

# Co-Marketing: Who Cares?

*"I believe that today's marketing model is broken. We're applying antiquated thinking and work systems to a new world of possibilities." — Jim Stengel, 1994*

**H**ad anyone else said that, chances are that not many would have paid much attention. But because Jim Stengel is Global CMO of Procter & Gamble and because P&G spent \$2.9B in advertising that year, everybody perked up.

Dialing this forward a bit, few things are more immediately indicative of a company's willingness and ability to break the mold of traditional marketing models in 2006 than how it organizes, staffs, plans and executes its co-marketing function.

Whoa, you say— this is really over the top! And who cares about co-marketing in the first place? Well, bear with us for a moment and we think you'll see that this read is worth your while.

For anyone just joining this dialogue, co-marketing is defined as *any* jointly planned manufacturer-retailer advertising or promotion activity whose primary purpose is to build equity and awareness for both participating brands and the retailer's stores.

The idea is to leverage and target the retailer's shopper base to communicate or reinforce one's core brand message via in-store or out-of-store advertising, promotion or POS imagery—and for retailers to leverage the strength of the participating brands to reinforce their basic positioning and generate additional traffic.

Co-marketing events are non-price based, although they are almost always linked to standard price-based activities like Features, Displays and TPRs. In addition, co-marketing events are always funded separately (*i.e.*, over and above) these activities. Funds are passed through directly by the retailer to subsidize the

cost of the event (*i.e.*, not diverted for retailer profit enhancement).

What triggered this article is an online survey on co-marketing conducted by *Reveries.com* in January, 2006. Survey objectives:

- Provide benchmarks against which survey participants could gauge their company's progress on co-marketing.
- Determine how well the industry in general has responded to change since the previous *Reveries* survey on co-marketing in September, 2003.

One cannot evaluate the results of this latest survey without first knowing what constitutes co-marketing best practice benchmarks in 2006. While there are probably eight or nine companies that could be classified as best practitioners in co-marketing today, we have chosen P&G, Unilever US & Clorox as the models because:

- Each has completely re-engineered its organization and go-to-market strategies over the past five years to elevate "customer marketing" to the same level of importance these companies traditionally ascribed to "consumer marketing."
- Each is recognized by leading retailers as one of their Top 10 suppliers according to the 2005 Cannondale PowerRanking Report.
- All have steadily and consistently increased their investments in co-marketing over the past five years, indicating that the average ROI in these investments has consistently exceeded the ROIs these companies derive from other types of promotion and advertising investments.
- The components of these companies' co-marketing programs are clearly defined, easily identifiable and common to all three.

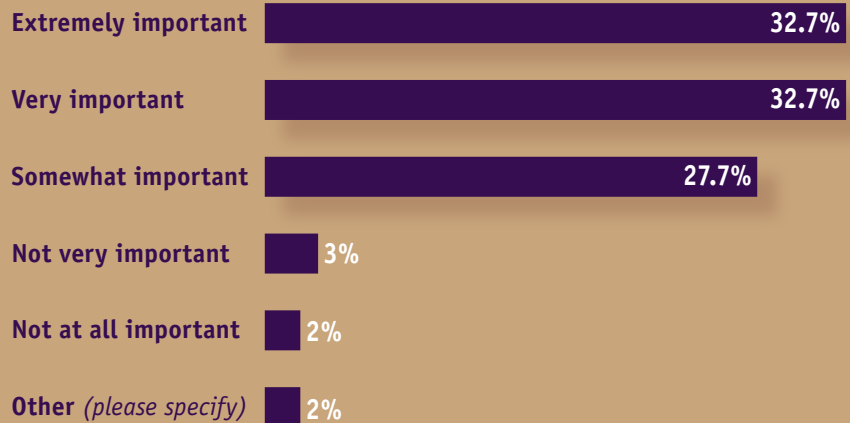
**P&G, Unilever  
and Clorox care  
about co-marketing.  
New *Reveries*  
research reveals  
why you should, too.**

by  
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What are these components? At the risk of oversimplification, we think the ten most important are as follows:

