

THE LUXURY MARKETING COUNCIL

of San Francisco



Dr. Peter Sealey

Consummate marketer, author, academic and futurist.

Transcript of an interview with Dr. Peter Sealey on the topic, “Marketing’s Brave New World” at an event hosted by The Luxury Council of San Francisco on April 26th, 2006. The interviewer is Council Chairman, Alf Nucifora

NUCIFORA: Start from the beginning. How did you get into marketing in the first place?

SEALEY: Well, out of graduate school at Yale. I was dating a girl living in Cincinnati and decided to do the summer internship at Procter & Gamble, which I did, and fell in love with marketing. I redesigned the Jif Peanut Butter label in the summer of 1963. What I did was, it had a Jifaroo on it – kind of like a purple kangaroo – and I wanted to make the label more adult. I took the Jifaroo off and cleaned up the label a bit, and went back to finish my studies at Yale, and I went in this supermarket in New Haven and I saw my Jif Peanut Butter label. I said, “My God, what have I done?” It was an epiphany. I felt like I was Master of the Universe.

I went back to Procter after I graduated, then to McCann Erickson Advertising in New York, down to Atlanta as Account Executive on Coca Cola (1968). Coke hired me as a brand manager on a product called Sprite, and Sprite at that point had a .7 share, and the head of marketing of Coke USA said, “Get this damn thing to a share point or we’re going to discontinue it.” And I started the Indianapolis Racing Program. I said, “The bottlers can make the brand and give it a share point.” I did that and started a career, and ended up spending almost 27 years with Coke. I ran marketing in the United States.

NUCIFORA: You had name brand Coke?

SEALEY: Yes. Coke was in the wine business for a while. We had Sterling Vineyards, Monterrey Vineyards, Cinzano, Taylor, Great Western. We had a product called Taylor California Cellars, which, at the time, with Paul Masson and Inglenook were “the premium brands” in the late ‘70s. We built California Cellars to surpass Inglenook, Almaden and Paul Masson. The story behind the story is that when Coke went into the wine business in ‘79 you had to be fingerprinted because if you’re in the spirits business, they think you’re a criminal – it goes back to Prohibition, – so we had to fingerprint the board of directors of The Coca-Cola Company, youngest of whom at that time was probably 75. These old geezers had to go down to the police station and get fingerprinted. You want to know about a crisis in The Coca-Cola Company.

Sold the wine business to Seagrams. Helped Coke buy Columbia Pictures in 1983. Ran a hunk of Columbia Pictures in New York, and went out to Hollywood, and was president of marketing and distribution for the movie studio. Coke sold Columbia to Sony, and there was no job for me, so I went back to get a doctorate under a man I had always admired, Peter Drucker at the Claremont Graduate University. I was completing my class work and was hired to come back to Coke as head of global marketing, and I went to a friend of mine at the time – Michael Ovitz – who at the time was running Creative Artists Agency, and said the following: “If you can produce movies with the contacts you have in Hollywood, how about producing an advertising campaign – not hiring McCann Erickson or Ogilvy or one of the big agencies” – and we did that and created the campaign called “Always Coca Cola” and the Polar Bears commercial, and it was a very successful campaign. We rolled that out, and then my boss, Don Keogh, the president of the company, retired and there was a three-way battle for the chief operating officer’s job, and I lost, and the guy who won fired me summarily. He actually used something very similar to what Henry Ford II said to Lee Iacocca, “I just don’t like you.” And I had done the most successful campaign, and advertising to Coke is like the Mustang to Ford. I thought, “My God, I can’t do any more than that.”

NUCIFORA: And then?

SEALEY: Came back to California to do three things. I teach at U.C. Berkeley. I love it. I’m teaching a course in entertainment marketing and high technology marketing. I invest in and help manage at any given time 8-10 start-up companies. My favorite now is Face Book, which is a site for college students. Then I do speeches and seminars and expert witness testimony. I write, speak and lecture, and I help manage companies.

NUCIFORA: From ‘68 to now, to ‘06, what have been the significant shifts or changes that you have seen within the marketing universe?

