamorous component of marketing, but its impact can be game changing. Driving efficiency in performance media spending can free up as much as 20 percent of the budget and allow for the self-funding of "must-invest" strategies.

Although many marketing organizations are already making some of these changes, few have executed across all the necessary areas. Many are grappling with the practical reality of how to operationalize such shifts.

The challenges are nontrivial. We hope the articles that follow shed light on the pandemic’s implications for the marketing function and provide a perspective on how companies can drive the right set of actions to emerge stronger.

All the best,

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DECLINING CONSUMER SPEND

~40%

of consumers report reducing household spend

RECORD LOW RETAIL SALES

-16%

April was largest monthly drop in US retail sales

SHOCK TO LOYALTY

75%

of consumers have tried a new shopping behavior during crisis and over 70% expect to stick

NEW REALITIES IN MEDIA

60%

of advertisers report decreasing media spend

…Yet a once in a generation opportunity

E-COMMERCE SURGE

10 years

of e-commerce penetration growth in <3 months, with 15–30% lasting penetration

GRANULAR GRANULARITY

Millions

of real-time demand signals to drive hyperlocal actions

HEIGHTENED CONSUMER ATTENTION

87%

increase in media consumption

SELF-BANKED GROWTH

30%

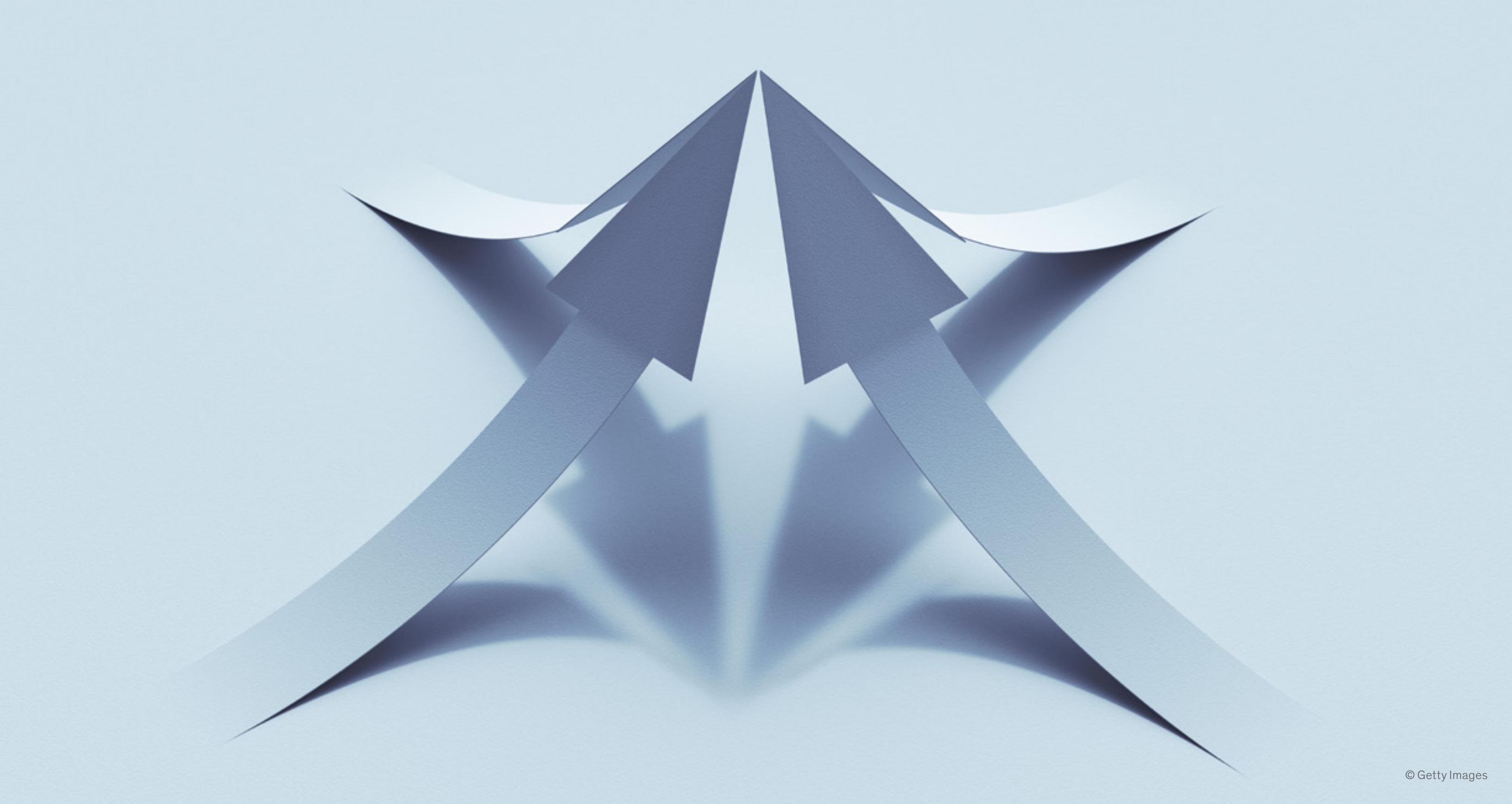
efficiency up for grabs to reinvest in recovery

Source: McKinsey & Company COVID-19 US Consumer Pulse Survey; McKinsey & Company Advertiser Pulse Survey; Bank of America; U.S. Department of Commerce; ShawSpring Research; Forrester; World Federation of Advertisers (WFA)

How marketing leaders can both manage the coronavirus crisis and plan for the future

In the economic recovery from the pandemic, marketing—the link between businesses and their customers—will play a pivotal role. Planning starts now.

by Julien Boudet, Jonathan Gordon, Brian Gregg, Jesko Perrey, and Kelsey Robinson



April 2020

Note: *This article is based on data from the McKinsey & Company COVID-19 Consumer Pulse surveys conducted in March 2020. For the latest data, click here.*

The COVID-19 crisis is unprecedented. The speed with which it has spread and its effects on families and daily life have led to a deep sense of fear, anxiety, and confusion. The human toll has devastated many of us and continues to drive home the reality that the coronavirus is a tragedy that is upending lives around the world.

Even as US companies try to get their arms around the human costs as the pandemic continues to spread, they are also struggling to understand the impact on their business and how to react. Marketers—many working remotely from home—are faced with an entirely new situation: How should we be talking to our customers? Where should we be spending marketing dollars and where shouldn't we? How should we be working with our teams and our colleagues across the business? How are we going to stay in business? And all this on top of how can we support our family, friends, communities and planet?

There is much uncertainty about the future. That said, we are likely in the midst of a generation-defining event that will influence how consumers behave for years to come. This means that marketers—as the advocates for the consumer in every business—have a critical role to play as companies shape their response. Marketers will need to be fast and pragmatic to manage the crisis, while also being strategic on how to weather the downturn.

Some facts and hypotheses are emerging that we share in this article.We hope these can help marketing leaders determine what actions they can take and how they can start to prepare for a post-COVID-19 world.

Consumer sentiment and behavior

Consumer behavior and sentiment have fundamentally changed in a number of key ways:

— *Adjusting to new realities.* US consumer optimism in the economy is declining as the effects of the coronavirus pandemic escalate (Exhibit 1). As of April 1, however, some 75 percent of US consumers believe their finances will be impacted for more than two months by the pandemic, up from 69 percent two weeks before week, and uncertainty about the economy is preventing them from spending, according to McKinsey's consumer-sentiment survey.

— *Spend patterns are unsurprising—but stark, nonetheless.* A short-term boost in spending has been unevenly distributed, with consumers rushing to get must-have-now items while virtually shutting off other categories. Grocery, household products, and home entertainment were the first categories to see consistent increases, while travel, out-of-home entertainment, food service, and even discretionary categories like apparel have cratered (Exhibit 2).

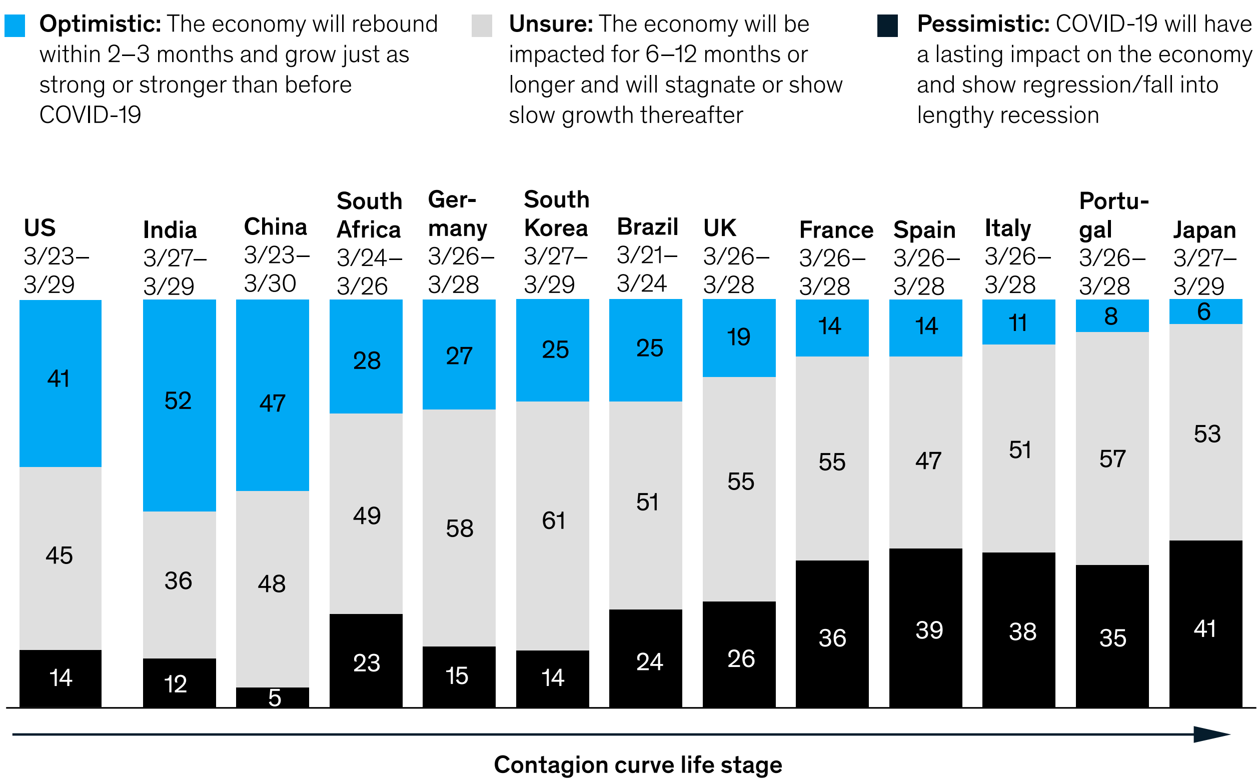
— *Shift to online shopping.* Online is becoming the channel of choice as consumers spend more time at home and there's reason to believe that this behavior shift will endure at some level. Looking at China, which has endured the effects of COVID-19 for longer than the US, consumers have indicated that the rapid changes in shopping habits are likely to stick (eg, more than 55 percent of Chinese consumers are likely to permanently buy more groceries online). Despite the significant shift to digital channels, however, the surge in buying online has not come close to offsetting losses offline, where about 80 percent of shopping traditionally happened.

— *New reality for media usage and advertising.* With more consumers at home, media consumption is changing, too. We are seeing growth in at-home media consumption, with live news and movies or shows topping the list. But the increase in time spent on media is not necessarily driving higher ROI for digital media spend; Google and Facebook are seeing changes, some negative, to their business already.

Exhibit 1

Consumer optimism varies by country but is typically higher at the start and end life stages of contagion curve.

Confidence in own country's economic recovery after COVID-19,[1] % of respondents by country



1 Q: How is your overall confidence level on economic conditions after the COVID-19 situation? Rated from 1 "very optimistic" to 6 "very pessimistic"
Source: McKinsey & Company COVID-19 Consumer Pulse, China n = 1,048 including Hubei province, South Korea n = 600, Japan n = 600, India n = 582, US n=1,119, Brazil n = 1,311, UK n = 1,000, Germany n = 1,002, France n = 1,003, Spain n = 1,003, Italy n = 1,005, Portugal n = 601; South Africa n = 535

What marketing leaders can do

Marketing as we know it has changed. With retail shut down, sports at a standstill, and upfronts effectively cancelled, many of the channels companies have traditionally relied on are out of commission. Clearly, shopping channels will reopen eventually. But marketers need to adjust to a very different environment in the short term.

This will require putting in place dedicated crisis response teams who are focused on the most important revenue-related activities. Operating in agile ways—and remotely—they will need to focus on short-term business health priorities (eg, cash flow, "run-the-business" revenue targets) but at the same time put the business in a position to address longer-term realities and opportunities. Given the high degree of uncertainty for the foreseeable future, the success of these teams will depend on how effectively they can test, learn, and adapt.

A company's playbook will vary depending on its demand situation and sector. Consumer categories with high-demand products, such as cleaning materials or shelf- stable food,

Exhibit 2

Decreased spending expectations continue across most categories.

Expected spend per category over the next 2 weeks compared to usual,[1] net intent[2]

Increase | Stay the same | Decrease | Net intent decline by >5 vs March 16/17

Groceries	+15	Entertainment at home	+6
Snacks	0	Books/magazines/newspaper	–19
Tobacco products	–14	Consumer electronics	–50
Take out/delivery	–13	Out of home entertainment	–72
Alcohol	–25	Petcare services	–49
Quick service restaurant	–45	Fitness & wellness	–57
Restaurant	–74	Personal care services	–63
Footwear	–58	Gasoline	–57
Apparel	–64	Vehicle purchases	–50
Jewelry	–68	Short-term home rentals	–61
Accessories	–64	Travel by car	–68
Non-food child products	–27	Cruises	–62
Household supplies	+2	Adventures & tours	–61
Personal care products	–15	International flights	–69
Skincare & makeup	-44	Hotel/resort stays	–79
Furnishing & appliances	-59	Domestic flights	–76

[1] 1Q: Over the next 2 weeks, do you expect that you will spend more, about the same, or less money on these categories than usual?
[2] Net intent is calculated by subtracting the % of respondents stating they expect to decrease time spent from the % of respondents stating to increase time spent.
Source: McKinsey & Company COVID-19 US Consumer Pulse 3/23–3/29/2020 n = 1,119 matched and weighted to US general population 18+ years based on American Community Survey 2016 of the US Census Bureau

will need to act differently than big-ticket-item categories, where demand has dampened for now. Broadly, we believe marketing leaders will need to act across three stages:

1. Resolve and resilience: manage the now
The playbook for reacting to the current crisis is anchored on four actions:

— *Support employees, customers, suppliers.* Given the scale of the humanitarian crisis we are facing, the number-one priority should be immediately changing ways of working to focus on employee wellness and health.

