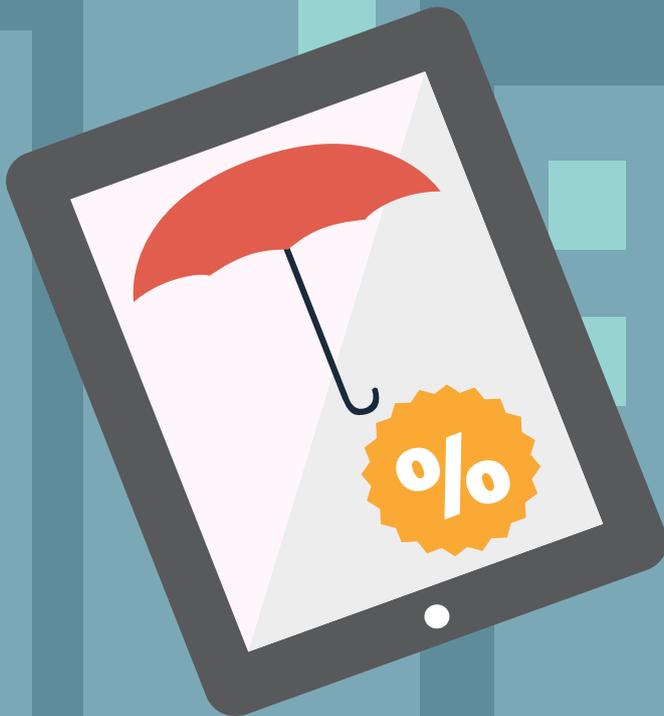


A report from the Economist Intelligence Unit.

# BEYOND PERSONALISATION

## THE CHALLENGES OF CONTEXTUAL MARKETING



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## About this study

*The challenges of marketing in context* is a report by The Economist Intelligence Unit, sponsored by SAP. It examines the strategic, organisational and creative challenges that arise from the practice of contextual marketing.

The report draws on interviews with the following experts and practitioners.

- Alberto Alvarez-Morphy, founder and chief strategy officer, Digital Friks
- Venky Balakrishnan, global vice president of digital innovation, Diageo
- Bill Brand, president and chief marketing officer, HSN
- Dietmar Dahmen, chief innovation officer, exc. io
- Jonathan Deacon, director, Centre for Research in Entrepreneurship and Marketing, University of South Wales
- Asmita Dubey, chief marketing officer, L'Oréal China
- Andrea Fishman, partner, PwC
- Glenn Gow, president, Crimson Marketing
- Gavin Heaton, marketing consultant, Heaton Communications
- Alan Mitchell, strategy director, Ctrl-Shift
- John Ross, chief marketing officer, Inmar
- Olga Turishcheva, marketing and e-commerce director, M.video
- Brendan Witcher, principal analyst, Forrester Research

The Economist Intelligence Unit would like to thank these interviewees for their time and insight.

The report was written by Dan Armstrong. It was edited by Pete Swabey and Victoria Tuomisto.

# Executive summary

Marketers have access to more information about customers and prospects than ever before, and more ways to reach them too. This should help them to deliver messages and offers that are relevant and timely. However, most customers say they are being bombarded with marketing messages that are neither relevant nor useful.

The amount of available information about customers continues to grow and now includes real-time information such as current location and intention data. Some companies are using this information to tailor marketing messages not just to an individual's preferences and personality but to the precise context they find themselves in at any given time. While this contextual marketing presents opportunities to satisfy customers' desire for relevance, it also magnifies the risk of abuse and intrusion and presents operational challenges that marketers are only just beginning to explore.

This report examines the challenges associated with the practice of contextual marketing. It is based on a series of interviews with experts and practitioners. The key findings are as follows:

- **Contextual marketing is a term whose meaning is still being refined.** Marketers associate it with particular techniques, such as targeted or content-matched advertising, but in its broadest sense it means using information about an individual's context—such as where they are or what they are doing at a given point in time—alongside existing customer information to improve the effectiveness of marketing.
- **Digital technology provides a wealth of contextual information.** While there are non-digital examples of

contextual information, digital channels such as mobile technology, social media and the Internet of Things offer real-time information that can be used to find out about customers' and prospects' current context.