SEALEY: Three fundamental changes in marketing in that period. In the '60s, the marketer was in control. At Procter & Gamble in 1965, I was on a brand called Crisco, and I could reach 80% of the women in America (18 to 49) with three black & white, 60-second commercials on Procter-owned soap operas – Guiding Light, Search for Tomorrow, and As The World Turns. People didn't have a remote control. They had one but it was big and difficult to use. They sat in front of the television set, glued to it. They ate their dinner there. They tuned into Huntley-Brinkley on ABC at 6:30 and stayed on it until Steve Allen came on at 11:00. They listened to everything you said. You could get them to do anything. I'll tell you a story about that in a minute.

That power shifted profoundly beginning in 1974. In the fall of 1974, something happened at a Marsh Supermarket in Ohio. It had never taken place before. A six-pack of Wrigley gum was scanned by a UPC laser scanner – the first time they had ever scanned a product. It was introduced by the grocery manufacturers and the Food Marketing Institute to speed up the check-out process. But, Alf, what that did was create a potential for the retailer to have more information and knowledge than the marketer. It wasn't immediate. It took processing power ten years to work its way down to the check-out counter, but when that processing power was there, the retailer began to get more knowledge than the marketer. They knew what was selling, at what time of day, to whom, in what quantities, and what else they were buying. An enormous power shifted to the retailer, and advertising – as a percentage of the marketing mix – went from 50% down to 25%, and dealer incentives – paying Safeway to build a display of Coke – went from 25% up to 49%. The UPC code built Wal-Mart. Wal-Mart is the largest retailer on the earth. \$300+ billion. The largest private employer on earth. The UPC code is the DNA that allows Wal-Mart to exist. So in the period of, basically, '74 through about '95, retailers dominated – just ran the whole thing.

In the era we're in now, the marketer is not in control, the retailer is not in control – the consumer is in control – with TIVO, with a remote, with a sling box, with the ability to skip and omit and not have to watch advertising.

NUCIFORA: Are they cutting out advertising with TIVO?

SEALEY: Absolutely. I'm going to guess that, for those with TIVO, about 70% of your television viewing is recorded. You watch the news live. Actually, you watch the 10:00 news starting at 10:15 so you can skip the commercials. And about 80% of the commercials are skipped. If you've got a TIVO, you know how to program it to skip forward at 30-second segments. I call it "the interrupt and irritate" methodology we had in the '60s and '70s. "Ring around the collar." You had to get up and change channels.

Bottom line, now the consumer knows information. You're buying a car, you come in, you know what the car costs, what your trade-in is worth. The consumer has enormous knowledge, and the manufacturers are chasing to keep up with that.

NUCIFORA: Go to traditional communication channels, what's happening?

SEALEY: Well, we're taking our media with us now. We used to be tethered to a television set in the family room, and we now have four screens. We have the television screen, we have our desktop or work PC, we usually have a laptop, and we're getting a high bandwidth cell phone. Our media is going to follow us on those three devices. Wherever we are really in the world, it's going to be with us. Media is going to become digital – there is no more analog media – personal. It's not "Women, 18-49." It is "A Woman, X years, living in Sausalito." Digital, personal and controllable – controllable by the consumer and controllable by the marketer. I use the Google ad as an example of what is going to be happening more broadly where you type in "Hawaiian Vacation" into Google, and your ad is on the right-hand side of the page, and the two at the top are specific to a Hawaiian vacation. It's tailored to exactly what you're looking for at that moment. We're going to do that with television. The era when everybody gets the same commercial is crazy. I did two seminars recently – one for Kimberly Clark (they make Huggies and Pampers), and one for Clorox (they make Kingsford Charcoal). I was across the bay in Oakland looking at San Francisco and there were a bunch of high-rises. I said, "Do you advertise Kingsford Charcoal from network television?" He said, "Yes." I said, "Does that network signal go into those high-rises in San Francisco south of Market?" He said, "Yes." I said, "What do you think the chances are those people would have a charcoal fire in that high-rise without any balconies?" He said, "Zero." I said, "You're wasting your money, right?" It's the same with Kimberly Clark. They want to advertise Huggies to mothers with kids under 12 months, and at 12 months they want to switch them to a pull-up version. Think about the waste in their advertising on network television. If you guys watch a lot of news – I am convinced people who watch news all have false teeth. They see dental adhesive advertising, and old folks eating apples or corn on the cob. That's all they eat, and they're happy as hell. I don't have false teeth or hair coloring. I don't have hair. It's wasted. Think about that.