— *Empathize and understand customers.* Marketers need to get an immediate handle on customer motivations and behavior. While many companies believe they have a well-developed sense of their customers, circumstances are now so radically different that marketers should be questioning everything they previously believed to be true. It is crucial that this insight be understood not just by marketers but by the CEO, C-suite, board, and entire company. It will help them immediately recalibrate their messaging to address their customers' new reality and engage with them more thoughtfully and authentically.

— *Build up cash reserves.* While the full implications of the crisis are not yet clear, marketers should act decisively to manage costs and increase productivity. Marketers need to do an immediate revaluation of media performance to identify inefficiencies and optimize programs by channel, improve efficiency in how work is done, eliminate agency overlap, and get a clear picture of where the money is actually going.

— *Drive revenue response.* Consumer are spending less, making it critical for marketers to narrow their focus to a number of use cases and segments with the best demand-generation profiles. With clarity on targets, marketers can commit to a number do-now actions, including:

- *Adjust mix to where the consumer is now.* Marketers will need to adopt an investor mindset[1] to aggressively adjust marketing spend and continually track performance in order to reallocate it quickly. With stores shut or shutting, a shift to online is inevitable, and companies will need to be both committed and creative about how to use digital channels. For example, on February 13, the mayor of Sanya, a coastal town in southern China's Hainan province, appeared on Taobao Live to promote his city's mangoes. The video drew more than 25,000 views—and 30,000 kilograms of fruit sold out in less than two minutes.

  Companies with stores that are open should work to enable customers—especially their most loyal—to shift to ecommerce delivery or BOPUS (buy online, pick up in store). Messaging that communicates how the business is trying to make shopping safer and more convenient. Incentives might include guided tutorials for those who aren't used to using such channels and temporary rewards for those who are using them even more.

- *Refocus your brand to connect with and be relevant to consumers.* Consumers are likely to remember brands whose behavior is particularly responsive to this crisis. Marketers should tap into the elements of their brands that are relevant to the current situation and can make a difference with their customer base and the world beyond. Holiday ads or overly optimistic messages, for example, may well come across as tone deaf right now. Lululemon, on the other hand, sent an email message saying, "The community carries on," and ways to tune in for at-home-yoga videos on their mobile app, through their Instagram ambassadors, and on Facebook..

  Some companies have been truly inspiring—and inspired—in their response to the coronavirus crisis. Among many examples, Unilever has pledged more than $100 million in cleaning products for charities and almost $550 million in cash- flow relief for suppliers. Molson Coors has pledged $1 million to the Bartender Emergency Assistance Program. By stepping forward to help society in general, they have not only done the right thing but have also raised awareness about their brands and created beneficial connections with current and potential customers.

- *Prioritize the most relevant product categories.* Marketers need to emphasize those that best fit online channels and are relevant to today's situation. That means taking resources from less relevant categories and quickly moving them to those where there is active or potential demand.

- *Go all-in on agile.* Agile marketing has established two-week sprints as the standard working speed, but that may be too slow for the world as it is now. Successful marketers, in these times, will be those who adjust their operations to deliver on-message campaigns in a matter of days, if not hours. Moreover, because so much of today's situation is unprecedented, rapid testing needs to be the norm so that companies can quickly learn what works and adjust in almost real time.

[1] Kabir Ahuja, Biljana Cvetanovski, Jesko Perrey, and Liz Hilton Segel, "Building an engine for growth that funds itself," May 2018, McKinsey.com.

2. Return: Plan for the recovery

In a crisis, it's natural to focus only on near-term business results and adopt a pure survival strategy. But that could mean winning the battle but losing the war. We don't know what the recovery will look like or when it will come, but there will be a bottom to this crisis, and consumer demand will start to climb back up. Companies that thrived after past recessions,[2] we have learned, were those that kept communicating with consumers through the downturn, took a more active posture, focused on through-cycle interventions, and acted with urgency. Marketing leaders should consider how to re-architect their current marketing models, approaches, and tools to get ready for the turnaround.

— *Rethinking strategies and media plans.* Since consumer behaviors and attitudes will continue to change, marketing strategies and media plans should follow suit. That means essentially starting from scratch on strategies and plans because marketers are facing such a divergent market dynamic that previous assumptions and accepted truths may no longer apply. That discipline is needed so marketing leaders can rethink their companies' value proposition to consumers, reassess which products and services can best deliver on that value proposition, and re-rchitect how they're delivered to each geography.

  This start-from-scratch mentality should carry over to developing media mixes to maximize the impact of marketing dollars. To help drive those decisions, marketers will need to develop new demand models since most current marketing models are based on historical data—promotions, assortment, growth maps, MROI, etc.—that will be less relevant in tomorrow's marketplace.

— *Winning the battle for brand awareness.* Our analysis of consumer decision-journey behaviors showed that 87 percent of consumers shopped around:[3] they were willing to consider other brands. We believe that behavior could be even more drastic given the scale and nature of this disruption. China again offers an indicator. Our latest McKinsey survey shows that about 33 percent of Chinese consumers have switched brands based on convenience and promotions—and 20 percent of that group intend to stick with the new brands they've tried. Marketers should begin revisiting what their brand means to customers. Agile marketing practices—typically focused on performance marketing—will need to be adopted at the brand-building level, with communications managed rapidly in test, learn, and refine cycles of continuous improvement.

— *Redefining loyalty.* The program benefits, promotions, and other incentives that drove loyalty last year are unlikely to apply going forward. It will be important to get the input of your loyal consumers to understand what they expect to see from brands and companies, since what they value may have changed. Positive brand impressions driven by how companies handle their customers and themselves throughout the crisis. Creative acts of generosity to help the larger society and how they have treated their employees, as well as actions taken to support their customers, could have significant impact on loyalty given the severity of the pandemic. Continuing to invest in personalization techniques and technologies can help to drive more relevant interactions—offers, benefits, promotions—that can build loyalty with new customers and fortify it with existing ones.

3. Reimagination: Get ahead of the 'next normal'

When we finally reemerge from the COVID-19 crisis, we are likely to find ourselves in a "next normal" world. It is too early to tell what that will look like—what behaviors will stick, what attitudes will have shifted permanently, and what technologies will have firmly taken root

[2] Martin Hirt, Kevin Laczkowski, and Mihir Mysore, "Bubbles pop, downturns stop," *McKinsey Quarterly*, May 2019, McKinsey.com.
[3] David Court, Dave Elzinga, Bo Finnerman, and Jesko Perrey, "The new battleground for marketing-led growth," *McKinsey Quarterly*, February 2017, McKinsey.com.

in people's lives. For example: Will household inventory levels stay elevated? Will video conferencing permanently replace some interactions previously conducted in-person? Will digital ordering displace shopping previously conducted in-store? Beyond more obvious effects such as these, we are quite likely to see some changes in consumer psyche, and these are the things that will truly define the next normal. How will attitudes change regarding healthcare, or carbon usage, or investments, or institutions, for example? Companies shouldn't wait for a completely clear picture of the future to emerge—and this is an area where marketing leaders can help the CEO and the business as a whole to start reimagining the future.

— *Develop deeper insight and seek foresight.* Going forward, it will be crucial for marketers to take a much broader view of their consumers. This means gaining insights from beyond their industries and beyond their shores. New attitudes and behaviors might first appear in China or Iran. New buying behaviors and habits might solidify in categories that have undergone the most significant change during the crisis. Beyond trend spotting, marketers can find foresight with well-designed research. Techniques like market structure or consumer decision-journey mapping can uncover newly emerging unmet needs, and when these are used in agile sprints, marketers can get insights in two to three weeks.

— *Start ideating now.* It's possible that entirely new businesses and business models will emerge from the crisis. Virtual-based revenue streams such as app-based services may have more promise, and new ecosystems and marketplaces are likely to appear. With uncertainty likely to be the norm for the foreseeable future, it will be important to develop a portfolio approach to launching initiatives, tracking, and reallocating resources based on how each performs. Marketers should act as a catalyst for action by bringing their insights and ideas to the rest of the organization to begin this discussion. This doesn't mean accepting long cycle times, however. One retail business was able to launch an entirely new e-commerce business in just 13 weeks. To support these new businesses and models, companies will need to consider which capabilities to develop, from AI to machine learning, as well as using cash reserves to acquire companies for talent and capabilities to accelerate their moves into new markets.

Traditionally, marketing has been the business function that best understands the customer. How well marketing leaders can continue to be relevant as their customers change will play a large role in determining how businesses will weather the COVID-19 crisis and meet the needs of tomorrow's consumers.

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An essential marketing tool in a downturn: Spend management

Marketing spend management can play a critical role in weathering a downturn and catalyzing future growth. Here are four essentials for doing it well.

by Cody Butt, Hussein Hakim, Jeff Jacobs, and Rachael Schaffner

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Spend management—the rigorous tracking and active management of the way marketing dollars are spent—is hardly the most glamorous component of marketing. But its impact can be game changing.

That fact is particularly important as companies react to the downturn ushered in by the COVID-19 pandemic. As the primary means of consumer engagement and driving business value, marketing is front and center for how companies need to respond to the downturn, especially in terms of building up cash reserves and driving revenue response. A crucial tool for that is better management of marketing spend. When done well, spend management can free up as much as 20 percent of a marketing budget (even more within specific areas) and serve both as a foundation to weather the storm and a catalyst for future growth. Effective spend management enables agile decision making within days, allowing marketers to rapidly redeploy funds where they matter most.

But spend management means far more than trying to squeeze an additional five percent out of agency fees. The best approach to spend management also offers the CMO flexibility to innovate and deliver, but it requires a fundamental rethinking of how a marketing organization works.

Based on work with more than one hundred companies across different industries, we've found that marketing organizations that get the most value from spend management do four things well. Even more important, their big leaps in efficiency came from embracing the full suite of changes.

These are the four pillars of marketing spend management:

1. Think through which services you really need

Double down on what works. Marketers need a clear picture of the impact of their spending on the bottom line. This is more important now than ever, when consumers' daily lives are fundamentally changing as new digital habits emerge and take hold. To figure out where spend is having the greatest impact, marketers have to commit to a granular understanding of where their target consumers are and whether the money they're spending is really reaching them. Between 36 and 42 percent of digital ads, for example, traditionally haven't met basic "viewability standards," either because they appear "below the fold" or aren't visible long enough.[1] And this is hardly just a digital problem. One large retailer, for instance, found that roughly 40 percent of the customers receiving its circulars exhibited little behavior change as a result of the distribution. In fact, for this audience, the cost of distribution was greater than the incremental sales the circulars produced. The company used its granular data to drill down and identify both responsive and nonresponsive customers. By eliminating distribution to those it didn't want to reach, the company freed up millions in cash to reinvest in more efficient channels (such as digital targeting) and to double down on customers most responsive to its circulars.

Create a flexible and iterative statement of work (SOW). Although most marketers sit down annually with their agencies to review the SOW, these documents are often a poor representation of the work that actually gets done. Throughout the year, as new business priorities emerge, additional work is added to the SOW. At the same time, work that no longer needs to be done is completed anyway because it was part of the original SOW, creating unnecessary spending. These variances are likely to be even more pronounced during the current crisis. To address this issue, we recommend developing SOW blueprints on a rolling basis instead of annually, crafting the next-quarter SOW with a high degree of clarity and the SOW for the quarter after that with semi-clarity. This allows the scope to shift according to changing needs, but in a way that's more organized, less wasteful, and better aligned with broader marketing objectives.

Tailor your agency's account team. Although an agency's senior account personnel are invaluable for thought leadership, many CMOs say they rarely interact with these executives, who are often still

[1] "H1 2018 media quality report," *Integral Ad Science*, February 2019, intergralads.com.

billed to a client account. Typically, it is junior personnel who drive the day-to-day work on the account. The key is to engage the senior account personnel at the right moments. To address this imbalance, marketing organizations should adjust their staffing to match the right people with the right work, flexing senior staff up or down as needed. This should be evaluated regularly as part of the quarterly SOW process. For example, agency executives on a large pharmaceutical account were instrumental in setting the strategy for the launch campaign for a new drug. Then, when the campaign entered its second year and became increasingly tactical, the proportion of junior team members increased while that of senior account personnel ramped down. This helped manage costs and created an agency team better suited to the work at hand.

2. Change the way the work is done

Companies that can quickly identify the inefficiencies in the way they work will likely come out of this storm with an improved operating model. Some companies implementing work from home as a means of stemming the COVID-19 outbreak, for example, are identifying inefficiencies that were hidden through large in-person meetings even as they navigate the challenges of working together when people can't be in the same location.

Embrace faster decision making. People who work at agencies have all heard the stories: the commercial that's finally gotten everyone's approval after months of work, only to face eleventh-hour feedback from the CMO; or the online campaign that gets ping-ponged back and forth as everyone at the agency tries to satisfy the competing visions of different marketing leaders. Not only does this "difficult client" behavior cost more money, it also slows down creativity and marketing output at a time when everything needs to speed up.

One important way to speed up decision making is to move from a linear hierarchy to a decentralized, agile model in which cross-functional teams are given highly focused tasks and clear key performance indicators (KPIs), such as click-throughs or open rates. Instead of waiting for approvals and input, these agile squads, which should include agency partners, have the ability to make their own decisions. An agile model is ideal for marketing that will benefit from multiple iterations of testing and learning, such as display ads and email promotions. Adopting agile can be bumpy at first—companies have to let go of top-down decision making—but it's important to stick with it, since it can dramatically shorten time to market.

