Harvard Business Review

Insight Center Collection

Measuring Marketing Insights

TURNING DATA INTO ACTION

MEASURING MARKETING INSIGHTS

The marketing world's intense focus on analytics, of late, hasn't always led to better performance — because, while it's easy to collect data, it's difficult to turn it into deep insight. This Insight Center covered content that included a leading practitioner company's reinvention of market research, a framework for measuring what your customers actually value and will pay for, and a toolkit approach to defining the customer's "job to be done."

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SPONSOR PERSPECTIVE

Plenty of good things in life come in fours. Four seasons of the year. Four leaf clovers. Four Beatles.

Four also seems to be a key number in analytics. As the articles in this collection show, the challenge for enterprise marketers is no longer collecting enough data—it's making sense of the amazing volume of data that is now available.

When we look at it from the high level, the companies that are doing great things as a result of measuring the customer journey in a mobile-first world all have four key components to their approach. While every company has its own techniques, all seem to do these four important things:

- **See.** The most successful companies have total visibility into all the ways its customers find and interact with the brand across touch points. That means mobile, desktop, search, video, offline engagements—their data covers all devices and channels.
- **Sort.** A mountain of data is only a starting point. The best companies find ways to integrate various data sources and sift through all that information to turn up useful insights. They also use technology and machine intelligence to do it fast, often in near-real time.
- **Share.** Insights are no help if they're hidden. It's important to have solutions with built-in ways for everyone to learn and collaborate. Great data visualization helps make sure that everyone understands the most important numbers, too.
- **Spark.** It all leads to the "aha" moment when these brands use what they learn to turn insights into engaging personal experiences for consumers. It doesn't happen by accident; it takes planning and a willingness to experiment.

That's the ultimate goal, after all: to make more meaningful connections with users in their moments of interest and need. For marketers, that means being able to measure and prove the impact of our efforts. As noted in one of the articles from this series:

"The companies that shine ... build insights they can use, and they share those insights in ways that everyone across the organization can understand—and act on—to make every customer's experience at every touch point the best it can be."

If you're looking for better ways to get a handle on your own enterprise data, you might consider starting with these four pillars. We can't all be The Beatles, but if your team has these four points covered, you're probably on your way to success.

Matt Lawson
Managing Director, Ads Marketing
Google

EMERGING DEMOGRAPHICS ARE THE NEW EMERGING MARKETS

RICHARD DOBBS, JAANA REMES, AND JONATHAN WOETZEL

A radical demographic shift is transforming the nature of consumer markets. Until the turn of the century, population growth powered more than half of global consumption. As population growth slows, that will fall to only one-quarter in the next 15 years. Per capita spending will be the engine of consumption growth. In this new world, companies need to know which consumers have the purchasing firepower, where they are, what they want to buy, and what drives their spending.

Marketing savvy just isn't enough to track these consumers. Companies will need a more detailed portrait of target customer groups than ever, including their age, income, ethnicity, and shopping preferences. There are surprises. For example, people aged over 50 bought nearly two-thirds of the new cars sold in the United States in 2011. McKinsey Global Institute research finds that China is expected to spend 12.5% of all consumption growth on education for those under 30 — higher than any other country apart from Sweden. Young people in China are learning to love coffee. And North American millennials don't trust company claims about their products, but are happy to let a room in their house to a stranger who they trust because of an Airbnb rating.

A recent report by the McKinsey Global Institute, Urban World: The Global Consumers to Watch, has identified three key groups of urban consumers with the numbers and purchasing power to shape the consumer landscape over the next 15 years. One thing common to all the groups is their location in cities. Over 91% of world consumption growth over this period will come from city-dwelling consumers.

The first of these is the 60-plus age group in the United States, Western Europe, and Northeast Asia. Their number will grow by more than one-third to stand at 222 million in 2030. In those 15 years, they will generate more than one-third of global consumption growth. In comparison, European millennials, for instance, will contribute less than 2%. The young may be the darlings of marketers, but for companies chasing growth, the truly glamorous market is the elderly.

To give an idea of their dominance, the 60-plus age group will account for 60% of total urban consumption growth in Western Europe and Northeast Asia, the latter comprised of Japan and South Korea. This group, not surprisingly, spends heavily on healthcare, but that's not all. In the United States, these consumers will contribute more than 40% of consumption growth in housing, transport, and entertainment. A decade ago, those aged 55 and older accounted for less than one-third of all U.S. spending on home improvement. By 2011, this share was more than 45%. Companies in every sector — some of which have never been associated with the elderly — will need to prioritize this market as never before.

The second group is China's working-age consumers age 15–59. Their numbers are set to rise by 20% or 100 million people in just the next 15 years and their per capita consumption is expected to double. By 2030, they will be spending 12 cents of every $1 spent in cities worldwide. These individuals are more optimistic about their financial future and willing to spend a greater share of their disposable income than their counterparts in previous generations.

The 2016 McKinsey Global Sentiment Survey of more than 22,000 consumers finds that nearly 30% of these Chinese consumers are willing to pay more for new and innovative household products—double the share of their counterparts in North America and Western Europe. These consumers are the successors to Western baby boomers who were, in their time, the richest in history in their prime years.

Third is North America's working-age consumers. They already constitute a major market, and will continue to grow modestly in number and per capita spending. But they also pose new challenges to companies, because inequality is rising, and most incomes are under increasing pressure. Today, the median net worth of the top 20% of young adult households is eight times that of the other 80%; as recently as 2000, that multiple was four times. That means companies need to work harder to offer goods and services at very different price points. Compared with older cohorts, young adults are 10 to 20 percentage points more likely to consider and use sharing economy services from accommodation to car rental to furnishing. The behavioral differences for this age group require new customized strategies from companies seeking their dollars.

The consumer markets that matter have arguably never been more varied and complex. Rising inequality is one challenge. Another is that, as population growth slows, city demographics — and therefore their growth prospects — are diverging. Companies need to be in the right places. Cities are where 91% of global consumption will take place over the next 15 years—the trick will be knowing which cities, and even which neighborhoods within cities will house the highest-spending consumers.

FIX YOUR SOCIAL MEDIA STRATEGY BY TAKING IT BACK TO BASICS

KEITH A. QUESENBERRY

A recent CMO Survey indicates that marketers plan to double their spending on social media in the next five years. Yet IBM's C-Suite Study reports that nearly half of CMOs believe they are not prepared to manage the challenges of social media. This disparity highlights an important, and potentially costly, problem: Marketers continue to increase social media spending, yet many are still uncertain about management, strategies, and integration.

A quick Google search returns 140 million results for "social media marketing tips," but no matter how many headlines promise it, there really is no one-size-fits-all social media strategy. Some articles indicate that stories are an effective marketing and advertising tool. But what story will you tell? How will you integrate it with your traditional efforts?

Other articles advise using social media networks, such as Pinterest. But what will your brand post? Is your target audience even on Pinterest? Still more articles offer a glimpse into other brands' social media strategies. But what worked for Comcast or Best Buy or Universal Studios probably will not work for a bank, tech startup, or retail company.

What marketers need is a process that leads to individual solutions. They must use fundamental marketing concepts and modify them for this new two-way, consumer-empowered medium of social media. Here's a framework for doing that, adapted from my book Social Media Strategy.

Define the status quo. The first step isn't about social media at all: Identify your business objectives and target market. Also consider your industry, the recent performance of the brand, and the current traditional marketing promotions for the product and its competitors. A startup or new product needs to generate awareness, while an older product may need to be revived. Some brands need a new image, as when Starbucks's reputation fell to an all-time low and Howard Schultz returned to restore consumer confidence in the brand. One tool Starbucks used was social media, launching "My Starbucks Idea" to crowdsource feedback and reengage customers.

Listen to your target audience. Here's where social media kicks in. Brands cannot talk to everyone in every social channel, so narrowly define whom you want to listen to and communicate with. Are you targeting Millennials entering the workforce, dads with young children, or senior executives nearing retirement? What are they doing in social media, and where are they doing it? What are consumers saying about your brand, products, services, and competitors? Start with simple Google searches on your brand name, analytics tools within social networks, and look to secondary research, such as the Pew Research Internet Project, Nielsen, or Edison Research, to identify larger trends in social media use. Gather a snapshot of all current social media talk with a social media audit. Follow an audit template to organize what you find and identify actionable insights.

Create social media content that drives engagement. What is your target consumer looking for? Social media is all about producing fresh, relevant content, so create things that your audience will find valuable, whether it's "how to" articles or simply something entertaining. Where you deliver the content matters too: Some social media channels are best for sharing short, current updates (Twitter), others are better for delivering video content (YouTube), some reach a younger audience with pictures (Instagram), and others have younger audiences with multimedia and high engagement rates (Snapchat). The best social media plans deliver content that's optimized to each channel. Engage the target audience on the channels they use with material that is unique to the channel. Select social channels that fit brand message, type of content, and target audience.

For long-term consumer monitoring, look into a social media monitoring service, such as Radian6 from Salesforce.com, Hootsuite, or HubSpot. Live dashboards show streams from multiple social accounts, keeping you aware of hashtags and brand mentions. To find the most influential people in your target audience, look to tools such as Klout, which measures an individual's online impact. Some brands, including Wells Fargo and Johns Hopkins Medicine, have invested in a social media command center. These branded social media monitoring rooms acting as a central visual hub for social data, to speed up marketing and engagement with customers.

Link marketing goals to social media KPIs. If you are driving sales online, measure digital KPIs with click-throughs from social platforms to the purchase. Google Analytics Social Reports are especially useful in breaking down social traffic and assigning monetary value to website conversions such as sales or lead generation. Measuring in-store sales is harder but can be done with offer codes, surveys, or scanner data. Digital KPIs for awareness include social media likes and shares, or unique website visits referred from social media content.

All these KPIs can be collected and organized in a simple social media metrics table. There may also be larger business goals that social media is affecting. Identify social integration opportunities beyond marketing such as social media interactions that impact the sales force, customer service functions, R&D and HR department recruitment, and employee policies and engagement. Social media strategy may be led by the marketing team, but the company's social media efforts are too important to be left to marketing alone.

How does this framework look in action? One example is the Mercedes Tweet Race to the Super Bowl. At the ripe old age of 125, Mercedes-Benz was being positioned by its competitors as tired and stodgy. Digital agency Razorfish introduced the automaker to a younger generation of consumers by figuring out who its target audience was and where the audience was active on social media.

Four two-person driving teams were recruited on Facebook to take on the challenge. Powered by online supporters' tweets, each team created social media engagement to drive real Mercedes-Benz vehicles forward, moving one mile for every four tweets. The contest's results included a 7% increase in Mercedes scheduled test drives, a 6% increase in first-time owners and leases, and 27,000+ active participants who generated more than 150,000+ tweets, reaching 25 million people.

This four-step social media framework isn't everything you need, but it is a good start. Don't base your marketing strategy on 140 million people's tips about what may work for your business. Having even a basic process in place can help you be more strategic about social media decisions and make your social media spending more effective.

COMPETING ON CUSTOMER JOURNEYS

DAVID C. EDELMAN AND MARC SINGER

The explosion of digital technologies over the past decade has created "empowered" consumers so expert in their use of tools and information that they can call the shots, hunting down what they want when they want it and getting it delivered to their doorsteps at a rock-bottom price. In response, retailers and service providers have scrambled to develop big data and analytics capabilities in order to understand their customers and wrest back control. For much of this time, companies have been reacting to customers, trying to anticipate their next moves and position themselves in shoppers' paths as they navigate the decision journey from consideration to purchase.

Now, leveraging emerging technologies, processes, and organizational structures, companies are restoring the balance of power and creating new value for brands and buyers alike. Central to this shift is a fresh way of thinking: Rather than merely reacting to the journeys that consumers themselves devise, companies are shaping their paths, leading rather than following. Marketers are increasingly managing journeys as they would any product. Journeys are thus becoming central to the customer's experience of a brand—and as important as the products themselves in providing competitive advantage.

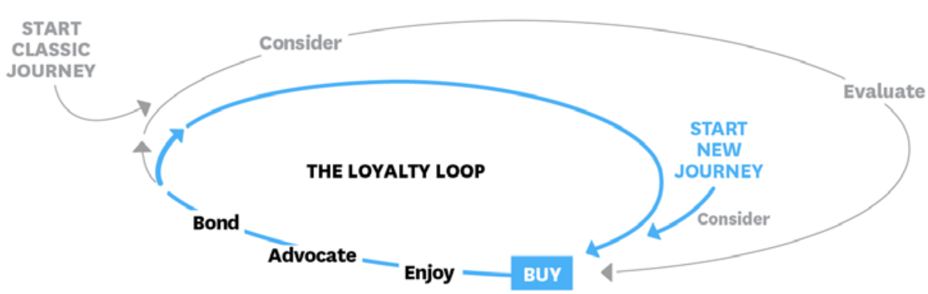
Consider how one company, Oakland-based Sungevity, competes on its ability to shape the journey. At first glance, Sungevity looks like a typical residential solar panel provider. But closer inspection reveals that the company's business is to manage the end-to-end process of sales and custom installation, coordinating the work of an ecosystem of companies that supply, finance, install, and service the panels. Sungevity's "product" is a seamless, personalized digital customer journey, based on innovative management of data about the solar potential of each home or business. Sungevity makes the journey so compelling that once customers encounter it, many never even consider competitors.

One of us (David) experienced the Sungevity journey firsthand. The process began when he received a mailing with the message "Open this to find out how much the Edelman family can save on energy costs with solar panels." The letter within contained a unique URL that led to a Google Earth image of David's house with solar panels superimposed on the roof. The next click led to a page with custom calculations of energy savings, developed from Sungevity's estimates of the family's energy use, the roof angle, the presence of nearby trees, and the energy-generation potential of the 23 panels the company expected the roof to hold.

Another click connected David through his desktop to a live sales rep looking at the same pages David was. The rep expertly answered his questions and instantly sent him links to videos that explained the installation process and the economics of leasing versus buying. Two days later, Sungevity emailed David with the names and numbers of nearby homeowners who used its system and had agreed to serve as references. After checking these references, David returned to Sungevity's site, where a single click connected him to a rep who knew precisely where he was on the journey and had a tailored lease ready for him. The rep emailed it and walked David through it, and then David esigned. When he next visited the website, the landing page had changed to track the progress of the permitting and installation, with fresh alerts arriving as the process proceeded. Now, as a Sungevity customer, David receives regular reports on his panels' energy generation and the resulting savings, along with tips on ways to conserve energy, based on his household's characteristics.

Starting with its initial outreach and continuing to the installation and ongoing management of David's panels, Sungevity customized and automated each step of the journey, making it so simple—and so compelling—for him to move from one step to the next that he never actively considered alternative providers. In essence, the company reconfigured the classic model of the consumer decision journey, immediately paring the consideration set to one brand, streamlining the evaluation phase, and delivering David directly into a "loyalty loop," where he remains in a monogamous and open-ended engagement with the firm. Sungevity's journey strategy is working. Sales have doubled in the past year to more than $65 million, exceeding growth targets and

Streamlining the Decision Journey



CLASSIC JOURNEY
In the classic journey, consumers engage in an extended consideration and evaluation phase before either entering into the loyalty loop or proceeding into a new round of consideration and evaluation that may lead to the subsequent purchase of a different brand.

NEW JOURNEY
The new journey compresses the consider step and shortens or entirely eliminates the evaluate step, delivering customers directly into the loyalty loop and locking them within it.

SOURCE DAVID C. EDELMAN AND MARC SINGER
FROM "COMPETING ON CUSTOMER JOURNEYS," NOVEMBER 2015

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making Sungevity the fastest-growing player in the residential solar business.

Getting Proactive

McKinsey's marketing and sales practice has spent more than six years studying consumers' decision journeys. The term (as explained in "Branding in the Digital Age," HBR, December 2010) broadly describes how people move from initially considering a product or service to purchasing it and then bonding with the brand. More narrowly, the term can refer to the sequence of interactions consumers have before they achieve a certain aim—for instance, transferring cable service to a new address, or even discovering and buying the right mascara. Many firms have become competent at understanding the journeys their customers take and optimizing their experience with individual touchpoints along the way. The more sophisticated companies have redesigned their operations and organizations to support integrated journeys (see "The Truth About Customer Experience," HBR, September 2013). Still, firms have largely been reactive, improving the efficiency of existing journeys or identifying and fixing pain points in them.

We're now seeing a significant shift in strategy, from primarily reactive to aggressively proactive. Across retail, banking, travel, home services, and other industries, companies are designing and refining journeys to attract shoppers and keep them, creating customized experiences so finely tuned that once consumers get on the path, they are irresistibly and permanently engaged. Unlike the coercive strategies companies used a decade ago to lock in customers (think cellular service contracts), cutting-edge journeys succeed because they create new value for customers: Customers stay because they benefit from the journey itself.

Through our experience advising more than 50 companies on journey architecture, infrastructure, and organizational design; our deep engagement with dozens of chief digital officers and more than 100 digital-business leaders worldwide; and our research involving more than 200 companies on best practices for building digital capabilities, we have seen this shift unfold. And although it is still early, we believe that an ability to shape customer journeys will become a decisive source of competitive advantage.

Four Key Capabilities

Companies building the most effective journeys master four interconnected capabilities: automation, proactive personalization, contextual interaction, and journey innovation. Each of these makes journeys "stickier"—more likely to draw in and permanently capture customers. And although the capabilities all rely on sophisticated IT (see the sidebar "New Journey Technologies"), they depend equally on creative design thinking and novel managerial approaches, as we'll explore later.

Automation.

Automation involves the digitization and streamlining of steps in the journey that were formerly done manually. Consider the analog process of depositing a check, which used to require a trip to the bank or ATM. With digital automation, you simply photograph the check with your smartphone and deposit it via an app. Similarly, researching, buying, and arranging delivery of, say, a new TV can now be a one-stop digital process. By allowing consumers to execute formerly complex journey processes quickly and easily, automation creates the essential foundation for sticky journeys. This may seem self-evident, but companies have only recently started to build robust automation platforms expressly designed to enhance journeys. And consumers can readily see who does it well. Superior automation, while highly technical, is something of an art, turning complex back-end operations into simple, engaging, increasingly app-based front-end experiences.

Consider how Sonos, the intelligent connected music system, automates setup. The process used to involve threading wires throughout the house, hooking up speakers to a computer, and creating separate online accounts with music providers. Sonos streamlines setup with wireless speakers (just press a button to connect them) and an app that adds music-streaming sources with a few taps and allows users to select music, control volume, and choose what plays in which room—all from a mobile device.

Proactive personalization.

Building on the automation capability, companies should take information gleaned either from past interactions with a customer or from existing sources and use it to instantaneously customize the shopper's experience. Amazon's recommendation engine and intelligent reordering algorithm (it knows what printer ink you need) are familiar examples. But remembering customer preferences is only the beginning; the personalization capability extends to optimizing the next steps in a customer's journey. At the moment a customer engages (for example, by responding to a message or launching an app), the firm must analyze the customer's behavior and tailor its next interaction accordingly. Companies such as Pega and ClickFox (a firm in which McKinsey has an ownership stake) offer applications that track customers across many channels, blending data from multiple sources (such as transaction and browsing histories, customer service interactions, and product usage) to create a single view of what customers are doing and what happens as a result. This allows real-time insights about their behavior—in effect, isolating moments when the company can influence the journey—and permits customized messaging or functionality (for example, immediately putting a valued traveler on an upgrade list). The retailer Kenneth Cole reconfigures elements on its website according to a visitor's interaction with the site over time: Some people see more product reviews, while others see more images, videos, or special offers. The company's algorithm constantly learns which content and configuration work best for each visitor and renders the site accordingly, in real time.

L'Oréal's Makeup Genius app takes these capabilities a step further, allowing customers to try on makeup virtually and delivering ever-more-personalized real-time responses. The app photographs a customer's face, analyzes more than 60 characteristics, and then displays images showing how various products and shade mixes achieve different looks. Customers can select a look they like and instantly order the right products online or pick them up in a store. As the app tracks how the customer uses it and what she buys, it learns her preferences, makes inferences based on similar customers' choices, and tailors its responses. L'Oréal has created an enjoyable experience that quickly and seamlessly leads the customer along the path from consideration to purchase and, as the degree of personalization increases, into the loyalty loop. With 14 million users already, the app has become a critical asset both as a branded channel for engaging with customers and as a fire hose of incoming information on how customers engage.

Contextual interaction.

Another key capability involves using knowledge about where a customer is in a journey physically (entering a hotel) or virtually (reading product reviews) to draw him forward into the next interactions the company wants him to pursue. This may mean changing the look of a screen that follows a key step, or serving up a relevant message triggered by the customer's current context. For example, an airline app may display your boarding pass as you enter the airport, or a retail site may tell you the status of your recent order the moment you land on the home page.

More-sophisticated versions enable a series of interactions that further shape and strengthen the journey experience. Starwood Hotels, for example, is rolling out an app that texts a guest with her room number as she enters the hotel, checks her in with a thumbprint scan on her smartphone, and, as she approaches her room, turns her phone into a virtual key that opens the door. The app then sends well-timed and personalized recommendations for entertainment and dining.

Journey innovation.

Innovation, the last of the four required capabilities, occurs through ongoing experimentation and active analysis of customer needs, technologies, and services in order to spot opportunities to extend the relationship with the customer. Ultimately, the goal is to identify new sources of value for both the company and consumers.

Best practitioners design journey software to enable open-ended testing. They continually do A/B testing to compare alternative versions of message copy and interface design to see which works better. And they prototype new services and analyze the results, aiming not just to improve the existing journey but to expand it, adding useful steps or features.

A journey innovation may be as simple as Starwood's introducing a prompt for ordering room service after a guest uses a key, remembering previous orders and using those as the initial options. Or it may be more sophisticated, expanding a journey by integrating multiple services into a single straight-through customer experience. Delta Air Lines' mobile app, for example, has become a travel management tool for almost every aspect of an airplane trip, from booking and boarding to reviewing inflight entertainment to ordering an Uber car upon landing. Kraft has expanded its recipe app to become a pantry management tool, generating a shopping list that seamlessly connects with the grocery delivery service Peapod. Key to these expanded journeys is often their integration with other service providers. Because this increases the value of the journey, carefully handing customers off to another firm can actually enhance the journey's stickiness.

Capabilities in Practice

Let's return to Sungevity to see how it combines these four capabilities to create a valuable and evolving journey.

From initial customer contact to installation and beyond, Sungevity has automated most steps of the journey, including collecting and integrating customer data, calculating energy use, and creating personalized visualizations of the panels on a roof. Crucial here is sophisticated use of APIs (application interfaces) to pull data from other providers, such as Google Earth and the real estate service Trulia, to assemble a picture of the customer. Data analysis allowed proactive personalization that targeted David with customized information such as costs, timeline, and anticipated breakeven and savings, all available across multiple channels, including email, Sungevity's site, and customer reps. Contextual interaction capabilities allowed Sungevity to serve the right content in the right channel for each of David's interactions—for example, using APIs to track the panel installation by the company's local contractor and then regularly updating David's landing page with the latest status.

Sungevity is continuing to pursue journey innovation, using what it knows about its customers to extend the journey into energy storage and conservation services. Not long ago, such activity might have been a generic upsell, blanketing a customer segment with pitches for a new offering. Today the outreach can be to a single individual, and the strategy not simply to sell another product but to invite customers to take the next step on their personalized journeys. With granular data on each household's energy use and habits, Sungevity can advise people one-on-one about managing their energy consumption, and it can recommend a tailored package of products and services to help them reduce their dependence on the grid and reap savings. To this end, the firm will soon offer batteries from the German supplier Sonnenbatterie to store surplus electricity generated by the solar panels. It is also creating customer dashboards that track energy production and use. Ultimately, the firm plans to integrate its services with home-management networks that can automate energy conservation (adjusting lights and heating, for example) according to decision rules that Sungevity develops with each customer. Another project is to create conservation-oriented customer communities.

The Rise of the Journey Product Manager

Technology smarts are necessary but not sufficient for designing competitive, continuously improving journeys; companies also need new organizational structures and types of management. We have worked with many "digital native" firms that have had the luxury of building organizations optimized from the outset for creating effective journeys—and their experience offers lessons for traditional firms. We have found that traditional companies are most successful when they focus on selected high-value journeys and create dedicated teams to support them, drawing from across the firm's functions.

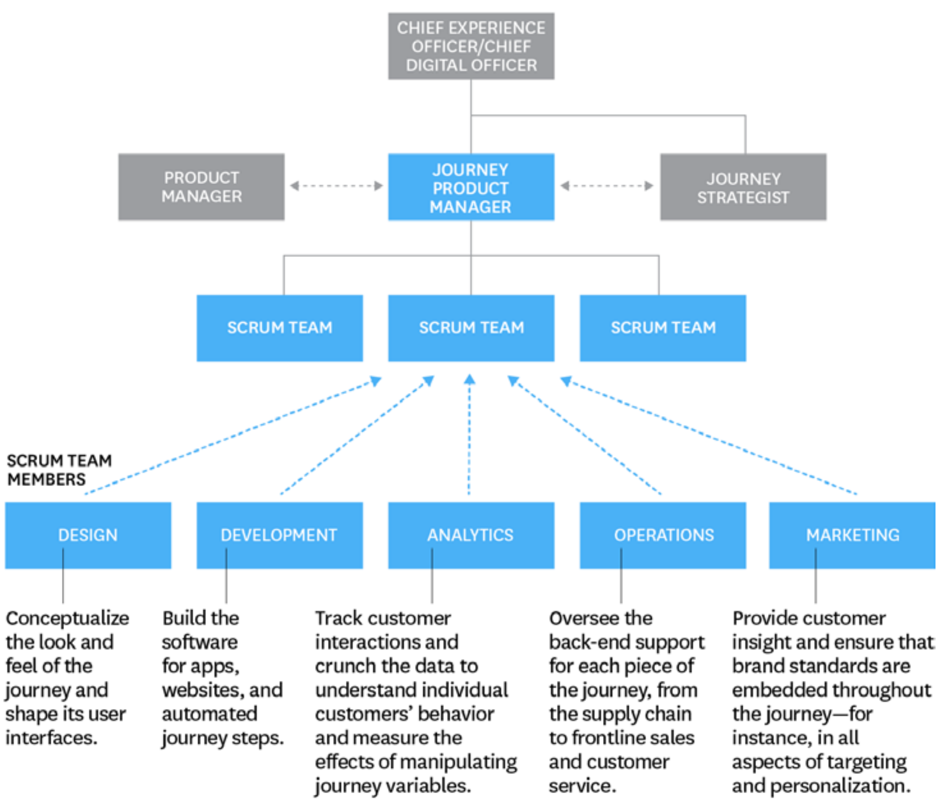
While we've seen many different organizational models for product-managing journeys (and an array of titles for the executives involved), they generally have a similar structure.

Overseeing all of a firm's interactions with customers is someone in the role of chief experience officer, a relatively new position in the C-suite. Chief digital officers are also starting to have this top-level responsibility. Typically reporting to this executive is a journey-focused strategist who helps guide decisions on which journey investments and customer segments to focus on; he or she prioritizes current journeys for digital development and spots opportunities for new ones.

Sitting at the center of the action for a given journey is new type of leader, the "journey product manager." People in this role (more commonly called "solution managers," "experience managers," or "segment managers") are the journey's economic and creative stewards. They have ultimate accountability for its business performance, managing it as they would any product. And like other product managers, they are judged according to how well they meet an array of product-specific measures, including journey ROI (see the sidebar "Holding Journey Managers Accountable").

Guided by the firm's business priorities (for example, growing market share, increasing revenue, and improving customer satisfaction), they explore ways to expand and optimize the journeys they're responsible for, increase their stickiness, engage new partners, fend off competitors, and cut costs, particularly through digitizing manual processes. More operationally, it's their job to understand how customers move through the journey, to spot unusual customer behaviors (such as detouring or abandonment at a critical touchpoint), and to discern what attracts new customers—or dissuades them from engaging.

The New Journey Management Organization



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To build successful journeys, these managers rely on "scrum teams" of specialists from across IT, analytics, operations, marketing, and other functions. The teams are execution-oriented, fast, and agile, constantly testing and iterating improvements. Collectively, the team members work to understand customers' wants and needs at each step of the journey and make taking the next step worthwhile. They ask questions such as "What types of functionality, look and feel, and message will propel customers to the next step?" and "How does the timing of prompts affect customers' responses?" Pursuing answers to questions like these, teams enter into rounds of development, piloting iterative digital-journey prototypes, analyzing operational and customer-use data, and then measuring the impact on customer behavior produced by each tweak to the journey.

Nordstrom is one company that has used this scrum-team approach. To enhance the journey around shopping for sunglasses, for example, a team set up temporary camp in the retailer's flagship store and launched a series of week-long experiments to perfect a new app. The app was envisioned to guide customers through the selection process by matching sunglasses styles with their facial characteristics and preferences. Right in the store, team members mocked up paper prototypes of the app and studied how shoppers tapped on them, as if using a live version. Throughout the process, they asked customers which app features seemed helpful, unnecessary, or distracting. On the basis of that feedback, the team's coders built a live version of the app for customers to test, making real-time adjustments as they received more input. After a week of tweaking, they released it on tablets to the store's sales associates, who use it alongside customers to help them choose sunglasses.

Typically, journey managers bring scrum teams together on-site (as Nordstrom did) or in war rooms for design sprints, in which teams pitch new journey paths and features and then develop, test, and scale prototypes. Experiments may focus on anything from designing landing pages and devising live chats with reps to optimizing back-end processes and improving "experience flow" (how a customer moves from one journey step to another).

While the best journey product managers work in this way to continually refine existing journeys, they're also looking at the bigger picture, introducing larger-scale innovations that extend the journey and increase its value and stickiness. Consider, for example, how one of our clients, a global consumer electronics company, is developing and marketing a new countertop cooker. The product has programmable compartments that can be controlled by an app, allowing customers to simultaneously cook different parts of a meal. This creates opportunities to build an array of services that help customers get the most from the cooker.

Although the firm had long experience with product design, as it began adding connectivity to its products, management realized that it knew relatively little about creating services to enhance them. Recognizing that it would need a new structure for designing and managing such services, the company created a global experience-innovation team, led by a new-business-development executive and supported by a product design executive. Essentially serving together as chief experience officers for the new services envisioned, these executives oversee all of the firm's connected-product initiatives and supervise the journey product managers (or "innovation leaders") in charge of these programs.

The cooker's journey product manager was tasked with creating various related services (help with meal planning, ingredient purchasing, and meal prep) and building the journeys that would deliver them. With his scrum team of designers, programmers, operations managers, and marketers, the manager has led the development of a service that provides recipes through the cooker app, tracks what customers make, and then personalizes suggestions over time. The team is now developing weekly meal-planning apps, and it has partnered with food producers to create recipes and offer discount coupons for key ingredients. Ultimately, the team plans to support a customer community whose members create and share their own recipes.

To do all this, the team scrutinizes data flowing from the app: what percentage of customers download it, how many register, how (and how often) they use it, how cooker use and meal type vary by geography, and, for those who stop using the app, at what point they defect. This data informs the team's tuning of the app's navigation and prompts, along with the meal ideas and incentives the firm provides customers to keep them engaged. Analysts within the broader work group focus on narrow segments of the user base, typically zooming in on different countries to understand how usage patterns vary. This tracking extends to the level of the individual, revealing what recipes a given customer tries, how often she uses the cooker and the app, and which app features she uses—all of which allows continuing innovation and personalization of the journey.

The move from selling products to managing a permanent customer journey has required mastering the four capabilities that all companies will need to compete: automation (in this case, the ability to control the cooker from an app); personalization (offering tailored recipes); contextual interaction (changing the app interface as customers move from purchasing ingredients to cooking); and journey innovation (adding new recipes, online purchase capabilities, and community).

In perfecting these capabilities, the firm has made the continuing customer journey as much a part of the brand as the cooker itself—and as important a source of value. Leveraging its new journey-focused managerial structure, the company is now developing service-based journeys for other home health and household management products.

Thinking about the customer journey as a product is leading to a major shift in how product investments are determined, prioritized, funded, and measured. Increasingly, firms will be focusing on how an investment improves the economics of delivering products and journeys to a customer segment—and how powerfully it reinforces engagement—rather than just how it drives sales or reduces costs. Particularly for companies that are somewhat distant from customer transactions, such as consumer-goods makers and B2B firms, this requires developing fundamentally new skills and structures for gathering and analyzing customer data, interacting with customers, and focusing on the experience design along with product and creative design. Today, winning brands owe their success not just to the quality and value of what they sell, but to the superiority of the journeys they create.

MAKE YOUR BEST CUSTOMERS EVEN BETTER

EDDIE YOON, STEVE CARLOTTI, AND DENNIS MOORE

Just over a year ago, managers at Kraft believed that their Velveeta brand had only moderate growth prospects. With the consumer migration toward natural and organic products, sales of Velveeta—a processed, unrefrigerated "cheese food"—had languished. The customers who did buy it typically used it once or twice a year, usually to make a party dip. But as we began working with Kraft and analyzing supermarket scanner and consumer panel data, we found a hard-core group of Velveeta fans. They constituted 10% of buyers but accounted for 30% to 40% of revenue and more than 50% of profits. In focus groups, these buyers—whom we dubbed superconsumers—said that they think of Velveeta as superior cheese. They love the way it melts smoothly and easily, and they have myriad uses for it, ones that range far beyond dips (one person even claimed to use a little when making fudge). After we finished questioning the superconsumers, they traded recipes, e-mails, and phone numbers with one another—building friendships around their shared passion for Velveeta.

To restart Velveeta's growth, Kraft decided to focus on these superconsumers, a group whose size we estimated at 2.4 million. The product team had recently launched refrigerated Velveeta slices, for use on burgers and sandwiches. It had also introduced refrigerated shredded Velveeta, for use in casseroles. Both launches had been surprisingly strong, but they now took on much more importance in light of the superconsumer strategy. Some retail partners began moving the product to the refrigerated dairy aisle, where products have a much higher rate of sales. The strategy inspired a pipeline of innovations to meet new uses. Kraft also began gathering customers' recipes and finding ways to circulate them among the faithful. "The previous thinking was that the quickest, easiest path to growth was to identify light users or lapsed users," Greg Gallagher, the marketing director at Kraft Foods, recalls. "But when we talked to superconsumers, we learned that in fact they wanted to use Velveeta more—they were starving for it." The new product launches have generated more than $100 million in sales. Just as important, managers believe they have found a viable growth strategy for the first time in years.

Every marketer is familiar with the Pareto principle. Known colloquially as the 80/20 rule, it suggests that one-fifth of a product's buyers are responsible for four-fifths of sales. A similar effect applies to superconsumers. Using Nielsen supermarket scanner data, we analyzed the top 124 consumer packaged goods categories and found that on average, superconsumers represent 10% of a category's customers but account for 30% to 70% of sales and an even higher share of profits. Most managers take care to offer VIP treatment to these big spenders in order to ensure their continued loyalty, but few make them a focus of growth plans. They assume that these customers are already maxed out and can't be persuaded to buy more—or they believe other myths about them. In our work with CPG companies, however, we routinely see brands that are able to grow sales by finding new ways to appeal to these customers. And the phenomenon isn't limited to CPG categories: We have seen companies successfully execute superconsumer strategies in industries as wide-ranging as apparel, consumer durables, and financial services.