Back in the '60s we were a homogeneous country. We're not anymore, and advertising has to be digital, personal, controllable, addressable – addressed to a person, not even a household.

NUCIFORA: Which leads us to IPTV.

SEALEY: Television sets are going to have an Internet address. Just like your computer has an IP address. When you boot up, most of you probably

have a dynamically assigned IP address, so that allows Google to communicate with your desktop or laptop. It's a nine-digit number. Hewlett Packard made an announcement last week they are re-entering the flat panel television business – the first American company to come in, ever. It's all been Japanese, Taiwanese... There in the announcement was a statement that each one of these flat panel high-definition Hewlett Packard televisions sets is going to have an IP address. Take the Da Vinci Code, which is coming out on May 19th. The average American goes to four movies a year. It's just a hassle. When the Da Vinci Code comes out on May 19th, Friday night, if Sony Pictures could communicate to you and say, "Would you like to enjoy the Da Vinci Code tonight..."

NUCIFORA: Opening night?

SEALEY: Opening night... make it available to your for \$6. How many people here would say yes? Now, the implications of this are: you don't need Comcast... cable... Direct TV, you've got an IP address, and all you need are two things – a real fat pipe, a lot of bandwidth, and it's coming, and a big hard disk. Get out a big son-of-a-gun because the high-def movies are about 25 gigs or so, but that's coming too.

NUCIFORA: How far away?

SEALEY: You're going to start within the next 24 months doing this. It's beginning now. It's breaking down. ... Disney is going to be the first. It's going to revolutionize the entertainment business and it's going to profoundly impact those people now to whom you have to go for a movie – a movie theater owner, a cable company, or a satellite company. You won't need any of those.

NUCIFORA: They're gone?

SEALEY: Well, they're going to aggregate. They'll still going to do some stuff, but the big stuff – the Da Vinci Code – Sony would be crazy to say to John Malone at Comcast, "Let me give you half the revenue on this movie." Why would you do that? I mean, with an IP address and a consumer, just go on your computer, go to Sony.com, and say, "I want to subscribe to..."

NUCIFORA: High bandwidth. What's the capacity right now?

SEALEY: You've got about 1.5 megabits per second. With cable you can get up to about 3 megabits a second. The Koreans are running at 25 megabits a

second. You really need 100, and that's coming with compression technology. I'll give you an example. When I got my first computer – I was living in Beverly Hills with Columbia Pictures in '84. It was a Fat Mac, a Mac 512. It had a 400-baud modem – 400 bits per second. That same twisted pair copper telephone line today can go from 400 bits per second to 1.5 million – same pipe. So we're finding ways to get more and more through the same pipe. Software is getting there. You guys are seeing ads in San Francisco about the coalition for better TV. It's the telcos, it's AT&T, who know they can deliver movies to you, entertainment to you, through the telephone line. Here's a case where there were regulations. San Francisco granted a cable franchise to Comcast, and they paid a lot of money for that. And suddenly AT&T can say, "Hey, if you've got a telephone line, I can deliver you the same movies, the same entertainment." It might take you from \$90 a month down to \$40 a month. How many people live in the City of San Francisco here? You guys all know you're going to have free WiFi within the next six months, courtesy of Eric Schmidt at Google. Let me tell you the story of that.

Eric and Serge and Larry – are they just good people with their 757 jet and their dollar-a-year salary? No. Comcast and AT&T, Direct TV, make money selling you bandwidth. Eric Schmidt and Larry and Serge make money when you surf the Web and do searches. The more people that search, Google gets a 50 share. So Google is going to make it available to all 760,000 San Franciscans at about 400 megabits a second – not huge, but enough to do a lot. If you want to have 1.5, you've got to pay \$14.95. But here's a case, folks, where the Google business model is based on people surfing the Web, so they can give away the razor and sell the razor blade. And Comcast and AT&T are in the business of selling you a high-speed connection. They can't compete with Google. Google is in the airline business, and Comcast is in the refrigerator business.

NUCIFORA: What does Google do in ad revenues now? What do you figure?

