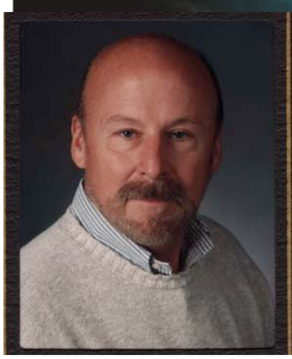
October 24, 2005
iMedia Conference
Coronado, California



Peter Sealey's Ten Trends

My topic is ten trends that are going to change our professional and personal lives. And, my general theme is on the nature of change, which -- as we all know -- is accelerating.

The issue here is this: how do we contend with disruptive technologies and other new factors coming into the marketplace? This is not really about predicting the future: the ten trends are already here. So my project is really to articulate some trends and developments and then tease them out to their logical conclusion.

Central point: Joseph Schumpeter, a brilliant, Austrian-born economist, once said, "We live in a perennial gale of creative self destruction."

What Schumpeter meant: if there is a better business model out there, a better way of doing business, a better way of marketing a product or service, then we have to destroy our present model and embrace the new one. This is, without question, the hardest thing for companies to do. They sail into oblivion doing what they always did.

Here is an airline case in point. Delta, Northwest Airways, U.S. Airways and United Airlines are all either bankrupt, coming out of bankruptcy, have discarded their pensions or have thrown the pensions over to the Feds. It's a mess.

In contrast, Southwest and JetBlue are making money -- i.e. carrying passengers at $67 per barrel of oil. Why? They have a superior business model.

Northwest Airways: labor cost per seat mile is almost five cents.

Southwest Airlines: labor cost per seat mile is two point five cents.

Game over. We all know it doesn't work. The issue is how we get these people at the top to say, "Look it was a great run. Hub and spoke. Flying ten different kinds of aircrafts.

Charging enormous differential between the walk-up passenger and the leisure traveler. That was a great model until about 2000. It no longer works."

The old-style airline guys have to destroy that model. If they don't, watch American Airlines follow the others into bankruptcy.

The big issue we face here is that it is extraordinarily difficult to get a company to destroy its present business model. But, it simply has to happen, and the reason that it has to happen breaks down into my --

Ten Trends that are going to change our professional and personal lives

- Three Mega-Trends -- bandwidth, the cost of storage and processing power
- Three Media Sub-Trends -- media is becoming digital, personal, and controllable
- A revolution in the motion picture, television, and recorded music industries
- IPTV: Internet Protocol Television
- Performance based marketing
- The demise of ad-supported TV

- The rise of Voice Over Internet Protocol (VoIP)
- New and accurate ratings system
- Ad-ID and RFID
- A Marketing Renaissance

Each of these ten trends is already here in one form or another. They are not fully developed, but they are here and they are going to change the world.

iny discs but in public performance and merchandising. Those things plus the accoutrements of live entertainment where the money is going to be made in recorded music.

Podcasting, or my very own radio station.

Combine a small powerful media player, large storage capacity, ubiquitous broadband network connectivity, and RSS (Really Simple Syndication) and it adds up to podcasting, and this is happening.

Apple put podcasting on iTunes. It is now ridiculously easy to subscribe to podcasts about whatever interests you.

The result? Take a look at this picture of my neighbor, Sam Curtis Coutin, in San Francisco's Marina district.

Sam Curtis Coutin records his daily sports talk show using a microphone hanging from a leather belt attached to the ceiling. The old yellow sock covering the microphone is supposed to cut down on popping noises while Coutin speaks.

Sam hosts something called The Sports Pod. He puts a sock over his microphone because he thinks it improves the sound quality. The Sports Pod has had one hundred and fifty-six thousand downloads.

According to the Pew Research & American Life Project, as of April 2005 there were six million podcast listeners.

I find that hard to believe, but I would also find five million, or four million. It seems like podcasting only came on the scene yesterday, and already it has a user base measured in the millions!

The entertainment industry is collectively aghast at and in denial of this prospect.

In April, Robert Capps wrote a fascinating article in Wired Magazine that persuasively argued that very soon we won't be bringing out entertainment into our home on shiny disks anymore. We can forget the differences between Sony's Blu-ray and Toshiba's HDTV formats -- as the pipes get fatter all media will be zeroes and ones, and we'll get all our media through that fat pipe.

