Advertising Age's

point

MAY 2005

MARKETING AT C-LEVEL

SCOTT DONATON
THE TRUTH ABOUT CMO AMBITION

RISHAD TOBACCOWALA
WHY ROI IS A FALSE STANDARD

MASSTIGE QUANDARY
WHAT HAPPENS WHEN LUXURY IS COMMONPLACE

MASS? CLASS!

CITIGROUP'S STEVE CONE KNOWS HOW TO REACH AMERICA'S MOST AFFLUENT CUSTOMERS

A MONTHLY SUPPLEMENT FROM THE EDITORS OF ADVERTISING AGE

point

MAY 2005

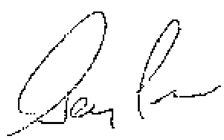
FROM THE EDITOR

Geoffrey Precourt

Our mission at *Point* is to serve senior marketing managers with information they can put to immediate use. Our longer feature stories offer up best-in-class business practices (see our cover-story profile of CitiGroup's Steve Cone on page 13), trends and development (turn to page 9 and our story on how retail marketers are struggling with e-commerce) as well as the smartest and latest strategic thinking (instant business-classic "Trading Up" has been updated and you'll get insight into the author's new perspectives on page 21). They're all part of a package we've put together on luxury marketing and we're confident that you'll find both high-minded and nuts-and-bolts utility in the story mix.

With every issue, we also provide you with voices you might not be able to hear in the course of everyday business, but whose insight will help you raise the standards of your own practice. Since issue No. 1, Scott Davis, a senior partner at business-consultancy Prophet and one of the world's most eminent brand strategists, has been a part of our monthly mix. Last month, Peter Arnell, chairman and chief creative officer of Arnell Group, began checking in with a "Point of View" column that demonstrates how fresh thinking can make for stronger decision-making. With this issue, we introduce two more regular contributors: Rishad Tobaccowala, chief innovation officer of Publicis Groupe, is a break-through thinker who doesn't just break the rules, but remakes them. His take this month on the viability of ROI as a performance standard is counterintuitive and nothing short of brilliant. And Scott Donaton, editor of our sibling publication, *Advertising Age* and editorial director of *Point,* begins some marketing-centric thinking that will become a staple of these pages. In his opener, Scott takes a look at a new study from Spencer Stuart and uncovers one reason for the steady turnover in top-marketing jobs: Many CMOs perceive their posts as a steppingstone to a higher management position and only stay in place when their lack of hands-on business experience blocks them from a promotion.

To this rich mix, of course, we add your voice. Please keep us up to date with what's on your mind at point@adage.com.



POINT MAGAZINE

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FEATURES

DEPARTMENTS

Cover photo by Darryl Estrine

pointers *THOUGHT, TALK & SPECULATION*

GLOBE NEWSPAPER COMPANY, INC.

“I used to think the mark of a good businessman was to not make mistakes. But then I met a lot of successful businessmen and realized that the key to their success was they were willing to try a lot of things. That also means being willing to make mistakes.”

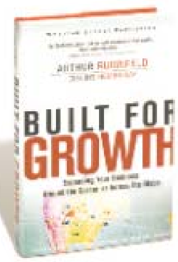
—Gordon Segal, CEO, Crate & Barrel, in The Boston Globe

“We're looking to take advantage of who's [coming in our stores] today…. That's our first initiative. Then we can figure out how to take care of the other half of the country.”

—Claire Watts, Wal-Mart exec VP/merchandising, in The New York Times

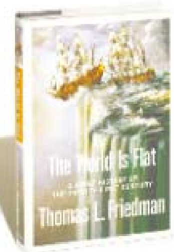
Lessons from the world's most luxurious coffee pot

Arthur Rubinfeld, author of **“Built for Growth: Expanding Your Business Around the Corner or Across the Globe”** (Prentice Hall/Wharton School Publishing, 2005), once lived in the same apartment New York building as Howard Schultz, an entrepreneurial type who had a peculiar take on coffee. Break the rules by creating quality in a commodity product, Schultz reasoned, and the right kind of customers will find you. His business plan called for more than java and Rubinfeld brought some beans to this new kind of retail brew. Real-estate site selection, store design and brand presentation made a difference for Starbucks.



Co-author Collins Hemingway—who helped Bill Gates write “Business at the Speed of Thought”—helps Rubinfeld tell his tale as he moves on from the executive vice presidency of his old neighbor's company to take on brand-advisory positions with companies such as Oakley, Gateway, and Washington Mutual. The result is an an engaging mix of good business yarns as well as hands-on business service.

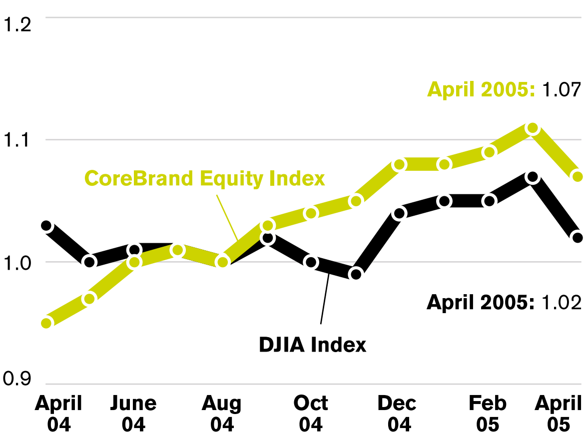
New world economy order: Learn to adjust... now



The most important business book for 2005 is a new work by Thomas Friedman, op-ed columnist for *The New York Times*. **“The World Is Flat: A Brief History of the Twenty-First Century”** (Farrar, Straus and Giroux, 2005) argues irrefutably that the way we conduct commerce has changed forever. Low-cost technologies are the infrastructure of a truly global marketplace. Low-cost outsourced labor is the fuel that continues to accelerate the pace of business. The vision of a 24/7 economy quickly becomes more than someone monitoring overseas markets on the lobster shift; it's a non-stop, hard-charging, survival-of-the-fittest stage that will reward smart entrepreneurial energy and leave behind those who don't learn to adjust.

Friedman's message is steeped in business strategy, his delivery is eminently readable. Even a casual read will drive across the warning: If you haven't started to adjust already, it may be too late.

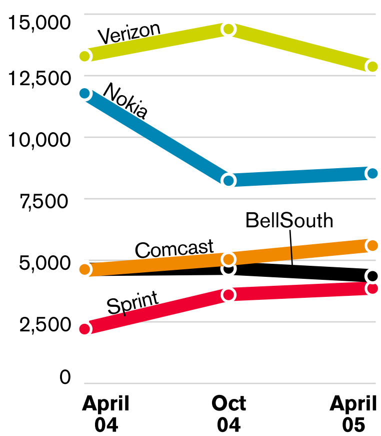
CoreBrand Value Index: down 0.04



During the last 13 months, investor confidence in brands (the CoreBrand Equity Index) has been extremely volatile, with a 16% swing—as compared to an 8% variation in the Dow.

The Index measures the equity value of a portfolio of 10 blue-chip corporate brands to track trends in corporate brand value. Index value of 1.00 based on Aug. 2, 2004 portfolio value. Source: CoreBrand

Sector Report: Telecom



Performance of top five brands in the Telecom sector suggests that Verizon has managed to retain brand confidence in the last year, while Nokia has never recovered from a decline six months ago.

Scale is $1 million in brand equity. Source: CoreBrand

Q&A
Mike Veeck

3RD GENERATION MAVERICK MARKETER

Mike Veeck, co-author of "Fun Is Good—How to Create Joy and Passion in your Workplace & Career" (Rodale Books, 2005) with journalist Pete Williams, is part-owner of six minor-league baseball teams—a group of six shaky enterprises that he's built into a $25-million business.

PHOTO BY DARRYL ESTRINE

Mike Veeck came to professional baseball with a legacy: His grandfather was a sportswriter who moved into baseball management, eventually serving as president of the Wrigley family's Chicago Cubs. Bill Veeck Jr., Mike's father, is a baseball Hall of Fame icon who planted the ivy at Wrigley field and once hired a midget to pinch hit in a ballgame. As promotions director for the crosstown White Sox, Mike began a 20-year absence from the big leagues when a disco-night promotion for the White Sox ended up in a near riot and only the fourth forfeit in major league history. Since then, he's had remarkable success brand-building for a number of minor-league-baseball teams.

The business of marketing is not as whimsical as it once was. How did you measure the ROI of the night when you set a negative attendance record by keeping people away from the ballpark?

