JR.-MART

SPREADING WINGS

Marmore Preparatory Briefs

A preparatory brief that attempts to understand the nuances of marketing in the evolving age of digital media and empowered consumers

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Introduction

STAN SMITH was a huge man: 6’4” tall, he weighed 220 pounds. Gregarious and outgoing, he had taken to marketing like fish would to water. And this was notwithstanding the fact that economist Lionel Robbins, not marketing guru Philip Kotler, was his personal favorite! Completing his prize-fighter build was his razor sharp mind, which could weigh options with remarkable ease. And now even he, a man of extraordinary intelligence, was foxed.

The retail giant, Jr.-Mart, for whom the 40-something Smith worked, is amongst the biggest players in the United Kingdom. Unlisted, family-owned and professionally-managed, it had begun operations in the early 70s as a chain of mom-and-pop stores. It had slowly grown in size and in stature, and by the 90s, had emerged as a national name. Its math wizards had developed algorithms that uncannily predicted customers’ buying preferences and helped Jr.-Mart strategize. Online shopping and home delivery came out of such thoughtful engagements.

With its 700 plus stores dotting every town in England, Scotland and Wales, Jr.-Mart felt it was time to look overseas. Also, the home market was getting more competitive. Consumers were shying away from expensive hypermarkets, which constituted the core of Jr.-Mart's business. With an annual sale of $30 billion in calendar year 2014, sales were up by 10% but operating profits were down by 5%.

It was time to de-risk.

Assessing the Middle East Market

Jr.-Mart looked towards the Middle East. The sight of a young population, , keen to enjoy the good things in life, was the added motivation. A campaign budget of $100 million was set aside, and it was Smith's mandate to judiciously spend it. This mandate, the biggest challenge of his career, meant working 70 hours in a 5-day week. He would have to take a call on ad spends in the GCC, where ad revenues had grown at a measly CAGR of 6% between 2007 and 2014.

So, what should be his advertisement strategy? Given the huge budget, he wanted to ensure the money went to the right place and his strategy was fail-safe. He was concerned about the big picture and so, right now, the most pressing question was: where should he advertise? In the print media, the electronic media or the social networking sites? To answer this, he decided to look into how these media functioned, how they priced themselves and analyze the emerging trends. Things like advertising frequency, "yes" dates and "no" dates, size and duration of the ads, the choice of specific players within an ad medium, the target audience etc., were minor details, which he could look into later.

His first stop was the print media. Straight away, he was in for big surprises.

Having grown up on the staple diet of The Times and The Telegraph, Smith, a product of the crossover generation, was finding it hard to come to terms with the conflicting trends. Like, the $200 billion newspaper market was shrinking in the developed countries, even as Asia and the GCC bucked the trend **(Exhibit 1)**. Also, in 2012, while 71% of the advertisement spending in the GCC went to the print media, in the US it had been beaten down to 9%.

Exhibit 1:
Newspaper circulation growth rate, 2013

Asia	1.45%
Middle East & North Africa	(1)%
Europe	(5.20)%
Latin America	2.56%
North America	(4.30)%

Exhibit 1A:
Ad spend in GCC, 2012

Newspaper & Magazines	71%
Television	14%
Outdoor	11%
Radio	3%
Cinema	1%

Source: WAN-IFRA

Smith's team had pieced together some more numbers. More than 50% of the world's adult population reads a newspaper. About 2,500 million people use the print media, while 600 million read online. Of the online readers, 500 million read both print and online. Yet the ground level view was that the world was turning digital. He wondered, "Should newspapers and magazines then be the principal medium of advertising?"

Smith was never a numbers man. He played by the heart, not by the head.

Choice of Media

Long years in the industry had taught Smith that media owners, corporate honchos and the government formed an unholy triad. Advertisements were oxygen to the owners. The revenue for newspapers was always below the cost of production, if you didn't count the ad income. In some cities, top advertisers, such as fast moving consumer goods (FMCG) companies, gave all their ads to the paper with the highest circulation. On their part, the government distributed ad money based on relative circulation. Little wonder, the media fought for numbers. As George Orwell famously wrote, "All the papers that matter live off their advertisements, and the advertisers exercise an indirect censorship over news." Withdraw ads and the media would go kaput. The Middle East was no exception.

That way, it was a vicious circle. Falling circulation means falling ads, leading to even more fall in circulation. Globally, in 2013, circulations were sliding. Also, newspapers have a less than 24-hour life. Smith wondered if he should go slow on print media ad. Yet, a week ago, an Intern had pointed, “In Oman, an ad on the front or the back jacket of a newspaper leads to an immediate surge in sales as Omanis believe in conventional newspaper advertising.” Between 2007 and 2011, the newspaper circulation in Oman had grown at a CAGR of 8% suggesting that the print media is a force to reckon with. More importantly, Gulf literacy was set to touch 100% by 2015. He thought Jr.-Mart, given its deep pockets, could advertise big time and get favourable write-ups in the dailies. Aggressive advertising could also make the print media drop its price, encouraging him to advertise even more!