Reaping Benefits Beyond Sales

It's important to distinguish superconsumers from other segments of buyers. They aren't quite the same as "heavy users"—a product's highest-volume buyers, in traditional marketing terms. Heavy users are defined simply by the quantity of their purchases. Superconsumers are defined by both economics and attitude: They are a subset of heavy users who are highly engaged with a category and a brand. They are especially interested in innovative uses for the product and in new variations on it. They aren't particularly price sensitive. Superconsumers tend to have more occasions and "jobs" for a product. Think about hot dogs: While many consumers view them primarily as a food for backyard barbecues, superconsumers see them as an ideal fast meal or an after-school snack.

In our experience, many managers are quick to dismiss the concept of superconsumers or to regard it with skepticism. But as companies build up their analytic capabilities, they are becoming increasingly adept at identifying and engaging these consumers. When they do, they not only find that these shoppers have good reasons for buying so much, but also often discover a hidden appetite to buy more—even in the most unlikely product categories.

Staplers are a prime example. Most people have just a single stapler—or maybe two, one at home and one in the office. But in our work with an office supply company, we identified stapler superconsumers, who own eight staplers each, on average. These consumers don't do more stapling than other people. Their stapler buying is related to a need to be highly organized: They believe that the presentation of the papers they staple together matters as much as what is on the papers. So they want just the right stapler for each stapling occasion. They keep different sizes and shapes in various places—their offices, their kitchens, their purses, their cars. Absent these findings, common sense might suggest that there would be little ROI in trying to sell someone who owns eight staplers a ninth or a 10th one. But the analysis proves that selling those additional staplers to superconsumers is a smarter growth strategy than simply selling replacements for broken or lost staplers to "normal" consumers.

Companies that focus on superconsumers can realize benefits far beyond an opportunity to drive sales growth. Because superconsumers are already buying your products, it's easy to reach them. This means that you can dramatically increase the efficiency of your advertising and promotions. Instead of trying to activate lapsed users through expensive mass-market campaigns or paying large sums to deliver coupons to customers who haven't bought your product in months (and probably won't buy it now), you can focus your efforts on a narrow slice of your customer base. Direct and digital marketing are often much more effective with superconsumers than with others. That effectiveness can be especially valuable to large CPG companies, some of which spend billions of dollars a year on advertising—and for which a 1% increase in the efficiency of ad spending can therefore be worth tens of millions of dollars.

Many superconsumers are superb at offering insights that can drive product strategy. Because they are passionate about the category, they are an ideal audience for testing out new-product ideas—and in many cases, they themselves are the source of new ideas. Consider another Kraft brand, Breakstone's sour cream. Shannon Lester, a Kraft brand manager, and his team discovered that many of its superconsumers were blending it with Greek yogurt to create something that tasted like sour cream but had about half the fat and cholesterol and twice the protein and calcium. Breakstone's had once come up with a similar combination, but the mixture had failed to gain traction even inside the company. After Kraft embraced the superconsumer strategy, however, it retested the product, this time targeting its superconsumers, who loved it. Moreover, many of them offered input that helped Kraft optimize the product, and their insights about presentation helped it gain mass appeal. Demand for Breakstone's Greek Style sour cream grew so rapidly that the product was available in 60% of U.S. grocery stores within months of the retest—astonishing speed for the success of a new product.

The most important thing we've learned in our work with companies that have decided to focus on superconsumers is that the new strategy can become a rallying cry for an organization—particularly one that has been marketing an old, slow-growing product perceived as unexciting. Like many of the best strategies, it is simple to explain, it appeals to logic, and it is easy to back up with data. "To be honest, I was a nonbeliever at first," says Cannon Koo, the director of analytics at Kraft Foods. "I thought, How are these consumers any different from heavy users? But as we did more and more research, we began uncovering more and more insights that were quite different from what we were used to seeing from heavy users." Today the Velveeta team uses the superconsumer strategy to plan its media buying, trade promotions, and new-product lines. The brand's general manager says that in his nine years at the company, he's never seen a more tightly integrated brand plan.

The superconsumer phenomenon points to a virtuous circle: Often companies can do well by showing more love to the customers who love them the most.

FROM THE JULY–AUGUST 2004 ISSUE

MARKETING MYOPIA

THEODORE LEVITT

Every major industry was once a growth industry. But some that are now riding a wave of growth enthusiasm are very much in the shadow of decline. Others that are thought of as seasoned growth industries have actually stopped growing. In every case, the reason growth is threatened, slowed, or stopped is not because the market is saturated. It is because there has been a failure of management.

Fateful Purposes

The failure is at the top. The executives responsible for it, in the last analysis, are those who deal with broad aims and policies. Thus:

- The railroads did not stop growing because the need for passenger and freight transportation declined. That grew. The railroads are in trouble today not because that need was filled by others (cars, trucks, airplanes, and even telephones) but because it was notfilled by the railroads themselves. They let others take customers away from them because they assumed themselves to be in the railroad business rather than in the transportation business. The reason they defined their industry incorrectly was that they were railroad oriented instead of transportation oriented; they were product oriented instead of customer oriented.
- Hollywood barely escaped being totally ravished by television. Actually, all the established film companies went through drastic reorganizations. Some simply disappeared. All of them got into trouble not because of TV's inroads but because of their own myopia. As with the railroads, Hollywood defined its business incorrectly. It thought it was in the movie business when it was actually in the entertainment business. "Movies" implied a specific, limited product. This produced a fatuous contentment that from the beginning led producers to view TV as a threat. Hollywood scorned and rejected TV when it should have welcomed it as an opportunity—an opportunity to expand the entertainment business.

Today, TV is a bigger business than the old narrowly defined movie business ever was. Had Hollywood been customer oriented (providing entertainment) rather than product oriented (making movies), would it have gone through the fiscal purgatory that it did? I doubt it. What ultimately saved Hollywood and accounted for its resurgence was the wave of new young writers, producers, and directors whose previous successes in television had decimated the old movie companies and toppled the big movie moguls.

There are other, less obvious examples of industries that have been and are now endangering their futures by improperly defining their purposes. I shall discuss some of them in detail later and analyze the kind of policies that lead to trouble. Right now, it may help to show what a thoroughly customer-oriented management can do to keep a growth industry growing, even after the obvious opportunities have been exhausted, and here there are two examples that have been around for a long time. They are nylon and glass—specifically, E.I. du Pont de Nemours and Company and Corning Glass Works.

Both companies have great technical competence. Their product orientation is unquestioned. But this alone does not explain their success. After all, who was more pridefully product oriented and product conscious than the erstwhile New England textile companies that have been so thoroughly massacred? The DuPonts and the Cornings have succeeded not primarily because of their product or research orientation but because they have been thoroughly customer oriented also. It is constant watchfulness for opportunities to apply their technical know-how to the creation of customer-satisfying uses that accounts for their prodigious output of successful new products. Without a very sophisticated eye on the customer, most of their new products might have been wrong, their sales methods useless.

Aluminum has also continued to be a growth industry, thanks to the efforts of two wartime-created companies that deliberately set about inventing new customer-satisfying uses. Without Kaiser Aluminum & Chemical Corporation and Reynolds Metals Company, the total demand for aluminum today would be vastly less.

Error of Analysis.

Some may argue that it is foolish to set the railroads off against aluminum or the movies off against glass. Are not aluminum and glass naturally so versatile that the industries are bound to have more growth opportunities than the railroads and the movies? This view commits precisely the error I have been talking about. It defines an industry or a product or a cluster of know-how so narrowly as to guarantee its premature senescence. When we mention "railroads," we should make sure we mean "transportation." As transporters, the railroads still have a good chance for very considerable growth. They are not limited to the railroad business as such (though in my opinion, rail transportation is potentially a much stronger transportation medium than is generally believed).

What the railroads lack is not opportunity but some of the managerial imaginativeness and audacity that made them great. Even an amateur like Jacques Barzun can see what is lacking when he says, "I grieve to see the most advanced physical and social organization of the last century go down in shabby disgrace for lack of the same comprehensive imagination that built it up. [What is lacking is] the will of the companies to survive and to satisfy the public by inventiveness and skill."[1]

Shadow of Obsolescence

It is impossible to mention a single major industry that did not at one time qualify for the magic appellation of "growth industry." In each case, the industry's assumed strength lay in the apparently unchallenged superiority of its product. There appeared to be no effective substitute for it. It was itself a runaway substitute for the product it so triumphantly replaced. Yet one after another of these celebrated industries has come under a shadow. Let us look briefly at a few more of them, this time taking examples that have so far received a little less attention.

Dry Cleaning.

This was once a growth industry with lavish prospects. In an age of wool garments, imagine being finally able to get them clean safely and easily. The boom was on. Yet here we are 30 years after the boom started, and the industry is in trouble. Where has the competition come from? From a better way of cleaning? No. It has come from synthetic fibers and chemical additives that have cut the need for dry cleaning. But this is only the beginning. Lurking in the wings and ready to make chemical dry cleaning totally obsolete is that powerful magician, ultrasonics.

Electric Utilities.

This is another one of those supposedly "no substitute" products that has been enthroned on a pedestal of invincible growth. When the incandescent lamp came along, kerosene lights were finished. Later, the waterwheel and the steam engine were cut to ribbons by the flexibility, reliability, simplicity, and just plain easy availability of electric motors. The prosperity of electric utilities continues to wax extravagant as the home is converted into a museum of electric gadgetry. How can anybody miss by investing in utilities, with no competition, nothing but growth ahead?

But a second look is not quite so comforting. A score of nonutility companies are well advanced toward developing a powerful chemical fuel cell, which could sit in some hidden closet of every home silently ticking off electric power. The electric lines that vulgarize so many neighborhoods would be eliminated. So would the endless demolition of streets and service interruptions during storms. Also on the horizon is solar energy, again pioneered by nonutility companies.

Who says that the utilities have no competition? They may be natural monopolies now, but tomorrow they may be natural deaths. To avoid this prospect, they too will have to develop fuel cells, solar energy, and other power sources. To survive, they themselves will have to plot the obsolescence of what now produces their livelihood.

Grocery Stores.

Many people find it hard to realize that there ever was a thriving establishment known as the "corner store." The supermarket took over with a powerful effectiveness. Yet the big food chains of the 1930s narrowly escaped being completely wiped out by the aggressive expansion of independent supermarkets. The first genuine supermarket was opened in 1930, in Jamaica, Long Island. By 1933, supermarkets were thriving in California, Ohio, Pennsylvania, and elsewhere. Yet the established chains pompously ignored them. When they chose to notice them, it was with such derisive descriptions as "cheapy," "horse-and-buggy," "cracker-barrel storekeeping," and "unethical opportunists."

The executive of one big chain announced at the time that he found it "hard to believe that people will drive for miles to shop for foods and sacrifice the personal service chains have perfected and to which [the consumer] is accustomed."[2] As late as 1936, the National Wholesale Grocers convention and the New Jersey Retail Grocers Association said there was nothing to fear. They said that the supers' narrow appeal to the price buyer limited the size of their market. They had to draw from miles around. When imitators came, there would be wholesale liquidations as volume fell. The high sales of the supers were said to be partly due to their novelty. People wanted convenient neighborhood grocers. If the neighborhood stores would "cooperate with their suppliers, pay attention to their costs, and improve their service," they would be able to weather the competition until it blew over.[3]

It never blew over. The chains discovered that survival required going into the supermarket business. This meant the wholesale destruction of their huge investments in corner store sites and in established distribution and merchandising methods. The companies with "the courage of their convictions" resolutely stuck to the corner store philosophy. They kept their pride but lost their shirts.

A Self-Deceiving Cycle.

But memories are short. For example, it is hard for people who today confidently hail the twin messiahs of electronics and chemicals to see how things could possibly go wrong with these galloping industries. They probably also cannot see how a reasonably sensible businessperson could have been as myopic as the famous Boston millionaire who early in the twentieth century unintentionally sentenced his heirs to poverty by stipulating that his entire estate be forever invested exclusively in electric streetcar securities. His posthumous declaration, "There will always be a big demand for efficient urban transportation," is no consolation to his heirs, who sustain life by pumping gasoline at automobile filling stations.

Yet, in a casual survey I took among a group of intelligent business executives, nearly half agreed that it would be hard to hurt their heirs by tying their estates forever to the electronics industry. When I then confronted them with the Boston streetcar example, they chorused unanimously, "That's different!" But is it? Is not the basic situation identical?

In truth, there is no such thing as a growth industry, I believe. There are only companies organized and operated to create and capitalize on growth opportunities. Industries that assume themselves to be riding some automatic growth escalator invariably descend into stagnation. The history of every dead and dying "growth" industry shows a self-deceiving cycle of bountiful expansion and undetected decay. There are four conditions that usually guarantee this cycle:

1. The belief that growth is assured by an expanding and more affluent population;

2. The belief that there is no competitive substitute for the industry's major product;

3. Too much faith in mass production and in the advantages of rapidly declining unit costs as output rises;

4. Preoccupation with a product that lends itself to carefully controlled scientific experimentation, improvement, and manufacturing cost reduction.

I should like now to examine each of these conditions in some detail. To build my case as boldly as possible, I shall illustrate the points with reference to three industries: petroleum, automobiles, and electronics. I'll focus on petroleum in particular, because it spans more years and more vicissitudes. Not only do these three industries have excellent reputations with the general public and also enjoy the confidence of sophisticated investors, but their managements have become known for progressive thinking in areas like financial control, product research, and management training. If obsolescence can cripple even these industries, it can happen anywhere.

Population Myth

The belief that profits are assured by an expanding and more affluent population is dear to the heart of every industry. It takes the edge off the apprehensions everybody understandably feels about the future. If consumers are multiplying and also buying more of your product or service, you can face the future with considerably more comfort than if the market were shrinking. An expanding market keeps the manufacturer from having to think very hard or imaginatively. If thinking is an intellectual response to a problem, then the absence of a problem leads to the absence of thinking. If your product has an automatically expanding market, then you will not give much thought to how to expand it.

If thinking is an intellectual response to a problem, then the absence of a problem leads to the absence of thinking.

One of the most interesting examples of this is provided by the petroleum industry. Probably our oldest growth industry, it has an enviable record. While there are some current concerns about its growth rate, the industry itself tends to be optimistic.

But I believe it can be demonstrated that it is undergoing a fundamental yet typical change. It is not only ceasing to be a growth industry but may actually be a declining one, relative to other businesses. Although there is widespread unawareness of this fact, it is conceivable that in time, the oil industry may find itself in much the same position of retrospective glory that the railroads are now in. Despite its pioneering work in developing and applying the present-value method of investment evaluation, in employee relations, and in working with developing countries, the petroleum business is a distressing example of how complacency and wrongheadedness can stubbornly convert opportunity into near disaster.

One of the characteristics of this and other industries that have believed very strongly in the beneficial consequences of an expanding population, while at the same time having a generic product for which there has appeared to be no competitive substitute, is that the individual companies have sought to outdo their competitors by improving on what they are already doing. This makes sense, of course, if one assumes that sales are tied to the country's population strings, because the customer can compare products only on a feature-by-feature basis. I believe it is significant, for example, that not since John D. Rockefeller sent free kerosene lamps to China has the oil industry done anything really outstanding to create a demand for its product. Not even in product improvement has it showered itself with eminence. The greatest single improvement—the development of tetraethyl lead—came from outside the industry, specifically from General Motors and DuPont. The big contributions made by the industry itself are confined to the technology of oil exploration, oil production, and oil refining.

Asking for Trouble.

In other words, the petroleum industry's efforts have focused on improving the efficiency of getting and making its product, not really on improving the generic product or its marketing. Moreover, its chief product has continually been defined in the narrowest possible terms—namely, gasoline, not energy, fuel, or transportation. This attitude has helped assure that:

Major improvements in gasoline quality tend not to originate in the oil industry. The development of superior alternative fuels also comes from outside the oil industry, as will be shown later.

- Major innovations in automobile fuel marketing come from small, new oil companies that are not primarily preoccupied with production or refining. These are the companies that have been responsible for the rapidly expanding multipump gasoline stations, with their successful emphasis on large and clean layouts, rapid and efficient driveway service, and quality gasoline at low prices.
- Thus, the oil industry is asking for trouble from outsiders. Sooner or later, in this land of hungry investors and entrepreneurs, a threat is sure to come. The possibility of this will become more apparent when we turn to the next dangerous belief of many managements. For the sake of continuity, because this second belief is tied closely to the first, I shall continue with the same example.

The Idea of Indispensability.

The petroleum industry is pretty much convinced that there is no competitive substitute for its major product, gasoline—or, if there is, that it will continue to be a derivative of crude oil, such as diesel fuel or kerosene jet fuel.

There is a lot of automatic wishful thinking in this assumption. The trouble is that most refining companies own huge amounts of crude oil reserves. These have value only if there is a market for products into which oil can be converted. Hence the tenacious belief in the continuing competitive superiority of automobile fuels made from crude oil.

This idea persists despite all historic evidence against it. The evidence not only shows that oil has never been a superior product for any purpose for very long but also that the oil industry has never really been a growth industry. Rather, it has been a succession of different businesses that have gone through the usual historic cycles of growth, maturity, and decay. The industry's overall survival is owed to a series of miraculous escapes from total obsolescence, of last-minute and unexpected reprieves from total disaster reminiscent of the perils of Pauline.

The Perils of Petroleum.

To illustrate, I shall sketch in only the main episodes. First, crude oil was largely a patent medicine. But even before that fad ran out, demand was greatly expanded by the use of oil in kerosene lamps. The prospect of lighting the world's lamps gave rise to an extravagant promise of growth. The prospects were similar to those the industry now holds for gasoline in other parts of the world. It can hardly wait for the underdeveloped nations to get a car in every garage.

In the days of the kerosene lamp, the oil companies competed with each other and against gaslight by trying to improve the illuminating characteristics of kerosene. Then suddenly the impossible happened. Edison invented a light that was totally nondependent on crude oil. Had it not been for the growing use of kerosene in space heaters, the incandescent lamp would have completely finished oil as a growth industry at that time. Oil would have been good for little else than axle grease.

Then disaster and reprieve struck again. Two great innovations occurred, neither originating in the oil industry. First, the successful development of coal-burning domestic central-heating systems made the space heater obsolete. While the industry reeled, along came its most magnificent boost yet: the internal combustion engine, also invented by outsiders. Then, when the prodigious expansion for gasoline finally began to level off in the 1920s, along came the miraculous escape of the central oil heater. Once again, the escape was provided by an outsider's invention and development. And when that market weakened, wartime demand for aviation fuel came to the rescue. After the war, the expansion of civilian aviation, the dieselization of railroads, and the explosive demand for cars and trucks kept the industry's growth in high gear.

Meanwhile, centralized oil heating—whose boom potential had only recently been proclaimed—ran into severe competition from natural gas. While the oil companies themselves owned the gas that now competed with their oil, the industry did not originate the natural gas revolution, nor has it to this day greatly profited from its gas ownership. The gas revolution was made by newly formed transmission companies that marketed the product with an aggressive ardor. They started a magnificent new industry, first against the advice and then against the resistance of the oil companies.

By all the logic of the situation, the oil companies themselves should have made the gas revolution. They not only owned the gas, they also were the only people experienced in handling, scrubbing, and using it and the only people experienced in pipeline technology and transmission. They also understood heating problems. But, partly because they knew that natural gas would compete with their own sale of heating oil, the oil companies pooh-poohed the potential of gas. The revolution was finally started by oil pipeline executives who, unable to persuade their own companies to go into gas, quit and organized the spectacularly successful gas transmission companies. Even after their success became painfully evident to the oil companies, the latter did not go into gas transmission. The multibillion-dollar business that should have been theirs went to others. As in the past, the industry was blinded by its narrow preoccupation with a specific product and the value of its reserves. It paid little or no attention to its customers' basic needs and preferences.

The postwar years have not witnessed any change. Immediately after World War II, the oil industry was greatly encouraged about its future by the rapid increase in demand for its traditional line of products. In 1950, most companies projected annual rates of domestic expansion of around 6% through at least 1975. Though the ratio of crude oil reserves to demand in the free world was about 20 to 1, with 10 to 1 being usually considered a reasonable working ratio in the United States, booming demand sent oil explorers searching for more without sufficient regard to what the future really promised. In 1952, they "hit" in the Middle East; the ratio skyrocketed to 42 to 1. If gross additions to reserves continue at the average rate of the past five years (37 billion barrels annually), then by 1970, the reserve ratio will be up to 45 to 1. This abundance of oil has weakened crude and product prices all over the world.

An Uncertain Future.

Management cannot find much consolation today in the rapidly expanding petrochemical industry, another oil-using idea that did not originate in the leading firms. The total U.S. production of petrochemicals is equivalent to about 2% (by volume) of the demand for all petroleum products. Although the petrochemical industry is now expected to grow by about 10% per year, this will not offset other drains on the growth of crude oil consumption. Furthermore, while petrochemical products are many and growing, it is important to remember that there are nonpetroleum sources of the basic raw material, such as coal. Besides, a lot of plastics can be produced with relatively little oil. A 50,000-barrel-per-day oil refinery is now considered the absolute minimum size for efficiency. But a 5,000-barrel-per-day chemical plant is a giant operation.

Oil has never been a continuously strong growth industry. It has grown by fits and starts, always miraculously saved by innovations and developments not of its own making. The reason it has not grown in a smooth progression is that each time it thought it had a superior product safe from the possibility of competitive substitutes, the product turned out to be inferior and notoriously subject to obsolescence. Until now, gasoline (for motor fuel, anyhow) has escaped this fate. But, as we shall see later, it too may be on its last legs.

The point of all this is that there is no guarantee against product obsolescence. If a company's own research does not make a product obsolete, another's will. Unless an industry is especially lucky, as oil has been until now, it can easily go down in a sea of red figures—just as the railroads have, as the buggy whip manufacturers have, as the corner grocery chains have, as most of the big movie companies have, and, indeed, as many other industries have.

The best way for a firm to be lucky is to make its own luck. That requires knowing what makes a business successful. One of the greatest enemies of this knowledge is mass production.

Production Pressures

Mass production industries are impelled by a great drive to produce all they can. The prospect of steeply declining unit costs as output rises is more than most companies can usually resist. The profit possibilities look spectacular.

All effort focuses on production. The result is that marketing gets neglected.

John Kenneth Galbraith contends that just the opposite occurs.[4] Output is so prodigious that all effort concentrates on trying to get rid of it. He says this accounts for singing commercials, the desecration of the countryside with advertising signs, and other wasteful and vulgar practices. Galbraith has a finger on something real, but he misses the strategic point. Mass production does indeed generate great pressure to "move" the product. But what usually gets emphasized is selling, not marketing. Marketing, a more sophisticated and complex process, gets ignored.

The difference between marketing and selling is more than semantic. Selling focuses on the needs of the seller, marketing on the needs of the buyer. Selling is preoccupied with the seller's need to convert the product into cash, marketing with the idea of satisfying the needs of the customer by means of the product and the whole cluster of things associated with creating, delivering, and, finally, consuming it.

In some industries, the enticements of full mass production have been so powerful that top management in effect has told the sales department, "You get rid of it; we'll worry about profits." By contrast, a truly marketing-minded firm tries to create value-satisfying goods and services that consumers will want to buy. What it offers for sale includes not only the generic product or service but also how it is made available to the customer, in what form, when, under what conditions, and at what terms of trade. Most important, what it offers for sale is determined not by the seller but by the buyer. The seller takes cues from the buyer in such a way that the product becomes a consequence of the marketing effort, not vice versa.

A Lag in Detroit.

This may sound like an elementary rule of business, but that does not keep it from being violated wholesale. It is certainly more violated than honored. Take the automobile industry.

Here mass production is most famous, most honored, and has the greatest impact on the entire society. The industry has hitched its fortune to the relentless requirements of the annual model change, a policy that makes customer orientation an especially urgent necessity. Consequently, the auto companies annually spend millions of dollars on consumer research. But the fact that the new compact cars are selling so well in their first year indicates that Detroit's vast researches have for a long time failed to reveal what customers really wanted. Detroit was not convinced that people wanted anything different from what they had been getting until it lost millions of customers to other small-car manufacturers.

How could this unbelievable lag behind consumer wants have been perpetuated for so long? Why did not research reveal consumer preferences before consumers' buying decisions themselves revealed the facts? Is that not what consumer research is for—to find out before the fact what is going to happen? The answer is that Detroit never really researched customers' wants. It only researched their preferences between the kinds of things it had already decided to offer them. For Detroit is mainly product oriented, not customer oriented. To the extent that the customer is recognized as having needs that the manufacturer should try to satisfy, Detroit usually acts as if the job can be done entirely by product changes. Occasionally, attention gets paid to financing, too, but that is done more in order to sell than to enable the customer to buy.

As for taking care of other customer needs, there is not enough being done to write about. The areas of the greatest unsatisfied needs are ignored or, at best, get stepchild attention. These are at the point of sale and on the matter of automotive repair and maintenance. Detroit views these problem areas as being of secondary importance. That is underscored by the fact that the retailing and servicing ends of this industry are neither owned and operated nor controlled by the manufacturers. Once the car is produced, things are pretty much in the dealer's inadequate hands. Illustrative of Detroit's arms-length attitude is the fact that, while servicing holds enormous sales-stimulating, profit-building opportunities, only 57 of Chevrolet's 7,000 dealers provide night maintenance service.

Motorists repeatedly express their dissatisfaction with servicing and their apprehensions about buying cars under the present selling setup. The anxieties and problems they encounter during the auto buying and maintenance processes are probably more intense and widespread today than many years ago. Yet the automobile companies do not seem to listen to or take their cues from the anguished consumer. If they do listen, it must be through the filter of their own preoccupation with production. The marketing effort is still viewed as a necessary consequence of the product—not vice versa, as it should be. That is the legacy of mass production, with its parochial view that profit resides essentially in low-cost full production.

What Ford Put First.

The profit lure of mass production obviously has a place in the plans and strategy of business management, but it must always follow hard thinking about the customer. This is one of the most important lessons we can learn from the contradictory behavior of Henry Ford. In a sense, Ford was both the most brilliant and the most senseless marketer in American history. He was senseless because he refused to give the customer anything but a black car. He was brilliant because he fashioned a production system designed to fit market needs. We habitually celebrate him for the wrong reason: for his production genius. His real genius was marketing. We think he was able to cut his selling price and therefore sell millions of $500 cars because his invention of the assembly line had reduced the costs. Actually, he invented the assembly line because he had concluded that at $500 he could sell millions of cars. Mass production was theresult, not the cause, of his low prices.

Ford emphasized this point repeatedly, but a nation of production-oriented business managers refuses to hear the great lesson he taught. Here is his operating philosophy as he expressed it succinctly:

Our policy is to reduce the price, extend the operations, and improve the article. You will notice that the reduction of price comes first. We have never considered any costs as fixed. Therefore we first reduce the price to the point where we believe more sales will result. Then we go ahead and try to make the prices. We do not bother about the costs. The new price forces the costs down. The more usual way is to take the costs and then determine the price; and although that method may be scientific in the narrow sense, it is not scientific in the broad sense, because what earthly use is it to know the cost if it tells you that you cannot manufacture at a price at which the article can be sold? But more to the point is the fact that, although one may calculate what a cost is, and of course all of our costs are carefully calculated, no one knows what a cost ought to be. One of the ways of discovering…is to name a price so low as to force everybody in the place to the highest point of efficiency. The low price makes everybody dig for profits. We make more discoveries concerning manufacturing and selling under this forced method than by any method of leisurely investigation.[5]

Product Provincialism.

The tantalizing profit possibilities of low unit production costs may be the most seriously self-deceiving attitude that can afflict a company, particularly a "growth" company, where an apparently assured expansion of demand already tends to undermine a proper concern for the importance of marketing and the customer.

The usual result of this narrow preoccupation with so-called concrete matters is that instead of growing, the industry declines. It usually means that the product fails to adapt to the constantly changing patterns of consumer needs and tastes, to new and modified marketing institutions and practices, or to product developments in competing or complementary industries. The industry has its eyes so firmly on its own specific product that it does not see how it is being made obsolete.

The classic example of this is the buggy whip industry. No amount of product improvement could stave off its death sentence. But had the industry defined itself as being in the transportation business rather than in the buggy whip business, it might have survived. It would have done what survival always entails—that is, change. Even if it had only defined its business as providing a stimulant or catalyst to an energy source, it might have survived by becoming a manufacturer of, say, fan belts or air cleaners.

What may someday be a still more classic example is, again, the oil industry. Having let others steal marvelous opportunities from it (including natural gas, as already mentioned; missile fuels; and jet engine lubricants), one would expect it to have taken steps never to let that happen again. But this is not the case. We are now seeing extraordinary new developments in fuel systems specifically designed to power automobiles. Not only are these developments concentrated in firms outside the petroleum industry, but petroleum is almost systematically ignoring them, securely content in its wedded bliss to oil. It is the story of the kerosene lamp versus the incandescent lamp all over again. Oil is trying to improve hydrocarbon fuels rather than develop any fuels best suited to the needs of their users, whether or not made in different ways and with different raw materials from oil.

Here are some things that nonpetroleum companies are working on:

- More than a dozen such firms now have advanced working models of energy systems which, when perfected, will replace the internal combustion engine and eliminate the demand for gasoline. The superior merit of each of these systems is their elimination of frequent, time-consuming, and irritating refueling stops. Most of these systems are fuel cells designed to create electrical energy directly from chemicals without combustion. Most of them use chemicals that are not derived from oil—generally, hydrogen and oxygen.
- Several other companies have advanced models of electric storage batteries designed to power automobiles. One of these is an aircraft producer that is working jointly with several electric utility companies. The latter hope to use off-peak generating capacity to supply overnight plug-in battery regeneration. Another company, also using the battery approach, is a medium-sized electronics firm with extensive small-battery experience that it developed in connection with its work on hearing aids. It is collaborating with an automobile manufacturer. Recent improvements arising from the need for high-powered miniature power storage plants in rockets have put us within reach of a relatively small battery capable of withstanding great overloads or surges of power. Germanium diode applications and batteries using sintered plate and nickel cadmium techniques promise to make a revolution in our energy sources.
- Solar energy conversion systems are also getting increasing attention. One usually cautious Detroit auto executive recently ventured that solar-powered cars might be common by 1980.

As for the oil companies, they are more or less "watching developments," as one research director put it to me. A few are doing a bit of research on fuel cells, but this research is almost always confined to developing cells powered by hydrocarbon chemicals. None of them is enthusiastically researching fuel cells, batteries, or solar power plants. None of them is spending a fraction as much on research in these profoundly important areas as it is on the usual run-of-the-mill things like reducing combustion chamber deposits in gasoline engines. One major integrated petroleum company recently took a tentative look at the fuel cell and concluded that although "the companies actively working on it indicate a belief in ultimate success…the timing and magnitude of its impact are too remote to warrant recognition in our forecasts."

One might, of course, ask, Why should the oil companies do anything different? Would not chemical fuel cells, batteries, or solar energy kill the present product lines? The answer is that they would indeed, and that is precisely the reason for the oil firms' having to develop these power units before their competitors do, so they will not be companies without an industry.

Management might be more likely to do what is needed for its own preservation if it thought of itself as being in the energy business. But even that will not be enough if it persists in imprisoning itself in the narrow grip of its tight product orientation. It has to think of itself as taking care of customer needs, not finding, refining, or even selling oil. Once it genuinely thinks of its business as taking care of people's transportation needs, nothing can stop it from creating its own extravagantly profitable growth.

Creative Destruction.

Since words are cheap and deeds are dear, it may be appropriate to indicate what this kind of thinking involves and leads to. Let us start at the beginning: the customer. It can be shown that motorists strongly dislike the bother, delay, and experience of buying gasoline. People actually do not buy gasoline. They cannot see it, taste it, feel it, appreciate it, or really test it. What they buy is the right to continue driving their cars. The gas station is like a tax collector to whom people are compelled to pay a periodic toll as the price of using their cars. This makes the gas station a basically unpopular institution. It can never be made popular or pleasant, only less unpopular, less unpleasant.

Reducing its unpopularity completely means eliminating it. Nobody likes a tax collector, not even a pleasantly cheerful one. Nobody likes to interrupt a trip to buy a phantom product, not even from a handsome Adonis or a seductive Venus. Hence, companies that are working on exotic fuel substitutes that will eliminate the need for frequent refueling are heading directly into the outstretched arms of the irritated motorist. They are riding a wave of inevitability, not because they are creating something that is technologically superior or more sophisticated but because they are satisfying a powerful customer need. They are also eliminating noxious odors and air pollution.

Once the petroleum companies recognize the customer-satisfying logic of what another power system can do, they will see that they have no more choice about working on an efficient, long-lasting fuel (or some way of delivering present fuels without bothering the motorist) than the big food chains had a choice about going into the supermarket business or the vacuum tube companies had a choice about making semiconductors. For their own good, the oil firms will have to destroy their own highly profitable assets. No amount of wishful thinking can save them from the necessity of engaging in this form of "creative destruction."

I phrase the need as strongly as this because I think management must make quite an effort to break itself loose from conventional ways. It is all too easy in this day and age for a company or industry to let its sense of purpose become dominated by the economies of full production and to develop a dangerously lopsided product orientation. In short, if management lets itself drift, it invariably drifts in the direction of thinking of itself as producing goods and services, not customer satisfactions. While it probably will not descend to the depths of telling its salespeople, "You get rid of it; we'll worry about profits," it can, without knowing it, be practicing precisely that formula for withering decay. The historic fate of one growth industry after another has been its suicidal product provincialism.

Dangers of R&D

Another big danger to a firm's continued growth arises when top management is wholly transfixed by the profit possibilities of technical research and development. To illustrate, I shall turn first to a new industry—electronics—and then return once more to the oil companies. By comparing a fresh example with a familiar one, I hope to emphasize the prevalence and insidiousness of a hazardous way of thinking.

Marketing Shortchanged.

In the case of electronics, the greatest danger that faces the glamorous new companies in this field is not that they do not pay enough attention to research and development but that they pay too much attention to it. And the fact that the fastest-growing electronics firms owe their eminence to their heavy emphasis on technical research is completely beside the point. They have vaulted to affluence on a sudden crest of unusually strong general receptiveness to new technical ideas. Also, their success has been shaped in the virtually guaranteed market of military subsidies and by military orders that in many cases actually preceded the existence of facilities to make the products. Their expansion has, in other words, been almost totally devoid of marketing effort. Thus, they are growing up under conditions that come dangerously close to creating the illusion that a superior product will sell itself. It is not surprising that, having created a successful company by making a superior product, management continues to be oriented toward the product rather than the people who consume it. It develops the philosophy that continued growth is a matter of continued product innovation and improvement.

A number of other factors tend to strengthen and sustain this belief:

1. Because electronic products are highly complex and sophisticated, managements become top-heavy with engineers and scientists. This creates a selective bias in favor of research and production at the expense of marketing. The organization tends to view itself as making things rather than as satisfying customer needs. Marketing gets treated as a residual activity, "something else" that must be done once the vital job of product creation and production is completed.