Generally speaking, the toughest marketing expenditures to manage are advertising-related. That wasn't applicable for "Nobody Night"—the lack of a gate was the cost—but the ROI for "Nobody Night" came from the more than 200 media interviews we gave to news outlets all over the country

ROI be damned. What's the best time you ever had at the ballpark?

Probably the night we hired mimes to re-enact close plays in St. Paul. We called it "Mime-o-Vision." They stood atop the first-base dugout and the fans just hated it. They pelted the mimes with hot dogs, inning after inning. It was hilarious. The *Minneapolis Star-Tribune* ran a huge front-page story about how this promotion failed miserably. Not the front page of the sports section, the front page of the entire paper. We couldn't buy that kind of publicity at any price. The editors, I'm sure, missed the irony.

You write that a fun-is-good culture works internally as well as a consumer-facing instrument. How do you create "fun" in a workplace?

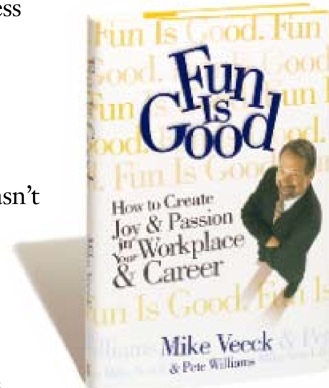
It has to be genuine; it can't be forced. The customers understand when they enter a place of business if the employees are having fun. You can't have a public face and a private one. In order to present that best face, you need to create an atmosphere that encourages it. This can be as simple as setting up a dartboard, Nerf basketball hoop or Ping-Pong table. Stick a candy jar on your desk for all to share. Take meetings outdoors or to a restaurant. Go bowling. Make meetings all-inclusive.

How do managers stay in control when fun rules?

Hold as few meetings as possible. Blur the distinction between chiefs and Indians, creating an environment where anyone can present ideas. Encourage irreverent ideas and promotions. The idea isn't to create a frat house atmosphere but to create a place where coworkers feel comfortable interacting. You don't have to be so serious. Create this environment and you'll have a place where the best people will want to work and customers will want to spend money.

THE REAL RETURN ON INVESTMENTS IN FUN

"I've worked for a lot of businesses, from baseball to advertising to jai alai, and I've always been more successful when I've had fun. I've learned more, been more productive, mentored more, and benefited more from mentoring. The key to any business is to build as much fun into it as you possibly can. When the fun goes, the product fails. It's tougher for workers to get out of bed. Self-motivation and



ambition fall by the wayside. Without fun in the workplace, we'll become less competitive as a nation and will be surpassed by other countries in the marketplace."

—"Fun Is Good," by Mike Veeck, Rodale Books, 2005

BY SCOTT DONATON

WHAT DO CMOs REALLY WANT? ESCAPE FROM MARKETING INTO MANAGEMENT

"The No. 1 thing keeping them out of senior management, marketers said, is that they're "not perceived as broad and deep business people""

Despite the admission of marketing executives into the C-suite, many of them still want to take over their boss' corner office. But their lack of financial acumen and relatively narrow skill set could keep them from getting the key to the general-management washroom.

So says a survey of some 500 leading marketing executives conducted by executive recruiter Spencer Stuart and shared exclusively with *Point* and *Advertising Age* (the latter features a news story on it in the May 2 issue). This study followed one last year that reached an even more startling conclusion—that the average tenure of a CMO is less than two years, half that of the CEOs to whom they report.

Great job, huh?

When *Ad Age* wrote about that survey last year, we noted, "Chief marketing officer is a hot title to have but a hot seat to hold." That could explain why so many marketing chiefs want to move up and out of their current roles.

ILLUSTRATION BY WILLIAM DUKE

An eye-opening 70% of respondents said their long-term aspiration is to hold a general-management position—with 44% dreaming of being president or CEO—while only 30% want to remain in marketing. But well over half were realistic about their next career move, saying it would be to a more-senior marketing role at their current company or a new one.

Asked why they want to be in general management, just 7% cited the more lucrative pay package. The highest number of respondents, 33%, said it's because they want the ability to have a greater influence over the entire organization.

"An awful lot of them want to run something, and being a CMO is not a fulfillment. There's a lot of squishiness in how positions are defined from company to company, and that may lessen the allure of the role to some executives," said Tom Seclow of Spencer Stuart. "The rest of them really do want to run the show and call all the shots."

Seclow said he was surprised by the results, since he believed the rise of the CMO title would encourage more marketers to seek growth on that more defined career track.

But even if they want to get into general management, their bosses may not give them the chance. The No. 1 thing keeping them out, marketers said, is that they're "not perceived as broad and deep business people." Another minus: their lack of financial expertise. And one in five said simply that marketing is not the path to general management at their company.

Yet 40% of all respondents, and half of those from consumer-goods companies, said marketing is seen in their organizations as "the driver of the business." Very few believe they're viewed as just a cost line.

The fix, says Spencer Stuart: Marketers have to round out their skill sets and earn credibility as business leaders. "They have to be seen as a player at the table who has a business perspective and uses marketing as a tool to grow the business," said Seclow. He suggests they seek an international posting as a "baby step" toward running a division, or that they get involved with an acquisition or joint venture.

Perhaps the best bet for those with higher aspirations is to look to a Heyer authority. Marketing veteran Steve Heyer couldn't convince Coca-Cola's board that he had the right stuff to be CEO. But after leaving there he talked his way into the corner office at Starwood Hotels & Resorts, where he now has the chance to prove himself.

There's hope yet. ■

Scott Donaton is the editor of *Advertising Age*

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HOW THE GAME OF CHESS MIRRORS BUSINESS

Chatting up Garry Kasparov

ILLUSTRATION BY ISMAEL ROLDAN

HARVARD BUSINESS REVIEW–While the rest of the marketing world furtively searches for some point of connection with the global fascination with Texas Hold-'em Poker, the *Harvard Business Review* has landed on chess as a management tool for senior executives. Garry Kasparov, the planet's No. 1 player since 1984, tells the magazine what businesspeople can learn from chess: "Never underestimate your opponent. Whenever I am playing at grand-master levels, I always, always assume that my competitor is going to see everything I do—even when I make an unexpected move in order to confuse him…. You have to go on fighting, even if you are in a winning position—in fact, especially if you are in a winning position." Which businessperson does Kasparov most admire? "Steve Jobs is the CEO who is most like me, a visionary who likes to break the mold and who doesn't like to bury himself in the day-to-day tasks of management." **–harvardbusinessonline.hbsp.harvard.edu/b02/en/hbr/hbr_current_issue.jhtml**

Supply-chain management made easy

THE NEW YORKER–How does Nova Scotia's Clearwater Seafoods get fresh lobsters to a Nobel Prize dinner in Stockholm? How does Derek Jeter get a 32-ounce, 34-inch P42 bat from Louisville by game time? It all comes down to supply-chain management, a topic that sounds too much like homework even in business conversation. But John McPhee, whose lifetime achievements include making geology sound interesting, checks in with a story on how UPS goes about its business with "Out in the Sort" a story in the *New Yorker*. It's the best kind of management reading—useful and entertaining. And who would have guessed it's cheaper to ship lobsters from Nova Scotia than buy them in Sweden?

–*The New Yorker*, April 18, 2005

BY RISHAD TOBACCOWALA

> **As long as we measure inputs, we will never get the most important answers. Instead, we must measure the cost of outcomes. We must move from Return on Investment to Return on Objectives**

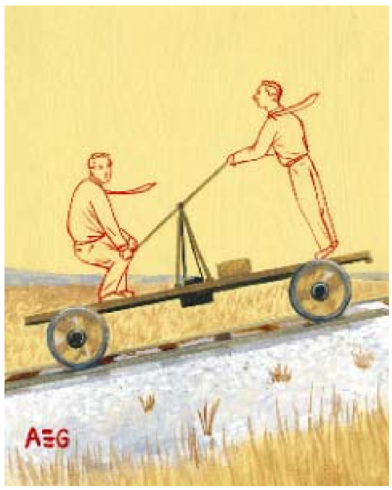
Rishad Tobaccowala is chief innovation officer, Publicis Groupe Media.

THE HIGH COST OF ROI ARROGANCE AND THE NEED TO FOCUS ON OUTPUTS

Most marketers recognize that they are facing a dramatically altered landscape driven by changes in how consumers receive and control marketing messages. Many wax poetic about how this new era requires innovative approaches and changed mind-sets to supplement true and tried ways of doing business.

They demand innovation, but they are loath to pay for it.

