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From The Horse's Mouth

The Alf Report sits down for a wide-ranging discussion with consummate marketer, author, academic and futurist, Peter Sealey who delivers an unvarnished take on what's coming down the marketing pike, and who will survive, what Sealey maintains, is an approaching seismic shift in the worlds of marketing and communications.

TAR: How did you get to where you are?

SEALEY: Out of graduate school at Yale, Procter & Gamble…trained in marketing and learned the fundamentals. McCann Erickson…learned the inside of an advertising agency. Worked on the Coke account, brand Coca-Cola in Atlanta. Hired by Coke as a brand manager in 1969 and spent the next 29 years with Coca-Cola…brand marketing in the United States. Helped acquire and run marketing and sales for Coca-Cola's wine division called the Wine Spectrum, which included Sterling Vineyards and The Monterey Vineyards, Cinzano, Taylor and Great Western. This was when the wine business was just emerging into varietals and being upgraded. Sterling was a crown jewel. We also had a brand called Taylor California Cellars that actually had market leadership over Paul Masson, Almaden and Inglenook, which at that time, amazingly, were the premium brands. From there, helped Coke acquire Columbia Pictures Industries. Went to New York as EVP in charge of real estate, marketing and a bunch of other functions. Columbia Pictures Industries, at that time, was a company that had a number of divisions. The motion picture division got in trouble in Hollywood, so I went out to Hollywood as a President of Marketing and Distribution for North America for Columbia Pictures.

TAR: What were some of the major movies that you handled?

SEALEY: Tootsie, Ghandi, Ghost Busters, Karate Kid, Stand by Me, White Knights, The Big Chill. I have to also include some of the bad ones…Ishtar, and one of the worst ones, Jo Jo Dancer, Your Life is Calling, a film that Richard Pryor made us make. Coke sold Columbia to Sony in 1989. I left Coke and entered a doctoral program under Peter Drucker at Claremont Graduate University. I was living in Beverly Hills at the time. Then in 1990, Coke called me and I went back as the first head of Global Marketing in the company's history and introduced the "Always Coca-Cola" campaign using Michael Ovitz and CAA to create the advertising. We moved the responsibility for advertising out of McCann Erickson and created commercials like you create movies. It was a very successful campaign and ran for eight-nine years. Then I got into a succession battle. My boss, the President and COO, Don Keough, retired in 1993 and there were three of us more or less in contention at the time, the guy who ran international, the guy who ran North America and me, and I lost. The guy who won, Doug Ivester, (later to become CEO) fired me, basically the same way that Henry Ford II got rid of Lee Iacocca…a case of "I just don't like you." So, I came back to California, finished my doctoral work, and moved into information technology. I really fell in love with technology and now I deal at the intersection of technology, media, advertising and entertainment, where those things overlap and converge. I teach an entertainment marketing class at UC Berkeley, and I have taught a brand strategy course at Stanford Graduate School of Business. Today, I do a lot of speaking and deliver seminars on how to adapt to the new technologies that are changing the fields of entertainment, media and advertising.

TAR: From the time you entered the marketing business, your formative years, to today, what have been the major shifts? Where is marketing changing the most?

SEALEY: We are in the midst of a societal transformation that occurs in western societies every 200-300 years and that transformation is the leaving of an industrial/agricultural economy and the moving into a knowledge economy. This doesn't happen very often. It happened when Europe came out of the Dark Ages in the 11th Century. It happened during the High Renaissance in the 1500s. It happened during the Industrial Revolution in the late 18th Century. It's happening now and part of that transformation is impacting marketing. The fundamental trends are the acceleration in the rate of change, and the movement away from what was the driving forces of the 20th Century into the driving forces of the 21st Century. These mega trends, these huge over-arching changes are impacting all of us. Union membership is down to 12.5% of our overall workforce. It was one third of the work force when Jack Kennedy was President. Employment in the manufacturing sector has gone from about 35% of our labor force to about 14%-15% today. Agriculture is less than 2.5% of our worker population. In the 1900 Census the two largest groups in America were domestic servants and farmers. In the 20th Century the movement of those two groups was into the manufacturing sector. By now, we're almost three quarters of the way through the movement of those people into the knowledge society. So those trends are impacting everything to do with marketing and advertising. How is it happening? When I was a brand manager at Procter & Gamble, I could reach 80% of the women 18-49 in the United States with three :60 black & white commercials at a time when P&G owned soap operas…As the World Turns, Search for Tomorrow and Guiding Light. 80%…reached everybody! Today it would take 97 primetime :30s, and it would even have less impact because people would be sick of the ads. What you're also seeing is a movement involving dual income households. People are not spending time preparing food at home. When I was at Procter, it was 2 hours and 11 minutes per day per household. Today it's 17 minutes.