SEALEY: They inadvertently released that figure. They anticipate \$9 billion in advertising revenue in 2006. Bigger than any television network in America. \$9 billion! And they've got no programming costs. They've got some computers out there.

NUCIFORA: What's happened to terrestrial radio?

SEALEY: It's being destroyed by personal media. You've got your iPod, you've got the earphones in, you're listening to your personal music, you've got a BMW, you're playing it through your sound system in the car so you're not listening to music. You've got a satellite navigation system – and by next year a company called Traffic.com is going to talk to that satellite navigation system so you will not only see a map of what's in front of you, but the speed of the cars at every point of that map at that moment in

time, so you're not going to have to listen to KCBS for traffic reports. You'll have all the damn news and weather reports you needed at home the night before. You've got XM or Sirius satellite radio playing "Frank's Place"

...

NUCIFORA: By the way, has Howard Stern helped?

SEALEY: Yeah, he validated it. Terrestrial Radio is owned by two companies now – Clear Channel being one of them. You think the local radio stations out there with DJs, people playing music in Boseman, Montana are on the spot? There was a train wreck in Montana about a year and a half ago. Chlorine gas was leaking, and the authorities – three radio stations in Boseman – called the three radio stations to put the word out. "Stop programming. Emergency! Tell them there's chlorine leaking in Boseman." All three of those radio stations were being programmed remotely – two of them in San Diego, California. They're DJs who read the local newspaper in Montana, they're living in San Diego, and they come on the air and they talk about the high school football game the night before. They don't know where Boseman, Montana is. It's being programmed. The play lists are being programmed. You can go to the Web now and MSN will give you the exact same music of every radio station in the City of San Francisco, California – the exact play list on the Web. Terrestrial radio – gone!

NUCIFORA: Daily newspapers?

SEALEY: Take the Wall Street Journal, USA Today and New York Times out of it. For the rest, their economic base is Classified Ads. They make money off the slate ads, subscriptions are a wash. They make money off Classified Ads. The basis of classified advertising is real estate, automotive and employment. Guess what the Internet is taking over? Who in the hell would go to the San Jose Mercury News on Sunday to look for an apartment? The paper must weigh eight pounds. To go find a two-bedroom apartment in Sunnyvale? When you can access to Craig's List, Ebay, AutoByTel, Monster.com, HotJobs? Employment, automotive and real estate are all going to the Web. That's why Knight-Ridder sold the San Jose Mercury News. They're in a 3% decline, Alf. They're just slowly going down. It's going to be a slow death – a profitable death – but they're dying.

NUCIFORA: Magazines?

SEALEY: Well, tougher. With magazines, there is a tactile experience. I'm going to talk about the bifurcation of marketing into the niche luxury segment and the mass market on the bottom, and everybody in the middle is in deep trouble. A traditional department store is in deep. Who in hell goes to Macy's anymore? I mean they used to sell refrigerators and washing

machines. You've got on the top, the Sak's and the Neiman's selling \$800 cashmere sweaters. You've got the low-cost providers on the bottom – CostCo, Sam's Club, Wal-Mart – and you don't want to be caught in the middle. Supermarkets are dead. Supermarket will lose business to the super centers and CostCo at one end and Whole Foods and Trader Joe's at the other. Go to a Safeway. It's the same damned Safeway I went in 40 years ago – vinyl on the floor... They've got a deli back there, but it's dull, and you push your damned cart through a 50,000 square foot... We go to Mollie Stone's in Sausalito. It's outrageously expensive – or the Whole Foods over in Mill Valley. You spend \$4 on a cucumber at Mollie Stones. Then we'll go to CostCo and buy two 28-ounce bottles of A1 Sauce for \$4.

NUCIFORA: Magazines then?

SEALEY: The luxury segment is going to do well, I believe. Take my friend Marvin Shanken with the Wine Spectator. That's a glorious magazine.

NUCIFORA: Aficionado...

SEALEY: Aficionado magazine – Marvin is a genius at that. Marin Magazine, where we live, beautiful. I wait for that. That market is going to be there, but for the traditional magazines – just the day-in and day-out...not so good.

NUCIFORA: What's going to happen to luxury...a good business to be in?