In an age of pressure from the Wal-Marts, the HMOs, the threat of outsourcing and digital intermediaries, marketers fixate on cost reduction. Decisions are made regarding partners (vendors), compensation and talent that reward the standard, the cheap, the one size fits all. Marketing-partner selection is moved to procurement. Fees and costs are negotiated downward. In a world where control moves to the consumer, marketers fixate on the last thing they can control and measure: cost of inputs.



ARTHUR E. GIRON

This cost reduction and input fixation will come to haunt us all. First, it will drive talent from the industry as compensation stagnates while hours elongate. Superior marketing talent thrives in an environment that rewards superior ideas. There is no getting around this economic reality. We will drive talent to other specialists, consulting firms and industries and then we will pay a premium for their vital thinking and services.

Second, the fixation will starve innovation. Like talent, innovation requires risks. Innovation does not scale. On the contrary, it tends to require significant resources without short-term return. When costs are cut to the bone, the fiber, muscle and tissue of innovation are also sacrificed.

Third, and most important, the fixation will take us further down the path of measuring the wrong data. In a world of consumer control and fragmentation, the cost of marketing is going to rise because it is going to be more difficult to get attention.

We will need to compensate consumers for their time with increased relevance and increased value. As long as we measure inputs (cost of media, cost of fees, cost of eyeballs), we never will get the most important answers. Instead, we must measure the cost of outcomes. We must move from Return on Investment to Return on Objectives. It's scary, because we like our current metrics. They are easy to capture. But they don't get us where we need to be.

How to achieve return on objectives? One of the most effective ways may be to increase the cost of inputs. When 95 cents of a dollar goes to media spending, why do we focus on the other five cents? Maybe the smarter, better-resourced partners could actually allocate the majority of dollars more effectively.

When we are looking for innovative solutions from content and distribution companies, should we not develop new ways of working rather than have two heckling and posturing sides?

When we need more than the 30-second commercial, should we not reward development of other creative units rather than call agencies dinosaurs?

It's no use posturing about the future if we don't fundamentally address talent, measurement and compensation issues. This is not about technology or Hollywood deals but organizational change and real leadership.

And it is not difficult or financially irresponsible to find a better way forward. A dual track that balances today and tomorrow can be achieved. On one track: the input and scale-based portion of the budget.

Go ahead and cut these costs to the bone and measure return on investment. But nurture track two as well. Aggressively innovate and place new measurements and compensation systems on what will deliver your company's success tomorrow.

Investing in tomorrow is not a luxury. We will have to spend the rest of our lives there. ■

pointofview

BY PETER ARNELL

THE LUX SCHMUX

I looked at an apartment last week. It was in Manhattan's Financial District. It is being designed by impresario and architect Phillipe Starck. It is right next to a 38-story high-rise building that is rumored to be designed by Giorgio Armani. The Realtor told me that even though the Starck-designed apartment complex would not be available to live in for over a year, I had better make an immediate offer if I was interested…apartments were going fast. And, of course, if the Armani rumor turned out to be true, I would have to move fast on an offer there, too. The biggest question I was left to ponder was whether I was more an Armani person or a Starck person—what expressed the true me best? All I knew, at that point, was that I was not going to be a Richard Meier person and told the Realtor not to take me to see anything in the new "twin towers" on West Street that resemble fishbowls—the kind you put next to each other on the kitchen counter with one Japanese fighting fish in each. I imagined one of the unit owners there, Calvin Klein, parading around in his Calvins and being as visible and controversial as his explicit outdoor advertising. Could this be his new outdoor campaign? He has always been genius at this medium.

DALLAL/SIPA

As it was a Saturday morning, we stopped at a Starbucks to get $4 coffees and picked up a $10 fruit cup at a café partially owned by a celebrity. I continued to listen to the Realtor drone on about other "seven-figure-friendly" apartments we could go see.

It all makes you wonder. Does buying things that come attached with someone else's cachet and sense of style really give the feeling of luxury? Of life at the top? Why was there no conversation around my style? The things that make me happy when I am at home, the way I live? It would even have been refreshing to have anyone care if I was left-handed or right-handed so they would know which side of the sink the dishwasher should be positioned. But maybe, in the luxury worlds of Starck and Armani, one doesn't even need to load the dishwasher.

At the most basic level, I don't believe that the Michael Graves spatula is more functional; it's just supposed to be more satisfying. As is the Baby Phat cellphone and almost anything studded with real Swarovski crystals.

The portrait of the new affluent consumer is much more about a lack of taste than a statement of personal style. In order to appreciate the higher price, fine materials and colors you would rarely choose on your own, we seek out knowledge and try to get into the designer's head. We begin to define ourselves through other people's highly developed, finely curated tastes. The desire to appropriate style through luxury often overpowers more practical purchase considerations. Such as, is it comfortable?

The American Express Platinum Luxury survey conducted by Unity Marketing learned that, "Today, affluent consumers are far more interested in living well and smartly rather than keeping up with the Joneses." Well, of course, who ever heard of the Joneses? Today's luxury consumer is much more interested in keeping up with Uma Thurman and that Louis Vuitton bag she carries. There are much bigger fish in the sea to keep up with than the neighbors—unless, of course, you plan on living in the Meier fish tanks.

We've read time and time again that "experience" is the new luxury. But the experiences that are being offered up today are too frequently those of someone else. We, as consumers, are being asked too often to buy into someone else's vision and live their life, instead of living our own. ■

"It all makes you wonder. Does buying things that come attached with someone else's cachet and sense of style really give the feeling of luxury? Of life at the top? Why was there no conversation around my style?"

Peter Arnell
is chairman and chief creative officer of Arnell Group, a brand ideation and experience marketing company specializing in integrated branding, strategy and communications solutions.

theCMOagenda BY SCOTT DAVIS

CORPORATE AND BU MARKETERS: END DIVISION AND LEARN TO CONQUER

> **Corporate should seek out synergies across the business units that result in cost savings and efficiencies**

A senior corporate marketer with a Fortune 100 firm recently expressed concern to me about her department's difficulties executing its new brand strategy throughout the organization. "We've created a great rallying point for employees and a compelling positioning for customers, but some of our core business units are resistant. If we don't demonstrate clear implications for putting more product into customers' hands sooner, they don't see any near-term ROI benefits."

She underscored a growing challenge impeding many corporate marketing departments' ability to succeed: The frequent disconnect between corporate and business-unit (BU) marketers' goals and objectives. If left unaddressed, everyone loses and both marketing agendas are sub-optimized.

TOBY MORISON

Some organizations have broken through to find win-win solutions. By explaining its new brand strategy in a thorough, methodological, fact-and-figures-based manner that's closely aligned with each business unit's individual strategy (global wealth, investment banking, etc.), the corporate global brand management group of financial-services giant UBS has been wildly successful in gaining internal buy-in to the initiative. Being named for the first time (in the 45th spot) to *BusinessWeek*'s 2004 list of the most valuable global brands was confirmation.

At GE, corporate marketing's selling of its recently launched brand strategy began in two of its business units to "test" the initiative's implications internally and externally. Thus, before rolling it out to other BUs, corporate marketing had worked out the "kinks," had a few BU's as allies and supporters and knew what it would take to be meaningful within all 11 core BUs. The success of GE's positioning around "imagination at work" and its financial performance speak for themselves.

In the process, both UBS and GE have found that corporate and BU marketers actually have very complementary roles.

Think about it. Corporate, under the CMO's direction, is traditionally responsible for building brand and reputation, and communicating what they represent to all internal and external stakeholders. It also must guide the overall brand portfolio, and ensure marketing effectiveness and efficiencies across the organization. BU marketers are all about building and supporting customer relationships and sales initiatives. Where they come together is in their common goal of enabling the business as a whole to build better customer relationships, thus driving business performance.

So, rather than working on the marketing initiative *du jour* and being concerned only with "consistency of message," corporate needs to adopt a more real-world, bottoms-up approach, recognizing the realities of its BUs. Similarly, business-unit marketers should incorporate more of a top-down view by not thinking just about their individual brands, but how those brands and messages fit within the overall corporate portfolio. Importantly, the BUs should think about their initiatives' impact on the customer, ensuring their promises don't conflict with those made by corporate or other BUs.

Finally, corporate should seek out synergies across the business units that result in cost savings and efficiencies, whether in cross-promotions, integrated marketing initiatives, sharing customer research and insights or from helping the BU integrate outsourced marketing-support services.

As that Fortune 500 marketer experienced first-hand, an "us vs. them" approach serves neither customers nor the business. It's time for corporate and the BUs to recognize their differences and their common ground, and work together to achieve business success. ■

Scott Davis
is a senior partner of Prophet (prophet.com), a consultancy specializing in the integration of brand, business and marketing strategies. Davis has written several best-selling books on brand topics.