- **Pervasive Importance:** Defined as top management understanding of, and commitment to, the success of their company's co-marketing function.
- **Clear, Consistent Positioning:** Co-marketing is positioned, organized & staffed as a strategic extension of *marketing* to bring equity to and through the door of the store directly to the point-of-sale or, in P&G's terms, "The First Moment of Truth."
- **On-Strategy Reporting:** Separately funded and separately empowered co-marketing functions that report to Marketing either directly — as in P&G and Unilever — or through Promotion, as in Clorox.
- **Staffing Alignment:** Brand managers or marketing directors are assigned on a one- to two-year rotating basis to these companies' account teams. This is because these individuals are trained to recognize and leverage equity-building opportunities and to excavate the consumer and shopper insights that comprise the business rationale for account-specific, equity-building recommendations.
- **Adequate, Assured Funding:** Co-marketing initiatives are funded via a corporate "tax" at an average of between seven and 10 percent of total marketing budgets. This assures yearlong funding availability and guarantees the viability of the function.
- **Precise, Efficient Targeting:** Co-marketing spending is structurally confined to these companies' top accounts or to those accounts that have the capacity to meet performance hurdles and deliver meaningful results.
- **Continual Benchmarking:** All promotion and advertising initiatives of any type (DTC advertising, consumer promotion, trade promotion, and co-marketing events, etc.) are routinely

### What importance does your company currently ascribe to co-marketing activities?



Source: Reveries.com, "Co-marketing Update," January 2006

measured as SOP to provide a factual basis for future resource allocation and to know what (and what not) to do to improve ROI continually.

- **Research and Insights:** Co-marketing recommendations are based on a rich cache of data and proprietary consumer and shopper research, much of which is account-specific. This enables these companies to open dialogues that go much deeper than just "which brands or bundles," but also provide a fact-based rationale for "why," "when" and "which" vehicles, devices, POS imagery, etc.
- **Co-marketing Training:** These companies' co-marketing candidates must matriculate through formally structured co-marketing training programs before assuming their responsibilities. Obviously, this shortens the learning curve, minimizes errors and insures uniformity of approach based on each company's unique experiences.
- **Right Agency:** These companies' agencies understand co-marketing, how to develop account-specific programs that meet both their clients' and their clients' retailers' objectives, and frequently accompany their clients on key retailer co-marketing calls. These agencies are, in effect, an integral part of these companies' account teams and take a hands-on approach to developing programs that make a difference.

The key lesson from these co-marketing best practitioners is that co-marketing is not a bolted on, reactionary afterthought, but a cornerstone of their go-to-market strategies. None of these companies has any doubts about the importance of the in-store environment as a vehicle to build brand equity or about the use of co-marketing as the strategy of choice to advantage this.

Towards this end, it is important to understand that these companies could not have the co-marketing functions they have today if they had not broken with the traditional marketing model, eliminated their silos, redefined responsibilities and reevaluated their priorities and opportunities with respect to *customer marketing*.

The flip side of these best practices is what these companies do *not* do. Perhaps this is obvious from the above, but to save you time in figuring it out, here's the list of the most common co-marketing mistakes:

- Positioning co-marketing as a tactic whose primary purpose is to convert as much trade spending as possible to equity-building activities. Only when retailers can be shown that a supplier's co-marketing efforts produce a greater benefit for them (retailers) than another end-aisle display or TPR, are retailers willing to consider converting the funds. →

- ← ■ Staffing the co-marketing department primarily with salespeople and structuring it to report to Sales.
- Depending upon opportunistic, *ad hoc* funding from the brands after annual budgets have already been established and committed.
- Not measuring the results of every promotion and advertising event to compare ROI vs. co-marketing events.
- Leaving it up to salespeople to comb through and interpret consumer and shopper research data as these relate to equity-building opportunities.

Doing any of these things effectively cuts Marketing off from the process and defeats the purpose of the co-marketing initiative before it gets started.