2. To this bias in favor of product research, development, and production is added the bias in favor of dealing with controllable variables. Engineers and scientists are at home in the world of concrete things like machines, test tubes, production lines, and even balance sheets. The abstractions to which they feel kindly are those that are testable or manipulatable in the laboratory or, if not testable, then functional, such as Euclid's axioms. In short, the managements of the new glamour-growth companies tend to favor business activities that lend themselves to careful study, experimentation, and control—the hard, practical realities of the lab, the shop, and the books.

What gets shortchanged are the realities of the market. Consumers are unpredictable, varied, fickle, stupid, shortsighted, stubborn, and generally bothersome. This is not what the engineer managers say, but deep down in their consciousness, it is what they believe. And this accounts for their concentration on what they know and what they can control—namely, product research, engineering, and production. The emphasis on production becomes particularly attractive when the product can be made at declining unit costs. There is no more inviting way of making money than by running the plant full blast.

The top-heavy science-engineering-production orientation of so many electronics companies works reasonably well today because they are pushing into new frontiers in which the armed services have pioneered virtually assured markets. The companies are in the felicitous position of having to fill, not find, markets, of not having to discover what the customer needs and wants but of having the customer voluntarily come forward with specific new product demands. If a team of consultants had been assigned specifically to design a business situation calculated to prevent the emergence and development of a customer-oriented marketing viewpoint, it could not have produced anything better than the conditions just described.

Stepchild Treatment.

The oil industry is a stunning example of how science, technology, and mass production can divert an entire group of companies from their main task. To the extent the consumer is studied at all (which is not much), the focus is forever on getting information that is designed to help the oil companies improve what they are now doing. They try to discover more convincing advertising themes, more effective sales promotional drives, what the market shares of the various companies are, what people like or dislike about service station dealers and oil companies, and so forth. Nobody seems as interested in probing deeply into the basic human needs that the industry might be trying to satisfy as in probing into the basic properties of the raw material that the companies work with in trying to deliver customer satisfactions.

Basic questions about customers and markets seldom get asked. The latter occupy a stepchild status. They are recognized as existing, as having to be taken care of, but not worth very much real thought or dedicated attention. No oil company gets as excited about the customers in its own backyard as about the oil in the Sahara Desert. Nothing illustrates better the neglect of marketing than its treatment in the industry press.

The centennial issue of the American Petroleum Institute Quarterly, published in 1959 to celebrate the discovery of oil in Titusville, Pennsylvania, contained 21 feature articles proclaiming the industry's greatness. Only one of these talked about its achievements in marketing, and that was only a pictorial record of how service station architecture has changed. The issue also contained a special section on "New Horizons," which was devoted to showing the magnificent role oil would play in America's future. Every reference was ebulliently optimistic, never implying once that oil might have some hard competition. Even the reference to atomic energy was a cheerful catalog of how oil would help make atomic energy a success. There was not a single apprehension that the oil industry's affluence might be threatened or a suggestion that one "new horizon" might include new and better ways of serving oil's present customers.

But the most revealing example of the stepchild treatment that marketing gets is still another special series of short articles on "The Revolutionary Potential of Electronics." Under that heading, this list of articles appeared in the table of contents:

- "In the Search for Oil"
- "In Production Operations"
- "In Refinery Processes"
- "In Pipeline Operations"

Significantly, every one of the industry's major functional areas is listed, except marketing. Why? Either it is believed that electronics holds no revolutionary potential for petroleum marketing (which is palpably wrong), or the editors forgot to discuss marketing (which is more likely and illustrates its stepchild status).

The order in which the four functional areas are listed also betrays the alienation of the oil industry from the consumer. The industry is implicitly defined as beginning with the search for oil and ending with its distribution from the refinery. But the truth is, it seems to me, that the industry begins with the needs of the customer for its products. From that primal position its definition moves steadily back stream to areas of progressively lesser importance until it finally comes to rest at the search for oil.

The Beginning and End.

The view that an industry is a customer-satisfying process, not a goods-producing process, is vital for all businesspeople to understand. An industry begins with the customer and his or her needs, not with a patent, a raw material, or a selling skill. Given the customer's needs, the industry develops backwards, first concerning itself with the physical delivery of customer satisfactions. Then it moves back further to creating the things by which these satisfactions are in part achieved. How these materials are created is a matter of indifference to the customer, hence the particular form of manufacturing, processing, or what have you cannot be considered as a vital aspect of the industry. Finally, the industry moves back still further to finding the raw materials necessary for making its products.

The irony of some industries oriented toward technical research and development is that the scientists who occupy the high executive positions are totally unscientific when it comes to defining their companies' overall needs and purposes. They violate the first two rules of the scientific method: being aware of and defining their companies' problems and then developing testable hypotheses about solving them. They are scientific only about the convenient things, such as laboratory and product experiments.

The customer (and the satisfaction of his or her deepest needs) is not considered to be "the problem"—not because there is any certain belief that no such problem exists but because an organizational lifetime has conditioned management to look in the opposite direction. Marketing is a stepchild.

I do not mean that selling is ignored. Far from it. But selling, again, is not marketing. As already pointed out, selling concerns itself with the tricks and techniques of getting people to exchange their cash for your product. It is not concerned with the values that the exchange is all about. And it does not, as marketing invariably does, view the entire business process as consisting of a tightly integrated effort to discover, create, arouse, and satisfy customer needs. The customer is somebody "out there" who, with proper cunning, can be separated from his or her loose change.

Actually, not even selling gets much attention in some technologically minded firms. Because there is a virtually guaranteed market for the abundant flow of their new products, they do not actually know what a real market is. It is as if they lived in a planned economy, moving their products routinely from factory to retail outlet. Their successful concentration on products tends to convince them of the soundness of what they have been doing, and they fail to see the gathering clouds over the market. • • •

Less than 75 years ago, American railroads enjoyed a fierce loyalty among astute Wall Streeters. European monarchs invested in them heavily. Eternal wealth was thought to be the benediction for anybody who could scrape together a few thousand dollars to put into rail stocks. No other form of transportation could compete with the railroads in speed, flexibility, durability, economy, and growth potentials.

As Jacques Barzun put it, "By the turn of the century it was an institution, an image of man, a tradition, a code of honor, a source of poetry, a nursery of boyhood desires, a sublimest of toys, and the most solemn machine—next to the funeral hearse—that marks the epochs in man's life."[6]

Even after the advent of automobiles, trucks, and airplanes, the railroad tycoons remained imperturbably self-confident. If you had told them 60 years ago that in 30 years they would be flat on their backs, broke, and pleading for government subsidies, they would have thought you totally demented. Such a future was simply not considered possible. It was not even a discussable subject, or an askable question, or a matter that any sane person would consider worth speculating about. Yet a lot of "insane" notions now have matter-of-fact acceptance—for example, the idea of 100-ton tubes of metal moving smoothly through the air 20,000 feet above the earth, loaded with 100 sane and solid citizens casually drinking martinis—and they have dealt cruel blows to the railroads.

What specifically must other companies do to avoid this fate? What does customer orientation involve? These questions have in part been answered by the preceding examples and analysis. It would take another article to show in detail what is required for specific industries. In any case, it should be obvious that building an effective customer-oriented company involves far more than good intentions or promotional tricks; it involves profound matters of human organization and leadership. For the present, let me merely suggest what appear to be some general requirements.

The Visceral Feel of Greatness.

Obviously, the company has to do what survival demands. It has to adapt to the requirements of the market, and it has to do it sooner rather than later. But mere survival is a so-so aspiration. Anybody can survive in some way or other, even the skid row bum. The trick is to survive gallantly, to feel the surging impulse of commercial mastery: not just to experience the sweet smell of success but to have the visceral feel of entrepreneurial greatness.

No organization can achieve greatness without a vigorous leader who is driven onward by a pulsating will to succeed. A leader has to have a vision of grandeur, a vision that can produce eager followers in vast numbers. In business, the followers are the customers.

In order to produce these customers, the entire corporation must be viewed as a customer-creating and customer-satisfying organism. Management must think of itself not as producing products but as providing customer-creating value satisfactions. It must push this idea (and everything it means and requires) into every nook and cranny of the organization. It has to do this continuously and with the kind of flair that excites and stimulates the people in it. Otherwise, the company will be merely a series of pigeonholed parts, with no consolidating sense of purpose or direction.

In short, the organization must learn to think of itself not as producing goods or services but as buying customers, as doing the things that will make people want to do business with it. And the chief executive has the inescapable responsibility for creating this environment, this viewpoint, this attitude, this aspiration.

The chief executive must set the company's style, its direction, and its goals. This means knowing precisely where he or she wants to go and making sure the whole organization is enthusiastically aware of where that is. This is a first requisite of leadership, for unless a leader knows where he is going, any road will take him there.

If any road is okay, the chief executive might as well pack his attaché case and go fishing. If an organization does not know or care where it is going, it does not need to advertise that fact with a ceremonial figurehead. Everybody will notice it soon enough.

1. Jacques Barzun, "Trains and the Mind of Man," Holiday, February 1960.

2. For more details, see M.M. Zimmerman, The Super Market: A Revolution in Distribution (McGraw-Hill, 1955).

3. Ibid., pp. 45–47.

4. John Kenneth Galbraith, The Affluent Society (Houghton Mifflin, 1958).

5. Henry Ford, My Life and Work (Doubleday, 1923).

6. Barzun, "Trains and the Mind of Man."

KEEPING CUSTOMERS CONTINUOUSLY INFATUATED

GABOR GEORGE BURT

A few years back, my three-year-old son Max had an unyielding passion for Thomas the Tank Engine trains. Piece by piece, he accumulated a rather impressive collection. But here is the thing that fascinated me as a parent: every time Max received a new train that he had obsessed about, which he just had to have, he promptly took out the catalog to identify the next train that he could no longer live without. So once he acquired Thomas, Fearless Freddie had to be next, then Clarabel, followed by Duncan, Rusty, Diesel 10, and so on.

As parents, we naturally anticipated after each purchase that Max would finally consider his collection complete. But for Max, what was equally natural was to expect his train portfolio to continue to expand indefinitely, or at least until the enchantment ended. A big part of the thrill of building his collection in the first place was the possibility of its everlasting expansion and enhancement.

What Max's experience demonstrates is that there is no such thing as a perfectly and permanently satisfied customer. Put another way, customers by nature are insatiable and continuously yearn for things they don't yet possess. Their satisfaction frontier is always beyond their grasp.

Therefore, trying to enduringly satisfy your customers is dangerously misguided. Instead, you should strive to infatuate them—over and over again. Infatuation implies a very strong yet short-lived attraction, which captures the true essence of customer experience. Understanding its implications is critical for your ability to maintain ongoing relevance.

Let's dig a little deeper. Any successful and well-received offering first creates an infatuation interval in which customers are fixated on its novelty, seduced by its perceived benefits, and blinded to its potential shortcomings. However, such an interval is by definition fleeting. As the veil of infatuation wears off, customers will no longer feel privileged but instead fully entitled to receive the offering's benefits.

Their shift in attitude represents the transition to the entitlement period, in which customers will take notice of and express all the things that could make the offering even better for them. If you let your customers enter and then linger in the entitlement period without heeding their suggestions or demands, they will become increasingly critical and at some point turn away from your offering altogether.

To retain customer attention, companies have to continuously refresh the customer experience, introducing new dimensions at just the right time to keep the flame of infatuation burning.

Let me give an illustration. In the 2000s, airlines launched personal entertainment systems in economy class cabins on intercontinental flights. The system provided each passenger with a television screen and a hand-held remote along with access to dozens of movies, television shows, games, and musical selections. This was huge. It gave passengers control of how they would spend their time in the air. It instantaneously lifted the tedium of extended flying. Not surprisingly, the entertainment system caused a wave of excitement among passengers, who fully embraced its capabilities. But this elation did not last indefinitely. After a while, critical chatter — then outright complaints — started to creep in, becoming more and more frequent: "Why can't the system be used during the entire flight and not just at flying altitude? Why can't the movie selection be changed more frequently? Why aren't the earphones better?"

Consider the progression here. In the beginning, passengers welcomed the new offering with childlike gratitude and giddiness, finding themselves squarely at the start of the infatuation interval. But as the entertainment system's novelty began to wear off, they started to notice and voice its apparent shortcomings and how it should be made better. Finally, they transitioned to the entitlement period, in which they regarded the system as the status quo and demanded it be enhanced further.

To make use of the infatuation interval phenomenon, you first have to envelop your customers in an experience that evokes genuine elation. Second, look to create features that stretch your offering's infatuation interval to be as long as possible. Then generate a continuous stream of infatuation intervals, so that as soon as one is nearing its end, you launch enticing innovations that elicit a new one. The idea is to keep your customers in a perpetual cycle of infatuation, and to attract more and more new customers with each cycle.

For insights on what fresh features to introduce to create new infatuation intervals, collect and analyze customer feedback regularly and rigorously. For instance, you might collect feedback from early adopters who've already transitioned to the entitlement period. Or, more powerfully, you can anticipate latent desires that customers themselves are yet unable to express.

To understand the impact and progression of each interval, social media provides an unprecedented forum for the voluntary, unsolicited expression of customer sentiment, which can be captured and interpreted. We use an analytic tool we've developed called the Infatuation Interval Index (I-Cubed) to score how deeply, how broadly, and how long an offering infatuates its target audience. The index measures the intensity and fluctuation of positive sentiment that customers are articulating about an offering by aggregating related activity on forums like Facebook, YouTube, Pinterest, Twitter, Instagram, and Snapchat. This gives us an immediate, simple, and real-time measure of an offering's emotional pull on customers and indicates the optimal time to re-seduce them whenever the pull starts to weaken.

So consider that you shouldn't merely focus on providing your customers with a satisfying experience. Rather, you should aim to deliver them a string of experiences that keep them perpetually infatuated.

FROM THE SEPTEMBER 2016 ISSUE

THE ELEMENTS OF VALUE

ERIC ALMQUIST, JOHN SENIOR, AND NICOLAS BLOCH

When customers evaluate a product or service, they weigh its perceived value against the asking price. Marketers have generally focused much of their time and energy on managing the price side of that equation, since raising prices can immediately boost profits. But that's the easy part: Pricing usually consists of managing a relatively small set of numbers, and pricing analytics and tactics are highly evolved.

What consumers truly value, however, can be difficult to pin down and psychologically complicated. How can leadership teams actively manage value or devise ways to deliver more of it, whether functional (saving time, reducing cost) or emotional (reducing anxiety, providing entertainment)? Discrete choice analysis—which simulates demand for different combinations of product features, pricing, and other components—and similar research techniques are powerful and useful tools, but they are designed to test consumer reactions to preconceived concepts of value—the concepts that managers are accustomed to judging. Coming up with new concepts requires anticipating what else people might consider valuable.

The amount and nature of value in a particular product or service always lie in the eye of the beholder, of course. Yet universal building blocks of value do exist, creating opportunities for companies to improve their performance in current markets or break into new ones. A rigorous model of consumer value allows a company to come up with new combinations of value that its products and services could deliver. The right combinations, our analysis shows, pay off in stronger customer loyalty, greater consumer willingness to try a particular brand, and sustained revenue growth.

We have identified 30 "elements of value"—fundamental attributes in their most essential and discrete forms. These elements fall into four categories: functional, emotional, life changing, and social impact. Some elements are more inwardly focused, primarily addressing consumers' personal needs. For example, the life-changing element motivation is at the core of Fitbit's exercise-tracking products. Others are outwardly focused, helping customers interact in or navigate the external world. The functional element organizes is central to The Container Store and Intuit's TurboTax, because both help consumers deal with complexities in their world.

In our research we don't accept on its face a consumer's statement that a certain product attribute is important; instead we explore what underlies that statement. For example, when someone says her bank is "convenient," its value derives from some combination of the functional elements saves time, avoids hassle, simplifies, and reduces effort. And when the owner of a $10,000 Leica talks about the quality of the product and the pictures it takes, an underlying life-changing element is self-actualization, arising from the pride of owning a camera that famous photographers have used for a century.

Three decades of experience doing consumer research and observation for corporate clients led us to identify these 30 fundamental attributes, which we derived from scores of quantitative and qualitative customer studies. Many of the studies involved the well-known interviewing technique "laddering," which probes consumers' initial stated preferences to identify what's driving them.

Our model traces its conceptual roots to the psychologist Abraham Maslow's "hierarchy of needs," which was first published in 1943. Then a faculty member at Brooklyn College, Maslow argued that human actions arise from an innate desire to fulfill needs ranging from the very basic (security, warmth, food, rest) to the complex (self-esteem, altruism). Almost all marketers today are familiar with Maslow's hierarchy. The elements of value approach extends his insights by focusing on people as consumers—describing their behavior as it relates to products and services.

It may be useful to briefly compare Maslow's thinking with our model. Marketers have seen his hierarchy organized in a pyramid (although it was later interpreters, not Maslow himself, who expressed his theory that way). At the bottom of the pyramid are physiological and safety needs, and at the top are self-actualization and self-transcendence. The popular assumption has been that people cannot attain the needs at the top until they have met the ones below. Maslow himself took a more nuanced view, realizing that numerous patterns of fulfillment can exist. For example, rock climbers achieve self-actualization in unroped ascents of thousands of feet, ignoring basic safety considerations.

Similarly, the elements of value pyramid is a heuristic model—practical rather than theoretically perfect—in which the most powerful forms of value live at the top. To be able to deliver on those higher-order elements, a company must provide at least some of the functional elements required by a particular product category. But many combinations of elements exist in successful products and services today.

Most of these elements have been around for centuries and probably longer, although their manifestations have changed over time. Connects was first provided by couriers bearing messages on foot. Then came the Pony Express, the telegraph, the pneumatic post, the telephone, the internet, e-mail, Instagram, Twitter, and other social media sites.

The relevance of elements varies according to industry, culture, and demographics. For example, nostalgia or integrates may mean little to subsistence farmers in developing countries, whereas reduces risk and makes money are vital to them. Likewise, throughout history,self-actualization has been out of reach for most consumers, who were focused on survival (even if they found fulfillment through spiritual or worldly pursuits). But anything that saved time, reduced effort, or reduced cost was prized.

Growing Revenue

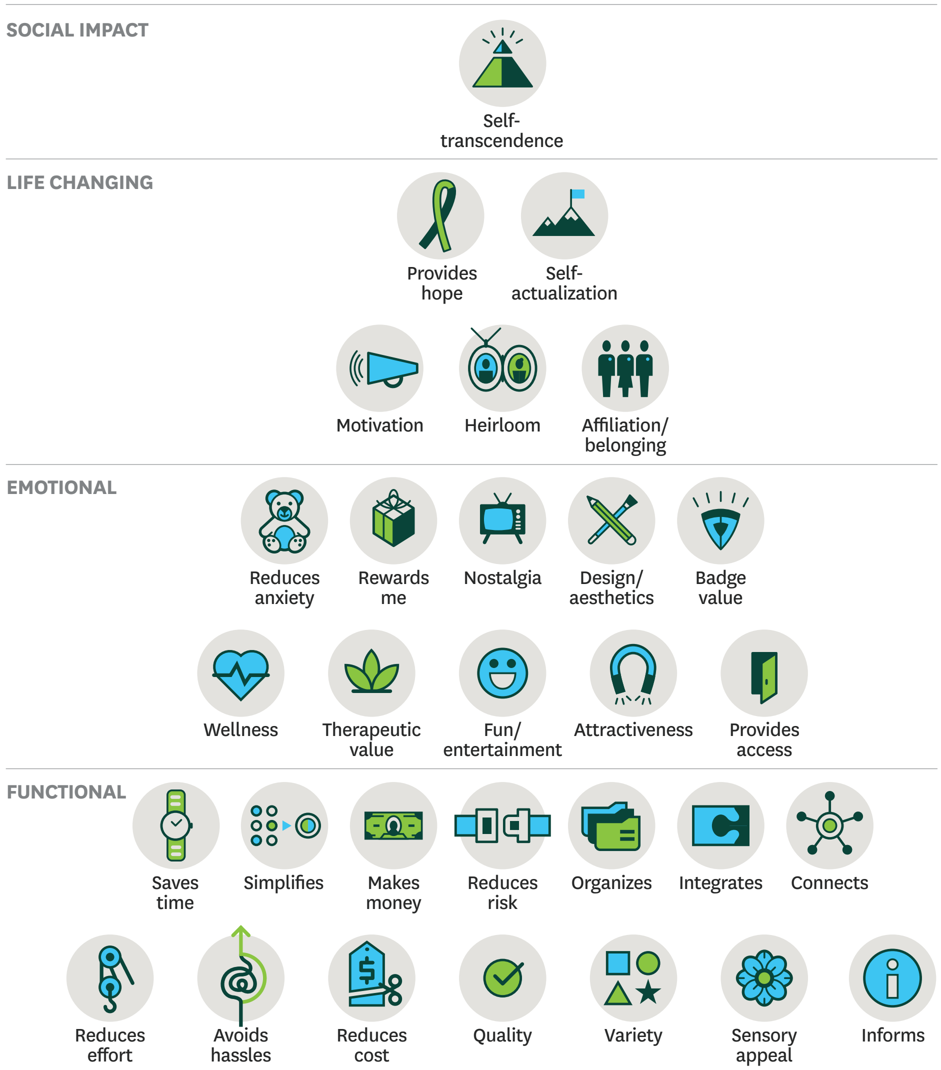
To test whether the elements of value can be tied to company performance—specifically, a company's customer relationships and revenue growth—we collaborated with Research Now (an online sampling and data collection company) to survey more than 10,000 U.S. consumers about their perceptions of nearly 50 U.S.-based companies. Each respondent scored one company—from which he or she had bought a product or service during the previous six months—on each element, using a 0–10 scale. When companies had major branded divisions such as insurance or banking, we conducted separate interviews focused on those divisions. We then looked at the relationships among these rankings, each company's Net Promoter Score (NPS)—a widely used metric for customer loyalty and advocacy—and the company's recent revenue growth.

Our first hypothesis was that the companies that performed well on multiple elements of value would have more loyal customers than the rest. The survey confirmed that. Companies with high scores (defined as an 8 or above) on four or more elements from at least 50% of respondents—such as Apple, Samsung, USAA, TOMS, and Amazon—had, on average, three times the NPS of companies with just one high score, and 20 times the NPS of companies with none. More is clearly better—although it's obviously unrealistic to try to inject all 30 elements into a product or a service. Even a consumer powerhouse like Apple, one of the best performers we studied, scored high on only 11 of the 30 elements. Companies must choose their elements strategically, as we will illustrate.

Our second hypothesis was that companies doing well on multiple elements would grow revenue at a faster rate than others. Strong performance on multiple elements does indeed correlate closely with higher and sustained revenue growth. Companies that scored high on four or more elements had recent revenue growth four times greater than that of companies with only one high score. The winning companies understand how they stack up against competitors and have methodically chosen new elements to deliver over time

The Elements of Value Pyramid

Products and services deliver fundamental elements of value that address four kinds of needs: functional, emotional, life changing, and social impact. In general, the more elements provided, the greater customers' loyalty and the higher the company's sustained revenue growth.



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(though most of them did not use our specific framework).

Next we explored whether the elements of value could shed light on the astonishing market share growth of pure-play digital retailers. This, too, was confirmed empirically. Amazon, for instance, achieved high scores on eight mostly functional elements, illustrating the power of adding value to a core offering. It has chosen product features that closely correspond to those in our model. For example, in creating Amazon Prime, in 2005, the company initially focused on delivering reduces cost and saves time by providing unlimited two-day shipping for a flat $79 annual fee. Then it expanded Prime to include streaming media (provides access and fun/entertainment), unlimited photo storage on Amazon servers (reduces risk), and other features. Each new element attracted a large group of consumers and helped raise Amazon's services far above commodity status. Prime has penetrated nearly 40% of the U.S. retail market, and Amazon has become a juggernaut of consumer value. That allowed the company to raise Prime's annual fee to $99 in 2015—a large price increase by any standard.

Patterns of Value

To help companies think about managing the value side of the equation more directly, we wanted to understand how the elements translate to successful business performance. Are some of them more important than others? Do companies have to compete at or near the top of the pyramid to be successful? Or can they succeed by excelling on functional elements alone? What value do consumers see in digital versus omnichannel companies? We used our data to identify three patterns of value creation.

Some elements do matter more than others.

Across all the industries we studied, perceived quality affects customer advocacy more than any other element. Products and services must attain a certain minimum level, and no other elements can make up for a significant shortfall on this one.

After quality, the critical elements depend on the industry. In food and beverages, sensory appeal, not surprisingly, runs a close second. In consumer banking, provides access and heirloom (a good investment for future generations) are the elements that matter; in fact, heirloom is crucial in financial services generally, because of the connection between money and inheritance. The broad appeal of smartphones stems from how they deliver multiple elements, including reduces effort, saves time, connects, integrates, variety, fun/entertainment, provides access, and organizes. Manufacturers of these products—Apple, Samsung, and LG—got some of the highest value ratings across all companies studied.

Consumers perceive digital firms as offering more value.

Well-designed online businesses make many consumer interactions easier and more convenient. Mainly digital companies thus excel on saves time and avoids hassles. Zappos, for example, scored twice as high as traditional apparel competitors did on those two elements and several others. Overall, it achieved high scores on eight elements—way ahead of traditional retailers. Netflix outperformed traditional TV service providers with scores three times as high on reduces cost, therapeutic value, and nostalgia. Netflix also scored higher than other media providers on variety, illustrating how effectively it has persuaded customers, without any objective evidence, that it offers more titles.

Brick-and-mortar businesses can still win on certain elements.

Omnichannel retailers win on some emotional and life-changing elements. For example, they are twice as likely as online-only retailers to score high on badge value, attractiveness, and affiliation and belonging. Consumers who get help from employees in stores give much higher ratings to those retailers; indeed, emotional elements have probably helped some store-based retailers stay in business.

Moreover, companies that score high on emotional elements tend to have a higher NPS, on average, than companies that spike only on functional elements. This finding is consistent with previous Bain analysis showing that digital technologies have been transforming physical businesses rather than annihilating them. The fusion of digital and physical channels is proving more powerful than either one alone. That accounts in part for why E*TRADE has invested in physical branches and why retailers such as Warby Parker and Bonobos have launched physical stores. (See "Digital-Physical Mashups," by Darrell K. Rigby, HBR, September 2014.) These patterns demonstrate that there are many ways to succeed by delivering various kinds of value. Amazon expanded functional excellence in a mass market. Apple excels on 11 elements in the pyramid, several of them high up, which allows the company to charge premium prices. TOMS excels on four elements, and one of them is self-transcendence,because the company gives away one pair of shoes to needy people for every pair bought by a customer. This appeals to a select group of people who care about charitable giving.

Putting the Elements to Work

APPAREL RETAIL QUALITY VARIETY AVOIDS HASSLES DESIGN/AESTHETICS SAVES TIME	TV SERVICE PROVIDERS QUALITY VARIETY REDUCES COST DESIGN/AESTHETICS FUN/ENTERTAINMENT
DISCOUNT RETAIL QUALITY VARIETY REDUCES COST SAVES TIME REWARDS ME	CONSUMER BANKING QUALITY PROVIDES ACCESS HEIRLOOM AVOIDS HASSLES REDUCES ANXIETY
GROCERY QUALITY VARIETY SENSORY APPEAL REDUCES COST REWARDS ME	BROKERAGE QUALITY MAKES MONEY HEIRLOOM VARIETY PROVIDES ACCESS
FOOD AND BEVERAGES QUALITY SENSORY APPEAL VARIETY DESIGN/AESTHETICS THERAPEUTIC VALUE	AUTO INSURANCE QUALITY REDUCES ANXIETY REDUCES COST PROVIDES ACCESS VARIETY
SMARTPHONES QUALITY REDUCES EFFORT VARIETY ORGANIZES CONNECTS	CREDIT CARDS QUALITY REWARDS ME HEIRLOOM AVOIDS HASSLES PROVIDES ACCESS

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These patterns are intriguing in their own right, and they illuminate how some companies have chosen to navigate upheaval in their industries. Ultimately, however, the elements must prove their usefulness in solving business challenges, particularly growing revenue. Companies can improve on the elements that form their core value, which will help set them apart from the competition and meet their customers' needs better. They can also judiciously add elements to expand their value proposition without overhauling their products or services.

Companies have begun to use our method in several practical ways, instilling a "hunt for value" mentality in their employees. Although many successful entrepreneurs have instinctively found ways to deliver value as part of their innovation process, that becomes harder as companies grow. The leaders of most large organizations spend less time with customers, and innovation often slows. The elements can help them identify new value once again.

Some companies have refined their product designs to deliver more elements. Vanguard, for instance, added a low-fee, partly automated advice platform to its core investment services in order to keep its clients better informed and, in many cases, to reduce risk. A chainsaw manufacturer that felt undifferentiated used the elements of value to identify specific ways of making future products distinctive. It focused on quality (defined as the results of using its products), saves time, and reduces cost. These three elements had the greatest effect on customer satisfaction and loyalty, and the company was able to build competitive advantage with them.

Other companies have used the elements to identify where customers perceive strengths and weaknesses. They start by understanding which elements are the most important for their industry and how they stack up on those relative to competitors. If a company trails in the crucial elements, it should improve on them before attempting to add new ones. A large consumer bank found that although it fared relatively well on avoids hassles and saves time, it did not score well on quality. The bank did extensive research into why its quality ratings were low and launched initiatives to strengthen anti-fraud operations and enhance the mobile app experience.

The broadest commercial potential of the elements of value model currently lies in developing new types of value to provide. Additions make the most sense when the organization can deliver them while using its current capabilities and making a reasonable investment, and when the elements align with the company's brand.

Sometimes selecting an additional element is fairly straightforward: Acronis and other software providers added cloud backup and storage services to reinforce their brand promise of reduces risk for computer users. Another key element in cloud backup is provides access, because users can reach their files from any computer, tablet, or smartphone connected to the internet.

It's not always so obvious which elements to add, however. One financial services company recognized that if it could attract more consumers to its retail banking business, it might be able to cross-sell insurance, investment advice, and other products. But how could it do that? The company arrived at the best answer through three largely qualitative research stages followed by a fourth, highly quantitative stage.

Structured listening.

Working with Bain, the company interviewed current and prospective customers across the United States, individually and in groups. The goal was to understand consumers' priorities for a checking account, their frustrations, their compromises, and their reasons for using multiple institutions for banking services.

"Ideation" sessions.

We then used the elements to explore where improvements in value might resonate with consumers. Bain's survey data had identified the elements that tend to reinforce customer advocacy in consumer banking, among them provides access, heirloom, and reduces anxiety. Those insights, combined with the consumer research, informed ideation sessions with a project team consisting of people from all customer-touching departments across the bank, not just marketers.

The sessions explored which elements might be used to form the nucleus of a new offering. For example, provides access and connects held appeal, because the bank might be able to provide access to mutual funds or connect consumers with financial planners. In the end, however, the team decided that neither element was feasible in this business, primarily for reasons of cost. Instead it developed 12 checking-account concepts that were built around reduces cost, makes money, and reduces anxiety. Reduces cost highlighted low fees, while reduces anxiety emphasized automatic savings. Reduces anxiety was particularly important, because most of the targeted consumers were living paycheck to paycheck and struggling to save money.

Customer-centric design of prototype concepts.

Each concept approved by the project team contained a different mix of product features, fees, and levels of customer service. Many of these new concepts could be delivered through an improved smartphone app that would increase customer engagement with the bank. Almost all the targeted consumers used smartphones for financial services (consistent with our earlier observations on the many elements of value delivered by these devices).

The financial services company then conducted further one-on-one interviews with consumers and got fast feedback that allowed it to winnow the 12 prototypes down to four concepts for enhanced value. Then, on the basis of the feedback, it refined them in the fourth, quantitative stage:

Rigorous choice modeling.

Having designed the four prototypes, the project team tested them with thousands of customers using discrete choice analysis, which requires people to make a sequence of explicit choices when presented with a series of product options. The researchers began by amassing a detailed list of the attributes for each prototype—ATM fees, overdraft fees, credit monitoring, customer service hours, and so on. They presented respondents with several sets of checking accounts that varied on these attributes, asking them to select which prototype from each set they preferred. This process was repeated several times, as attributes changed according to an experimental design, until the team derived the winning combination of attributes.

Two clear finalists emerged, which the bank recently launched in the marketplace. It will use customer demographics and the increase in demand to gauge the eventual winner.

Getting Started

The elements of value work best when a company's leaders recognize them as a growth opportunity and make value a priority. It should be at least as important as cost management, pricing, and customer loyalty. Companies can establish a discipline around improving value in some key areas:

New-product development.

Our model can stimulate ideas for new products and for elements to add to existing products. Managers might ask, for example: Can we connect in a new way with consumers? Can our customers benefit from integration with other software applications? Can we add therapeutic value to our service?

Pricing.

Managers commonly view pricing as one of the most important levers in demand management, because when demand is constant, higher prices accrue directly to profits. But higher prices also change the consumer value equation, so any discussion about raising prices should consider the addition of value elements. Recall how Amazon's judicious increases in value helped justify higher prices over time.

Customer segmentation.

Most companies have a formal method of segmenting their customers into demographic or behavioral groups, which presents an opportunity to analyze what each of these groups values and then develop products and services that deliver those elements.

Whenever an occasion to improve value presents itself, managers should start with a survey of current customers and likely prospects to learn where the company stands on the elements it is (or is not) delivering. The survey should cover both product and brand, because examinations of the two may yield different insights. For example, the product itself may deliver lots of value, whereas customers have difficulty getting service or technical support.

The elements of value have an organizational dimension as well: Someone in the company should be tapped to explicitly think about, manage, and monitor value. One pay-TV executive, lamenting the success of Netflix, told us, "I have a lot of people working on product features and service improvements, but I don't have anyone really thinking about consumer value elements in a holistic manner."

The concept of value remains rooted in psychology, but the elements of value can make it much less amorphous and mysterious. Abraham Maslow emphasized the bold, confident, positive potential of psychology. The elements can help managers creatively add value to their brands, products, and services and thereby gain an edge with consumers—the true arbiters of value.

KNOW YOUR CUSTOMERS' "JOBS TO BE DONE"

CLAYTON M. CHRISTENSEN, TADDY HALL, KAREN DILLON, AND DAVID S. DUNCAN

For as long as we can remember, innovation has been a top priority—and a top frustration—for leaders. In a recent McKinsey poll, 84% of global executives reported that innovation was extremely important to their growth strategies, but a staggering 94% were dissatisfied with their organizations' innovation performance. Most people would agree that the vast majority of innovations fall far short of ambitions.

On paper, this makes no sense. Never have businesses known more about their customers. Thanks to the big data revolution, companies now can collect an enormous variety and volume of customer information, at unprecedented speed, and perform sophisticated analyses of it. Many firms have established structured, disciplined innovation processes and brought in highly skilled talent to run them. Most firms carefully calculate and mitigate innovations' risks. From the outside, it looks as if companies have mastered a precise, scientific process. But for most of them, innovation is still painfully hit-or-miss.