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UPSCALE DILEMMA: MANAGING MASS CLASS

"MASSTIGE" MEANS MORE POTENTIAL PROSPECTS THAN EVER BEFORE—AND MORE WAYS TO REACH TARGET CUSTOMERS

By Marylyn Donahue

How do you sell prestige in an age of mass class?

By utilizing every marketing venue available, says Denise Incandela, senior-VP for Saks Direct, the online and catalog division of the New York-based department store. "Multichannel retailing is very important to us, " she explains. "We think of Saks.com as another store."

A "store," she adds, that strives to offer an online experience that is as up close and personal as the one offered by its status-packed brick-and-mortar Fifth Avenue parent. And while Saks' Web site is meant to mirror the store experience, the intention is to integrate, not replace, says Incandela.

It's a kind of strategic thinking that's grounded in the phenomenon of "masstige"—a term that came out of the Boston Consulting Group in 2002 to describe the phenomenon of luxury products and services having a far wider audience than they ever have had before. And, with the issue of a broader customer base comes the complication of any number of new entry points for the masstige shopping experience.

"One day, a customer may choose to use the Web site to shop for an item online. Another day, the same customer may choose to visit one of our stores. And, on another, the customer may prefer to order through a catalog."

And, according to Incandela, this kind of

About the author

Marylyn Donahue is a writer who lives in New York City and does all her shopping online at 2 a.m.

> "The mix of shopping opportunities provides discerning shoppers with a variety of rich, personalized buying experiences. The distinction between different marketing strategies comes with the mix of different marketing channels"

Denise Incandela
April 5, 2005

Saks.com was one of the pioneers in retail e-commerce. Incandela and her colleagues believe in integrating the online experience with bricks-and-mortar (or, in this case, silk-and-satin) venues.

multichannel migration pays off. "Customers who shopped at both Saks.com and at a Saks store spent four to five times more money in 2004 than shoppers who bought from only one channel," she says.

Indeed, making as many points of contact with potential purchasers is a process whose sum is far grander than its many moving parts. A recent Forrester Research study reports, "cross-channel shoppers [across all product categories] purchase products 48% more frequently than single-channel shoppers." And fully 65% of the shoppers Forrester contacted surveyed had researched a product online before they stepped out to purchase it off-line.

At Saks, Incandela stresses, the channels are not mutually exclusive. And yet it is the retailer's Web site that is flexing the most muscle these days, yielding 50% higher sales in 2004 and attracting not only new customers but new prospects who are roughly10% younger than the traditional Saks audience.

No small thing at a time when Saks has put its 241 regional stores up for sale and (heaven forefend) may even be considering selling its crown jewel, the 62-store Saks Fifth Avenue chain.

BRAND-BUILDING IN A MULTICHANNEL MARKETPLACE

Last fall, at the 25th Annual Wharton Women in Business Conference in Philadelphia, Incandela and four other senior managers worked to define strategies for brand building in the luxury retail sector. And an integral part of their discussion was the importance of recreating a luxury retail environment in an online shopping world and offering a multichannel shopping experience.

"We did not focus specifically on the differences between men and women and their interest and purchase of luxury goods," explains panel moderator Robin Koval, chief marketing officer and general manager of the Kaplan Thaler group and co-author of "Bang: Getting Your Message Heard in a Noisy World." "We did, however, focus on areas of the luxury and prestige market women are most likely to influence such as fashion, beauty and retail vs. those more typically considered the province of male consumers such as high-end electronics. … We also focused on reinventing luxury brands for younger customers and how to retain the class beauty shopper as more beauty purchases migrate to mass, as well as the role of

social responsibility to build luxury brands,"

Or, as Koval succinctly put it, "How do we do luxury right?"

There seems to be no disagreement on the importance of multichannel retailing as a means of reinforcing and reinventing the luxury brand. Moreover, the mix of shopping opportunities provides discerning shoppers with a variety of rich, personalized buying experiences. The distinction between marketing strategies comes with the mix of different marketing channels.

Saks.com, launched in 2000, remains a forerunner in fashion retailing and it continues to refine its efforts to maximize the technology and

PHOTO BY DARRYL ESTRINE

the utilization of data. The company's efforts were acknowledged earlier this year with an "Internet's Retailer's Best of the Web 2005" honor it shared with Ebags.com, LandsEnd.com, LLBean.com, NeimanMarcus.com, Nordstrom.com and Zappos.com. Saks was cited for "perfecting online sales" while recognizing that "being a fashion trendsetter isn't easy for an Internet retailer. Online shoppers can't try on the merchandise or get advice from fashion experts."

Saks.com strives to overcome such obstacles, says Incandela, by replicating—and, in many cases surpassing—the high-end store experience. The Internet presence comes loaded with all kinds of bells and whistles that include: a 24/7 online personalized shopper, detailed information on how brands look and fit, account information, gift cards, e-mail updates, wedding registries, online catalogs, magazine-like content, a wedding registry, a Saks First loyalty program with complimentary shipping and—not least—increased product lines.

It also keeps customers informed—further reinforcing their loyalty—through both the site and e-mail notices about trends and online truck sales, according to Incandela.

Bath & Body Works, on the other hand, offers a more subtle e-tailing approach to the luxury

PHOTO BY THOS ROBINSON

RETAIL

> "By integrating images and information, we strive to create an experience that is seamless in its presentation and representation of Eileen Fisher"
>
> **Paula Bennett**
> **April 12, 2005**
>
> Eileen Fisher is a "nurturer" and it uses the Internet to stay in touch with its customers.

market. The company sees masstige—and the growing tendency for customers to purchase mass beauty products—as an opportunity rather than a problem, according to Beth Kaplan Bath & Body Works exec VP-general merchandise manager.

"We have seen a dramatic change in what 'beauty' means to people," Kaplan told her colleagues at the Wharton session. "It used to be all about surface, what your face looked like. And if you asked people, 'Who is beautiful?' they would name models and movie stars. Now they will name their mom, their sister, their best friend. Beauty is all about the whole person."

Bath & Body Works backs up its 1,700 U.S. brick-and-mortar stores with a Web presence. Unlike Saks and other high-ticket retailers, however, the companion site has no purchasing option.

"We're really spending a lot of time understanding the power of the Web as it relates to educating our customers about product. When you are not commerce based, there's time to focus on these other things," Sharon Glass, Bath & Body Works director of Internet strategies, recently told MarketingSherpa.com.

The company's two principal e-retail strategies are an online shopping list (which, says Glass, is the fun part of shopping) and e-mails offering special deals with trackable barcodes. According to Glass, the Web site took off last fall, when the company eliminated the need for customer registration.

Eileen Fisher shares a similar low-key e-tailing strategy. "The commerce dimension of the Eileen Fisher Web site continues to develop organically, much like our product," explains Paula Bennett, chief operating officer of the women's apparel company. That means an electronic presence that works "to further simplify the lives of our customers, echo the inspirational brand story and reach more potential customers. … Our intention is not to be revolutionary but evolutionary."

Eileen Fisher sees multichannel retailing and the development of its Web site as a process that integrates the brand and addresses customer needs rather than imposes strategies. "By integrating images and information from advertising, store visual merchandising plans and the company voice into our Web presentation," she says, "we strive to create an experience that is seamless in its presentation and representation of Eileen Fisher."

She refers directly to the company's print marketing campaign that eschews models and features women who are real Eileen Fisher devotees—so real, in fact, that a number of them are Fisher's own employees. The effect is arresting and delivers on the company's intent to create a broad and deep identification with clothes that are accessible, well designed and reflect the brand's high-end status.

The company, whose initial mission was to "design products that delight the spirit and simplify life," today enjoys revenue that is up 12% to $144 million at the same time overall sales for women's apparel have dropped 6%.

According to Bennett the mission remains the same for the company's fledgling Web site. launched with purchasing capabilities in 2003.

Bennett sees the Fisher Web site as a way of furthering customer trust and loyalty. "This is an ongoing dialogue with the customer," she says, "enabling the customer to feel a deep connection to the brand and reciprocal trust."

No one is more identified with her brand than Eileen Fisher, whom *Fortune* dubbed recently as "the nurturer."

As far as Fisher and her company are concerned, nurturing and the new technology need not be mutually exclusive. And as far as Wharton panelists are concerned neither is the marketing old luxury and new luxury."