Create an anti-redundancy culture. There's not much glory in rerunning last year's successful back-to-school promotion or repurposing photos from shoots done three years ago. Clearly the current crisis requires companies to rethink how—and where—they connect with consumers. But that shouldn't mean automatically discounting anything that was done in the past.

To help manage the evaluation and reuse of content pieces, marketing organizations need to have a robust asset-management platform for managing and reusing photos, videos, and other content. Just as important, they need a culture that rewards people, both internally and externally, who use it. To promote this anti-redundancy culture, marketing leaders should champion responsible spending decisions and highlight them as a valuable part of an ROI mindset.

Work with finance to reform the annual budget process. Instead of letting finance dictate spending based on the previous year, CMOs need to effectively articulate their strategy and objectives for the coming year and let that guide the budgeting process—especially given how much uncertainty there will be for the foreseeable future. Budgets set purely on previous-year spending create incentives for inefficient behaviors, such as instructions for agencies to spend millions of dollars so that funds won't be "taken away" in next year's budget. Resetting the way money is allocated and moving toward a fit-to-purpose budget prevents wasteful spending and empowers CMOs to set their own agendas.

Continuously demonstrate the value of marketing. For CMOs to have these kinds of empowering discussions with finance, it helps if they are what we call "unifiers." These CMOs forge collaborative bonds across the C-suite and have the trust and support of other leaders. This is, in part, because they are obsessed with "impact"—tracking and communicating the value of every marketing investment—and because they make sure everyone has a crystal-clear view of the value marketing dollars generate. Instead of using marketing-specific benchmarks like reach and frequency, they speak in a language other members of the C-suite can understand, using common metrics such as ROI, customer lifetime value (CLV), and net promoter score (NPS), to name a few. In doing so, they help win support for marketing's agenda and produce better decisions about where marketing dollars are spent.

3. Optimize where the work is done
In 2018, 78 percent of companies reported having an in-house agency performing functions that normally would be outsourced, up from 42 percent in 2008.[2] Marketers are clearly re-evaluating how their capabilities are distributed across their organization and within their large ecosystem of agency partners. Still, many marketers remain unclear on what they should in-house and what should remain with the agencies. Trying to build up flexibility while thinking through the ethical questions around contractual obligations needs to be part of the decision-making process. In our view, the primary goal of insourcing is the strengthening of core marketing muscles.

Bring business-critical activities in house. Although there is no single model dictating which functions a marketing organization should handle itself, "in-housing" usually makes the most sense for activities that require a deep knowledge of the business, greatly accelerate the speed to market, or allow the business to leverage a specific capability for a competitive advantage. This could mean high-level work, such as the small marketing strategy team that helped the CMO of an apparel brand engineer a brand shift toward a more premium image. In-housing could also be used for high-volume, fast-turn activities, such as the programmatic digital-media buying that a telecom company did cheaper, better, and faster itself. Many companies have also chosen to do their own centralized development and maintenance of the tech stack in order to have greater control over their customer data and a more direct connection with customers.

Create the right ecosystem of agencies. Most CMOs we speak to don't believe they are getting best-in-class capabilities from their agencies, whether it's in media buying, segmentation, analytics, or marketing technology. These poor performance assessments can often be traced back to the pitch process. RFPs that are too vague or are conceived in a vacuum can result in a misalignment of client expectations and agency capabilities. The solution is to create a detailed view of the overall agency ecosystem and establish clarity on how each agency fits together in a cohesive model. Detailing this overall vision allows marketers to select the right agency to fill a specific role and integrate it seamlessly into the broader agency ecosystem. High-quality output does not require exorbitant cost, and filling these roles in a fit-to-purpose manner allows marketers to manage their spending without sacrificing the quality of their marketing.

Defining the overall ecosystem vision not only facilitates a high level of agency performance but also cuts down on waste. Especially at larger companies, it's not uncommon to find multiple contracts existing with the same agency, or for multiple agencies to all be doing the same work. One leading telecommunications company, for instance, had 13 separate agencies all working on email marketing across only three business units. Consolidating these activities at one agency not only produced savings, but also led to a more

[2] "The continued rise of the in-house agency," Association of National Advertisers, October 2018, ana.net.

cohesive execution, with fewer handoffs and a more consistent quality of work.

Lastly, while agency and partner ecosystems have consistently included remote partnerships, COVID-19's impact on work from home is forcing a new normal on distance collaboration. As marketers, even agile teams, get more used to working remotely, the addition of offshore partners can increase the efficiency of capabilities like digital production and photography. As personalization continues to significantly impact advertising, there will likely be a need for on-demand low-cost production.

Establish a clear client-agency relationship model. This may sound like an obvious point, but it's crucial to establish a model that defines explicit terms of the client-agency relationship, such as who will make the decisions at each step of the process and how the agency and client will interact. There should be a process or system that allows anyone at an agency or within the marketing organization to step into the account to see who is doing what, what progress has been made, and what outcome is expected. Designating a lead agency to serve as the coordinating body across the ecosystem and an internal leader to steer the integration efforts not only creates accountability; it also eliminates infighting among agencies and wards off overlap.

4. Pay the right price

Know exactly what you're spending. There's a good chance you have more agencies working for you than you think. The typical marketing organization maintains roughly 100 active partner contracts at any given time, including many of which marketing leaders aren't even aware. In our experience, this sheer volume makes it difficult for organizations to track their spending; most have either incomplete or inaccurate data. But making smart decisions about spending requires transparency. To get better visibility, companies need both a robust spend taxonomy (often 60 different classifications), a tech stack capable of tracking it, and disciplined operating models that ensure the accuracy and completeness of the data. While many marketing organizations choose to outsource this job to agencies, keeping spending data in-house is a better way to maintain clarity on everything you're spending.

Arm yourself with comparable price data. You wouldn't buy a house without knowing the price of other properties in the neighborhood. Similarly, you shouldn't negotiate contracts with marketing partners unless you understand what other companies are paying for similar services. Such due diligence can yield millions of dollars for reinvestment in high-priority initiatives. This process can happen in a few ways. For media buying, it can mean hiring "mark-to-market" auditors or giving the task to a marketing-ops or procurement manager who can help hold agencies accountable for their rates. For agency fees, understanding market rates for similar services and gaining insights on cost drivers via "should cost" analyses can provide transparency about fees and leverage for obtaining better rates. One pharmaceutical company, for instance, worked with a benchmarking firm and found that their agency fees were 20 percent too high. They negotiated to cut this overage in half. Such due diligence not only frees additional funds, it signals to agencies that the client will be carefully managing costs on a detailed level.

Give agencies a reason to go the extra mile. Without a link between performance and compensation, there is little incentive for agencies to provide outstanding service. At one financial-services company, for example, the primary creative agency was consistently earning margins of 18 to 20 percent, even though the company rated their performance as only "two out of five stars" in their year-end assessment. We believe the way to address this discrepancy is through a reevaluation of agency compensation models. Where it makes sense, this involves basing as much as 20 to 50 percent of total fees on performance and offering an extra payment of 10 to 25 percent above the base rate for exceptional work. This provides incentives for the agency to listen to the client's needs and perform above expectations. It can also facilitate robust conversations about both internal and external marketing performance, helping ensure that everyone is hyperfocused on the bottom line and not just going through the motions. In the case of the financial-services company, they moved their agency to a tiered pay-for-performance structure tied in part to a core business objective: opening new accounts. When the company, with the support of its agency partner, delivered on its new-account goals, the agency received an extra margin of 18 percent.

Solicit regular and robust pitches. Despite the effort required, agency pitches consistently yield value from both price and capability perspectives. Launching an RFP for top agencies every three to five years keeps agency partners honest about rates and gives marketing organizations a chance to learn about cutting-edge capabilities that will help them evolve with the market. It gives agencies and clients a chance to develop a relationship while keeping their roster current. Importantly, this pitch process is more about building capability and selecting the right agency partner than it is about cost. In many cases, even when marketing organizations choose to keep their existing agency, challenging it (and being willing to let it go) pushes the agency to sharpen its offerings and keep up with changing needs. Although switching comes with inevitable onboarding costs, it is warranted when more attractive fees and access to better capabilities outweigh the costs. Choices about agency partners are often the most important decisions a marketer will make. Getting them right and ensuring they continue to be right is critical to the success of any marketing organization.

Most of these levers for becoming a lean marketer are not complex or new, yet they are often sidelined amid the myriad complex challenges marketers now face. Taken together and in conjunction with a renewed focus on rigor and transparency, they represent a powerful approach to enabling marketing organizations to achieve their broader marketing vision. We believe that CMOs and other marketing leaders who can implement these lean marketing actions can play a leading role in ensuring their businesses successfully navigate the downturn and position them to succeed when customer demand returns.

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Performance branding and how it is reinventing marketing ROI

Data and technology can help clarify customer behavior at the earliest stages of the decision journey. Here's how.

by Thomas Bauer, Julien Boudet, Jeff Jacobs, and Kelsey Robinson

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A growing share of the marketing budget is managed according to the principles of targeted-performance marketing: personalized messages, direct impact measurement at the level of individual users, near-time optimization, and partial automation. This is especially true for digital marketing activities that drive conversion and purchase.

But what about the media spend focused on the earlier stages of the consumer's decision journey, such as brand awareness, including traditional media or "mid- and upper-funnel" portions of digital marketing? While these investments often account for more than 50 percent of the marketing budget, they are managed with far less rigor than online spending. This leads to an unclear understanding of performance and a tendency to rely on accepted wisdom. Or, worse, mid- and upper-funnel spend in digital are held to the same performance metrics as the lower-funnel performance, often leading to a false or misleading understanding of the impact of spending. As a result, marketers often rely on their media agency to tell them what to do.

Data-driven performance marketing, however, can now be applied much more effectively to branding and demand-generation activities. With a clearer understanding of consumer preferences and behavior at the early stages of their buying journey, companies report marketing efficiency gains of up to 30 percent and incremental top-line growth of up to 10 percent without increasing the marketing budget. On average, the impact is significantly higher than that of established marketing ROI (MROI) methods for branding activities.

This precision in branding is particularly crucial now as companies manage the effects of COVID-19 on the early stages of the consumer's decision journey. While much is still unknown, we believe that data-driven performance marketing will give marketers an edge when it comes to reaching their target groups efficiently during and after the pandemic. In a consumer survey conducted in the US in April 2020, respondents said they intend to watch more live news (net intent +19 percent) and read more news online (+14 percent) to stay up to date. At the same time, almost 20 percent of consumers have switched their "go-to" brands due to COVID-19. As these habits evolve, granular data analysis and disciplined marketing-performance management will be essential for brands to stay in touch with their customers and drive MROI.

Existing MROI approaches have inherent limitations

Marketers spend $560 billion annually on global advertising.[1] However, standard cross-channel MROI approaches, such as marketing-mix modeling (MMM) and multitouch attribution modeling (MTA), to track the effectiveness of that spend are often unsatisfactory due to the following:

- Existing models are overly *focused on late-funnel stages.*
- Because they depend on historical data, existing models are *focused on the past.*
- Existing data sets are *not sufficiently granular* (except for digital marketing).
- Existing approaches *struggle to account for the impact of message and creation.*
- There is a *gap between MROI measurement and marketing execution.*
- Most existing approaches *do not support real-time optimization.*

CFOs are especially skeptical regarding the output of existing approaches. In a recent McKinsey survey, 45 percent of CFOs said the reason marketing

[1] A. Guttmann, "Global advertising spending 2010–2019," January 8, 2020, statistica.com.

proposals had been declined or not fully funded in the past was that they didn't demonstrate a clear line to value, and 40 percent didn't think marketing investments should be protected during a downturn.[2]

To overcome the limitations of standalone models and win over the skeptics in the C-suite, marketers often combine multiple tools, such as MMM for budget sizing, MTA for digital marketing, A/B testing for in-channel optimization, and surveys for brand performance. While such efforts can help increase the validity of the overall outcome, the integration is usually a manual process, and continued efforts are necessary to maintain different approaches in parallel, manage the interfaces, ensure quality control, and resolve potentially conflicting recommendations.

Worse yet, many marketers don't have full confidence in the integrated data and the insights derived from them. It remains difficult to derive clear, actionable recommendations for in-campaign steering across touchpoints and funnel stages. "Increasingly, it feels like we're trying to solve tomorrow's problems with yesterday's tools," a veteran marketer said recently in summing up the situation.

Moving to 'performance branding'

The massive improvements in data-tracking technologies have made what we call "performance branding" a discipline that is as rigorous and successful as more mainstream performance-marketing practices.

As the ability to track shopper preferences improves, however, companies first need to establish and follow strict consumer-consent management approaches and tools to make sure the use of that data matches consumer expectations and is fully compliant with all relevant laws, rules, and regulations.[3] With these rules, guidelines, and governance procedures in place, companies can use increasingly sophisticated data techniques to understand shoppers' preferences across channels and devices.

They can now apply the principles of performance marketing to the early stages of the consumer decision journey and to traditional media. B2C marketers, in fact, have said that data-driven marketing focusing on the individual is their number one priority.[4] According to a recent forecast, investments in such solutions will triple from $900 million in 2018 to $2.6 billion in 2022.[5] Examples of concrete advances include the following:

— *Media consumption.* Increasingly, the impact of traditional advertising can be measured and optimized at the individual or household level. For example, many smart TVs have a unique IP address and are equipped with automatic content-recognition (ACR) technology that lets them create a record of which ads have been viewed.

— *"Identity graphs."* An identity graph is a collection of user-level data combined with identifiers such as digital cookies, physical addresses, email accounts, and mobile phone numbers. This type of database enables advertisers to better understand consumer preferences and habits along their entire decision journey and across channels and devices.