What has gone so wrong?

The fundamental problem is, most of the masses of customer data companies create is structured to show correlations: This customer looks like that one, or 68% of customers say they prefer version A to version B. While it's exciting to find patterns in the numbers, they don't mean that one thing actually caused another. And though it's no surprise that correlation isn't causality, we suspect that most managers have grown comfortable basing decisions on correlations.

Why is this misguided? Consider the case of one of this article's coauthors, Clayton Christensen. He's 64 years old. He's six feet eight inches tall. His shoe size is 16. He and his wife have sent all their children off to college. He drives a Honda minivan to work. He has a lot of characteristics, but none of them has caused him to go out and buy the New York Times. His reasons for buying the paper are much more specific. He might buy it because he needs something to read on a plane or because he's a basketball fan and it's March Madness time. Marketers who collect demographic or psychographic information about him—and look for correlations with other buyer segments—are not going to capture those reasons.

After decades of watching great companies fail, we've come to the conclusion that the focus on correlation—and on knowing more and more about customers—is taking firms in the wrong direction. What they really need to home in on is the progress that the customer is trying to make in a given circumstance—what the customer hopes to accomplish. This is what we've come to call the job to be done.

We all have many jobs to be done in our lives. Some are little (pass the time while waiting in line); some are big (find a more fulfilling career). Some surface unpredictably (dress for an out-of-town business meeting after the airline lost my suitcase); some regularly (pack a healthful lunch for my daughter to take to school). When we buy a product, we essentially "hire" it to help us do a job. If it does the job well, the next time we're confronted with the same job, we tend to hire that product again. And if it does a crummy job, we "fire" it and look for an alternative. (We're using the word "product" here as shorthand for any solution that companies can sell; of course, the full set of "candidates" we consider hiring can often go well beyond just offerings from companies.)

This insight emerged over the past two decades in a course taught by Clay at Harvard Business School. (See "Marketing Malpractice," HBR, December 2005.) The theory of jobs to be done was developed in part as a complement to the theory of disruptive innovation—which at its core is about competitive responses to innovation: It explains and predicts the behavior of companies in danger of being disrupted and helps them understand which new entrants pose the greatest threats.

But disruption theory doesn't tell you how to create products and services that customers want to buy. Jobs-to-be-done theory does. It transforms our understanding of customer choice in a way that no amount of data ever could, because it gets at the causal driver behind a purchase.

The Business of Moving Lives

A decade ago, Bob Moesta, an innovation consultant and a friend of ours, was charged with helping bolster sales of new condominiums for a Detroit-area building company. The company had targeted downsizers—retirees looking to move out of the family home and divorced single parents. Its units were priced to appeal to that segment—$120,000 to $200,000—with high-end touches to give a sense of luxury. "Squeakless" floors. Triple-waterproof basements. Granite counters and stainless steel appliances. A well-staffed sales team was available six days a week for any prospective buyer who walked in the door. A generous marketing campaign splashed ads across the relevant Sunday real estate sections.

The units got lots of traffic, but few visits ended up converting to sales. Maybe bay windows would be better? Focus group participants thought that sounded good. So the architect scrambled to add bay windows (and any other details that the focus group suggested) to a few showcase units. Still sales did not improve.

Although the company had done a cost-benefit analysis of all the details in each unit, it actually had very little idea what made the difference between a tire kicker and a serious buyer. It was easy to speculate about reasons for poor sales: bad weather, underperforming salespeople, the looming recession, holiday slowdowns, the condos' location. But instead of examining those factors, Moesta took an unusual approach: He set out to learn from the people who had bought units what job they were hiring the condominiums to do. "I asked people to draw a timeline of how they got here," he recalls. The first thing he learned, piecing together patterns in scores of interviews, was what did not explain who was most likely to buy. There wasn't a clear demographic or psychographic profile of the new-home buyers, even though all were downsizers. Nor was there a definitive set of features that buyers valued so much that it tipped their decisions.

But the conversations revealed an unusual clue: the dining room table. Prospective customers repeatedly told the company they wanted a big living room, a large second bedroom for visitors, and a breakfast bar to make entertaining easy and casual; on the other hand, they didn't need a formal dining room. And yet, in Moesta's conversations with actual buyers, the dining room table came up repeatedly. "People kept saying, 'As soon as I figured out what to do with my dining room table, then I was free to move,'" reports Moesta. He and his colleagues couldn't understand why the dining room table was such a big deal. In most cases people were referring to well-used, out-of-date furniture that might best be given to charity—or relegated to the local dump.

But as Moesta sat at his own dining room table with his family over Christmas, he suddenly understood. Every birthday was spent around that table. Every holiday. Homework was spread out on it. The table represented family.

What was stopping buyers from making the decision to move, he hypothesized, was not a feature that the construction company had failed to offer but rather the anxiety that came with giving up something that had profound meaning. The decision to buy a six-figure condo, it turned out, often hinged on a family member's willingness to take custody of a clunky piece of used furniture.

That realization helped Moesta and his team begin to grasp the struggle potential home buyers faced. "I went in thinking we were in the business of new-home construction," he recalls. "But I realized we were in the business of moving lives."

With this understanding of the job to be done, dozens of small but important changes were made to the offering. For example, the architect managed to create space in the units for a dining room table by reducing the size of the second bedroom. The company also focused on easing the anxiety of the move itself: It provided moving services, two years' worth of storage, and a sorting room within the condo development where new owners could take their time making decisions about what to discard.

The insight into the job the customers needed done allowed the company to differentiate its offering in ways competitors weren't likely to copy—or even comprehend. The new perspective changed everything. The company actually raised prices by $3,500, which included (profitably) covering the cost of moving and storage. By 2007, when industry sales were off by 49% and the market was plummeting, the developers had actually grown business by 25%.

Getting a Handle on the Job to Be Done

Successful innovations help consumers to solve problems—to make the progress they need to, while addressing any anxieties or inertia that might be holding them back. But we need to be clear: "Job to be done" is not an all-purpose catchphrase. Jobs are complex and multifaceted; they require precise definition. Here are some principles to keep in mind:

"Job" is shorthand for what an individual really seeks to accomplish in a given circumstance.

But this goal usually involves more than just a straightforward task; consider the experience a person is trying to create. What the condo buyers sought was to transition into a new life, in the specific circumstance of downsizing—which is completely different from the circumstance of buying a first home.

The *circumstances* are more important than customer characteristics, product attributes, new technologies, or trends.

Before they understood the underlying job, the developers focused on trying to make the condo units ideal. But when they saw innovation through the lens of the customers' circumstances, the competitive playing field looked totally different. For example, the new condos were competing not against other new condos but against the idea of no move at all.

Good innovations solve problems that formerly had only inadequate solutions—or no solution.

Prospective condo buyers were looking for simpler lives without the hassles of home ownership. But to get that, they thought, they had to endure the stress of selling their current homes, wading through exhausting choices about what to keep. Or they could stay where they were, even though that solution would become increasingly imperfect as they aged. It was only when given a third option that addressed all the relevant criteria that shoppers became buyers.

Jobs are never simply about function—they have powerful social and emotional dimensions.

Creating space in the condo for a dining room table reduced a very real anxiety that prospective buyers had. They could take the table with them if they couldn't find a home for it. And having two years' worth of storage and a sorting room on the premises gave condo buyers permission to work slowly through the emotions involved in deciding what to keep and what to discard. Reducing their stress made a catalytic difference.

These principles are described here in a business-to-consumer context, but jobs are just as important in B2B settings. For an example, see the sidebar "Doing Jobs for B2B Customers."

Designing Offerings Around Jobs

A deep understanding of a job allows you to innovate without guessing what trade-offs your customers are willing to make. It's a kind of job spec.

Of the more than 20,000 new products evaluated in Nielsen's 2012–2016 Breakthrough Innovation report, only 92 had sales of more than $50 million in year one and sustained sales in year two, excluding close-in line extensions. (Coauthor Taddy Hall is the lead author of Nielsen's report.) On the surface the list of hits might seem random—International Delight Iced Coffee, Hershey's Reese's Minis, and Tidy Cats LightWeight, to name just a few—but they have one thing in common. According to Nielsen, every one of them nailed a poorly performed and very specific job to be done.

International Delight Iced Coffee let people enjoy in their homes the taste of coffeehouse iced drinks they'd come to love. And thanks to Tidy Cats LightWeight litter, millions of cat owners no longer had to struggle with getting heavy, bulky boxes off store shelves, into car trunks, and up the stairs into their homes.

How did Hershey's achieve a breakout success with what might seem to be just another version of the decades-old peanut butter cup? Its researchers began by exploring the circumstances in which Reese's enthusiasts were "firing" the current product formats. They discovered an array of situations—driving the car, standing in a crowded subway, playing a video game—in which the original large format was too big and messy, while the smaller, individually wrapped cups were a hassle (opening them required two hands). In addition, the accumulation of the cups' foil wrappers created a guilt-inducing tally of consumption: I had that many? When the company focused on the job that smaller versions of Reese's were being hired to do, it created Reese's Minis. They have no foil wrapping to leave a telltale trail, and they come in a resealable flat-bottom bag that a consumer can easily dip a single hand into. The results were astounding: $235 million in the first two years' sales and the birth of a breakthrough category extension.

Creating customer experiences.

Identifying and understanding the job to be done are only the first steps in creating products that customers want—especially ones they will pay premium prices for. It's also essential to create the right set of experiences for the purchase and use of the product and then integrate those experiences into a company's processes.

When a company does that, it's hard for competitors to catch up. Take American Girl dolls. If you don't have a preteen girl in your life, you may not understand how anyone could pay more than a hundred dollars for a doll and shell out hundreds more for clothing, books, and accessories. Yet to date the business has sold 29 million dolls, and it racks up more than $500 million in sales annually.

What's so special about American Girls? Well, it's not the dolls themselves. They come in a variety of styles and ethnicities and are lovely, sturdy dolls. They're nice, but they aren't amazing. Yet for nearly 30 years they have dominated their market. When you see a product or service that no one has successfully copied, the product itself is rarely the source of the long-term competitive advantage.

American Girl has prevailed for so long because it's not really selling dolls: It's selling an experience. Individual dolls represent different times and places in U.S. history and come with books that relate each doll's backstory. For girls, the dolls provide a rich opportunity to engage their imaginations, connect with friends who also own the dolls, and create unforgettable memories with their mothers and grandmothers. For parents—the buyers—the dolls help engage their daughters in a conversation about the generations of women that came before them—about their struggles, their strength, their values and traditions.

American Girl founder Pleasant Rowland came up with the idea when shopping for Christmas presents for her nieces. She didn't want to give them hypersexualized Barbies or goofy Cabbage Patch Kids aimed at younger children. The dolls—and their worlds—reflect Rowland's nuanced understanding of the job preteen girls hire the dolls to do: help articulate their feelings and validate who they are—their identity, their sense of self, and their cultural and racial background—and make them feel they can surmount the challenges in their lives.

There are dozens of American Girl dolls representing a broad cross section of profiles. Kaya, for example, is a young girl from a Northwest Native American tribe in the late 18th century. Her backstory tells of her leadership, compassion, courage, and loyalty. There's Kirsten Larson, a Swedish immigrant who settles in the Minnesota territory and faces hardships and challenges but triumphs in the end. And so on. A significant part of the allure is the well-written, historically accurate books about each character's life.

Rowland and her team thought through every aspect of the experience required to perform the job. The dolls were never sold in traditional toy stores. They were available only through mail order or at American Girl stores, which were initially located in just a few major metropolitan areas. The stores have doll hospitals that can repair tangled hair or fix broken parts. Some have restaurants in which parents, children, and their dolls can enjoy a kid-friendly menu—or where parents can host birthday parties. A trip to the American Girl store has become a special day out, making the dolls a catalyst for family experiences that will be remembered forever.

No detail was too small to consider. Take the sturdy red-and-pink boxes the dolls come in. Rowland remembers the debate over whether to wrap them with narrow cardboard strips, known as "belly bands." Because the bands each added 2 cents and 27 seconds to the packaging process, the designers suggested skipping them. Rowland says she rejected the idea out of hand: "I said, 'You're not getting it. What has to happen to make this special to the child? I don't want her to see some shrink-wrapped thing coming out of the box. The fact that she has to wait just a split second to get the band off and open the tissue under the lid makes it exciting to open the box. It's not the same as walking down the aisle in the toy store and picking a Barbie off the shelf.'"

In recent years Toys "R" Us, Walmart, and even Disney have all tried to challenge American Girl's success with similar dolls—at a small fraction of the price. Though American Girl, which was acquired by Mattel, has experienced some sales declines in the past two years, to date no competitor has managed to make a dent in its market dominance. Why? Rowland thinks that competitors saw themselves in the "doll business," whereas she never lost sight of why the dolls were cherished: the experiences and stories and connections that they enable.

Aligning processes.

The final piece of the puzzle is processes—how the company integrates across functions to support the job to be done. Processes are often hard to see, but they matter profoundly. As MIT's Edgar Schein has discussed, processes are a critical part of an organization's unspoken culture. They tell people inside the company, "This is what matters most to us." Focusing processes on the job to be done provides clear guidance to everyone on the team. It's a simple but powerful way of making sure a company doesn't unintentionally abandon the insights that brought it success in the first place.

A good case in point is Southern New Hampshire University, which has been lauded by U.S. News & World Report (and other publications) as one of the most innovative colleges in America. After enjoying a 34% compounded annual growth rate for six years, SNHU was closing in on $535 million in annual revenues at the end of fiscal 2016.

Like many similar academic institutions, SNHU once struggled to find a way to distinguish itself and survive. The university's longtime bread-and-butter strategy had relied on appealing to a traditional student body: 18-year-olds, fresh out of high school, continuing their education. Marketing and outreach were generic, targeting everyone, and so were the policies and delivery models that served the school.

SNHU had an online "distance learning" academic program that was "a sleepy operation on a nondescript corner of the main campus," as president Paul LeBlanc describes it. Yet it had attracted a steady stream of students who wanted to resume an aborted run at a college education. Though the online program was a decade old, it was treated as a side project, and the university put almost no resources into it.

On paper, both traditional and online students might look similar. A 35-year-old and an 18-year-old working toward an accounting degree need the same courses, right? But LeBlanc and his team saw that the job the online students were hiring SNHU to do had almost nothing in common with the job that "coming of age" undergraduates hired the school to do. On average, online students are 30 years old, juggling work and family, and trying to squeeze in an education. Often they still carry debt from an earlier college experience. They're not looking for social activities or a campus scene. They need higher education to provide just four things: convenience, customer service, credentials, and speedy completion times. That, the team realized, presented an enormous opportunity.

SNHU's online program was in competition not with local colleges but with other national online programs, including those offered by both traditional colleges and for-profit schools like the University of Phoenix and ITT Technical Institute. Even more significantly, SNHU was competing with nothing. Nonconsumption. Suddenly, the market that had seemed finite and hardly worth fighting for became one with massive untapped potential.

But very few of SNHU's existing policies, structures, and processes were set up to support the actual job that online students needed done. What had to change? "Pretty much everything," LeBlanc recalls. Instead of treating online learning as a second-class citizen, he and his team made it their focus. During a session with about 20 faculty members and administrators, they charted the entire admissions process on a whiteboard. "It looked like a schematic from a nuclear submarine!" he says. The team members circled all the hurdles that SNHU was throwing up—or not helping people overcome—in that process. And then, one by one, they eliminated those hurdles and replaced them with experiences that would satisfy the job that online students needed to get done. Dozens of decisions came out of this new focus.

Here are some key questions the team worked through as it redesigned SNHU's processes:

What experiences will help customers make the progress they're seeking in a given circumstance?

For older students, information about financial aid is critical; they need to find out if continuing their education is even possible, and time is of the essence. Often they're researching options late at night, after a long day, when the kids have finally gone to sleep. So responding to a prospective student's inquiry with a generic e-mail 24 hours later would often miss the window of opportunity. Understanding the context, SNHU set an internal goal of a follow-up phone call within eight and a half minutes. The swift personal response makes prospective students much more likely to choose SNHU.

What obstacles must be removed?

Decisions about a prospect's financial aid package and how much previous college courses would count toward an SNHU degree were resolved within days instead of weeks or months.

What are the social, emotional, and functional dimensions of the job?

Ads for the online program were completely reoriented toward later-life learners. They attempted to resonate not just with the functional dimensions of the job, such as getting the training needed to advance in a career, but also with the emotional and social ones, such as the pride people feel in earning their degrees. One ad featured an SNHU bus roaming the country handing out large framed diplomas to online students who couldn't be on campus for graduation. "Who did you get this degree for?" the voice-over asks, as the commercial captures glowing graduates in their homes. "I got it for me," one woman says, hugging her diploma. "I did this for my mom," beams a 30-something man. "I did it for you, bud," one father says, holding back tears as his young son chirps, "Congratulations, Daddy!"

But perhaps most important, SNHU realized that enrolling prospects in their first class was only the beginning of doing the job. The school sets up each new online student with a personal adviser, who stays in constant contact—and notices red flags even before the students might. This support is far more critical to continuing education students than traditional ones, because so many obstacles in their everyday lives conspire against them. Haven't checked out this week's assignment by Wednesday or Thursday? Your adviser will touch base with you. The unit test went badly? You can count on a call from your adviser to see not only what's going on with the class but what's going on in your life. Your laptop is causing you problems? An adviser might just send you a new one. This unusual level of assistance is a key reason that SNHU's online programs have extremely high Net Promoter Scores (9.6 out of 10) and a graduation rate—about 50%—topping that of virtually every community college (and far above that of costlier, for-profit rivals, which have come under fire for low graduation rates).

SNHU has been open with would-be competitors, offering tours and visits to executives from other educational institutions. But the experiences and processes the university has created for online students would be difficult to copy. SNHU did not invent all its tactics. But what it has done, with laser focus, is ensure that its hundreds and hundreds of processes are tailored to the job students are hiring the school for.

Many organizations have unwittingly designed innovation processes that produce inconsistent and disappointing outcomes. They spend time and money compiling data-rich models that make them masters of description but failures at prediction. But firms don't have to continue down that path. Innovation can be far more predictable—and far more profitable—if you start by identifying jobs that customers are struggling to get done. Without that lens, you're doomed to hit-or-miss innovation. With it, you can leave relying on luck to your competitors.

FROM THE SEPTEMBER 2016 ISSUE

BUILDING AN INSIGHTS ENGINE

FRANK VAN DEN DRIEST, STAN STHANUNATHAN, AND KEITH WEED

Operational skill used to confer long-term advantage. If you had leaner manufacturing, made higher-quality products, or had superior distribution, you could outrun competitors. But today those capabilities are table stakes. The new source of competitive advantage is customer centricity: deeply understanding your customers' needs and fulfilling them better than anyone else.

You need data to accomplish this. Yet having troves of data is of little value in and of itself. What increasingly separates the winners from the losers is the ability to transform data into insights about consumers' motivations and to turn those insights into strategy. This alchemy requires innovative organizational capabilities that, collectively, we call the "insights engine."

The vital role of the insights engine was revealed in a global market-research study led last year by the strategy consultancy Kantar Vermeer. The study, called Insights2020 (i2020), involved interviews and surveys of more than 10,000 business practitioners worldwide. Of the factors that were found to drive customer-centric growth, none mattered more than a firm's insights engine, embodied in its insights and analytics function. (While these go by many names—including "I&A," "consumer and market insights," and "customer intelligence"—for simplicity we refer to them as insights functions here.)

In this article we describe the elements of the insights engine and show how it works at consumer goods giant Unilever. The firm's 400-plus brands, which include Dove, Knorr, and Axe, generated $60 billion in revenue in 2015, propelling underlying sales growth of 4.1% for the year. Performance at that level requires the full engagement of the company's 169,000 employees, who span functions from supply chain and R&D to marketing and finance. But as we'll show, it's the insights engine, manifested in the firm's Consumer and Market Insights (CMI) group, that underpins Unilever's customer-centric strategy.

A New Strategy

When Unilever released its first-quarter results in April 2016, CFO Graeme Pitkethly, addressing analysts, announced a major new initiative to shift resources to local markets around the world. He noted that consumers are increasingly seeking brands and products that align with their cultural identity and lifestyle. The result is that local firms, particularly in emerging markets, are growing fast and strengthening their competitive positions. The new program, he explained, would clarify accountability and make Unilever's marketing teams more agile both globally and locally.

Country business heads had recognized the rising popularity of local brands, and the implications were being discussed separately at many levels across the firm. A presentation to the operating board by CMI's head, coauthor Stan Sthanunathan, drew on this intelligence and on CMI's own review of what was happening. Sthanunathan walked the board members through an analysis of why local brands were growing, what threat this posed, and how Unilever could compete. The presentation focused attention, catalyzed the conversation about strategy, and ultimately led to changes in both organization and mindset.

Unilever's new initiative showcases the type of high-level advisory role that leading insights functions are increasingly taking. A decade ago, this sort of strategic involvement by a customer intelligence operation was almost unheard of. The market research department typically was a reactive service unit reporting to the marketing function, fielding marketing requests, and producing performance management reports. Over time, however, market research departments have been shifting from merely supplying data to interpreting it—distilling insights about consumers' motivations and needs on the basis of their behavior.

Driven by the imperative to become customer-centric, leading firms are now completing the transformation of market research groups into true insights engines with a fundamentally strategic role. At Unilever, CMI's prominently communicated mission is "to inspire and provoke to enable transformational action." Note that the word "insight" is missing—intentionally. That's because insights merely provide a means to the desired end: action that drives business growth.

In the text that follows, we describe 10 characteristics of superior insights engines, gleaned from the i2020 research and our experience at Unilever. We divide these into two broad groups: operational characteristics, such as functional independence and experimental orientation, and people characteristics, such as business acumen and well-balanced analytic and creative thinking styles.

Operational Characteristics

Seven of the key characteristics relate to the way insights engines operate.

Data synthesis

Until recently, large firms had an advantage over smaller rivals simply because of the scale of their market research capability. Today research that once took months and cost millions can be done for a fraction of that price and in mere days. What matters now is not so much the quantity of data a firm can amass but its ability to connect the dots and extract value from the information. This capability differentiates successful organizations from less successful ones: According to the i2020 research, 67% of the executives at overperforming firms (those that outpaced competitors in revenue growth) said that their company was skilled at linking disparate data sources, whereas only 34% of the executives at underperformers made the same claim.

This proficiency in using data is evident in high-performing firms across industries, including pharmaceuticals, financial services, hospitality, and consumer packaged goods. And to improve, many firms are creating dedicated data groups, under senior executive leadership, to consolidate, manage, and analyze data and distribute it throughout the organization. At Unilever, CMI has taken on this role.

For any insights group that serves as a data aggregator, interpreter, and disseminator, the first challenge is to integrate massive and disparate sets of both structured and unstructured data from such sources as product sales figures, spending on media, call-center records, and social media monitoring. This may amount to tens of millions of pieces of data. The data sets are customarily owned by different teams—sales data by sales, media spending by marketing, customer interactions by customer service, and so on.

Working closely with IT, CMI implemented a global marketing-information system, accessible to all marketers throughout the company, that integrates data and presents it in consistent formats. This ensures that all users, wherever they reside in the firm, see the same information in the same way—what CMI calls "one version of the truth." Thus if marketing and finance are both looking at first-quarter shares of Dove soaps in any market segment, they're viewing the same numbers and units, derived using the same methodology and displayed in the same manner. Likewise, they see precisely the same picture when they look at data across brands, retailers, or regions.

Unilever's global marketing-information system has dramatically reduced the debates about data definitions, methodology, and interpretation that led to competing (and sometimes wrong) conclusions. It has also freed CMI from much of the resource-intensive reporting work that mires many firms' insights groups, allowing it to shift its focus from simply providing data to delivering insights and recommendations for action.

Consider CMI's role in Unilever's campaign to improve consumers' heart health. The firm was selling cholesterol-lowering spreads and drinks, but the hurdle was getting consumers to consistently use them. CMI's research generated quantities of data about consumption patterns. The initial insight was that for behavioral change to stick, people had to use the products for at least three weeks. The further insight was that the best way to get that long-term commitment was through peer pressure—engaging a group to work together. That insight then powered the marketing team to create a program called It Takes a Village, which challenges the people of an entire town to lower their cholesterol. The program, now in communities in more than 10 countries, includes cholesterol testing, nutrition advice, cooking guidance (involving the firm's products), and group breakfasts and exercise. To date, 85% of people taking the challenge have lowered their cholesterol.

CMI's approach to data gathering and analysis is often technology-intensive. For example, while monitoring Twitter chatter in response to a Ben & Jerry's "free cone" promotion, a CMI team noticed a strong relationship between chatter and sales increases in most regions—but not all. A real-time analysis of the slow spots revealed that stockouts there were inhibiting sales, allowing Unilever to head off similar problems with future promotions.

A full accounting of how CMI marshals technology to synthesize data is beyond the scope of this article, but two major programs are illustrative. The first, CMI's People Data Centre, combines social media and business analytics with data mining of Unilever's customer-care lines and digital marketing channels, which capture millions of conversations a day in 40 languages. CMI can rapidly turn raw data from those sources into business impact. When the firm's Knorr brand launched its "Love at First Taste" campaign, for example, it was inspired by research showing that most people are attracted to others who like the same flavors they do. So Knorr found singles with shared tastes, set them up on food-based blind dates, and filmed the results. Then it released the video on social media and engaged with people who'd been identified as "food influencers." In the first three weeks, the video received 100 million views.

Another CMI program, PeopleWorld, addresses the problem "If only Unilever knew what Unilever knows." Often the answer to a marketing question already exists in the firm's historical research; finding it is the challenge. But using an artificial intelligence platform, anyone within Unilever can mine PeopleWorld's 70,000 consumer research documents and quantities of social media data for answers to specific natural-language questions. For example, a brand manager might ask, "What hair-care problems concern middle-aged men in India?" PeopleWorld computers would intuit what's needed, search the vast repository of information on hair loss, dandruff, and similar topics, and instantly deliver a high-level overview. Through a set of related queries, the manager could get a clear picture of the distinct and overlapping hair-care concerns of younger or older men and those in different countries—information that might yield insights about consumer needs in various markets and how to meet them.

Independence

Superior insights groups sit decisively outside marketing and other functions and often report to someone in the C-suite—the CEO, the chief strategy officer, or the chief experience officer. The i2020 research shows that insights leaders in overperforming organizations report to these senior executives more than twice as often as their counterparts in underperforming organizations do (29% versus 12%). Kantar Vermeer's work with dozens of firms across industries indicates that this number is increasing, and we expect that in time this will be the typical arrangement.

At Unilever, Stan Sthanunathan reports to a member of the executive board—coauthor Keith Weed, who leads marketing, communications, and sustainable business functions. This reporting structure makes CMI a fully independent function with direct lines to the CEO. In this position, CMI can be objective, collaborate on an equal footing with other functions, and challenge or even set the direction of functional and organizational projects and strategy.

Take CMI's push to make advertising pretesting a standard procedure. Because Unilever is the world's second-largest media spender, improving advertising performance by even a few percentage points can translate into hundreds of millions of dollars in reduced costs and new revenue. And yet in the past, ads were often launched without hard data about their effectiveness. To change that, CMI implemented a disciplined testing program;

using consumer surveys and software that reads facial expressions, the CMI team can now see if people find the ads authentic, relevant, and conversation-worthy—before they're aired. Poor ads are killed while powerful ones are given the go-ahead, and CMI collaborates with marketing to boost their performance. Ad creators originally saw the testing program as a threat to creativity and resisted it. But it proved so effective that marketers now embrace it, knowing that it helps them do their best work and that successful ads figure into their bonus computations.

CMI's independence is enabled by having autonomy over its own budget, a mandate to drive business performance, and accountability for helping other functions achieve business targets. Thus when CMI recommends, for example, extending a brand into new local markets, it works in close partnership with marketing on the strategy and execution, because falling short would be as much CMI's responsibility as marketing's.

Integrated planning

For most companies, the business- and brand-planning cycle is the driving force behind strategy development and execution. This is where decisions are made about where to play and how to win. And it's here that resource allocation and budgeting are formalized and performance is monitored against goals. If insights groups are to help drive strategy, their activities must be aligned during the planning cycle with those of strategic planning, marketing, finance, sales, and other functions. That's why substantially more overperforming firms than underperforming ones (61% versus 46%) include insights leaders at all key stages of the planning cycle. We find that insights-function involvement in the cycle varies by industry; it's especially strong in retail.

Here's how CMI participates in the planning cycle: "Where to play?" is fundamentally a question of where to direct growth investments—in existing, adjacent, or new markets. To help determine this, CMI uses a bespoke software tool called Growth Scout, which mines millions of data points on consumer demand across demographics, regions, and countries to quantify the potential value of deeper category or brand penetration. A typical application might be to gauge the impact of, say, increasing the penetration of shower gels by 10% in Thai markets. The results could help Unilever prioritize growth opportunities and decide where it could most profitably invest additional marketing or product-development resources. Recently, the CMI home-care team used Growth Scout to uncover potentially lucrative new markets for Unilever detergent brands by identifying demographic segments with weak penetration.

Once decisions have been made about where to play, another custom-built software tool, called Growth Cockpit, helps guide "How to win?" strategies. The tool provides a one-screen overview of a brand's performance in a market relative to the category. By rapidly building a visual picture of how the brand compares on a host of metrics—market share, penetration, pricing, media spending, and more—it points managers to growth opportunities.

Additionally, CMI employs other tools to help answer questions about which product benefits marketing should emphasize, which ads are most effective, what marketing budget allocations will yield the highest return on investment, and what pricing is optimal. CMI then plays a central role in tracking the performance of marketing initiatives against targets and advising on tactical adjustments that may improve performance.

Collaboration

The i2020 study found that on average, 69% of respondents from overperforming firms said they work closely with other functions and customers, compared with just 52% of those in underperforming companies. This emphasis on collaboration is evident particularly among tech start-ups, but we're also seeing it among giants such as Alibaba and Google, and it's certainly the norm at Unilever and other large CPG firms.

In traditional market-research functions, the emphasis isn't so much on collaboration as on being an effective service provider. Insights functions like CMI have a distinctly different role that emphasizes shared goals and partnerships. We saw this in CMI's work with IT to create "smart" information-sharing platforms, like PeopleWorld, that anyone at Unilever can use. Similarly, CMI consciously collaborated with marketing, shedding its image as a "policeman" monitoring performance and instead coming to be seen as a helpful partner in creating effective communications.

More broadly, CMI's structural alignment with the rest of the organization and its integration into the planning cycle create natural channels for often-daily collaboration. For example, CMI's organizational structure includes teams that focus on personal care, home care, foods, and refreshments, and the team leaders are colocated with the presidents of the same product categories in the broader organization. This helps ensure that when the strategy discussion turns to, say, expanding a personal-care brand into a new market, CMI and other functions are participating in conversations together and working as partners. Being held accountable for business results also provides an incentive for CMI to collaborate with all commercially oriented teams, since that is the best way to influence the key performance indicators for each team's operations.

It's understood across the firm that insights can come from anyone at any time. Therefore, CMI encourages every employee to engage with customers to gain insights about their needs and the role of Unilever products in their lives, and it provides tools to help. Through a program called People Voice, for example, all employees, from factory workers in Asia to members of global brand teams and up to the CEO, can connect directly with customers at events with themes such as "sustainability" and "shopper experience." Another option is for employees to use an "always-on" platform, provided through a start-up called Discuss.io, to arrange virtual meetings with consumers anywhere. A typical request might be: "I want to meet a South African soup lover next week at 4 pm." The employee then gets an automated calendar invite to a live video chat. Some category presidents use the platform to engage with people in a country they plan to visit, asking about their needs and exploring opportunities for Unilever. This helps the presidents focus their conversations with local managers when they arrive.

To record their insights, employees use an in-house app that captures their observations from live chats or other consumer interactions. For example, an employee might note that people she talked with in Algeria equated "sustainability" with water conservation. Such notes, stories, pictures, and videos of employees' communications are stored centrally and analyzed by CMI, which uses video mining and other technologies to identify behavioral patterns across regions and groups and to generate insights about consumer needs. For instance, reports from employee visits to customers' kitchens in China revealed that because of high heat and tight space, grease buildup on surfaces is a common problem. Brand teams are now trying to determine what product innovations and messaging can help provide a solution.

About 30,000 people participate in People Voice programs annually. In addition to helping Unilever understand consumers' needs, the programs reinforce the idea that it's everyone's job to uncover insights—a challenge that motivates and engages employees at every level.

Experimentation

Overperforming companies are three times as likely as underperformers to embrace a culture of experimentation, the i2020 research shows (40% versus 13%), and B2B firms in general are more experimental than B2C companies. Unilever is an exception in the B2C world, having formalized experimentation in a variety of ways, most visibly in its 2014 launch of the Foundry. Originally a marketing-technology start-up incubator, the Foundry has since expanded to include hackathons, a collaboration platform for addressing sustainability issues, another platform that sources and gives prizes for creative marketing concepts, and a mentoring program that connects start-ups with Unilever experts who advise on product and brand development and marketing strategy. Much of the Foundry's work revolves around the "challenges" it posts on its site—requests for proposals to address a specific problem, such as consumers' quandaries over what to cook for dinner or how to live a more sustainable lifestyle.

Under the Foundry's aegis, CMI's Shark Tank initiative applies a technique borrowed from the CNBC show of the same name. A dozen or so start-ups pitch new technologies to a CMI executive team. Each has five minutes to tell its story, followed by five minutes of Q&A. After the presentations, the team votes on which ideas to pilot and which to reject. Since its inception two years ago, Shark Tank has screened more than 650 technologies, piloted more than 175, and scaled up 37.

One of the start-ups brought in was Discuss.io, the online consumer-connection video platform. Another was weseethrough, which uses wearable technology to observe what consumers actually do—which is often not what they claim to do. Test subjects for weseethrough wear Google Glass while engaging in routine tasks, such as cleaning, cooking, or shopping. The company then analyzes the video captured by the headsets to discern behaviors that consumers themselves may be unaware of. For example, people may think it takes longer to clean the living room than the bathroom, but in fact the reverse is true. Insights like that have helped Unilever adapt its portfolio of products to address consumers' unarticulated cleaning needs.

Forward-looking orientation

To get a handle on the future, market researchers traditionally focused on the past. They might have reviewed a project launch months after the fact, for instance. Most firms today have shifted substantial attention to studying the present, monitoring consumers in real time to anticipate what they'll do next. The most sophisticated practitioners—those with insights engines like CMI—take the next step, using predictive analytics and other technologies, along with new organizational structures, to both anticipate and influence behavior. Though overperformers currently aren't far ahead of underperformers in this regard (32% versus 28%), the i2020 research suggests that the gap is widening, and we expect the trend to continue.