"The message is simply to be ourselves," says Bennett. ■

THE GEMSTONE COWBOY

FOR NEARLY 25 YEARS, STEVE CONE HAS BRANDED LUXURY FOR A SELECT GROUP OF AMERICA'S SMARTEST MARKETERS

By Lawrence A. Armour

This happened a long time ago—back in 1987, to be precise—but it's one of Steve Cone's favorite stories and he tells it with all the drama and passion it deserves. Cone was at American Express at the time, and his job that particular day was to bring the AmEx top brass up to speed on marketing plans for the hard launch of the Platinum card.

"We're in this huge conference room," Cone begins. "I was a lowly vice president at that point. John Linen is sitting next to me and Aldo Papone is next to him. Lou Gerstner, who's down at the other end of the table, looks up at me and says, 'What's the story on pricing? I've talked to five of my neighbors. They all know we're going to charge $300 for the card, and each one says he'd gladly pay $1,000. What gives?'

"Total silence. Every head turns. Everyone is looking at me. They're all thinking, 'How's Steve going to handle this one?' I clear my throat and say, 'Lou, we've done a lot of research on this. You're right. We could charge $1,000 for the card, but only five people would buy it.'

"Lou thinks for a moment and says, 'Yeah, you're probably right,' so we launch the card at $300 and it becomes rather successful."

Rather.

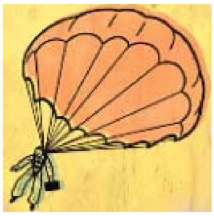
Every company that has even the faintest designs on the upscale end of the charge-card market has played follow-the-leader with a look-alike version of the AmEx Platinum card. Citigroup rolled out yet another new one—this one called the Chairman card—in February. Like the AmEx Platinum, the Chairman offers free companion airline tickets, an emergency-evacuation service if you become ill overseas and reservations at top restaurants. It costs $400 a year ($5 more than what the AmEx Platinum goes for

About the author

Lawrence A. Armour, deputy editor of *Fortune* Special Projects, contributes to a variety of Time Inc. publications.

STEAL THIS IDEA

ILLUSTRATIONS BY DAN PAGE



Great marketing cannot overcome a ho-hum product. If you find yourself in a company with a mediocre product, get out before it fails.

—*"Steal These Ideas," by Steve Cone, Bloomberg Press, 2005*

> **"I was an English major in college, and that's been a big help. To be successful in marketing, you need to read, write and communicate"**

Steve Cone
March 8, 2005

Cone lives in Manhattan with his wife Faye, who works in the apartment/home design business.

today) but it allows holders to earn points faster. It also gets them into more than 450 airport lounges around the world, as compared to the much smaller number of Continental, Delta and Northwest lounges that AmEx holders are restricted to.

But here's the real difference: Citigroup is where Steve Cone hangs his hat these days, which means the Chairman card has the attention of one of the acknowledged big guns in the mass-marketing business.

Cone, 54, arrived at Citigroup in February 2000. He spent 1987 to 1991 at AmEx, where he ran marketing for the direct-marketing group and served as branding manager for all Travel Related Services operations. His next stop was the Citibank office in Chicago, where he was responsible for U.S. and European marketing for the consumer bank. Cone soon got tired of commuting to Citi headquarters in New York, and in 1994 he moved to Cleveland and the top marketing job at Key Corp, which had initiated the first major bank merger of the '90s. He moved again in 1998, this time to a two-year stint at the Boston-based Fidelity Investments, where he held the title of chief marketing officer and had two main jobs—running advertising and marketing for the corporation and heading sales and product development for the retail businesses.

At Citigroup, the biggest banking enchilada of them all—2004 revenues totaled $86.2 billion, net earnings came to $17 billion and $1.5 trillion of assets are perched on the year-end balance sheet—Cone is one of six senior executives who oversee worldwide brand management for the businesses in the more than 100 countries in which Citigroup operates. His specific beat is called Global Wealth Management, where he is in charge of advertising and brand management for The Private Bank, Smith Barney and Smith Barney Equity Research.

APPEARANCES DECEIVE

One of the nice things about Cone is that he neither looks nor sounds like a banker. (To put it another way, he's more a Sandy Weill than a Walter Wriston. Which is not to dis Wriston. According to Phillip L. Zweig, author of "Wriston, Citibank, and the Rise and Fall of American Financial Supremacy," Wriston "transformed Citicorp from a genteel utility where golf scores counted for more than I.Q. into a tough … corporate meritocracy that dragged the rest of the industry out of quill-pen banking.") Cone is bearded, soft-spoken and slight, the last due in part to genetics, part to the fact that he begins most days with a five-to-six mile run. And he's funny. "In addition to running, I work out a lot. You can tell by my massive upper body."

He also understands the basics. "I was an English major in college, and that's been a big help. To be successful in marketing, you need to read, write and communicate." An example of his prowess in these areas will appear this fall, when Bloomberg Press will publish a tightly written how-to-do-it called "Steal These Ideas: Marketing Secrets That Will Make You A Star."

One of the chapters focuses on the use of a spokesperson, which Cone feels is perhaps the best way to build brand identity. How come? "Because most products are commodities, and they need some kind of booster rocket to get them into the consumer's orbit. Personalities can do that, quicker, better and more persistently than any other promotional device." If you go through the history of marketing, Cone says, what sticks in people's minds are charismatic spokespeople, and they can be real, made-up or animated characters like the Pillsbury Doughboy or the Peanuts characters who work for Met Life.

Animated creatures, he says, are the easiest.

PHOTO BY DARRYL ESTRINE

STEAL THIS IDEA

There is a reason why a submarine captain has an executive officer who runs every aspect of day-to-day operations. The captain's job is not to run the boat. It is to inspire the crew, to think of how to make their jobs more productive, to think of better ways for the boat to operate. It is also to inspire confidence, boost morale and encourage the crew to make the boat's performance the very best it can be. The No. 1 job of a senior marketing professional is to recruit the best second in command he/she can possibly find. The No. 2 job is to let him/her run the ship so that you can do the creative thinking needed to leapfrog your competitors.

—*"Steal These Ideas," by Steve Cone, Bloomberg Press, 2005*

> **It's critical to be entertaining if you want to get through. That means whenever possible coupling a strong message with a grin or a chuckle**

"They're likable, don't have an attitude, usually avoid getting into personal trouble and don't need their own VIP trailer or dressing room." Even so, Cone chose to go live at Key Corp. After creating a new logo for the company, he hired Anthony Edwards, who was playing Dr. Mark Greene on a TV show called "ER." "It was a radical move," he says. "Fortunately, 'ER' became a popular show and Anthony did a great job for us."

Long story short, says Cone, Edwards was exactly what he was looking for: a "likable" person who was credible, wholesome, well known and appealed to men and women of all ages and backgrounds. He was also a believer. "Anthony had never done a commercial, and he had reservations. One way I sold him on the idea of working for us was by making the point—which, by the way, I happen to believe—that financial services is a noble calling. Two things are important to every family of any wealth: the health of the family and their financial security. Anthony signed on because he believes that as well."

Fidelity, which didn't go for the idea of a spokesman at first, eventually came around. "I told Ned [Johnson] that not using Peter Lynch was like keeping Michael Jordan on the bench." What made the campaign work, says Cone, was the fact that Lynch was the first successful mutual-fund manager who really thought that part of his job was to get the message out that people should be investing properly, not buying hot stocks that almost certainly had to crash.

"Lynch was a good speaker," says Cone, "but I knew he'd be more effective if we didn't use him simply as a talking head. I figured it would be better if he interacted with real people, so I paired him with Lily Tomlin and Don Rickles. In choosing those two, I used the same criteria I did with Anthony Edwards. Neither had done commercials before, and both were believers. Lily was a Fidelity client and Don became one. The commercials we did were entertaining and informative at the same time."

A MANDATE TO ENTERTAIN

Given the amount of messages (not to mention the variety of venues) that flash in front of the buying public each and every day, Cone is convinced it's critical to be entertaining if you want to get through. That means whenever possible coupling a strong message with a grin or a chuckle. It also means coming across as a company that knows what it's doing. "Most people in private banking wrap their ads around the same old homogenized Kodak moments. Fine. Let them keep doing it. At Citigroup, we're differentiating ourselves from the slew of private banks that are out there by using our people as spokesmen."

This translates in part into once-a-week print ads in *The Wall Street Journal* (always on the next-to-last page of the first section) consisting of a Q&A with someone from the Private Bank—Mark Peters, head of the High Net Worth Group, one week, David Rosenberg, head of Client Solutions, the next, and so on. "Our clients are buying the expertise—the collective intellectual capital—of our people," says Cone. "They expect us to be smarter than everyone else. They expect us to be there for them and to understand every aspect of their lives. A lot of wealthy people become wealthy because they work 90% of the time. They don't have a lot of time to figure out what to do with their money. These Q&A's give us a chance to show them we're worthy of their trust."