TAR: Because of the microwave?

SEALEY: Yes. The traditional supermarket, by the way, is being out-placed and people are abandoning it for the upscale Molly Stones, Trader Joes, Whole Foods and the club stores. They are buying $3 English cucumbers at Whole Foods and a 24-pack of bathroom tissue at Costco, and they're not going to Safeway any more. Back to advertising. The fundamental shift in advertising has been the incredible battle to retain attention. In the 1960s we didn't have remote controls. You would tune in to say, NBC on a Monday night at 6:30 PM and sometimes stay with that network all night because you would have to get up and physically walk across the room to change the channel. You were not even thinking about skipping the commercials. You watched them. As a marketer I could manipulate people. I worked on a chocolate cake brand at P&G, Duncan Hines, where we did some experimentation. We took the chocolate flavoring out of chocolate cakes, put it in a packet and liquefied it, and asked the consumer to mix it back in. We made it more difficult to prepare and it tasted no better, but people thought it tasted better because they had put time into it. We took out the powdered egg… they put in a fresh egg. We took more ingredients out and they put them back in and thought it tasted even better! So there you were in the 1960s with people galvanized by your commercial. You could say, "Mixing in the rich, thick chocolate of Duncan Hines gives you a more delicious cake," and people believed it. Today, not only are they not preparing the chocolate cake, they're not eating the chocolate cake. Everything's prepared salad and sushi. So, advertising has seen a fragmentation in the media outlets. The old hierarchies don't work any more. A wonderful company, General Motors, is in the process of basically going bankrupt because they stuck with a branding hierarchy that Alfred Stone articulated in the 1920s…which was five divisions…Chevrolet, Pontiac, Oldsmobile, Buick and Cadillac…each one higher in price, each one higher in quality. That was a magnificent hierarchy ladder in the 20s, 30s and all the way up to the 60s where GM had a 50 share. GM is now down to a 25 share with essentially two viable divisions, Chevrolet and Cadillac. How can you market when you've got a quarter of the automotive market, five major divisions and then 67 model specific brands under that? It couldn't work. The great failure of GM was maintaining these divisions and they still have four of those five left plus Saturn, Hummer, GMC and Saab. What the hell are they going to do with that?

TAR: The primary question again…if you were advising somebody coming into the marketing profession today, what would you say to him or her?

SEALEY: Brands are going to become even more important. Brands are incredibly powerful. They create enormous shareholder wealth. They are indigenous. They are created spontaneously. People need brands. In the old

Soviet Union, where there were no brands, people would identify factories that made better appliances and you would see Soviet consumers on their knees at the back of a refrigerator or a stove looking for the manufacturing plate to identify a factory that had a better reputation for quality than others. Brands create enormous wealth and consumer confidence.

TAR: You see no diminution in the value of brands?

SEALEY: I see an increase because of the pace of society and the need for people to have comfortable and reliable choices. I watch my younger friends as they have their first child and out of their DNA comes this desire to buy a Volvo station wagon. It's not quality, performance or anything but safety. Here's another problem right now. Twenty-five years ago in marketing you could only spend money in fundamentally three ways…advertising, promoting to the consumer and giving incentives to your distribution channels. Marketing was 50% advertising, 25% consumer promotion and 25% trade promotion. Last year it was 49% trade promotion, 24% advertising and 27% consumer promotion. That was driven by technology. It was driven by something that happened in 1974 called the Universal Product Code, which by the mid-1980s permitted retailers to have more knowledge about the consumer, what they were buying and when they were buying it. Enormous amounts of money were thrown into those channels and the Wal-Mart Corporation was created, largest retailer in the world, largest employer in the U.S. Wal-Mart could not exist without the UPC code. That power shift sucked money out of advertising and put it in trade promotion. It's crack cocaine. It does nothing for the brand. In fact, it's a de facto price reduction.