Old school movie distribution.

Here was my life at Columbia Pictures for ten years: first came the theatrical window. Then came the home video window, and -- six months later -- rental and sell through.

Then, video demand and pay per view. Then, a little later, premium television: HBO, Starz, Encore. Then, basic cable got its turn. Then there was a window for a second premium TV. If you added on HBO, then you might go to Showtime the next time. Then came network television -- old-fashioned broadcast network television. And, then came syndication and barter, where you put the movie in a package and licensed it out to local television stations.

It took two years to get through this process, squeezing money out of every window. I even took the prints from the United States and, five months later, shipped them over to Europe, dubbed them, and ran those same prints in theaters there.

You cannot do that today. Your new movie is going to be pirated in Hong Kong within twenty-four hours. So, what you are going to have to do is have a day and date release for everything together -- any format you want.

And consumers will *still* want all the formats.

I have a nineteen-year-old daughter, my youngest daughter. I could have a seventy-inch Plasma TV set at home with surround sound, but Jane Sealey is still going to go the movies, with her friends. There is no way she is going to stay at home.

The movie guys are worried about cannibalization, but it's not going to happen.

A "What If?" Exercise: the December 14, 2005 release of "King Kong"

I'm going to speculate about the new Peter Jackson "King Kong" out December 14, 2005, and what would happen if, a la Bob Iger, NBC Universal were to release the home video the same day as the theatrical release.

This year, in my class at U.C. Berkeley, I taught entertainment marketing and gave the class the assignment of writing a theatrical marketing campaign for "King Kong." Adam Fogelson, who runs marketing at NBC Universal, came down to give guest lecture, and we talked about "King Kong." Adam is not going to do this -- he is not going to release the movie and the DVD at the same time -- and I have no information about his budget, so what follows is composed purely of my guesses.

SEALEY GUESSES $100 Million Prints and Ads (P&A) Budget

What if theatrical and DVD both happened on December 14th?

Theatrical opening weekend: $50 million admissions
DVD at $14.95 in Wal-Mart, NetFlix, Blockbuster, etc.

How many units?

My guess: $20 million
DVD gross: $300 million

I think Universal will give Adam a hundred million dollar marketing budget. It is called Prints and Ads -- ads to let the public know about the movie, and then you have to ship out these big canisters of thirty-five millimeter film at two thousand dollars apiece to a lot of theaters.

What if Adam had both the theatrical and home video day and date set at December 14, 2005?

I think the movie is going to gross at least fifty million dollars opening weekend. Six million people will come to see it. And the theatrical opening establishes its value in these subsequent windows. So, the theatrical window is extremely important.

If Adam made the DVD available on the afternoon of December 14 via NetFlix, Blockbuster, Wal-Mart, and the other outlets, how many units would sell? My conservative guess is twenty million.

That means he would gross three hundred million dollars from the DVD. With a twenty percent margin going to the retailers, Adam has put two hundred and forty million dollars into Universal's pocket on that first DVD window.

By the way, on the theatrical window -- the fifty million dollars he is going to get opening weekend -- he has to give twenty-five million dollars of that to the theater owners. So, he only gets twenty-five million dollars out of that theatrical window.

If you stop and think about it, Adam needs to get six million people to get into a theatre on that opening weekend. He could take his hundred million P&A dollars and just buy them all tickets, and say, "go to it."

If that is all he wants to do is get those people to come to the theater to establish the value of the subsequent windows, then why not? Movie studios don't make any money off theatrical windows. So why not give moviegoers the money, and send them in there.

This is going to happen.

You will be able to sit at home, as these films come out. If you want to stream the movie to your TV set, if you want to buy it on a high definition DVD, or, if you want to go to the theatre -- you will be able to choose any of the three, and more. It is going to happen.

Now, this is going to cause enormous chaos. I predict angst and agony from the Hollywood establishment. This will bankrupt some of the DVD companies, but the Blockbusters are going down anyway. The business models of Blockbuster and its competitors are simply going down the drain. My friends at NetFlix are down the street from me in Silicon Valley -- boy, are they doing well -- and theirs is the business model, which is going to take the DVD as long as it is going to be taken, but soon enough you are not going to be driving down to a Blockbuster or Hollywood Video store.

