Big Changes Are in Store For Advertising Industry As Retail Focus Widens

Marketers' Shifting Spending Habits Create New Opportunities, Challenges

Millions of Viewers at Wal-Mart

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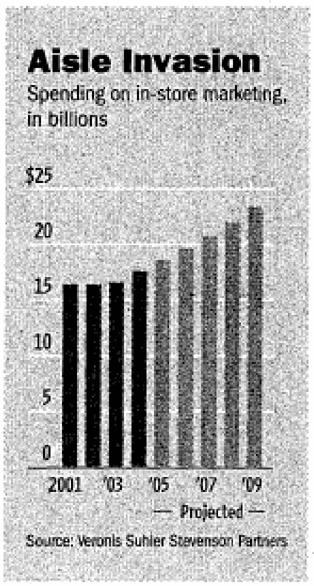

Procter & Gamble Co. believes shoppers make up their mind about a product in about the time it takes to read this paragraph.

This "first moment of truth," as P&G calls it, is the three to seven seconds when someone notices an item on a store shelf. Despite spending billions on traditional advertising, the consumer-products giant thinks this instant is one of its most important marketing opportunities. It created a position 18 months ago, Director of First ,Moment of Truth, or Director of FMOT, (pronounced "EFF-mott") to produce sharper, flashier in-store displays. There is a 15-person FMOT department at P&G headquarters in Cincinnati as well as 50 FMOT leaders stationed around the world.

P&G's insight is helping to power a shift in the advertising business: the growth and increasing sophistication of in-store marketing. Almost a century ago, P&G popularized the concept of mass-market advertising. Now, in response to the fragmentation of television and print ads, it wants to tout its brands directly to consumers where they are most likely to be influenced: the store.

In part for this reason, the decades-old hierarchy that ruled the ad industry is under assault. Previously, ad executives who designed TV commercials looked down on those who worked on in-store promotions. Now, executives with retail expertise are gaining clout as the world's biggest advertising firms build up departments to handle an area in which they have little expertise. One marketing firm has even hired an expert on the durability of corrugated cardboard.

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Changes Are in Store for Ad Industry

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To fill a store's giant canvas with advertising messages, ad agencies are now charged with designing everything from in-store TV commercials to special shelf displays and packaging. The work is more elaborate than traditional in-store marketing, typically signs posted at the end of supermarket aisles. For all the excitement, agencies face huge challenges coordinating so many pieces. Some are stumbling over new problems, such as how to measure and charge for these services.

When **Gillette** Co. introduced a new women's razor last spring, the Venus Vibrance, its first TV ad ran on just one network—the one inside Wal-Mart stores, which has become a powerful advertising medium. To market Pampers diapers in the U.K., P&G persuaded retailers earlier this year to put fake doorknobs high up on restroom doors, to remind parents how much babies need to stretch. Grey Synchronized Partners, owned by **WPP Group** PLC, created last year a display for Absolut vodka that lit bottles with colored spotlights corresponding to their flavor. The display's look matched the label's traditional print advertising.

Joe Celia, Grey Synchronized's chief executive, first started working on in-store displays six years ago. Earlier in his career, "marketers would create the product and the brand image and then throw it over to us to see what we could do inside the store," he says. "Now, we all start together from the beginning."

Veronis Subler Stevenson Partners LLC, an investment bank that produces forecasts for the communications industry, says companies in the U.S. are expected to spend about $18.6 billion on in-store marketing and in-store ads this year, up from $17.6 billion last year. Overall, companies are slated to spend almost $200 billion on standard types of advertising this year, including TV, print and the Internet, up from $188 billion in 2004.

P&G, the maker of Tide, Crest and Pampers, won't say how much it spends on in-store marketing But it has cut its commitments to advertise on cable channels for the current season by 25% and its broadcast-TV allotment is down about 5%. At the same time, overall ad spending rose slightly.

One vehicle that is helping change this traditionally mundane advprtising medium is **Wal-Mart Stores** Inc.'s in-store TV network. It is seen by 130 million shoppers a month, according to ratings data produced by Nielsen Media Research for San Francisco-based PRN Corp., which runs the network. Through it, Wal-Mart has, in effect, recreated the mass audience that marketers used to easily reach on network TV.

Wal-Mart even sells advertising like TV networks. Yesterday, Wal-Mart was scheduled to host manufacturers in its hometown of Bentonville, Arkansas, to sell blocks of advertising time for the coming year, a direct imitation of the annual ad-sales extravaganza, known as the upfronts, put on by the networks. PRN, which is owned by **Thomson** Corp., says its rates are comparable to those of cable TV.

Last year, 122 new products were launched on Wal-Mart TV, says Charlie Nooney, chief executive of PRN, including goods from P&G, **Unilever** and Gillette, which agreed to be acquired by P&G earlier this year. The TV sets, which have sound, are located in parts of the store where people tend to gather, such as the deli, and will soon be installed in checkout aisles.

Stewart Stockdale, chief marketing officer of mall operator **Simon Property Group** cites research it commissioned from Arbitron Inc., a media-research firm, showing that shoppers are more likely to recall an ad seen in mall than one seen at home. The company has a pilot program at the Roosevelt Field mall on New York's Long Island that airs TV commercials on giant digital screens. Advertisers include restaurant chain **Wendy's International** Inc. and **Coca-Cola** Co.