- **Contextual marketing is seen as a continuation of the growing granularity of information used by marketers.** As one CMO describes it, "it's the next step in a progression from mass marketing to segmentation, personalisation and finally contextual". As such, it is typically used in conjunction with other, earlier approaches.
- **The use of contextual information presents particular privacy challenges.** The potential for poorly executed contextual marketing to be intrusive or uncomfortable means that it is particularly important that customers are given control over their contextual information and that genuine value is offered in return for its use.
- **Marketers are rethinking their practices and processes for use with contextual information.** For example, marketing messages that provoke an emotional reaction may become less important than providing timely and valuable information. The availability of up-to-the-minute information about how contextual marketing is performing also requires a new approach to campaign management.
- **Contextual information is another factor adding to the growing complexity of digital marketing.** Marketers who wish to exploit contextual information must develop the skills and organisational capabilities that allow them to handle that complexity at scale.

# Introduction

“The aim of marketing is to know and understand the customer so well that the product or service fits him and sells itself.”

So wrote management guru Peter Drucker back in 1974. In the last decade alone, the means by which marketers can achieve this level of understanding have progressed remarkably. Digital platforms allow companies to collect ever more detailed information about prospects and customers, and to develop an increasingly intimate understanding of their identities and preferences.

And yet, products are hardly selling themselves. Despite the universal use of cookies and an entire industry built around search-engine optimisation (SEO), the number of Internet users clicking on banner ads is below 0.5%. And while ad placement strategies and other optimisation techniques can yield significant results, most are improvements from a very low base.

Indeed, by failing to understand their customers fully—or act on that understanding appropriately—companies risk doing more harm than good. “When you call me without permission on my mobile phone,” one VP of

marketing told delegates at a conference earlier this year, “I just want to punch you in the face.”

The understanding that marketers can obtain about individual customers continues to deepen. Thanks to more granular digital metrics and the advent of mobile technology, the next frontier is understanding not just a customer’s nature, such as their demographic profile, their likes and dislikes, but also the context in which they find themselves at any given time.

Proponents say that “contextual marketing” promises to deliver ever greater customer understanding and therefore, according to Drucker, better marketing. But as this report explains, it also presents new operational challenges and exposes organisations to new risks.

At a time of great upheaval for the marketing professions, digital contextual marketing is yet another source of complexity which requires new skills, practices and processes. But if it is to be truly transformational, companies must learn from contextual insights to offer greater value to their customers.

## 1

## What is contextual marketing?

Contextual marketing is the buzzword of the day. “It’s a hot one, right up there with personalisation and omnichannel retail,” says Brendan Witcher, principal analyst at Forrester Research, a research and advisory company.

It is also something of a Rorschach test: different people project different meanings depending on their perspective. Many of the marketers interviewed for this report understood contextual marketing primarily to mean targeted advertising or matching adverts to the content against which they appear.

But it is best understood simply as an extension of one of the core tenets for marketing: that understanding a customer allows an organisation to sell to them more effectively. The defining feature of contextual marketing is that the understanding in question relates to the transitory characteristics of an individual, such as their location, buying intention or the behaviour they are currently demonstrating.

Contextual marketing does not have to be digital, and there are antecedents in conventional marketing and merchandising. “Say you’re visiting the supermarket and you’re buying a roast chicken,” explains John Ross, CMO of Inmar, a US company that collects, analyses and sells retail data. “Roast chicken is takeout: you take it

home and eat it. So I’ll put a display of two-litre Coca-Cola bottles next to the chicken roaster. Coca-Cola has nothing to do with chicken, but both are contextually appropriate given the shopper’s intent: assembling a ready-to-eat, picnic-style dinner.”

Similarly, US-headquartered building materials retailer Home Depot sells a device called a post level, which is a spirit level specifically designed for driving wooden posts into the ground. “It is sold alongside two other items that would normally go in different departments: posts and mailboxes,” Mr Ross explains.

“Most people have never heard of a post level and don’t know that they need it,” he adds. By understanding the context of the customer, Home Depot can nevertheless make an easy up-sell.

However, digital channels offer a wealth of information about a customer’s context at a given point in time. This information is rarely used in isolation. Just as personalised marketing incorporates older techniques such as market segmentation, so too could contextual information be used in conjunction with, for example, identity data such as an individual’s name or age. What distinguishes it from personalisation, however, is the use

of information about the individual's current context—whether that means their behaviour in the present moment or a more long-term context, such as their current interests or buying intentions—to identify how a company can provide something of value.