Throwing satellite radio into the media mix

Four million people are paying $10 to $13 per month to listen to the radio, and MyFi is the first pocket sized satellite radio from Delphi for XM radio, and it has a built-in recorder: TiVo for radio.

At home, I have a neat little unit called a Roady 2 from XM. It's about the size of an audiocassette: I can put it in the car, then, when I get to my little beach house, I can take the thing out and play it inside. It is really marvelous.

Satellite radio's impact? Sirius paid five hundred million dollars for Howard Stern. XM is adding about a half million subscribers per quarter, and predicting eight million total subscribers by the year-end. In San Francisco, XM gives me local traffic and local weather.

Think about it: take the iPod, add Satellite radio, and what is this stick in the ground going to be worth in five years?

The big radio holding companies are already programming remotely anyway. There is nobody at the local station, so I simply do not know where broadcast radio will end up in five years.

It is simply a matter of time until you get an IP address on that TV set.

If you have got a broadband pipe coming in -- and more than half the people online are on at high speed -- then it doesn't take a genius to think, "Hey! let's address that TV set directly."

Doing so enables quite a bit. With an IP address, the content owner can download or stream content to an individual television set. You don't need the aggregator of a network -- broadcast, cable or satellite.

If I am Universal Pictures, and I am releasing "King Kong" in all windows, I don't need to go through Comcast, or DIRECTV, if enough people have addressable television sets.

Give me your IP address, and I will stream it to you. If you have a fat enough pipe, I will take the movie directly into your television set. No distribution costs. No middlemen. No manufacturing cost. The route goes from NBC Universal directly to Peter Sealey's house in Los Altos Hills.

And when this happens, the media world changes.

Movielink: broadband talks to the TV

Movielink is a consortium of four Hollywood studios: Sony, NBC-Universal, Warner Bros. and Paramount -- MGM was a founding studio before it got absorbed by Sony this year. Movielink streams movies to laptops, it's a way of getting movies to viewers legitimately, rather than through piracy and peer-to-peer networks like BitTorrent, and it's an attempt by the studios to recoup some of the income lost to piracy. The Movielink CEO is Jim Ramo, and he recently chatted with the Forbes.com Video Network. You can click here to view the interview, or read the following transcript. Pay particular attention to what Ramo says about streaming directly to the television set --

it's a good indication of what is going to happen:

Annalisa Burgos of Forbes.com: Slumping box office sales, competition from on-demand services, internet piracy. The movie industry is facing real problems. Welcome back, I'm Annalisa Burgos. The popularity of video on-demand and illegal movie downloads has hit box office sales hard, but the movie industry is coming up with ways to make up for it. In 2001, Sony, MGM, Paramount, Universal Studios, and Warner Brothers created Movielink -- a video downloading service -- proving that if you cannot beat them, you have to join them. Joining us now is the CEO of Movielink, Jim Ramo. Thanks for being here, Jim.

Jim Ramo of Movielink: Thank you.

Burgos: So, why do you think box office attendance is down?

Ramo: Well, I think there are a couple of reasons for it. One, I think some of the movies weren't as successful as people predicted. And that is, I think, always the number one reason. People want to go to good movies. In addition, I think that we are beginning to see home theatres now, in the home, begin to come close to replicating the theater experience. And, so we tend to find people wanting to stay home a little more than they did before.

Burgos: How important was it for the studios to create Movielink?

Ramo: Well, Movielink is the beginning of opening the internet as a legitimate channel of distribution for movies, and, in particular, we are using a -- creating a video on-demand business so that consumers can -- in their homes -- begin to get movies when they want and get what they want.

Burgos: And, DVDs are still very successful though. A lot of customers prefer them because they have special features: they have promotions attached to them. How are you getting audiences to come to Movielink as opposed to going to DVDs? And, how many people are actually using your service?

Ramo: Well, Movielink is, I think, about an impulsive buy, at this stage. We have about twelve hundred titles in our library. So, people can really search for any genre that they want: hit movies, library movies, kids, international movies, whatever… People come to us because they really get choice, and then they get it when they want it.

Burgos: And, is there any indication about how many people log on and use the service?

Ramo: Well, because we are a private company, we don't really give out that information. But, generally, it is a service that is delivered over broadband and so, probably the display is on a PC. And, about a third of our customers are downloading movies on their laptops and using them when they travel for business, or for vacation.

