RESILIENCE**report**

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by Matthew Egol, Leslie H. Moeller, and Christopher Vollmer

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Just about every company has a Web site. But today, many marketers are going further. They are transforming their digital presence into powerful media channels, direct to consumers. The practice is prevalent enough that, as the research firm Outsell Inc. reported in July 2008, about 62 percent of marketers' online advertising and marketing budgets are spent on their own digital media, up from 58 percent in 2007. These marketers recognize that with the right mix of content, utility, community, and product, they can create compelling premium experiences for consumers. And they see that these efforts deliver powerful benefits in branding, relationship building, and lead generation.

The growing popularity of "private-label media," as we call it, is one of the more provocative — and potentially disruptive — developments occurring in today's marketing and media ecosystem. Every marketer, advertising agency, and media company needs to be aware of its benefits and, just as important, its implications for the industry. The emergence of private-label media represents both a compelling way to engage consumers and yet another challenge to long-standing media business models. The more that is spent on private-label media, the less that may be spent on conventional advertising, especially in the digital realm.

Company Web sites began directly targeting consumers about a decade ago. Since then, there have been some high-profile and highly expensive misfires. Anheuser-Busch's www.Bud.tv was launched in 2007 with fanfare, only to be shuttered quietly early in 2009. But there have also been many notable successes. General Mills' www.BettyCrocker.com enjoys more than 8 million unique visitors per month, roughly comparable to the numbers at www.foodnetwork.com — a rival with a popular television network sibling. Kraft Foods' iFood Assistant ranks among the most frequently downloaded applications on Apple's iPhone. Procter & Gamble's Olay for You platform for consumer education in the health and beauty category includes a highly trafficked Web site and in-store kiosks rolled out in partnership with Walmart. Rapid growth in private-label media has also occurred among business-to-business markets. For example, the Home Depot launched www.hdbusinesstoolbox.com to deepen its connection to contractors, offering them business management tools as well as negotiated discounts and services such as insurance, telecommunications, and printing.

As marketers gain more experience with developing and managing private-label media, we expect them to make it an expanding part of their marketing arsenal. The greatest distinguishing factor for successful entries will be the ability to create branded destinations that translate into relationships, community, and utility for consumers. These are not digital infomercials; the best private-label media connect consumers directly to brands. Consumers can design and test new products, enter online forums where other brand enthusiasts share their perspectives, and take advantage of unique brand offers and ancillary services.

The Lego Group provides a good example of innovative marketing with private-label media. The company has built an extensive set of consumer touch points using its own digital media: a fan club, a social network, online games, message boards, online movies, and soon its own massive multiplayer game. On www.legofactory.com, consumers can design their own products. By joining a network of approximately 120,000 self-identified volunteer designers, fans interact, suggest product ideas, and become "ambassadors" to spread the word about new offerings. In this way, Lego facilitates direct conversations between the company and its consumers as well as conversations among the brand's devotees.

For Lego, the private-label media strategy is paying dividends. Lego has become a major digital brand in the U.S., rivaling traditional media players such as Nickelodeon and Cartoon Network Online in its core demographic of boys ages 6 to 11. This digital marketing innovation is one of the contributors to Lego's recent success — the company posted a 19 percent increase in annual sales in 2008, despite a declining market for toys globally.

Effective private-label media will not replace other forms of digital marketing entirely, but it will inevitably raise the bar in terms of quality and ROI. In the same way that retailers such as Target and Costco have established house brands that compete on quality and not just price, private-label media will become, for some consumers at least, a viable entertainment and information alternative to media developed by publishers (both traditional and digital). The subsequent siphoning off of consumer engagement and ad spending has significant strategic ramifications for marketers, their agencies, and, of course, media companies.

Everyone in media and advertising knows that creativity is critical to a high-quality branded environment. But creativity alone does not drive conversion or return on investment. Successful private-label media efforts are grounded in insights into how consumers navigate digital media, the types of utility or services they associate with a marketer's brand, and the kinds of experiences they willingly seek out. Furthermore, an effective private-label media strategy also fits into a marketer's overall game plan for digital innovation. It's not a standalone effort.

In creating and maintaining the sites, companies need to select their partners thoughtfully. Retailers' private-label offerings are managed by a mix of third-party suppliers and leading manufacturers. Marketers, for their part, are assembling a broad group of potential allies. Some marketers are working with ad agencies to build their media assets. Others are partnering with leading media companies, such as Meredith or MTV Networks, to create private-label offerings that integrate into their paid media campaigns. In business-to-business media, players such as International Data Group in technology, Lexis-Nexis in legal research, and Hanley Wood in construction are helping marketers build Web sites, develop database marketing campaigns, and create digital assets that gather leads.

As marketers bulk up their private-label media offerings, tensions are increasing along the advertising value chain — most notably between agencies and media companies, as each strives to become marketers' preferred partner. In a recent Booz & Company study, "Marketing & Media Ecosystem 2010," conducted with the Association of National Advertisers, the Interactive Advertising Bureau, and the American Association of Advertising Agencies, 70 percent of the agency respondents said they were taking on "publisher roles": developing content and other intellectual property for their clients. At the same time, 53 percent of media companies reported that they were working more directly with marketers. They are increasingly taking on some of the services formerly provided by agencies that support the development of custom or private-label media.

Agencies or media companies — which will prevail? In today's Darwinian environment, paid media budgets are under enormous pressure and everyone is fighting for share. (See "Digital Darwinism," by Christopher Vollmer, *s+b,* Spring 2009.) Those players that adapt fastest to take advantage of private-label media will likely be among the winners once the advertising value chain is restructured. The same observation holds true for marketers. With their own digital media, marketers can achieve a broad set of marketing objectives — branding, consumer insight, and even lead generation — often at a higher return on investment and lower overall cost. For most marketers, the lure of such a proposition will prove irresistible. As a result, we expect the movement toward private-label media to be one of the lasting developments that emerge from the current upheaval. +

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