SEALEY: Great business to be in. I mean you're going to find people with disposable income. This is a wealthy country and unfortunately the wealth is being pushed more upstream. I think that's the place. We've got a daughter who is PR Manager at Neiman Marcus in Beverly Hills – the largest Neiman's store in the world, highest volume store. There is where I want to be. That's an entertainment experience. They do an incredible job. That's where you want to be. Or you want to be Wal-Mart. They just announced a reduction in their inventory. They're taking another \$8 billion out of inventory. You can't compete with them delivering a box of Tide. You simply can't do it. So you'd better sell an \$800 cashmere sweater or a box of Tide at Wal-Mart, and you don't want to be caught in the middle.

NUCIFORA: From a marketing perspective what's going to happen to Real Estate?

SEALEY: Here is this bifurcation again. The tract house in Stockton is going to sell on the Web. There are 1.5 million realtors in this country selling about 6 million re-sales a year and about 1.5 million – 2 million new houses. Do the math. Just divide one into the other. That's not a high level of productivity. On the commodity side, it's going to be basically down to where the Web is going to do a lot of that.

NUCIFORA: I could buy a \$200,000 home on the web?

SEALEY: Yeah, because it's the Coronado versus the Allegro in the development in Stockton. On the luxury end, you're going to still have a full-service realtor. It's too big a transaction. It's too complicated when you're dealing with \$2, \$3, \$4 million houses. So you're going to have real pros who understand the market, financing, re-sales, psychology. There is probably going to be 200,000 to 250,000 people whose jobs are secure.

NUCIFORA: Automotive?

SEALEY: General Motors is going broke. Here is a case of the greatest industrial corporation in the world, largest employer in the world as of 15 years ago – had a 50 market share in 1955. It's down to a 24, and headed to probably a 12. General Motors has \$1,500 per car in health care benefits per employee and retiree. They've got 1.2 million employee and retirees. General Motors is an HMO that happens to make cars on the side. They're making decent cars, but they are dead. They've got a brand hierarchy that Alfred Slone articulated in 1921...Chevrolet, Pontiac, Oldsmobile, Buick, Cadillac -- each higher in price, each higher in quality. My dad, God love him, started with a Chevrolet, moved to a Pontiac, got to an Oldsmobile, then a Buick, got the Cadillac, and died. That doesn't work anymore. There are two places in the automotive market – Toyota and Lexus – Honda and Acura – Nissan and Infiniti.

NUCIFORA: You tell a story about the value of the brand – the Matrix that's produced...

SEALEY: There is a ... facility across the Bay that Toyota and General Motors own and operate jointly. Among the cars they make there is a Toyota Matrix and a Pontiac Vibe. They are exactly the same car. They're made on the same assembly line, same engine, same transmission – different trim. They come off the assembly line, and the Toyota Matrix sells for \$1,500 more than the Vibe, and they have to put a \$2,000 – it's called "money on the hood" to sell the Vibe. Same car.

NUCIFORA: Classic retailing?

SEALEY: Again, I think a lot of it is entertainment retailing. I think we're getting more and more to the concept of shopping as an experience. I think retailing is going to that.

NUCIFORA: Will online take more of that face-to-face business away?

SEALEY: The high-touch, high-feel items, you still need to see them. I think high-touch items, clothing, people are going to still want to see that. Commodities – a DVD, a book, things that are uniform – a box of Tide – that stuff goes on the Internet. The stuff that's high-touch, high-feel, high fashion, I think you're still going to want to see that.

NUCIFORA: Fine wine and dining?

SEALEY: Here, so much is happening. Anheuser Busch is a great company but AB has made Budweiser and Bud Light so damned bland and so tasteless as they've taken hops and malt out of it. There was a story in the Wall Street Journal today of how they're getting killed by specialty brews that have some bitterness and flavor to them. We are a nation now experimenting with taste.

NUCIFORA: Financial services?

SEALEY: Same thing. You're going to have e-trades of the cheap stuff on the bottom and you're going to have a financial counselor at the top. Same as real estate. You're going to have service and personal contact in the luxury market. You're going to drive to the low-cost model on the commodity side, on the low end – cars, financial services, real estate, all of that.

NUCIFORA: Brands that you think have done a spectacular job over a period of time?