“Contextual marketing is direct outreach based on geolocation and real-time activity information,” says Bill Brand, president of the US retailer HSN, which expanded from the old Home Shopping Network cable channel to web, mobile, catalogues and outlet stores. “It’s the next step in a progression from mass marketing to segmentation, personalisation and finally contextual, or what I call in-the-moment marketing.”

Search engines are arguably one of the most prevalent sources of contextual information: a search engine “knows” that an individual is looking for a particular thing, right there and then. “For us, much of the customer’s context can be deduced from search terms,” says Olga Turishcheva, marketing and e-commerce director of Russian electronics retailer M.video.

Now, mobile technology allows companies to perceive the physical location of customers, as smartphone users often allow their GPS coordinates to be extracted from their devices (knowingly or otherwise).

Common examples of contextual marketing are location-based offers and services. Swiss Federal Railways, Switzerland’s national rail operator, offers passengers mobile applications that use their location to improve their travelling experience. One feature detects when passengers are waiting at a station to change trains and offers them discounts at nearby shops and restaurants.

Social media are another rich source of contextual information. Gavin Heaton of Heaton Communications, a Sydney-based marketing consultancy, provides a recent example. “A guy

in Sydney tweeted at 10 pm: ‘Does anyone know where I can find a bottle shop [off license / liquor store] open?’ One of the hotel chains tweeted back, saying: ‘There’s one just around the corner from where you are’.”

In this case, there was no opportunity for a sale—the man wanted a drink, not a bed to sleep in—but there was a chance to nurture loyalty. “That kind of thing builds small amounts of brand preference over time,” says Mr Heaton.

An emerging application of social media for contextual marketing is to target customers based on the weather they are experiencing. In 2014 a US broadcaster, The Weather Channel, announced a partnership with Twitter that would allow advertisers to target areas experiencing unusual weather patterns, such as a heatwave or a heavy storm. Lipton Iced Tea, for example, used Facebook to advertise its drink in areas with warm temperatures.

Some companies are experimenting with digital sensors embedded in their products to collect contextual information and are using this to nurture the customer relationship. Diageo, the drinks manufacturer behind brands including Guinness, Tanqueray and J&B, has worked with a Norwegian printed electronics firm, Thinfilm, to develop prototype packaging for the Johnnie Walker Blue Label whisky that connects to smartphones when they are tapped against the bottle. Diageo will be able to track bottle movements across the supply chain to the point of consumption and then detect if the bottle is still sealed or open. Subsequent communication can then change depending on what the consumer is doing.

For example, tapping the bottle while it is still in a store would reveal information about its lineage. Once it has been opened, it could provide tasting notes or a discount on the next bottle.

“Until recently, a bottle has been a container for liquid,” says Venky Balakrishnan, global vice

president of digital innovation at Diageo. “We see the possibility for the bottle to do something much more before, during and after purchase.”

## Business context

The applications of contextual marketing are not constrained to business-to-consumer (B2C) relationships. In fact, business-to-business (B2B) marketers are already proficient at using contextual information to detect where in the buying cycle a prospect may be. “Looking at the pricing sheet or going to the pricing page—that’s a big buying signal,” explains Glenn Gow, president of consultancy Crimson Marketing.

There is arguably more contextual information to use in B2B marketing. “In the B2C commerce space, you may be dealing with a one-time, price-sensitive buyer. Maybe you can offer free delivery, but there is less scope or history for using contextual insight,” says Andrea Fishman, a partner at professional services network PwC. “In B2B, knowing what the customer has done and how they’ve interacted with you, there is

often rich insight to guide the type of offer or experience.”

Mr Heaton agrees. “One of the first things you do in B2B account planning is to look at the organisational charts of the buyers that you’re trying to pitch to,” he explains. “You quickly see that there’s a key decision-maker: the CEO or CFO or someone at the top level. Then you’ve got directors and managers just below the decision-makers. Each needs different types of information, so you orchestrate your engagement through each role. Decision-making by committee is perfect for contextual marketing.”

With this much information available, one might expect contextual marketing to be a widespread practice, but this is not the case. “In my experience, less than 10% of organisations can sense even the most basic types of context about their customers,” says Alberto Alvarez-Morphy, founder and chief strategy officer at Digital Friks, a digital marketing agency based in Mexico.