Cone graduated magna cum laude from Coe College in 1972. During his senior year, he fell in with a group of guys who were starting a database-marketing company called Epsilon. He spent the year commuting back and forth between Cedar Rapids, Iowa, and Boston. (Talk about the good old days: Airfare was $30 each way.) Epsilon started out by taking organizations—first not-for-profits, then for-profit companies—into the 20th century by transferring their member and donor records from 3x5 cards to computer tape. Then they updated the way their clients communicated.

"We worked with all sorts of organizations: zoos, PBS stations, symphonies. We took Epsilon public in the early '80s. I was there for 15 years, working with a lot of interesting companies. Apple hired us to create a marketing database for them. MCI hired us to help them communicate directly with customers, to help them convince people to switch from AT&T, which in those days was viewed as Mother America. People thought they'd be disloyal to the country if they switched."

Epsilon, which means "as a member of," also worked for Jerry Falwell, Oral Roberts and other evangelical preachers whose congregants lived in rural areas, were infirm or couldn't get to church. Cone sees the evangelicals as the pioneers of integrated marketing, positioning their brands across radio, TV and other media. Epsilon also dabbled in politics, working both sides of the aisle, building constituency databases and sophisticated marketing applications designed to persuade people to vote for one candidate or the other. "We got involved in mayoral, senate and presidential races," he says, "working for whoever could pay their bills."

ESSENTIAL REASONS TO ADVERTISE

Cone left Epsilon for Amex in 1987. In addition to having responsibility for managing marketing for the publishing, lending, merchandising, insurance and the company's non-card businesses , he was branding manager of all of Travel Related Services. This meant "making sure the brand was used consistently around the world. I also ran the ad-review board, which was a big deal at AmEx."

In his soon-to-be-published book, Cone highlights what he sees as the six essential reasons to advertise: motivate your troops, remind existing customers why they are customers, generate new leads, recruit great people from your competitors, garner more positive publicity and build the brand.

Build the brand? It's all about differentiation, says Cone. You've got to be able to describe in a sentence or two what makes your business tick, what makes it unique. Then you've got to get your employees to understand what makes your company—and their efforts—special. Makes sense, but how do you do it? Cone answers by telling a story about the time he sat next to the head of marketing for Harley Davidson Motorcycles at a dinner. He asked his dinner companion how his company managed to stay the premium brand in the business, year after year.

His reply: "We allow overweight middle-aged white guys to dress up in leather on the weekends and ride a Harley through small towns and villages, scaring the hell out of the locals." That,

"Our clients are buying the expertise—the collective intellectual capital—of our people. They expect us to be smarter than everyone else"

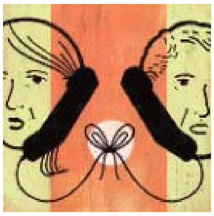
STEAL THIS IDEA

Year after year, in good times and bad, *People* magazine always maintains or grows in circulation. What's more, *People* generates the largest number of ad pages of any magazine in the world. You can translate the success of *People* to your everyday marketing efforts by utilizing five simple steps:

- Use pictures of real people.
- Use captions, *always*.
- Write concisely; this is not a government report.
- Leave plenty of white space on every page.
- *People* magazine uses real people and so should you. Showcase the actual people who run your company, manage the service or are customers who agree to be profiled. Avoid using paid models or stock photography of people no one knows. People always want to know about people.

—*"Steal These Ideas," by Steve Cone, Bloomberg Press, 2005*

STEAL THIS IDEA



Relationships with the media need to be cultivated and managed in the best interests of the company. This is not manipulation in any way—just basic good manners. The first step in managing this relationship is to understand a little about reporters. In general, they are a group of smart people, well educated but not necessarily well rounded. They usually feel underpaid and underappreciated by their own organization. A cynical bunch, they make significantly less money than the people they report on and often resent that fact. And like most people under pressure, they will cut corners to make a story deadline. Some tips on how to deal with reporters:

- Always call back promptly, even if you can't help them.
- Try to give exclusive coverage to two or three key industry reporters on a rotating basis.
- Always be on time for interviews.
- Always request the ability to check facts before a story goes to print.
- If there is a point you really want to make, repeat it several times during an interview—in fact keep repeating it until you are sick of saying it.
- Buy them lunch occasionally and thank them for covering your business.
- Regardless of what you are promised, you are always "on the record."

—"Steal These Ideas," by Steve Cone, Bloomberg Press, 2005

Steve Cone
March 8, 2005

Once an avid hunter and fisherman, Cone now spends his leisure time hunting golf balls.

says Cone, is a succinct description of a unique selling proposition.

Cone also cites the three ingredients he feels are essential for a successful marketing campaign: excitement, news and a compelling call to action. If pressed to pick his all-time favorite ad, Cone says it would be the one placed in London newspapers in 1900 by Sir Ernest Shackleton, the 20th century polar explorer. It read: "Men Wanted for Hazardous Journey. Small wages, bitter cold, long months of complete darkness, constant danger, safe return doubtful. Honor and recognition in case of success. – Sir Ernest Shackleton." Shackleton hoped to get 50 to 75 responses. He received 15,000, thanks, says Cone, to the fact that all the elements—excitement, news and a compelling call to action—were in place, wrapped up in 26 words.

Another way to make an impact is to use drop-dead graphics, the kind you "absolutely can't not notice." Example: Apple's iPod. "Here's a campaign that's instantly recognizable, compelling, bright. It's full of motion and fun. My age, my culture or the planet I came from don't matter. I get it. It's a brilliant, visually driven campaign in a world where 80% of life is visual. You can't not stop and look at it, and all it takes is a millisecond."

Yet another way to get your point across is through a recognizable, visually interesting icon or logo. We're talking the Shell Oil symbol, Absolut's vodka bottle, the Merrill Lynch bull, Citigroup's umbrella. A strong, visual entity that's simple to understand and stays in people's minds—like the Coke bottle, whose unique shape was developed more than a century ago. "In the soda world, a can is a can is a can," says Cone, "but the bottle is the differentiation between Coke and every other soda—or every other drink, for that matter. You don't even have to put a logo on the bottle. Everyone knows exactly what it is."

Cone is also a big proponent of taglines—provided they are distinctive, tell a story, reflect the focal point of the advertiser and describe its unique selling proposition. He rattles off examples, many of which have been around for years: "This Bud's for you"; "Just do it"; "You're in good hands with Allstate"; "When you care enough to send the very best." Unfortunately, says Cone, the golden age of taglines is behind us. To make his point, he cites the demise of two of the best ever created: AmEx's "Don't leave home without it" and GE's "We bring good things to life."

THE FUNDAMENTALS OF BRANDING

All this, of course, is about branding and differentiating yourself from the crowd. It probably started, says Cone, with cowboys, who branded their cattle because they needed to tell one from another. Today, in a world where so many things look and sound alike, it's the path to becoming a category leader. "Branding is the sum of impressions that people have of a person, a place, a product or a service. It's the way of getting

PHOTO BY DARRYL ESTRINE

STEAL THIS IDEA

When asked about the use of a spokesperson, my answer is always yes. Why don't more companies do it? Some feel that it will cost too much to pay the individual. Others don't like the idea of a personality selling the product vs. the product selling itself. Unfortunately, most products are commodities and need some kind of booster rocket to get them into the consumer's orbit. Personalities can do that, quicker, better, and more persistently than any other promotional device we have at our fingertips.

—*"Steal These Ideas," by Steve Cone, Bloomberg Press, 2005*

> **"The campaign was a hit with money managers, who felt they were being recognized for years of hard work"**

your message out there in a way people remember."

So how does this work when financial institutions merge, as they tend to do these days, and organizations that were once competitors become partners? Citigroup's Private Bank deals with this head-on, says Cone, "by emphasizing the attributes that make us unique. We're the most knowledgeable. We're stable. We've been in business a couple of hundred years. Clients like to hear about longevity. It means we're likely to be in business long after they're gone, doing for their heirs what we did for them.

"We have the most working capital of any bank. We're the most profitable, and we provide the widest array of products and services available. At the same time, we're a filter. We don't say to our clients, here are 100 hedge funds, pick one. We say, here are 10 hedge funds that we're recommending. We look for the best. We don't care who manufactures it, and we're very transparent about that. These are all part of our brand DNA, and we believe they are differentiating and powerful."