Even as TV viewers scatter among a multitude of channels, the broadcast networks remain unique in their ability to deliver a big audience, in a single shot, to advertisers. The Super Bowl pro-football championship game, TV's most-watched event, drew 86 million viewers last year and its 30-

second commercials sold for $2.4 million, Nielsen says.

In addition, some TV executives say, in-store advertising isn't necessarily competitive. Viewers are relaxed at home, notes Chris Carlisle, executive vice president of marketing for **News Corp.**'s Fox network. In the store, they're rushed, "with people pushing their shopping carts, going down their lists," which makes for a different selling environment. Indeed, Fox itself buys ads on in-store networks to pitch DVDs.

At Procter & Gamble, Dina Howell, the director of FMOT, says she wants to take in-store marketing, "from an art to a science." P&G has developed a series of tests to measure the success of its packaging and in-store marketing efforts. P&G won't divulge specific details. But broadly speaking, Ms. Howell says packaging should "interrupt" shoppers on their shopping trip. P&G has developed a set of questions that a package must answer: "Who am I? What am I? Why am I right for you?"

When ad agencies submit ideas, P&G invites them to two facilities it built several years ago in Cincinnati and Geneva. These mock stores double as research centers where P&G can rearrange shelves and see how its products look alongside those of the competition. The company also brings in focus-group participants to study how they shop.

For the U.S. launch of Kandoo wipes— flushable baby wipes for toilet-training toddlers—P&G persuaded retailers to place the packages low on shelves, so they would be at a toddler's eye-level. It also created display shelves in the shape of the product's frog mascot to attract children's attention.

One of P&G's most prominent in-store promotions has been for a new line of Pampers. In the U.S., P&G came up with what it calls "a shopper concept" —a single promotional theme that allows it to pitch products in a novel way. The theme for Pampers was: "Babies First." In stores, the company handed out information on childhood immunizations, car-seat safety and healthy diets while promoting its diapers and wipes in other parts of the store. The campaign was sponsored by P&G, Wal-Mart and the American Academy of Pediatrics.

To market Pampers in England, P&G hired **Publicis Groupe** SA's Arc Worldwide, an agency that specializes in store marketing. Late last year, Arc managers designed and pitched P&G several approaches. They all dovetailed with the distinctive green color of Pampers' packaging as well as the company's TV ads, which show the world from the perspective of a baby.

For diapers, called nappies in Britain, Arc designed a clammy-feeling green gel cover to wrap over the handle of a shopping cart. It read, "This is how it feels when your nappy needs changing." It suggested putting mirrors in shopping baskets to show babies looking at the world around them.

P&G rejected the handle, however, after focus groups said it reminded them of something they didn't want to think about. The mirros were also nixed after retailers said the idea was impractical.

P&G did go for some of Arc's pitch. On the doors to restrooms with baby-changing facilities, Arc added big fake doorknobs, unreachably high up, and the message: "Babies have to stretch for things. That's why they like the extra stretchiness of Pampers Active fit."

The consumer-products company printed huge footprints on the floor of the diaper aisle. On shelves, it added pull-out cards with information about Pampers that read: "do not pull," a play on the fact that babies like to do the opposite of what they are told. Elements of the marketing plan appeared in several major chains, including Asda, which is owned by Wal-Mart, and **Tesco** PLC.

The new emphasis on in-store marketing is forcing advertising agencies to add unfamiliar services, such as shelf-design consulting. They are also hiring and promoting managers with expertise in those areas. At Leo Burnett, which is owned by Publicis, executives trained in direct marketing now sit with creative designers when they meet clients and have an equal say. Clients are telling ad agencies, "if you can't provide it, we'll shop elsewhere," says Richard Pinder, president of Leo Burnett's operations in Europe, the Middle East and Africa.

Nearly every client pitch done by rival Grey Global Group, a unit of WPP, now includes retail strategy. The company last year appointed executive vice president Jonathan Dodd to head its "First Moment of Truth Initiative" which works with P&G and other companies.

Andy Murray's marketing firm helps clients advertise inside Wal-Mart and other stores. The agency even buys samples of Wal-Mart shelves to see exactly how products would look in a store. A former P&G executive, he started his new firm nine years ago with less than a dozen staff members. Since then, Mr. Murray's agency has grown to about 300 people and was recently acquired by Publicis' Saatchi & Saatchi.

Now named Saatchi & Saatchi X, it has some unusual expertise for an advertising agency. Mr. Murray hired a structural engineer to assess how long a corrugated cardboard display will last. The agency uses pink shrink-wrap to prevent products from getting lost in vast storage warehouses. It also developed software that can track a consumer's eye movements.

The growth of in-store marketing has made ad agencies' lives more complicated. For starters, ad agencies now have more than one master to please: the client and the retailer. Even after a retailer agrees to a newfangled in-store display, it often falls to individual store managers to install them or, in some chains, make sure the television is on at the right time; they aren't always good at complying.

Some stores charge marketers a fee for in-store displays—as if they were selling space on a roadside billboard. Others don't have the clout or think they will be compensated through the overall boost to sales. Those that charge face another wrinkle: there is no standard system for measuring the audience for in-store ads and therefore no easy way to charge for the space. The fees for each project are negotiated on a case-by-case basis, a time-consuming task.

There is also the matter of how ad agencies get paid. For years, agencies were paid a percentage of the overall ad budget. P&G changed that model several years ago because it worried agencies would naturally gravitate toward costly TV ads. It now ties agency compensation to product-sales increases. Ad-agency executives say another factor will soon be thrown into the mix: the cost of new services they are being asked to provide, such as installing and monitoring in-store displays.

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