Burgos: People are downloading movies for free. BitTorrent is very popular. Why would anyone pay?

Ramo: Well, it is hard to compete with free. There is no question about it. So, what we try to do is make sure that we have high quality, reliable, good customer service, ease of use -- things that will make people decide that, you know, it is just worth it to pay four dollars for a rental instead of having to go through a very geeky process to be a pirate. And, so far, I think we are being successful, but there is a long way to go. Piracy, particularly delivered to PCs, is still a big deal.

Burgos: And cable companies are also offering more on-demand choices.

Ramo: Right.

Burgos: And, are you planning any partnerships, perhaps, with cable or satellite providers? Or, how are you trying to work with that segment?

Ramo: Well, today we have distribution agreements with the cable operators and the telcos -- now remember, we deliver over broadband -- and so we are dealing with the broadband side of the house, not the video side of the house. So, with respect to cable companies and telcos, we are providing them a value add that they wouldn't otherwise get. It is beyond access. We are now giving them content that they can use to promote their services.

Burgos: The music industry faced similar problems, but now music download services from Apple, Microsoft, and Napster are pretty successful. Do you expect Movielink to get to that level?

Ramo: I think it will. I think, today, when you deliver over broadband to a PC, that is a pretty nichey audience of early-adopter types. What is coming is the beginning of broadband talking to TV sets. People want to watch movies in front of a couch or in bed at night. And so, we want to get Movielink onto TV sets and big display screens. So we are starting to see home networking. We are starting to see set-top boxes. Basically, broadband is about to begin to talk to the TV. And, that is when our business really takes off.

Ramo's last statement nails the future of IPTV. Movielink doesn't want to give some money to DIRECTV, Comcast, or Adelphia. Why should he? When consumers has addressable TV sets, the content it is going to come directly into the house over broadband.

Disney has a slightly different approach. Their service is called MoonBeam, and it works by downloading and storing at your home a hundred movies, all of which are updated regularly.

This is a forward and store model: it allows the viewer to select from that big body of content whenever he or she wants to do so.

But whether a company pursues a Movielink strategy or a MoonBeam strategy simply doesn't matter: when the pipe gets fat enough, it is going to go directly from the studio to the home.

And just think of the difference now with a high definition, forty-two inch Plasma TV sets and surround sound. That is darn good visualization with darn good sound. Go back ten/twenty years: the movie experience was so profoundly superior to the television experience that the high quality of image and sound were often sufficient reasons by themselves for people to haul themselves to the local theater. But boy are home theaters getting close these days.

All of these factors combine to argue for entertainment being made available to that powerful consumer --anyway they want to consume it, exactly when they want to consume it.

It is coming.

Quite simply, digital media equals performance-based marketing. As media becomes digital, personal, and controllable, we move from the old marketing model to the new marketing model.

Consider one example: paper coupons.

Annually, three billion coupons are distributed in the United States of America. That's 1000 coupons per family. When I get the San Jose Mercury News on Sunday the center of the paper must way about three pounds. I just pick it up and throw it away.

And it's not just the Sunday paper. There are enormous quantities of freestanding inserts and coupons.

I sit on the board of a pizza chain -- Round Table Pizza --

and, it costs us between three and four dollars per redeemed coupon, which reflects a terrible cost of printing it, distributing it. And to top it all off we are only getting three percent redemption. That's 97 percent thrown away. Even worse: of the three percent, one third of that is fraudulent. So, you have a two percent effective rate. That's 98 percent failure. Yet, we are still doing it. Go to any CMO of a consumer packaged goods company in America, and they are still giving out paper coupons, freestanding inserts. There is a better way.

Consider Coupons.com, which provides targeted internet coupons. The consumer selects the product and categories she wants. If you have got a child under twelve months at home, you select Huggies and Pampers. If you don't, you don't select it.

Redemption rates go from three percent to ten to fifteen percent, and the marketers only pay when the consumer *prints* the coupon.

Suddenly, the marketer is paying on the delivery of a printed coupon that that consumer wants to get and hits the print button on the computer in order to get. And, a new feature allows a streaming video to show a commercial in the coupon itself. For example, Procter & Gamble has an Oil of Olay commercial that sells the product, and then allows the consumer to print the coupon if it really intrigues her.