When Cone joined Citi in 2000, his first assignment was to work with a group of other marketing executives to study all existing brands and come up with recommendations to make the various businesses more brand-reinforcing of each other. "We needed to look like one company," says Cone, "which of course we were." One move he championed was to change the private bank's name from Citibank Private Bank to Citigroup Private Bank, a relatively simple thing that better defined the unit's role and made it clear that it had access to the best services and the best thinking from all parts of the organization.

Similarly, SSB/Citi Asset Management became Citigroup Asset Management, a move Cone underscored by launching the division's first-ever campaign that highlighted the money managers themselves. It was an integrated program that used TV, radio, print, mailings and the Web. "It was a huge hit with the money managers, who felt they were finally being recognized for their years of hard work," he says. "It was also a hit with clients, who got to know who exactly was managing their money and the thinking behind their approach."

Some 20 years earlier, Cone had been asked by a group of Vietnam veterans to design a direct-marketing plan to help raise the $7 million or so needed to build the Vietnam Memorial in Washington. It was a tough sell because many people wanted to forget the war entirely, and certainly not be reminded of it by a permanent memorial. The centerpiece of Cone's campaign was a letter in which he stressed that it had taken years to get congressional and site approval for the memorial, and that people needed to honor and remember the sacrifices of those who died serving the country. Cone says the plan was the proudest accomplishment of his career.

His book is meant to be a quick read. No charts or graphs. It's a how-to-do-it. Also a what-not-to-do. One point that resonates deals with art directors who create ads that are impossible to read. They pick the smallest, hardest-to-read type and then go one size smaller. To make things worse, they then place the copy on white reverse type.

Cone calls this the "23/63 effect," meaning that 23-year-old art directors are creating ads that can't be read by 63-year-olds. Not good. "Your job is to give your ads *every* chance of being read and acted on. Small type is the enemy. Sans-serif type is the enemy. Reverse type is the enemy. And to not insist on the art director doing your bidding is a cardinal and unforgivable sin." ■

ILLUSTRATION BY VIKTOR KOEN

LUXURY

TRADING UP

THE AUTHORS OF A SEMINAL BUSINESS BOOK OFFER NEW PERSPECTIVES ON THE WORLD'S MOST DESIRED CUSTOMERS

By Michael Silverstein and Neil Fiske

David Brooks first identified the "bohemian bourgeois class" in "Bobos in Paradise" in 2001. Two years later, Michael Silverstein, a senior VP of the Boston Consulting Group, and Neil Fiske, formerly the head of the BCG/Chicago office and now CEO of Bath & Body Works, picked up where "Bobos" left off. Brooks himself observed that the original 2003 version of "Trading Up: Why Consumers Want Luxury Goods… And How Companies Create Them," was "packed with insights on how shoppers think and behave." Strong on best-in-class business strategy, the book took readers inside the practices of such smart marketers as Starbucks, Lexus, BMW, Williams-Sonoma, Restoration Hardware, Victoria's Secret, Prada, Coach and Callaway Golf.

But consumer habits do change—even in the two years since "Trading Up" was published to the rave reviews of Brooks and others. In an updated version of this modern-business classic, Silverstein and Fiske have revisited their subject and found it deeper than they even imagined. In this edition, the authors salute a new kind of hero: the "average" consumer who is not shy about investing in quality but also well enough informed to insist on value.

In this preface to the new edition of their work, Silverstein and Fiske visit a marketplace that is "so knowledgeable, selective, affluent and discerning" that few marketers will be able to resist its temptation.

When we first started talking about trading up, some observers dismissed it as an anomaly, a short-lived trend that came about as the result of an unprecedented confluence of factors, including a strong economy, remarkable consumer confidence and a buildup of home

About the authors

Michael Silverstein is a senior VP of The Boston Consulting Group. He has helped clients develop new premium-priced products that command $4 billion in retail sales.

Neil Fiske is the former head of the BCG Chicago office and is now the CEO of Bath & Body Works.

> **“Trading up is a global phenomenon, as relevant and powerful in Europe, Canada, Australia, Japan and other parts of the world as it is in the U.S.”**

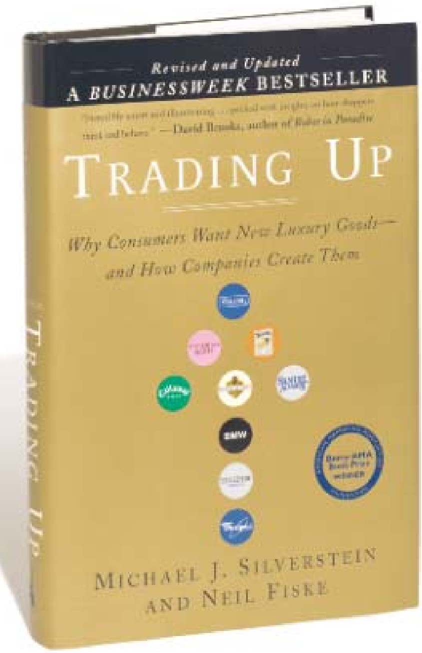
equity. Our continuing research shows, however, that consumer buying of New Luxury goods is not much affected by economic conditions, and that the performance of companies providing New Luxury goods remains strong even in a downturn.

Based on our analysis of 23 categories of goods and services, we estimate that New Luxury reached $400 billion in 2003 in the U.S. and will continue to grow at the rate of about 15% per year; we expect that it will reach $1 trillion by the end of this decade. It is actually a global phenomenon, with the U.K., Scandinavia, and Japan matching the U.S. in growth. In 2003, the New Luxury 15 companies achieved an average sales growth in the GDP that year. These companies also did well by their shareholders, achieving a median total shareholder return (TSR) of 26% for the three-year period from 2001 to 2003, vs. a 4% median annual TSR for the S&P 500. Such excellent performance fuels the continued growth of New Luxury.

We have also seen the dramatic transforming effect of trading up and trading down on categories, retailing and markets. Trading down is when consumers choose the low-cost alternative in product categories of little importance to them, and it is an essential part of the larger phenomenon. Without the ability of low-cost alternatives and commodity goods in very wide range of categories, many consumers would be unable to afford the New Luxury goods they want to buy in the small number of categories that are most meaningful to them.

In category after category, the entry of a New Luxury brand, combined with trading up and trading down behavior, has caused its category move to the high and low ends of the price spectrum, while companies offering conventional goods get “stuck in the middle” and struggle to succeed and even survive. The New Luxury “sweet spot” is where companies are able to move off the traditional demand curve and achieve high margins and high volumes at the same time. Our research shows that New Luxury goods typically account for up to 20% of a category’s unit volume, but 40% of its dollar volume, and a remarkable 60% of its profits.

We have also seen that New Luxury is becoming a presence in many categories beyond the 23 we originally studied. Even in such categories at financial services and health care, we are seeing the emergence of companies that are creating premium offerings, targeted to the “mass



affluent,” which display genuine product and services differences along with emotional appeal.

We have also seen that the trading up consumer behaviors (including “rocketing,” which means spending a disproportionate amount of income on a single category) have become increasingly pronounced and are followed even by consumers who cannot be considered affluent. Now that most consumers can afford to buy the goods that fulfill their basic survival needs and still have cash available, they will buy products and services that are emotionally meaningful to them.

Finally, our research outside the United States has shown that trading up is a global phenomenon, as relevant and powerful in Europe, Canada, Australia, Japan and other parts of the world as it is in the United States. The sociodemographic trends that drive trading up in other geographies are similar, with only minor differences in degree and rate, to those that drive trading up in the U.S. The size of New Luxury in these geographies is also similar. We estimate the size of the European and Asian New Luxury market, for example, to be about $400 billion, the same size it is in this country.

THE DEBATE AROUND TRADING UP

It’s not surprising that trading up should be such a durable phenomenon, because, in fact, it is nothing new. Around the world, people have been trading up—seeking to enrich their lives and engage their senses and emotions through wonderful goods—for centuries. What's different about trading up today is its availability to a much larger percentage of the population, and there are vastly more premium goods and services to trade up to.

There is another difference: our attitude about consumption. As long as people have been trading up, we have also been debating, philosophizing and moralizing about it. We have worried and felt guilty about buying things that are not strictly related to our basic needs (food, shelter, clothing) and are bought simply because we want them. In ancient Greece, luxury goods were condemned because they were considered a corrupting influence. The ancient Romans passed laws to regulate the consumption of certain goods.

Over the years, philosophers, economists and social observers have joined in the discussion. Adam Smith (Scottish philosopher-educator-economist, 1723-'90), author of "Wealth of Nations," argued that opulence and freedom are "two of the greatest gifts a man can possess." He believed that the individual desire for "improvement" led to a collective economic good, creating employment for many and wealth for the state.