Consider how CMI worked with Google and Razorfish to develop a program that leveraged real-time media monitoring to anticipate hairstyle trends and shape demand for related products. Unilever is one of the largest players in the global hair-care market, with brands including Suave and TRESemmé, but like its competitors, it had struggled to differentiate itself. Using a custom tool to analyze hair-related Google searches (there are about a billion a month), the program identifies styling trends and rapidly creates how-to videos featuring (but not directly promoting) Unilever products on a YouTube channel called All Things Hair. There visitors can browse by hair type and buy relevant Unilever products. Now live in 10 markets, All Things Hair has had more than 125 million views since its launch in 2013, and the research shows that it's three times as likely to drive purchases as conventional advertising is.

At a broader level, CMI created a team called Human and Cultural Futures (HCF), dedicated to imagining the future, examining developments in key regions, and exploring the implications for strategy. The team has identified certain societal, technological, environmental, political, and economic pressures, or "macro forces," that are shaping the world—including a shift of economic and technological growth to the East (India and China) and South (Africa and South America), and growing environmental stress. Among its programs, HCF runs cultural awareness workshops and prompts brand and category teams to discuss how various macro forces might affect both consumers and Unilever. In one conversation about increased mortality among children under five, the Lifebuoy soap brand team zeroed in on data showing that over 40% of the deaths occur among infants less than a month old, and many could be prevented with handwashing. This has led to a sweeping handwashing education program that has changed the behavior of 337 million people in 28 countries. In villages in India, mothers reported that the incidence of diarrhea in family members dropped from 36% in 2013 to 5% in 2014.

Affinity for action

The most influential insights functions focus as much on strategy as on data. Indeed, i2020 found that 79% of insights functions at overperforming companies participated in strategic decision making at all levels of the organization, compared with just 47% at underperforming companies.

CMI's action orientation manifests itself in two broad ways: in its specific recommendations to other functions and in the recruitment and training of "action-oriented" employees.

Look, for example, at CMI's engagement with marketing regarding market development. CMI pointed out the large "size of the prize" that Unilever stood to gain by expanding the markets it operated in. Company leaders acknowledged this as the firm's biggest growth opportunity. CMI helped break the challenge into three parts—generating more product users, more usage, and more benefits for users—and then helped identify ways to attack those challenges. For instance, in the area of more usage, CMI suggested that promoting nighttime use of toothbrushes and toothpaste could boost business growth and tie in with Unilever's social mission of improving oral hygiene. CMI facilitated a workshop that highlighted the importance of dads in teaching their children to brush. That resulted in a marketing campaign with a song encouraging kids to brush at night as a way to have fun and bond with their fathers.

On the staffing side, from top to bottom, CMI invests in development programs designed to expand people's capabilities beyond the expected functional skills (research and analysis) to "action" skills—communicating, persuading, facilitating, leading. The idea is to help employees become better at turning insights into business results, whether by conceiving of a new business opportunity or by selling it within the organization.

People Characteristics

The operational characteristics that distinguish superior insights engines are complemented by three traits characterizing the people who are part of them.

Whole-brain mindset

For an insights engine to be collaborative, experimental, and so on, it needs a culture that breaks from the past. Historically, the members of insights organizations focused on analytics. That left-brain orientation served them well, but today's insights teams must think holistically, exercising creative, right-brain skills as well.

High-performing organizations are particularly adept at integrating the two types of approaches; far more respondents from overperformers than from underperformers agreed that their insights functions were skilled at whole-brain thinking (71% versus 42%). Achieving balance between right- and left-brain thinking requires a two-pronged effort: recruiting whole-brain talent and encouraging the mindset across the existing organization. Few people are purely right- or left-brained. But organizational work often favors analytical thinking, so conscious efforts to unleash people's creative side are particularly vital.

One approach that CMI uses is Upping Your Elvis workshops, run by a company of the same name. The energetic and interactive training pushes people out of their default thinking styles and gets them to engage in creative problem solving with colleagues they might not normally connect with. A recent workshop, for example, brought together people from marketing, R&D, CMI, and other areas and asked them to brainstorm ways to boost hair-conditioner sales in Southeast Asia. Their insight was that consumers were reluctant to risk buying a product when they weren't sure of its benefits. This led to the idea of launching an inexpensive trial-size packet.

In other CMI workshops, the focus is on linking data about markets and brand performance to the actual consumer experience. Marketers, R&D staff, and others in the organization will go to people's homes to wash clothes or cook a meal, seeing first-hand how users engage with Unilever products. Workshop participants also connect directly with both loyal and lapsed customers and hear outside speakers present case studies on customer engagement. And they join in ideation sessions with colleagues across functions to imagine new growth programs and develop detailed action plans.

In all cases, employees leave these workshops with new collaboration tools, and they become role models and evangelists for whole-brain thinking.

Business focus

Historically, organizations' right-brain thinkers—marketing creative teams, for example—have not naturally focused on the business side. But i2020 found that respondents from high-performing firms were much more likely than those from low-performing firms to believe that their insights functions were business-focused (75% versus 50%).

At Unilever, CMI has implemented an array of programs to build business acumen. Recall that the vision of the CMI team is "to inspire and provoke to enable transformational action." CMI sees developing insights as a means to an end—customer-centric business growth. To reinforce the connection between insights and growth, staff bonuses are linked to the wider business unit performance. This creates shared accountability with other functions, encourages CMI teams to take responsibility for growth, and motivates them to go the extra mile. Teams are trained to think outside their traditional areas through "CMI Academy" courses on topics such as finance for nonfinance managers and effective business partnering. As a result of these and other programs, teams now instinctively consider the business impact of their work and of every recommendation they make.

Storytelling

The i2020 research imparts a final lesson about what makes for a strong insights engine: good storytelling. At overperforming firms, 61% of surveyed executives agreed that people in their insights functions were skilled at conveying their messages through engaging narratives; at underperforming firms, only 37% agreed.

At Unilever, CMI has embraced storytelling. Traditionally its presentations were data-intensive, built on the assumption that a fact-filled talk would be more persuasive than a fact-based one with less data and more narrative. Although data has its place, CMI has moved away from charts and tables and toward provocative storytelling, embracing an ethos of "Show, don't tell." Increasingly, CMI is making its points with memorable TED-style talks and other experiential approaches.

For example, early in the business-planning cycle, CMI does market-by-market presentations to leadership and staff, including the heads of Unilever's personal care, foods, and other categories. These describe global demographic, consumption, and other trends that are relevant to each category. Rather than bludgeon audiences with data, the presentations include compelling imagery and vignettes to advance a story line that has implications for strategy.

For an initiative targeting senior citizens, the CMI team found a novel way to bring the experience of older consumers to life. Instead of simply reporting how seniors struggle with products, CMI had marketing executives don old-age simulation equipment and then try to read labels and handle Unilever products such as shampoo. Encumbered by gear that reduced their mobility and vision, the marketers gained a real appreciation for the obstacles the elderly face. One outcome of the event is newly designed ice cream packaging that's easier to read.

Much of what insights engines at any firm do is gather and analyze data. But today that is the minimum needed for success. Being able to translate this capability into customer-centric growth is what distinguishes winners from losers. The insights engine is critical to this process—in fact, it's the most important driver identified by the i2020 research. But by itself, even the most advanced insights engine can't make a firm customer-centric. That requires leadership from the top to ensure that every function, from R&D to marketing to CMI itself, maintains a singular focus on understanding and meeting consumers' fundamental needs.

THE HIGH PRICE OF LOW-COST CPMS

LAURA O'SHAUGHNESSY

Marketing is essential for companies. Throughout the customer journey, marketing both changes brand perception and awareness and drives sales. Simultaneously, companies need to justify marketing expenses — down to the last penny.

Reaching a balance isn't easy. Too often CMOs succumb to the pressure to keep costs down at the expense of their brand's health or product sales. This is especially true in the age of digital media, in which the temptation to pay low rates often leads to wasting money. Why? Because a CMO can argue that they paid low cost-per-thousand (CPM) rates on their ad buy. But trafficking in low CPMs has become dangerous. Too many times, those low rates are borne of fraud and bots (ad impressions created by automated scripts, not humans). Our research suggests that up to half of paid media impressions fail to reach a marketer's target audience.

The Problem with Programmatic Channels

In a waste model we built to measure the quality of impressions in common programmatic channels, we found many contributors to waste, all of which drive up the real cost of what initially appears to be inexpensive. Some of these contributors are:

- Ads seen by bots, not humans
- Ads, including video ads, that are not viewable
- Ads that don't fully load
- Ads that miss the target audience

1. Ads that miss frequency windows

Facebook recently abandoned plans for its demand-side platform solution because of the many unviewable ads, fraud (like bots), and the lack of valuable inventory available in display networks. Marketers must consider the real, hidden costs of low-cost marketing. An increasing number of marketers are looking at them — hard.

Marketers are well aware of these quality issues. EConsultancy and Signal recently surveyed 350 senior North American marketers and media buyers with ad budgets ranging from $10,000 to well over $1,000,000 per month. The survey showed that because of the industry's lack of transparency, just 12% of buyers feel comfortable with the current display-advertising model. An ANA survey released in March showed that two-thirds of marketers worry that they may end up buying fraudulent inventory or inventory that shows up at the bottom of the page and is never even seen, and they're starting to demand more transparency from their media partners. The ANA is championing a standard whereby marketers enter publisher agreements only when impressions are "measurably viewable."

Channels to Focus On

We see an overwhelming case for investing more in known, verified audiences with logged-in users, like Facebook, Instagram, Twitter, Pinterest, Snapchat, and YouTube. And the same goes for addressable television. Such networks nearly eliminate fraud and waste. You know you're dealing with real humans — not bots or theoretical audiences built with unreliable cookies or audience panels.

Furthermore, when users log in to Facebook, Twitter, or Pinterest on their computer, tablet, or smartphone, the networks recognize that they are the same person on each device. By contrast, if you're using cookies to reach prospects, you as a brand don't necessarily know that the 36-year-old man you identify on a smartphone is the same person who logged on earlier that day on an iPad and MacBook Air. This matters. Real, addressable audiences result in greater measurability and performance attribution in branding and direct response campaigns.

Moreover, these audience-first platforms are setting the highest standards for user experience, ensuring highly engaged audiences in web and mobile app environments that are least vulnerable to ad blocking.

However, decisions about these channels must be driven by cost per performance.

Moving Forward

We have two recommendations. First, don't work with partners who are not committed to being transparent about every shred of data and every penny of cost. Programmatic is great, but let's have transparent programmatic, in which a partner gives you full access to the data that enables you to gauge the success of your campaigns.

Second, always ask for CPMs with performance right next to them. For example, use return on ad spend for direct-response ads and viewability (at a minimum) for brands ads. Your impressions are getting cheaper? Who cares? The real question is whether they are becoming more effective. It all comes down to return on investment, which is driven by outcome divided by cost. To truly manage your media investments to ROI, you must manage your cost based on real impressions and business outcomes, not poor quality disguised as low cost.

THE 30 THINGS CUSTOMERS REALLY VALUE

ERIC ALMQUIST

Executive teams often struggle to land innovations that will significantly grow the business. A chronic problem is their emphasis on searching for breakthrough innovation — the creation of a truly new, highly valued product or service that could redefine their industry and lead to unprecedented revenue growth. "Where's our iPhone?" they wonder.

Almost by definition, breakthroughs are rare. When they do occur, they usually come from insurgent entrepreneurs who founded companies such as Nest or Netflix (today), or Eastman Kodak or Ford Motor (over a century ago). Rarer still are breakthrough innovations from established enterprises, Apple's iPhone being an obvious exception. Breakthroughs may be worth pursuing, but most companies benefit more from incremental innovation efforts that add new forms of consumer value to their present products and services. The trick is to determine what elements to add in order to boost the perceived value of your offering. You don't want to expend resources adding features that consumers don't care about.

While what constitutes "value" can be nuanced and vary from person to person, my colleagues and I have identified 30 universal building blocks of value that meet fundamental human needs. These are basic attributes of a product or service that address four kinds of needs: function, emotion, life changes, and social impact. Functional elements, for example, include saving time, reducing risk, and organizing. This latter element is central to brands like The Container Store and to Intuit's TurboTax, because both help consumers deal with complexities in their world. The pyramid below shows how value elements fit into the four categories.

In our September 2016 HBR article, "The Elements of Value," my colleagues and I discuss the power of the 30 elements in the marketplace and describe how companies can select and integrate innovations into their products to provide value that consumers actually want. Companies that deliver well on multiple elements of value tend to have stronger customer loyalty and higher revenue growth rates, as Bain & Company's analysis shows. The research documents 50 companies that deliberately added elements over time to improve their propositions, either to turn around a flagging business or to accelerate growth. In financial services, for example, Charles Schwab has outperformed many other investment companies by excelling on four elements of value: variety (a wide range of investment products), providing access (multiple contact and advice channels available around the clock), making money (generates income for customers), and quality (numerous Lipper Fund Awards for investment performance).

Since 2013 Schwab has added several new elements of value to its services. Schwab's Accountability Guarantee reduces risk by refunding fees if clients are not fully satisfied with the product. Its Intelligent Portfolios tool informs customers about the status of their portfolios and provides investment advisory services with no advisory fees. StreetSmart Edge reduces effort with an online trading platform to simplify complex trading and provide an intuitive experience for active traders. And its low-fee college savings plans provide heirloom value to parents saving for their children's college education.

Likewise, in the retail pharmacy industry, CVS Health has embarked on a health initiatives strategy by adding new elements of value for consumers, including providing access, saving time, wellness, and therapeutic value. For example, CVS Health bought Target's pharmacies, adding over 1,600 locations in 47 states. Many consumers now have more convenient locations, which helps them save time. The company has expanded access to health care through its MinuteClinics, providing both basic medical services, such as general exams, summer camp physicals, vaccinations, and the like, as well as assorted wellness services, such as contraceptive care and smoking cessation.

Other companies have judiciously added elements of value to their core proposition. Throughout 2015 Uber added services to integrate multiple aspects of consumers' lives, from delivering meals and groceries to providing flu shots. Discover added a feature that allows cardholders to instantly freeze and unfreeze their accounts without canceling their cards, reducing risk and reducing anxiety for cardholders. And Spotify added a feature for runners in 2015 that detects their pace and finds music to match it, hitting on elements of wellness and motivation.

The search for elusive breakthroughs can make the entire innovation process intimidating and discouraging. To help, think about which new elements of value will resonate with your customers and which can be delivered effectively by your company. Judiciously adding elements can bring new life and growth to existing products as well as build customer loyalty — with far less risk and lower costs than hunting for breakthroughs.

LEICESTER CITY FC AND THE BENEFITS OF AN UNDERDOG BRAND

ROB ANGELL, PAUL BOTTOMLEY, AND JOHN DOYLE

Everyone loves it when a small competitor takes on a Goliath and wins. To understand how brands can accomplish that (and do so profitably), we've examined various streams of research and identified a few moves that are nicely illustrated by Leicester City FC's rise to the top of the English Premier League (EPL) last season. This remarkable underdog story from the world of soccer provides a useful case study of sorts for businesses as well as sports organizations.

At the beginning of the season everything about Leicester suggested it would not survive in the EPL: a dramatic escape from relegation to a lower league the previous season; a negligible fan base; no glory days or trophies to speak of; and a new manager, Claudio Ranieri, who seemed a poor fit for the humble team, given his past appointments with high-profile, well-resourced clubs such as Chelsea, Juventus, and Inter Milan. At 5,000:1 Leicester had the longest odds to win the EPL of all 20 teams; according to various bookmakers it was more likely that Elvis would be found alive (those odds were estimated at a mere 2,000:1). So when the team actually won the league for the first time in its 132-year history, it defied all expectations.

Impressive as Leicester was on the pitch, its performance off the pitch underpinned its commercial success. Three moves served the club particularly well:

Frame the brand as an underdog — with a caveat. One temptation for underdogs is to imitate the market leader; another is to avoid mentioning them altogether. But marketing research suggests that openly acknowledging the top dog's competitive threat can build brand support for the underdog — enhancing word of mouth and increasing sales while reducing support for the top dog.

How did Ranieri use this approach with Leicester City? When quizzed by the British media on whether his team could actually win the league — and this was after Leicester had played 24 of 38 games and was leading the pack — Ranieri reiterated what he'd been saying all season: "I'd like to say 'Yes, we can!' but I am not Obama....Of course we are underdogs." Even when the title was within touching distance, Ranieri continued to highlight the club's humble background: "Leicester are a small club....We've already won, because next season we'll be in the Premier League [again]." These quotes are great examples of what researchers call framing the game, or drawing attention to the status differential between underdog and top dog. Ranieri spoke directly to the media to remind everyone of his team's underdog status, but research shows that framing the game can also be achieved through a well-articulated brand biography that emphasizes the grit required to overcome limited opportunities and resources. Leicester's star striker Jamie Vardy's life story (recently commissioned as a Hollywood movie) falls into this category. Vardy's implausible rise from part-time amateur to England national team player neatly parallels the club's own story.

Of course, not all small-share brands are underdogs that can bite. Before brands can effectively frame the game (publicly acknowledging their underdog status), they must first enter the frame — that is, be recognized by consumers as a genuine alternative to the top dog. The underdog is not a complete no-hoper, a barely visible brand whining about the competition; rather, the underdog is a worthy opponent, a challenger that manages to convey its own strengths and potential in the competitive marketplace.

During the 2015–2016 season, Leicester often was the highest-trending topic on social media. Celebrities including Tom Hanks (himself often cast as an underdog) were publicly declaring their affection for the club. Leicester had entered the frame. Fans began to recognize the team as possible winners, meaning Leicester could then frame the game both by emphasizing its underdog status, winning fans' hearts and support, and by posting impressive financial results. The club's share price value grew 63% during the season. Likewise, the fan base reached new heights domestically, with season tickets completely selling out, and internationally, with demand for replica shirts and other merchandise proving insatiable at times.

Be a more lovable dog. Consumers are attracted to underdogs, but there still are some perceptual hurdles to overcome. For instance, underdogs often are viewed as less competent than top dogs, so positioning the brand on performance and expertise could be challenging. But consumers also see underdogs as more passionate and determined. This can foster feelings of warmth and gratitude — which are equally important for building brand relationships and conveying brand image. That's why, as communications research shows, persuasive underdog messages tend to focus on warmth rather than competence, whereas persuasive top-dog messages focus on competence. Underdogs that develop a warm internal culture should convey that to the public.

How did Leicester make itself more lovable? In February 2016, while fans of Liverpool FC staged several match-day walkouts over the spiraling cost of tickets, and former British prime minister David Cameron vowed to investigate the wider pricing problem, Leicester seized the opportunity to announce a price freeze on its 2016–2017 tickets. In other generous gestures, the club's owner offered home fans complimentary beer and donuts to celebrate his birthday — and announced he would donate £2 million toward building a local children's hospital. Such initiatives continued to endear the club to British soccer fans, who resoundingly voted Leicester their favorite second team, regardless of the primary team they supported.

Never stray too far from home. Finally, underdog success can be a source of tension between existing customers, who may have made sacrifices to support their brand, and any new ones who come along. Though a growing community may provide existing customers with social approval, affirming their brand choice, it may also cause discontent — especially if the brand previously satisfied their need for uniqueness. (Research shows that people want to diverge from the crowd in domains that are highly linked to their identity, such as their taste in music.) When more people join the community, early members may begin to look to other brands to satisfy that need. Finding an equilibrium — keeping existing customers content while courting new ones — is a conundrum that successful underdogs must resolve.

Leicester, with its small but enthusiastic core of loyal supporters, knows this challenge well. Following its success, the club found an increasing number of fans popping up across Southeast Asia, and particularly Thailand, its owner's birthplace. To capitalize on this demand, Leicester organized a title parade in Bangkok and preseason fixtures in Asia and the United States provided opportunities for other international fans to purchase merchandise and fan club membership and to spectate at local matches. At the same time, the team had to ensure that its original fans didn't feel marginalized or less valued, so a membership loyalty scheme was initiated that favored existing supporters. Leicester's vice chair made open promises to fans that, given the new European competitive challenges ahead, the club would purchase new players without selling any of its stars to improve the team's competitiveness. Discontent and division were avoided, and existing fans have welcomed new members into the brand community.

As a result of these three moves, Leicester's brand is in a position of strength heading into the new season. It will be interesting to see whether the club continues to behave like an underdog or assumes more of a top-dog stance as it builds on its success.

SPONSOR CONTENT FROM GOOGLE ANALYTICS 360 SUITE

RETHINKING MARKETING MEASUREMENT FROM THE GROUND UP

MATT LAWSON, MANAGING DIRECTOR, ADS MARKETING, GOOGLE

From the moment smartphones touched human hands, they began to change how people interact with brands. It happened slowly at first ... but today 91 percent of smartphone users turn to their phone for ideas while doing a task (Source: Google/ Ipsos, "Consumers in the Micro-Moment" study, March 2015).

Consumers expect more of marketers now. They expect brands to answer their questions and deliver the exact experiences they want at the moments they need to know, go, do, or buy things. They expect this across all screens and all touch points, over hundreds of interactions on their journeys.

This means there are three questions marketers should be asking:

- Is our brand useful to consumers at every touch point?
- How can we measure our usefulness?
- How can we be even more useful tomorrow?

By 2017, 89 percent of marketers expect customer experience to be their primary differentiator, according to a recent Gartner study. That's a tall order. To deliver on it, enterprise marketers need a new approach to measurement that shows them the entire customer journey and lets them see what's working at each step along the way. The problem is that many of our measurement tools and metrics were created for a desktop world at a time when marketing focused on channel performance. Today we need an understanding of our audiences across devices and channels. That means taking into account the impact of mobile online and offline, quickly spotting insights, and trying new ways to provide better customer experiences.

Breaking Down the Data Silos

A car shopper today can have hundreds of digital interactions—or in this case 900-plus interactions—before buying. Each one of those moments is an opportunity for a brand to be useful. And each one leaves its own data trail.

But companies that look at data channel by channel, in a silo, can miss the forest for the trees. We need to break down measurement and strategy silos and create an integrated view of the consumer's journey. It's likely you have found yourself in a debate with colleagues about metrics and campaign results and thought, "It's not about what matters to department X—we need to zoom out to see the whole picture and do what's best for our customers."

The truth is that the future of enterprise measurement depends on people and departments, tools and systems, all talking to each other and sharing insights in real time about what customers want most.

From Silos to Synthesis

So if we know that one session and one click doesn't tell the full story ... and if we want to connect consumer behavior dots over time ... where do we start? The best place is with the classic question "What outcomes are we trying to achieve?" But then instead of saying "How do we reach our goals?" let's ask: "How do we measure success?"

Key performance indicators (KPIs) have to reflect the new objectives of the mobile-first world. Marketers who link their metrics to business results are three times more likely to hit revenue goals than those who don't (Source: Forrester, "Discover How Marketing Analytics Increases Business Performance," March 2016).

And while more data is always great, what marketers really need are more insights. That's why the question "What's working?" is so crucial. If that car buyer sees a TV commercial for a Mazda sedan or Chevy pickup and searches for reviews and mileage ratings on his or her mobile phone, watches videos about special features, visits a dealer for a test-drive, and then finally buys a month later, marketers must find a way to bridge the gaps between TV airings and search lift, and display ads and video views, to see where the real influence happened.

How much credit should mobile get? How many touch points were there? Marketers need to know. And if the gaps can't be filled perfectly, we should get comfortable with new proxies that will give us a sturdy estimate instead.

Marketers, Mobile, and Tomorrow

Evolution is a good thing, even if measuring in new ways can be awkward at first. Measurement and marketing go hand in hand—both have to keep pace with the vastly rising expectations of mobile-first consumers. Discomfort means you're working to stay ahead.

So, take stock of what you measure and how you measure. Ask if those KPIs account for all the ways consumers may engage with your brand. If not, ask yourself why you're measuring them in the first place. Focus on the outcomes you want and map your new metrics back to your strategy.

Smartphones have already changed how people interact with brands, and they'll surely alter those interactions even more in years to come. We can't predict how. But we can say that the brands that measure the results of those changes first will have a major edge over those that don't. Measurement isn't what happens at the end; it's where the smarter and more successful future begins.

To learn more about enterprise marketing measurement and analytics for a multi-screen world, visit the Google Analytics 360 Suite website.

LISTEN TO YOUR EMPLOYEES, NOT JUST YOUR CUSTOMERS

BETH BENJAMIN

In 2014, Michael Callahan, then head of customer experience at Hulu, had a mystery on his hands. When the big video streaming service surveyed customers who renewed subscriptions, it discovered, paradoxically, that some customers stayed with Hulu even when they didn't necessarily have a positive perception of the brand overall.

It turned out that some customer service representatives of the third-largest player in the streaming video space were pushing fence-sitting customers too hard, said Callahan in a recent interview. Paid digital TV companies, which also include Netflix and Amazon Prime, face high churn. Like Hulu, they need to ensure positive perceptions among customers routinely up for grabs between the big players.

"We had a gut-check conversation to discover what it meant to truly serve customers," Callahan remembers. "We wanted employees to act more authentically to achieve a better, more positive experience of the brand overall. We didn't want them only thinking about retention."

That's when Callahan's team took an unusual step: The team created and linked an employee feedback system to its customer feedback system, in order to flag interactions where customers and employees had different perceptions. The linked system consisted of two short surveys — one sent to employees and the other to customers — right after a transaction. The linked system allowed for more insight into customers, and managers could use the information to coach employees, to assess whether they had the right tools and resources, and to identify people with innovative ideas and leadership potential.

Many companies love customer feedback, but only a handful have devoted as much energy to employee feedback systems. "For every dollar spent on employee feedback, companies spend hundreds of dollars on customer feedback," said Troy Stevenson, former vice president of customer loyalty at eBay, in a recent interview.

Companies rarely connect the two systems. But, connecting them can create powerful feedback loops that engage employees and help companies adapt to fast-changing customer expectations, according to new research I conducted with my colleagues Carolyn Egelman, Julia Markish, Emma Sopadjieva, and Dorian Stone at the Medallia Institute. The research included interviews with more than 25 customer experience and HR executives and a survey of 1,000 frontline employees working at large companies in the U.S. automotive, financial services, retail, telecomm, and hospitality sectors.

Linking feedback systems allows companies to enlist frontline employees as agents of change. In our Medallia Institute survey, 56% of frontline employees said they have suggestions for improving company practices, and 43% said their insights could reduce company costs. Yet, a third said they were surveyed once a year or less, and more than half said employers weren't asking the right questions.

In the case Callahan described, two screen pop-up surveys were sent to customers and employees immediately following a customer service transaction.

Customers were asked:

- Was your problem solved?
- Are we easy to work with?
- Did you enjoy the experience you just had?

Employees were asked:

- Did you solve the problem?
- Was it easy to access the tools and resources you needed to solve the problem?
- Did you feel proud to represent our brand in the conversation?

The linked feedback system prompted executives to adjust the compensation plan: customer service representatives received a retention bonus only if a subscriber remained on the rolls 30 days after an interaction.

Reducing customer churn by even a small amount can add up to a lot in a subscription-based business. For example, if linked feedback loops helped to improve retention by even one percentage point, the savings on a subscriber base of 12 million (Hulu's current base) with a typical monthly subscription price of $7.99, would generate an extra $11 million in annual revenue.

Why don't more companies do this? Organizational barriers are often the culprit. At one 170,000-employee big box retailer, linking the feedback systems would require approvals from three different senior executives, the CMO, the chief human resources officer, and the president of retail. The only person who could drive a linked system was the CEO.

Companies that want the insights from linked systems can navigate the organizational complexities with these six steps:

Align feedback systems around high-level business objectives. Which needle do you want to move? Hulu wanted to build more authentic relationships with customers. This drove everything from its questions to how it used the data.

Design your feedback system to aggregate data at key touchpoints. Most companies build separate, often expensive systems within existing reporting hierarchies. Instead, work backwards from the customer experiences you want to understand. For example, if your customer feedback is organized around touchpoints within lines of business, survey employees who interact with customers at those same touchpoints, such as a call center conversation or an account signup. Companies often make the mistake of organizing customer feedback systems around one structure — say lines of business or channel — and employee feedback systems around another — say geography or function.

Establish the right frequency and pacing for employee and customer surveys. Many companies, including Nordstrom, Four Seasons and Vanguard, collect customer feedback on a continuous basis and distribute it in real time (Disclosure: Nordstrom, Four Seasons, and Vanguard are all clients of Medallia). Most executives I interviewed said employees should be surveyed more than once a year but not more than once a month. Match the timing of your surveys to the pace at which you can act, so that you can demonstrate results. Surveying employees on a rolling basis, and using quarantine rules (designated times when you won't ask for feedback) for customer surveys can minimize survey fatigue.

Encourage honest feedback and protect employees who answer candidly. Employees may worry their feedback will get them into trouble. Counter this perception by rewarding and honoring employees for raising difficult issues. After successes become clear, give even more recognition to employees whose feedback helped move the company forward.

Let people speak in their own words and capture emotional cues. As companies rely more on technology, relating to customers emotionally and pinpointing what troubles them gets trickier. Open-ended questions, text analytics and sentiment analysis capture interactions more vividly and compel leaders to act. "To hear an employee who's deeply empathetic to the customer trying to explain a complex policy … to feel them struggle is painful," says Callahan, who is now at Seattle-based Blueprint Consulting Services.

Act on the most important feedback, and communicate what you're doing and why. In our interviews, we learned that a handful of companies are using feedback to create specific action plans tied to companies' broader goals. At one company, executives use an internal website to post plans that grew out of employee feedback. Employees can see who's leading an effort, view timelines, and track progress. They can also share additional feedback or volunteer for projects.

In a world where big data algorithms and technology increasingly dictate the customer experience, linked feedback systems give companies at least two great advantages. The connections help senior managers get a more complete picture of customer-employee interactions, including the behaviors — and emotions — they generate. And, asking employees for their input, not through a pro forma annual survey but as part of the company's routine operations, sends a signal that employees have useful insights and that they are valued.

Ultimately, well-designed feedback loops enable employees to be more empowered and companies to be more responsive, creating the competitive edge companies need to adapt and thrive.

USE BIG DATA TO CREATE VALUE FOR CUSTOMERS, NOT JUST TARGET THEM

NIRAJ DAWAR

Big data holds out big promises for marketing. Notably, it pledges to answer two of the most vexing questions that have stymied marketers since they started selling: 1) who buys what when and at what price? and 2) can we link what consumers hear, read, and view to what they buy and consume?

Answering these makes marketing more efficient by improving targeting and by identifying and eliminating the famed half of the marketing budget that is wasted. To address these questions, marketers have trained their big-data telescopes at a single point: predicting each customer's next transaction. In pursuit of this prize marketers strive to paint an ever more detailed portrait of each consumer, memorizing her media preferences, scrutinizing her shopping habits, and cataloging her interests, aspirations and desires. The result is a detailed, high-resolution close-up of each customer that reveals her next move.

But in the rush to uncover and target the next transaction, many industries are quickly coming up against a disquieting reality: Winning the next transaction eventually yields only short term tactical advantage, and it overlooks one big and inevitable outcome. When every competitor becomes equally good at predicting each customer's next purchase, marketers will inevitably compete away their profits from that marginal transaction. This unwinnable short-term arms race ultimately leads to an equalization of competitors in the medium to long term. There is no sustainable competitive advantage in chasing the next buy.

This is not to say firms should never try to predict and capture the next purchase—but that they can only expect above-average returns from this activity in industries where competitors are lagging and where there are still some rewards to being ahead of the game. In many industries, including travel, insurance, telecoms, music, and even automobiles, we are rapidly closing in on equalization of predictive capabilities across competitors, so there is little lasting competitive advantage to be gained from predicting the next purchase.

To build lasting advantage, marketing programs that leverage big data need to turn to more strategic questions about longer term customer stickiness, loyalty, and relationships. The questions that need to be asked of big data are not just what will trigger the next purchase, but what will get this customer to remain loyal; not just what price the customer is willing pay for the next transaction, but what will be the customer's life-time value; and not just what will get customers to switch in from a competitor, but what will prevent them from switching out when a competitor offers a better price.

The answers to these more strategic questions reside in using big data differently. Rather than only asking how we can use data to better target customers, we need to ask how big data creates value for customers. That is, we need to shift from asking what big data can do for us, to what it can do for customers.

Big data can help design information to augment products and services, and create entirely new ones. Simple examples include recommendation engines that create value for customers by reducing their search and evaluation costs, as Amazon and Netflix do; or augmenting commodity utilities with customized usage information, as Opower does. More intriguing examples include crowd-sourced data that can give customers answers to important questions such as "what can I learn from other consumers?" or "how do I compare with other consumers?"

A look at startups that create new forms of value using big data is instructive. Opower allows customers to share their utility bills with Facebook friends to determine how they rank in relation to other customers like them. INRIX, aggregates traffic data from customers' mobile phones and other sources to provide real-time traffic reports. Zillow combines information from an array of sources to provide consolidated insight about home attributes and values, competitive properties, and other market characteristics to buyers, sellers, and brokers. These companies are big-data natives. Their success should be a wake-up call to all businesses: Today, there is no business that is not an information business.

Every company should ask three questions to examine how its big data can create customer value:

What types of information will help my customers reduce their costs or risks? Multi-billion dollar businesses such as Yelp, Zagat, TripAdvisor, Uber, eBay, Netflix, and Amazon crunch quantities of data including ratings of service providers and sellers in order to reduce customers' risk. Currently, these good-bad-ugly ratings provide generic evaluations of sellers on standard scales. But increasingly customers are looking for more specific answers to questions such as what do customers like me think of this product or service. Answering such granular questions requires a much deeper understanding of what customers are looking for, and how they see themselves. That is an opportunity for the next generation of big data value creation.

What type of information is currently widely dispersed, but would yield new insight if aggregated? Is there any incidentally produced data (such as keystrokes, or location data) that could be valuable when assembled? InVenture, a fascinating new startup operating in Africa, is turning incidental data on smartphones into credit ratings that allow base-of-the-pyramid customers access to loans and other financial products. In an environment where most of the population has no credit history, and therefore no credit rating, even rudimentary phone usage data serves as a handy proxy (people who organize their contacts with both first and last names are more likely to repay loans).

Is there diversity and variance among my customers such that they will benefit from aggregating others' data with theirs? For example, a company selling farm inputs (seeds, fertilizer and pesticides) can collect data from farmers with dispersed plots of land to determine which combinations of inputs are optimal under different conditions. Aggregating data from many farms operating under diverse soil, climatic, and environmental conditions can yield much better information about the optimal inputs for each individual farm than any single farmer could obtain from his own farm alone, regardless of how long he had been farming that parcel.

Big data has helped marketers address fundamental questions whose answers have long been out of reach. But the true contribution of big data will reside in creating new forms of value for customers. Only this will allow marketers to turn data into sustainable competitive advantage.

TO GET MORE OUT OF SOCIAL MEDIA, THINK LIKE AN ANTHROPOLOGIST

SUSAN FOURNIER, JOHN QUELCH, AND BOB RIETVELD

There is something marketing managers seem to forget about the internet: it was made for people, not for companies and brands. As such, it offers managers a source of insight they never had — social listening.

