

GAFA, the new face of marketing

By Niraj Dawar

It is a misconception that the dominant businesses of Silicon Valley are technology companies. Sure, when you think of the venerable old names such as Intel and HP, semiconductor chips and hardware based on those chips come to mind. But just as the 1980s saw the Valley shift to software, and in the 1990s the Valley rode the internet boom, the present century has so far been about consumers and marketing.

The four big boys Google, Apple, Facebook, and Amazon (or GAFA; ok, not quite Silicon Valley for Amazon which is based in Seattle, but you know what I mean) are all clearly in the marketing business.

Google is in the business of connecting consumers with information they seek, and derives its revenues from connecting sellers with the buyers they seek. That makes it a media company, collecting, collating, and cataloging the world's information better than rivals can, so that buyers Google it rather than Yahoo it or Bing it.

Apple's business may be closest to the old school Valley model - it sells hardware. It is also a software company in that it closely controls the unique look and feel of Apple products through the code that runs the hardware devices. But rather than invent or make the hardware, Apple stitches together technologies and designs fabulously attractive products from the pieces it finds in its eco-system. But it is certainly not a manufacturing company (most of its products are contract manufactured in Asia). Apple's value added, its price premiums, its customer loyalty, and its barriers to competitive entry derive from its brand power. Apple has repeatedly demonstrated to the engineers in Silicon Valley the awesome power of marketing to turn technology into magic, and that magic into revenue and

profits.

Facebook is the newest of the companies, with the most novel business model. It is also the least proven of the models. The marketing world is waiting for Facebook to demonstrate that intercepting information as friends communicate, eavesdropping on party-lines, can offer valuable targeting data. If Facebook can demonstrate that this type of targeting yields better revenues and/or profits for marketers, it will be able to sell access to consumers. Will that access justify a valuation of \$70 billion? That is what is still unproven about Facebook's model.

Amazon is deploying the efficiencies of the internet to become the world's largest storefront. Retailing and selling stuff is the oldest marketing business known to the world. Amazon's take on it is much more efficient because it saves money on the largest cost there is in retailing: location. In addition, online retailing compiles vast amounts of user information, crowd-sourced reviews and recommendations, and marshals third-party stores, to dramatically drive down the cost of selling.

Each of these companies is re-inventing the Valley. But together, they're also re-inventing marketing. In the coming decade, the new center of the marketing universe may well be Silicon Valley.

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