SEALEY: Call them loved ones. Brands that people love. Who are the Steinway people here? You've got a loved one. This is not a piece of wood and some ivory. This is magic. I mean you make this thing in New York, and the guy that carves the wood, his knowledge is passed on from generation to generation. Harley-Davidson. The Harley-Davidson marketing director said, "Peter, I'm not in the transportation business, I'm in the emotion business." Porche, Apple, Macintosh. I'm like a zealot. I will convert you. In 'n Out Burger. No advertising. Double the volume of a MacDonal'd's. That's a brand that people love. Whole Foods. Condominium people in New York City will beg Whole Foods to open a store in the basement. They can sell condos in New York if they have a Whole Foods in the basement. Brands that people have a passion and relate to – not these bland, everyday things that are just tertiary to our lives.

NUCIFORA: Brands that have done a lousy job?

SEALEY: Well, we talked about that before – the entire General Motors complex, I think has been a travesty. Until recently the hospitality industry – it's kind of beginning to define itself. In the automotive sector, you have to take Ford and General Motors. And people doing well, I mean Porsche is selling 200,000 cars around the world and will make more money than General Motors selling 7 billion cars around the world. I tend to look at those. You want to be in either one of two categories – low-cost producer or a niche – and you're going to tend to find the successes in those two categories... Dell Computer, Wal-Mart, CostCo, Apple, Bentley, Maserati, Maybach – the Mercedes. And in the middle, the Oldsmobile Alero? What the hell is it?

NUCIFORA: What about Sony?

SEALEY: Tragic. Sony's problem is they don't understand the concept of a brand. It's amazing. The Japanese do not have that construct. And Sony believed in their business model...they were always 18 months ahead of the competition and had a superior product at a premium price, and Samsung just ate their lunch. They just closed that gap. Sony ignored flat panel television. The iPod should have been a Sony product. Sony is one of the great brand failures. They blew it. What the hell does Sony have anymore?

NUCIFORA: Questions from the audience?

Q: How will all of this affect the world of art?

SEALEY: Good question. I think as people get more education and more affluence, my issue is, "How in the hell is the Louvre or the de Young going to take the people who want to get in there in 20 or 30 years?" I teach at a great university. We'll get 40,000 applications this year for 5,000 seats. It'll go to 50, to 60, to 70 to 80. And I think the same thing is going to happen on the high end here. There are going to be so many people. How many people can get in that room? I think we're going to have to enjoy some of this electronically.

Q: Implications for the interior design community?

SEALEY: Well, you're going to deal with a designer. You're going to have professional help. You're going to be individualistic. You're going to be eclectic. You're not going to go to a furniture store.

NUCIFORA: They're not out of business like real estate agents?

SEALEY: Not at all. Not at the high end. Look, 30 years ago we spent – low-income families – 30% of our income on food. Whose spending is going down? The two areas that we're going to spend more of our income on are entertainment and the luxuries of life. You can only eat so much. You can only drive so many cars. But I think the ability to enjoy the finer things in life – much more of our disposable income will go there.

Q: In our last meeting here, there was a panel on the luxury customer – who is it? And one of the people in the panel said, "You can't draw a dollar salary line or income line for who the luxury customer is because there are people below that line who will save and give up to have the luxury experience that you would typically think is above the line." Comments?

SEALEY: I'll give you a whole category. The gay and lesbian markets. That market has far more disposable income for luxury items than a straight couple spending \$14,000 a year to send a kid to school in San Francisco. I think

the gay and lesbian family is far more a luxury family than someone making \$100,000 a year, living in the City of San Francisco with two kids.

NUCIFORA: As lower-middle class is aspiring to buy other things, what are they buying? What can they afford to buy? They can't afford to buy a Ferrari. What can they acquire in terms of an experience that touches luxury?

SEALEY: Well, they can get into home entertainment, as plasma and LCD TV prices come down. And the sports nut – you can get every sports game in the world, and you can get one hell of an experience with 5.0 surround sound. It is an incredible experience, and the guy spending 4 times that is getting just a little bit better. It's an affordable luxury.