Eavesdropping on consumers' social-media chatter allows marketers to economically and regularly peer inside people's lives as they are being lived, without introducing biases through direct interaction. Armed with traces of revealed opinions and behaviors, managers can at long last discover the manifestations and ripple effects of their actions on consumer behavior. Clear indications from marketing science underline how chatter affects sales, brand health, and even stock performance. Social listening competency will be critical to competitive advantage in the digital age.

But despite its potential, companies underleverage the social media stream for market intelligence. Analysts look for data confirming a predetermined viewpoint, or view the social media conversation as something to be managed rather than listened to. They frame listening as a descriptive exercise rather than the high-potential strategic project it should become.

Some pay attention to social media data only when corporate crisis demands it. Although insights from social listening can and should drive corporate strategy and innovation, these are more likely trapped inside the marketing and service departments that "own" them. Social listening promises the Holy Grail in business: superior understanding of customers. Why, then, do managers fail to fully exploit it?

Econometricians, computer scientists, and information systems (IS) professionals often manage social listening efforts and their skills in database management and big data analytics are essential. But these hard scientists lack the social science skill set that allows managers to move from data to insight in the social listening world. At issue is the fundamental difference between information and meaning. True to their titles, IS professionals specialize in managing information. Their function is reductionist: bringing complex data down to the simple level of numbers — zeros and ones.

Anthropologists and the culturally sensitive analysts who think like them specialize in meaning management. Their function is to take complex bits of data and develop a higher-order sense of them. Information and meaning work at cross purposes. In managing meaning, context is everything while in managing information context is error and noise. When we give our social listening projects to information specialists, we lose an appreciation of context and with it the ability to extract the meanings that provide insight for our companies and brands.

To fix this problem, we need to move from functional data management to a more holistic meaning-management mindset. Social media data is inherently qualitative and while it can and should be quantified for manageability, at some stage in the analysis it must be treated and represented as qualitative. In order to "appreciate the qualitative" and extract meaning from it, managers have to think like anthropologists and jettison many of the scientific principles that underlie traditional hard science research.

Consider the tenet of "adequate sample sizes" and its antithesis online. With social listening data, one quote, one comment, or one posted picture can spark an idea with profound implications. A large pharmaceutical company, for example, learned about an unsuspected customer challenge through a single photo on Flickr. The image showed a man wrapping a part of his leg in foil after applying a pain relief ointment. It turned out that the medication left untreatable stains on certain fabrics, hence the protective foil. Executives had been unaware of the problem despite years of conventional consumer research. This single picture led to changes in the product and communications, and increased customer satisfaction.

The notion of "representative samples" that we impose when judging the value of quantitative research must similarly be put aside. Engaged social-media participants are no doubt a different breed from non-users, or those who read but do not contribute content themselves, yet they can serve a valuable signaling function nonetheless. Listening to internet chatter can provide a heads-up on which signals to take in, which are being amplified in the culture, and which need response from the firm. Many firms capitalize on this benefit but still listen only in an exploratory fashion, as a precursor to so-called "real research" that will determine the truth of what is being said. But theory development does not require representative samples. Non-representative consumers can be relevant because relevance depends on the question at hand.

Consider for example posters to an internet discussion group focused on video processing chips. Though this is a narrow group that is in no way "representative" of the broad sample of computer users, these heavily vested and deeply knowledgeable netizens provide critical knowledge about new product pick-up and quality concerns that is relevant to a broader population. In this case, social listening revealed how category-level loyalties can trump brand loyalties, reinforcing the need for first-to-market product strategies and a marketing engagement plan that includes presence not just in the branded community but also in general computer forums as well.

"Appreciating the qualitative" challenges notions about how knowledge advances. Quantitative reasoning serves a hypothesis-testing mindset or, at least, a quest for statistical relationships between known concepts. Social listening in its purest form does not presuppose anything and this unsolicited quality creates an opportunity to answer questions that managers do not even know they should ask.

A manufacturer of baby strollers, for example, operated for years on the assumption that it owned an acutely defined brand positioning, with "no nonsense" being one of the core brand associations. Qualitative analysis of thousands of online statements across several countries revealed a gap between the intended and realized brand perception. Not one statement reflected the core association, forcing managers to the realization that the no-nonsense positioning was lost on consumers. Their reaction was curiosity—an approach Isaac Asimov put this way: "The most exciting phrase in science—the one that heralds true scientific progress—is not, "Eureka!" ("I found it!"), but rather, "Hmm…that's funny.'" Managers should drill into the data to ask questions, not confirm or reject hypotheses.

Meaning management also involves a deeper appreciation of social listening as a component of a broader meaning-making system, rather than as, simply, a data source to be exploited. Social listening data don't stand alone: they are part of a complementary package of insights into consumers, consumption, markets, and cultures. Often managers stop at the first step of correlating what is "known" through company research and what is revealed on the internet. This correlation is often low, prompting managers to ignore or minimize the social listening data. This dismissive tendency is reminiscent of how managers treat focus group data: they love group discussions for their convenience and the comforting sense that they offer in-depth insight, but managers are quick to write off anomalous findings that do not align with their thinking. But, if social chatter reveals consumers' lives in a way that commissioned research never can, then for this simple reason there are bound to be misalignments. Misalignments are a key source of customer insights because they challenge assumptions. Misalignments suggest a mandate to attend particularly closely to the data.

To get the most out of social media data, operations have to go beyond data scientists and the marketing departments that house them. Every executive has to be a listener. Chief executives at cutting edge companies actively listen to social media commentary—in real time each day, not through a sanitized monthly summary report from the marketing department. Senior managers across all departments likewise have to get their hands dirty.

Social media comments need to move beyond the marketing departments and service agencies that collect them and become part of monthly management committee meetings. Many tools exist to make it easy to integrate social listening data into reporting or other business processes — and this can be part of the problem.

For one client of Oxyme (the analytics firm author Rietveld co-founded) the team counted the number of dashboards available on market and customer behavior. There were 19. Instead of deploying dashboard 20, Oxyme created a daily email containing provocative positive and negative statements voiced that day by customers online. This simple approach yielded new consumer insights that would have been hard to uncover though conventional datamining. For example, sentiment is always context dependent, and the analysis needs to be sensitive to what the affective feeling is about and who is doing the talking. Existing research on bad breath revealed the expected negative sentiment, but by analyzing the context, managers learned that the authors responsible for the negative comments were mothers and the solutions they sought to bad breath were for their children, not themselves. By focusing on the context of negative sentiment rather than its magnitude, the research revealed a new target audience. Now when managers look at their consumer sentiment charts, their interpretation is aided by the qualitative data that provide context and meaning.

To leverage social media for customer insight move beyond the science of data management to the art of interpretation, embrace the context offered in qualitative commentaries, and don't delegate social listening to the marketing department.

WHAT AIRBNB UNDERSTANDS ABOUT CUSTOMERS' "JOBS TO BE DONE"

KAREN DILLON

On a recent business trip to London, I surprised the conference organizers by turning down the opportunity to stay at the posh hotel hosting the conference in favor of a rather modest Airbnb flat. The hotel was clearly much more luxurious. The flat would require me to take the tube or an Uber to the event. Who in their right mind would make such a choice?

It turns out, a lot of people. Airbnb is currently raising money at a$30 billion valuation, according to The New York Times. That makes Airbnb more valuable than most of the leading hotel chains in the world. People are quick to point to disruption as the reason for the rapid rise of "upstarts" such as Airbnb. But that doesn't really explain its success. Disruption theory explains and predicts the behavior of companies in danger of being disrupted, but it doesn't tell a start-up company exactly what product or service to create to successfully disrupt a giant.

To get that right, companies have to understand what Harvard Business School Professor Clayton Christensen calls the theory of Jobs to Be Done. Too many companies focus on making their products better and better without ever understanding why customers make the choices they do. Customers don't simply buy products or services. They "hire" them to do a job. That job is not just about function (having a nice bed to sleep in) but about creating the right set of experiences for customers. Those experiences have social and emotional components that may be even more powerful than the functional ones.

In my case, I wanted to stay in an Airbnb because I used to live in London and I didn't want to feel like a tourist in my former hometown. I wanted to be part of the old neighborhood, visit the same pastry and sushi joints, meet friends for coffee, and pretend, for a few days, I still was a Londoner. That experience mattered profoundly to me—more than a swimming pool or chocolates on my pillow. Airbnb wasn't really competing with the hotel for my business. It was competing with staying with friends. And the modest Airbnb flat was still better than my friends' spare room.

Being cheaper and "good enough" doesn't guarantee that people will choose your product or service over all others. You have to know what job customers are hiring you to do before you can hope to create the perfect solution for them – one that they'll choose over all other options.

Airbnb's founders clearly understood this. Before launching, the company meticulously identified and then storyboarded 45 different emotional moments for Airbnb hosts (people willing to rent out their spare room or entire home) and guests. Together, those story boards almost make up a mini documentary of the jobs people are hiring Airbnb to do. "When you storyboard something, the more realistic it is, the more decisions you have to make," CEO Brian Chesky told Fast Company. "Are these hosts men or women? Are they young, are they old? Where do they live? The city or the countryside? Why are they hosting? Are they nervous? It's not that they [the guests] show up to the house. They show up to the house, how many bags do they have? How are they feeling? Are they tired? At that point you start designing for stuff for a very particular use case."

The experience of staying in an Airbnb is central to its customer strategy, explains Airbnb's Head of Global Hospitality and Strategy, Chip Conley. One of the critical storyboard moments, for example, is when customers first turn up at the home in which they'll stay. How are they greeted? If they're expecting a place that has been described as relaxing, is that evident? Maybe there should be soft music playing or a scented candle. Has the host made them feel at ease with their decision? Has the host made clear how they will solve any issues or problems that arise during the stay? And so on. The experience must match the customers' vision of what they hired Airbnb to do. The Airbnb storyboards — which have been constantly tweaked and improved since its founding — reflect the importance of the experience customers are seeking when they hire Airbnb.

The same is true for Uber, whose founders recognized the unsatisfactorily filled job of urban transportation. In recent years, few companies have captured the media's attention like Uber. In my opinion, Uber has been successful because it's perfectly nailed a Job to Be Done. Yes, Uber can often offer a nice car to take you from point A to point B, but that's not where it's built its competitive advantage. The experiences that come with hiring Uber solve customers' problems — from allowing you to travel without any cash on hand to knowing exactly when your specific driver will turn up — are better than the existing alternatives. That's the secret to its success.

So before you look for a disruptive strategy to create and launch a new product, make sure you understand what job prospective customers are looking to do — and who you are competing with. That is the foundation of successful innovation. If you nail that, the rest will fall in line.

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MARKETING ANALYTICS CAN IMPROVE THE CUSTOMER EXPERIENCE

Almost every organization today is putting customer experience (CX) at the core of its strategy, aiming to provide products and services that meet customers at every touch point. In a crowded, multichannel marketplace, companies realize that a great customer experience—consistently delivering what customers want, when they want it—can be a powerful differentiator.

But many companies fail to deliver, according to recent research by Harvard Business Review Analytic Services (HBR-AS). Although half of surveyed business leaders say CX is a top-two differentiator for their business, just half of them said they perform well in it.

The problem isn't access to data; most businesses said they collect mountains of information on their customers. The real obstacle to better customer experience, the research has found, is built into the way organizations share that data, analyze it, and work together.

Improving the customer experience is the end game, but getting there requires more than data. It requires the right data, from multiple channels, integrated to give a holistic picture of the customer journey. And that is where many companies struggle. HBR-AS found that fewer than a quarter of companies integrate customer data across channels to provide a single customer view. INSEAD research, meanwhile, finds that the number of sources of marketing and customer data that a company integrates also correlates strongly to performance vis-à-vis competitors.

"The most successful companies use analytics to understand how well they generate demand and the quality of the customer experience they provide," says Joerg Niessing, a marketing professor at INSEAD. "If you want to have a major impact, you need an integrated approach to see what is happening at all customer touch points and understand how effective you are."

But integrating for customer value requires getting around organizational silos, which HBR-AS research has identified as the number one problem for companies struggling to improve their total customer experience. These silos prevent organizations from understanding the customers' expectations at critical moments, and cultural resistance makes it tough to get the collaboration needed to solve the problem. As a result, respondents said the business doesn't develop the right insights, get the information to the right people, or make the moves that could add real value.

Data-Driven Insight

By contrast, the study found that "best-in-class companies"—those with strong financial performance and competitive customer experiences—are more likely to have broken down those silos than are other organizations. And they use sophisticated analytics in a way that provides insights that open up the customer experience to the whole organization. Every department within an organization touches the customer at some point: Customer purchase data determines which color product sells best so they know where to increase production, and finance can forecast earnings based on purchase patterns. Marketing can look at this data and decide to test a hypothesis: Is that color product selling best because it's in an image featured on the homepage?

Best-in-class companies recognize how measurement and analytics can improve the customer experience. Once a company begins to collect and examine customer data, it becomes easy to spot patterns of consumer preferences and behavior that suggest opportunities to deliver a better CX.

For example, at Progressive Insurance, the marketing team collected data on how mobile app users were behaving. These consumers, they discovered, wanted more than just helpful insurance quotes in the mobile app; they wanted to buy insurance on the spot. Progressive responded by giving them exactly what they wanted—the option to buy insurance—which vastly improved the customer experience and delivered a big win for the company. When a company creates customer value, the business benefits naturally follow.

Marketing Takes the Lead

But who is going to break down silos, connect the dots of the customer experience, and drive its improvement? Chief marketing officers, who have access to tools that give them a 360-degree view of customers, are uniquely positioned to lead the charge, says Erich Joachimsthaler, author of Brand Leadership: Building Assets in an Information Economy. And companies are looking to CMOs for answers: According to a recent Gartner study, improving customer experience is the number one expectation CEOs now have of their marketing executives.

But to take charge of the customer experience and steer the company toward adding more value to the customer experience, Joachimsthaler said marketing leaders must broaden their scope and jettison much of what they think about brand management.

"In traditional brand management, marketers are responsible for specific product lines," he says. "They have to compete with each other for the attention of the organization and often for the same customers." Rigid silos are the consequence, and those make it difficult to get the big picture needed to improve customer experience.

Today, marketing leaders need to make the case to the company that optimizing the customer experience requires breaking down silos and opening up collaboration, and shifting from a product-centric to a customer-centric approach, Joachimsthaler says. For example, a European beverage company assigns marketing groups to consumption moments, such as a night out, instead of brands and channels. The goal is to embed marketers deeply into a particular customer experience and focus them on each step of the customer journey.

"These companies realize that marketing is about more than communications," says Joachimsthaler. "Marketing needs to connect the dots across all customer-facing functions of a company, including partners, in order to deliver real value instead of just communicating the brand."

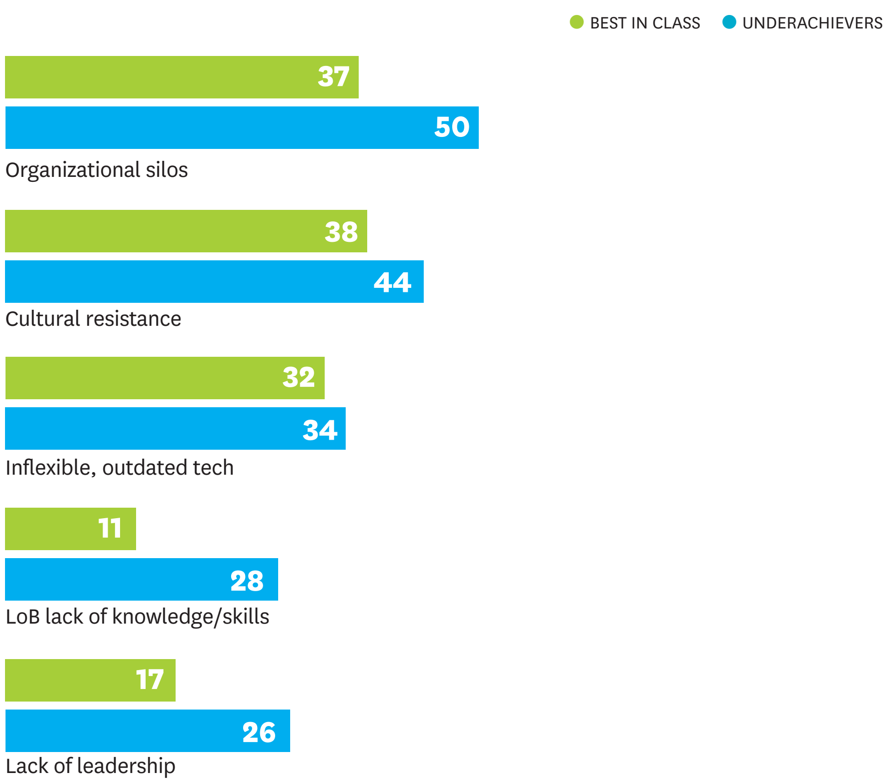
Robust analytics and insights have given marketing teams insight into how customers interact with brands, highlighting product preferences, purchase sequences, and so forth. And they reveal how top of the funnel marketing activities—such as an online display ad or TV commercial—tie in to in-store sales or an online website conversion. Measurement and analytics allow brand marketing and performance marketing to complement each other for the customers' benefit.

Clearly the stakes are high, and CMOs and their teams are challenged to think in new ways. They don't need more data; they need to find ways to identify and supply their organization with useful insights from that data. And the information has to provide full visibility, enabling those within the organization to make the fast decisions that allow them to be there when customers are looking for them—and deliver compelling experiences that their competition can't.

To learn how companies are using data and marketing analytics strategies to improve the customer experience, download "Marketing in the Driver's Seat: Using Analytics to Create Customer Value."

BEST IN CLASS OVERCOMING BARRIERS TO CX IMPROVEMENT

Percentage indicating the greatest barrier to improving customer experience at their organization. TOP FIVE BARRIERS



SOURCE 2015 HARVARD BUSINESS REVIEW ANALYTIC SERVICES SURVEY, N=494

CALCULATING THE ROI OF CUSTOMER ENGAGEMENT

RACHEL HAPPE

We know that customer engagement matters. Yet much of our thinking about engagement remains simplistic. Most current definitions of engagement are bimodal—someone is either engaged or they're not. But this is a limited view that hampers our ability to manage engagement in meaningful ways.

A more sophisticated understanding of engagement allows community managers to effectively influence and change it, and even to calculate an ROI for engagement.

Community management is the discipline of building technical and social environments in such a way that individuals can easily organize and collaborate to achieve an objective. And what good community managers have learned is that, first and foremost, all engagement is not the same. There are a number of behaviors within the broader umbrella of engagement that need to be understood and measured in order to impact them. Engagement is a set of behaviors, not a switch. It needs to be calibrated to business goals to be effective. Second, engagement behaviors are progressive. As individuals get more comfortable and connected to the social environment in which they are engaging, they will exhibit more complex engagement behaviors.

At The Community Roundtable, we've worked to define these engagement behaviors in enough detail so they can be measured and addressed through community management. We call this The CR's Work Out Loud framework and it includes the following behaviors:

Validate Out Loud includes liking, sharing others' posts, commenting, bookmarking or responding to posts. This is often the first visible behavior beyond consuming that people exhibit and is the equivalent of dipping their toes in the water to feel how warm it is in order to assess whether the social environment is comfortable.

Share Out Loud includes sharing documents, graphics, updates and ideas. People tend to start with sharing content that has been written by someone else or approved and as they feel validated and connected, will start to share their own observations and ideas.

Ask and Answer Out Loud includes asking and answering questions. Individuals tend to start with logistical questions ("where can I find x?") and if they find the culture to be validating, supportive and trustworthy they will evolve to asking deeper questions that expose a gap in their knowledge or confidence ("what is the best way to manage a customer situation?").

Explore Out Loud includes open-ended questions or questions about ambiguous topics where there is no right or known answer. This requires individuals to feel like the community culture is both supportive and challenging, making it a safe space to explore, admit vulnerability and share half-baked ideas. This stage is where rich collaboration and innovation lies.

This model helps community managers measure the culture in their community or network and then apply management techniques that prompt and move each segment of their community to adopt more complex engagement behaviors. For example, a customer support community may be getting a lot of views and likes, but very few questions or answers. To address this, the community manager may redesign the home page to highlight a question box and also design a weekly newsletter that highlights unanswered questions. This focus on asking and answering questions will trigger community members to exhibit more of that behavior.

By understanding what kind of engagement is in play, community managers can significantly impact both how much the community engages and how much value is generated. In 2006, Nielsen published the still oft-cited 90-9-1 rule of engagement, that says you can expect a community or network to have 90% of its members lurking/reading, 9% contributing and 1% creating. What we've found in our research is that while that rule can still be applied to large social networks, it is outdated for well-managed communities. In 2016, the average community is achieving estimated engagement rates of 50% lurkers, 23% contributors, and 27% creators, according to our 2016 State of Community Management research.

While all of this is helpful, it still doesn't define engagement in terms of a quantifiable financial value. To do that, we focus on the engagement behavior that generates the most value—answering questions. While communities are applied to many different, complex use cases, at their core they are about enabling people to connect with a network of peers to get information directly from each other, instead of going through a formal structure. That information sharing is prompted by a question-and-answer dynamic in every community—no matter its use case. This is where we start to formulate a ROI for engagement.

When we think about the value of answers there are two categories:

Value of the Answers: There is immediate, incremental cost savings of not having to manage and route the question to the appropriate person and assign them to the task of answering (i.e. overhead cost savings) as well as the value of capturing answers that never would have been asked in more formal channels.

Networked Value of the Answers: The geometric value of making an answer available to the entire community forever (i.e. cost avoidance, productivity and opportunity identification)

To calculate the ROI of engagement, you include the cost of generating that engagement—all of the program expenses (like software, content/programming and staff) related to community management or culture change (see diagram on the next page).

One challenge in looking at the ROI of engagement over time is that in new communities and networks, asking and answering does not happen right away. Most individuals need to feel comfortable and connected before they are willing to ask a question that might make them feel vulnerable. This means there is a

$$\frac{((\text{Value of Answers} + \text{Networked Value of Answers}) - \text{Community Budget})}{\text{Community Budget}}$$

lot of work for community managers to do to prime the culture of the community so that people do feel comfortable and connected. For this reason, the ROI of engagement is typically negative until the culture supports and rewards regular asking and answering.

Once the culture supports asking and answering, the floodgates of value open up and typically the value curve becomes geometric as both more people answer and more people come to the community looking for answers.

We've seen this firsthand in our work with the H&R Block community.

Started as a community of practice — a community focused on sharing expertise and learning — the H&R Block community evolved to a highly effective and widely utilized client self-service resource, where we could calculate in financial terms the geometric growth in value that communities theoretically generate, but is seldom reported.

In its first year, the community did not pay for itself yet because membership and activity was just beginning, but the number of members and quantity of accumulated knowledge was growing rapidly. As membership grew and we worked to make the community more supportive and constructive, more people began asking questions — and getting good answers. As more of those discussions and content elements were captured, more and more people were able to find answers by searching rather than asking directly — creating a positive feedback loop of value.

Four years in, the community is producing amazing results and has become the go-to resource for people looking for tax support. That helps H&R Block extend its brand presence by offering trusted support and access in a way they never could before.

Looking at engagement through its most valuable behavior — asking and answering — can help make cultural maturity more visible. If the culture of your employee community or customer community is not encouraging and rewarding this behavior, you could benefit from a more structured approach to community management.

HOW ONE COMPANY USED DATA TO RETHINK THE CUSTOMER JOURNEY

ADELE K. SWEETWOOD

Just how personal do customers want their experience to be with a company when making a purchase? A few years ago, customers might have said that a company's attempts to offer a unique and personalized experience felt too much like stalking. Now, with so much time spent online, those expectations have changed.

Customers know that the companies they purchase from have access to their interests and behaviors. As the consumers, they must be willing to share their information if they expect a seamless, intelligent, and relevant experience across every channel and interaction. In return, they should expect personalized offers, advance notice, targeted suggestions, and a high level of customer service. Customers must be fully aware that they are generating a rich digital footprint with every transaction, click, and movement that generates data. When that data is appropriately used, it will help cement a loyal customer relationship.

I make my living on the other side of this equation. We have to make choices about how we most effectively use that data. To realize the full value and potential of customer data, we needed to shift from that channel-, product- or message-focused approach to a behavior- and preference-based customer approach.

Customers demand personal and relevant offers that come at the right time for them, not the company. The challenge is to better understand your customer data so that you can hone the timing and relevance of your message. A rudimentary approach is to segment customers into fairly large groups based on some demographic data (age, address, gender, etc.) coupled with recent purchase history. Then present offers that seem relevant to those segments. This can be successful — but not always. An evolving approach is to develop customer data hubs with advanced analytics that enable one-to-one segmentation and real-time decision making. When coupled with a better understanding of where customers are in the buying cycle, these analytics allow us to take a smart, informed next best action that, most importantly, provides a relevant and satisfying customer experience.

Here's how we managed that transition at SAS. Our evolution began in earnest six years ago, as we moved from email blasts to more personalized messages. Our goal was to uncover the right mix of messages and channels to better align and create increasingly refined customer segments.

Our team gathered data on customers' buying journeys—whether they resulted in a sale or not. That's harder than it sounds. We had lots and lots of data at varying levels of complexity and in multiple places in multiple formats. Plus, our business provides analytics, business intelligence, and software services, so our customers are often coming to us with complex problems.

First, we had to clean the data and get it into manageable and usable data stores. We used a three-step approach: First, data cleansing: correcting nonstandard customer data and removing duplicate records. Next, data profiling that enables better understanding of the data by uncovering related data across tables, databases and applications. Finally, entity resolution: identifying data from multiple sources and attaching them to a single customer.

For example, some data might be on a web channel, another set from an inside sales source. More records from the same customer might be found in contact center data. Being able to see how customer data moves through your organization is vital.

Once the data is wrangled and corralled, you can better manage it and set governance rules. Using analytics, we then compared the type of messages sent to a particular contact, that contact's buying cycle phase, and the final outcome. We found that a lot of our messaging was misdirected and out of sync. For example, we were sending early customer journey messages to contacts after a deal was completed—whether we won or lost.

We also found that contacts were requesting content in one subject area (for example, analytics solutions), but those contacts were actually involved in a deal for a different solution (say customer intelligence), so they weren't getting the right content.

Our analyses were extensive and resulted in some crucial changes in how we interacted with customers. Based on our customer data, we are better able to identify where the customer is at any point in their buying journey. For example, are they researching? Do they have an open sales opportunity and they are still deciding? Did they just buy something and are needing more information? Are they an existing user?

While customers' content needs might be similar in some of the stages, the message and approach should be different. When someone is researching a purchase, we may not have enough data to fully understand their needs, so we'll gather information and notify sales so it can follow up.

The easiest way to gather this data is by requiring some minimal registration information in the online experience. Our intent is to share our expertise and ensure they have all the information and resources they need. The follow-on messages they receive are triggered by ongoing interactions with us and the data we collect from those interactions.

We also use the data to better identify the most effective channels and content to engage customers to better fit the stages of our new customer journey life cycle:

Need – High-level messaging, including thought leadership strategies (articles, blog posts, etc.). Content at this phase explains the problem and provides a path forward.

Research – Content that validates the customer's need to solve the problem. Material here focuses on specific business issues and includes third-party resources (analyst reviews, research reports, etc.).

Decide – Deeper content that provides more product-specific information. This material validates the proposed solution through customer success stories, research reports, product fact sheets, etc.

Adopt – On-boarding and self-service content. This stage focuses on introducing customers to support resources and online communities as well as "do-it-yourself" material that introduces the customer to the solution.

Use – Adoption content, such as advanced educational information, user conferences and product-specific webinars. At this stage, users mature with their use of technology and turn to more technical resources to expand their knowledge.

Recommend – Content specific to extending the relationship with the customer. This includes speaking opportunities, focus group participation and sales references as well as involvement in cross- and up-sell opportunities.

Based on the re-conceptualization of our customer journey, some of our key marketing strategies changed. For example, a major retailer came to SAS looking for information on customer intelligence software. What we failed to notice was that we had two different contacts from the same company looking at different, but related information. Because we hadn't yet realigned our organization to have a more unified view of customers, we ended up sending them 30 emails during a 30-day period. Unfortunately, none of those messages had anything to do with customer intelligence solutions. Not surprisingly, none of those emails were opened or acted upon by the folks we sent them to. They likely ended up in a spam folder.

As we engage with customers today, we make sure our interactions are more meaningful. We are able to identify all of the contacts for a customer (and there may be many), the products or solutions they need, where in the customer journey they fit, and we provide messaging and information that aligns with their needs. After the sale, we engage them with relevant activities—invitations to join our user communities and support functions or provide other technical resources.

But all of this is only possible with the use of customer data. In the same spirit that we as consumers have become willing to trade information for personalization, we ask our customers and prospects to give us data about themselves (what they want to tell us), and how they prefer we interact with them. Our promise is to use it effectively when interacting with them.

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DOES YOUR COMPANY HAVE A DATA SCIENCE STRATEGY?

The impulse is always to want more. But when it comes to customer data, is more a good thing? Maybe not. After all, the data an organization has on customers and prospects is only as good as the insights that can be extracted from it and acted upon. More data, if it leads to fewer insights, is no good.

A recent study from Accenture concluded that one of the biggest challenges for marketing leaders today is not finding or hiring analytic talent, but rather it is finding the right ways to move the mountains of data into insights and then into action.

The study concluded that marketing organizations need analytics professionals who understand data and the technologies that collect, house, and integrate it. That's a given. But beyond that, experts say, executives need to place more emphasis on data science than on data scientists. Put another way: They should pay more attention to analyzing and acting on what they have now because analysis paralysis doesn't create customer value.

"Data scientists are technicians who are very good at managing and manipulating data," says Peter Fader, the Frances and Pei-Yuan Chia Professor of Marketing at the Wharton School of the University of Pennsylvania and author of Customer Centricity: Focus on the Right Customers for Strategic Advantage. "But data science is about looking for patterns, coming up with hypotheses, testing them, and acting on the results."

Machine Learning

That's where machine learning can speed analysis and augment your analytics team's work—by crunching massive amounts of data to identify patterns and anomalies.

A type of artificial intelligence that uses algorithms that iteratively learn from data, machine learning can surface insights without being explicitly programmed where to look for them. It makes it easy to crunch massive amounts of data, calling out issues before you see them and providing answers to questions you may not have even thought to ask. This speed to insight allows marketers and analysts to do more with the data that comes in and see the whole picture of the customer journey.

But instead of building data science capabilities, companies too often bring on increasing numbers of analytics specialists. The result is often what Fader calls a "data firehose" instead of a targeted set of insights that help answer specific questions about customer behaviors. Business leaders have practically no time to make good decisions about customer experience because so much data is being given to them.

Accenture Managing Partner Conor McGovern says, "If you can't make the rubber hit the road with a disciplined approach to analytics, you will end up with customer experiences that aren't as effective or engaging as they could be. As with any source of information, you need to embed and ingrain analytics into decision-making processes to obtain the desired results."

Competing on Analytics

That targeted data science approach can give companies of any size a competitive advantage. One company that did that well was Harrah's Entertainment (now Caesars Entertainment), says Fader. The company became an analytics legend through a rigorous approach to analytics when time was definitely not on its side.

"Competitors with deep pockets were handing Harrah's their lunch, and the company was desperate," he says. "They needed to figure out how to zig where competitors were zagging."

Through analytics, Harrah's aggressively experimented to find out who its best customers were and what would increase customer business with the casinos. For example, Harrah's discovered that its best customers weren't the high rollers most casinos targeted. Its best customers were retired professionals such as doctors and lawyers.

The focus paid off—the loyalty program ended up generating more than 80 percent of the company's gaming revenue.

"Harrah's prevailed in the end by using a disciplined approach to hypothesis development and experimentation," says Fader, and then it was able to "move quickly and effectively."

In order to pursue an effective analytics strategy, executives have to clearly define business problems and what the questions are that analytics can answer. If executives don't do this, they risk getting back data that sends the organization in the wrong direction.

For example, companies frequently find themselves puzzling over a dip in conversions among a desired demographic. Organizations need to be able to study the data, ask customers and potential customers the right questions, and experiment with offering different solutions to optimize the customer experience. Answers need to come in quickly so the organization can act quickly—ahead of the competition.

The speed to insight that machine learning offers can help companies act strategically on the data they have, homing in on the insights with impact, allowing executives to make informed decisions.

Says Joerg Niessing, a marketing professor at INSEAD: "Executives still have to make the same strategic decisions that they have always made. They need to understand market dynamics and what competitors are doing—and then determine how the company should react. The only difference is that we now have a great deal more data and analytics to help make these decisions."

To learn more about how leading companies are using marketing measurement and analytics to create customer value, download "Marketing in the Driver's Seat: Using Analytics to Create Customer Value."

SPONSOR CONTENT FROM GOOGLE ANALYTICS 360 SUITE

CREATING CUSTOMER VALUE BY HARNESSING DATA

To win hearts and minds (and dollars), marketers must be able to identify those intent-rich moments—when someone is looking to learn something, go somewhere, do something, or buy something ... and act. They need data and analytics strategies that will show them both what consumers want in these micro-moments and how to drive new and better experiences for customers.

Getting there, however, requires collecting and analyzing, in real time, mountains of consumer data, and integrating it to get a more holistic view of the consumer journey.

Erich Joachimsthaler, author of Brand Leadership: Building Assets in an Information Economy and Hidden in Plain Sight: How to Find and Execute Your Company's Next Big Growth Strategy, says that marketing organizations now have access to the tools they need to integrate data and create a 360-degree view of customers. The challenge, however, is using those tools effectively.

Lenovo Creates Better Value for Customers

Lenovo is a prime example of a marketing team that mastered the use of those tools, driving the company to create better value for its customers.

Ajit Sivadasan, vice president and general manager of global e-commerce, realized that customer data was burgeoning and Lenovo needed to harness it. He began by establishing an analytics team in his e-commerce unit that today integrates and analyzes customer and marketing data from more than 60 sources worldwide.

Sivadasan's team provides data and analysis to support specific value-adding activities across the enterprise. For senior executives, for instance, the analytics team helps improve Net Promoter Scores by rolling up data on how well the company performs on the drivers of those scores.

On the ground, the team integrates data from multiple customer touch points to drive increasing customer loyalty. Sivadasan has found that there are three main drivers of customer satisfaction that correlate to loyalty:

1. The first is the quality of the online experience, and Sivadasan's team tracks important variables such as how easy it is to find product information and whether Lenovo provides sufficient follow-up on the status of an order.

2. The second driver is meeting commitments, such as how often the company misses promised ship dates.

3. The third driver is the experience with the product itself. By analyzing social media and direct customer feedback, Lenovo's ecommerce team helps the company improve its products.

As an example, Sivadasan points to Lenovo's tablet offering using a Microsoft operating system. Originally, Lenovo launched its tablet in only an Android version. By monitoring customer sentiment globally, the analytics team discovered a significant opportunity for a tablet with a Microsoft operating system. "We were able to act on that data," says Sivadasan. "The Microsoft version was very successful."

Like other leading companies, Lenovo was able to build on its brand strength by leveraging sophisticated marketing analytics to optimize every micro-moment for its customers.