— *Individual-level transaction data.* In their efforts to understand and improve the impact of joint campaigns and promotions and also to monetize their data assets, retailers

[2] Julian Boudet, Biljana Cvetanovski, Brian Gregg, Janson Heller, and Jesko Perrey, "Marketing's moment is now: The C-suite partnership to deliver on growth," July 2019, McKinsey.com.
[3] Data-privacy laws and regulations vary by geography, industry, and context, and continue to evolve rapidly. Companies should maintain an accurate and up-to-date understanding of this landscape to guide their operations. In our experience, proper implementation of performance-branding practices is consistent with all data-privacy laws and regulations.
[4] Adobe and Econsultancy, *2019 digital trends*, February 2019, adobe.com.
[5] MarTech Today, *Enterprise identity resolution platforms: A marketer's guide*, March 11, 2019, martechtoday.com.

increasingly provide access to individual-level transaction data to manufacturers and advertisers. By combining their own data about advertising exposure with these records, advertisers can enrich their data sets to derive more reliable cause-and-effect relations.

— *Personalization of consumer surveys and panel data.* In the past, surveys generated insights about the average customer. Thanks to agile insights applications, questionnaires can now be customized, and individual responses can be matched with an existing individual-level database.

— *Technological advances.* The increasing capacity for data storage, faster IT infrastructure, and partial automations is allowing market researchers and data scientists to handle much larger sample sizes. Sophisticated algorithms can help companies understand individual customer behavior in real time.

As a result of these developments, a larger part of the marketing budget can now be managed like a true investment rather than as a sunk cost. Benefits include the ability to compare spend impact across media, analyze brand impact across a consumer's entire decision journey (including "upstream" exposures that may have driven awareness but didn't immediately drive a purchase), allocate in-campaign resources more effectively, and tailor content. We have also found that having this kind of unified view of the customer and clear view of the return on marketing spend provides an important bridge between the CMO and CFO. This data-driven perspective on marketing performance allows both to develop more thoughtful and aligned strategies for marketing spend.

A telco player, for example, used a data-driven performance-branding approach to determine which brand interactions contributed to an individual user's choices, from TV-ad exposure and website searches to call-center contacts, and from acquisition to contract renewal. By applying this approach to its entire customer base, the company was able to increase brand consideration by 20 percent and marketing-driven gross adds by 15 percent.

In another case, a consumer-goods company used MROI measurement to determine the optimal creative rotation across channels. Based on the output of the new MROI model, the creative mix across selected channels was optimized, resulting in a 14 percent increase in advertising impact on sales.

One other often underappreciated benefit of performance branding and demand generation is that they help companies overcome the silo mentality of the past. Until recently, different parts of the marketing organization used different data and tools to make their cases. While digital marketers relied on attribution models to demonstrate the record returns generated by investments in search-engine marketing, brand managers cited marketing-mix models to make the case for a bigger TV budget. Performance branding, in contrast, serves as a single source of truth, and it helps companies create synergies between different elements of the marketing mix, such as online and offline, or between investments in brand perception and sales stimulation. "The new model has put an end to the bickering. For the first time, people are actually looking at the same data basis to figure out what is best for our brand, and we all get to go home earlier. That alone was worth the effort," says the CMO for a large retail bank.

Core elements for getting performance branding right

Getting the full benefits of performance branding requires a fundamental shift in marketing practices toward greater precision and agility. Key ingredients of this shift include the following:

— *Good data and a single source of truth that everyone agrees on.* Strong data starts with building out a customer-data platform (CDP) that incorporates data from internal sources, external partners, and third parties in a compliant fashion and at the level of individual customers and provides links to execution platforms. The CDP needs to be developed and managed by a trusted team that can oversee the integrity of the data as a single source of truth for the business. As important as developing the insight is making it available through dashboards that CFOs and P&L leaders can easily access, a crucial capability to help stakeholders develop confidence in marketing's ability to drive growth

— *Agile operations to move quickly and learn.* These allow teams to both make quick tactical decisions and incorporate learnings to continuously improve offers. Marketers need to pursue a rigorous test-and-learn regime to ensure that new insights based on changes in technologies and consumer behavior are fed into performance-branding programs.

— *Close collaboration with well-vetted agencies* on key elements of performance branding, from detailed media planning to the ability to execute more changes at a much higher frequency.

When first introduced, performance branding is often met with skepticism and resistance, by both marketers and agencies. But when the value of this new tech-enabled capability is clearly demonstrated, we find that companies quickly move to adopt it.

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Modern marketing: What it is, what it isn't, and how to do it

To drive growth in the digital age, marketing needs to modernize a specific set of capabilities and mindsets.

by Sarah Armstrong, Dianne Esber, Jason Heller, and Björn Timelin

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What does "modern marketing" mean to you? We can all probably think of a clever digital campaign, an innovative app, or some inspired creative work shared across multiple channels.

While these examples contain some of the hallmarks of modern marketing, in our view it is much bigger than that. Modern marketing is the ability to harness the full capabilities of the business to provide the best experience for the customer and thereby drive growth. In a recent McKinsey survey, 83 percent of global CEOs said they look to marketing to be a major driver for most or all of a company's growth agenda.[1]

Delivering on this promise requires a whole new way of operating. Marketing departments need to be rewired for speed, collaboration, and customer focus. It's less about changing *what* marketing does and more about transforming *how* the work is done. Based on successful cases we've seen, we estimate that making this change can unlock 5 to 15 percent of additional growth and trim 10 to 30 percent of marketing costs.

Where to start

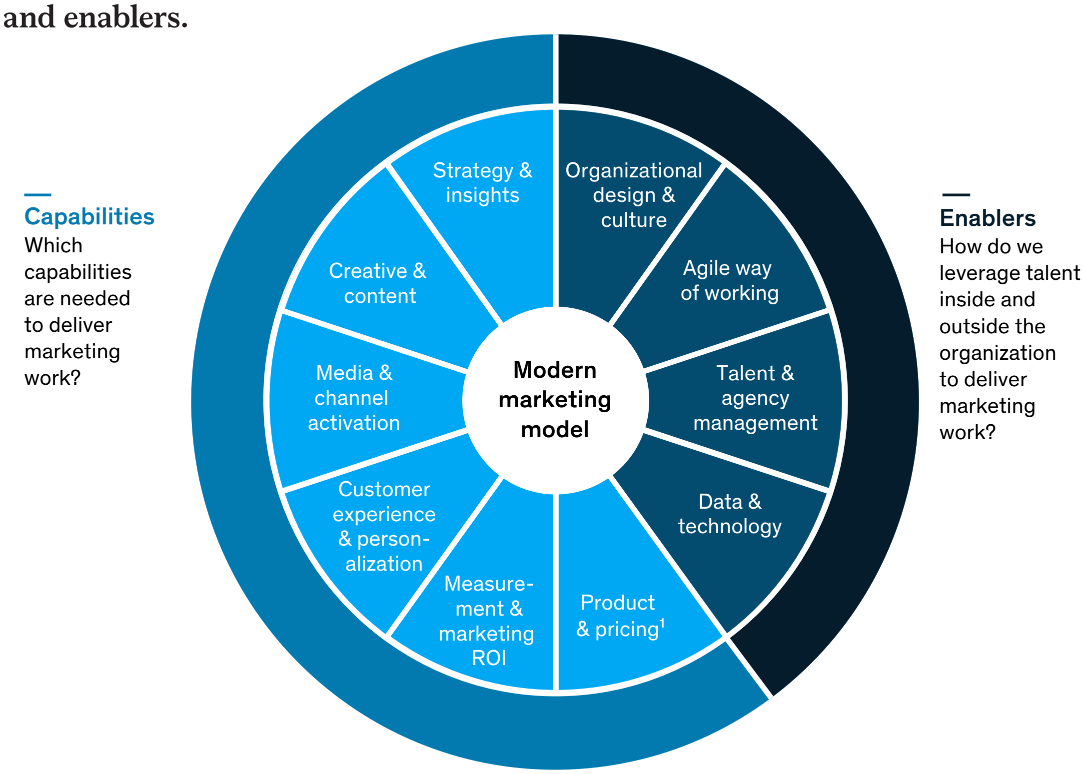
In our experience, most senior leaders understand that marketing has to modernize, but they are less sure what specifically that means. Too often, they focus on a handful of initiatives or capabilities and then grow frustrated when the promised value doesn't appear.

For this reason, it's crucial to have a clear view of what constitutes a model for modern marketing (Exhibit 1). While each of these components is familiar, we have found that the clarity of seeing

[1] Julien Boudet, Biljana Cvetanovski, Brian Gregg, Jason Heller, and Jesko Perrey, "Marketing's moment is now: The C-suite partnership to deliver on growth," June 2019, McKinsey.com.

Exhibit 1

To deliver on growth, modern marketing requires updated capabilities and enablers.



[1] Capability may not fall directly under marketing organization, depending on organizational structure.
Note: Variations to the modern marketing model may exist for consumer-packaged-goods and B2B sectors.

them organized into a cohesive model gives leaders a better sense of how to track all the elements and how they should work together.

That clarity is crucial as leaders develop plans and programs to modernize each of the capabilities and enablers (Exhibit 2). The traditional way to create content, for instance, is to roll out periodic, one-size-fits-all campaigns that can be modified only to a limited extent. On the other hand, a modern marketing organization has systems that allow for large volumes of messages and content to be constantly created, monitored by performance analytics, and then adjusted as needed. Take personalization. It used to mean broad offerings and experiences across large consumer segments. Today, the goal is to leverage data from all consumer interactions to creatively deliver as much relevant one-to-one marketing as possible.

Exhibit 2

Modern marketing requires revamped capabilities to meet marketing's new rhythms and demands.

Capabilities / Enablers

Key elements	From	To
Strategy & insights	Limited insights and lagging indicators	Brand vision and strategy informed by real-time insights that are integrated into operations and the front lines
Creative & content	Periodic and intuition-driven campaigns	Always-on content driven by analytics and data, dynamically curated, and augmented by AI tools
Media & channel activation	Channel-activation plans managed in silos and optimized episodically	Rapidly iterated activity utilizing unique attributes of each channel, tied to a 360-degree view of the customer journey
Customer experience & personalization	Several broad offerings across large customer segments	Customer experience that is data driven and personalized, leveraging unified customer data across all interactions to allow for purposeful communications
Measurement & marketing ROI	Limited ability to measure impact	Holistic, customer-level ability to measure all or most components of marketing investments
Product & pricing	Marketing disconnected from product	Working hand-in-hand with product to activate consumers by building a cohesive experience and using analytically driven pricing
Organizational design & culture	Business- and product-centric	Organization designed around customer-centricity and expanded breadth of marketing's role in driving growth; advanced operations in place to execute
Agile way of working	Annual planning and multiple handoffs	Highly empowered, cross-functional agile teams focused on rapid test and learn
Talent & agency management	Overreliance on agencies and organic talent development	Strategy to attract, retain, train, and upskill talent, and to manage an interconnected agency ecosystem with best-in-class expertise
Data & technology	Sparse data, and technology and marketing managed separately	360-degree customer data at the absolute core of a seamless customer journey, across which an integrated marketing-technology stack connects "signalized" data

While most CMOs we know have made progress toward developing modern marketing organizations, many are discouraged by a lack of progress. We have found that the core issues are the absence of a commitment to the full suite of changes necessary and a lack of clarity about dependencies. Without that understanding, we find that teams tend to naturally gravitate to working on things they know best or are most excited about, ignoring other elements. This creates blind spots in the transformation process that lead to delays, frustration, and, ultimately, a loss of value. Modernizing marketing capabilities, for example, requires an upgrade of four key operational enablers. But a successful transformation won't succeed without three mindset shifts that provide a foundation for change.

Mindsets: Thinking like a modern marketer

Before embarking on a modern marketing transformation, there are three mindset shifts that are necessary to enable change.

1. Unifier mindset

To drive growth, marketing leaders must work collaboratively with diverse areas of the company, from sales and product innovation to finance, technology, and HR. In fact, our research has shown that CMOs (or those in a similar role, such as chief growth officer or chief customer officer) who function as "unifiers," leaders who work with C-suite peers as an equal partner, drive greater growth than those who don't. Unifier CMOs adopt the language and mindset of other C-suite executives, articulate how marketing can help meet their needs, and ensure that they understand marketing's clearly defined role. Moreover, this creation of productive, collaborative relationships doesn't end at the C-suite. Marketing leaders should role model—and set expectations for—how each member of the marketing team should collaborate seamlessly with colleagues in other functions.

2. Customer-centric mindset

Putting customers first is not a new idea, of course. What's different today is that marketers have unequivocal evidence that meeting customers' needs creates value and delivers competitive advantage. Modern marketers must also be aware of the challenges of complexity and scale they must meet to achieve customer-centricity. They involve commitments to several elements: a design-thinking approach to solving customer pain points and unmet needs; a centralized data platform with a unified view of customers, culled from every possible touchpoint; the continuous generation of insights from customer-journey analytics; the measurement of everything consumers see and engage with; and the hiring and development of talented people who know how to translate insights about customers into experiences that resonate with customers.

The first step is to realize that customer segmentation goes deeper than you think. The best marketers are developing capabilities for efficient engagement across numerous microsegments. By doing this, marketing organizations can better understand the motivations and behaviors of their most valuable customers. They can also organize their efforts around acquiring more of them and creating greater loyalty.

3. Return on investment (ROI) mindset

Digital channels and improvements in analytics and data science now make it both possible and necessary for marketers to be accountable for delivering value across all channels. To operate with an ROI mindset, everyone needs to operate as if the money they are spending is their own. This means closely monitoring investments, putting in place standards to identify those not generating value, and creating a culture of accountability in which underperforming investments are scrapped. Such financial rigor will not only help marketing fulfill its mandate as a growth driver; it will also build credibility with the CFO, unlock additional investment, and demonstrate marketing's value to the entire company. One streaming company, for example, has built into the core of its culture continuous A/B testing of hundreds of variants of its website and apps and measuring their impact on viewing hours and retention. To support this, each product team has its own embedded analytics talent.

To operate with an ROI mindset, everyone needs to operate as if the money they are spending is their own.

Enablers: Operating like a modern marketer

To modernize marketing's capabilities, marketing organizations need to upgrade four key underlying operational enablers.