TAR: But it's buying shelf space.

SEALEY: It is. But let me ask you to consider the soft drink market where 67% of the product is purchased on a deal. I can tell you that this week, Coca-Cola at Safeway will be 99 cents for 2-liters and Pepsi will be at $1.69. Next week it will be reversed. A consumer is dumb to pay $1.69. It's stupid. Why in god's name would you do it? And, they don't. So, what do they do? They flip back and forth. And Pepsi and Coke sustain this damn chain of trade incentives. It is a terrible development. Let me give you another example. There is a manufacturing facility in the East Bay that assembles cars. It's owned by GM and Toyota…the only facility in the world they own jointly. It was done so they could share knowledge about manufacturing. Two of the cars that come out of that plant are the Pontiac Vibe and the Toyota Matrix. They are absolutely identical. There is nothing different…made by the same workers, same power train, same body. However, they put different names on it…and the Toyota sells for $1500 more at retail because of the power of the brand. So GM has to put $2,000 into incentives for the Vibe to bring it down $500 under the Matrix to sell the product. We used to have an incredibly easy time getting the attention of the consumer. They sat there waiting for the commercial and watching it avidly, concentrating 100%. They were ready to adopt it. You could change the world with advertising back then. You could irritate your way into people's consciousness, "Ring around the Collar", for example. People had television stations programmed on the "least objectionable programming" principle…viewers had three choices, so as a network programmer I'm going to go with the one that is the least objectionable and inherit one third of the audience by default. Advertisers could virtually do anything and people would pay attention, and you could build a brand. Today, you have got to be infinitely more skilled in orchestrating a marketing plan to get around lack of attention, rapidity of change, stress in the marketplace, TiVo'ing commercials, etc. The whole sweep of our lives today is like a Cat-5 hurricane and you're trying to communicate in that. It is ultimately more difficult to get attention. The bottom line of any marketer is buying attention. And on the Super Bowl that purchase goes for $83,000 per second. Getting people to think about your product is the toughest thing in the world and that is infinitely harder today than it was 20-30 years ago.

TAR: Let's discuss some of the trends that will change our personal and professional lives. The growth of broadband into the home?

SEALEY: Changes the world. I'm talking pipeline with 30-40-50 maybe 100 megabits per second (mgps)…

TAR: And we've got what now?

SEALEY: Cable we have about 3 megs. per second…DSL 1.5. The Koreans are getting about 15-16 out of DSL. Basic bandwidth increase 2-3 times per year… just keeps going up. When we get that big pipe, then something else will happen…the IP addressable television set: Internet Protocol TV. The device will have an Internet protocol address just like you have an IP address for your web site and your e-mail. When we have the really fat pipe and an addressable 50-inch plasma, high-def, 1080i interlaced video resolution…

TAR: Are we five years away from that?

SEALEY: Oh no. Internet access is happening so rapidly. The city of San Francisco is going to have a high-speed Wi-Fi network to cover every resident, which will probably be installed gratis by Google. The city of Philadelphia is putting it up as well. The electric company is thinking about running high speed Internet access through the power grid. You've got it through your cable company. The phone companies are trying to bring fiber to the curb and offer you TV programming as well as voice communication.

TAR: What about the whole package, including the cost of the 50-inch plasma screen coming down to under a thousand dollars?