Thorstein Veblen (American economist-social scientist, 1857-1929), author of "The Theory of the Leisure Class" (1899), is probably the most-cited observer of the social scene relative to consumption. He observed that, in a "highly organized industrial community" such as ours, a person's reputation is based on his "pecuniary strength"—how much money he has—and the best way to show that strength is through the "conspicuous consumption of goods."

In the 1950s, production, as well as consumption, came under close scrutiny. In "The Affluent Society" (1958), John Kenneth Galbraith (American economist-educator-writer, born 1908), argued that our ability to produce goods would eventually exceed our desire to buy them. In the last few years, the debate has become more polarized. David Brooks, in "Bobos in Paradise" (2000), describes the positive (as well as silly) aspects of American consumption and makes the case that consumers believe it is possible to "make good" (have and spends lots of money) and also "be good" (do what's right for society). By contrast, Juliet Schor, author of "The Overspent American," argues that "the new consumerism has led to a kind of 'overspending' within the middle class" and that too many Americans are spending more "than they say they would like to, and more than they have."

We believe that trading up is fundamentally a positive phenomenon. It is not really about luxury at all, nor is it about class, conspicuous consumption or debt. Consumption is a way of life and it can be done well or poorly, and trading up to premium goods is one way to do it well. Most consumers, no matter what their class or status, use goods to help alleviate the stresses of modern life and to help realize their aspirations. Most people do not fool themselves that such goods solve their root problems or take the place of essential needs such as wellness and human connection. Most people are well aware of the limitation of goods. They are also well aware of their delights. This phenomenon is driven by middle-class consumers who are educated, discerning and ready to engage in the goods and services they consume. They balance their budgets and trade down in more categories than they trade up in.

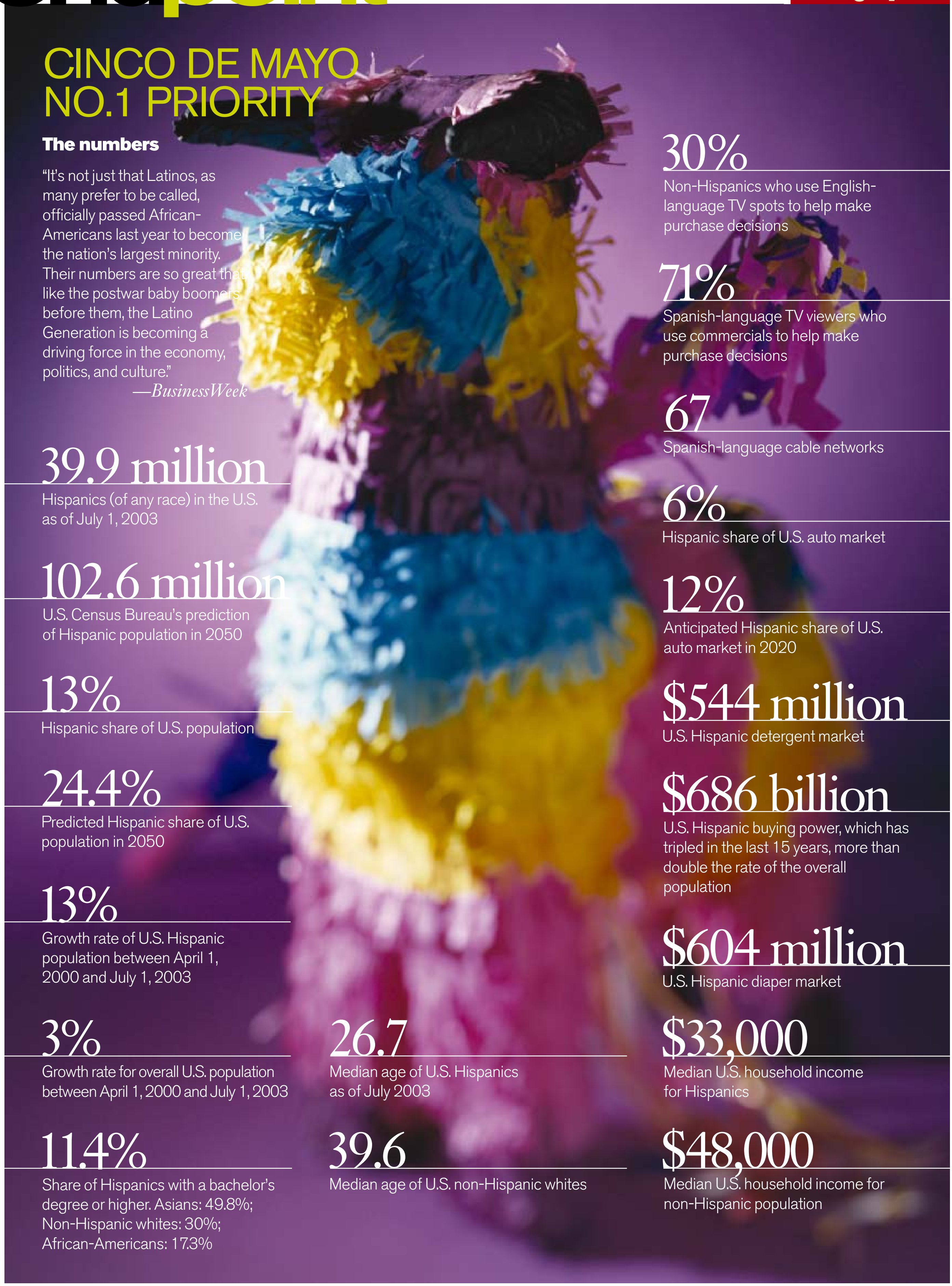
If there is a star of this book, it is the American middle-market consumer. For decades, demographers have loved these consumers because they were easy to identify and seemed quite predictable in their behaviors. Companies counted on them, too, because they had control over them and could tell them what to buy and set prices as they wished. But the "average" middle-market consumer is disappearing. More and more the middle-market consumer is a person who selectively trades up to new and better products and services and trades down in others to pay for the premium purchases.

New Luxury consumers are so knowledgeable, selective, affluent and discerning that businesses must listen and respond to them as never before. And although the primary traders up are relatively affluent – earning $50,000 a year and above – the effects of New Luxury goods spread benefits to people at all income levels. By polarizing the market, a New Luxury entry does not drive out low-cost goods; rather, it helps to ensure that they are available. And the pressure from the most affluent consumers stimulates and accelerates innovation at the high end, which cascades downward to lower-priced products more rapidly than ever before – making innovation more affordable and available to more people.

Trading up is positive, global and here to stay. ■

“New Luxury consumers are so knowledgeable, selective, affluent and discerning that businesses must listen and respond to them as never before”

AdvertisingAge's AMERICAN demographics



CINCO DE MAYO NO.1 PRIORITY

The numbers

"It's not just that Latinos, as many prefer to be called, officially passed African-Americans last year to become the nation's largest minority. Their numbers are so great that like the postwar baby boomers before them, the Latino Generation is becoming a driving force in the economy, politics, and culture."
—*BusinessWeek*

39.9 million
Hispanics (of any race) in the U.S. as of July 1, 2003

102.6 million
U.S. Census Bureau's prediction of Hispanic population in 2050

13%
Hispanic share of U.S. population

24.4%
Predicted Hispanic share of U.S. population in 2050

13%
Growth rate of U.S. Hispanic population between April 1, 2000 and July 1, 2003

3%
Growth rate for overall U.S. population between April 1, 2000 and July 1, 2003

11.4%
Share of Hispanics with a bachelor's degree or higher. Asians: 49.8%; Non-Hispanic whites: 30%; African-Americans: 17.3%

26.7
Median age of U.S. Hispanics as of July 2003

39.6
Median age of U.S. non-Hispanic whites

30%
Non-Hispanics who use English-language TV spots to help make purchase decisions

71%
Spanish-language TV viewers who use commercials to help make purchase decisions

67
Spanish-language cable networks

6%
Hispanic share of U.S. auto market

12%
Anticipated Hispanic share of U.S. auto market in 2020

$544 million
U.S. Hispanic detergent market

$686 billion
U.S. Hispanic buying power, which has tripled in the last 15 years, more than double the rate of the overall population

$604 million
U.S. Hispanic diaper market

$33,000
Median U.S. household income for Hispanics

$48,000
Median U.S. household income for non-Hispanic population

SOURCES: NIELSEN MEDIA RESEARCH, POLK AUTOMOTIVE INTELLIGENCE, SELIG CENTER FOR ECONOMIC GROWTH AT THE UNIVERSITY OF GEORGIA, TIME MAGAZINE, U.S. CENSUS BUREAU

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