Q: You talk about bifurcation in the marketplace. Do you see packaging and marketing following that same trend? – you're probably going to buy at Wal-Mart... the packaging is probably going to become more low end, and the marketing budget will shrink?

SEALEY: You mean the physical packaging itself?

Q: Sure – and what's included in it, the extras or lack of...

SEALEY: A Costco or a Wal-Mart, yeah. We're talking about taking stuff out from under the sink and putting it on the counter top. What's the name of the company?

Q: Method Home Cleaning Products. They're driving a wedge between P&G and Unilever by just saying, "We're going to take it out from under the kitchen sink..."

SEALEY: What do they have? Describe that.

Q: Soap, cleaning products...

SEALEY: I thought that was brilliant. I love that concept.

Q: You talked about Porsche, Apple, Harley. If you think about a traditional luxury product, though, that's usually like a great cashmere sweater or a \$5,000 handbag. Those are products that are more based upon... the lower markets... based on great stuff with meaning, as opposed to just stuff. Do you think that things like the real luxury products, or even just like a fabulous home – will there be more meaning associated with those products? Is that a trend?

SEALEY: It really is a perception. Dom Perignon champagne – largest retailer of Dom Perignon in the country is CostCo. It was \$94 last fall. It's about \$107 now. Dom Perignon is fermented grape juice. I know it's vintage but let me tell you there's no way you can compare that to a \$20 bottle of champagne – it's the perception of that \$100 bottle of Dom Perignon – the magic is in the perception of the damned thing. Brands can bring magic to the table. This "W" Hotel around the corner here. "W" Hotel has an attitude. I know I'm not welcome at "W" Hotel. I'm not thin enough, I don't have enough hair, I'm not young enough.

NUCIFORA: And you're not wearing black.

SEALEY: You can spend an enormous amount of money to stay in an austere little room and walk through that lobby. People are spending that money. It gives them that satisfaction. They do it for a bottle of champagne.

Q: Building on your point we see that at the very, very high end. The commodity end of the spirits business is dying.

SEALEY: Yes, who wants to be there? Where are you having growth now in spirits?

Q: Tequila and vodka...

SEALEY: Here's a classic case. Vodka. It is grain neutral spirits – by definition odorless, flavorless, and colorless... I'm not talking about the Absolut with Pepper. The U.S. standards don't permit that. You see people spending \$25 for a bottle of vodka, and by definition it has no flavor, no color, no taste. But they're getting psychic satisfaction out of buying that Grey Goose vodka.

Q: A question about the marketing that you've done in your career. When you say that everything is going more personal and specific to the individual, how are brands like Coke supposed to compete?

SEALEY: Well, they've got to engage the consumer. I'm not an advocate of their current advertising campaign. Coke has to touch people. Coke has to make people laugh and cry on television. The campaign that we did – the last one that I did – the "Always" campaign – is one commercial with some polar bears in it. People absolutely fell in love with that. It became an icon for Coca Cola. The image you have of Santa Claus was created by Coca Cola in 1932, the cherubic, fat kind of Santa Claus. "Buy the world a Coke." Coke has to touch people emotionally. Coke is flavored, carbonated, sweetened water that does not taste as good as Pepsi Cola. So you start there, and say, "How am I going to get people to drink this stuff?" You really have to create an aura and a perception that Coke is

not flavored, carbonated, sweetened water. That's one brand you don't need to do as much one-to-one. You can still use mass marketing.

I'm in love with American Idol, and Coke has done an incredible job with American Idol. Here's the new advertising. You see the three judges – Paula and Simon and the other guy – with a Coke in front of them. They're interviewing one of the performers, and the Coke stuff is swirling around in the background. You can't edit that out. That's embedded in there, and Coke is linking itself to those young people – the talent, the excitement – and so Coke is using emotion to bond people to what would ordinarily be a fairly dull project.

Q: Just building on that Coke anecdote. I just read recently that they're going to drinks that are more healthful. What does that mean for Coke and their traditional business?