It's an astonishing difference: there is virtually no cost of distribution. Targeted consumers say, "I want this product category. I am interested in this product." They print out the coupon, and the marketer pay per print.

(Full disclosure, I have a professional relationship with Coupons.com.)

Digital Video Recorders (DVRs) like TiVo and the ones you can get from your cable company have become ubiquitous -- it's just a hard drive and some software -- and soon, very soon, these DVRs will be as standard as the remote control.

The implications? Eighty percent of viewing will not be live. Seventy percent of pod-based commercials are already being skipped by DVR users. This means that networks and dayparts will become irrelevant and immaterial.

My daughter loves "Buffy the Vampire Slayer." (She loved it before she went to college. I assume she will give it up now.) But she had no idea what network broadcast the show. From her perspective, Buffy came out of the TiVo box…. it was just there. As traditional TV ads die out, permission-based advertising emerges -- branded programming, product placement overload, and infused ads.

My friend, Chuck Fruit, at Coca-Cola, did the deal with "American Idol." You cannot get away from the Coke advertising on "American Idol."

Desperate advertising

Similarly, about six months ago an episode of "Desperate Housewives" uniquely promoted Buick. One of the housewives -- desperate for money and embarrassed -- had to take a job as a model at a car show. As she is up on the rotating stand giving a pitch on the Buick LaCrosse, her skirt gets caught in the stand, and then one of her friends comes down the escalator. It was effective slapstick shtick there.

However, in the meantime the character gave a three-minute, feature by feature pitch that was as solid a commercial for the Buick LaCrosse as you could give. About five minutes after I saw that sequence I said to myself, "wait a minute! I just saw a commercial from General Motors They got me!"

It was a good ad.

Audience Diaspora

So where has the audience gone? It is on a two percent decline. Newspapers? Three percent compounded annual decline. And cable now has a larger audience than broadcast.

Historical CPM Trends

Source: Nielsen media Research

The chart above shows ABC's cost per thousand households in primetime over approximately a 20 year span -- and the price increased four hundred percent in that time, from five dollars per thousand to 20 dollars per thousand. In that same time, the consumer price index up less than two times. So, ABC is delivering smaller audiences for more money.

These price increases are hard to believe.

All us advertising lemmings go to New York in April and May and throw nine billion dollars against the network upfront season for programs that will not run (we have no idea what is going to be running after the first quarter) with dollars for which we don't have authorization. In April of 2005, we are in New York spending unapproved 2006 money -- it is a total charade, yet we still do it.

Ad-supported TV is a model that cannot hold.

John Hayes of American Express recently said that the "TV upfront model no longer cuts it." He now spends thirty-five percent of his budget on TV -- down from eighty percent in 1994. The same is true of McDonald's. McDonald's was two-thirds network TV and now they are down to one-third network TV.

Jim Stengel of Procter and Gamble, arguably the finest CMO in America today, told the AAAA in February of this year, "I believe today's model is broken."

We are spending enormous amounts of money with very little justification. It is the last part of business for which we have no return on investment, and for which we cannot demonstrate to our Chief Executive Officer gains and productivity.

Everybody else in business has done it: human resources, supply chain logistics, finance -- everyone else can demonstrate increased productivity, lower costs, payout of investment, except the marketing guy.

I was having dinner at General Motors and the chairman told me a story. He said, "I am sitting in my office, my manufacturing people come in and say, 'we can build an automatic transmission at GM for 700 dollars. It costs the Ford Motor Company 800 dollars to build that same transmission.' I say, 'Congratulations. Fantastic job. Keep up the good work.' Then, my marketing guy comes in and says, 'we are spending 700 dollars per car in advertising in GM, and Ford is spending eight hundred. We have to increase our spending to 800 dollars.' What is wrong with this equation?" He is right.

There is no real return on investment measurement for TV. No one believes the ratings numbers, and there are unreasonable cost increases.

It cannot last, and it's already starting to change.

In September, Procter & Gamble sharply reduced its TV spending. The largest TV advertiser (with the Gillette acquisition, they passed General Motors). The Wall Street Journal reported that, "P&G, the maker of Tide, Crest and Pampers, won't say how much it spends on in-store marketing. But, it cut its commitments to advertise on cable channels for the current season by 25percent. And, its broadcast-TV allotment is down about five percent."