Strategy& (formerly Booz & Company), together with INSEAD's eLab, conducted a survey of nearly 500 executives regarding their data analytics strategies, a key finding of which is that "companies that invest in big data and deploy the resulting knowledge strategically appear to gain a consistent competitive advantage, resulting in financial performance that is better than that of competitors."

*To learn how other companies are using analytics to create customer value, download the Harvard Business Review Analytic Services whitepaper "*Marketing in the Driver's Seat.*"*

TOO MANY EXECUTIVES ARE MISSING THE MOST IMPORTANT PART OF CRM

CHARLIE BROWN

For all the emphasis placed on customer relationships these days, very few large organizations really understand how to manage them. Whether you're a corporation, a nonprofit or a government agency, chances are that your approach to customer relationships at a system-wide level begins and ends with CRM (customer relationship management) software — yet its implementation rarely does much to foster real relationships. As a consultant, I've seen dozens of CRM implementations in a wide range of organizations, and consistently find that they fail more than they succeed. This isn't the fault of the technology or the CTO, who usually manages it. It's a result of misguided strategy.

The problem is that CRM's purported goals are vastly different from the way it usually functions in real life. For most organizations, it's calibrated to drive sales, which means sales conversions are the primary metric it follows. Moreover, CRM implementations tend to entrench ineffective practices rather than introduce new ones: contact your average CRM consultant and the first question you'll likely get is, "What's your current process for customer management?" This approach might make sense when bringing in accounting or supply chain management software, where the greatest gains come from bringing order and clarity to an existing system.

Relationships aren't numbers, though, and CRM isn't an efficiency tool. It's a relationship-building tool — that's why there's an "r" in it — and it's one of your only opportunities to put real effort and resources toward developing your network of relationships. By treating it as merely another piece of software to optimize, most organizations squander this opportunity.

Instead, CRM should be an executive concern, not just an IT one. Because it involves software, many companies make it the CTO's responsibility. But relationship management also depends on policy, incentive structures and people. In the brand-driven environment of modern commerce, no strategy impacts your business more than how relationships are managed, inside and outside the organization, and that's an executive role if ever there was one.

But how does the relationship-savvy CEO or CMO go about mending these gaps? In my experience, relationship leadership boils down to three essential components.

Setting a vision for your relationship network

Great organizations have a strong sense of purpose — this has been argued and proven so many times that I won't rehash it here. But for some reason, purpose-setting tends to evaporate when it comes to relationships. Just as there are many purposes that can make a company great, there are many kinds of effective relationship models. In both cases, it's the CEO's job to form a vision for which direction to take, and embed that vision within the organization.

Think about the relationships that Amazon, Patagonia and Airbnb have with their customers. Amazon is about connecting people with the information and vendors they need, while Patagonia fosters a community of like-minded explorers and environmental stewards. Airbnb blurs the line between provider and consumer, to encourage deeper personal connections—even, occasionally, at cost to the company. Each model is clearly stated and universally understood, internally and in the market. Without this kind of clarity, there's little beyond sales conversions for CRM to track.

The Airbnb example is particularly instructive. Its business model — an online marketplace for peer-to-peer lodging — was already established by services like HomeAway and VRBO. But Airbnb surpassed both of them by actively encouraging hosts and guests to form genuine relationships. Members are urged to provide photos and background information, hosts contribute to online city guidebooks, and the company rewards its especially responsive hosts with greater visibility and even small gifts. Individually, each gesture is small, yet they add up to a community that emphasizes relationships over strictly transactional interactions.

CRM is a crucial tool for making this happen, but only if there's a clear goal for it to pursue. This starts with organizational leaders asking the question, "What relationships are critical to the success of my business?" And it continues with the question, "How do I support those relationships to help them grow into a community?"

Prioritizing the right relationships

A good CEO knows that not every relationship is equally important, and not every important relationship is about money. Often, the most valuable people in your network are those who are most engaged, who take the time to learn about your brand, who proactively share their enthusiasm or who are simply well connected to potential new customers. The key is figuring out which of these behaviors correlate to success for your organization, prioritizing the relationships with those who have them and then letting those people know they are important to you.

The highly targeted buyer and seller rating system that eBay uses makes an excellent example. Not only does it reward consistent positive engagement over the long term (a more important metric than dollars spent), it also steers buyers toward sellers likely to provide a good customer experience. Beyond the technological back-end that lets the site function, this is eBay's real value: an intentionally built network that pushes eBay's most valuable members to the forefront, empowers them and inspires the newly engaged to follow suit.

Assigning metrics that measure relationship activity

To be fair, most CRM software can track more than just sales actions, yet very few implementations actually do. This omission stems from a lack of intent, and it's up to the organization's leadership to correct it.

How often are customers logging into your site? Are they creating content and discussing your brand unprompted on social media? How about referring new customers, or contributing to support forums? By combining and correlating metrics like these, it's possible to measure not just who's in your community, but how active they are, and whether the community itself is thriving.

Find metrics that measure relationship health, not just sales. EBay's seller ranking system, mentioned above, grants "PowerSeller" status to members who transact frequently and earn consistent high marks from buyers. At Airbnb, getting repeated five-star ratings from guests and responding quickly to booking requests puts you on the path to "Superhost" status. Each program comes with perks that incentivize certain behaviors, but also combines metrics in a way that helps these companies track the health of their community.

When strategically designed, CRM can measure all of these things, and, when properly managed, it provides that most crucial of insights: how important your organization is in people's lives.

Great relationships matter because they're durable. More than today's sales numbers or quarterly reports, your "relationship numbers" let you know whether your organization will continue to thrive in the coming years. CRM is a tool for finding this out, and for helping correct what's not working. As with any tool, it can do as much harm as good; its value stems from strategic design and supported implementation. Success starts with the right people asking the right questions. In this case, success starts with an aligned leadership team setting the direction for a culture of relationships.

THE FORECASTING SWEET SPOT BETWEEN MICRO AND MACRO

EDDIE YOON, JEREMY BARTLOW, AND TIM JOYCE

Forecasting is the third rail of business. Few companies are really good at it, and there can be big penalties for being wrong. In fact, a survey of more than 500 senior executives showed that only 1% of companies hit their financial forecast over three years, and only one out of five are within 5%. Overall, companies were off by 13%, which impacted shareholder value by 6%.

Forecasting, as analytically challenging as it is, is a lot like politics, in that there are multiple agendas. Those responsible for delivering a revenue forecast typically want to lower it. Those seeking more resources want to increase it. This manipulation makes sense: If a forecast is unlikely to be accurate, then you may as well align it with your agenda.

The clear solution is to improve the quality of forecasts, especially in further-out years. With the growth of big data, it is tempting to hope that forecasting will get better. But some forecasts focus too much on macro data, like GDP, urbanization, and population growth. Those are certainly important, but often things get lost in translation by the time they get to your category.

Other forecasts focus too much on micro data that is very specific to your category. They can become too narrow, and it becomes easy to lose sight of bigger disruptions that might occur. Some even believe the answers will emerge if we just keep crunching bigger and bigger data with better computers.

Our view is that "middle data" is the key to improving forecasts. By middle data, we mean information that's somewhere between the big, country-level data and the category-specific microdata. Sometimes this information indicates life events and triggers at the individual level — getting married, moving to a new home, or a lifestyle change such as finding a new job. All of these things can dramatically influence your need for products and services. Middle data is closer to actual consumers than far-flung data like GDP, but it elevates the frame of reference, as most companies mistakenly believe consumers spend more time thinking about their categories and brands than they really do.

Consider a few examples:

Trends in religious growth are one of the best predictors of fashion-related categories. Certain religions strongly influence the type of clothing you wear during religious services. They can also influence your attitudes to traditional dress versus Western clothing outside of religious services. In areas where Christianity is growing, sales of Western-style formal fashions are likely to grow too, since Christianity usually carries a strong acceptance and influence of Western culture and clothing. As an example, an area of the world that could be strongly impacted is sub-Saharan Africa. The share of the world's Christians living in sub-Saharan Africa is expected to grow from 24% in 2010 to 38% by 2050 (according to Pew Research). Growth of religion is a stable, steady, and sustainable trend, which is the ideal type of data for forecasting.

Your climate and the type of house you live in are great predictors of entertainment (e.g., toys) and education (books) spending per capita on babies and toddlers. Contrast the available living space of a large suburban home with a full-size basement versus a small condo in a large city. Compound this with your local climate, which dictates how much time you spend in or outside your home in harsher weather. You will quickly see how one family in a larger house and harsher climate has much more capacity and demand to buy entertainment products and educational toys and books for their growing children.

The fundamental driver of demand isn't the choice to live in a certain house and climate. The parents' demand for the type of home and climate to raise their children in drove the choice of the house and climate, which in turn drove demand for entertainment and education spend. But the choice of house and climate is easy to measure, whereas a set of big data on parental motivations does not exist.

The UN human development index (an amalgam metric of education, economy, and infrastructure) is another great predictor of consumer behavior, specifically as it relates to consumer spending on beverages. This index can help explain whether consumer demand for beverages is more "drink to live," buying basic functional beverages such as dairy products and big bottles of water to cook, wash, and drink, or "live to drink," in which people buy more enjoyment-related beverages such as wine, coffee, and other premium or functional health-related beverages.

China was a great example of this as it shifted from "medium" to "high" on the human development index during the 2000s. Specifically, from 2000 until 2012 its development index rose from 59 to 72, putting it into the "high" development standard. During that same period its grape wine consumption increased more than fivefold, from just over 0.25 liters per capita to 1.5 liters per capita, according to a study by Australian National University. And again, this is publicly available data that is also slow and steady in development, making it great for forecasting.

In the end, like many analytics exercises, forecasting is a "garbage in, garbage out" process — you get only what you put in. Using big data to incorporate "middle data," — ideally from slower, steady, and sustainable data sources, and often using data adjacent to your business and category, can be a great way to improve forecast accuracy, growth, and shareholder value.

USING DATA TO STRENGTHEN YOUR CONNECTIONS TO CUSTOMERS

NICK HARRISON AND DEBORAH O'NEILL

Customer insight, segmentation, and behavior tracking have proliferated in recent years. But their impact on sales has been underwhelming, primarily because they ignore the needs of one key constituent: the frontline employee working to make the best possible marketing decisions day by day.

Across industries, staff such as retail category managers, sales representatives, financial advisers, and wealth managers are awash with reports and insights that comfort their companies' top executives and by making them feel that they are leading a "customer-centric" organization. But managers in the trenches often describe the data in these reports as unhelpful, contradictory, and distracting. Worse, they become demoralized when centralized "black-box" solutions and algorithms make strategic decisions for them.

In theory, deep insights from customer big data should enable highly skilled employees to be more creative and free up time to connect with customers in new ways that add value. In practice, however, many lose interest in visiting stores and talking to customers, instead spending most of their time in front of their computers. Some just give up entirely and look for a different role.

There is a way to use customer insight data to strengthen, rather than weaken, connections to customers. We've observed businesses make big improvements when they strike a balance between the creativity of their people and the science of sales. What made the difference?

Five broad rules enable managers to move from working for customer data to having the data work for them.

Determine decisions first, data later. Most managers know that data is not an end in itself: It must serve the business. Yet, curiously, many managers rush to collect all of the data they can or the insight they find most interesting, rather than analyzing the decisions that need to be made and working backward to decide what data, analytics, and insights will help.

This is a potentially fatal mistake. To be sure, most major retailers find a wide range of customer segmentation data helpful in understanding customers' lifestyle habits and needs. Revelations from this data can shape business priorities. But this data is a far cry from the specific information that retail managers need to figure out which products to put into a particular store — one of the most important frontline decisions in an organization.

Retail leaders such as Kroger and Tesco overcome this challenge by focusing on collecting exactly the right product-focused insights to drive these crucial assortment decisions, such as the item's selling power, or its "incrementality" (which shows whether customers loyally purchase the product week after week or happily switch between alternatives). The trick is to deliver the end goal of customer-focused decisions by delivering not insights on customers but customer key performance indicators at the product level — because those are the true deciding factors for assortment.

The same principle applies in other areas of retail. For example, local weather forecasts, event calendars, and delivery schedules assist with carrying the optimal mix of inventory in each store. They enable stores to seize chances to sell more ice cream during a heat wave and higher-margin snacks to students when big sports events happen at nearby stadiums. When a cereal's sales suddenly slump, store managers can see if it's because the product is no longer popular or because a delivery truck never arrived. The approach is the same: Don't just supply insights that may look interesting. Ensure that insights are "shaped" around the decisions that must be made.

Empower, don't automate. Marketing and commercial decision makers often complain that customer analytic tools developed to improve their productivity actually make them less effective. More often than not, this is because the company has built a centralized, impenetrable black box that makes decisions for people rather than helping them make better decisions themselves.

But data analytics has blind spots. It can't take into account all considerations, and, by definition, it's based on history. Making decisions based on customer analytics alone is a surefire way to become a prisoner of your past.

Continuing with the retail management example, trying to make assortment decisions based purely on analytics misses many important insights that only the category managers can provide: discussions with suppliers about next year's trends and promotional events, predictions about what's going to be "hot" next season, new product ideas and developments, and broader impacts on the market. What's worse, putting a black box in place disempowers category managers and may rob them of any motivation to correct the mistakes of the algorithm.

Contrast this with a system that serves up the correct key performance indicators in the right format to help frontline managers make better decisions so that they can make the final call. In this situation, decisions are improved because even if data challenges gut feelings, there is still space for creativity.

Design "with the users, for the users." Once a company decides to try out an insight tool, it should keep its first data project small and focused on frontline decisions, that way participating managers can be engaged and help to ensure its success. We find that small, test-and-learn data projects on 90-day cycles help to steer clear of committee consensus. Incremental changes also help to surface errors, which can be picked up more quickly and fixed without losing the project momentum or stakeholder buy-in. After achieving sufficient buy-in, the project can be easily scaled.

That's exactly what one bank is attempting by encouraging its managers to spend more time with clients and less time poring over research. The bank started out working with a small number of account managers and clients to identify developments that would improve the business. It then developed a system that would send these account managers real-time alerts about potential opportunities. When oil prices dropped, the system alerted managers to call their top five clients whose businesses would be impacted by the change. Over multiple 90-day cycles, the company was able to try out new alerts, remove the ones that weren't working, and continue to refine the tool as it was rolled out to more managers. Today nearly all of the account managers receive business insights from the tool and are spending about 20% more time with their clients.

Continue to remove distractions. Companies must continually review customer data reports with managers on the front lines to be sure that they are restricted to those that provide actionable insights. They must resist the temptation to get more and more reports out of the system just because they can.

An effective report is one that leads to measurable benefits. Using that lens, one major European grocer axed half of its sales reports because they didn't provide actionable information. Managers loved receiving a weekly list of the 10 best-selling products — but it turned out that no one was making decisions based on it.

So the grocer's chief information officer replaced the list with a more detailed one of the top 10 items in local store groups. Category managers took actions based on this report because they could see what some stores were selling well and determine whether a product should be stocked on their own shelves.

Build analytical capability and culture across the organization. Finally, even successful data projects will fail eventually unless a company builds an organization that can continue to refine and maintain the new approaches, so that demand for them spreads across the organization.

Leading consumer-facing companies are putting huge efforts into building their own customer insight and analytical organizations — particularly those based in big cities such as London, Paris, or New York, which can access top analytical talent. For example, one leading retailer in London recently formed a new analytics and digital division, led by a senior executive. The new group is now attracting top customer analytics talent, in part because it operates and feels like more like a startup than a blue-chip corporation, right down to its office layout. Another London-based retail bank has set up a separate business unit with its own profit-and-loss statement. The unit's mission is to improve the performance of the bank's core business and to develop new business streams, all via the use of customer data and analytics.

In addition to establishing these "centers of excellence," both of these companies are simultaneously using their best people to help bring the new approaches into the front lines. That's because they realize that their new groups' customer data and analytics must work well for the frontline staff, or else their companies will revert to their old ways of working.

It's often said that the devil is in the details. When the right insight reaches the right hands on the front lines of a business, the results can be truly transformational. Carefully identifying and executing your company's customer insight mission in consultation with frontline managers can make all the difference.

SPONSOR CONTENT FROM GOOGLE ANALYTICS 360 SUITE

3 WAYS MARKETING ORGANIZATIONS CAN MAKE DATA MORE ACTIONABLE

Optimizing every customer experience to be useful and engaging at every touch point is a marketing imperative in today's multi-channel, multi-screen world. Customers demand consistently superb experiences, and CEOs expect marketing executives to deliver them.

Data, of course, is key to maximizing every customer experience. But the data an organization collects will be useful only if it is interpreted accurately and made actionable. That requires data and insights to be shared and understood across the organization.

Just because marketing managers and analytics teams all have access to the same data sets and use the same tools doesn't mean everyone "gets" the story that the data is telling. Misinterpretation can easily lead an organization down the wrong path.

The whole organization has to collaborate in order to connect the dots, communicate the meaning and impact of the insights surfaced by the data, and come up with solutions that drive improved customer experiences.

To become better data storytellers—who turn insights into action—marketing organizations should follow these three steps:

1. Organize

Silos prevent many organizations from reaching current and potential customers because they impede the integration of customer data. According to a recent Harvard Business Review survey, silos represent "the biggest barriers to improving customer experience and best-in-class companies—those with strong financial performance and competitive customer experiences—are more likely to have broken down those silos than are other organizations."

Silos aren't just organizational; data silos are created when marketers and analysts don't use the same tools.

Whether caused by organizational structures or the use of different tools, silos must be taken down if an organization is to get a holistic view of the customer journey. Only when data is organized and integrated does it open up a true perspective on every touch point and allow the organization to optimize each step of the customer's journey.

Determining how to organize data and integrate it begins with marketing having a clear understanding of the organization's business objectives and KPIs. In that way, marketers can know the right questions to ask via analytics.

2. Visualize

After organizing and integrating data, analytics teams face the challenge of not only generating new knowledge from it but also making sure marketers and decision makers are able to quickly consume that data. And that requires data storytelling, which is essential for sharing information, gaining executive buy-in, and making recommendations to business leaders, who need to quickly process complex information in a simple way.

A critical part of making data easy to understand is visualizing it, using anything from a straightforward chart to dynamic dashboards that update in real time. Such visualizations are more than bells and whistles. "The best ones," says Scott Berinato in a recent Harvard Business Review article, "get at some truth and move people to feel it—to see what couldn't be seen before. To change minds. To cause action."

Effective data visualization:

- Simplifies complex information
- Reduces misinterpretations of data
- Promotes one data set for multiple uses (consistency)

By contrast, ineffective data visualizations misinterpret the data in some way, whether through error or bias, and that can be a serious impediment to executing on that data.

Tools can help in interpreting data for quick comprehension. For example, Google Data Studio 360, part of the Google Analytics 360 Suite, makes data quickly actionable by integrating it from multiple sources and turning it into interactive reports and dashboards with real-time collaboration. With an intuitive visual editing interface, drag-and-drop functionality, and a rich library of visualizations, it helps marketing teams more easily reveal the real story behind the data.

3. Share

Self-service processes are often offered as a way to share data across many levels of the organization and spur action. While valuable, this type of sharing doesn't guarantee that everyone can make sense of the numbers. If the data can't be understood, its insights cannot be acted on.

Data visualization and dashboarding tools make every bit of the organization's vital data clearer, so all can find and share the solutions and strategies that will optimize the customer experience. Armed with the data they need, when they need it, teams can fully leverage the power of the organization's marketing data to make better decisions. What's more, built-in collaboration and dynamic dashboards allow teams to share ideas in real time.

With exponential volumes of data being processed and powering most C-suites, data visualization has become instrumental to quickly making sense of the most important points. It simplifies complex information so it can be understood and acted on. Because data is updated in real time, decisions aren't being made based on outdated data.

"Real-time data is critically important. Otherwise, business leaders may be making decisions off data that is no longer relevant. The business landscape changes so quickly, and stale data may inadvertently lead to the wrong decision," says Suzanne Mumford, head of marketing for the Google Analytics 360 Suite.

The companies that shine at optimizing the customer experience go beyond analytics and measurement. They build insights they can use, and they share those insights in ways that everyone across the organization can understand—and act on—to make every customer's experience at every touch point the best it can be.

To learn how data visualizations and dashboards can help your marketing team share insights and make better decisions, visit the Google Analytics 360 Suite website.

AN EMOTIONAL CONNECTION MATTERS MORE THAN CUSTOMER SATISFACTION

ALAN ZORFAS AND DANIEL LEEMON

In the search for profitable organic growth, more and more companies are making major investments in optimizing the end-to-end customer experience—every aspect of how customers interact with the company's brand, products, promotions, and service offerings, on and offline. But most companies lack a strategic objective that spans the customer journey, can be understood and operationalized across the enterprise, and, most importantly, actually increases customer value. Without a clear, measurable, value-creating goal, companies risk expending huge amounts of human and capital resources without delivering any real financial return.

Many companies are busy mapping their customer experience and tracking customer activity across physical stores, call centers, e-commerce sites, and social media, gathering mountains of data from their own surveys, customer tracking systems, loyalty programs, and third-party providers. Their stated goal is typically to improve customer satisfaction at each step of the customer journey. But overall customer satisfaction is often already high, and seldom a competitive differentiator.

Our research across hundreds of brands in dozens of categories shows that the most effective way to maximize customer value is to move beyond mere customer satisfaction and connect with customers at an emotional level—tapping into their fundamental motivations and fulfilling their deep, often unspoken emotional needs (for details, see our HBR article "The New Science of Customer Emotions"). That means appealing to any of dozens of "emotional motivators" such as a desire to feel a sense of belonging, to succeed in life, or to feel secure.

High-Impact Motivators

Hundreds of "emotional motivators" drive consumer behavior. Below are 10 that significantly affect customer value across all categories studied.

On a lifetime value basis, emotionally connected customers are more than twice as valuable as highly satisfied customers. These emotionally connected customers buy more of your products and services, visit you more often, exhibit less price sensitivity, pay more attention to your communications, follow your advice, and recommend you more—everything you hope their experience with you will cause them to do. Companies deploying emotional-connection-based strategies and metrics to design, prioritize, and measure the customer experience find that increasing customers' emotional connection drives significant improvements in financial outcomes.

The customer experience is a critically important driver of emotional connection. Our analysis shows that customers who engage in an omnichannel experience, for example, are much more emotionally connected and therefore consistently more profitable. Unfortunately, customers often cannot tell you what aspects of the customer experience resonate most powerfully with their emotional motivations. In fact, they often misreport the underlying importance of particular customer experience elements, leading companies to invest in the wrong things. By applying sophisticated big data analytical techniques, we have developed a method for optimizing the customer experience investments that directly drive increased emotional connection and, thereby, greater customer value and financial returns.

Working with one brokerage and investments firm, we helped to quantify the value of emotional connection, identifying its customers' key emotional motivators and relating those motivators to the customer experience. We found that key drivers of emotional connection included satisfying customers' desires to stand out from the crowd, and to bring order and structure to their lives. These were the emotions that most strongly motivated them to choose and invest more with their brokerage firm.

With these insights in hand, we mapped nearly 100 facets of the customer experience—all the way from opening an account through on-going customer service—against both what customers stated was important to them, and, via predictive analytics, what actually affected their emotional connections. While customers said that, for example, assistance with transferring funds was highly important to them when they opened a new account, our analytics showed that this had little impact on emotional connection, while a personal welcome note and online investing education videos had a big impact– even though customers did not identify these features as particularly important when asked.

Of course, it's necessary to provide customers with what they say is important. However, our research shows that it's much more valuable to align customer experience investments to those elements shown to drive emotional connection, thus maximizing ROI while minimizing risk. For this firm, customer-experience strategies that maximized emotional connection resulted in customers who are six times more likely to consolidate assets with the firm than customers who are highly satisfied but not emotionally connected.

In our work with a major apparel retailer we found that among customers' key emotional motivators were their desire to feel a sense of belonging, be thrilled by the shopping experience, and have a sense of freedom and independence. The retailer executed marketing programs designed specifically to address these motivators at the "choose store" and "make a purchase" stages of the customer journey—for example, by using relatable models within their advertising imagery and providing personalized alerts on new items, aspects of the experience that drove emotional connec-

High-Impact Motivators

Hundreds of "emotional motivators" drive consumer behavior. Below are 10 that significantly affect customer value across all categories studied.

I am inspired by a desire to:	Brands can leverage this motivator by helping customers:
Stand out from the crowd	Project a unique social identity; be seen as special
Have confidence In the future	Perceive the future as better than the past; have a positive mental picture of what's to come
Enjoy a sense of well-being	Feel that life measures up to expectations and that balance has been achieved; seek a stress-free state without conflicts or threats
Feel a sense of freedom	Act independently, without obligations or restrictions
Feel a sense of thrill	Experience visceral, overwhelming pleasure and excitement; participate in exciting, fun events
Feel a sense of belonging	Have an affiliation with people they relate to or aspire to be like; feel part of a group
Protect the environment	Sustain the belief that the environment is sacred; take action to improve their surroundings
Be the person I want to be	Fulfill a desire for ongoing self-improvement; live up to their ideal self-image
Feel secure	Believe that what they have today will be there tomorrow; pursue goals and dreams without worry
Succeed in life	Feel that they lead meaningful lives; find worth that goes beyond financial or socioeconomic measures

SOURCE SCOTT MAGIDS, ALAN ZORFAS, AND DANIEL LEEMON

FROM "THE NEW SCIENCE OF CUSTOMER EMOTIONS," NOVEMBER 2015

tion even though customers said these weren't important.

By implementing an emotional-connection-based strategy across the entire customer experience — including how it communicates with customers and attracts prospects—this retailer has increased its percentage of emotionally connected customers from 21% to 26%, reduced its customer attrition rate from 37% to 33%, and increased customer advocacy from 24% to 30%, resulting in a 15% increase in the number of active customers and more than a 50% increase in the rate of same-store-sales growth.

Shaping a customer experience by being precise about the emotional connections you're trying to build and investing in the touch points that drive these connections is an powerful way to increase customer value, and maximize the return on investment decisions and minimize the risk. Emotionally connected customers not only generate greater value, but in every interaction become more and more convinced that "this company gets me."

Customer experience improvement is critical, but it's very hard and expensive to execute. It requires prioritizing and managing large investments that span multiple functions across the organization, all in the hope that customer value will increase. By setting emotional connection as the overarching goal, the "true north" of the customer experience, companies can point their investments in the right direction, execute more effectively, and reap significant financial rewards.

EXTRACTING INSIGHTS FROM VAST STORES OF DATA

RISHAD TOBACCOWALA AND SUNIL GUPTA

Companies have invested millions of dollars in big data and analytics, but recent reports suggest most have yet to see a payoff on these investments. In an age where data is the new oil, how are smart companies extracting insights from these vast data reservoirs in order to fuel profitable decisions?

In a provocative and influential article, Chris Anderson, the editor of Wired magazine, argued, "...faced with massive data, this approach to science—hypothesize, model, test—is becoming obsolete...There is now a better way. Petabytes allow us to say: 'Correlation is enough.' We can stop looking for models. We can analyze the data without hypotheses about what it might show."

Uncovering hidden patterns in data thus became the new Holy Grail. But even if data scientists are able to find the Grail, these discoveries are often divorced from business problems.

Companies that have been successful in harnessing the power of data start with a specific business problem and then seek data to help in their decision making. Contrary to what Anderson preached, the process starts with a business problem and a specific hypothesis, not data. Consider these three cases:

Amazon's Prime Now

In 2005 Amazon launched its Prime service, which offers members free two-day shipping. Brick-and-mortar retailers who found it hard to compete on price or variety highlighted that customers could immediately pick up products in their stores instead of waiting for days. To stay competitive, Amazon launched free same-day delivery for its Prime members in 2015. Soon it announced a new service, Prime Now, allowing its members to order from over 25,000 products that could be delivered to their doorsteps within two hours. How can Amazon deliver thousands of products to millions of households within hours when other online businesses take three to five business days? While efficient warehousing and logistics is part of the answer, Amazon uses customers' past purchase behavior to predict what they are likely to order in the future. This insight helps Amazon optimally locate its warehouses and stock them with the appropriate products. Amazon knows the products you are likely to order even before you do. Better predictive ability from rich customer data has another important benefit: Amazon does not keep most of its products in inventory for very long, significantly reducing its working capital requirement. In fact, its cash conversion cycle is 14 days, much smaller than the nearly 30 days for most retailers.

Heineken's Cities of the World

In 2014 Heineken was facing a challenge around the world: Its consumers, especially the young "in crowd," were beginning to prefer local craft beers that were seen as more authentic. How can a global brand stay relevant to these consumers? Heineken executives recognized that beer drinking is part of consumers' social life. So what other things or events drove and enriched their social behavior? The company saw that people were using social signals to determine what was hot in a city (bars, restaurants, events) to reduce FOMO (fear of missing out). Using this insight, Heineken launched a campaign called "Cities of the World," supported by a Twitter-based service called @wherenext to drive social engagement. To use this service, consumers simply tweet @wherenext and geo-tag their location to receive recommendations of restaurants, events, or clubs in their area, effectively turning mobile phones into a customized map of city hotspots. Heineken fueled the @wherenext algorithm with insider information, mobilizing influencers to post about their adventures. Soon more than 100 markets translated this global strategy into local markets, creating other unique ways to help consumers find adventurous, worldly experiences. In London Heineken-branded cabs literally drove people out of their comfort zones, delivering customers who drank a pint of Heineken to other pubs in the city for free; in Mexico green Heineken doors around the city opened to surprising experiences — an unexpected bike ride, a trip to London, or a fabulous dinner out. Apart from creating strong affinity for the brand, the overall activation led to 5% volume growth in the top 20 markets

BuzzFeed's Native Ads

Native advertising, or sponsored content that often blurs the line between advertising and editorial, is all the rage among advertisers. BuzzFeed, one of the leaders in this field, was founded by Jonah Peretti in 2006 on the premise that it was possible to reliably produce content that would go viral. BuzzFeed now generates 7 billion views from 200 million unique visitors every month. Advertisers flock to Buzzfeed for its ability to create sponsored content that achieves 30%–80% social lift, a measure of virality. How does BuzzFeed achieve this level of virality consistently? Jon Steinberg, former president of BuzzFeed, explained, "There is a lot of creativity [in producing content], but once the posts are published the system takes over. We take control during takeoff, but while the thing is in the air it is on autopilot, steered by an algorithm." The company effectively uses insights from data that allow algorithms to feed the winners and starve the losers.

These examples have one thing in common: The insights from data emerge from having a laser focus on a business problem rather than from taking shots in the dark in the hope of uncovering a hidden truth. Sure, there are scenarios where data patterns that are discovered by chance yield insight, but most of the benefit from data comes from pursuing well-defined problems.

THE POWER OF DESIGNING PRODUCTS FOR CUSTOMERS YOU DON'T HAVE YET

KAREN DILLON

When my daughters were little, each time one of them received a birthday or holiday card from their grandparents with a crisp $20 in it, I silently vowed that I would finally get around to opening a savings account for them at our local bank so they could start learning the virtues of saving and compounded interest. But routinely, months later, I'd stumble across the long-forgotten money, still in the card, that I'd stowed in a bag or a desk drawer. Opening an account for a child is a hassle. Minimum balances, virtually no interest accumulation. I wasn't sure it was actually worth it.

For a brief while, my husband and I went to the extraordinary lengths of setting up a symbolic "Bank of Daddy" so we could at least demonstrate the power of compound interest. Every month we'd credit their allowance to the account and make a big show of calculating the interest they had accrued. But to make that point, we had to pay an interest rate far beyond what real banks paid. That got old quickly. And after a while, we stopped playing Bank of Daddy and did nothing.

It's no surprise that many people have given up on savings accounts altogether. For decades, traditional banks had made it clear that the segment of "low net worth" individuals who wanted a simple savings accounts was undesirable. They were unprofitable in banks' existing business models. So the banks did everything in their power to put them off: Requiring minimum balances, charging fees for every conceivable service and imposing penalties for any violation of the "rules." Banks saw little upside in encouraging ordinary people to save.

Enter ING Direct, which looked at the market through a new lens. There were many people like me for whom saving money in small increments was not the primary reason for opening an account for the children. I wanted to feel like good parent by helping my children understand the power of saving toward goals. But without good options for doing that, I ended up doing nothing—what Harvard Business School professor Clayton Christensen calls "non consumption." But as Christensen observes, finding pockets of non consumption is a ripe opportunity for innovation.

By focusing in on what people like me were trying to achieve with a savings account—the "job to be done" a concept Christensen explores in the September issue of HBR – ING Direct saw potential where other banks saw low profit margins. ING Direct created an incredibly simple offering: The bank offered a few savings accounts, a handful of certificates of deposit, and mutual funds. The savings accounts have no deposit minimums — you can open an account with a single dollar if you want. It's fast, convenient, and more effective than jamming tens and twenties into a drawer and forgetting about them — or calculating outsized interest rates at the Bank of Daddy. But people like me "hired" the bank for a very specific job: To help us feel like good parents by demonstrating the power of saving to our children.

By creating offerings that address consumers' jobs to be done, ING Direct swiftly became the fastest-growing bank in the United States. Traditional banks should have had all the tools to create new products for consumers who were frustrated with their options, but they focused instead on segmenting customers more or less into "wealthy" or "not worth it." In 2012 ING Direct was sold to Capital One for $9 billion. My daughters, now teens, are both deft at managing their own savings in a Capital One account and I finally feel like I've completed the job to be done that I intended to do all those years ago.

Too often, organizations are myopic. They only look for growth in the customer base they already serve. But by looking for non-consumers and exploring what they are trying to accomplish — rather than focusing on their personal characteristics, purchasing patterns, or product preferences — organizations can discover the potential for new growth.

Another example is found at Southern New Hampshire University, which is also explored in Christensen's recent article (I'm one of the co-authors on the piece). SNHU president Paul Leblanc was charged with steering the university through the 2008 recession, when growth looked bleak. The seventy-year-old college was relatively unknown. Enrollment numbers hadn't moved in decades. So where was this growth supposed to come from?

You can't create growth out of nothing. Or can you?

When LeBlanc reframed his challenge from competing for the usual-suspect applicants (graduating teens) to attracting the millions of aspiring learners (online students looking to earn their degree or professionals looking to develop their credentials) who choose to do nothing, the landscape suddenly seemed far more fertile. Rather than fight the same old battle with long-established competitors, LeBlanc realized SNHU could appeal to a very different aspiring adult-learner segment with a distinct job to be done, and a woefully unmet need.

For SNHU, the key was to pivot from a traditional "product lines" view of the marketplace to a jobs-to-be-done perspective. That shift made all the difference. Instead of continuing the benign neglect of its distance-learning division, the university has nurtured and invested in it to support the goals of later-life students who want to earn their degree from the comfort of their kitchen table after the kids have gone to bed or early morning before heading out to a long day at work. That's meant changing everything from how SNHU responds to queries of interest (the goal is to do so within minutes) to the speed with which it puts together financial packages and determines credits for previous work to the flexibility professors allow in completing assignments.