Having grown up on the lap of free press, its absence in the Gulf was like cold turkey to Smith. That brought him to a second paradox. In the Gulf, as a private report that he had commissioned showed, “Newspapers enjoy higher trustworthiness and despite the definitive arrival of digital medium, the print media would be the top dog in the medium term.” In a sense, it did not matter. After all, he was only placing ads; he wasn't going to own newspapers.

Smith looked at the statement on ad spend per person **(Exhibit 2)** that his boys had prepared, and winced.

Exhibit 2: Advertisement rate card (Sample)

Name	Medium	Copies	Position	Rate	Currency
Alrai	Newspaper	90,000	Back page	12,000	KD
Nickelodeon	TV		30 sec Prime Time	1,200	AED
Comms Media	Online	59,000	Home Page (Per day)	10,000	AED
Sharjah TV	TV		30 sec Prime Time	3,500	AED
Sport 360	Magazine	40,000	Back Page	56,000	AED
Open Skies	Magazine	80,000	Front Page	55,000	USD

Source: Markaz Research

Smith next wondered about slotting his advertisements on television.

He thought about his native, England. There, the TV had metamorphosed from an Idiot Box to being the confluence of information, communication and entertainment. TRP ratings were high because the discussions were free, noisy and raucous. To Smith, the Gulf was a culture shock. Here you didn't get to see a talk show host like Tim Sebastian who, with his abrasive in-your-face style of questioning, could make celebrities squirm. Here the television was prim, proper and polite. TV channel owners were vetted. It was effectively a two-player market with competition restricted to Al-Jazeera and Al-Arabiya. Satellite channels, because of their transnational nature, had slightly greater freedom.

Yes, the free-to-air (FTA) market is growing exponentially, the number of pay-TV subscribers should touch 5.1 million in 2016, fibre-to-the-home (FTTH) technology is fast catching up and the IPTV will rise ten-fold to 1.6 million by 2014.

In 2012, ad revenues from television media accounted for 12% of total ad revenues.

Impact of Social Networking

Then, there were the game-changing social networking sites. Smith was completely bowled over by them. In the GCC, the youth dominated Facebook. UAE had the highest LinkedIn penetration of 12.8% and Kuwait had the highest Twitter penetration of 12.8%, in the Arab world.

Such has been the leap of faith that social networking services have created a close community despite the geographical distances, pushed governments to become more transparent and participatory, prompted large corporations to showcase their products and help understand the consumer better. In the more open societies, news and views have been travelling in real time. Same would be the case with the Middle East. Surely, this was a medium where he could advertise: here, there and everywhere.

Globally, as of 2012, Twitter had 500 million registered users. As of June 2013, the professional networking site LinkedIn had 225 million users. And one-seventh of humanity now sits on Facebook. Of all sites, Facebook has the highest penetration in the GCC, distantly followed by LinkedIn and Twitter. In 2012, there were 11.2 million Facebook users in the GCC, growing at 40%.

In 2013, the digital ad spending is estimated to capture 21% share of global ad spending by reaching $114 billion globally.

The Internet has been the 10X change, the killer application, of our time. With the cloud becoming ubiquitous, gadgets becoming necessities, a 5 billion population waiting to sit on the Internet by 2015, ad spending will change completely. The signs are already there **(Exhibit 3).** In the US, television holds the largest ad revenue