The big guys are starting to move out, and others will follow.

Here is Alexander Graham Bell in 1892, opening a long-distance line from New York to Chicago.

Source: Library of Congress

At iMedia's Brand Summit last month -- in 2005 -- when I called on the hotel telephone last night to my wife in Los Altos Hills, California, *I used exactly that same technology*. I had a dedicated circuit between Coronado Island in California and Los Altos Hills.

Every time I paused in that conversation, there was unused bandwidth. It was just an egregious waste of money and time. Instead, we can throw those voices into the internet cloud: it should be packets, and it should be reassembled on the other end. We don't need a dedicated line. VoIP -- voice over internet protocol -- is doing it.

Here is the transcript of a brief video from the Skype home page.

Hello, this short film is about how easy it is to use Skype. Skype is a little piece of software that allows you to call people through the Internet anywhere in the world for free. Yes, that is right. Calls between Skype users do not cost a thing. They are free. To use Skype, you don't need to be a super smart person, or be friends with an engineer or scientist. You just need a computer. It doesn't matter which one. Skype is friendly with Windows, Mac, Linux and Pocket PC. It is a good idea to use a headset to make the calls, though you can use normal headphones, if your computer has an in-built microphone. Skype takes just moments to download and install. When that's done, have

your friends download Skype so they can talk for free as well. Making a call is as easy as selecting a friend from your contact list and pressing the big, green call button. Your friend answers, and then you say, "Hello. How are you? What is the weather like there?" Simple, eh? Thank you for watching. Good-bye. Next week, basket weaving with confidence.
I got into Skype because I'm giving a speech in Sao Paolo next month, and I always have a hassle with phones when I am traveling over seas. So, I gave Skype forty bucks so I can call back to the states from South Paolo next month.

eBay just acquired Skype. Meg Whitman is a very bright CEO, and she is spending 2.6 billion dollars on Skype. On my trip to Sao Paulo, it would cost something like eleven cents per minute for me to call home. Skype is free computer to computer, and the cost of calling computer to phone is less than half the cost of a traditional phone call.

The telcos are going crazy.

I find it astonishing that Nielsen Media Research is still using paper diaries -- in the twenty-first century!

In September of 2004, the Wall Street Journal broke a story about a woman down in central Florida who had problems determining who to give credit to on a Nielsen diary. She had a choice between "Sagwa, the Chinese Cat" on PBS and "Dora the Explorer" on Nickelodeon. The Nielsen editor wound up giving the viewer credit to Dora, even though the TV was turned off at the time.

The explanation came from Gary Bentley, Nielsen's manager of data processing: "If we threw out every diary with a little glitch, we could go home early."

The Nielsen and Arbitron systems are just jokes. Rupert Murdoch is going crazy because his ratings are down in New York. The politicians are getting involved, and someday soon we will get truly accurate writings.

There is technology being developed to passively monitor the audio signal you are being exposed to, 24/7. Once that happens, and once we put GPS in this puppy as well as Ad-ID (more on Ad-ID in the next section) then we are going to have a truly accurate measure -- an integrated measure -- of television and radio combined in a sample that is going to be dead on.

But this is not going to come from Nielsen and Arbitron.

They announced their "Project Apollo" new marketing information service, and then gave up because it was going to destroy their present business model. They cannot move away from what they are doing now, which is selling imaginary numbers to people who make decisions based on those numbers.

Soon enough, somebody else will come in with a truly accurate ratings system.

Talk about a nuclear explosion waiting to happen!

Ad-ID is a UPC Barcode for advertising that permits one-to-one tracking of commercials, down through the pipe, down to the TV set. It is very powerful, and it enables four billion combinations -- this is meta data.

Shortly, we will be able to create, in essence, full motion video commercials on the fly. And, the commercial people receive in Westwood, California will be different from what the people get on their television sets a few miles away in Pacoima. Marketers will be able to create ads on the fly.

The UPC Barcode arrived on the scene in 1974. People didn't understand what it was. UPC permitted Wal-Mart to exist; and, Wal-Mart couldn't exist with out it. UPC is a supply chain logistics DNA. Like UPC, Ad-ID is another sleeper. If you haven't heard about this, it's time to contact your friends at AAAA and the ANA. With four billion combinations, it is the future for tracking digital advertising.