So how does the industry stack up vs. these criteria based on the responses to the January, 2006 *Reveries.com* co-marketing survey?

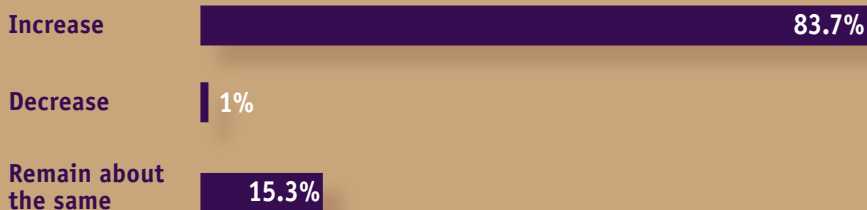
Answer: Damn good — but with a few caveats.

Overall, the majority of those who responded to this survey appear to be getting it:

- At the top end, there are those who have already arrived (approximately 20-25 percent of total respondents) and are firing on all ten benchmarks of best practices in co-marketing.
- The big middle (45-50 percent) obviously understands what co-marketing best practice is and is in various stages of progress toward achieving best practice status.
- Happily, those who have started out wrong by making one (or more) of the common co-marketing mistakes noted above are now in the minority (*i.e.*, the remaining 25-35 percent), but as one respondent notes, even these companies are beginning to recognize that something is amiss:

*“It’s tough to get sales to recognize that programs need to build equity as well as be strong sales builders. As a result, many programs are far too tactical vs. strategic (driven by sales reacting vs. being proactive.)”*

### Do you expect your co-marketing funding to increase, decrease or remain about the same over the next 3 years?



Source: *Reveries.com*, “Co-marketing Update,” January 2006

Interestingly, nine percent of those responding to the survey are retailers. These folks also appear to be jumping on the co-marketing bandwagon. Typical of their comments:

*“[Co-marketing] should be more appreciated, and hopefully will soon be acknowledged as the #1 factor of progress for any kind of retail company.”*

With respect to how respondent companies currently benchmark against the co-marketing best practices criteria defined above, check out the following to see how your own company stands:

- **Pervasive Importance:** No question that co-marketing is now top-of-mind for survey respondents. Sixty-five percent rate it as either “very important” (32.7 percent) or “extremely important” (32.7 percent). Fifty-four percent acknowledge their companies’ top management commitment to the process.
- **Clear, Consistent Positioning:** Indications are that most have it right. Fifty-three percent report continuous, active Marketing Department involvement in the process, suggesting that the majority understand that co-marketing is a strategic and not a tactical function.
- **On-Strategy Reporting Relationships:** Respondents were split about evenly between “best practices” and “common mistakes.” Forty-seven percent of respondent companies have separately funded, separately empowered, co-marketing departments who report either on the same level as Marketing and Sales to a GM (14 percent) or directly to Marketing (33 percent).

From here, it trails off quickly: Another 20 percent acknowledge that their co-

marketing departments report to sales, while the remainder (25 percent) have no formally-structured co-marketing departments at all. Instead these latter companies approach the proposition entirely on an *ad hoc* basis, seeking incremental funding from the brands as the opportunities present themselves.

- **Correct Staffing:** Again, responses suggest that the majority have it right. Sixty-three percent of respondent companies staff their co-marketing function either primarily with people from brand marketing or with people from consumer promotion, if promotion is separate from Marketing. Only 26 percent still persist in staffing this function primarily with sales people.
- **Adequate, Assured Funding:** Not surprisingly, responses to this question follow the same pattern as reporting. When co-marketing reports to general management or to marketing, funding is assured, either via a corporate “tax” (17 percent) or via the annual brand planning process (36 percent). When funding reports to Sales, funding appears to be inconsistent because it either comes from trade budgets (12 percent) or is not budgeted at all — *i.e.*, doled out *ad hoc* based on the opportunity. Versus best practice spending ratios of 7%-10% or more of marketing budgets, only 34 percent currently have the confidence to fund at this level. The majority (58 percent) fund at either 1-3% (31 percent) or between 4-6% (27 percent). Nevertheless, a significant 84 percent of survey participants expect their co-marketing funds to increase over the next three years.