Getting innovation right doesn't have to be a crap shoot. When you deeply explore what consumers are actually trying to achieve, opportunity may appear where none seemed possible. With that shift in perspective, you can often predict, confidently, what products or services consumers are likely to hire to accomplish their job to be done.

SPONSOR CONTENT FROM GOOGLE ANALYTICS 360 SUITE

USING SURVEYS TO UNDERSTAND THE CUSTOMER JOURNEY

Your organization has plenty of data about customer behavior that tells you what different customers do where and when. You can see when they visit you online, how long they search, and how much they spend.

But too often the why behind their actions remains elusive. With the mountains of information you collect, the insights are often difficult to find, take too much time to discern, or require additional data. All this means it takes marketers too long to get important information that could make a real difference to the customer experience—and the bottom line.

"If you want to have a major impact, you need an integrated approach to see what is happening at all customer touch points and understand how effective you are," says Joerg Niessing, a marketing professor at INSEAD.

A recent study published by INSEAD found that the number of sources of marketing and customer data that a company integrates correlates strongly to performance vis-à-vis competitors. The study focused on customer and marketing data, including:

Digital analytics such as optimizing email campaigns, testing content, and analyzing digital pathways to optimize website use and experience.

- Customer analytics including lifetime value and loyalty calculations, response and purchase propensity modeling, and micro segmentation.
- Marketing analytics such as demand forecasting, marketing attribution models, market mix modeling, and media budget optimization.
- Sales analytics including pricing elasticity modeling, assortment planning, and sales territory design.
- Consumer analytics including surveys/questionnaires, customer experience research, and customer satisfaction/advocacy modeling.

Those companies that leverage multiple sources and focus diligently on demand generation have significantly stronger business performance, especially total shareholder return.

But insights uncovered from many data sources often beg the question, "Why?" To answer that, modern marketers go directly to the source: consumers.

Traditionally, companies that use surveys and field research to try to get at the why behind the what pay a lot of money for information that is often too complex to understand and too slow to arrive. When it does come in, it is sometimes no longer relevant and leaves organizations trying to solve last month's or last year's problem at the expense of current ones. Attempting to get speedier or less costly results risks compromising accuracy.

But innovations in market research are changing the game. Today's easy-to-use survey tools help marketers fill out their knowledge of customer behavior much faster than traditional surveying methods.

Companies that make use of these fast, convenient survey solutions gain insight not only into what people actually do, but also what they say they will do—and in that gap there could be opportunities. "Marrying digital and marketing analytics with consumer research from surveys gives marketers deeper insights and opens up the number of hypotheses a company can test," says Suzanne Mumford, head of marketing for the Google Analytics 360 Suite. "Marketing today is in near real time and your data should be, too."

Say your website analytics reveal that one segment of your visitors are highly engaged with your site content, but their visits aren't converting into sales. "You can ask them directly about what keeps them coming back and about why they don't buy. Surveys let you take your data one step further and round out the picture of the customer so you can make informed business decisions and tailor your customer experiences," says Kevin Fields, product marketing manager for Google Surveys.

Surveys are also useful if marketers find themselves in an internal debate about two campaign concepts. Before making a large investment based on subjective opinion, marketing leaders can validate messaging by asking the target audience about their preference.

For modern marketers, surveys have become an essential element in an integrated marketing approach—they produce insights that complement those uncovered by other data sources. "I want to make sure that the customer voice is front and center but that we also surround it with other data — that we can make really good, holistic business decisions," says Stacey Symonds, senior director for consumer insights at Orbitz.

So think about what you'd most like to ask your customers—or those who visit your site but don't buy. Today's survey solutions allow businesses to get sophisticated, accurate data in a matter of days, not months. Because these methods are more affordable and quick, they allow businesses to continually iterate to meet customers' needs.

"Surveys empower organizations to get answers when they matter," Fields says. "And getting those insights quickly helps marketing stay nimble."

To learn how marketing organizations are using surveys to gain more consumer insights, read more about smarter, faster market research.

WHY LOCALIZING MARKETING DOESN'T ALWAYS WORK

NIRAJ DAWAR

Whether to localize global-brand marketing programs remains one of the most contentious debates in multinational organizations. On the one hand, local brand managers typically argue that consumer habits in their market are different, their consumers' purchase behavior is different, preferences and tastes are different, the media and the retail trade are different, and, therefore, their customers require unique, tailored, and delicate handling. The head office, meanwhile, takes the position that achieving scale justifies losing some local customers in return for global efficiencies.

Faced with this trade-off, local brand managers, often to the consternation of their head offices, spend inordinate amounts of effort demonstrating that national boundaries are an excellent segmentation variable — that consumers are sufficiently different across markets to justify adapting products and marketing programs. To defend their position, they'll whip out the latest in a series of market research reports conclusively showing (at $p<.05$) regional customer differences which justify altering the product packaging, scent, and advertising execution for their market.

But what if these brand managers are wrong? What if consumers are actually more similar across markets than the research shows? My colleagues and I have long studied so-called "marketing universals," consumer behaviors within a segment and toward a particular product category that don't vary across culture—things like how consumers gauge quality and how they respond to price promotions. Among our findings—and we're not alone in demonstrating this—is that while it's straightforward to show differences it's really hard to show similarities with any statistical rigor. Cross-cultural research is replete with findings of difference, due in part to methodologies and publication preference for positive findings. Findings of similarity across cultures, or universals, are rare, not least because identifying universals poses a host of methodological obstacles.

Most market researchers know this, but they tend to keep quiet about it. Here's the problem: If you wanted to test the hypothesis that consumers in Michigan are different from those in bordering Ontario—looking, say, at their attitude toward your product packaging — you could readily design a study that would give you the answer. In fact, if you had a large enough sample on both sides of the border, you'd know the answer in advance: it would almost always show you that the two populations are different; that is the way significance tests work. The test tells you that if you were to run the study again and again, if there are underlying differences, then nineteen times out of twenty your results would show significant differences. That is taken as pretty strong evidence of underlying differences. But suppose you wanted to examine if consumers in Michigan and Ontario are the same or similar. What statistical test would you use?

You'd be out of luck. The most common tests are only designed to show differences. Let's examine this more closely. You might think that a lack of difference on a statistical significance test is evidence of similarity. But, in fact, any statistician would point out that statistical tests are not designed to demonstrate the absence of difference. Thus, consumers may be far more similar across national and cultural boundaries than the research shows. Indeed, there's good reason to think this is the case; when it comes to universal human needs—the desire for security, a sense of belonging, to provide for one's family—ample social science research shows that we have the same fundamental aspirations. Offerings that address these needs, it follows, will be embraced even without excessive localization. Parents of infants the world over want a dry (and therefore comfortable) baby who sleeps through the night; diapers that help with that probably don't need a lot of localizing beyond labeling in the local language.

And yet, think about how much time, effort, and money goes into localizing products, positioning, prices, and advertising, based on findings of significant difference in market research studies. If these decisions are based on research showing differences, we may be localizing too much.

Fortunately, several organizational correctives to this statistical bias towards difference exist.

First, statistical tests of difference should be (and often are) interpreted pragmatically rather than dogmatically. Any decisions based on findings of statistical difference should still be subject to the hard-nosed business hurdles: how much will local adaptation cost? What is the potential return on the costs of adaption (how much more will we sell)? and will adaptation delay implementation (for example, a product launch)?

Second, multinationals thrive on scale. And scale favors standardization across markets. Even if statistical tests are biased toward difference, multinational organizations are biased toward similarity. Head office preference is to only allow adaptation for the more obvious differences such as language and retail format. The head office is also usually the more powerful voice in the organization, with a veto over local managers. In general, this power balance probably serves the firm, and customers, best.

Finally, with markets and media becoming more global, similarities are now more visible if still hard to measure statistically. And statistical tests are beginning to emerge that can at least demonstrate that consumers' tastes and preferences are converging.

Whether to standardize or localize marketing programs remains one of the most enduring debates in global firms. It will continue to be a point of friction because it is about trading off locally optimal programs versus globally optimal ones. This is an important debate, but it should not be adjudicated by significance tests.

WHAT 100,000 TWEETS ABOUT THE VOLKSWAGEN SCANDAL TELL US ABOUT ANGRY CUSTOMERS

VANITHA SWAMINATHAN AND SUYUN MAH

In September 2015 the Environmental Protection Agency found that many Volkswagen cars sold in the United States were equipped with software that could falsely improve the performance of diesel engines on emissions tests. This cheating was subsequently acknowledged by the car maker.

Among the many issues at stake for the company was one of public perception. Anecdotal evidence at the time of the incident suggested irreparable harm to the Volkswagen brand. So could Volkswagen recover in the short term in this regard? And, the broader question, how can you measure brand perception in times of scandal, particularly in an era where social media can cause negative news to proliferate and reverberate over time?

In the absence of direct empirical evidence, we wanted to find a way to tackle this important issue. We began our research with some key questions: How does social media sentiment change as a consequence of a public relations crisis? How does the public react to recovery efforts initiated by the company? How do topics of conversation shift as a consequence of a brand scandal and subsequent recovery efforts?

We examined more than 100,000 tweets to analyze how the public sentiment changed over time after the breakout of the scandal. Our approach to capturing themes in the evolving scandal involved sampling a few date windows; therefore, we did not examine data for every single day. The following periods were selected: September 29, 2015–October 7, 2015; October 18, 2015–October 27, 2015; January 1, 2016–January 7, 2016; and January 17, 2016–January 25, 2016. These periods align with some of the events relating to the scandal, and also represent periods during and following the scandal. We explored the daily tweets from these periods by considering all possible events that might have affected the public sentiment over Volkswagen. Entire sets of tweets including the word "Volkswagen" were in our initial data set. We made several observations about how the scandal unfolded in the public conversation, broken out into the following categories.

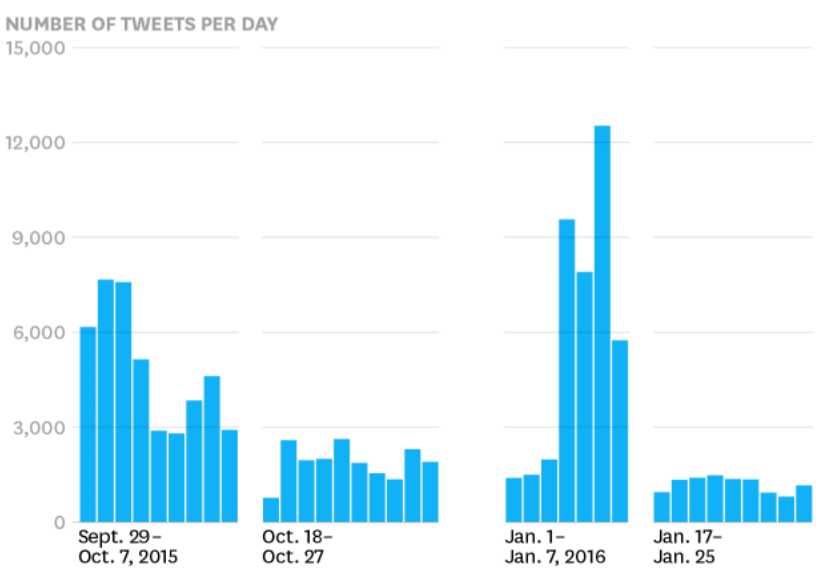
Frequency. The number of times the scandal was mentioned on Twitter varied dramatically day by day, and the mentions seemed to parallel specific actions taken by Volkswagen to issue apologies or by regulatory agencies to place responsibility or issue punishments.

For example, after an article in The Guardian on September 30 revealed that the scandal has affected 1.2 million Volkswagen diesel vehicles, the number of tweets increased for the next two days. Subsequently, we observed a decrease in the range of number of tweets, from 5,000–7,000 to 1,000–2,000, except around January 6, which coincided with the following headline: "U.S. Sues Volkswagen in Diesel Emissions Scandal."

Another exceptional surge in the number of tweets was on October 19, which could be explained by articles regarding the governments of France and Spain pushing the scandal investigations. We conjecture that the amount of tweets reflect the level of public interest in the scandal.

Vocabulary. We also identified the most-frequent words in tweets for each day by mining Twitter for all mentions of the brand name "Volkswagen" during the aforementioned time periods, including retweets. We then conducted topic modeling on the tweets using the text-mining library within the statistical program, excluding words that were obvious, and thus less meaningful in our analysis ("vehicle," "Volkswagen," and "car," among others). We narrowed the number of words down to the five most frequently mentioned on each day. In some cases, when there were multiple words with similar frequencies, we had more than five words per day.

The Number of Tweets Mentioning Volkswagen in the Wake of the Emissions Scandal



SOURCE VANITHA SWAMINATHAN AND SUYUN MAH, BASED ON AN ANALYSIS OF MORE THAN 100,000 TWEETS © HBR.ORG

During the first period we studied, the words "new," "news," and "cheat" appeared most often across every single day in the window. Over the next few weeks, however, the word "cheat" fell off the list. We interpret this to mean people were focusing less on the "cheating" action of Volkswagen.

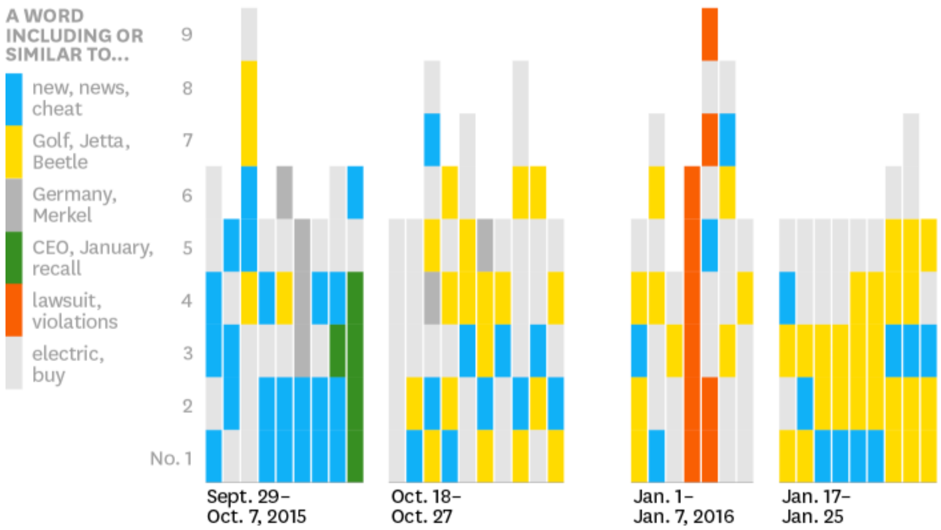
As more time went by, specific car models, such as Beetle and Jetta, were mentioned more frequently. We speculate that people tended to view Volkswagen as a whole during initial stages of the brand scandal, but as more information became available, and the company itself attempted to limit the damage stemming from the scandal to specific makes and models, the conversation shifted to a greater focus on specific models that are implicated in the scandal rather than the overall brand.

Other key moments included the German prosecutors launching an investigation into former Volkswagen CEO Martin Winterkorn in early October — "German," "Germany," and "Merkel" appeared more frequently on Twitter. This potentially represented a significant shift in the social media conversation as the company, along with regulatory agencies, focused on identifying who may be responsible for the brand scandal.

"CEO," "January," "recall," and "start" were terms that appeared the most, coinciding with an announcement on October 7 that the recall of the affected vehicles that would start in January. This phase marked a turning point as the company initiated recovery efforts and mitigated the impact of the brand scandal on its customers. However, on January 4 the U.S. Department of Justice filed a complaint against the company, which is reflected above in orange.

Sentiment. Although we had a sense of what people were talking about, the tone of the tweets wasn't immediately clear. We used the Vader Sentiment Analysis software to calculate the sentiment values of each tweet. We counted the daily tweets that showed positive sentiment values, negative sentiment values, and neutral sentiment values, respectively, and derived the percentage of positive tweets, negative tweets, and neutral tweets relative to the total tweets of each day. As a result, we

Most-Frequent Words Used on Twitter to Describe the Volkswagen Emissions Scandal, Per Day



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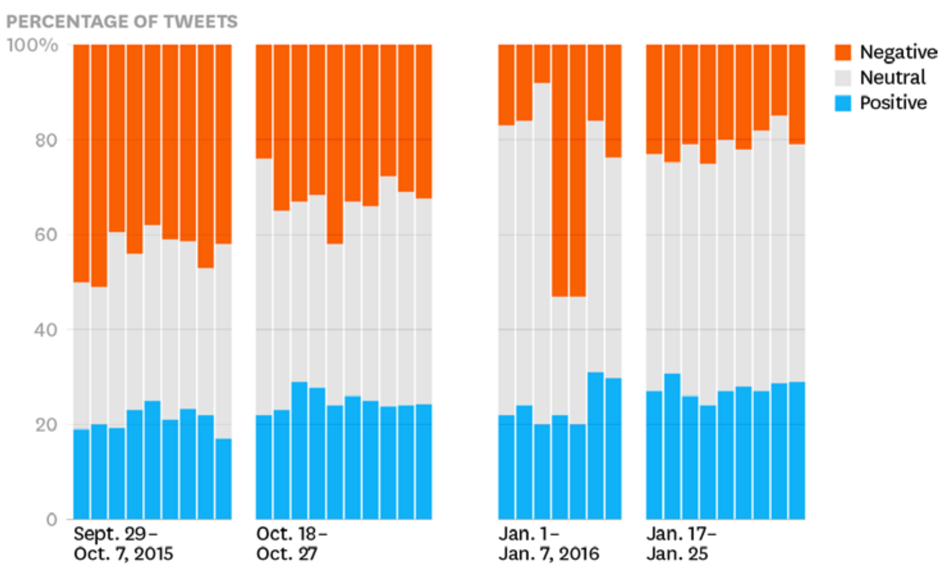
Daily Twitter Sentiment About Volkswagen in the Wake of the Emissions Scandal



SOURCE VANITHA SWAMINATHAN AND SUYUN MAH, BASED ON AN ANALYSIS OF MORE THAN 100,000 TWEETS © HBR.ORG concluded that the daily percentage of negative tweets decreased as time went by. This overall trend is consistent with our previous results from using topic modeling on word-of-mouth communications.

We also calculated the average sentiment values for each day, which showed a rise from negative to positive.

What does this all mean? Here are our takeaways:

- The volume of social media conversation tends to attain a high point immediately following a scandal. There are brief spurts in conversation later as regulatory agencies launch investigations, but these do not match the volume that is attained in the early periods.
- The valence of social media conversation shifts dramatically, with brand sentiment becoming extremely negative immediately after the scandal incident. Following that, the sentiment shifts as the company initiates recovery efforts (e.g., apology, recall) and regulatory agencies attempt to place responsibility for the scandal on the company itself. These actions make the sentiment itself quite volatile. Ultimately, if the company's efforts at recovery are successful, the sentiment returns to a neutral state.
- The topics that are discussed in social media change during the course of a brand scandal. Initially, there is a great deal of focus on the crisis itself, as conversations focus on the scope of the crisis. Following that, topics revolve around identifying who may be responsible. Different regulatory agencies become involved in the crisis, and their voices become prominent in social media conversations. This is followed by the company initiating recovery efforts, such as issuing apologies, initiating recalls, etc. In this stage, there is an attempt to limit the scope of the crisis incident to specific products within the brand's portfolio. As the scandal itself dies out, the social media conversation shifts to the broader topic of the brand and its future prospects.

Our analysis of the Volkswagen scandal offers useful insights regarding the management of a crisis incident. By analyzing the topics most frequently discussed, managers can better understand what consumers are discussing and apply appropriate recovery strategies.

One issue with our analysis is that data is not available for a longer time period. In other words, we do not evaluate all the data prior to the start of the recall incident and compare with the events that occurred as the scandal unfolded. A longer time period would help generate deeper insights. We are still in the early stages of text mining and sentiment analysis, but we believe that early findings can help firms optimize the time and costs associated with a brand crisis.

The biggest takeaway is that managers should immediately focus on recovery strategies following an incident, and aim to neutralize the negative sentiment surrounding the brand. In this way, managers can accelerate the shift in conversation from the incident itself and limit the potential damage.

ELEMENTS OF VALUE: MEASURING WHAT CONSUMERS REALLY WANT

HARVARD BUSINESS REVIEW WEBINAR FEATURING ERIC ALMQUIST, PARTNER, BAIN & COMPANY

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OVERVIEW

When potential customers evaluate a product or service, they weigh its perceived value against the price. It is fairly easy for marketers to understand and analyze how consumers think about the price side of the equation. However, understanding what consumers truly value is much more complicated.

Bain & Company's Eric Almquist and his colleagues have identified 30 "Elements of Value" that span four categories: functional, emotional, life changing, and social impact. Companies that deliver multiple Elements of Value experience better business performance. This framework enables firms to redefine competition within their business sector.

CONTEXT

Eric Almquist described the Elements of Value and explained how marketers can use this framework to improve customer experience and value, and spark growth. The Elements of Value can be applied to customer segmentation, new product development, and customer loyalty.

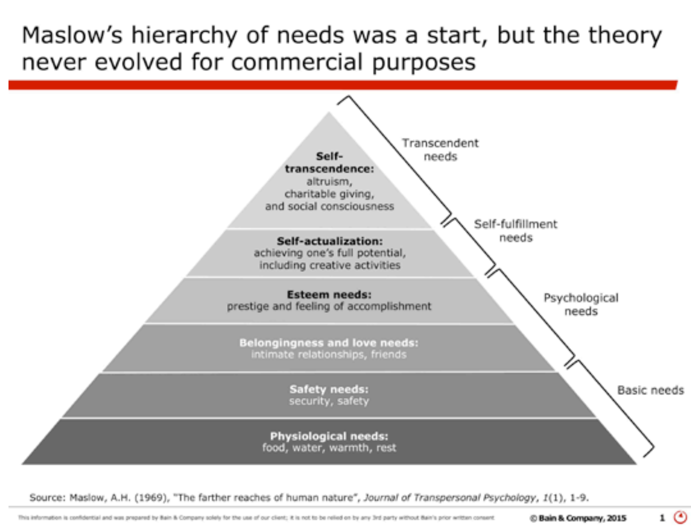
KEY TAKEAWAYS

When combined, the Elements of Value create compelling value propositions that elevate products and services above commodity status.

Authors Robert Kaplan and David Norton suggest that strategy is based on a differentiated customer value proposition, and that satisfying customers is the source of sustainable value creation. Research conducted by Bain & Company has found a relatively small set of ways to satisfy customers, which Bain calls the Elements of Value. When the Elements of Value are combined in various ways, they create a compelling value proposition and elevate products and services above commodity status.

The hypothesis behind the Elements of Value is that value isn't monolithic. Instead, it is built from multiple factors. For example, Nespresso owners appreciate the product's beautiful design, as well as its simplicity, time-saving ability, and European coffee experience. Netflix customers like the variety, cost, quality, and convenience of the entertainment offering.

> "There is a relatively small set of ways to satisfy customers, which we call the Elements of Value. The Elements of Value, in various combinations, create a compelling value proposition. These elements raise products and services above commodity status." **ERIC ALMQUIST**



> "Amazon is a juggernaut when it comes to adding new Elements of Value to its offering."
>
> ERIC ALMQUIST

Maslow's hierarchy of needs forms the basis of the Elements of Value framework.

As Bain looked for a framework to understand the Elements of Value, they turned to psychology and sociology. Maslow's hierarchy of needs was a useful starting point. Although most executives and marketers are aware of this hierarchy, it is far removed from the world of marketing strategy.

The Bain team modified Maslow's hierarchy to create a new heuristic model of value. The 30 Elements of Value are divided into four categories:

1. **Functional elements.** What a product or service does for the customer.
2. **Emotional elements.** How a product or service makes the user feel.
3. **Life changing elements.** How a product or service changes the customer's life.
4. **Social impact elements.** How a product or service delivers value to society.

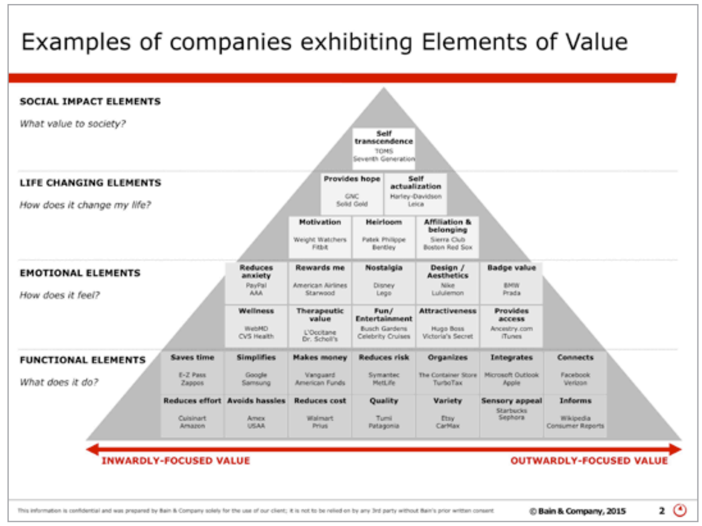
In addition, the Elements of Value can be categorized based on whether they provide inwardly focused value, such as reducing anxiety, or outwardly focused value, like conveying a sense of affiliation and belonging.

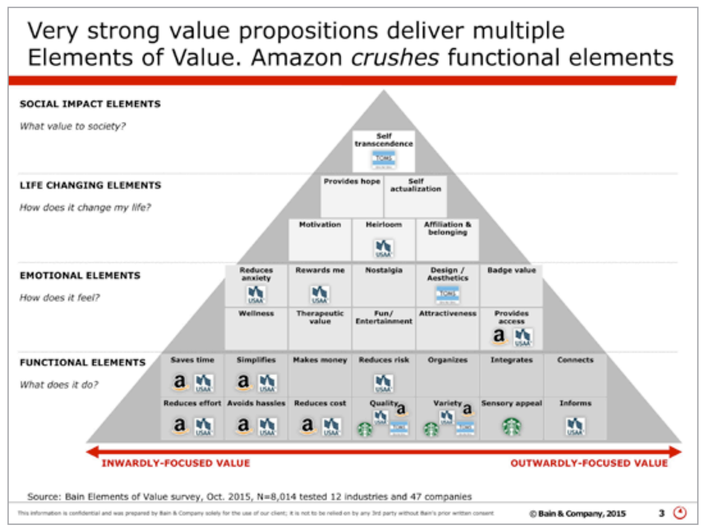
Companies with strong value propositions deliver multiple Elements of Value.

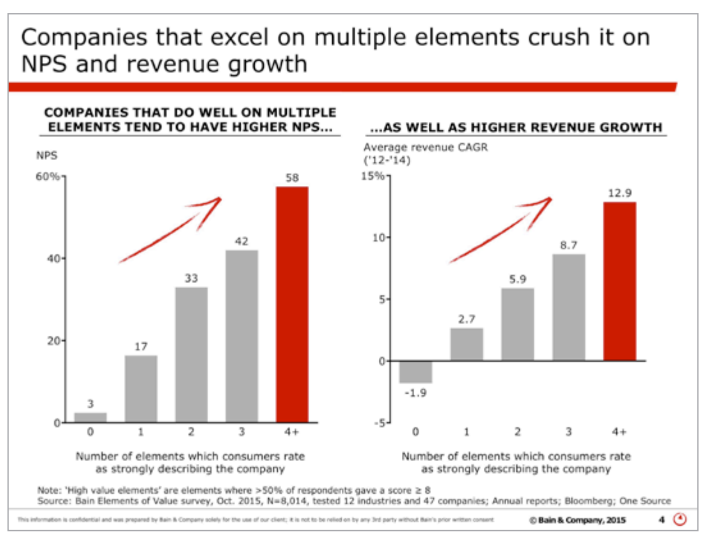
A recent Bain survey found that successful companies deliver on multiple Elements of Value. Examples include Toms Shoes, USAA, and Amazon. Amazon is notable for delivering on eight Elements of Value.

Companies strengthen and differentiate their value propositions by adding new Elements of Value. To illustrate this, Eric Almquist offered six examples:

1. **Vanguard.** In May 2015, the company added low-fee advice to its core investment services to better inform clients.
2. **American Express.** AMEX introduced novel cardholder programs which provide access to exclusive venues and events.
3. **Google.** Since 2007, the company has expanded Google Maps to give users access to street views, restaurant menus and reviews, business hours, and more.
4. **Domino's.** In 2007, the company introduced industry-leading, easy, and engaging mobile ordering and order tracking. This reduces the effort associated with pizza orders.
5. **Red Bull.** The company sponsors extreme sports competitions and communities that connect action sports enthusiasts worldwide.







6. **Nordstrom.** In 2014, the company acquired Trunk Club, a personal shopping subscription service that simplifies the process of selecting stylish, well-fitted apparel.

Organizations that excel on several Elements of Value have higher Net Promoter Scores and higher revenue growth.

To explore value patterns, Bain surveyed over 8,000 customers of 47 U.S. companies across multiple consumer-facing sectors. A key finding from this research is that companies that deliver on multiple Elements of Value have higher Net Promoter Scores and higher revenue growth.

Digital companies exhibit unique value characteristics compared to traditional and omnichannel businesses.

Bain research uncovered insights related to digital companies and value.

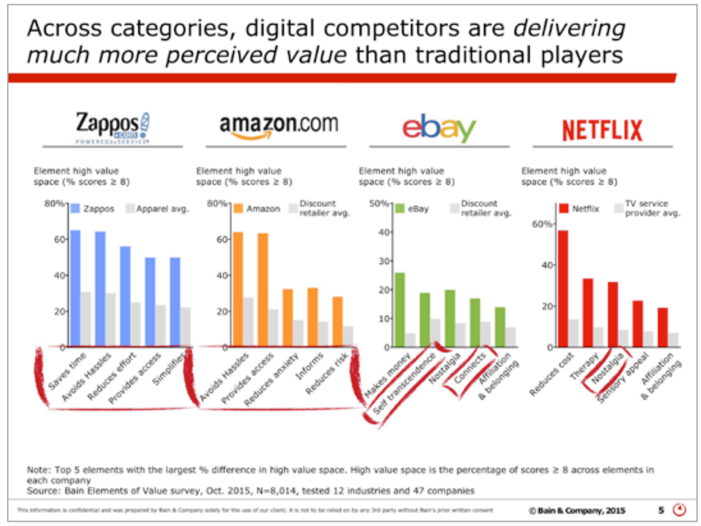
- Across categories, digital competitors deliver much more perceived value than traditional players. Companies like Zappos, Amazon, eBay, and Netflix are rated much higher than their peers on several Elements of Value.
- Online-only retailers win on functional elements, while omnichannel websites win on emotional elements. Consumers appreciate that online-only retailers help them save time, avoid hassles, reduce costs, provide access, reduce effort, and simplify their lives. Omnichannel websites are seen as providing badge value, attractiveness, sensory appeal, wellness, self-transcendence, and affiliation and belonging.
- In the retail sector, online purchasers perceive the most value and in stores, assistance helps. Customers feel that online transactions deliver more value than in-store transactions. However, in-store value is significantly improved when sales associates offer assistance.

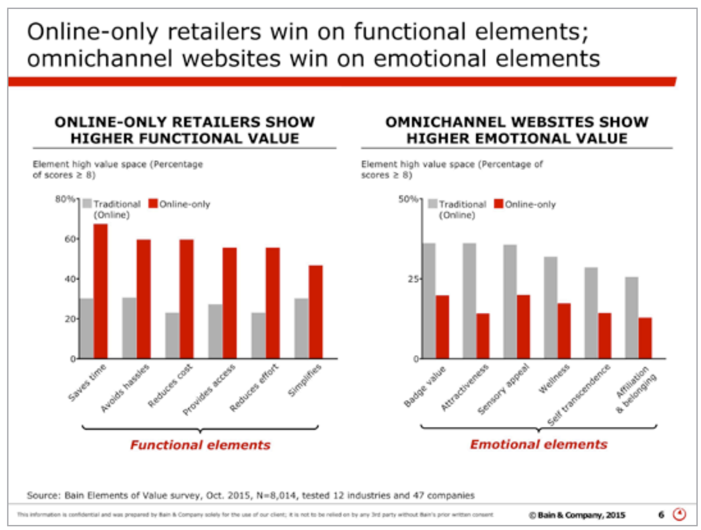
The Elements of Value can be used to improve business performance and change the game.

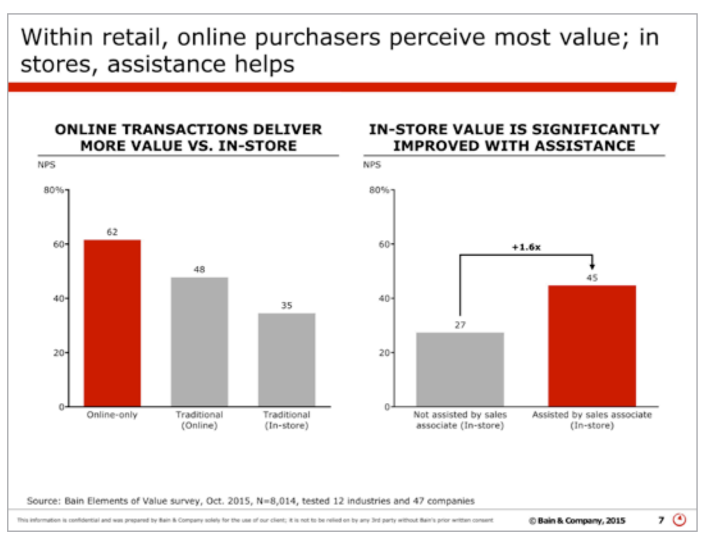
High-performing companies hunt for value relentlessly. They leverage the Elements of Value in two ways:

1. **Improve performance.** High performers strive to deliver more value on elements that drive Net Promoter Scores in their category. They identify and capitalize on their relative strengths to widen leads within their category on elements that matter. They go head to head with the market leader on core Elements of Value and close the gaps.
2. **Change the game.** Companies can change the game by adding new Elements of Value to their category. It is helpful to identify the "white space" in the category where companies may be able to drive value and differentiate. By innovating and breaking through on emotional elements, it's possible to drive Net Promoter Scores and to differentiate further.

For value leaders like Amazon, the hunt for value is a continuous process. Amazon Prime and Echo are excellent examples of new Elements of Value.







ABOUT THE SPEAKER

ERIC ALMQUIST

Eric Almquist is a partner in Bain & Company's Boston office. He is a leader in Bain's Advanced Analytics practice and a member of the firm's global Customer Strategy & Marketing practice.

Eric has more than three decades of management consulting experience and delivers strategies that work for leading companies. He has led assignments in the financial services, telecommunications, internet, and electric utility industries. In addition, he uses his expertise in customer strategy and marketing to help clients to develop value propositions, improve customer experience, and implement loyalty strategies.

Eric has contributed to such publications as the *Harvard Business Review, Marketing Management, Journal of Brand Management,* and *Design Management Journal*. He was the recipient of a Social Science Research Council Foreign Area Fellowship and has served as a Trustee of the Marketing Science Institute.

Prior to joining Bain in 2007, Eric built extensive experience as a leader in the customer strategy sector where he founded one of the first comprehensive marketing science capabilities in the consulting industry.

Eric earned a BA from Stanford University and MA and PhD degrees in anthropology from Boston University.