RFID: Radio frequency identification is the UPC Barcode on steroids. It announces itself when it is hit by a radio signal.

There is a prototype store in Rheinberg, Germany that is demonstrating the power of RFID. It has dynamic pricing. The store changes its pricing by time of day and by customer -- based on RFID.

What's more, the store displays dynamic ads based on RFID.

It has Smart Shelves. If a customer takes a Clorox product, picks it off the shelf, looks at it, and then puts it back, the Smart Shelves monitor that action and then lets the store report to the guy at Clorox: "people are confused here.

They are picking up the 409 cleaner with lemon scent, and they don't understand it, because we are seeing a huge number of people picking it up off the shelf, and putting it back."

Then, when you roll up to the checkout counter, the RFID hits it and every product announces itself. Poof! There is the total. The customer simply moves to a device that wipes out those RFID codes, so that the customer is anonymous when she leaves the store, so people cannot follow you down the street knowing you bought a twelve pack of Bud Light.

Combine Ad-ID with RFID -- the two together are going to be incredible. We will be able to trace advertising down to the TV set, down to the individual at the household. And, with RFID monitoring what comes into that household, it is going to be a revolution because suddenly marketers will know when their ads push consumer purchase behavior.

And when they don't.

At U.C. Berkeley's Haas School of Business, here is Marketing 101.

All marketing is composed of three primary elements: advertising directed at the consumers, promotions directed at consumers, and trade incentives targeted at channel partners. Together, these are the tools we use to build brands, and this has been the case for a long, long time. This model is broken because advertising is being diminished while trade incentives are soaring to unjustified and unsustainable levels in almost all sectors.

This chart shows total marketing spending in 2002:

Total Marketing Spending 2002 (billions)		
Advertising	$211	24.0%
Consumer Promotion	$233	26.5%
Trade Promotion	$436	49.5%
Total	$882	100%

Source: PROMO and the PMA 2003 Annual Promotion Trends

Note that advertising is at 24 percent.

Fifteen years ago, advertising was 50percent, and trade promotion was twenty-five percent. This is the most pernicious development hitting the marketing world. It destroys brands. Trade promotions are crack cocaine that do nothing long-term to build a brand. The American automotive industry is putting down 3000 or 4000 dollars per car. "Money on the Hood," they call it: cash incentives.

That doesn't build brands, but it does push out some inventory before the new model year.

What I see coming: With the technologies I've been discussing, we will soon have the ability to take advertising back up to 50percent, and bring trade incentives down to 25 percent.

If the chart above is where we are today, the chart below is my fervent plea for where we should be in ten years:

Marketing Renaissance for 2010	
2005	
Advertising	24%
Consumer Promotion	26%
Trade Promotion	50%
2010	
Advertising	50%
Consumer Promotion	25%
Trade Promotion	25%

Everybody reading this has a stake in getting advertising back up to 50 percent.

Procter & Gamble's Jim Stengel was kind enough to invite me out to address their North American marketing group. I got my start in marketing at that great institution, and here was the focus of my presentation: "You, P&G, have to help lead this advertising back to 50 percent. We have got to, as marketers, begin to build brand equity and specialize in creating desire for our products, rather than focusing on temporary price discounts." Doing this is the single greatest challenge that faces marketing at the present time.

The good news is that the 10 trends I have been discussion will, I think, make that happen.

Sealey's Four Rules

I want to wind up this discussion with four rules for good marketing:

Rule #1: Attention is money; always has been, always will be

Rule #2: Incumbents are in peril in a period of discontinuity -- they resist destroying their current business models. Just look at U.S. Airways and American Airlines.

Rule #3: Whatever is technologically possible will occur -- despite obstacles, legal or otherwise. You cannot stop technology.

Rule #4: Advertising is going to remain at two and a half percent of the gross domestic product of this country. $275 billion.

That last rule is the good news, but I'm talking about a different type of advertising.

This new advertising will be enabled by the 10 trends I've discussed: the mega-trends, the media sub-trends, an entertainment revolution in the way product is distributed, internet protocol television, performance based marketing, the demise of ad supported television as we know it, VoIP, a new accurate ratings systems, the combination of Ad-ID and RFID, all leading to a marketing renaissance.

It is going to be a glorious, glorious time.