■ **Precise, Efficient Targeting:** 75 percent of respondents think that only about 15 retailers currently have the potential to deliver meaningful results with respect to their co-marketing objectives. Thirty-one percent narrow this down to between one and five retailers while another 25 percent inch this up to between six and 10 retailers. (Recognize that this number *will* vary by brand strength in various channels and overall corporate clout.)

Separately, 48 percent of respondent companies currently attempt to confine their co-marketing activities — and spending — only to their top retailers. Only 34 percent still treat co-marketing as any other promotion activity and offer the opportunity to all retailers regardless of size and capability (although we suspect that, in practice, many structure their co-marketing events so that only their largest accounts can meet the hurdles necessary to participate).

■ **Continual Internal Benchmarking:** The predominant method of measuring co-marketing results is ROI (34 percent), followed by incremental cases sold during the promotion period (33 percent). Nineteen percent use a proprietary formula while four percent measure share gains over time.

■ **Up-to-date Research and Insights:** Shopper marketing has had a huge impact on co-marketing for most respondent companies. Sixty-four percent are currently either “involved” or “very involved” in shopper marketing. Thirty percent acknowledge that shopper marketing has expanded their view of what co-marketing activities might encompass and achieve, while another 18 percent report that shopper marketing has become *the* basis for determining their co-marketing activities. Only 25 percent say they are not involved in shopper marketing and only 24 percent claim that it has had no impact at all on their co-marketing activities.

■ **Co-marketing Specific Training:** Co-marketing-specific training appears to be limited to those companies that are the

most dedicated to co-marketing and the most determined to make it work. Thus, only 33 percent of respondents’ companies have initiated formal co-marketing training programs. However, another 53 percent acknowledge that although their companies do not yet have formal co-marketing training programs, such training would be helpful.

When benchmarked against co-marketing best practices as defined by industry leading companies such as P&G, Unilever U.S. and Clorox, the call-to-action that emerges from this survey is reasonably clear:

■ Co-marketing is not just another CPG industry epidemic with a short lifespan. The fact that highly successful companies such as P&G, Unilever, Clorox and others have woven it into the fabric of their go-to-market strategies — and have gradually and consistently expanded their investment in this practice — is evidence enough to support this contention.

■ Co-marketing is also not a CPG industry-specific discipline. Its principles — which are based on collaboration, courtesy and common sense — are obviously applicable to any vertical where manufacturers and retailers can combine resources to synergize their impact on the mutual shopper at the point-of-sale.

■ The tough part of developing an effective co-marketing function is arriving at best practice status. For most, this is a journey. However, at some point along the road, one is *inevitably* going to be confronted with having to make decisions whose consequences will bring about fundamental changes in the marketing model to which Jim Stengel refers as “broken.” For example:

→ Elevating customer marketing to the same level of importance currently ascribed to consumer marketing

→ Levying a corporate “tax” to assure sufficient co-marketing funding or training one’s brand groups to build this funding into the annual brand planning process

→ Putting freshly-minted MBA marketing people in the field for a 1-2 year period to interface directly with retailers

→ Becoming as proficient at shopper marketing as one already is at consumer marketing

→ Putting systems and people in place to “measure everything.”

→ Developing early retirement plans for those intent on preserving the *status quo*

■ While the prospect of having to make these types of decisions may seem off-putting, the reality is that by now, one would appear to have little choice. When 65 percent of the industry reports that their companies currently think that co-marketing is either “very important” or “extremely important” to their businesses, and when 84 percent is confident that their co-marketing funding will continue to increase over the next three years, it is time to re-examine one’s priorities, if one has not done so already.

In the final analysis, one thing is for sure: For those who have the capability, will and strength to develop co-marketing functions that conform to current best practice standards, doing so will address a host of other issues. Co-marketing cannot be effective within the framework of traditional, silo’d marketing models and traditional, silo’d marketing models can no longer be effective in the current competitive environment. ■

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