## 2

## The challenges ahead

One of the most pressing challenges associated with contextual marketing is privacy. In order to build as deep an understanding of the customer's context as possible, marketers could be tempted to acquire more data than their customers—and regulators—are comfortable with.

"Once you are looking at the context of the user, then you want to have more information about who they are and what they've done previously to understand their behaviour," explains Alan Mitchell, strategy director of consultancy Ctrl-Shift, which specialises in the use of personal information. "That sets marketers off on a quest to create the richest, deepest profile in order to provide targeted messages, and that's where they run the risk of intrusion."

Whether contextual advertising actually causes individuals any harm is debatable, Mr Mitchell concedes. But by using contextual information in a way that gives customers the sense they are being watched, the marketing industry risks losing the implicit permission to do so.

In Mr Mitchell's view, the key to using contextual information to make marketing more effective is to actually listen to the customer's needs. "A lot of contextual marketing is based on the concept of relevance," he explains. "But relevance is actually just a proxy for utility in the eyes of the

individual." What companies should aspire to is offering more relevant products, not just more relevant ads.

For this to work, companies should give customers more control over the use of their contextual information, Mr Mitchell says. "If you allow me as an individual to communicate that I'm interested in a particular product at a particular time, and then you offer me that product, I have benefited from that transaction. This turns contextual marketing into a listening exercise."

By contrast, if customers feel that the use of their contextual information is detrimental or intrusive, they are less likely to allow it. The growing popularity of services such as AdBlock, which allows web surfers to switch off online advertisements, shows that customers are increasingly empowered to control their own digital lives. Similarly, customers may well unsubscribe from all email communication from a particular company if they believe their data privacy is not being respected.

Another challenge is effectively interpreting contextual information. This cannot emerge from contextual data alone, Mr Mitchell argues, and requires some understanding of the lives of customers (see Marketing in a socio-cultural context). For example, for shoppers who reveal

one day that they are looking for a kettle, this is likely to be only a short-term state of affairs. Advertising kettles to them over the following six months is unlikely to lead to more sales. If they reveal they are looking for a mortgage, however, this information could be incorporated into a longer campaign.

## Reacting to context

Once companies have successfully interpreted contextual information, they need to react effectively. Fortunately, not only do digital channels make it possible for marketers to understand a target's context, they also allow them to respond soon enough for that understanding to be useful. "In the past, marketing plans were set and the assets built months in advance," says Forrester's Mr Witcher. "Today, I can have assets ready to go in within minutes."

But for this technical capability to be of value, companies must be able to provide relevant and engaging information.

This is a new and creative challenge for the marketing profession, according to Dietmar Dahmen, a former creative director of advertising agencies Ogilvy, DDB and BDDO and now independent advisor and chief innovation officer at exc.io, a digital agency. "Ad agencies have always thought about what to say, not when to say it," he explains. "They thought about the right message - the unique selling proposition - often for months. They gave less thought to the right circumstances, the right place, and the right time. They did not consider the *individual* selling proposition."

In Mr Dahmen's view, the emotional content of contextual marketing messages matters less than the information they provide. "Advertising used to be about seduction, but when the context makes the information critical, no seduction is needed," he explains. "If you are running

out of gasoline and the next gas station is two kilometres away, that information is enough.

"Messaging becomes more about tweaking what specific information specific people need in specific circumstances," he adds. "Tone and volume become less important, and the marketer becomes more like an attentive butler than a desperate rock musician trying to overwhelm and entertain you."

Mr Dahmen believes that in future the creativity of traditional advertising will be paired with the automation of contemporary digital marketing. He predicts that creative elements such as narrative and tone will one day be constructed automatically in response to the context of the customer.

"We are now reaching the point of adaptive storytelling where the story, and the tone in which it is told, can be predicted algorithmically," says Mr Dahmen. "When you use a search engine, if you're a kid and you look for a tree, you will get different results than you would if you're a professor looking for a tree. An algorithm predicts what is likely to be informative and helpful for you. And an algorithm can also be used to determine the tone."

The use of contextual information also challenges conventional marketing processes. One company currently wrestling with that particular challenge is cosmetics giant L'Oréal. "Our goal is to build strong direct consumer relationships," says Asmita Dubey, chief marketing officer of the company's Chinese division. "Our global CMO has said that we have one billion consumers, and that we want to move to the next billion. And the way we will reach that next billion will be digital."