1. Organizational design and culture: Turning mindsets into behavior

To support modern marketing behavior, companies can take a number of practical actions, including the following:

— *Incentivize group success.* Since delivering value to the company is a cross-functional team sport, marketing organizations need a culture focused not just on individual achievement but on shared goals, team performance, and accountability. This means changing how marketing organizations reward, acknowledge, and evaluate talent, such as the inclusion of cross-functional team key performance indicators (KPIs) tied to individual compensation. Top talent should also feel a sense of purpose and motivation, derived from an environment that delivers energy and enthusiasm. None of this happens by chance.

— *Elevate consumer insights and analytics.* Because customer-centricity and ROI mindsets are critical for modern marketers, customer insights and analytics can't be support functions within marketing. In a modern marketing organization, they will have a prominent and visible role and a leader who reports directly to the CMO. This serves as a reminder that the voice and behavior of the customer must be at the center of everything and that no marketing activities should be executed without the backing of relevant insights and the ability to measure performance.

— *Turbocharge marketing operations.* Marketing operations is a backbone function, essential for a modern marketing organization to move with speed and flexibility. To make sure that marketing spending, technology, and processes are all managed to deliver maximum impact and efficiency, the best companies have installed a marketing operations lead, also reporting to the CMO. In some cases, marketing operations will exist as a shared service or central function across marketing. In other cases, it will be distributed across numerous operating units to provide autonomous execution capabilities. We've seen marketing operations provide a 15 to 25 percent improvement in marketing effectiveness, as measured by return on investment and customer-engagement metrics.[2] One global financial-services company, for example, figured out that by accelerating the delivery of IT-dependent functions to marketing, it was able to generate an extra 25 percent of revenue. That was worth $100 million per year.[3]

2. Agile marketing at scale: Getting serious about moving beyond pilots

By far the biggest change to marketing's organizational design is the shift to agile.

[2] David Edelman and Jason Heller, "How digital marketing operations can transform business," July 2015, McKinsey.com.
[3] Jason Heller and Kelsey Robinson, "Meet your new MOM (Marketing Operating Model)," March 2017, McKinsey.com.

As a decentralized, cross-functional model, agile is critical for operating with speed. Even the most digitally savvy marketing organizations have experienced revenue uplift of 20 to 40 percent by shifting to agile marketing.[4] Small teams of people, called squads, work in the same place and have decision-making authority to execute highly focused tasks. Organizing squads around specific customer objectives ensures that everyone on the team is connected to the customer. Giving squads clear KPIs, such as a volume of new customers or specific revenue goals, ensures that everything is measured and evaluated. Marketing organizations that adopt agile have moved anywhere between 50 and 70 percent of their work to this more streamlined and accountable approach, quickly cutting loose anything that isn't creating value.

Scaling agile marketing, however, entails more than flattening out an organization chart or establishing cross-functional collaboration. Squads need to have supportive participation from departments such as legal, IT, finance, and often agency partners as well. Without this broader organizational support, agile teams are confined to small pilots with limited impact. At one bank, for instance, the legal department and controller's office were resistant to providing staff to agile marketing teams because of competing priorities. Marketing leadership knew their agile approach wouldn't work without the other functions, so they invested sufficient time with each function's leader to articulate how the agile team would work, what value would be generated, and how it would support the business's overall goals. This effort gave functional leaders enough confidence in the process that they agreed to provide people to the agile squads.

3. Talent and agency management: A constant balancing act

Given the complexity of marketing today and the range of capabilities needed, marketers need a new talent strategy built around three elements:

— *Insource mission-critical roles.* While there is no single model for the functions a marketing organization should handle itself, insourcing usually makes sense when there is a desire for ownership of data and technology; when companies seek strong capabilities in a certain area; or when insourcing will greatly accelerate the speed to market and allow for the constant creation, testing, and revision of campaigns.

— *Hire "whole-brained" talent.* Today's in-house roles require a broader skill set, with a balanced mix of left- and right-brain skills. This means, for instance, content producers and experience designers who are comfortable using data, and data-driven marketers who are willing to think outside the box and move closer to consumers. McKinsey research shows that companies able to successfully integrate data and creativity grow their revenues at twice the average rate of S&P 500 companies.[5] Most importantly, modern marketing organizations don't need managers to manage people; they need people to manage output and track performance.

— *Foster an ROI-focused management style.* In an environment where autonomous teams are given the ball and asked to run with it, managers need to be comfortable setting KPIs, overseeing output, and tracking the performance of agile teams.

4. Data and technology: An obsession for looking ahead

Marketing metrics have traditionally looked backward to unearth insights about past behavior and measure the effectiveness of current campaigns. Modern marketing organizations use data analytics to look ahead. They anticipate unmet consumer needs, identify opportunities they didn't know existed, and reveal subtle and addressable customer pain points. Data analytics can also predict the next best actions to take, including the right mix of commercial messages (for cross-selling, upselling, or retention) and engagement

[4] David Edelman, Jason Heller, and Steven Spittaels, "Agile marketing: A step-by-step guide," November 2016, McKinsey.com.
[5] Brian Gregg, Jason Heller, Jesko Perrey, and Jenny Tsai, "The most perfect union: Unlocking the next wave of growth by unifying creativity and analytics," June 2018, McKinsey.com.

Where are you on your journey to modern marketing?

Answer options below define the most advanced (Level 5) and least advanced (Level 1) marketing activities.

	Question	Level 1	Level 5
Strategy and insights	What is your approach to brand strategy and customer insights, and how has it changed over the past several years?	We refresh our brand strategy every two to three years. Primary research and focus groups are used to generate insights that are loosely translated by frontline marketers.	We refine our brand strategy at least annually, and all marketers fully understand how to activate traditional approaches plus advanced analytics and real-time sources of insights.
Creative and content	How do you manage creative and content strategy, production, and optimization?	We focus on creating several core campaigns. We do not have extensive variations of creative or content, in part because we have not figured out an efficient way to do so.	We have an effective content supply chain, are able to create versioning and transcreation. We use AI tools to augment our content production and optimization.
Media and channel activation	How are you delivering your messages to customers across paid-, owned-, and earned-media channels?	Each media channel is planned and managed independently by specialized teams, sometimes with little to no interaction.	We plan and execute omnichannel with defined strategies of how channels work together; we also generate and amplify earned media through paid and owned activities.
Customer experience and personalization	How are you delivering relevant and personalized experiences to various customer segments?	We deliver several broad experiences across large customer segments, with limited personalization.	Experiences are customer-centric and personalized across channels and the customer life cycle, steeped in a deep understanding of customer needs and pain points.
Measurement and marketing ROI	How are you measuring and optimizing your marketing activities and media spend?	We don't measure holistically, periodically running media-mix models, and for digital, we measure last-touch attribution and reallocate media dollars approximately quarterly. Each campaign has clearly defined KPIs.	We use customer-level omnichannel MROI analytics, enhanced with third-party data, and we optimize campaign parameters on a weekly basis. We have automated dashboards at various levels of granularity for different stakeholders.

Where are you on your journey to modern marketing?

	Question	Level 1	Level 5
Product & pricing	How have the voice of the customer and advanced analytics influenced product development and pricing strategies?	We are a product-centric organization, and our products and pricing decisions are largely isolated from our key consumer insights and go-to-market capabilities.	Our product portfolio is evolving based on active consumer insights and analytics. Pricing is driven by a combination of research and analytics within operational constraints.
Organizational design & culture	How are the culture and organization model evolving to support the modernization of your marketing capabilities?	Our marketing organization and culture have not changed significantly beyond adding new digital capabilities.	Our culture has changed significantly to nurture modern marketing talent, and our organization model elevates and emphasizes functions such as analytics, consumer insights, and marketing operations.
Agile way of working	How have your day-to-day marketing processes changed to drive speed, experimentation, and measurable results?	Our teams are structured by function with managers who ensure key processes and quality control are followed. It often takes many weeks, sometimes months, to get campaigns out the door.	Our teams employ agile principles to operate cross-functional teams that have relative autonomy and are able to execute and scale tests in weeks or even days.
Talent & agency management	Do you have a clear point of view on which marketing capabilities should be in-house versus outsourced and how they should be managed and incentivized?	We have not reviewed our talent/agency resource model in the past two years and do not match marketing resources to business outcomes (eg, revenue, customer growth, customer lifetime value, etc.).	We have a clearly defined model for which capabilities are insourced, and we reevaluate this often. All resources, internal and agency, are held to the expectation of specific business outcomes.
Data & technology	How are you managing and integrating marketing and advertising technology to drive marketing outcomes?	Marketing technology is owned and managed by IT, and core advertising-technology capabilities are owned and managed by the agency. There are gaps and sometimes a lack of transparency.	Marketing defines the use cases and works closely with IT to architect and manage the martech stack and unified customer-data platform.

actions (content, education, or relationship deepening).

To do this, data must be centralized and easily accessible so that activity in one channel can immediately support real time, or near-real-time, engagement in another. Instead of the traditional approach, where IT takes the lead in data management, marketing leaders should work with IT leaders to develop a shared vision for how data will be accessed and used. This starts with the CMO and CTO/CIO collaborating closely on a business case and road map and then rallying the needed support from across the organization.

Because the pace of change in the marketplace continues to accelerate, becoming a modern marketing organization must be a "now" priority. Leaders unsure about the need to move aggressively toward this new model might bear in mind a character in Ernest Hemingway's novel *The Sun Also Rises*, who is asked how he went bankrupt. "Two ways," he answers. "Gradually, then suddenly."

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The future of brand strategy: It’s time to ‘go electric’

Data shows that as choices and channels increase, brand trustworthiness is more important to consumers than ever.

by Sascha Lehmann, Nils Liedtke, Phyllis Rothschild, and Eloy Trevino

May 2020

At the 1965 Newport Folk Festival, Bob Dylan went electric. He plugged his guitar into an amp and proceeded to play his first all-electric set. The chords were the same as before, but the arrangements were new—a new sound for a new age. A lot of traditionalists hated it. But Dylan was never afraid to try something new, and it's safe to say he was onto something when he went electric.[1]

Brand strategy today resembles popular music in the 1960s: "The times they are a-changin'." Consumers now jump from brand to brand, product to product, and site to site at a flick of their wrists. At the same time, brand relevance remains high. Brands are beacons of trust. The more choices consumers have, the more important these beacons become. Our research shows that brand relevance is especially high in categories that offer almost unlimited choice, such as online dating, online shopping, and online travel booking. For online shoppers, risk reduction is the most important brand function by far, well ahead of image benefit and information efficiency. A strong brand radiates trust and shields shoppers from the risk of making the wrong choice.[2] That said, data and analytics are transforming the way brands and customers interact with each other. In this situation, it's time to update the proven principles of brand strategy. It's time for brand strategy to "go electric."

Three sources of strength

Strong brands consistently outperform the market. The world's 40 strongest brands yielded almost twice the total return to shareholders (TRS) of an investment in a Morgan Stanley Capital International (MSCI) World index certificate over the course of the 20-year period ending in 2019 (exhibit).

Brands draw their power from three sources: science (insights generation and performance measurement), art (creativity), and craft (management and execution). In times of rapid change, strong brands particularly need the benefits of these robust foundations: a deep understanding of customers and the market based on rigorously tested concepts, a clear purpose brought to life by creativity, and an inspiring brand experience delivered consistently across all touchpoints to drive both brand perception and business performance.

At the same time, however, research shows that companies that are brand innovators are growing their top-line four percentage points faster than less-innovative companies.[3] Even the best brands, it seems, can benefit from new methods and approaches in all three sources of brand power—science, art, and craft.

Science: Data-driven brand-equity management

To protect and enhance brand equity in the omnichannel age, marketers must embrace new methods and new data sources:

— *Sentiment.* To keep track of how a brand is perceived online, companies must go beyond counting clicks and followers. They must also capture user sentiment, particularly as expressed in social media, and do it quickly. Brand equity built over decades can evaporate in a heartbeat when bad news goes viral. Companies can no longer afford to wait for quarterly brand-tracking results. Waiting even a week can be six days too long. The good news is that state-of-the-art tools allow companies to capture indicators such as buzz volume and user sentiment in real time with up to 90 percent accuracy, provided the right method is used to decode the context of a given statement.[4]

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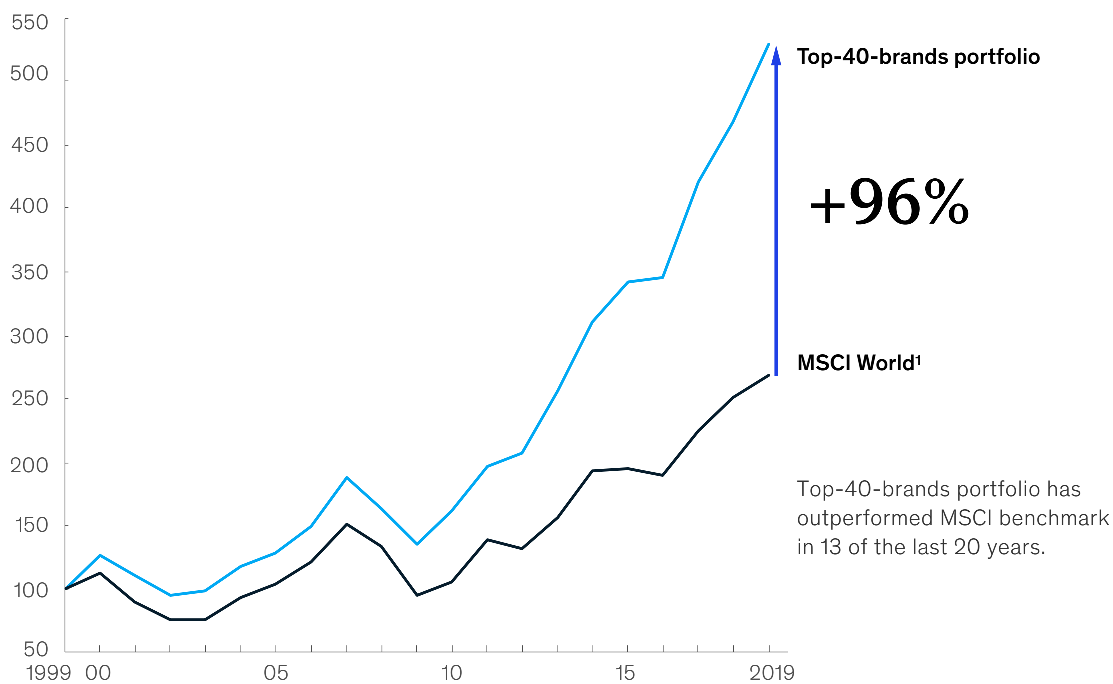
[1] See Jess Righthand, "July 25, 1965: Dylan goes electric at the Newport Folk Festival," *Smithsonian Magazine*, July 23, 2010, smithsonianmag.com.
[2] "Study by McKinsey and Uni Cologne: Online buyers pay particular attention to brands," McKinsey & Company, July 4, 2019, mckinsey.de.
[3] McKinsey predictive consumer growth (based on Capital IQ, Euromonitor, Mintel Global New Products Database, and annual reports), 2013–17. See also Raphael Buck, Alice Harper, Julie Lowrie, and Sara Prince, "Agile in the consumer-goods industry: The transformation of the brand manager," April 2019, McKinsey.com.
[4] Jochen Hartmann, Mark Heitmann, Christina Schamp, and Christian Siebert, "More than a feeling: Benchmarks for sentiment analysis accuracy," January 2020, ssrn.com.