SEALEY: By the end of this decade. Imagine that 50-inch plasma or LCD, or a digital light projection set, with surround sound home theater, sub woofers, speakers all over the place. An example. The day is coming when there is going to be a collapsing of the distribution windows in entertainment. When I was in the movie business it was a two-year process from releasing the film in theaters in the United States to going to a syndication package for television for independent stations…two years. Back then it was domestic theatrical, foreign theatrical, videotape, airlines, hospitality, premium cable, ad supported cable, broadcast television, local stations. We had all these different windows and we released the movie sequentially in each one, and we earned money out of each one. And depending on who hadn't seen the movie, you had to pay something or stand in line. That accordion is being crunched, certainly by the end of this decade. Let's talk about the Da Vinci Code, which is opening for Sony Pictures on May 14th. At some point you will have an opening of a major picture like that and the picture will be simultaneously available in theaters, in Wal-Mart on DVD, and also on video-on-demand from Comcast or Direct TV, or directly from the studio when we have IPTV. It will be available in any format globally, from the People's Republic of China, to Trinidad to the U.S. When that happens, there will be an enormous disenfranchisement of the distribution system. Comcast, Direct TV and the like will be in deep trouble because the guys with the power are the guys producing and creating the Da Vinci Code. And the average Joe sitting in Sausalito California with the beautiful 50-inch plasma set isn't going to go the movies on a given Friday night. You wouldn't even think of getting out of your chair and driving to the multiplex. That's going to change the entertainment business. Consumers will have the control to get it any time they want.

TAR: John Malone is still going to control that cable pipe.

SEALEY: Well let's talk about John Malone and Eric Schmidt of Google. Schmidt can afford to give away high-speed Internet access in San Francisco. Why? Because he makes money when people search the Web. Everybody who goes on the Web is going to do a search, and he sell ads for the searches, and the more he sells ads and the more people search, revenue increases. Google will probably make in excess of $6 billion in ad revenue this year. That's larger than any single television network in the United States. And it's just 5-6 years old. Schmidt can afford to Wi-Fi San Francisco with high speed of 20 megabits per second. What are AT&T and Comcast going to do? They're screwed. The pipe is going to be so ubiquitous and so cheap. Who will pay $49 per month for broadband-wired access when Google will do it for free? The three technology trends to note are: 1) The rapid increases in processing power 2) Storage is decreasing in cost 3) The persistent annual increases in bandwidth. Each of those technologies, processing power, bandwidth and storage cost, is experiencing dramatic increases in terms of productivity and efficiency in the order of 20 - 30% per year. In the old industrial economy of the 20th century, you attained 3%-4% increases in productivity a year for the core technologies of that century.

If you can increase manufacturing productivity 4% a year, you celebrate. In the knowledge economy, we're quadrupling that rate of productivity growth.

TAR: Talk to me about accountability in marketing. In your P&G days you essentially threw it out there and said, "Trust me." Now what?

SEALEY: It's still the last sector of business for which we don't have a definitive return-on-investment measure and the time is running out for us. There are a couple of technologies that will help us get that measurement. The average tenure of a Chief Marketing Officer in the United States, as per a study done by the Association of National Advertisers last fall, is 26 months. In the food and beverage category, it's 13 months. They are being fired, because in every other part of the business… logistics manufacturing, HR, finance, the CEO says, "I've got $2 million to spend…who can tell me what they can return?" Every one of those other areas can precisely identify what they can return." The CMO says, "I'm going to give you a better brand image, I'm going to increase my share-of-voice and I think that will eventually result in greater sales." I was sitting with the CEO of a large automotive company and he said to me, "My manufacturing people come to me and say 'our competitor makes an automatic transmission for $800 and we can make one for $700'. I say, 'fantastic, great job!' My advertising people come in two minutes later and say 'our competitor is spending $800 per car on advertising and we're spending $700…we need to increase our advertising to $800.'" What's wrong with the construct? What's wrong is that advertising is not accountable. But for advertising to be accountable, three things are needed… #1, a really accurate rating system. I'm working with a company now that's doing this in test, where they monitor the audio signal you are exposed to 24 hours a day via the cell phone. They give you a special cell phone and monitor the audio signal, every television and radio signal, so they know 24 hours a day every electronic advertisement you are exposed to…precise ratings…at the office, in the car, at home, in the sports bar. #2 we've got something called AdID coming from the AAAA (American Association of Advertising Agencies) and the ANA (Association of National advertisers). It's an electronic and optical UPC code for ads that will permit us to track ads down to the individual level. #3 is something called RFID (Radio Frequency Identification), which is the placement of little recognition chips like the Fast Track device that you use to go through the turnpike toll. That will allow us to monitor the movement of individual packages of products in the store as they migrate through to the home. For the first time, we're going to be able to pull together what ads you saw, what you were exposed to, and where you went shopping. We'll have a signal in Wal-Mart, Safeway and Albertsons. We'll know where you shopped and what you bought because it will have an RFID chip on it. And even if you picked up a product, looked at it and then put it back, we'll know that too. We're going to tell the manufacturer, "People are picking up your product and putting it back." This new rating service in Sacramento is being used in two tests. First, a major television network is using it to measure the linkage between their promo announcements and viewers tuning into their featured programming. They want to measure which promo announcement drives people to what program. They want to measure the effectiveness of their ads so to speak. In the other test, a major radio station group in the U.S. is using it to determine which people tune out of their station and go to another station…what's playing when they hit that button to change stations The next step is to use that protocol to measure an integrated ratings system…television, radio, cable, broadcast, everything. So, the combination of RFID, Ad ID, an accurate rating systems and personal media is going to permit us, probably again by the end of this decade, to be able to tell the exact ROI on a particular commercial.