SEALEY: Well, in the beverage market, there is a movement to sports drinks and specialty non-carb beverages. But let me tell you, if you and I were dropped down into some God-forsaken continent, we didn't know where we were, we didn't know what the people were like there, and we didn't speak the language – and people said, "You can pick a product to sell here. What do you want?" Let me tell you the four products you're going to choose among: coffee, tea, cola and chocolate. They are universal beverages. The flavor complexity never wears out. Let me tell you – I used to love Fresca – you drink five Frescas a day, and by about the fifth day, you can't do it. Look at what Howard Schultz did with Starbucks – a declining category. Coffee was on a 20-year decline. He made a mystique out of it. He created an aura and a whole image. Coke has not done that. That's why the cola category is in decline.

Q: Buzz marketing... and where that plays in the luxury market?

SEALEY: Powerful. The Mini was introduced basically with buzz marketing. No television. They put a BMW Mini on top of a GMC Suburban and drove it around New York. Starbucks is now putting a Starbucks cup glued to the top of a taxicab, and people see it and they blow their horn. So, it's street theater, buzz marketing and it's happening.

Q: What about the Baby Boomers that are entering into retirement?

SEALEY: The wealth of this country is in the older age group, and getting more so as these people retire. I read an article the other day. There is a huge upsurge in the replacement of joints because the Baby Boomers say, "Wait a minute. I've exercised all my life, and just because I'm turning 55, I'm not going to stop. Give me a new joint." Everybody focuses on the 18-49 group, but the money is with the people 50+, 60+. You guys have got to figure out these people have enormous assets. How are you going to

tap into that? This wealth is going to live a hell of a long time. They're going to continue to get educated. They're sexually active. They're buying interesting cars. They've got real estate. They can take trips. They can drink every upper-scale beverage you can produce. Why do marketers focus on 18-49?

NUCIFORA: Are we approaching them the right way as marketers?

SEALEY: I don't think we are. We're showing them eating corn on the cob and apples, for Christ's sake.

Q: What do you see in the future as the most effective marketing vehicle to create branding?

SEALEY: Well, it has always been – and I think always will be – word of mouth, to get a human being to say, “You have got to try... whatever that is.” How you get that done is going to be done in far more complex ways, but you've got to get people beyond awareness of your product or brand into an advocacy position for your brand. They've got to want them to proselytize for your brand, whether it's a movie or a winery or a restaurant or a car – you've got to get somebody to do that. That's the secret of marketing.

NUCIFORA: If you were starting all over again? From a marketing perspective, what would you like to be around to see?

SEALEY: Alf, the next 50 years are going to be driven by three things – bandwidth, processing power and storage (the ability to manipulate information), and I would want to be deeply involved in activities that ride that wave. It's like being in England in 1857 when Watt invented the steam engine and saying, “I'm going to put some money on this device.” That's what I would do.

NUCIFORA: What does that do for the consumer?

SEALEY: It's going to do everything. It's going to educate us, entertain us. We are in a transition here. Let me finish with this. Every 200 to 300 years, Western society undergoes a transformation. It happened in the 12th Century when we came out of the Dark Ages. Europe was black since Rome fell in 300 A.D., and cities emerged, deals emerged, commerce was re-instituted. Between 1457 (the Guttenberg Press) and 1517 (Leonardo and the Renaissance) – the world changed again. Aristotle became a source of wisdom. We went from Roman numerals to Arabic numerals. We studied anatomy, empirical science came in, art exploded, the first standing army (the Spanish cavalry). The new world in 1517 was totally different than in 1457. 1776 to 1840 – American Revolution to the steam engine – industrial revolution, all the isms (Communism, Socialism, Capitalism, Adam Smith, Wealth of Nations) – the world was transformed in that

period of time. We're in a fourth of these now, and we're going from that industrial society where manufacturing, transportation and agriculture built America into a world of knowledge workers. The world is flat. All of you in this room, and your children, have to understand these are not just little developments. We are transforming society, and we're leaving the world of the Industrial Age and we're entering the world of the Knowledge Worker and the Informational Age. All of us are going to deal with those zeroes and ones and manipulate those, and it's going to be as profound as the 12th Century, as 1447, as 1840. We are coming out in about 15 years into a completely changed world. And what I'm telling every one of you in this audience is the following: You've got to ride that wave. You've got to adjust. Everything you do is going to change. *Everything* you do. Some of it is going to be uncomfortable as hell, but you've got to ride this. We are in this transformation. It's like you're living in Florence in 1500. Get ready for a new world.

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