Exhibit

Powerful brands significantly outperform the market.

Total return to shareholders, Index



[1] Stock market index of 1,646 world stocks maintained by Morgan Stanley Capital International.
Source: McKinsey Marketing & Sales Practice

— *Agility.* Qualitative research used to be costly and cumbersome. This is why a lot of researchers focus on observations of consumer behavior at scale and, as a result, often neglect underlying consumer needs. Web-based and mobile applications, such as AI-supported digital diaries and online ethnography, enable brands to connect with consumers' intrinsic motivations at a fraction of the cost and time of traditional focus groups. Now brands can get consumer feedback within a day, for example, on different combinations of packaging and price. As a brand manager for a maker of sweet snacks said, "What used to take weeks now happens in an afternoon. This allows us to keep pace with the high rate of change in our industry."

— *Personalization.* Personalization is a key driver of top-line growth. It enables brands to cultivate better relationships with customers and drive incremental revenue as well as incremental loyalty.[5] In the past, most brand-related activities and KPIs were based on a fictitious "average customer." Now, thanks to advances in data quality and analytics, messages and metrics can be tailored to ever-smaller target groups or micro-need states and occasions.[6] Next-generation MROI modeling and granular growth mapping

[5] Kelsey Robinson, interview with Dynamic Yield CEO Liad Agmom, "What's happening with personalization on the front lines," July 2018, McKinsey.com.

allow marketers to record and optimize brand performance across all touchpoints, often at the level of individual customers.

Art: Creativity with a conscience

Creativity drives brand success. A McKinsey analysis shows that highly creative brands, measured by their performance at the Cannes Lions advertising awards over a period of 15 years, consistently outperform their peers:

— 67 percent achieve above-average organic revenue growth

— 70 percent had above-average TRS

— 74 percent had above-average net enterprise value[7]

More specifically, we find that successful brand campaigns embed their messages in stories that touch, thrill, or amuse their target audience.[8] Increasingly, consumers also expect their favorite brands to create value beyond product benefits. While a compelling story may get the attention of the audience, winning loyalty requires additional efforts from brand leaders: Does the campaign go beyond brand communication? Does it embody the identity and the values of the company? Campaigns that meet these criteria are more successful than those that focus solely on rational benefits. This observation is indicative of a broader trend toward responsibility that extends beyond a brand's customers. Increasingly, consumers hold brands accountable for the impact of their conduct on employees, society, and the planet as a whole. Our research on Generation Z (born 1995–2010) shows that young consumers are particularly mindful of ethical consumption, transparency, authenticity, and equality.

Purpose-driven brands achieve more than twice the brand-value growth of brands that focus purely on profit generation, and purpose clarity is directly correlated with financial performance.[9] The challenge for brand executives is to lead their organizations in the quest for authentic purpose. Says Volvo Cars Head of EMEA Björn Annwall: "If you want to be a purposeful brand, it is not about *coming up* with stories. It is about *conveying* stories about what you already do. If marketing 'comes up' with a 'purpose,' it is by definition not purposeful, not ingrained, not authentic."[10]

Craft: Rallying around purpose

Finding purpose is important, but it's not enough for brands to prosper. As consumer advocates, brand leaders know how important it is to keep a promise at all touchpoints. Break the promise, and you break the brand. Brand strategy based on purpose is too big an opportunity and too comprehensive a challenge for any one function to tackle by itself. To create a consistent narrative and succeed in a purpose-driven transformation, all functions and all members of the top team must cooperate closely. In our experience, this quest for common purpose also often acts as a binding agent. Top teams that go through intense discussions over purpose always emerge from such efforts as a stronger unit.

Purpose needs to be translated into a set of values and goals that guide communications, operations, and people and product development.

To bring purpose and brand activities more generally to life, brand strategists, creative directors, data scientists, designers, and agencies increasingly come together to work in more coordinated and agile ways. Across industries, brand leaders are moving from rigid client-agency relationships to more fluid ecosystems with more

[6] In this context, a "need state" is defined as the intersection between what customers want and how they want it. Although thinking through need states is demanding, it often suggests new ways for existing brands to satisfy customer needs. See Steven J. Carlotti, Jr., Mary Ellen Coe, and Jesko Perrey, "Making brand portfolios work," *McKinsey Quarterly*, November 2004, McKinsey.com.
[7] Marc Brodherson, Jason Heller, Jesko Perrey, and David Remley, "Creativity's bottom line: How winning companies turn creativity into business value and growth," June 2017, McKinsey.com.
[8] Sascha Lehmann and Nils Liedtke, "*Die wahren Werbetreiber: Kreativität schlägt Krawall,*" November 2018, McKinsey.de.
[9] Afdhel Aziz, "The power of purpose", *Forbes*, November 11, 2019, forbes.com.
[10] Statement made in an interview with McKinsey's Jesko Perrey and Nils Liedtke for the upcoming book *Mega-Macht Marke*, to be published in 2020.

brand entrepreneurship.[11] That requires new approaches as well. Anthony Bradbury, Jaguar Land Rover's marketing director, explained what matters most in making the company's client-agency joint venture, Spark44, work: "Absolute transparency, complete focus, and the breaking down of silos. Campaigns can be planned solely according to the client's needs, not according to agency dynamics or priorities. This removes the natural tension between client priorities and agency profits and allows us to constantly create the best work together."[12] Total revenue has more than doubled since the joint venture was established, and several campaigns won Effie awards, most recently the Land Rover campaign "Dragon challenge," cited in 2019 as the highest-awarded automotive campaign in the US.[13]

In an ever-changing environment, where there's unlimited choice and a rapid evolution of consumer needs, brands matter more than ever. Strong ones take full advantage of data science and agile ways of working to refine targeting, send more compelling messages, and ensure consistent brand delivery. This is brand strategy raised to a new level. So, let's do what Dylan did: let's plug in.

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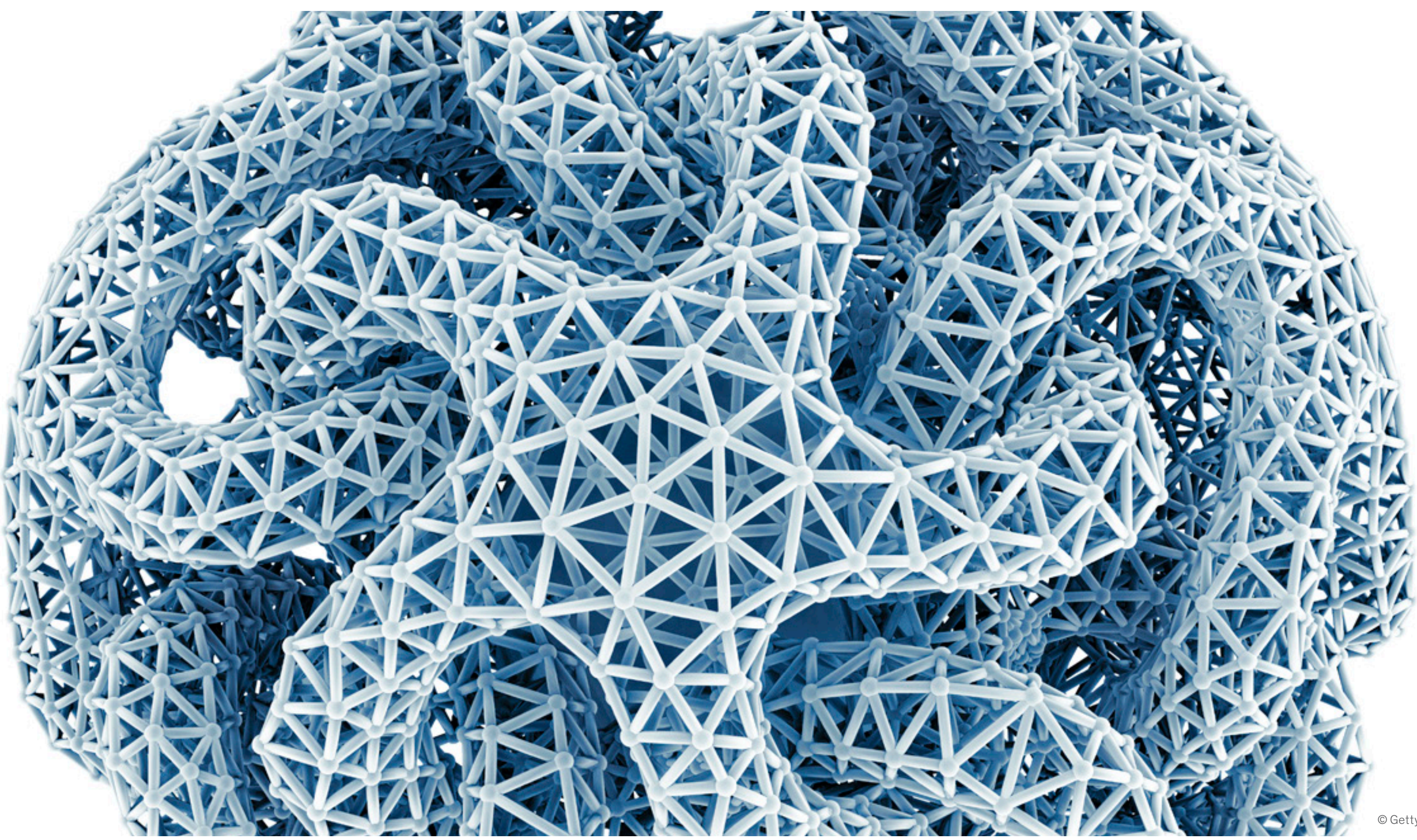
[11] "P&G shakes up advertising agency models," Marketing Week, April 10, 2018, marketingweek.com.
[12] Anthony Bradbury, "Spark44—breaking the conventions of global marketing with Jaguar Land Rover," Oystercatchers, August 24, 2018, oystercatchers.com.
[13] "Spark44 wins at 2019 Effie awards," Spark44, December 6, 2019, spark44.com.

Preparing for loyalty's next frontier: Ecosystems

As digital marketing expands consumers' choices, companies are learning to drive customer loyalty—and growth—by pooling data within an ecosystem of brands.

by Julien Boudet, Jess Huang, Phyllis Rothschild, and Ryter von Difloe



March 2020

Today's consumers are the ultimate surfers, hopping between channels, devices, and sites as they shop. Loyalty programs are static by comparison, relying on increasingly outdated rewards and the redemption strategies of the past.

To create loyalty programs as dynamic as their consumers, companies need to develop an underlying consumer-loyalty strategy built around a fluid partnership of products, services, and experiences. We expect some brands to go even further, pursuing partnerships as a new way to compete. That means multiple companies from different sectors will develop a joint loyalty program around a unifying customer value proposition.

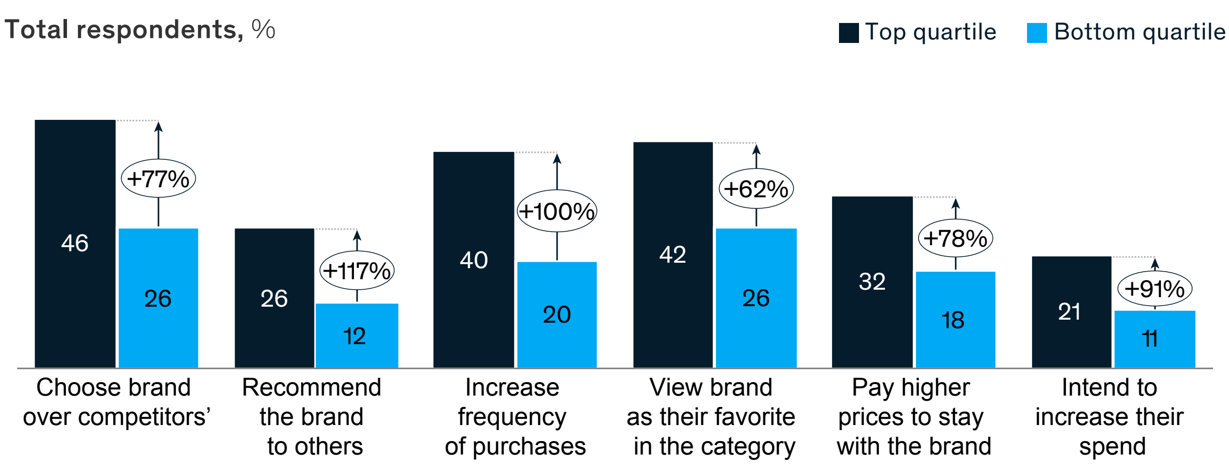
We see early signs of this happening already. Of the *Financial Times'* top 25 brands of 2019, more than 40 percent have partnered with at least one other consumer brand to improve the customer experience and drive increased engagement. Indeed, as industry boundaries continue to blur, consumer and loyalty strategy will require a broader frame of reference.