TAR: What's the long term effect of podcasting?

SEALEY: Sealey: It will do to radio what cable did to the legacy television networks, i.e. fragment the hell out of it.

TAR: What about iPods…14 million sold in the 4th quarter last year?

SEALEY: Media is becoming digital, personal and controllable. We'll no longer settle for receiving one-too-many. We now configure our media the way we want to…customized. And we take it with us. Marketers and advertisers have to adapt to that reality.

TAR: As a marketer, how do I get onto your iPod?

SEALEY: Well, I'm going to get on to the podcast. I'm going to find out if you're an extreme sports fan, or if you like ocean kayaking, and if you do, there are some podcasts that talk about ocean kayaking. If I'm Mountain Dew or Pepsi and I want to reach you, I'm going to take a product like Red Bull or Full Throttle and put it directly into those podcasts.

TAR: Satellite Radio? Up to 9 million subscribers as of January before Howard Stern.

SEALEY: Clear Channel is in deep trouble. And Westwood One. Here's the problem with terrestrial radio. The satellite guys have an enormous footprint and great variety between ad support and in-premium services. That stuff is going to be available everywhere. The 41 million iPods with people walking around with earplugs in their ears are not listening to a radio station. The people who are selling cars are fast integrating their navigation system with a traffic reporting system, so when you leave to drive somewhere and you turn on your nav system, it's going to tell you about driving conditions for where you are that moment, traffic jams real time, etc. Music? I've got it in an iPod in my portable device. Traffic? I'm going to have it integrated into my car's nav system. Tell me again why I'm listening to the radio? What am I going to get? Weather? I don't think so. I do think that terrestrial radio is in big trouble. I'm very, very pessimistic about radio, as we know it.

TAR: You think the Sirius move was a good move, buying Howard Stern?

SEALEY: Yes, absolutely. Karmazin is a very, very bright guy. He's going to destroy his former company, Infinity Radio.

TAR: So, once the big 3 or big 5 auto manufacturers put satellite radio in their cars?

SEALEY: It's all over. Radio used to be a local phenomenon. There was a news item about a year ago about a train wreck involving a leak of poisonous gas and the authorities decided to call all the radio stations in this small Montana town to put out an alert. As it turns out, there were three stations and all three stations were being programmed elsewhere…one in San Diego…one in Memphis. They couldn't even get an emergency announcement from their local radio station. There's no such thing as a local station any more. It's unreal.

TAR: Targeted coupons?

SEALEY: The most inefficient spending of money in the world is on coupons. In the U.S. we distribute three hundred billion coupons a year, 1000 coupons for each household in the U.S. The redemption rate on those 1000 coupons runs something under 3%, and of that a third are mis-redeemed…you've got a Diet Coke coupon and they give you a Diet Pepsi. So now you've got a 2% redemption rate. The cost of the economic incentive is astronomical inefficiency. I'm on the Board of Directors of a regional pizza chain and it costs us almost $5 per redeemed coupon…not for the price reduction…just for the ineffective delivery. I'm on another Board of an electronic coupon company and we're averaging 15%-20% redemption rates. Why? If you go to www.coupons.com and say you want Huggies coupons and you print those out on your color printer, it means you've got a kid under 12 months at home. You're not going to print out the coupon if you don't. So, here's the case where the digital media permits a self-selection process. And by the way, we only charge Kimberly Clark when they print the coupon, so the distribution is free. We only charge you when people print, and one out of five is going to redeem the coupon vs. 3% out of 100. Which do you want? No distribution cost and one out of five or huge distribution coast and three out of 100. Game over.