The company uses a wide range of contextual marketing techniques, from advertising particular products against search terms on its e-commerce platforms to mobile apps that identify when customers are in a given department store.

These contextual channels provide real-time information about how certain offers or products are performing. This presents an opportunity to update campaigns on the fly, but achieving that kind of agility at scale is not easy.

“The working process used to be that you gave a brief to the agency, they would tell you what you can do, and then months later you would see the results,” explains Ms Dubey. “But now we can see the attribution [of sales to offers, campaigns or channels] live, so we can decide where to invest our resources on an ongoing basis.

“This means the whole working process changes, and we can do that for a few campaigns. The challenge is, how do you scale it up? We are the second-biggest advertiser in China.”

For Ms Dubey, contextual marketing is just one factor adding to the growing complexity of digital marketing. “The questions brand managers are asking about digital are: do I understand it, does my staff understand it, does my agency ecosystem have the right skills, do I have the right KPIs [key performance indicators], should digital [staff] work for me directly or should I use them as a service?” she says. “In the past, a brand manager would manage a TV campaign, and the results would be relatively straightforward. Today, there are 30 different KPIs, there is social media listening, there is A-B testing.

“Just the scale of work has gone up, and we are dealing with all that change.”

## Marketing in a socio-cultural context

Jonathan Deacon is the director of the Centre for Research in Entrepreneurship and Marketing at the University of South Wales. His research examines the importance of understanding the socio-cultural context in which customers operate, which he believes is increasingly crucial for effective marketing.

It draws on the recent history of marketing. “There are two schools of thought in marketing,” he explains. “The American school that came out in the late 1960s is what you might call the ‘Mad Men’ approach: mass marketing, mass communication, mass messages. This was very much about the four P’s of marketing—price, product, place, promotion.”

In the 1980s and 1990s, however, another school of thought emerged—the Scandinavian school. “People started to question whether the corporate marketing model was really relevant to the kind of businesses that were emerging at the time, such as the technology start-ups of Silicon Valley.”

The Scandinavian school sees marketing as an interaction between individuals rather than a communication from an organisation to its target market, Mr Deacon explains. It is most prevalent in small businesses and in business-to-business (B2B) marketing relationships, he says, where marketers develop such a deep understanding of their customers that they can predict their future needs.

Some of the best contextual marketers, in this sense, are technology entrepreneurs, according to Mr Deacon. “The people who work

at technology start-ups are often engineers who tend to be insular. But they manage to run successful companies because they talk with such enthusiasm and authenticity, and because they understand the minds of their customers so well.”

In other words, they are so immersed in a particular socio-cultural context that they can expertly develop and sell products for other people in that same context. “It’s about chemistry between individuals.”

Mr Deacon says that understanding the socio-cultural context is growing in significance as customers themselves become empowered. “There’s no such thing as a customer anymore. Customers were seen as a passive group we sold to. The people we used to call customers are now much more active, not just with us [as companies] but with the rest of the market.”

When companies are operating in a particular socio-cultural niche, customers become “co-developers of the product, co-creators of value”, Mr Deacon says. They might add customisation to products, for example, that can be used by other customers.

Mr Deacon adds that more research is needed to understand how the socio-cultural contexts in which business relationships take place are constructed—for example, how particular communities use language. With social media making the conversations that customers have ever more visible, this kind of sociological research may soon have practical business applications. ■

# Conclusion

The central principle of marketing is that knowing a customer better helps you to offer products and services they actually want. Understanding the context of a customer has always been a part of that, but recently the amount of contextual information available to marketers has multiplied. This offers marketers the possibility of a new depth of understanding.

However, the ability to use that information relies on the customer's consent—whether it is explicit or implicit. Customers are used to sharing information with businesses, but they expect value in return.

For contextual marketing to be sustainable, it must therefore be used to improve the customer experience. This means improving not only the way in which companies interact with customers, but also the nature of the products and services they offer.

In the short term, marketers must develop the technical, creative and marketing skills required to incorporate contextual information effectively and without unnerving their customers and jeopardising their prospects. For marketers already adapting to the rapid digitisation of their profession, this kind of change is now an expected component of doing business.

But in the longer term, they must also find ways to feed contextual insights about customer behaviour into the wider organisation in order to create products and services of greater value. This will not only encourage customers to give companies access to information about their current context, but also will help those companies make more profitable use of that information. In these early days of digital contextual marketing, this is still very much a work in progress. ■

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