Benefits of this approach include a deeper understanding of customer behavior through richer data. Ecosystem-centric loyalty programs are still in their nascent stages, but they will become increasingly prominent as consumer brands realize the need to compete at scale. And the value at stake is significant. Top-performing loyalty programs show a significantly higher success rate at changing customer behavior to drive value, and they have brands that are more likely to be preferred by customers (Exhibit 1).

Despite the opportunities, many loyalty programs have plenty of room to grow. We looked at a basket of 50 loyalty programs from top brands and found that just 18 percent have experience-led programs,

Exhibit 1

Top-performing loyalty programs change customer behavior in positive ways.



Note: Quartile of programs based on percentage of respondents who have positively changed behavior due to a loyalty program and overall satisfaction with a loyalty program. Includes retail, grocery, airlines, hotels, restaurants, and rental cars.

6 percent have connected offerings, and 2 percent have ecosystem offerings (Exhibit 2).

We see three important phases as companies evolve to next-generation loyalty programs:

Phase 1: From rewards and redemption to experience and content

"Earn and burn," or pure discount-based programs, are no longer enough. Consumers are looking for something more. When it comes to loyalty rewards, it's no longer just about the transaction at point of purchase; it's about additional experiences and services that create new touchpoints. Companies are pursuing content and experiences to drive up engagement and get consumers more connected with the brand on a daily or weekly basis. Programs that balance monetary rewards with experiential offerings (exclusive events, early access, unique discoveries or adventures) can provide value beyond the transaction by appealing to the consumer's head and heart (Exhibit 3).[1]

Phase 2: From siloed programs to connected offerings

Given the shift toward experience and content, brands are tapping into their complementary product and service offerings to create their own brand ecosystem. These brands are looking across all they can offer to their customers to tie together both commerce and noncommerce moments.

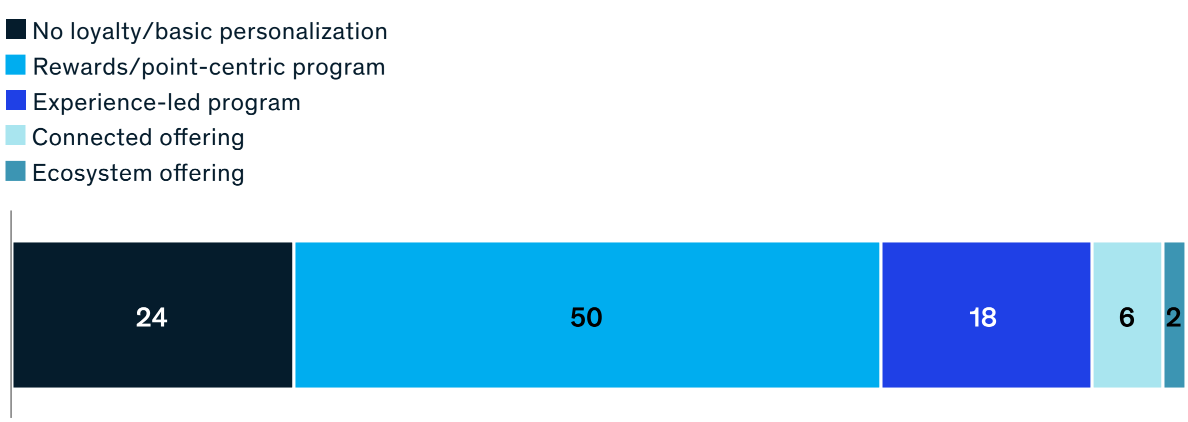
As consumer brands increase their ability to leverage scale, data, and technology to create this connected offering, brands will continue to migrate toward smarter programs where personalized, "underwater" tactics are at the center of value creation, in which case published loyalty benefits will represent only a fraction of the total consumer value. The consumer engagement model will look to increase touch frequency and move into other areas of the ecosystem, such as credit cards or subscriptions.

[1] For more, see Jess Huang, Phyllis Rothschild, and Jamie Wilkie, "Why customer experience is key for loyalty programs," *MIT Sloan Management Review*, June 2, 2018, sloanreview.mit.edu.

Exhibit 2

Loyalty programs have plenty of room to grow.

% based on 50 brands across 7 categories[1]



[1] All loyalty programs were picked from *Financial Times'* top 100 brands of 2019 and span 7 categories (apparel, travel, retail, fast food, entertainment, financial services, grocery).

There is at least one model of a connected loyalty offering on the market today: Amazon Prime. Prime serves as a loyalty ecosystem, serving the currency of on-demand convenience across sub-brands that include Amazon's dot-com business, Prime Video, Prime Now, Whole Foods, and others.

Phase 3: From company focused to ecosystem enabled

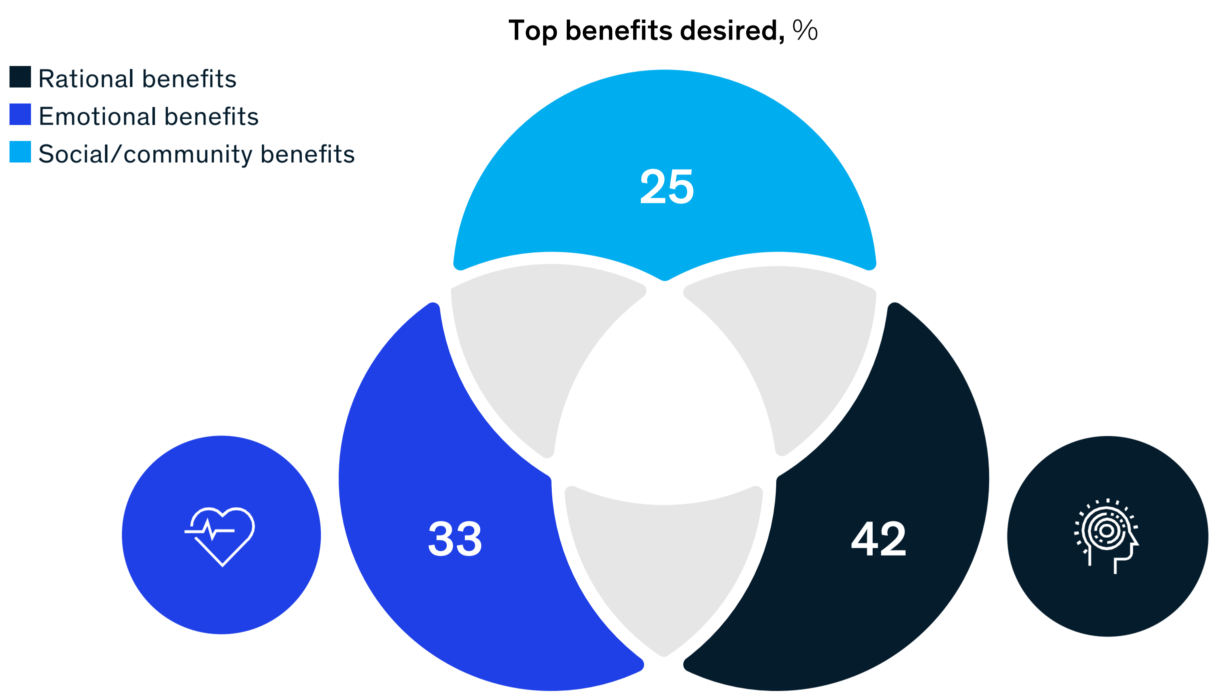
Even as companies move toward connected offerings, it will be hard for any one player to replicate the size and scale of an ecosystem like Prime's in any one sector, let alone across sectors. As a result, companies will need to think creatively and strategically about partnerships across categories, including with would-be competitors.

Brands should look to strategic partnerships to provide consumers with more holistic experiences tailored to individual consumer lifestyles and ecosystems. Loyalty is a fitting platform for these sorts of partnerships, enabling a disparate set of brands to craft a coherent set of benefits that feel personally relevant to the consumer. Likewise, it offers a host of benefits for member brands: broader access to consumer data, cross-marketing opportunities for customer acquisition and engagement, and economies of scale stemming from shared IT infrastructure.

At the same time, brands must be open to the trade-offs inherent in an ecosystem-based loyalty partnership. Ecosystem-centric loyalty may require companies to partner with previous

Exhibit 3

Consumers demand benefits that provide both rational and emotional satisfaction.



Note: Based on a survey of more than 9,000 consumers about their experiences with loyalty programs across 9 different sectors.

indirect competitors, giving rise to "frenemy" relationships across regions and channels. In contrast to loyalty coalitions, which were largely operated by third-party organizations, ecosystems are more likely to arise organically as companies forge strategic partnerships, placing the onus on the brands to govern their partnership's strategy and architecture. (See sidebar, "Coalition loyalty programs are challenging.") Nevertheless, if executed properly, brands stand to gain more from ecosystem-centric loyalty than they lose.

What this means

As brands begin to partner around ecosystems, what changes will these partnerships herald for the brands' pre-established, stand-alone loyalty programs? In the near term, we expect stand-alone programs will continue to operate beside or within the ecosystem, much as individual airline loyalty programs can function independently while also yielding benefits across an alliance with other airlines. However, as ecosystems grow more conventional and their value becomes more apparent to brands, we envision that stand-alone programs may begin to consolidate under single-flagship ecosystem loyalty programs, or that stand-alone programs may evolve into ecosystems as they incorporate partnerships as part of the core program value proposition.

As we shift into the era of ecosystem-driven loyalty, brands must learn from the failures of the coalitions of old. To succeed, a loyalty ecosystem should be centered around the following seven design principles:

1. *Shared consumer in mind:* The program must be highly personalized to the individual consumer, leveraging the full stack of consumer data across brands to offer personalized messages, offers, and experiences. Furthermore, brands should mutually understand the value of the consumer.

2. *Brand synergy:* The program must be structured to elevate brand equity. Every brand must have an important role in the given ecosystem and provide value to that ecosystem through its products and/or services.

3. *Diversity of products and services:* The program must provide consumers with value through tangible goods, services, or experiences in order to reinforce the program's underlying appeal. Brands should develop common features and benefits together.

Sidebar

Coalition loyalty programs are challenging

Ecosystem-centric loyalty is more than the coalition loyalty programs that have historically faltered in the United States.[1] The struggle of coalition programs to earn consumers' loyalty is emblematic of the broader challenges facing brand partnerships: participating brands are often not complementary, which drives competing priorities among brands and compounds consumers' poor understanding of program benefits. Furthermore, myopic focus on "earn and burn" transactions or discount-based redemptions ring hollow with today's loyalty consumers, who tend to prefer emotional and experiential benefits to transactional ones.

[1]Coalition loyalty has seen success globally and has fared slightly better in the US SMB space. In the US SMB space, where brands are less likely to have their own competing loyalty programs and consumer expectations are lower, we've seen successful loyalty platforms for independent outlets such as convenience stores and coffee shops. What makes the US different?

— Regionality and abundance of solo company-owned loyalty programs
— More stringent data-sharing policies, making it tougher for participating brands to benefit from the cross-sharing of consumer information
— Lack of US consumer understanding of the programs

As we shift into the era of ecosystem-driven loyalty, brands must learn from the failures of the coalitions of old.

4. *Seamless consumer experience:* Sign-ups, use, and redemption must be intuitive and responsive, keeping the program simple for consumers.

5. *All-in brand commitment:* Companies must be willing to commit to the partnership, allocating adequate marketing spend and having clear agreements about sharing consumer data in a way that adheres to all relevant regulations .

6. *Alignment on governance process:* Brands should enter the partnership with aligned strategies and goals, defined roles and responsibilities, and a process for managing risk effectively.

7. *Data and tech focused on connectivity:* Brands will need to ensure, within the confines of the shifting regulatory landscape, that their data can be exported or used as needed—for example, through the use of application programming interfaces (APIs). Brands within the ecosystem need to commit to standards and processes for tracking key performance indicators, adhering to regulations, and establishing protocols for connecting technologies and sharing data.

As ecosystem-centric loyalty flourishes, all parties stand to gain. Consumers will receive heightened experiential benefits in addition to faster loyalty rewards growth, more-flexible redemptions, and an unmatched simplicity and daily relevance. Brands will see a rise in reach and frequency of usage. In addition, they will gain access to richer, more privileged consumer data, shared infrastructure, and cross-marketing opportunities. Finally, ecosystem-centric loyalty will provide hitherto unseen competition to today's retail goliaths, a benefit that will trickle down to the consumer brands and, ultimately, back to the consumer.

Ecosystems are here to stay. It's time for all consumer brands to start thinking about how they can participate in one. Ecosystem-centric loyalty is a start.

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The authors wish to thank Michael Tappel for his contribution to this article.

Rapid Revenue Recovery: A road map for post-COVID-19 growth

Speed, agility, and a new understanding of customer values are the keys to navigating the next normal.

by Brian Gregg, Eric Hazan, Aimee Kim, Rock Khanna, Jesko Perrey, and Dennis Spillecke

© Getty Images

COVID-19 continues to have a far-reaching effect on people's lives, families, and communities as well as on the global economy. Amid the bleak economic reality, companies in response are focused on driving a dual agenda: protecting lives and livelihoods. As the crisis continues to upend lives, companies are struggling to understand its full impact on their businesses and how best to respond. According to our recent B2B Decision Maker Pulse survey, about a quarter of companies surveyed say they are redirecting and increasing spend toward emerging opportunities.

As we outlined in our article *Leading with purpose*, marketing and sales leaders need to operate simultaneously across three horizons: navigating the crisis now, planning for the recovery, and leading the next normal. This article will focus on the second horizon and how companies can accelerate what they do and how they work to capture revenue quickly for the recovery (Exhibit 1).

That element of speed and agility in particular is crucial because this once-in-a-generation challenge is likely to have a profound impact on who is left standing when the crisis finally abates. During the downturn, for example, consumers and customers are likely to "trade down," that is, buy less expensive products, resulting in big changes at both the high and low ends of the market. Brands will be repositioning themselves and shifting to digital channels, products, and services, opening up another front in the battle for new and existing customers.