TAR: Brands you admire. Who's doing it right?

SEALEY: Apple…fabulous. I'm on my eighth or ninth generation iPod now. They just keep coming out with new stuff…fabulous. Mini Cooper... BMW introduces a new car in the U.S. without television advertising. Crispin Porter did a wonderful job. It's a cult. Harley-Davidson, Starbucks and In 'N Out Burger are other fabulous successes. I want brands that are love marks; brands that people have a passion for, where they embrace the brand. There are brands that get that really clear identity…carve it out…have a promise to the consumer that is consistent…Disney = happiness…Gillette = a close, pain-free shave.

TAR: On the other side, the brands that are killing themselves?

SEALEY: As we discussed before, the whole branding hierarchy at General Motors is a travesty. Sony…a great company is in the process of destroying itself. The latest one is putting spyware on their CDs. The fact that they did not do the iPod. Sony rightfully should have had the iPod. They failed to understand flat panel television. Literally at every juncture in the last decade, they have made the wrong decision starting with Betamax in 1976! "We are quality!", but it doesn't play a whole movie! VHS plays a whole movie, so VHS wins. It almost makes me cry to see them disintegrate into mush.

TAR: And not Coca-Cola?

SEALEY: All Coke needs is great advertising. Coke has a magnificent distribution system that needs advertising to pull that product. Coke's only problem is that they've had a decade now of terrible consumer communication and I pray that they get it right. I still own the stock.

TAR: Even though advertising is becoming less relevant in the development and maintenance of brands?

SEALEY: If you're going to sell a food or beverage product, let me tell you the products you want to sell…cola, coffee, tea and chocolate…why? Each contains caffeine. Each has a complex flavor that you don't remember. I have a beverage in my refrigerator called Fuze and it's got a watermelon- raspberry combination. Let me tell you, if you drink 20 ounces of watermelon-raspberry, you won't want any more for another six months, but you'll be down at Starbucks every morning getting coffee. So, those beverages that have caffeine stimulation, where the flavor is complex and you don't have the flavor memory. Those beverages aren't going away.

TAR: How are you acquiring your knowledge and keeping current?

SEALEY: You've got to reach out. You've got to look at people… how they are living. I read four newspapers a day…San Jose Mercury News, Wall Street Journal, New York Times and San Francisco Chronicle. On the web I have My Google and Yahoo and I look at Brandweek, Adweek, Advertising Age. You've got to reach out and look at what's happening and try to understand. The great benefit I have is that I do 45 seminars a year. Two weeks ago I was in Minneapolis with General Mills giving a lecture and was privileged to meet all their marketers and brand managers and sit through a whole monthly update they did. That was nourishing to me. Tomorrow I'm going to go talk to a company called Vyvx…they do electronic distribution of television programs, television commercials, radio commercials and the like via a fiber-optic network across the U.S. I don't know what I'll learn, but I guarantee that when I'm heading home I will understand Vyvx. I just drink in the stuff. What I try to do is called "transference of concept." I try to take stuff that works in Category A and see if it will work over here in Category B, just like I did with the "Always" campaign. If we can make movies this way with independent producers and directors, bringing talented people together, creating the product, why not do the same thing with advertising development? I'm not an advertising agency, but I made the "Always" campaign that way. There are two things I like…transfer of concepts and inverting the process…reversing the normal process.

TAR: You started in the late 60s and you've got another some 20+ years to experience the marketing world. What do you regret that you may not be around to see from a marketing perspective?

SEALEY: I've gone from P&G in 1965 when I controlled the process, to today when I'm desperately running to keep up with the powerful consumer. The democratization of marketing…the power of the consumer. I regret I will not see the full scope of that change. Ultimately the consumer will have full control. I tell people, you can't hide today. My regret is that I haven't had my career in the marvelous sunshine where the consumer is really in control. I pay homage to the consumer in my marketing life. We are going to worship at their alter in the future. Fasten your seatbelt.