Exhibit 3:
Share of Global Adspend by Medium

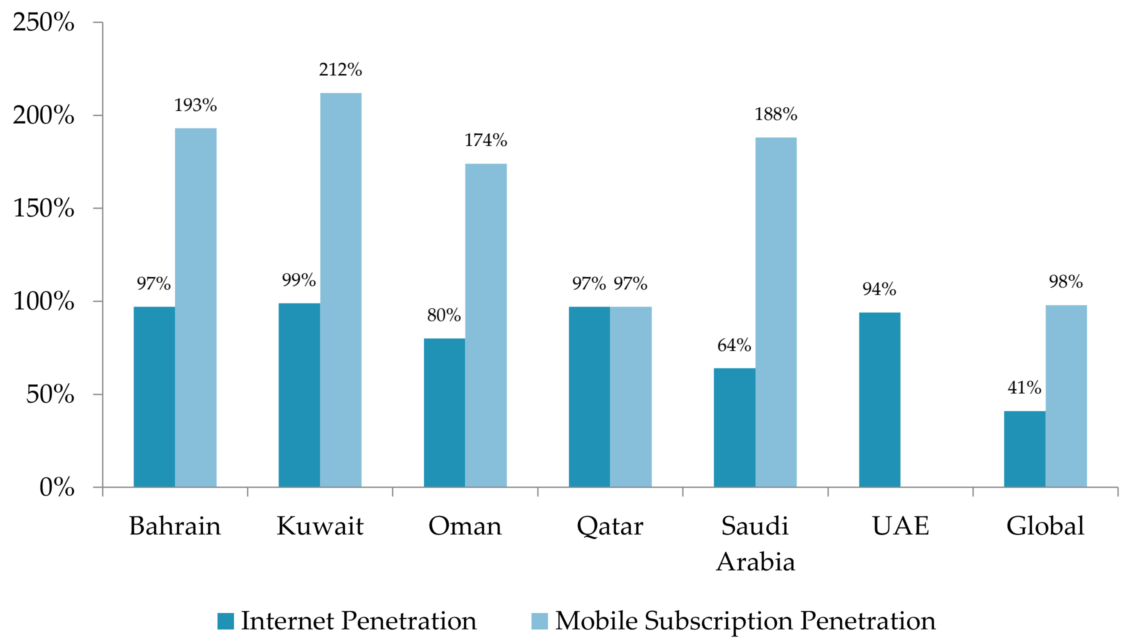
	2014	2017
Television	39.6%	37.4%
Desktop Internet	18.8%	19.6%
Mobile Internet	5.0%	11.4%
Newspapers	15.2%	12.2%
Magazines	7.3%	5.9%
Outdoor	6.8%	6.7%
Radio	6.8%	6.2%
Cinema	0.5%	0.5%
Total	100.0%	100.0%

Source: Zenith Optimedia

share with 42%, followed by online advertising with 38%. Revenues of digital content providers, iTunes and Kindle, are exploding. Google generates more ad revenue than all US newspapers combined! Americans spend more time on social networks than web portals. Now, most of online ad dollars are being spent on Google and Facebook. The world is really and truly getting wired.

Penetration **(Exhibit 4)** of the Internet in the GCC has been significant. The penetration is highest in Qatar (86%) and lowest in the KSA (49%). All GCC countries have more than 100% mobile phone penetration. Fixed broadband has witnessed a slow growth in the GCC. The social media is relatively slow in catching up but with increasing broadband and smartphone usage, the social media penetration will grow.

Exhibit 4: Internet and Mobile Subscription Penetration, 2014



Source: We Are Social, July 2014

Smith thought of the digitals. They had killed many things: landline, post, alarm clock, camera, diary, music players, and video-recorders, to name a few. Today, the smartphone has cannibalized the desktop. You can do almost everything with it; and that too, while on the move. At 61.5%, UAE's smartphone penetration was on par with his native land, UK. Six in ten tablet users confirmed that their tablets had replaced traditional newspapers and magazines. A majority of users preferred tablets to computers, print publications or television. Surely, this was encouraging. But Smith felt that this by itself may not convert into increased ad revenues on mobile because of its limited screen size, where ads have limited space to be displayed. The question popped up again: Would this be right medium for advertising?

The Nagging Ambiguities

The Middle East was an untested market and suddenly Smith had nagging worries. Would big-ticket advertising help? Why blow so much money? Wasn’t word of mouth (WOM) better? After all, in advertising you say you are good; in WOM, someone else confirms that you are good. Facebook hardly advertised. Despite that, it has captured a dominant market share in the social media space. Yet he remembered reading somewhere: “Doing business without advertising is like planning in the dark. You know what you are doing, but nobody else does.”

Stan Smith was a man of the world.

He was sure that it was only a matter of time before the aspirational Gulf population embraced technology in its entirety. They had the big money to spend. An average per capita income of $48,000 **(Exhibit 6)** placed them in the rich league, way above the Eurozone itself. So what should he do during the interregnum? Should it be the print or the digital media? Should he ask his quants to seek and analyze Big Data in the Gulf? Or should he go by his instinct? He knew he had to decide fast. He didn't have the luxury of time.

He picked up his smartphone and punched the numbers that he knew by heart —. The voice at the other end said, “Maria Grant.”

DISCUSSION POINTS

1. List the contradictions Smith had.
2. Would you consider the current portfolio of Jr.-Mart as adequately diversified?
3. The importance of advertising even for well-established brands.
4. Discussion on what the 6% growth in ad spends in GCC during the 5-year period meant.
5. In which newspaper, the number 1 or the number 2, should he advertise?
6. SWOT of the newspaper industry and of the television industry, with a view to knowing where to place advertisements.
7. Revenue model of the media industry in general and its verticals in particular to appreciate the importance of ad revenue.
8. A mathematical model to distribute money to various segments.
9. Current advertisement rates and ad cost efficiency?
10. Discussion on media strategies of existing players.
11. The relevance of Big Data – Analysis vs. Instinct.
12. Key Success Factors in advertisement strategies.