In this context, it's not enough to capture revenue; it has to happen quickly. We're already seeing first movers reap significant rewards.

A mental model to enable Rapid Revenue Recovery

What really stands out is how leaders approach the activities needed to drive revenue at a scale that makes a difference. The most effective leaders have a mental model built around SHAPE, an approach with five core elements:

— *Start-up mindset.* The start-up mindset biases action over research and testing over analysis.

Exhibit 1

Three horizons for effective marketing-and-sales responses to the COVID-19 crisis.

1. Navigate the now	2. Plan for the recovery	3. Lead in the next normal
Lead with purpose	Accelerate digital ambition and analytics engines	Rethink ecosystems
Take care of employees and customers	Be ready to capture early demand	Virtualization
Build up cash reserves	↓ Rapid Revenue Recovery	

We've seen companies, for example, make sizable allocations of marketing budget in days and even hours, and launch new ecommerce businesses in a matter of weeks. Start-up leaders establish an agile cadence through daily team check-ins, weekly 30-minute CEO reviews, and biweekly hourlong sprint reviews.

— *Human at the core.* To drive rapid action, companies will need to rethink their operating model, building it around how their people work best. Our B2B Decision Maker Pulse survey research has shown that more than 50 percent of businesses find a new remote sales model to be of equal or greater effectiveness than the old one. Enabling people will clearly require a new set of skills and capabilities, from facility with tech to working remotely. Successful pivots to a remote sales model, for example, will require an entirely new level of collaboration and coaching between front-line sales reps and leadership in order to meet consumer expectations.

— *Accelerate digital, tech, and analytics.* It's almost become a cliché to say that the crisis has become an inflection point in the shift to digital, but the best companies are moving quickly to enhance and expand their digital channels. They're successfully using advanced analytics to combine new and innovative sources of data, such as satellite imaging, with their own insights to derive "recovery signals."

— *Purpose-driven customer playbook.* Putting customers at the center of the business is a long-established principle, but post-coronavirus businesses will need a deep recalibration of how customers make decisions. Companies will need to rethink decision journeys to understand what customers now value and design new use cases and customer experiences based on those insights. That means a more nuanced approach to segmenting customers.

— *Ecosystems to drive adaptability.* The disruptions in supply chains and offline buying channels have made adaptability crucial not just to survival but to accessing opportunities quickly. In the short term, adaptability may mean how companies work with agencies and partners, but in the long-term, it will require new partnerships and non-traditional collaborations, including strategic M&A.

Three steps to get started on Rapid Revenue Recovery

Capturing revenue rapidly requires taking a combination of actions. What those are will depend on each company's situation. Top performers, however, take three steps with rigor and discipline:

1. Identify and prioritize

Commercial leaders will need to plan for recovery based on a clear understanding of their starting point and insights into demand patterns ahead of and during the recovery. This is crucial for knowing what to do and when. We have identified more than a dozen marketing and sales activities that can capture revenue quickly (Exhibit 2). Some are more relevant to B2C companies, while others make more sense for B2Bs.

Once identified, these measures need to be rigorously assessed by their impact on EBIT and the company's ability to execute quickly. That starts with a clear view of the market and thoughtful forecasting of demand across channels, based on granular views of the customer and of the possible economic scenarios. These will require a more sophisticated approach than those used traditionally to develop deeply granular insights. Leading organizations are using advanced analytic models with multiple sources of insights (for example, point-of-sale data, primary consumer research, social listening,

Exhibit 2

Rapid Revenue Recovery is based on taking a core set of commercial actions.

Strategy	Digital channels
Brand repositioning	Scaled digital sales & services
M&A moves	E-commerce
Networked ecosystems	Digital marketing effectiveness
Clean-sheet demand planning	

Productivity	Customer experience & Insights
Marketing efficiency	Customer experience/customer journeys
Sales productivity	Personalization, loyalty, & CRM
Inside sales	Product value propositions
Data-driven performance management	Analytics-driven sales
	Dynamic pricing and promotion optimization

Driven by data and analytics

and online search trends) to forecast growth scenarios at a granular level. This dashboard of opportunities needs to be continuously updated (Exhibit 3).

Against this view, analysis is needed of how well developed the available commercial capabilities are. A company in the advanced-industries sector, with low maturity in price and margin management, for example, may want to reinforce measures to avoid margin leakage, such as a shift to manual price approval to avoid low-margin sales. Commercial leaders should then overlay growth forecasts on their marketing and distribution capabilities, product and service portfolio, and competitive activity.

Within these calculations, commercial leaders should consider "now or never" moves—actions that may have been too difficult to undertake during normal times but are now essential for moving forward. These could include making significant reallocations of resources or ratcheting back popular but underperforming programs.

In our experience, companies can develop clear targets for growth and profitability in just a week.

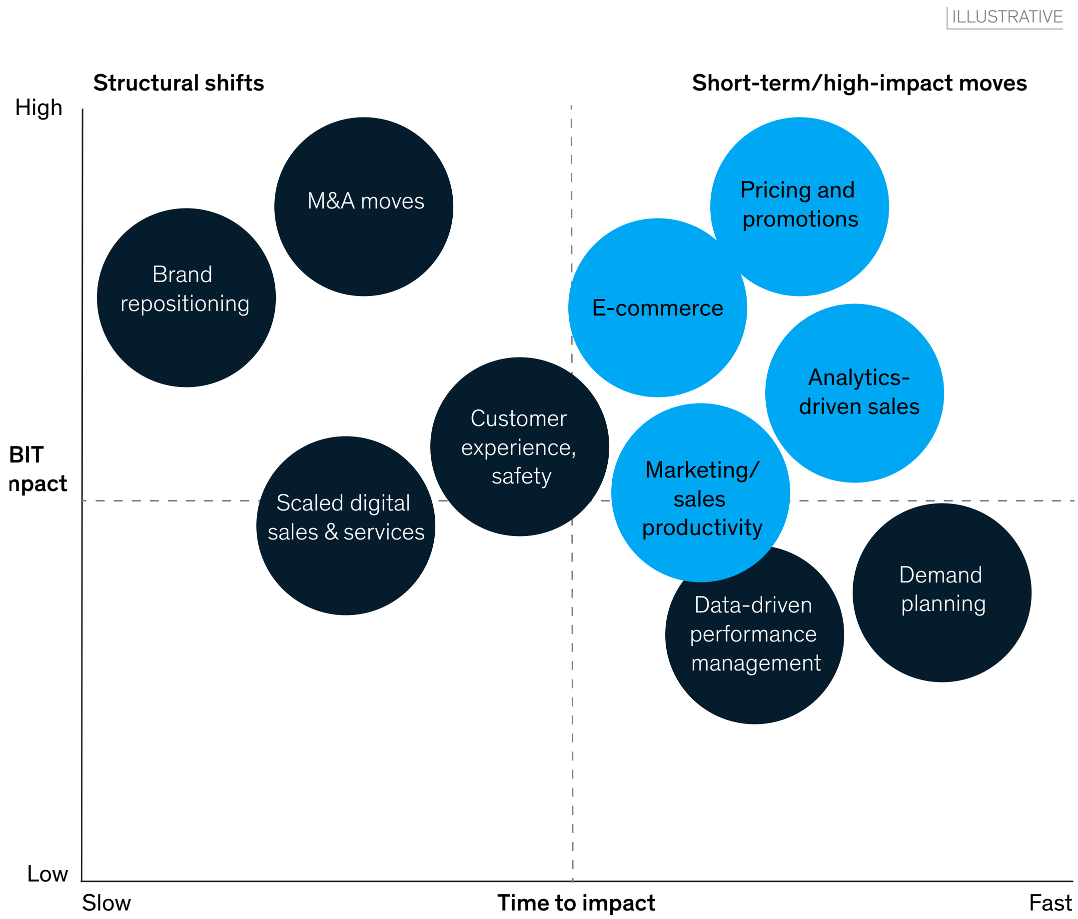
2. Act with urgency

Once there is a granular map of prioritized activities, companies need to quickly and decisively reallocate resources accordingly to capture growth. The focus should be on launching the biggest and readiest initiatives, whether by adjusting sales-coverage models, tailoring product features to specific customer use cases, or shifting marketing spend to high-performing channels. The necessity of acting with urgency has allowed businesses to accomplish incredible things in short periods of time that would have seemed impossible just six months earlier. They have demonstrated the agility of start-ups, an ability to look at their customers in new ways, a commitment to data-driven decisions, and a relentless focus on iterative execution to continually improve.

Take one leading car-rental company with more than 5,000 locations in China. Like its competitors, the business saw its momentum come to a

Exhibit 3

Prioritized measures for Rapid Revenue Recovery.



screeching halt and order volume collapse by 95 percent in February, as the coronavirus surged. In response, the company invested in microlevel customer segmentation to guide personalization and in social listening to track the latest shifts in consumer sentiment. This led them to develop new use cases. They discovered, for example, that many tech companies in southern China, in response to the virus, were telling employees not to use public transportation. The company used this insight to send targeted campaigns to promote car rentals. They tested two campaigns—rent for two days and get one free versus rent for five days and get two free—and learned that the second offer was more attractive because customers could rent five days for work purposes and get reimbursed, but could then use the car for two more days on the weekend.

The company also called first-time customers who had cancelled orders because of health concerns to reassure them of the various safety steps it was taking, such as “no-touch” contactless car pickup. They also used geolocation analytics to identify customers most likely to need a car and their destination. To help manage the program, they pulled together three agile teams with cross-functional skills and designed a recovery dashboard so the senior executive team could track progress in real time. This approach helped them streamline their working process so they could launch a new campaign in two to three days as opposed to the normal two to three weeks it took before the crisis. Within only seven weeks, the company had recovered about 90 percent of their business compared with 2019 level—almost twice the rate of recovery of the number-one company in the market. Campaign conversion rates were five times the normal amount.

That focus on the customer also provided clear insights for a number of technology companies with overseas manufacturing. After fielding surveys of customers, they learned that "supply-chain assurance" had become a top buying factor. Their sales teams used this insight to communicate the latest supply-chain status, thus alleviating customer concerns, and provided some customers with supply guarantees after consulting with their newly established pricing war room. There are enterprise-software companies that have created three-month promotional offers of virtually unlimited product use for a minimal start-up fee. This has helped the companies gain market share, preserve the long-term price points of its value proposition, and assist customers in a critical time of need. This approach helped solve a business problem and address customer cash-flow concerns.

The start-up mindset provides the impetus for significant growth, often through the thoughtful use of digital channels. One company, for example, was able to launch an entirely new e-commerce business in just 13 weeks by focusing closely on what customers cared about most, standardizing features, and building on what they already had. This resulted in twice as many orders as anticipated, a tripling of basket size compared with in-store purchases, and 2 to 3 percent revenue growth.

In another example, one furniture retailer was able to drive a 60 percent improvement in sales in digital channels over just four weeks. It took a portfolio approach to campaigns, launching multiple versions to test and learn along the way. Through their analysis, they discovered demand for baby beds and tailored campaigns to that customer segment, even offering free child beds for those who had babies born during the COVID-19 pandemic.

Marketing return-on-investment (ROI) approaches that use data to make rapid spend reallocations can often yield great returns in the shortest amount of time. One large retailer freed up millions by eliminating distribution of circulars after granular response data showed that 40 percent of customers didn't change their behaviors because of the circulars. The company reinvested the funds into more successful digital targeting practices. There are also pockets of opportunity in shifting the product mix to more productive stock-keeping units (SKUs), pausing or eliminating promotions known to be inefficient, and reinforcing performance-based trade relationships. As consumers increasingly try new brands, companies should consider shifting promotional spend to defend share in categories with surging demand and where there is a risk of switching.

3. Develop a rapid-fire agile operating model
One important way to speed up decision making is to give agile teams highly focused tasks and clear key performance indicators (KPIs), such as click-throughs or open rates. Instead of waiting for approvals and input, these agile squads, which should include agency partners, have the ability to make their own decisions. In our current remote world, we've found people more able and willing to embrace agile methods, sometimes by necessity but also because they are becoming acclimated to jumping on videoconferences to solve problems or make decisions quickly.

The various squads are then assigned to specific areas of focus, from consumer/customer insights to digital marketing. The sales squad could steward large and strategic deals and oversee execution, speeding deal review for impacted segments and maintaining discipline. Another squad could focus on developing a long-term view to avoid panic reactions and develop clear guidelines and objectives for the commercial team (Exhibit 4). These cross-functional teams or squads bring together people with key skills such as data analytics, sales operations, and design, tailored to the specific area and supplemented with additional experts in legal, finance, risk, HR, as needed. A scrum master oversees the squads, allocating and coordinating resources to initiatives

Exhibit 4

An agile-squad model can raise a company's metabolic rate.

Consumer- and market-insights squad

Central hub for monitoring changes in consumer sentiment/behavior, market and regulations
Feeds information to other squads and enables quick response to market changes

Marketing cash-liberation squad

Prioritizes immediate review of cost base and budget
Contributes to company stability & other marketing efforts (eg, communications)

Growth squad

Shares in-market learnings hub
Identifies and prioritizes sales green shoots
Optimizes channel management (eg, actions to be taken with offline retailers, inventory / stock management)

Digital marketing and sales squad

Adapts current digital M&S activities to new reality (eg, digital marketing)
Builds / evolves digital selling platforms (D2C or through partners)

Post-COVID-19 growth squad

Develops clear plan for next normal
Balances resourcing with short-term squad

with the highest value through weekly sprint-progress reviews.

"Agile" does not just mean putting in place iterative, test-and-learn working practices. It means putting in place a new operating model, built around the customer and supported by the right processes and governance. Agile sales organizations, for example, continuously prioritize accounts and deals and decide quickly where to invest. But this is effective only if there is a clear, granular growth plan developed by a cross-functional team that collectively understands how to win each type of customer. Similarly, fast decision making between local sales and global business units and the rapid reallocation of resources among them require a stable sales-pipeline management process that they both use.

Rapid Revenue Response isn't just a way to survive the crisis. What companies do today to capture revenue quickly lays the foundation for future growth.

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